

**BANK OF NAMIBIA**

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

**Windhoek, 16 June 2020**



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

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the  
16<sup>th</sup> of June 2020**

## **MPC MEMBERS PRESENT**

Johannes !Gawaxab	Governor
Ebson Uanguta	Deputy Governor (Chairperson)
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 (by telephone)
Emile van Zyl	Technical Advisor: Governor's Office

## **APOLOGIES**

None

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## **OTHERS PRESENT**

Sanette Schulze Struchtrup (Deputy Director: RFSD); Erwin Naimhwaka (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Helvi Phillipus (Deputy Director: FMD); Kazembire Zemburuka (Deputy Director: Strategic Communications & FSD); Christian Phillipus (Principal Economist: RFSD); Daisy Mbazima-Lando (Principal Economist: RFSD); Mukela Mabakeng (Principal Economist: RFSD); Reinhold Kamati (Principal Economist: RFSD); Elifas Iiyambula (Senior Economist: RFSD); Brian Mbazuvara (Senior Economist: RFSD).

## **SECRETARY**

Victoria Manuel (Senior Economist: RFSD).

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## 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. Most of the monitored AEs and EMDEs contracted during the first quarter of 2020 compared to 2019.** The monitored Advanced Economies (AEs) including the United States (US), Euro area, United Kingdom and Japan all recorded negative growth rates during the first quarter of 2020. The contractions were mainly on the back of lockdown strategies aimed at containing the spread of the COVID-19 pandemic. Going forward, the AEs real GDP is projected to contract by 6.1 percent<sup>1</sup> in 2020 compared to a positive growth rate of 1.7 percent in 2019. In the Emerging Market and Developing Economies (EMDEs), China and Brazil recorded GDP contractions during the first quarter of 2020, while Russia and India recorded lower growth rates. EMDE real GDP is projected to contract by 1.0 percent in 2020 from a positive growth rate of 2.9 percent observed in 2019.
- 2. The MPC noted that the global real GDP is projected to contract in 2020 compared to 2019.** Global real GDP is projected to contract by 3.0 percent in 2020 compared to positive growth of 2.9 percent in 2019. The projection is on the back of negative growth projected for the key monitored AEs and EMDEs as a result of the impact of the COVID-19 pandemic on the global economy. Key risks to the global outlook include, amongst others, increased uncertainty regarding the progress and direction of the COVID-19 pandemic, as well as the US-China trade tensions.
- 3. International crude oil and uranium prices increased in May 2020.** The Brent crude oil prices increased by 44.4 percent on a monthly basis to an average of US\$30.38 per barrel in May 2020 from US\$21.04 per barrel in April 2020. The prices of Brent crude oil increased further to US\$38.30 per barrel on the 12<sup>th</sup> of June 2020. The increase was mainly ascribed to the production cut announced by OPEC+ in April 2020. In addition, recovering economic activity in China, combined with the easing of

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<sup>1</sup> It may be important to note that the revised IMF World Economic Outlook (WEO) June 2020 projections were not yet released by the time of this meeting, and the data herein are as per the April 2020 WEO projections.

containment measures in major economies, exerted upward pressure on oil prices in the first half of May 2020. On an annual basis, however, the price of Brent crude oil declined by 49.2 percent in May 2020. The annual decline was mainly due to COVID-19 pandemic-related demand shocks that continued to affect global oil markets amid elevated production levels.

- 4. The uranium price increased in May 2020, up from April 2020.** The price of uranium increased by 3.0 percent and 39.2 percent on a monthly and yearly basis to U\$34.25 per pound in May 2020 from U\$33.25 per pound in April 2020. The increase was mainly attributed to the announcement by the Canadian Mining and Energy Corporation (Cameco) to indefinitely suspend operations at Cigar Lake (which produces about 13 percent of the global uranium supply). In addition, Kazatomprom, the largest uranium producer, ceased production for three months in Kazakhstan to comply with social distancing measures. On the 12<sup>th</sup> of June 2020, the price of uranium stood at U\$33.25 per pound.
- 5. The prices of gold, zinc and copper increased in May 2020 compared to the previous month.** The prices of gold increased on a monthly and annual basis to US\$1 716 per ounce in May 2020, from US\$1 683 per ounce in April 2020. The gold prices stood at US\$1 748 per ounce on the 12<sup>th</sup> of June 2020. The increase is 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. The copper prices increased to an average of US\$5 240 per metric tonne in May 2020, from US\$5 058 per metric tonne in April 2020. The copper prices increased further to US\$5 808 per metric tonne on the 12<sup>th</sup> of June 2020. Similarly, the prices of zinc also increased on a monthly basis but declined on annual basis to average \$1 975 per metric tonne in May 2020, from \$1 903 per metric tonne in April 2020. As at the 12<sup>th</sup> of June 2020, zinc prices stood at US\$2 007 per metric tonne. The recent increase in commodity prices was largely due to falling global production, recovering economic activity in China and confidence over the gradual reopening of most major economies.
- 6. Inflation in the monitored AEs and EMDEs declined in May 2020 except in Angola where it increased.** The rate of inflation in all the monitored AEs declined in May 2020. The decline is due to lower energy and transport costs amidst lockdowns and the associated subdued demand. Among the monitored EMDEs, inflation declined except for Angola. The high inflation rate in Angola was mainly on the back of depreciating currency.

