BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 12 - 13 June 2023

"Our Vision is to be a leading central bank committed to a prosperous Namibia"

Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on 12th and Physical Meeting held on 13th June 2023

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emma Haiyambo	Director: RFSDD[1]
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSDD
Romeo Nel	Technical Advisor to the Governor
Leonie Dunn	Deputy Governor

SECRETARY

Doughlas Ndana (Senior Economist: RFSDD)

Assisted by Victoria Manuel (Principal Economist: FSMOD[2])

[1] Research and Financial Sector Development Department (RFSDD)
[2] Financial Stability and Macroprudential Oversight Department (FSMOD)

APOLOGIES

Daisy Mbazima-Lando Principal Economist: RFSDD

OTHERS PRESENT

Kazembire Zemburuka (Director: Strategic Communications and International Relations); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Jaungura Kaune (Senior Economist: RFSDD); Hileni Shifotoka (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Aloys Mwashekele (Research Officer: FMD).

PARTIAL ATTENDANCE

Ancois Plaatje (Acting Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department); Hilma Mbongo (Senior Financial Analyst: Banking Supervision Department).

ECONOMIC DEVELOPMENTS REPORT

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

THE GLOBAL ECONOMY

1. **Preliminary data indicated that global economic activity recovered slightly during the first quarter of 2023.** Global economic activity improved during the first quarter of 2023, compared to the last quarter of 2022. The recovery was mainly shaped by strong private consumer spending in the US and the reopening of the Chinese

economy, following the easing of the Covid-19 restrictions. Additionally, improved activity in Japan, India and Brazil contributed to the observed recovery. The World Bank projected global growth to moderate significantly to 2.1 percent in 2023, from an estimated 3.1 percent in 2022.

2. **Risks to global growth were reported to have remained on the downside, although adverse risks had slightly moderated.** Key downside risks to the global economic outlook remained broadly unchanged and included the possible escalation of geopolitical tensions and tighter financial conditions. Other significant risks were the increased uncertainty from the recent financial sector turmoil and growing geopolitical fragmentation.

3. **The international prices of Brent crude oil declined, on average, both monthly and annually in May 2023.** Brent crude oil prices fell by 10.1 percent, month-on-month, and by 32.7 percent on an annual basis to an average of US$74.12 per barrel in May 2023. The decline was due to weaker global demand, reinforced by higher-than-expected near-term inventories and modest supply increases by non-OPEC suppliers. On the 12th of June 2023, Brent crude oil prices declined further to US$72.58 per barrel.

4. **The MPC was informed that copper and zinc prices had likewise declined monthly and yearly in May 2023.** The average price of copper fell by 6.7 percent month-on-month, and by 12.4 percent, year-on-year, to US$8 217.47 per metric tonne in May 2023. Similarly, zinc prices declined sharply by 10.5 percent monthly and by 34.0 percent yearly in May 2023, to an average of US$2 475.70 per pound. The observed declines were mainly due to weaker Chinese manufacturing activity, sluggish global demand and high stock levels. On 12th June 2023, the price of copper was higher at US$8 310.50 per metric tonne, while that of zinc edged lower at US$2 349.50 per pound.

5. **Uranium and gold prices were higher in May 2023 relative to the same period in 2022, although the picture was mixed month-on-month.** Uranium spot prices increased by 1.9 percent monthly and by 10.3 percent annually, to an average of US$52.68 per pound in May 2023, ascribed to increased demand for cleaner energy. Meanwhile, the price of gold declined modestly by 0.4 percent month-on-month but

increased on an annual basis to US$1 992.13 per ounce on average in May 2023. The annual increase was sustained by investors' safe-haven purchases, while the month-on-month decline was mainly attributed to the appreciation of the US Dollar against other trading currencies. On the 12th of June 2023, the price of uranium had risen to US$57.75 per pound, while that of gold moderated to US$1 969.70 per ounce.

