

Bank of Namibia

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 21 February 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 February 2012

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

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

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 of the Bank of Namibia meets regularly on a bi-monthly basis and minutes of its meetings are released on the day following the next MPC monetary policy meeting, i.e. the day of the announcement of the monetary policy decision.

EC MEMBERS PRESENT

Ipumbu Shiimi (Chairperson and Governor), Ebson Uanguta (Deputy Governor), Michael Mukete (Assistant Governor and Head of Financial Stability), Florette Nakusera (Acting Director: Research Department), Titus Ndove (Director: Financial Markets Department), Ndangi Katoma (Director: Strategic Communications and Financial Sector Development Department), Emile Van Zyl (Technical Advisor: Governor's Office)

OTHERS PRESENT

Edler Kamundu (Senior Economist: Research Department), Sanette Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department), Petrus Shifotoka (Economist: Research Department), Christian Phillipus (Economist: Research Department)

Helvi Fillipus (Economist and Secretary to the MPC)

ECONOMIC REPORT

1. Since the last meeting, the MPC noted that the pace of global economic growth continued to slow during the fourth quarter of 2011. This was reflected in slowed economic activities in China and the Euro Area, while GDP growth in the US and the UK strengthened mildly. The performance of the global economy continue to be compromised by the on-going sovereign debt problem in the Euro Area, fiscal challenges in the US, as well as modest corporate and public spending in Japan. Unemployment rates continue to be high in both the advanced economies as well as emerging market economies.
2. Data presented to the MPC showed that real GDP in the US grew by 1.6 per cent in the fourth quarter of 2011, compared to 1.5 per cent in the preceding quarter. The key drivers of this mild growth were largely the rise in private investment, personal consumption expenditures (PCE), exports and fixed investment. The MPC further learnt that challenges emanating from the housing and labour markets as well as sovereign debt, however, remain a threat to economic growth in the US going forward.
3. A similar marginal improvement in growth was visible in the UK where real GDP growth increased to 0.7 per cent during the fourth quarter of 2011 from 0.5 per cent, on account of improved performance of the manufacturing and construction sectors. On the contrary, growth in the Euro Area moderated to 0.7 per cent in the fourth quarter of 2011 compared to 1.6 per cent in the preceding quarter. This was a result of unfavourable effects of developments in a number of Euro Zone sovereign debt markets coupled with a moderation in exports from the French and German economies.
4. The Japanese economy contracted by 1.0 per cent in the fourth quarter of 2011 compared to a higher contraction of 1.7 per cent in the preceding quarter, on the back of poor export performance. This development can be attributed to floods in Thailand, which adversely impacted on supply chains in Japan, thereby reducing manufacturing output in the country. Turning to emerging markets, growth in China weakened to 8.9 per cent in the fourth quarter compared to 9.1 per cent during the third quarter. The slowdown was largely underpinned by a moderation in China's exports to Europe and the US, as well as monetary policy tightening efforts aimed at containing inflationary pressures.
5. On the labour markets front, unemployment rates remained high despite signs of improvements during the last half of 2011. This is an area of concern as it could further

compromise economic recovery through weakened aggregate demand. The MPC noted that most central banks continued to pursue accommodative monetary policy stances by keeping policy rates steady, while a few others reduced their policy rates during their latest meetings held between November 2011 and January 2012. In an effort to further support growth and boost liquidity, China loosened the commercial banks' reserve requirement ratio by 0.5 percentage points during February 2012.

6. On the financial markets front, the MPC noted that global equity markets displayed signs of improvements since the last meeting. This was mainly due to the positive response of equity markets to two favourable developments namely: policy efforts to contain the EU sovereign debt crisis and US company earnings report for the fourth quarter, which was firmly on the upside. The MPC, however, noted that although stock prices were slightly upbeat, the trade volumes continued to be weak, thus signalling market uncertainties.
7. On commodity prices, the MPC noted that the prices of commodities which are of export interest to Namibia increased since the last meeting on the back of high demand from China and India. Meanwhile, prices of agricultural commodities also increased owing to weather induced supply constraints in Latin America and Europe. The MPC also noted the increase in the Energy price index as a result of a rise in the price of crude oil, which reflects the geopolitical tensions in a number of oil producing countries such as Iran, Iraq, Nigeria, South Sudan and Yemen. Going forward, economic growth in both the advanced and emerging market economies is expected to remain feeble as signalled by declines in the Composite Leading Indicators (CLIs). Similarly, the Purchasing Managers Index (PMIs) for most economies remained below the 50.0 benchmark level.

