

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 20th of October 2020



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
20th of October 2020**

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 (virtually via video conferencing) |

APOLOGIES None

OTHERS PRESENT

Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Erwin Naimhwaka (Deputy Director: RFSD) (virtually via Teams) ; Helvi Fillipus (Deputy Director: FMD); Kazembire Zemburuka (Deputy Director: Strategic Communications & FSD); Gerson Kadhikwa (Technical Expert: RFSD); Saara Mukumangeni-Kashaka (Principal Economist: RFSD); Christian Phillipus (Principal Economist: RFSD); Daisy Mbazima-Lando (Principal Economist: RFSD); Mukela Mabakeng (Principal Economist: RFSD) (virtually via Teams); Rehabeam Shilimela (Principal Economist: RFSD) (virtually via Teams); Elifas Iiyambula (Senior Economist: RFSD); Brian Mbazuvara (Senior Economist: RFSD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department) and Imanuel Hawanga (Deputy Director: Banking Supervision Department).

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 contraction during the second quarter of 2020, mainly on the back of severe contractions in both the Advanced Economies (AEs) and Emerging Markets Developing Economies (EMDEs) as a result of the COVID-19 pandemic.** Real GDP in most of the monitored AEs contracted during the second quarter of 2020. The Japanese economy registered the most severe decline of 27.8 percent in GDP followed by the United Kingdom (UK), Euro area and the United States (US) with 21.7 percent, 15.0 percent, and 9.5 percent, respectively. These contractions were mainly on the back of economic lockdowns that were imposed to contain the spread of the COVID-19 pandemic. Going forward, the AEs real GDP is projected to contract by 5.8 percent in 2020, compared to a growth rate of 1.7 percent in 2019. Similarly, all monitored EMDEs recorded negative real GDP growth rates for the second quarter of 2020, except for China which recorded a positive growth rate of 3.2 percent. The International Monetary Fund (IMF) projects the EMDEs real GDP to record a negative growth rate of 3.3 percent in 2020, from a positive growth rate of 3.7 percent in 2019.
- 2. The MPC was informed that the global real GDP is projected to contract in 2020 before improving in 2021.** The IMF projected the global economy to contract by 4.4 percent in 2020. This is an upward revision from -5.2 percent projected earlier in the June 2020 in the World Economic Outlook (WEO). In 2021, the global economy is expected to improve to a positive growth rate of 5.2 percent. 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. Other downside risks to the global outlook are intensifying social unrest, geopolitical tensions, distress in the ties among the OPEC+ coalition of oil producers, trade policy uncertainty, technology frictions as well as weather-related natural disasters.

3. **Stock market indices performances varied during September, faced by uncertainty regarding the US presidential elections in November.** Most stock markets, including the Standard & Poor 500 recorded yearly losses and monthly gains, the German DAX generated yearly gains but a loss on a monthly basis. The Japanese Nikkei generated annual and monthly gains, while the London FTSE100 and the South African JSE all share index, recorded annual and monthly losses. Some factors that affected the movement in the stock market indices during the month of September 2020 include the concerns about the November 2020 elections which weakened risk appetite. Furthermore, the fading hopes for a fiscal stimulus bill and an increase in European COVID-19 cases weighed on investor sentiments.

4. **The international crude oil price declined in September 2020 compared to the preceding month.** The price of Brent crude oil declined both on a monthly and yearly basis by 32.4 percent and by 6.6 percent, respectively, to average US\$40.59 per barrel in September 2020 from US\$43.44 per barrel in August 2020. The price of Brent crude oil increased slightly to US\$42.62 per barrel on the 19th of October 2020. The monthly decline was mainly ascribed to concerns over lockdown and travel restrictions that were reinstated in key economies, causing panic in the markets as the number of daily new COVID-19 cases remained elevated. Furthermore, the high US crude oil inventories and the rising global crude oil supply following the increase in the production of the OPEC+ members' in July 2020, contributed to the lower price of oil in September. Going forward, the oil price is estimated to rise to US\$41.70 per barrel in 2020.

