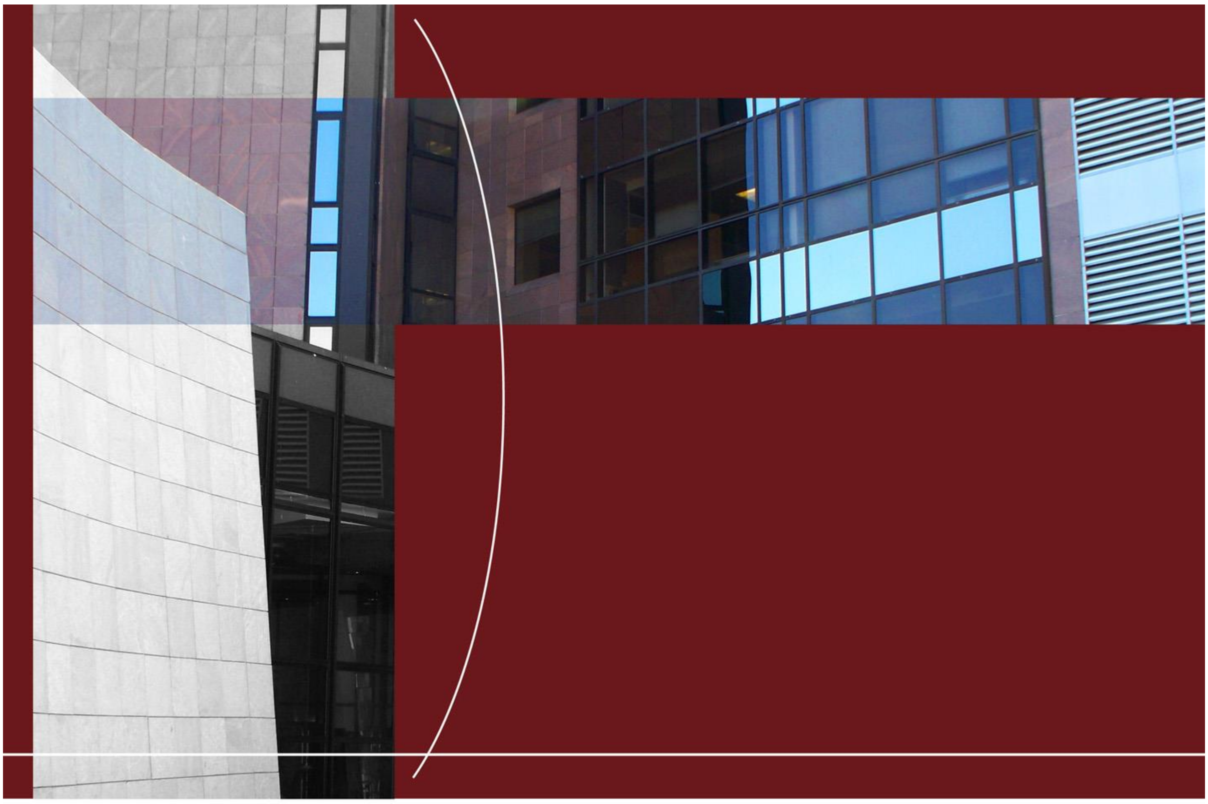
BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14th April 2015



Bank of Namibia

"Our vision is to be a centre of excellence"

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Minutes of the Monetary Policy Committee (MPC) Meeting held on the 14th April 2015

These are the minutes of the monetary policy deliberations at the meeting of the Bank of Namibia's MPC held on the 14th of April 2015.

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 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

Ipumbu Shiimi	Governor and Chairperson
Ebson Uanguta	Deputy Governor
Emile Van Zyl	Technical Advisor: Governor's Office
Dr Meshack Tjirongo	Technical Advisor: Research
Florette Nakusera	Director: Research Department (RD)
Titus Ndove	Director: Financial Markets Department (FMD)
Ndangi Katoma	Director: Strategic Communications & FSD[1]

OTHERS PRESENT

Heinrich Namakalu (Economist: RD), Ben Stephanus (Research Officer: RD), Sanette Schulze Struchtrup (Senior Economist: RD), Edler Kamundu (Deputy Director: RD), Helvi Fillipus (Senior Economist, FMD), Rehabeam Shilimela (Economist: RD), Reinhold Kamati (Senior Economist: RD), Erwin Naimhwaka (Senior Economist: RD), Petrus Shifotoka (Economist: RD).

