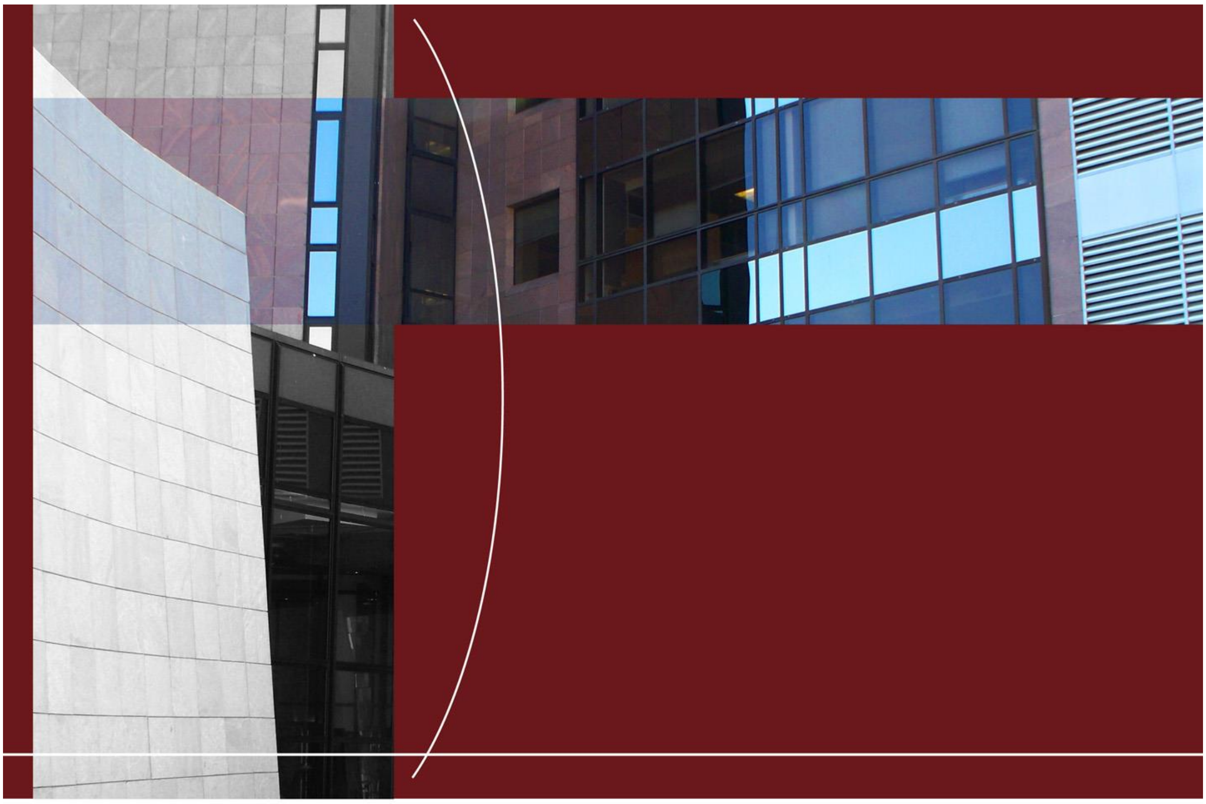
BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14th – 15th February 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 14th and 15th of February 2022

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
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

OTHERS PRESENT

Israel Zemburuka (Director: Strategic Communications), Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Christian Phillipus (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); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department).

SECRETARY

Victoria Manuel (Senior Economist: RFSDD).

[1] Research and Financial Sector Development Department

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 MPC was informed that since the last MPC meeting in December 2021, global COVID-19 infection and death rates declined, while the rate of vaccination remained low in less developed economies.** Globally, the number of COVID-19 cases and deaths declined towards the end of January 2022 from its peak observed in mid-January 2022. The Omicron variant that was seen as the highest risk towards the end of 2021 appeared to have caused fewer cases of hospitalisation and death. With regard to the COVID-19 vaccine rollout, it was reported that the vaccination rate was still very low in less developed economies when compared to developed countries. Moreover, the Sub-Saharan African economies were still lagging as compared to the rest of the world. The inequality concerning vaccination rates between the developed and less developed countries posed risks to the global economy.

