

Date: 20 October 2021
Attention: News Editor
Ref: 9/6/2

FOR IMMEDIATE RELEASE

REPO RATE MAINTAINED AT 3.75 PERCENT

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 accommodative monetary policy remains appropriate to support the weak domestic economic activity that is still being weighed down by the COVID-19 pandemic. At this level, the Repo rate 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.

RECENT ECONOMIC DEVELOPMENTS

The global economy is improving although the pace of recovery varies significantly between countries. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) are on the increase. Monetary policy stances of key central banks remained generally accommodative, although a number of EMDE central banks started tightening policy in a measured way to deal with inflationary pressures.

1. Global economic activity improved during the second quarter of 2021 and beyond, mainly attributed to 2020 base effects, positive developments in the COVID-19 vaccine rollout, as well as fiscal stimulus measures employed by the AEs during the review period. Going forward, most institutions, including the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD) and World Bank project that the global economy will rebound in 2021, but expand at a slower pace in 2022. In particular, the IMF has projected the global economy to grow by 5.9 percent in 2021 and 4.9 percent in 2022. The projected

growth in 2021 is largely attributed to the low base set in 2020, fiscal support and potential positive effect of the successful rollout of COVID-19 vaccines on economic activity. The moderation in the growth projection for 2022 is due to the anticipated gradual withdrawal of policy support by governments and central banks across the globe.

2. GDP growth in all key monitored AEs, including the United States (US), Euro area, United Kingdom and Japan increased in the second quarter of 2021. The increase in growth was mainly supported by base effects in 2020, the reopening of economies and successful vaccination roll-out. Similarly, growth in all major monitored EMDEs rebounded in the second quarter of 2021. The Chinese economy grew at a slower pace in the third quarter of 2021 compared to exceptionally high growth observed in the previous quarter. Going forward, the IMF has projected the AEs to grow by 5.2 percent in 2021 and by 4.5 percent in 2022. For the EMDEs, growth rates of 6.4 and 5.1 percent are projected for 2021 and 2022, respectively.
3. Key risks to the global economic outlook include the future course of the pandemic, the degree of success in the deployment of COVID-19 vaccines, as well as vaccine hesitancy, particularly in the EMDEs. Higher inflation emerged, following pandemic-induced supply-demand mismatches, which are expected to continue for a longer period than anticipated. Moreover, further virus outbreaks in many countries where vaccination rates are low, could allow the virus to mutate further. Escalating geopolitical tensions, climate change and natural disasters may also pose potential headwinds for global economic activity.
4. All monitored commodity prices increased since the last MPC meeting, except for gold which declined in September 2021. The increase in most commodity prices was mainly due to higher demand in industrial sectors supported by a rebound in economic activity as well as supply bottlenecks, while the decline in the gold price was partly due to a strong US Dollar. Likewise, equity prices increased in September 2021, mainly on the back of strong corporate profits and global stimulus support. Equity prices also benefitted from the improved economic outlook as well as the continuation of a low interest rate environment globally.
5. Inflation in most of the key AEs and EMDEs increased in September 2021, mainly reflecting transitory supply and demand mismatches, high food and energy prices, EMDEs currency depreciations and a low base set a year earlier. The pick-up in inflation,

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

however, appears to be largely transitory in both the major AEs and EMDEs. In this regard, most monitored central banks left their policy rates unchanged, except for Brazil and Russia that increased their benchmark rates at their latest monetary policy meetings, citing inflationary pressures. Nonetheless, the monetary policy of all monitored central banks remained generally accommodative.

Namibia's real GDP improved in the second quarter of 2021, while economic activity remained subdued year-to-date. The rate of inflation continued to increase, while growth in Private Sector Credit Extension (PSCE) declined. The stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

6. Namibia recorded a positive GDP growth rate during the second quarter of 2021 compared to a contraction in the corresponding quarter of 2020. The increase was attributed to better growth in sectors such as hotels and restaurants, wholesale and retail trade, fishing, administrative and support services as well as information and communication during the second quarter of 2021. Economic indicators showed that the domestic economy slowed year-to-date relative to the corresponding period of 2020. The slowdown in economic activity was observed in major sectors such as mining, agriculture, manufacturing, construction, tourism as well as transport and storage. On the contrary, activities in the wholesale and retail trade sector as well as the telecommunication subsector increased during the review period. Going forward, the domestic economy is expected to grow by 1.4 percent in 2021 and 3.4 percent in 2022. Risks to the domestic economic outlook in the near-term remain and include sudden surges in COVID-19 cases with concomitant disruptions to economic activity caused by potential COVID-19 restrictions.
7. Annual average inflation increased to 3.5 percent during the first nine months of 2021, compared to 2.2 percent for the corresponding period in the previous year. The increase in inflation was mainly driven by base-effects, food and transport categories. This was on account of supply constraints for certain food categories and a rise in international oil prices respectively. On a monthly basis, overall inflation increased slightly to 3.5 percent in September 2021 from 3.4 percent in August. Namibia's overall inflation is projected to average around 3.7 percent for 2021, slightly lower than the previous forecast of 3.9 percent.

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

8. Growth in PSCE moderated to an average of 2.5 percent for the first eight months of 2021, lower than the average of 4.1 percent recorded during the same period in 2020. The slowdown in PSCE was due to lower demand for credit by both businesses and households, as a result of slow domestic economic activity during the review period. Since the last MPC meeting, year-on-year growth in PSCE declined to 2.0 percent at the end of August 2021 from 2.8 percent at the end of June 2021.
9. As at 30th of September 2021, the stock of international reserves stood at N\$45.9 billion compared to N\$42.7 billion on the 31st of July 2021 as reported in the previous MPC statement. The increase in reserves was mainly attributed to the IMF Special Drawing Rights (SDR) allocation and relative depreciation of the exchange rate. The international reserves, at the above level, were estimated to cover 6.7 months of imports. At this level, Namibia's international reserves remain adequate 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 18th and 19th of October 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 as well as 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 that is still being weighed down by the COVID-19 pandemic, while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand. In addition, the MPC reiterated that the expeditious rollout of COVID-19 vaccines and addressing issues of vaccine hesitancy remain key to secure a speedier and sustainable economic recovery. The Committee noted the increasing trend in inflation globally and recognised its potential impact on monetary policy going forward. The next meeting of the MPC will be held on the 6th and 7th of December 2021.



Johannes !Gawaxab
GOVERNOR

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na