

**BANK OF NAMIBIA**

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

**Windhoek, 18<sup>th</sup> – 19<sup>th</sup> October 2021**



**“Our vision is to be a centre of excellence”**

**Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the  
18<sup>th</sup> and 19<sup>th</sup> of October 2021**

## **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

**APOLOGIES**                      None

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## **OTHERS PRESENT**

Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Valeria Mbango (Deputy Director: Strategy, Projects and Transformation); Grace Hamauka (Principal Economist: RFSD); 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); Brian Mbazuvura (Principal Economist: RFSD); Elifas Iiyambula (Senior Economist: RFSD); Diina Hamutumwa (Senior Economist: FMD)

## **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: 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. Global economic activity improved in the second quarter of 2021, compared to the previous quarter.** The improvement was mainly attributed to base effects, positive developments in the COVID-19 vaccine rollout, as well as fiscal stimulus measures employed by the AEs during the review period. Going forward, most institutions, including the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD) and World Bank project that the global economy will rebound in 2021, but expand at a slower pace in 2022. In particular, the IMF had projected the global economy to grow by 5.9 percent in 2021 and 4.9 percent in 2022. The projected growth in 2021 was largely attributed to the low base set in 2020, fiscal support and potential positive effect of the successful rollout of COVID-19 vaccines. The moderation in the growth projection for 2022 will be due to the anticipated gradual withdrawal of policy support by governments and central banks.
- 2. AEs and EMDEs economic activity improved year-on-year during the second quarter of 2021.** GDP growth in all key monitored AEs including the United States (US), Euro area, United Kingdom and Japan increased in the second quarter of 2021. The increased growth in the AEs was mainly supported by base effects in 2020, the reopening of economies and successful vaccination roll-out. Similarly, growth in all major monitored EMDEs rebounded in the second quarter of 2021. The Chinese economy grew at a slower pace in the third quarter of 2021 compared to exceptionally high growth observed in the previous quarter. Going forward, the IMF projected the AEs to grow by 5.2 percent in 2021 and by 4.5 percent in 2022. For the EMDEs, growth rates of 6.4 percent and 5.1 percent were projected for 2021 and 2022, respectively.

**Key risks to the global economic outlook include:** the future course of the pandemic, the degree of success in the deployment of COVID-19 vaccines, particularly in the EMDEs. Higher inflation emerged, following pandemic-induced supply-demand mismatches, which were expected to continue for longer than anticipated. Moreover,

further virus outbreaks in many countries where vaccination rates were low, could allow the virus to mutate further. Escalating geopolitical tensions, climate change and natural disasters may also pose potential headwinds for global economic activity.

- 3. Stock markets increased in September 2021, supported by robust corporate profits and global stimulus support.** Stock markets, including the Standard & Poor 500, German DAX, UK's FTSE100, Japan's Nikkei and the South Africa's JSE all share index recorded yearly and monthly gains since the last MPC meeting in August 2021. The positive stock market performance was attributed to the robust corporate profits and global stimulus support. In addition, share prices benefitted from the improved economic outlook, as well as the continuation of a low interest rate environment globally.
- 4. The international crude oil price increased in September 2021 compared to the preceding month.** The price of Brent crude oil increased by 5.7 percent and 79.3 percent, on a monthly and yearly basis, respectively, to average US\$72.8 per barrel in September 2021, from US\$68.9 per barrel in the previous month. The increase was mainly on the back of improved demand conditions and supply disruptions caused by hurricane Ida in late August and early September 2021. Furthermore, the successful control of the latest COVID-19 outbreaks in China and continued global economic recovery, strengthened travel demand, boosted the prices. On the 15<sup>th</sup> of October 2021, the price of Brent crude oil stood at US\$82.8 per barrel.
- 5. The uranium price increased while the price of gold declined in September 2021.** The price of uranium increased by 24.4 percent on a monthly basis and by 42.3 percent on a yearly basis to an average of US\$42.6 per pound in September 2021, from US\$34.3 per pound observed in August 2021. The increase in the price of uranium was due to huge purchases of the nuclear-energy element by an investment fund, Canada's Sprott Physical Uranium Trust. In addition, the increase in the demand for nuclear energy as a clean and efficient power source further pushed up the prices. Moreover, constrained global supply and strong demand from utility companies contributed to the increase in the price. On the 15<sup>th</sup> of October 2021, the uranium price stood at US\$43.1 per pound. On the contrary, the price of gold declined by 0.6 percent and 7.6 percent on a monthly and annual basis, respectively, to average US\$1 775.0 per ounce in September 2021 from US\$1 785.3 per ounce in the previous month. The

decline in the price of gold was attributed to the strong US dollar. The gold price stood at US\$1 776.0 per ounce on the 15<sup>th</sup> of October 2021.

