Media Release

Bank of Namibia

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FOR IMMEDIATE RELEASE

EFFECT OF EXCHANGE RATE CHANGES ON DOMESTIC INFLATION LOW -

BANK OF NAMIBIA RESEARCH PAPER

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1. **The Bank of Namibia's paper examining how changes in the exchange rate affects inflation in Namibia concluded that exchange rate pass through to inflation is low in Namibia.** The paper was presented at the seminar held at the Bank of Namibia on 28 June 2016, attended by senior government officials, members of the business fraternity, economists, members of the academic community and the media, moderated by Ms Florette Nakusera, Director of Research at the Bank of Namibia. This paper was jointly authored by Dr. Postrick Mushendami, Deputy Director at the Research Department and Mr. Heinrich Namakalu, economist at the same department. The results of the research paper were presented by Dr. Postrick Mushendami.

2. **The exchange rate pass-through (ERPT) is defined as the effect of a 1 percent change in the exchange rate on domestic inflation.** In his welcoming remarks, the Director of Strategic Communications and Financial Sector Development, Ndangi Katoma said that*, "the event was intended to encourage debate and inform policy makers regarding the factors that impact inflation in Namibia. He noted that exchange rate pass through is an important consideration with respect to monetary policy formulation in any given economy and most especially for Namibia, given our specific situation".*

3. **In his presentation, Dr. Postrick Mushendami elaborated that currency depreciation can have both direct and indirect effects on the economy.** The direct effects works through the following channel: Firstly, prices of finished

imported goods become expensive due to the reduced purchasing power of the currency. Secondly, the prices of imported raw materials used in the production process may also become expensive. This therefore, stresses the importance of ERPT in monetary policy formulation.

4. **The paper concluded that the exchange rate pass-through to inflation in Namibia is very low and incomplete.** These results can be ascribed to the pricing to market strategy of Namibian importers. Moreover, the paper found that imported inflation, South African food inflation and oil prices tend to have significant effects on the inflation in Namibia than the exchange rate. The results further suggest that to forecast consumer inflation in Namibia, a significant weight should thus be placed on imported inflation, South African food inflation, oil prices and exchange rate. By reducing domestic demand, monetary policy can reduce both imported and overall inflation in Namibia. The paper was authored in 2015 based on data emanating from 2000 to 2014. The link to the paper will be placed on the Bank of Namibia website, once the paper is published.

Issued by:

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