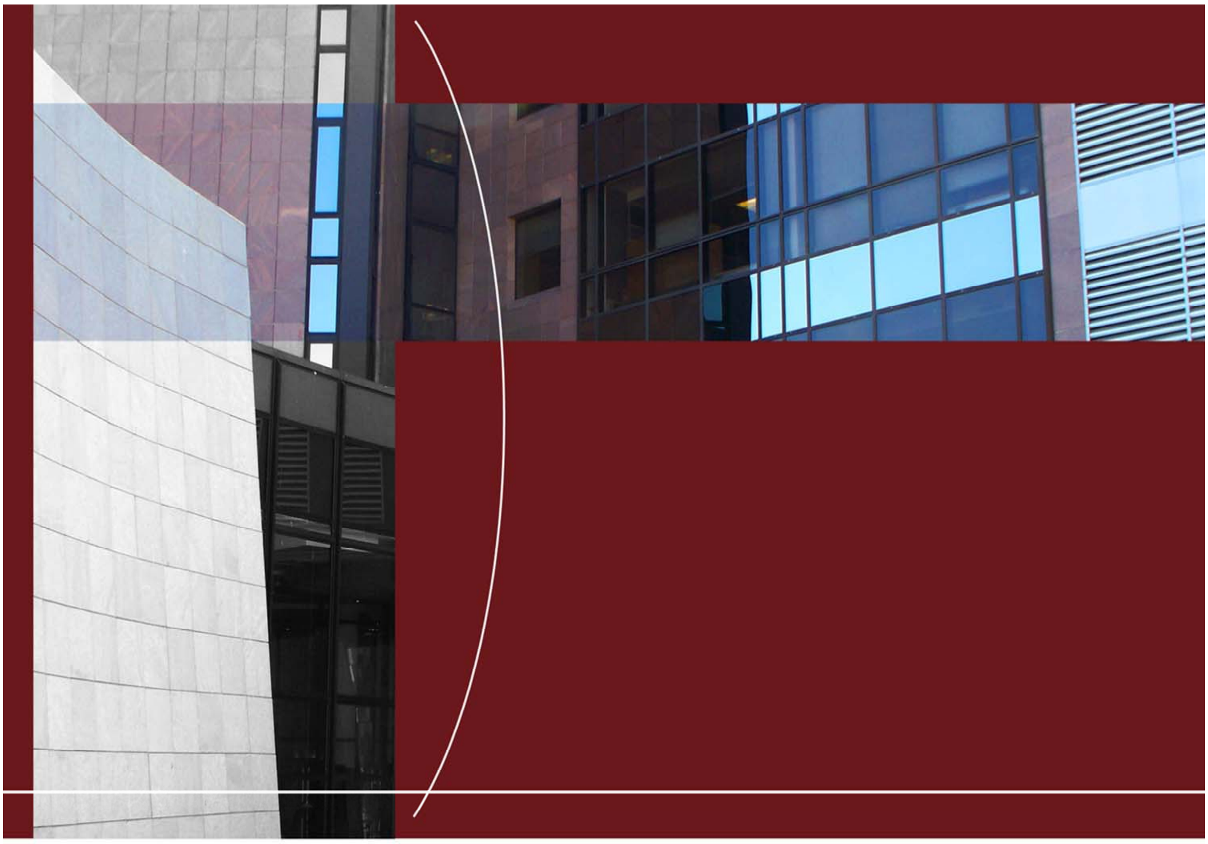
Bank of Namibia

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 23 August 2011



Bank of Namibia

"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 23 August 2011

These are the minutes of the monetary policy deliberations at the meeting of the Monetary Policy Committee (MPC) held on 23 August 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), Sannete Schulze-Struchtrup (Senior Economist: Research Department), Gerson Kadhikwa (Senior Economist: Research Department), Rehabeam Shilimela (Research Officer: Research Department)

Mally Likukela (Secretary to the MPC)

ECONOMIC REPORT

1. The MPC noted that the pace of recovery of the world economy has slowed, and the momentum observed at the beginning of the year has started to cool off. Although growth in both the advanced and emerging market economies has slowed down, growth in the emerging market economies, especially in Asia, remained sound and continued to put some stimulus into a rather lacklustre global economy. Members inquired from Research Department (RD) where this loss in momentum left Namibia in terms of recovery. To this, RD responded that although there were no quick fix solutions in sight yet, the landing was expected to be soft due to some remedial measures put in place already. The market, however, is of the view that more measures are needed to restore confidence and credibility in the global economy.

2. RD put into context the cooling off of the global economy, stating that growth in many advanced economies, indeed, remained subdued. For instance, the US economy recorded a growth rate of 1.6 per cent in the second quarter of 2011 down from 2.2 per cent in the preceding quarter. The main source of this deceleration was the weak growth in both private and public consumption. This was further exacerbated by others factors, such as housing and labour market problems.

3. In the United Kingdom, economic activity also remained lacklustre during the second quarter of 2011 with real GDP growth slowed to 0.7 per cent from 1.6 per cent during the first quarter. This slowdown was mainly due to weak performance by the manufacturing, mining and quarrying, as well as electricity, gas and water supply sectors. In the Euro zone, the sovereign debt concerns have negatively impacted on growth. The slackened growth in the Euro zone can also be attributed to weakened private consumption and restrained corporate investments.