- 6. The MPC was informed that the price of copper and zinc increased on a yearly basis in September 2021.** The copper price declined by 0.5 percent on a monthly basis but increased by 39.1 percent yearly, respectively, to average US\$9 325.0 per metric tonne in September 2021 from US\$9 370.1 per metric in August 2021. The annual increase in the price of copper was sustained by high demand, compounded by green initiatives, while the monthly decline was attributed to a stronger US dollar. The copper price increased and stood at US\$9 465 per metric tonne on the 15<sup>th</sup> of October 2021. The price of zinc rose by 1.6 percent and by 24.3 percent on a monthly and yearly basis, respectively, to average US\$3 036.0 per metric tonne in September 2021 from US\$2 987.9 per metric tonne in the preceding month. The annual increase in the price of zinc was sustained by a declining surplus, supply disruptions, including smelting, Chinese demand and recovery in the world economy. As of the 15<sup>th</sup> of October 2021, the zinc price increased to US\$3 263.0 per metric tonne.
- 7. The MPC noted that since the last MPC meeting, inflation rates accelerated among the key monitored economies, but generally remained contained in September 2021.** Inflation in most of the key AEs and EMDEs increased in September 2021, mainly reflecting transitory supply and demand mismatches, high food and energy prices, EMDEs currency depreciations and a low base set a year earlier. The pick-up in inflation, however, appears to be largely transitory in both the major AEs and EMDEs.
- 8. Since the last MPC meeting in August 2021, all monitored central banks maintained accommodative monetary policy stances at their most recent MPC meetings.** Most monitored central banks in the AEs and EMDEs left their policy rates unchanged, except for Brazil and Russia that increased their benchmark rates at their latest monetary policy meetings, citing inflationary pressure. Nonetheless, the monetary policy of all monitored central banks remained generally accommodative.
- 9. In summary, the MPC noted the recent global economic developments as presented and deliberated on these developments.**

## DOMESTIC ECONOMY

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

- 10. Namibia's real GDP improved in the second quarter of 2021, while economic activity remained subdued year-to-date.** Namibia recorded a positive GDP growth rate during the second quarter of 2021 compared to a contraction in the corresponding quarter of 2020. The increase was attributed to better growth in sectors such as hotels and restaurants, wholesale and retail trade, fishing, administrative and support services as well as information and communication during the second quarter of 2021. Economic indicators showed that the domestic economy slowed year-to-date relative to the corresponding period of 2020. The slowdown in economic activity was observed in major sectors such as mining, agriculture, manufacturing, construction, tourism as well as transport and storage. On the contrary, activities in the wholesale and retail trade sector as well as the telecommunication subsector increased during the review period. Going forward, the domestic economy is expected to grow by 1.5 percent in 2021 and 3.4 percent in 2022. Risks to the domestic economic outlook in the medium-term remained as sudden surges in COVID-19 cases with concomitant disruptions to economic activity caused by potential COVID-19 restrictions.
- 11. The inflation rate increased during the first nine months of 2021 relative to the same period in 2020.** Annual average inflation increased to 3.5 percent during the first nine months of 2021, compared to 2.2 percent in the corresponding period in the previous year. The increase in inflation was mainly driven by base-effects, food and transport categories. This was on account of supply constraints for certain food categories and a rise in international oil prices respectively. On a monthly basis, overall inflation increased slightly to 3.5 percent in September 2021 from 3.4 percent in August. Namibia's overall inflation is projected to average around 3.7 percent for 2021, slightly lower than the previous forecast of 3.9 percent.
- 12. The MPC was informed that the annual growth in private sector credit extension (PSCE) declined during the first eight months of 2021.** Growth in PSCE slowed to an average of 2.5 percent for the first eight months of 2021, lower than the average of 4.1 percent recorded during the same period in 2020. The decline in PSCE was due to lower demand for credit by both businesses and households, as a result of weak

domestic economic activity during the review period. Since the last MPC meeting, year-on-year growth in PSCE declined to 2.0 percent at the end of August 2021 from 2.8 percent at the end of June 2021.

