

# BANK OF NAMIBIA

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

Windhoek, 14<sup>th</sup> August 2017



**“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 August 2017**

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 August 2017.

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
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Postrick Mushendami	Acting Director: Research Department
Johan van den Heever	Technical Advisor: Research Department

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### **OTHERS PRESENT**

Israel Zemburuka (Deputy Director: Corporate Communications); Saara Kashaka (Senior Economist: RD); Helvi Phillipus (Deputy Director: FMD); Dr Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Economist: RD); Sanette Schulze Struchtrup (Deputy Director: RD); Victoria Manuel (Economist, RD); Heinrich Namakalu (Economist, RD); Daisy Mbazima (Senior Economist, RD); Elifas Iiyambula (Economist: RD); Abigail Nainda (Acting Senior Economist: RD); Isabel Nghinamupika (Research Officer: RD).

### **SECRETARY**

Hileni Shifotoka (Economist: RD & Secretary).

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### **APOLOGIES:**

Florette Nakusera	Director: Research
Emma Haiyambo	Director: Strategic Communications & FSD

### GLOBAL ECONOMY

- 1. The MPC noted that the global economy is projected to improve slightly in 2017, compared to 2016.** The global economy is projected to grow by 3.5 percent in 2017, from 3.2 percent in 2016. This growth will be supported by better growth prospects for both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Overall, growth will result from improved commodity prices, manufacturing and trade, while positive consumer sentiments may translate into higher investment and further boost business confidence.
- 2. On average, economic activity in key AEs improved in the first quarter of 2017, relative to the same period in 2016.** Going forward, economic growth in the AEs as a whole is expected to improve to 2.0 percent in 2017 from 1.7 percent in 2016, largely reflected in a cyclical recovery in global manufacturing.
- 3. Economic growth in the US rose in the first quarter of 2017.** The US economy recorded a year-on-year growth rate of 2.0 percent in the first quarter of 2017, exceeding the 1.6 percent growth recorded in the first quarter of 2016, but similar to the 2.0 percent recorded in the last quarter of 2016. The increased growth was mainly attributed to improvements in private consumption and business fixed investment.
- 4. Growth in the Eurozone improved slightly in the first quarter of 2017.** The Eurozone recorded a growth rate of 1.9 percent in the first quarter of 2017, which is higher than the 1.7 percent recorded in the corresponding quarter in 2016 and slightly above the 1.8 percent in the fourth quarter of 2016. The increased growth in economic activity during the quarter under review was mainly fuelled by an increase in private consumption, supported by improvements in the labour market and external sector, coupled with expansionary fiscal policy.
- 5. The UK economy grew slightly stronger in the first quarter of 2017.** Year-on-year growth in the UK was 2.0 percent in the first quarter of 2017, which is similar to the growth of the corresponding quarter in 2016 and a slight improvement on the 1.9 percent in the last quarter of 2016. The marginal rise was mainly attributed to fixed investment, which rose at a faster pace as business investment increased for the first time in over a year. In addition, consumer spending continued to fuel growth in the UK since the Brexit vote in 2016.

- 6. The Japanese economy recorded moderate growth during the first quarter of 2017.** Economic growth in Japan slowed to 1.3 percent during the first quarter of 2017, from 1.6 percent in the final quarter of 2016. Nonetheless, this growth is higher than the 0.5 percent growth rate recorded in the corresponding period in 2016. The latest slowdown in GDP was mainly attributed to the strong Yen against major trading currencies. Economic growth was, however, propelled by strong domestic demand, coupled with some resilience in the external sector.
- 7. Furthermore, the MPC noted that economic growth in the EMDEs as a whole improved in the first quarter of 2017, with the exception of South Africa.** Going forward, the IMF's World Economic Outlook for July 2017 projects the EMDE growth to pick up to 4.6 percent in 2017 from 4.1 percent in 2016, supported by economic recovery in Russia and Brazil.
- 8. The Brazilian economy contracted at a slower pace in the first quarter of 2017.** Real GDP in Brazil contracted by 0.4 percent year-on-year in the first three months of 2017, as downward pressure emanating from consumer spending and investment eased and exports increased. On a quarter-on-quarter basis, the Brazilian economy registered positive growth of 1.0 percent in the first quarter of 2017, following eight consecutive quarters of contractions.
- 9. Growth in Russia continued to improve during the first quarter of 2017.** The Russian economy expanded by 0.5 percent year-on-year in the first quarter of 2017. This is the second increase after it contracted throughout 2015 and in the first three quarters of 2016. The increase is mainly owed to an expansion in industrial production and improvement in consumer sentiment.
- 10. Growth in India slowed during the first quarter of 2017, recording the lowest growth rate since the last quarter of 2014.** The Indian economy recorded a growth rate of 6.1 percent during the first quarter of 2017, lower than the 7.9 percent recorded during the corresponding quarter in 2016. Moreover, growth fell by 0.9 percentage points from 7.0 percent recorded in the last quarter of 2016. The deceleration in growth is mainly on account of a slowdown in consumer spending and a drop in investment, following the demonetisation program by the Government of India, which started in November 2016 and removed 86 percent of the Rupees in circulation.

