

MEDIA STATEMENT



Bank of Namibia

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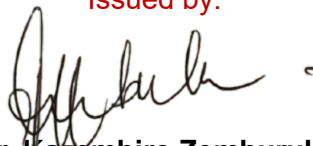
FOR IMMEDIATE RELEASE

BANK OF NAMIBIA WELCOMES CHANGE IN THE INFLATION TARGET OF SOUTH AFRICA

1. The Bank of Namibia has welcomed South Africa's recent adjustment to its inflation target, announced on 12 November 2025, reducing it from the previous 3-6 percent to 3.0 percent with a 1 percent tolerance band. This change will consequently affect Namibia as a member of the Common Monetary Area (CMA). The lower inflation target set by South Africa is expected to, among other things, lead to lower inflation and a reduction in interest rates in South Africa over the medium to long term.
2. An analysis carried out by the Bank of Namibia has found that a lower inflation target of 3 percent in South Africa will result in low and stable long-term inflation in Namibia, which is ultimately good for the objective of price stability. Moreover, the eventual decline in inflation is expected to lead to a reduction in interest rates in the medium term. Mindful of the envisaged benefits of the lower inflation target, the Bank of Namibia welcomes the new target, as this could enhance welfare and macroeconomic stability for Namibia.
3. Namibia, along with South Africa, Eswatini, and Lesotho, is a member of the CMA, where the currencies of smaller members are all pegged 1-to-1 to the South African Rand. Simultaneously, the Rand is legal tender in Namibia alongside the Namibia Dollar. The CMA agreement further mandates Namibia to ensure that every Namibian dollar in circulation is fully backed by international reserves. In this context, CMA members should align monetary variables, such as interest rates, with those of South Africa to prevent significant capital outflows in search of higher returns in South Africa, given the free movement of capital within the area. Consequently, the smaller CMA countries, including Namibia, are required to align their monetary policies with the anchor economy.

4. Despite this constraint, periodic reviews conducted by the Bank of Namibia indicate that the benefits of Namibia's membership in the CMA continue to outweigh the costs. These benefits include: (1) Price stability as evidenced by low and stable inflation rates prevailing in the country, (2) Elimination of transaction costs and exchange rate risks in intra-CMA trade, (3) Access to deeper financial markets, either in South Africa or through South Africa to other larger markets, and finally (4) the loss of seignorage, which is the revenue foregone due to the co-circulation of the Rand in the Namibian economy, is offset by a compensation arrangement.
5. While the lowered inflation target holds immense benefits for Namibia, the Bank of Namibia has noted that the relatively high proportion of administered prices in Namibia's inflation basket may limit the country from fully reaping the benefits of the envisaged lower inflation target set by South Africa. Accordingly, the Bank of Namibia will continue to engage with relevant stakeholders involved in price and wage-setting to consider the implications of wages and administered prices on inflation, in order to ensure that Namibia's price and monetary stability is promoted effectively.
6. The Governor of the Bank of Namibia, Dr Johannes !Gawaxab said: "By committing to tighter price stability, the new target will help entrench disinflationary discipline across the economy, reduce long-term borrowing costs, and strengthen investor confidence over the medium to long term. Over time, a firmly anchored inflation environment narrows the gap between nominal and real interest rates, creating space for sustainable lower inflation outcomes. This, in turn, supports household purchasing power, eases financing conditions for firms, and reinforces the foundation for stronger, more durable economic growth."

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