

Bank of Namibia

Minutes of the Monetary Policy Deliberations at the Meeting of the Executive Committee of the Bank of Namibia

Windhoek, 18 February 2011



“Our vision is to be a centre of excellence”

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These are the minutes of the monetary policy deliberations at the meeting of the Executive Committee (EC) meeting held on 18 February 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 EC in accordance with the **Monetary Policy Framework** of the Bank of Namibia published in November 2009. The EC 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 EC monetary policy meeting, i.e. the day of the announcement of the monetary policy decision.

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

Edler Kamundu (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Christian Phillipus (Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department)

Mally Likukela (Secretary to the EC)

ECONOMIC REPORT

1. Before turning to the immediate policy discussions, the EC discussed the Economic Report presented by the Research Department (RD). The report contained a comprehensive analysis of major global and economic developments and their likely impact on the growth prospects of Namibia.
2. RD started their presentation with a round-up of the global economic developments since the last EC meeting. According to RD, the most recent data were consistent with the continued buoyant growth in global activity reported at the last EC meeting, mainly driven by the continued strengthening of emerging economies. RD noted that due to the continued uneven growth pattern in the global economy, the recovery was said to be following a two-step growth path. RD informed the meeting that there remained a considerable difference across countries with regards to both output and inflation as the result. RD also noted the persistent downside risk which included a number of challenges, such as high unemployment, renewed fiscal stress in certain Euro Area economies and some signs of overheating in economies as well as the mounting inflationary pressures.
3. With regards to the renewed fiscal stress in certain Euro Area economies, the EC noted that although the situation seemed to be less fragile compared to last year, it

still remained a potential risk. The recent developments in Portugal for instance were a definite sign that the situation has not been entirely contained. EC then urged the RD to take note of that risk and closely monitor the developments in that regard.

4. RD informed the meeting that the picture in emerging economies was, however, different from that in advanced economies. Economic activities in several emerging markets remained resilient despite inflation pressures and signs of overheating, driven mainly by strong capital flows. The EC extensively debated around the issue of overheating, whereupon it inquired whether China was overheating. RD explained that according to the IMF¹, China displayed some signs of overheating. EC further wanted to know whether that condition was a cause for concern in Namibia. To this, RD responded that China's economy, especially exchange rate was highly regulated, and therefore chances of overheating would be slim. However, should the Chinese economy overheat, Namibia could be affected indirectly via the commodity price channel.
5. In emerging market economies still, Russia's economic growth expanded to 5.0 percent during the fourth quarter from 2.7 percent in the previous quarter on the back of robust domestic demand. The Chinese economy continued to lead the global economic recovery, recording a significant expansion of 9.8 percent in real GDP during the fourth quarter of 2010 from 9.6 percent in preceding quarter. The increase in real GDP resulted from the effects of fixed investment that boosted the economy.
6. RD reported that the Purchasing Manager's Index (PMI), an indicator of the economic health of the manufacturing sector, for most selected advanced and emerging economies registered levels above the 50.0 benchmark level in December 2010 and January 2011. The resilient performance of the manufacturing sectors across the advanced economies was due to growth in the production of capital, consumer and intermediate goods. In this regard, the EC inquired the sustainability of the PMI. RD responded that the PMI will remain sustainable as long as the fundamentals allows.
7. On exchange rate developments, RD reported that the Namibia dollar depreciated against all major currencies; namely the US Dollar (1.1 per cent), the British Pound (2.0 per cent) and the Euro (2.0 per cent) during January 2011. The depreciation of the local currency against the US dollar was supported by robust economic data in the US such as that of the manufacturing sector coupled with expectations of an accommodative monetary policy. The EC noted that Namibia dollar was returning to the NEER and REER levels similar to those witnessed in 2006. However, the EC was less concerned by this because it expected the trend to reverse, whereby the domestic currency would depreciate going forward.
8. The RD informed the EC that global economic recovery had a positive reflection on the domestic economy. Data presented to the EC showed that in line with the global economic recovery, there are good signs of recovery in the Namibian economy, becoming more visible towards the end of the year. The EC was informed that the

¹ IMF first Deputy Managing director, John Lipsky during an interview with Reuters stated that for the emerging economies, growing at 6.5 to 7 percent, their margins of excess capacity have been largely used up, and as a result they were starting to show incipient signs of overheating. By definition, economic overheating occurs when a prolonged period of good economic growth and activity causes high levels of inflation (from increased consumer wealth) and inefficient supply allocations as producers overproduce and create excess production capacity in an attempt to capitalize on the high levels of wealth. Rising rates of inflation are typically one of the first signs that an economy is overheating. As a result, governments and central banks will usually raise interest rates in an attempt to lower the amount of spending and borrowing.

