

**Date: 17 August 2022**

**Attention: News Editor**

**Ref: 9/6/2**

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## REPO RATE INCREASES FROM 4.75 TO 5.50 PERCENT

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On the 15<sup>th</sup> and 16<sup>th</sup> of August 2022, 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 arrangement and thus anchoring inflation expectations, while meeting the country's international financial obligations, the MPC decided to increase the Repo rate by 75 basis points to 5.50 percent. 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 increased in the first six months of 2022. Inflationary pressure remained elevated, while growth in Private Sector Credit Extension (PSCE) accelerated slightly. The stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

1. The performance of the domestic economy continued to improve in the first half of 2022, though output remains below the pre-COVID-19 levels. Year-to-date developments indicate that activity in the domestic economy increased during the first six months of 2022, as reflected in sectors such as mining, agriculture, wholesale and retail trade, transport, communication and tourism. Going forward, the domestic economy is expected to grow by 3.2 percent in 2022, mainly driven by the recovery in the mining, electricity water and tourism sectors.
2. Risks to the domestic economic outlook in the medium term continue to be dominated by the impact of the Russia - Ukraine war, global supply chain disruptions and high oil and food prices. Other risks include climatic swings, animal disease outbreaks within the region, the possible emergence of new COVID-19 variants and other infectious diseases as well as intensified geopolitical tensions.

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3. Inflation accelerated to an average of 5.3 percent during the first seven months of 2022, compared to 3.5 percent in the corresponding period of 2021. The acceleration was mainly driven by an increase in the inflation for transport, on account of a rise in international oil prices. On a monthly basis, inflation rose to 6.8 percent in July 2022 from 6.0 percent registered in June, mainly due to higher inflation for transport and food in the same period. Namibia's overall inflation is now projected to average around 5.8 percent for 2022, with higher rates in the second half of the year than in the first half.
4. Since the last MPC meeting, year-on-year growth in PSCE moderated to 3.4 percent in June 2022 from 3.8 percent recorded in April 2022. The moderation was mainly due to lower demand for short-term asset-backed credit facilities and other loans and advances, specifically by corporates in the energy, mining and commercial services sectors. Year to date, average growth in PSCE increased to 3.2 percent during the first six months of 2022, higher than the 2.4 percent registered during the same period in 2021, on the back of a rise in demand for credit by businesses.
5. As at the 31<sup>st</sup> of July 2022, the stock of international reserves stood at N\$49.2 billion compared to N\$43.9 billion at the end of May 2022 reported at the last MPC meeting. The increase in international reserves was mainly due to SACU receipts, diamond proceeds and portfolio flows. At this level, international reserves are estimated to cover 6.1 months of imports, and hence remain adequate to meet the country's international financial obligations.

**Global real GDP growth moderated in the second quarter of 2022. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) eased in July 2022. Most monitored central banks have tightened their policy rates to contain increasing inflationary pressures.**

6. Real growth in the global economy slowed down during the second quarter of 2022. This was mainly attributed to key headwinds, including high inflation, tighter financial conditions and supply bottlenecks. In the AEs, the United States (US) economy contracted partly due to weaker consumer spending, while real GDP in the Euro area grew at a slower pace compared to the previous quarter, mainly due to the energy crisis and a cutback of natural gas supply from Russia. Among the EMDEs, real GDP slowed in China, mainly attributed to lower consumption as a result of COVID-19 restrictions emanating from the Zero-Tolerance COVID-19 policy.

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7. Going forward, global economic growth is projected to slow down in 2022 compared to 2021. In particular, the IMF has projected global real GDP growth to moderate further to 3.2 percent in 2022 from 6.1 percent in 2021. The AEs are projected to slow down to 2.5 percent growth in 2022 from 5.2 percent in 2021, whereas growth in the EMDEs is projected to moderate to 3.6 percent in 2022 from 6.8 percent in 2021. The downward revision to the global outlook for 2022 is mainly due to spillovers from the Russia-Ukraine war, tighter financial conditions, weaker household purchasing power, and possible further lockdowns and the deepening real estate crisis in China. Key risks to the global economic outlook include the prolonging and/or intensification of the above-mentioned factors as well as potential rising geopolitical tensions in the Asia-Pacific region.
8. Since the last MPC meeting most monitored commodity prices trended lower although remaining elevated. Prices including those of Brent crude oil, uranium and zinc as well as food nevertheless increased on a yearly basis, mainly due to significant supply disruptions following international sanctions that inhibited the Russian supply of oil, gas and base metals. The exception was observed in prices for copper and gold which declined. With the realisation of some of the downside risks to the global economy, commodity prices may be negatively affected.
9. Global equity markets, while remaining volatile amid increased uncertainty, recorded positive gains during July 2022 and the first half of August 2022. This rally followed losses in the first half of the year with a sell-off in June 2022 ascribed to higher-than-expected inflation data and aggressive monetary policy responses. The rally in equity markets during most of July 2022 and August 2022 was principally driven by tech stock, following stronger-than-expected quarterly earnings from most companies, which offset weak global economic data. The expectations that the Fed would slow interest rate hikes at its future meetings also aided this rally.
10. Since the last MPC meeting, inflation pressure in most of the monitored economies remained elevated, largely due to rising energy and food prices, labour shortages and supply constraints. However, inflation eased in the US, Japan, Brazil, Russia and India during July 2022. Inflation in South Africa accelerated to 7.4 percent in June 2022, above the South African Reserve Bank's target range of 3-6 percent. The increase in South Africa's inflation is mainly attributed to upward pressures from transport, housing and utilities as well as food.
11. Since the last MPC meeting most monitored central banks increased their policy rates at their latest monetary policy meetings. Exceptions were the central banks of China and

Russia that lowered their policy rates. For the former, the cut in the policy rate was aimed at stimulating demand following the latest economic data which showed a deeper-than-expected slowdown in July 2022, with factory and retail activity squeezed by the zero-COVID-19 policy and property market crisis. The central bank of Russia cut its policy rate by a bigger-than-expected margin on account of a strong currency, cooling inflation and a possible recession. The Bank of Japan maintained its policy rate at its recent MPC meeting amid minimal inflationary pressures.

### **Monetary Policy Stance**

12. Against this background the MPC decided to increase the Repo rate by 75 basis points to 5.50 percent. The decision was taken with due consideration of the persistent inflationary pressures and is deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand, while meeting the country's international financial obligations. Moreover, the adopted monetary policy stance is necessary to narrow the current negative real policy interest rate. This policy stance is further consistent with that taken by central banks around the globe, and in the region, with policymakers acting with resolve to slow and eventually reverse the current acceleration in inflation.
13. The MPC will continue to monitor these developments and their potential effects on the domestic economy and will act appropriately and in line with its mandate to ensure price stability in the interest of sustainable economic growth and the development of the country.
14. The next meeting of the MPC will be held on the 24<sup>th</sup> and 25<sup>th</sup> of October 2022.



Ebson Uanguta  
**DEPUTY GOVERNOR**