

**BANK OF NAMIBIA**

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

**Windhoek, 13 April 2021**



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

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**Minutes of the Monetary Policy Committee (MPC) Meeting held on the  
13<sup>th</sup> of April 2021**

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## **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); Gerson Kadhikwa (Technical Expert: RFSD); Saara Mukumangeni-Kashaka (Principal Economist: RFSD); Christian Phillipus (Principal Economist: RFSD); Daisy Mbazima-Lando (Principal Economist: RFSD), Elifas Iiyambula (Senior Economist: RFSD); Brian Mbazuvara (Senior Economist: RFSD); Jaungura Kaune (Senior Economist: RFSD); Diina Hamutumwa (Senior Economist: FMD).

## **PARTIAL ATTENDANCE**

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department) and Mukela Mabakeng (Principal Economist: RFSD) attended the meeting virtually via Microsoft Teams.

## **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 economic activity recovered somewhat in the fourth quarter of 2020, compared to the previous quarter.** The recovery was stronger in both the AEs and EMDEs, supported by strong fiscal stimuli, improved industrial production, as well as increased economic activity. The recovery was mainly on the back of positive sentiment regarding the progress with vaccine production and its deployment in many countries. In addition, the impact of COVID-19 containment measures was less severe on economies that had adopted better public health measures and income support. Going forward, the International Monetary Fund (IMF) in its April 2021 World Economic Outlook (WEO) Update projected the global economy to grow by 6.0 percent in 2021, before moderating to 4.4 percent in 2022.
- 2. AEs and EMDEs economic activity improved quarter-on-quarter during the last three months of 2020.** In the AEs, the US, UK and Japan recorded milder contractions compared to the previous quarter while the Euro area remained weak. The recovery in the AEs was mainly due to the further easing of lockdown restrictions and policy support. Similarly, economic activity in most of the monitored EMDEs improved over the same period. The economy of China returned to its pre-pandemic annual growth rate, while India emerged from a negative growth territory during the last quarter of 2020. Going forward, the IMF projects the AEs to grow by 5.1 percent in 2021 and 3.6 percent in 2022, while a 6.7 percent and 5.0 percent expansion is projected for the EMDEs in these two years, respectively. The positive prospects are on the back of lifting economic lockdown measures and positive sentiment regarding the successful rollout of COVID-19 vaccines globally.
- 3. Stock markets improved in March and April 2021.** Stock markets continued to improve in March and April 2021, amid steady bond yields and a strong economic recovery outlook. Stock markets, including the Standard & Poor 500, German DAX, Japanese Nikkei, UK's FTSE 100 and the South African JSE all share index recorded

yearly and monthly gains in March and early April 2021. The good performance was mainly attributed to wide-scale rollouts of COVID-19 vaccines and indications that the global economy was on the path to recovery. Moreover, the positive trends are also due to the low interest rate environment, complemented by asset purchase programs offered by key central banks that encouraged investment in riskier assets such as equities. On the contrary, the China's FTSE A50 was the worst performer during the period under review.

4. **The international crude oil price increased in March 2021 compared to the preceding month.** The price of Brent crude oil increased by 5.6 percent on a monthly basis and by 98.2 percent on a yearly basis, to average US\$63.8 per barrel in March 2021 from US\$60.50 per barrel in the previous month. The increase in the price was mainly propelled by the OPEC+ alliance's continued production limits and expectations for demand to rebound as COVID-19 vaccines were rolled out worldwide. The price of Brent crude oil stood at US\$63.30 per barrel on the 12<sup>th</sup> of April 2021. Going forward, oil prices are expected to rise in 2021 due to OPEC+ alliance supply curbs.
5. **The uranium price remained unchanged on a monthly basis, but increased annually, while the price of gold increased on an annual basis but declined on a monthly basis in March 2021.** The price of uranium generally remained the same monthly but increased by 13.2 percent on a yearly basis and averaged US\$33.75 per pound in March 2021. On the 12<sup>th</sup> of April 2021, the uranium price stood at US\$30.45 per pound. The price of gold increased by 7.9 percent annually but declined by 5.0 percent monthly to average US\$1 718.23 per ounce in March 2021 from US\$1 808.17 per ounce in the previous month. The monthly decline was mainly ascribed to rising treasury yields as expectations of an economic turnaround increased with vaccination rates gaining traction, and rising price pressures. The gold price increased slightly to US\$1 731 per ounce on the 12<sup>th</sup> of April 2021.
6. **The MPC was informed that the price of copper and zinc increased on a yearly basis in March 2021.** The copper price increased by 73.4 percent and 6.1 percent on a yearly and monthly basis, respectively, to average US\$8 988 per metric tonne in March 2021 from US\$8 471 per metric in February 2021. The increase in the price of copper was on the back of unprecedented measures from central banks and governments to bolster economic growth. The copper price declined slightly to US\$8 874 per metric tonne on the 12<sup>th</sup> of April 2021. Similarly, the price of zinc increased by

