

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14th February 2017



“Our vision is to be a centre of excellence”

Publication date: 25th April 2017

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 14th of February 2017

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 14th of February 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>.

MPC MEMBERS PRESENT

lipumbu Shiimi	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Florette Nakusera	Director: Research
Emma Haiyambo	Director: Strategic Communications & FSD
Nicholas Mukasa	Director: Financial Markets Department (FMD)

OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Edler Kamundu (Technical Advisor: RD); Israel Zemburuka (Deputy Director: FSD); Saara Kashaka (Senior Economist: RD); Helvi Fillipus (Acting Deputy Director: FMD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Economist: RD); Sanette Schulze Struchtrup (Acting Deputy Director: RD); Heinrich Namakalu (Economist, RD); Elifas Iiyambula (Economist: RD); Mutu Katjjuanjo (Economist: RD).

Hileni Shifotoka (Economist: RD & Secretary).

APOLOGIES:

None.

GLOBAL ECONOMY

- 1. The MPC noted that growth in the global economy is estimated to have slowed in 2016, compared to 2015. It is, however, projected to slightly pick up in 2017.** The world economy is estimated to have registered a growth rate of 3.1 percent in 2016, slightly lower than the 3.2 percent in 2015.
- 2. The MPC was informed that economic growth in advanced economies is estimated to have moderated to 1.6 percent in 2016, from 2.1 percent in the previous year.** Economic growth of the US and the Eurozone, are estimated to have recorded lower growth rates of 1.6 percent and 1.7 percent in 2016, down from 2.6 percent and 2.0 percent respectively in the previous year. The lower growth in the US is attributed to the fall in oil prices that led to a sharp decline in the energy sector, an appreciation of the dollar that hurt exports and manufacturing investment, which resulted in a draw down on inventories. The lower growth in the Eurozone is attributed to a lacklustre performance in the external sector. Similarly, growth in both the UK and Japan was estimated to have moderated to 2.0 percent and 0.9 percent in 2016, from 2.2 percent and 1.9 percent in 2015, respectively. The slower growth in the UK is as a result of weakened domestic demand, while that of Japan is mainly due to weak consumer prices. Going forward, growth for the US economy is projected to be higher at 2.3 percent in 2017, while that for the Eurozone, UK and Japan is expected to moderate further to 1.6 percent, 1.5 percent and 0.9 percent, in 2017, respectively.
- 3. MPC noted that emerging markets and developing economies (EMDEs) are estimated to have registered a GDP growth rate of 4.1 percent in 2016 the same as in 2015.** Brazil and Russia's GDPs are estimated to have contracted by 3.5 percent and 0.6 percent in 2016, respectively, which is an improvement from the contractions of 3.8 percent and 3.7 percent, respectively, in the previous year. The continued contraction in the Brazilian economy is mainly attributed to tight credit conditions, political factors and weak external demand, while that of Russia can be attributed to low energy prices, Western sanctions, and more protectionist measures in the Russian financial markets. Moreover, despite slowing down, the economies of India and China are still estimated to have recorded strong growth rates. In this regard, India and China registered growth rates of 6.6 percent and 6.7 percent in 2016, slowing from 7.6 percent and 6.9 percent in the previous year, respectively. The slowdown in India's economic activity can be attributed to the government's demonetisation efforts in the last quarter of 2016, which

resulted in cash shortages and economic disruptions throughout the economy, while that of China is mainly due to weaker infrastructure investment.

