

Date: 13 April 2022

Attention: News Editor

Ref: 9/6/2

REPO RATE INCREASES FROM 4.0 TO 4.25 PERCENT

On the 11th and 12th of April 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 4.25 percent. The MPC cited that this decision 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. The decision was taken following a review of the global, regional and domestic economic as well as financial developments, mindful of the need to counter the build-up of inflationary pressures in the economy.

RECENT ECONOMIC DEVELOPMENTS

Namibia's real GDP rebounded in 2021, from a contraction recorded in 2020. Domestic inflationary pressures are building up while growth in Private Sector Credit Extension (PSCE) edged higher. The stock of international reserves declined slightly but remained sufficient to support the currency peg and meet the country's international financial obligations.

1. Real GDP rebounded to 2.4 percent in 2021 compared to a contraction of 7.9 percent in 2020. The increase in output was mainly attributed to a recovery in the production of diamonds and uranium, wholesale and retail trade, hotels and restaurants and transport sectors coupled with the significantly positive growth registered in other mining and quarrying. More recently, economic activity increased during the first two months of 2022, mainly observed in major sectors such as mining, agriculture, transport, tourism, wholesale and retail trade as well as communication. On the contrary, activity in the construction, manufacturing and electricity generation sectors declined during the same period. Going forward, the domestic economy is expected to grow by around 3.0 percent in 2022. Risks to the domestic economic outlook in the medium term continue to be

dominated by geopolitical tension between Russia and Ukraine, climatic swings, global supply chain disruptions, higher oil and food prices, and the possible emergence of new COVID-19 variants, coupled with vaccine hesitancy, especially domestically.

2. Domestic inflationary pressures are building up. Inflation averaged 4.5 percent during the first two months of 2022, compared to 2.7 percent in the corresponding period of 2021. The rise in inflation was mainly driven by an increase in transport inflation, on account of a rise in international oil prices. On a monthly basis, however, overall inflation declined marginally to 4.5 percent in February 2022 from 4.6 percent in January 2022. The monthly decline was attributed to lower inflation for transport and food, while housing inflation remained unchanged. From 3.6 percent registered in 2021, Namibia's overall inflation is now projected to average around 6.0 percent for 2022, from the 4.4 percent projected at the last MPC meeting. Although overall inflation remains within a reasonable range, its food and transport components are expected to remain elevated and continue to have a disproportionate effect on the low-income segment of the society, and therefore requires close monitoring.
3. Although still subdued, growth in PSCE increased slightly to 2.8 percent during the first two months of 2022, higher than the 2.0 percent registered during the same period in 2021. The marginal rise in PSCE growth was due to increased credit demand by both businesses and individuals. Since the last MPC meeting, year-on-year growth in PSCE increased to 2.8 percent in February 2022 from 1.2 percent recorded in December 2021, mainly supported by increased demand by businesses, especially corporates in the fishing and financial services sectors.
4. As at the 31st of March 2022, the stock of international reserves stood at N\$40.8 billion compared to N\$43.0 billion at the end of February 2022. The decline in international reserves was partly due to an increase in international oil prices which contributed to a rise in Namibia's import bill during the period. At this level, international reserves are estimated to cover 5.5 months of imports and hence remain adequate to protect the peg of the Namibia Dollar to the South African Rand and meet the country's international financial obligations.

Real GDP growth of the global economy recovered in the last quarter of 2021. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and



Developing Economies (EMDEs) continued to increase. Although some central banks have started tightening rates, monetary policy stances generally remained accommodative.

5. Following a solid rebound in 2021 to 5.9 percent on the back of softening of pandemic related restrictions, growth in the global economy is now expected to moderate to 4.4 percent in 2022. For AEs and EMDEs, real growth is projected to ease to 3.9 percent and 4.8 percent in 2022 from 5.0 percent and 6.5 percent in 2021, respectively. The projected slowdown in growth is principally on account of waning base effects, the effects of the Ukraine-Russia conflicts, as well as tightening monetary and fiscal stances.
6. Key risks to the global economic outlook include geopolitical tensions, military conflict, supply constraints, rising debt and the potential impact of wages on inflation and policy paths. The future course of the pandemic, the emergence of new COVID-19 variants and the COVID-19 vaccine hesitancy continue to contribute to uncertainty and pose risks to the global economic recovery. The inflation pressures resulting from increasing energy and food prices may 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.
7. Since the last MPC meeting in February 2022, commodity prices continued to increase. All monitored commodity prices including those of Brent crude oil, uranium, zinc, copper and gold increased in March 2022. The increase in commodity prices was mainly as a result of significant supply disruptions following international sanctions that inhibited the Russian supply of oil, gas and base metals. The performance of the global equity market varied, while bond yields generally increased since the last MPC meeting.
8. Since the last MPC meeting, inflation in most of the monitored AEs and EMDEs continued to increase, mainly due to rising energy and food costs, labour shortages and increasing demand. Inflation in South Africa remained steady during February, from the previous month, with the upward pressure coming from food and fuel prices, while other categories moderated. This level of inflation remains above the midpoint of the South African Reserve Bank's target range of between 3 percent and 6 percent. To mitigate and contain inflationary pressure within manageable levels, most monitored central banks in the AEs and EMDEs increased their policy rates at their latest monetary policy meetings, except for the Euro area, Japan, China and India that left their benchmark rates unchanged.



Although most monitored central banks tightened their monetary policy stances, overall monetary policy stances remained generally accommodative.

Monetary Policy Stance

9. Against this background, the MPC decided to increase the Repo rate by 25 basis points to 4.25 percent. 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 decision 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.
10. The next meeting of the MPC will be held on the 13th and 14th of June 2022.



Johannes !Gawaxab
GOVERNOR