BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 24 - 25 October 2022

Bank of Namibia

“Our vision is to be a centre of excellence”

Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the 24th and physical meeting held on the 25th of October 2022

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor
Ebson Uanguta	Deputy 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

APOLOGIES None

SECRETARY

Victoria Manuel (Senior Economist: RFSDD).

OTHERS PRESENT

Kazembire Zemburuka (Director: Strategic Communications); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD), Sevelia Nakalemo (Economist: FMD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department), Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department).

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

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. **Global real GDP growth moderated in the second quarter of 2022, while available indicators for the third quarter suggested significant further weakness.** Real GDP in the monitored economies moderated during the second quarter of 2022 with available indicators for the third quarter suggesting further weakness. The weaker growth prospects are on the back of the Russia-Ukraine conflict-induced inflation, which remained elevated, tighter financial conditions and supply bottlenecks. Except for Japan, real growth in most monitored AEs, including the United States (US), Euro area and the United Kingdom (UK) slowed in the second quarter of 2022. The decline was attributed to the weaker consumer spending amid rising inflation and interest rate hikes. Among the EMDEs, real GDP slowed in China, Russia and South Africa, while Brazil and India performed well during the second quarter of 2022.

2. **The MPC was informed that global economic growth was projected to moderate in 2022 compared to 2021.** From a strong rebound recorded in 2021, the global economy is projected to slow down in 2022, partly due to the impact of the Russia-Ukraine conflict. The International Monetary Fund (IMF), in its October 2022 World Economic Outlook (WEO), has maintained its projection that global real growth would moderate to 3.2 percent in 2022 from 6.0 percent in 2021. Similarly, the AEs are expected to slow down to 2.4 percent growth in 2022 from 5.2 percent in 2021, whereas growth in the EMDEs is projected to moderate to 3.7 percent in 2022 from 6.6 percent in 2021. However, the IMF has lowered its growth forecast for 2023. The downward revision to the global outlook for 2023 is mainly due to the effect of the prolonged Russia-Ukraine conflict, tighter financial conditions and weaker household purchasing power.

3. **The projected slower global growth is subject to considerable uncertainty, due to various downside risks.** These include ongoing geopolitical tensions, tighter financial conditions, weaker household purchasing power and limited fiscal space,

particularly in EMDEs. Similarly, a deceleration in China's economic activity due to extended lockdowns coupled with protracted financial stress among property developers would have a further weakening effect on global economic activity.

4. **The international price of crude oil declined since the previous MPC meeting, although it remained above its 2021 levels.** The price of Brent crude oil declined from an average of US$96.0 per barrel in August 2022 to an average of US$88.2 per barrel during September 2022. The monthly decline was mainly due to the strengthening of the US dollar, the slowdown in China's growth and increase in fears of a possible global recession triggered by the raising of interest rates by central banks to combat high inflation. On an annual basis, however, the price of Brent crude oil increased by 21.2 percent in September 2022, supported by the OPEC+ decision by to cut production by 2 million barrels per day or about 2 percent of global supply from November 2022, the sharpest output cut since the start of COVID-19. On the 24th of October the price of Brent crude oil stood at US$92.0 per barrel.

5. **The prices of uranium and gold declined in September 2022, compared to the previous month.** The price of uranium declined by 5.6 percent monthly but increased by 14 percent on a yearly basis to average US$48.4 per pound in September 2022, from US$51.3 per pound in August 2022. The monthly decline was on the back of expectations of aggressive monetary tightening by major central banks which reduced purchasing of uranium by commodity funds and nuclear energy producers. Similarly, the price of gold declined both on a yearly and monthly basis, to US$1 681 per ounce in September from US$1 765 per ounce in the previous month. The decline in the price of gold was on the back of the appreciation of the US dollar exchange rate, higher bond yields, and negative investor sentiment. The gold price declined further and stood at US$1 648 on the 24th of October 2022.

6. **The MPC was informed that the prices of copper and zinc declined on a monthly basis in September 2022.** The average price of copper declined on a monthly and annual basis to an average of US$7 545 per metric ton in September from US$9 025 per metric ton in the previous month. The decline was mainly due to weak prospects for global demand, amid rising interest rates and a weak Chinese economy stricken by COVID-19 restrictions and a property downturn. On the 24th of October 2022, the price of copper increased to US$ 7 556 per metric ton. Similarly, the price of zinc declined by 12.7 percent on a monthly basis, while it increased by 3.1 percent on a yearly basis

and averaged US$3 130 per metric ton in September 2022. The price further declined to US$2 958 per metric ton on the 24th of October. The monthly decline was in line with the economic slowdown and associated reduction in the demand for top metals and partly due to the troubled Chinese property sector and bleak economic outlook. However, on a yearly basis, the increase in zinc prices was mainly due to concerns over potential shortages resulting from falling inventories and a possible reduction in smelter output because of high energy prices.

