

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 23 - 24 October 2023



Bank of Namibia

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

**Minutes of the MPC Virtual Meeting held on 23rd and Physical Meeting
held on 24th October 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
Romeo Nel	Technical Advisor to the Governor (Partial attendance)

SECRETARY

Doughlas Ndana (Senior Economist: RFSDD)

APOLOGIES

None.

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); Daisy Mbazima-Lando (Principal Economist: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Technical Expert: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Elifas Iyambula (Senior Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Metilda Ntomwa (Senior Economist: RFSDD); Hileni Shifotoka (Senior Economist: RFSDD); Charlotte Tjeriko-Katjjuanjo (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD). Sevelia Nakalemo (Economist FMD); Merrinah Siboli (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD).

PARTIAL ATTENDANCE

Ancois Plaatje (Director: Banking Supervision Department); Imanuel Hawanga (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. It was indicated that the global economy held up relatively stronger during the second quarter of 2023, when compared to the previous quarter.** This was on the back of more green shoots among the key monitored global economies during the second quarter of 2023, relative to the previous quarter. In particular, the US economy grew by 2.6 percent during the second quarter of 2023, up from 1.8 percent in the

previous quarter, on account of robust private consumer spending. The Chinese economy registered a growth rate of 6.3 percent during the second quarter of 2023, up from 4.5 percent in the first quarter of 2023, mainly due to low base effects. Likewise, the economies of the United Kingdom, Euro Area, Russia and South Africa all expanded faster than in the previous quarter.

2. MPC members were sensitised about developments in selected economies.

Members noted that economic activity in South Africa expanded moderately, quarter-on-quarter, as the impact of load-shedding abated, somewhat. Business and consumer confidence improved, but the purchasing manager's index continued to contract. Further away from the Namibian borders, the Chinese economy was reported to have improved but remained underperforming. The US economy held up well, evidenced, in part, by the September 2023 rebound in industrial production, ongoing gains in retail sales and the lower-than-anticipated unemployment levels.

3. The MPC noted that global growth prospects for 2023 and 2024 were expected to remain modest.

In its October 2023 World Economic Outlook (WEO), the International Monetary Fund projected global economic growth to gradually moderate from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The slowdown was mainly expected in the Advanced Economies (AEs), which were projected to slow significantly to 1.5 percent and 1.4 percent in 2023 and 2024, respectively, from 2.6 percent in 2022. Meanwhile, growth in the EMDEs was expected to relatively decline modestly from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024. It was noted that there were no overall revisions in the AEs' expected growth rates, relative to the July 2023 WEO. Meanwhile, the 2024 expected growth rates for the global economy and the EMDEs were revised slightly downwards by 0.1 percentage point in the October 2023 WEO.

4. Despite the observed favourable growth, numerous downside risks remained.

Key downside risks to the global economic outlook were centred around food security due in part to extreme weather conditions, the long-term consequences of the Covid-19 pandemic and the potential intensification of both geopolitical tensions as well as geoeconomic fragmentation. Other significant risks included the likelihood of higher-for-longer global interest rates and rising debt distress.

