BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 15 – 16 August 2022

"To be a leading central bank committed to a prosperous Namibia"

Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the 15th and 16th of August 2022

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor
Ebson Uanguta	Deputy 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

APOLOGIES None

OTHERS PRESENT

Kazembire Zemburuka (Director: Strategic Communications); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Mukela Mabakeng (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Principal Economist: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD), Metilda Ntomwa (Senior Economist: RFSDD), Kennedy Stephanus (Economist: RFSDD), Sevelia Nakalemo (Economist: FMD), Liina Joseph (Settlement Analyst: FMD).

PARTIAL ATTENDANCE

Romeo Nel (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department), Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department).

SECRETARY

Victoria Manuel (Senior Economist: RFSDD).

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

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. **Real GDP growth of the global economy moderated in the second quarter of 2022, compared to the previous quarters.** Year-on-year growth in the global economy moderated in the first and second quarters of 2022, mainly attributed to key headwinds, including high inflation, tighter financial conditions and supply bottlenecks. In the AEs, the United States (US) economy contracted partly due to weaker consumer spending, while real GDP in the Euro area grew at a slower pace compared to the previous quarter, mainly due to the energy crisis and a cutback of natural gas supply from Russia. Among the EMDEs, real GDP slowed in China, mainly attributed to lower consumption as a result of COVID-19 restrictions emanating from the Zero-Tolerance COVID-19 policy.

2. **The MPC was informed that the global economic growth was projected to slow down in 2022 compared to 2021.** After expanding by 6.1 percent in 2021, growth in the global economy was expected to moderate in 2022. Institutions such as the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and the World Bank project global economic growth to slow down in 2022. In particular, the IMF has projected global real GDP growth to moderate further to 3.2 percent in 2022 from 6.1 percent in 2021. The AEs are projected to slow down to 2.5 percent growth in 2022 from 5.2 percent in 2021, whereas growth in the EMDEs is projected to moderate to 3.6 percent in 2022 from 6.8 percent in 2021. The downward revision to the global outlook for 2022 is mainly due to spillovers from the Russia-Ukraine war, tighter financial conditions, weaker household purchasing power, possible further lockdowns and the deepening real estate crisis in China. Key risks to the global economic outlook include the intensification of the above-mentioned factors as well as potential rising geopolitical tensions in the Asia-Pacific region.

3. **The international price of crude oil declined since the previous MPC meeting, although it remained far above its 2021 levels.** The price of Brent crude oil declined from an average of US$116 per barrel in June 2022 to an average of US$105 per barrel during July 2022 and US$95 per barrel on the 15th of August 2022. The monthly decline was mainly due to the gloomy global economic outlook, the resumption of oil supply from Libya and withdrawal of ultra-loose monetary policy stances that had been adopted during the COVID-19 pandemic to support growth. On an annual basis, however, the price of Brent crude oil increased by 72.6 percent in July, supported by the global easing of COVID-19 restrictions boosting fuel demand for travel, and more immediately the easing of restrictions in Shanghai and Beijing, which could boost the demand from China going forward. Furthermore, the possibility of a ban on Russian oil imports by Europe had also pushed up the prices.

4. **The uranium and gold prices declined monthly in July 2022, compared to the previous month.** The price of uranium declined on a monthly basis but increased on a yearly basis to average US$48 per pound in July 2022, from US$49 per pound in June 2022. The monthly decline was attributed to rate increases by the Fed, while the annual increase was on the back of the attractiveness of nuclear energy as a carbon-free energy source and the ongoing energy crisis exacerbated by the Russia-Ukraine war. Similarly, the price of gold declined both on a yearly and monthly basis, to US$1 732 per ounce in July from US$1 837 per ounce in the previous month. The decline in the price of gold was on the back of the appreciation of the US dollar exchange rate and aggressive monetary policy tightening. The gold price increased again and stood at US$1 800 on the 15th of August 2022.

5. **The MPC was informed that the prices of copper and zinc declined on a monthly basis in July 2022.** The average price of copper declined on monthly and annual basis to an average of US$7 545 per metric ton from US$9 025 per metric ton in June 2022. The decline was chiefly due to China's COVID-19 control measures that interfered with manufacturing activities and growing fears of a global economic recession. On the 15th of August 2022, the price of copper increased to US$ 7 980 per metric ton. Similarly, the price of zinc increased on a year-to-year basis, while it declined monthly, to an average of US$3 105 per metric ton in July 2022, from US$3 630 per metric ton in June 2022. As of the 15th of August 2022, the price of zinc stood at S$3 563 per metric ton. The monthly decline was in line with the economic slowdown and associated reduction in the demand for top metals in China and fears of a global recession eroding

demand. However, on a yearly basis, the increase in zinc prices was mainly due to concerns over potential shortages resulting from falling inventories and possible reduction in smelter output because of high energy prices.

