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## REPO RATE MAINTAINED AT 3.75 PERCENT

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*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 continue supporting domestic economic activity, particularly in light of the alarming increase in COVID-19 infections and hospitalisation, while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand.*

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## RECENT ECONOMIC DEVELOPMENTS

The global economy observed a recovery in the first quarter of 2021 relative to the previous quarter. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) increased. Monetary policy stances of key monitored economies remained generally accommodative.

1. Global economic activity improved somewhat in the first quarter of 2021, compared to the previous quarter. The improvement was on the back of recoveries in most of the monitored AEs and EMDEs. The recovery was supported by additional fiscal stimuli as well as the successful global roll-out and deployment of COVID-19 vaccines, which boosted investor and consumer confidence to some extent. Going forward, the International Monetary Fund (IMF) has projected the global economy to grow by 6.0 percent in 2021 and 4.4 percent in 2022, reflecting the potential positive effect of the successful rollout of COVID-19 vaccines on economic activity around the globe.



2. AEs economic activity improved year-on-year during the first three months of 2021, mainly due to further easing of lockdown restrictions and policy support. Similarly, economic activity in most of the monitored EMDEs improved over the same period. The economy of China recorded an annual growth rate of 18.3 percent during the first quarter of 2021, the highest in 28 years. Going forward, the IMF projects the AEs to grow by 5.1 percent in 2021 and 3.6 percent in 2022, while expansions of 6.7 percent and 5.0 percent are projected for the EMDEs over the same two years. The positive prospects reflect favourable sentiment regarding the successful rollout of COVID-19 vaccines globally. These forecasts remain unchanged since the last MPC meeting.
3. Key risks to the global outlook include the degree of success in the roll out and deployment of COVID-19 vaccines, the duration of the pandemic as vaccine-resistant strains pose potential headwinds for economic activity, along with delays in vaccine production and distribution to developing countries, as well as geopolitical tensions.
4. All monitored commodity prices have increased since the last MPC meeting. The increase in commodity prices was on the back of higher demand in industrial sectors supported by a rebound in economic activity. Similarly, stock markets continued to improve since the last MPC meeting. The positive stock market performance was attributed to the improved economic outlook, the international rollout of COVID-19 vaccines, as well as the continued existence of a low interest rate environment globally.
5. Inflation in most of the monitored AEs and EMDEs increased in April 2021, due to upswings in energy and other commodity prices, but it declined slightly in Russia and India, while Japan continued to experience deflation. Despite the predominant upward trend, inflation remained well contained in both the monitored 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 rates in April and May 2021, respectively, citing inflationary pressure. Regardless, the monetary policy of all monitored central banks remained relatively accommodative.



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**Domestic economic activity remained weak in the first four months of 2021. The rate of inflation increased during the first five months of 2021, while growth in Private Sector Credit Extension (PSCE) remained subdued during the first four months of 2021. The stock of international reserves remained sufficient to support the currency peg.**

6. The domestic economy remained weak during the first four months of 2021. The slowdown in economic activity was mainly observed in the tourism, mining, agriculture, manufacturing, construction, as well as transport and storage sectors. On the contrary, activity in the wholesale and retail trade sector, as well as the telecommunications subsector recorded positive growth during the same period. Recent monthly indicators showed that the mining, as well as the transport and storage sectors gained some momentum. Going forward, the domestic economy is expected to grow by 2.7 percent in 2021. Since the last MPC meeting, uncertainties and risks have increased and are likely to impact the economy negatively going forward. Hence, the successful procurement and expeditious rollout of COVID-19 vaccines in Namibia remain key to the extent and speed of the economic recovery.
7. Annual average inflation increased to 3.2 percent during the first five months of 2021, compared to 2.1 percent for the corresponding period in the previous year. The increase in inflation was mainly driven by an increase in food and housing inflation during the period under review. This was on account of supply constraints particularly for meat, coupled with the influence of base effects in the rental payments for dwelling subcategory, respectively. Moreover, transport inflation recently accelerated, mainly driven by higher international oil prices when compared to the corresponding period in 2020. On a monthly basis, overall inflation moderated to 3.8 percent in May 2021, from 3.9 percent registered in April. Overall inflation is projected to average around 3.6 percent for 2021, slightly higher than the previous forecast of 3.2 percent.
8. Growth in PSCE averaged 2.3 percent for the first four months of 2021, lower than the average of 5.8 percent recorded during the same period in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households during the review period. Since the last MPC meeting, year-on-year growth in PSCE rose to 3.1 percent at the end of April 2021 from 2.1 percent at the end of February 2021, mainly due to base effects.



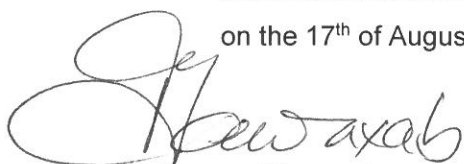
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9. As at 31<sup>st</sup> of May 2021, the stock of international reserves stood at N\$39.0 billion compared to N\$34.7 billion on the 31<sup>st</sup> of March 2021 as reported in the previous MPC statement. The increase in reserves was partly due to an inflow from the IMF in the form of a disbursement of IMF Rapid Financing Instrument (RFI) and SACU receipts. At the level of N\$39.0 billion, the international reserves were estimated to cover 6.0 months of imports. At this level, the 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 15<sup>th</sup> of June 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. 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. The next meeting of the MPC will be held on the 17<sup>th</sup> of August 2021.



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