

BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 08th of December 2020



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
8th of December 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

APOLOGIES None

OTHERS PRESENT

Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Erwin Naimhwaka (Deputy Director: RFSD); Helvi Phillipus (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); Rehabeam Shilimela (Principal Economist: RFSD); Elifas Iiyambula (Senior Economist: RFSD); Brian Mbazuvara (Senior Economist: RFSD); Kaune Jaungura (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) improved during the third quarter of 2020, although it was still contracting on an annual basis.** Real GDP in most of the monitored Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs) improved in the third quarter of 2020 compared to the previous quarter, although still contracting on an annual basis. As an outlier, the Chinese economy recorded a positive growth rate of 4.9 percent in the third quarter of 2020, while the other monitored AEs and EMDEs recorded less severe contractions compared to the second quarter of 2020. The improved GDP growth was mainly due to the lifting of lockdown measures that resulted in higher levels of economic activity across the monitored AEs and EMDEs in the third quarter of 2020. For 2020 as a whole, the International Monetary Fund (IMF) expects the AEs and EMDEs to contract by 5.8 percent and 3.3 percent, respectively, compared to positive growth rates of 1.7 percent and 3.7 percent recorded in 2019.
- 2. The MPC was informed that the global real GDP is projected to contract in 2020 before improving in 2021.** The IMF projects a less severe contraction of 4.4 percent for the global economy in 2020, which is 0.8 percentage point better than what was estimated in the previous World Economic Outlook Update. 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 the depth and extent of second wave COVID-19 pandemic outbreaks, slow progress with the rollout of vaccines, as well as the US-China trade tensions. In addition, cross-border spillovers from weak external demand could further magnify the impact of country-or region-specific shocks on global growth.
- 3. Share prices improved during November 2020 compared to the previous month, mainly on the back of optimism around the COVID-19 vaccines and a possible economic stimulus in the US.** Most stock markets, including the Standard & Poor 500, German DAX, Japanese Nikkei, and the South African JSE all share index

recorded yearly and monthly gains in November 2020. The gains were boosted by positive hopes regarding the COVID-19 vaccines, prospects of more political predictability and economic stimulus under the incoming Biden administration. On the contrary, the London FTSE 100 generated yearly losses although it recorded a monthly gain.

4. **The international crude oil price increased in November 2020 compared to the preceding month.** The price of Brent crude oil increased on a monthly basis but declined on a yearly basis by 6.0 percent and by 30.0 percent, respectively, to average US\$42.30 per barrel in November 2020 from US\$39.90 per barrel in October 2020. The yearly decline was mainly ascribed to concerns over lockdown measures and travel restrictions that were reinstated in key economies. Furthermore, the high US crude oil inventories and the rising global crude oil supply following the OPEC+ members' production increase in July 2020, dragged the prices further down. In addition, geopolitical risks in the run-up to the US elections and a halt in the US fiscal stimulus negotiations exerted further downward pressure on prices in early October. The price of Brent crude oil increased to US\$47.0 per barrel on the 8th of December 2020. Going forward, crude oil is forecasted to average US\$40 per barrel by the end of 2020 and US\$46.87 per barrel in 2021.
5. **The uranium price increased on an annual basis but declined monthly in November 2020.** The price of uranium declined slightly by 0.1 percent monthly to average US\$29.68 per pound in November 2020 from US\$29.70 per pound in the previous month. On a yearly basis, the uranium price increased by 14 percent, and declined further to US\$29.30 per pound on the 8th of December 2020. Going forward, the price of uranium is projected to average US\$31 per pound in 2020.
6. **The price of gold increased annually while it declined on a monthly basis in November 2020 compared to the previous month.** The price of gold increased by 26.9 percent annually, while it declined by 1.8 percent monthly to average US\$1 866 per ounce in November 2020 from US\$1 900 per ounce in the previous month. The annual increase in the price can be partly ascribed to raised levels of uncertainty induced by the pandemic, and to stimulus measures implemented by central banks as monetary policymakers struggle to mitigate the economic setback from prolonged lockdowns around the world. The resultant low global interest rates further boosted

demand for gold. However, in recent months low inflation expectations and vaccine hopes could have weighed negatively on gold and other precious metals to decline on a monthly basis. Most recently, the gold price declined to US\$1 829 per ounce on the 8th of December 2020.

7. **The MPC was informed that the price of copper and zinc increased on a yearly and monthly basis in November 2020.** The copper price increased by 20.6 percent and 5.3 percent on a yearly and monthly basis, respectively, to average US\$7 068 per metric tonne in November 2020 from US\$6 713 per metric in October 2020. The copper price increased further to US\$7 682 per metric tonne on the 8th of December 2020. The increase could be mainly ascribed to a growing demand from top consumer, China, and a decline in production in Chile. Similarly, the price of zinc increased by 9.5 percent on a monthly basis and by 10.1 percent on a yearly basis to average US\$2 671 per metric tonne in November 2020 from US\$2 441 per metric tonne in the preceding month. As of the 8th of December 2020, the zinc price increased marginally to US\$2 734 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 varied but remained generally low in October 2020.** The annual inflation rate in the monitored AEs declined and this held true in the US, Euro area and Japan, except for the UK in October 2020. Among the EMDEs, inflation increased in Brazil, Russia, India, and Angola ascribed mainly to higher food prices, while it declined in China and South Africa in October 2020, mainly due to lower food prices.
9. **Since the last MPC meeting in October 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, while continuing to implement supportive non-conventional monetary policy measures, to ease liquidity, boost credit flow and support their economies.
10. 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.

