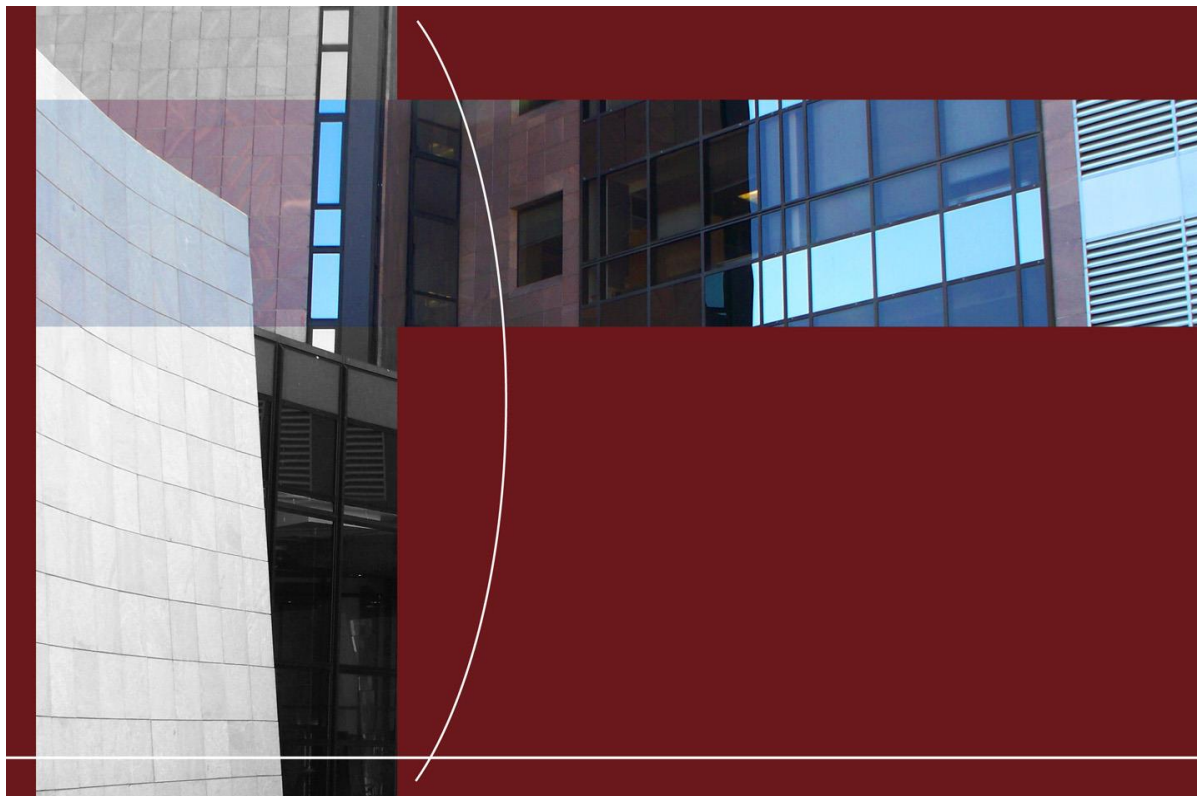


BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 16th of February 2021



“Our vision is to be a centre of excellence”

**Minutes of the Monetary Policy Committee (MPC) Meeting held on the
16th of February 2021**

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Ebson Uanguta	Deputy Governor
Emma Haiyambo	Director: Strategic Communications & FSD
Florette Nakusera	Director: Research and Financial Stability Department (RFSD)
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSD
Emile van Zyl	Technical Advisor: Governor's Office

APOLOGIES None

OTHERS PRESENT

Sanette Schulze Struchtrup (Deputy Director: RFSD); Postrick Mushendami (Deputy Director: RFSD); Erwin Naimhwaka (Deputy Director: RFSD); Kazembire Zemburuka (Deputy Director: Strategic Communications & FSD); Gerson Kadhikwa (Technical Expert: RFSD); Mukela Mabakeng (Principal Economist: RFSD); Saara Mukumangeni-Kashaka (Principal Economist: RFSD); Christian Phillipus (Principal Economist: RFSD); Elifas Iiyambula (Senior Economist: RFSD); Brian Mbazuvara (Senior Economist: RFSD); Kaune Jaungura (Senior Economist: RFSD); Diina Hamutumwa (Senior Economist: FMD).

