

**BANK OF NAMIBIA**

**Minutes of the Monetary Policy Committee (MPC) Meeting**

**Windhoek, 13<sup>th</sup> June 2017**



**“Our vision is to be a centre of excellence”**

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## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 13<sup>th</sup> of June 2017**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 13<sup>th</sup> of June 2017.

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 the 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>.

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### **MPC MEMBERS PRESENT**

Iipumbu Shiimi	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Emma Haiyambo	Director: Strategic Communications & FSD
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Advisor: Research Department
Postrick Mushendami	Acting Director: Research Department

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### **OTHERS PRESENT**

Edler Kamundu (Technical Advisor: RD); Israel Zemburuka (Deputy Director: FSD); Saara Kashaka (Senior Economist: RD); Helvi Fillipus (Deputy Director: FMD); Dr Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Economist: RD); Sanette Schulze Struchtrup (Deputy Director: RD); Heinrich Namakalu (Economist, RD); Elifas Iiyambula (Economist: RD); Douglas Ndana (Graduate Accelerated Programme Candidate: RD).

### **SECRETARY**

Hileni Shifotoka (Economist: RD & Secretary).

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### **APOLOGIES:**

Florette Nakusera                      Director: Research

### GLOBAL ECONOMY

- 1. The MPC noted that the global economy is projected to improve slightly in 2017, compared to 2016.** The global economy is projected to grow by 3.5 percent in 2017, from 3.1 percent in 2016, supported by improved growth, in both the advanced economies (AEs) and emerging market and developing economies (EMDEs). Recent improvements in commodity prices, manufacturing, trade and consumer sentiment may translate into higher investment and further boost business confidence going forward.
- 2. Average economic growth in some key AEs slowed in the first three months of 2017, compared to the last quarter of 2016, with the exception of the United Kingdom (UK), in which activity gained momentum.** The slow growth in AEs during the first quarter of 2017 can be attributed to the low growth rates of 1.2 percent, 1.7 percent and 1.6 percent recorded in the US, Eurozone and Japanese economies relative to 2.1 percent, 1.8 percent, and 1.7 percent in the last quarter of 2016, respectively. The growth rate of the UK economy, however, improved marginally to 2.0 percent in the first quarter of 2017 compared to 1.9 percent in the previous quarter, due to fixed investment, which rose at a faster pace as business investment increased for the first time over a year. In addition, consumer spending continued to fuel growth in the UK since the Brexit vote in 2016. Going forward, AEs are projected to grow by 2.0 percent in 2017, compared to 1.6 percent in 2016. The growth will mainly be driven by the US, which is projected to grow by 2.3 percent in 2017 from 1.6 percent in 2016.
- 3. The MPC further noted that, economic activity in the EMDEs improved during the first quarter of 2017 compared to the previous quarter, except for South Africa, which contracted.** The improved economic performance in the EMDEs was on account of Russia and China, which posted improved growth rates of 0.5 percent and 6.9 percent during the first quarter of 2017 from 0.3 percent and 6.7 percent in the previous quarter, respectively, partly driven by higher oil prices and increased investment. Although the economic growth of Brazil remained subdued, the contraction during the quarter under review was milder at 0.4 percent compared to a contraction of 2.5 percent in the fourth quarter of 2016. The South African economy, on the other hand, slipped into recession when it contracted by 0.3 percent in the

fourth quarter of 2016 and by 0.7 percent in the first quarter of 2017. This was mainly due to low investment and consumption expenditures, sluggish exports and weak industrial growth. Going forward, the EMDEs are projected to grow stronger by 4.5 percent in 2017 from 4.1 percent in 2016, supported by recoveries in Russia and Brazil.

4. **The MPC observed that the downside risks to the 2017 global growth outlook include a shift to inward-oriented policies, which may reduce trade and cross-border investment flows.** Other risks are a faster-than-expected pace of interest rate increases in the US, and the resultant appreciation of the US Dollar, undue financial tightening as well as continued weaknesses in the banking systems of some countries.
5. **Furthermore, the MPC noted that since the last meeting in April 2017, most central banks in both the AEs and EMDEs left their benchmark rates unchanged, except for Brazil and Russia.** The central banks of Brazil and Russia cut their policy rates by 100 basis points and 50 basis points to 10.25 percent and 9.25 percent respectively, to support their economic recoveries.

## DOMESTIC ECONOMY

6. **The MPC noted that available indicators show that the domestic economy remained weak during the first four months of 2017, compared to the same period in 2016.** This feeble performance was largely reflected in sectors such as manufacturing, construction, as well as wholesale and retail trade. Moreover, activity in the transport and communication sector also slowed, as mirrored in the lower cargo volumes for rail and sea transport.
7. **There are, however, some bright spots in the economy as reflected in the increased production in the mining sector and improved value addition in the communication subsector.** Activity in the mining sector, particularly in the production of diamonds, zinc and gold increased during the first four months of 2017, compared to the same period of 2016. Similarly, the value addition in the communication subsector rose over the same period, as electronic communication continued to flourish.
8. **The MPC noted that Namibia's inflation rate moderated from its peak in January 2017.** Namibia's inflation rate slowed from 8.2 percent in January 2017 to reach 6.7

percent in April 2017. The decline in the inflation rate was mainly due to lower food inflation. Going forward, inflation is forecasted to average 6.9 percent at the end of 2017.

- 9. The MPC was informed that the growth in the private sector credit extension (PSCE) slowed during the first four months of 2017.** The annual rate of PSCE growth slowed to 8.6 percent during the first four months of 2017 from 13.0 percent during the same period of 2016. Since the last MPC meeting, the growth in PSCE slowed further to 8.1 percent at the end of April 2017, from 9.1 percent at the end of February 2017. The slow growth was visible in credit advanced to both the corporate and household sectors, especially in the categories of mortgage and instalment credit.
- 10. Furthermore, the MPC noted that since its last meeting in April 2017, the preliminary stock of international reserves increased, both on a monthly and annual basis.** The MPC noted that as at 1<sup>st</sup> June 2017, the preliminary stock of international reserves marginally rose by 0.2 percent and 15.2 percent to N\$24.2 billion, month-on-month and year-on-year, respectively. The increase was largely as a result of local institutional investors who decided to liquidate some of their foreign investments to invest in the domestic economy. At this level, the stock of international reserves is estimated to cover 3.7 months of imports of goods and services, and thereby remains sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand.

## **MONETARY POLICY DELIBERATIONS**

- 11. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above.** After taking all key macro-economic variables and developments into account, the MPC kept the Repo rate unchanged at 7.00 percent. The MPC is of the view that at this level, the rate remains appropriate to maintain the one-to-one link between the Namibia Dollar and the South African Rand, without compromising growth.