6. **The global food price index declined on a monthly basis but remained high year-on-year in July 2022, while diamond prices trended downwards.** The FAO Food Price Index declined by 10.6 percent in July to 138 index points from 154 index points in June 2022, reflecting the drop in the international prices of vegetable oils, cereals, and sugar. On a yearly basis, the food price index rose by 11.3 percent, reflecting persistent tight market supplies, which posed a challenge to global food security for the most vulnerable countries. The IDEX diamond index averaged 147.40 points in July 2022 compared to 150.6 points in June 2022. The decline in diamond prices was mainly attributed to slowing global demand amid recession fears. This was due to lower prices of polished diamonds that resulted from lower demand and increased inventory. It was reported that the diamond industry was experiencing a fundamental interruption caused by political, economic, and social issues that disrupted the supply chain, reduced demand, and shifted consumer shopping behaviour.

7. **The MPC noted that since the last MPC meeting in June 2022, inflation pressures in most of the monitored economies remained elevated**. The high inflation was largely due to rising energy and food prices, labour shortages and supply constraints. However, inflation eased in the US, Japan, Brazil, Russia and India during July 2022. Inflation in South Africa accelerated to 7.4 percent in June 2022, above the South African Reserve Bank's target range of 3-6 percent. The increase in South Africa's inflation was mainly attributed to upward pressure from transport, housing, and utilities as well as food.

8. **Since the last MPC meeting in June 2022, most monitored central banks had tightened their policy rates to contain increasing inflationary pressures.** It was noted that persistent high inflation pressures compelled most key monitored central banks to tighten policy rates at their latest monetary policy meetings. Exceptions were the central banks of China and Russia that lowered their policy rates. For the former, the cut in the policy rate was aimed at stimulating demand following the latest economic data which showed a deeper-than-expected slowdown in July 2022, with factory and retail activity squeezed by the zero-COVID-19 policy and property market

crisis. The central bank of Russia cut its policy rate by a bigger-than-expected margin on account of a strong currency, cooling inflation and a possible recession. The Bank of Japan maintained its policy rate at its recent MPC meeting amid minimal inflationary pressures.

9. **In summary, the MPC noted the recent global economic developments as presented and deliberated on these developments.**

DOMESTIC ECONOMY

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

10. **The MPC noted that domestic economic activity increased in the first six months of 2022 compared to 2021, though output remained below the pre-COVID-19 levels.** Economic activity in the Namibian economy improved during the first six months of 2022 compared to the corresponding period in 2021. The improvement was mainly on account of increased activity in the mining, agriculture, wholesale and retail trade, transport, communication and tourism sectors. On the contrary, activity in the construction sector declined over the same period, as both Government and private construction work programmes remained weak. Going forward, the domestic economy is expected to grow by 3.2 percent in 2022, mainly driven by the recovery in the mining, electricity and water, and tourism sectors. Risks to the domestic economic outlook in the medium term continue to be dominated by the impact of the Russia-Ukraine war, global supply chain disruptions and high oil and food prices. Other risks include climatic swings, animal disease outbreaks within the region, the possible emergence of new COVID-19 variants and other infectious diseases as well as intensified geopolitical tensions.

11. **The inflation rate increased during the first seven months of 2022, relative to the same period in 2021**. Namibia's annual inflation accelerated and averaged 5.3 percent during the first seven months of 2022, compared to 3.5 percent in the corresponding period of 2021. The rise in prices was mainly driven by an increase in the inflation for transport, on account of a rise in international oil prices. This was especially due to a rise in international oil and food prices. On a monthly basis, inflation rose to 6.8 percent in July 2022 from 6.0 percent registered in June, mainly due to higher inflation for transport and food in the same period. Namibia's overall inflation is

now projected to average around 5.8 percent for 2022, with higher rates in the second half of the year than in the first half.

12. **The MPC was informed that the annual growth in private sector credit extension (PSCE) increased marginally during the first six months of 2022 but remained historically low.** Although still subdued, growth in PSCE increased to 3.2 percent during the first six months of 2022, higher than the 2.4 percent registered during the same period in 2021. The marginal rise in PSCE growth was attributed to an increase in credit demand by businesses. Since the last MPC meeting, year-on-year growth in PSCE moderated to 3.4 percent in June 2022 from 3.8 percent recorded in April 2022. The moderation was mainly due to lower demand for short-term asset-backed credit facilities and other loans and advances, specifically by corporates in the energy, mining and commercial services sectors. Although there was an improvement in the PSCE year to date, the growth rate remains low by historical standards, reflecting the subdued conditions in the credit market.

