BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 14 - 15 October 2024

Bank of Namibia

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

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Leonie Dunn	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

SECRETARY

Doughlas Ndana	Senior Economist: RFSDD

APOLOGIES

Ebson Uanguta	Deputy Governor

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

OTHERS PRESENT

Marsorry Ickua (Officer in Charge); Postrick Mushendami (Deputy Director: RFSDD); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Israel Zemburuka (Director: Strategic Communications and International Relations); Daisy Mbazima-Lando (Principal Economist: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Daniel Kavishe (Principal Economist: FMD). Aloys Mwashekele (Senior Economist: FMD).

PARTIAL ATTENDANCE

Florette Nakusera (Director: Financial Stability and Macroprudential Oversight Department (FSMOD)); Ancois Plaatje (Director: Banking Supervision); Erwin Naimhwaka (Deputy Director: RFSDD); Abigail Nainda (Deputy Director: RFSDD); Anna William (Deputy Director: FSMOD); Reinhold Kamati (Economic Advisor: RFSDD); Rehabeam Shilimela (Technical Expert: RFSDD); Brian Mbazuvara (Technical Expert: RFSDD); Gerson Kadhikwa (Technical Expert: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Jaungura Kaune (Principal Economist: FSMOD); Heinrich Namakalu (Senior Economist: RFSDD); Mutu Katjiuanjo (Senior Economist: RSFDD); 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); Sevelia Nakalemo (Senior Economist: RFSDD); Isabel Nghinamupika (Economist: RFSDD); Christof Kalumbu (Senior Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD); Merrinah Siboli (Economist: RFSDD); Maria Ngolo (Graduate Accelerated Program Candidate); Felicia Mbaimbai (Intern: RSFDD); Naufiku Hamunime (Technical Expert: Strategic Communications and International Relations); Sandra Garises (Principal Communications Team Leader: Strategic Communications and International Relations).

ECONOMIC DEVELOPMENTS REPORT

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

THE GLOBAL ECONOMY

1. **The MPC noted that the global economic recovery slowed slightly since the previous MPC meeting.** The committee was informed that the global economic recovery softened since the previous MPC meeting. In this connection, output in the Group of Twenty (G20) countries expanded at a slower pace of 3.1 percent during the second quarter of 2024, down from 3.2 percent during the preceding quarter. Among the monitored economies, growth was weaker in Japan, China, Russia and South Africa but it remained relatively robust in the United States and India. Over the medium term, the International Monetary Fund in its July 2024 World Economic Outlook (WEO) Update projected global output growth to moderate from 3.3 percent in 2023 to 3.2 percent in 2024 before rebounding modestly to 3.3 percent in 2025. This forecast was unchanged from the previous MPC meeting, but it was expected to change somewhat in the October 2024 WEO.

2. **MPC members took note of economic outcomes in selected monitored economies.** Closer to home, members were informed that the economic landscape in South Africa showed signs of improvement, evident in firmer investor sentiment and a stronger exchange rate, partly attributed to the new government. Improved electricity supply also provided further positive impetus to the economy. Further from home, economic activity held up well, although the uncertainty surrounding the November 2024 US elections could cloud the short-term economic outlook. In China, economic resilience continued to be tested but the stimulus packages that had been announced were expected to boost consumer and business confidence. MPC members were further appraised that the intensification of the Middle East conflict could potentially worsen trade and supply chain disruptions with implications for inflation and growth.

3. **Risks to the global economic outlook were relatively balanced, but some downside risks had intensified.** Key downside risks were the escalation of geopolitical tensions, especially in the Middle East, geoeconomic fragmentations, stubborn inflation and elevated interest rates. The uncertainty stemming from the United States election was also noted as a risk to global growth.

4. **The MPC noted that the price of Brent crude oil decreased both monthly and annually in August 2024 and subsequently fluctuated broadly sideways.** The price of Brent crude oil in August declined by 6.2 percent and by 7.8 percent on a monthly and annual basis, respectively, to an average of approximately US$78 per barrel. The decrease was attributed to expectations of higher production by the OPEC+ producers. Prices fluctuated in the subsequent period, inter alia due to the ebb and flow of the conflict in the Middle East. Meanwhile, the price of Brent crude oil was broadly unchanged at around US$79 per barrel on the 11th of October 2024, relative to the level prevalent at the previous MPC meeting.

5. **The MPC was informed that diamond prices edged up marginally month-on-month but continued to trend downwards year-on-year in August 2024.** The Zimnisky polished diamond index increased modestly by 0.3 percent month-on-month but declined by 12.2 percent year-on-year to 76 points in August 2024. The slight uptick was attributed to higher prices for larger and fancy-cut diamonds. However, weaker consumer demand, especially in the United States and China, coupled with competition from lab-grown diamonds continued to exert downward pressure on prices on an annual basis.

