

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 16th August 2016



“Our vision is to be a centre of excellence”

Publication date: 19th October 2016

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that the global economy continued to be weak in the second quarter of 2016, characterised by volatilities, dented confidence and a bleaker outlook for economic growth.** The annualised GDP growth rates of most of the advanced economies moderated, with the exception of the UK, which continued to record positive growth. The GDP growth rates of the US and the Eurozone moderated to 1.2 percent and 1.6 percent during the second quarter of 2016, compared to the 2.0 percent and 1.7 percent recorded in the previous quarter, respectively. The moderation experienced in the Eurozone is ascribed to stagnation in the French economy due to a sharp slowdown in consumer spending and a fall in investment and exports. During the quarter under review, the annualised economic growth rate for Japan slowed to 0.2 percent, compared to an expansion of 1.9 percent recorded in the previous quarter. This was on the back of weak domestic demand and continued negative inflation (deflation). Conversely, the UK economy expanded in the second quarter of 2016 by an annualised growth rate of 2.2 percent, compared to 2.1 percent in the same quarter of 2015. This growth was supported by the strong performance in the industrial production and manufacturing output. Going forward, UK's vote to exit the EU on 23rd June 2016 might have a negative impact on this positive growth in the remaining quarters of 2016.

Key EMEs continued to perform poorly, with the exception of India and China, during the period under review. Brazil and Russia continued to experience negative growth rates of 5.4 percent and 1.2 percent in the first quarter of 2016, respectively. These growth rates are, however, improvements compared to negative growth rates of 5.9 percent and 3.8 percent, respectively, recorded in the last quarter of 2015. The slight improvements in Brazil's GDP growth rate could be attributed to the improved trade balance for the second consecutive month in May, whereas that of Russia was credited to the rebound in oil prices. Conversely, India, recorded a strong growth of 7.5 percent, in the first quarter of 2016, on the back of increased private sector spending. China, on the other hand, maintained respectable growth of 6.7 percent during the second quarter, which is the same as the previous quarter. This growth is attributed to private consumption, which was broadly stable during the quarter, as well as strong public sector investments. In contrast, the South African economy contracted by 0.2 percent in the first quarter of 2016, compared to a positive annualised growth of 0.5 percent recorded in the fourth quarter of 2015. The contraction was ascribed to a slump in mining and quarrying as well as manufacturing sectors. In addition, South Africa's economy faces negative effects

from low commodity prices and slowing demand from China. Similarly, the oil-dependent Angola continues to be negatively affected by the low oil prices.

- 2. The MPC observed that, going forward, the global economy is expected to expand by 3.1 percent and 3.4 percent in 2016 and 2017, respectively.** Risks to the outlook, however, remain and include: uncertainty regarding the impact of Brexit, low commodity prices, geopolitical tensions, and the drought in East and Southern Africa.

- 3. The MPC further noted that since the last MPC meeting in June 2016, monetary policy stances in both the advanced and emerging market economies remained relatively unchanged.** Most monetary authorities in key advanced economies left their monetary policy rates unchanged, with the exception of the Bank of England (BoE) whose MPC voted to reduce the Bank Rate by 25 basis points to 0.25 percent at its meeting on 4th August 2016. Moreover, the BoE introduced a package of measures designed to provide additional support to growth and to achieve a sustainable return of inflation to the target. This package comprises of a new Term Funding Scheme to reinforce the pass-through of the cut in Bank Rate; the purchase of up to £10 billion of UK corporate bonds; and an expansion of the asset purchase scheme for UK government bonds of £60 billion, taking the total stock of these asset purchases to £435 billion. All these packages are aimed at mitigating the potential damage the Brexit vote may have on the UK economy. Similarly, key EMEs maintained accommodative monetary policy stances. The Central Bank of Russia cut its benchmark one-week repo rate by 50 basis points to 10.5 percent as inflation expectations continued to decrease amid an economic recession. On the other hand, the National Bank of Angola raised its benchmark interest rate by 2.0 percentage points to 16.0 percent in an attempt to curb rising inflation,

DOMESTIC ECONOMY

- 4. The MPC noted that the growth of domestic economy slowed during the first half of 2016 when compared to the same period in 2015.** Selected economic indicators showed a slower growth in the domestic economy during the first six months of 2016, compared to the same period in 2015. This was attributed to slow growth in the mining sector, particularly in the production of diamonds and zinc concentrate. Similarly, reduced activities in the manufacturing, transport, construction and agricultural sectors over the same period, contributed to the weaker performance. The decrease in the activities of the agricultural sector was mainly due to the low marketing of livestock and rising intermediate consumption, resulting from the drought situation in the country. On the upside, wholesale and retail trade as well as communication sectors performed

relatively strong during the first six months of 2016. Going forward, growth is expected to be positive, however, risks remain, which include low commodity prices, volatile exchange rate, the prevailing drought conditions and slow recovery in the economies of Namibia's trading partners.

- 5. Furthermore, the MPC was informed that growth in Private Sector Credit Extension (PSCE) slowed due to lower demand from both the household and corporate sectors.** Growth in PSCE slowed over the first six months of 2016, when compared to the corresponding months in 2015. During this period, the average annual growth in PSCE stood at 12.4 percent, lower than the 15.6 percent over the same period of 2015. The slowed growth stemmed from reduced growth in credit advanced to both the corporate and household sectors in most credit categories.

- 6. The MPC noted that the annual inflation rate continued to rise, but remained within acceptable levels.** Namibia's annual inflation rate rose during the first seven months of 2016. Similarly, the inflation rate increased to 7.0 percent in July 2016 from 6.7 percent in the previous month. The main drivers of inflation were increases in the inflation rates for the categories food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, as well as transport. Going forward, annual inflation is projected to increase, but remain within acceptable levels for the remainder of the year.

- 7. The MPC further noted that since its last meeting in June, the stock of international reserves declined on a monthly basis but increased on a yearly basis, mainly due to the issuance of the Eurobond and JSE bonds in 2015.** The stock of international reserves stood at N\$19.2 billion by the 12th of August 2016, and rose by 36.4 percent on an annual basis, due to the issuance of the Eurobond, JSE bonds and foreign asset swap by the Bank with local institutional investors. At this level, the stock of international reserves was estimated to be equivalent to 2.4 months of import cover.

MONETARY POLICY DELIBERATIONS

- 8. 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 decided to maintain the Repo rate unchanged at 7.00 percent.** This decision was necessary to continue supporting the country's economic growth, particularly in light of slow and fragile recovery in the economies of Namibia's trading partners.