

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 23 October 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
23rd of October 2018**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 23rd of October 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

lipumbu 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

Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Helvi Phillipus (Deputy Director: FMD); Gerson Kadhikwa (Technical Expert: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Mukela Mabakeng (Senior Economist: RD); Reinhold Kamati (Senior Economist: RD); Grace Hamauka (Senior Economist: RD).

SECRETARY

Victoria Manuel (Economist: RD)

ECONOMIC DEVELOPMENTS REPORT

1. **As usual reporting on economic developments was split into an international and a domestic component. Firstly, a report on global economic developments was presented to the MPC members.**

GLOBAL ECONOMY

2. **The MPC was informed that economic growth in most key Advanced Economies (AEs) improved, while that of key Emerging Market and Developing Economies (EMDEs) presented a mixed picture during the second quarter of 2018.** Economic growth in AEs improved during the second quarter of 2018, compared to the preceding quarter. Stronger growth in AEs was driven by the United States (US), United Kingdom (UK) and Japan, while the Euro Area slowed, partly due to slower rates of expansion in GDP for Italy, Spain, Austria and Latvia. Growth in the AEs is projected to improve marginally to 2.4 percent in 2018, from the revised growth rate of 2.3 percent in 2017. Economic growth among the EMDEs presented a mixed picture during the second quarter of 2018. GDP growth improved in Russia and India, but slowed in Brazil, China and South Africa. For 2018 as a whole, economic growth in the EMDEs is projected to remain steady at 4.7 percent.
3. **The MPC also noted that the global economic growth rate is projected to remain steady in 2018, unchanged from the 2017 growth rate.** Global real GDP is projected to grow by 3.7 percent in 2018, in line with the previous year's outcome. The MPC was further updated about risks to the global outlook, which include amongst others, rising trade barriers, tighter financial market conditions, possibly lower asset prices and sharp exchange rate movements.
4. **The MPC was informed that inflation rates in the monitored AEs and EMDEs varied during August 2018.** Among the AEs, inflation rate declined in the US and the Euro area while it picked up in Japan and UK during August 2018. In the EMDEs, inflation rates declined in Brazil, South Africa, Angola and India, but increased in China and Russia during the same period.
5. **International crude oil price declined while uranium prices picked up during September 2018.** The price of Brent crude oil increased from US\$73.10 per barrel in August 2018 to US\$78.90 in September 2018. The increase was due to reduced supply by key oil producers and escalating geopolitical risks. The uranium spot price,

however, continued with its gradual pickup, trading at an average price of US\$27.30 per pound during September 2018, from US\$25.78 per pound reported in the previous MPC meeting in August. The pickup in uranium prices is partly due to an indefinite extension of the shutdown of one of the largest uranium mines in Canada.

6. **The MPC also noted that since the last MPC meeting in August 2018, monetary policy stances were maintained amongst the monitored AEs and EMDEs except for the US and Russia.** Most central banks in both the AEs and EMDEs left their policy rates unchanged at their monetary policy committee meetings since mid-August 2018, except for the US and Russia whose central banks raised their key policy rates in September 2018.
7. **In summary, the MPC deliberated and noted the recent developments in the global economy, including the risks to the global outlook.** The MPC members reflected on the recent downward revision of the global economic outlook, global risks that are intensifying and the global debt level which is escalating rapidly. The MPC members were of the view that the global economic fundamentals that were driving growth are now weaker than before, and these risks may affect the regional economic developments including those in Namibia.

DOMESTIC ECONOMY

8. **A report on the developments in the domestic economy was presented to the MPC.**
9. **The MPC noted that domestic economic activity remained weak during the first eight months of 2018, compared to the corresponding period of 2017.** Economic activity in sectors such as agriculture and wholesale and retail trade continued to decline during the first eight months of 2018. The decline in agriculture is attributed to lower livestock marketed, while the decline in wholesale and retail trade is mainly due to low domestic demand arising from the weak domestic economy. On the contrary, activity in the mining, transport and communication sectors, improved during the same period. The improvement in the mining sector is mainly due to increased production of diamonds, uranium and zinc concentrate, while the increase in cargo volumes and the value addition for the communication subsector contributed to growth in the transport and communication sector.

- 10. Namibia's overall inflation rate declined during the first nine months of 2018, compared to the corresponding period during 2017.** Annual inflation declined to 4.0 percent on average during the first nine months of 2018, from 6.5 percent during the corresponding period of 2017. The decline in inflation was mainly due to lower housing and food inflation. However, rising fuel prices observed in recent months have started to push inflation higher. On a monthly basis, the inflation rate rose from a low of 3.5 percent in March 2018 to 4.4 percent in August and 4.8 percent in September.
- 11. The MPC was informed that the Central Government budget deficit widened slightly during the first six months of FY2018/19 fiscal year, while the total Government debt stock increased.** Central Government's budget deficit stood at N\$2.9 billion during the first six months of the 2018/19 fiscal year, higher than the N\$2.7 billion registered during the corresponding period in the previous fiscal year. The expansion in the budget deficit was mainly due to lower revenue collected. Moreover, the total Government debt stock rose to N\$80.5 billion at the end of September 2018, representing a yearly increase of 11.0 percent compared to the debt stock recorded at the end of September 2017. The increase was reflected in both domestic and external debt, owing to the issuance of T-bills and IRS in the domestic market, coupled with the depreciation of the local currency against major trading currencies.

MONETARY POLICY DELIBERATIONS

- 12. 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 was appropriate to maintain the one-to-one link between the Namibia Dollar and the South African Rand, while supporting domestic economic growth.