**BANK OF NAMIBIA**

## Minutes of the Monetary Policy Committee (MPC) Meeting

**Windhoek, 12 - 13 February 2024**

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

## Minutes of the MPC Virtual Meeting held on the 12th and Physical Meeting held on the 13th of February 2024

**MPC MEMBERS PRESENT**

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| 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**

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| Doughlas Ndana | Senior Economist: RFSDD |

**APOLOGIES**

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| Ebson Uanguta | Deputy Governor |

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

**OTHERS PRESENT**

Marsorry Ickua (Officer in Charge); Naufiku Hamunime (Acting Director: Strategic Communications and International Relations); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Technical Expert: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Metilda Ntomwa (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Vejama Mootu (Senior Economist: RFSDD); Hileni Shifotoka (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Sevelia Nakalemo (Economist: FMD); Merrinah Siboli (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD).

**PARTIAL ATTENDANCE**

Imanuel Hawanga (Deputy Director: Banking Supervision Department (BSD)); Charlene Tjikukutu (Principal Financial Analyst: BSD); Rauna Iitembu (Senior Financial Analyst: BSD).

## ECONOMIC DEVELOPMENTS REPORT

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

### THE GLOBAL ECONOMY

1. **The MPC observed that global economic growth in 2023 surpassed earlier expectations.** Global output was estimated to have expanded by 3.1 percent in 2023, exceeding the International Monetary Fund's (IMF) projection of 2.9 percent in October 2023. The global output growth for 2023, however, remained lower than the 3.5 percent recorded in 2022, mainly due to restrictive monetary policies and the disruptive impact

of regional conflicts. The gradual withdrawal of fiscal support and extreme weather events further weighed down growth.

2. **MPC Members noted that economic outcomes diverged in selected monitored economies.** Closer to home, members were informed that activity in South Africa remained very slow, on account of electricity shortages worsened by logistical constraints. Moreover, business and consumer confidence, retail sales and the level of unemployment were concerning. On the contrary, the Chinese economy showed signs of recovery, with growth estimated to have surpassed earlier expectations. While industrial production, exports and new orders received by manufacturers were all said to have improved somewhat recently, challenges such as the property market crisis and consumer price deflation remained. In addition, activity in the US economy remained robust, characterised by a solid labour market, stronger consumer sentiment, and firmer retail sales.

3. **The MPC was informed that the IMF expected global output to grow steadily between 2023 and 2024, before edging up slightly in 2025.** Global growth was projected at 3.1 percent in 2024 and 3.2 percent in 2025. The 2024 forecast was 0.2 percentage point higher than the projection in the October 2023 IMF World Economic Outlook (WEO), on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as the fiscal support in China. Furthermore, the MPC observed that the 2024 growth forecast reflected weaker growth in the Advanced Economies (AEs), which were projected to slow slightly from an estimated 1.6 percent in 2023 to 1.5 percent in 2024 before rising to 1.8 percent in 2025. In addition, the growth forecast for the Emerging Market and Developing Economies (EMDEs) was noted to be 4.1 percent in 2024, unchanged compared to the estimated growth in 2023. This was, however, an upward revision of 0.1 percentage point from the October 2024 WEO which reflected upgrades in several economies. EMDEs were expected to grow modestly to 4.2 percent in 2025.

4. **The MPC noted that global economic outlook risks, though fairly balanced, were still marginally tilted to the downside.** Risks to the global economic outlook were broadly balanced. There was some scope for further upside surprises to global growth, reinforced by the substantial decline in the likelihood of a hard landing. Nevertheless, potential factors that could likely pull the distribution of risks to the downside remained

slightly more plausible. These were mainly from commodity price spikes amid geopolitical and weather shocks, the persistence in core inflation which would require a restrictive global monetary policy stance, and faltering growth in the Chinese economy.

5. **The MPC noted that the price of Brent crude oil was lower in December 2023 but firmed most recently.** The Brent crude oil price declined by 6.9 percent and 3.0 percent on a monthly and yearly basis, respectively, to an average of US$75.72 per barrel in December 2023. The decrease was ascribed to a sluggish economic recovery in China and unfavourable market sentiment. Most recently, however, the price of Brent crude oil ticked up in January 2024, partly on account of the Red Sea global oil shipping uncertainties. The price of Brent crude oil was also higher on 9 February 2024, averaging US$82 per barrel compared to around US$76 per barrel at the previous MPC meeting.

6. **Diamond prices were broadly unchanged in January 2024 but continued to trend downwards yearly.** The Diamond Index Exchange (IDEX) ticked up 0.2 percentage point, month-on-month, but simultaneously fell by 15.9 percent to 110 points on a yearly basis in January 2024. Overall, diamond prices remained lower on account of weaker global consumer demand and competition from lab-grown diamonds. The MPC also took note of the sanctions imposed by the European Union (EU) and the Group of Seven (G7) on Russia in response to its invasion of Ukraine. On 1 January 2024, the EU and the G7 banned the direct import of diamonds originating from Russia. Additionally, a ban on the importation of Russian diamonds cut and polished elsewhere was said to come into effect on 1 March 2024. Another sanction was the introduction of a certification scheme to determine the origin of rough diamonds, which was said to come into effect on the 1st September 2024. The certification scheme was observed to be particularly concerning as it had implications for Namibia's diamond sector. Among other concerns, it could reduce efficiency and turnover, lengthen market delivery of purchased diamonds and induce supply shortages.