7. **The global food price index declined on a monthly basis but remained high year-on-year in September 2022, while diamond prices trended downwards.** The FAO Food Price Index declined by 1.1 percent in September 2022 to 133 index points from 135 index points in August 2022, reflecting the drop in the international prices of vegetable oils, cereals, and sugar. On a yearly basis, the food price index rose by 3.8 percent, reflecting persistent tight market supplies, which posed a challenge to global food security for the most vulnerable countries. The IDEX diamond index averaged 140.5 points in September 2022 compared to 144.1 points in the previous month. The decline in diamond prices was mainly attributed to slowing global demand, especially in China amid recession fears.

8. **The MPC noted that since the last MPC meeting in August 2022, inflation pressures in most of the monitored economies remained elevated, although in some instances easing somewhat most recently.** The high inflation was largely due to rising energy and food prices, labour shortages and supply constraints. In the AEs, inflation had remained elevated in the US and continued trending upward in the UK, Euro Area and Japan. Inflation rates, however, moderated in most key monitored EMDEs, except for India and China where they increased in September 2022. Although inflation in South Africa moderated, it remained significantly above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent.

9. **Since the last MPC meeting in August 2022, most monitored central banks had tightened their policy rates, while a few maintained it.** Most key monitored central banks tightened their policy rates at their latest monetary policy meetings. Exceptions were the central banks of Japan, China and Brazil that maintained their policy rates, while Russia reduced its policy rate. Additionally, the US Federal Reserve, European Central Bank and Bank of England (BoE), have started to unwind their non-conventional stimulatory monetary measures to help address escalating inflation.

10. **In summary, the MPC noted the recent global economic developments as presented.** The MPC members deliberated further on the rising risks of public debt especially in many African economies who were on the verge of debt restructuring. Of great concern to the MPC members was the possibility (25 percent chance) of recession and how this could further exacerbate economic conditions in small developing economies, including Namibia.

DOMESTIC ECONOMY

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

11. **The MPC noted that domestic economic activity continued to improve during the first nine months of 2022 compared to 2021.** Following strong GDP growth figures observed in the first two quarters of 2022, recent economic data indicated that the domestic economy continued to recover in the third quarter. The growth was mainly reflected in sectors such as mining, agriculture (particularly activities related to livestock marketing), wholesale and retail trade, communication as well as tourism. On the contrary, the construction sector continued to weaken as reflected in decreased activity from both Government and the private sector. Quarter-on-quarter activities displayed similar positive developments. Real GDP registered a growth rate of 4.7 percent in the second quarter of 2022. Going forward, the domestic economy is expected to grow by 3.2 percent in 2022, from a growth rate of 2.7 percent recorded in 2021. The projected growth in 2022 will be driven mainly by diamond and gold mining coupled with better recovery prospects across most sectors.

12. **Risks to the domestic economic recovery and outlook in the medium term continue to be dominated by the impact of the Russia-Ukraine conflict, global supply chain disruptions and high oil and food prices**. This may cause inflation to persist for longer and prompt further interest rates tightening beyond what is currently expected. Other risks include the rising probability of a global economic recession, climatic swings, the possible emergence of new COVID-19 variants, animal disease outbreaks within the region, other infectious diseases as well as geopolitical tensions.

13. **The inflation rate increased during the first nine months of 2022, relative to the same period in 2021**. Namibia's annual average inflation rate increased to 5.8 percent during the first nine months of 2022, compared to 3.5 percent in the corresponding

period of 2021. The continued rise in inflation was predominantly driven by higher transport inflation, on account of international oil prices that remained elevated. Overall inflation declined slightly to 7.1 percent during September 2022 from 7.3 percent registered in August 2022. The monthly decline was mainly attributed to a deceleration in transport inflation, owing mainly to a slowdown in the international oil price during September 2022. Namibia's overall inflation for 2022 is now projected to average around 6.1 percent, up from 5.8 percent initially projected during the previous MPC meeting. The upward revision is mainly due to expected higher food inflation and a weaker exchange rate.

14. **The MPC was informed that the annual growth in private sector credit extension (PSCE) improved during the first eight months of 2022 but remained subdued.** The year-on-year growth in PSCE improved to 4.6 percent in August 2022, from 3.4 percent recorded in June 2022. Despite this improvement, growth in PSCE generally remains subdued and below historical levels. The increase in PSCE was mainly driven by businesses in the form of short-term credit facilities as well as instalment and leasing credit by corporates in the mining and services sectors. Loans extended to the household sector maintained a steady but low growth rate. This was reflected in a rise in instalment sale and leasing credit as well as other loans and advances which in turn were offset by the lower growth observed in mortgage advances and a contraction in overdraft credit. For the first eight months of 2022, growth in PSCE increased to 3.5 percent, higher than the 2.5 percent registered during the same period in 2021.

