

# Bank of Namibia

## Minutes of the Executive Committee (EC) Meeting

Windhoek, 18 August 2009



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

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## **Minutes of the Executive Committee (EC) Meeting held on 18 August 2009**

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### **EC MEMBERS PRESENT**

Tom Alweendo (Chairperson and Governor), Paul Hartmann (Deputy Governor), John Steytler (Director of Research), Michael Mukete (Director of Banking Supervision), Ben Biwa (Director of Financial Markets)

### **APOLOGIES**

Ipumbu Shiimi (Assistant Governor and Head of Financial Stability)

### **OTHERS PRESENT**

Melvin Khomo (Advisor: Financial Markets), Titus Ndove (Deputy Director: Financial Markets), Urbans Karumendu (Deputy Director: Financial Markets), Florette Nakusera (Senior Economist), Fennyakweni Shangula (Economist)

Evangelina Nailenge (Personal Assistant to the Governor and Secretary of the Meeting)

### **BACKGROUND**

1. The EC received a detailed briefing on the recent developments in the global economy and domestic economy.

### **INTERNATIONAL ECONOMIC CONDITIONS**

2. The report indicated that there is evidence that the worst of the global recession may have passed, notwithstanding the economic indicators which showed mixed signals in June and July. The commodity prices rebounded ahead of the recovery, with significant rises recorded since April onwards, even though a slowdown was experienced during the month of July. Although France, German and Japan recorded positive growth rates in the second quarter of 2009, activity generally remained depressed in other advanced economies. Inflationary pressure remained subdued, and thus most developed countries kept their policy rates unchanged. However, unemployment rates continued to rise thus, negatively impacting on demand in those economies.

3. The EC further noted that the economic recovery in emerging markets was somewhat encouraging, although some still recorded negative growth rates. For instance, South Africa recorded a negative annualised growth rate of 3.0 percent in the second quarter, an improved from a 6.4 percent decline in the preceding quarter. Conversely, China's real GDP growth accelerated to 7.9 percent in second quarter from 6.1 percent in the first quarter of 2009. The rise was due to a strengthening in domestic demand propelled by surging investment spending. Most of the emerging market economies reduced their policy rates, with most of these countries recording positive real rates for July and August 2009.

## **DOMESTIC ECONOMIC CONDITIONS**

4. Turning to the domestic economy, members noted that partly due to the turnaround of the global economy, there were tentative signs of a rebound in the domestic economic activities, although the general economic picture remains subdued. The mining sector witnessed a notable recovery. The value of diamonds exported increased in the second quarter of 2009 to US\$638 million from US\$313 million. Diamond output increased on a monthly basis by 42.6 percent on the back of marine operations which has been on full steam during the second quarter of 2009. On the other hand, due to regular maintenance at some mining sites, uranium production fell by 48.8 percent on a monthly basis and by 28.6 percent on an annual basis in June 2009. Nonetheless, the outlook of uranium mining remains promising.

5. Some economic indicators in the Agricultural sector picked up moderately since the last meeting of the EC. Total livestock marketed increased marginally, month-on-month by 0.82 percent. Recovery signs in the manufacturing sector were also noted. For instance, copper blister manufacturing increased by 24.0 percent on a monthly basis, and by 18.3 percent on an annual basis. The construction sector also witnessed some signs of recovery with the recorded increase of building plans approved by 23.6 percent and 30.3 percent, month-on-month and year-on-year, respectively. On the other hand, the tourism sector saw a decline in the number of tourist arrivals, reflecting weak external demand.

6. Early signs of strengthening in domestic demand indicators were noted, in part reflecting the effect of previous monetary easing. In this connection, it was noted that overall vehicle sales improved both on a monthly basis and annual basis by 7.6 percent and 2.4 percent, respectively. Similarly, retail sales increased by 3.6 percent and 6.4 percent, respectively, while mortgage loans increased by 11.3 percent in June 2009 from the increase of 9.7 recorded in May 2009. EC further noted that in real terms, growth in private sector credit has returned to negative territory contractions witnessed earlier in the year.

7. The EC noted that the annual rate of inflation decelerated significantly from 9.1 percent in June to 7.5 percent in July. The slowdown reflected a sharp deceleration in food prices to 8.6 percent from 11.5 percent in the preceding month. Transport inflation, the other key driver of overall inflation, also moderated further to 2.4 percent in July from 4.1 percent in June. In the medium term, inflation is therefore expected to continue its downward trajectory as no major increases are expected in the two major drivers of inflation, i.e. the food and fuel prices.

## **CONSIDERATIONS FOR MONETARY POLICY**

8. Acknowledging the recent economic development, the EC concluded that there are signs that the global recession was bottoming out. The EC also noted that the current international reserve level was more than sufficient to sustain the currency peg, and there was no eminent threat to the peg in the medium term. The total international reserves increased by 5.07 percent from end of June to NAD13.7 billion by the end of July. The EC further noted the signs of recovery in the domestic economy, while acknowledging that it was early to assess the sustainability of the recovery. EC further noted the lagged effect of monetary policy on domestic demand conditions.

## **THE DECISION**

9. Taking into consideration both the international and domestic economic conditions, the EC decided to keep the Repo Rate unchanged at 7.0 percent.