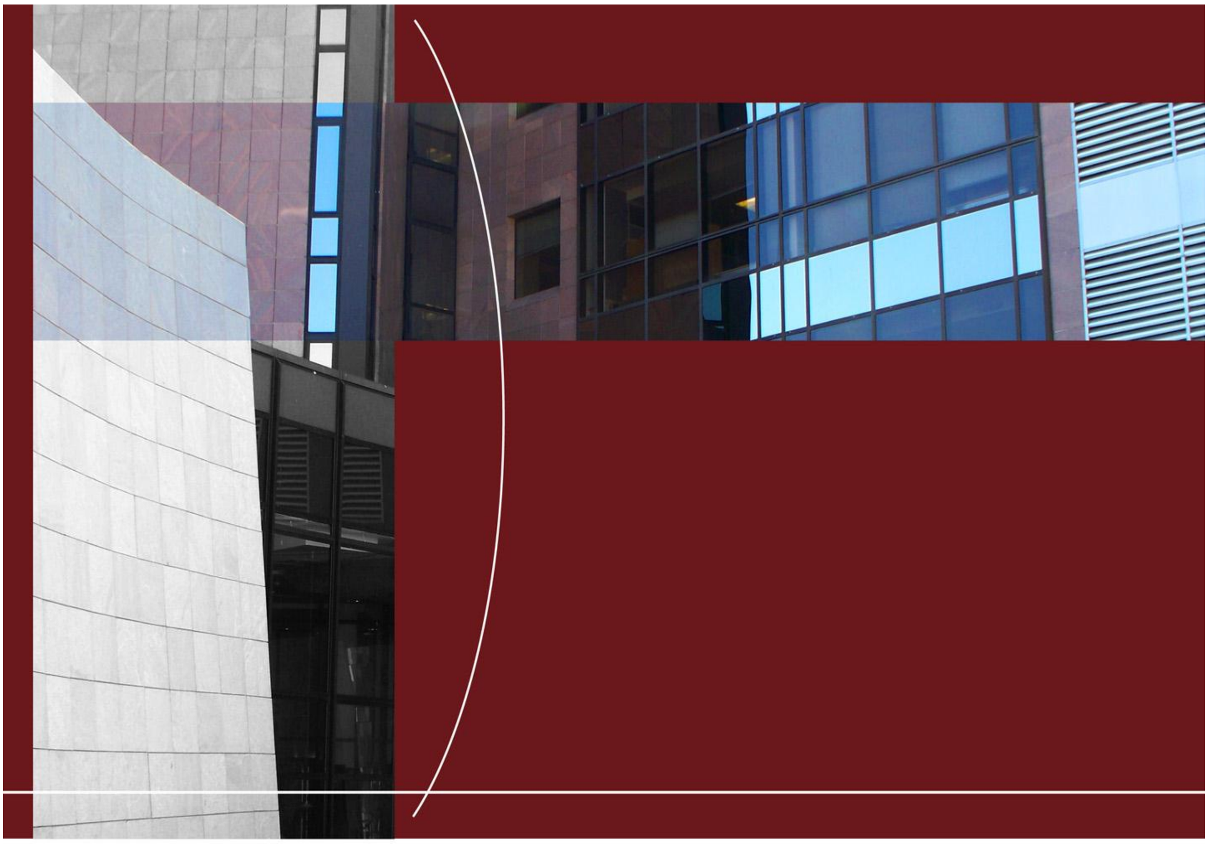
Bank of Namibia

Minutes of the Executive Committee (EC) Meeting

Windhoek, 26 April 2011



Bank of Namibia

"Our vision is to be a centre of excellence"

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Minutes of the Monetary Policy Deliberations at the Meeting of the Executive Committee of the Bank of Namibia held on 26 April 2011

These are the minutes of the monetary policy deliberations at the meeting of the Executive Committee held on 26 April 2011.

The minutes are also available on the website of the Bank at http://www.bon.com.na.