5. **The uranium price increased on an annual basis but declined monthly in September 2020.** The price of uranium increased by 6.8 percent monthly to average US\$31.85 per pound in September 2020 from US\$30.85 per pound in the previous month. As at 19th of October 2020, the price of uranium declined further to US\$29.70 per pound. The decline was mainly attributed to the largest operator of nuclear reactors in the US, Exelon, announcing its plans to decommission two of its nuclear plants 10 to 20 years ahead of schedule. On a yearly basis, the uranium spot price increased by 16.5 percent, mainly attributed to the closure or downscaling of some large mines and projects in various parts of the world. Moreover, the tightening supply outlook brought about by the COVID-19 pandemic also resulted in higher prices for uranium in 2020. In this regard, the uranium price is expected to average US\$30.00 per pound in 2020.

6. **The price of gold increased annually in September 2020 compared to the previous month but declined monthly.** The price of gold increased by 25.3 percent annually, while it declined by 3.8 percent monthly to average US\$1 893 per ounce in September 2020. The gold price increased to US\$1 911 per ounce on the 19th of October 2020. The annual increase can be partly ascribed to raised levels of uncertainty induced by the pandemic, and to stimulus measures implemented by central banks as monetary policymakers struggled to mitigate the economic setback from prolonged lockdowns around the world. The resultant low global interest rates further boosted demand for gold.

7. **The MPC was informed that the prices of zinc and copper increased on an annual basis while they were mixed on a monthly basis in September 2020.** The copper price increased by 16.1 percent and 2.9 percent on a yearly and monthly basis, respectively, to average US\$6 687 per metric tonne in September 2020. The copper prices increased further to US\$6 768 per metric tonne on the 19th of October 2020. The increase was mainly driven by tighter global supply, aligned with satellite data that revealed that global copper smelting had declined significantly. In addition, the lower supply out of China could be a signal that China would commence buying copper globally; this also supported the price. Similarly, the price of zinc increased by 3.1 percent on a yearly basis but declined by 0.2 percent on a monthly to average US\$2 404 per metric tonne in September 2020. As of the 19th of October 2020, the zinc price increased to US\$2 485 per metric tonne, mainly due to improved industrial activity in China.

8. **The MPC noted that inflation in most of the key monitored AEs and EMDEs declined in August and September 2020.** The annual inflation rate in most of the monitored AEs declined in August and September 2020, apart from the US where it increased slightly. The decline in the rate of inflation in the AEs is mainly attributed to falling energy prices and weak global economic activity. Among the EMDEs, the rate of inflation declined in China and South Africa in August 2020, but increased in Brazil, Russia, India, and Angola,

9. **Since the last MPC meeting in August 2020, all monitored central banks maintained accommodative monetary policy stances at their most recent MPC meetings.** All the monitored central banks maintained their policy interest rates at their recent monetary policy meetings, with the AE central banks continuing to implement non-conventional stimulatory monetary measures, to ease liquidity, boost credit flow and support their economies.

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 eight months of 2020, compared to the corresponding period of 2019.**

The contraction was mainly reflected in sectors such as mining, manufacturing, tourism, wholesale and retail trade as well as transport and storage, largely due to the impact of the COVID-19 pandemic measures that were put in place for the country to mitigate and contain the spread of the virus. On a positive note, activity in the telecommunication and local electricity generation subsectors improved during the same period. Going forward, the domestic economy is projected to contract by 7.8 percent in 2020 (under the baseline scenario), before an expected modest recovery 2.1 percent in 2021.

12. **The inflation rate declined during the first nine months of 2020, relative to the corresponding period of 2019.** The annual average inflation declined to 2.2 percent during the first nine months of 2020 compared to 4.2 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 increased to 2.4 percent in August 2020, from 2.1 percent in the previous month. Overall inflation is projected to average 2.3 percent in 2020.

