

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 18th August 2015



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 18th of August 2015.

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 18th of August 2015.

Monetary policy decisions are taken by the MPC in accordance with the **Monetary Policy Framework** of the Bank of Namibia published in 2008. The MPC meets on a bi-monthly basis and minutes of its meetings are released on the day following the next MPC meeting.

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

MPC MEMBERS PRESENT

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

OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Helvi Fillipus (Senior Economist, FMD), Abigail Nainda (Economist: RD); Evelina Niishinda (Economist: RD); Christian Phillipus (Senior Economist: RD); Postrick Mushendami (Senior Economist: RD); Reinhold Kamati (Senior Economist: RD); Rehabeam Shilimela (Research Officer: RD), Daisy Mbazima (Economist: RD)

Mukela Mabakeng (Economist: RD & Secretary).

APOLOGIES:

Meshack Tjirongo

Technical Advisor: Research

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that the global economy improved moderately during the second quarter of 2015. Growth in key advanced economies improved, with the exception of Japan where the economy declined.** Economic activities in the US, UK and the Euro area continued to improve; offsetting the contraction in Japan.
- 2. Growth in Emerging Market Economies (EMEs) remained somewhat mixed, with some economies continuing to contract.** China's real GDP growth remained around 7 percent in spite of recent challenges, while the economies of Russia and Brazil continued to contract further during the period under review. India's growth remained strong and is expected to improve in 2015, supported mainly by investment in infrastructure. Real GDP growth in South Africa is projected to increase to 2.3 percent in the second quarter of 2015, from 2.1 percent in the previous quarter.
- 3. Going forward, the MPC noted that the global growth is projected to improve in 2015, with a gradual recovery in advanced economies; while EMEs are expected to slow down.** Risks to global economic activities include increased financial market volatility and lower commodity prices.
- 4. The MPC observed that monetary policy stances of all key advanced economies remained supportive of growth, while those of emerging markets economies were mixed.** Brazil and South Africa tightened, while India, China and Russia reduced their policy rates. Inflation in the advanced economies remained well contained in the second quarter of 2015, while it continued to be high in some EMEs.

DOMESTIC ECONOMY

- 5. The MPC noted that the domestic economy displayed positive developments during the first six months of 2015. Risks to the domestic outlook, however, remain, including lower commodity prices.** The primary drivers behind the improved domestic economy over the review period were robust construction activities in the public and private sector, as well as wholesale and retail trade. Going forward, the Namibian economy is expected to grow by 5.0 percent in 2015, up from 4.5 percent in the preceding year. Risks to domestic growth remain the slow recovery in the economies of the country's trading partners, low commodity prices and drought conditions.

- 6. The MPC noted that Namibia's annual inflation rate declined during the first six months of 2015, and is expected to remain manageable for the rest of the year.** The average inflation rate over this period slowed to 3.4 percent from 5.6 percent during the corresponding period of 2014. This trend continued as reflected in the latest figure of 3.3 percent for the month of July 2015. The decline in inflation was predominantly reflected in the categories transport, housing, water, electricity, gas and other fuels and food and non-alcoholic beverages.
- 7. The MPC also observed that Private Sector Credit Extension (PSCE) continued to be strong, driven mainly by businesses, although it declined in June 2015.** PSCE grew by 16.0 percent over the first six months, compared to the average of 15.3 percent over the same period in 2014. In June 2015, annual growth in PSCE, however, slowed to 14.7 percent from 16.1 percent in the previous month.
- 8. The MPC took note that on average, growth in credit extended to the household sector slowed moderately over the first six months of 2015.** Growth in household credit slowed to 12.8 percent over this period from 14.8 percent during the corresponding period of 2014. In contrast, instalment credit continued to grow strongly on average by 20.9 percent to N\$6.3 billion over the first six months of 2015. The MPC however, noted a positive development that emerged with both the 3 month and 6 month moving average growth rates of the same, showing a slowdown.
- 9. The MPC noted that the stock of international reserves remained adequate to maintain the one-to-one link of the Namibia Dollar to the Rand, being 3.9 times higher than the currency in circulation.** The level of reserves stood at N\$13.0 billion as at the 18th of August 2015. The MPC was, however, still concerned about the high import bill resulting from the importation of unproductive goods such as luxury vehicles, which put additional pressure on the country's international reserves.

MONETARY POLICY DELIBERATIONS

- 10. The MPC considered both the domestic and global economic developments as highlighted above and decided to maintain the Repo rate at 6.50 percent, while assessing the impact of its last decision.** The MPC remains concerned about the high growth in instalment credit extended to households, despite the slowdown registered in the last few months. A considerable amount of these loans is still largely used to finance

unproductive imported luxury goods, hence putting additional pressure on the international reserves of the country.