- 5. The average international price of Brent crude oil increased both monthly and annually in September 2023.** Brent crude oil prices rose by 8.8 percent, month-on-month, and by 4.5 percent, year-on-year, to an average of US\$92.22 per barrel in September 2023. The increase in crude oil prices was shaped by OPEC's continued production cuts, higher global demand and market speculation. On the 20th of October 2023, Brent crude oil prices were slightly lower at US\$92.16 per barrel, with expectations that the declining trend would continue throughout the month.
- 6. The MPC was informed that copper prices fell marginally while zinc prices were higher in September 2023 relative to the prior month.** The average price of copper edged slightly lower by 0.9 percent, month-on-month, but increased by 6.9 percent annually to US\$8 276.71 per metric tonne in September 2023. Weaker industrial sentiment in the US, Europe and China as well as increased production in Peru largely explained the monthly decline. Meanwhile, the price of zinc increased by 3.7 percent to US\$2 495.50 per metric tonne, month-on-month, in September 2023, mainly ascribed to stronger demand from China. Zinc prices, however, declined notably by 20.1 percent on a yearly basis. On the 20th of September 2023, both the price of copper and zinc were lower at US\$7 948.50 per metric tonne and US\$2 438.00 per metric tonne, respectively.
- 7. Uranium prices were higher in September 2023, while the gold price fell slightly, month-on-month but rose, year-on-year.** Uranium spot prices increased significantly by 19.4 percent monthly and by 48.1 percent annually, to an average of US\$71.58 per pound in September 2023. The surge in uranium spot prices since the beginning of the year was primarily shaped by the persistent drive for clean, secure and low-cost energy. The price of gold, however, moderated by 0.1 percent month-on-month on account of a stronger US Dollar exchange rate, augmented by higher US bond yields. Year-on-year, however, the gold price was 14.0 percent higher during the month under review, sustained by safe-haven demand and the recent introduction of a tariff on some gold imports by Turkey. During the week of 16th to 20th October 2023, uranium prices declined to an average of US\$68.61 per pound. Conversely, the price of gold increased to an average of US\$1 994.40 per ounce on 20th October 2023.
- 8. The Diamond Index (IDEX) declined on a monthly and annual basis, while the global food price index was stable monthly but declined yearly.** The IDEX

declined both monthly and annually by 3.5 percent and 20.9 percent, respectively, to an average of 111.2 index points in September 2023, mainly due to weaker global consumer demand. Meanwhile, the FAO Food Price Index was stable monthly but declined by 10.7 percent yearly to an average of 121.46 index points in September 2023, reflected in the price indices of vegetable oils, dairy, cereals and meat, offsetting the increase in the sugar price indices.

9. Since the last MPC meeting, inflationary pressures eased in most of the monitored AEs but increased in the EMDEs. Among the AEs, inflation subsided in the United Kingdom, the Euro Area and Japan and increased slightly in the US. On the contrary, inflation rose in most of the key EMDEs. In addition, while headline inflation had generally eased, core inflation remained stickier-than-expected. Most monitored central banks reacted by keeping their policy rates unchanged at their most recent monetary policy meetings, including the South African Reserve Bank. The European Central Bank and the Bank of Russia, however, raised rates since the BoN's previous MPC meeting, citing the continued need to further tame and anchor inflation. MPC members also noted that the Central Bank of Brazil and the People's Bank of China cut their policy rates mainly due to slowing inflation and a weaker economy, respectively.

10. 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 slowed during the second quarter of 2023, but economic activity remained firm year-to-date. The MPC noted that the Namibian economy grew by 3.7 percent year-on-year during the second quarter of 2023. This was lower compared to the 5.3 percent observed during the first quarter of 2023 and the 8.5 percent registered in the corresponding period of 2022. The slowdown in economic growth was mainly due to contractions in sectors such as *agriculture and forestry, construction, financial services* as well as *public administration and defence*. Year-to-date, the domestic economy continued to improve, primarily driven by the *mining, electricity generation, tourism and wholesale and retail trade* sectors. Going forward, growth was projected to decline to 3.3 percent in 2023 from 7.6 percent in

2022, on account of slower growth in the primary industry, following the exceptionally strong base effect growth experienced by this industry in the previous year when diamond production and oil exploration surged.

12. MPC members noted that risks to the domestic economic outlook intensified since the previous MPC meeting, mainly on account of external factors.

The external factors included weakening global economic activity, tighter global monetary policy, geoeconomic fragmentation and continued geopolitical tensions including the recent Israel-Gaza conflict. Risks associated with the supply of electricity in South Africa had softened, although challenges persisted. Internal risks included drought, uncertain rainfall conditions and water supply interruptions, particularly at coastal towns.

13. Inflation remained elevated during the first nine months of 2023.

The MPC noted that while monthly numbers receded from levels above 7 percent early in 2023, Namibia's annual inflation rate averaged 6.0 percent during the first nine months of 2023, higher than the 5.8 percent observed during the corresponding period a year ago. The rise in the average consumer prices was predominantly driven by *food, housing and miscellaneous goods and services*. Similarly, annual inflation increased to 5.4 percent in September 2023 from 4.7 percent in August 2023, propelled by higher fuel prices. It was further noted that since the previous MPC meeting, the average inflation forecast for 2023 was revised upwards by 0.3 percentage point to 5.9 percent, mainly on the back of the resurgence in domestic fuel pump prices. Inflation for 2024 was projected to slow to 4.8 percent, also 0.3 percentage point higher than the projection at the previous MPC meeting.