46.7 percent on a yearly basis and by 1.7 percent monthly to average US\$2 792 per metric tonne in March 2021 from US\$2 745 per metric tonne in the preceding month. As of the 12<sup>th</sup> of April 2021, the zinc price declined marginally to US\$2 758 per metric tonne.

7. **The MPC noted that since the last MPC meeting, inflation rates increased among the key monitored economies, but generally remained well contained in February 2021.** Notably, inflation increased in the US, Euro Area, Brazil, Russia and India while it moderated in the UK and South Africa. The increase in prices was partly due to increases in commodity prices, higher energy prices and currency depreciation in some instances during the period under review. China and Japan on the other hand, experienced deflation in February 2021.
8. **Since the last MPC meeting in February 2021, all monitored central banks maintained accommodative monetary policy stances at their most recent MPC meetings.** Most monitored central banks left their policy rates unchanged, while continuing to implement supportive non-conventional monetary policy measures. The central banks of Brazil and Russia, however, raised their policy rates in February and March 2021 respectively, due to rising inflation. Regardless, the monetary policy of all monitored central banks remained 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. **The MPC was informed that domestic economic activity contracted considerably in 2020 compared to 2019 and remains weak year-to-date.** Domestic economic activity contracted severely by 8.0 percent in 2020, compared to a contraction of 0.6 percent in 2019. Contractions were observed in key sectors such as tourism, transport, mining, agriculture, manufacturing, construction, wholesale, and retail trade, as well as the public sector. The contraction was mainly due to the devastating effects of the COVID-19 pandemic, with the sharpest declines in output recorded in the tourism and transport sectors. On the contrary, activity in the electricity and water, as well as

information and communication sectors, recorded growth during the same period. Recent developments in the domestic economy also pointed to subdued activity in most economic sectors during the first two months of 2021, compared to the same period of 2020. Going forward, the domestic economy was expected to grow by 2.7 percent in 2021. The successful procurement and expeditious rollout of COVID-19 vaccination in Namibia will be critical for the extent and anticipated speed of the economic recovery.

11. **The inflation rate increased during the first two months of 2021 relative to the same period in 2020.** The annual average inflation increased to 2.7 percent in the first two months of 2021 compared to 2.3 percent observed in the same period in 2020. The increase in inflation was mainly reflected in the food and beverages categories during the period under review. On a monthly basis, overall inflation stood at 2.7 percent in February 2021, the same as the previous month. Overall inflation is projected to average around 3.2 percent for 2021.
12. **The MPC was informed that the annual growth in private sector credit extension (PSCE) declined during the first two months of 2021.** Average growth in PSCE declined to 2.0 percent during the first two months of 2021, lower than the 6.7 percent recorded during the same period in 2020. The decline in PSCE growth was mainly due to a decline in the growth of credit extended to households as a result of lower demand for mortgage credit. Since the last MPC meeting, year-on-year growth in PSCE remained almost unchanged at 2.1 percent at the end of February 2021 from 2.0 percent at the end of December 2020.
13. **The debt stock of the Central Government rose over the fiscal year to the end of February 2021.** The total Government debt stock stood at N\$108.7 billion at the end of February 2021, representing a yearly increase of 12.7 percent, compared to the corresponding period in the previous year. The increase, both on a yearly and monthly basis, was driven by a rise in the issuance of both Tbs and IRS to finance the Central Government deficit, coupled with the issuance of the third tranche of the African Development Bank (AfDB) loan. Total debt as a percentage of GDP stood at 61.1 percent at the end of February 2021, representing an increase of 7.5 percentage points compared to the corresponding period in 2020.

