BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 17 - 18 April 2023

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

Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on 17th and Physical Meeting held on 18th April 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 to the 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); 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); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Acting Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Sevelia Nakalemo (Economist: FMD).

PARTIAL ATTENDANCE

Ancois Plaatje (Acting Director: Banking Supervision Department); Florette Nakusera (Director: FSMOD[2]); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Karin Elago (Acting Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department); Vistorina Namene (Senior Financial Analyst: Banking Supervision Department); Johanna Iiyambula (Technical Expert: FSMOD); Victoria Manuel (Principal Economist: FSMOD); Anna William (Principal Economist: FSMOD); Andy Esterhuizen (Senior Economist: FSMOD); Helena Mboti (Economist: FSMOD).

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 MPC members.

[2] Financial Stability and Macroprudential Oversight Department (FSMOD)

GLOBAL ECONOMY

1. **Global real GDP growth slowed during 2022 and was expected to remain moderate in 2023.** Global economic growth declined from 6.3 percent in 2021 to 3.4 percent in 2022. The slower global growth was shaped by subdued economic activity in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs), mainly on the back of the Russia-Ukraine conflict which resulted in supply chain disruptions, high inflation and tighter monetary and financial conditions. Furthermore, the aftermath of the Covid-19 pandemic continued to negatively impact global growth.

2. **The MPC noted that the global economy was projected to slow down further in 2023.** The International Monetary Fund (IMF) had projected global economic activity to expand by 2.8 percent in 2023, as growth in the AEs and EMDEs was projected to remain weak. Specifically, growth in the AEs was expected to decline by half to 1.3 percent in 2023, from 2.7 percent in 2022. Economic growth in the EMDEs, on the other hand, was expected to remain broadly unchanged, falling modestly to 3.9 percent compared to 4.0 percent in 2022.

3. **Risks to global growth were reported to have remained on the downside, although adverse risks had slightly moderated.** Key downside risks to the global economic outlook included the possible escalation of geopolitical tensions, tighter financial conditions, elevated inflation, and tighter monetary policy. Other key risks included the increased uncertainty from the recent financial sector turmoil and geoeconomic fragmentation. Nonetheless, MPC members were informed that these risks had become slightly less tense.

4. **The international price of Brent crude oil declined, on average, both monthly and annually in March 2023.** The price of Brent crude oil declined by 0.2 percent, month-on-month, and by 14.2 percent to an average of US$80.25 per barrel in March 2023. The lower prices were mainly on the back of mounting fears of weak global growth, reinforced by the greater-than-expected near-term inventories as well as a slightly increased supply by non-OPEC suppliers. The MPC was further informed that, despite the sustained downward trend in crude oil prices, Brent crude oil was likely to remain above US$80.00 per barrel mainly supported by an announcement by OPEC+ producers of extra unexpected production cutbacks from May through December

2023. Accordingly, on the 17th April 2023, Brent crude oil prices increased to US$82.38 per barrel.

5. **Likewise, uranium and gold prices fell, on average, in March 2023 compared to the previous month and the corresponding month in 2022.** Uranium spot prices decreased by 0.9 percent monthly and 13.3 percent annually, averaging US$50.48 per pound in March 2023, owing to a rise in supply. Meanwhile, the price of gold declined marginally by 2.3 percent and 0.1 percent on a monthly and annual basis, respectively, to average US$1 854.54 per ounce in March 2023. The gold price was sustained by investors' safe-haven purchases as well as the continued acquisition of gold reserves by central banks around the world. On 17th April 2023, the prices of uranium and gold rose to US$50.65 per pound and US$1 959.90 per ounce, respectively.

