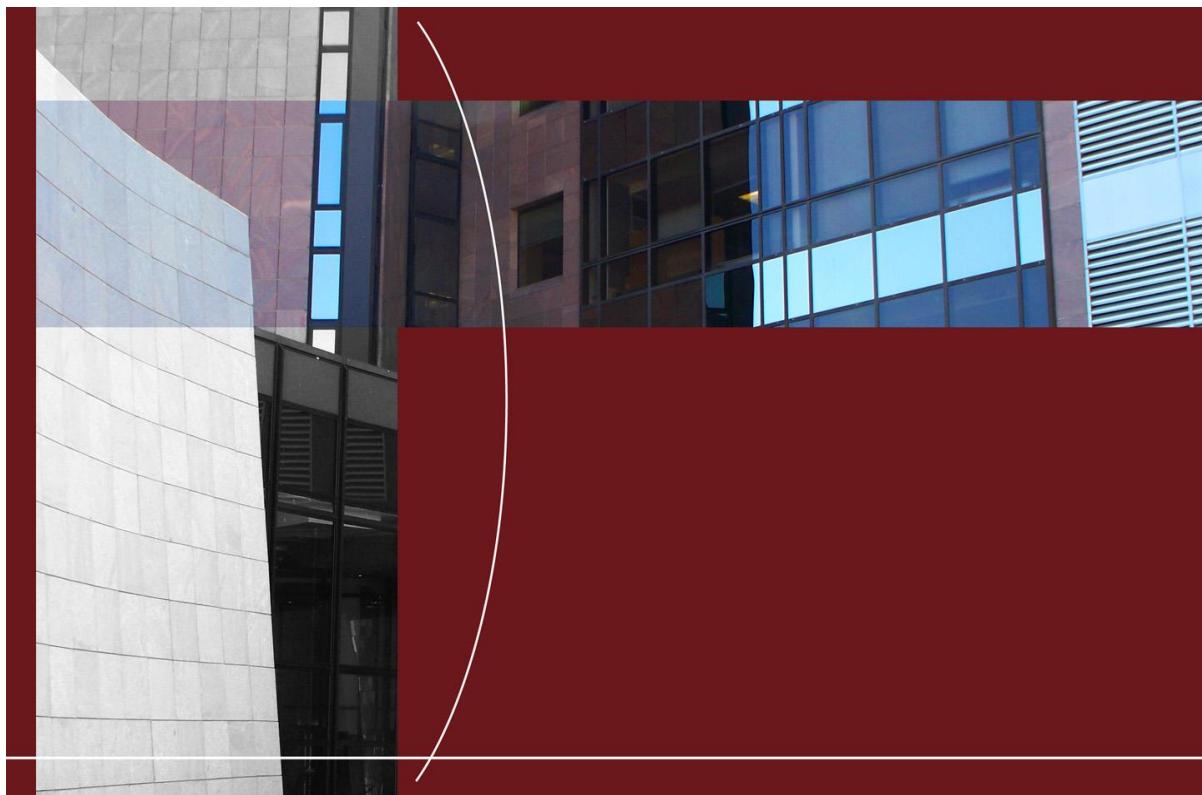


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 17th June 2014



"Our vision is to be a centre of excellence"

Publication date: 20th of August 2014

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 17th of June 2014

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 17th of June 2014.

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

MPC MEMBERS PRESENT

Ipumbu Shiimi	Governor and Chairperson
Ebson Uanguta	Deputy Governor
Florette Nakusera	Director: Research
Ndangi Katoma	Director: Strategic Communications & FSD
Titus Ndove	Director: Financial Markets
Gonzalo Pastor	Research Advisor to the Governor
Emile Van Zyl	Technical Advisor: Governor's Office

OTHERS PRESENT

Evangelina Nailenge (Deputy Director: RD), Erwin Naimhwaka (Senior Economist: RD), Tjiveze Tjipe (Senior Economist: RD), Edler Kamundu (Senior Economist: RD), Floris Fleermuys (Economist, RD), Lelly Usiku (Senior Economist: RD), Helvi Fillipus (Senior Economist, FMD), Johannes Sheefeni (Economist RD), Postrick Mushendami (Senior Economist: RD), Mutu Katjuwanjo (Economist RD), Evelina Niishinda (Economist: RD).

