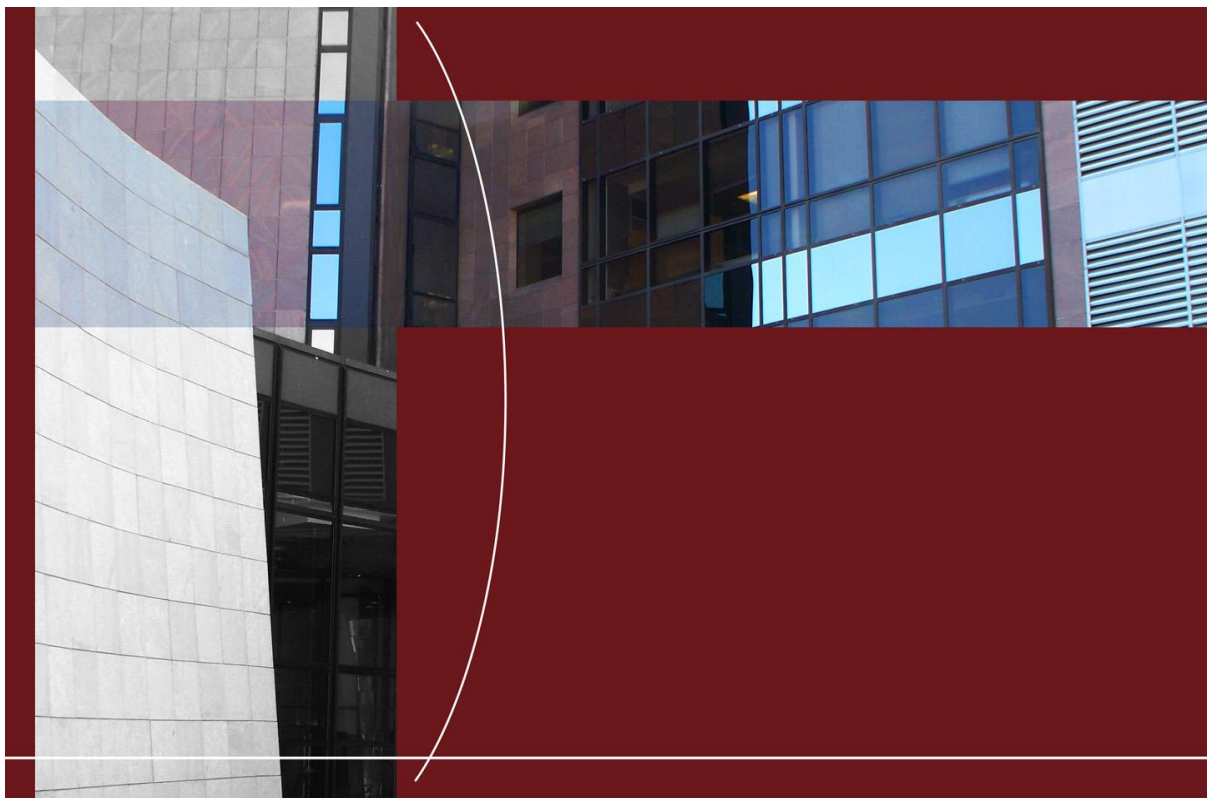


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 19th August 2014



“Our vision is to be a centre of excellence”

Publication date: 22nd of October 2014

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 19th of August 2014

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 19th of August 2014.

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
Florette Nakusera	Director: Research
Titus Ndove	Director: Financial Markets
Emma Haihambo	Acting Director: Strategic Communications & Financial Sector Development (FSD)
Emile Van Zyl	Technical Advisor to the Governor
Dr. Meshack Tjirongo	Research advisor to the Governor

OTHERS PRESENT

Tjiveze Tjipe (Senior Economist: Research Department), Edler Kamundu (Senior Economist: Research Department), Floris Fleermuys (Senior Economist: Research Department), Lelly Usiku (Acting Deputy Director: Research Department), Petrus Shifotoka (Economist: Research Department), Postrick Mushendami (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department) and Sevelia Joseph (Economist: Financial Market Department).

