

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 10 April 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 10th of April 2018

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 10th of April 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)
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:

Ebson Uanguta	Deputy Governor
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OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Erwin Naimhwaka (Deputy Director: RD) Helvi Fillipus (Deputy Director: FMD); Saara Kashaka (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Grace Hamauka (Senior Economist: RD); Elifas Iiyambula (Economist: RD).

SECRETARY

Victoria Manuel (Economist: RD)

GLOBAL ECONOMY

- 1. The MPC was informed that global economic activity improved in the fourth quarter of 2017, compared to the previous quarter, supported by improved growth from both the advanced economies (AEs) and emerging market and developing economies (EMDEs).** Economic activity in the global economy improved in the last quarter of 2017, mainly attributed to higher growth rates in both the AEs and EMDES. All monitored AEs' growth rates expanded, with the exception of the UK, whose growth moderated during the last three months of 2017. Among the EMDEs, growth strengthened in Brazil, India, China and South Africa, while Russia registered a slower growth during the fourth quarter of 2017. Going forward, the global economy is projected to grow by 3.9 percent in 2018, on account of marginally higher EMDEs growth. The growth is mainly due to positive prospects from the external environment, stronger export demand and an improvement in commodity prices.
- 2. Furthermore, the MPC was briefed about risks to the global outlook, which include amongst others:** the more inward-looking policies, geopolitical tensions, and political uncertainty in some countries.
- 3. The MPC noted that inflation rates varied among the monitored AEs, but moderated in the EMDEs during February 2018, compared to January.** Among the monitored AEs inflation rates picked up in the United States (US) and Japan while it declined in the United Kingdom (UK) and Euro Area. In the EMDEs, inflation rates generally declined during February 2018, with the exception of China where the inflation rate picked up.
- 4. Price indices for energy and metals declined in February 2018, resulting to losses in the equity markets during the period.** Energy and metal price indices declined by 5.3 percent and 0.5 percent, respectively, in February 2018. The decline in the energy indices is led by crude oil that decreased by 4.2 percent while the decline in the metal index is led by aluminium, silver, copper, platinum and lead.
- 5. The MPC also noted that, since the previous MPC meeting in February 2018, monetary policy stances in both the monitored AEs and EMDEs generally remained accommodative.** The US Federal Reserve raised the target range for the

federal funds rate by 25 basis points to 1.50 -1.75 percent – a level still considered to be relatively low. On the contrary, the central banks of Brazil and South Africa both lowered their policy rates by 25 basis points to 6.50 percent, while Russia also reduced its policy rate by 25 basis points to a level of 7.25 percent. All these central banks cited more favourable inflation developments and the need to support economic recovery among the reasons for the reductions in policy rates.

- 6. In summary, the MPC noted the improved developments in the global economy, including the recent decline in some commodity prices, and deliberated on the matter.** MPC noted that real growth in the global economy is estimated to have improved during the fourth quarter of 2017, compared to the previous quarter. MPC also noted the risks to the global outlook, which could affect economic performance in 2018. Of concern to the MPC members was the low price of uranium, which may negatively impact the domestic economy through the mining sector.

DOMESTIC ECONOMY

- 7. A report on the developments in the domestic economy was also presented to MPC and covered sectoral performances, the economic outlook update, private sector credit extension (PSCE), inflation and international reserves.**
- 8. The domestic economy contracted marginally in 2017, mainly due to the notable declines in the construction and wholesale and retail trade sectors.** The Namibian economy contracted by 0.8 percent in 2017, compared to moderately positive growth of 0.7 percent in 2016. The contraction is mainly due to a decline in construction as well as wholesale and retail trade sectors, coupled with slower growth in the manufacturing, electricity and water, transport and communication and public sectors. Year to date indicators, however, displayed some improvements during the first two months of 2018, relative to the corresponding period of 2017. This was mainly reflected in the production of the diamonds, uranium, agriculture, manufacturing, as well as transport and communication sectors. On the contrary, activity in the wholesale and retail trade sector continued to decline, with the construction sector also decreasing, driven by weak Government construction works during the same period. Going forward, the economy is expected to recover gradually with a growth rate of 1.4 percent in 2018.

- 9. Namibia's overall inflation rate declined during the first two months of 2018, compared to the corresponding period during 2017.** Annual inflation declined to 3.6 percent in January and February 2018, from 8.0 percent a year earlier. The decline in inflation mainly emanated from a significant deceleration in inflation for food and non-alcoholic beverages as well as housing. This was mainly on account of the favourable exchange rate and improved agricultural production coupled with a slower growth in rental payments. On a monthly basis, inflation moderated to 3.5 percent during February 2018, from 3.6 percent in previous months.
- 10. The MPC was informed that the stock of international reserves declined during March 2018.** As at 31 March 2018, the official stock of international reserves stood at N\$26.1 billion, representing a decline of N\$4.1 billion since the end of December 2017. The decline was mainly on account of net government payments and net capital flows through commercial banks. At this level, the stock of international reserves is projected to cover 3.8 months of imports of goods and services. Moreover, the international reserves were estimated to be 6.6 times as much as currency in circulation, supporting the adequacy of reserves required to maintain the currency peg to the Rand.
- 11. With regard to fiscal developments, the MPC was informed that the Central Government registered a lower budget deficit during the first eleven months of 2017/18 fiscal year, while the total Government debt stock continued to increase.** Central Government's budget deficit stood at N\$6.1 billion during the first eleven months of 2017/18 fiscal year, lower than the N\$11.8 billion recorded during the same period in the 2016/17 fiscal year. This was mainly due to efforts by Central Government to maintain the fiscal consolidation stance. Moreover, the total Government debt stock increased to N\$73.6 billion at the end of February 2018, representing a yearly increase of 12.4 percent. The increase was reflected in both domestic and external debt, owing to issuance of TBs and IRS in the domestic market during the period under review, coupled with the disbursement of the first tranche of a loan from the African Development Bank (AfDB).
- 12. In summary, the MPC noted the recent domestic economic developments.** Of concern to the MPC members was the sustainability of the current uranium production given the low uranium prices.

MONETARY POLICY DELIBERATIONS

13. 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 kept 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.