

# BANK OF NAMIBIA

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

Windhoek, 16<sup>th</sup> June 2015



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

Publication date: 19<sup>th</sup> of August 2015

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## Minutes of the Monetary Policy Committee (MPC) Meeting held on the 16<sup>th</sup> of June 2015.

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia MPC held on the 16<sup>th</sup> June 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>.

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### MPC MEMBERS PRESENT

Ipumbu Shiimi	Governor and Chairperson
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Meshack Tjirongo	Technical Advisor: Research
Florette Nakusera	Director: Research Department (RD)
Titus Ndove	Director: Financial Markets Department (FMD)
Ndangi Katoma	Director: Strategic Communications & FSD <sup>1</sup>

### OTHERS PRESENT

Saara Kashaka (Senior Economist: RD); Ben Stephanus (Research Officer: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Helvi Phillipus (Senior Economist, FMD), Abigail Nanda (Economist: RD); Brian Mbazuvara (Research Officer: RD); Christian Phillipus (Senior Economist: RD); Postrick Mushendami (Senior Economist: RD);

Mukela Mabakeng (Economist: RD & Secretary).

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<sup>1</sup> Financial Sector Development

## ECONOMIC DEVELOPMENTS REPORT

### Global economy

- 1. The MPC noted that the global economy continued to be on a steady recovery path, supported by improved growth in some advanced economies. Growth in emerging market economies (EMEs) remained positive, though slower, while commodity prices remained generally low.** The US and UK economies continued to be the main drivers of growth in advanced economies. In the Euro area, economic activity continued to recover gradually, supported by low oil prices and supportive monetary policy, while the recession in Japan continued into the first quarter of 2015. Growth in emerging market economies was mixed during the first quarter of 2015. In particular, growth in China moderated while that of Russia contracted. The South African economy recorded a slight improvement, while India recorded stronger growth during the first quarter of 2015, on the year-on-year basis. Commodity prices remained generally low, despite some slight increases in April 2015.
- 2. The MPC observed that inflation rates in the advanced economies have declined sharply during the period under review, due to a reduction in energy prices, while it decreased in a number of emerging market economies.** The US and UK economies reached deflationary levels of -0.2 percent and -0.1 percent, respectively, during the first quarter of 2015. In contrast, inflation in Emerging Market economies (EMs) was high and increased in Brazil, Russia and India, largely on account of increasing food prices. In addition, inflation in Russia worsened because of its exchange rate depreciation against the US Dollar.
- 3. The MPC further noted that monetary policy stances in advanced economies and most emerging economies continued to be supportive of growth.** Central banks in key advanced economies kept their policy rates unchanged. Major emerging market economies either reduced or maintained their policy rates at the same level with the exception of Brazil, which increased its benchmark rate to contain inflationary pressures.
- 4. With regard to the outlook, the MPC noted that the global economy is expected to continue recovering steadily in 2015, led by advanced economies.** The improved real GDP growth in some major advanced economies, particularly in the US, is expected to support global growth. In contrast, the economic slowdown in the EMEs,

especially the Chinese economy, which is trending lower, is a cause of concern.

### **Domestic economy**

- 5. The MPC noted that key indicators of the domestic economy showed a positive performance during the first four months of 2015.** The domestic economy displayed a positive performance during the first four months, driven by robust construction activities as well as wholesale and retail trade. The agricultural sector also registered an increase in the number of cattle marketed, while small stock marketed decreased over the same period. Activities in the mining sector, however, weakened except for gold production.
- 6. The MPC also observed that, export earnings for diamond improved while that of uranium declined.** Export earnings for diamonds increased, while those of uranium declined during the first four months of 2015, compared to the same period of last year.
- 7. The MPC noted that the annual inflation slowed to 2.9 percent in April from 3.4 percent in March 2015, on account of low international oil prices.** The low inflation was reflected in the categories of transport, housing, water, electricity, gas and other fuels, as well as food and non-alcoholic beverages. Going forward, the overall annual inflation is expected to remain low and stable for the remainder of 2015.
- 8. Domestic credit demand continues to be strong.** on average, annual growth in Private Sector Credit Extension (PSCE) increased by 16.7 percent over the first four months of 2015, from 16.2 percent during the last four months of 2014. When compared to the corresponding first four months of 2014, the growth in the PSCE was 1.6 percentage points higher. The MPC noted that the overall credit extended to individuals remained elevated, especially instalment credit.
- 9. The MPC noted that the stock of international reserves remains sufficient to maintain the one-to-one link of the Namibia Dollar to the Rand.** The level of reserves stood at N\$12.1 billion as at the 15<sup>th</sup> of June 2015. The MPC was, however, still concerned about the high import bill for unproductive goods, such as luxury vehicles, which puts additional pressure on international reserves. As a result of the high import bill, the import cover declined from 2.4 months in the first quarter of 2014 to

1.7 months in the first quarter of 2015. Despite the decline in the import cover, international reserves were 4 times higher than the Namibia Dollar in circulation, which is adequate to support the exchange rate arrangement.

## **MONETARY POLICY DELIBERATIONS**

**10. The MPC considered the global, regional and domestic economic and financial developments as highlighted above and decided to increase the Repo rate by 25 basis points to 6.50 percent.** The decision was taken to contain high growth in household credit, particularly that of instalment credit. The MPC noted that a large portion of these loans continue to be primarily used to finance unproductive imported luxury goods, hence putting additional pressure on the international reserves of the country. With this increase in the Repo rate, the MPC expected that the deposit-taking institutions would also increase deposit rates by the same margin, thereby encouraging saving.