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REPO RATE MAINTAINED AT 7.75 PERCENT

On the 14th and 15th of August 2023, 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 safeguarding the peg between the Namibia Dollar and the South African Rand and supporting the domestic economy, the MPC decided to keep the Repo rate unchanged at 7.75 percent. This decision was taken following a comprehensive review of global, regional and domestic economic developments.

RECENT ECONOMIC DEVELOPMENTS

Namibia's real GDP growth picked up during the first quarter of 2023 and remained robust year-to-date. Inflation pressures softened in July 2023, while Private Sector Credit Extension (PSCE) growth remained weak. The merchandise trade deficit narrowed, and the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

1. The recently released quarterly national accounts data indicate that the Namibian economy grew by 5.0 percent during the first quarter of 2023, higher than the 2.1 percent in the final quarter of 2022. The improved growth was widely spread across the various sectors of the economy. Similarly, year-to-date, the Namibian economy continued with its positive momentum as reflected in increased activity in the *mining, livestock marketing, wholesale and retail trade, communication and tourism* sectors. Going forward, however, real GDP growth is projected to slow down to about 3.3 percent for 2023 as a whole compared to 4.6 percent registered in 2022, on account of slower growth in the primary industry.

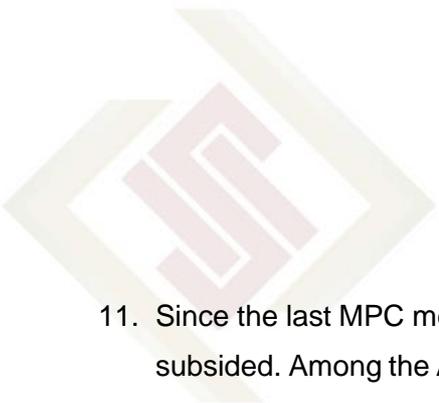
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2. Risks to the domestic economic outlook, emanating from both external and internal factors, remained broadly unchanged. External factors include weakening global economic activity, tighter global monetary policy, elevated crude oil prices and continued geopolitical tensions. Internal risks include the current drought, uncertain rainfall conditions, water supply interruptions, particularly at the coastal towns and general infrastructure constraints.
 3. Namibia's average inflation rate rose to 6.2 percent during the first seven months of 2023 relative to 5.3 percent during the corresponding period in 2022. The rise in the average consumer prices continued to be predominantly driven by food and housing price inflation. Nevertheless, on a monthly basis, annual inflation declined to 4.5 percent in July 2023 from 5.3 percent in June 2023. The projection for overall inflation has been revised downwards and it is now expected to average 5.6 percent in 2023, 0.4 percentage point lower compared to the forecast at the previous MPC meeting. The revision was mainly on the back of more-than-anticipated deflation in the transport category.
 4. The annual growth in PSCE improved to 3.0 percent in June 2023 from 2.6 percent in April 2023, albeit remaining lower by historical standards. The rise in PSCE growth was attributed to an increase in the demand for credit by the household sector, especially in the categories of *mortgage* and *instalment sale and leasing credit*. Demand for credit by businesses, however, contracted since the last MPC meeting, mainly driven by repayments across most business credit categories.
 5. On the external sector, Namibia's merchandise trade deficit narrowed by 18.6 percent to N\$15.4 billion over the first half of 2023 compared to the same period in 2022, as exports rose faster than imports. The rise in export earnings was reflected in uranium, diamonds, gold and fish exports due to increased volumes as well as the depreciation of the Namibia Dollar/Rand exchange rate.
 6. As at the 31st of July 2023, the stock of international reserves stood higher at N\$54.2 billion compared to N\$53.0 billion recorded at the end of June 2023 and N\$49.7 billion reported at the last MPC meeting. The increase in the official reserves was predominantly due to higher SACU receipts, export earnings from diamonds and the weaker exchange rate. At this level, the stock of international reserves is estimated to cover 5.7 months of imports. The stock of international reserves remains sufficient to support the currency peg



between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

Global economic activity remained resilient since the last MPC meeting, while inflation had generally moderated. Monetary policy stances remained broadly tight.

7. Preliminary data indicates that global economic activity improved during the second quarter of 2023, compared to the previous quarter. This was on account of the strong private consumer spending in the US and the base effects in the Chinese economy, following the easing of Covid-19 restrictions.
8. Looking ahead, global growth is projected to moderate to 3.0 percent during 2023, from 3.5 percent in 2022. This moderation is partly on account of the rise in central bank policy rates to fight inflation. For AEs, growth is projected to slow significantly to 1.5 percent from 2.7 percent in 2022, while it is expected to remain broadly stable at 4.0 percent in 2023 for EMDEs.
9. Since the last MPC meeting, developments in the prices of monitored commodities were mixed. The prices of gold and copper rose both monthly and yearly in July 2023, mainly due to safe-haven purchases and weaker supply, respectively. Likewise, uranium spot prices increased, mainly driven by the persistent drive for clean energy. Meanwhile, the prices of zinc and Brent crude oil increased month-on-month but declined on an annual basis. The monthly developments were on account of optimism generated by the announced fiscal stimulus by China and production cuts by OPEC, respectively. Food prices in US Dollar terms were higher in July 2023, mainly due to the suspension of the Black Sea Grain Initiative. Diamond prices declined during the review period and are expected to remain weak for the remainder of 2023 arising from lacklustre global consumer demand.
10. Most monitored global equity markets recorded gains in July 2023 partly due to strong company earnings, declining inflation and high demand for riskier assets. Most recently, global equity markets recorded losses on account of downgrades in the valuation of the technology sector and disappointing economic data in major economies. Meanwhile, bond yields in the AEs increased notably in July 2023 but declined in the monitored EMDEs.

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11. Since the last MPC meeting, inflationary pressures in the monitored economies generally subsided. Among the AEs, inflation eased in the United Kingdom and the Euro Area, while it increased slightly in the US and Japan. Inflation also ticked higher in several key monitored EMDEs, although China recorded deflation and the South African inflation rate slowed. Going forward, global inflation is expected to remain sticky, despite moderating somewhat.
 12. Consistent with moderating inflation, a number of monitored central banks kept their policy rates unchanged at their latest monetary policy meetings, including the South African Reserve Bank. However, the US Federal Reserve, the Bank of England, the European Central Bank as well as the Central Bank of Russia raised rates since the last MPC meeting to continue taming and anchoring inflation. On the other hand, the Central Bank of Brazil cut its policy rate due to slowing inflation.

Monetary Policy Stance

13. Against this background, the MPC decided to keep the Repo rate unchanged at 7.75 percent. Accordingly, the prime lending rate remains the same at 11.50 percent. This policy stance will continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand, while supporting domestic economic activity.
14. The next meeting of the MPC will be held on the 23rd and 24th of October 2023.



Johannes !Gawaxab
GOVERNOR