Petrus Shifotoka (Economist: RD and Secretary to the MPC).

APOLOGIES

None

ECONOMIC DEVELOPMENTS REPORT

Global economy

1. The MPC was informed that global economic growth improved during the first quarter of 2014, underpinned by growth in most advanced economies, while a contraction was observed in the US economy. Further, economic performance in some emerging market economies weakened slightly.
2. The meeting noted that looking ahead, global growth is expected to expand, while deflation, especially in the Euro Area, remains a risk.
3. The meeting was informed that the monetary policy environment in the advanced economies remained largely accommodative, with the European Central Bank reducing its policy rate in June 2014. Central banks in emerging market economies, such as Brazil and Russia, tightened their monetary policy stances during the first quarter of 2014, to contain inflationary pressures. Others, such as India, maintained their policy rates unchanged to support economic activity.

Domestic economy

4. The MPC was informed that selected indicators across all industries showed improvements during the first four months of 2014, compared to the corresponding period of the previous year. The favourable performance of the primary industry was driven by a sustained improvement in the activities of the mining sector, despite relatively low commodity prices. The secondary industry performed well boosted by public investment programmes in the construction sector and activities in the manufacturing sector. Furthermore, available indicators in the tertiary industry also posted positive results, as displayed by increased wholesale and retail trade sales and improved activities in the communication and tourism sectors.
5. The meeting noted that inflation showed an upward trend for the past five months. Annual inflation rose from 4.9 percent in December 2013 to 6.1 percent in May 2014, mainly due to increases in food and transport prices. Despite this recent trend, inflation

was expected to average around 6 percent for the year.

6. The meeting was informed that annual growth rate in domestic private sector credit increased to 15.8 percent in April 2014, compared to 14.3 percent in December 2013. Growth in private sector credit resulted from higher demand by both individuals and businesses. The rise in household credit largely reflected strong growth in instalment credit and overdraft loans.
7. On the fiscal side, the MPC was informed the Central Government debt as a percentage of GDP rose at the end of the fourth quarter of 2013/14. Total debt as a percentage of GDP increased to 24.5 percent at the end of the fourth quarter of 2013/14 fiscal year, however, it remained well below the Government's debt ceiling of 35 percent.
8. On the external sector front, the meeting was informed that the overall balance recorded a deficit during the first quarter of 2014, mainly as a result of the widening current account deficit and a decreased surplus in the capital and financial account. The deficit of about N\$1.1 billion was on account of a rising current account deficit, mainly due to the widening merchandise trade balance caused by the higher import bill.
9. The meeting was further informed that the stock of international reserves declined on a quarterly basis at the end of the first quarter of 2014, while it rose month-on-month in April. Consequently, the import cover declined from 12.07 weeks during the first quarter of 2013 to 9.56 weeks during the first quarter of 2014. As at the end of April 2014, international reserves, however, rose by 21.9 percent on a monthly basis and 2.2 percent on a yearly basis to N\$17.8 billion. The increase on a monthly basis was largely driven by SACU receipts, while on a yearly basis it was due to the favourable exchange rates.

MONETARY POLICY DELIBERATIONS AND STANCE

10. The MPC noted both the domestic and global economic developments. Growth prospects for the Namibian economy looked encouraging, but declining international commodity prices remained a risk. Inflation showed an upward trend in recent months, although it was expected to average around 6 percent for the year. The MPC expressed concerns about the trade deficit which increased significantly during the first quarter of

2014, as well as a rapid growth in imports of vehicles, partly financed by instalment credit as this put pressure on the international reserves of the country. The annual growth rate in domestic private sector credit, mainly instalment credit, has also increased steadily since December 2013.

11. Following substantial deliberations on the abovementioned issues, the MPC resolved to increase the Repo rate by 0.25 percentage points to 5.75 percent.