Bank of Namibia

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 25 October 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 25 October 2011

These are the minutes of the monetary policy deliberations at the meeting of the Monetary Policy Committee (MPC) held on 25 October 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.

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), Sanete Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department): Helvi Fillipus (Economist: Research Department), Beata Magongo (Research Officer: Research Department)

Mally Likukela (Secretary to the MPC)

ECONOMIC REPORT

1. Since the last meeting, the MPC noted that there have been increasingly visible symptoms of rising stress in the financial markets driven by vulnerabilities associated with the Eurozone debt crisis. This has contributed to the slowed pace of global growth as evident in the revised real GDP statistics for the second quarter of 2011 presented at the meeting. From the data presented by the RD to the MPC, it was clear that economic activity indicators had continued to weaken in some economies and had remained subdued in others. This development points to a heightened risks of a sustained and synchronized period of weak global growth.

2. Accordingly, the IMF revised its growth projections for the global economy in September to 4.0 per cent during both 2011 and 2012 from 5.1 per cent in 2010, while that of emerging market economies is predicted to moderate to 6.4 per cent for 2011.

3. Data presented to the MPC showed that real GDP in the US slowed to 1.6 per cent in the second quarter of 2011 from 2.2 per cent in the first quarter of 2011. Responsible for such developments is the weak growth in private consumption, housing and labour markets as well as fiscal challenges in the US. RD further informed the meeting that a similar development was also reported in the UK where Real GDP slowed to 0.6 per cent during the second quarter of 2011 from 1.6 per cent during the first quarter of 2011. This was explained to have been a result of a weak performance by the manufacturing, mining and quarrying as well as electricity, gas and water supply sectors.

4. In the Eurozone, real GDP moderated to 1.6 per cent in the second quarter of 2011 from 2.4 per cent in the preceding quarter. The slowdown was ascribed to the poor performance in the French and German economies. The subdued performance was due to exports of manufactured goods from these major economies that performed weakly during the second quarter compared to the previous quarter. RD further explained that, the sovereign debt crisis in the Euro Area affected investors' confidence and therefore contributed to weak performance in investment, especially in the construction sector. Going forward, RD stated that growth in advanced economies will be subdued at about 1.6 per cent during 2011 amid raising fears of the deepening of the Eurozone debt crisis amongst other challenges.

5. Growth in the emerging market economies remained subdued since the last MPC meeting. RD reported that growth in China moderated to 9.1 per cent in the third quarter compared to 9.5 per cent during the second quarter of 2011. The slowdown was largely explained by monetary policy tightening that China adopted to counter rising inflationary pressures. Similarly, real GDP for India slowed slightly to 7.7 per cent in the second quarter of 2011 from 7.8 per cent during the first quarter. The main sector contributing to slowed growth was construction, which slowed by 1.2 per cent during the quarter under review compared to 8.2 per cent in the previous quarter.

6. In Russia, economic growth slowed to 3.4 per cent in the second quarter of 2011 from 4.1 per cent in the preceding period because of easing activities in the manufacturing sector and subdued consumer spending. Likewise, real GDP growth for Brazil slowed to 3.1 per cent during the second quarter of 2011 from 4.2 per cent in the first quarter of 2011. The slowdown was due to sluggish performance of the manufacturing and agricultural sectors on account of weaker demand for exports.

7. Regionally, South Africa's economic growth slowed to 3.0 per cent during the second quarter of 2011 from 3.5 per cent in the first quarter. The main sectors that contributed to the slowdown in real GDP during the second quarter were: agriculture, mining and manufacturing.

8. On the financial market front, MPC noted that global financial markets continued to be characterized by instability emanating from mounting concerns over the unresolved European sovereign debt crisis, the credit downgrade of the United States and worries over a possible global recession in the US and the Euro Area. Over the past two months increasingly visible symptoms of rising stress in financial markets became more eminent. Consequently, European markets such as the DAX and the FTSE 100 were adversely affected by the sovereign debt crisis in Greece and Portugal coupled with similar problems emerging in Spain and Italy.

Domestic economy

9. From the data presented by the RD during the meeting, MPC noted that most real sector indicators of domestic economic activities signalled a bleak performance year-to-date in some instances up to September 2011 compared to the corresponding period of last year. This particularly was reflected by weak performance in the primary industry as well as some of the key indicators in the secondary industry. RD pointed out to the MPC that in the primary industry, the performance of the agricultural sector

year-on-year has been weak. For instance, during the month of September, the number of cattle and small stock marketed declined by 13.6 per cent.

10. MPC also noted weak performance in the mining sector during the period under review. The weak outturn in the mining sector was ascribed to lower production of diamonds, uranium, gold and zinc concentrate. In the secondary industry, RD informed the MPC that the outturn was mixed results particularly in the manufacturing and construction sector. RD pointed out as an example the mineral processing industry, where production of refined zinc declined while production of blister copper increased.

11. The meeting was informed that despite the weak outturn in the primary and secondary sector, activities in the tertiary industry remained positive. This encouraging development was reflected by the positive real turnover in the wholesale and retail trade, including the number of new vehicles sold. RD further pointed out that the transport, communication and tourism sectors also performed reasonably well over the same period.

12. With regards to domestic inflation, the MPC was informed that the domestic inflationary pressures abated since the last MPC meeting. In this connection, MPC noted that overall annual inflation eased to 5.3 per cent in September 2011 from 5.4 per cent in August 2011. RD explained that moderation was attributed to a decrease in inflation rates for *food and non-alcoholic beverages*, *miscellaneous goods and services*, and *furnishings*. Despite this moderation, MPC also noted the minor increases observed in other categories, although they were too marginal to yield an upward effect on overall inflation. These categories include *housing*, *water, electricity, gas and other fuels*, and *transport*.

13. RD informed the meeting that the key domestic demand indicator – growth in private sector credit extension (PSCE) – remained strong since the last meeting. In this regards, RD pointed out that the annual growth rate of credit extension to the private sector rose to 11.9 per cent at the end of August 2011 from 11.0 per cent at the end of July 2011. The outturn in the PSCE during the period under review was a reflection of the increase in bank lending mainly to the corporate sector over the same period. MPC welcomed this development as it augured well to support the recovery of the domestic economy.

14. MPC noted that the stock of international reserves has remained on the downside. RD pointed out that at the end of September, international reserves decreased by 4.6 per cent to N$10.7 billion. Nonetheless, the MPC was of the view that the reserves remained more than adequate to sustain the currency peg.

Monetary Policy Stance

15. Following a comprehensive review and consideration of the report, the MPC concluded that the global economic picture has indeed deteriorated since the previous meeting and that the pace of activities in the domestic economy moderated during the second quarter of 2011 compared to the preceding quarter. Members pointed out that like the global economy the state of the domestic economy was very fragile and hence the need for nurturing growth in the domestic economy to mitigate the impact of the external factors on the domestic economy.

16. Taking into consideration also the opportunity provided by the benign and low inflation outlook, the MPC unanimously decided to keep the Repo rate unchanged at 6.0 per cent to support domestic growth in the face of the weak global economy. In view of increased signs of stresses in the global financial markets, the MPC remains deeply concerned with the uncertainty and the lack of confidence that this may bring about. The MPC once again re-iterated its unwavering commitment to continue to monitoring the global and domestic economic developments, and stands ready to adjust policy should economic conditions so demand.