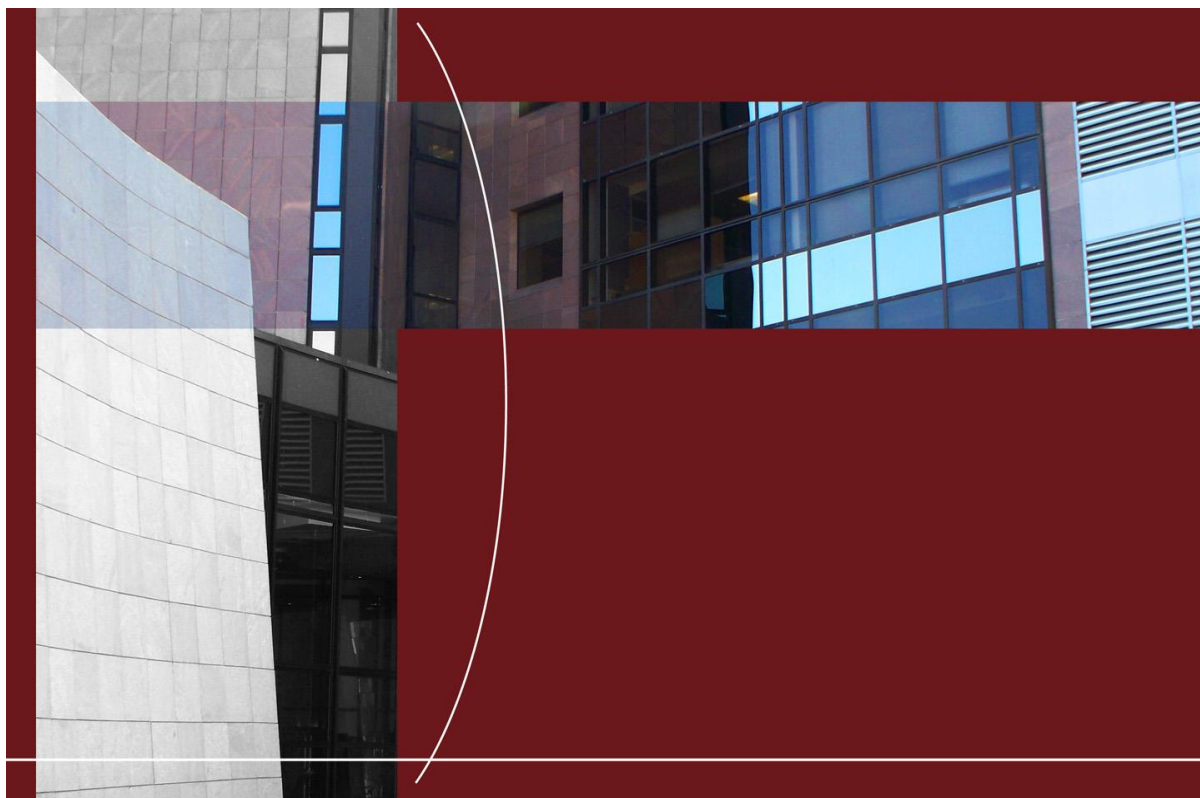


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 15 June 2021



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
15th of June 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

OTHERS PRESENT

Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Valeria Mbango (Deputy Director: Strategy, Projects and Transformation); Gerson Kadhikwa (Technical Expert: RFSD); 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); Elifas Iiyambula (Senior Economist: RFSD); Diina Hamutumwa (Senior Economist: FMD), Mutu Katjiuanjo (Senior Economist: RFSD); Tangeni Shatiwa (Graduate Accelerated Program Candidate: RFSD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department); Sevelia Nakalemo (Economist: FMD); Rehabeam Shilimela (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 improved somewhat in the first quarter of 2021, compared to the previous quarter.** The improvement was on the back of recoveries in most of the monitored Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs). The recovery was supported by additional fiscal stimuli as well as the global roll-out and deployment of COVID-19 vaccines, which boosted investor and consumer confidence to some extent. Going forward, the International Monetary Fund (IMF) has projected the global economy to grow by 6.0 percent in 2021 and 4.4 percent in 2022, reflecting the potential positive effect of a successful rollout of COVID-19 vaccines on economic activity around the globe.
- 2. AEs and EMDEs economic activity improved year-on-year during the first three months of 2021.** In the AEs, the United States (US) recorded positive growth, while the Euro area, United Kingdom (UK) and Japan improved by recording milder contractions compared to the previous quarter. The economy of China recorded an annual growth rate of 18.3 percent during the first quarter of 2021, the highest in 28 years, while economic activity in the remaining monitored EMDEs improved over the same period. The recovery in both the AEs and EMDEs was mainly due to further easing of lockdown restrictions and policy support. Going forward, the IMF projects the AEs to grow by 5.1 percent in 2021 and 3.6 percent in 2022, while expansions of 6.7 percent and 5.0 percent are projected for the EMDEs over the same period. The positive prospects reflect favourable sentiment regarding the possible successful rollout of COVID-19 vaccines globally.
- 3. Stock markets generally continued to improve since the last MPC meeting in April 2021.** Stock markets, including the Standard & Poor 500, German DAX, and the South African JSE's all share index recorded yearly and monthly gains since the last MPC meeting. The positive stock market performance was attributed to the improved

