

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 18 August 2020



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
18th of August 2020**

MPC MEMBERS PRESENT (MEETING THROUGH VIDEO CONFERENCING)

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); Postrick Mushendami (Deputy Director: RFSD); Helvi Fillipus (Deputy Director: FMD); Kazembire Zemburuka (Deputy Director: Strategic Communications & FSD); 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); Brian Mbazuvara (Senior Economist: RFSD); Heinrich Namakalu (Senior Economist: RFSD); Ben Stephanus (Economist: RSFD); Helena Mboti (Economist: RSFD).

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. The global real Gross Domestic Product (GDP) recorded a more severe contraction during the second quarter of 2020 compared to the preceding quarter.** Most of the monitored Advanced Economies (AEs) which include the United States (US), Euro area, United Kingdom and Japan recorded deeper contractions during the second quarter of 2020. The US economy registered a huge decline in its GDP growth followed by the Euro Area. The deeper contractions were mainly on the back of economic lockdowns imposed to contain the spread of the COVID-19 pandemic, which negatively affected global economic activity. Going forward, the AE real GDP is projected to contract by 8.0 percent in 2020, compared to a positive growth rate of 1.7 percent in 2019. In the Emerging Market and Developing Economies (EMDEs), China recorded a positive GDP growth rate during the second quarter of 2020 compared to a steep contraction in the first quarter. The EMDEs as a whole is projected to record a negative growth rate of 3.0 percent in 2020 from a positive growth rate of 3.7 percent observed in 2019.
- 2. The MPC was apprised that the global real GDP is projected to contract in 2020 compared to 2019.** The International Monetary Fund (IMF), in its June 2020 WEO, projects a deeper contraction of 4.9 percent in 2020 in global real GDP, which is 1.9 percentage points below the April 2020 WEO forecast. This is also far lower than the positive growth rate of 2.9 percent recorded in 2019. Despite various health protocols to manage the pandemic and good progress in developing a vaccine, uncertainty remains on when and to what extent economic activities will normalise. Key risks to the global outlook include increased uncertainty regarding the progress and direction of the COVID-19 pandemic, as well as the US-China trade tensions.
- 3. Stock market indices recorded monthly gains in July 2020 mainly due to virus vaccine hopes.** Most stock markets, including the Standard & Poor 500, German DAX, Japanese Nikkei, and South African JSE all share index, recorded yearly and

monthly gains in July 2020. The gains were mainly because investors looked beyond the increases in COVID-19 cases as governments planned and, in many instances, announced steps to re-open their economies. Early indications of progress with a vaccine added to a more positive mood. On the contrary, the London FTSE100 generated monthly and yearly losses of 4.4 percent and 22.3 percent, respectively, to 5 898 index points in July 2020.

4. **International crude oil price increased on a monthly basis in July 2020.** The price of Brent crude oil increased by 5.8 percent on a monthly basis to average US\$42.03 per barrel in July 2020 from US\$39.46 per barrel in June 2020. The price of Brent crude oil increased further to US\$44.63 per barrel on the 17th of August 2020. The increase was due to lower global oil supply as OPEC+ complied with an output cut deal and output reductions. On an annual basis, however, the price of Brent crude oil declined by 31.6 percent in July 2020. The annual decline in the price of oil was mainly due to demand shocks that continued to affect global oil markets amid elevated production levels. The International Energy Agency projected that global supply could fall by 7.1 mb/d in 2020 before seeing a modest recovery of 1.7 mb/d next year if OPEC+ cuts stay in place as agreed. The world oil demand is projected to decline by 7.9 mb/d in 2020 and to recover by 5.3 mb/d in 2021.
5. **The uranium price decreased in July 2020 compared to the previous month.** The price of uranium declined slightly by 0.3 percent on a monthly basis to average US\$32.70 per pound in July 2020 from US\$32.80 per pound in June 2020. The decline was mainly attributed to a possible supply increase during the month. On a yearly basis, the uranium spot price increased by 28.8 percent, mainly attributed to mines and project closures. In addition to a long period of low prices weighing on industry output, COVID-19 lockdowns also forced miners and explorers to curtail their undertakings, which resulted in higher prices year-on-year.
6. **The price of gold increased in July 2020 compared to the previous month.** The price of gold increased on a monthly and annual basis to US\$1 833 per ounce in July 2020, from US\$1 732 per ounce in June 2020. The gold price further increased to US\$1 963 per ounce on the 17th of August 2020. The increase was due to safe-haven demand, which remained strong due to uncertainty over the evolution of the COVID-19 pandemic and sharp declines in economic activity in most countries around the world. In addition, gold also benefited from stimulus measures by central banks as

monetary policymakers struggled to mitigate the economic setback from prolonged lockdowns around the world.