15. **The total Government debt stock increased over the year to the end of August 2022.** The total Government debt stock stood at N$133.9 billion at the end of August 2022, representing yearly and monthly increases of 9.7 percent and 1.5 percent, respectively. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) in order to finance the Government deficit. Total debt as a percentage of GDP stood at 69.8 percent at the end of August 2022, representing a yearly increase of 3.2 percentage point. Going forward, the total debt stock is expected to rise to N$165.5 billion over the MTEF period, which is projected to bring it to 75.2 percent of GDP. This is way above the domestic target of 35 percent of GDP and above the SADC benchmark of 60.0 percent of GDP.

16. **It was reported that Namibia's merchandise trade deficit widened further during the first eight months of 2022 driven by increased import payments, mainly in the form of mineral fuels, consumer goods as well as machinery and mechanical appliances.** Namibia's trade deficit widened to N$25.7 billion during the first eight months of 2022, compared to about N$18.0 billion in the same period of the previous year. The deterioration was mainly attributed to an increase in the import bill, due to higher payments for fuel, consumer goods, and machinery, mechanical and electrical appliances. The category of mineral fuels contributed the most to the import bill, reflecting the higher international crude oil prices, followed by higher expenditure on machinery and electrical appliances by the mining sector. Merchandise export receipts also increased, supported by higher export earnings from rough diamonds, uranium, gold, polished diamonds as well as fish processing. This was generally attributed to higher volumes exported, higher prices and a weaker exchange rate.

17. **The MPC was further informed that the stock of international reserves remained sufficient to support the currency peg as well as meet the country's international financial obligations.** As at the 30th of September 2022, the stock of international reserves declined slightly to N$48.0 billion from N$49.2 billion at the end of July 2022. The decline was mainly due to portfolio investment outflows and the repayments of foreign loans. Notwithstanding the decline, the international reserves, estimated at 5.6 months of imports, remain sufficient to cover Namibia's international financial obligations.

18. **In summary, the MPC noted the recent developments in the domestic economy as 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 reflected on the recent developments in the global and domestic economies and noted that in summary:

- The global output slowed during the second quarter of 2022 and was expected to slow in 2022, mainly on the back of the Russia-Ukraine conflict, resulting in supply chain disruptions. Risks that could slow the global recovery included the ongoing geopolitical tensions, tighter financial conditions, weaker household purchasing power and limited fiscal space, particularly in EMDEs as well as slower growth in China.
- Many developing economies, especially the Sub-Saharan region, were still experiencing the effects of COVID-19 and were yet to recover fully from the effects of the pandemic. In addition, many are on the border of public debt crisis, and hence their recovery was expected to take longer compared to the other Emerging and the Advanced economies.
- Global inflation eased but remained highly elevated, while high food and fuel prices continued to be a risk to the prolonged high global inflation.
- The global economy would continue to operate under tighter financial conditions, as central banks increased policy rates, to contain inflation and to counter capital flows from the emerging markets.
- Domestically, the gradual improvement in economic activity was observed as reflected in the moderate improvement in the PSCE. However, the economy remained weaker than before COVID-19 level and below its potential growth.
- There was no fiscal space for government with the debt level remaining elevated.
- In addition, inflation in Namibia accelerated, and the real interest rate remained negative, although this was expected to narrow with the tightening of the Repo rate.
- The level of liquidity in the banking sector remained adequate and posed no risk to the financial system, while the current account continued to record large deficits.
- The level of foreign reserves increased and remained adequate to meet the country's international financial obligations.

20. **The committee noted with concern that it was faced with policy trade-offs featuring growth, financial stability and price stability**. These came to the fore via the rising social issues such as demonstrations and high youth unemployment as well as inequality on the one hand, and the high rate of inflation and the course of monetary

policy on the other. In addition, there was intolerance to living with high inflation and interest rates, hence the high level of demonstrations and salary demands.

- To lessen the likelihood of capital outflows and to maintain the peg with the objective of maintaining price stability in Namibia, the MPC unanimously decided to increase the Repo rate.

21. **After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate.** The MPC decided to increase the Repo rate by 75 basis points to 6.25 percent. This decision was taken with due consideration of the persistent inflationary pressures. Moreover, this monetary policy stance was deemed necessary to narrow the current negative real policy interest rate enroute to eventually restoring it to a positive level that would be more conducive to long-term economic growth. In addition, the policy stance was consistent with developments elsewhere in the world and in the region, with policymakers tightening policy rates to counter inflation. While the fragility of the recovery presented a good reason to consider a smaller increase than 75 basis points, the Bank's inflation forecast had just been raised, suggesting that a firm policy was needed. The 75-basis points increase was furthermore deemed appropriate to safeguard the one-to-one link between the Namibia dollar and the South African rand, while meeting the country's international financial obligations.