

# BANK OF NAMIBIA

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

Windhoek, 24<sup>th</sup> October 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 24<sup>th</sup> of October 2017**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 24<sup>th</sup> of October 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**

lipumbu Shiimi	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Emma Haiyambo	Director: Strategic Communications & FSD
Florette Nakusera	Director: Research
Johan van den Heever	Technical Advisor: Research Department
Helvi Fillipus	Acting Director: Financial Markets

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### **OTHERS PRESENT**

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Erwin Naimhwaka (Deputy Director: RD); Saara Kashaka (Senior Economist: RD); Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Abigail Nainda (Senior Economist: RD); Daisy Mbazima (Senior Economist, RD); Victoria Manuel (Economist, RD); Elifas Iiyambula (Economist: RD); Susan Haihambo (Research Officer, RD).

### **SECRETARY**

Hileni Shifotoka (Economist: RD & Secretary).

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### **APOLOGIES:**

Nicholas Mukasa	Director: Financial Markets Department (FMD)
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## ECONOMIC DEVELOPMENTS REPORT

### GLOBAL ECONOMY

- 1. The MPC noted that global economic conditions are expected to improve in 2017, compared to 2016.** The global economy is projected to grow by 3.6 percent in 2017, from 3.2 percent in 2016, supported by firm growth in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Growth will be reinforced by improvements in investment, trade and industrial production, coupled with strengthening business and consumer confidence.
- 2. Economic activity in most of the monitored AEs improved in the second quarter of 2017, compared to the first quarter.** Going forward, the IMF's World Economic Outlook for October 2017 revised the growth outlook for the AEs upwards by 0.2 percentage points to 2.2 percent in 2017, from 1.7 percent in 2016, supported by improvements in investment and manufacturing.
- 3. Economic growth in the US improved year-on-year in the second quarter of 2017, compared to the previous quarter.** The US economy recorded a year-on-year growth rate of 2.2 percent in the second quarter of 2017, exceeding the 2.0 percent recorded in the first quarter of 2017 and 1.2 percent in the corresponding quarter of 2016. Growth in the US was boosted by strong household consumption as a result of subdued inflation and steady gains in employment, which boosted households' disposable income. Going forward, economic growth in the US is projected to increase to 2.2 percent in 2017, compared to 1.5 percent in 2016.
- 4. The Eurozone economy recorded a higher GDP growth rate in the second quarter of 2017, compared to the previous period, mainly fueled by an improvement in the external sector.** The Eurozone's economic growth rate improved to 2.1 percent in the second quarter of 2017, having previously fallen short of 2.0 percent for seven consecutive quarters up to the period under review. Growth was mainly driven by an improvement in the external sector and lower unemployment numbers against the backdrop of ultra-low interest rates. Going forward, the Eurozone is projected to record a higher growth rate of 2.1 percent in 2017, compared to 1.8 percent in 2016.
- 5. The UK economy registered lower growth in the second quarter of 2017 when compared to the preceding quarter.** The UK economy registered a growth rate of

1.7 percent in the second quarter of 2017, slightly lower than 2.0 percent in the first quarter of 2017, as the household expenditure growth rate slowed and business investments declined, during the second quarter of 2017. Going forward, the UK economic growth rate is projected to be 1.7 percent in 2017, slightly lower than the 1.8 percent in 2016.

- 6. GDP growth in Japan accelerated in the second quarter of 2017, compared to the preceding quarter.** Japan's GDP expanded by 2.0 percent in the quarter under review, compared to 1.5 percent in the previous quarter and 1.7 percent in the corresponding period of 2016. The higher growth rate was attributed to consumer spending and capital expenditure that rose at the fastest pace in more than three years, highlighting stronger domestic demand. Going forward, economic growth in Japan is projected to increase moderately to 1.5 percent in 2017, compared to 1.0 percent in 2016.
- 7. Furthermore, the MPC noted that economic activity in the key EMDEs improved in the second quarter of 2017 compared to the previous quarter, except for the Indian economy which registered a lower growth rate.** Going forward, EMDEs as a group is projected to grow by 4.6 percent in 2017, compared to 4.3 percent in 2016. The higher growth in 2017 will be driven mainly by stronger projected growth for commodity exporters, most notably Brazil and Russia, that experienced contractions in 2016.
- 8. The Brazilian economy recorded positive growth in the second quarter of 2017, compared to a contraction in the preceding period.** Year-on-year economic growth was 0.3 percent in the second quarter of 2017, following contractions of 0.4 percent in the first quarter of 2017 and 3.6 percent during the same period in 2016. The growth was mainly attributed to a rebound in household spending and an increase in exports during the quarter under review. Going forward, economic growth in Brazil is projected to continue on the positive path, with a growth rate of 0.7 percent expected in 2017, compared to a contraction of 3.6 percent in 2016.
- 9. The Russian economy gained momentum in the second quarter of 2017 compared to the first quarter of 2017.** Russia's GDP grew by 2.5 percent in the second quarter of 2017, compared to a lower growth rate of 0.5 percent in the first quarter of 2017 and a contraction of 0.5 percent in the corresponding quarter of 2016. The stronger growth was mainly driven by higher output from the

construction and industrial sectors which picked up during the quarter under review, coupled with a recovery in retail sales. Going forward, Russia's real GDP is projected to grow by 1.8 percent in 2017, compared to a contraction of 0.2 percent in 2016.

**10. Growth in India slowed in the second quarter of 2017, compared with the**

**first quarter.** The Indian economy grew by 5.7 percent in the second quarter of 2017, lower than the 6.1 percent recorded in the first quarter of 2017 and 7.9 percent recorded during the second quarter of 2016. This is the weakest growth in India since the last quarter of 2014 (6.0 percent), mainly due to a slowdown in consumer spending and exports. India's GDP growth is projected to slow down to 6.7 percent in 2017, compared to 7.1 percent in 2016, due to lingering disruptions associated with the currency exchange initiative introduced in November 2016, as well as transition costs related to the launch of the national Goods and Services Tax in July 2017.