7. **The Food and Agriculture Organisation (FAO) Food Price Index of the United Nations declined both monthly and yearly in January 2024.** The FAO Food Price Index stood at 118.2 points, 0.9 percentage point and 10.2 percent lower compared to its level a month and a year earlier, respectively. The January 2024 reading was the

lowest since February 2021, observed in *cereals*, *dairy*, *vegetable oils* and *meat* products. The improved crop conditions, stronger competition among exporters as well as increased global supply largely contributed to the decline during the period under review.

8. **The MPC was informed that movements in the prices of zinc and copper diverged monthly in January 2024, but declined on an annual basis.** The zinc price ticked up by 0.5 percentage point monthly and declined considerably by 24.0, year-on-year, to an average of US$2 515 per metric tonne in January 2024. The lower price was attributed to weaker demand and the slower economic recovery in China. In contrast, the average price of copper stood US$8 339 per metric tonne in January 2024, falling by 0.3 percentage point monthly and by 7.7 percent yearly. Despite moderating, the MPC noted that the price of copper was generally elevated over the year ended January 2024 on the back of rising demand associated with the transition to green energy. In addition, the MPC observed that both zinc and copper prices were lower relative to their levels at the December 2023 MPC meeting. Accordingly, zinc and copper prices averaged US$2 300 per metric tonne and US$8 169 per metric tonne, respectively, on the 9th of February 2024.

9. **Uranium and gold prices trended upward in January 2024.** Uranium spot price continued to trend upwards, increasing by 10.2 percent monthly and by an impressive 98.0 percent annually, to an average of US$100 per pound in January 2024. The rise in the uranium spot price continued to be driven by the robust demand for clean, secure and low-cost energy, amid constrained supply. Most recently, uranium spot price remained above US$100 per pound during the week of the 5th to 9th February 2024. Likewise, the price of gold rose by 2.1 percent monthly and by 12.7 percent year-on-year to an average of US$2 026 per ounce in December 2023, primarily due to safe-haven purchases. On the 9th February 2024, the price of gold amounted to US$2 039 per ounce, lower than US$2 090 per ounce which prevailed at the December MPC sitting.

10. **Inflationary pressures continued to ease in most of the monitored economies since the last MPC meeting.** Among the AEs, inflation subsided in Japan, the United Kingdom and the Euro Area but edged up slightly in the US. In the EMDEs, inflation slowed in Brazil and South Africa but rose slightly in Russia and India, while China's

deflation state remained. Overall, inflation in the monitored economies decelerated notably in 2023. Accordingly, inflation in key AEs slowed from an average of 7.4 percent in January 2023 to 3.2 percent in December 2023. Likewise, average inflation in the monitored EMDEs slowed from 6.6 percent to 4.5 percent during the same period. Core inflation was however noted to have remained sticky. Global inflation was anticipated to slow further from an estimated average of 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. With inflation subsiding faster than expected, most monitored central banks kept their policy rates unchanged at their latest monetary policy meetings. Nevertheless, the Bank of Russia and the Central Bank of Brazil raised and cut rates in December 2023, respectively.

11. **The MPC took note of the key points regarding recent global economic developments.**

## THE DOMESTIC ECONOMY

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

12. **The MPC noted that domestic economic activity expanded during 2023.** Domestic economic activity expanded during 2023, as reflected in sectors such as *mining*, *wholesale and retail trade*, *tourism*, *communication, and transport* as well as the *electricity generation and livestock farming* subsectors. Meanwhile, activity in the construction sector remained weak. On the demand side, increased investment in hydrocarbon exploration activities and green hydrogen were indicated to have significantly contributed to the improvement in economic activity in 2023. Going forward, GDP growth was projected to decelerate to 3.9 percent in 2023 and further down to 3.4 percent in 2024 from a revised growth rate of 6.4 percent in 2022. The downward trajectory in growth was expected to be characterised by slower growth in the primary and secondary industries, in part due to uncertain weather conditions.

13. **Downside risks to the domestic economic outlook remained broadly unchanged since the previous MPC meeting.** On the external front, the key risks were slower global economic growth, tight global monetary policy, geopolitical tensions, geoeconomic fragmentation and unstable electricity supply as well as logistical constraints in South Africa. Domestically, adverse risks included drought, uncertain rainfall conditions as well as water supply interruptions, particularly at the coastal towns.

