

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 13 February 2018



“Our vision is to be a centre of excellence”

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These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 13th of February 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)
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

OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Helvi Phillipus (Deputy Director: FMD); Saara Kashaka (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Daisy Mbazima (Senior Economist: RD); Grace Hamauka (Senior Economist: RD); Mukela Mabakeng (Economist: RD); Ndinela Ndjaba (Research Officer: FMD).

SECRETARY

Victoria Manuel (Economist: RD)

APOLOGIES:

None

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. A detailed report on the global economy, covering global economic growth and monetary policy stances in AEs and EMDEs was presented to the MPC.** The global economy expanded by 3.7 percent in 2017, compared to 3.2 percent in 2016, supported by firm growth in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Higher growth was attributed to stronger global household income, improved labour markets and demand. Going forward, the MPC noted that global real GDP is projected to increase by 3.9 percent in 2018, on account of marginally higher growth in the EMDEs.
- 2. Improved growth rates were reported for key AEs in 2017, compared to the preceding year.** The US economy expanded by 2.3 percent in 2017, compared to 1.7 percent in 2016, and is projected to grow by 2.7 percent in 2018. Real GDP in the Eurozone is estimated to have expanded by 2.4 percent in 2017, compared to 1.8 percent in the preceding year. The Eurozone economy is projected to record a lower growth rate of 2.2 percent in 2018. Growth in the UK economy was estimated to be at 1.7 percent in 2017, lower than the 1.9 percent recorded in 2016. Going forward, the UK is expected to moderate further to 1.5 percent in 2017. Japan's GDP expanded by 1.8 percent in 2017 from 0.9 percent recorded in 2016, mainly due to stronger external demand. Going forward, economic growth in Japan is projected to amount to 1.2 percent in 2018.
- 3. With respect to EMDEs, growth is estimated to have improved in 2017 compared to 2016.** The EMDEs growth is estimated to have improved to 4.7 percent in 2017, compared to 4.2 percent in 2016. The improvement is attributed to positive growth rates in Russia and Brazil, both of which experienced recessions in 2016. China, India and South Africa also maintained positive growth rates in 2017. Going forward, the IMF projected the EMDEs to grow by 4.9 percent in 2018, mainly due to positive prospects from the external environment, stronger export demand and an improvement in commodity prices.

- 4. MPC was further informed that the recovery from recessions by Brazil and Russia and the robust growth in China and India were key drivers for improved growth among the EMDEs.** Real GDP in Brazil and Russia is estimated to have expanded by 1.1 percent and 1.8 percent in 2017, respectively, compared to contractions of 3.5 percent and 0.2 percent in 2016, respectively. The IMF has projected both Brazil and Russia to continue on the positive path, with expected growth rates of 1.9 percent and 1.7 percent in 2018, respectively. Real GDP growth in India is estimated to have slowed to 6.7 percent in 2017, lower than the 7.1 percent recorded in 2016. India's GDP growth is projected to improve to 7.4 percent in 2018. The improved growth outlook is based on key reforms under implementation, such as the national Goods and Services Tax that was launched in July 2017. Real GDP growth in China is estimated to have improved to 6.8 percent in 2017 compared to 6.7 percent in 2016. Going forward, China's economy is expected to grow by 6.6 percent in 2018, supported by stronger external demand. Economic growth rate of South Africa is estimated to have improved to 0.9 percent in 2017, compared to 0.3 percent in 2016. The South African economy is projected to maintain the same growth rate of 0.9 percent in 2018. The slow pace of growth is mainly attributed to political uncertainty and weak business confidence. Angola's real GDP growth is estimated to have recovered to 1.5 percent in 2017, compared to a contraction of 0.7 percent in 2016, mainly ascribed to improvements in oil prices during 2017. The Angolan economy is projected to grow by 1.6 percent in 2018, supported by higher crude oil prices.
- 5. Furthermore, the MPC was briefed about risks to the global outlook, which include amongst others:** financial market corrections, faster than expected increases in advanced economies' core inflation rates, high debt levels in some countries, policy and political uncertainties, as well as extreme weather events.
- 6. The MPC was informed that, since the previous MPC meeting in December 2017, 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 1.25 -1.50 percent. On the contrary, the central banks of Brazil and Russia lowered their policy rates by 50 basis points to 7.0 percent and 7.75 percent, respectively. More favourable inflation developments and

the need to support the recovery were cited as some of the reasons for the cuts in the policy rates.

- 7. The MPC was further informed that, energy and metal price indices increased in January 2018.** Energy price index increased by 9.2 percent to 84.98 in January 2018 from 77.83 in the previous month, led by U.S. natural gas prices which rose during the same period. Metals and minerals prices increased by 5.3 percent led by nickel and zinc prices.
- 8. MPC noted the improved developments in the global economy and deliberated on the matter.** MPC noted that real growth in the global economy is estimated to have improved in 2017, compared to the previous year. MPC also noted the risks to the global outlook, which could affect the outlook on economic performance in 2018.

DOMESTIC ECONOMY

- 9. 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.**
- 10. The domestic economy is estimated to have contracted marginally during 2017, mainly due to the decline in the construction and wholesale and retail trade sectors.** The estimated decline was largely reflected in the construction and the wholesale and retail trade sectors. Most year to date indicators were in line with the outlook, except for the electricity and water sector, which is estimated to have increased, while the year to date indicator declined. Furthermore, the transport sector is estimated to have contracted, while the year to date indicator registered a marginal increase. Going forward, the Namibian economy is projected to grow by 1.4 percent in 2018, mainly attributed to high anticipated growth from the uranium and other mining and quarrying subsectors, as well as improvements in the manufacturing and transport sectors.
- 11. In summary, the MPC noted the economic outlook update and the estimated contraction, primarily due to declines in the construction and wholesale and retail trade sectors.**

12. The MPC was further informed that the average annual growth in private sector credit extension (PSCE) slowed in 2017, compared to 2016. The 12-month growth in PSCE stood at 6.6 percent on average during 2017, lower than the 11.4 percent recorded in 2016. This subdued PSCE growth in 2017 was in line with the generally sluggish growth within the domestic economy. The slower growth in PSCE stemmed from the reduced growth in credit advanced to both the household and corporate sectors, especially in the form of mortgage and instalment credit. The growth in PSCE moderated to 5.1 percent at the end of December 2017, from a growth rate of 5.2 percent for October that was reported at the MPC meeting in December 2017.

13. Namibia's overall inflation rate is reported to have declined in 2017, compared to the previous year. Annual inflation declined to 6.2 percent in 2017, from 6.7 percent in 2016. The moderation was mainly due to a significant deceleration in inflation for food and non-alcoholic beverages as a result of good rainfall received, resulting in a bumper harvest during the year under review. On a monthly basis, inflation remained constant at 5.2 percent during December 2017, the same as the previous two months.

14. The MPC was also informed that the stock of international reserves increased during 2017. The international reserves rose by 5.7 percent and 22.1 percent to N\$30.2 billion at the end of 2017, month-on-month and year-on-year, respectively. The increase on a monthly basis was primarily due to the repayment of debt by the Banco Nacional de Angola. The rise over the past year followed the higher inflows of SACU receipts and the first tranche of the AfDB loan granted to the Namibian Government, in addition to the repayment of debt by the Banco Nacional de Angola. At the latest level of N\$30.2 billion, the international reserves were estimated to be 6.5 times higher than currency in circulation, and sufficient to maintain the currency peg to the Rand. As at 29 January 2018, reserves declined by 4.2 percent to N\$28.9 billion reflecting an import cover ratio of 4.2 months.

MONETARY POLICY DELIBERATIONS

15. 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.