- 7. Most central banks maintained accommodative monetary policy stances in May 2020.** Most central banks in both the AEs and EMDEs maintained accommodative monetary policy stances, including the adoption of non-conventional monetary policy measures. These included asset purchasing and extending lending facilities to maintain the continued flow of credit and liquidity in their economies amid the COVID-19 pandemic. It was noted that the South African Reserve Bank reduced its Repo rate by a further 50 basis points in May 2020.

## DOMESTIC ECONOMY

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

- 8. The MPC noted that activity in the domestic economy declined during the first four months of 2020, compared to the corresponding period of 2019.** Domestic economic activity contracted during the first four months of 2020 compared to the same period in 2019. The contraction was mainly reflected in declining economic activity in sectors including the mining, manufacturing, wholesale and retail trade, transport and the tourism sectors. Economic indicators such as local electricity generation and building plans approved, however, showed some improvement during the first four months of 2020, relative to the corresponding period of 2019. Going forward, the domestic economy is projected to contract further in 2020.
- 9. The inflation rate declined during the first five months of 2020, relative to the corresponding period of 2019.** The annual average inflation declined to 2.1 percent during the first five months of 2020 compared to 4.4 percent in the corresponding period of 2019. The decline in inflation was mainly due to a decrease in inflation for the categories of transport, housing, and food during the period under review. On a monthly basis, inflation stood at 2.1 percent for May 2020, from 1.6 percent in April 2020. Overall inflation is projected to average around 2 percent in 2020.
- 10. The annual growth in private sector credit extension (PSCE) slowed, on average, during the first four months of 2020 compared to the same period in 2019.** Annual average growth stood at 5.8 percent during the review period, relative to 6.4 percent recorded during the same period in 2019. The subdued growth in PSCE was mainly attributed to a lower uptake of credit coupled with major repayments by businesses,

amidst various relief packages offered to businesses in various economic sectors during the period under review. In this regard, growth in credit extended to the business sector slowed to 4.7 percent, on average, during the first four months of 2020, compared to 7.3 percent over the same period in 2019. Growth in total credit extended to the household sector, however, rose on average to 6.7 percent during the first four months of 2020 from 5.7 percent a year earlier. Since the last MPC meeting, growth in PSCE slowed to 3.7 percent at the end of April 2020 from 6.1 percent at the end of February 2020 due to a lower uptake of credit by businesses.

**11. The Central Government's debt stock rose over the year to the end of April 2020.**

The total Government debt stock stood at N\$102.0 billion at the end of April 2020, representing a yearly increase of 16.4 percent, compared to the corresponding period in the previous year. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) to finance the Central Government deficit, coupled with exchange rate depreciation. As a percentage of GDP, Central Government debt stood at 58.8 percent at the end of April 2020, representing an increase of 8.9 percentage points compared to the same period in 2019.

**12. The MPC was informed that Namibia's merchandise trade deficit narrowed due to a substantial decline in the import bill.**

Namibia's trade deficit declined by 13.6 percent to N\$4.5 billion in the first four months of 2020 compared to about N\$5.1 billion in the corresponding period of 2019. The decline in the trade deficit was mainly due to the decline in imports, which fell by 15.5 percent to N\$19.7 billion during the first four months of 2020. The decline in imports was concentrated in machinery and mechanical appliances, vehicles, fabricated metals, beverages and rough diamonds. In addition, the COVID-19 pandemic lockdown imposed throughout the month of April 2020 contributed to the fall in imports during the review period. Correspondingly, export earnings decreased by 16.1 percent to N\$15.3 billion during the first four months of 2020, reflected in almost all the major categories of exports, with both rough and polished diamonds as well as food and live animals recording the biggest decline.

**13. The MPC was further informed that the stock of international reserves increased in May 2020.**

As at 31<sup>st</sup> of May 2020, the stock of international reserves increased to N\$33.7 billion compared to N\$33.0 billion reported in the previous MPC meeting. The increase was mainly due to higher SACU receipts received, coupled with exchange rate revaluations. At this latest level, the international reserves were estimated to cover

5.1 months of imports of goods and services and remained sufficient to protect the peg of the Namibia Dollar to the South African Rand and meet the country's international financial obligations.

## **MONETARY POLICY DELIBERATIONS**

**14. The MPC deliberated on both the global and domestic economic developments, as highlighted above.** After considering developments in all key macro-economic variables as presented, the MPC decided to cut the Repo rate by 25 basis points to 4.00 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. While the SARB Repo rate was reduced by 50 basis points, the BoN MPC decided to reduce the Repo rate by only 25 basis points, mindful of the need to safeguard the currency peg and to provide sustainable interest rate signals to guide savings and investment in Namibia.