

**BANK OF NAMIBIA**

**Minutes of the Monetary Policy Committee (MPC) Meeting**

**Windhoek, 13 – 14 June 2022**



**Bank of Namibia**

**“To be a leading central bank committed to a prosperous Namibia”**

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**Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the  
13<sup>th</sup> and 14<sup>th</sup> of June 2022**

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## **MPC MEMBERS PRESENT**

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

**APOLOGIES**                      None

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## **OTHERS PRESENT**

Kazembire Zemburuka (Director: Strategic Communications); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Christian Phillipus (Principal Economist: RFSDD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD), Metilda Ntomwa (Senior Economist: RFSDD).

## **PARTIAL ATTENDANCE**

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department), Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department).

## **SECRETARY**

Victoria Manuel (Senior Economist: RFSDD).

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<sup>1</sup> Research and Financial Sector Development Department (RFSDD)

## 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. Real GDP growth of the global economy moderated in the first quarter of 2022, compared to the previous quarters.** Year-on-year growth in the global economy moderated in the first quarter of 2022. The decline was mainly attributed to the Russia-Ukraine war that worsened the supply constraints and pushed up global inflation rates. In the Advanced Economies (AEs), the US and Japanese economies grew at a slower pace while GDP growth in the Euro area and the United Kingdom (UK) increased. Among the Emerging Market and Developing Economies (EMDEs), real GDP slowed in Russia and India while it increased in China, Brazil and South Africa, during the first quarter of 2022.
- 2. The MPC noted that the global economic growth was projected to decline in 2022 compared to 2021.** After expanding by 6.1 percent in 2021, growth in the global economy was expected to moderate in 2022. Institutions such as the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), and the World Bank project global economic growth to slow down in 2022. In particular, the IMF has projected the global real GDP growth to moderate to 3.6 percent in 2022 and to grow at the same pace in 2023. The AEs are projected to slow down to 3.3 percent in 2022 from 5.2 percent in 2021, whereas the EMDE's are projected to moderate to 3.8 percent in 2022 from 6.8 percent in 2021. The downward revision in the global outlook for 2022 is mainly attributed to the rising energy and food prices, supply disruptions and potential COVID-19 variant spreads.
- 3. Key risks to the global economic outlook include the prolonged Russia-Ukraine war, which may elevate social tension due to higher costs of food and energy.** Deterioration in supply shortages and commodity price volatility could be a threat to inflation expectations which would result in central banks further tightening rates. In addition, the future course of the pandemic, the emergence of new COVID-19 variants

and restrictions contribute to uncertainty and pose risks to the global economic recovery.

- 4. The international price of crude oil increased on a yearly basis in May 2022.** The price of Brent crude oil increased on a yearly basis and averaged US\$110 in May, from an average of US\$103 per barrel in April 2022. The increase was on the back of supply disruptions in the global oil market caused by the Russia-Ukraine war that disrupted global supply. Furthermore, Canada, the UK, and the US stopped importing oil from Russia, which intensified concerns about oil consumption surpassing production. On a monthly basis, however, the price of Brent crude oil declined by 8.0 percent in April, as OPEC output continued to increase while demand conditions weakened. As of the 10<sup>th</sup> of June 2022, the price of Brent crude stood at US\$111 per barrel.
- 5. The uranium and gold prices increased in April and May 2022.** The price of uranium increased on a yearly basis, to an average of US\$53 per pound in April and US\$48 in May 2022, from US\$49 per pound in March 2022. Furthermore, the uranium price increased and stood at US\$52 per pound on the 10<sup>th</sup> of June 2022, chiefly on the back of the world's commitment to meet climate-change requirements, partly by adopting nuclear power as a reliable power source that provides zero greenhouse gas emissions. Similarly, the price of gold rose yearly but declined on monthly basis, to US\$1 937 per ounce in April and to US\$1 848 in May, respectively, from US\$1 947 per ounce in March. The yearly increase was mainly due to increased geopolitical tensions related to the Russia-Ukraine war and high global inflation, while the monthly declines were on the back of an appreciation of the US dollar exchange rate, expected aggressive policy tightening by the US Federal Reserve and resultant rising bond yields. The gold price stood at US\$1 876 on the 10<sup>th</sup> of June 2022.
- 6. The MPC was informed that the prices of copper and zinc increased in April and May 2022.** The average prices of copper and zinc increased both on an annual and monthly basis and averaged US\$10 161 per metric ton and US\$4 360 per metric ton, respectively, in April 2022, from US\$9,944 and US\$3,620 per metric ton in the previous month, respectively. In May 2022, the prices of copper and zinc stood at US\$9 377 per metric ton and US\$3 751 per metric ton, while on the 10<sup>th</sup> of June 2022, the price of both copper and zinc stood at US\$ 9 448 per metric ton and US\$ 3 693 per metric ton. The generally high metal prices were attributed to tight supply conditions, mostly due

to rising energy prices and fears of supply disruptions stemming from the Russia-Ukraine war.

