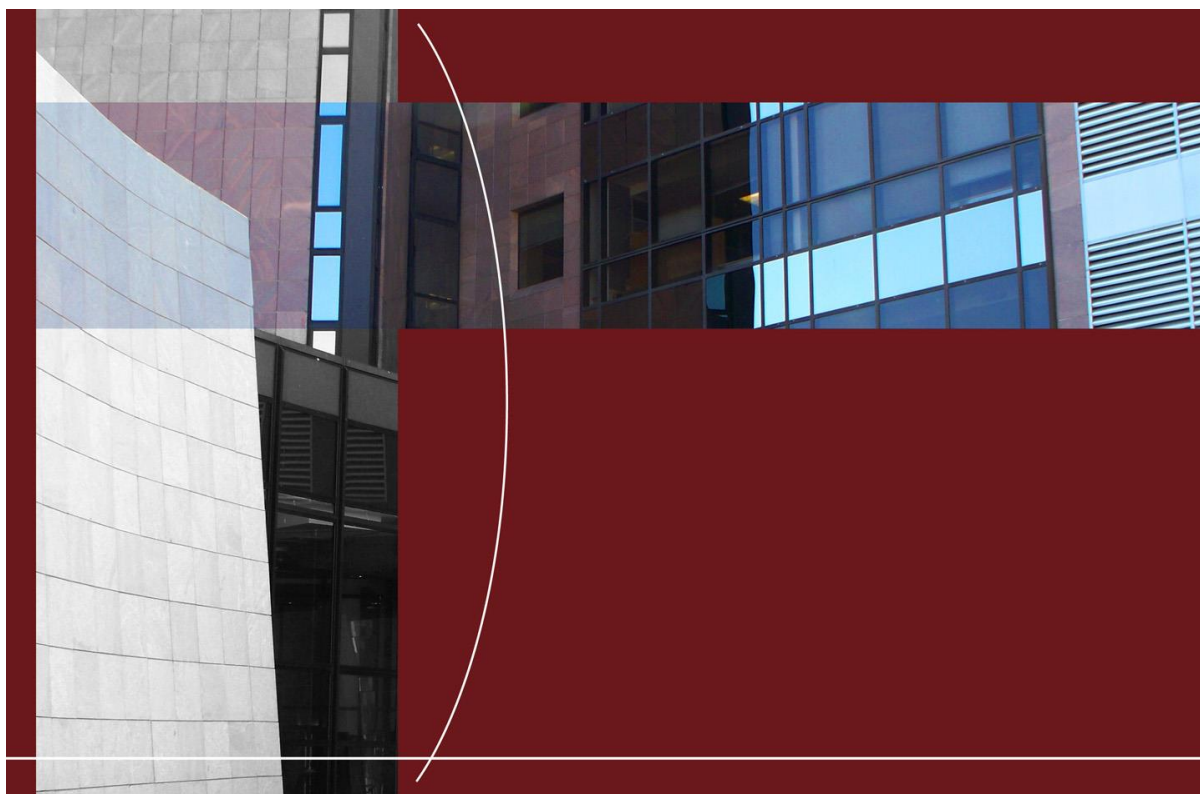


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 20th October 2015



“Our vision is to be a centre of excellence”

Publication date: 09th December 2015

Minutes of the Monetary Policy Committee (MPC) Meeting held on the 20th of October 2015.

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 20th October 2015.

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 meeting.

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

MPC MEMBERS PRESENT

Ebson Uanguta	Deputy Governor (Chairperson)
Emile Van Zyl	Technical Advisor: Governor's Office
Florette Nakusera	Director: Research Department (RD)
Ndangi Katoma	Director: Strategic Communications & FSD
Nicholas Mukasa	Acting Director: Financial Markets Department (FMD)

OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Reinhold Kamati (Senior Economist: RD); Diina Hamutumwa (Economist, FMD); Abigail Nainda (Economist: RD); Elifas Iyambula (Economist: RD); Grace Hamauka (Senior: RD); Daisy Mbazima (Economist: RD); Rehabeam Shilimela (Economist: RD); Brian Mbazuvara (RD); Kennedy Stephanus (RD); Henock Shilongo (RD).

Evelina Niishinda (Economist: RD & Secretary).

