

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 19th February 2013



“Our vision is to be a centre of excellence”

Publication date: 24th April 2013

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 19th of February 2013

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 19th of February 2013.

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), Ebson Uanguta (Deputy Governor), 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

Evangelina Nailenge (Deputy Director: RD), Florette Nakusera (Deputy Director: RD), Edler Kamundu (Senior Economist: RD), Tjiveze Tjipe (Senior Economist: RD), Lelly Usiku (Senior Economist: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Mally Likukela (Economist: RD), Rehabeam Shilimela (Research Officer: RD), Beata Magongo (Research Officer: RD),

Rowland Brown (Economist and Secretary to the MPC)

APOLOGIES:

ECONOMIC DEVELOPMENTS REPORT

1. The MPC was informed that global growth remained fragile, and was expected to register 3.5 percent in 2013. At the same time however, financial markets have rebounded somewhat, showing improved sentiment and confidence. The “fiscal challenges” of the US have been temporarily dealt with; however challenges remain to be addressed permanently. Emerging markets continue to drive global growth.
2. The meeting was informed that unemployment remains elevated in advanced economies, with US unemployment increasing to 7.9 percent in February 2013, up from 7.8 percent the previous month. Similarly, unemployment increased in Austria, Germany, Japan, Italy and Spain over this period. On the contrary, unemployment has been seen to have eased somewhat in emerging markets.
3. Monetary policy has remained largely unchanged, and accommodative, across the globe. Rates remained unchanged in Australia, Canada, the Euro Area, Japan, the UK and the USA. At the same time, many advanced economies central banks continue to pursue various alternative and supplementary activities to support growth and job creation 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. Global commodity prices have been seen to improve somewhat over the past two months, largely on the back of economic recovery in emerging market economies, such as China. Food price indices have increased year on year, however international food prices declined month on month in December, as a result of easing cereal prices.
5. In summary, the MPC noted that risks and vulnerabilities to the global outlook remain, neither worsening nor improving over recent months.

Domestic economy

6. On the domestic front, the MPC was informed that the primary industries saw mixed performance in 2012. While mining output increased substantially as a result of growth in output (year on year) in diamonds, uranium, zinc and gold, the agricultural sector has experienced a slight contraction due to a large decline in cattle marketed year on year. Fish landings for 2012 have declined somewhat when compared to 2011 largely due to

adverse weather conditions, and reduced demand from Europe driving down the price of Namibian hake.

7. Secondary industries' performance too has been varied. The strong construction figures seen over the year have supported growth across the sectors. Export values of blister copper, refined zinc and cement have all grown in 2012 relative to 2011, by 21.1, 7.5 and 97.5 percent respectively. Similarly, the production of beer and soft drinks grew by 17.7 percent and 14.7 percent, respectively.
8. The meeting was informed that in the tertiary industries, growth was experienced, however generally at a lower rate than the primary and secondary sectors. In December, wholesale trade grew by 3.7 percent year on year, while retail trade grew by 0.4 percent year on year. Vehicle sale experienced year on year growth of 5.2 percent, driven by strong growth in both commercial and passenger vehicle sales.
9. The transport sector saw significant year on year increases in total transported cargo, which increased by 12.6 percent. This increase was predominantly driven by strong growth in cargo transported by water, particularly transhipped cargo through Walvis Bay. Road and rail cargo on the other hand, experienced a contraction year on year, of 5.1 percent. This was driven by a reduction in cargo transported by rail predominantly, which fell by 6.1 percent year on year.
10. Tourism activities varied by indicator, with room occupancy in 2012 increasing 3.8 percent year on year, while bed occupancy decreased by 2.3 percent year on year. In 2012, the bed occupancy rates were strongly supported by increases in Namibians using tourism facilities. Bed occupancy by Namibians expanded by 30.2 percent, while occupancy by foreigners contracted by 19 percent year on year.
11. The RD reported that overall credit growth was strong in December at 17.0 percent year on year, however down, from the previous month's growth of 18.5 percent. The strong growth was driven predominantly by growth in credit extended to businesses, which expanded by 22.1 percent, while credit to individuals expanded by 14.5 percent. Mortgage loans expanded by 13.9 percent year on year in December, slightly below the year average of 14.1 percent. Instalment credit extension continued to grow, however at 13.9 percent, this growth was well below the year average growth of 17.0 percent.
12. The MPC was informed that total Government debt had increased to 25.6 percent of GDP in quarter 4 of 2012, up from 25.2 percent the previous quarter. Domestic debt was 16.7 percent of GDP as of December 2012, falling to 15.1 percent of GDP in January 2013. RD estimates suggest that the Government has experienced a budget surplus of

0.5 percent in the first 9 months of 2012/13, up from a budget deficit of 7.1 percent in the previous financial year.

13. The meeting was informed that the overall balance of payments (excluding valuation adjustments) was estimated to have recorded a small surplus of about N\$156 million in 2012, compared to a surplus of N\$4.1 billion in 2011. This reduction is consistent with expectations given the depreciation of the NAD versus the US Dollar, which will have driven up the cost of imports. On the other hand, the trade weighted index for the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) depreciated during 2012, reflecting a gain in competitiveness of Namibia's export products in real terms.
14. As of December 2012, international reserves remained adequate to maintain the currency peg, at N\$14.7 billion. However, this was down slightly on the previous month's level of N\$15.3 billion.
15. The meeting was informed that inflation had increased to 6.6 percent in January, up from 6.3 percent in December. The increase came as a result of annual increases in administered prices, particularly tertiary education and miscellaneous goods and services. On the other hand, food inflation declined from 8.2 to 8.0 percent over this period. Underlying inflation increased from 3.5 to 3.7 percent over the same period.

MONETARY POLICY DELIBERATIONS

16. While no further deterioration in the global arena has been seen, similarly few improvements have been witnessed. Economic activity in developed economies remains slow. On the other hand, emerging markets are starting to recover, particularly China and Brazil. Globally, inflation remains manageable and at acceptable level, however unemployment remains high and trends of such remain concerning. Domestic growth has been reasonably strong in 2012, largely supported by the accommodative monetary policy stance adopted by the Bank. However, the primary sector growth seen in 2012 is unlikely to be repeated in 2013, with secondary activities expected to support growth in the current year.
17. Liquidity remains adequate and credit easing, particularly to instalment credit, shows an improved position. Furthermore, the composition of private sector credit extension remains favourable, as credit extension is primarily to businesses rather than households. However, credit growth remains sensitive, and requires constant monitoring.

18. 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