

# BANK OF NAMIBIA

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

Windhoek, 18<sup>th</sup> October 2016



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

**Publication date: 8<sup>th</sup> December 2016**

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## **Minutes of the Monetary Policy Committee (MPC) Meeting held on the 18<sup>th</sup> October 2016.**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 18<sup>th</sup> of October 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>.

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### **MPC MEMBERS PRESENT**

Iipumbu Shiimi	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Florette Nakusera	Director: Research
Emma Haiyambo	Director: Strategic Communications & FSD
Nicholas Mukasa	Director: Financial Markets Department (FMD)

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### **OTHERS PRESENT**

Postrick Mushendami (Deputy Director: RD); Mukela Mabakeng (Economist: RD); Saara Kashaka (Senior Economist: RD); Edler Kamundu (Deputy Director: RD); Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Helvi Fillipus (Senior Economist: FMD); Mutu Katjuwanjo (Economist: RD); Victoria Manuel (Economist: RD); Rehabeam Shilimela (Economist: RD); Sanette Schulze Struchtrup (Senior Economist: RD); Heinrich Namakalu (Economist, RD); Daisy Mbazima. (Economist: RD).

### **SECRETARY**

Hileni Shifotoka (Economist: RD & Secretary).

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### **APOLOGIES:**

None.

## GLOBAL ECONOMY

1. **The MPC noted that the global economy remained fragile during the first six months of 2016, compared to the same period last year, and is expected to moderate for the remainder of the year, mainly due to weaker growth in the advanced economies.** It is projected that the global economy growth will decline to 3.1 percent in 2016 from 3.2 percent recorded in 2015. This is attributed to weaker GDP outlook of the advanced economies that emanated from uncertainties regarding the impacts of the Brexit vote and the expected slowdown in the US economy. The US economy is projected to record a lower growth of 1.6 percent in 2016, marking a slowdown from 2.6 percent growth in 2015. The lower growth is ascribed to weak business investment and capital spending in the energy sector, USD appreciation, financial volatility as well as increased policy uncertainties related to the presidential elections. Economic growth for the Eurozone has been revised downwards to 1.7 percent and 1.5 percent, during 2016 and 2017, respectively. Conversely, UK's economic growth for 2016 was revised upwards by 0.1 percentage point to 1.8 percent, which represents a slowdown from the 2.2 percent in 2015, as the uncertainty regarding the Brexit vote weighs on. For 2017, growth was revised downwards to 1.1 percent. GDP growth rate for the Japanese economy is expected to improve by 0.5 percent and 0.6 percent in 2016 and 2017, respectively.

On the contrary, economic growth in key Emerging Market Economies (EMEs) and developing economies is projected to strengthen slightly to 4.2 percent in 2016 and 4.6 percent in 2017, from 4.0 percent in 2015. This growth will be supported by improved business and consumer sentiment. Economic growth in Brazil and Russia is expected to contract by 3.3 percent and 0.8 percent, respectively, in 2016. In 2017, Brazil is estimated to record a milder contraction of 0.8 percent, while a positive growth of 1.1 percent is projected for Russia. The expansion of the Indian economy is forecasted to continue at a strong pace of 7.6 percent both in 2016 and 2017. This is based on the assumptions that the country will implement structural reforms, such as the introduction of an important tax reform, formalisation of the inflation-targeting framework. Furthermore, it is expected that confidence will improve, and hence support consumer demand and investment. On the contrary, the Chinese economy is projected to moderate, both in 2016 and 2017. China's GDP growth is estimated to be at 6.6 percent in 2016 and 6.2 percent in 2017, on assumption that the economy will continue to rebalance from investment to consumption. The South African economy remains weak albeit recording a higher-than-expected positive growth in the second quarter of 2016. The economy is projected to register a lower growth of 0.1 percent in 2016, but will pick

up slightly by 0.8 percent in 2017. Similarly, the Angolan economy remains and continues to be negatively affected by low oil prices.

