BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 13 - 14 February 2023

Bank of Namibia

"Our Vision is to be a centre of excellence and a professional and credible institution working in the public interest and supporting the achievement of national economic development goals"

Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on 13th and Physical Meeting held on 14th February 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: Governor

APOLOGIES

Leonie Dunn	Deputy Governor

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

SECRETARY

Daisy Mbazima-Lando (Principal Economist: RFSDD)

Assisted by Doughlas Ndana (Acting Senior 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); Naufiku Hamunime (Principal International Relations and Sustainability: Strategic Communications and International Relations); Phillipus Christian (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Victoria Manuel (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Sevelia Nakalemo (Economist: FMD).

PARTIAL ATTENDANCE

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

ECONOMIC DEVELOPMENTS REPORT

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

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GLOBAL ECONOMY

1. **Global real Gross Domestic Product (GDP) growth slowed in 2022, relative to 2021.** Global economic growth declined from 6.2 percent in 2021 to 3.4 percent in 2022. The slower growth was partly ascribed to subdued economic activity in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). It was noted that growth in 2021 had been exceptionally high since most countries were rebounding from the Covid-19 pandemic lockdown measures of 2020. The sluggish growth in 2022 was mainly on the back of the Russia-Ukraine conflict, supply chain disruptions, high inflation, and tighter monetary and financial conditions. The lingering economic and health impact of the Covid-19 pandemic also contributed to the slower global growth.

2. **The MPC noted that the global economy was projected to slow down further in 2023.** The International Monetary Fund projected global economic activity to expand by 2.9 percent in 2023, on the back of slower expected growth in the AEs. Accordingly, growth in the AEs was expected to moderate to 1.2 percent in 2023 from an estimated 2.7 percent in 2022. Notwithstanding the projected low global growth, the EMDEs' growth was expected to improve modestly from 3.9 percent in 2022 to 4.0 percent in 2023. Focusing on the Chinese economy, the MPC was informed that apart from lifting the zero Covid-19 policies, consumer and business confidence had increased augmented by plans to expand fiscal expenditure as well as easing monetary policy.

3. **Risks to global growth remain on the downside, although adverse risks have slightly moderated.** Key downside risks to the global economic outlook included the possible escalation of geopolitical tensions, tighter financial conditions and the high cost of energy and food which may cause inflation to persist for longer, prompting further increases in interest rates. Other risks were weaker household purchasing power and limited fiscal space, particularly in the EMDEs.

4. **The international price of Brent crude declined monthly but gained yearly during January 2023.** The price of Brent crude oil declined by 10.7 percent, month-on-month, to average US$78.10 per barrel in January 2023. The notable decline was due to slowing global economic activity, despite the decision to cut oil production by the Organisation of Petroleum Exporting Countries (OPEC) and some non-OPEC oil producers (OPEC+) towards the close of 2022. Nonetheless, the price of Brent crude

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oil increased, year-on-year, by 7.1 percent, attributable to decreased supply maintained by OPEC+ nations. The MPC was further informed that going forward, prices were likely to range between US$75.00 and US$80.00 per barrel, on the back of renewed demand from China's reopening, the recent decision to cut production by Russia as well as the oil price cap instituted by some of the EU countries.

5. **The price of uranium declined, while that of gold increased in January 2023, compared to the previous month.** The price of uranium decreased by 4.2 percent monthly but gained 15.7 percent on a yearly basis to an average of US$47.70 per pound in January 2023. Notwithstanding the monthly and annual developments, uranium prices remained elevated due to tight supply. On the contrary, the gold price rose by 4.2 percent and 0.4 percent monthly and yearly, respectively, to US$1 798.00 per ounce in January 2023 as the US Dollar weakened against other currencies. On 13 February 2023, the prices of uranium and gold stood at US$49.90 per pound and US$1 903.20 per ounce, respectively.

6. **The MPC was informed that the prices of copper and zinc increased monthly but declined on an annual basis in January 2023.** The average price of copper rose by 4.0 percent but declined sharply by 12.3 percent, month-on-month but declined year-on-year, respectively to average US$8 375.40 per metric tonne in January 2023. The annual decline was largely due to weaker prospects for global demand. Likewise, zinc prices rose by 6.5 percent month-on-month but declined by 7.9 percent yearly to average US$3 129.48 per pound in January 2023.

7. **The global food price index and the Diamond Index (IDEX) declined on a monthly and yearly basis.** The FAO Food Price Index averaged 132.4 points in December 2022, representing a monthly and yearly decline of 1.9 percent and 2.4 percent, respectively. The fall was mainly due to steep reductions in the international prices of vegetable oils, cereals and meat. Likewise, the IDEX declined by 2.1 percent month-on-month and by 3.7 percent, year-on-year, to average 132.2 points in December 2022. The decline in diamond prices was ascribed to holidays as well as global economic uncertainty.

8. **Since the last MPC meeting, inflationary pressures in the monitored economies moderated slightly but remained elevated.** Among the AEs, inflation eased in the US, Euro area and the United Kingdom, but it increased in Japan during December

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2022. Inflation in key monitored EMDEs moderated in December 2022, except in China where it increased slightly. Inflation in South Africa continued to trend above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent. In response to elevated global inflationary pressures, most central banks increased their policy rates at their latest monetary policy meetings. The exceptions were the central banks of Japan, China, Russia and Brazil which maintained their policy rates, while Angola reduced its policy rate during the period under review.

