Email: info@hei.com.na
Website: www.hei.com.na
Tell: +264-61-307-728
Address: 04 Stauch Street, Klein Windhoek, Windhoek, Namibia

Monetary Policy Outlook

17 February 2026

1. Executive summary

Since the December 2025 MPC decision, macroeconomic conditions have improved, with headline inflation easing to 2.9% in January 2026, the lowest since February 2021, and core inflation moderating in tandem. The February fuel price reduction should further contain near-term pressures. Credit growth remains moderate and business-led, reserves have strengthened to N$51.6 billion, and the trade deficit narrowed in December, while AGOA renewal supports external demand. With CMA policy rates unchanged and Namibia's prime rate recently aligned with regional spreads, the Bank of Namibia may either **cut the repo rate by 25 basis points** to reflect improved domestic conditions and anticipate potential SARB easing, **or hold at 6.50%** to maintain prudence and regional alignment.

2. Analysis

Since the 3 December Monetary Policy Decision, headline inflation has continued to ease, declining from 3.4% in November to 3.2% in December and further to 2.9% in January 2026. The January reading marks the lowest level since February 2021, confirming a return to pre-2022 shock conditions. Core inflation, which excludes volatile food and energy components to better reflect underlying price momentum, also moderated to 3.2% in January[1], down from levels above 4% during much of 2023 and early 2024. The synchronised easing in both headline and core measures suggests that disinflation is becoming embedded rather than driven by temporary base effects ***(see Figure 1)***.

Domestic credit conditions remain supportive but measured. As shown ***in Figure 3***, Private Sector Credit Extension expanded by 4.43% year-on-year in December 2025, equivalent to N$5.2 billion, with business credit growth of 6.8% outpacing household lending at 2.74%. Corporate borrowing was driven largely by strong instalment and leasing finance growth of 22.22%, indicating continued demand for vehicles, machinery and other productive assets alongside working-capital requirements. Household credit growth remained more restrained and concentrated in instalment and leasing finance, while mortgage lending was broadly flat. Mortgages account for 48.7% of total credit, underscoring the structural dominance of housing finance, though the relatively faster growth in asset-backed facilities reflects a tilt toward shorter- to medium-term funding. Official international reserves rose to N$51.6 billion at end-December 2025, providing import cover of approximately 3.3 months, or 3.8 months when excluding oil and gas-related imports, signalling improved external liquidity following earlier Eurobond-related pressures ***(see Figure 4)***.

Recent trade data point to a modest improvement in Namibia's external position toward year-end, alongside a supportive policy development. After recording a deficit of N$4.4 billion in November 2025, the trade balance narrowed sharply to a deficit of N$393 million in December, as exports rose to N$10.7 billion while imports moderated to N$11.1 billion. Although 2025 was characterised by sizeable and volatile deficits, particularly in August and November, the December outcome suggests some near-term stabilisation in export performance relative to import demand. In parallel, the renewal of the African Growth and Opportunity Act through December

[1] From 3.4% in December 2024

2026 restores duty-free access to the U.S. market for eligible sub-Saharan African exports, providing temporary certainty for export-oriented sectors and supporting external demand conditions. While the relatively short extension limits longer-term planning certainty, the reinstatement of preferential access offers a constructive backdrop for Namibia's export sector at a time when trade balances remain structurally constrained by elevated import dependence.

Within the Common Monetary Area, policy rates have remained unchanged at the start of 2026. Namibia's repo rate stands at 6.50%, while South Africa's is 6.75%, Lesotho's 6.50% and Eswatini's 6.75% ***(see Figure 5)***. Namibia's recent reduction in the prime lending rate to 10.00% has narrowed the prime–repo spread, bringing it into closer alignment with the prevailing spreads across the rest of the CMA and modestly easing borrowing costs without altering the policy rate itself. In parallel, recent commentary from the SARB Governor has raised the prospect of shifting away from the traditional prime rate benchmark toward a repo-plus framework, where lending rates are more explicitly anchored to the policy rate plus a defined margin. Such a move would formalise monetary transmission and enhance transparency in rate setting. Collectively, the regional configuration reflects a deliberate pause, with authorities maintaining moderately restrictive settings while allowing the disinflation process to consolidate.

