BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 12 - 13 August 2024

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

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Leonie Dunn	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

SECRETARY

Doughlas Ndana	Senior Economist: RFSDD

APOLOGIES

Ebson Uanguta	Deputy Governor

[1] Research and Financial Sector Development Department (RFSDD)

OTHERS PRESENT

Marsorry Ickua (Officer in Charge); Postrick Mushendami (Deputy Director: RFSDD); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Reinhold Kamati (Economic Advisor: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Naufiku Hamunime (Technical Expert: Strategic Communications and International Relations); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Aloys Mwashekele (Research Officer: FMD).

PARTIAL ATTENDANCE

Erwin Naimhwaka (Deputy Director: RFSDD); Abigail Nainda (Deputy Director: RFSDD); Israel Zemburuka (Director: Strategic Communications and International Relations); Rehabeam Shilimela (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Mutu Katjiuanjo (Senior Economist: RSFDD); Metilda Ntomwa (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Vejama Mootu (Senior Economist: RFSDD); Hilya Lazarus (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD); Merrinah Siboli (Economist: RFSDD); Daniel Kavishe (Principal Economist: FMD); Sevelia Nakalemo (Senior Economist: RFSDD); Isabel Nghinamupika (Economist: RFSDD); Christof Kalumbu (Senior Economist: RFSDD); Sandra Garises (Principal Communications Team Leader: Strategic Communications and International Relations).

ECONOMIC DEVELOPMENTS REPORT

Following the tradition, economic developments were split into global and domestic components. First, a report on global economic developments was presented to the MPC.

THE GLOBAL ECONOMY

1. **The MPC was informed that global economic activity continued on a gradual expansion path during the second quarter of 2024.** Global economic activity demonstrated resilience since the last MPC meeting, spurred by improved global trade, easing financial conditions and relatively lower inflation. Available second-quarter

output data indicated improvements in growth in the United States and the Euro Area. Growth, however, moderated in China during the same period.

2. **MPC members took note of economic outcomes in selected monitored economies.** Closer to home, members were informed that economic activity remained sluggish in South Africa, during the first half of 2024, with a contraction recorded in the first quarter of 2024. Notwithstanding, improved electricity supply and logistics were anticipated to support the economy. In the United States (US), the labour market exhibited signs of cooling off, amid recessionary concerns. The US Stock market selloff had reversed. On the other hand, economic resilience was being tested in China, with consumer and business confidence declining since the last MPC meeting. The Chinese economy continued grappling with elevated youth unemployment and a deteriorating property market.

3. **The MPC noted the projected steady global growth path in 2024 and 2025.** According to the International Monetary Fund's July 2024 World Economic Outlook (WEO) Update, global growth was forecast to moderate from 3.3 percent in 2023 to 3.2 percent in 2024, before rising slightly to 3.3 percent in 2025. Notably, the projection for 2024 was unchanged compared to the April 2024 WEO, while that for 2025 was 0.1 percentage point higher. The Emerging Market and Developing Economies (EMDEs), whose growth was revised upwards by 0.1 percentage points to 4.3 percent in 2024 and 2025, were projected to lead global growth over the forecast horizon. Meanwhile, the Advanced Economies (AEs) were expected to register more pedestrian growth rates of 1.7 percent and 1.8 percent in 2024 and 2025, respectively, unchanged from the forecast in April 2024.

4. **Risks to the global economic outlook were relatively balanced, but some near-term downside risks were noted to have gained prominence.** These were essentially stubborn inflation, elevated interest rates, and the potential intensification of geopolitical tensions and geoeconomic fragmentations. Other key downside risks noted were financial vulnerabilities resulting from the slower-than-anticipated reduction in global policy rates and debt distress.

5. **The MPC noted that the price of Brent crude oil increased monthly and annually in July 2024 but softened somewhat in August.** The price of Brent crude oil rose by 2.5 percent monthly and by 5.4 percent yearly to an average of around US$83 per barrel. The increase was primarily due to supply cuts by the Organization of Petroleum

Exporting Countries and heightened tensions in the Middle East. However, the Brent crude oil price was lower at around US$80 per barrel on 9 August 2024, slightly below the level prevalent at the previous MPC meeting.

6. **The MPC was informed that diamond prices trended downward both monthly and yearly in July 2024.** The International Diamond Exchange (IDEX) price index fell by 1.3 percent monthly and 13.7 percent yearly to 102 points in July 2024. The downward trajectory continued to be mainly fuelled by weaker consumer demand, especially in the United States and China, coupled with competition from lab-grown diamonds.

7. **Food prices were lower monthly and yearly in July 2024.** It was reported that food prices as measured by the United Nations' Food and Agriculture Organisation Food Price Index (FFPI), decreased by 0.2 percent month-on-month and by 2.6 percent year-on-year to approximately 121 index points. The decrease was primarily due to the decline in the *cereal* price index, which outweighed increases in the price indices for *vegetable oil*, *meat* and *sugar*. The lower cereal price index was underpinned by increased seasonal availability from the ongoing winter wheat harvests in the northern hemisphere, expectations for larger spring wheat harvests, strong competition and weaker global demand.

