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REPO RATE INCREASES FROM 4.25 TO 4.75 PERCENT

On the 13th and 14th of June 2022, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting to decide the appropriate monetary policy stance given the current economic environment. After deliberations, the MPC decided to increase the Repo rate by 50 basis points to 4.75 percent. The decision considered the elevated global and domestic inflationary pressures, the fragile economic recovery, and the need to safeguard the one-to-one link between the Namibia Dollar and the South African Rand, while meeting the country's international financial obligations. The MPC decision was taken following a review of global, regional and domestic economic developments.

RECENT ECONOMIC DEVELOPMENTS

While Namibia's domestic economic activity improved, and growth in Private Sector Credit Extension (PSCE) increased marginally, inflationary pressures remained elevated. The stock of international reserves increased and remained sufficient to support the currency peg and meet the country's international financial obligations.

1. Since the last MPC meeting, domestic economic activity rebounded in the first four months of 2022 compared to 2021. The recovery was mainly driven by increased activity in the mining, agriculture, transport, tourism, wholesale and retail trade, as well as communication sectors. On the contrary, the positive performance was offset by a continued decline in construction activity over the same period, as both public and private construction works slackened further. Going forward, the domestic economy is expected to grow by around 3 percent in 2022. Risks to the domestic economic outlook in the medium term continue to be dominated by the Russia Ukraine war, climatic

swings, global supply chain disruptions, higher oil and food prices, and the possible emergence of new COVID-19 variants, coupled with national vaccine hesitancy.

2. Domestic inflation accelerated to 4.9 percent during the first five months of 2022, compared to 3.2 percent in the corresponding period of 2021. Inflation was mainly driven by an increase in the inflation for transport, housing, and food. This was especially on account of a rise in international oil and food prices. On a monthly basis, inflation moderated to 5.4 percent in May 2022 from 5.6 percent registered during the previous month, mainly attributed to a decline in transport and housing inflation. Namibia's overall inflation is projected to average around 5.9 percent for 2022, from the 6.0 percent projected at the last MPC meeting. Although overall inflation remains within a reasonable range, inflation risk to the domestic outlook persists and mainly lingers around supply disruptions which may continue to put pressure on food and oil prices. Going forward, inflation for food and transport is expected to remain elevated and may continue to have a disproportionate effect on the low-income segment in Namibia, and therefore requires continued close monitoring.
3. Growth in PSCE increased to 2.9 percent during the first four months of 2022, higher than the 2.3 percent registered during the same period in 2021. The marginal rise in PSCE growth was due to increased credit demand by both businesses and individuals. Since the last MPC meeting, year-on-year growth in PSCE increased to 3.8 percent in April 2022 from 2.8 percent recorded in February 2022, mainly supported by higher uptake of credit by businesses. Although there is an improvement in the PSCE, the growth rate remains historically low, indicative of very subdued conditions in the credit market.
4. As at the 31st of May 2022, the stock of international reserves stood at N\$43.9 billion compared to N\$40.8 billion at the end of March 2022 reported at the last MPC meeting. The increase in international reserves was partly due to currency depreciation and SACU receipts. At this level, international reserves are estimated to cover 5.4 months of imports, and hence remain adequate to meet the country's international financial obligations.



Growth in the global economy moderated in the first quarter of 2022. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) continued to increase. Most key monitored central banks have tightened their policy rates to contain increasing inflationary pressures.

5. Growth in the global economy slowed during the first quarter of 2022, year-on-year, primarily on the back of the Russia-Ukraine war that worsened supply constraints and pushed up global inflation rates. In the AEs, the US and Japanese economies grew at a slower pace while GDP growth in the Euro area and United Kingdom increased. Among the EMDEs, real GDP slowed in Russia and India while it increased somewhat in China, Brazil, and South Africa.
6. Going forward, institutions such as the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), and the World Bank project global economic growth to slow down in 2022 compared to 2021. In particular, the IMF has projected the global real GDP growth to moderate to 3.6 percent in 2022 from 6.1 percent in 2021 and to grow at the same pace in 2023. The AEs are projected to slow down to 3.3 percent in 2022 from 5.2 percent in 2021, whereas the EMDE's are projected to moderate to 3.8 percent in 2022 from 6.8 percent in 2021. The downward revision in the global outlook for 2022 is mainly attributed to the rising energy and food prices, supply disruptions and potential Covid-19 variant spreads.
7. Key risks to the global economic outlook include the prolonged Ukraine-Russia war, which may elevate social tension due to higher costs of food and energy. Deterioration in supply shortages and commodity price volatility could be a threat to inflation expectations which would result in central banks further tightening rates. In addition, the future course of the pandemic, the emergence of new COVID-19 variants and restrictions contribute to uncertainty and pose risks to the global economic recovery.
8. Since the last MPC meeting in April 2022, commodity prices continued to increase on an annual basis. In this regard, all monitored commodity prices including those of Brent crude oil, uranium and zinc, as well as the global food price index increased on a yearly basis in April 2022, except for copper and gold. The increases were mainly due to



significant supply disruptions following international sanctions that inhibited the Russian supply of oil, gas, and base metals. On a monthly basis, prices of copper, zinc, gold, uranium and food declined in May 2022 while that of Brent crude oil increased, mainly on the back of recent surges in COVID-19 cases and the reinstatement of strict lockdowns in China. Although the prices of food are high by historical standards, the recent monthly decline provided welcome relief, notably in low-income and high food importing countries.

9. The performance of the global equity markets varied, but generally closed off on a positive note in May 2022, following two months of volatility. Further sharp declines in equity markets were, however, recorded in mid-June 2022. On a yearly basis, many of the monitored share price indices declined, mainly due to high inflation and resultant tighter monetary policy imposed by key central banks and fears of a potential recession in the global economy. In addition, bond yields generally increased since the last MPC meeting.
10. Since the last MPC meeting, inflation pressure in most of the monitored economies continued to increase, mainly due to rising energy and food costs, labour shortages and supply constraints, except for Brazil and Russia where inflation moderated. Inflation in South Africa remained steady at 5.9 percent during April 2022, unchanged from the previous month, with the upward pressure coming from transport, housing and utilities, and food and non-alcoholic beverages. This level of inflation is close to the upper limit of the South African Reserve Bank's target range of between 3 percent and 6 percent, which has contributed to further policy tightening by their MPC.
11. Persistent high inflation pressure compelled most other key monitored central banks to also tighten policy rates at their latest monetary policy meetings. Exceptions were the central banks in Japan and China that left their benchmark rates unchanged, while Russia cut its policy rate.



Monetary Policy Stance

12. Against this background the MPC decided to increase the Repo rate unanimously by 50 basis points to 4.75 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 that is conducive to long-term economic growth. This policy direction is consistent with developments elsewhere in the world and in the region, with policymakers acting with resolve to prevent the current acceleration in inflation from becoming a perpetual inflation spiral.
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 the sustainable economic development of the country.
14. The next meeting of the MPC will be held on the 15th and 16th of August 2022.



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