

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 18th June 2013



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 18th of June 2013

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 18th of June 2013.

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), Michael Mukete (Assistant Governor), Gonzalo Pastor (Director: Research), Ndangi Katoma (Director: Strategic Communications & Financial Sector Development), Emile Van Zyl (Technical Advisor: Governor's Office), Titus Ndove (Director: Financial Markets)

OTHERS PRESENT

Tjiveze Tjipe (Senior Economist: RD), Erwin Naimhwaka (Senior Economist: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Petrus Shifotoka (Economist: RD), Floris Fleermuys (Economist: RD), Heinrich Namakalu (Economist: RD), Helvi Fillipus (Economist: FMD), Rehabeam Shilimela (Research Officer: RD)

Rowland Brown (Economist and Secretary to the MPC)

APOLOGIES:

None

ECONOMIC DEVELOPMENTS REPORT

1. The meeting was informed that first quarter growth figures for 2013 were generally positive, however growth in advanced economies remained weak. The Euro Area remained in recession; however emerging market economies have seen relatively strong growth. The growth outlook over the year has been revised downward by both the IMF and the World Bank.
2. In advanced economies, growth has picked up in the US, UK and Canada, which saw first quarter growth of 1.8, 0.6 and 1.4 percent respectively. However, growth in the economies of Japan, the Euro Area and Australia have slowed, to 0.2, -1.0 and 2.5 percent, respectively. The economy of the Euro Area remains in an ever deepening recession, with growth for the last four quarters going from -0.1 percent to -1.0 percent.
3. In emerging economies, growth remains relatively strong, although a number of countries have experienced a slight slowdown in growth in the first quarter of 2013. The growth of the economies of Russia, China and South Africa all softened between quarter four of 2012 and quarter one of 2013. The most notable decline in growth was seen in South Africa, which slowed from 2.5 percent growth to 1.9 percent. The economies of Brazil and India experienced increased growth, going from 1.4 to 1.9 percent and from 4.7 to 4.8 percent respectively.
4. The meeting was informed that unemployment remains high in both advanced and a number of emerging economies. In the US, unemployment increased by 0.1 percent between April and May, while the likes of the UK, Australia and Germany remained unchanged. In emerging economies, unemployment remains at elevated levels, although for the most part, not as high as in advanced economies.
5. The meeting was informed that the majority of economies monitored by the RD had been seen to maintain their key policy rates over the review period. The exceptions were Australia, the Euro Area and India which cut their rates by 0.25 percent, and Brazil which increased its rate by 50 basis points so as to combat increasing inflationary pressures in the country.
6. The meeting was informed that commodity prices have been on the decline over recent months, as a result of falling global demand due to weakened growth in the global economy. Minerals price have been particularly hard hit as a result of falling demand from China for minerals. As such, the prices of minerals and energy have fallen, while food prices have stabilised, albeit at elevated levels.

7. The MPC was informed that while the global economy remained weak, there were promising signs for the outlook. However, the meeting was cautioned that several risks remained, including the early unwinding of quantitative easing, high unemployment in the Euro Area, falling commodity prices as well as the current account, exchange rate and growth challenges in neighbouring South Africa.

Domestic economy

8. The MPC was informed that growth indicators in the domestic economy remain relatively positive, despite a weak global economy. Primary sector output was seen to have increased as a result of increased activities in the agriculture and mining sectors. Cattle marketed increased by 82.7 percent year to date, while small stock marketed increased by 20.3 percent year to date. These large increases are due to increased sale of stock due to the current drought.
9. In the mining industry, production has increased for all of the major minerals mined in Namibia, year to date, except gold. Production of diamonds, uranium and zinc were up 11.8, 2.4 and 43.3 percent respectively over the period, while gold production has fallen by 32.8 percent year to date. Exports have however been fairly low, due to challenges in the transport sector.
10. The secondary industries have seen strong growth in the cement industry and growth to a lesser degree in refined zinc production. Blister copper production has fallen dramatically as a result of upgrading of the copper smelter. As is the case in the primary sector, transport challenges have resulted in lower than normal export volumes however. The construction sector continues to perform well, with both building plans approved and completed growing, by 32.6 percent and 59.5 percent respectively, year to date.
11. In the tertiary sector, wholesale and retail trade have picked up by 2.1 and 2.2 percent respectively, year to date, however the sale of vehicles has fallen by some 11.6 percent when compared to the same period of last year. This decline is largely driven by falling demand for commercial vehicles. The transport sector has for the most part, performed badly year to date in 2013, with road and rail cargo as well as water cargo volumes declining. Only shipped cargo levels have increased year to date, expanding by 25.7 percent when compared to the first four months of 2012. The tourism sector too has performed weakly in 2013 year to date, with declining room and bed occupancy rates, and falling passenger arrivals.

12. The meeting was informed that private sector credit extension growth had slowed in April 2013, however remained at the elevated level of 14.0 percent. The meeting was informed that credit extension growth to both businesses and individuals fell between March and April of 2013. However, mortgage loan growth increase by 0.1 percent to growth of 14.0 percent, and instalment sales growth increased by 0.2 percent, to 11.1 percent growth.
13. The meeting was informed that the balance of payments recorded a small surplus in the first quarter of 2013, largely on account of a surplus in the capital and financial accounts. The current account however, remained in negative territory for the third consecutive month. The meeting was informed that the deterioration of the merchandise trade balance was as a result of high and increasing imports and relatively static exports. As a result, the level of foreign reserve fell at the end of May, from the 17.6 billion level in April, to 15.7 billion at the end of May.
14. The meeting was informed that price pressures had remained unchanged in the month of May, with inflation remaining unchanged from the April level of 6.1 percent. Similarly, core inflation remained unchanged at 3.4 percent. Food inflation remained a key driving force for overall inflation, increasing from 6.8 percent in April to 7.4 percent in May. This increase was, however, offset by a reduction in transport inflation, which fell from 4.3 to 2.7 percent between April and May, largely on account of falling fuel prices.

MONETARY POLICY DELIBERATIONS

15. The MPC noted that while the global economy remained fragile, patches of recovery were becoming visible. However, the meeting was of the view that nothing had changed in the global economy fundamentally. Domestically, the inflation to growth ratio has been seen to remain unchanged, and growth conditions were similarly static. While the local economy has performed reasonably well over recent months, the declining commodity prices were seen as constituting a downside risk to the domestic growth. Banking sector liquidity remains positive. Despite this, the deterioration of the balance of payments mainly due to a trade deficit remained a concern. Inflation remains at manageable levels, while credit extension growth remained acceptable.
16. Given the aforementioned, the MPC resolved to keep the Repo rate unchanged at 5.5 percent.

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Chairman

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Date

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Secretary

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Date