8. **The gold price trended higher monthly and annually in July 2024, while the uranium spot price rose annually.** The price of gold rose by 3.1 percent monthly and by 22.9 percent yearly to an average of US$2 398 per ounce in July 2024, sustained by safe-haven purchases. Meanwhile, the uranium spot price remained stable month-on-month in July 2024, and rose by 49.4 percent, year-on-year, to an average of US$84 per pound. Despite falling from its peak earlier in the year, the uranium spot price remained elevated on the back of the global commitment towards cleaner, safer and more secure energy sources. On 9th August 2024, the price of gold was higher, posting US$2 473 per ounce, while the uranium spot price averaged approximately US$81 per pound during the week of the 5th to the 9th of August 2024.

9. **The prices of copper and zinc edged lower month-on-month but rose year-on-year in July 2024.** The price of copper fell by 2.7 percent monthly but rose by 10.7 percent yearly, to reach an average of US$9 385 per metric tonne in July 2024. Similarly, the average price of zinc decreased marginally by 1.1 percent and increased by 15.5 percent to US$2 777 per metric tonne over the same timeframes. While copper and zinc prices remained remarkably resilient, recent decreases were primarily due to

weaker demand from China and higher global inventories, respectively. The downward trend was also observed since the previous MPC meeting. In this regard, the prices of copper and zinc stood lower at US$8 867 per metric tonne and US$2 737 per metric tonne, respectively, on the 9th of August 2024.

10. **Global inflation continued to ease in most of the monitored economies amid relatively elevated policy rates.** Among the AEs, inflation remained steady in the United Kingdom, the Euro Area and Japan compared to the levels observed at the previous MPC sitting, while it decelerated in the United States. In the EMDEs, inflation rose in Brazil, China and Russia but receded in India and South Africa. Going forward, inflation was expected to maintain a downward trajectory in 2024 and 2025. Nevertheless, the pace of disinflation, particularly in the AEs, was noted to be slower over the medium term due to the persistence of service price inflation. The MPC noted further that the US Federal Reserve and the South African Reserve Bank (SARB) both kept their policy rates unchanged since the previous MPC meeting. The monetary policy easing cycle was observed to have begun, with the Bank of England and the People's Bank of China joining the European Central Bank in reducing rates. Conversely, the Bank of Japan and the Bank of Russia raised policy rates at their most recent monetary policy meetings.

11. **The MPC noted and discussed the recent global economic developments.**

THE DOMESTIC ECONOMY

A presentation on the domestic economic developments was delivered to the MPC.

12. **Domestic economic activity continued expanding during the first half of 2024, although growth was forecast to slow in 2024.** MPC members were informed that domestic economic activity expanded further during the first six months of 2024, compared to the same period in 2023. The expansion in economic activity primarily emanated from the *mining*, *electricity generation*, *wholesale and retail trade*, *tourism*, *communication* and *transport* sectors and the *livestock marketing* subsector. Nevertheless, the *construction* sector, as did the *diamond* and *zinc concentrate* subsectors, remained anaemic. Looking ahead, growth was projected to decelerate to 3.1 percent in 2024 from 4.2 percent in 2023, 0.6 percentage point lower than the forecast at the previous MPC meeting. The slower growth was attributed to the slowdown in the primary industry, partly reflecting the prevailing drought conditions and

weaker global demand for diamonds. For 2025, growth was forecast to moderately rise to 3.9 percent.

13. **Key risks to the domestic economic outlook, emanating from external and domestic factors, remained unchanged compared to the previous meeting.** External risks included an extended tight global monetary policy stance, disruptive geopolitical tensions, geoeconomic fragmentations, and weaker growth in China. Another key external risk was the adverse developments in the international diamond market. Key internal risks continued to be the prevailing drought and water supply interruptions, particularly in coastal towns.

14. **Domestic inflation slowed during the first seven months of 2024 compared to the same period in 2023.** On average, inflation slowed to 4.8 percent during the first seven months of 2024, from 6.2 percent recorded in 2023. The disinflation was chiefly due to lower *food* inflation. Since the previous MPC meeting, inflation eased from 4.9 percent in May to 4.6 percent in both June and July 2024, mainly reflected in the categories of *alcoholic beverages and tobacco* and *transport*. Average inflation for 2024 and 2025 was revised downwards to 4.7 percent and 4.4 percent, from previous projections of 4.9 percent and 4.5 percent, respectively. The MPC was informed that the revised forecast was attributed to the appreciation of the Namibia Dollar and the moderation in crude oil prices.