PARTIAL ATTENDANCE

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

SECRETARY

Victoria Manuel (Senior Economist: RFSD).

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 global real Gross Domestic Product (GDP) declined in 2020 compared to 2019.** Global GDP is estimated to have contracted by 3.5 percent in 2020 from an expansion of 2.8 percent in 2019. The contraction was spread across most of the AEs and EMDEs. Going forward, the International Monetary Fund (IMF) in its January 2021 World Economic Outlook (WEO) update, projected the world economy to grow by 5.5 percent in 2021, before moderating to 4.2 percent growth in 2022. The improved growth was mainly attributed to the potential positive effect of the COVID-19 vaccine on economic activity around the globe by the second half of 2021.
2. **GDP in both the AEs and EMDEs contracted in 2020.** Real GDP in the AEs is estimated to have contracted by 4.9 percent in 2020 from a growth rate of 1.6 percent in 2019. The United Kingdom (UK) and Euro area are estimated to have contracted by 10.0 percent and 7.2 percent, respectively, while the United States (US) and Japan contracted by 3.4 percent and 5.1 percent, respectively. In the EMDEs, GDP is estimated to have contracted by 2.4 percent in 2020 from a 3.6 percent expansion in 2019. China registered a growth rate of 2.3 percent while the remaining monitored EMDEs contracted in 2020, with severe contractions observed in India and South Africa. Going forward, the IMF projects the AEs to grow by 4.3 percent in 2021, while a 6.3 percent expansion is projected for the EMDEs. The positive prospects are on the back of lifting of economic lockdown measures and positive sentiments with regards to the successful rollout of COVID-19 vaccines globally.
3. **Stock markets improved, reaching record highs in early 2021.** Most stock markets, including the Standard & Poor 500, German DAX, Japanese Nikkei, and the South African JSE all share index recorded yearly and monthly gains in January 2021. The gains were boosted by positive sentiment and by the progress made in the distribution of COVID-19 vaccines as well as hopes of further policy stimuli in some of the world's major economies. On the contrary, the FTSE was the worst performer, as it declined

to its lowest level since the 2008 financial crisis due to the effects of the COVID-19 pandemic and uncertainty surrounding Brexit.

4. **The international crude oil price increased in January 2021 compared to the preceding month.** The price of Brent crude oil increased by 9.4 percent on a monthly basis but declined on a yearly basis by 11.5 percent, to average US\$54.6 per barrel in January 2021 from US\$49.9 per barrel in December 2020. The yearly decline was mainly ascribed to concerns over lockdown and travel restrictions that were reinstated in key economies. The price of Brent crude oil increased to its highest level of US\$63.1 per barrel on the 16th of February 2021 on the back of economic revival hopes and supply curbs by producer group OPEC and its allies. In addition, the upward pressure on oil prices was due to tighter global supplies, with Iraq engaging in voluntary production cuts and the US oil industry facing stricter regulations under Mr. Joe Biden's administration. Going forward, oil prices are expected to rise in 2021 but to remain well below their average for 2019.
5. **The uranium price declined slightly on a monthly basis but increased on an annual basis in January 2021.** The price of uranium increased by 19.6 percent on a yearly basis but declined slightly by 1.9 percent monthly to average US\$29.6 per pound in January 2021 from US\$30.2 per pound in the previous month. On the 16th of February 2021, the uranium price increased marginally to US\$29.7 per pound.
6. **The price of gold increased both on an annual and monthly basis in January 2021 compared to the previous month.** The price of gold increased by 19.6 percent annually and 0.5 percent monthly to average US\$1 867 per ounce in January 2021 from US\$1 858 per ounce in the previous month. The annual increase in the gold price can be partly ascribed to raised levels of uncertainty induced by the COVID-19 pandemic, and to stimulus measures implemented by central banks as monetary policymakers struggled to mitigate the economic setback from prolonged lockdowns around the world. The resultant low global interest rates further boosted demand for gold. Most recently, the gold price declined to US\$1 829 per ounce on the 16th of February 2021.
7. **The MPC was informed that the price of copper and zinc increased on a yearly basis in January 2021.** The copper price increased by 32.2 percent and 2.6 percent on a yearly and monthly basis, respectively, to average US\$7 972 per metric tonne in