6. **The global food price index declined both monthly and yearly in May 2023, while the Diamond Index (IDEX) was muted on a monthly basis but declined annually.** The FAO Food Price Index averaged 124.30 points in May 2023, down by 2.3 percent monthly and by 21.4 percent yearly. The decline was attributed to the Black Sea Grain Initiative which saw the partial resumption of Ukrainian sea exports, resulting in considerable drops in the international prices for vegetable oils, dairy products and wheat. Meanwhile, the IDEX was broadly stable month-on-month but fell notably by 17.8 percent, year-on-year, to an average of 123.9 points in May 2023. The decline in diamond prices was ascribed to higher interest rates, which continued to impact disposable income in key diamond consumer markets.

7. **Since the last MPC meeting, inflationary pressures in the monitored economies continued to moderate despite remaining elevated.** Among the AEs, inflation eased in the US, the United Kingdom and the Euro Area, but it increased somewhat in Japan. Likewise, inflation moderated in most of the key monitored EMDEs, except for Russia and China where it edged up slightly. Monetary policy decisions were mixed, with a number of monitored central banks maintaining their policy rates at their latest monetary policy meetings. These included the Bank of Japan, the Bank of Brazil, the Bank of Russia, the People's Bank of China and the Bank of India. Meanwhile, the US Federal Reserve, the Bank of England, the European Central Bank as well as the South African Reserve Bank raised rates since the last BoN MPC meeting.

8. **MPC Members were further sensitised about developments in selected economies.** Beginning in South Africa, it was reported that load-shedding continued to negatively affect that economy, as seen from the slowdown in output growth, dampened consumer and business confidence, and the persistent contraction in the country's purchasing manager's index. It was further stated that the Chinese economy appeared to grow below expectations, amid mounting debt levels by local governments and cautious consumer spending. Finally, the MPC was informed that the US debt

ceiling had been set aside until January 2025, thereby preventing an unprecedented debt default.

9. **The MPC noted the recent global economic developments as presented.**

THE DOMESTIC ECONOMY

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

10. **The MPC noted that domestic economic activity improved during the first four months of 2023.** The improvement was mainly observed in sectors such as mining, manufacturing, wholesale and retail trade, communication and tourism. Activity in the construction sector, however, remained subdued due to the continued contraction in private sector works, amid a welcome increase in Government construction. Going forward, real GDP growth was projected to slow down to 3.0 percent in 2023 from 4.6 percent registered in 2022, on account of slower growth in the primary and secondary industries. The MPC was further informed that risks to the domestic economic outlook had remained broadly unchanged. On the external front, the weakening global economic activity, tight monetary policy globally and persistent inflation continued to pose negative risks to the domestic economic outlook. Domestically, factors such as water supply disruptions particularly in the coastal towns, the looming drought and general infrastructure constraints were reported to be major risks.

11. **The inflation rate remained elevated during the first five months of 2023.** Namibia's average inflation rate rose to 6.8 percent during the first five months of 2023 compared to 4.9 percent during the corresponding period in 2022. The rise in the average consumer prices was predominantly driven by food and housing price inflation. On a monthly basis, inflation fell back from 7.2 percent in March 2023 to 6.1 percent in April and 6.3 percent in May 2023. Going forward, overall inflation was projected to average 6.1 percent in 2023, remaining unchanged from the last MPC meeting.

12. **The MPC was informed that the annual growth in PSCE continued to decline.** Since the last MPC meeting, the year-on-year growth rate in PSCE slowed to 2.6 percent in April 2023 from 3.1 percent recorded in February 2023. The slowdown was due to weaker demand from the business sector, across all business credit categories,

but was most evident in the mortgage category. Nevertheless, growth in PSCE rose modestly to 3.0 percent during the first four months of 2023, relative to an average of 2.9 percent during the same period in 2022.

