

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 8th December 2015



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
8th December 2015**

MPC MEMBERS PRESENT

| | |
|-------------------|--|
| Iipumbu Shiimi | Governor (Chairperson) |
| Ebson Uanguta | Deputy Governor |
| Emile Van Zyl | Technical Advisor: Governor's Office |
| Florette Nakusera | Director: Research Department (RD) |
| Ndangi Katoma | Director: Strategic Communications & FSD |
| Titus Ndove | Director: Financial Markets Department (FMD) |

OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Reinhold Kamati (Senior Economist: RD); Elifas Iiyambula (Economist: RD); Grace Hamauka (Economist: RD); Postrick Mushendami (Senior Economist: RD), Nicholas Mukasa (Deputy Director, FMD); Helvi Fillipus (Senior Economist: FMD)

SECRETARY

Mukela Mabakeng (Economist: RD)

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that growth in both the Advanced Economies (AEs) and Emerging Market Economies (EMEs) slowed during the third quarter of 2015.** Annual economic growth in the Euro area moderated, year-on-year, during the quarter under review to 0.3 percent from 0.4 percent recorded in the previous quarter. The US economy slowed during the third quarter to 2.1 percent from 3.9 percent in the preceding quarter. In contrast, the Japanese economy recovered from the contraction recorded in the previous quarter. Growth in the EMEs mirrored that of the AEs. With the exception of the Indian economy which continued to be strong, economic growth in China and South Africa moderated. The persistent moderation of the Chinese economy continued to adversely affect the commodity exporting economies, including Namibia, as low demand kept prices low. On the other hand, growth in Russia and Brazil continued to contract during the quarter under review. Going forward, global growth is projected to be lower in 2015, compared to 2014, with a gradual pickup in advanced economies, while growth in EMEs and developing economies is expected to slow down further. Risks to global economic growth remain, and include, increased financial market volatility, geopolitical

tensions and lower commodity prices as a result of slow economic growth in key emerging market economies.

2. **The MPC further noted that monetary policy stances in advanced economies remained accommodative and supportive of economic activities, while those of emerging economies were mixed.** Monetary policy stances in advanced economies remained unchanged and supportive of economic activities, while those of emerging economies were diverse. The monetary authorities in Brazil and Russia kept their policy rates unchanged, while China and India reduced their policy rates. In contrast, South Africa increased its policy rate to contain inflationary pressures resulting mainly from the persistent depreciation of the Rand against the US Dollar.

DOMESTIC ECONOMY

3. **The MPC noted that the domestic economy displayed satisfactory performance during the first ten months, despite weak activities in the mining sector.** The improvement in the domestic economy during the first nine months of 2015 was primarily driven by continued robust construction activities in the public and private sectors. This was supported by the transport and communication sectors. In addition, the manufacturing as well as wholesale and retail trade sectors also increased during the first nine months of 2015, contributing to this overall good performance. The mining sector, however, recorded a weaker performance during the review period, compared to the same period of 2014, with notable decrease in the production of refined zinc. Risks to the outlook, however, remain and include the depressed commodity prices, volatile exchanges rates, the prevailing drought and slow recovery in the country's trading partner economies.
4. **The MPC further noted that, domestic demand as reflected in the annual growth in Private Sector Credit Extension (PSCE) maintained a steady growth during the first ten months of 2015.** Growth in PSCE stood at 15.6 percent during the first ten months of 2015, maintaining the same growth rate recorded during the same period of 2014. The steady growth in PSCE came as a result of the strong demand for credit from the corporate sector, which stood at 19.6 percent during the review period compared to 17.5 percent recorded during the same period of 2014. Growth in credit extended to individuals, however, slowed to 12.9 percent during the first ten months of 2015 compared to 14.4 percent recorded over the same period of 2014. Both the 3 and 6 month annual growth moving averages of most credit components of individual credit slowed down during the last two quarters of 2015. Similarly, overdraft credit and other loans and advances' contribution to total PSCE, slowed to 13.3 percent and 10.5 percent

during the first ten months of 2015, compared to 13.5 percent and 10.9 percent recorded over the same period in 2014, respectively.

5. **The MPC was informed that Namibia's annual inflation continued to decline, on average, during the first ten months of 2015, as reflected in most major categories and is expected to remain low for the remainder of the year.** The annual inflation rate for the first ten months of 2015 was lower at 3.4 percent when compared to 5.5 percent during the same period last year. The lower inflation was mainly due to declining transport inflation on the account of low and favourable international oil prices as well as housing and food inflation.
6. **The stock of international reserves rose substantially on a monthly basis to about N\$23 billion as at the 3rd of December 2015.** At this level, reserves remained sufficient to sustain the one-to-one peg of the Namibia Dollar to the South African Rand, being 5.5 times higher than the currency in circulation as at the end of October 2015. The increase in reserves was primarily due to the issuance of the Eurobond, SACU receipts and asset swap arrangements with institutional investors.

MONETARY POLICY DELIBERATIONS

7. **The MPC extensively deliberated on both the domestic and global economic developments as highlighted above. After taking account of all the key macro-economic variables and developments into consideration, the MPC decided to maintain the Repo rate at 6.50 percent.** This decision was underpinned by the recent moderation in instalment credit to households and to continue supporting the domestic economy.