BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 17 - 18 June 2024

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

Minutes of the MPC held on the 17th and 18th of June 2024

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Leonie Dunn	Deputy Governor
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSDD
Romeo Nel	Technical Advisor to the Governor

SECRETARY

Doughlas Ndana	Senior Economist: RFSDD

APOLOGIES

Ebson Uanguta	Deputy Governor
Emma Haiyambo	Director: RFSDD[1]

OTHERS PRESENT

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

Marsorry Ickua (Officer in Charge); Postrick Mushendami (Deputy Director: RFSDD); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Israel Zemburuka (Director: Strategic Communications and International Relations); Anthea Angermund (Deputy Director: FMD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Reinhold Kamati (Technical Expert: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Abigail Nainda (Principal Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Aloys Mwashekele (Research Officer: FMD).

PARTIAL ATTENDANCE

Florette Nakusera (Director: Financial Stability and Macroprudential Oversight) Naufiku Hamunime (Technical Expert: Strategic Communications and International Relations); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Metilda Ntomwa (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Vejama Mootu (Senior Economist: RFSDD); Hilya Lazarus (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD); Merrinah Siboli (Economist: RFSDD); Daniel Kavishe (Principal Economist: FMD); Sevelia Nakalemo (Senior Economist: FMD).

ECONOMIC DEVELOPMENTS REPORT

Following the tradition, economic developments were split into global and domestic components. First, a report on global economic developments was presented to the MPC.

THE GLOBAL ECONOMY

1. **The MPC was briefed that global output maintained positive growth in the first quarter of 2024, amid divergent growth outcomes in monitored economies.** The global economy exhibited modest but positive growth in the first quarter of 2024, although economic performances diverged across key economies. The Group of Twenty (G20) economies collectively expanded by 3.3 percent year-on-year in the first quarter of 2024, unchanged compared to the fourth quarter of 2023. This improvement

was partly driven by the Euro Area, the United Kingdom and China. The United States and Indian economies experienced some moderation, however, they remained resilient, whereas growth in Japan contracted.

2. **MPC members were also informed of economic outcomes in selected monitored economies.** Beginning in South Africa, members were appraised that economic activity was moving broadly sideways, amid the country's political landscape shift. It was noted that the country had not faced load-shedding since March 2024, while logistical challenges were abating. Additionally, the shift towards a more market-friendly coalition government was observed to have contributed to the stability of South African Rand. However, concerns were noted in monitored economies further from home. In the United States, increasing debt levels, wider deficits and the institution of additional trade tariffs on Chinese products were worrying. In China, private sector activity and household spending were lagging although the high-tech transition could bolster economic transformation, evidenced by increased industrial production and imports. Consequently, several indicators, including aggregate spending, money supply growth, retail sales, fixed asset investment, property prices and the manufacturing PMI were all flagged as concerning.

3. **The MPC took notice of the steady global growth anticipated in 2024 and 2025.** It was reported that the International Monetary Fund forecasted the global economy to grow at a steady pace of 3.2 percent in both 2024 and 2025, unchanged compared to the previous MPC meeting. The growth projection was primarily supported by the Emerging Market and Developing Economies (EMDEs), whose growth was forecast at 4.2 percent in both 2024 and 2025. Moreover, the Advanced Economies (AEs) were expected to register moderate growth rates of 1.7 percent and 1.8 percent in 2024 and 2025, respectively. The MPC also took note of the diverging views on the global growth prospects from the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Despite both predicting a similar trend, the OECD projected growth rates of 3.1 percent and 3.2 percent in 2024 and 2025, respectively, compared to the World Bank's 2.6 percent and 2.7 percent for the same period.

4. **Downside risks to the global growth economic landscape remained broadly unchanged since the previous MPC meeting.** Notwithstanding the recent surprising resilience in the performance of the global economy, downside risks to the global economic outlook were observed to have remained broadly the same. These were

essentially the intensification of disruptive geopolitical tensions and geoeconomic fragmentations. Other key downside risks were financial vulnerabilities resulting from the slower-than-anticipated reduction in global policy rates, debt distress and the tension points in China's recovery.

5. **The MPC noted that the price of Brent crude oil increased on a yearly basis, but it receded on a monthly basis.** The Brent crude oil price rose by 9.9 percent yearly to an average of around US$81 per barrel. Brent crude oil prices remained elevated mainly due to production cuts by the Organization of Petroleum Exporting Countries as well as growing geopolitical tensions that had disrupted oil exports. Nevertheless, the price of Brent crude oil was 7.5 percent lower in May 2024 compared to the preceding month. Similarly, the price of Brent crude oil declined from around US$90 per barrel at the previous MPC meeting to US$82 per barrel on 14^{th} June 2024.

