Monetary Policy Statement

Bank of Namibia

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REPO RATE INCREASES FROM 5.50 TO 6.25 PERCENT

On the 24th and 25th of October 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 anchoring inflation expectations, safeguarding the peg arrangement while meeting the country's international financial obligations, the MPC decided to increase the Repo rate by 75 basis points to 6.25 percent. This decision was taken following a comprehensive review of global, regional and domestic economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity improved during the first nine months of 2022. Inflationary pressures remain elevated. Growth in Private Sector Credit Extension (PSCE) improved but remains subdued. The stock of international reserves remains sufficient to support the currency peg and meet the country's international financial obligations.

1. Building on the strong GDP growth figures observed in the first two quarters of 2022, recent economic data indicates that the domestic economy continued to recover in the third quarter. The growth was mainly reflected in sectors such as mining, agriculture (particularly activities related to livestock marketing), wholesale and retail trade, communication as well as tourism. On the contrary, the construction sector continued to weaken as reflected in decreased activity from both Government and the private sector. Going forward, the domestic economy is expected to grow by 3.2 percent in 2022, from a growth rate of 2.7 percent recorded in 2021. The projected growth in 2022 will be driven mainly by diamond and gold mining coupled with better recovery prospects across most sectors.

2. Risks to the domestic economic outlook in the medium term continue to be dominated by the ongoing Russia-Ukraine conflict, global supply chain disruptions, and high prices of oil and food. This may cause inflation to persist for longer and prompt further interest rates tightening beyond what is currently expected. Other risks include rising probability of a global economic recession, climatic swings, the possible emergence of new COVID-19 variants, animal disease outbreaks within the region, other infectious diseases as well as geopolitical tensions.

3. Namibia's annual average inflation rate increased to 5.8 percent during the first nine months of 2022, compared to 3.5 percent in the corresponding period of 2021. The continued rise in inflation was predominantly driven by higher transport inflation, on the account of international oil prices that remained elevated. Overall inflation declined slightly to 7.1 percent during September 2022 from 7.3 percent registered in August 2022. The monthly decline was mainly attributed to a deceleration in transport inflation, owing mainly to a slowdown in the international oil price during September 2022. Namibia's overall inflation for 2022 is now projected to average around 6.1 percent, up from 5.8 percent initially projected during the previous MPC meeting. The upward revision is mainly due to expected higher food inflation and a weaker exchange rate.

4. Since the last MPC meeting, year-on-year growth in PSCE improved to 4.6 percent in August 2022, from 3.4 percent recorded in June 2022. Despite this improvement, growth in PSCE generally remains subdued. The increase in PSCE was mainly driven by businesses in the form of short-term credit facilities as well as instalment and leasing credit by corporates in the mining and services sectors. For the first eight months of 2022, growth in PSCE increased to 3.5 percent, higher than the 2.5 percent registered during the same period in 2021.

5. As at the 30th of September 2022, the stock of international reserves declined slightly to N$48.0 billion from N$49.2 billion at the end of July 2022. The decline was mainly due to portfolio investment outflows and the repayments of foreign loans. Notwithstanding the decline, the international reserves, estimated at 5.6 months of imports, remain sufficient to cover Namibia's international financial obligations.

Global real GDP growth moderated in the second quarter of 2022 with available indicators for the third quarter suggesting significant further weakness. Inflation in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) remains elevated although in some instances easing somewhat most recently. Most central banks increased their policy rates.

6. Economic activity in the monitored economies moderated during the second quarter of 2022 with available indicators for the third quarter suggesting further weakness. The weaker growth prospects are on the back of Russia-Ukraine conflict-induced inflation, which remained elevated, tighter financial conditions and supply bottlenecks. With the exception of Japan, real growth in most monitored AEs, including the United States (US), Euro area and the United Kingdom (UK) slowed in the second quarter of 2022. The decline was attributed to the weaker consumer spending amid rising inflation and interest rates hikes. Among the EMDEs, real GDP slowed in China, Russia and South Africa, while Brazil and India performed well during the second quarter of 2022.

7. From a strong rebound recorded in 2021, the global economy is projected to slow down in 2022, partly due to the impact of the Russia-Ukraine conflict. The International Monetary Fund (IMF), in its October 2022 World Economic Outlook (WEO), has projected global real growth to moderate to 3.2 percent in 2022 from 6.0 percent in 2021. Similarly, the AEs are expected to slow down to 2.4 percent growth in 2022 from 5.2 percent in 2021, whereas growth in the EMDEs is projected to moderate to 3.7 percent in 2022 from 6.6 percent in 2021.

8. The projected slower global growth for 2022 is subject to considerable uncertainty, due to various downside risks. These include ongoing geopolitical tensions, tighter financial conditions, weaker household purchasing power and limited fiscal space, particularly in EMDEs. Similarly, a deceleration in China's economic activity due to extended lockdowns coupled with protracted financial stress among property developers would have a further weakening effect on global economic activity.

9. While most monitored commodity prices remained high, they have eased since the last MPC meeting. This is reflected in the prices of Brent crude oil, uranium, zinc, copper, food as well as diamonds, which declined on a monthly basis in September. On a yearly basis, however, the prices of Brent crude oil, food, uranium and zinc increased in September 2022. In addition, volatility in the global equity markets continued, mainly due to

geopolitical tensions, elevated levels of inflation and an accompanying tighter financial environment, which resulted in markets expecting weaker growth prospects. Consequently, most of the monitored stock market indices declined over the past two months, on concerns about rising interest rates, the strong US dollar and the prospects of a global slowdown.

10. Since the last MPC meeting, inflation pressures in most of the monitored economies have remained elevated. In the AEs, inflation has remained elevated in the US and continued trending upward in the UK, Euro Area and Japan. Inflation rates, however, moderated in most key monitored EMDEs, except for India and China where they increased in September 2022. Although inflation in South Africa moderated, it remained significantly above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent.

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 Japan, China and Brazil that maintained their policy rates, while Russia reduced its policy rate.

Monetary Policy Stance

12. Against this background the MPC decided to increase the Repo rate by 75 basis points to 6.25 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, this monetary policy stance is necessary to narrow the current negative real policy interest rate and is consistent with that taken around the globe and in the region, with policymakers acting with resolve to slow and eventually reverse the current acceleration in inflation.

13. The Bank will continue to monitor these developments and their potential effects on the domestic economy and will act appropriately, in line with its mandate to ensure price stability in the interest of sustainable economic growth and development of the country.

14. The next meeting of the MPC will be held on the 28th and 29th of November 2022.

Johannes !Gawaxab
GOVERNOR