Monetary Policy Outlook

16 April 2024

Economic Backdrop

The Bank of Namibia (BoN) expects real GDP growth to slow from an upward revised 3.9% in 2023 to 3.4% in 2024. Domestic downside risks to the growth forecast include drought, sporadic rainfall conditions, and water supply interruptions at the coastal towns. In February 2024 credit extended to the private sector decreased by 0.13% when compared to January 2024. Corporate credit grew by 0.6% y/y and Household credit appetite decreased in February by 2.4% y/y. The BoN projects PSCE growth to improve marginally to around 2.8% y/y in 2024.

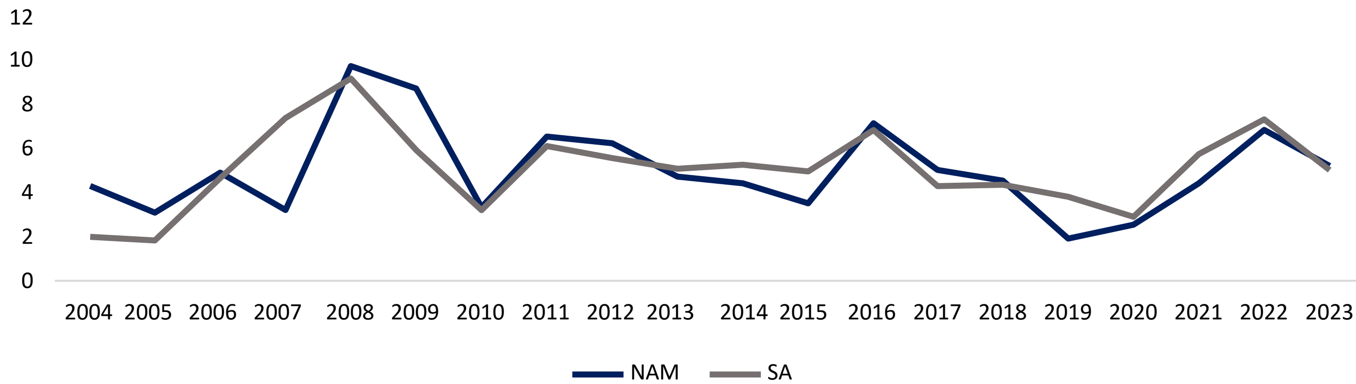
Inflation

In March 2024 headline inflation remained steady on a monthly basis, core inflation stood at -0.2% m/m, decreasing for the 10th consecutive month on a month-on-month basis. Annual core inflation (excluding food and energy prices) stood at 4.3% y/y in March, lower compared to the 4.5% y/y inflation recorded in February 2024. Namibia's annual inflation rate slowed to 4.5% y/y in March 2024, compared to the 5.0% y/y recorded in February 2024. This is lower than the 7.2% y/y peak inflation rate we witnessed in March 2023. Prices of both goods and services remained steady month-on-month, translating to services inflation of 3.1% y/y and goods inflation of 5.4% y/y in March 2024. The BoN expects inflationary pressures to continue easing in 2024, and forecasts Namibian inflation to average 4.8% in 2024, unchanged from its previous forecast.

Namibia Inflation YoY%

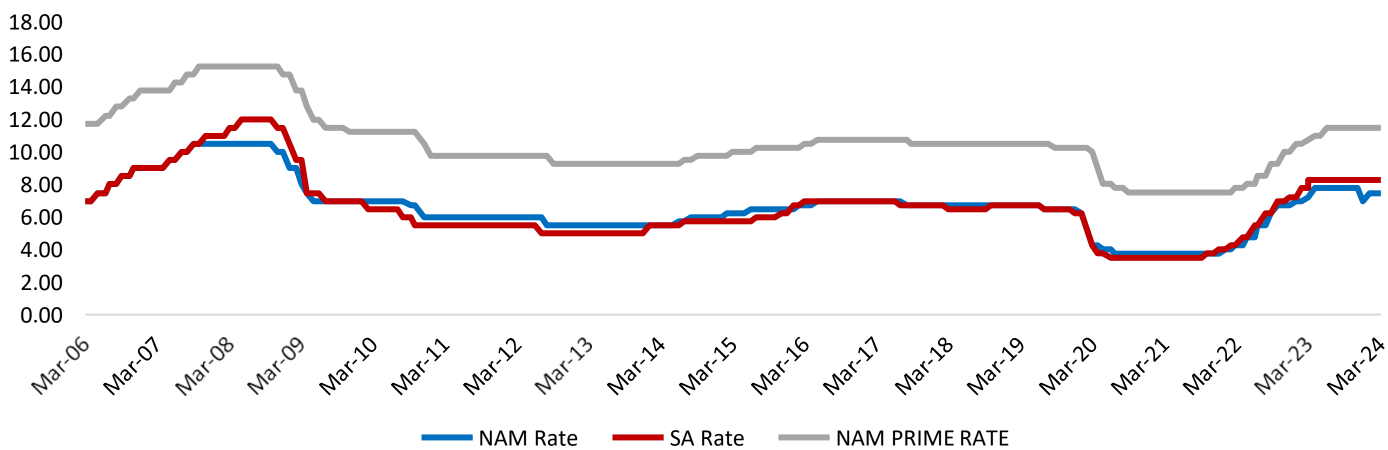
Source: BoN, HEI Research

Namibia vs South African annual inflation YoY%



Source: BoN, HEI Research

Historical Policy Rates



Source: BoN, HEI Research

The US Federal Reserve has indicated that it will likely reduce the benchmark interest rate later this year. Despite recent data showing the U.S. economy remains strong, Federal Reserve Chair Jerome Powell has stated that rate cuts are still on track for 2024. The Fed's forecasts and commentary suggest that while they are expected to hold rates steady for now. they want to avoid cutting borrowing costs too early or too much, which could prod the economy to re-accelerate and inflation to take even firmer root. So far, officials have maintained their forecast for 2024 rate cuts while making it clear that they are in no hurry to lower them.

On 27 March 2024, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) went in line with the Fed and announced the unanimous decision to keep the repo rate at 8,25%, despite inflation increasing by 5,6%. SARB governor Lesetja Kganyago highlighted that global inflation, rising food prices, a growing exchange rate, as well as South Africa's poor economic performance in Q4 of 2023 were the contributing factors to the final decision.

The governor further noted that the Rand traded poorly against other currencies since the last MPC, mainly due to interest rates staying high among stronger economies and the currency remaining under pressure from weakening terms of trade.

We predict that the SARB will follow the Fed's decision when cutting interest rates, mainly to maintain a gap between US and South African rates in turn making the rand's yield appeal more attractive, providing it with some support, since the SARB is mindful of the fact that the domestic currency needs all the support it can get right now.

To continue safeguarding the peg between the Namibia Dollar and the South African Rand while supporting the domestic economy. We are of the view that the MPC will maintain the repo rate unchanged at 7.75%, this is in line with the recent inflation expectations in South Africa and Namibia. We predict that the MPC might start cutting rates in the second half of 2024, if the inflation rate in South Africa reaches the midpoint of the target range.

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