- 11. The MPC was informed that activity in the domestic economy declined during the first ten months of 2020, compared to the corresponding period of 2019.** The contraction was mainly reflected in sectors such as tourism, mining, agriculture, manufacturing, wholesale and retail trade as well as transport and storage. On a positive note, activity in the telecommunication and local electricity generation subsectors as well as the construction sector improved during the same period, partially offsetting the weak performance in the economy. Going forward, the domestic economy is projected to contract by 7.3 percent in 2020 (under the baseline scenario), before an expected modest recovery by 2.6 percent in 2021.
- 12. The inflation rate declined during the first ten months of 2020, relative to the corresponding period of 2019.** The annual average inflation declined to 2.2 percent during the first ten months of 2020 compared to 4.0 percent in the corresponding period of 2019. The lower inflation was mainly due to the decline in transport and housing inflation for the most part on account of deflationary pressure emanating from the depressed rental market and low international price of oil. On a monthly basis, the inflation rate declined to 2.3 percent in October 2020, from 2.4 percent in September 2020. 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) declined, on average, during the first ten months of 2020 compared to the same period in 2019.** Average growth in PSCE declined to 3.6 percent during the first ten months of 2020, lower than the 6.8 percent recorded over the same period in 2019. The decline in PSCE was due to lower demand for credit arising from the overall weak domestic economic activity and repayments made by businesses during the period under review. The growth in credit extended to businesses declined to 0.8 percent during the first ten months of 2020 compared to 8.7 percent over the same period in 2019. On the contrary, total credit extended to the household sector rose to an average growth rate of 6.0 percent during the first ten months of 2020, from 5.4 percent during the same period in 2019. Since the previous MPC meeting, growth in PSCE slowed to 1.4 percent at the end of October 2020 from 2.6 percent in August 2020, mainly due to a lower uptake of credit by businesses.

- 14. The debt stock of the Central Government rose over the year to the end of October 2020.** The total Government debt stock stood at N\$106.6 billion at the end of October 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 Bills (TBs) and Internal Registered Stock (IRS) to finance the Central Government Budget deficit, coupled with the disbursement of the third tranche of a loan from the African Development Bank. Total debt as a percentage of GDP stood at 62.0 percent at the end of October 2020, representing an increase of 10.6 percentage points compared to the corresponding point in 2019. Going forward, the total debt stock is anticipated to rise to N\$119.8 billion during the 2020/21 fiscal year, while the total debt as a percentage of GDP is estimated at 77.7 percent by the end of the FY2020/21.
- 15. The MPC was informed that Namibia's merchandise trade deficit narrowed during the first nine months of 2020, due to a decline in the value of merchandise imports.** Namibia's trade deficit narrowed to N\$11.5 billion during the first nine months of 2020, from N\$15.6 billion in the first nine months of 2019. The significant improvement in the trade balance was attributed to a notable decline in merchandise imports, which contracted by 15.3 percent to N\$47.6 billion during the review period. This was reflected by a decline in major import categories such as consumer goods, mineral fuels, machinery, mechanical appliances, and vehicles. The decline in the key import categories reflected weak domestic demand which was reinforced by the COVID-19 pandemic. Merchandise exports also contracted but less sharply than imports, declining by 11.4 percent to N\$36.0 billion during the first nine months of 2020. This was mainly attributed to steep declines in the export earnings of rough diamonds, food and live animals and manufactured products.
- 16. Total export earnings from minerals increased, while earnings from cattle and small stock exported declined during the first nine months of 2020.** Receipts from mineral exports rose marginally by 0.7 percent to N\$22.6 billion, from N\$22.4 billion recorded during the same period in 2019. The increase was reflected in higher export earnings from gold and uranium. On the contrary, the total number of live and slaughtered cattle exported declined significantly by 51.9 percent to 182 049 heads during the first nine months of 2020, from 378 498 heads observed during the same period in the previous year. The decline was largely due to limited supply resulting from restocking activity by farmers. The total number of live and slaughtered small stock

exported decreased by 58.8 percent to 279 811 heads, mainly due to supply constraints as farmers held back their animals for herd rebuilding purposes.

17. The MPC was further informed that the stock of international reserves declined marginally in November 2020. As at the 30th of November 2020, the stock of international reserves stood at N\$29.9 billion, compared to N\$32.7 billion reported in the October 2020 MPC statement. The decline in reserves was on account of the net purchases of Rand by commercial banks coupled with exchange rate related revaluations through the appreciation of the Rand. This amount of international reserves was estimated to cover 4.5 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 noted the recent developments in the domestic economy as presented. The MPC deliberated on the developments 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 had a consensus that not much has changed between the current meeting and the previous MPC meeting in October. Moreover, economic growth in both the AEs and the EMDEs, though slowly recovering, still remained weak. There was still considerable uncertainty regarding the COVID-19 pandemic, although recent progress with vaccines helped to support confidence. The domestic economy remained weak and in dire need of support; however, monetary policy intervention alone would not be sufficient to take the economy out of 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 any risk to the domestic economy. The MPC members, however, expressed concerns over the level of public debt and the level of liquidity, which may decline further in December 2020, considering the economic activity during the festive season.

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