

Monetary Policy outlook

28 April 2026

1. Executive summary

Since the 18 February 2026 decision, inflation has eased further, while private sector credit growth remains moderate and business-led. The external position has softened, with a wider trade deficit and lower reserve levels than a year earlier, though reserve cover remains adequate for the peg. At the same time, the sharp April fuel price adjustment, driven by higher oil, freight and insurance costs linked to tensions around the Strait of Hormuz, has introduced renewed upside risk to inflation. Within the Common Monetary Area, inflation remains relatively favourable, but central banks kept rates unchanged in March and adopted a more cautious stance. Against this backdrop, the **29th April MPA is likely to favour a hold at 6.50%** over a 25-basis-point cut.

2. Analysis

Headline inflation slowed from 2.4% year-on-year in February 2026 to 2.1% year-on-year in March 2026, the lowest year-on-year reading since 2020, while core inflation¹ declined from 3.2% to 2.9% (year-on-year)². This indicates a broad-based easing in price pressures, extending beyond volatile items into the wider basket. The main relief came from transport and food, while housing and utility costs remained firmer. Overall, inflation has stayed low and contained, although the pace of easing continues to differ across regions and categories. *(See Figure 1).*

The inflation outlook has, however, become less favourable heading into April. Fuel prices were raised sharply, with petrol increasing by N\$2.50 per litre and diesel by N\$4.00 per litre. The main driver has been the rise in international fuel and shipping costs linked to ongoing tensions around the Strait of Hormuz³, which continue to disrupt supply conditions and raise freight and insurance costs at the time of writing. A weaker Namibia dollar during the review period added further pressure. Although temporary government measures have softened the immediate pass-through, the adjustment still represents a meaningful cost shock. The direct effect will be felt first in transport, but higher diesel costs are also likely to feed into food prices, distribution costs and broader business expenses over the coming months. Within the Common Monetary Area, the inflation backdrop remains relatively favourable, but the policy stance has become more cautious. South Africa's inflation eased to 3.0% in February 2026, in line with its new target framework, while Lesotho and Eswatini recorded inflation of 2.7% and 1.9%, respectively. However, SARB projections and analysis indicate that the near-term inflation path has shifted higher due to the oil shock, wider refinery margins, freight disruptions and exchange-rate weakness. South African headline inflation is now expected to average 3.7% in 2026 and temporarily rise to around 4.0% in the second quarter. At the same time, central banks across the CMA kept policy rates unchanged in March, indicating a preference for caution as low inflation is increasingly tested by external cost pressures. This suggests that while regional inflation conditions remain supportive, the bias has shifted away from further easing in the immediate term. *(See Figures 2 & 3)*

¹ Core inflation excludes more volatile components, typically food and energy, and is used to assess underlying price pressures.

² Month-on-month inflation briefly turned negative in February 2026, declining by 0.04%, before returning to positive growth of 0.21% in March. This reinforces the broader easing trend observed since January, although annual inflation remained positive throughout the period.

³ The Strait of Hormuz is a narrow shipping route between Iran and Oman that connects the Persian Gulf to global markets. A significant share of the world's oil and fuel shipments passes through this corridor, so disruptions or security risks in the area can quickly raise global energy, freight and insurance costs.

Domestic credit conditions remain moderate. Private Sector Credit Extension grew by 4.73% year-on-year in February 2026, with a monthly growth of 0.27%. Credit expansion continues to be driven mainly by businesses, while household borrowing remains subdued. This suggests that financing conditions are still supportive, but consumer demand remains soft. The overall credit environment therefore, remains steady rather than strong. *(See Figure 4)*

The external position has weakened. Namibia recorded a trade deficit of N\$5.2 billion in February 2026, much wider than a year earlier and a sharp reversal from the small surplus recorded in January. Export earnings fell significantly, while imports remained elevated, particularly for fuel, machinery and transport equipment. This continues to highlight pressure from Namibia's narrow export base and its reliance on imported goods.

Exchange-rate developments have added to these pressures. The weaker Namibia dollar during the review period⁴ increased the local currency cost of fuel and other imported goods, reinforcing the impact of higher international prices. This matters particularly in the current environment, as exchange-rate depreciation can accelerate the pass-through from external shocks into domestic transport, food and distribution costs. *(See Figure 6)*

Reserve levels remain adequate, but the external cushion is thinner than before. International reserves stood at N\$1.7 billion at the end of February 2026, slightly below the previous month and significantly lower than a year earlier. Even so, reserve cover remains sufficient to support the currency peg. The concern is that a wider trade deficit, higher fuel import costs and exchange-rate pressure could keep the external position under strain in the second quarter. *(See Figure 5)*

Taken together, Namibia entered the second quarter with low inflation and moderate credit growth, but with a weaker external backdrop. The disinflation seen in the first quarter is unlikely to continue at the same pace, while ongoing supply-side pressures linked to the Strait of Hormuz increase the risk of firmer inflation in the months ahead.

