

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 5 December 2017



“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 Bank of Namibia MPC held on the 5th of December 2017.

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 Uanguta	Deputy Governor
Emma Haiyambo	Director: Strategic Communications & FSD
Florette Nakusera	Director: Research
Johan van den Heever	Technical Advisor: Research Department
Helvi Fillipus	Acting Director: Financial Markets

OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Saara Kashaka (Senior Economist: RD); Reinhold Kamati (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Hileni Shifotoka (Economist, RD); Elifas Iiyambula (Economist: RD).

SECRETARY

Victoria Manuel (Economist: RD)

APOLOGIES:

Nicholas Mukasa	Director: Financial Markets Department (FMD)
Emile Van Zyl	Technical Advisor: Governor's Office

GLOBAL ECONOMY

- 1. The MPC noted that the global economy is projected to register a higher growth rate in 2017, compared to 2016.** The global economy is projected to grow by 3.6 percent in 2017, from 3.2 percent in 2016, supported by firm growth in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Growth will be reinforced by improvements in investment, trade and industrial production, coupled with strengthening business and consumer confidence.
- 2. Economic activity improved in most of the monitored AEs during the third quarter of 2017, compared to the second quarter.** The monitored AEs as a group recorded improved growth during the third quarter, mainly driven by the US and Euro area. Going forward, the IMF projects AEs to grow by 2.2 percent in 2017, from 1.7 percent in 2016.
- 3. Economic activity in the US continued to improve year-on-year in the third quarter of 2017, compared to the preceding quarter.** The US economy recorded a growth rate of 2.3 percent in the third quarter of 2017, compared to 2.2 percent in the second quarter of 2017. Growth in the US was mainly driven by rising private consumption, strong non-residential investment and increased inventories. Going forward, economic growth in the US is projected to increase to 2.2 percent in 2017 compared to 1.5 percent in 2016.
- 4. The Eurozone economy recorded a higher GDP growth rate in the third quarter of 2017, compared to the second quarter of 2017.** Real GDP in the Eurozone expanded by 2.5 percent year-on-year in the third quarter of 2017, compared to 2.3 percent in the preceding quarter. Growth was mainly attributed to stronger industrial production and improvements in external demand. The Eurozone is projected to record a higher growth rate of 2.1 percent in 2017 compared to 1.8 percent in 2016.
- 5. The UK recorded a similar pace of growth in the third quarter of 2017 as in the preceding quarter.** The UK economy registered a growth rate of 1.5 percent year-on-year in the third quarter of 2017, the same pace as in the preceding quarter. Going forward, GDP growth in the UK is expected to moderate to 1.7 percent in

2017 compared to 1.8 percent in 2016, mainly driven by weaker growth in private consumption as the pound's depreciation weighed down household real income.

- 6. GDP growth in Japan slowed in the third quarter of 2017, compared to the preceding quarter.** Japan's GDP grew by 1.7 percent in the third quarter, down from 2.6 percent in the previous quarter, mainly attributed to weak private consumption. Going forward, economic growth in Japan is projected to increase moderately to 1.5 percent in 2017 compared to 1.0 percent in 2016, supported by stronger net exports in response to strengthening global demand.
- 7. The MPC further noted that economic activity in the key EMDEs improved in the third quarter of 2017, compared to the previous quarter.** The improved growth was on account of Brazil and India, which posted higher growth rates in the third quarter. Going forward, the IMF projects the EMDEs to grow by 4.6 percent in 2017, compared to 4.3 percent in 2016. The higher growth in 2017 will be driven mainly by stronger projected growth for commodity exporters, most notably Brazil and Russia, that experienced contractions in 2016.
- 8. Brazil's real GDP growth picked up in the third quarter of 2017, compared to the preceding quarter.** Year-on-year, GDP growth rose to 1.4 percent in the third quarter of 2017, compared to 0.4 percent in the second quarter of the year. The growth was mainly attributed to an increase in household spending and exports during the third quarter of 2017. Going forward, economic growth in Brazil is projected to continue on the positive path, with a growth rate of 0.7 percent expected in 2017, compared to a contraction of 3.6 percent in 2016.
- 9. The Russian economy accelerated at a slower pace during the third quarter of 2017, compared to the second quarter.** Russia registered a lower GDP growth rate of 1.8 percent in the third quarter of 2017, following an expansion of 2.5 percent in the previous quarter. The lower growth rate is attributed to slower industrial production during the third quarter. Growth in Russia is projected to improve to 1.4 percent in 2017, compared to a contraction of 0.2 percent in 2016. A recovery in domestic demand, easing financial conditions and an improvement in consumer and business confidence are expected to support growth in 2017.
- 10. The Indian economy recorded a higher growth rate in the third quarter of 2017, mainly driven by growth in investment and inventories.** Real GDP in India expanded by 6.3 percent year-on-year in the third quarter of 2017, exceeding the 5.7 percent growth in the second quarter of 2017. The higher growth was mainly

attributed to a rebound in investment and inventories during the third quarter of 2017. India's GDP growth is projected to slow down, but remain firm at 6.7 percent in 2017, compared to 7.1 percent in 2016. The expected slowdown is due to lingering disruptions associated with the demonetisation initiative introduced in November 2016, as well as transition costs related to the launch of the National Goods and Services Tax in July 2017.

