

Bank of Namibia

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 06 December 2011



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 06th of December 2011

These are the minutes of the monetary policy deliberations at the meeting of the Executive Committee (EC) meeting held on 06 December 2011.

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

Monetary policy decisions are taken by the EC in accordance with the **Monetary Policy Framework** of the Bank of Namibia published in December 2011. The EC of the Bank of Namibia meets regularly on a bi-monthly basis and minutes of its meetings are released on the day following the next EC monetary policy meeting, i.e. the day of the announcement of the monetary policy decision.

EC MEMBERS PRESENT

Ipumbu Shiimi (Chairperson and Governor), Paul Hartmann (Deputy Governor), Michael Mukete (Assistant Governor and Head of Financial Stability), Ebson Uanguta (Director: Research Department), Bigboy Masoso (Acting Director: Financial Markets Department), Ndangi Katoma (Head of Corporate Communications)

OTHERS PRESENT

Edler Kamundu (Senior Economist: Research Department), Sanette Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department), Mally Likukela (Economist: Research Department), Lelly Usiku (Senior Economist: Research Department)

Helvi Fillipus (Economist and Secretary to the MPC)

ECONOMIC REPORT

1. Since the last meeting, the MPC noted that the global economy despite remaining on a positive growth trajectory, it continued to slow during the third quarter of 2011. The slowdown was underpinned by the sovereign debt problems in the Euro Area, fiscal challenges in the US, as well as modest corporate and public spending in Japan.

Further strains on growth emanated from high unemployment rates in both advanced and developing economies. From the data presented to the MPC, it was evident that activity indicators had continued to weaken in the advanced economies, while growth in emerging markets which has so far sustained global growth turned sluggish during the third quarter.

2. Data presented to MPC showed that real GDP growth in the US remained static at 1.6 per cent in the third quarter of 2011, the same as in the preceding quarter. This growth was underpinned by modest increases in personal consumption expenditures (PCE), fixed investment, exports as well as federal government spending. It was, however, highlighted that the challenges emanating from the housing and labour markets as well as sovereign debt remain a hindrance to economic growth in the US.
3. A subdued economic activity was also visible in the UK where real GDP growth slowed to 0.5 per cent during the third quarter of 2011 from 0.6 per cent during the second quarter. This was as a result of weak performance of the construction sector. Likewise in the Eurozone, real GDP growth also moderated to 1.4 per cent in the third quarter of 2011 compared to 1.6 per cent in the preceding quarter on account of subdued performance in the French and German economies. The unfavourable effects of Euro Area sovereign debt crisis on overall financing conditions and on confidence further exacerbated the gloomy economic performance in the region.
4. On the contrary, real GDP growth in Japan improved slightly to 0.0 per cent during the third quarter of 2011 compared to a contraction of 1.0 per cent in the second quarter of 2011 due to a rebound in exports complemented by an increase in domestic demand. On the unemployment front, it was noted that the labour markets remain weak especially in the advanced economies. The unemployment rate in Spain increased to 21.5 per cent during the third quarter, the highest in 15 years. The MPC noted that this could have an adverse impact on the demand for Namibia's fish exports as consumers could substitute fish for cheaper food items.
5. Looking at the emerging market economies, the available growth data indicated that the performance in these economies remained sluggish. In this context, growth in China moderated to 9.1 per cent in the third quarter compared to 9.5 per cent during the second quarter of 2011. The slowdown was attributed to monetary policy tightening aimed at containing inflationary pressures. Similarly, growth in India moderated to 6.9 per cent during the third quarter of 2011 from 7.7 per cent in the preceding quarter. The

moderation in India's real GDP was attributed to subdued performance of the mining and quarrying as well as the manufacturing sectors.