- 7. The global food price index soared year-on-year but decreased slightly in April 2022.** The Food Price Index declined by 0.8 percent in April from March 2022. On a yearly basis, the food price index rose by 29.8 percent, reflecting persistent tight market supplies, which posed a challenge to global food security for the most vulnerable countries. Although the prices of food were high by historical standards, the recent monthly decline provided welcome relief, notably in low-income and high food importing countries.
- 8. The MPC noted that since the last MPC meeting in April 2022, inflation pressure in most of the monitored economies continued to increase.** Since the last MPC meeting, inflation in most of the monitored AEs and EMDEs continued to increase, mainly due to rising energy and food costs, labour shortages and supply constraints, except for Brazil and Russia where inflation moderated. Inflation in South Africa remained steady at 5.9 percent during April 2022, unchanged from the previous month, with the upward pressure coming from transport, housing and utilities, and food and non-alcoholic beverages. This level of inflation was close to the upper limit of the South African Reserve Bank's target range of between 3 percent and 6 percent, which contributed to further policy tightening by their MPC.
- 9. Since the last MPC meeting in April 2022, most key monitored central banks have tightened their policy rates to contain increasing inflationary pressures.** It was noted that persistent high inflation pressures compelled most key monitored central banks to tighten policy rates at their latest monetary policy meetings, to mitigate and contain inflationary pressures within manageable levels. Exceptions were the central banks in Japan and China that left their benchmark rates unchanged, while Russia cut its policy rate.
- 10. In summary, the MPC noted the recent global economic developments as presented and deliberated on these developments.**

## DOMESTIC ECONOMY

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

**11. The MPC noted that, since the last MPC meeting, domestic economic activity recovered in the first four months of 2022 compared to 2021.** Economic activity in the Namibian economy recovered slightly during the first four months. The recovery was mainly on account of increased activity in the mining, agriculture, transport, tourism, wholesale and retail trade, as well as communication sectors. On the contrary, the positive performance was partly offset by a continued decline in construction activity over the same period, as both public and private construction works slackened further. Going forward, the domestic economy is expected to grow by around 3 percent in 2022. Risks to the domestic economic outlook in the medium term continue to be dominated by the Russia-Ukraine war, climatic swings, global supply chain disruptions, higher oil and food prices, and the possible emergence of new COVID-19 variants, coupled with national vaccine hesitancy.

**12. The inflation rate increased during the first five months of 2022 relative to the same period in 2021.** Namibia's annual inflation accelerated and averaged 4.9 percent during the first five months of 2022, compared to 3.2 percent in the corresponding period of 2021. The rise in prices was mainly driven by an increase in the inflation for transport, housing, and food. This was especially on account of a rise in international oil and food prices. On a monthly basis, inflation moderated to 5.4 percent in May 2022 from 5.6 percent registered during the previous month, mainly attributed to a decline in transport and housing inflation. Namibia's overall inflation is projected to average around 5.9 percent for 2022, from the 6.0 percent projected at the last MPC meeting. Although overall inflation remains within a reasonable range, inflation risk to the domestic outlook persists and mainly lingers around supply disruptions which may put further pressure on food and oil prices. Going forward, inflation for food and transport is expected to remain elevated and may continue to have a disproportionate effect on the low-income segment in Namibia, and therefore requires continued close monitoring.

**13. The MPC was informed that the annual growth in private sector credit extension (PSCE) increased marginally during the first four months of 2022 but remained historically low.** Although still subdued, growth in PSCE increased to 2.9 percent during the first four months of 2022, higher than the 2.3 percent registered during the

same period in 2021. The marginal rise in PSCE growth was due to increased credit demand by both businesses and individuals. Since the last MPC meeting, year-on-year growth in PSCE increased to 3.8 percent in April 2022 from 2.8 percent recorded in February 2022, mainly supported by a higher uptake of credit by businesses. Although there was an improvement in the PSCE, the growth rate remains historically low, indicative of very subdued conditions in the credit market.

