

Date: 14 February 2024

Attention: News Editor

Ref: 9/6/2


REPO RATE MAINTAINED AT 7.75 PERCENT

On the 12th and 13th of February 2024, the Monetary Policy Committee (MPC) of the Bank of Namibia held its first bi-monthly meeting for 2024 to decide on the appropriate monetary policy stance to be implemented over the next two months. To continue safeguarding the peg between the Namibia Dollar and the South African Rand while supporting the domestic economy, the MPC decided to keep the Repo rate unchanged at 7.75 percent. This decision was taken following a comprehensive review of domestic, regional and global economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity increased in 2023. Inflation moderated, while the growth in Private Sector Credit Extension (PSCE) remained subdued. The merchandise trade deficit continued to improve, and the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

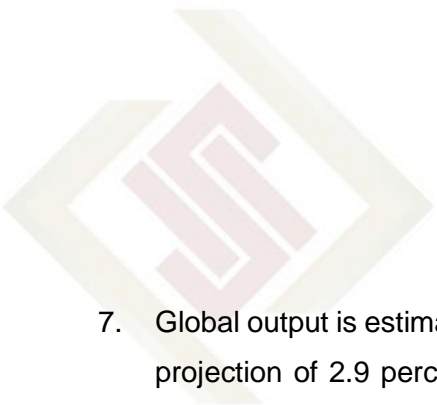
1. Domestic economic activity expanded during 2023, as reflected in sectors such as *mining, electricity generation, livestock farming, wholesale and retail trade, tourism, communication and transport*. Meanwhile, activity in the *construction* sector remained weak. Going forward, GDP growth is projected to decelerate from a revised 6.4 percent in 2022 to 3.9 percent in 2023 and further down to 3.4 percent in 2024. The downward trajectory in growth is characterised by the expected slower growth in the primary and secondary industries, in part due to uncertain weather conditions.
2. Downside risks to the domestic economic outlook remained broadly unchanged since the previous MPC meeting, mainly reflecting global factors. Such external factors include slow global economic growth, tight global monetary policy, geopolitical tensions, geoeconomic




fragmentation and unstable electricity supply and logistical constraints in South Africa. Internally, adverse risks include drought, sporadic rainfall conditions as well as water supply interruptions, particularly at the coastal towns.

3. Annual inflation moderated to 5.9 percent in 2023 from 6.1 percent in 2022, mainly owing to a deceleration in the *transport* category. Likewise, inflation slowed since the previous MPC meeting from 6.0 percent in October 2023 to 5.4 percent in January 2024. Inflationary pressures are expected to continue receding with consumer price inflation projected to average 4.8 percent in 2024, unchanged compared to the previous forecast.
4. Since the last MPC meeting, annual growth in PSCE remained weak despite edging slightly upwards to 1.9 percent in December 2023 from 1.8 percent in October 2023. The slight improvement in PSCE growth was characterised by a higher credit uptake by the corporate sector in the form of *instalment sale and leasing finance*. On average, growth in PSCE slowed from 3.6 percent in 2022 to 2.4 percent in 2023 and is projected to improve marginally to 2.8 percent in 2024.
5. Namibia's merchandise trade deficit narrowed to N\$30.3 billion in 2023, 3.7 percent below the level recorded in 2022, as export earnings rose faster than import payments. The rise in export earnings was predominantly observed in the mining sector, particularly *gold, uranium, and rough diamonds* due to higher export volumes and the depreciation of the Namibia Dollar against major trading currencies.
6. The preliminary stock of international reserves stood at N\$49.7 billion as of 31st January 2024, slightly above the level of N\$49.0 billion reported at the previous MPC meeting partly due to SACU receipts. The latest stock of international reserves is estimated to cover 3.7 months of imports, remaining sufficient to support the currency peg between the Namibia Dollar and the South African Rand while meeting the country's international financial obligations.

World output is estimated to have risen above earlier expectations in 2023, and is projected to remain resilient in 2024. Inflation slowed in both the Advanced Economies (AEs) and the Emerging Market and Developing Economies (EMDEs). Most global monetary authorities kept their policy rates unchanged since the previous BoN MPC meeting.

- 
7. Global output is estimated to have expanded by 3.1 percent in 2023 exceeding the earlier projection of 2.9 percent. This is lower compared to the 3.5 percent recorded in 2022, largely owing to restrictive monetary policies and the disruptive impact of various regional conflicts. Growth was further weighed down by the gradual withdrawal of fiscal support and extreme weather events. Going forward, the International Monetary Fund expects global growth to remain steady at 3.1 percent in 2024. Compared to the previous MPC meeting, the forecast for 2024 is 0.2 percentage point higher, reflecting upward revisions for China, the United States (US), India and Brazil.
 8. Since the previous MPC meeting, prices of key commodities continued to exhibit a mixed picture. Diamond prices continued to trend downwards due to the weaker global consumer demand and the rising supply of lab-grown diamonds. Food price inflation also fell reflecting improved crop conditions and increased global supply. Likewise, zinc prices declined since the previous MPC meeting, mainly attributed to weaker demand and a slower recovery in the Chinese economy. In contrast, the prices of gold and copper rose due to safe-haven demand and stronger demand arising from the transition to green energy, respectively. The uranium spot price continued to trend upwards supported by higher demand for cleaner, safe and secure energy. Meanwhile, the average price of Brent crude oil edged upwards recently, partly on account of the Red Sea global oil shipping uncertainties.
 9. Global equity and bond markets gained since the end of November 2023. Among the AEs, the S&P 500, Nikkei 225, and DAX gained by 5.4 percent, 8.6 percent and 2.2 percent, respectively, in January 2024, attributed to stronger corporate earnings. Nevertheless, the Chinese stock market recorded losses driven by poor investor sentiment and continued weakness in the property market. Bond yields rose in January 2024 as Fed officials reaffirmed expectations that the Fed may not cut rates soon.
 10. Inflationary pressures continued to ease in most of the monitored economies. Among the key AEs, inflation decelerated from an average of 7.4 percent in January 2023 to 3.2 percent at the end of the year. Since the previous MPC meeting, inflation slowed in Japan, the United Kingdom and the Euro Area and moved sideways in the US. In the monitored EMDEs, inflation also slowed from 6.6 percent to 4.5 percent on average in December 2023. Compared to October 2023, inflation slowed in Brazil and South Africa, remained



in a deflation in China but rose slightly in Russia and India. Going forward, global inflation is expected to slow from an estimated average of 6.8 percent in 2023 to 5.8 percent in 2024, 0.2 percentage point lower compared to the forecast at the previous MPC meeting as AEs are expected to see faster than previously anticipated disinflation.

11. Most monitored central banks kept their policy rates unchanged at their most recent monetary policy meetings, mainly due to easing inflation and the moderation in growth. Notwithstanding, the Bank of Russia and the Central Bank of Brazil raised and cut rates, respectively, in December 2023. With inflation likely to recede slightly faster than previously expected in most jurisdictions, global central banks are expected to deliver a smooth landing, by neither lowering rates prematurely nor postponing such reductions for too long.

MONETARY POLICY STANCE

12. Against this background, the MPC decided to keep the Repo rate unchanged at 7.75 percent. As such, the prime lending rate remains steady at 11.50 percent. The MPC noted the continued disinflation both globally and domestically. With real interest rates remaining positive, and slow credit growth, amid a fair level of international reserves, the MPC decided to maintain the Repo rate at its current level. This policy stance will continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand and support domestic economic activity.
13. The next MPC meeting will be held on 15 and 16 April 2024.



Johannes Gawaxab
GOVERNOR