

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 12th April 2016



“Our vision is to be a centre of excellence”

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 12th of April 2016.

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 12th of April 2016.

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 the 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

Iipumbu Shiimi	Governor (Chairperson)
Ebson Unguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Lelly Usiku	Acting 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); Postrick Mushendami (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Daisy Mbazima (Economist: RD); Kennedy Stephanus (Research Officer: RD), Helvi Fillipus (Senior Economist: FMD); Elifas Iiyambula (Economist: RD).

Mukela Mabakeng (Economist: RD & Secretary).

APOLOGIES:

None

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC noted that global growth slowed in 2015, compared to the previous year, mainly due to slower growth in emerging market economies.** With the exception of India, growth in most key emerging market economies such as China and South Africa slowed in 2015, compared to the previous year. These economies are expected to slow down further in 2016. On the other hand, Brazil and Russia contracted by 3.8 percent and 3.7 percent, respectively, in 2015, and this trend is projected to continue in 2016. Angola's economy slowed to 3.0 percent in 2015, compared to 4.8 percent in the previous year, mainly on the back of low international oil prices. Conversely, growth in advanced economies is estimated to have recovered in 2015, compared to the previous year. The US was one of the major contributors to this slightly improved growth, supported by economies such as the Euro area and the UK. Further, Japan's economy registered growth of 0.5 percent in 2015, from no growth in the previous year.
- 2. The MPC noted that going forward, global growth is expected to remain steady at 1.9 percent, albeit uneven during 2016.** Risks to the global outlook remain: fragile economic activities in key emerging markets and developing economies, such as the moderation in the Chinese economy, rising oil prices, as well as persistent geopolitical risks.
- 3. The MPC noted that, since the last MPC meeting in February 2016, the monetary policy stances in both the advanced and emerging market economies remained unchanged, with the exception of the European Central Bank (ECB), the South African Reserve Bank (SARB) and the Reserve Bank of India.** The ECB and the Reserve Bank of India reduced their policy rates. While the ECB reduced its policy rates in order to stimulate growth, the Reserve Bank of India cut its policy rate in order to ensure liquidity in the financial system. The SARB, on the other hand, raised its Repo rate in March 2016 in order to contain inflationary pressures resulting from the depreciation of the Rand and the effects of the drought on food prices.

DOMESTIC ECONOMY

- 4. The MPC noted that the domestic economy was estimated to have registered respectable growth in 2015, although slower than the previous year.** This growth

was mainly on account of the *construction* industry which grew by 33.7 percent, *wholesale and retail trade*, which expanded by 8.1 percent, as well as *public administration and defence* services, that grew by 13.1 percent in 2015. In contrast, the *manufacturing* sector contracted further from 2.1 percent in 2014, to 7.1 percent in 2015. Going forward, growth is expected to be positive at about 4.3 percent in 2016. Notwithstanding these growth prospects, risks remain and include the slowdown in the economies of the country's trading partners, soft commodity prices, volatile exchange rate and the effects of the prevailing drought conditions.

5. **The MPC noted that domestic demand as reflected in the annual growth of Private Sector Credit Extension (PSCE) slowed, on average, over the first two months of 2016, when compared to the corresponding months in 2015.** The annual growth in PSCE averaged 13.2 percent in 2016, down from 16.2 percent over the same period in 2015. This lower growth in PSCE principally resulted from reduced growth in credit advanced to the corporate sector in the form of mortgage, overdraft and instalment credit. The slower growth was, however, offset by a higher growth rate in credit extended to the household sector, which rose to 13.1 percent, on average, during the first two months of 2016, from 12.3 percent during the same period in 2015.
6. **The MPC was informed that since the last MPC meeting, Namibia's annual inflation continued with an upward trend, albeit within manageable levels.** The inflation rate rose from 3.7 percent in December 2015, to 5.3 percent and 6.1 percent in January and February 2016, respectively. This was mainly due to increases in inflation rates for housing, water, electricity, gas and other fuels category, which carries the biggest weight of the total inflation basket in Namibia, as well as the transport category. Going forward, annual inflation for 2016 is expected to increase gradually, but will remain within manageable levels for the remainder of the year.
7. **The MPC noted that, since its last meeting, the level of international reserves remained sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand, mainly supported by recent SACU inflows.** International reserves stood at N\$26.6 billion as at the 11th of April 2016. At this level, the reserves remain sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand, being approximately 5.5 times the currency in circulation.

MONETARY POLICY DELIBERATIONS

The MPC deliberated extensively on both the domestic and global economic developments as highlighted above. After taking all the key macroeconomic variables and developments into consideration, the MPC decided to increase the Repo rate by **25 basis points to 7.00 percent**. This decision was necessary to align interest rates with that of South Africa, and thus sustain the one-to-one link of the Namibia Dollar to the Rand, by preventing possible capital outflows, which could put pressure on the country's reserves.