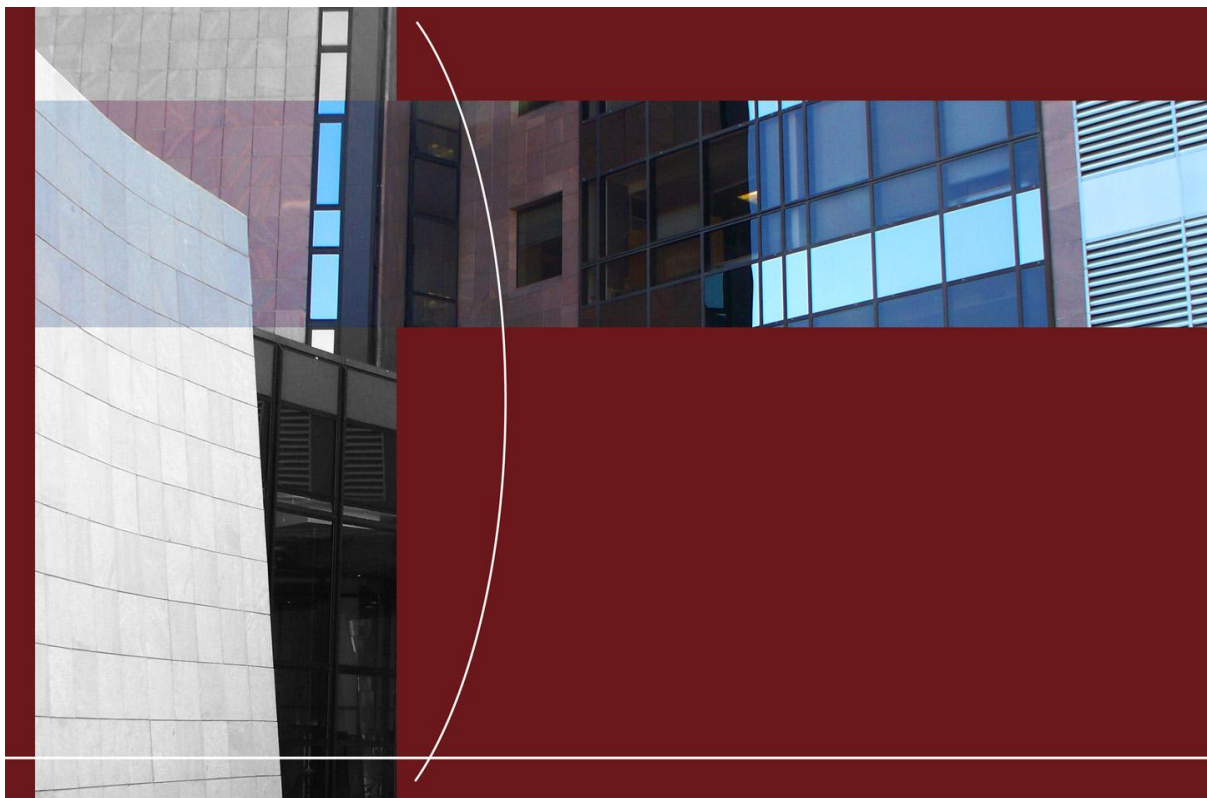


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 21 August 2012



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 21st of August 2012

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 21 August 2012.

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 monetary policy meeting. The minutes are also available on the website of the Bank at <http://www.bon.com.na>.

EC MEMBERS PRESENT

Ipumbu Shiimi (Governor and Chairperson), Ebson Uanguta (Deputy Governor), Gonzalo Pastor (Director: Research), Emma Haiyambo (Acting Director: Strategic Communications & Financial Sector Development), Emile Van Zyl (Technical Advisor: Governor's Office), Titus Ndove (Director: Financial Markets)

OTHERS PRESENT

Fennyakweni Shangula (Economist: RD), Tjiveze Tjipe (Senior Economist: RD), Edler Kamundu (Senior Economist: RD), Erwin Naimhwaka (Senior Economist: RD), Mally Likukela (Economist: RD), Christian Phillipus (Economist: RD), Rehabeam Shilimela (Research Officer: RD), Beata Magongo (Research officer: RD), Lourencia Hamauka (Economist: RD), Elizabeth Hendjala (RD), Petrus Shifotoka (Economist: RD)

Helvi Fillipus (Economist and Secretary to the MPC)