APOLOGIES:

Ipumbu Shiimi	Governor
Titus Ndove	Director: FMD

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that the global economy moderated during the second quarter of 2015, on account of a further slowdown in Emerging Market Economies (EMEs) and weaker recovery in Advanced Economies (AEs).** Economic activities in the Euro area registered a moderate growth during the second quarter of 2015, but that of the US and UK slowed. On a quarterly basis however, growth in the US and UK improved. The Japanese economy remained in recession during the second quarter. In Emerging Market Economies, real GDP for China remained constant, although the recently released data showed that growth moderated to below 7.0 percent during the third quarter. The slowdown in the Chinese economy is likely to negatively affect commodity prices and therefore export earnings of mineral producing countries, including Namibia. The economies of India and South Africa slowed during the second quarter of 2015. The GDP growth rate for Russia and Brazil's real GDP growth contracted during the quarter under review.
- 2. The MPC noted that, going forward, global growth is projected to be lower in 2015 compared to 2014, with a gradual pickup in advanced economies, while growth in EMEs and developing economies is expected to slowdown.** Downside risks to global economic growth include increased financial market volatility, geopolitical tensions and lower commodity prices.
- 3. The MPC further noted that monetary policy stances in advanced economies remained accommodative to support economic activities, while those of emerging economies were diverse.** Monetary authorities in Brazil, Russia and South Africa kept their policy rates unchanged, while China and India reduced their rates. Inflation in advanced economies remained low, while it continues to be a concern in some emerging market economies.

DOMESTIC ECONOMY

- 4. The MPC noted that the domestic economy showed improvements during the first eight months of the year, despite weak activities in the mining sector. Risks to the domestic economic outlook remain, and include soft commodity prices and the**

drought. The improvement in the domestic economy was primarily driven by robust construction activities in the public and private sector during the first eight months of 2015. Improvements in the transport and communication sector also contributed to positive performance of the economy during the same period. The mining sector, however, recorded a weak performance during the review period compared to the corresponding period of 2014. Going forward, risks to domestic growth remain the slow recovery in Namibia's trading partners' economies such as China, soft commodity prices and the prevailing drought.

- 5. The MPC further noted that the demand for credit was strong, despite the moderation in instalment credit extended to the household sector.** Domestic demand as mirrored by the annual growth in Private Sector Credit Extension (PSCE) remained robust, above 15.0 percent over the first eight months of 2015. This growth reflects higher demand for credit mainly by the corporate sector, as mirrored in all credit categories with the exception of other loans and advances which declined. Annual growth in credit extended to individuals, however, slowed. Although remaining high, instalment credit extended to household sector slowed from a peak of 23.5 percent in February 2015 to 16.4 percent in August.
- 6. MPC also noted that Namibia's annual inflation rate declined, on average, during the first nine months of 2015.** The average inflation rate during the review period was 3.4 percent, lower than the 5.5 percent recorded during the same period last year. Overall, domestic inflation moderated to 3.3 percent in September, down from 3.4 percent in August. This moderation is predominantly due to a drop in the price of crude oil over the past year, and the knock-on effects on prices in the heaviest weighted basket items, i.e., housing, water and electricity, and gas and other fuels. Food and Transport inflation similarly declined in September, 2015.
- 7. Furthermore, the MPC noted that the stock of international reserves remains sufficient to sustain the one-to one link of the Namibia Dollar to the South African Rand, being 3.3 times higher than the currency in circulation at the end of August 2015.** The level of international reserves stood at N\$13.0 billion, as at the 19th of October 2015. The high import bill, particularly from the importation of unproductive luxury goods and its concomitant pressure on the country's international reserves remains a concern for the MPC.

MONETARY POLICY DELIBERATIONS

8. The MPC extensively deliberated on both the domestic and global economic developments as highlighted above. After taking all the key macro-economic variables and developments into consideration, the MPC decided to maintain the Repo rate at 6.50 percent. This decision was underpinned by the recent moderation in instalment credit to households and to continue supporting the domestic economy. While the MPC welcomes the recent decline in instalment credit extended to households, a large amount of these loans is still used to finance unproductive luxury goods, thus exerting additional pressure on the country's international reserves.