- 2. Going forward, the MPC observed that the global economy is expected to expand by 3.1 percent and 3.4 percent in 2016 and 2017 respectively, amid the downside risks.** Risks to the outlook are the uncertainty regarding the impact of the Brexit vote, rebalancing in China's economy, the adjustment of commodity exporters to a protracted decline in the terms of trade, geopolitical tensions as well as political uncertainty.
  
- 3. The MPC further noted that since the last MPC meeting in August 2016, monetary policy stances in both key advanced economies and EMEs remained accommodative.** All the central banks of the key economies maintained their monetary policy stances. The Reserve Bank of India cut its benchmark repo rate by 25 basis points to 6.25 percent at their meeting held in October 2016. The decision to cut rates was to support economic growth. The rate cut was also necessitated by consumer price inflation that was declining towards the central bank's target of 4 percent. Similarly, the Bank of Russia cut its benchmark one-week repo rate by 50 basis points to 10.00 percent at its meeting in September 2016, because of the recent noticeable drop in inflation.

## **DOMESTIC ECONOMY**

- 4. The MPC was informed that the domestic economy slowed during the first eight months of 2016, when compared to the same period last year.** The unfavourable performance was recorded in the mining sector, particularly the declined diamond and zinc production. Public construction activities also slowed, in line with fiscal consolidation measures. Similarly, private construction activities decreased, as reflected mainly in the fall of real value of buildings completed in major municipalities as well as the completion of major construction projects in the mining sector. On the manufacturing front, cement and blister copper production declined, while refined zinc production rose mainly due to base effects. Activities in the agricultural and transport sectors performed poorly, largely due to a reduction in the number of cattle and small stock marketed and decreased rail and sea cargo volumes. On the contrary, the wholesale and retail trade sector continued to display a positive performance, largely evident in increased real turnover. Besides, the communication subsector recorded a strong growth in value addition, which is attributed to growth in revenue that outpaced expenditure during the period under review.
  
- 5. Furthermore, the MPC was informed that growth in Private Sector Credit Extension (PSCE) moderated, due to slower growth in credit extended to both the corporate**

**and household sectors.** During the first eight months of 2016, the average annual growth in PSCE stood at 12.1 percent, lower than the 15.6 percent over the same period of 2015. The slowed growth in PSCE was reflected in reduced growth in credit advanced to both the corporate and individual sectors in most credit categories. Real PSCE growth hovered around 5.3 percent, over the reference period in 2016, compared to 11.9 percent over the same period in 2015. The lower real growth was due to the relatively slowed growth in PSCE during 2016 and the high inflation rate over the same period. Similarly, annual growth in PSCE moderated to 10.9 percent at the end of August 2016, from an annual growth rate of 11.0 percent at the end of the preceding month. In nominal terms, total PSCE stood at N\$82.8 billion at the end of August 2016.

- 6. The MPC noted that the annual inflation rate increased during the first nine months, when compared to the same period of last year, but remained within acceptable levels.** The inflation rate averaged 6.5 percent, compared to a lower rate of 3.4 percent during the corresponding period in 2015, mainly driven by the rise in the average inflation rates for major categories such as housing, water, electricity, gas and other fuels, transport as well as food. Inflation rose slightly on a monthly basis to 6.9 percent in September 2016 from 6.8 percent in the previous month.
- 7. Furthermore, the MPC noted that since its last meeting in August 2016, the preliminary stock of international reserves rose both on a monthly and yearly basis.** The preliminary stock of international reserves increased to N\$22.6 billion as at 12<sup>th</sup> August 2016 and by 65.9 percent on a yearly basis. The monthly rise was mainly due to the USD receipts with respect to the outstanding receivables from the Banco Nacional de Angola (BNA), while the yearly increase was mostly attributed to the issuance of the Eurobond, JSE bonds and foreign asset swap by the Bank of Namibia with local investors. At this level, the stock of international reserves was estimated to be about 2.9 months of import cover, and remained sufficient to meet the country's foreign obligations.

## **MONETARY POLICY DELIBERATIONS**

- 8. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above. After taking all key macro-economic variables and developments into account, the MPC kept the Repo rate unchanged at 7.00 percent.** The MPC is of the view that at this level, the Repo rate is appropriate to support growth and maintain the one-to-one link of the Namibia Dollar to the South African Rand.