

# BANK OF NAMIBIA

## Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14<sup>th</sup> June 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 14<sup>th</sup> of June 2016

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 14<sup>th</sup> of June 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 the 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>.

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### MPC MEMBERS PRESENT

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

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### OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Reinhold Kamati (Senior Economist: RD); Postrick Mushendami (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Abigail Nainda (Economist: RD); Heinrich Namakalu (Economist: RD), Helvi Fillipus (Senior Economist: FMD); Grace Hamauka (Economist: RD); Tjiveze Tjipe (Senior Economist; RD); Vernon Louw (Acting Deputy Director: FMD); Mukela Mabakeng (Economist; RD)

Hileni Shifotoka (Economist: RD & Secretary)

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### APOLOGIES:

None

### GLOBAL ECONOMY

- 1. The MPC noted that global growth continued to be fragile during the first quarter of 2016, mainly due to the prevailing slow growth in most Emerging Market Economies (EMEs), with the exception of India. The global economy is, however, expected to expand in 2016.** The global economy is projected to have recorded an annualised growth rate of 2.5 percent in the first quarter of 2016, moderating from 2.6 percent in the last quarter of 2015. Economic growth in the advanced economies remained almost unchanged during the first quarter of 2016, with the exception of Japan, whose economic activity improved. GDP growth in the US remained steady, as in the previous quarter, at 2.0 percent, on the back of favourable credit conditions, low fuel prices, as well as gains in employment and business spending. Likewise, the GDP growth of the Euro Area remained steady at 1.7 percent, while that of the UK moderated slightly to 2.0 percent. Conversely, the Japanese economic growth expanded by an annualized growth rate of 1.9 percent, supported by firm exports and improved economic activities. Poor economic performance continued in most key emerging market economies. Economic activities in Brazil, Russia and South Africa contracted during the first quarter of 2016, compared to the last quarter of 2015, while economic growth of China moderated to 6.7 percent, during the period under review. Brazil's GDP declined by 5.4 percent, year-on-year, in the first quarter of 2016, compared to a contraction of 5.9 percent in the previous period, on the back of declining investment and consumption. Russia's preliminary GDP data indicated that the country's economy contracted by 1.2 percent, year-on-year, in the first quarter of 2016, although better than the 3.8 percent decline in the previous period. Similarly, South Arica's GDP contracted mildly during the first quarter of 2016, due to downside risks and uncertainty in the global economic growth and financial market conditions. India continued to record high growth of 7.9 percent during the period under review, attributed to the country's minimal exposure to factors such as China's slowed growth and global capital flows.
- 2. The MPC noted that, going forward, the global economy is expected to expand by 2.5 percent in the second quarter of 2016.** Risks to the growth of the global economy remain and include the potential exit of the UK from the European Union, sustained low commodity prices and further slowdown in emerging market economies.
- 3. The MPC noted that, since the last MPC meeting in April 2016, monetary policy stances remained generally accommodative in both the advanced economies and Emerging Market Economies (EMEs), with the exception of India.** The Federal

Reserve Bank, European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE) all left their monetary policy rates unchanged. Similarly, all key EMEs maintained their monetary policy stances. The central banks of South Africa, Russia, Brazil and China maintained their monetary policy rates at 7.0 percent, 11.0 percent, 14.25 percent and 4.35 percent, respectively. Conversely, the Reserve Bank of India cut its benchmark Repo rate by 0.25 percent to 6.50 percent, in line with slowing inflation rates.

## **DOMESTIC ECONOMY**

- 4. The MPC noted that the domestic economy registered satisfactory performance during the first four months of 2016, compared to the same period in 2015, with the exception of the mining and agricultural sectors.** The domestic economy performed satisfactorily during the first four months of 2016, mainly on account of solid growth in the *wholesale and retail trade*, *Government construction* works, as well as the *manufacturing* sector. In contrast, activities in the mining sector slowed, mainly driven by the decline in the production of diamonds and zinc. Similarly, the agricultural sector slowed, due to the effects of the prevailing drought conditions, as well as the high base effect in the sector, following the aggressive marketing activities in the previous year. Going forward, growth is expected to remain positive, but risks persist and include the slowdown in the economies of Namibia's trading partners, soft commodity prices, volatile exchange rate and the effects of the prevailing drought conditions.
- 5. The MPC further noted that domestic demand for credit slowed over the first four months of 2016, when compared to the corresponding months in 2015.** This slowdown is evident in the annual growth of PSCE, which decreased, mainly as a result of lower credit extended to the corporate sector. During the first four months of 2016, the average annual growth in PSCE stood at 12.9 percent, which is lower than the 15.9 percent registered over the same period in 2015. The growth in credit extended to households stabilised at 12.4 percent, while that extended to businesses slowed down from a high rate of 21.2 percent to 13.6 percent, over the first four months of 2016. Notably, over the comparable period, growth in instalment credit extended to individuals, which was previously highlighted as a concern, slowed significantly from 20.1 percent to 13.1 percent.
- 6. The MPC was informed that Namibia's annual inflation rate rose during the first five months of 2016, and is expected to further increase gradually for the remainder of the year, although, remaining within manageable levels.** The average inflation rate increased slightly to 6.7 percent in May 2016 from 6.6 percent in the previous month. This was predominantly due to increases in the inflation rates for the categories *food and*

*non-alcoholic beverages, as well as housing, water, electricity, gas and other fuels.* Going forward, annual inflation is expected to increase steadily for the remainder of the year.

- 7. The MPC noted that, since its last meeting, the level of international reserves declined, on a monthly basis, to about N\$22.1 billion as at the 13<sup>th</sup> of June 2016.** At this level, the stock of international reserves remains sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand, which is equivalent to approximately 6.2 times the currency in circulation as at the end of April 2016. The decline in the level of reserves was mainly due to the rise in the Rand purchases by commercial banks on behalf of their clients for import payments, investment purposes and the coupon repayment on the Eurobond.

## **MONETARY POLICY DELIBERATIONS**

- 8. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above. After taking all key macro-economic variables and developments into account, the MPC decided to maintain the Repo rate at 7.00 percent.** This decision was necessary to continue supporting the country's economic growth, particularly in light of slow and fragile recovery in the economies of Namibia's trading partners.