15. **Annual growth in Private Sector Credit Extension (PSCE) exhibited some volatility since the last MPC meeting.** Although PSCE growth remained subdued, it rose notably from 1.6 percent in April 2024 to 3.2 percent in May 2024, before falling to 1.8 percent in June 2024. In addition, growth in PSCE slowed to 2.0 percent during the first half of 2024, compared to 2.8 percent recorded in the corresponding period in 2023. The slower growth was attributed to subdued demand coupled with tighter lending conditions amid eroded real incomes and a restrictive monetary policy.

16. **On the fiscal front, the Central Government's debt stock increased during the first four months of the FY2024/25, primarily driven by higher allotments for both Treasury Bills (TBs) and Internal Registered Stock (IRS).** Central Government's debt stock stood at N$157.1 billion at the end of June 2024, rising by 0.6 percent and 7.9 percent on a monthly and yearly basis, respectively. The increase in the debt level continued to be driven by increased issuance of TBs and IRS, complemented by loan disbursements by the African Development Bank and KFW Development Bank.

Consequently, debt as a percentage of GDP edged up slightly to 67.4 percent. Going forward, the debt stock was expected to reach N$184.5 billion by the end of the MTEF period. According to the February 2024 budget announcement, this last value would translate to 56.7 percent of GDP, tracking below the 60.0 percent convergence benchmark established by the Southern African Development Community. This is largely due to the anticipated higher nominal GDP during the period under review.

17. **Namibia's merchandise trade deficit widened further during the first half of 2024, primarily due to increased import payments.** The merchandise trade deficit widened to N$19.9 billion during the first six months of 2024, compared to N$12.3 billion recorded in the corresponding period of 2023. The wider trade deficit was primarily underpinned by higher import payments in *machinery*, *equipment* and *base metals,* owing to increased exploration activities. Moreover, the decline in export receipts, particularly lower *rough diamond* exports in line with depressed international diamond prices, contributed to the trade balance deterioration.

18. **The stock of international reserves soared to a record level and remained sufficient to support the currency peg and fulfil Namibia's international financial obligations.** Namibia's foreign reserve holdings stood at an all-time high level of N$60.8 billion as at the 31st of July 2024, up from N$55.6 billion recorded on the 31st of May 2024. The rise in reserves was primarily due to higher SACU receipts. At this level, the reserves stock was estimated to cover four months of imports, remaining sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand while meeting the country's international financial obligations. The import cover, excluding hydrocarbon exploration-related imports, which were noted to be funded from abroad, stood higher at 4.9 months.

19. **The MPC noted and discussed the recent developments in the domestic economy.**

ADOPTION OF THE MONETARY POLICY STANCE

20. **The MPC deliberated on both the global and domestic economic developments.** MPC members reflected on the recent developments in the global and domestic economies and noted in summary that:

- Global economic activity expanded steadily during the second quarter of 2024, and global growth was expected to continue in 2024 and 2025, albeit at an unremarkable pace.
- Downside risks to the global economic outlook remained broadly unchanged relative to the previous MPC meeting.
- Inflation exhibited a mixed picture since the previous MPC meeting, but it was significantly lower than a year ago.
- The monetary policy easing cycle had commenced, although most monitored central banks remained cautious about reducing interest rates.
- Since the previous MPC sitting, most monitored commodity prices trended downwards, with *diamond* prices leading the pack. However, the price of gold continued to rise.
- Regionally, particularly in South Africa, economic activity was sluggish, with first-quarter data indicating a contraction. However, improved electricity supply and logistical challenges were expected to improve growth.
- Domestically, economic activity expanded during the first half of 2024, although growth was forecast to slow in 2024.
- Domestic inflation slowed since the last MPC and year-to-date. The disinflation was projected to continue through to 2025.
- PSCE growth remained subdued.
- Foreign exchange reserves remained sufficient, while the merchandise trade deficit widened mainly due to higher import payments.

21. **Following a careful review of the economic developments, the MPC decided to ease the degree of monetary policy restraint by reducing the Repo rate by 25 basis points to 7.50 percent per annum.** A thorough review of global and domestic economic developments informed the decision to reduce the Repo rate. On the global front, the MPC observed that most key central banks maintained restrictive monetary policies, although some had begun to ease amid slowing inflation. In Namibia, economic activity remained on a recovery path, but growth was expected to be lower in 2024 partly due to drought-related setbacks. Current and projected inflation had slowed to prudent levels. Given slower inflation and unchanged interest rates, the real interest rate had effectively become more positive. International reserves were adequate, having increased further most recently despite the ongoing 50 basis point differential between the South African and Namibian policy rates. PSCE remained weak amid continuing financial pressure on indebted Namibian households and businesses. These

circumstances sketched a strong case for easing monetary policy. Mindful of the robust international reserve position, the MPC decided to reduce the Repo rate by 25 basis points to 7.50 percent. Likewise, commercial banks were expected to reduce their prime lending rates by the same margin to 11.25 percent. This recalibration of the monetary policy stance would continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand and support domestic economic activity.