January 2021 from US\$7 772 per metric in December 2020. The copper price increased further to US\$8 270 per metric tonne on the 16th of February 2021. The increase could be ascribed to higher industrial demand fuelled by a possible further economic stimulus in the US and a successful roll-out of the COVID-19 vaccine globally. Similarly, the price of zinc increased by 14.9 percent on a yearly basis but declined by 2.7 percent monthly to average US\$2 705 per metric tonne in January 2021 from US\$2 779 per metric tonne in the preceding month. As of the 16th February 2021, the zinc price increased to US\$2 793 per metric tonne, mainly due to improved industrial activity in China.

8. **The MPC noted that since the last MPC meeting, inflation rates varied among the key monitored economies, but generally remained well contained in December 2020.** Notably, inflation increased in the US, UK, Brazil, Russia, and China, while it decelerated moderately in India and South Africa. The Euro area and Japan continued to experience deflation which started during the second half of 2020.
9. **Since the last MPC meeting in December 2020, all monitored central banks maintained accommodative monetary policy stances at their most recent MPC meetings.** All the monitored central banks maintained their policy interest rates at their recent monetary policy meetings, as policy makers adopted a wait-and-see approach amid muted inflation, while continuing to implement supportive non-conventional monetary policy measures.
10. 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.

11. **The MPC was informed that domestic economic activity slowed considerably in 2020 compared to 2019.** The contraction was mainly reflected in key sectors such as tourism, wholesale and retail trade, mining, manufacturing, construction, as well as transport and storage. The contraction was mainly due to the devastating effects of the COVID-19 pandemic. On a positive note, activity in the telecommunication and local electricity generation subsectors improved during the same period. The domestic

economy is estimated to have contracted by 7.3 percent in 2020, before returning to an expected moderate recovery of 2.7 percent in 2021.

- 12. The inflation rate declined on average in 2020, relative to 2019.** The annual average inflation declined to 2.2 percent in 2020 compared to 3.7 percent observed in 2019. The lower inflation was mainly driven by the decline in transport and housing inflation, mainly on account of the low international price of fuel coupled with deflationary pressure emanating from the weak rental market. On a monthly basis, the inflation rate increased to 2.7 percent in January 2021, from 2.4 percent in December 2020. Overall inflation is projected to average around 3.0 percent in 2021.
- 13. The MPC was informed that the annual growth in private sector credit extension (PSCE) declined in 2020 compared to 2019.** Average growth in PSCE declined to 3.5 percent in 2020, lower than the 6.8 percent recorded in 2019. The decline in PSCE growth was mainly due to lower demand for credit arising from weak overall domestic economic activity and repayments made by some businesses in 2020. In this regard, growth in credit extended to businesses declined to 0.8 percent during 2020 compared to significantly higher growth of 8.5 percent in the previous year. Growth in credit extended to households, on the contrary, rose moderately to 5.6 percent in 2020, compared to 5.5 percent in 2019. The increase was due to a higher demand for overdraft credit and other loans and advances. Since the last MPC meeting, year-on-year growth in PSCE rose moderately to 2.0 percent at the end of December 2020 from 1.4 percent at the end of October 2020 due to a higher uptake of credit by households.
- 14. The debt stock of the Central Government rose over the year to the end of December 2020.** The total Government debt stock stood at N\$106.8 billion at the end of December 2020, representing a yearly increase of 14.7 percent, compared to the corresponding period in the previous year. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) to finance the Central Government Budget deficit, coupled with the disbursement of the third tranche of a loan from the African Development Bank. Total debt as a percentage of GDP stood at 60.8 percent at the end of December 2020, representing an increase of 8.8 percentage points compared to the corresponding period in 2019. Going forward, the total debt stock is anticipated to rise to N\$119.8 billion during the 2020/21 fiscal year, while the total debt as a percentage of GDP is estimated at 68.7 percent by the end of the FY2020/21.

