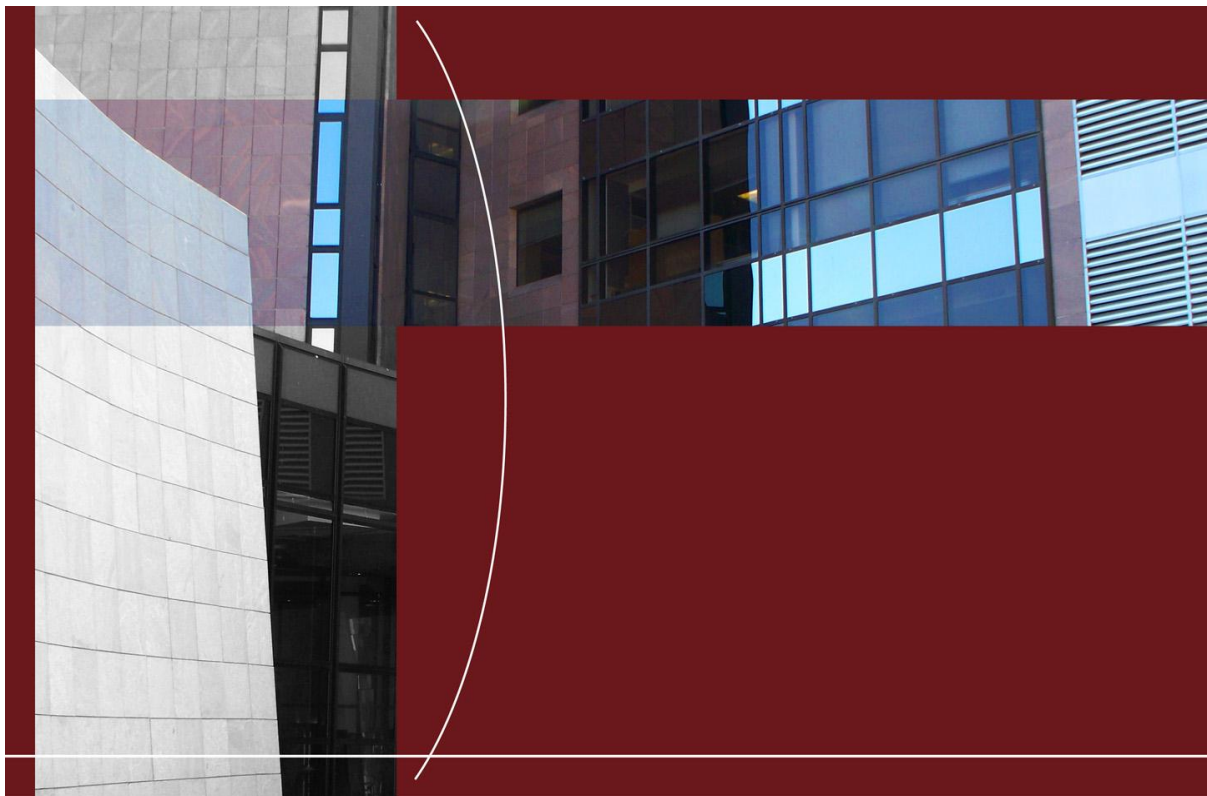


# Bank of Namibia

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

Windhoek, 19 June 2012



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

**Publication date: 22 August 2012**

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## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 19<sup>th</sup> of June 2012**

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 19 June 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>.

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### **EC MEMBERS PRESENT**

Ipumbu Shiimi (Chairperson and Governor), Ebson Uanguta (Deputy Governor), Michael Mukete (Assistant Governor), Abed Iyambo (Acting Director: Research), Ndangi Katoma (Director: Strategic Communications & Financial Sector Development), Emile Van Zyl (Technical Advisor: Governor's Office) Dantagos Jimmy-Melani (Acting Director: Financial Markets)

### **OTHERS PRESENT**

Evangelina Nailenge (Deputy Director: Research), Sanette Schulze-Struchtrup (Senior Economist: Research), Gerson Kadhikwa (Senior Economist: Research), Rehabeam Shilimela (Research Officer: Research), Beata Magongo (Research officer: Research), Lourencia Hamauka (Economist: Research)

Helvi Fillipus (Economist and Secretary to the MPC)

