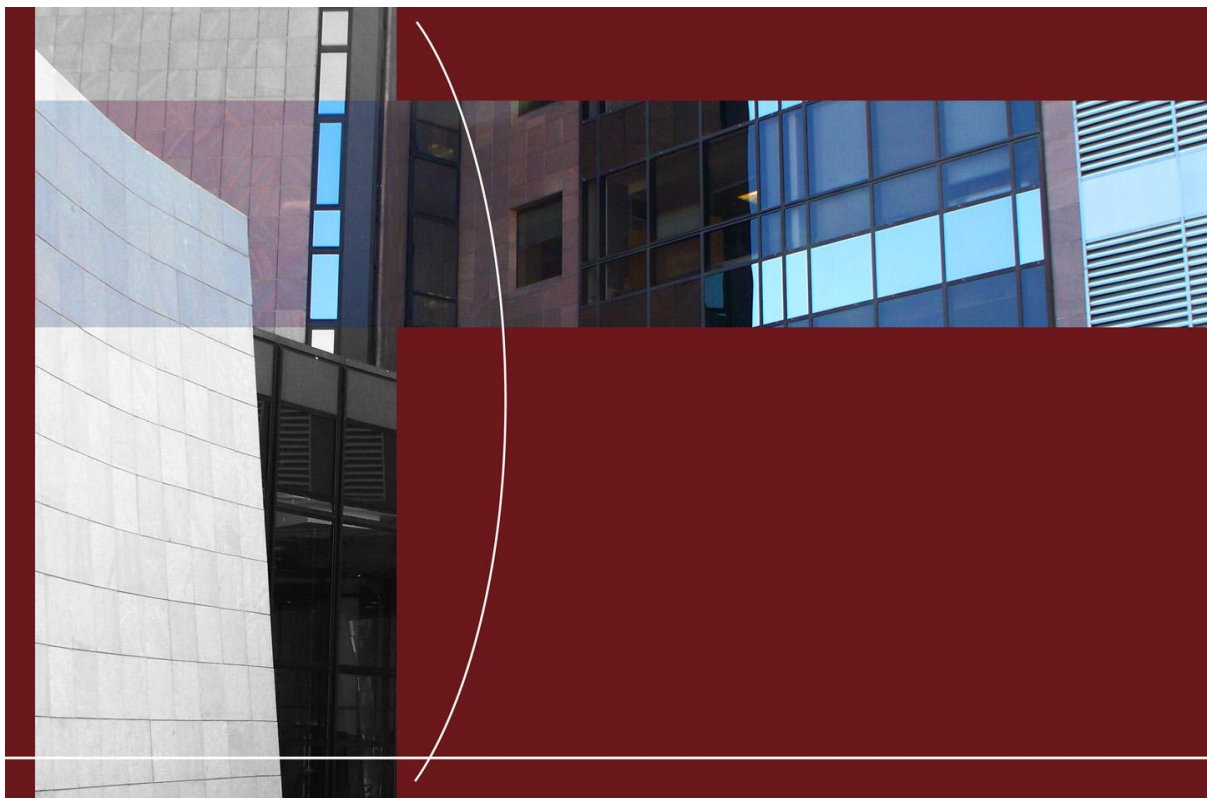


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 23 October 2012



“Our vision is to be a centre of excellence”

Publication date: 11 December 2012

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 21st of August 2012

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 21 August 2012.

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

EC MEMBERS PRESENT

Ipumbu Shiimi (Governor and Chairperson), Michael Mukete (Assistant Governor), Gonzalo Pastor (Director: Research), Ndangi Katoma (Director: Strategic Communications & Financial Sector Development), Emile Van Zyl (Technical Advisor: Governor's Office), Titus Ndove (Director: Financial Markets)

OTHERS PRESENT

Florette Nakusera (Deputy Director: RD) Edler Kamundu (Senior Economist: RD), Erwin Naimhwaka (Senior Economist: RD), Rehabeam Shilimela (Research Officer: RD), Beata Magongo (Research Officer: RD), Petrus Shifotoka (Economist: RD)

Rowland Brown (Economist and Secretary to the MPC)

APOLOGIES:

Ebson Uanguta (Deputy Governor)