13. **The MPC was informed that the annual growth in private sector credit extension (PSCE) slowed, on average, during the first eight months of 2020 compared to the same period in 2019.** Average growth in PSCE declined to 4.1 percent during the first eight months of 2020, lower than the 6.9 percent recorded over the same

period in 2019. The decline in PSCE was due to lower demand for credit and the repayments made by businesses during the period under review. The growth in credit extended to businesses declined to 1.6 percent during the first eight months of 2020 compared to 9.0 percent over the same period in 2019. On the contrary, credit extended to the household sector rose to an average growth rate of 6.1 percent during the first eight months of 2020, from 5.4 percent during the same period in 2019. Since the previous MPC meeting, the growth in PSCE slowed to 2.6 percent at the end of August 2020 from 2.8 percent in June 2020.

14. The debt stock of the Central Government rose over the year to the end of September 2020. The total Government debt stock stood at N\$106.6 billion at the end of September 2020, representing a yearly increase of 16.7 percent, compared to the corresponding period in the previous year. The increase was driven by a rise in the issuance of both Treasury Bill (TBs) and Internal Registered Stock (IRS) to finance the Central Government Budget deficit, coupled with the exchange rate depreciation during the period under review. Total debt as a percentage of GDP stood at 61.8 percent at the end of September 2020, representing an increase of 10.6 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, while the 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 eight months of 2020. Namibia's trade deficit narrowed to N\$7.9 billion, from N\$12.5 billion in the first eight months of 2019. The significant improvement in the trade balance was attributed to a decline in merchandise imports, which fell drastically by 17.4 percent to N\$40.0 billion during the review period. This was reflected by a decline in major import categories such as consumer goods, mineral fuels, machinery, mechanical and electrical appliances which was attributed to slow economic activity coupled with restrictions imposed by the COVID-19 pandemic. Similarly, merchandise exports declined by 10.5 percent to N\$31.9 billion during the first eight months of 2020. This was mainly attributed to lower receipts from rough diamonds, fish, beverages, and meat mainly resulting from the COVID-19 pandemic restrictions on businesses.

- 16. Total export earnings for minerals, the total number of cattle and small stock exported declined during the first eight months of 2020.** Receipts from mineral exports declined marginally by 1.3 percent to N\$17.7 billion, from N\$17.9 billion recorded during the same period in 2019. The decline was reflected in lower export earnings from rough diamonds, refined zinc and zinc concentrate during the review period. Similarly, the total number of live and slaughtered cattle exported declined significantly by 52.7 percent to 148 160 heads during the first eight months of 2020, from 312 978 heads observed during the same period in the previous year. The decline was due to slow slaughter activity of export abattoirs, which is indicative of a switch from marketing to production and herd building after rains ended a long drought compared to the same period of last year. The total number of live and slaughtered small stock exported decreased by 57.7 percent to 254 211 heads, mainly due to drought conditions in the predominant sheep producing areas in the South of Namibia.
- 17. The MPC was further informed that the stock of international reserves declined marginally in September 2020.** As at the 30th of September 2020, the stock of international reserves stood at N\$32.7 billion, compared to N\$35.4 billion reported in the August MPC statement. The decline in foreign reserves was mainly due to net purchases of Rand by commercial banks, coupled with increasing Government foreign payments observed during the month of September 2020. This amount of international reserves was estimated to cover 4.9 months of imports of goods and services. At this level, the reserves remained 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 took note of the developments in the liquidity and money market 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 developments in both the AEs and the EMDEs remained weak and that there were still uncertainties regarding the COVID-19 pandemic. Members also pointed out that the domestic economy was clearly depressed and in need of support, however, monetary policy alone would not be able to take the economy out of the recession. Other indicators such as the money market and international foreign reserves appeared to be under control, while domestic credit and inflation remained low, and did not pose a threat to the domestic economy. There were, however, concerns with regards to the level of public debt, which was considered elevated. In addition, the MPC members articulated that while monetary policy had taken an accommodative monetary policy stance over the course of the year, the full impact of these stances were yet to be seen given the perceived timeframe under which transmission mechanism usually operates.
20. **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 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.