- 11. China's growth increased marginally in the first quarter of 2017.** The economy of China recorded a growth rate of 6.9 percent in the first quarter of 2017, which is marginally higher than the 6.7 percent growth attained during the same quarter in 2016. This growth was supported by faster increases in industrial output, retail sales and fixed-asset investments.
- 12. The South African economy contracted both in the last quarter of 2016 and first quarter of 2017.** South Africa's real GDP contracted by 0.3 percent (quarter-on-quarter and annualised) in the fourth quarter of 2016 and 0.7 percent in the first quarter of 2017, mainly due to contractions in the trade and manufacturing sectors. On a year-on-year basis, however, growth in the first quarter of 2017 amounted to 1.0 percent, the highest in seven quarters, as agricultural and mining output recovered.
- 13. The MPC further noted that downside risks to the 2017 global growth outlook remain and include the increasing geopolitical tensions around the Korean peninsula and the inward-oriented shift in policies.** The inward-looking policy sentiments currently prevailing in some economies may reduce trade and cross-border investment flows. Other risks include the monetary policy tightening in some advanced economies, notably the US, which could tighten global financial conditions and trigger a reversal in capital flows from emerging markets, as well as the effect that South Africa's sovereign credit rating downgrade might have on investment and growth prospects in the adjacent economies of Southern Africa.
- 14. Furthermore, the MPC noted that, since the last MPC meeting in June 2017, monetary policy stances in both key AEs and EMDEs were mixed.** Most central banks in the AEs left their benchmark rates unchanged, with the exception of the US, which increased its policy rate by 25 basis points. The US Federal Reserve cited the impact of a strengthening labour market, against the backdrop of a steadily declining unemployment rate on inflation, as the reason for the rise. On the other hand, several central banks in EMDEs cut their benchmark rates. The central banks of India, Russia and South Africa all cut their policy rates by 25 basis points, while that of Brazil cut its policy rate by 100 basis points to 9.25 percent.

## DOMESTIC ECONOMY

- 15. The MPC noted that activity in the domestic economy remained weak during the first six months of 2017, compared to the same period in 2016.** The weak performance was mainly reflected in the construction, manufacturing, wholesale

and retail trade, as well as transport sectors. The weak performance in the construction sector was reflected in both the private and Government construction works, which slowed, while that of manufacturing is reflected in the production of refined zinc and cement that fell by 30.5 percent and 10.1 percent, respectively. The weak performance of the wholesale and retail trade sector is due to the sluggish economic growth, which remains the main factor behind the decline in sales volumes, as reflected in subsectors such as vehicle trade, clothing as well as supermarket and other retail trade. Activity in the transport sub-sector contracted due to lower cargo volumes for rail and sea transport.

**16. There were, however, a few areas of improvement in sectors such as mining and communication as well as livestock marketed, over the same period, that provided some stimulus to the real economy.**

Production of diamonds, zinc, gold as well as uranium increased year-on-year by 22.5 percent, 62.5 percent, 15.2 percent and 1.3 percent, respectively, during the first six months of 2017. The increase in diamond production was mainly due to high quality carats mined off-shore, coupled with low base effects. Similarly, zinc production increased mainly due to low base effects, which resulted from industrial action at a mine during the corresponding period in 2016, while the production of gold rose, mainly owing to better grades mined during the first six months of 2017. The slight increase in uranium production, during the period under review, was particularly reflected in the production numbers of some mines. Moreover, total livestock marketed activity increased by 2.2 percent during the first six months of 2017, as the effect of a higher number of cattle marketed overshadowed the effect of a smaller number of small stock marketed during the period under review. Similarly, the value addition in the communications sub-sector increased by 6.2 percent during the period under review.

**17. Furthermore, the MPC noted that the average annual growth in private sector credit extended (PSCE) slowed during the first six months of 2017, when compared to the same period in 2016.**

During the review period, the 12-month growth in PSCE stood at 8.5 percent on average; lower than the 12.5 percent recorded over the same period in 2016. The subdued growth is in line with the general sluggish growth in the domestic economy. The slower growth in PSCE was mainly attributed to the reduced growth in credit advanced to both the household and corporate sectors, especially in the form of mortgage and

instalment credit, with the exception of overdraft credit that rose. Since the last MPC meeting, the growth in PSCE tilted up to 8.5 percent at the end of May 2017 before it reverted back to 8.1 percent at the end of June. In nominal terms, PSCE stood at N\$87.7 billion at the end of June 2017.

**18. The MPC noted that Namibia's overall inflation rate slowed from its high point in January 2017.** Inflation averaged 7.0 percent during the first six months of 2017, compared to 6.3 percent during the corresponding period in 2016. Inflation, however, slowed from a peak of 8.2 percent in January 2017 to reach 5.4 percent in July 2017. A large part of the slowdown in inflation since the beginning of the year can be attributed to lower food inflation. Going forward, annual inflation is forecasted to average 6.2 percent in 2017.

**19. Furthermore, the MPC noted that since its last meeting in June 2017, the stock of international reserves increased.** The MPC noted that as at 31st July 2017, the stock of international reserves stood at N\$32.7 billion, representing an increase, both on a monthly and annual basis. The increase was mainly due to repatriation of funds by financial institutions, the inflow of the first tranche of the African Development Bank (AfDB) loan granted to the Government and the repayment of debt by the National Bank of Angola. At this level, the stock of international reserves is estimated to cover 5.5 months of imports of goods and services, and thereby remains sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand.

## **MONETARY POLICY DELIBERATIONS**

**20. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above.** The MPC was mindful of the lower inflation rate realised and projected for the Namibian economy, the strong fiscal consolidation drive and the improved international reserve position but also on the potential impact on international reserves should rates be lowered. Given the weak domestic economy, the MPC decided to cut the Repo rate by 25 basis points to 6.75 percent, with effect from the 16th of August 2017, to support domestic economic activity. MPC is of the view that at this level, the rate remains appropriate to maintain the one-to-one link between the Namibia Dollar and the South African Rand, while supporting economic growth.