Mukela Mabakeng (Economist: RD & Secretary)

APOLOGIES

None

[1] Financial Sector Development

Global economy

1. **The MPC noted that since its last meeting, the global economy continued to recover at a moderate, but uneven pace, supported by improving growth in some major advanced economies, while that of most emerging market economies slowed.** Economic activities in the US and the UK continued to support growth in the advanced economies. The Euro Area also improved marginally, while Japan remained in recession for the third consecutive quarter. Growth in key emerging market economies, such as Brazil, Russia, and South Africa slowed, while the Chinese economy remained steady on an annual basis, but softened on a quarter-on-quarter basis.

2. **The meeting took note that the global inflation has moderated in recent months and is expected to remain low in the short term, in line with the decline in oil prices and generally softer prices for other commodities.** Oil prices recovered somewhat in February and March 2015, but were expected to remain low in 2015. The prices for metal commodities remained generally soft, despite tight supply, especially for copper. Copper prices declined, despite the supply being regarded as relatively tight with only a small surplus being projected for 2015. Meanwhile, the zinc price increased marginally in February 2015, while uranium prices somewhat improved, on account of improved prospects for nuclear energy in China and Japan.

3. **Going forward, the global economy is projected to continue recovering steadily.** The MPC noted concurred that the pace of the recovery process remained fragile in most advanced economies, while the emerging market economies remain weak compared to their pre-crisis levels. The main concern of the MPC in this regard remains the global demand, particularly resulting from China's economic growth which trending lower.

4. **The MPC observed that the monetary policy stances in most economies remained accommodative and supportive of growth; amid a low inflation environment and softer commodity prices.** The advanced economies kept their policy rates unchanged. Among emerging market economies, China and Russia reduced their policy rates in March 2015, while Brazil increased its policy rate to contain high inflation.

Domestic economy

5. **The MPC noted that domestic economic activities improved growth prospects during the first two months of 2015, with inflation continuing to decline. Risks, however, remain the low commodity prices and the growing import bill, which exert undue pressure on the country's reserves.** The improvement in the domestic economy during the first two months was mainly driven by robust public and private construction activities, coupled with strong sales in wholesale and retail trade.

6. **Diamond mining and manufacturing activities also recorded positive growth**. While the transport sector, sea and rail appear to be weak, the fishing sector in terms of landings appears to be robust and supportive of growth although a slight decline was observed in 2014, due to reduced Total Allowable Catch for Hake and Horse Mackerel.

7. **Going forward, the Namibian economy is expected to grow by 5.6 percent in 2015, up from 5.3 percent in the preceding year.** Growth will be supported by robust construction public and private works, recovery in agriculture and sustained growth in wholesale & retail trade. Risks to the domestic growth remain mostly the weak growth in Namibia's major trading partners and low commodity prices, which may adversely impact investments in the mining sector.

8. **The MPC noted that the annual inflation rate slowed to 3.6 percent at the end of February 2015**. This was mainly reflected in the lower inflation rates for transport, as well as, housing, water, electricity, gas and other fuels. The recent decline in international oil prices resulted in the slowdown in transport inflation. Overall annual inflation is, however, expected to remain stable.

9. **Total credit extended to the private sector (PSCE) continued to grow strongly in February 2015, mainly driven by increased demand for credit by businesses**. PSCE expanded by an average rate of 16.2 percent during the last six months (i.e., September 2014 to February 2015), compared to 15.6 percent during the previous six months (i.e., March to August 2014). Of concern to the MPC was the high growth rate for instalment credit extended to households, which grew by 18.7 percent on average, over the last six months (i.e., September 2014 to February 2015).

10. **With regard to the External Sector, the MPC noted that the overall balance of payments recorded a deficit of N$1.8 billion, which represents 8.9 percent of GDP in 2014, due to the deteriorating current account deficit.** The merchandise trade deficit widened further by 48.7 percent to N$28.7 billion in 2014, owing to the rising

import bill. During 2014, the current account deficit widened to N$9.6 billion, compared to N$5.0 billion in the previous year. As a percentage of GDP, the current account deficit increased to 6.7 percent in 2014, from 4.0 percent in 2013, reflecting a high import bill.

11. **The MPC noted that, notwithstanding the rising import bill, the stock of foreign reserves stood at N$15.7 billion as of 10 April 2015.** At this level, the international reserves remained adequate to maintain the one-to-one link of the Namibia Dollar to the Rand. The MPC, however, remained concerned that the growing import bill is unsustainable; particularly the increased importation of unproductive goods, such as luxury vehicles.

MONETARY POLICY DELIBERATIONS

12. **The MPC considered global, regional and domestic economic and financial developments as highlighted above and decided to maintain the Repo rate at 6.25 percent, while assessing and monitoring the impact of the last MPC decision.** While MPC considered the recent decline in the growth of household overdraft loans as a positive development, it remained concerned about the high growth in instalment credit extended to households. A sizeable amount of these loans was still largely used to finance unproductive imported luxury goods, hence putting undue pressure on the international reserves of the country.