

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 12 June 2018



“Our vision is to be a centre of excellence”

Publication date: 15 August 2018

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
12th of June 2018**

These are the minutes of the Monetary Policy deliberations at the meeting of the Bank of Namibia MPC held on the 12th of June 2018.

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

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

APOLOGIES:

None

OTHERS PRESENT

Postrick Mushendami (Deputy Director: RD); Israel Zemburuka (Deputy Director: Corporate Communications); Sanette Schulze Struchtrup (Deputy Director: RD); Helvi Fillipus (Deputy Director: FMD); Saara Kashaka (Senior Economist: RD); Christian Phillipus (Senior Economist: RD); Rehabeam Shilimela (Senior Economist: RD); Daisy Mbazima (Senior Economist: RD), Elifas Iiyambula (Economist: RD), Ben Stephanus (Research Officer, RD).

SECRETARY

Victoria Manuel (Economist: RD)

ECONOMIC DEVELOPMENTS REPORT

GLOBAL ECONOMY

- 1. The MPC was informed that global economic activity moderated during the first quarter of 2018, mainly due to slower growth in most of the Advanced Economies (AEs).** Economic activity in the global economy moderated during the first three months of 2018; the slower growth is reflected in lower GDP growth in the US, Euro Area, UK and especially Japan. Economic activity among the Emerging Market and Developing Economies (EMDEs) improved slightly during the first quarter of 2018, with China, Russia and India driving the growth. The economies of Brazil and South Africa, however, recorded significantly lower growth during the same period. Going forward, global real GDP is projected to grow by 3.9 percent in 2018, compared to 3.8 percent in 2017. The projected growth is expected to be driven by a slight pickup in growth from both the EMDEs and AEs. Furthermore, the MPC was briefed about risks to the global outlook, which include amongst others higher levels of trade protectionism and geopolitical tensions.
- 2. The MPC noted that inflation rates in most of the monitored AEs trended downward in April 2018, compared to the previous month, while among EMDEs inflation outcomes diverged.** Inflation rates in all monitored AEs declined with the exception of the USA, whose inflation rose slightly during April 2018. Among the EMDEs, inflation rates remained unchanged in Russia, picked up in Brazil and India while it declined in China and South Africa.
- 3. Price indices for energy and metals increased in April 2018, compared to the preceding month.** Energy and metal price indices increased by 8.3 percent and 2.3 percent, respectively, in April 2018. The increase in the energy price indices was led by crude oil and natural gas, while the increase in the metal index was due to strengthening global demand, tightening supplies and trade frictions.
- 4. The MPC also noted that benchmark interest rates remained unchanged in all the monitored AEs and EMDEs in April and May 2018.** Central banks in both the AEs and EMDEs left their policy rates unchanged at their monetary policy committee meetings during April and May 2018. The central bank of India, however, raised its policy rate by 25 basis points early in June 2018.

- 5. In summary, the MPC noted the recent developments in the global economy including the risk to the global outlook, and deliberated on these matters.** The MPC members reflected about the recent setback to global economic growth and the risks to the global outlook, which could affect economic performance in 2018. The MPC expressed concern over the slower global growth experienced during the first quarter of 2018 and awaited further evidence to see whether this was just a temporary setback or whether the trend would continue throughout 2018.

DOMESTIC ECONOMY

- 6. A report on the developments in the domestic economy was also presented to the MPC and covered sectoral performances, the economic outlook update, private sector credit extension (PSCE), inflation and international reserves.**
- 7. The MPC noted that the domestic economic activity remained slow during the first four months of 2018 relative to the corresponding period of 2017, despite improvements in some key sectors.** Increased activity was observed in the mining, agriculture (particularly cattle marketed), manufacturing, as well as transport and communication sectors, while construction activity seemed to be bottoming out. Mining output was mainly supported by increased production of diamonds and uranium. On the contrary, activity in the wholesale and retail trade sector continued to decline during the same period.
- 8. Namibia's overall inflation rate declined during the first four months of 2018, compared to the corresponding period during 2017.** Annual inflation declined to 3.6 percent in the first four months of 2018, from 7.4 percent during the corresponding period last year. The decline in inflation was mainly due to a significant deceleration in inflation for food and non-alcoholic beverages as well as housing during the period under review. This was mainly on account of improved agricultural production, a favourable exchange rate and slower growth in the inflation rate for rental payments. On a monthly basis, the inflation rate rose marginally to 3.6 percent during April 2018, from 3.5 percent in March.
- 9. With regard to fiscal developments, the MPC was informed that the Central Government budget deficit narrowed during the first two months of 2018/19 fiscal year, while the total Government debt stock increased.** Central Government's budget deficit stood at N\$4.1 million during the first month of the 2018/19 fiscal year, significantly lower compared to N\$341.4 million registered during the corresponding period in the previous fiscal year. This was mainly due to lower

Central Government expenditure, particularly capital expenditure, during the period under review, compared to the corresponding month during the previous fiscal year. Moreover, the total Government debt stock rose to N\$75.3 billion at the end of April 2018, representing a yearly increase of 12.9 percent when compared to the debt stock recorded at the end of April 2017. The increase in debt was mainly due to increases in both the domestic and external debt, owing to the issuance of Treasury Bills (TBs) and Internal Registered Stock (IRS) in the domestic market, coupled with the disbursement of the first tranche of a loan from the African Development Bank (AfDB).

10. In summary, the MPC noted the recent domestic economic developments and the increase in Government debt. The MPC members had deliberations on the domestic economic development.

MONETARY POLICY DELIBERATIONS

11. The MPC deliberated 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 this level, the rate remained appropriate to continue supporting domestic economic growth, while maintaining the one-to-one link between the Namibia Dollar and the South African Rand.