

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14 - 15 August 2023



**“Our Vision is to be a leading central bank committed to a prosperous
Namibia”**

**Minutes of the MPC Virtual Meeting held on
14th and 15th August 2023**

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor
Ebson Uanguta	Deputy Governor (Chairperson)
Leonie Dunn	Deputy Governor
Emma Haiyambo	Director: RFSDD ¹
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSDD

SECRETARY

Doughlas Ndana (Senior Economist: RFSDD)

APOLOGIES

Romeo Nel Technical Advisor to the Governor (Partial attendance)

¹ Research and Financial Sector Development Department (RFSDD)

OTHERS PRESENT

Kazembire Zemburuka (Director: Strategic Communications and International Relations); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Jaungura Kaune (Senior Economist: RFSDD); Hileni Shifotoka (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD).

PARTIAL ATTENDANCE

Ancois Plaatje (Acting Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Karin Elago (Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department).

ECONOMIC DEVELOPMENTS REPORT

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

THE GLOBAL ECONOMY

- 1. Preliminary data indicated that global economic activity improved during the second quarter of 2023, relative to the previous quarter.** This was on account of the strong private consumer spending in the US and the base effects in the Chinese economy, following the easing of Covid-19 restrictions. The US economy grew by 2.6 percent during the second quarter of 2023, from 1.8 percent in the previous quarter.

Similarly, the Chinese economy registered a growth of 6.3 percent during the second quarter, up from 4.5 percent in the first quarter of 2023.

- 2. The global growth was forecast to moderate in 2023, but this forecast had been revised upwards.** In its July 2023 World Economic Outlook (WEO), the International Monetary Fund projected global growth to fall from 3.5 percent in 2022 to 3.0 percent in 2023, a 0.2 percentage point upgrade compared to its April 2023 projections. Advanced Economies (AEs) were expected to continue to shape the moderation in the global economy. Accordingly, growth in the AEs was projected to grow by 1.5 percent in 2023 from 2.7 percent over the previous year. Emerging Market and Developing Economies' (EMDEs) growth was expected to be broadly stable at 4.0 percent in 2023. These were modest upward revisions compared to previous projections in which growth projections in the AEs and EMDEs were expected at 1.3 percent and 3.9 percent, respectively.
- 3. Risks to global growth were reported to have remained on the downside.** Key downside risks to the global economic outlook were food insecurity following the suspension of the Black Sea Grain Initiative, possible deepening of geoeconomic fragmentation and China's recovery underperformance. Other significant risks included tighter global monetary conditions and rising debt distress.
- 4. The average international prices of Brent crude oil increased on a monthly but declined on an annual basis in July 2023.** Brent crude oil prices rose by 7.8 percent, month-on-month, but declined by 24.8 percent on an annual basis to an average of US\$78.98 per barrel in July 2023. Brent crude oil prices were higher monthly due to an uptick in global demand supported by OPEC production cuts. The yearly decline was attributed to China's recovery underperformance and base effects following the unexpected advent of the Russia-Ukraine conflict in 2022. On the 11th of August 2023, Brent crude oil prices were higher at US\$86.81 per barrel.
- 5. The MPC was informed that copper and zinc prices were higher in July 2023.** The average price of copper rose slightly by 1.0 percent month-on-month, and by 12.4 percent, year-on-year, to US\$8 476.68 per metric tonne in July 2023. Zinc prices on the other hand rose by 1.2 percent on a monthly basis but fell by 22.6 percent on an annual basis to an average of US\$2 404.65 per metric tonne in July 2023. The higher prices in the month under review were mainly on the back of fiscal stimuli in China and

weaker supply. On the 11th of August 2023, the prices of copper and zinc were lower at US\$8 294.50 per metric tonne and US\$2 397.50 per metric tonne, respectively.

