**Minutes of the Monetary Policy Committee (MPC) Meeting**

**Windhoek, 11 – 12 April 2022**

Bank of Namibia

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

# Minutes of the Monetary Policy Committee (MPC) Virtual Meeting held on the 11th and 12th of April 2022

**MPC MEMBERS PRESENT**

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| Johannes !Gawaxab | Governor (Chairperson) |
| Ebson Uanguta | Deputy Governor |
| 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**

Israel Zemburuka (Director: Strategic Communication); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Christian Phillipus (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); Elifas Iiyambula (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Heinrich Namakalu (Senior Economist: RFSDD), Metilda Ntomwa (Senior Economist: RFSDD).

**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 recovered in the last quarter of 2021, compared to the previous quarter and it was expected to moderate in 2022.** Following a solid rebound in 2021 to 5.9 percent on the back of softening pandemic related restrictions, growth in the global economy was expected to moderate to 4.4 percent in 2022. For Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs), real GDP growth is projected to ease to 3.9 percent and 4.8 percent in 2022 from 5.0 percent and 6.5 percent in 2021, respectively. The projected slowdown in growth is principally on account of waning base effects, the effects of the Ukraine-Russia conflict, as well as tightening monetary and fiscal stances.

2. **Key risks to the global economic outlook include geopolitical tensions, military conflicts, supply constraints, rising debt, the potential impact of wages on inflation and policy paths, as well as unexpected turns in the unfolding of the pandemic**. The future course of the pandemic, the emergence of new COVID-19 variants and the COVID-19 vaccine hesitancy continue to contribute to uncertainty and pose risks to global economic recovery. The inflation pressures resulting from increasing energy and food prices may result in the tightening of financial conditions, and consequently could lead to capital outflows from EMDEs. This may further cause exchange rate depreciations and resultant bouts of inflation in those countries.

3. **The international price of crude oil increased in March 2022 compared to the preceding month.** The price of Brent crude oil averaged US$112 per barrel during March 2022, up from an average of US$94 per barrel in the previous month. The increase was mainly on the back of supply disruptions as the fallout from Russia's invasion of Ukraine created potential supply disruptions in the global oil market. In addition, low global inventories also contributed to the rise in prices. Expectations of robust global oil demand amid falling Omicron-related concerns further boosted price

pressures. On the 8th of April 2022, the price of Brent crude stood at US$102.78 per barrel.

4. **Uranium and gold prices increased in March 2022.** The spot price of uranium increased by 61 percent and around 2 percent on a yearly and monthly basis, respectively, to an average of US$50 per pound during March 2022, from US$49 per pound in February 2022. Furthermore, the uranium price stood at US$43.8 per pound on the 8th of April 2022. The increase in the uranium price was chiefly supported by Russia's invasion of Ukraine. The continued huge purchases of the nuclear-energy element from the spot market by an investment fund, Canada's Sprott Physical Uranium Trust, also underpinned the uranium price. Similarly, the price of gold rose by 13 percent and 5 percent on a yearly and monthly basis, respectively, to US$1 947 per ounce from US$1856 per ounce in February, as Russia's invasion of Ukraine continued to push investors towards safe-haven assets. On the 8th of April, gold traded at US$1 946 per ounce.

5. **The MPC was informed that the prices of copper and zinc increased in March 2022, while the diamond price index declined.** The average prices of copper and zinc increased to US$10, 231 per metric ton and US$3,962 per metric ton, respectively, in March 2022 from US$9,944 and US$3,620 per metric ton, respectively, in the previous month. On the 8th of April 2022, the price of both copper and zinc increased further and stood at US$10,324 per metric ton and US$4,255 per metric ton. The increase in metal prices was attributed to supply pressures stemming from economic sanctions on Russia. The IDEX diamond price index, on the other hand, fell to an average of 110.5 points in March 2022 from 120.7 points in the previous month. The decline in the diamond price index is attributed to the Russia-Ukraine war, which resulted in many buyers holding back on their purchases, which pushed the prices down in March 2022.

6. **The MPC noted that since the last MPC meeting, inflation rates in most monitored AEs and EMDEs continued to increase.** Inflation in most of the monitored AEs and EMDEs continued to increase, mainly due to rising energy and food costs, labour shortages and increasing demand. Inflation in South Africa, however, remained steady during February from the previous month at 5.7 percent, with upward pressures coming from food and fuel prices, but countered by other categories that moderated.

