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**REPO RATE INCREASED FROM 7.25 TO 7.75 PERCENT**

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On the 12<sup>th</sup> and 13<sup>th</sup> of June 2023, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting 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 and anchoring inflation expectations, while simultaneously supporting the domestic economy, the MPC decided to increase the Repo rate by 50 basis points to 7.75 percent, with immediate effect. This decision was taken following a comprehensive review of global, regional and domestic economic developments.

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**RECENT ECONOMIC DEVELOPMENTS**

Domestic economic activity improved during the first four months of 2023. Inflation remained elevated but receded somewhat from its earlier peak, while the growth in Private Sector Credit Extension (PSCE) remained weak. The merchandise trade deficit narrowed 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 continued to improve since the last MPC meeting. The improvement was mainly observed in sectors such as mining, manufacturing, wholesale and retail trade, communication and tourism. Activity in the construction sector, however, remained subdued due to the continued contraction in private sector works, although there was a welcome increase in Government construction. Going forward, real GDP growth is projected to slow down to 3.0 percent in 2023 from 4.6 percent registered in 2022, on account of slower growth in the primary and secondary industries.
2. Risks to the domestic economic outlook, emanating from both external and internal factors, remained broadly unchanged. External factors include weakening global economic activity,



tightening of monetary policy globally and persistent inflation. Internal risks include water supply interruptions particularly at the coastal towns, the looming drought and general infrastructure constraints.

3. Inflation remained elevated relative to the previous MPC meeting. Namibia's average inflation rate rose to 6.8 percent during the first five months of 2023 compared to 4.9 percent during the corresponding period in 2022. The rise in the average consumer prices was predominantly driven by food and housing price inflation. Similarly, on a monthly basis, inflation increased to 6.3 percent in May 2023 from 6.1 percent in the previous month. Going forward, overall inflation is projected to average 6.1 percent in 2023, remaining unchanged from the last MPC meeting.
4. PSCE growth slowed from 3.1 percent in February to 2.6 percent in April 2023. This is a result of subdued uptake of credit by businesses. The dwindling annual growth continued to be mostly observed in the *mortgage loans* and *other loans and advances and overdrafts* credit categories. Growth in credit extended to households, however, remained relatively stable.
5. On the external front, Namibia's trade deficit narrowed by 19.9 percent to N\$9.4 billion during the first four months of 2023, compared to the same period in 2022. The improved trade balance was on account of higher export earnings from uranium, diamonds, gold and fish reflecting a rise in volumes exported as well as the depreciation of the Namibia Dollar/Rand exchange rate. Imports also rose over the first four months of 2023 relative to the same period in 2022, but at a slower pace relative to exports.
6. As at the 31<sup>st</sup> of May 2023, the stock of international reserves decreased to N\$49.7 billion, from N\$51.8 billion at the end of April 2023. The decrease in the level of international reserves was partly on account of net commercial bank outflows as a result of portfolio investment and import payments. Nevertheless, at this level, the stock of international reserves remains sufficient to support the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations. The current level is estimated to cover 5.2 months of imports.

**Preliminary data indicates that global economic activity recovered slightly during the first quarter of 2023. Inflation in most monitored Advanced Economies (AEs) and**

**Emerging Market and Developing Economies (EMDEs) moderated but remain above the target levels. Monetary policy stances were generally mixed.**

7. Preliminary data shows a slight improvement in global economic activity during the first quarter of 2023, compared to the last quarter of 2022. The recovery was mainly shaped by a strong private consumer spending in the US and the reopening of the Chinese economy following the easing of the Covid-19 restrictions. Additionally, improved activity in Japan, India and Brazil contributed to the observed recovery. Going forward, the World Bank has recently projected global growth to moderate significantly to 2.1 percent in 2023, from an estimated 3.1 percent in 2022.
8. Key downside risks to the global economic outlook include the possible escalation of geopolitical tensions, tighter financial conditions, and the persistent inflation. Other key risks are the increased uncertainty from the recent financial sector turmoil and growing geopolitical fragmentation.
9. Since the last MPC meeting, the prices of most monitored commodities declined both on a monthly and annual basis. The prices of copper and zinc fell monthly and yearly in May 2023, due mainly to weaker manufacturing activity in China, sluggish global demand and high stock levels. Likewise, the price of Brent crude oil declined in May as global demand remained weak. Food prices in US Dollar terms were lower than a year earlier. The gold price inched higher year-on-year on the back of safe-haven purchases but moderated on a monthly basis. Diamond prices declined during the review period as high interest rates continued to weigh down on disposable income in key markets. Going forward, diamond prices are expected to remain weak in 2023, arising from lacklustre global consumer demand. On the contrary, uranium prices increased, and they are expected to continue trending upwards due to increased demand for clean energy.
10. Most monitored global equity markets recorded gains in May 2023, defying expectations surrounding the US debt stand-off and the gloomy global economic outlook. In addition, bond yields increased in both AEs and EMDEs in May 2023. With a deal reached setting the possibility of US debt default aside, yields most recently inched lower.
11. Since the last MPC meeting, inflationary pressures in the monitored economies generally continued to moderate but remained elevated. Among the AEs, inflation eased in the US,

United Kingdom and the Euro Area, while it increased in Japan. Likewise, inflation moderated in most of the key monitored EMDEs, except for Russia and China where it edged up slightly. Going forward, global inflation is expected to remain sticky, despite moderating somewhat.

12. Consistent with the moderation in inflation, a number of monitored central banks kept their policy rates unchanged at their latest monetary policy meetings. However, the US Federal Reserve, the Bank of England, the European Central Bank as well as the South African Reserve Bank raised rates since the last MPC meeting.

### **Monetary Policy Stance**

13. Against this background, the MPC decided to increase the Repo rate by 50 basis points to 7.75 percent. The increase in the Repo rate effectively brings the prime lending rate to 11.50 percent. The decision is deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. It is simultaneously aimed at further containing inflationary pressures, stemming their associated second-round effects and anchoring inflation expectations.

14. The next meeting of the MPC will be held on the 14<sup>th</sup> and 15<sup>th</sup> of August 2023.



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