economic outlook, the international rollout of COVID-19 vaccines, as well as the continued existence of a low interest rate environment globally. On the contrary, Japan's Nikkei generated losses 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 increased by 5.4 percent and 107.4 percent, on a monthly and yearly basis, respectively to average US\$66.4 per barrel in May 2021 from US\$63.0 per barrel in the previous month. The increase was mainly ascribed to rising US gasoline stockpiles. The yearly increase was propelled by the OPEC+ Alliance's continued production limits and expected rebound in global economic activity. On the 14th of June 2021, the price of Brent crude oil stood at US\$70.0 per barrel. Going forward, crude oil price is expected to rise slightly further in 2021, due to OPEC+ alliance supply curbs.
5. **The uranium price increased on a monthly basis, but declined annually, while the price of gold increased both monthly and annually in May 2021.** The price of uranium increased by 8.7 percent on a monthly basis, but declined by 14.8 percent on a yearly basis and averaged US\$31.4 per pound in May 2021, from US\$28.9 per pound observed in April 2021. The monthly increase is on the back of developers and investment funds buying the nuclear fuel from the spot market while the construction of reactors continued. In addition, the US and UK government support for the nuclear power industry boosted the uranium price in the review period. On the 14th of June 2021, the uranium price stood at US\$31.0 per pound. The price of gold increased by 5.1 percent and 2.6 percent on a monthly and annual basis, respectively, to average US\$1 850 per ounce in May 2021, from US\$1 760 per ounce in the previous month. The increase was mainly ascribed to the safe-haven asset demand as an inflation hedge amid increasing price pressures and further stimulus measures as the global economy recovers from the pandemic. The gold price increased slightly to US\$1 856 per ounce on the 14th of June 2021.
6. **The MPC was informed that the price of copper and zinc increased on a monthly and yearly basis in May 2021.** The copper price increased by 9.0 percent and 78.0 percent on a monthly and yearly basis, respectively, to average US\$10 162.0 per metric tonne in May 2021 from US\$9 324.8 per metric tonne in May 2021. The increase in the price of copper was supported by a broader economic recovery, higher demand in industrial sectors (such as electric vehicle batteries and semiconductor wiring), the

depreciation of the US Dollar exchange rate as well as increasing moves toward green infrastructure. The copper price stood at US\$9 956.0 per metric tonne on the 14th of June 2021. Similarly, the price of zinc increased by 4.8 percent and 43.2 percent on a monthly and yearly basis to average US\$2 966.0 per metric tonne in May 2021, from US\$2 829.0 per metric tonne in the preceding month. The increase in the price of zinc was also supported by the recovery in the world economy and depreciation of the US Dollar exchange rate. As of the 14th of June 2021, the zinc price increased marginally to US\$3 057.3 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 April 2021.** Inflation increased in most of the monitored AEs and EMDEs, mainly due to upswings in energy and other commodity prices, but declined slightly in Russia and India, while Japan continued to experience deflation. Despite the predominant upward trend, inflation remained well contained in both the monitored AEs and EMDEs.
8. **Since the last MPC meeting in April 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 Russia and Brazil, however, raised their policy rates in April and May 2021, respectively, citing inflationary pressure. Regardless, the monetary policy of all monitored central banks remained relatively 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 the domestic economy remained weak during the first four months of 2021.** The slowdown in economic activity was mainly observed in the tourism, mining, agriculture, manufacturing, construction, as well as transport and storage sectors. On the contrary, activity in the wholesale and retail trade sector,

as well as the telecommunications subsector recorded positive growth during the same period. Recent monthly indicators showed that the mining, as well as the transport and storage sectors gained some momentum. Going forward, the domestic economy was expected to grow by 2.7 percent in 2021. Since the last MPC meeting, uncertainties and risks have increased and are likely to impact the economy negatively going forward. Hence, the successful procurement and expeditious rollout of COVID-19 vaccines in Namibia remain key to the extent and speed of the economic recovery.

