

# BANK OF NAMIBIA

## Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 11<sup>th</sup> April 2017



**“Our vision is to be a centre of excellence”**

**Publication date: 18<sup>th</sup> July 2017**

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## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 11<sup>th</sup> of April 2017**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 11<sup>th</sup> of April 2017.

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>.

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### **MPC MEMBERS PRESENT**

lipumbu Shiimi	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Florette Nakusera	Director: Research Department
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Advisor: Research Department

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### **OTHERS PRESENT**

Postrick Mushendami (Deputy Director: RD); Edler Kamundu (Technical Advisor: RD); Israel Zemburuka (Deputy Director: FSD); Saara Kashaka (Senior Economist: RD); Helvi Fillipus (Deputy Director: FMD); Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Economist: RD); Sanette Schulze Struchtrup (Deputy Director: RD); Heinrich Namakalu (Economist, RD); Daisy Mbazima (Economist: RD); Elifas Iiyambula (Economist: RD); Mutu Katjjuanjo (Economist: RD); Brian Mbazuvara (Research Officer: RD).

### **SECRETARY**

Hileni Shifotoka (Economist: RD & Secretary).

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### **APOLOGIES:**

Emma Haiyambo	Director: Strategic Communications & FSD
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## ECONOMIC DEVELOPMENTS REPORT

### GLOBAL ECONOMY

- 1. The MPC noted that the global economy continued recording positive growth in 2016.** The world economy is estimated to have recorded a slightly slower annual growth rate of 3.1 percent in 2016 from 3.2 percent in 2015.
- 2. The advanced economies as a group recorded a positive growth rate during the last quarter of 2016.** On an annual basis, growth in advanced economies is estimated to have slowed to 1.6 percent in 2016 from 2.1 percent in 2015, but is expected to improve in 2017 and 2018.
- 3. The US economy slowed in the fourth quarter of 2016.** The US economy recorded a 2.1 percent growth rate in the last three months of 2016, down from 3.5 percent in the third quarter. The slower growth is attributed to exports, which declined in the fourth quarter. Other economic indicators, such as consumer spending and business investment, showed an underlying resilience that kept growth on a steady path. On an annual basis, the U.S. grew by 1.6 percent in 2016, compared to 2.6 percent growth recorded in 2015, and is expected to increase to 2.3 percent in 2017.
- 4. GDP growth for the Euro area remained constant in the last quarter of 2016.** The Euro area's GDP growth rate remained unchanged at 0.4 percent during the fourth quarter of 2016, same as the previous quarter. This was due to improvements in the domestic economy, emanating from domestic investment spending by government, businesses and consumers in the Eurozone. For the full year, the Eurozone economy recorded an estimated slower growth rate of 1.7 percent during 2016, compared to 2.0 percent in 2015, driven by a strengthening domestic economy, while the external sector has been lacklustre and thus impacted the overall growth negatively. Going forward, the Euro area economy is projected to slow marginally and remain steady at 1.6 percent both in 2017 and 2018, respectively.
- 5. The UK economy grew slightly in the fourth quarter of 2016.** The UK economy grew by 0.7 percent in the final quarter of 2016, from 0.6 percent in the previous quarter. The growth was supported by the services sector and the manufacturing industries. Exports also rose gradually, likely due to the weaker currency, while household expenditure increased but at a slower pace and business investment contracted. On an annual basis, the UK economy is estimated to have slowed to 2.0

percent in 2016, from 2.2 percent in the previous year. This growth was supported by a recovery in exports, while domestic demand weakened. The UK's economic growth for 2017 has been revised upward to 1.5 percent.

- 6. The Japanese economy slowed in the last quarter of 2016, compared to the previous period.** Following 0.3 percent growth in the previous period, the economy of Japan grew by 0.2 percent in the last quarter of 2016. The low growth was sustained by increased exports, government spending and private non-residential investment, which outweighed the relatively flat domestic consumption and weak public investment experienced during this period. Similarly, the economy recorded a lower annualised growth rate of 0.9 percent in 2016, compared to 1.2 percent in 2015, mainly due to weak external demand, particularly for machinery and other industrial inputs. Going forward, economic growth in Japan is expected to further slow to 0.8 percent both in 2017 and 2018, respectively.
- 7. Furthermore, the MPC noted that most EMDEs recorded positive growth in the fourth quarter of 2016, with the exception of Brazil and South Africa, whose real GDPs contracted.** The economies of India and China registered positive growth rates in the fourth quarter of 2016. India registered a growth rate of 7.1 percent in the fourth quarter of 2016, compared to 7.5 percent in the previous quarter, while China's growth rate remained constant at 6.7 percent during the two quarters under review. Moreover, the Russian economy started emerging from the recession in the final quarter of 2016, with growth estimated at 1.0 percent, as a result of an increase in industrial production, backed by an increase in external demand, expansion of import substitution, as well as a rebound in investment. On the other hand, the GDP growth rates of Brazil and South Africa contracted by 0.9 percent and 0.3 percent in the final quarter of 2016, respectively. The contraction in Brazil's GDP is attributed to a decline in consumption, export and investment, while that of South Africa is due to a decline in real output from both the secondary and primary industries.
- 8. On an annual basis, growth in the EMDEs remained the same in 2016 as in 2015.** EMDEs as a group recorded an estimated annualised growth rate of 4.1 percent in 2016, the same as in 2015. The South African economy is estimated to have recorded a very low growth rate of 0.3 percent in 2016, compared to 1.3 percent in 2015. Brazil's GDP contracted by 3.5 percent in 2016, a slight improvement from the contraction of 3.8 percent in 2015. Similarly, the economy of Russia is estimated to have contracted by 0.6 percent in 2016 from a contraction of 3.7 percent in the previous year. The economies of India and China are estimated to have moderated