**13. The total Government debt stock increased over the year to the end of August 2021.** The total Government debt stock stood at N\$122.4 billion at the end of August 2021, representing a yearly increase of 16.1 percent, compared to the corresponding period in the previous year. The increase was driven by a rise in domestic debt due to the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) as well as the disbursement of supplemental financing from the African Development Bank (AfDB) to finance the budget deficit. The total debt as a percentage of GDP stood at 65.0 percent at the end of August 2021, representing an increase of 5.6 percentage points compared to the corresponding period in 2020. Going forward, the total debt stock is anticipated to rise to N\$159.8 billion during the 2023/24 fiscal year, which will represent 77.3 percent of GDP.

**14. It was reported that Namibia's merchandise trade deficit worsened during the first eight months of 2021, attributed to higher import payments and lower export earnings.** Namibia's trade deficit widened to N\$18.4 billion during the first eight months of 2021, from N\$8.4 billion in the same period of the previous year. The deterioration in the merchandise trade balance was mainly attributed to an increase in the import bill, primarily reflected across major import categories such as vehicles, aircraft, vessels, base metals, machinery and electric appliances, mineral fuels as well as consumer goods. The rise in the import bill was mainly due to base effects from COVID-19 restrictions instituted to curb the spread of the pandemic during the same period of last year. The worsening trade deficit was further ascribed to the decline in the value of merchandise exports, largely reflected in lower export earnings from the mineral exports category, particularly from gold, rough diamonds, and uranium.

**15. The MPC was further informed that the stock of international reserves increased in September 2021.** As at 30<sup>th</sup> of September 2021, the stock of international reserves stood at N\$45.9 billion compared to N\$42.7 billion on the 31<sup>st</sup> of July 2021 as reported in the previous MPC statement. The increase in reserves was mainly attributed to the IMF Special Drawing Rights (SDR) allocation and relative depreciation of the exchange rate. The international reserves, at the above level, were estimated to cover 6.7 months of imports. At this level, Namibia's international reserves remain adequate to protect



the peg of the Namibia Dollar to the South African Rand, while meeting the country's international financial obligations.

16. In summary, the MPC noted the recent domestic economic developments as presented and deliberated further.

## **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:

- The global economic growth was improving, although the recovery was uneven across the EMDEs. The growth was due to the positive effects of the COVID-19 vaccine rollouts, although there were still concerns and uncertainties as a result of COVID-19 vaccine hesitancy from the EMDEs and low-income countries.
- Inflation pressure in the global economy continued and the MPC ascertained that it may not be transitory as previously assumed. Inflation, however, remained contained at the moment and posed no immediate economic or financial risk, and as a result, policy rates were maintained in most of the monitored economies.
- The domestic economic activity remained subdued and far from the pre-COVID-19 levels, with no significant improvement since the last MPC meeting in August 2021.
- The uptake of domestic credit remained low due slow economic activity, while the inflation rate edged up inline with the global inflation trend but remained well contained. The Committee took note of the upward trend in inflation both globally and domestically, and its potential impact on monetary policy going forward, a situation which was closely monitored by the MPC.
- In addition, the fiscal space situation remained alarming, while the current account was under pressure, due to a decline in export earnings and an expansion in imports.
- The level of liquidity of the banking sector declined but posed no financial risk, whereas the international reserves increased and remained adequate to protect the peg of the Namibia Dollar to the South African Rand as well as meeting the country's international financial obligations. The MPC took note that the level of foreign reserves, might be under pressure towards the end of the year due to foreign debt repayments and increases in imports, however they were optimistic that the level of foreign reserves would be adequate.



- The MPC noted that the COVID-19 vaccination policy was key to the economic recovery. In this regard, it was reiterated that the expeditious rollout of COVID-19 vaccines and addressing issues of vaccine hesitancy remained key to the extent, speed, and sustainability of an economic recovery.

**18. After considering developments in all key macro-economic variables as reflected above, the MPC took a unanimous decision 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 impact. The MPC was mindful of the need to provide sustainable support to the domestic economy and simultaneously to safeguard the currency peg.