11. China recorded slightly lower economic growth in the third quarter of 2017, compared to the previous quarter. Real GDP growth in China moderated to 6.8 percent year-on-year in the third quarter of 2017 compared to 6.9 percent in the previous quarter. The slower growth in China was mainly on the back of private investment, which moderated during the period under review. Going forward, China's real GDP is expected to grow by 6.8 percent in 2017, from 6.7 percent in 2016.

12. The South African economy registered weaker growth during the third quarter of 2017, compared to the second quarter. The economy of South Africa advanced by 0.8 percent year-on-year in the third quarter of 2017, below the 1.3 percent expansion in the previous quarter. The slower growth was mainly attributed to the contractions in the manufacturing, electricity and general government sectors as well as weaker growth in the agricultural, transport and construction sectors. Going forward, the South African economy is projected to grow by 0.7 percent in 2017, compared to 0.3 percent registered in 2016, mainly driven by improvements in the agricultural sector. The MPC also noted the more negative fiscal trajectory contained in the South African Medium Term Budget Policy Statement and the country's most recent credit ratings downgrade.

13. Furthermore, the MPC noted that risks to the global outlook in the medium term remain. Geopolitical tensions, weak governance, low inflation in some AEs, extreme weather events as well as terrorism and security concerns continue to hover in the background.

14. The MPC further noted that, since the previous MPC meeting in October 2017, monetary policy stances in both the monitored AEs and EMDEs generally remained accommodative. The Bank of England raised its benchmark Bank rate by 25 basis points to 0.50 percent, signalling the beginning of a gradual tightening period. Similarly, the Banco Nacional de Angola raised its benchmark interest rate by 200 basis points to 18.0 percent. The central banks of Brazil and Russia, on the other hand, lowered their policy rates by 75 basis points and 25 basis points, to 7.50

percent and 8.25 percent, respectively, citing more favourable inflation and an improved economic environment as reasons for the cuts.

DOMESTIC ECONOMY

15. The MPC noted that economic activity in key domestic sectors remained weak during the first ten months of 2017, relative to the corresponding period of 2016. The construction sector remained weak during the first ten months of 2017, due to slower activity for both the public and private sector. In real terms, spending on public construction programmes decreased by 48.9 percent year-to-date, compared to the corresponding period of 2016. Similarly, the wholesale and retail trade sector activity continued to contract during the first ten months of 2017, as reflected in most sub-sectors. The real turnover of the wholesale and retail trade sector declined by 5.9 percent, year-to-date. The decline was mainly attributed to subdued domestic demand, as reflected in the number of new vehicles sold which declined by 19.4 percent, year-to-date. Moreover, activity in the transport subsector remained weak during the first ten months of 2017, with total cargo volumes for instance declining by 3.0 percent year-to-date.

16. In several other areas of the economy such as mining, livestock marketing, communication and manufacturing, however, output improved over the same period. Production of diamonds, zinc, gold as well as uranium increased year-on-year by 18.0 percent, 31.3 percent, 14.3 percent and 15.5 percent, respectively, during the first ten months of 2017. The increase in the production of diamonds was mainly due to better grade carats mined and the low base effects. The increase in zinc production was also due to low base effects, while the rise in gold production was mainly attributed to a higher grade of ore mined during the first ten months of 2017. Moreover, the total number of cattle marketed rose by 47.1 percent during the first ten months of 2017, mainly due to base effect as a result of the veterinary restrictions imposed by South Africa. Similarly, production in the manufacturing sector increased, mainly driven by diamond processing, while value addition for the communication subsector maintained positive growth during the first ten months of 2017, compared to the same period of 2016.

17. The MPC noted that the average annual growth in private sector credit extension (PSCE) slowed over the first ten months of 2017, when compared to the same period in 2016. The 12-month growth in PSCE stood at 7.1 percent on

average during the review period, lower than the 11.8 percent recorded over the same period in 2016. This subdued growth in PSCE is in line with the generally sluggish growth within the domestic economy. The slower growth in PSCE stemmed from the reduced growth in credit advanced to both the household and corporate sectors, especially in the form of mortgage and instalment credit. The growth in PSCE slowed to 5.2 percent at the end of October 2017, from a growth rate of 6.2 percent for August that was reported at the October MPC meeting.

18. The MPC noted that Namibia's overall inflation rate declined. Annual inflation averaged 6.4 percent during the first ten months of 2017, slightly lower compared to the 6.6 percent recorded during the corresponding period in 2016. On a monthly basis, inflation slowed from its peak of 8.2 percent in January to reach 5.6 percent in September and 5.2 percent in October 2017, mainly driven by lower inflation for food and non-alcoholic beverages.

19. The MPC further noted that the stock of international reserves increased. As at 31st October 2017, the official stock of international reserves stood at N\$31.6 billion, representing an increase, both on a monthly and annual basis. The annual increase mainly stemmed from higher SACU receipts, inflows from the African Development Bank (AfDB) loan as well as debt repayment by the Banco Nacional de Angola. At this level, the stock of international reserves was estimated to cover 5.1 months of imports of goods and services, and thereby remain sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand. Preliminary data indicated that the stock of international reserves amounted to N\$28.6 billion at the end of November 2017.

MONETARY POLICY DELIBERATIONS

20. The MPC deliberated extensively on both the domestic and global economic developments, as highlighted above. After taking into account all key macro-economic variables and developments, the MPC kept the Repo rate unchanged at 6.75 percent. The MPC was of the view that at that level, the rate remained appropriate to maintain the one-to-one link between the Namibia Dollar and the South African Rand and support the domestic economy.