

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 16th – 17th August 2021



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the
16th and 17th of August 2021**

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emma Haiyambo	Director: Strategic Communications & FSD
Florette Nakusera	Director: Research and Financial Stability Department (RFSD)
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSD
Emile van Zyl	Technical Advisor: Governor's Office

APOLOGIES None

OTHERS PRESENT

Sanette Schulze Struchtrup (Deputy Director: RFSD); Barbara Dreyer (Director: Payment & Settlement Systems); Postrick Mushendami (Deputy Director: RFSD); Valeria Mbango (Deputy Director: Strategy, Projects and Transformation); Gerson Kadhikwa (Technical Expert: RFSD); Grace Hamauka (Principal Economist: RFSD); Saara Mukumangeni-Kashaka (Principal Economist: RFSD); Christian Phillipus (Principal Economist: RFSD); Daisy Mbazima-Lando (Principal Economist: RFSD); Mukela Mabakeng (Principal Economist: RFSD); Rehabeam Shilimela (Principal Economist: RFSD); Elifas Iiyambula (Senior Economist: RFSD); Diina Hamutumwa (Senior Economist: FMD); Sevelia Nakalemo (Economist: FMD); Tangeni Shatiwa (Graduate Accelerated Program Candidate: RFSD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department); Brian Mbazuvara (Principal Economist: RFSD).

SECRETARY

Victoria Manuel (Senior Economist: RFSD).

ECONOMIC DEVELOPMENTS REPORT

As usual, reporting on economic developments was split into the international and domestic components. First, a report on global economic developments was presented to the MPC members.

GLOBAL ECONOMY

- 1. Global economic activity improved in the second quarter of 2021, compared to the previous quarter.** Global economic activity improved in the second quarter of 2021, mainly led by growth in the United States (US) and China. Improvement in global economic activity was driven by the successful COVID-19 vaccine rollouts and fiscal stimulus measures employed by the AEs. Going forward, the International Monetary Fund (IMF) has projected the global economy to grow by 6.0 percent in 2021, unchanged from the April 2021 World Economic Outlook (WEO). The economic growth outlook for 2022, however, was revised upwards by 0.5 percentage point to 4.9 percent. The projected growth in both 2021 and 2022 was attributed to the low base set in 2020, the potential positive effect of the successful rollout of COVID-19 vaccines on economic activity, as well as the anticipated additional fiscal support in the US, with its associated positive spill over to the global economy.
- 2. Key risks to the global economic outlook include** setbacks in access to and deployment of COVID-19 vaccines, especially for EMDEs as vaccine-resistant strains may develop during an extended duration of the pandemic caused by delays in vaccine distribution. Moreover, escalating geopolitical tensions also pose potential headwinds for global economic activity.
- 3. AEs and EMDEs economic activity improved year-on-year during the second quarter of 2021.** The growth improvement in the AEs, was mainly driven by growth expansions in the US and Euro area, supported by the rapid pace of COVID-19 vaccination rollouts and continued government responses to the pandemic. In the EMDEs, the economy of China recorded an annual growth rate of 7.9 percent in the second quarter of 2021. China's growth was sustained by a steady recovery in production, demand and improved market expectations. The IMF revised the projected GDP growth for AEs by 0.5 percentage point to 5.6 percent in 2021 and by 0.8 percentage point to 4.4 percent in 2022. For the EMDEs, the IMF revised the 2021

growth downward by 0.4 percentage point to 6.3 percent mainly due to slow vaccine rollouts, while a 5.2 percent growth was projected for 2022, which translates into an upward revision of 0.2 percentage point from the April 2021 WEO.

- 4. Stock markets generally continued to improve since the last MPC meeting in June 2021, supported by robust corporate profits and stimulus support.** Stock markets, including the Standard & Poor 500, German DAX, UK's FTSE100 and South Africa's JSE all share index recorded yearly and monthly gains since the last MPC meeting. The positive stock market performance was attributed to the robust corporate profits and global stimulus support. In addition, share prices benefitted from the improved economic outlook, the rollout of COVID-19 vaccines, as well as the continuation of a low interest rate environment globally. On the contrary, Japan's Nikkei and China's FTSE generated losses during the period under review.
- 5. The international crude oil price increased in July 2021 compared to the preceding month.** The price of Brent crude oil increased by 2.1 percent and 74.2 percent, on a monthly and yearly basis, respectively, to average US\$73.3 per barrel in July 2021 from US\$71.8 per barrel in the previous month. The increase was mainly on the back of recovering demand and concerns over an increasingly tight outlook in supply. The yearly increase in the oil price was propelled by the decision by the Organisation of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters (OPEC+) to keep the supply of oil lower than the demand in the market. On the 16th of August 2021, the price of Brent crude oil stood at US\$69.5 per barrel.
- 6. The uranium price increased monthly, but declined annually, while the price of gold declined both monthly and annually in July 2021.** The price of uranium increased by 0.5 percent on a monthly basis but declined by 14.8 percent on a yearly basis and averaged US\$32.4 per pound in July 2021, from US\$32.2 per pound in June 2021. The monthly increase was due to the US and UK governments' support for the nuclear power industry as well as purchases of nuclear fuel from the spot market by developers. On the 16th of August 2021, the uranium price stood at US\$32.4 per pound. The price of gold declined by 1.4 percent and 2.1 percent on a monthly and annual basis, respectively, to average US\$1 808 per ounce in July 2021 from US\$1 835 per ounce in the previous month. The decline in the price of gold was attributed to the

