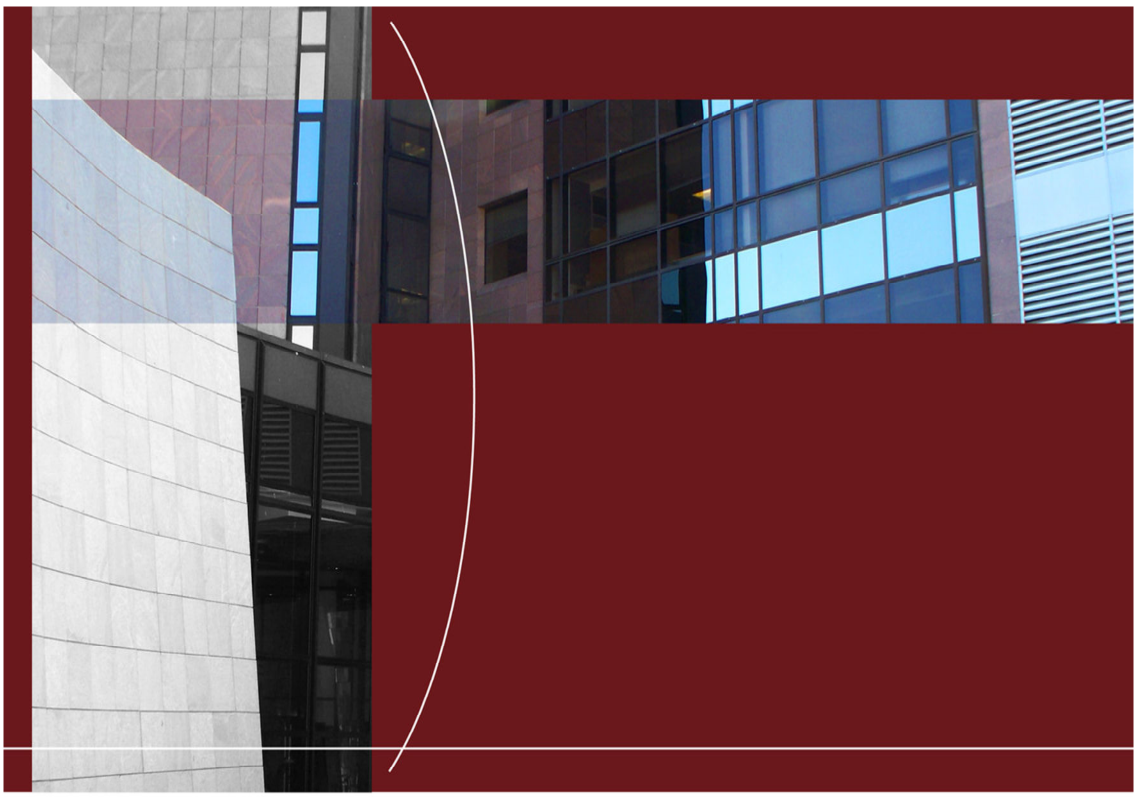
Bank of Namibia

Minutes of the Monetary Policy Deliberations at the Meeting of the Executive Committee (EC) of the Bank of Namibia

Windhoek, 15 April 2009



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MINUTES OF THE MONETARY POLICY DELIBERATIONS AT THE MEETING OF THE EXECUTIVE COMMITTEE (EC) OF THE BANK OF NAMIBIA HELD ON 15 APRIL 2009

EC MEMBERS PRESENT

Tom Alweendo (Chairperson and Governor), Paul Hartmann (Deputy Governor), Ipumbu Shiimi (Assistant Governor and Head of Financial Stability), John Steytler (Director of Research), Ben Biwa (Director of Financial Markets)

APOLOGIES

Mr M. Mukete (Director of Banking Supervision)

OTHERS PRESENT

Romeo Nel (Acting Director of Banking Supervision), Titus Ndove (Deputy Director: Financial Markets), Urbans Karumendu (Deputy Director: Financial Markets), Saara Mukumangeni-Kashaka (Risk Analyst: Financial Markets), Mally Likukela (Economist: Research), Fenniyakweni Shangula (Economist: Research)

Florette Nakusera (Economist: Secretary)

INTERNATIONAL ECONOMIC CONDITIONS

1. Members of the Executive Committee (EC) noted that the global economic outlook continued to deteriorate as most of the advanced economies continued to report negative growth. In this connection, it was noted that the International Monetary Fund (IMF) had recently estimated that the global economy will contract by between 0.5 percent in 1.0 percent in 2009. This would be the first global economic contraction since the Second World War.