**11. Economic growth in China remained strong during the second quarter of 2017.**

Real GDP growth remained strong with the economy advancing by 6.9 percent, year-on-year, in both the first and the second quarters of 2017, stronger than the 6.7 percent recorded in the corresponding period in 2016. Growth was mainly supported by high industrial output, retail sales and fixed investment which remained strong during the quarter under review. Going forward, China's economy is expected to grow by 6.8 percent in 2017, from 6.7 percent in 2016.

**12. The South African economic growth increased year on year in the second quarter of 2017.**

The economy of South Africa recorded a growth rate of 1.1 percent year-on-year in the second quarter of 2017, higher than the 1.0 percent recorded in the first quarter of 2017 and the 0.3 percent in the corresponding quarter of 2016. The increase in growth during the second quarter was mainly attributed to notable growth in the primary sector, specifically the agriculture sector. Going forward, expected economic growth in South Africa has been revised downwards by 0.3 percentage points to 0.7 percent in 2017, which is still higher compared to the 0.3 percent registered in 2016. This downward revision in growth is mainly attributed to the political uncertainty and weak consumer and business confidence, despite more favourable commodity export prices and strong agricultural production.

**13. Furthermore, the MPC noted that risks to the 2017 global outlook remain.**

Major medium term risks are an inward shift in policies, geopolitical tensions and risks from weak governance. In addition, persistently low inflation in AEs, financial

turmoil in EMDEs, extreme weather events, terrorism and security concerns could derail growth.

**14. The MPC further noted that, since the previous MPC meeting in August 2017, monetary policy stances in both the monitored AEs and EMDEs were unchanged, except for Brazil and Russia.** Since the previous MPC meeting, all central banks of the key AEs left their policy rates unchanged. Similarly, all central banks in the monitored EMDEs left their policy rates unchanged, except for Brazil and Russia which lowered their policy rates by 100 basis points and 50 basis points, to 8.25 percent and 8.50 percent, respectively, citing more favourable inflation and an improved economic environment as reasons for the cuts.

## **DOMESTIC ECONOMY**

**15. The MPC noted that some key economic indicators in the domestic economy improved during the first eight months of 2017, relative to 2016, although overall growth remained weak.** The positive developments were, however, concentrated in only a few sectors, notably mining and agriculture. Growth in the mining sector was mainly due to the year-to-date increase in the production of diamonds, zinc, gold and uranium by 18.9 percent, 52.0 percent, 16.6 percent and 11.5 percent, respectively, during the first eight months of 2017. The increase in the production of diamonds was due to more carats mined offshore as well as low base effects, while the increase in zinc production was mainly due to a low base effect. Moreover, the positive developments in the agricultural sector, during the review period, resulted from an increase in the number of cattle and small stock marketed, by 36.6 percent and 0.5 percent, respectively, coupled with significantly higher white maize production which increased by 53.0 percent.

**16. On the other hand, output in the construction, wholesale and retail trade, as well as transport sectors declined.** The construction sector remained weak as reflected by slower construction activity for both public and private sectors. In real terms, year-to-date spending earmarked for public construction programmes decreased by 52.3 percent to N\$1.7 billion compared to the corresponding period of 2016. This decrease was largely underpinned by the Government's ongoing fiscal consolidation efforts. Similarly, the wholesale and retail trade sector continued to register a slowdown in sales during the first eight months of 2017, as broadly reflected in all sub-sectors. The real turnover of the wholesale and retail

trade sector decreased by 7.2 percent to N\$15.9 billion year-to-date. The yearly decline was mainly due to low domestic demand, stemming from lower local economic activity and demand. The decline was also reflected in the number of new vehicles sold which went down by 22.1 percent, year-to-date, during the period under review. Moreover, activity in the transport sub-sector continued to be weak during the period under review, as reflected in the lower cargo volumes for road, rail and sea transport.

**17. Furthermore, the MPC noted that the average annual growth in private sector credit extended (PSCE) slowed over the first eight months of 2017, when compared to the same period in 2016.** The 12-month growth in PSCE stood at 7.4 percent on average during the review period, lower than the 12.1 percent recorded over the same period in 2016. This subdued growth in PSCE is in line with the generally sluggish growth within the domestic economy. The slower growth in PSCE was evident in reduced growth in credit advanced to both the household and corporate sectors, especially in the form of mortgage and instalment credit. PSCE growth slowed further to 6.2 percent in August 2017.

**18. The MPC noted that Namibia's overall inflation rate declined.** Annual inflation averaged 6.5 percent during the first nine months of 2017, the same rate recorded during the corresponding period in 2016. On a monthly basis however, inflation slowed from its peak of 8.2 percent in January to reach 5.6 percent in September 2017, mainly driven by lower inflation for food and non-alcoholic beverages. This rate of inflation is, however, slightly higher than its level of 5.4 percent recorded in August 2017.

**19. The MPC further noted that the stock of international reserves increased.** As at 30 September 2017, the official stock of international reserves stood at N\$31.5 billion, representing an increase, both on a monthly and annual basis. The annual increase mainly stemmed from higher SACU receipts, debt repayment by the Banco Nacional de Angola, as well as an African Development Bank (AfDB) loan. At this level, the stock of international reserves is estimated to cover 5.1 months of imports of goods and services, and thereby remain sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand.

## **MONETARY POLICY DELIBERATIONS**

**20. 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 6.75 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 and support the domestic economy.