6. **Food prices were broadly stable monthly and yearly in August 2024.** It was reported that food prices as measured by the United Nations' Food and Agriculture Organisation Food Price Index (FFPI), stood at around 121 index points, unchanged month-on-month and 0.6 percent lower year-on-year. The slight annual decrease was mainly due to declines in *cereal* and *sugar* price indices, which offset increases in *dairy*, *vegetable oils* and *meat* indices. However, food prices trended upwards compared to the previous MPC, largely due to concerns about unfavourable weather conditions in some key exporting countries.

7. **Gold prices increased both monthly and annually in August 2024, while the uranium spot price rose annually.** The price of gold rose by 3.0 percent monthly and by 31.0 percent yearly to an average of US$2 470 per ounce in August 2024, driven by safe-haven demand. The uranium spot price, on the other hand, declined by 6.8 percent month-on-month and increased by 31.0 percent year-on-year, to an average of US$79 per pound. The monthly decrease reflected softening market fundamentals and market rebalancing. On 11th October 2024, the gold price at US$2 664 per ounce was 9.2 percent higher than the level at the previous MPC meeting. Likewise, the uranium spot

price averaged approximately US$83 per pound during the week of the 7th to 11th October 2024, higher compared to US$81 at the previous MPC meeting.

8. **The prices of both copper and zinc were lower month-on-month but higher year-on-year in August 2024.** The price of copper fell by 4.4 percent monthly and increased by 7.5 percent yearly, to an average of US$9 237 per metric tonne in August 2024. Similarly, the average price of zinc was lower by 2.3 percent, but it rose by 12.8 percent to US$2 837 per metric tonne during the period under review. It was noted that while the prices for both metals remained elevated, weaker demand from China exerted some downward pressure. Meanwhile, prices trended upwards since the last MPC. Accordingly, the prices of copper and zinc stood lower at US$9 810 per metric tonne and US$3 154 per metric tonne, respectively, on the 11th of October 2024.

9. **Since the last MPC meeting, global inflation receded in most of the monitored economies, and monetary policy easing gained momentum.** MPC members noted that among the Advanced Economies (AEs), inflation slowed in the United States and the Euro Area, while it was steady in the United Kingdom, but rose in Japan. Inflation outcomes were lower across key Emerging Market and Developing Economies (EMDEs), except in India where it rose sharply. Furthermore, the committee was informed that global inflation was forecast to gradually moderate in 2024 and 2025 relative to the 2023 high. In tandem with the lower inflation outcomes, monetary policy easing among key economies gained momentum compared to the previous MPC meeting. In this regard, the US Federal Reserve, the European Central Bank and the South African Reserve Bank cut rates since the previous MPC sitting. Meanwhile, the Bank of England and the Bank of Japan paused rate cuts, while the Bank of Russia and the Central Bank of Brazil increased rates.

10. **The MPC noted the recent global economic developments.**

THE DOMESTIC ECONOMY

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

11. **Domestic economic activity continued to expand during the first eight months of 2024, while growth was forecast to slow in 2024.** The MPC noted that domestic economic activity rose during the first eight months of 2024 relative to the same period in 2023. The continued recovery was broad-based, with notable increases in the *mining*, *electricity generation*, *wholesale and retail trade*, *tourism*, *financial services*, *communication* and *transport* sectors as well as the *livestock marketing* subsector. Notwithstanding, growth slowed in the second quarter of 2024, with the economy recording a 3.5 percent growth rate, compared to 4.3 percent in the preceding quarter and 3.6 percent during the corresponding quarter of 2023. Looking ahead, growth was projected to moderate to 3.1 percent in 2024 and 3.9 percent in 2025, compared to a firmer pace of 4.2 percent recorded in 2023. The slowdown was primarily attributed to the anticipated weaker growth in the primary industry, partly reflecting the prevailing drought conditions and sluggish global demand.

12. **Risks to the domestic economic outlook stemming from external factors had intensified, while those from domestic factors remained broadly unchanged compared to the previous meeting.** External risks included the escalation of geopolitical tensions, especially in the Middle East, geoeconomic fragmentation and weaker global demand. Internally, drought conditions and water supply interruptions, particularly at the coastal towns, remained the key risks.

13. **Domestic disinflation was persisting.** Inflation averaged 4.6 percent in the first nine months of 2024, compared to 6.0 percent recorded during the same period in 2023. The decline in inflation was essentially driven by lower average *food* inflation. Since the previous MPC meeting, inflation surprised to the downside, falling from 4.6 percent in July 2024 to 3.4 percent in September 2024, the lowest level since August 2021. This was mainly due to the deceleration in *transport* inflation. The medium-term inflation forecast was revised downward to 4.3 percent in 2024 and 4.0 percent in 2025, compared to 4.7 percent and 4.4 percent, respectively, at the previous MPC meeting. The revised forecast reflected a more favourable outlook for international crude oil prices and a stronger exchange rate.

