

**Bank of Namibia**

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

**Windhoek, 21 June 2011**



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

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## **Minutes of the Monetary Policy Deliberations at the Meeting of the Monetary Policy Committee of the Bank of Namibia held on 21 June 2011**

These are the minutes of the monetary policy deliberations at the meeting of the Monetary Policy Committee (MPC) held on the 21<sup>st</sup> June 2011. 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 November 2009. 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 meeting, i.e. the day of the announcement of the monetary policy decision.

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### **EC MEMBERS PRESENT**

Ipumbu Shiimi (Chairperson and Governor), Paul Hartmann (Deputy Governor), Michael Mukete (Assistant Governor and head of Financial Stability), Ebson Uanguta (Director: Research Department), Ben Biwa (Director: Financial Markets Department), Ndangi Katoma (Head of Corporate Communications)

### **OTHERS PRESENT**

Florette Nakusera (Deputy Director: Statistics and publications), Edler Kamundu (Senior Economist: Research Department), Sannete Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department)

Mally Likukela (Secretary to the MPC)

### **ECONOMIC REPORT**

1. Before turning to its immediate policy decision, the MPC discussed the international and domestic economic developments. . The discussion highlighted among others, output, supply, costs, prices, money, credit and demand developments.
2. MPC noted that growth in the global economy moderated as output from both advanced and emerging market economies declined during the first quarter of 2011. MPC also noted that the situation could stay the same for some time if uncertainties remain. This gloomy picture was mainly on account of deepening concern about sovereign debt crisis and support for adjustment efforts in Europe's periphery. MPC further noted that these conditions have already placed tremendous pressures on global financial markets and have increased the risk of contagion. In addition to the above mentioned challenges, production disruption caused by hostile weather conditions in some part of the world and the continued political unrest in the Middle East and North African regions could adversely affect growth going forward.

3. According to the first quarter GDP figures, MPC noted that global growth has slowed down particularly in the advanced economies. The US economy grew by 2.3 per cent in the first quarter of 2011 from 2.8 per cent in the preceding quarter, while Japan's economy contracted by 1.0 per cent. The UK and Euro zone on the other hand, expanded, growing by 1.8 per cent and 2.5 per cent in the first quarter of 2011 from 1.5 per cent and 2.2 per cent in the preceding quarter, respectively.
4. Although remaining robust during the first quarter of 2011, growth in emerging and developing economies appeared to have lost momentum. China's real GDP growth slowed slightly to 9.7 per cent from 9.8 per cent recorded in the fourth quarter of 2010. The economies of Russia and India also recorded slowdowns over the same period. MPC noted that the slowdown in the emerging markets was mainly attributed to the monetary policy tightening that was adopted to curb rising inflation and tame signs of overheating.
5. Summing up the international developments, MPC reflected on the international monetary policy. In this regard, MPC noted that accommodative monetary policy stances in most of the advanced economies were maintained mainly because the negative output-gap was of great concern than inflation. Unlike emerging market economies, central banks of advanced economy could easily accommodate hikes in food and energy prices mainly because the weights of food and energy in their consumer baskets were relatively small. MPC further noted that in the emerging market economies, however, the key policy priorities were to contain inflationary pressures and deal with the overheating problem. In this regard, most central banks in the emerging economies, with the exception of South Africa, have tightened their respective monetary policies.

#### **DOMESTIC ECONOMY**

6. MPC noted that most domestic economic indicators pointed downwards for much of the first half of 2011. Data reviewed by MPC showed the weak performance in the primary industry, where the mining sector performed poorly in terms of production and exports, followed by the agricultural sector. The secondary industry, however, recorded some positive growth in some sectors such as the manufacturing and construction sectors, but was too marginal to positively affect overall growth. The performance in the tertiary industry was weighed down by a weak outturn in the wholesale and retail sector. MPC agreed that overall, the domestic economy performed well below the expectations created at the beginning of the year.
7. With regard to price developments, MPC noted that domestic inflation rose to 5.2 per cent in May 2011 from 4.8 per cent in April 2011. Driving the inflation was the increased inflation rates for food and non-alcoholic beverages. Annual inflation for food and non-alcoholic beverages rose to 5.6 per cent in May 2011 from 4.3 per cent in April 2011. The rise in food inflation was driven by higher inflation rates recorded for categories such as bread and cereals, milk, cheese and eggs; and for sugar, jam, honey, syrup, chocolate and confectionaries.
8. On demand, MPC noted that it has slowed as reflected in private sector credit that has declined during the period under review. The annual growth in Private Sector Credit Extension (PSCE) slowed from 12.2 per cent in February 2011 to 11.6 per cent in April 2011 despite a slight jump to 12.5 per cent in March 2011. The slowdown emanated from both household and business sectors, reflecting reduced growth in their overdrafts and mortgage loans.
9. The domestic debt of the central government to GDP ratio increased slightly from 11.9 per cent at the end of April to 12.6 per cent at the end of May 2011. Despite that increase, the fiscal position in terms of debt to GDP ratio remained fairly strong. Total foreign reserves decreased by 1.3 per cent to N\$10.6 billion in May 2011. At this level, total foreign reserves remained sufficient to support the peg, as it is

substantially higher than the currency in circulation and three months moving average of commercial banks' foreign transfers.

### **MONETARY POLICY STANCE**

10. After the review of recent economic developments, all MPC members agreed that global economic activities slowed down and downside risks have increased, heightening uncertainties. MPC members noted that growth in many advanced economies, particularly the US and Japan weakened, while momentum in emerging and developing economies also continued to lose some steam. MPC members further noted that activities in the domestic economy have declined as demand, particularly for credit eased. With regard to price developments, all MPC members were of the view that despite the observed increases in the inflationary pressures, which continued to build up, and affecting headline inflation, the underlying inflation remained subdued.
11. The MPC reflected on the performance of the economy and observed that the growth momentum at the beginning of the year was not firmly entrenched. In view of this, the economy still required some breathing space. MPC members also considered the fact that inflation levels, which were still in tolerable levels, especially the underlying inflation provided space for the maintenance of the prevailing accommodative stance.

### **THE DECISION**

12. In light of the above, members of the MPC were convinced that a change in the stance was not going to be in the best interest of the economy and therefore decided to leave the Repo rate unchanged at 6.0 per cent. MPC re-affirmed the commitment to continue monitoring international and domestic economic developments, and remained ready to adjust its policy stance in accordance with developments in the global and domestic economy.