- 6. Uranium and gold prices were higher on a monthly and annual basis in July 2023.** Uranium spot prices increased by 0.5 percent monthly and by 18.1 percent annually, to an average of US\$56.38 per pound in July 2023, driven by the persistent drive for clean, secure and low-cost energy. Similarly, the price of gold increased by 0.4 percent month-on-month and by 12.6 percent on an annual basis to average US\$1 951.02 per ounce in July 2023. This was on account of sustained investors' safe-haven purchases, strong demand from central banks and large corporations as well as the slower pace of increase in interest rates. On the 11th of August 2023, the price of uranium was slightly higher at US\$56.86 per pound, while that of gold moderated to US\$1 946.60 per ounce.
- 7. The Diamond Index (IDEX) declined on a monthly and annual basis, while the global food price index edged up monthly but declined yearly.** The IDEX declined both monthly and annually by 2.9 percent and 19.9 percent, respectively, to an average of 119.6 index points in July 2023, mainly due to weaker global consumer demand. Meanwhile, the FAO Food Price Index ticked up slightly by 1.3 percent to an average of 23.90 points in July 2023 but declined by 11.9 percent year-on-year. While the Black Sea Grain Initiative had resulted in lower food prices over the year to the end of June 2023, its suspension, coupled with India's restrictions on rice exports increased food prices in July 2023 compared to the prior month.
- 8. Since the last MPC meeting, inflationary pressures in the monitored economies generally subsided.** Among the AEs, inflation eased in the United Kingdom and the Euro Area, while it increased slightly in the US and Japan. Moreover, it ticked somewhat higher in Brazil, Russia and India among the key monitored EMDEs. China recorded deflation while South Africa's inflation rate slowed. A number of the monitored central banks kept their policy rates unchanged at their latest monetary policy meetings, including the South African Reserve Bank. However, the US Federal Reserve, the Bank of England, the European Central Bank as well as the Bank of Russia increased rates since the last BoN MPC meeting to continue taming and anchoring inflation.

- 9. MPC members were further sensitised about developments in selected economies.** Starting in South Africa, it was noted that economic activity remained weak on the back of load-shedding. The consumer and business confidence remained low, while the purchasing manager's index continued to contract. Notwithstanding, the economy emerged from a contraction registered in the fourth quarter of 2022 to a marginally positive growth rate during the first quarter of 2023. It was further stated that sluggish global demand negatively affected China's exports. On the domestic front, growth in China was curtailed by downward pressure in the retail sales and manufacturing sectors although the fiscal stimuli were expected to boost economic activity.
- 10. In summary, the MPC noted the recent global economic developments.**

THE DOMESTIC ECONOMY

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

- 11. Namibia's real GDP growth picked up during the first quarter of 2023 and remained robust year-to-date.** The MPC was informed that the Namibian economy grew by 5.0 percent during the first quarter of 2023, higher than the 2.1 percent in the final quarter of 2022. The improved growth was widely spread across the various sectors of the economy. Nonetheless, the first quarter growth was lower compared to the 7.3 percent recorded during the first quarter of 2022, mainly due to contractions in *financial services, manufacturing, and public administration and defence* sectors. Year-to-date, the economy continued with its positive momentum as reflected in increased activity in the *mining, livestock marketing, wholesale and retail trade, communication and tourism* sectors. Going forward, however, real GDP growth was expected to slow down to about 3.3 percent for 2023 compared to 4.6 percent registered in 2022, on account of slower growth in the primary industry, particularly in the *mining and agriculture* sectors.
- 12. MPC members noted that risks to the domestic economic outlook, emanating from both external and internal factors, remained broadly unchanged.** External factors include weakening global economic activity, tighter global monetary policy, elevated crude oil prices and continued geopolitical tensions. Internal risks included

the current drought, uncertain rainfall conditions, water supply interruptions, particularly in the coastal towns, and general infrastructure constraints.

13. The inflation rate remained elevated during the first seven months of 2023.

Namibia's annual inflation rate was 6.2 percent, on average, during the first seven months of 2023, relative to 5.3 percent over the corresponding period in 2022. The rise in the average consumer prices continued to be predominantly driven by food and housing price inflation. Nevertheless, on a monthly basis, annual inflation declined to 4.5 percent in July 2023 from 5.3 percent in June 2023. Looking ahead, annual inflation was projected to average 5.6 percent in 2023, 0.4 percentage point lower compared to the forecast at the previous MPC meeting. The revision was mainly on the back of the more-than-anticipated deflation in the transport category.