14. **Annual growth in Private Sector Credit Extension (PSCE) improved modestly since the last MPC meeting.** Despite remaining broadly subdued, PSCE growth rose marginally to 2.1 percent at the end of August 2024 from 1.8 percent at the end of June 2024. However, the average PSCE growth for the first eight months of 2024 was lower at 2.0 percent, compared to 2.7 percent during the corresponding period in 2023. The sluggish credit growth was driven by weaker demand, exacerbated by tight lending conditions.

15. **The Central Government's debt stock rose during the first six months of the FY2024/25, reflecting increased allotments for Treasury Bills (TBs) and Internal Registered Stock (IRS).** Central Government's debt stock rose by 0.3 percent month-on-month and by 7.9 percent year-on-year to N$158.7 billion at the end of August 2024. The rise in the debt stock was on account of increased issuance of TBs and IRS, complemented by loan disbursements by the African Development Bank and KFW Development Bank. However, debt as a percentage of GDP stood at 61.7 percent at the end of August 2024. Over the current MTEF, the debt stock was projected to reach N$184.5 billion, or 56.4 percent of GDP and remain below the Southern African Development Community's 60 percent convergence benchmark. This was largely due to the anticipated higher nominal GDP during the period under review.

16. **Turning to the external front, Namibia's merchandise trade deficit widened further during the first eight months of 2024, due to higher import payments.** The merchandise trade deficit widened to N$25.8 billion during the first eight months of 2024, relative to N$21.2 billion in the same period of 2023. The wider trade deficit was primarily due to higher import payments, especially for *machinery* and *consumer goods*, which were partly offset by a marginal increase in export receipts during the period under review.

17. **The stock of international reserves declined but remained sufficient to support the currency peg and fulfil Namibia's international financial obligations.** Namibia's official foreign reserve assets stood at N$57.1 billion as at the 30th of September 2024, lower compared to N$60.8 billion recorded at the end of July 2024. The decline was attributed to net commercial bank outflows, customer foreign currency withdrawals, foreign government payments and the appreciation of the exchange rate. At this level, international reserves were estimated to cover 3.9 months of imports, remaining adequate to sustain the currency peg between the Namibia Dollar and the South African

Rand and meet the country's international financial obligations. Excluding oil and appraisal activities, the import cover stood higher at 4.6 months of imports.

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. MPC members reflected on the recent developments in the global and domestic economies and noted in summary that:

- The pace of the global economic recovery somewhat softened since the last MPC meeting, with global growth projected at a slightly slower pace in 2024 and 2025.
- Risks to the global economic prospects were relatively balanced, although some downside risks had intensified since the previous MPC meeting.
- Global disinflation continued, while monetary policy easing gained momentum among monitored economies.
- Since the previous MPC sitting, most monitored commodity prices trended upward, while *diamond* prices seemed to be bottoming out.
- Regionally, particularly in South Africa, the economic landscape exhibited signs of improvement, reflected in firmer investor sentiment and a stronger exchange rate.
- Domestically, economic activity expanded during the first eight months of 2024, although slower growth was projected for 2024 than the outcome in 2023.
- Domestic inflation receded since the last MPC and year-to-date. The disinflation was projected to persist over the medium term.
- The banking sector's liquidity levels remained elevated, and PSCE growth increased modestly but remained subdued.
- Foreign exchange reserves remained sufficient, while the merchandise trade deficit widened further on account of higher import payments.

20. The MPC unanimously decided to further ease the degree of monetary policy restraint by reducing the Repo rate by 25 basis points to 7.25 percent per annum. Discussing the monetary policy stance, the MPC noted the growing momentum in the international monetary policy easing cycle, the retreat in domestic inflation over the medium term, alongside the recent downside surprise in the September 2024 inflation print. The MPC also noted that the domestic economy, while growing at a moderate pace, was operating below full capacity, with private sector credit extension remaining subdued. This suggested that further support for the domestic economy was warranted. With inflation projected to slow down over the medium term and robust foreign exchange reserves, the committee unanimously decided to reduce the Repo rate by 25 basis points to 7.25 percent per annum, effective immediately. Concurrently, commercial banks were expected to reduce their prime lending rate by the same magnitude to 11.00 percent. The committee was wary of the renewed widening of the policy rate differential with the anchor country, South Africa, but was comforted by Namibia's recent experience of orderly capital flows along with adequate levels of international reserves. The recalibration of monetary policy would continue to support domestic economic activity, while safeguarding the one-to-one link between the Namibia Dollar and the South African Rand.