6. **The MPC was informed that the prices of copper and zinc had also declined monthly and yearly in March 2023.** The average price of copper fell by 1.1 percent month-on-month, and by 10.1 percent, year-on-year, to US$8 936.59 per metric tonne in March 2023. Similarly, zinc prices declined by 5.3 percent monthly and by 13.4 percent yearly to an average of US$3 133.84 per pound in March 2023. The observed declines were, in part, due to weaker global demand and high supply. On 17th April 2023, the price of copper was higher at US$8 963.00 per metric tonne while that of zinc declined to US$2 816.00 per pound.

7. **The global food price index and the Diamond Index (IDEX) declined both monthly and yearly in March 2023.** The FAO Food Price Index averaged 126.9 points in March 2023, falling by 2.2 percent monthly and by 20.5 percent yearly. The fall was mainly due to steep reductions in the international prices of vegetable oils, dairy products and wheat. Likewise, the IDEX declined by 0.3 percent month-on-month and by 17.6 percent, year-on-year, to average 129.2 points in March 2023. The decline in diamond prices was ascribed to high interest rates, which reduced disposable income in key diamond consumer markets.

8. **Since the last MPC meeting, inflationary pressures in the monitored economies moderated but remained elevated.** Inflation eased in all of the monitored AEs in March 2023, with notable decreases in the US and the Euro area. Similarly, inflation moderated in key monitored EMDEs during the period under review, except in India, where it was muted and remained below the Reserve Bank of India's target rate. MPC

members were informed that 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, albeit at a slower pace. The exceptions were the central banks of Japan, Brazil, Russia and China, which maintained their policy rates, and South Africa, which raised its policy rate by 50 basis points following an increase of 25 basis points at its previous meeting.

9. **Finally, it was noted that the market turmoil, which resulted from the collapse of the Silicon Valley and Signature Banks, had been largely contained.** MPC members were briefed that swift efforts by regulators in the US and Europe had seemingly reduced the banking crisis. This was observed in bank deposits, which had rebounded in March 2023, reversing the sharp rise in the pace of money-market funds inflows as well as a reduction in total emergency borrowings. Moreover, members were sensitised about the de-dollarisation efforts by the BRICS economies.

10. **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.

11. **The MPC noted that domestic economic activity improved during 2022 relative to 2021.** Annual growth in Namibia's real GDP rose to 4.6 percent in 2022 from 3.5 percent in 2021. The expansion in domestic economic activity was on account of stronger growth rates in the primary and tertiary industries as well as a rebound in the secondary industry. Since the last MPC meeting, domestic economic activity continued to pick up, primarily observed in sectors such as mining, manufacturing, transport, communication, tourism as well as wholesale and retail trade. Members also noted that construction activity continued to decline reflecting the subdued Government and private sector works. Moreover, members were sensitised regarding the positive output gap since 2021, with the prospect of overheating until 2024, which was associated with inflationary pressures. Looking ahead, the MPC was informed that real GDP growth would decelerate to 3.0 percent in 2023, due to the anticipated moderation in the primary and secondary industries. External and internal factors continued to pose risks to the medium-term domestic economic outlook. External factors included

slowing global economic activity, tightening of monetary policy globally and sticky inflation. Internal risks were water supply interruptions, particularly in the coastal towns, and the looming drought.

12. **The inflation rate accelerated over the first three months of 2023 relative to the corresponding period in 2022.** It was indicated that Namibia's average inflation rose to 7.1 percent compared to 4.5 percent during the same period last year. The rise in overall inflation was predominantly driven by food and transport inflation. On a monthly basis, overall inflation, though elevated, remained unchanged at 7.2 percent in both February and March 2023. The forecast for overall inflation for 2023 had been revised upwards to an average of 6.1 percent, from 5.3 percent projected at the previous MPC meeting. The revision was on account of second-round effects, higher food price inflation emanating from a weaker exchange rate, as well as the prolonged stubbornness of core inflation.

