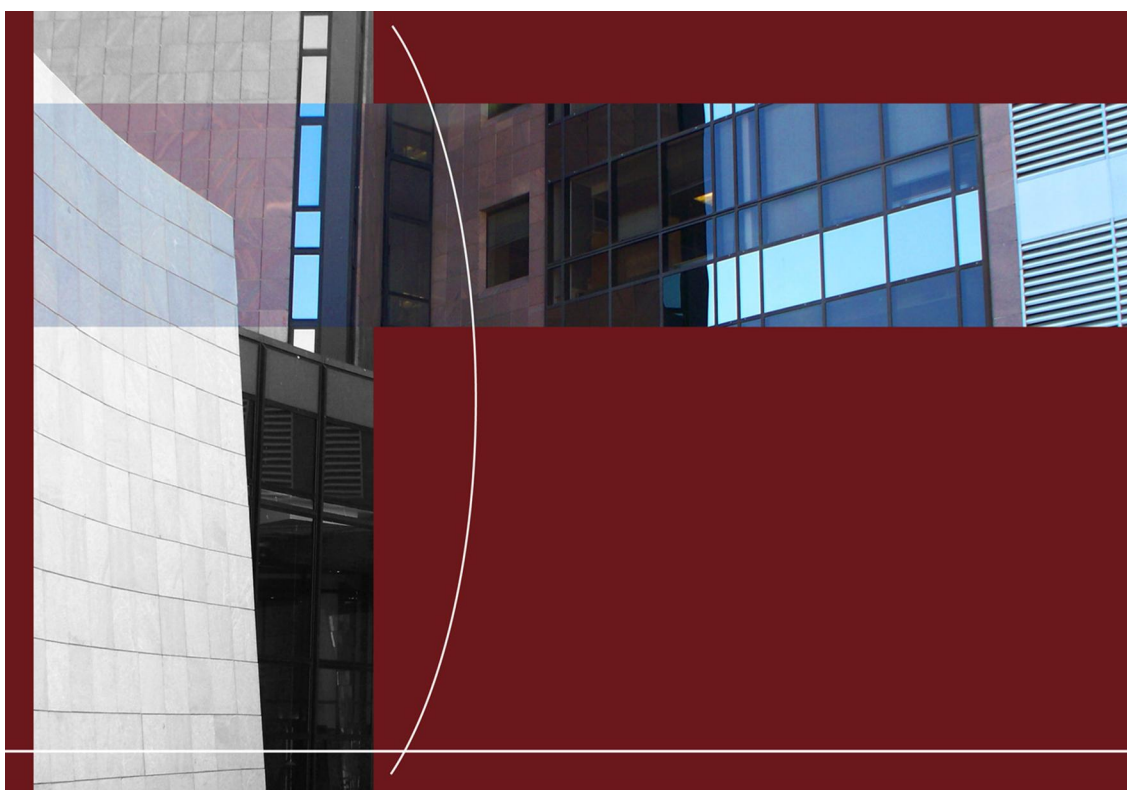


Bank of Namibia

Minutes of the Monetary Policy Deliberations at the Meeting of the Executive Committee (EC) of the Bank of Namibia

Windhoek, 16 June 2009



“Our vision is to be a centre of excellence”

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**Minutes of the Monetary Policy Deliberations of the Executive Committee (EC)
Meeting held on 16 June 2009**

EC MEMBERS PRESENT

Tom Alweendo (Chairperson and Governor), Paul Hartmann (Deputy Governor), Ipumbu Shiimi (Assistant Governor and Head of Financial Stability), John Steytler (Director of Research), Michael Mukete (Director of Banking Supervision), Ben Biwa (Director of Financial Markets)

OTHERS PRESENT

Simana Chimana (Deputy Director: Research Department), Florette Nakusera (Senior Economist: Research Department), Fennyakweni Shangula (Economist: Research Department)

Mally Likukela (Economist: Secretary)

BACKGROUND

1. The EC received a comprehensive briefing on recent developments in the international economy and financial markets, domestic demand and output conditions, inflation, money supply and credit demand.