- 15. The MPC was informed that Namibia's merchandise trade deficit narrowed in 2020, due to a sharp decline in import payments.** Namibia's trade deficit narrowed to N\$14.1 billion during in 2020, from N\$18.8 billion in the previous year. The significant improvement in the trade balance was attributed to a notable decline in merchandise imports, which contracted by 11.7 percent to N\$66.1 billion during the review period. This was reflected by the slowdown in domestic demand, re-enforced by the effects of the COVID-19 pandemic lockdowns and restriction measures. The value of merchandise exports also declined by 7.4 percent to N\$51.9 billion in 2020. This was mainly attributed to declines in the export earnings of rough diamonds, food and live animals, and manufactured products.
- 16. Total export earnings from minerals and the number of live and slaughtered cattle as well as small stock marketed declined during the same period.** Receipts from mineral exports declined marginally by 0.4 percent to N\$28.5 billion in 2020, from N\$ 28.6 billion recorded during the same period in 2019. The decline was mainly observed in lower export earnings from rough diamonds, refined zinc and zinc concentrate, mainly on the back of reduced volumes exported ascribed to subdued global demand for rough diamonds, coupled with travel restrictions and lockdowns imposed by the COVID-19 pandemic. These declines were partly offset by higher earnings from gold. The total number of live and slaughtered cattle exported declined significantly by 49.8 percent to 210 671 heads during 2020, from 419 315 heads observed in the previous year. The decline was largely due to fewer marketing activities as farmers rebuilt livestock levels during 2020 following the devastating drought experienced during 2019. Similarly, the total number of live and slaughtered small stock exported decreased by 55.3 percent to 336 995 heads, mainly due to supply constraints emanating from the severe drought in the southern part country, policy uncertainty and predation.
- 17. The MPC was further informed that the stock of international reserves increased in January 2021.** As at the 31st of January 2021, the stock of international reserves stood at N\$34.4 billion, compared to N\$29.9 billion reported in the December 2020 MPC statement. The increase in reserves was mainly due to SACU receipts early in January 2021. The latest amount of international reserves are estimated to cover 5.3 months of imports of goods and services. At this level, the reserves remained sufficient to protect the peg of the Namibia Dollar to the South African Rand and to 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 deliberated on the recent developments in the global and domestic economies and noted that the Repo rate was already at its lowest level since independence and that both the global and domestic economy remained weak while uncertainty regarding the roll-out of the COVID-19 vaccine remained. The Namibian economic growth was experiencing three major challenges, and these included the COVID-19 pandemic, fiscal and structural issues. The money market and international foreign reserves appeared to be under control, while domestic credit growth and inflation remained low, and did not pose any overheating risk to the domestic economy. Moreover, there was a consensus that there was no room for further adjustment from both monetary and fiscal policies and therefore, other strategies outside the scope of these two policies needed to be engaged.

20. **After considering developments in all key macro-economic variables as reflected above, the MPC decided to leave the Repo rate unchanged.** The MPC decided to keep the Repo rate unchanged at 3.75 percent. 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 and response. The MPC was mindful of the need to provide sustainable support to the domestic economy and simultaneously to safeguard the currency peg.