

Monetary Policy Outlook

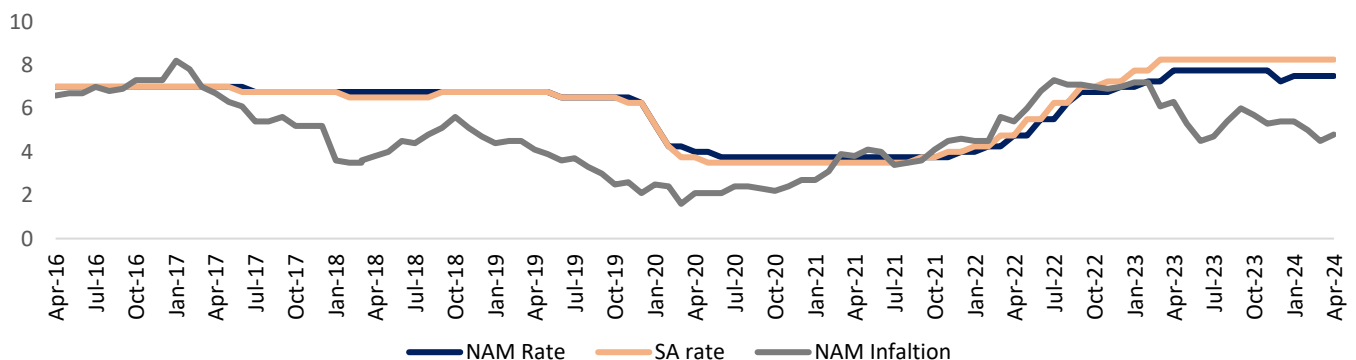
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In the United States, economic indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. In recent months, there has been modest further progress toward the Federal Reserve Bank’s 2% inflation objective. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks. In support of its goals, the Committee decided to maintain interest rates at 5.4%. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.

Meanwhile, the South African Reserve Bank’s Monetary Policy Committee have decided once more to maintain the 8.25% current interest rates on 30 May 2024. This marks the sixth instance in the past year that the committee has opted to leave interest rates unchanged. The MPC now believes core inflation will reach the desired target of 4.5% sooner by the second quarter of 2025 rather than the fourth quarter of 2025, as it now sees the risks to inflation as balanced instead of on the upside. SARB governor emphasized in any event, it is unlikely that interest rates will be cut until much later in 2024, depending on a reduction in inflationary expectations as well as the timing of any interest-rate cuts by the US Fed.

Namibia’s annual inflation rate dipped between May 2024 and May 2023. The headline annual inflation rate for May 2024, stood at 4.9% compared to 6.3% recorded in May 2023. The core inflation rate stood at 4.1% for May 2024, suggesting that underlying inflationary pressures remain relatively stable. On a monthly basis, the inflation rate witnessed an increase of 0.3% compared to 0.7 % recorded in April 2024. Private Sector Credit Extension grew annually by 1.65% in April 2024 compared to the 1.5% annual growth recorded for March 2024. Growth in credit demand was driven by the Business category which picked up by 0.6% and Household Credit demand remained unchanged at 2.2%. Furthermore, the stock of international reserves increased by 3.7 % month-month to N\$56.3 billion as at end of April 2024. The increase stemmed from higher SACU receipts, as well as an increase in Customer Foreign Currency inflows. This remains a healthy reserve position, and we maintain our view that the Bank of Namibia’s Monetary Committee will maintain rates unchanged at 7.75%, 50 basis points differentials with South Africa, and the anticipated rate cutting cycle will be shallow, over the next 12 months, both in the US and regionally.

Figure 11: Namibia and South Africa rates



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