3. Outlook

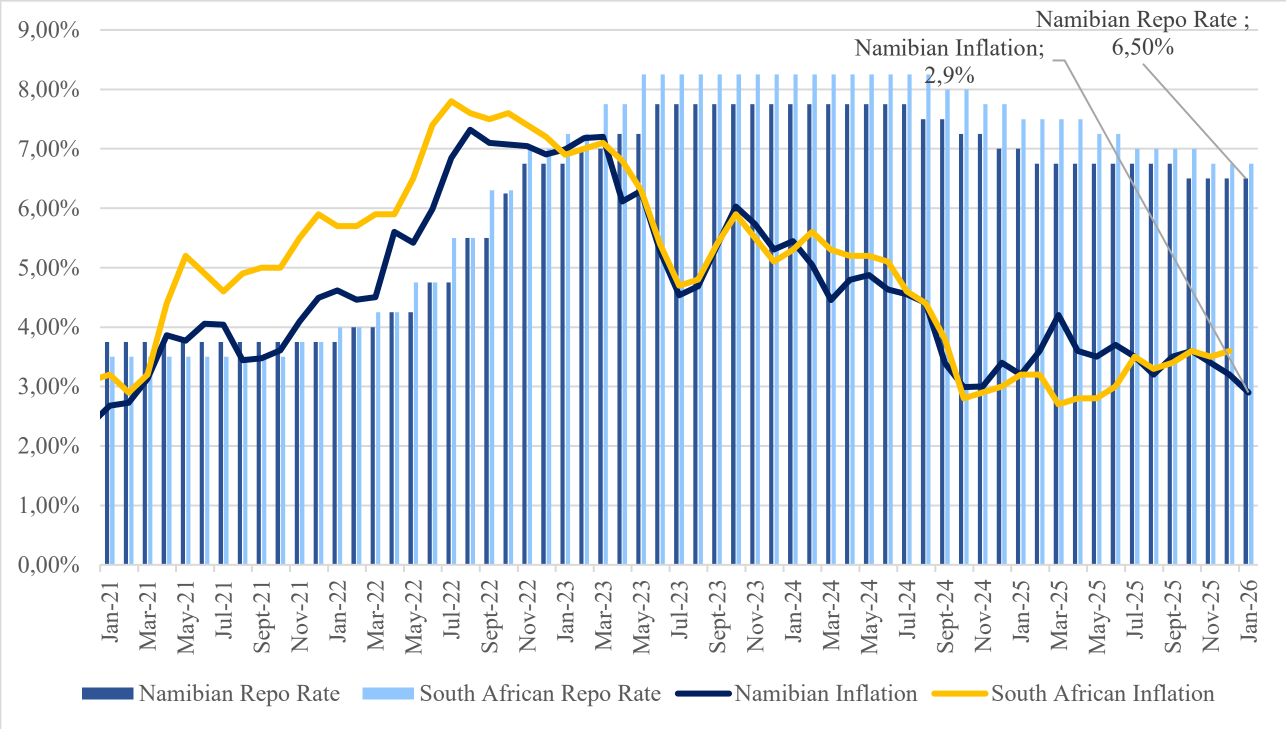
The Monetary Policy Committee announcement scheduled for 18 February 2026 takes place in an environment of sustained disinflation, moderate credit expansion and improving external liquidity. Inflation has declined below 3%, with core measures confirming that underlying pressures are contained, while the February fuel price reduction should further limit near-term price risks. Credit growth remains stable and predominantly business-led, household borrowing is subdued, and international reserves stand at N$51.6 billion, providing import cover of slightly over three months. The trade deficit narrowed materially in December, indicating some easing in external pressures. The meeting will also reflect a broadened decision-making structure, following the appointment of two new Committee members, including the inaugural independent MPC member, a development that may modestly strengthen deliberative depth and policy transparency.

