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FOR IMMEDIATE RELEASE

REPO RATE MAINTAINED AT 3.75 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to keep the Repo rate unchanged at 3.75 percent. The MPC is of the view that the rate remains appropriate to support domestic economic activity that is still being weighed down by the COVID-19 pandemic. At this level, the Repo rate is deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand.

RECENT ECONOMIC DEVELOPMENTS

The global economy recovered in the second quarter of 2021. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) accelerated. Monetary policy stances of key central banks remained generally accommodative.

1. Global economic activity continued to improve in the second quarter of 2021, mainly led by growth in the United States (US) and China. The improvement in global economic activity was driven by the successful COVID-19 vaccine rollouts and fiscal stimulus measures employed by the AEs. Going forward, the International Monetary Fund (IMF) has projected the global economy to grow by 6.0 percent in 2021, unchanged from the April 2021 World Economic Outlook (WEO). The economic growth outlook for 2022, however, was revised upwards by 0.5 percentage point to 4.9 percent. The projected growth in both 2021 and 2022 is attributed to the low base set in 2020, the potential positive effect of the successful rollout of COVID-19 vaccines on

economic activity, as well as the anticipated additional fiscal support in the US, with its associated positive spillover to the global economy.

2. Economic activity in AEs increased year-on-year during the second quarter of 2021. The improved economic performance was mainly driven by growth expansions in the US and Euro area, supported by the rapid pace of COVID-19 vaccination rollouts and continued government response towards the pandemic. In the EMDEs, the economy of China recorded an annual growth rate of 7.9 percent in the second quarter of 2021. The growth in China was sustained by a steady recovery in production, demand and improved market expectations. Going forward, the IMF revised the GDP growth for AEs by 0.5 percentage point to 5.6 percent in 2021 and by 0.8 percentage point to 4.4 percent in 2022. For the EMDEs, the IMF revised the 2021 growth downward by 0.4 percentage point to 6.3 percent mainly due to slow vaccine rollouts, while a 5.2 percent growth is projected for 2022, which translates into an upward revision of 0.2 percentage point from the April 2021 WEO.
3. Key risks to the global economic outlook include setbacks in access to and deployment of COVID-19 vaccines, especially for EMDEs as vaccine-resistant strains may develop during an extended duration of the pandemic caused by delays in vaccine distribution. Moreover, escalating geopolitical tensions also pose potential headwinds for global economic activity.
4. All monitored commodity prices increased since the last MPC meeting, mainly due to higher demand in industrial sectors supported by a rebound in economic activity. Similarly, the performance of the stock markets generally continued to improve, mainly on the back of robust corporate profits and global stimulus support. Share prices benefitted from the improved economic outlook, the rollout of COVID-19 vaccines, as well as the continuation of a low interest rate environment globally.
5. Inflation in most of the key AEs and EMDEs increased in June 2021, due to higher energy and other commodity prices, supply bottlenecks as well as a recovery in economic activity. Despite the surge, inflation remained reasonably contained in both the major AEs and EMDEs. Most monitored central banks left their policy rates unchanged, while continuing to implement supportive non-conventional monetary policy measures. The central banks of Russia and Brazil, however, raised their policy

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rates in July and August 2021, respectively, citing inflationary pressure. Nonetheless, the monetary policy of all monitored central banks remained relatively accommodative.

Domestic economic activity remained subdued in the first half of 2021. The rate of inflation has been regrettably on an increasing trend, while growth in Private Sector Credit Extension (PSCE) declined. The stock of international reserves remained sufficient to support the currency peg.

6. Domestic economic activity remained subdued during the first half of 2021, mainly reflected in a slowdown in the tourism, mining, agriculture, manufacturing, construction, as well as the transport and storage sectors. Since the last MPC meeting in June 2021, activity in the wholesale and retail trade sector increased, while activity in the local electricity generation subsector declined. Going forward, the domestic economy is expected to grow by 1.4 percent in 2021. Risks to the domestic economic outlook remain and include: surges in COVID-19 cases with concomitant disruptions to economic activity as a result of COVID-19 restrictions.
7. Annual average inflation increased to 3.5 percent during the first seven months of 2021, compared to 2.1 percent for the corresponding period in the previous year. The increase in inflation was mainly driven by the food and transport categories. This was on account of supply constraints particularly for meat and a rise in international oil prices, respectively. On a monthly basis, overall inflation moderated to 4.0 percent in July 2021 from 4.1 percent in June. Overall inflation is projected to average around 3.9 percent for 2021, slightly higher than the previous forecast of 3.6 percent.
8. Growth in PSCE slowed to an average of 2.4 percent for the first six months of 2021, lower than the average of 4.7 percent recorded during the same period 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 declined to 2.7 percent at the end of June 2021 from 3.1 percent at the end of April 2021, due to base effects as well as the sluggish economy.
9. As at 31st of July 2021, the stock of international reserves stood at N\$42.7 billion compared to N\$39.0 billion reported in the previous MPC statement. The increase in

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reserves was mainly attributed to the quarterly SACU revenue received early July 2021. The international reserves at the above level were estimated to cover 6.4 months of imports. At this level, Namibia's international reserves remain sufficient to protect the peg of the Namibia Dollar to the South African Rand, while meeting the country's international financial obligations.

Monetary Policy Stance

10. On the 16th and 17th of August 2021, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to keep the Repo rate unchanged at 3.75 percent. This decision was taken following a review of global, regional and domestic economic and financial developments. It was noted that higher inflation is increasingly posing a risk to the sustainability of the current level of the Repo rate, a situation which is closely monitored by the MPC. In the meantime, the MPC is of the view that at 3.75 percent, the Repo rate remains appropriate to continue supporting the weak domestic economy, while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand. Moreover, the successful procurement, expeditious rollout as well as large-scale uptake of COVID-19 vaccines remain key to the extent and speed of the economic recovery. The next meeting of the MPC will be held on the 18th and 19th of October 2021.

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