Fed's announcement that it could hike interest rates twice in 2023, and the strong US dollar. The gold price increased slightly to US\$1 790 per ounce on the 16th of August 2021.

- 7. The MPC was informed that the price of copper and zinc declined monthly but increased yearly in July 2021.** The copper price declined by 9.0 percent on a monthly basis and increased by 48.3 percent yearly, respectively, to average US\$9 451 per metric tonne in July 2021 from US\$9 632 per metric in June 2021. The annual increase in the price of copper was sustained by high demand, compounded by green initiatives compared to the previous year. The copper price declined further and stood at US\$9 445 per metric tonne on the 16th of August 2021. Similarly, the price of zinc declined slightly by 0.2 percent and increased by 35.4 percent on a monthly and yearly basis, respectively, to average US\$2 948 per metric tonne in July 2021 from US\$2 952 per metric tonne in the preceding month. The annual increase in the price of zinc was also driven by a recovery in demand, massive stimulus packages in the US and bullish investor sentiment. As of the 16th of August 2021, the zinc price increased marginally to US\$3 029 per metric tonne.
- 8. The MPC noted that since the last MPC meeting, inflation rates increased among the key monitored economies, but generally remained contained in June 2021.** Inflation increased in most of the monitored AEs and EMDEs, mainly due to higher energy and other commodity prices, supply bottlenecks as well as a recovery in economic activity. Despite the rise, inflation remained reasonably contained in both the major AEs and EMDEs.
- 9. Since the last MPC meeting in June 2021, most monitored central banks maintained accommodative monetary policy stances at their most recent MPC meetings.** Most monitored central banks left their policy rates unchanged, while continuing to implement supportive non-conventional monetary policy measures. The central banks of Russia and Brazil, however, raised their policy rates in July and August 2021, respectively, citing inflationary pressures. Regardless, the monetary policy of all monitored central banks remained relatively accommodative.
- 10. In summary, the MPC noted the recent global economic developments as presented and deliberated on these developments.**

DOMESTIC ECONOMY

A report on the developments in the domestic economy was presented to the MPC.

11. The MPC was informed that domestic economic activity remained subdued during the first half of 2021. The weak economic activity was mainly reflected in a slowdown in the tourism, mining, agriculture, manufacturing, construction, as well as the transport and storage sectors. On the contrary, since the last MPC meeting in June 2021, activity in the wholesale and retail trade sector increased, while activity in the local electricity generation subsector declined. Going forward, the domestic economy was expected to grow by 1.4 percent in 2021, lower than the 2.7 percent reported in the previous MPC meeting. Risks to the domestic economic outlook remain and include surges in COVID-19 cases with concomitant disruptions to economic activity as a result of COVID-19 restrictions. Hence, the successful procurement, expeditious rollout as well as large-scale uptake of COVID-19 vaccines remain key to the extent and speed of the economic recovery.

12. The inflation rate increased during the first seven months of 2021 relative to the same period in 2020. The annual average inflation increased to 3.5 percent during the first seven months of 2021, compared to 2.1 percent for the corresponding period in the previous year. The increase in inflation was mainly driven by the food and transport categories, on account of supply constraints particularly for meat and a rise in international oil prices, respectively. On a monthly basis, overall inflation moderated to 4.0 percent in July 2021 from 4.1 percent in June 2021. Overall inflation is projected to average around 3.9 percent for 2021, slightly higher than the previous forecast of 3.6 percent reported in the June 2021 MPC meeting.

13. The MPC was informed that the annual growth in private sector credit extension (PSCE) declined during the first six months of 2021. Growth in PSCE slowed to an average of 2.4 percent for the first six months of 2021, lower than the average of 4.7 percent recorded during the same period in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households, as a result of slow domestic economic activity during the review period. Since the last MPC meeting, year-on-year growth in PSCE declined to 2.7 percent at the end of June 2021 from 3.1 percent at the end of April 2021, due to base effects as well as the sluggish economy.