2. EC members observed that since their previous meeting there has been some stabilisation in commodity markets, and in some instances a moderate recovery. Nevertheless, in line with weak global economic activity, commodity and financial markets generally remained depressed.

3. EC members expressed concern about the deteriorating growth prospects of the developed economies which would have adverse effects on the emerging and developing economies, mainly as a result of demand constraints. Although lower commodity prices have lead to a deceleration in inflation, it has substantially affected commodity exporters.

4. With respect to international financial markets, EC members observed that global financial markets continued to display weak performances with all major stock market indexes pointing downwards. The most pronounced slowdowns were reported in the US and the Euro markets, whereas the local stock market continued to be cushioned from the crisis by recording positive performance.

DOMESTIC ECONOMIC CONDITIONS

5. EC members were informed that Namibia's key primary sector exports, most notably diamonds, continues to be adversely affected by the depressed global economic conditions. In this connection, the latest forecast by the Research Department showed that real GDP growth was expected to decelerate to 0.4 percent in 2009, compared to a growth of 1.0 percent projected in February. It was further expected that there would be an additional contraction of activity in the mining sector, mainly owing to a less favourable outlook for diamond mining. This was directly linked to the deeper than projected contraction of the world economy that led to a rapid decline in the demand for commodities. On the other hand, EC noted that the uranium sector remained stable, hence reflecting positive growth and this could be attributed to the fact that uranium supply agreements were long term in nature. As a result, the effects of the global crisis were not that visible in this particular sector.

6. It was reported that the tourism sector still fared well in the fourth quarter of 2008. EC members, however, expected that due to the rapid global slowdown, the number of tourist arrivals would decline or at best remain unchanged in 2009.

7. The agricultural sector performed relatively better in February 2009 than in January as the number of cattle slaughtered increased. However, the number of small-stock slaughtered decreased both on an annual basis and on a monthly basis. The latter decrease was due to the favourable rainfall that encouraged farmers to restock their heards, and also the on-going marketing re-arrangement negotiations. On a year-on-year basis total number livestock marketed also displayed significant decreases.

8. Construction activity remained stable during February 2009 as indicated by the annual growth in the number of building plans approved. This was supported by an increase in cement imports, which rose 42 percent, year-on-year, during March 2009.

9. EC also noted that the transport sector performed relatively well, as Namport's monthly operations at Walvisbay remained strong in February 2009. Cargo landed increased significantly month-on-month as well as year-on-year, while the volume of cargo landed at Lüderitz declined over the same periods emanating from the bulk cargo applicances category, which comprises predominantly of supplies destined for Scorpion Zinc. It was, however, noted that the performance of this category was irregular as it mostly depended on the frequency of the orders from Scorpion Zinc.

10. EC members further noted a moderation in vehicle sales on an annual basis, as total vehicle sales in February 2009 declined by 8.36 percent to 756 units from 825 units one year earlier. Month-on-month, the number of vehicles sold however increased by 12.67 percent from 671 percent in January 2009. The month-on-month increase was mainly due to a recovery in the commercial vehicle sales as both light and medium commercial vehicles came from a low base.

11. EC members noted that since the last EC meeting, the annual rate of inflation remained unchanged at 11.6 percent in January and February 2009, reflecting stabilization in most categories in the consumption basket. Although international food prices have started to abate, the annual rate of domestic food price inflation remained at an uncomfortably high level of 16.1 percent in February. It was expected that the recently announced zero rating of VAT on additional food items, would somewhat ease price pressures from food. Transport inflation, the other key driver of overall inflation, moderated further to 9.5 percent in February. However, with the recent increase in the pump prices of petrol and diesel and those announced for that week, this development was expected to be short-lived.