7. The MPC was informed that the prices of zinc and copper increased in July 2020.

The copper price increased to an average of US\$6 352 per metric tonne in July 2020, from US\$5 755 per metric tonne in June 2020. The copper prices increased further to US\$6 438 per metric tonne on the 17th of August 2020. The increase was mainly ascribed to a recovery in Chinese demand combined with supply disruptions as top producers in Chile and Peru introduced stringent social distancing measures to contain increases in COVID-19 infections. Similarly, the price of zinc increased on a monthly basis but declined on annual basis to average US\$2 165 per metric tonne in July 2020, from US\$2 026 per metric tonne in June 2020. As of the 17th of August 2020, the zinc price stood at US\$2 165 per metric tonne, mainly on the back of the lower supply that resulted from extended production disruptions in Peru, Mexico and Bolivia. On an annual basis, the zinc price declined by 11.5 percent, mainly due to the global economic slowdown following the COVID-19 pandemic resulting in a loss of demand for copper and zinc.

8. The MPC noted that inflation in most of the monitored AEs and EMDEs increased slightly in June 2020.

The rate of inflation in the US, Euro area and UK increased in June 2020, while it remained unchanged in Japan. The recent slight increase in inflation was attributed to the reopening of businesses after the lockdown. Among the monitored EMDEs, the rate of inflation increased in June 2020 except for India.

9. Since the last MPC meeting in June 2020, most central banks maintained accommodative monetary policy stances at their most recent MPC meetings.

All monitored AE central banks maintained their accommodative monetary policy stances and implementation of non-conventional monetary measures to ease liquidity, boost credit flow and support their economies. In the EMDEs, most of the monitored central banks reduced their policy rates at their most recent meetings, including South Africa that cut its key rate by 25 basis points. The exception was China that maintained its policy rate.

10. In summary, the MPC noted the recent global economic developments as presented.

DOMESTIC ECONOMY

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

11. **The MPC was informed that activity in the domestic economy contracted during the first six months of 2020, compared to the corresponding period of 2019.** The contraction was reflected in sectors such as mining, agriculture, manufacturing, construction, tourism, wholesale and retail trade as well as transport and storage. The slump in economic activity is mainly attributed to the COVID-19 pandemic. Activity in the telecommunication and local electricity generation subsectors, however, showed some improvements in the first half of 2020 compared to the same period in 2019. Going forward, the domestic economy is projected to contract by 7.8 percent in 2020 (under the baseline scenario) before a moderate recovery of 2.1 percent in 2021.
12. **The inflation rate declined during the first seven months of 2020, relative to the corresponding period of 2019.** The annual average inflation declined to a historic low level of 2.1 percent during the first seven months of 2020 compared to 4.3 percent in the corresponding period of 2019. The lower inflation was mainly due to the decline in transport, housing and food inflation. On a monthly basis, the inflation rate remained unchanged at 2.1 percent in July 2020. Overall inflation is projected to average around 2 percent in 2020.
13. **The MPC was informed that the annual growth in private sector credit extension (PSCE) slowed, on average, during the first six months of 2020 compared to the same period in 2019.** Average growth in PSCE declined to 4.7 percent during the first half of 2020, lower than the 6.9 percent recorded over the same period in 2019. The subdued growth in PSCE was mainly due to lower demand for credit and the repayments made by businesses during the period under review, resulting in a slowdown in the growth of credit extended to businesses to only 2.2 percent during the first six months of 2020. On the contrary, total credit extended to the household sector rose to an average growth rate of 6.7 percent during the review period, from 5.3 percent during the same period in 2019. Since the previous MPC meeting, growth in PSCE slowed to 2.8 percent at the end of June 2020 from 3.7 percent in April 2020.
14. **The debt stock of the Central Government rose over the year to the end of June 2020.** The total Government debt stock stood at N\$103.7 billion at the end of June 2020, representing a yearly increase of 17.4 percent, compared to the corresponding