4. Regarding commodity prices, the MPC noted a decline particularly in energy and food over the same time. Members inquired the reasons for the declining trend in these prices. RD responded that in case of oil, the release of more than 2 million barrel per day for 30 consecutive days by the International Energy Agency (IEA) was the main reason for that. With regards to the food index that slightly improved, members wanted to know if the observed increase was a long term or short term development. RD responded that it was a short term trend as a pronounced decline was expected later in the year.

5. With regards to the growth in emerging market economies, MPC noted that it has remained robust. China continued to lead the recovery, despite a slight moderation in growth to 9.5 per cent during the second quarter of 2011 from 9.7 per cent during the preceding quarter. Growth in fixed investment in China supported its economic activities.

6. In Russia, real GDP growth slowed to 3.4 per cent in the second quarter of 2011 from 4.1 per cent during the first quarter of 2010 due to subdued private consumption coupled with weak activities in its manufacturing sector. Brazil's real GDP also slowed to 4.2 per cent during the first quarter of 2011 from 5.0 per cent during the fourth quarter of 2010. Overall, growth prospects for emerging markets remained dynamic, notwithstanding efforts to tighten monetary and fiscal policies in these economies.

7. Accommodative monetary policy continued in advanced economies, except in the Euro zone. Some members were of the view that the Euro area's move to tighten the monetary policy may not the appropriate. Given the strained growth in the euro zone, the decision could choke down the remaining activities in the region. All key emerging market economies tightened their monetary policies, except for South Africa and Russia.

8. Global financial markets in the second quarter of 2011 were volatile, influenced by rising expectations that the Euro debt crisis would worsen, marked by a likely default on Greek debt obligations. These developments saw global stock market indices decreasing.

The domestic economy

9. MPC noted that with exception of the primary sector, growths in the secondary and tertiary sectors of the economy were satisfactory. Most primary industry economic indicators were weak during the second quarter of 2011 and during the first half of 2011 measured on a year-on-year basis. Adverse weather conditions and operational challenges during the early part of 2011 had a negative impact on especially the mining industry during the first half of 2011 compared to that of 2010.

10. Activities in the secondary industry improved during the first half of 2011, as reflected in the updated available indicators in both the manufacturing and construction sectors. With regard to the manufacturing sector, the production of blister copper, cement and

beer improved during the period under review. Activities in the construction sector gained momentum. The momentum was believed to have emanated from the on-going construction in the public sector.

11. In the tertiary industry, MPC noted that activities continued to show some improvement, as reflected in indicators of activity in the wholesale and retail trade, communication and tourism sectors. The tourism sector performed well on a yearly basis and during the first half of the year. Data on employment showed an improvement in job creation in both the manufacturing, wholesale and retail trade sectors in June 2011. Furthermore, new vehicles sold increased during the first seven months of 2011 compared to the corresponding period of 2010 on account of sustained consumer demand supported by the low interest rate environment.

12. With regard to domestic price developments, inflationary pressures eased as international prices for food and crude oil that fuelled inflation during the preceding months started to stabilise. In this regard, annual inflation for all items reached a high of 5.4 per cent in June 2011, but subsided to 4.8 per cent in July 2011. The deceleration in overall inflation during July 2011 was largely attributed to reduced inflation rates for *food and non-alcoholic beverages*; *housing, water, electricity, gas and other fuels; and alcoholic beverages and tobacco*. The slowdown in inflation for food and non-alcoholic beverages during July 2011 was mainly attributed to the vegetables sub-category, which slowed down significantly.

13. MPC noted that domestic demand strengthened as reflected in the higher growth in private sector credit extended (PSCE), particularly to businesses. Although total credit to individuals slowed slightly, mortgage lending, the largest component, rose. In this regard, PSCE rose slightly at the end of June 2011 to 12.9 per cent from 12.6 per cent at the end of the preceding month.

14. The fiscal position remained fairly prudent, as measured by the ratio of Central Government debt to GDP. However, increased borrowing is expected due to a higher budget deficit for the current fiscal year. The stock of foreign reserves rose marginally at the end of July, mainly due to quarterly SACU receipts. The MPC is, however, confident that the level of foreign reserves is adequate to sustain the fixed currency peg of the Namibia Dollar to the South African Rand. In this regard, currency in circulation stood at N$1.5 billion at the end of June 2011, which is far below the corresponding reserve stock of N$10.94 billion.

Monetary Policy Stance

15. From the review of the recent economic developments, the MPC was of the view that global growth has subsided and that the risk and uncertainties surrounding the near term outlook have heightened. The momentum observed at the beginning of the year has cooled off as the sovereign debt concerns continued to erode consumer confidence, particularly in the advanced economies.

16. In the domestic economy, the positive demand and supply conditions that were prevailing pointed to a more favourable outlook of the domestic economy, but this can only be sustained by a strong performance of the global economy. Furthermore, MPC found that the subdued inflationary pressures and sufficient official foreign reserves will augur well for an accommodative monetary policy.

THE DECISION

17. In view of the need to ensure a sustained growth in the domestic economy, the MPC believed that a change in its stance at this stage might be premature and could dampen the positive momentum. Against this background, the MPC decided to leave the Repo rate unchanged at 6.0 per cent. Nevertheless, the MPC noted with concern the prevailing volatility in financial markets among advanced economies and its potential impact on the global economy.