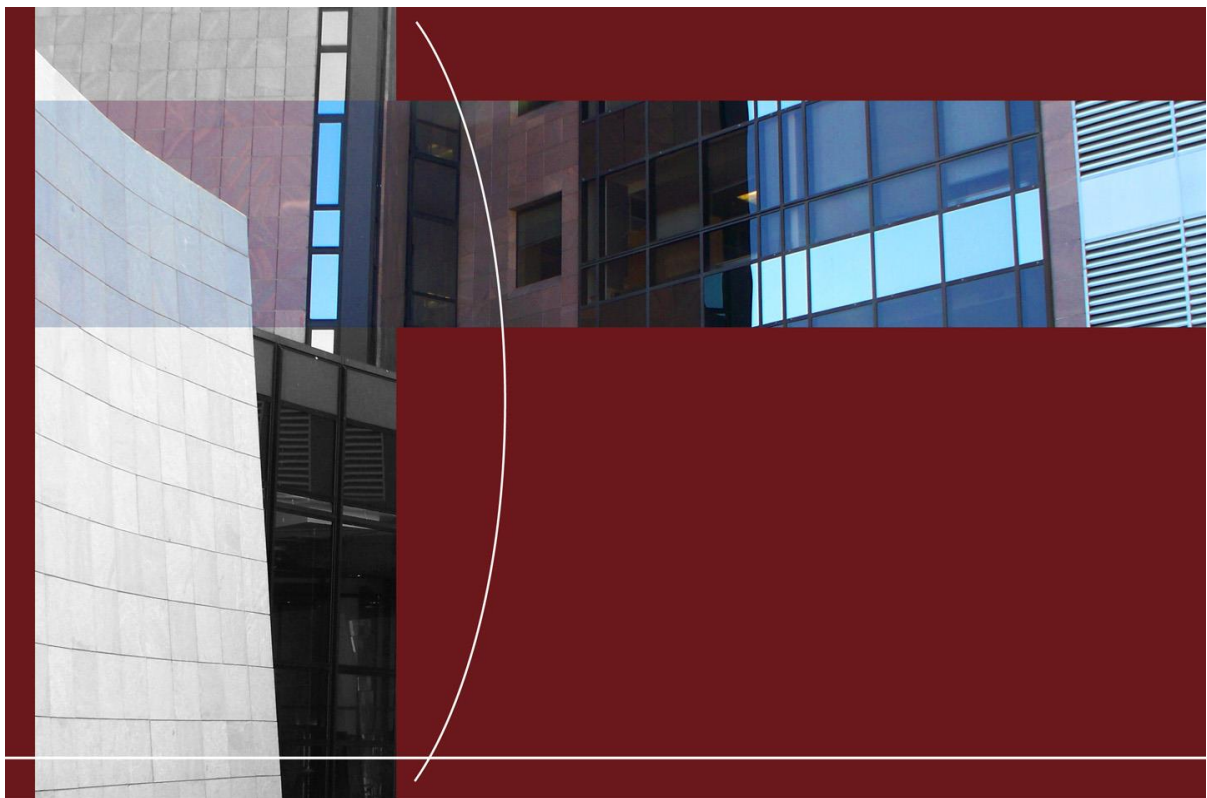


# **BANK OF NAMIBIA**

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

**Windhoek, 17<sup>th</sup> February 2015**



**“Our vision is to be a centre of excellence”**

**Publication date: 15<sup>th</sup> of April 2015**

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## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 17<sup>th</sup> of February 2015**

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia's MPC held on the 17<sup>th</sup> of February 2015.

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 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**

Ipumbu Shiimi	Governor and Chairperson
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Dr. Meshack Tjirongo	Technical Advisor: Research Department
Florette Nakusera	Director: Research
Titus Ndove	Director: Financial Markets
Ndangi Katoma	Director: Strategic Communications & Financial Sector Development

### **OTHERS PRESENT**

Tjiveze Tjipe (Senior Economist: RD), Mukela Mabakeng (Economist: RD), Ben Stephanus (Research Officer: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Edler Kamundu (Deputy Director: RD), Helvi Phillipus (Senior Economist, FMD), Rehabeam Shilimela (Economist: RD), Reinhold Kamati (Economist: RD).