2. **Real GDP growth of the global economy is estimated to have rebounded strongly in 2021 compared to 2020.** The global GDP growth rate is estimated to have recovered to 5.9 percent in 2021 from a contraction of 3.1 percent in 2020. Growth in 2021 is attributed to a low base effect, mainly on the back of continued adaptation of economic activity to the pandemic and related restrictions, vaccine rollout as well as ongoing policy support in many countries. Going forward, the International Monetary Fund (IMF) and World Bank project that the global growth rate would moderate in 2022 and 2023. In particular, the IMF projects global growth to moderate to 4.4 percent in 2022 and further to 3.8 percent in 2023, mainly due to the expectation that the policy stimuli would fade as time progressed.

3. **GDP growth in all major monitored AEs and EMDEs is estimated to have increased in 2021 compared to 2020.** Real GDP in AEs is estimated to have increased by 5.0 percent in 2021 from a contraction of 4.5 percent in 2020. The improved growth in the AEs benefitted from sustained policy support and the easing of COVID-19 lockdown measures in 2021 compared to 2020. Similarly, growth in the

monitored EMDEs is estimated to have improved to 6.5 percent in 2021 from a contraction of 2.0 percent in 2020. Going forward, the IMF projected the AEs real GDP growth to moderate to 3.9 percent in 2022 and 2.6 percent in 2023. For the EMDEs, growth is projected to slow down to 4.8 percent and 4.7 percent in 2022 and 2023, respectively, mainly due to the withdrawal of policy support, a moderation in external demand, slower vaccine rollouts and less policy support.

4. **Key risks to the global economic outlook include geopolitical tensions, supply constraints, the future course of the pandemic and the degree of success in the deployment of COVID-19 vaccines, particularly in the EMDEs**. The potential emergence of new COVID-19 variants contributes to uncertainties and poses risks to global recovery. The inflation pressures are likely to result in the tightening of financial conditions, which may consequently lead to capital outflows from EMDEs. This may further cause exchange rate depreciations and resultant bouts of inflation in those countries.

5. **Since the last MPC meeting in December 2021, global stocks generally enjoyed a bullish performance up to January but lost momentum during February 2022.** The weakened performance in February was mainly on the back of increased geopolitical tensions and concerns around frontloaded interest rate hikes in AEs.

6. **The international price of crude oil increased in January 2022 compared to the preceding month and rose further in February.** The price of Brent crude oil averaged US$84.0 per barrel during January 2022, up from an average of US$73.0 per barrel in December 2021. The increase was mainly on the back of tight global supply brought about by cold weather in the US and ongoing turmoil among major world producers. On the 14th of February 2022, the price of Brent crude oil increased and stood at US$96.48 per barrel amid geopolitical tensions between Russia and Ukraine.

7. **The uranium and gold prices increased in January 2022.** The price of uranium increased to an average of US$43.08 per pound in January 2022, from US$42.05 per pound in December 2021. The increase in the price of uranium was mainly due to supply disruption caused by unrest in Kazakhstan, which accounts for around 40 percent of global uranium output. On the 14th of February 2022, the uranium price stood at US$43.80 per pound, moving slightly higher despite waning fears of

interrupted production in Kazakhstan as the political unrest in the country did not affect the mining of nuclear fuel or its supply chain, as previously feared. In addition, huge purchases of the nuclear-energy element by an investment fund, Canada's Sprott Physical Uranium Trust, also supported the price. Furthermore, the demand for nuclear energy as a clean and efficient power source increased and pushed up the prices in recent months. Similarly, the price of gold ended January 2022 slightly higher, rising from US$1 790 in December 2022 to US$1 816 per pound. The price of gold increased further to US$1,869 on the 14th of February 2022, mainly due to increased fears that Russia will invade Ukraine which resulted in investors pulling back from riskier assets to safe-haven assets.