Within the Common Monetary Area, Namibia maintains a 25-basis point differential below South Africa's repo rate, as shown in ***Figure 2***. A 25-basis point reduction would acknowledge the improvement in domestic inflation dynamics and modestly ease monetary conditions, even if it temporarily widens the differential to 50 basis points, a spread that is not historically unusual. Maintaining the repo rate at 6.50% would preserve the existing gap and reinforce regional policy coordination, allowing further confirmation that disinflation and reserve stability are durable.

The Bank of Namibia may either reduce the repo rate by 25 basis points to reflect strengthening domestic fundamentals and position policy ahead of potential SARB easing later in the year, or maintain the rate at 6.50% to preserve the current differential and reinforce regional alignment.

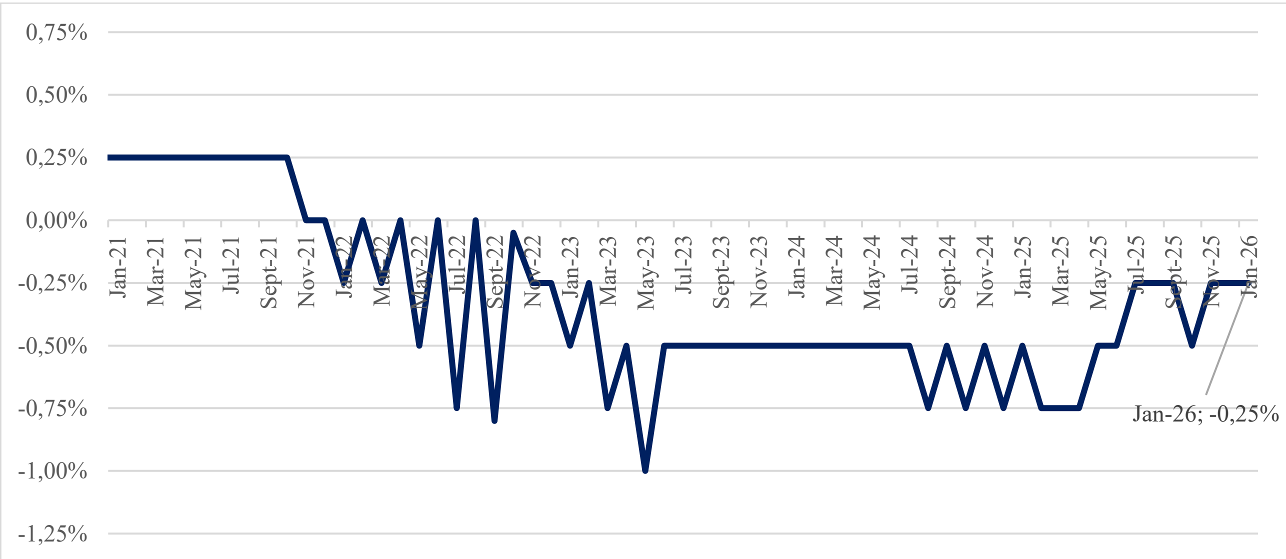
4. Figures

Figure 1: Namibia and South African Repo Rates, Jan 2021 – Jan 2026



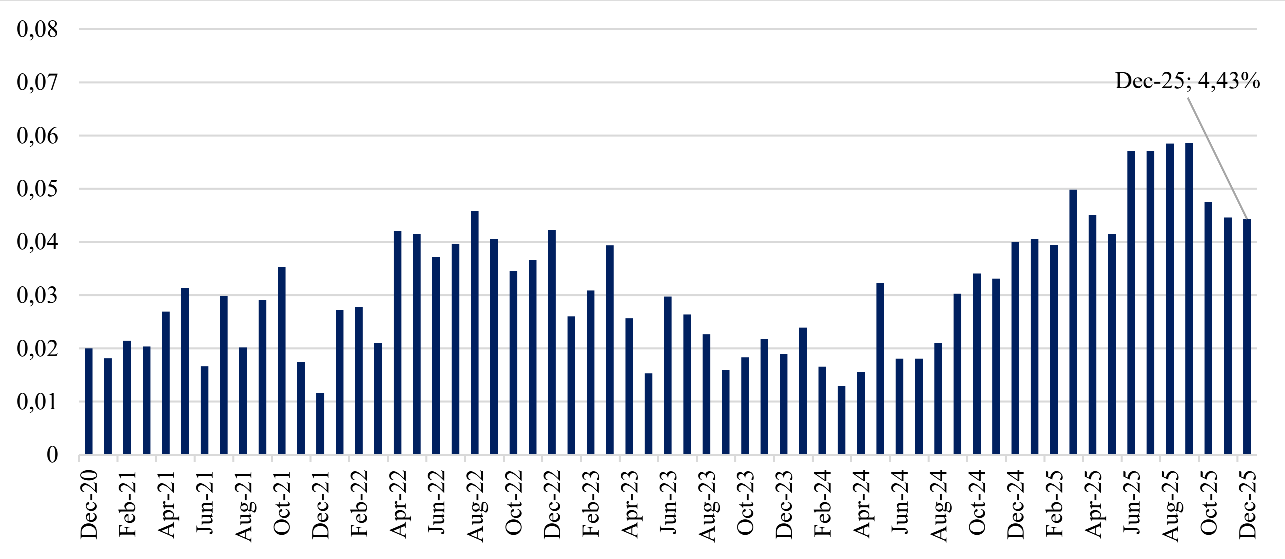
Source: Bank of Namibia, Namibia Statistics Agency, South African Reserve Bank & StatsSA

Figure 2: Namibia vs South Africa Repo Rate Spread (Jan 2021– Jan 2026)



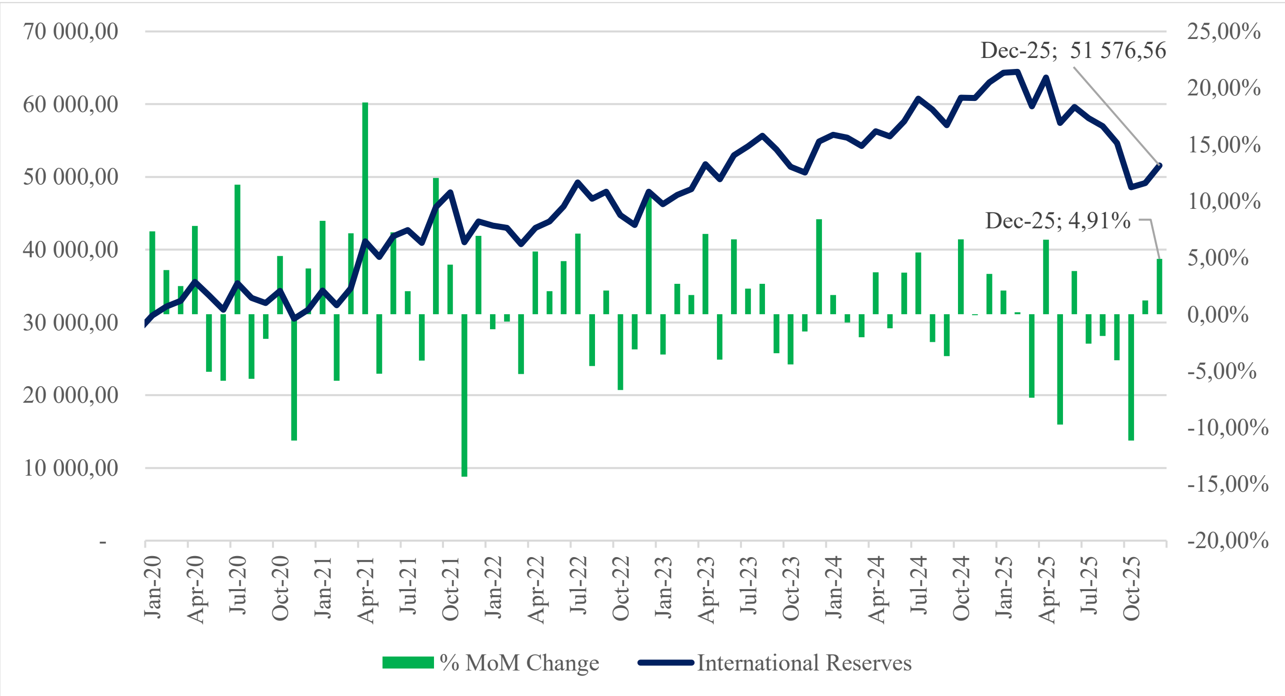
Source: Bank of Namibia, South African Reserve Bank & HEI Research