Domestic economy

8. During 2011 the performance of the real sector was frail, driven by weaknesses in the primary industry, although the secondary and tertiary industries were upbeat. The MPC noted that slowed domestic growth reflects weaknesses in the mining sector, which incurred production losses due to prolonged industrial actions, flooding at the mines and logistical constraints. Further, the on-going expansion at some of the mines had a negative impact on their production during the year.
9. In the primary industry, the performance of the agricultural sector year-on-year has been slightly weak. This was reflected in declines in both cattle and small stock marketed, which fell by 14.4 per cent and 2.1 per cent, respectively. This development can be attributed to restocking and the ban on livestock exports from the Omaheke region

during the second half of the year. Furthermore, diversification practices into game and tourism farming engaged by the farmers as a result of Government restrictions on the export of small stock also adversely impacted on the performance of the sector.

10. MPC also noted that the secondary industry registered strong performance during 2011, supported by activities in the manufacturing and construction sectors. In this regard, construction sector indicators like building plans approved and building plans completed improved during 2011, mostly driven by residential and commercial properties. The MPC further noted the upbeat performance of the tertiary industry during the year 2011. Nonetheless, some indicators such as the median house prices in the small and medium house segments, ranging between N\$100 000 and N\$800 000, decelerated. The MPC noted that developments in the housing market should be monitored closely, going forward.
11. On the wholesale and retail sector, the MPC noted the 14.3 per cent annual increase in turnover to N\$10.2 billion. The positive outturn in the sector reflects increased vehicles sales, especially in the commercial segment which saw increased purchases by the government as well as the mining sector. Activities in the transport sector improved during 2011 as reflected by increases in cargo volumes as well as rail and road freight.
12. On the fiscal front, Government debt level as a percentage of GDP rose to 26.8 per cent at the end of December 2011, but remained within the fiscal target of 35.0 per cent. The MPC further noted that the government has collected more revenue than initial projections, while expenditure remained stable in line with the low budget execution rate. The increased revenue was realised from taxes on income and profits as well as VAT. In addition, the receipts from the SACU revenue pool were more than what was budgeted. As a result, the actual budget deficit is expected to be lower than the projections in the budget.
13. With regard to domestic inflation, the MPC was informed that annual inflation slowed during January 2012 on account of slowed rates in the categories of *transport, housing, education* and *clothing & footwear*. Although pump prices were unadjusted during January 2012, upward adjustments are expected during February. Furthermore, the slate account recorded a deficit of N\$43.3 million during December 2011. On that account, the inflation outlook is on the upside, with high inflation rates expected for items such as food, transport (mainly vehicles and fuel), education services and rentals.

Monetary Policy Deliberations

14. Following a comprehensive assessment of the global developments, the MPC is of the view that uncertainties continue to characterise the global economic landscape. Growth in the emerging markets, which have been driving the global recovery, has also slowed. The members noted that considering trade linkages and the openness of the Namibian economy, the uncertainty in the global markets could filter through to the local economy. Hence, the growth imperative weighs more at the moment. The domestic economy continues to display mixed signals, with inflation pressures easing slightly.
15. On the policy stance, the MPC unanimously decided to maintain the Repo rate at its current level of 6.00 per cent with a view to further stimulate economic activities. Given the persisting uncertainties in the global economy, the MPC remains committed to closely monitor these developments and take the necessary actions.

ANY OTHER BUSINESS

16. In the absence of any other business, the meeting was adjourned. The next meeting is scheduled for the 24th of April 2012.

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Chairman

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Date

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Secretary

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Date