4. **MPC noted furthermore that both South Africa and Angola are estimated to have recorded poor growth rates of 0.3 percent and 0.0 percent in 2016, compared to 1.3 percent and 3.0 percent in the previous year, respectively.** The slowdown in the South African economy emanated from political factors and delays in passing key reforms, which deterred investors, while that of Angola is due to the ongoing negative impacts of low oil prices in 2016. Going forward Brazil and South Africa's economies are projected to improve by 0.2 percent and 0.8 percent in 2017, respectively. Similarly, the economies of Russia, India, and Angola are projected to record modest growth rates of 1.1 percent, 7.2 percent, and 1.5 percent respectively in 2017. On the contrary, China's economic growth is expected to further moderate to 6.2 percent in 2017.
5. **The MPC observed that, global growth is expected to pick up to 3.4 percent in 2017, on account of positive developments in both advanced economies and EMDEs.** Growth in advanced economies is expected to strengthen to 1.9 percent in 2017, while that for EMEs is expected to be 4.5 percent. Downside risks to global growth, however, remain and include, uncertainty due to shifts towards protectionism by the US, and their implications for global trade, slower growth in China, geopolitical risks and weak banks' balance sheets in some Euro area member countries.
6. **The MPC further noted that, since the last meeting in December 2016, both the key advanced economies and Emerging Market Economies (EMEs) kept their monetary policies accommodative to support growth.** All the central banks left their benchmark rates unchanged, while the Central Bank of Brazil cut its benchmark SELIC rate by 75 basis points to 13.00 percent at their last meeting. This was a third straight policy rate decline, bringing the policy rate to the lowest level since March of 2015, amid slowing inflation and a severe contraction.

DOMESTIC ECONOMY

7. **The MPC noted that since the last meeting, the domestic economy is estimated to have slowed during 2016, compared to 2015.** The slowdown is mainly attributed to contractions in the construction and mining sectors, in particular diamond mining and metal ores, as well as slower activities in the public sector. The agricultural sector continued to contract in 2016, due to drought, though to a lesser extent than in 2015. Growth in tertiary industries, which is estimated to be lower than that of 2015, is expected to sustain activities in the economy in 2016, mainly driven by activities in

wholesale and retail trade, and tourism. Going forward, growth in the domestic economy is, however, projected to improve in 2017, on the back of the expected improved production in diamond mining, agriculture, uranium mining, manufacturing, as well as transport and communication sector.

- 8. Furthermore, the MPC was informed that growth in private sector credit slowed during 2016, compared to the previous year.** The average annual growth in private sector credit stood at 11.4 percent in 2016, lower than 15.3 percent in the previous year. This was due to low credit extended to both the corporate and household sectors. Total credit extended to businesses, on average, slowed to 12.1 percent, during 2016, compared to 18.9 percent in 2015. Lower growth was registered across most credit categories, with the exception of other loans and advances, which rose faster from 7.1 percent in 2015, to 10.8 percent during the review period. Similarly, the annual average growth rate in credit extended to individuals slowed to 10.9 percent in 2016, from 12.8 percent during 2015. The slower growth in credit to individuals was also reflected in overdraft, mortgage and instalment credit, while other loans and advances grew faster in 2016. Latest figures show that the downward trend in credit growth continued, with the annual growth of total private sector credit standing at 8.9 percent, while that of individuals stood at 9.3 percent, in December 2016.
- 9. The MPC noted that, the overall annual rate of inflation increased in 2016, compared to the previous year.** The annual inflation rate increased on average to 6.7 percent in 2016, compared to 3.4 percent in the previous year. This was mainly driven by the rise in the inflation rates for major categories such as housing, water, electricity, gas and other fuels, transport as well as food. On a monthly basis, the annual inflation rate increased to 8.2 percent in January 2017, from 7.3 percent in December 2016. This is the highest level since October 2009.
- 10. The MPC noted that since its last meeting in December 2016, the preliminary stock of international reserves remained sufficient to meet the country's foreign obligations.** The preliminary stock of international reserves stood at N\$22.9 billion, as at the 31st of January 2017, a decline from N\$25.0 billion reported in the last MPC meeting. At this level, the stock of international reserves was estimated at 2.8 months of import cover. The stock of international reserves remains sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand. The decline in international reserves can be ascribed mainly to net purchases of Rand by commercial banks, primarily geared towards investments abroad and import payments.

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. MPC is of the view that at this level, the Repo rate is appropriate to support growth, while maintaining the one-to-one link between the Namibia Dollar and the South African Rand.