**14. It was reported that Namibia's merchandise trade deficit widened further during the first four months of 2022, driven by higher import payments, mainly for mineral fuels.** Namibia's trade deficit widened to N\$11.6 billion during the first four months of 2022, from N\$9.6 billion in the same period of the previous year. The deterioration was mainly attributed to an increase in the import bill, due to higher payments for fuel, consumer goods, and machinery, mechanical and electrical appliances. The category of mineral fuels contributed about half of the year-to-date rise in import payments, reflecting the higher international crude oil prices experienced during the review period. The value of exports also increased, mainly supported by higher export earnings from uranium, rough diamonds, and gold during the first four months of 2022 relative to the same period of last year. The increase was attributed to higher volumes exported, higher international prices as well as the depreciation of the exchange rate. Despite higher export earnings, the level of the import bill was higher, hence, the deterioration in the trade balance.

**15. The MPC was further informed that the stock of international reserves increased in May 2022 and remained sufficient to support the currency peg as well as meet the country's international financial obligations.** As at the 31<sup>st</sup> of May 2022, the stock of international reserves stood at N\$43.9 billion compared to N\$40.8 billion at the end of March 2022 reported at the last MPC meeting. The increase in international reserves was partly due to currency depreciation and SACU receipts. At this level, international reserves are estimated to cover 5.4 months of imports, and hence remained adequate to meet the country's international financial obligations.

**16. In summary, the MPC noted the recent developments in the domestic economy as presented.** The MPC narrated that the observed recovery in the domestic economic activity was mostly coming from the primary industry. They raised a concern that there was a need to start observing demand-side led growth or growth driven by

aggregate consumption. Of concern to the MPC members was mainly the jobless growth, especially from the mining sector as well as the slow recovery of the secondary and tertiary industries, which was also reflected in the subdued PSCE. According to the members, the said developments reflected low domestic confidence and low demand, although the economic activity improved.

## **ADOPTION OF THE MONETARY POLICY STANCE**

**17. 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 in summary:

- The global output moderated during the first quarter of 2022, mainly on the back of the Russia-Ukraine war, resulting in supply chain disruptions. The disruptions resulted in elevated commodity prices and consequently pushed global inflation higher. As a result, central banks tightened their monetary policy rates.
- The global outlook for 2022 was revised downward and it is now expected to moderate. Risks to the economic outlook included the prolonged Russia-Ukraine war, a deterioration in supply shortages and the future course of the pandemic including the emergence of new COVID-19 variants and imposition of restrictions.
- Domestic economic activity improved but the economy remained subdued and required domestic demand to boost aggregate demand and confidence.
- The main risks to the domestic economic recovery continue to be dominated by the Russia-Ukraine war, climatic swings, global supply chain disruptions, higher oil and food prices, tighter monetary policies and the possible emergence of new COVID-19 variants, coupled with national vaccine hesitancy.
- The level of liquidity in the banking sector remained adequate, while domestic credit growth improved slightly, although it remained below historical levels.
- Globally and regionally inflation and policy interest rates have been rising; in the regional context policy interest rates cannot move too far apart for fear of undue capital movements.
- Domestic inflation has increased, and the negative real interest rate has widened; however, the MPC expects the negative real rate to narrow with the gradual tightening of the policy interest rate.
- Government debt remained high and continued to be a concern for the domestic economy, while the current account continued to deteriorate.



- The level of foreign reserves increased and remained adequate to meet the country's international financial obligations such as payments for imports.

**18. After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate.** The MPC decided to increase the Repo rate by 50 basis points to 4.75 percent. This decision was taken with due consideration of the persistent inflationary pressures and was deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African rand, while meeting the country's international financial obligations. Moreover, this monetary policy stance was deemed necessary to narrow the current negative real policy interest rate on the way to eventually restoring it to a positive level that would be more conducive to long-term economic growth. In addition, the policy stance was consistent with developments elsewhere in the world and in the region, with policymakers acting with resolve to prevent the current acceleration in inflation from becoming a perpetual inflation spiral. The decision was thus deemed appropriate to safeguard the one-to-one link between the Namibia dollar and the South African rand, while meeting the country's international financial obligations.