

Date: 15 February 2023

Attention: News Editor

Ref: 9/6/2


REPO RATE INCREASES FROM 6.75 TO 7.00 PERCENT


On the 13th and 14th of February 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, the MPC decided to increase the Repo rate by 25 basis points to 7.00 percent, with immediate effect. This decision was taken following a comprehensive review of global, regional and domestic economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity continues to show a gradual improvement. The inflation rate remains elevated, while the growth in Private Sector Credit Extension (PSCE) remains weak. The stock of international reserves remains sufficient to support the currency peg and meet the country's international financial obligations.


1. Domestic economic activity has continued to show a gradual improvement since the last MPC meeting. The expansion has been broad-based, mainly observed in sectors such as mining, agriculture, transport, wholesale and retail trade, tourism and communication. Activity in the construction sector, however, continues to decline as both Government and private sector work remain subdued. Real GDP growth is estimated to amount to 3.9 percent in 2022 and is forecast to slow down to 2.7 percent in 2023, taking the level of activity beyond that observed before the pandemic.

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2. Risks to the domestic economy include the weakening global economic activity, the tightening of monetary policy globally, high inflation and global supply chain disruptions. Additional risks include water supply interruptions, climatic swings and localised flooding.
 3. Namibia's average inflation rose to 6.1 percent during 2022 compared to 3.6 percent in 2021. The rise in inflation continued to be predominantly driven by the transport inflation, on account of high international oil prices. On a monthly basis, overall inflation remained elevated at 7.0 percent during January 2023 compared to 6.9 percent in December 2022. Namibia's overall inflation for 2023, however, is expected to decline to an average of 5.3 percent. This is an upward revision from 4.9 percent forecasted at the last MPC.
 4. Since the last MPC meeting, the demand for credit has improved slightly but remains weak. This is evidenced in the year-on-year growth in PSCE which amounted to 4.2 percent in December 2022 compared to 3.7 percent in November 2022. The slight improvement in PSCE growth was on the back of a moderate rise in the demand for credit by both corporate and household sectors. The recovery in both sectors was driven by instalment sale and leasing credit and other loans and advances categories. On average, growth in PSCE rose to 3.6 percent in 2022, compared to 2.4 percent in the previous year.
 5. As at the 31st of January 2023, the stock of international reserves amounted to N\$46 billion, down from N\$48 billion in December 2022. The decline in the level of international reserves was mainly due to higher imports and portfolio related outflows. Nevertheless, at this level, the stock of international reserves is estimated to cover 4.8 months of imports. This level remains adequate to support the peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.



Global real GDP growth is estimated to have slowed in 2022. Inflation in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) remains elevated although, in some instances, easing somewhat most recently. Most central banks have increased their policy rates.

6. Global economic growth is estimated to have declined from 6.2 percent in 2021 to 3.4 percent in 2022. The slower global growth is partly ascribed to subdued economic activity in both the AEs and EMDEs, mainly on the back of the Russia-Ukraine conflict, supply chain disruptions, high inflation, and tighter monetary and financial conditions. The lingering economic and health impact of the Covid-19 pandemic also contributed to the slower global growth.
7. For 2023, global growth is projected to slow down further relative to 2022. In particular, the International Monetary Fund (IMF) projects global economic activity to grow by 2.9 percent in 2023. In this regard, growth in the AEs is expected to decline to 1.2 percent in 2023 from an estimated 2.7 percent in 2022. Notwithstanding the projected low global growth, EMDEs' growth is expected to improve modestly from 3.9 percent in 2022 to 4.0 percent in 2023. The moderate improvement will be supported by higher growth in China, largely due to the lifting of the Covid-19 pandemic restrictions.
8. Key downside risks to the global economic outlook include the possible escalation of geopolitical tensions and conflicts, tighter financial conditions, and the high cost of energy and food which may cause inflation to persist for longer, prompting further increases in interest rates. Other risks include weaker household purchasing power and limited fiscal space, particularly in the EMDEs.
9. Since the last MPC meeting, the movement in commodity prices has been varied. Most recently, the prices of copper, gold and zinc increased. The increases were mainly due to expectations of stronger demand from China, potential reductions in inventories and the depreciation of the US Dollar. Prices of these commodities, however, edged lower on an annual basis. The price of crude oil declined in January 2023, on the back of fears




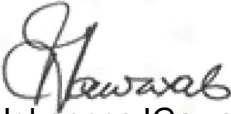
of weak global growth. To the contrary, uranium prices have held up well in recent months.

10. The global equity markets recorded losses in December 2022 following signals of further monetary policy tightening by the US Federal Reserve and European Central Bank (ECB). In January 2023, however, monitored stock markets rallied partly due to declining inflation rates and improved growth prospects for the Chinese economy.
11. Since the last MPC meeting, inflationary pressures in the monitored economies moderated slightly but remained elevated. Among the AEs, inflation eased in the US, Euro area and the United Kingdom (UK), but it increased in Japan during December 2022. Inflation rates in key monitored EMDEs moderated in December 2022, except in China where it increased slightly. Inflation in South Africa continued to trend above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent. Going forward, global inflation is expected to moderate.
12. Most monitored central banks increased their policy rates at their latest monetary policy meetings. The exceptions were the central banks of Japan, China, Russia and Brazil that maintained their policy rates, while Angola reduced its policy rate during the period under review.

Monetary Policy Stance

13. Against this background, the MPC decided to increase the Repo rate by 25 basis points to 7.00 percent. The increase in the Repo rate effectively brings the prime lending rate to 10.75 percent. The decision was taken to contain inflationary pressure and its 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 neutral rate.

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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 17th and 18th of April 2023.



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