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REPO RATE MAINTAINED AT 7.75 PERCENT

On the 4th and 5th of December 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 safeguarding the peg between the Namibia Dollar and the South African Rand while supporting the domestic economy, the MPC decided to keep the Repo rate unchanged at 7.75 percent. This decision was taken following a comprehensive review of domestic, regional and global economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity expanded further during the first ten months of 2023. Inflation edged up, while Private Sector Credit Extension (PSCE) growth remained weak. The merchandise trade deficit continued to improve, and the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.


1. Domestic economic activity expanded further during the first ten months of 2023, although at a slower pace compared to the same period in 2022. The improvement was observed across most sectors, particularly *mining, electricity generation, livestock agriculture, wholesale and retail trade, tourism, communication and transport*. Activity in the construction sector, however, remained weak. For the year 2023, GDP growth is estimated to decline to 3.9 percent from 7.6 percent in 2022, largely on account of slower growth in the primary industry, following the high base set in this industry during 2022. Likewise, growth is expected to slow further to 3.4 percent in 2024.
2. Risks to the domestic economic outlook remained broadly unchanged since the previous MPC meeting, mainly driven by external factors. Such external factors are the weakening global economic growth, tighter global monetary policy, geopolitical tensions,



geo-economic fragmentation and the fallout of load-shedding in South Africa. Internal risks include the current drought, uncertain rainfall conditions and water supply interruptions, particularly at the coastal towns.

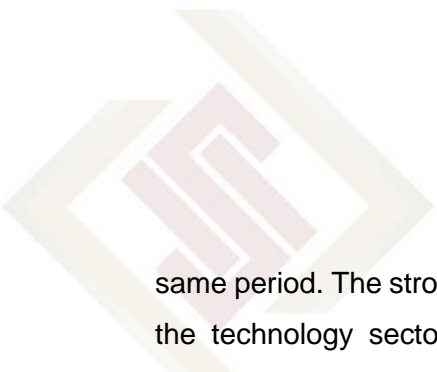
3. Namibia's annual inflation rate averaged 6.0 percent during the first ten months of 2023, slightly up from 5.9 percent during the corresponding period in 2022. The increase in consumer price inflation was primarily shaped by the rise in the *food, housing and miscellaneous goods and services* components. Average inflation is, however, expected to steadily decline to 5.9 percent in 2023 and 4.8 percent in 2024, from 6.1 percent recorded in 2022. This forecast remains unchanged relative to the projection at the previous MPC meeting¹.
4. The annual growth in PSCE slowed further to 1.8 percent in October 2023, from 2.8 percent in August 2023. The slowdown in PSCE growth was attributed to lower demand in the *other loans, advances and overdrafts* category as well as net repayments in the *mortgages* category. Similarly, PSCE growth remained subdued over the first ten months of 2023, averaging 2.5 percent relative to 3.5 percent recorded over the same period in 2022.
5. Namibia's merchandise trade deficit narrowed marginally by 1.0 percent to N\$31.7 billion during the first ten months of 2023 compared to the same period in 2022, as export earnings continued to grow faster than import payments. The rise in export earnings was reflected in increased export volumes of *gold, uranium, diamonds and fish*, augmented by the depreciation of the Namibia Dollar against major trading currencies.
6. As at 30th November 2023, the stock of international reserves stood lower at N\$49.0 billion, compared to N\$51.4 billion recorded at the end of October 2023, predominantly on account of higher net commercial bank outflows. At this level, the stock of international reserves is estimated to cover 5.1 months of imports, thereby remaining sufficient to support the currency peg between the Namibia Dollar and the South African Rand while meeting the country's international financial obligations.

¹ Details of the inflation forecast are contained in a separate document on the Bank of Namibia website.



Global economic activity was weaker compared to the previous MPC meeting, while global growth prospects remained unchanged. Inflation slowed in both the Advanced Economies (AEs) and the Emerging Market and Developing Economies (EMDEs). Monetary policy stances across the globe generally remained restrictive.

7. Global economic activity slowed during the third quarter of 2023, relative to the previous quarter. The slowdown in economic activity was primarily due to slower growth in the Chinese economy, mainly on account of the housing market crisis and weaker trade. Weaker growth outcomes in Japan, the Euro Area and the United Kingdom also contributed to the slower growth in the third quarter of 2023, offsetting the pickup in growth of the US economy.
8. The global growth prospects for 2023 and 2024 remain modest, falling slightly below the long-term average growth rate of 3.6 percent. In particular, the International Monetary Fund projects global economic growth to gradually moderate from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024, unchanged from the previous MPC meeting. The projected slower global growth is expected to be mainly driven by AEs where growth is projected to slow significantly to 1.5 percent and 1.4 percent in 2023 and 2024, respectively, from 2.6 percent in 2022. Growth in the EMDEs is expected to decline relatively modestly from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024.
9. Since the last MPC meeting, prices of key commodities diverged. Average prices of zinc and Brent crude oil declined, largely on account of weaker demand from China and the deteriorating global economic environment, respectively. Diamond prices continued to decline since the last MPC meeting due to the persistent lacklustre global consumer demand, amid the rising supply of lab-grown diamonds, while the food prices also fell, mainly as a result of the oversupply of some food products. However, the price of gold has risen most recently due to safe-haven considerations and expectations that US interest rates have peaked. The uranium spot price continued to increase since the last MPC meeting, supported by higher demand for cleaner, safe and secure energy as well as supply interruptions.
10. Global equity and bond markets rebounded strongly since the end of October 2023. The S&P 500 and NASDAQ rose by 8.9 percent and 10.3 percent, respectively, during the month of November 2023. The JSE All Share Index rose by around 8.7 percent over the



same period. The strong rebound in equity markets was driven by seasonality effects and the technology sector. Bond yields declined from their multi-year highs recorded in October, with the U.S. 10-year yield receding from over 5.0 percent to 4.2 percent, currently. Both equity and bond markets were buoyed by expectations that interest rates have peaked and a higher probability of a soft landing in the US economy in 2024.

11. Since the last MPC meeting, inflationary pressures eased in most of the monitored economies. Among the AEs, inflation subsided in the US and the United Kingdom and remained unchanged in the Euro Area. Likewise, inflation eased in most key EMDEs, except in Russia and South Africa where it edged up. Going forward, global inflation is forecast to decline from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024.
12. Most monitored central banks kept their policy rates unchanged at their most recent monetary policy meetings, in part due to easing inflation and weakening growth. The exceptions were the Bank of Russia and the Central Bank of Brazil which raised and cut rates, respectively, since the last MPC meeting. Generally, global policy rates remained restrictive amid signs of having peaked.

MONETARY POLICY STANCE

13. Against this background, the MPC decided to keep the Repo rate unchanged at 7.75 percent. As such, the prime lending rate remains steady at 11.50 percent. The MPC noted the most recent short-term acceleration in inflation. However, with real interest rates already positive, continued signs of slack in the economy, slow credit growth, a projected slowdown in inflation in 2024 and a fair level of international reserves, the MPC decided to maintain the Repo rate at its current level. This policy stance will continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand and support domestic economic activity.

14. The next meeting of the MPC will be held on 12 and 13 February 2024.



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