14. The MPC was informed that the annual growth in Private Sector Credit Extension (PSCE) improved slightly since the last MPC meeting.

The annual growth in PSCE improved to 3.0 percent in June 2023 from 2.6 percent in April 2023, albeit remaining low in a historical context. The rise in PSCE growth was attributed to an increase in the demand for credit by the household sector, especially in the categories of *mortgage* and *instalment sales and leasing* credit. Demand for credit by businesses, however, contracted since the last MPC meeting, mainly driven by repayments across most business credit categories.

15. The MPC was, however, informed that Central Government debt stock continued to rise over the fiscal year to the end of June 2023.

Total Central Government debt stock amounted to N\$145.5 billion at the end of June 2023, rising by 11.7 percent yearly. The rise was driven by an increase in the issuance of both Treasury Bills and Internal Registered Stock and the disbursement of the AfDB and KFW loans. As a percentage of GDP, total Central Government debt was 67.2 percent at the end of June 2023, representing a yearly increase of 0.2 percentage point, but declined monthly by 0.1 percentage point. Over the MTEF period, the total debt stock was anticipated to rise to N\$166.2 billion, 69.0 percent of GDP and remaining above the SADC benchmark of 60.0 percent.

16. On the external front, it was stated that Namibia's merchandise trade deficit narrowed over the first half of 2023, as exports increased faster than imports.

The merchandise trade deficit narrowed by 18.6 percent to N\$15.4 billion over the first

half of 2023 compared to the same period in 2022, as exports rose faster than imports. The rise in export earnings was reflected in uranium, diamonds, gold and fish exports due to increased volumes as well as the depreciation of the Namibia Dollar/Rand exchange rate.

17. The MPC noted that the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations. As at the 31st of July 2023, the stock of international reserves was higher at N\$54.2 billion compared to N\$53.0 billion recorded at the end of June 2023 and N\$49.7 billion at the end of May 2023, which was reported at the preceding MPC meeting. The increase in the official reserves was predominantly due to higher SACU receipts, export earnings from diamonds and the weaker exchange rate. At this level, the stock of international reserves was estimated to cover 5.7 months of imports. The stock of international reserves remained sufficient to support the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

18. The MPC noted the recent developments in the domestic economy as presented.

ADOPTION OF THE MONETARY POLICY STANCE

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

- The world economy was resilient although it remained weak by historical standards.
- Global real GDP growth for 2023 was revised slightly downwards compared to earlier projections. Downside risks to the outlook included the possible deepening of geoeconomic fragmentation, China's recovery underperformance, tighter global monetary conditions and rising debt distress.
- Global inflationary pressures receded, despite inflation remaining above target in many economies. As such, monetary policy stances remained broadly tight.
- Most commodity prices were relatively high, except in the case of diamond prices, which tend to be highly responsive to economic activity.
- In the region, particularly in South Africa, growth emerged from a contraction although this could be undermined by low consumer and business confidence, load-shedding, exchange rate volatility and civil upheaval.

- Domestically, economic activity improved during the first quarter of 2023 with continued year-to-date momentum. However, this could in part be undermined by weak global growth, drought and uncertain weather conditions going forward.
- Domestic inflation decelerated resulting in higher real interest rates.
- On the fiscal front, the Central Government budget balance was positive as Government revenues increased faster than expenditures.
- The level of liquidity in the banking sector remained healthy, while PSCE growth remained overly subdued.
- Foreign exchange reserves remained adequate, and the merchandise trade deficit narrowed.

20. After considering the developments in all key macroeconomic variables as reflected above, the MPC agreed to keep the Repo rate unchanged. The MPC considered the implications for maintaining as well as closing the interest rate gap between Namibia and South Africa and decided to keep the Repo rate unchanged at 7.75 percent. Likewise, the prime lending rate remained the same at 11.50 percent. This policy stance was deemed necessary to continue safeguarding the one-to-one link between the Namibia Dollar and the South African Rand, while supporting domestic economic activity.