13. **The MPC was informed that the annual growth in Private Sector Credit Extension (PSCE) declined.** Since the last MPC meeting, the year-on-year growth rate in PSCE declined to 3.1 percent in February 2023, compared to 4.2 percent recorded in December 2022. The slowdown in PSCE growth emanated from lower demand for credit by the business sector, partly due to the lingering effects of the Covid-19 pandemic. On average, however, growth in PSCE remained at 3.6 percent during the first two months of 2023, unchanged compared to the same period a year ago. At these levels, growth in PSCE remained subdued and lower than inflation over the period under review.

14. **The MPC was also informed that total Government debt stock increased over the year to the end of March 2023.** Total Government debt stock stood at N$140.8 billion at the end of March 2022, rising by 12.1 percent year-on-year. The increased issuance of both Treasury Bills and Internal Registered Stock, which increased domestic debt levels, as well as the exchange rate depreciation, which increased foreign debt, all contributed to the rise in total debt stock. Furthermore, total debt as a percentage of GDP rose by 1.9 percentage points to 67.6 percent at the end of March 2023. Going forward, the total debt stock was anticipated to rise at a slower pace over the MTEF, reaching N$155.1 billion by March 2026. This would represent 66.2 percent of GDP, which is above the SADC benchmark of 60.0 percent of GDP.

15. **It was reported that Namibia's merchandise trade deficit narrowed over the first two months of 2023, as exports rose faster than imports.** Namibia's trade deficit narrowed by 11.3 percent to N$6.3 billion during the first two months of 2023, compared to N$7.1 billion over the same period last year. Higher export earnings from uranium, diamonds and gold mainly contributed to the observed faster increase in exports relative to imports.

16. **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 at the 31st of March 2023, the stock of international reserves amounted to N$49 billion, up from N$47 billion in February 2023. The rise in the level of international reserves was driven by the depreciation of the Namibia Dollar against the US Dollar. At this level, the stock of international reserves was estimated to cover 5.1 months of imports. This remained adequate to support the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations. As of the 14th of April 2023, the foreign exchange reserves increased further to levels above N$50 billion, owing to higher SACU receipts, diamond sales and foreign direct investment inflow in the manufacturing sector.

17. **The MPC noted the recent developments in the domestic economy as presented and deliberated.**

ADOPTION OF THE MONETARY POLICY STANCE

18. **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 in summary that:

- The performance of the world economy remained highly uncertain with the frequency of shocks having risen.
- Global real GDP growth was estimated to have slowed in 2022, and it was forecast to weaken further in 2023. The Russia-Ukraine conflict, sticky inflation, and tighter monetary and financial conditions were expected to dampen global growth. The recent financial sector turmoil and geoeconomic fragmentation were also cited to have negative implications for global growth.

- Global inflation was still persistently high as crude oil and food prices remained elevated despite some moderation. In this regard, it was likely that tight monetary and financial conditions would persist.
- Domestically, economic activity improved in 2022, although more support would be helpful given the expected slowdown in 2023. The green shoots observed year-to-date could be overturned by the looming drought.
- Domestic inflation remained elevated, and while some deceleration was projected, its future path was uncertain, which could have implications for the path of monetary policy going forward.
- On the fiscal front, the higher SACU receipts in 2023/24 could support the expected economic stimulus from the Government and help improve the fiscal budget deficit as well as the balance of payments.
- The level of liquidity in the banking sector remained healthy, while PSCE growth remained overly subdued.
- Foreign exchange reserves remained adequate, and the merchandise trade balance narrowed.

19. **After considering the developments in all key macroeconomic variables as reflected above, the MPC agreed to increase the Repo rate.** The MPC discussed the benefits, costs and risks of a 25 basis point and a 50 basis point increase, and then decided to increase the Repo rate by 25 basis points to 7.25 percent. The increase in the Repo rate effectively brought the prime lending rate to 11.00 percent. The decision was taken to contain inflationary pressures, stem their 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 previously negative real Repo rate to a positive rate. The increase in the rate was nevertheless of moderate proportion to support the domestic economic recovery.