Monetary policy decisions are taken by the EC in accordance with the **Monetary Policy Framework** of the Bank of Namibia published in November 2009. The MPC of the Bank of Namibia meets regularly on a bi-monthly basis and minutes of its meetings are released on the day following the next EC monetary policy meeting, i.e. the day of the announcement of the monetary policy decision.

EC MEMBERS PRESENT

Ipumbu Shiimi (Chairperson and Governor), Paul Hartmann (Deputy Governor), Ebson Uanguta (Director: Research Department), Ben Biwa (Director: Financial Markets Department), Ndangi Katoma (Head of Corporate Communications)

EC MEMBER NOT PRESENT

Michael Mukete (Assistant Governor and Head of Financial Stability)

OTHERS PRESENT

Sannete Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department)

Mally Likukela (Secretary to the EC)

ECONOMIC REPORT

1. The EC considered the submitted Economic Report presented by RD before turning to the immediate policy discussions. The report contained a comprehensive analysis of current major global economic developments and their likely impact on the growth prospects for Namibia, as well as the domestic economic developments.

2. A presentation was made starting with a round-up of the global economic developments since the last EC meeting. According to the presentation, the conditions in the global economy have hardly changed since the last EC meeting as growth in the advanced economies remained restrained. The emerging market economies, on the other hand, continued to lead the recovery, albeit at a slowing pace.

3. The EC reflected upon this development and generally agreed that the recovery was losing momentum. EC also noted that high unemployment rates in the advanced

economies and persistent risk of economic overheating, particularly in the emerging market economies remain key concern.

4. This picture was put into context by reflecting upon the revised real GDP figures to EC. The revised figures revealed that during the fourth quarter of 2010, economies had continued to grow at varying speeds both among advanced and emerging market economies. For instance, the US and the UK registered slowdowns of 2.8 percent and 1.5 percent respectively, while the Euro area GDP expanded mainly driven by the expansion in Germany.

5. EC noted that the varying growth speeds were also observed within the emerging market economies during the fourth quarter of 2010 despite being at the forefront of global economic recovery. While China and Russia recorded improved growth of 9.8 per cent and 4.5 per cent in the fourth quarter compared to the third quarter respectively, real GDP growth in India slowed marginally to 8.2 percent from 8.9 per cent over the same period.

6. EC then considered the new sets of challenges that were beginning to take shape in addition to the old challenges, such as the on-going fiscal and financial reforms, as well as high unemployment rates. The new sets of policy challenges, mainly in the form of high commodity prices, were compounding the already existing challenges. The increase in high commodity prices could fuel domestic inflationary pressure and hinder economic growth.

7. In view of these conditions, most central banks have stuck to their accommodative policy stances while others have begun to re-align their stances to address these challenges. For instance, monetary policy in most of the advanced economies remained unchanged since the last EC meeting, but some central banks, such as the European Central Bank and a number of emerging markets, have increased their policy rates.

8. The central banks of China, Brazil, India, with the exception of South Africa, raised their policy rates, citing the need to contain surfacing inflationary pressures and expectations and to respond to initial signs of overheating. EC noted that South Africa was still aiming at stimulating economic growth as inflation was not demand driven.

9. Turning to global markets, EC noted that effects from the earthquake that hit Japan continued to influence markets. Furthermore, the markets were also adversely affected by political unrest in North Africa and the Middle East. Nevertheless, equity markets in the US and Eurozone remain resilient and delivered strong gains on the back of positive earning season and improving risk appetite. EC noted that the stock market indices were back to pre-crisis levels mainly because of some large corporations having posted positive growths making their stocks more attractive.

10. EC noted that the data on the domestic economy revealed a positive growth but at a slow pace. Positive performance was observed in most activities within the primary, secondary and tertiary sectors. Growth in the primary sector was led by expansion in the agricultural industry through increased livestock marketing and milk production on a monthly basis.