8. **The MPC was informed that the prices of copper and zinc increased in January 2022, while the diamond price index improved.** The prices of copper averaged US$9 782 per metric ton in January 2022 rising from US$9 551 in December 2021. Similarly, the prices of zinc averaged US$3 599 per metric ton in January 2022, which is a 5.9 percent increase from the previous month, sustained by falling supply in China and global supply disruptions. The Idex diamond price index picked up momentum in January and early February 2022 mainly due to strong consumer demand during the holiday season for the jewellery sector, notably in the US and China, as well as tightening global diamond supply.

9. **The MPC noted that since the last MPC meeting, inflation rates in most of the monitored AEs and EMDEs continued to increase.** Inflation in most of the key AEs and EMDEs increased further in December 2021, mainly due to the pandemic-induced supply constraints, mounting energy costs, labour shortages, increasing demand and a low base effect from 2020. On the contrary, the inflation rates for China decelerated in December 2021, on the back of fading low base effects.

10. **Since the last MPC meeting in December 2021, monetary policy stances of key central banks generally remained accommodative, although some central banks had started tightening rates.** In this regard, most monitored central banks left their policy rates unchanged, except for the UK, Brazil, Russia, China and South Africa that increased their benchmark rates at their latest monetary policy meetings, citing increasing inflationary pressures. While the monetary policy stances of all monitored

central banks remained generally accommodative, there were increasing pronouncements on potential monetary policy tightening.

11. **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.

12. **Overall domestic economic activity improved in 2021 compared to the previous year.** The increase in economic activity was observed in major sectors such as mining, wholesale and retail trade, communication as well as tourism. On the contrary, activity in the construction, manufacturing and transport sectors as well as the number of cattle marketed slowed over the same period. Going forward, the domestic economy is expected to grow by around 3 percent in 2022. Risks to the domestic economic outlook in the medium term remain sudden surges in COVID-19 cases and vaccine hesitancy.

13. **Namibia's annual inflation rate increased in 2021 relative to 2020.** Annual average inflation increased to 3.6 percent in 2021 compared to 2.2 percent in the previous year. The increase in inflation was mainly driven by higher prices for the food, transport and housing categories. This was on account of supply constraints for certain food categories, a rise in international oil prices and an increase in dwelling rent, respectively. On a monthly basis, overall inflation increased to 4.6 percent in January 2022 from 4.5 percent in December 2021 and 4.1 percent in November 2021. Namibia's overall inflation is projected to average around 4.4 percent for 2022 and 4.5 percent in 2023, up from 3.6 percent registered in 2021. Although overall inflation remains within a reasonable range, the food and transport components are expected to increase in the near future and may continue to have a disproportionate effect on the low-income segment of the society, and therefore require close monitoring.

14. **The MPC was informed that the annual growth in private sector credit extension (PSCE) slowed in 2021.** Growth in PSCE slowed to an average of 2.4 percent in 2021 from the 3.5 percent registered in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households, as a result of slow domestic economic activity during the review period. On an annual basis, growth in credit

extended to households slowed to 2.1 percent in December 2021, from the 2.5 percent registered in the previous month. Similarly, credit extended to businesses contracted by 0.1 percent in December 2021, compared to the 0.6 percent growth in November. Since the last MPC meeting, year-on-year growth in PSCE slowed to 1.2 percent in December 2021, from 2.9 percent registered in October 2021.

15. **The total Government debt stock increased over the year to the end of December 2021.** The total Government debt stock stood at N$124.3 billion at the end of December 2021, representing yearly and monthly increases of 16.3 percent and 0.2 percent, respectively. The increase was mainly driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS). Total debt as a percentage of GDP stood at 66.6 percent at the end of December 2021, representing yearly and monthly increases of 6.2 percentage points and 0.1 percentage point, respectively. Going forward, the total debt stock was anticipated to rise to N$160.3 billion over the Medium-Term Expenditure Framework (MTEF) period, which represents 72.9 percent of GDP. The debt-to-GDP ratio continued to rise further and breach the SADC benchmark of 60.0 percent of GDP.