Heinrich Namakalu (Economist: Research Department and Secretary to the MPC)

ECONOMIC DEVELOPMENTS REPORT

Global economy

1. **The MPC noted that the global growth improved slightly during the second quarter of 2014, compared with an unexpected weakening in the first quarter.** This was mainly supported by stronger growth in the US and China. Growth in the Euro Area remained relatively weak, while the Japanese economy contracted. Some emerging market economies, such as India and China are projected to continue registering strong positive growth. Going forward, global growth is expected to perform better compared with 2013, supported by activities in some major advanced and emerging economies.
2. **The meeting noted that central banks in the advanced economies sustained their accommodative monetary policy stances in July 2014, while upward inflationary pressures amongst some of the emerging market economies resulted in some tightening.** After easing monetary policy in June 2014, the European Central Bank (ECB) left its policy rate at 0.15 percent and announced that targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending through liquidity injections will be undertaken on 18 September and 11 December 2014. The US Federal Reserve scaled down its bond purchasing programme to US\$25.0 billion per month. In emerging market economies, central banks in South Africa and Russia raised their policy rates by 0.25 and 0.50 percent in July 2014, respectively to tame inflationary pressures.

Domestic economy

3. **The MPC noted that selected indicators across all industries displayed satisfactory performance during the first half of 2014.** The favourable performance of the primary industry emanated from sustained increase in mineral production, particularly diamonds and gold, while production of uranium and zinc concentrate declined. In the agricultural sector, livestock marketing continued to be negatively affected by the veterinary restrictions imposed by the South Africa Government. Satisfactory performance in the secondary industry was supported by increased activities in the construction and manufacturing sectors. Available indicators in the tertiary industry also showed positive performance as reflected in the increased wholesale and retail trade sales, the number of new vehicles sold and number of tourist arrivals.

4. **The meeting noted that annual inflation, which has been rising in the past six months, slowed in July 2014.** Inflation rose steadily from 4.9 percent in January 2014 to 6.1 percent June 2014, before dropping to 5.6 percent in July 2014. The slowdown in July was reflected mainly in food, transport and housing categories. Going forward, inflation is expected to average around 6 percent for 2014.
5. **The annual growth rate in domestic private sector credit increased strongly to an average growth rate of 15.3 percent during the first half of 2014, from 13.9 percent registered during the last six months of 2013.** The strong demand for credit came from both households and business sectors. The growth in household credit was mainly dominated by installment credit, overdrafts and other loans and advances, which regrettably are also used to finance unproductive imported luxury goods.
6. **Growth in broad money supply (M2) slowed, year-on-year, at the end of June 2014, while the liquidity position of the commercial banks strengthened.** Growth in M2 slowed to 6.9 percent at the end of June 2014 from 8.5 percent at the end of May 2014, owing to a decrease in both net domestic assets and net foreign assets of other depository corporations. The average liquidity position rose by N\$1.0 billion from an average of N\$2.9 billion observed in June 2014; marking the highest increase recorded since July 2012.
7. **On the fiscal front, MPC noted that government domestic debt decreased on a monthly basis as a result of the redemption of the GC14 bond, but rose on an annual basis, in line with the government borrowing plan.** At the end of July 2014, the stock of government debt declined by 2.6 percent to N\$19.8 billion. As a percentage of GDP, domestic debt declined by 0.4 percentage point on a monthly basis and by 0.1 percentage point on a yearly basis to 14.5 percent at the end of July 2014. The debt to GDP ratio remained well below the Government's ceilings and poses no risk to the government fiscal position.
8. **With respect to the external sector, MPC noted that the deficit on merchandise trade balance widened drastically, year-to date, as a result of the higher imports bill.** The increase in imports was mainly attributed to the imports of capital goods, vehicles and other consumer goods. Export earnings were satisfactory, driven by earnings for minerals during the first half of 2014. The better performance in mineral export earnings was mainly driven by the depreciation of the Namibia Dollar against the US Dollar and the increased volumes for most minerals. On average, the Namibia Dollar depreciated against all major trading currencies over the same period, mainly due to the

labour unrests in South Africa and the announcement by the Federal Reserve Bank to wind down the quantitative easing stimulus program by the end of the year.

9. **The meeting further noted that the stock of international reserves rose at the end of June 2014, on the monthly basis, while declining slightly on a yearly basis.** The decline in reserves, driven mainly by the increased import bill, continued to impact negatively on the import cover reducing it to about 2.4 months in the first quarter of 2014.

MONETARY POLICY STANCE

10. **Following a lengthy deliberation on the above mentioned developments the MPC resolved to increase the Repo rate by 0.25 percentage points to 6.0 percent.** The decision was taken to contain the strong growth in household credit, which is largely financing unproductive imported luxury goods and putting undue pressure on the international reserves of the country.