

Bank of Namibia

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 24 April 2012



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 24th of April 2012

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 24 April 2012.

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

EC MEMBERS PRESENT

Ipumbu Shiimi (Chairperson and Governor), Ebson Uanguta (Deputy Governor), Michael Mukete (Assistant Governor and Head of Financial Stability), Florette Nakusera (Acting Director: Research Department), Ndangi Katoma (Director: Strategic Communications and Financial Sector Development Department), Emile Van Zyl (Technical Advisor: Governor's Office)

OTHERS PRESENT

Edler Kamundu (Senior Economist: Research Department), Sanette Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department), Petrus Shifotoka (Economist: Research Department), Lourencia Hamauka (Economist: Research Department)

Helvi Fillipus (Economist and Secretary to the MPC)

ECONOMIC REPORT

1. Since the last meeting, the MPC noted that global economic activities remained strained, with GDP growth rates moderating in most economies during the fourth quarter of 2011. This was reflected in slowed economic activities in the Euro Area, Japan, South Africa, India, Russia and Brazil. At the centre of this slowdown were the persistent high unemployment rates in many advanced economies, weak consumption expenditure, subdued investment spending, sluggish performance in the US housing market and slowed global demand. Further, real GDP growth in China slowed to 8.1 percent in the first quarter of 2012 compared to 8.9 percent during the fourth quarter of 2011, the slowest growth since the second quarter of 2009. The slowdown was on account of weaker external demand from its major trading developed partners, i.e., the US and Euro Area.
2. On monetary policy, the MPC noted that advanced economies maintained accommodative stances due to depressed economic activities. Similarly, China and India reduced their reserve requirements in an effort to stimulate the pace of economic activities. On the labour markets front, unemployment rates remained high despite modest declines in the US and Canada, amongst others. On the other hand, the unemployment rate in the Euro Area increased to 10.8 percent in March 2012 from 10.7 percent in February 2012, with six of the 17 Euro Area's member countries recording rates above 10.0 percent.
3. On the financial markets front, global equity markets experienced mixed performances. On the one hand, markets in the developed countries responded positively to improved global risk appetite bolstered by better than expected economic news from the US and some progress in preventing further escalation in the Euro Area's protracted sovereign debt crisis. On the other hand, indices in the emerging markets such as the Hang Seng of Hong Kong and the All Share Index of the Johannesburg Stock Exchange performed weakly due to poor commodity performance and weak outlook in Europe and China.
4. The MPC further noted that the Composite Leading Indicators (CLIs) for advanced economies, with the exception of the Euro Area, showed signs of improvements, thereby signalling a slight increase in economic activities. Similarly, the Purchasing Managers Indices (PMIs) for most advanced economies were above the 50.0 threshold, although a slight moderation was observed. In the Euro Area, the PMI was below the benchmark level of 50.0 owing to the austerity measures. On commodity prices, the energy price index increased as a result of a rise in the price of crude oil, underpinned by geopolitical

tensions in a number of oil producing countries such as Iran, Syria, Nigeria, South Sudan and Yemen as well as supply concerns from the North Sea.

5. The MPC noted that the IMF has revised projections for global economic growth for 2012 upwards by 0.2 percentage points to 3.5 percent in April 2012 from 3.3 percent in January. Notwithstanding this forecast, the MPC maintained the view that uncertainties continue to cloud the global economic prospects with the major downside risks remaining, especially in the Euro Area.

Domestic economy

6. The MPC noted that the performance of the real sector during the first quarter of 2012 was positive. In view of this, the non-diamond mining sector showed positive growth year-to-date. Diamond production, however, declined over the first quarter of 2012 owing to poor ore grade and closure of some pocket beach mines. Meanwhile, the agricultural sector displayed weaknesses as reflected in declines in livestock marketed. On the secondary industries, the MPC noted that the construction sector continued to register positive performance as reflected in building plans approved and completed. The increase was recorded mostly in residential properties in Windhoek and the coastal towns. The manufacturing sector slowed year-to-date, due to the slowdown in the production of both blister copper and refined zinc.
7. In the tertiary sector, the MPC noted the continued increase in vehicle sales which can be attributed to increased purchases of passenger vehicles. On the communication sector, the number of mobile phone subscribers continued to record strong growth. In terms of credit developments, growth in credit extended to the private sector (PSCE) by the banking system slowed to 10.2 percent at the end of February 2012 from 11.2 percent in the preceding month. PSCE slowed as a result of weak borrowing in the form of overdraft lending advanced to both corporations and individuals.
8. Turning to fiscal affairs, domestic debt continued to increase reaching N\$16.9 billion or 17.0 percent of GDP at the end of February 2012. With regard to domestic inflation, the annual inflation rate for all items slowed to 6.9 percent in March 2012, from 7.4 percent in the previous month. The moderation in annual inflation was on account of reduced inflation rates for categories such as *housing, water, electricity, gas and other fuels; health and recreation & culture*. Going forward, the MPC noted that a downward inflation pattern was expected in the short to medium term.

Monetary Policy Deliberations

9. After reviewing developments on both the growth and price stability fronts, the MPC maintained the view that uncertainties continued to cloud the global economic sphere. Although local demand was gaining momentum, the MPC members expressed concern over potential spillover effects from the weakened global economy. The MPC also noted that core inflationary pressures are becoming generalised. With these considerations in mind, the MPC unanimously decided to maintain the Repo rate at its current level of 6.00 per cent. The MPC remains committed to closely monitor global as well as domestic economic developments and take the necessary actions as appropriate.

ANY OTHER BUSINESS

10. In the absence of any other business, the meeting was adjourned. The next meeting is scheduled for the 19th of June 2012.

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Chairman

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Date

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Secretary

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Date