REF. 9/6/2 12 April 2007

PRESS STATEMENT

Statement of the Monetary Policy Management Committee (MMC)

1. Introduction

The Monetary Management Committee (MMC) of the Bank of Namibia, at its meeting held on 11 April 2007, closely examined recent domestic and international economic developments before formulating and pronouncing its monetary policy stance.

2. Developments in the Real Sector

On the international front, it is noted that there is ongoing strong performances in the quarterly GDP growth of major economies, such as the USA, Euro-area, China, South Africa and Japan. Available indicators in Namibia suggest that, despite tighter monetary conditions since the latter half of 2006, economic activities in Namibia displayed positive developments during the fourth quarter of 2006. The latest estimates show that growth was relatively broad-based during the fourth quarter of 2006, with as all sub-sectors gaining stronger growth momentum compared to previous quarters. However, the agriculture, hunting and forestry; and the construction sectors, in particular, performed exceptionally well during the fourth compared to their performance in the preceding quarters. Other sectors also grew strongly, albeit at lower rates than in the preceding quarter. From the foregoing, the economy is expected to have expanded at a provisional growth rate of 4.6 per cent in 2006.

3. Inflation Developments

Since the last MMC meeting in February of this year, the outlook for inflation has on balance moderately improved. In line with the moderation in international oil prices, and in response to tighter domestic monetary conditions, inflationary pressures subsided to 6.0 percent in both the first two months of 2007 from 6.1 percent in December 2006. While the easing of inflationary pressures is a welcome development, the level of inflation remains a concern when compared with the level that prevailed a year ago, when the annual rate of inflation was only 3.7 per cent.

The factors that continue to contribute to the relatively high inflation rate are increases in food prices, mainly in the sub-categories of meat, fish, cereals and fruit. Other categories that exerted upward pressure on inflation were housing and transport. However, the rise in prices related to transport started to decelerate due to the fuel retail pump price decreases in October and December 2006, as well as in January this year.

Having considered the latest inflation developments, forecasts and expectations, the MMC does not expect the Namibian inflation rate to abate significantly in the immediate future as inflationary pressures are expected to persist, mainly on account of volatile crude oil prices and a weaker currency. While, the South African Production Price Index (PPI), being a leading indicator for consumer price inflation in Namibia, showed a slight decrease of 9.5 percent during February 2007 compared with the 9.8 per cent during the preceding month, this slowdown was mainly triggered by lower fuel prices. The PPI, and its concomitant impact on CPI, might change due to volatile oil prices and an expected increase in food prices coupled with substantial increases in maize prices since the last MMC meeting.

4. Exchange Rates

The Namibia Dollar (NAD) continued to depreciate steadily against the major currencies. Responsible for the weakening is the persisted high deficit on the external current account of the South African balance of payments, which, in turn, has resulted from the firm consumer demand in South Africa. The Namibia Dollar traded at a monthly average of N$7.35, N$14.3 and N$9.73 during March 2007 against the US Dollar, Pound Sterling and the EURO, respectively. This month-on-month depreciation, while improving Namibia's export competitiveness, is causing import prices to rise, thus, further exerting inflationary pressures.

5. Credit Extension to the Private Sector

Although growth in banks' credit to the non government sector continued to expand at a robust pace, there are sign of a slowdown since the last quarter of 2006. For instance, the annual growth rate of credit expansion to the non government sector slowed from 18.3 percent in October 2006 to 15.5 percent in February 2007.

The downward movement in the growth of credit extension was reflected in credit extended to both businesses and individuals. The annual growth in credit to businesses in February was 12.4 percent, while that for individuals stood at 17.3 percent. The corresponding rates for October 2006 were 16.5 percent and 19.3 percent, respectively. It is also encouraging to note that the bulk of increase in credit extension occurred in the mortgage category sub-sector. Growth in mortgage credit expanded at a healthy rate of 27.7 percent in the month of February 2007. In line with the decelerated growth in credit extension, there are also signs of slowdown in other demand indicators, such as the number of new vehicles sales which declined from a peak of 850 units in November 2006 to 734 units in February 2007. Passenger vehicles sales, in particular, displayed a sharp decline from 371 units to 304 units in February this year.

6. Monetary Policy Stance

From the review of the recent economic developments, the MMC noticed the moderation in the inflation rate. At this stage, the growth in domestic demand seems to be abating as witnessed by the slowing growth in credit extension, which implies that inflationary pressures are mainly originating from exogenous factors. Nevertheless, rising food prices and uncertainties about weather conditions that could reduce agricultural output, the depreciating domestic currency and the recent surge in international oil prices continue to pose a major risk to the domestic inflation outlook. However, the upside and downside risks seem to be fairly balanced. Considering the aforementioned economic developments, the MMC is of the opinion that an increase in the Bank rate at this stage would run the risk of excessively depressing domestic demand, which may adversely affect real sector growth. In light of these developments the MMC decided to leave the Bank rate unchanged at 9 percent per annum, for now.

As usual, the Bank of Namibia will continue to closely monitor price developments, and will adjust its policy stance should monetary conditions so demand in the interest of price stability.

Tom K. Alweendo
Governor