6. **Diamond prices continued to trend downwards both on a monthly and yearly basis in May 2024, while food prices ticked up monthly but fell yearly.** The International Diamond Exchange (IDEX) price index fell by 1.7 percent monthly, and by 14.9 percent yearly to 106 points in May 2024. The downward trend was primarily fuelled by weaker global consumer demand, coupled with high inventories, the price cut in rough diamonds and competition from lab-grown diamonds. Meanwhile, food prices as measured by the United Nations' Food and Agriculture Organisation (FAO) Food Price Index ticked up by 0.7 percent, month-on-month, in May 2024 to 120 index points. The index was, however, 3.0 percent lower than its corresponding value a year ago.

7. **Gold and uranium prices trended higher in May 2024.** The price of gold ticked up by 0.8 percent monthly and increased noticeably by 18.0 percent yearly to settle at US$2 351 per ounce in May 2024, buoyed by safe-haven and central bank purchases. Likewise, the uranium spot price rose by 1.6 percent, month-on-month, and by 65.7 percent, year-on-year, to around US$90 per pound in May 2023. Elevated uranium spot prices continued to be supported by the strong demand for cleaner, safer and more secure energy, which was recently augmented by supply disruptions from major uranium producers. Nevertheless, both commodities saw price decreases at the June 2024 MPC meeting compared to the prior meeting. On 14^{th} June 2024, the price of gold hovered around US$2 349 per ounce, and the uranium spot price averaged approximately US$84 per pound during the week of the 10^{th} to 14^{th} June 2024.

8. **The prices of copper and zinc were higher monthly and yearly in May 2024.** The average price of copper stood at US$10 139 per metric tonne in May 2024, increasing by 7.1 percent monthly and by 23.4 percent annually. Likewise, the price of zinc rose by 8.3 percent on a monthly basis and by 19.5 percent, year-on-year, to an average of US$2 959 per metric tonne in May 2024. The rise in both copper and zinc prices was essentially ascribed to the resurgence of demand from China and increased investment in green technologies and artificial intelligence. Additionally, the price of copper was higher since the last MPC meeting, while that of zinc slightly declined. Accordingly, on the 14th of June 2024, the copper price averaged US$9 742 per metric tonne, higher compared to the level observed at the previous MPC, while the price of zinc softened somewhat to US$2 768 per metric tonne.

9. **It was observed that inflationary pressures eased in most of the monitored economies since the last MPC meeting.** Among the AEs, inflation decelerated in the United Kingdom and Japan, while the United States and the Euro Area saw modest increases. In the EMDEs, inflation was lower in Brazil, China, South Africa and India but it rose moderately in Russia. Meanwhile, core inflation remained elevated in some key economies, but it was anticipated to moderate towards target levels. Going forward, global inflation is anticipated to slow from an average of 6.8 percent in 2023 to an average of 5.9 percent in 2024, driven by a broad-based decline in global core inflation. Despite the notable descent in inflation from its highs a year ago, the persistence of core inflation prompted the majority of central banks to hold rates steady for longer. The European Central Bank and the Central Bank of Brazil, however, cut rates.

10. **The MPC noted and discussed the recent global economic developments, with a particular interest in the potential decline in Government revenue due to falling diamond prices.** The MPC enquired about the potential decline in Government revenue from a diamond market characterised by weaker global demand, production cuts, diamond oversupply, and competition from lab-grown diamonds. In response, the RFSDD stated that revenue from diamonds was expected to fall by roughly 39 percent in the FY2024/25 as diamond prices continued to drop. However, diamond revenues were anticipated to rebound in the FY2025/26 with a 104 percent increase, primarily due to the expiration of the Benguela Gem vessel's depreciation period, which could significantly boost pre-tax profits. Additionally, tax revenues from diamonds would increase by 34 percent in the FY2026/27.

THE DOMESTIC ECONOMY

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

11. **Domestic economic activity continued to exhibit signs of strengthening in the first four months of 2024.** MPC members were informed that domestic economic activity improved further during the first four months of 2024, with expansions observed in the *mining*, *wholesale and retail trade*, *tourism*, *communication*, and *transport* sectors as well as in the *electricity generation* subsector. Notwithstanding, the *construction* sector remained sluggish. Looking ahead, the growth in Namibia's real gross domestic product (GDP) was projected to moderate from 4.2 percent in 2023 to 3.7 percent in 2024 due to the anticipated slowdown in the primary industry partly as a result of the drought conditions.

12. **The MPC observed that key risks to domestic economic prospects, stemming from both external and domestic factors, remained largely unchanged since the last meeting.** External risks were essentially the prolonged tight global monetary policy stance, disruptive geopolitical tensions and geoeconomic fragmentation as well as China's fragile recovery. Risks further included negative spillover effects from the election and the electricity situation in South Africa, both of which had nevertheless softened. Additionally, adverse developments in the international diamond market were noted to exert negative pressure on diamond prices, with potential implications for Government revenues. Internal risks remained the drought and water supply interruptions, particularly at the coastal towns.

13. **Domestic inflationary pressures eased during the first five months of 2024, relative to the same period in 2023.** On average, domestic inflation slowed to 4.9 percent during the first five months of 2024, compared to 6.8 percent during the corresponding period of 2023. The deceleration was predominantly due to lower *food* inflation. Since the previous MPC, however, monthly annual inflation outcomes were noted to have risen to 4.9 percent in May 2024, relative to 4.5 percent for March 2024, attributed to increases in *transport* and *housing* inflation. Going forward, average inflation was projected to moderate from 5.9 percent in 2023 to 4.9 percent in 2024 and 4.5 percent in 2025.