3. Sentiment and Outlook

The Monetary Policy Committee announcement scheduled for 29 April 2026 takes place in an environment of continued disinflation, moderate credit expansion and a weaker external backdrop. Inflation has eased further, with both headline and core measures declining in March, while private sector credit growth remains measured and largely business-led. Recent Real GDP data also point to soft domestic activity, with the economy contracting by 0.5% y/y in Q4 2025 and full-year growth slowing to 1.7%.

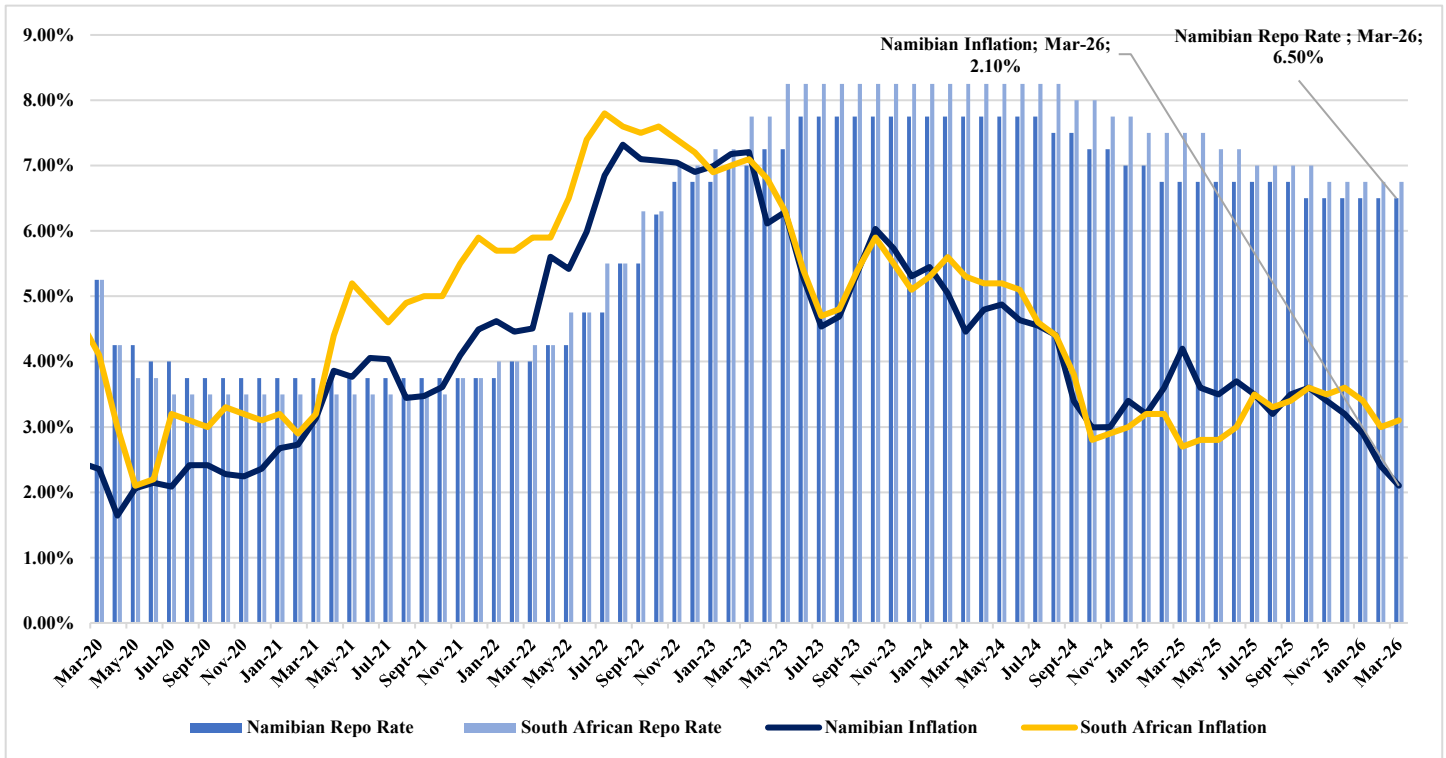
Within the Common Monetary Area, inflation indicators remain relatively favourable, with South Africa at 3.0%, Lesotho at 2.7% and Eswatini at 1.9% in the latest readings, even as all three central banks kept policy rates unchanged in March. However, SARB projections suggest that regional inflation risks have moved higher in the near term, as oil prices, refinery margins, freight costs and exchange-rate weakness are expected to lift inflation before it returns to target over the medium term.

