

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 16th February 2016



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 16th of February 2016.

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 16th of February 2016.

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

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

OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Helvi Phillipus (Senior Economist, FMD), Abigail Nainda (Economist: RD); Evelina Niishinda (Economist: RD); Christian Phillipus (Senior Economist: RD); Abigail Nainda (Economist: RD); Reinhold Kamati (Senior Economist: RD); Rehabeam Shilimela (Research Officer: RD), Daisy Mbazima (Economist: RD), Brian Mbazuvara (Research Officer: RD); Elifas Iiyambula (Economist: RD), Lelly Usiku (Deputy Director: RD).

Mukela Mabakeng (Economist: RD & Secretary).

APOLOGIES:

Ndangi Katoma

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that annual economic growth in the Advanced Economies improved slightly, mainly supported by favourable financial conditions. Most key Emerging Market Economies (EMEs), however, continued to slow, with some falling further into recession.** Advanced economies were estimated to have grown by 1.9 percent in 2015, compared to 1.8 percent in 2014 and were projected to grow by an improved rate of 2.1 percent in 2016. The US was one of the significant contributors to this slightly improved growth, having grown by 2.5 percent in 2015, from 2.4 percent in 2014. Growth in both the Euro area and Japan was estimated to have slightly improved, while that of the UK economy is estimated to have slowed. In the EMEs, growth was estimated to have slowed to 4.0 percent in 2015, from 4.6 percent in the previous year. With the exception of India, growth in most key emerging market economies is estimated to have slowed. China's economy moderated to 6.9 percent in 2015, from 7.3 percent in 2014. Similarly, that of South Africa and other developing economies such as Angola were estimated to have slowed. Growth in both Brazil and Russia were estimated to have contracted.
- 2. The MPC observed that going forward, global growth is projected to improve to 3.4 percent in 2016 from 3.1 percent in 2015.** Risks to the global outlook remain: fragile economic activities in key emerging markets and developing economies, such as the moderation in the Chinese economy, lower commodity prices, as well as geopolitical risks.
- 3. The MPC further noted that, since its last meeting, monetary policy stances in advanced economies were divergent.** The US increased its policy rate in December 2015, while the Bank of England left its policy rate unchanged. On the other hand, the Bank of Japan further reduced its policy to negative territories to avoid deflation. The European Central Bank reduced its deposit rate in December 2015 to encourage lending. In the EMEs, with the exception of the South African Reserve Bank (SARB), which increased its rate, all other monetary authorities maintained their policy stances. The increase by SARB was attributed to inflationary pressures, mainly as a result of persistent depreciation of the Rand, coupled with higher food prices resulting from the drought conditions.

DOMESTIC ECONOMY

- 4. The MPC noted that the domestic economy displayed positive performance during 2015, despite weak commodity prices. Risks to domestic economy such as soft commodity prices and the effects of the drought remain.** The domestic economy showed a respectable performance during 2015, although it was lower than in 2014. This was mainly on account of good performance in the construction, wholesale and retail trade as well as transport sectors. The mining sector, however, performed weakly, as reflected in declined production of most selected minerals. In the agricultural sector, farmers reduced their stock in response to the drought conditions, as mirrored in increased livestock marketing during the year. Going forward, the economy is projected to grow by 4.3 percent in 2016, from an estimated 4.5 percent in 2015, supported by positive growth prospects across all industries. Notwithstanding these growth prospects, risks to the economy remain and include low commodity prices, sustained effects of the drought as well as the slow recovery in the country's trading partner economies.
- 5. The MPC noted further that the demand for credit moderated during 2015.** Growth in PSCE slowed slightly to 15.3 percent in 2015, compared to 15.7 percent in 2014. Growth in PSCE slowed significantly to 13.5 percent in December 2015 from a peak of 16.4 percent in the previous year. The moderate growth in PSCE primarily resulted from reduced growth in all credit categories for both businesses and individuals. The MPC noted with appreciation the continuing declining trend in the annual growth of instalment credit extended to individuals, which slowed from a high of 23.5 percent in February 2015 to 14.1 percent in December 2015. Despite the recent moderation in PSCE, other loans and advances to individuals increased from 17.5 percent in February 2015 to a high of 20.9 percent over the same period.
- 6. The MPC noted that Namibia's annual inflation continued to be low and within manageable levels during the entire 2015, however it rose in January 2016 and is expected to increase further within the remaining part of 2016.** The annual inflation rate slowed from 5.4 percent in 2014 to 3.4 percent in 2015 but increased sharply during January 2016 to 5.3 percent. While the low and favourable international oil price has been the main factor behind the downward pressure in transport inflation during 2015, the recent depreciation of the domestic currency against the US Dollar has offset these benefits. Going forward, annual inflation is expected to increase gradually for the remainder of the year.

7. The MPC noted that, the stock of international reserves remains sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand. The level of International reserves stood at N\$27.4 billion as at the 11th of February 2016, compared to about N\$23.0 billion reported at the last MPC meeting. The increase in international reserves was mainly on the account of SACU inflows and the depreciation of the domestic currency. At this level, the reserves remain sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand, being 5.8 times the currency in circulation. In addition, this level was equivalent to about 3.5 months of import cover, higher than the international benchmark of 3 months.

MONETARY POLICY DELIBERATIONS

8. The MPC deliberated extensively on both the domestic and global economic developments as highlighted above. After taking all the key macro-economic variables and developments into consideration, the MPC decided to increase the Repo rate by 25 basis points to 6.75 percent. This decision was necessary to prevent possible capital outflows, which could put pressure on the country's reserves. While the MPC was pleased with the continued slowdown in the growth of instalment credit, the recent significant increases in other loans and advances extended to individuals remained a concern and should be monitored, going forward.