14. **Annual growth in Private Sector Credit Extension (PSCE) moderated since the last MPC meeting.** Annual growth in PSCE slowed to 1.6 percent in April 2024 compared to 1.7 percent in February 2024 which was reported at the previous MPC meeting. Likewise, PSCE growth was lower on average during the first four months of 2024, growing by 1.7 percent, down from 3.0 percent recorded in the corresponding period in 2023. This was on account of lower credit uptake by *households*, particularly in the categories of *mortgages* and *other loans, advances and overdrafts*. Only *instalment sale and leasing* finance was rising briskly.

15. **The Central Government's debt stock was higher during the first month of the FY2023/24, primarily on account of higher allotments of both Treasury Bills (TBs) and Internal Registered Stock (IRS).** The Central Government debt stock stood at N$155 billion at the end of April 2024, up by 0.7 percent month-on-month and 7.7 percent yearly. Higher debt levels continued to be driven by increased issuance of TBs and IRS, coupled with loan disbursements by the African Development Bank and KFW Development Bank. Similarly, debt as a percentage of GDP edged up slightly to 67.2 percent. The MPC was further informed that the debt stock was expected to reach N$184.5 billion by the end of the MTEF period. This would translate to 56.7 percent of GDP, below the 60.0 percent convergence benchmark established by the Southern African Development Community. The favourable debt outlook was noted to emerge from the anticipated higher nominal GDP growth, relative to debt accumulation over the MTEF.

16. **Namibia's merchandise trade deficit widened during the first four months of 2024, primarily on account of lower export receipts.** The merchandise trade deficit stood higher at N$13.5 billion during the first four months of 2024, compared to N$9.1 billion during the corresponding period of 2023. The widening of the trade deficit was mainly due to a fall in export earnings, reflecting lower export volumes and realised prices for *diamonds*, coupled with a lower volume of *uranium* exports. The higher import payments for *consumer goods*, *machinery*, *base metals and articles of base metal*, and *products of the chemical industry* further contributed to the rise in the trade deficit.

17. **The MPC observed that the stock of international reserves remained sufficient to support the currency peg and meet Namibia's international financial obligations.** The stock of international reserves stood higher at N$55.6 billion as at the 31st of May 2024, up from N$54.3 billion on the 31st of March 2024. The increase was supported

by higher SACU receipts and customer foreign currency placements. At this level, the international reserves stock was estimated to cover 3.9 months of imports, remaining sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand, while meeting the country's international financial obligations. The import cover excluding hydrocarbon exploration-related imports, which were noted to be funded from abroad, stood higher at 4.4 months.

18. **The MPC noted the recent developments in the domestic economy.**

ADOPTION OF THE MONETARY POLICY STANCE

19. **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:

- The global economy remained resilient, and it was expected to expand at the same pace between 2024 and 2025.
- Downside risks to the global economic outlook remained broadly unchanged compared to the previous MPC meeting.
- Inflationary pressures eased in most key economies since the April 2024 MPC meeting, although core inflation remained elevated in some monitored economies.
- Most key central banks had kept their policy rates unchanged since the previous MPC meeting and seemed set on retaining the status quo well into the second half of the year, although the ECB had lowered its policy rate.
- Most monitored commodity prices rose since the previous MPC meeting, with *gold* leading the pack, while *diamond* prices continued to trend downwards.
- Regionally, particularly in South Africa, the economic activity held up reasonably well, amid the country's political landscape shift. Both electricity and logistical challenges were abating.
- Domestically, economic activity improved during the first four months of 2024, with downside risks to the economic outlook remaining broadly unchanged.
- Domestic inflation edged up since the last MPC meeting but remained lower year-to-date, and it is projected to continue falling in 2024 and 2025.

- On the fiscal front, the Central Government budget deficit narrowed during the first two months of the FY2024/25, as the rise in revenue collections outpaced the increase in expenditure.
- PSCE growth remained subdued.
- Foreign exchange reserves remained sufficient, and the merchandise trade deficit widened on account of lower export earnings.

20. **Following a careful review of the economic developments, the MPC decided to hold the Repo rate steady at 7.75 percent.** The MPC noted that in a handful of economies, the monetary policy easing cycle had started and that the commencement of monetary policy easing on a wider scale would be data-dependent. It was further noted that although the domestic economy continued to recover, challenges remained. While the international stock of reserves was adequate, the protracted period of subdued domestic credit growth was a concern. Simultaneously, the MPC was wary of the recent deterioration in inflation, which could jeopardise the progress that had been made over the past year in containing inflation and safeguarding price stability. In light of these factors, the MPC decided to keep the Repo rate unchanged at 7.75 percent. Likewise, the prime lending rate remains steady at 11.50 percent. This policy stance will continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand and support domestic economic activity.