This level of inflation remains above the midpoint of the South African Reserve Bank's target range of between 3 percent and 6 percent.

7. **Since the last MPC meeting in February 2022, monetary policy stances generally remained accommodative.** To mitigate and contain inflationary pressure within manageable levels, most monitored central banks in the AEs and EMDEs increased their policy rates at their latest monetary policy meetings, except for the Euro area, Japan, China and India that left their benchmark rates unchanged. Moreover, South Africa increased its policy rate by 25 basis points in March 2022 following increases of similar magnitude in November 2021 and January 2022. Although most monitored central banks tightened their monetary policy stances, overall monetary policy stances remained generally accommodative. However, Russia's central bank more than doubled its policy interest rate to 20 percent to support the exchange rate of the ruble.

8. **In summary, the MPC noted the recent global economic developments as presented and deliberated on these developments.** The MPC members deliberated further on the commodity prices which increased drastically and the extent to which it affected the domestic economy, especially the mineral exports, oil, and food inflation. Of concern to the members was the extent to which the increase in prices was due to sanctions on Russia or other reasons. After a long debate and discussion, it was agreed that commodity prices were already on an upward trend before the Russia-Ukraine war started but that it was further exacerbated by the sanctions and disruptions that were triggered by the war.

**DOMESTIC ECONOMY**

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

9. **Namibia's real GDP rebounded in 2021, from a contraction recorded in 2020.** Real GDP growth rebounded to 2.4 percent in 2021 compared to a contraction of 7.9 percent in 2020. The increase in output was mainly attributed to a recovery in the production of diamonds and uranium, wholesale and retail trade, hotels and restaurants and transport sectors coupled with the significantly positive growth registered in other mining and quarrying, arising from exploration activity. More recently, economic activity increased during the first two months of 2022, mainly observed in major sectors such as mining, agriculture, transport, tourism, wholesale and retail trade as well as

communication. On the contrary, activity in the construction, manufacturing and electricity generation sectors declined during the same period. Going forward, the domestic economy was expected to grow by around 3 percent in 2022. Risks to the domestic economic outlook in the medium term continued to be dominated by the war between Russia and Ukraine, climatic swings, global supply chain disruptions, higher oil and food prices, and the possible emergence of new COVID-19 variants, coupled with vaccine hesitancy, especially domestically.

10. **The inflation rate increased during the first two months of 2022 relative to the same period in 2021**. Namibia's annual inflation averaged 4.5 percent during the first two months of 2022, compared to 2.7 percent in the corresponding period of 2021. The rise in inflation was mainly driven by an increase in transport inflation, on account of a rise in international oil prices. On a monthly basis, however, overall inflation declined marginally to 4.5 percent in February 2022 from 4.6 percent in January 2022. The monthly decline was attributed to lower inflation for transport and food, while housing inflation remained unchanged. Although overall inflation remains within a reasonable range, its food and transport components are expected to remain elevated and continue to have a disproportionate effect on the low-income segment of the society, and therefore require close monitoring.

11. **The MPC was informed that the annual growth in private sector credit extension (PSCE) increased marginally during the first two months of 2022 but remained subdued.** Although still subdued, growth in PSCE increased slightly to 2.8 percent during the first two months of 2022, higher than the 2.0 percent registered during the same period in 2021. The marginal rise in PSCE growth was due to increased credit demand by both businesses and individuals. Since the last MPC meeting, year-on-year growth in PSCE increased to 2.8 percent in February 2022 from 1.2 percent recorded in December 2021, mainly supported by increased demand from businesses, especially corporates in the fishing and financial services sectors.

12. **The total Government debt stock increased over the year to the end of February 2022.** The total Government debt stock stood at N$127.1 billion at the end of February 2022, representing yearly and monthly increases of 17 percent and 0.5 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 68.1 percent at the end of February 2022, representing yearly and monthly increases

of 6.7 percent and 0.4 percent, respectively. Going forward, the total debt stock is anticipated to rise to N$165.5 billion over the MTEF period, which represents 75.2 percent of GDP. The debt-to-GDP ratio continued to rise further and breach the SADC benchmark of 60.0 percent of GDP.

13. **It was reported that Namibia's merchandise trade deficit worsened during the first two months of 2022, mainly attributed to higher growth in imports.** Namibia's trade deficit widened to N$7.7 billion during the first two months of 2022, from N$5.4 billion in the same period of the previous year. The deterioration was mainly attributed to an increase in the import bill, due to the increase in volumes imported as well as the higher international oil prices. In addition, the rise in imports of consumer goods following a recovery in domestic demand contributed to the higher import bill during the same period. The value of exports increased, mainly supported by higher export earnings from gold, rough diamonds, zinc concentrate, blister copper and live animals. The export earnings were, however, weighed down by the lack of realisation of uranium sales during the first two months of 2022; uranium consignments and receipts were uneven from month to month.

14. **The MPC was further informed that the stock of international reserves declined slightly in March 2022 but remained sufficient to support the currency peg and meet the country's international financial obligations.** As at the 31st of March 2022, the stock of international reserves stood at N$40.8 billion compared to N$43.0 billion at the end of February 2022. The decline in international reserves was partly due to an increase in international oil prices which contributed to a rise in Namibia's import bill during the period. At this level, international reserves were estimated to cover 5.5 months of imports and hence remained adequate to protect the peg of the Namibia Dollar to the South African Rand and meet the country's international financial obligations.

15. **In summary, the MPC noted the recent developments in the domestic economy as presented.** Of concern to the MPC members was the debt-to-GDP ratio which was very high and rising. The MPC deliberated on the challenges around the structural economic issues and several practical policy recommendations the Bank had already advised the Government on but had not yet been implemented. After a lengthy

discussion, it was agreed that a meeting should be arranged with the Minister of Finance.

## ADOPTION OF THE MONETARY POLICY STANCE

16. **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 economic growth rebounded quite well in 2021, however, going forward growth is expected to moderate partly due to baseline effects and withdrawal of government policy related to COVID-19.
- The escalation of geopolitical tensions and war between Russia and Ukraine will negatively affect global and domestic growth in 2022.
- COVID-19 was still a risk to growth, although many economies have largely adjusted to this risk and regard the latest variants as not much worse than a normal seasonal flu. However, the vaccination rollout was still very slow in many developing economies, and there was always the possibility of more dangerous variants developing, which could negatively affect the global and domestic economic recovery.
- Inflation pressure in the global economy continued and many central banks had started tightening their monetary policy rates as a result.
- Although economic activity improved for some sectors in 2021, the Namibian economy remained weak on aggregate with no significant improvement since the last MPC meeting in February 2022.
- The main risks to the domestic economic recovery remained the possible emergence of new variants and surges in COVID-19, geopolitical tension which may result in further global supply chain disruptions, and higher oil and food prices.
- The level of liquidity in the banking sector remained adequate, while domestic credit growth improved slightly, although it still remained subdued.
- The inflation pressure continued to build up but remained reasonably contained and was closely monitored by the Bank. Namibia was still experiencing a negative real interest rate; however, it was expected to narrow with the tightening of interest rate.
- The level of government debt remained high and rising and continued to be a concern for the domestic economy. This had resulted in Namibia being downgraded by the Fitch credit rating agency.

- An increase in commodity prices such as those of uranium, copper, gold and zinc were good for Namibia, as these increased export receipts; however, this advantage was offset by an increase in the import bill due to high oil and food prices.
- The current account continued to deteriorate, due to the high import bill as a result of high oil and food prices. Nevertheless, the level of reserves remained adequate to protect the peg of the Namibia Dollar to the South African Rand as well as meeting the country's international financial obligations such as imports.
- Another matter that was discussed was the margin between the repo rate and the prime lending rate, which was wider in Namibia than in South Africa.

17. **After considering developments in all key macro-economic variables as reflected above, the MPC reached consensus to increase the Repo rate.** The MPC members were unanimous regarding the need to increase the Repo rate. Regarding the extent of the increase, two members were in favour of increasing the Repo with 50 basis points, while four members were in favour of a 25-basis points increase. The consensus was to increase the Repo rate by 25 basis points to 4.25 percent. This decision was taken following a review of the global, regional, and domestic economic and financial developments, and taking due notice of the inflationary pressure both globally and domestically. This monetary policy stance was also a step towards normalising the current negative real interest rate environment and establishing a positive real interest rate that would be conducive to long-term economic growth. In addition, the MPC was mindful of the need to provide sustainable support to the domestic economy and simultaneously to safeguard the currency peg.