

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 21st October 2014



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 21st of October 2014

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia's MPC held on the 21st October 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
Emile Van Zyl	Technical Advisor: Governor's Office
Dr. Meshack Tjirongo	Technical Advisor: Research
Florette Nakusera	Director: Research Department (RD)
Titus Ndove	Director: Financial Markets Department (FMD)
Ndangi Katoma	Director: Strategic Communications & FSD ¹

OTHERS PRESENT

Tjiveze Tjipe (Senior Economist: RD), Edler Kamundu (Senior Economist: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Petrus Shifotoka (Economist: RD), Postrick Mushendami (Senior Economist: RD), Gerson Kadhikwa (Senior Economist: RD) and Helvi Phillipus (Senior Economist, FMD), Diina Hamutumwa (Economist: FMD), Mutu Katjuanjo (Economist: RD), Christian Phillipus, (Economist: RD).

Heinrich Namakalu (Economist: RD & Secretary)

¹ Financial Sector Development

ECONOMIC DEVELOPMENTS REPORT

Global economy

1. **The MPC noted that the global economy improved slightly during the second quarter of 2014, supported by stronger growth in the US and India, while the growth in China remained healthy.** Economic activities in the US improved on account of private consumption and fixed investment. In emerging market economies, China and India contributed significantly to global growth, with improved economic activities in the manufacturing and construction sectors. Growth in the Euro Area, however, remained relatively weak, while the Japanese economic activities declined. Because of these developments, the IMF in its October Economic Outlook revised its global growth projections for 2014 and 2015 slightly to 3.3 percent and 3.8 percent from 3.4 percent and 4.0 percent projected in July 2014, respectively. These revisions were also on account of expected slowdown in Brazil and Russia.
2. **The meeting noted that monetary policies in advanced and some emerging market economies remained accommodative.** The pace of monetary expansion program in the US was halted in October 2014. In the Emerging Market economies, central banks in Brazil and Russia increased their policy rates by 0.25 and 1.50 percent, respectively to contain inflationary pressures caused by exchange rate depreciation, while the South African Reserve Bank and Central Bank of India maintained their policy rates to support economic activities.

Domestic economy

3. **The MPC noted that selected indicators in the domestic economy showed improvements during the first eight months of 2014.** The good performance in the real sector was driven mainly by construction, wholesale and retail trade, diamond mining and manufacturing. Activities in the agriculture sector, however, showed some weaknesses over the same period. The number of cattle and small stock marketed as well as milk production declined during the first eight months of 2014. The decline in both the numbers of cattle and small stock marketed resulted from the South Africa veterinary requirements imposed in May through to August 2014 and the low level of stock, after the prevailed drought situation of 2013. Similarly, the decline in milk production was

mainly due to limited stock of milk producing cows, as farmers lost a large number of stock during the second half of last year due to the drought.

4. **The meeting noted that annual inflation, which increased steadily during the first half of 2014, slowed down in July and subsequently in August 2014, mainly on account of deceleration in food and transport inflation.** Annual inflation rose steadily from 4.9 percent in January 2014 to 6.1 percent in June, before dropping to 5.3 percent in September 2014. The annual decline in inflation was primarily on account of decreased price in food and transport categories. The overall annual inflation is expected to average around 5.3 percent for 2014.
5. **The annual growth rate in domestic private sector credit continued to grow strongly during the first eight months of 2014.** Growth increased to an average rate of 15.5 percent during the first eight months of 2014, compared to 14.2 percent for the previous eight month period. Growth in credit extended to the private sector (PSCE) was driven by both credit to the business sector and individuals. Strong growth in credit to individuals was particularly observed in the categories overdrafts, other loans and advances and installment credit.
6. **With respect to the external sector, MPC noted that the current account registered a higher deficit, year-on-year, mainly due to a larger merchandise trade deficit balance, while the capital and financial account registered a surplus during the second quarter of 2014.** This was largely as a result of a deteriorating merchandise trade balance and net payments in services and investment income. This was, however partly set off by diamonds, blister copper and refined zinc that recorded increased export earnings both year-to-date and on an annual basis during August 2014. On average, the Rand/Namibia Dollar (NAD) weakened against major currencies during the first 9 months of 2014. The Rand/NAD weakened against the US Dollar, year-to-date, due to South Africa's widening current account deficit, coupled with improved economic developments in the US, which led to the appreciation of the US Dollar.
7. **The meeting noted further that the stock of foreign reserves declined both on an annual and monthly basis in August 2014, mainly due to net commercial banks outflows and net government payments.** The stock of reserves declined by 7.0 percent on a monthly basis to N\$13.7 billion, mainly due to net commercial banks

outflows of N\$895 million as well as net government purchases of N\$192 million. At the latest level of N\$13.7 billion, the international reserves were 3.9 times higher than the currency in circulation and were thus sufficient to support the currency peg to the Rand.

MONETARY POLICY STANCE

- 8. Following a lengthy deliberation on the above mentioned developments, the MPC resolved to hold the Repo rate steady at 6.0 percent to support domestic economic activities, while monitoring the effects of recent monetary policy decisions.** Strong growth in household credit, which is largely financing unproductive imported luxury goods and putting additional pressure on the international reserves of the country, remains a concern.