13. **The MPC was informed that total Government debt stock continued to rise over the year to the end of April 2023.** Total Government debt stock amounted to N$143.9 billion at the end of April 2023, rising by 12.3 percent yearly and by 1.0 percent on a monthly basis. The increased issuance of both Treasury Bills and Internal Registered Stock, which increased domestic debt levels, as well as the exchange rate depreciation, which raised the foreign debt stock, contributed to the rise in the stock of total public debt. Total debt as a percentage of GDP rose by 6.5 percentage points yearly, but declined marginally by 0.3 percentage points on a monthly basis to 68.0 percent at the end of April 2023. Going forward, the total debt stock was anticipated to rise further to N$166.2 billion over the MTEF. This would represent 69.0 percent of GDP, higher compared to the previous MPC estimate and remaining above the SADC benchmark of 60.0 percent of GDP.

14. **On the external front, it was stated that Namibia's merchandise trade deficit narrowed over the first four months of 2023, as exports rose faster than imports.** Namibia's trade deficit narrowed by 19.3 percent to N$9.0 billion during the first four months of 2023, compared to N$11.1 billion over the same period last year. Higher export earnings from uranium, diamonds, gold and blister copper, augmented by a weaker exchange rate largely contributed to the observed faster increase in exports relative to imports.

15. **The MPC noted that the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.** As at the 30th of April 2023, the stock of international reserves rose to above N$50 billion, from N$49 billion in March 2023. The rise in the level of international reserves was driven by higher SACU receipts and diamond sale proceeds. At this level, the stock of international reserves was estimated to cover 5.3 months of imports. The stock of international reserves hence remained adequate to support the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations. The stock of international

reserves, however, declined to N$49.7 billion as at the 31st of May 2023, partly on account of portfolio investment and import payments.

16. **The MPC noted the recent developments in the domestic economy as presented.**

ADOPTION OF THE MONETARY POLICY STANCE

17. **The MPC deliberated on both global and domestic economic developments, as highlighted above.** MPC Members reflected on the recent developments in the global and domestic economies and noted in summary that:

- The world economy exhibited some improvements, amid pockets of fragility and high uncertainties.
- Global real GDP growth for 2023 was revised slightly downwards compared to earlier projections. The possible escalation of geopolitical tensions, elevated inflation, and tighter monetary were expected to dampen global growth.
- Global inflation continued to decelerate but it remained elevated. With inflation remaining sticky, the path of monetary policy was uncertain, even though many global central banks kept their policy rates unchanged since the last MPC meeting.
- Recent global capital market developments appeared to indicate a higher risk of financial market instability.
- In the region, particularly in South Africa, concerns were load-shedding, grey-listing, and the possible sanctions from the US, all of which could have spill-over effects on smaller countries like Namibia.
- Domestically, economic activity continued to improve year-to-date, although growth was expected to slow down this year.
- Most commodity prices were relatively high, except in the case of diamond prices, which tend to be highly responsive to economic activity.
- Domestic inflation remained stubborn but future expectations were favourable. Nonetheless, the volatility in the pace of inflation continued to generate uncertainty, with implications for the path of monetary policy going forward as well as for real disposable incomes.
- On the fiscal front, the Central Government deficit widened marginally as public expenditure outpaced Government revenue. Notwithstanding, expectations remained that the deficit would shrink in the current fiscal year.
- The level of liquidity in the banking sector remained healthy, while PSCE growth remained overly subdued.

- Foreign exchange reserves remained adequate, and the merchandise trade deficit narrowed.
- The sharp depreciation of the domestic currency was considered inflationary.

18. **After considering the developments in all key macroeconomic variables as reflected above, the MPC agreed to increase the Repo rate.** The MPC decided to increase the Repo rate by 50 basis points to 7.75 percent. In expressing their initial preferences, five members were in favour of a 50 basis points increase, stressing the continued need to support the economy and the projected slowdown in inflation, while one member preferred a 75 basis points, emphasising the potential strains that might arise from too wide a divergence between money-market interest rates in Namibia and South Africa. The increase in the Repo rate that was decided upon effectively brought the prime lending rate to 11.50 percent. The decision was deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. It was simultaneously aimed at further containing inflationary pressures, stemming their associated second-round effects, and anchoring inflation expectations.