but sustained robust growth rates of 6.6 percent and 6.7 percent in 2016 from 7.6 percent and 6.9 percent in 2015, respectively. Going forward, GDP growth in EMDEs is projected to firm up to 4.5 percent in 2017, on the back of an expected recovery, especially in Brazil.

9. **The MPC observed that, going forward, the global economy is projected to improve in 2017.** Annual global growth is projected to pick up to 3.4 percent in 2017, on account of increased economic activities, both in the advanced economies and EMDEs. Downside risks to the global growth outlook, however, remain and include uncertainty due to shifts towards protectionism by the US and their implications for global trade, slower growth in China, geopolitical risks, weak banks' balance sheets of some of the Euro area member countries, as well as high inflation in some EMDEs.
10. **Furthermore, the MPC noted that both key advanced economies and EMDEs maintained accommodative monetary policies since the last MPC meeting.** Brazil and Russia cut their key policy interest rates by 75 and 25 basis points, respectively, to support their economies. On the other hand, the U.S. raised its benchmark rate by 25 basis points to 1.00 percent.

## **DOMESTIC ECONOMY**

11. **The MPC noted that the domestic economy slowed during 2016, compared to 2015.** The domestic economy grew by only 0.2 percent during 2016, compared to the stronger growth of 6.1 percent in 2015. Early indications are that this weakness in growth has continued during the first two months of 2017, compared to the corresponding period in 2016. The slowdown was mainly attributed to a bleak performance in the mining sector, particularly diamond production. Output in the manufacturing sector, especially the production of cement, refined zinc and blister copper, as well as the wholesale and retail trade sector, which has been resilient in the recent past, also declined. Likewise, private and Government construction works contracted during the first two months of 2017. In contrast, cargo volumes in the transport subsector and value addition in the communication subsector rose over the same period. Going forward, growth in the domestic economy is projected to improve in 2017.
12. **Furthermore, the MPC noted that growth in private sector credit extension (PSCE) slowed over the first two months of 2017, when compared to the corresponding period in 2016.** The annual growth in PSCE slowed to an average of

8.8 percent in the first two months of 2017, from 13.2 percent recorded over the same period in 2016 and a peak of 13.7 percent in January 2016. This subdued growth is in line with the general slowdown in economic activity. The lower growth in PSCE primarily resulted from reduced growth in credit advanced to both the corporate and household sectors in the form of mortgage, overdraft and instalment credit. Since the last MPC meeting, the growth in PSCE rose to 9.1 percent at the end of February 2017, from 8.9 percent at the end of December 2016. In nominal terms, PSCE amounted to N\$86.8 billion at the end of February 2017. The other loans and advances as well as overdraft credit mainly contributed to the rise in PSCE growth at the end of February 2017.

**13. The MPC noted that, inflation remained high in the first two months of 2017.**

Annual inflation rate increased from an average of 6.7 percent in 2016 to 8.2 percent in January 2017, before slowing to 7.8 percent in February. The high levels in 2017 were mainly driven by the rise in the inflation rates for major categories such as housing, water, electricity, gas and other fuels; transport; as well as food.

**14. The MPC noted that since its last meeting in February 2017, the preliminary stock of international reserves remained sufficient to meet the country's foreign obligations.**

The preliminary stock of international reserves stood at N\$22.3 billion on the 31<sup>st</sup> of March 2017, a decline from N\$22.9 billion reported at the last MPC meeting in February 2017. The decline in international reserves was mainly due to the net purchases of Rand by commercial banks, primarily geared towards investments abroad and import payments as well as the impact of a stronger Namibia dollar. At this level, the stock of international reserves was estimated to cover 2.7 months of imports. The stock of international reserves, however, remains sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand.

## **MONETARY POLICY DELIBERATIONS**

**15. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above. After taking all key macro-economic variables and developments into account, the MPC kept the Repo rate unchanged at 7.00 percent.**

MPC is of the view that at this level, the Repo rate is appropriate to support growth, while maintaining the one-to-one link between the Namibia Dollar and the South African Rand.