6. The South Africa's economic growth slowed to 3.1 per cent during the third quarter of 2011 from 3.2 per cent in the second quarter. The main sectors, which contributed to slowed economic activities during the quarter under review were; agriculture, manufacturing as well as mining and quarrying. The economic activities in the manufacturing and mining sectors were adversely affected by industrial strikes during the quarter. In contrast to other emerging market economies, real GDP growth in Russia increased to 4.8 per cent during the third quarter of 2011 compared to 3.4 per cent in the second quarter of 2011, mainly on account of resilient growth in domestic demand.
7. Most central banks in the advanced economies continued to pursue accommodative monetary policy stances. In contrast, all emerging market economies, with the exception of South Africa, Brazil and Russia, tightened monetary policy. The varying policy stances indicate divergent policy priorities that exist in different countries. Going forward, economic growth, especially in the advanced economies, is expected to remain feeble as signalled by declines in the Composite Leading Indicators (CLIs) and Purchasing Managers Index (PMIs).
8. On the financial market front, MPC noted that global equity markets have displayed renewed resilience. This was mainly due to the response of equity markets to two favourable macroeconomic developments namely: the European policymakers' plan to restructure peripheral debt and recapitalise banks'; and China's economic data which pointed towards continued growth rather than a much-feared "hard landing". For commodity prices, MPC noted that the prices of commodities which are of export interest to Namibia mostly decreased with the exception of uranium prices which rebounded on the back of increased demand for nuclear energy and also the need to boost existing capacity.

Domestic economy

9. From the data presented by the RD during the meeting, the MPC noted that the performance of the domestic real sector was satisfactory mainly on account of improved activities in the secondary and tertiary industries. The primary industry, however, did not perform well, particularly during the first ten months of 2011 mainly due to industrial actions, logistical constraints and high rainfall.

10. The primary industry performance, especially the agricultural sector year-on-year has been weak. This was reflected in declines in both cattle and small stock marketed, which fell by 23.3 per cent and 36.7 per cent, respectively. MPC also noted weak performance in the mining sector during the period under review. The weak outturn in the mining sector was ascribed to lower production of diamonds, uranium, gold and zinc concentrate year-to-date.
11. In the secondary industry, MPC noted that the performance was mostly positive particularly in the manufacturing and construction sector. In this regard, the production of blister copper increased significantly by 60.9 per cent during the first month of 2011, while the value of building plans completed rose by 19.4 per cent over the same period. The activities in the tertiary industry were also upbeat during the review period. This encouraging development was reflected in the increased turnover of the wholesale and retail trade sector; higher cargo volumes handled in the transport sector and improved activity in the tourism sector.
12. With regard to domestic inflation pressures, the MPC noted that the domestic inflation started to pick up since the last MPC meeting. In this connection, the overall inflation rate increased to 6.1 per cent in October 2011 from 5.3 per cent in September 2011. This increase was driven by similar increases in the inflation rates of *food and non-alcoholic beverages; transport, clothing and footwear; furnishings; and recreation & culture*.
13. Growth in private sector credit extension (PSCE) - the key domestic demand indicator – was lacklustre, moderating from 11.2 per cent at the end of September 2011 to 10.0 per cent at the end of October. The outturn in the PSCE during the period under review was a reflection of the slowdown in bank lending mainly to the corporate sector over the period which reflects a reduction in overdraft balances.
14. On external sector front, The MPC noted that international reserves surged significantly by 11.0 per cent to reach N\$11.9 billion at the end of October 2011. This suggests that the that the reserves remained more than adequate to sustain the currency peg as they are more than 7 times the corresponding stock of the currency in circulation. Moreover, the reserve levels meet the international benchmark of 12.0 weeks of import cover.

Monetary Policy Stance

15. Following a comprehensive assessment of the most recent global and domestic economic developments, the MPC is of the view that the global growth has slowed down

noticeably. Global financial markets have shown increasing signs of stress and slowdown of economic activities in both advanced and emerging market economies. The domestic economy continues to grow at a slow pace, particularly in the primary sector. MPC also noted the recent rise in inflation, which was brought about by the rise in prices in specific consumer goods and services.

16. Against this background, the MPC decided to maintain the repo rate at its current level of 6.00 per cent with a view to continue supporting the weak recovery of the domestic economy. Given the persisting uncertainties as a result of the Euro Zone debt crisis and fragmentation in global economic growth, the MPC is, therefore, committed to closely monitor these developments and take the necessary actions should this be required.