12. Looking ahead, EC noted that inflation forecasts, using the latest available data at the time, which included inflation data up to February 2009, have shown that the rate of inflation would moderate to reach 11.5 percent in the first quarter of 2009. The determinants showed that inflation reached its peak in the 3rd quarter of 2008 and, all things remaining the same are expected to continue declining into the second quarter of 2009 to 9.9 percent. Fuel prices were nevertheless expected to slightly increase due to the under-recovery on the slate account.

13. Regarding monetary and financial developments, the annual growth rate of credit extended to the private sector slowed to 9.9 percent in February from 11 percent in the previous month. The decline was mainly reflected in growth of credit to individuals falling to 8.1 percent, while credit to businesses increased by 13.3 percent on an annual basis. The expansion of collateralized credit, which is dominated by mortgage and installment credit, slowed to 10.4 percent in February from 10.8 percent in January. Thus, overall domestic credit conditions remain relatively constrained. EC also observed the reduction in the overall liquidity position of commercial banks by 14.8 percent to an average of N$600, 237 million in March 2009 from N$704,253 million one month earlier, much less than the N$1.2 billion in excess liquidity recorded during the corresponding month of the previous year.

14. EC noted that for the month of March 2009, the stock of international reserves increased to N$14.4 billion from N$14.0 billion in February of the same year. The level of reserves recorded its highest level on a quarterly basis for the first quarter and was still on an increasing trend, which largely reflected the Government's commitment to fiscal prudence. The high level of reserves indicated that there has been no undue pressure to honour the country's foreign liabilities. Members expressed their satisfaction with the comfortable reserves position as this provided a significant pillar to sustain the currency peg.

15. Members were informed that the performance of the Namibian Stock Exchange (NSX) was mixed since their last meeting, as reflected by the volatility in the overall index, while the local index remained more resilient. The volatility observed on the NSX was the result of the turbulence in the global stock market stemming from the sub-prime lending fall-outs in the US.

16. Fiscal developments since the last EC meeting remained fairly stable and steady in terms of the relation of domestic debt to GDP. The ratio of domestic debt to GDP slightly increased to 14.6 percent in March 2009 from 14.4 percent in February. The increase reflected similar increases in Treasury bills outstanding from 5.2 percent in February to 5.3 percent in March 2009, as well as in Internal Registered stocks outstanding from 9.2 percent in February to 9.3 percent in March 2009.

Considerations for Monetary Policy

17. The EC noted that since its previous monetary policy meeting, the turmoil on global financial markets continued and was spreading. While this development had negatively impacted on the outlook of the international economy in terms of declining equity prices across major stock markets, there were also encouraging signs that some exogenous factors, such as high food and fuel prices that have to a large extent driven domestic inflation, have started to abate. Nevertheless, the outlook on imported inflation remained less optimistic in view of the recent depreciation of the exchange rate.

18. Notwithstanding the sideward movement and relatively elevated level of the inflation rate in February 2009, members remained confident that its key anchor and intermediate target to ensure long-term price stability, namely the currency peg, remained

sustainable. In this connection, there has been a further improvement in liquidity conditions in the banking system, with no undue or detrimental outflow of capital. The level of international reserves, it was still regarded as more than sufficient to support the currency peg.

19. Taking into consideration both the international and domestic economic conditions, members were of the view that a further round of monetary policy easing was necessary to support the local economy by providing a stimulus for consumer and investment demand expansion. They noted that during the current global economic crisis, economic conditions were changing rapidly, and resolved to continuously monitor domestic and international economic developments and take the necessary actions if needed to defend the peg, and ensure financial stability.

The Decision

20. Against this background, the EC resolved unanimously to reduce the Repo Rate by a further 100 basis points to 8.0 percent with effect from 16 April 2009.