Figure 3: PSCE Annual Growth Rates (Dec 2020– Dec 2025)



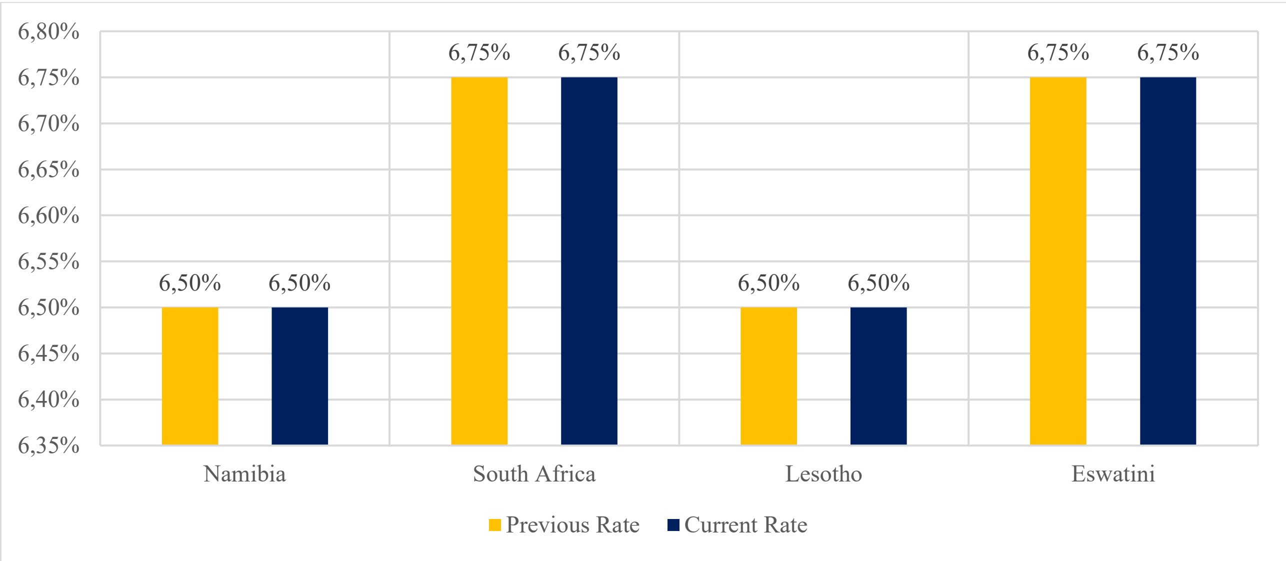
Source: Bank of Namibia

Figure 4: International Reserve Levels and Monthly Growth Rates (Jan 2020– Jan 2026)



Source: Bank of Namibia

Figure 5: CMA MPA Current vs Previous Rate



[2]

Source: BoN, SARB, CBL & CBE (Relevant Central Banks)

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[2] Namibia's' First 2026 Announcement is the February 18th, with the rest of the CMA having announcements late January.