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

The annual growth in PSCE slowed to 2.3 percent in August 2023, from 3.0 percent in June 2023 reported during the previous MPC meeting. The slowdown in PSCE growth was attributed to lower demand and net repayments by the corporate sector, especially in the categories of *mortgages and other loans, advances and overdrafts*. Likewise, PSCE growth remained subdued over the first eight months of 2023, averaging 2.7 percent compared to 3.5 percent recorded over the corresponding period in 2022.

- 15. Likewise, the MPC was informed that the Central Government debt stock rose during the first six months of the FY2023/24 to the end of September 2023.** The total Central Government debt stock was N\$148.7 billion at the end of September 2023, rising by 9.6 percent yearly. The rise was driven by an increase in the issuance of both Treasury Bills and Internal Registered Stock, augmented by the disbursement of loans by the AfDB and KFW. As a percentage of GDP, total Central Government debt fell by 3.8 percentage points annually and by 0.7 percentage point monthly to 65.6 percent at the end of September 2023. Going forward, the total debt stock was anticipated to rise to N\$166.2 billion over the MTEF period, reaching 60.9 percent of GDP by the end of the period, nearly down to the SADC benchmark of 60.0 percent of GDP. The increase was noted to be mainly driven by the expected improvement in the country's GDP.
- 16. On the external front, it was observed that Namibia's merchandise trade deficit improved over the first eight months of 2023, as exports increased faster than imports.** Namibia's external merchandise trade deficit narrowed by 7.9 percent to N\$21.8 billion during the first eight months of 2023 relative to its level during the same period in 2022, due to export earnings growing faster than import payments. The rise in export earnings was reflected in increased volumes of diamond, gold, uranium and fish exports, augmented by the depreciation of the Namibia Dollar.
- 17. The MPC noted that the stock of international reserves remained sufficient to support the currency peg and meet Namibia's international financial obligations.** As at the 30th of September 2023, the stock of international reserves edged lower at N\$53.8 billion compared to N\$55.6 billion recorded at the end of August 2023 and the July 2023 value of N\$54.2 billion reported at the previous MPC meeting. The MPC observed that despite the interest rate differential between South Africa and Namibia, capital flows remained orderly with no notable speculative behaviour. The decline in the official reserves was therefore predominantly shaped by net commercial bank outflows and foreign payments by the Government. At this level, the stock of international reserves was estimated to cover 5.6 months of imports, thereby remaining 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 growth across countries was divergent.
- Global growth prospects for 2023 and 2024 were expected to remain modest.
- Downside risks to the global growth outlook remained broadly unchanged, despite recent favourable growth surprises.
- Global inflationary pressures receded in the AEs but increased somewhat in the EMDEs.
- Most commodity prices were relatively high, although diamond prices trended downwards.
- In the region, particularly in South Africa, growth remained weak but improved slightly as the impact of load-shedding subsided, amid improved business and consumer confidence.
- Domestically, economic activity expanded at a fair pace during the second quarter of 2023 with continued year-to-date positive momentum.
- Growth prospects were, however, expected to remain moderate and laden with downside risks.
- Domestic inflation reaccelerated most recently, narrowing the real interest rates.
- On the fiscal front, the Central Government budget deficit widened as expenditures outpaced revenues.
- The level of liquidity in the banking sector remained healthy, while PSCE growth remained subdued with short-term momentum expected.
- Foreign exchange reserves remained adequate, and the merchandise trade deficit improved.

20. After considering the developments in all key macroeconomic variables as reflected above, the MPC unanimously decided to keep the Repo rate unchanged. The MPC considered the implications of maintaining or closing the interest rate gap between Namibia and South Africa in light of the Bank's mandate and decided unanimously 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 with key interest in monitoring inflation developments.