

## BANK OF NAMIBIA

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

Windhoek, 28-29 November 2022



# Bank of Namibia

**“Our Vision is to be a centre of excellence and a professional and credible institution working in the public interest and supporting the achievement of national economic development goals”**

### Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the 28<sup>th</sup> and physical meeting held on the 29<sup>th</sup> of November 2022

#### MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
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

Ebson Uanguta	Deputy Governor
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#### SECRETARY

Victoria Manuel (Senior Economist: RFSDD).

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

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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); Daisy Mbazima-Lando (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD), Sevelia Nakalemo (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).

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## **ECONOMIC DEVELOPMENTS REPORT**

**As usual, reporting on economic developments was split into the international and domestic components. Firstly, a report on global economic developments was presented to the MPC members.**

### **GLOBAL ECONOMY**

- 1. Preliminary indicators showed that the real growth in some key monitored economies moderated in the third quarter of 2022.** In the AEs, the GDP growth rate for the Euro Area slowed, while that of the United States (US) remained unchanged. Among the EMDEs, real GDP improved in China, but declined in Russia during the third quarter of 2022. The slower global growth was attributed to elevated inflation tighter financial conditions as well as supply bottlenecks.

- 2. The MPC noted that, the global economy was projected to slow down in 2022 compared to the stronger recovery in 2021.** The International Monetary Fund (IMF) projected global real growth to moderate to 3.2 percent in 2022 from 6.0 percent in 2021. In this regard, growth in the AEs was expected to slow down to 2.4 percent in 2022 from 5.2 percent in 2021. Similarly, growth in the EMDEs was projected to moderate to 3.7 percent in 2022 from 6.6 percent in 2021. Key downside risks to the global economic outlook included the ongoing geopolitical tensions, tighter financial conditions, and the high cost of energy and food which may cause inflation to persist for longer and prompt further increases in interest rates. Other risks include weaker household purchasing power and limited fiscal space, particularly in the EMDEs.
- 3. The international price of Brent crude increased in October 2022, both on a monthly and yearly basis.** The price of Brent crude oil increased to US\$90.3 per barrel in October 2022 from an average of US\$88.2 per barrel over the month of September 2022. The increase was mainly supported by the decision by the OPEC+ to cut production by 2 million barrels per day or about 2 percent of global supply from November 2022, the sharpest output cut since the start of the Covid-19 pandemic. In addition, the continuing conflict between Russia and Ukraine could lead to further supply disruptions and increases in the price. The crude oil price hovered around US\$83.2 per barrel as of the 28<sup>th</sup> of November 2022.
- 4. The prices of uranium increased, while gold declined in October 2022, compared to the previous month.** The price of uranium rose by 8.1 percent monthly and 15.7 percent on a yearly basis to an average of US\$52.3 per pound in October 2022, from US\$48.4 per pound in September 2022. The increase in the price of uranium was on the back of the ongoing energy crisis and climate concerns that spurred governments to consider nuclear power as reliable power source that provides zero greenhouse gas emissions, coupled with a shift away from Russian suppliers. On the contrary, the gold price declined by 1.0 percent and 6.3 percent monthly and yearly, respectively, to average US\$1 664.5 per ounce in October, from US\$1 680.8 per ounce in the previous month. The decline was due to the US dollar exchange rate appreciation, higher bond yields. As of the 28<sup>th</sup> of November 2022, the gold price increased and stood at US\$1 755.6 per ounce.
- 5. The MPC was informed that the prices of copper and zinc declined monthly in October 2022.** The average price of copper declined on a monthly and annual basis

to an average of US\$7 651.0 per metric tonne in October 2022, from US\$7 545.0 per metric ton in the previous month. The decline was primarily due to soft global demand, amid rising interest rates and a weak Chinese economy stricken by Covid-19 restrictions and a lagging property sector. On the 28<sup>th</sup> November 2022, the price of copper increased to US\$ 7 959.0 per metric ton. Similarly, the price of zinc declined by 5.0 percent and 11.7 percent, on a monthly and yearly basis respectively, to average US\$2 967.0 per pound, from US\$3 130.0 per metric ton in September 2022. The price of zinc further declined to US\$2 937.0 per metric ton on the 28<sup>th</sup> of November. The decline was pushed down by a slump in China's economic activity, a fragile global economy and strengthening US dollar exchange rate against other currencies.

- 6. The global food price index increased on a monthly basis and remained high year-on-year in October 2022, while diamonds declined slightly.** The FAO Food Price Index increased to 136 index points from 135 index points in September 2022. The increase was mainly on account of higher world prices, reduced supplies of some food commodities, currency depreciations, adverse weather conditions, and high energy and fertiliser prices. The diamond index (IDEX) averaged 141 points in October 2022 from 144 points in the previous month. The decline in diamond prices was mainly attributed to weak consumer demand especially in China and the persistence of relatively high interest rates globally.
- 7. Since the MPC, inflation in most of the monitored economies remained elevated, although it eased somewhat most recently.** Inflation pressures in the monitored economies presented a mixed picture over the short run, although inflation rates were universally higher than the previous year. In the AEs, inflation increased in the Euro area, United Kingdom and Japan, while it eased in the US during October 2022. On the contrary, inflation rates moderated in key monitored EMDEs. Inflation in South Africa remained significantly above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent. Due to global inflationary pressure, most monitored central banks increased their policy rates at their latest monetary policy meetings. Exceptions were the central banks of Brazil and China that maintained their policy rates, while Russia reduced its policy rate, mainly on the back of declining inflationary pressure.
- 8. In summary, the MPC noted the recent global economic developments as presented.**