- 14. The total Government debt stock increased over the year to the end of June 2021.** The total Government debt stock stood at N\$118.9 billion at the end of June 2021, representing a yearly increase of 17.5 percent, compared to the corresponding period in the previous year. The increase was driven by a rise in domestic debt due to the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) to finance the Central Government deficit as well as the disbursement of supplementary financing from the African Development Bank (AfDB) towards the budget deficit. The total debt as a percentage of GDP stood at 63.8 percent at the end of June 2021, representing an increase of 6.9 percentage points compared to the corresponding period in 2020. Going forward, the total debt stock is anticipated to rise to N\$159.8 billion during the 2023/24 fiscal year, which will represent 77.3 percent of GDP.
- 15. It was reported that Namibia's merchandise trade deficit worsened during the first half of 2021, attributed to a decline in export earnings while import payments increased.** Namibia's trade deficit widened to N\$13.8 billion during the first half of 2021, from N\$5.0 billion in the same period of the previous year. The worsening trade deficit was attributed to the decline in merchandise exports to N\$21.3 billion, largely reflected by a decline in earnings from across major mineral export categories such as uranium, rough diamonds, and gold. On the contrary, the value of merchandise imports increased to N\$35.1 billion during the first six months of 2021 from N\$29.8 billion during the same period in 2020. The increase in imports was observed in most major categories including consumer goods, products of the chemical industries, machinery, mechanical, and electrical appliances as well as vehicles, aircraft and vessels. The increased import bill was largely a result of base effects from strict lockdowns across countries during the same period of last year, that limited the imports of nonessential goods.
- 16. The MPC was further informed that the stock of international reserves increased in July 2021.** As at the 31st of July 2021, the stock of international reserves stood at N\$42.7 billion compared to N\$39.0 billion reported in the previous MPC meeting. The increase in the level of international reserves was mainly attributed to the quarterly SACU revenue received in early July 2021. At that level, the international reserves were estimated to cover 6.4 months of imports. In this regard, Namibia's international reserves remained sufficient to protect the peg of the Namibia Dollar to the South African Rand, while meeting the country's international financial obligations.

17. In summary, the MPC noted the recent domestic economic developments as presented and deliberated further.

ADOPTION OF THE MONETARY POLICY STANCE

18. The MPC deliberated on both the global and domestic economic developments, as highlighted above. The MPC members reflected on the recent developments in the global and domestic economies and noted that:

- Due to the positive effects of the COVID-19 vaccine rollouts and fiscal support in the AEs, the global economy continued to progress on a positive recovery path, although uncertainties regarding the development of COVID-19 new variants, geopolitical tensions and natural disasters remained risks to the global economic recovery.
- Inflationary pressure in the global economy increased but remained contained and posed no immediate economic or financial risk, and as a result, policy rates were maintained in most of the monitored economies.
- The domestic economic activity remained weak and far from the pre-COVID-19 levels, with no significant new developments since the last MPC meeting in June.
- The uptake of domestic credit remained low while the inflation rate increased to a level above the repo rate, which is structurally concerning and poses a risk to the sustainability of the current level of the Repo rate, a situation which is closely monitored by the MPC.
- In addition, the fiscal space situation remained alarming, while the current account was under pressure, due to a decline in export earnings and an expansion in imports.
- The level of liquidity of the banking sector remained healthy, whereas the international reserves remained adequate and could benefit from the forthcoming SDR allocation by the IMF but might be under pressure towards the end of the year due to foreign debt repayments and increases in imports in line with current developments.
- The MPC noted that the Repo rate was already at its lowest level since independence and maintained consensus that there was no room for further adjustment from a monetary policy perspective and that there was a need for other strategies outside monetary policy, to complement efforts to grow the economy.
- The MPC noted that the COVID-19 vaccination policy was key to the economic recovery. In this regard, it was highlighted that the successful procurement, expeditious rollout as well as large-scale uptake of COVID-19 vaccines remained key to the extent and speed of the economic recovery.

19. After considering developments in all key macro-economic variables as reflected above, the MPC decided to leave the Repo rate unchanged. The MPC decided to keep the Repo rate unchanged at 3.75 percent. This decision was taken following a review of the global, regional and domestic economic and financial developments, and taking due cognisance of the headwinds presented to both the global and domestic economy on account of the COVID-19 outbreak and impact. The MPC was mindful of the need to provide sustainable support to the domestic economy and simultaneously to safeguard the currency peg.