11. **The inflation rate increased during the first five months of 2021, relative to the same period in 2020.** The annual average inflation increased to 3.2 percent during the first five months of 2021, compared to 2.1 percent for the corresponding period in the previous year. The increase in inflation was mainly driven by an increase in food and housing inflation during the period under review. This was on account of supply constraints particularly for meat, coupled with the influence of base effects in the rental payments for the dwelling subcategory, respectively. Moreover, transport inflation recently accelerated, mainly driven by higher international oil prices when compared to the corresponding period in 2020. On a monthly basis, overall inflation moderated to 3.8 percent in May 2021, from 3.9 percent registered in April. Overall inflation is projected to average around 3.6 percent for 2021, slightly higher than the previous forecast of 3.2 percent.
12. **The MPC was informed that the annual growth in private sector credit extension (PSCE) declined during the first four months of 2021.** Growth in PSCE averaged 2.3 percent for the first four months of 2021, lower than the average of 5.8 percent recorded during the same period in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households during the review period. Since the last MPC meeting, year-on-year growth in PSCE rose to 3.1 percent at the end of April 2021 from 2.1 percent at the end of February 2021, mainly due to base effects.
13. **The debt stock of the Central Government rose at the end of April 2021.** The total Government debt stock stood at N\$114.5 billion at the end of April 2021, representing a yearly increase of 13.5 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. Total debt as a percentage of GDP stood at 61.4 percent at the end of April 2021,

representing an increase of 4.8 percentage points compared to the corresponding period in 2020.

14. The MPC was informed that Namibia's merchandise trade deficit deteriorated during the first four months of 2021, on the back of a decline in export proceeds coupled with increased import payments. Namibia's trade deficit widened to N\$9.9 billion during the first four months of 2021, from N\$4.9 billion in the same period of the previous year. The worsening trade deficit was underpinned by a fall in the value of merchandise exports, which declined to N\$12.3 billion, largely driven by a decline in earnings from minerals, processed meat, and livestock exported. The lower earnings in minerals were partly ascribed to the appreciation of the domestic currency against the US Dollar negating improved international commodity prices to some extent, while the restocking activity contributed to lower earnings from agricultural exports. The value of merchandise imports increased to N\$22.2 billion during the first four months of 2021 from N\$20.1 billion during the same period in 2020. The increase was observed in most major import categories recovering from the COVID-19 induced restrictions that occurred throughout April 2021.

15. The MPC was further informed that the stock of international reserves increased in May 2021. As at the 31st of May 2021, the stock of international reserves stood at N\$39.0 billion compared to N\$34.7 billion on the 31st of March 2021 as reported in the previous MPC statement. The increase in reserves was partly due to an inflow from the IMF in the form of a disbursement of the IMF Rapid Financing Instrument (RFI) and SACU receipts. At the level of N\$39.0 billion, the international reserves were estimated to cover 6.0 months of imports and remain sufficient to protect the peg of the Namibia Dollar to the South African Rand, while meeting the country's short-term international financial obligations.

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

ADOPTION OF THE MONETARY POLICY STANCE

17. **The MPC considered both the global and domestic economic developments, as highlighted above.** The MPC members noted that the global economy appeared to be on the path to recovery. However, full recovery in the global economy including Namibia was highly dependent on the effectiveness of the COVID-19 vaccine rollout. Inflation in the global economy increased but remained well contained and posed no significant economic or financial risks, and as a result, policy rates were maintained in most of the monitored economies. The domestic economic activity remained weak with no significant change since the last MPC meeting in April. Domestic credit remained subdued while the inflation rate edged up slightly, the level of international reserves as well as liquidity of the banking sector remained healthy and did not pose any risk. Moreover, the MPC noted that the Repo rate was already at its lowest level since Independence and maintained consensus that there was no room for further adjustment from monetary policy and that there was a need for other strategies outside monetary policy and fiscal policies, to complement efforts to grow the economy. In this regard, the MPC noted that rapid and effective implementation of the COVID-19 vaccination policy remains crucial to the extent and speed of the economic recovery going forward.
18. **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.