INTERNATIONAL ECONOMIC CONDITIONS

2. The report indicated that most advanced economies recorded the worst quarterly GDP growth in the first quarter of 2009 since the start of the global financial crisis. Nevertheless, members also noted encouraging tentative signs of a bottoming out of some negative global indicators, including a strengthening in commodity prices. The meeting was informed that the turnaround in commodity prices, such as gold, has assisted some countries, such as Australia, to avoid the recession thus far. Members further observed encouraging developments in prices. However, they noted that, while world inflation was falling noticeably, some countries were facing deflation and increasing unemployment rates. To this end, members were informed that most central banks continue to pursue a more accommodating monetary policy stance to stimulate economic activities that is hoped to translate into job creation.
3. Turning to developments in individual economies, members noted that the US GDP fell further in the 1st quarter, as the result of weakness in private spending characterised by a narrowing trade account which could signal a weak investment appetite. The meeting was further informed that the narrowing trade balance in USA and Japan had no cause for concern as this was a deliberate move by the two countries to reduce the widening balance of trade.
4. Members further observed that the recession in Japan intensified from a GDP contraction of 3.2 percent in the fourth quarter of 2008 to a 4.0 percent decline in the first

quarter of 2009, 4.0 percent. It was explained that the significant slowdown in Japan's export was mainly due to the weak demand from key consumers of Japanese output, such as the US and Canada. While economic activities in the Euro Area remained weak, a rosier picture on the emerging economies, i.e. the BRICS, was recorded. In this regard, South Africa's GDP growth forecast was assumed to be around 1.0 percent for 2009.

5. EC's overall assessment was that economic indicators for the world economy signified that global demand had weakened sharply in both developed and emerging economies. The overall state of the global economy remained fragile and characterized by considerable uncertainty. EC noted that the publicity surrounding most developed countries' rescue packages has seemed to subside, but it was explained that the threats of bank closures have started to recede. In this regard, members noted that most toxic assets were concentrated in the Euro zone and banks elsewhere were in a position to withstand the crisis. In terms of the impact of the fiscal stimulus packages, the meeting was informed, by way of an example, that in the US only about 6.0 percent of the package was spent and that to realise its full impact, more was needed to be done particularly in terms of implementation.

DOMESTIC ECONOMIC CONDITIONS

6. The discussion on the domestic economy focused on developments in key supply and demand indicators since the last EC meeting. Overall, EC's assessment was that the Namibian economy has weakened further since the last EC meeting as the result of the protracted global economic crisis.
7. Members were informed that due to the observed weakness, the GDP growth projection was revised downward from its April revision. The economy was now expected to contract by about 0.6 percent in 2009, mainly on account of weak mining activity, notwithstanding the strong performance of uranium mining, which continued to record positive growth due the long-term production contracts. In this regard, it was noted that Namibia was declared the fourth largest uranium producer in the world.
8. Members noted the continued impact of the depressed global economic conditions on Namibia's key primary export sector, notwithstanding the observed improvement in the volume of diamonds exported. The meeting was informed that the turnaround in the volume of diamond exports was driven by a marginal, but noticeable, growth in demand. Should the trend persist, it would mean that the additional mining output would improve the outlook for mining.
9. Turning to other indicators, members noted that there has been a slowdown in housing construction sector. During the period under review, the construction activities remained weak with the import of cement declining. Another negative growth indicator in the sector was the number of building plans approved and completed that has fallen in April.
10. With regard to wholesale and retail sector, EC members noted a prolonged weakness in demand conditions for new vehicles. Members were informed that the weaker demand was reflected in both commercial and passenger vehicles. Total number of new vehicles sold declined month-on-month by 13.2 percent and year-on-year by 18.5 percent. The demand for new vehicles remained suppressed due to weak economic activities and depressed incomes.
11. In the tourism sector, the picture remained broadly unchanged, as it continued to record positive growth in terms of passenger arrivals through airports. Total passenger arrivals continued improving both on a monthly and yearly basis in April. Total passenger arrivals

increased month-on-month and year-on-year by 3.9 percent and 1.3 percent, respectively. This improvement was mainly reflected in the regional airport arrival category as both international and domestic arrivals declined.