period in the previous year. The increase was reflected in both Treasury Bills (TBs) and Internal Registered Stock (IRS) to finance the Central Government deficit, coupled with the disbursement of a loan from the African Development Bank (AfDB) for deficit financing during the period under review. In addition, the exchange rate depreciation also contributed to the rise in the debt stock over the period under review. Total debt as a percentage of GDP stood at 59.4 percent at the end of June 2020, representing an increase of 9.8 percentage points compared to the corresponding period in 2019. Going forward, the total debt stock is anticipated to rise to N\$117.5 billion during the 2020/21 fiscal year. Total debt as a percentage of GDP is estimated at 68.7 percent by the end of the FY2020/21.

- 15. The MPC was informed that Namibia's merchandise trade deficit narrowed during the first six months of 2020.** Namibia's trade deficit narrowed to N\$3.5 billion, 63.2 percent less than in the first six months of 2019. The improvement in the trade balance was attributed to a decline in merchandise imports of 7.1 percent to N\$29.4 billion during the first half of 2020. The decline in imports was mainly ascribed to low demand due to slower domestic growth. This was reflected in all major import categories, of which consumer goods, mineral fuels, vehicles, aircraft, vessels, machinery, mechanical and electrical appliances were key contributors. Correspondingly, merchandise exports declined marginally by 1.1 percent to N\$25.9 billion during the first six months of 2020. The moderate decline was mainly attributed to lower receipts from diamonds, food and live animals and manufactured products.
- 16. Total export earnings for minerals increased, while the total number of cattle and small stock exported declined during the first six months of 2020.** The total value of mineral exports increased by 1.3 percent to N\$13.8 billion during the first six months of 2020, on the back of increased earnings from uranium and gold. Export proceeds from rough diamonds and other minerals such as zinc concentrate and refined zinc, however, declined during same period. The total number of live and slaughtered cattle exported declined significantly by 51.9 percent to 108 846 heads during the first half of 2020, compared to the same period of last year. Similarly, the total number of live and slaughtered small stock exported decreased by 61.5 percent to 184 261 heads, mainly due to a shortage in the stock of sheep available for marketing by the famers.
- 17. The MPC was further informed that the stock of international reserves increased in July 2020.** As at the 31st of July 2020, the stock of international reserves stood at

N\$35.4 billion, compared to N\$33.7 billion reported in the June MPC statement. The increase in reserves was mainly due to the SACU payment in the beginning of July 2020 and inflows from the third tranche of the African Development Bank (AfDB) loan granted to the Namibian Government. This amount of international reserves is estimated to cover 5.3 months of imports of goods and services. At this level, the reserves remain sufficient to protect the peg of the Namibia Dollar to the South African Rand and to meet the country's international financial obligations.

18. In summary, the MPC noted the recent domestic economic developments as presented.

ADOPTION OF THE MONETARY POLICY STANCE

19. **The MPC deliberated on both the global and domestic economic developments, as highlighted above.** The MPC members agreed that global growth remained weak and there was still a lot of uncertainty regarding the COVID-19 pandemic. Members also pointed out that the domestic economy remained weak and was projected to contract further during 2020, because of the COVID-19 pandemic, before a modest recovery in 2021. The economy was experiencing the lowest inflation in history, government debt continued to increase and there was limited fiscal space. The MPC members cautioned about the expected level of reserves towards the end of 2021 as Namibia planned to redeem some bonds. The money market was deemed to be under control, credit demand was quite weak and did not pose a threat to the current inflation level, while the economy required more job creation and better economic expansion.

20. **After considering developments in all key macro-economic variables as reflected above, the MPC decided to cut the Repo rate.** The MPC decided to cut the Repo rate by 25 basis points to 3.75 percent, the lowest level in the history of the Bank of Namibia. This decision was taken following a review of the global, regional and domestic economic and financial developments, and taking due notice of the headwinds presented to both the global and domestic economy on account of the COVID-19 outbreak and response. The MPC was also mindful of the need to safeguard the currency peg, and to provide sustainable interest rate signals to guide savings and investment in Namibia.