Namibian economy was estimated to have expanded by 4.6 per cent in 2010. This growth was the result of a good performance in most sectors of the economy, with the primary sector leading growth during the year. The secondary and tertiary sector, which gained momentum towards the end of the year, also helped to further strengthen the recovery and thus providing a better start for 2011.

9. The EC was informed that the growth maintained in the primary industry during 2010 was supported by the agricultural and the mining and quarrying sectors. The indicators that contributed to the observed growth were, amongst others, cattle marketed and milk production for the agricultural sector and diamond, uranium, gold and zinc production for the mining sector.
10. The secondary industry was also reported to have performed well, supported in particular by the manufacturing sector. Indicators such as production of blister copper, beer, soft drinks and buildings plans approved recorded increases during the year. The construction sector, however, showed mixed results. The EC expressed concern regarding mixed results in the construction sector, particularly the declining trend in the housing plans approved and completed.
11. Turning to the tertiary sector, RD informed the EC that the sector had shown great improvement during 2010, although, it was generally weak on a monthly basis due to slowed activities in certain sub-sectors. In this regard, indicators, such as wholesale and retail trade, telecommunications and company registrations, performed well both on a monthly and yearly basis. However, the performances of land and water transport and tourism sectors were relatively weak, while vehicle sales yielded mixed results.
12. With regards to price developments, RD informed the EC that an upward movement in the inflation rate was observed in January 2011. In this regard, the annual inflation for January 2011 accelerated to 3.5 percent, from 3.1 percent in the previous month. The RD noted that although the 3.5 percent was still much lower than 6.3 percent recorded for the same period a year ago, it was a striking development that needs to be closely monitored considering the observed build-up in global inflation pressures. The EC was then informed that the acceleration in overall inflation during January 2011 was due to high increases for house rentals, which rose by 13.1 percent on annual basis. RD explained that since rental payments constitute about 15.3 percent of the Namibia Consumer Price Index (NCPI) basket, its movement was felt across the CPI and hence the rise in overall inflation. The RD informed the EC that despite the observed increase in inflation, they were less concerned because the major NCPI categories such as “food and non-alcoholic beverages” and “transport” remained muted and recorded lower inflation rates in January 2011.
13. Following the report on price development, a concern about the timeliness and relevancy and rationale of the bank’s analysis and publication of inflation statistics emerged. The EC was concerned that RD omitted the latest inflation statistics in their forecast assumption presented prior to the meeting. EC then urged RD to ensure that they include the latest inflation data in their forecasts assumptions and analysis. EC also requested RD to re-assess the rationale and the relevance of publishing the inflation synopsis while they were not the producers of such statistics or information.
14. Turning to monetary and credit developments, RD informed EC that the continued economic recovery observed in the domestic economy was evidently mirrored in both the monetary and credit aggregates at the end of December 2010. In this regard, the year-on-year growth in M2 improved further by 11.3 percent to N\$34.4 billion at the end of December 2010. Similarly, the annual growth in PSCE rose to 10.9 percent at

the end of December 2010 from 9.6 percent recorded at the end of November 2010. The improved growth in domestic demand, as reflected in stronger PSC, was due to higher growth in credit advanced to both the corporate and household sectors. The RD maintained that the expansion in monetary and credit aggregates was ascribed to the accommodative policy stance pursued by the Bank and this was signifying renewed business and consumer confidence.

MONETARY POLICY DELIBERATIONS

15. Following the comprehensive presentation by RD, EC went on and deliberated on the appropriate monetary policy stance for the next two months. EC observed that the domestic economy continued to be on a firm footing towards full recovery. It further noted that the recent trend of depreciating currency was a welcome development as it was expected to boost export earnings.
16. On the downside, EC noted that inflation has accelerated slightly in January 2011 and was likely to edge upward due to international oil and food price developments, but it was expected to remain within a manageable range. Against this background, EC felt that a change in the stance at that stage could affect the speed of recovery and run the risk of reversing the gains made so far. EC, however, was mindful of inflationary pressures that were starting to build up and would be monitored closely.

THE DECISION

17. In light of the above presentations and discussions, EC decided to leave the Bank rate unchanged at 6.0 per cent.
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