13. **The total Government debt stock increased over the year to the end of July 2022.** The total Government debt stock stood at N$130.3 billion at the end of June 2022, representing yearly and monthly increases of 9.6 percent and 1.0 percent, respectively. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS). Total debt as a percentage of GDP stood at 69.3 percent at the end of June 2022, representing a yearly increase of 5.0 percentage points.

14. **It was reported that Namibia's merchandise trade deficit widened further during the first half of 2022, driven by higher import payments, mainly for mineral fuels.** Namibia's trade deficit widened to N$20 billion during the first six months of 2022, compared to N$14.7 billion in the same period of the previous year. The deterioration was mainly attributed to an increase in the import bill, due to higher payments for fuel, consumer goods, and machinery, mechanical and electrical appliances. The category of mineral fuels contributed about half of the year-to-date rise in import payments, reflecting the higher international crude oil prices experienced during the period under review. The value of exports also increased, supported by higher export earnings from rough diamonds, gold, and manufactured exports in the form of polished diamonds, processed meat and fish. This was generally attributed to higher volumes exported, higher prices and a weaker exchange rate.

15. **The MPC was further informed that the stock of international reserves increased in July 2022 and remained sufficient to support the currency peg as well as meet the country's international financial obligations.** As at the 31st of July 2022, the stock of international reserves stood at N$49.2 billion compared to N$43.9 billion at the end of May 2022 and as reported at the last MPC meeting. The increase in international reserves was mainly due to SACU receipts, diamond proceeds and portfolio flows. At this level, international reserves are estimated to cover 6.1 months of imports, and hence remain adequate to meet the country's international financial obligations.

16. **In summary, the MPC noted the recent developments in the domestic economy as presented.**

ADOPTION OF THE MONETARY POLICY STANCE

17. **The MPC deliberated on both the global and domestic economic developments, as highlighted above.** The MPC members reflected on the recent developments in the global and domestic economies and noted that in summary:

- The global output moderated during the second quarter of 2022, mainly on the back of the Russia-Ukraine war, resulting in supply chain disruptions. Key risks to the global economic outlook include the prolonging and intensification of the Russia-Ukraine war, tighter financial conditions, weaker household purchasing power, possible further lockdowns and the deepening real estate crisis in China. In addition, developing tension between China and Taiwan may result in the further disruption of supply chain and trade.
- Due to increased uncertainties and risks, the global growth outlook for 2022 was revised downward by the IMF. In addition, many economies, in particular developing economies, are yet to recover fully from the effect of the pandemic.
- Global inflation remains a global concern as economies continue to experience persistently high inflation. As a result, central banks are tightening their monetary policies.
- The Namibian economy improved during the first quarter of 2022, on the back of the primary sector. For the first six months of 2022, the Namibian economy maintained the positive momentum, although activity in the construction sector remained low.

- The committee noted that although the domestic economy improved, it still faced social disturbances such as high unemployment and inequality that were affecting the Namibian economy and the course of monetary policy. However, and in addition, there were also influences largely arising from external factors that the economy was already dealing with.
- Domestic COVID-19 restrictions were lifted, but key risks to the domestic growth remained, included high oil and food prices, tighter financial and economic conditions, supply disruptions inter alia affecting the sale of new vehicles, and conflict in Europe that continued unabated and may possibly exacerbate the supply disruptions.
- Inflation in Namibia was accelerating, and the negative real interest rate continued to widen. This was, however, expected to narrow with the gradual tightening of the policy interest rate.
- The level of liquidity in the banking sector remained adequate and posed no risk to the financial system, while private sector credit extension continued to be sluggish.
- Government debt remained elevated and continued to be a concern for the domestic economy, while the current account continued to deteriorate.
- The level of foreign reserves increased and remained adequate to meet the country's international financial obligations such as payments for imports; in fact, it also met the SADC convergence benchmark of 6 months' imports.
- To lessen the likelihood of capital outflows, the MPC agreed to increase the Repo rate.

After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate. The MPC decided to increase the Repo rate by 75 basis points to 5.50 percent. This decision was taken with due consideration of the need to support the fragile recovery but also of the persistent inflationary pressures and need for decisive action as inflation had already accelerated considerably. Moreover, this monetary policy stance was deemed necessary to narrow the current negative real policy interest rate enroute to eventually restoring it to a positive level that would be more conducive to long-term economic growth. In addition, the policy stance was consistent with developments elsewhere in the world and in the region, with policymakers acting with resolve to prevent the current acceleration in inflation from becoming a perpetual inflation spiral. The decision was thus deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand, while meeting the country's international financial obligations.