14. **Domestic inflation moderated during 2023, relative to 2022.** Annual inflation slowed to 5.9 percent in 2023 from 6.1 percent in 2022, mainly owing to a deceleration in the *transport* category. Likewise, the annual inflation was lower at 5.4 percent in January 2024, compared to 6.0 percent in October 2023, despite ticking up marginally by 0.1 percentage point from 5.3 percent in December 2023. Notwithstanding the recent pickup, the downward trajectory in inflation was expected to continue in 2024. Accordingly, inflation was projected to average 4.8 percent in 2024, unchanged from the previous forecast.

15. **Annual growth in Private Sector Credit Extension (PSCE) improved modestly since the last MPC meeting, albeit remaining low.** The annual growth in PSCE stood at 1.9 percent in December 2023, moderately higher than the 1.8 percent recorded in October 2023. The slight improvement in PSCE growth was characterised by a higher credit uptake by the corporate sector in the form of *instalment sale and leasing finance*. On average, however, growth in PSCE slowed from 3.6 percent in 2022 to 2.4 percent in 2023.

16. **The Central Government's debt stock rose during the first nine months of the FY2023/24 to the end of December 2023, largely attributed to the higher allotment of both Treasury Bills (TBs) and Internal Registered Stock (IRS).** Central Government debt stock was N$148.8 billion at the end of December 2023, rising by 8.3 percent year-on-year. The higher debt stock was largely driven by an increase in the issuance of TBs and IRS, coupled with the loan disbursements by the African Development Bank and KFW Development Bank as well as the depreciation of the local currency. At this level, the debt stock as a percentage of GDP stood at 65.8 percent, broadly unchanged on a monthly basis but moderating by 1.0 percent on a yearly basis. The total debt stock was anticipated to rise to N$178.8 billion over the MTEF period. However, with the anticipated redemption and/or partial redemption of debt instruments and loans, the debt stock was expected to fall to 61.7 percent of GDP over the MTEF period, just above the SADC benchmark of 60.0 percent.

17. **The MPC was informed that Namibia's merchandise trade deficit narrowed in 2023, on account of a faster increase in exports relative to imports.** Namibia's merchandise trade deficit stood at N$30.3 billion in 2023, narrowing by 3.7 percent compared to its level in 2022 on account of a faster increase in export receipts

compared to import payments. The higher export earnings were observed in earnings from *gold*, *uranium*, *rough diamonds* and *fish* reflecting higher volumes exported and the depreciation in the Namibia Dollar against the United States Dollar. The MPC was also informed that the rise in imports was mainly due to payments for *machinery*, *vehicles* and *consumer goods*.

18. **The MPC observed that the stock of international reserves remained sufficient to support the currency peg and meet Namibia's international financial obligations.** The preliminary stock of international reserves stood at N$49.7 billion on the 31st of January 2024, slightly above the N$49.0 billion reported at the previous MPC, partly due to SACU receipts. The preliminary stock of international reserves was estimated to cover 3.7 months of imports, remaining sufficient to support the currency peg between the Namibia Dollar and the South African Rand while meeting the country's international financial obligations.

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

- Global growth in 2023 defied expectations, proving more resilient than anticipated despite falling short of the long-term average.
- Global growth prospects were expected to remain broadly steady up to 2025. Risks to the economic outlook were fairly balanced although factors that could skew the distribution of risks to the downside remained more plausible.
- Global inflation and near-term inflation expectations had receded in major economies, with long-term inflation expectations anchored. Nevertheless, global core inflation remained somewhat sticky.
- Commodity prices continued to exhibit a mixed picture since the last MPC meeting, although uranium spot prices continued to reach new highs while rough diamond prices ticked up, a deviation from the sustained downward trend observed throughout 2023.
- In the region, particularly in South Africa, economic activity was subdued on account of electricity shortages worsened by logistical constraints.

- Domestically, economic activity expanded briskly in 2023, though at a somewhat slower pace than in 2022.
- Domestic inflation receded since the previous MPC sitting and throughout most of 2023. The trend was expected to continue in 2024 and 2025, unchanged compared to earlier projections.
- On the fiscal front, the Central Government budget deficit narrowed during the first ten months of the FY2023/24, as revenue collections more than offset the increase in expenditure; both revenue and expenditure were nevertheless rising at double-digit rates.
- PSCE growth remained subdued with anticipated moderate short-term momentum.
- Foreign exchange reserves remained adequate, and the merchandise trade deficit narrowed.

21. **After careful consideration of the economic developments above, the MPC unanimously decided to keep the Repo rate steady.** The MPC noted the persistent disinflation both domestically and globally. Additionally, the committee observed that real interest rates were positive, international reserves were fairly adequate, and credit growth remained subdued. These factors suggested room to retain the current monetary policy stance. Accordingly, MPC Members decided unanimously to keep the Repo rate unchanged at 7.75 percent. As such, the prime lending rate remained constant at 11.50 percent. A domestic repo rate 50 basis points below that of the anchor currency was thought to adequately balance the need to support domestic economic activity and safeguard the one-to-one link between the Namibia Dollar and the South African Rand.