Heinrich Namakalu (Economist: RD & Secretary)

### **APOLOGIES**

**None**

## ECONOMIC DEVELOPMENTS REPORT

### Global economy

- 1. The MPC noted that the global economy continued to be on a gradual recovery path.** The recovery was largely supported by positive growth in some advanced economies, particularly the US and the UK, while others such as the Euro Area and Japan continued to be weak. Growth in the emerging market economies, however, slowed, but remained relatively strong.
- 2. The meeting also noted that commodity prices remained soft in 2014, as a result of weak global economic activities.** The price of oil, in particular, declined by 21.3 percent to U\$60.60 per barrel, on average, in December 2014. It fell further to below U\$46.00 per barrel, on average, in early January 2015, which represents a decline of more than 55.0 percent since June 2014. Copper and uranium prices sustained a decreasing trend, while the zinc price remained steady in 2014.
- 3. Going forward, the meeting noted that the IMF revised the global growth projection downward to 3.5 percent in 2015 from the 3.8 percent projected earlier.** This was largely on the back of weakening growth in the emerging market economies. The downside risks to the outlook include a shift in sentiments and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities for oil exporters. Tensions in Eastern Europe continue to pose further risk to global growth.
- 4. The MPC further observed that monetary policy stances remained accommodative among the advanced economies, while some emerging market economies started to tighten their policy stances in 2014.** In this regard, the Bank of Canada and the European Central Bank (ECB) relaxed monetary policy further at their recent meetings. In emerging market economies, the central bank of Russia and India also lowered their policy rate, while the South African Reserve Bank left its policy rate unchanged, as inflationary pressure eased. Brazil on, another hand, increased its Repo rate in December 2014.

### Domestic economy

5. **The MPC noted that recent economic activities in the real sector were positive during 2014, supported by declining inflation.** The positive economic performance was led by the robust public and private construction activities, diamond mining and wholesale and retail trade. Livestock marketing activities, however, slowed over the same period.
6. **The secondary industry's expansion was largely boosted by the private projects in the mining industry and commercial real estate, as well as public investment in the construction sector.** Strong output for cement, beer and soft drinks also contributed to the positive performance in the secondary industry. The tertiary industry displayed strong consumer demand in the wholesale and retail trade sector, associated with increased turnover in the wholesale and retail trade, supported by the communication sector.
7. **Going forward, the MPC was informed that the domestic economy is expected to grow by 5.6 percent in 2015, from the estimated 5.3 percent in the previous year.** The expected growth in 2015 will mainly be supported by construction activities, particularly that of the mining sector. Risks to the outlook remain, largely, the declining commodity prices, the volatility of exchange rate and the persistently high value of imports.
8. **The MPC further noted that the annual growth of total credit extended to the private sector (PSCE) rose in 2014, due to the increased credit to both businesses and households.** Annual growth in PSCE rose by N\$9.7 billion, compared to an increase of N\$7.4 billion in 2013. More than half of this credit was extended to households. MPC expressed concerns about the high growth in credit extended to households particularly that of overdrafts and instalment credit, which grew by 23.8 percent and 19.9 percent, on average, over the last six months, respectively.
9. **On the external sector front, the meeting was informed that a remarkable increase in mineral export earnings was recorded during 2014, compared to the previous year, amidst a weak Namibia Dollar against major trading currencies.** Export receipt for minerals, except for uranium, increased on an annual basis, which is largely attributed to the rise in exports of diamonds, blister copper and zinc concentrate. The weak global demand and delays in the re-starting of Japan's nuclear reactors, however, continue to put downward pressure on the average international prices for uranium. Similarly, the total number of cattle and small stock exported declined substantially over the same period, primarily due to the restrictive health regulations and supply constraints.

10. **The stock of foreign reserves rose on a monthly basis, mainly due to SACU receipts and net capital inflows from the commercial banks, but declined on an annual basis at the end of January 2015.** The stock of international reserves rose by 15.5 percent on a monthly basis to N\$16.0 billion in January, mostly due to net SACU receipts of N\$4.5 billion as well as net capital inflows by commercial banks of N\$1.9 billion. At the latest level of N\$16.0 billion, the international reserves were 4.1 times higher than the currency in circulation, which is sufficient to maintain the one-to one link of the Namibian Dollar to the Rand.
11. **The MPC noted that annual inflation moderated, averaging 5.4 percent in 2014, compared to 5.6 percent in 2013. The moderation was mainly due to a reduction in transport inflation.** This followed the recent decline in international oil prices, which resulted in reduced domestic pump prices during the latter part of 2014. Pump prices for both petrol and diesel were reduced further in February 2015, to reach prices below N\$10.00 per litre, for the first time since August 2012. Annual inflation rates for Namibia and South Africa trended somewhat in the same direction for the most part of 2014. South Africa recorded annual average inflation rate of 6.2 percent in 2014, compared to 5.7 percent during the preceding year.

## **MONETARY POLICY DELIBERATIONS AND STANCE**

12. **The MPC considered global, regional and domestic economic and financial developments and decided to increase the Repo rate by 0.25 percentage points to 6.25 percent.** The MPC took this decision to contain the high growth in household credit, particularly that of overdrafts and instalment credit. A significant portion of the household credit is used to finance unproductive imported luxury goods, which continues to put additional pressure on the international reserves of the country. In view of all these developments, the MPC decided to increase the Repo rate by 0.25 percentage points to 6.25 percent.