

**BANK OF NAMIBIA**

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

**Windhoek, 11<sup>th</sup> December 2014**



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

**Publication date: 18<sup>th</sup> of February 2015**

---

## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 11<sup>th</sup> of December 2014**

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 11<sup>th</sup> of December 2014.

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>.

---

### **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
Abed Iyambo	Acting Director: Research
Titus Ndove	Director: Financial Markets
Ndangi Katoma	Director: Strategic Communications & Financial Sector Development

### **APOLOGIES:**

Florette Nakusera: Director: Research

### **OTHERS PRESENT**

Tjiveze Tjipe (Senior Economist: RD), Mukela Mabakeng (Economist: RD), Ben Stephanus (Research Officer: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Edler Kamundu (Senior Economist: RD), Rehabeam Shilimela (Economist: RD), Postrick Mushendami (Senior Economist: RD), Gerson Kadhikwa (Senior Economist: RD), Helvi Phillipus (Senior Economist, FMD), Daisy Mbazima (Economist: RD), Christian Phillipus, (Economist: RD).

## ECONOMIC DEVELOPMENTS REPORT

### Global economy

- 1. The MPC noted that global economic growth slowed during the third quarter of 2014 due to a moderation in economic activities in the US and UK, China and a contraction in Japan.** Growth in the US and the UK moderated, while the Japanese economy contracted once more, putting her in a recession. In the emerging market economies, the Chinese economy moderated in the third quarter, however, China continued to contribute significantly to global growth. Real GDP growth in Russia slowed, while it increased marginally in South Africa over the same period. The meeting also observed that the moderation in demand, following the aforementioned economic slowdowns, especially in China, coincided with the fall in prices for most commodities, year-to-date, during September 2014.
- 2. The meeting noted that central banks in the advanced economies and some emerging market economies sustained their accommodative monetary policy stances since the last MPC meeting.** The Federal Reserve ended the quantitative easing programme at the end of October 2014, while the Bank of Japan expanded its asset purchase program to stimulate economic activities, as the country entered recession in the third quarter of 2014. Similarly, the European Central Bank implemented further monetary policy easing measures in October 2014, by deciding to purchase bonds. The Central Banks in Brazil and Russia increased their policy rates to contain inflationary pressures caused by exchange rate depreciations. Central Banks in India and South Africa retained their monetary policy stances to support sluggish growth. Moreover, global inflation moderated in recent months on the back of a decrease in the prices of both crude oil and non-energy commodities.

3. **Looking ahead, the IMF slightly revised its global growth projections for 2014 and 2015 downwards.** The growth projections were revised downwards by 0.1 percent and 0.2 percent to 3.3 percent and 3.8 percent, respectively. This reflects setbacks in economic activity for the Euro Area and Japanese economies during the first half of 2014 and a less optimistic outlook for emerging market economies, particularly for Russia and Brazil.

### **Domestic economy**

4. **The MPC noted that selected indicators in the domestic economy showed improvements during the first ten months of 2014.** Sustained diamond mining, construction, manufacturing activities and increased wholesale and retail trade sales continued to drive the good performance in the real sector. The production of uranium and zinc concentrate, however, declined during the first ten months of 2014, compared to the corresponding period of the previous year, mainly due to technical challenges at the mines. However, uranium production increased on a monthly basis, in line with the recovery in uranium prices in October. Activities in the agriculture sector, particularly the number of cattle and small stock marketed, as well as milk production declined during the first eight months of 2014. The decline in both the numbers of cattle and small stock marketed resulted from the South Africa veterinary requirements imposed in May 2014 and the low level of stock after the drought situation of 2013. The volume of stock marketed, however, improved on both quarter-on-quarter and month-on-month basis.
5. **The meeting noted that inflation, which increased steadily during the first half of 2014, continued to decline since July, largely due to the deceleration in food and transport inflation.** Annual inflation slowed from 6.1 percent in June to 5.0 percent in October 2014. The annual decline in inflation was primarily on account of decreased prices in a number of sub-items in the food category, and a decline in the cost of operation of personal transport equipment, following fuel price decreases. Petrol and diesel prices were reduced

from N\$12.21 and N\$12.82 at the end of October to N\$11.96 and N\$12.12 per liter at the end of November, respectively. Both diesel and petrol prices were further reduced by 50 cents on the 3rd December 2014. The sliding trend in pump prices was mainly due to increased global supply, amidst depressed global demand.

6. **Credit to the private sector continued to grow strongly during the first ten months of 2014, driven by both businesses and households.** Growth in private sector credit rose to an average of 15.6 percent during the first ten months of 2014, compared to a growth 15.0 percent recorded over the same period of 2013 and 14.3 percent recorded over the last ten months of 2013. The growth was mainly due to an increase in demand for credit from both household sector and the corporate sector. The rise in the former was mainly attributed to the installment credit, while the increase in the later was on account of robust growth in the overdraft. Growth in overdraft and installment credits stood at 25.2 percent and 19.1 percent, on average, respectively.
7. **With respect to the external sector, MPC noted that the deficit on merchandise trade balance widened further, on both quarter-on-quarter and annual basis, as a result of higher imports bill.** The increase in imports was mainly attributed to the imports of capital goods, vehicles and other consumer goods. It was partly offset by increased net current transfers, most notably the increase in SACU receipts and the slight rise in the merchandise exports. The rise in the merchandise export earnings was mainly reflected in the diamonds and manufactured goods category, aided by the weakening of the Namibia dollar against its major trading partners. The Namibia Dollar depreciated against the US Dollar, the British Pound and the EURO during the third quarter of 2014. This was mainly on account of weak economic data of the South African economy, particularly on the trade, fiscal budget and current account deficit, as well as the improved economic developments in the US.
8. **The meeting further noted that the stock of international reserves declined both on a monthly and annual basis in October 2014.** The stock of international reserves declined by 8.5 percent on a monthly basis to N\$15.1 billion at the end of October 2014; and by a lower rate of 5.0 percent, annually,

from N\$15.9 billion registered at the end of October 2013. Despite the decline, the reserves remain sufficient to meet the country's foreign obligations. However, the weeks of import cover declined marginally from 9.44 weeks in the second quarter to 9.29 weeks during the third quarter, as imports increased faster than the rise in the stock of international reserves.

## **MONETARY POLICY STANCE**

- 9. Following a lengthy deliberation revolving the aforementioned global and domestic economic developments, the MPC decided to leave the Repo rate unchanged at 6.0 percent to support domestic economic activities, while monitoring the effects of recent monetary policy decisions.** MPC expressed a concern on the growth in private sector credit extension, particularly the part that finances unproductive-imported luxury goods, as it put undue pressure on international reserves. Nevertheless, the MPC decided to hold the Repo rate unchanged at 6.0 percent to support domestic economic activities, while monitoring the effects of recent monetary policy decisions.