

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14 August 2018



“Our vision is to be a centre of excellence”

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**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
14th of August 2018**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 14th of August 2018.

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>.

MPC MEMBERS PRESENT

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

APOLOGIES:

None

OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Helvi Phillipus (Deputy Director: FMD); Gerson Kadhikwa (Technical Expert: RD); Saara Kashaka (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Daisy Mbazima (Senior Economist: RD); Mukela Mabakeng (Senior Economist: RD); Elifas Iiyambula (Economist: RD); Jaungura Kaune (Economist, RD).

SECRETARY

Victoria Manuel (Economist: RD)

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC was informed that global economic activity moderated during the first quarter of 2018.** Growth was mainly dragged down by slower growth recorded in Advanced Economies (AEs), such as the UK, Euro Area, and Japan, for the most part due to lower consumer spending and industrial production. Economic activity in the Emerging Market and Developing Economies (EMDEs) presented a mixed picture during the first quarter of 2018. Russia and India registered a higher growth rate during the first quarter of 2018, while China's growth remained the same as the last quarter of 2017. The economies of Brazil and South Africa, however, recorded slower growth during the same period. Going forward, global real GDP is projected to grow by 3.9 percent in 2018, slightly higher than 3.7 percent recorded in 2017. The projected growth is expected to be driven by favourable financial conditions and strong investment in both AEs and EMDEs. The MPC was further updated about risks to the global outlook, which include amongst others, increased levels of trade protectionism, geopolitical tensions as well as the global impact of monetary policy normalisation.
- 2. The MPC noted that inflation rates in the monitored AEs and EMDEs varied in June 2018.** Among the AEs, inflation increased in the US, UK and the Eurozone but remained unchanged in Japan during June 2018. In the EMDEs, inflation rates increased in Brazil, India, South Africa and China while it declined in Russia and Angola during the same period.
- 3. Since the June MPC meeting, international prices of Namibia's key mineral export commodities have declined, with the exception of uranium.** The US Dollar spot prices of most of Namibia's mineral export commodities have declined somewhat over the two months since the June MPC meeting. However, the uranium spot price has increased by 13.8 percent to US\$25.78 per pound during this period. The price of Brent crude oil on balance declined somewhat to around US\$72.70 per barrel on the day before the MPC meeting.
- 4. The MPC also noted that, over the past two months, benchmark interest rates have remained unchanged in most monitored AEs and EMDEs.** Most central banks in both the AEs and EMDEs left their policy rates unchanged at their monetary

policy committee meetings during June, July and early August 2018, except for central banks in the US, UK and India who raised their key policy rates.

- 5. In summary, the MPC noted the recent developments in the global economy, including the risks to the global outlook, and deliberated on these matters.** The MPC members reflected on the slower growth observed in the AEs and expressed concerns about the growing divergence between the AEs and the EMDEs. MPC members also deliberated on the recent depreciation of the South African rand and its pass through to inflation. With regards to the commodity prices, the MPC members welcomed the good news of improvement in uranium prices, although this could still be too early to signal a sustained positive trend in uranium prices.

DOMESTIC ECONOMY

- 6. A report on the developments in the domestic economy was presented to the MPC and covered sectoral performances, the economic outlook update, private sector credit extension (PSCE), inflation and international reserves.**
- 7. The MPC noted that domestic economic activity improved during the first half of 2018 relative to the corresponding period of 2017.** The improved activity was mainly observed in the mining, as well as transport and communication sectors. The improved activities in the mining sector were mainly due to an increase in the production of diamonds and uranium, while increased cargo volumes and an increase in value addition for the communications' subsector boosted the transport and communication sector. On the contrary, activity in the wholesale and retail trade as well as manufacturing sectors, however, declined during the same period.
- 8. Namibia's overall inflation rate declined during the first half of 2018, compared to the corresponding period during 2017.** Annual inflation declined to 3.7 percent in the first six months of 2018, from 7.0 percent during the corresponding period of 2017. The decline in inflation was mainly due to a significant deceleration in inflation for food and non-alcoholic beverages as well as housing during June 2018. This was mainly on account of improved agricultural production, a favourable exchange rate and slower inflation for rental payments. On a monthly basis, the inflation rate rose marginally to 4.0 percent during June 2018, from 3.8 percent in May.

9. **With regard to fiscal developments, the MPC was informed that the Central Government budget deficit narrowed during the first three months of 2018/19 fiscal year, while the total Government debt stock increased.** Central Government's budget deficit stood at N\$1.5 billion during the first three months of the 2018/19 fiscal year, significantly lower compared to N\$2.4 billion registered during the corresponding period in the previous fiscal year. The decline in the budget deficit was mainly due to lower Central Government expenditure, particularly on operational expenditure, during the period under review, compared to the corresponding months during the previous fiscal year. Moreover, the total Government debt stock rose to N\$78.3 billion at the end of June 2018, representing a yearly increase of 11.6 percent compared to the debt stock recorded at the end of June 2017. The increase in debt was mainly due to the issuance of Treasury Bills (TBs) and Internal Registered Stock (IRS) in the domestic market.

MONETARY POLICY DELIBERATIONS

10. **The MPC deliberated on both the domestic and global economic developments, as highlighted above.** After taking into account all key macro-economic variables and developments, the MPC decided to keep the Repo rate unchanged at 6.75 percent. The MPC was of the view that at this level, the rate remained appropriate to continue supporting domestic economic growth, while maintaining the one-to-one link between the Namibia Dollar and the South African Rand.