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

DOMESTIC ECONOMY

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

10. **The MPC noted that domestic economic activity gradually improved during 2022.** The expansion was broad-based, mainly observed in sectors such as mining, agriculture, transport, wholesale and retail trade, tourism and communication. Activity in the construction sector, however, continued to decline as both Government and private sector work remained subdued. Real GDP growth was estimated to increase to 3.9 percent in 2022 and was forecast to slow down to 2.7 percent in 2023, taking the level of activity beyond that observed before the Covid-19 pandemic. Risks to the domestic economy include the weakening global economic activity, the tightening of monetary policy globally, high inflation and global supply chain disruptions. Additional risks include water supply interruptions, climatic swings and localised flooding.

11. **The inflation rate accelerated during 2022 relative to 2021.** It was indicated that Namibia's average inflation rose to 6.1 percent during 2022 compared to 3.6 percent in 2021. The rise in inflation continued to be predominantly driven by transport inflation, on account of high international oil prices. On a monthly basis, the MPC noted that overall inflation remained broadly elevated at 6.9 percent in December 2022, despite falling by 0.1 percentage point compared to November 2022. However, inflation would rise to 7.0 percent during January 2023. Going forward, Namibia's overall inflation was expected to decline to an average of 5.3 percent in 2023, an upward revision from 4.9 percent projected at the last MPC meeting.

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12. **The MPC was informed that the annual growth in Private Sector Credit Extension (PSCE) increased over the year to the end of December 2022.** Since the last MPC meeting, year-on-year growth in PSCE rose to 4.2 percent in December 2022, compared to 3.5 percent recorded in October 2022. The increase was due to higher demand by both the business and household sectors. On average, growth in PSCE rose to 3.6 percent in 2022, compared to 2.4 percent in 2021. At these levels, growth in PSCE remained notably below the inflation rate in 2022.

13. **The MPC was also informed that total Government debt stock increased over the year to the end of December 2022.** The total Government debt stock stood at N$137.3 billion at the end of December 2022, representing a yearly increase of 10.5 percent. The increase was driven by a rise in domestic debt, due to the issuance of both Treasury Bills and Internal Registered Stock. The exchange rate depreciation also contributed to the rise in total central Government debt. Furthermore, total debt as a percentage of GDP rose on a yearly basis by 3.4 percentage points to 70.3 percent at the end of December 2022. Going forward, the total debt stock is anticipated to rise at a slower pace over the MTEF period to reach N$155.1 billion by March 2026, which represents 66.2 percent of GDP between FY2022/23 and FY2025/26.

14. **It was reported that Namibia's merchandise trade deficit widened further during 2022, driven by higher import payments for mineral fuels, consumer goods, and machinery.** Namibia's trade deficit widened by 23.7 percent to N$36.3 billion in 2022, compared to N$29.3 billion in the previous year. The deterioration was mainly attributed to a significant rise in imports, mainly due to higher payments for mineral fuels, which reflected higher international crude oil prices.

15. **The MPC was further informed that the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.** As on 31st January 2023, the stock of international reserves amounted to N$46 billion, a decline from N$48 billion in December 2022. The decline in the level of international reserves was mainly due to higher imports and portfolio-related outflows. Nevertheless, at this level, the stock of international reserves was estimated to cover 4.8 months of imports. This level remains adequate to support the peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

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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 that in summary:

- Global real GDP growth was estimated to have slowed in 2022, and it was forecast to weaken further in 2023, mainly on the back of the Russia-Ukraine conflict, supply chain disruptions, high inflation, and tighter monetary and financial conditions.
- Unlike in the AEs, growth in EMDEs was expected to improve somewhat in 2023, as the Chinese economy had abandoned the zero Covid-19 policies thereby boosting global demand.
- Issues emanating in South Africa, such as electricity outages and politics may affect the Namibian economy going forward. On the contrary, India might perform better than expected while the Euro area was anticipated to avert a recession.
- Global inflation was still persistently high as crude oil and food prices remained elevated. In this regard, it was likely that most economies would continue with tight monetary and financial conditions.
- Domestically, economic activity continued to show a gradual improvement in 2022, although more support was required given the expected slowdown in 2023.
- Inflation remained elevated, while the real interest rate remained negative, although this was expected to narrow or reverse with any further tightening of the Repo rate.
- SACU receipts were expected to improve significantly in 2023/24, helping to create fiscal space and improving the balance of payments.
- The level of liquidity in the banking sector remained healthy, while the merchandise trade balance remained broadly favorable despite the observed deterioration.
- Foreign exchange reserves remained adequate.

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 25 basis points to 7.00 percent. This decision was reached after having thoroughly considered the pros, cons, and risks of various options, particularly those attached to a 25 basis points increase and an unchanged policy rate. The increase in the Repo rate effectively brought the prime lending rate to 10.75

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percent. The decision was taken to contain inflationary pressure and its second-round effects and anchor inflation expectations. The decision was also deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. Moreover, this monetary policy stance would take the prevailing negative real policy interest rate to a neutral rate. At the same time, the MPC remained mindful of the need to support the domestic economy and revive credit extension, to the extent possible.

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