## DOMESTIC ECONOMY

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

- 9. The MPC noted that domestic economic activity rebounded during the first ten months of 2022.** Domestic economic activity continued to recover, building up positive momentum during the first ten months of 2022. The recovery was mainly reflected in sectors such as mining, agriculture, transport, communication, tourism as well as wholesale and retail trade. On the contrary, activity in the construction sector remained subdued. The economic growth rate for 2022, which was estimated at 3.2 percent in the August Economic Outlook, was being revised upwards. This was in the light of more positive economic developments that was being accumulated. The latest estimates for growth in 2022 contrasted favourably against the growth rate of 2.7 percent recorded in 2021. Risks to the domestic economy remained and included the weakening global economic activity, high inflation arising from the ongoing Russia-Ukraine conflict, and global supply chain disruptions. Additional risks included climatic swings, animal disease outbreaks within the region, other infectious diseases, and the fallout from strict Covid-19 policies in some jurisdictions.
- 10. The inflation rate accelerated during the first ten months of 2022, relative to the same period in 2021.** Namibia's average inflation rate rose to 5.9 percent during the first ten months of 2022, compared to 3.5 percent in the corresponding period of 2021. The rise in inflation was predominantly driven by an increase in transport inflation, on account of high international oil prices and a weak exchange rate. On a monthly basis, overall inflation remained steady at 7.1 percent during October 2022, unchanged from the previous month. Namibia's overall inflation for 2022 was revised to average around 6.1 percent, before slowing to 4.9 percent in 2023.
- 11. The MPC was informed that the annual growth in private sector credit extension (PSCE) moderated during the first ten months of 2022.** Since the last MPC meeting, year-on-year growth in PSCE moderated to 3.5 percent in October 2022, compared to 4.6 percent recorded in August 2022. The decline in PSCE growth was mainly due to lower demand and repayments by the corporate sector, particularly in the construction and services sectors. On average, growth in PSCE rose to 3.5 percent in the first ten months of 2022, mainly supported by an improvement in businesses credit, compared to an average of 2.5 percent over the same period in 2021.

**12. It was reported that Namibia's merchandise trade deficit widened further during the first ten months of 2022, driven by increased import payments, mainly in the form of mineral fuels, consumer goods as well as machinery and mechanical appliances.** Namibia's trade deficit widened to N\$36.2 billion during the first ten months of 2022, compared to about N\$24.2 billion in the same period of the previous year. The deterioration was mainly attributed to a significant rise in imports, due to higher payments for mineral fuel, which reflects the higher international crude oil prices, coupled with higher payments for consumer goods, and machinery, mechanical and electrical appliances. Merchandise export receipts also increased, supported by higher export earnings from mining and manufacturing sectors particularly *rough diamonds, uranium, gold, polished diamonds* as well as *fish processing*. This was generally attributed to higher volumes exported, higher prices and a weaker exchange rate.

**13. The MPC was further informed that the stock of international reserves 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 October 2022, the stock of international reserves declined to N\$44.8 billion from N\$48.0 billion at the end of September 2022. The decline was mainly due to higher imports, portfolio outflows and foreign government payments. Despite the decline, the international reserves were estimated at 4.8 months of imports and remained sufficient to cover Namibia's international financial obligations.

**14. The total Government debt stock increased over the year to the end of October 2022.** The total Government debt stock stood at N\$137.0 billion at the end of October 2022, representing yearly and monthly increases of 7.7 percent and 1.5 percent, respectively. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) to finance the Government deficit, coupled with a rise in external debt owing to exchange rate depreciation. Total debt as a percentage of GDP increased by 1.6 percent and 0.7 percent on a yearly and monthly basis and stood at 71.5 percent at the end of October 2022. Going forward, the total debt stock as a percentage of GDP was expected to decline to 66.2 percent over the MTEF period, a reduction of about 3.0 percentage points between FY2022/23 and

FY2025/26. This is, however, still above the domestic target of 35 percent of GDP and above the SADC benchmark of 60.0 percent of GDP.

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

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

**16. 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:

- Compared to the last MPC in October 2022, the global economy remained weak and uncertainty regarding the effect of the Russia-Ukraine conflict and the effects on global supply chain disruptions remained.
- There were increasing concerns regarding slower growth in Europe which could experience a recession in 2023. In addition, the China's zero-Covid-19 tolerance policy was starting to prolong China's full economic recovery after the pandemic. Moreover, the slower growth in US and India was equally becoming a concern on the overall global output.
- Issues emanating in South Africa, such as electricity outages and politics may affect the Namibian economy going forward.
- Global inflation was still persistently high and crude oil and food prices remained elevated which was fueling inflation. In this regard, it was likely that most economies would continue with tight financial conditions.
- There was a high probability of a sovereign debt crisis in Sub-Saharan economies, as a number of countries reportedly run the risk of defaulting. In addition, the US dollar has been strengthening, which was on the contrary, increasing the burden of debt servicing in many developing economies with weak currencies.
- Domestically, economic activity continued with its positive momentum, however, the economy was still weak as it remained below the pre-Covid-19 pandemic level.
- The demand for credit remained low.
- Inflation remained high although at manageable levels and the real interest rate remained negative, although this was expected to narrow with the tightening of the Repo rate.

- The level of liquidity in the banking sector increased, concerns over lack of fiscal space continued, the current account deficit widened further, while foreign exchange reserves remained adequate.

**17. After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate.** The MPC unanimously decided to increase the Repo rate by 50 basis points to 6.75 percent. This decision was taken with due consideration of the persistent inflationary pressures. Moreover, the monetary policy stance was deemed necessary to lessen the likelihood of capital outflows and simultaneously narrow the current negative real policy interest rate enroute 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 tightening policy rates to counter inflation. The 50-basis point increase was furthermore 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.