## ECONOMIC REPORT

1. Since the last MPC meeting, data on developments in the first quarter of 2012 indicate that global growth remains fragile in most economies. This was reflected in slowed economic activities in the Euro Area and the UK. Meanwhile the US and Japanese economies recorded minor improvements owing to enhanced consumer spending and the impact of macroeconomic policies to resuscitate the economy after the earthquake, respectively. Moreover, the global economy is still faced with challenges of high unemployment rates, high sovereign debt, weak consumption expenditure and slow demand in some key regions of the global economy.
2. The MPC further noted that the performance of emerging market economies slowed in the first quarter of 2012 relative to the preceding quarter. In this regard, growth slowed to 8.1 percent in China, 5.3 percent in India and 2.1 percent in South Africa. The observed moderation in economic activities can be attributed to fragile external demand for Chinese exports, weak investment performance due to relatively high interest rates in India and a contraction in the South African mining sector. In contrast, Russia's real GDP growth improved mildly to 4.9 percent in the first quarter of 2012 from 4.8 percent due to increased government spending which sustained domestic consumption.
3. The MPC noted that monetary policy in most advanced economies has reached the bottom ceiling with interest rates closer to zero. As a result, accommodative policy stances were adopted across these economies in line with depressed economic activities. Emerging market economies such as China, Brazil and India reduced their policy rates with the aim to boost domestic activities amidst a restrained global economic environment. On equity markets, the MPC noted that stock markets performed poorly during May 2012 owing to slowing growth in emerging markets, weak employment statistics coupled with speculations over a possible exit of Greece from the Euro currency union.
4. The MPC further observed a moderation in oil, mineral, food and metals price indices during May 2012. The decline in oil prices is ascribed to slowed demand especially from the Euro area coupled with diminished tensions in Iran. The downward pressure on other commodity prices stemmed mainly from slacking demand in China and India supported by a strong US Dollar during that month. With regard to the food index, the decrease resulted from oversupply owing to good harvest in the US and other agricultural commodity producers. The Composite Leading Indicators (CLIs) remained stable for most economies, however, those for India, China and the Euro Area decreased. The

Purchasing Managers Indices (PMIs) for advanced economies declined during May 2012, although they remained marginally above the 50.0 benchmark level. The PMIs for all emerging market economies were at levels below threshold level of 50.0 during the same month. These developments signals continued weaknesses in global economic activities.

### **Domestic economy**

5. From the local economic indicators, the MPC observed that the performance of the domestic economy was positive during the first 5 months of 2012. In the primary industry, production in the mining sector was positive year-to-date owing to base effects, especially for uranium whose production was constrained by high rainfalls last year. The MPC was further informed that activities in the agriculture sector slowed due to declines in livestock marketed. This development stemmed from the closure of abattoirs due to maintenance, supported by slowed sales due to foot and mouth disease suspicions in some parts of the country.
6. On the secondary industries, the MPC noted that the construction sector continued to register positive performance as reflected in building plans approved and completed; while slowdowns were recorded in the manufacturing sector. The MPC further noted that all sectors of the tertiary industry registered improved economic activities, with the exception of the tourism sector which continues to struggle amidst persisting turbulences in the Euro Area. Transport cargo increased supported by delivery of fuel, coal and zinc concentrate, amongst others. Furthermore, the MPC noted that domestic demand continue to be buoyant as reflected in increased vehicle sales and positive turnover in the wholesale and retail sector. The house price index slowed in February 2012 owing to falling prices in the coastal and central property markets.
7. Turning to credit developments, growth in credit extended to the private sector (PSCE) increased to 13.2 percent at the end of April 2012 from 12.5 percent. This emanated from increased mortgage loans to households. Furthermore, developments in public finances showed that the Central Government's domestic debt declined by 1.3 percent month-on-month to N\$17.3 billion at the end of May 2012 due to a decline in the stock of Treasury Bills. This brought the domestic debt stock to 17.6 percent of GDP. During the same month, the stock of foreign reserves declined to N\$13.9 billion on account of commercial banks Rand purchases and Government payments.

8. With regard to domestic inflation, the MPC was informed that annual inflation for all items slowed to 6.0 percent in May 2012, from 6.9 percent in the previous month. The moderation in annual inflation was on account of reduced inflation rates in the categories such as *food & alcoholic beverages, miscellaneous goods & services and furnishings*.

**Monetary Policy Deliberations**

9. The MPC observed that the global economic picture remains gloomy and there are indications of a potential recession, although the Namibian economy appears to be lagging in contrast. The MPC further maintained the view that inflationary pressures have eased. The MPC members also highlighted concerns over high credit growth and debt-financed consumption, emphasising that credit extension is increasingly directed towards less-productive sectors which are not growth enhancing. With these considerations in mind, the MPC decided to keep the Repo rate unchanged at its current level of 6.00 per cent. The MPC remains committed to closely monitor global and domestic economic developments and will not hesitate to take the necessary actions in the interest of price stability and sustaining the currency peg.

**ANY OTHER BUSINESS**

10. In the absence of any other business, the meeting was adjourned at 11:48 and the next meeting is scheduled for the 21<sup>st</sup> of August 2012.

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Chairman

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Date

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Secretary

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Date