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REPO RATE INCREASES FROM 7.00 TO 7.25 PERCENT

On the 17th and 18th of April 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 anchoring inflation expectations and safeguarding the peg arrangement, while simultaneously avoiding harsh impulses to the domestic economy, the MPC decided to increase the Repo rate by 25 basis points to 7.25 percent, with immediate effect. This decision was taken following a comprehensive review of the global, regional, and domestic economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity improved in 2022 and the first three months of 2023. Inflation rate remained elevated, while the growth in Private Sector Credit Extension (PSCE) remained weak. The stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

1. Annual growth in Namibia's real GDP rose to 4.6 percent in 2022 from 3.5 percent in 2021. The expansion in domestic economic activity was on account of stronger growth rates in the primary and tertiary industries as well as a rebound in the secondary industry. Since the last MPC meeting, domestic economic activity has continued to improve, primarily observed in sectors such as mining, manufacturing, transport, communication, tourism as well as wholesale and retail trade. Activity in the construction sector, however, continued to decline in line with the subdued Government and private sector work. Going forward, real GDP growth is projected to slow down to 3.0 percent in 2023, due to the anticipated moderation in momentum in the primary and secondary industries.
2. Risks to the domestic economic outlook remain and can emanate from external and internal factors. External factors include weakening global economic activity, tightening of



monetary policy globally and persistent inflation. Internal risks are water supply interruptions particularly at the coastal towns and the looming drought.

3. Inflation has deteriorated since the last MPC meeting. Namibia's average inflation rose to 7.1 percent during the first three months of 2023 compared to 4.5 percent during the corresponding period in 2022. The rise in overall inflation was predominantly driven by food and transport inflation. On a monthly basis, overall inflation, though elevated, remained unchanged at 7.2 percent during February and March 2023. Overall inflation for 2023 has been revised upwards and it is now projected to average 6.1 percent, from a forecast of 5.3 percent at the previous MPC meeting. The revision was on account of the second-round effects on food price inflation emanating from a weaker exchange rate, as well as the prolonged stubbornness in core inflation.
4. Growth in credit to the private sector slowed since the last MPC meeting. This is evidenced in the year-on-year growth in PSCE which declined to 3.1 percent in February 2023 compared to 4.1 percent in December 2022. The slowdown in PSCE growth emanated from lower demand for credit by the business sector, partly due to the lingering effects of the Covid-19 pandemic. This is reflected across all business credit categories namely, mortgage loans, other loans and advances and overdrafts as well as instalment sales and leasing credit. In contrast, growth in credit extended to households remained relatively stable.
5. As at the 31st of March 2023, the stock of international reserves increased to N\$48.5 billion, from N\$47.4 billion in February 2023. The rise in the level of international reserves was driven by the depreciation of the Namibia Dollar against the US Dollar. At this level, the stock of international reserves is estimated to cover 5.1 months of imports. This remains adequate to support the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations. As on the 14th of April 2023, the foreign exchange reserves increased further to levels above N\$50 billion, driven by higher SACU receipts, diamond sales and foreign direct investment inflow in the manufacturing sector.

Global real GDP growth slowed during 2022 and is expected to remain moderate in 2023. Inflation in most monitored Advanced Economies (AEs) and Emerging Market

and Developing Economies (EMDEs) continued to ease but still exceeded target levels. Most central banks have increased their policy rates.

6. Global economic growth declined from 6.3 percent in 2021 to 3.4 percent in 2022. The slower global growth was shaped by subdued economic activity in both the AEs and EMDEs, mainly on the back of the Russia-Ukraine conflict which resulted in supply chain disruptions, high inflation and tighter monetary and financial conditions. Furthermore, the aftermath of the Covid-19 pandemic continued to negatively impact global growth.
7. For 2023, global growth is projected to moderate further. In particular, the International Monetary Fund (IMF) has projected global economic activity to expand by 2.8 percent in 2023, as growth in the AEs and EMDEs is expected to remain weak. The Chinese economy is nevertheless expected to rebound in 2023, primarily due to the easing of Covid-19 restrictions.
8. Key downside risks to the global economic outlook include the possible escalation of geopolitical tensions, tighter financial conditions, elevated inflation, and tighter monetary policy. Other key risks include the increased uncertainty from the recent financial sector turmoil and geoeconomic fragmentation.
9. Since the last MPC meeting, the prices of monitored commodities declined both monthly and annually. Accordingly, the prices of copper, gold and zinc declined monthly and yearly in March 2023. The lower prices of these commodities were mainly a result of weaker demand and high stock levels. The price of crude oil decreased in March 2023, on the back of mounting fears of weak global growth. Diamond prices declined during the review period due to high interest rates which reduced disposable income in key diamond consumer markets. Going forward, diamond prices are expected to remain weak in 2023, arising from lower global consumer demand, although the reopening of the Chinese economy may provide the desired boost. Furthermore, uranium and international food prices also declined in March 2023.
10. Most monitored global equity markets recorded gains in March 2023, relative to the losses recorded in the previous month. The gains were primarily shaped by swift efforts by regulators in the US and Europe to arrest the market turmoil which resulted from the collapse of some banks in these jurisdictions.

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11. Since the last MPC meeting, inflationary pressures in the monitored economies continued to moderate but remained elevated. Among the AEs, inflation eased in the US and Euro area but it increased in the United Kingdom. Likewise, inflation rates in the key monitored EMDEs moderated most recently except in South Africa where it increased slightly. Going forward, global inflation is expected to generally remain sticky, despite moderating somewhat.
 12. Most monitored central banks continued to increase policy rates at their latest monetary policy meetings, albeit at a slower pace. The South African Reserve Bank, however, raised its policy rate by 50 basis points in March 2023, compared to 25 basis points at the previous meeting. On the other hand, the central banks of Japan, China, Russia and Brazil maintained their policy rates.

MONETARY POLICY STANCE

13. Against this background, the MPC decided to increase the Repo rate by 25 basis points to 7.25 percent. The increase in the Repo rate effectively brings the prime lending rate to 11.00 percent. The decision was taken to contain inflationary pressures, stem their second-round effects and anchor inflation expectations. The decision is also deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. Moreover, this monetary policy stance will take the current negative real policy interest rate to a positive rate. The increase in the rate is nevertheless of moderate proportion to support the domestic economic recovery.
14. The Bank will continue to monitor these developments and their potential effects on the domestic economy and will act appropriately, in line with its mandate to ensure price stability in the interest of sustainable economic growth and development of the country.
15. The next meeting of the MPC will be held on the 12th and 13th of June 2023.



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