- 14. The MPC was informed that Namibia's merchandise trade deficit deteriorated during the first two months of 2021.** Namibia's trade deficit widened to N\$5.0 billion during the first two months of 2021, from N\$4.8 billion in the same period of the previous year. The widening in the trade balance was due to a decline in export earnings during the first two months of 2021. The value of merchandise exports declined to N\$6.0 billion during the first two months of 2021 from N\$6.6 billion during the same period in 2020.
- 15. Total export earnings from minerals and the total number of live and slaughtered animals exported declined during the first two months.** Receipts from mineral exports declined by 3.7 percent to N\$2.6 billion in the first two months of 2021, from N\$2.7 billion recorded during the same period in 2020. The decline was mainly due to declines in the volumes of gold and refined zinc exported, which consequently resulted in a fall in export proceeds. Furthermore, exports of refined zinc declined to zero due to one of the mines being placed under care and maintenance since April 2020. On the contrary, export earnings from diamonds, uranium and zinc concentrate increased during the period under review. The total number of live and slaughtered cattle exported declined significantly by 47.7 percent to 18 860 heads during the first two months of 2021, from 36 062 heads observed in the previous year. The decline was largely due to reduced marketing on account of ongoing restocking activity by farmers on the back of good rainfall received. Similarly, the total number of live and slaughtered small stock exported decreased by 22.0 percent to 28 463 heads during the first two months of 2021, from 36 490 in 2020, mainly due to supply constraints emanating from the earlier severe drought in the southern parts of the country that reduced herd sizes and now necessitates restocking, policy uncertainty and predation.
- 16. The MPC was further informed that the stock of international reserves increased in March 2021.** As at the 31<sup>st</sup> of March 2021, the stock of international reserves stood at N\$34.7 billion compared to N\$34.4 billion reported in the February 2021 MPC statement. The increase in reserves was mainly due to an inflow resulting from diamond sales, which was partly offset by the appreciation of the NAD against the USD. The N\$34.7 billion of international reserves is estimated to cover 5.4 months of imports. At this level, the reserves remain sufficient to protect the peg of the Namibia Dollar to the South African Rand, while meeting the country's international financial obligations. The MPC noted the increase in international reserves in early April 2021

to N\$38.7 billion resulting from the disbursement of the IMF Rapid Financing Instrument (RFI) and SACU receipts.

17. In summary, the MPC noted the recent developments in the domestic economy as presented.

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

**18. The MPC deliberated on both the global and domestic economic developments, as highlighted above.** The MPC members deliberated on the recent developments in the global and domestic economies and noted some positive signs of recovery in the global economy, however, full and quick recovery of both global and domestic economies was dependent on the efficacy of COVID-19 vaccination. Inflation in the advanced economies was well contained and policy rates remained low globally. Since the last MPC meeting, it emerged that there were no signs of an imminent significant recovery in domestic economic activity yet. Domestic credit remained subdued while inflation was muted, the level of international reserves as well as liquidity of the banking sector remained healthy and did not pose any risk. Moreover, there was a consensus that the Repo rate was already at its lowest level since independence and that uncertainty regarding the COVID-19 vaccine rollout and its efficacy remained. The committee agreed that there was no room for further adjustment from monetary policy and emphasised the need for other strategies outside monetary policy and fiscal policies, to complement efforts to grow the economy.

**19. 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 mindful of the need to provide sustainable support to the domestic economy and simultaneously to safeguard the currency peg.