12. Members noted a strong performance of the transport sector together with the increasing importance that neighbouring countries continue to place on Namibian ports. This was reflected in the growth of landed, shipped and transhipped cargo in April. The growth in these categories was supported by the increasing level of cross-border trade supplemented by mining and fishing sector activities.
13. Regarding domestic credit developments, it was observed that growth of credit extended to the private sector remained subdued, moderating to 9.9 percent in April from 10.3 percent in March. The moderation was mainly reflected in growth of credit to individuals, which decreased to 8.5 percent from 10.0 percent in March, while credit to businesses rose to 12.7 percent from 10.7 percent during the same time. Members expressed their concern regarding the further deterioration of credit demand conditions despite the recent expansionary policy stance. EC did not see this as a cause for concern, as consumers have a tendency to consolidate their debt positions and alternate among available credit facilities, which could minimize the visible impact of expansionary policies.
14. Members noted the downward movement in the annual rate of consumer prices during the month of May; however, they remained concerned as it remained relatively high. It was further noted that the deceleration in the annual rate of inflation during the month May to 9.6 percent from 10.0 percent in April was mainly reflected in a sharp decrease in the transport category, which fell to 5.5 percent from 7.1 percent in April. The EC was also informed that the recently announced increases in fuel pump prices of petrol might slightly reverse this progress.
15. EC was cautioned that the short-term outlook for inflation remained favourable mainly because of the rapid deceleration of South Africa producer price index. However, the longer-term inflation outlook has deteriorated somewhat on the back of the strengthening in key commodity prices and the expansionary fiscal and monetary policies pursued virtually worldwide that could put upward pressure on consumer price inflation. Factors that could contribute to the worsening outlook of inflation included the depreciation of the domestic currency and that prices remained sticky downward. Members noted that the driving force behind the recent exchange rate appreciation was the change in the risk appetite towards stocks of emerging economies, which caused renewed portfolio capital inflows.
16. On the recent GDP growth projections, EC noted that the Bank's -0.3 percent GDP projection for 2009 was more optimistic than projections made by other institutions. However, most projections were pointing in the same direction.

CONSIDERATIONS FOR MONETARY POLICY

17. The primary backdrop to EC's policy discussions at the meeting was the deterioration in the overall state of the global economy, which remained fragile and characterized by considerable uncertainty. Members noted that economic indicators for the world economy had weakened further in both developed and emerging economies.
18. EC, however, noted that since its previous meeting, there have also been encouraging tentative signs of a bottoming out of some negative global indicators, including a strengthening in commodity prices. Furthermore, members noted that measures taken in developed economies to stabilize their financial systems had contributed to improve

functioning of credit markets over the past few months. Better functioning of markets were hoped to assist in supporting global recovery over time. Nevertheless, in line with weak global economic activity, the near-term outlook was still very weak.

19. With regard to domestic price developments, members noted the improvement in the short-term outlook of inflation, but remained concerned about the impact of the strengthening key commodity prices on the medium-term inflation outlook. Furthermore, the EC members' expressed concern about the recent new fuel pump price announcement and the potential to reverse the inflation outlook.
20. In terms of the stability and sustenance of the currency peg, EC members noted the slight decline in the level of international reserves from N\$14.6 billion at the end of April to N\$14.2 billion at the end of May but remained confident that the reserves were more than sufficient to sustain the currency peg. Moreover, the EC noted that the liquidity conditions generally remain healthy with no adverse effects on capital flows being foreseen.
21. Mindful of the lagged effect of the previous policy decisions, the EC was of the opinion that a further measure of monetary policy easing was still necessary to stimulate economic activity by slightly boosting disposable income through a reduced interest burden.

THE DECISION

22. Against this background, EC resolved unanimously to reduce the Repo Rate by a further 50 basis points to 7.0 percent with effect from 18 June 2009.
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