ECONOMIC DEVELOPMENTS REPORT

1. The MPC was informed that global growth remained fragile and slowing in emerging market, BRICS and OECD economies. However, a handful of countries saw slightly higher growth in the second quarter of 2012 than the first, including Japan, Canada, India and South Africa. Further, the MPC was informed that the UK was officially in recession, having experienced two quarters of contraction. It was further noted that China's economy continues to slow, as demand for their exports dwindle. Slow growth is largely still as a result of the debt crisis in Europe. Going forward, the Euro crisis continues to present a risk, as does the fiscal cliff in the US.
2. The RD informed the meeting that unemployment remained high across most of the OECD countries, with favourable trends apparent in the US, Australia and Japan. The Euro Area's unemployment, however, increased to 11.4 percent, the highest level seen to date in the monetary zone.
3. The MPC was informed that monetary policy stances across the globe had largely remained unchanged, with slight cuts seen in Australia, Brazil and China, while a 25 basis point increase was seen in Russia, due to inflation concerns. Besides accommodative monetary policy, a number of additional measures have been implemented by central banks across the globe in order to support growth and economic recovery, including; the Outright Monetary Transactions (OMT) undertaken by the European Central Bank; the U\$40 billion monthly purchase of mortgage-backed securities by the Federal Reserve Bank; allowing of banks and building societies to borrow treasury bills in exchange for less liquid collateral by the Bank of England; and the reduction of reserve requirements for commercial banks in China.
4. The MPC noted that the Composite Leading Indicators (CLI's) slowed, which suggested sluggish growth in the global economy going forward. It was noted that the CLI's for South Africa and the US, while remaining relatively strong compared to other BRICS and OECD economies, are downward trending, suggesting a slight deterioration in growth over coming months.
5. The meeting was informed that global commodity prices remain elevated, despite a marginal decline in food prices. Metal prices ticked up in September, as did energy prices.
6. In summary, the MPC noted that risks and vulnerabilities to the global outlook remain over the short to medium term

Domestic economy

7. The MPC observed that growth in the domestic economy was strong in the second quarter at 8.9 percent year on year, largely driven by the primary, and more specifically, the mining sector. However, this growth was attributed in part to a base effect, following a contraction in primary sector activity in Q2 2011.
8. It was noted that a four quarter moving average for 2012 figures to date, suggests that growth will be in line with the Economic Outlook growth projections, should similar trends persist going forward.
9. Cattle marketed and exported declined significantly year to date when compared to the same period of 2012. Total cattle marketed declined by 35.9 percent, while total cattle exported declined by 37.7 percent. Small stock marketed to date in 2012 is slightly below the levels seen in the same period of 2011, however exports are slightly higher, year to date, in 2012 than the same period of 2011.
10. In the mineral sector, the RD reported that production of minerals was varied to date in 2012, compared to the same period in 2011. Diamond production has increased by 21.2 percent, uranium production by 30.2 percent and gold production by 23.8 percent. Zinc production, however, has declined by 4.4 percent. Export values of minerals too have been varied (year to date), with diamond export values up 48.7 percent when compared to the same period of last year, gold up 52.7 percent, and uranium and zinc down 5.6 percent and 33.9 percent, respectively.
11. The RD informed the MPC that metal manufacturing has seen mixed results, with blister copper export values increasing by 11 percent year to date, relative to the same period of last year, while zinc export valued declined by 10.4 percent, year to date, relative to the same period of 2011. The decline in zinc export value was largely due to declines in export volumes as a result of delays in exports following the closure of previous purchaser, Exxaro Resource's Zincor, resulting in a change in buyer of the export.
12. The construction industry continues to perform well, with significant increases seen, year to date, in both building plans approved and completed, relative to last year. Both building plans approved and completed grew by 4.2 and 10.5 percent, respectively.
13. The RD reported that overall credit growth remained strong in August, supported by the low interest rate environment. Credit to individuals grew by 14.2 percent year on year in August, while credit to businesses grew by 14.3 percent. Namibian PSCE growth remains substantially above that of South Africa, which grew by 7.9 percent in August.

14. The MPC was informed that domestic debt of the Government stood at N\$17.9 billion in September. Debt levels, while continuing to increase, have done so at a significantly slower rate in 2012 to date, than in the same period of 2011. Similarly, government expenditure to date in 2012 has lagged behind that of the same period of 2011, resulting in a significantly lower budget deficit in 2012 (to date) compared to the same period in 2011.

15. The RD reported that inflation increased to 6.7 percent in September, from 5.8 percent in August. This was largely driven by exogenous cost push factors, specifically transmission lags in increased food prices, and increased oil prices. Rand depreciation too has contributed to exogenous cost push inflation.

MONETARY POLICY DELIBERATIONS

16. The global economic outlook remains overshadowed with uncertainty, however Namibia's growth remains relatively strong. The growth experienced in Namibia however, has been largely driven by commodities, and little growth has been seen in the tertiary industries. Despite this, it is seen as likely that Namibia too will experience the effects of slowing global growth going forward. As such, the bigger picture remains unchanged from the previous MPC meeting. Despite this, private sector credit extension in Namibia remains high, and inflation has increased. While this is predominantly due to external factors, an element of endogenous demand pull inflation is now starting to surface. Currently fiscal buffers remain adequate as do foreign reserve levels. Bank liquidity remains adequate.

17. Given the aforementioned, the MPC resolved to keep the Repo rate unchanged at 5.5 percent.

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Chairman

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Date

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Secretary

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Date