ECONOMIC REPORT

1. The MPC was informed that global growth slowed during the first two quarters of 2012. In this context, the US and Japanese economies registered some moderate growth rates of 2.2 percent and 3.5 percent, respectively, during the second quarter of 2012. Meanwhile, real GDP in the Euro Area declined by 0.4 percent owing to the sovereign debt crisis and weak performance by the manufacturing sector. Similarly, in the UK, economic growth contracted further in the second quarter of 2012 due to declined activities in manufacturing, construction and the service sectors. Economic activities in the emerging market economies also moderated over the same period.
2. The RD further informed the meeting that central banks continue to counter the slowing global growth with accommodative monetary policy stances. In this regard, emerging markets such as China, Brazil and South Africa cut their policy rates. Meanwhile, the global equity markets improved in recent months on sentiments of efforts to resolve the on-going sovereign debt crisis. Nonetheless, the trading volumes remain extremely slim, signalling continued uncertainties. The RD further informed the MPC that the Purchasing Managers Indices (PMIs) for most economies continued to decline and remained below the benchmark level of 50.0 in July 2012. Similarly, the composite Leading Indicators (CLIs) for both advanced and emerging economies remained weak, reflecting sluggish economic activities.
3. Meanwhile, crude oil prices increased in July 2012 due to geopolitical factors coupled with a cut in oil production by OPEC countries and the depreciation of the US dollar. In a similar vein, food prices spiked in June 2012 as a result of drought in the USA which negatively affected global supply and raised expectations of export limits. On the contrary, prices of metals such as copper and zinc decreased since the last MPC meeting, mainly in line with concerns about current and prospective global demand. The price of gold, on the other hand, increased in June 2012 largely reflecting increased demand of this safe haven commodity.
4. In summary, the MPC noted that the global economic landscape continues to be characterised by heightened uncertainties. Going forward, the downside risks to the economic outlook include: insufficient policy action to arrest the Euro Area crisis, the potential fiscal tightening in the United States given the recent political gridlock as well as weakening external demand.

Domestic economy

5. The MPC observed that, on the balance, the performance of the domestic economy year-to-date remains positive despite weaknesses in some sectors. In the *primary industry*, the RD reported that with the exception of zinc, production of minerals increased during the first half of 2012 compared to last year's outcomes. The positive outturn in the mining sector can be attributed to the resolution of technical problems at some mines and base effects. The MPC highlighted that the slowing external demand remains a concern for the mining sector. The long term contractual obligations will serve as a shield for production in the uranium sub-sector over the short term; however, the diamond sub-sector remains vulnerable. The MPC noted the possible adverse repercussions for the balance of payments in the event of an extreme deterioration in external demand.
6. In contrast to the mining sector, the MPC noted that indicators in the agriculture sector displayed continued weaknesses during the first half of the year. The RD reported that livestock marketing was negatively affected by the suspicion of foot and mouth disease, increased cost of feedlots, closure of the northern VCF abattoirs, and declining stocks due to predators and stock theft. On horticulture, the RD informed the meeting of the persistent and high net import of agricultural produces.
7. On the *secondary industries*, the RD informed the meeting that the construction sector continued to register positive performance. The RD further highlighted that much of the impetus in the building plans approved is for renovations and additions as the rental market continues to be attractive. The MPC also noted the slowdown in the volumes of refined zinc and copper blister manufactured during the first half of 2012. For refined zinc, the stagnation in production can be attributed to operational challenges coupled with the depressed international market conditions. In the case of copper blister, the decline was on account of frequent shutdowns of the oxygen plant and persistent water leakages.
8. The MPC further noted the positive performance of the *tertiary sector* year-to-date. In this context, value added increased in the wholesale and retail, communications and tourism sectors. Meanwhile in the transport sector, rail transport displayed some moderation due to lower volumes of coal and zinc concentrate transported, while transhipped cargo increased due to the diversion of cargo from the congested Durban harbour. Overall, the domestic real sector fares positively, although the continued global economic uncertainties continue to cloud the outlook.

9. Turning to credit developments, the RD informed the meeting that private sector credit moderated slightly at the end of June 2012, but maintained a stable three year average growth rate of 11.0 percent. On fiscal developments, the MPC noted that the government debt rose to 25.9 percent of GDP at the end of June 2012 due to an increase in external borrowing. The sovereign debt, nonetheless, remained below the target ratio of 35 percent to GDP. With regard to domestic inflation, the MPC was informed that annual inflation increased to 6.0 percent in July 2012, largely on account of *food and non-alcohol beverages, and housing, electricity, gas and other fuels*. Meanwhile, the stock of international reserves stood at N\$14.4 billion and remained adequate to support the currency peg.

MONETARY POLICY DELIBERATIONS

10. From the economic presentation, the MPC observed that the global economic outlook remains gloomy and there are indications of a potential recession. Although the Namibian economy appears to be lagging in contrast, the MPC noted that spillovers from the weak global economy are unavoidable and thus there is little promise of positive growth going forward. In view of that, the MPC resolved that a measure of monetary policy easing is necessary to further shore up the subdued growth outlook. To this effect, the MPC resolved to reduce the Repo rate by 50 basis points to 5.50 percent effective from 23 August 2012.

11. Despite the resolution to lower interest rates, the MPC members highlighted their concerns over high credit growth and debt-financed consumption. The MPC highlighted the need to explore targeted measures to address the speedy growth in instalment credit.

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Chairman

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Date

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Secretary

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Date