16. **It was reported that Namibia's merchandise trade deficit worsened in 2021, attributed to higher import payments and lower export earnings**. Namibia's trade deficit widened to N$26.8 billion in 2021 from N$14.8 billion in the same period of the previous year. The deterioration in the merchandise trade balance was mainly attributed to an increase in the import bill, primarily reflected across major import categories such as consumer goods, mineral fuels, machinery, base metals as well as products of the chemical industries. Moreover, the rise in the import bill was mainly due to a recovery in domestic demand for foreign goods as the economic activity picked up during 2021 relative to 2020. The value of merchandise exports increased slightly to N$52.3 billion in 2021 from N$51.6 billion in 2020. The pedestrian increase in export earnings was largely due to lower proceeds from the mineral exports category, particularly from gold and uranium.

17. **The MPC was further informed that the stock of international reserves declined slightly in January 2022.** As at the 31st of January 2022, the preliminary stock of international reserves stood at N$42.9 billion compared to N$43.9 billion at the end of December 2021. The decline in international reserves was partly due to foreign payments by Government, commercial bank outflows and the appreciation of the

Namibia Dollar during the period. At this level, international reserves were estimated to cover 5.8 months of imports and hence remained adequate to protect the peg of the Namibia Dollar to the South African Rand as well as meet the country'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:

- The global economic growth rebounded quite well in 2021, and this growth was expected to continue throughout 2022. There were, however, concerns with regard to the effects of COVID-19 pandemic, especially in the developing economies such as Africa where the vaccination rollout was slow, and this could drag the global economic recovery backward.
- The MPC noted the escalation of geopolitical conflict between Russia and Ukraine which may possibly weaken foreign trade prospects and raise inflation if it intensifies further.
- Inflation pressure in the global economy continued; however, it was still manageable and did not pose an undue risk, although some central banks started increasing their policy rates as a result.
- Domestically, the economy remained subdued and continued to be under pressure although significant green shoots were observed in some key sectors such as mining (diamonds and uranium) and manufacturing since the last MPC meeting in December 2021.
- The MPC were of the view that although there were signs of improvement in the mining and manufacturing sectors, the challenge of high unemployment remained. Mining is a capital-intensive sector and would not contribute much to reducing unemployment in Namibia and therefore could not assist with driving demand-led growth in the economy.
- A key risk to the domestic economic recovery remained the potential reemergence of the COVID-19 variants which may affects some major sectors of the economy such as tourism.

- The uptake of domestic credit remained low due to slow economic activity, while the inflation rate edged up in line with the global inflation trend but remained well contained. The Committee noted the increasing trend in inflation globally and recognised its imminent impact on monetary policy going forward.
- The level of government debt remained high and rising and continued to be one of the biggest economic concerns in Namibia.
- The current account continued to be under pressure, due to a decline in export earnings and an expansion in imports. However, the level of international reserves remained adequate to protect the peg of the Namibia Dollar to the South African Rand as well as meeting the country's international financial obligations.
- The MPC noted that the COVID-19 vaccination rollout and addressing vaccine hesitancy were key to the economic recovery.
- In addition, the level of liquidity in the banking sector increased.
- A larger net ZAR capital outflow to South Africa was observed in January 2022 than a year earlier.
- The committee acknowledged that the potential for more capital flight was quite high at the time of the present MPC meeting, due to the SARB's increase of the policy rate at their last two MPC meetings.

20. After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate. 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. The MPC thoroughly reviewed all the factors pointed out above and concluded that most of the factors pointed to the fact that the current interest rate was still sufficient, and under normal circumstances, given the sluggish economy, they would not have been prompted to effect a change in the policy rate. However, due to the nature of the exchange rate policy arrangement in place and the objective of maintaining the peg, the MPC decided to increase the Repo rate by 25 basis points to 4.0 percent.

21. The decision was taken to align to the exchange rate peg and to prevent further capital outflows. The MPC was of the view that the increase in the Repo rate by 25 basis points to 4.0 percent was appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand.