BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 4 - 5 December 2023

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

Minutes of the MPC Virtual Meeting held on 4th and Physical Meeting held on 5th December 2023

MPC MEMBERS PRESENT

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

SECRETARY

Doughlas Ndana	Senior Economist: RFSDD

APOLOGIES

Romeo Nel	Technical Advisor to the Governor

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

OTHERS PRESENT

Kazembire Zemburuka (Director: Strategic Communications and International Relations); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Postrick Mushendami (Deputy Director: RFSDD); Erwin Naimhwaka (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Daisy Mbazima-Lando (Principal Economist: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Rehabeam Shilimela (Principal Economist: RFSDD); Reinhold Kamati (Technical Expert: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Brian Mbazuvara (Principal Economist: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Tangeni Shatiwa (Senior Economist: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Metilda Ntomwa (Senior Economist: RFSDD); Charlotte Tjeriko-Katjiuanjo (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Vejama Mootu (Senior Economist: RFSDD); Diina Hamutumwa (Senior Economist: FMD); Sevelia Nakalemo (Economist FMD); Merrinah Siboli (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD).

PARTIAL ATTENDANCE

Ancois Plaatje (Director: Banking Supervision Department); Imanuel Hawanga (Deputy Director: Banking Supervision Department); Charlene Tjikukutu (Principal Financial Analyst: Banking Supervision Department).

ECONOMIC DEVELOPMENTS REPORT

As is customary, the reporting on economic developments was split into global and domestic components. Firstly, a report on global economic developments was presented to the MPC.

THE GLOBAL ECONOMY

1. **The MPC noted that global economic activity slowed during the third quarter of 2023, relative to the previous quarter.** The slowdown in economic activity was primarily due to slower growth in the Chinese economy, mainly on account of the housing market crisis and weaker trade. Weaker growth outcomes in Japan, the Euro

Area and the United Kingdom also contributed to the slower growth in the third quarter of 2023, offsetting the pickup in growth of the US economy.

2. **MPC members further noted growing divergencies in economic developments in key selected economies.** Members were informed that the Chinese economy continued to exhibit ample economic slack, with the property sector crisis leading the factors hampering momentum. The country's consumer price index slipped into deflation in October 2023, whereas retail sales and industrial production ticked somewhat higher. Likewise, the South African economy remained weak due to the re-emergence of severe load-shedding, exacerbated by the impact of port congestion. Business and consumer confidence as well as retail sales were also concerning in October 2023. On the contrary, the US economy expanded robustly during the period under review. In addition, consumer confidence and spending as well as new job creation all held up well in October 2023, while inflation slowed to 3.2 percent.

3. **Global growth prospects for 2023 and 2024 were expected to remain modest, unchanged from the previous MPC meeting.** Similar to the October 2023 MPC sitting, the MPC noted that the International Monetary Fund (IMF), in its October 2023 World Economic Outlook (WEO), projected global economic growth to gradually moderate from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The slowdown was mainly expected in the Advanced Economies (AEs), which were projected to slow significantly to 1.5 percent and 1.4 percent in 2023 and 2024, respectively, from 2.6 percent in 2022. No overall revisions were noted from the July 2023 WEO projections. Meanwhile, growth in the EMDEs was expected to decline modestly from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024. This represented a downward revision of 0.1 percentage point for 2024 compared to the July 2023 WEO projections.

4. **The MPC noted that risks to the outlook tilted to the downside but were fairly balanced.** While adverse risks had receded since the April 2023 WEO, implying a more balanced distribution of risks surrounding the global growth outlook, they remained more prominent than upside risks. The downside risks were centred around food security due in part to extreme weather conditions, the long-term consequences of the Covid-19 pandemic and the potential intensification of both geopolitical tensions as well as geoeconomic fragmentation, with the Israel-Hamas conflict most recently added to

the list of outbursts. Other significant risks included the likelihood of higher-for-longer global interest rates and rising debt distress.

5. **The average international price of Brent crude oil declined both monthly and annually in October 2023.** Brent crude oil prices decreased by 3.4 percent and 1.4 percent on a monthly and yearly basis, respectively, to an average of US$89.10 per barrel in October 2023, ascribed to the deteriorating global economic environment. Likewise, Brent crude oil prices were lower since the last MPC meeting, falling from US$92.16 per barrel on 20 October 2023 to US$78.88 on the 1st of December 2023.

6. **Diamond and food prices declined on a monthly and annual basis, in October 2023.** The Diamond Index (IDEX) declined both monthly and annually by 2.9 percent month-on-month and by 22.2 percent year-on-year, averaging 107.9 index points in October 2023, largely ascribed to weaker global consumer demand. Similarly, the Food and Agriculture Organisation's (FAO) Food Price Index stood at 120.62 points, 0.7 percent and 10.9 percent lower compared to its level a month and a year earlier, respectively. The decline was reflected in the price indices for sugar, cereals, vegetable oils and meat.

7. **The MPC was further informed that the price of zinc declined on a monthly and annual basis, while that of copper only dropped on a monthly basis.** The price of zinc fell by 1.9 percent and 17.5 percent, month-on-month and year-on-year, respectively, to an average of US$2 449 per metric tonne in October 2023. The decline was primarily attributed to notably weak demand from China. Meanwhile, the average price of copper in October 2023 stood at US$7 937 per metric tonne, 4.1 percent lower than in September 2023, but 3.7 percent above its value a year earlier. This was the lowest monthly average zinc price since the start of the year as demand, particularly from China, weakened further. Notwithstanding, the MPC noted that both zinc and copper prices were higher relative to their levels at the October 2023 MPC sitting. In this regard, zinc and copper prices averaged US$2 509 per metric tonne and US$8 611 per metric tonne, respectively, on 1st December 2023.

8. **Uranium and gold prices were higher in October 2023, relative to the prior month.** Uranium spot prices continued to trend upward, rising by 3.9 percent monthly and by 42.3 percent annually, to an average of US$74.38 per pound in October 2023.

Favourable uranium spot prices continued to be shaped by the persistent drive for clean, secure and low-cost energy augmented by the recent supply interruptions. The price of gold was relatively stable monthly, while it rose by 15.1 percent year-on-year in October 2023 due to safe-haven considerations and expectations that US interest rates had peaked. Relative to the previous MPC meeting, uranium spot prices reached a 15-year high weekly average of US$81.25 per pound between 27 and 30 November 2023. The price of gold was also higher compared to its level at the previous MPC meeting, averaging US$2 090 per ounce on 1 December 2023, the highest daily average on record since the start of the year.

9. **Since the last MPC meeting, inflationary pressures eased in most of the monitored economies.** Among the AEs, inflation subsided in the US and the United Kingdom and remained steady in the Euro Area. Nevertheless, it rose marginally in Japan, owing to the depreciation of the Japanese Yen against major currencies. Likewise, inflation eased in most key EMDEs, except in Russia and South Africa where it increased. Overall, although the tightening of monetary policy by many global central banks had begun to bear fruit, a central driver of the fall in headline inflation was the eased supply chain disruptions. Going forward, global inflation was forecast to decline from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. In the face of falling inflation and weakening global growth, most monitored central banks held policy rates constant at their most recent monetary policy meetings. The exceptions were the Bank of Russia and the Central Bank of Brazil which raised and cut rates, respectively, since the last MPC meeting. Global policy rates were observed to have remained generally restrictive, amid signs of having peaked.

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

THE DOMESTIC ECONOMY

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

11. **The MPC noted that domestic economic activity expanded during the first ten months of 2023, as reflected in most economic sectors.** Domestic economic activity expanded further during the first ten months of 2023, although at a slower pace compared to the same period in 2022. The improvement was observed across most sectors, particularly *mining*, *electricity generation*, *livestock agriculture*, *wholesale and*

retail trade, *tourism*, *communication*, and *transport*. Activity in the *construction* sector, however, continued to remain weak. Going forward, the growth was projected to decline from 7.6 percent in 2022 to 3.9 percent in 2023 and moderate to 3.3 percent in 2024, with downward revisions of 0.6 percentage points and 0.4 percentage points for 2023 and 2024, respectively, relative to the projections at the previous MPC sitting. The slowdown was attributed to expectations of slower growth in the primary industry, following the high base set in this industry during 2022.

12. **Risks to the domestic economic outlook remained broadly unchanged since the previous MPC meeting, mainly driven by external factors.** These were the weakening global economic growth, tighter global monetary policy, geopolitical tensions, geoeconomic fragmentation, and the fallout of load-shedding in South Africa. Internal risks included climatic swings and water supply interruptions at the coastal towns.

13. **Inflation remained elevated during the first ten months of 2023.** Namibia's annual inflation rate averaged 6.0 percent during the first ten months of 2023, slightly higher than the 5.9 percent registered during the corresponding period in 2022. The increase in consumer price inflation was primarily shaped by the rise in the *food*, *housing* and *miscellaneous goods and services* components. Likewise, annual inflation rose by 0.6 percentage points, month-on-month, in October 2023 mainly reflected in *transport* inflation in line with soaring international crude oil prices.

14. **Annual growth in Private Sector Credit Extension (PSCE) was observed to have remained weak relative to the October 2023 meeting.** The annual growth in PSCE slowed further to 1.8 percent in October 2023, from 2.3 percent in August 2023. The slowdown in PSCE growth was attributed to lower demand in the *other loans, advances and overdrafts* category as well as net repayments in the *mortgages* category. Similarly, PSCE growth remained subdued over the first ten months of 2023, averaging 2.5 percent relative to 3.5 percent recorded over the same period in 2022.

15. **Likewise, the MPC observed that the Central Government's debt stock rose during the first seven months of the FY2023/24 to the end of October 2023, due in part to the higher allotment of both Treasury Bills (TBs) and Internal Registered Stock (IRS).** Central Government debt stock was N$149.3 billion at the end of October 2023, rising by 8.9 percent year-on-year. The rise in the debt stock was mainly driven

by an increase in the issuance of TBs and IRS. The MPC noted further that the disbursement of loans by the AfDB and KFW continued to contribute to the higher debt stock. At this level, the debt stock as a percentage of GDP stood at 65.8 percent, 3.4 percentage points higher yearly and 0.2 percentage point above its level a month earlier. Moreover, the MPC took note of the shift in budgetary allocations as interest payments on debt escalated to second position at the mid-year budget review, largely to cater for interest on domestic debt. The total debt stock over the medium-term expenditure framework was anticipated to rise to N$178.8 billion, nevertheless declining to 61.7 percent of GDP as Namibia's nominal GDP increased, supported by the partial redemption of the Eurobond.

16. **The MPC was informed that Namibia's merchandise trade deficit improved over the first ten months of 2023, as the rise in exports continued to outpace that of imports.** Namibia's merchandise trade deficit narrowed marginally by 1.0 percent to N$31.7 billion during the first ten months of 2023 compared to the same period in 2022 as export earnings continued to grow faster than import payments. The rise in export earnings was reflected in increased export volumes of *gold*, *uranium*, *diamonds* and *fish*, augmented by the depreciation of the Namibia Dollar against major trading currencies. The MPC was also informed that payments for *vehicles*, *consumer goods* and *machinery* largely contributed to the increase in merchandise imports during the period under review.

17. **The MPC noted that despite edging lower, the stock of international reserves remained sufficient to support the currency peg and meet Namibia's international financial obligations.** As at 30th November 2023, the stock of international reserves stood at N$49.0 billion, lower compared to N$51.4 billion recorded at the end of October 2023. The decrease in reserves was predominantly on account of higher net commercial bank outflows. At this level, the stock of international reserves was estimated to cover 5.1 months of imports, thereby remaining sufficient to support the currency peg between the Namibia Dollar and the South African Rand, while meeting the country's international financial obligations.

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 world economy had not changed markedly since the previous MPC meeting, noting that the global economy remained somewhat resilient, but was laden with growth divergencies.
- Global growth prospects for 2023 and 2024 were expected to remain modest, with risks to the global growth outlook tilting to the downside although fairly balanced.
- Global inflationary pressures receded in most of the key economies, with expectations of further moderation going forward. Nonetheless, global core inflation remained sticky.
- Most commodity prices were lower since the last MPC meeting, but with uranium spot prices continuing to reach new highs.
- In the region, particularly in South Africa, activity remained weak due to the re-emergence of severe load-shedding, exacerbated by the impact of port congestion.
- Domestically, economic activity expanded fairly during the first ten months of 2023. While growth was expected to slow in both 2023 and 2024, it was revised upwards.
- Domestic inflation remained elevated mainly buoyed by transport inflation, but was expected to slow down.
- On the fiscal front, the Central Government budget deficit widened further as expenditures accelerated faster than revenues.
- The level of liquidity in the banking sector continued to trend downwards but remained healthy, while PSCE growth remained subdued with moderate short-term momentum expected.
- Foreign exchange reserves remained adequate, and the merchandise trade deficit improved slightly.
- ZAR outflows had risen notably since the October MPC meeting but did not constitute a significant threat to reserves.

20. **After considering the developments in all key macroeconomic variables as reflected above, the MPC unanimously decided to keep the Repo rate steady.** The MPC considered the limitations of operating under a fixed exchange rate regime, which necessitates close alignment of the domestic policy rate with that of the anchor country. However, with the Common Monetary Area allowing for moderate deviations from the

South African monetary policy stance, continued signs of economic slack and weak credit growth domestically, fair reserve levels and slowing inflation, the MPC decided unanimously to keep the Repo rate unchanged at 7.75 percent. Likewise, Namibia's prime lending rate was expected to remain unchanged 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 as interest rates remain closely aligned, but simultaneously provide needed support to domestic economic activity with the Bank's Repo rate set 50 basis points below the corresponding rate in the anchor economy. Furthermore, the MPC maintained that the pause did not necessarily imply the end of the hiking cycle as future upside surprises in inflation continued to be a possibility.