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FOR IMMEDIATE RELEASE

REPO RATE INCREASED FROM 3.75 TO 4.0 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to increase the Repo rate by 25 basis points to 4.0 percent. The MPC is of the view that the rate is 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.

RECENT ECONOMIC DEVELOPMENTS

Real GDP growth of the global economy improved in 2021. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) continued to trend upwards. Monetary policy stances of key central banks generally remained accommodative, although some central banks have started tightening rates.

1. The global GDP growth rate is estimated to have recovered to 5.9 percent in 2021 from a contraction of 3.1 percent in 2020. The growth in 2021 is ascribed to a low base effect, mainly on the back of continued adaptation of economic activity to the pandemic and related restrictions, vaccine rollout as well as ongoing policy support in many countries. Going forward, the International Monetary Fund (IMF) and World Bank project that the global growth rate will moderate in 2022 and 2023. In particular, the IMF has projected global growth to moderate to 4.4 percent in 2022 and further to 3.8 percent in 2023, mainly due to the expectations that the policy stimuli will fade as time progresses.
2. Real GDP in AEs is estimated to have increased by 5.0 percent in 2021 from a contraction of 4.5 percent in 2020. The improved growth in the AEs benefitted from sustained policy support and the easing of COVID-19 lockdown measures in 2021 compared to 2020.

Similarly, growth in the monitored EMDEs is estimated to have improved to 6.5 percent in 2021 from a contraction of 2.0 percent in 2020. Going forward, the IMF has projected the AE real GDP growth to moderate to 3.9 percent in 2022 and 2.6 percent in 2023. For the EMDEs, growth is projected to slow down to 4.8 percent and 4.7 percent in 2022 and 2023, respectively, mainly due to the withdrawal of policy support and moderation in external demand.

3. Key risks to the global economic outlook include geopolitical tensions, supply constraints, the future course of the pandemic and the degree of success in the deployment of COVID-19 vaccines, particularly in the EMDEs. The emergence of new COVID-19 variants contributes to uncertainties and pose risks to global recovery. The inflation pressures may possibly result in the tightening of financial conditions, and consequently lead to capital outflows from EMDEs. This may further cause exchange rate depreciations and resultant bouts of inflation in those countries.
4. Almost all monitored commodity prices increased since the last MPC meeting, mainly supported by strong demand from China. The increase in commodity prices was supported by easing concerns surrounding the impact of the Omicron variant as well as the decision by OPEC+ to adhere to their supply plan which provided some support to the oil price. On the contrary, the price of gold declined since the last MPC meeting, mainly attributed to a higher possibility that the US Federal Reserve could end its quantitative easing program sooner than initially expected. Furthermore, inflationary pressure and the prospects of interest rate increases as well as a stronger US dollar negatively affected the price of gold. The rally in the global equity market slackened since the last MPC meeting. This was mainly on the back of increased geopolitical tensions and concerns around frontloaded interest rate hikes in AEs.
5. Inflation in most of the key AEs and EMDEs increased further in December 2021, mainly due to the pandemic-induced supply constraints, mounting energy costs, labour shortages, increasing demand and a low base effect from 2020. On the contrary, the inflation rates for China decelerated in December 2021, on the back of fading low base effects. Most monitored central banks left their policy rates unchanged, except for the UK, Brazil, Russia, China and South Africa that increased their benchmark rates at their latest monetary policy meetings, citing increasing inflationary pressures. While the monetary policy stances of all monitored central banks remained generally accommodative, there has been increasing pronouncements on potential monetary policy tightening.

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Domestic economic activity recovered in 2021, regaining some of the ground lost in 2020. The rate of inflation increased while growth in Private Sector Credit Extension (PSCE) continued to slow. The stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

6. Overall domestic economic activity recovered in 2021 compared to 2020. The increase in economic activity was observed in major sectors such as mining, wholesale and retail trade, communication and tourism. On the contrary, activity in the construction, manufacturing and transport sectors as well as the number of cattle marketed slowed over the same period. Going forward, the domestic economy is expected to grow around 3 percent in 2022. Risks to the domestic economic outlook in the medium term remain sudden surges in COVID-19 cases and vaccine hesitancy.
7. Annual average inflation increased to 3.6 percent in 2021, compared to 2.2 percent in the previous year. The increase in inflation was mainly driven by higher prices for the food, transport and housing categories. This was on account of supply constraints for certain food categories, a rise in international oil prices and an increase in dwelling rent, respectively. On a monthly basis, overall inflation increased to 4.6 percent in January 2022 from 4.5 percent in December 2021 and 4.1 percent in November 2021. Namibia's overall inflation is projected to average around 4.4 percent for 2022 and 4.5 percent in 2023, up from 3.6 percent registered in 2021. Although overall inflation remains within a reasonable range, its food and transport components are expected to increase in the near future and may continue to have a disproportionate effect on the low-income segment of the society, and therefore require close monitoring.
8. Growth in PSCE declined to an average of 2.4 percent in 2021, lower than the 3.5 percent registered in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households, as a result of slow domestic economic activity during the review period. Since the last MPC meeting, year-on-year growth in PSCE slowed to 1.2 percent in December 2021, from 2.9 percent registered in October 2021.
9. As at the 31st of January 2022, the preliminary stock of international reserves stood at N\$42.9 billion compared to N\$43.9 billion at the end of December 2021. The decline in international reserves was partly due to foreign payments by Government, commercial bank outflows and the appreciation of the Namibia Dollar during the period. At this level, international reserves are estimated to cover 5.8 months of imports and hence remain

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adequate to protect the peg of the Namibia Dollar to the South African Rand as well as meet the country's international financial obligations.

Monetary Policy Stance

10. On the 14th and 15th of February 2022, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to increase the Repo rate by 25 basis points to 4.0 percent. This decision was taken following a review of the global, regional and domestic economic as well as financial developments. The MPC is of the view that the increase in Repo rate by 25 basis points to 4.0 percent is appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. Moreover, this monetary policy stance is also a step towards normalising the current negative real interest rate environment and establishing a positive real interest rate that is conducive to long-term economic growth. The MPC would like to reiterate that addressing vaccine hesitancy remains key to the extent, speed, and sustainability of the economic recovery.

The next meeting of the MPC will be held on the 11th and 12th of April 2022.



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