

Date: 30 November 2022

Attention: News Editor

Ref: 9/6/2

REPO RATE INCREASES FROM 6.25 TO 6.75 PERCENT

On the 28th and 29th of November 2022, 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 anchoring inflation expectations and safeguarding the peg arrangement, the MPC unanimously decided to increase the Repo rate by 50 basis points to 6.75 percent, with immediate effect. This decision was taken following a comprehensive review of global, regional and domestic economic developments, and was mindful of the need to strike a balance between anchoring inflation expectations and supporting the domestic economic recovery.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity rebounded during the first ten months of 2022. The inflation rate accelerated but levelled off most recently, while growth in Private Sector Credit Extension (PSCE) slowed. The stock of international reserves remains sufficient to support the currency peg and meet the country's international financial obligations.

1. Domestic economic activity continued to recover, building up positive momentum during the first ten months of 2022. The recovery was mainly reflected in sectors such as mining, agriculture, transport, communication, tourism as well as wholesale and retail trade. On the contrary, activity in the construction sector remained subdued. The economic growth rate for 2022, which was estimated at 3.2 percent in the August Economic Outlook, is currently being revised upwards. This is in the light of more positive information that is accumulating. The latest estimates for growth in 2022 contrasts favourably against the growth rate of 2.7 percent recorded in 2021. Risks to the domestic economy include the weakening global economic activity, high inflation arising from the ongoing Russia-Ukraine conflict, and global supply chain disruptions. Additional risks include climatic

swings, animal disease outbreaks within the region, other infectious diseases and the fallout from strict COVID-19 policies in some jurisdictions.

2. Namibia's average inflation rate rose to 5.9 percent during the first ten months of 2022, compared to 3.5 percent in the corresponding period of 2021. The rise in inflation was predominantly driven by an increase in transport inflation, on account of high international oil prices and a weak exchange rate. On a monthly basis, overall inflation remained steady at 7.1 percent during October 2022, unchanged from the previous month. Namibia's overall inflation for 2022 is now projected to average around 6.1 percent, before slowing to 4.9 percent in 2023.
3. Since the last MPC meeting, year-on-year growth in PSCE moderated to 3.5 percent in October 2022, compared to 4.6 percent recorded in August 2022. The decline in PSCE growth was mainly due to lower demand and repayments by the corporate sector, particularly in the construction and services sector. On average, growth in PSCE rose to 3.5 percent in the first ten months of 2022, mainly supported by an improvement in businesses credit, compared to an average of 2.5 percent over the same period in 2021.
4. As at the 31st of October 2022, the stock of international reserves declined to N\$44.8 billion from N\$48.0 billion at the end of September 2022. The decline was mainly due to higher imports, portfolio outflows and foreign government payments. Despite the decline, the international reserves were estimated at 4.8 months of imports and remained sufficient to cover Namibia's international financial obligations.

Preliminary data shows that global real GDP growth moderated in the third quarter of 2022. Inflation in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) remains elevated although, in some instances, easing somewhat most recently. Most central banks have increased their policy rates.

5. Preliminary data indicates that real growth in the monitored economies moderated in the third quarter of 2022. In the AEs, the GDP growth rate for the Euro Area slowed, while that of the United States (US) remained unchanged. Among the EMDEs, real GDP improved in China, but declined in Russia during the third quarter of 2022. The slower global growth is attributed to the Russia-Ukraine conflict-induced inflation, which remained elevated, tighter financial conditions as well as supply bottlenecks.

6. The global economy is projected to slow down in 2022 compared to the stronger recovery that was recorded in 2021. The International Monetary Fund (IMF), in particular, has projected global real growth to moderate to 3.2 percent in 2022 from 6.0 percent in 2021. In this regard, growth in the AEs is expected to slow down to 2.4 percent in 2022 from 5.2 percent in 2021. Similarly, growth in the EMDEs is projected to moderate to 3.7 percent in 2022 from 6.6 percent in 2021. Key downside risks to the global economic outlook include the ongoing geopolitical tensions, tighter financial conditions, and high costs of energy and food which may cause inflation to persist for longer and prompt further increases in interest rates. Other risks include weaker household purchasing power and limited fiscal space, particularly in the EMDEs.
7. Since the last MPC meeting, commodity prices signalled a mixed trend. Most recently, the prices of copper, gold and zinc trended lower, amid rising interest rates and soft global demand. The price of crude oil increased due to action by OPEC+ to reduce output. The price recently edged lower, as strategic oil stocks were released, amid fears of economic recession in some economies. Uranium prices have held up well in recent months, while the international food price index increased annually but declined slightly on monthly basis. The global equity markets rebounded, mainly attributed to increased expectations that the Fed and the ECB would reduce the pace of interest rate tightening. Consequently, most of the monitored stock market indices recorded monthly gains over the past two months.
8. Since the last MPC meeting, inflation pressures in the monitored economies presented a mixed picture over the short run, although inflation rates were universally higher than a year ago. In the AEs, inflation increased in the Euro area, United Kingdom (UK) and Japan, while it eased in the US during October 2022. On the contrary, inflation rates moderated in key monitored EMDEs. Inflation in South Africa remained significantly above the upper limit of the South African Reserve Bank's inflation target range of 3-6 percent.
9. Most monitored central banks increased their policy rates at their latest monetary policy meetings. Exceptions were the central banks of Brazil and China that maintained their policy rates, while Russia reduced its policy rate, mainly on the back of declining inflationary pressure.

MONETARY POLICY STANCE

10. Against this background, the MPC unanimously decided to increase the Repo rate by 50 basis points to 6.75 percent. The decision was taken to contain inflationary pressure and its second-round effect, and anchor inflation expectations while being mindful of the need to support the economy. The decision is also deemed appropriate to safeguard the one-to-one link between the Namibia Dollar and the South African Rand. Moreover, this monetary policy stance is necessary to narrow the current negative real policy interest rate and is consistent with that taken around the globe, and in the region, with policymakers acting with resolve to slow and eventually reverse the current acceleration in inflation.
11. 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 sustainable economic growth and development of the country.
12. The next meeting of the MPC will be held on the 13th and 14th of February 2023.



Johannes !Gawaxab
GOVERNOR