Bank of Namibia
71 Robert Mugabe Avenue
P.O. Box 2882, Windhoek, Namibia
Tel: +264-61-283 5130 Fax: +264-61-229874

Office of the Governor

Ref. 9/6/2 **23 June 2010**

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. The Executive Committee of the Bank of Namibia held its monetary policy meeting on 22 June 2010 to consider its monetary policy stance for the period ahead. The Committee reviewed global and domestic economic developments since the last meeting held on 20 April 2010.

The Global Economy

2. Since the last meeting of the Executive Committee, available economic indicators seem to confirm that global economic growth continues its upward course. Exceptional government intervention and accommodative monetary policy stances in both advanced and emerging market economies have contributed a significant part towards pulling the global economy from the deepest recession since World War II. In this connection, most economies recorded positive GDP growth rates during the first quarter of 2010 with the exception of the UK, which is still facing recessionary pressures. The USA and Japan led the recovery in the advanced economies with growth rates of 2.5 percent and 4.6 percent, respectively.

3. Asian economies continue to drive emerging market growth during the first quarter of 2010, with China leading with 11.9 percent, followed by India with 8.6 percent. Closer home, the South African economy also expanded by 1.6 percent during the first quarter of 2010, while most other emerging market economies have exited the technical recession.

IJ

4. Global production and trade continued to improve strongly, while financial markets have taken a more cautious approach, especially after the Euro Zone sovereign debt crisis. Commodity prices, on the other hand, prolonged their upward path despite a slight decline in May mainly on account of a stronger US dollar.

5. For most economies, monetary policies have remained accommodative as most central banks in both advanced and emerging economies maintained either steady rates or lowered their interest rates to further stimulate demand. The only exception was Canada, which raised its policy rate in June 2010.

6. Notwithstanding the improved global economic outlook, the debt crisis in the Euro Zone still poses a threat to growth within the Euro Area and ultimately to global economic growth. Moreover, high unemployment rates and lacklustre consumer demand still remain risks to a more favourable outlook. Notwithstanding these concerns, the Executive Committee noted that the risks to the outlook are broadly balanced as the global economy and foreign trade started to recover more strongly than earlier anticipated. Overall, the World economy is expected to expand by about 4.25 percent in 2010, according to the latest IMF projections.

The Domestic Economy

7. Influenced by somewhat improved external demand, economic conditions in Namibia continued to gain momentum albeit hesitantly. In this connection, mining output started to improve noticeably over the period under review. Furthermore, most real sector indicators performed well and are expected to continue with this performance, against the backdrop of the improved global outlook. In line with the global economic recovery, the Namibian economy is expected to expand by about 4.2 percent in 2010, from an estimated contraction of 0.8 percent in 2009. This expansion in the domestic economy will largely be driven by the expected strengthening in commodity prices and improved global demand.

I.J

8. With regard to price developments, domestic inflationary pressures continued to ease and reached 4.7 percent in May 2010 from 5.0 percent in April. This rate is also significantly lower than the 9.6 percent a year earlier. This deceleration is mainly attributed to lower food prices with the annual rate increase standing at 2.7 percent in May 2010 compared to 12.0 percent a year ago. However, inflation in the transport and housing categories rose marginally over the same period.

9. Growth in private sector credit extension in Namibia started to accelerate moderately with the annual growth rate rising to 9.2 percent in April 2010 from 7.3 percent one month earlier. This trend is driven by credit extended to both individuals and businesses. Credit extended to individuals rose from 6.1 to 7.5 percent from March 2010 to April 2010, while the demand for credit by business increased from 9.5 to 12.2 percent over the same period.

10. The stronger demand for credit is partially attributed to the combined effect of low rates of borrowing and declining inflationary pressure. This, in turn, is leading to improved household and corporate spending as reflected in some demand indicators, such as new vehicle purchases and more robust wholesale and retail sales. Stronger demand and supply factors in the Namibian economy are auguring well for an early and robust economic recovery.

11. Fiscal operations remained moderately expansionary but still strong and supportive of the currency peg. Domestic Central Government debt in relation to GDP declined to 10.1 percent at the end of May 2010 from 12.7 percent at the end of May 2009 due to the redemption of the GC10 in January 2010. Therefore, at this stage the domestic debt target of not more than 20 percent of GDP is being met. However, this ratio is projected to rise during the fiscal year 2011/12, due to a higher projected budget deficit, but will still remain within a reasonable range.

I.V

12. At the end of May 2010, total foreign exchange reserves stood at N$12.7 billion. At this level, the reserves are more than adequate to meet the country's short-term external liabilities and to maintain the currency peg.

Monetary Policy Stance

13. Overall, the Executive Committee is of the view that there are no adverse factors that may threaten the maintenance of the currency peg. In addition, in line with the improved global economic outlook, the Namibian economy would continue to gain momentum. Most real sector indicators performed relatively well compared to the last Executive Committee meeting. Good performance is expected to continue, especially in the primary sector, which is driven by improved global demand and firmer export prices as a result of global economic recovery. Moreover, no imminent inflationary pressures are anticipated on account of lower food prices. The Committee, therefore, decided to leave the repo rate unchanged at 7.00 percent per annum.

Ipumbu Shiimi
GOVERNOR