11. EC took note of the weak performance of the mining industry during the first quarter of the year. Uranium output, for example, started on a weak note mainly as a result of the flooding of the mining areas during the first quarter of 2011.

12. In the secondary industry, manufacturing and construction sector performed well. Refined zinc increased month-on-month by 8.9 percent, whereas building plans approved and completed also rose on a monthly basis by 88.2 percent and 4.0 percent, respectively, in February 2011.

13. EC noted the satisfactory performance of the tertiary sector despite some weaknesses in the tourism industry observed in the month of February 2011. EC noted a decrease in the number of arrivals through airports, while the room occupancy rate increased. This mismatch in the two indicators was mainly due to domestic tourists and foreign tourists that arrived by roads and not by air. Other indicators, such as real turnover for wholesale and retail trade, the number of new vehicles sold, land and water transport cargo volumes as well as telecommunication subscribers, performed well.

14. RD informed EC that inflationary pressures remained subdued, but was beginning to build up in line with rising international prices for food and energy. In the month of March 2011, overall inflation accelerated to 3.8 percent from 3.1 percent in February 2011. The increase in overall inflation was attributed to high price adjustments for food and transport, while other categories such as hotels, cafes and restaurants, as well as miscellaneous goods and services, also recorded significant increases during March.

15. EC noted an improvement in credit demand as private sector credit extension (PSCE) accelerated in February 2011. The annual growth in PSCE rose to 12.2 percent from 9.3 percent recorded in January 2011. The improved growth in domestic demand, as reflected in stronger PSCE, was reflected in stronger growth in credit advanced to both the corporate and household sector.

16. EC observed that the increase in business lending was due to growth and not the existence of financial strain in the business sector.

17. Regarding fiscal policy developments, there was an increase in debt to GDP ratio during the month of February compared to the previous month but the increase is not a cause for concern. Domestic debt as a ratio to GDP rose slightly to 11.2 percent at the end of March when compared to 11.1 percent recorded at the end of February 2011. The rise in domestic debt was in the form of treasury bills (TBs) and Internal Registered Stocks (IRS), which increased by 0.5 percent and 1.9 percent, respectively, during March 2011. EC was of the view that, while debt was increasing, it still remained low and did not pose any threat to its sustainability.

18. Moving to the stock of the official reserves, EC noted that the preliminary figure for the stock of foreign reserves showed a substantial decline in the level of reserves. At the end of March 2011, reserves declined by 15.6 per cent, month-on-month, to N$9.0 billion. This decline can be attributed to the large Government payments made during the last quarter of the fiscal year.

19. Nevertheless, EC was confident that, at this level, the stock of reserves remained healthy and sufficiently covered the currency in circulation that stood at N$1.4 billion. The stock of reserves was six times higher than what is required to sustain the currency peg. Furthermore, EC was of the view that, despite the threats of reserves drawdown due to a higher import bill as a result of the additional disposable income, the stock of reserves was sufficient to meet the country's short term external liabilities. EC acknowledged the exchange rate risk to the stock of reserves emanating from the recent Rand appreciating.

MONETARY POLICY DELIBERATIONS

20. EC acknowledged that the pace of growth in the global economy slowed down in the first quarter of 2011. This development had impacted on the domestic economy as well, as growth fell below the expectations during the beginning of the year. EC acknowledged that challenges to global recovery still remained and its impact will be felt through to the domestic economy. Of particular significance were the rising international food and energy prices, which have already started to create inflationary pressures in the domestic economy.

21. From the review of the recent economic developments, Committee members were in general agreement that a change in the stance at this stage would run the risk of exposing the fragile economy to international shocks and unduly depressing domestic demand and at a time when this demand is not the cause of recent inflation acceleration.

THE DECISION

22. In light of this, the EC decided to leave the Repo rate unchanged at 6.0 per cent. Summing up the risks and threats to both growth and financial stability, members once again affirmed their commitment to continue closely monitor economic developments, and agreed to modify the policy stance as and when conditions so demand.