Against this backdrop, the Bank of Namibia may either maintain the repo rate at 6.50% to allow more time to assess the pass-through from higher fuel costs and protect external stability, or reduce the rate by 25 basis points to reflect weak domestic growth and the still-low inflation environment. However, the recent shift in regional and global conditions, together with the re-emergence of supply-side risks, suggests that the case for a hold has strengthened. **On balance, the most likely outcome is that the Bank leaves the repo rate unchanged at 6.50% while monitoring whether the current fuel shock remains temporary or begins to generate broader second-round pressures.**

⁴ During the review period, defined as 18 February to 14 April 2026, the Namibia dollar depreciated modestly against most major currencies, weakening by 2.18% against the US dollar, 2.12% against the euro, 2.49% against the pound sterling, 1.10% against the Swiss franc and 3.35% against the Chinese yuan, while strengthening slightly by 0.09% against the Botswana pula.

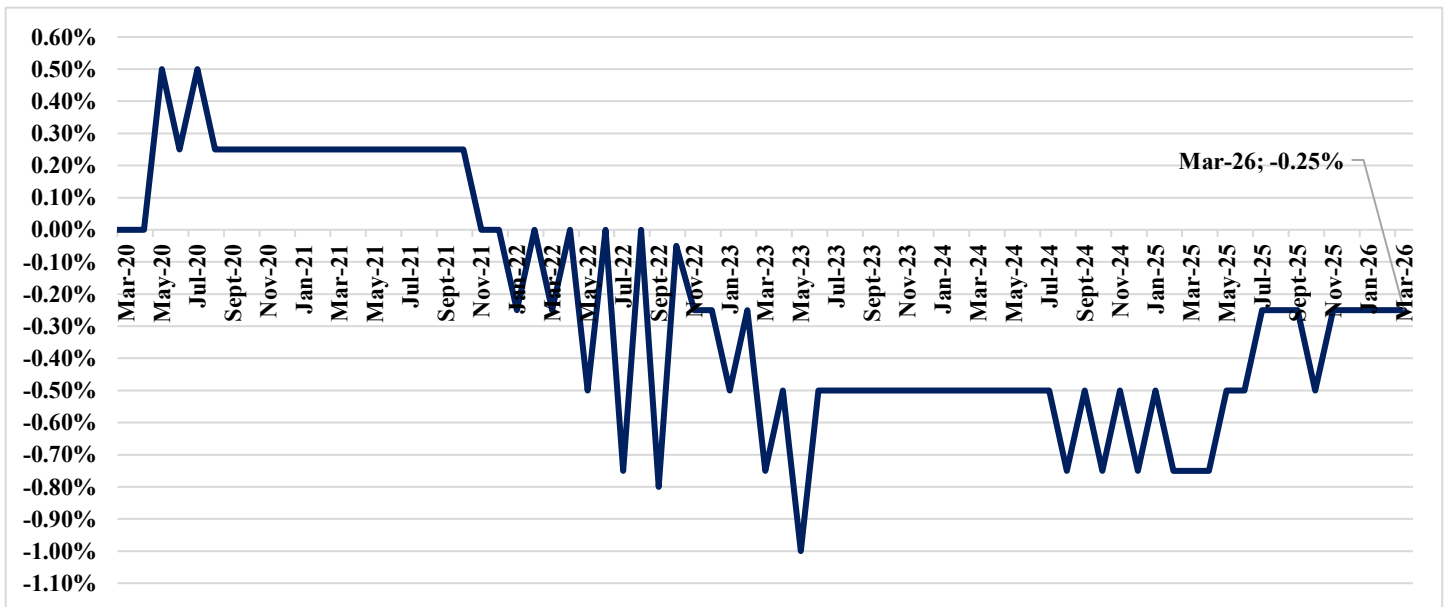
4. Figures

Figure 1: Namibia and South African Repo Rates March 2020 – March 2026



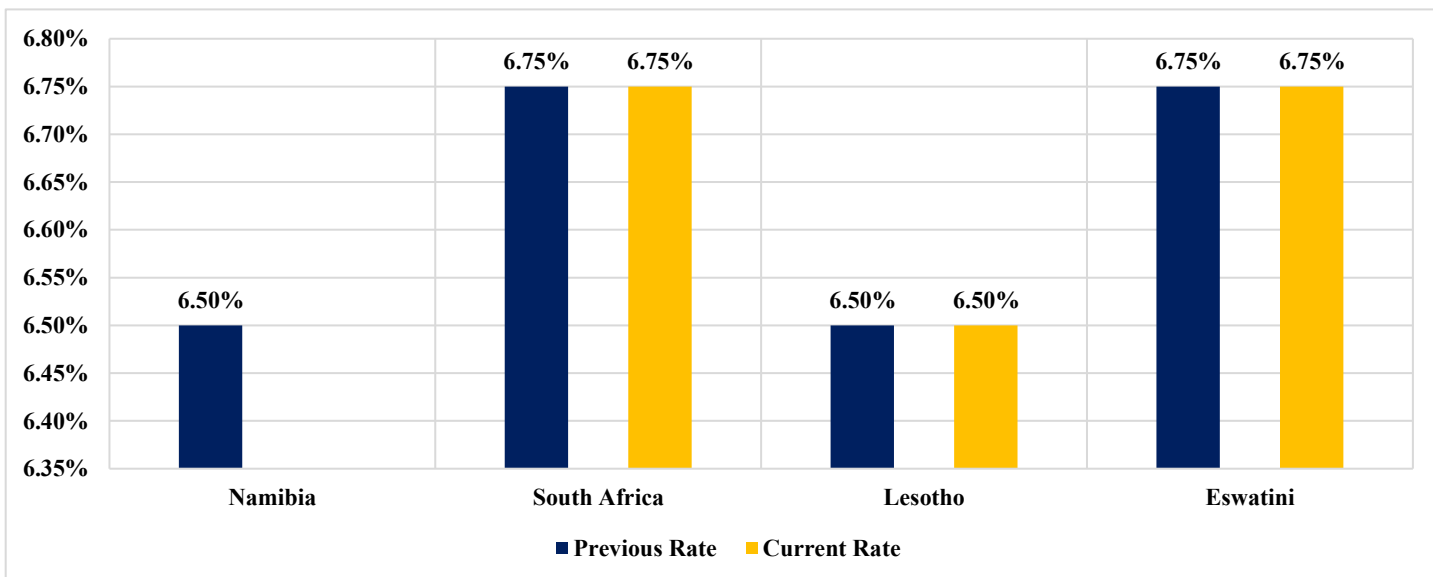
Source: Bank of Namibia, Namibia Statistics Agency, South African Reserve Bank & StatsSA

Figure 2: Namibia vs South Africa Repo Rate Spread



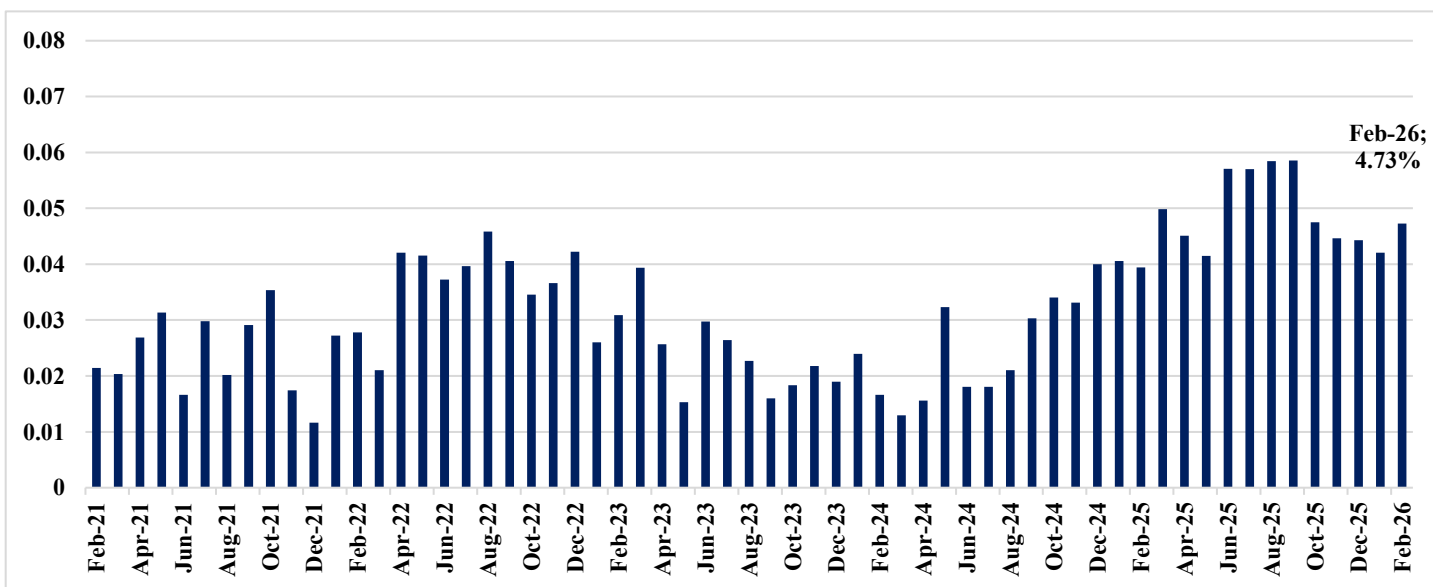
Source: BoN & SARB

Figure 3: Namibia vs CMA Bank Rates⁶



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

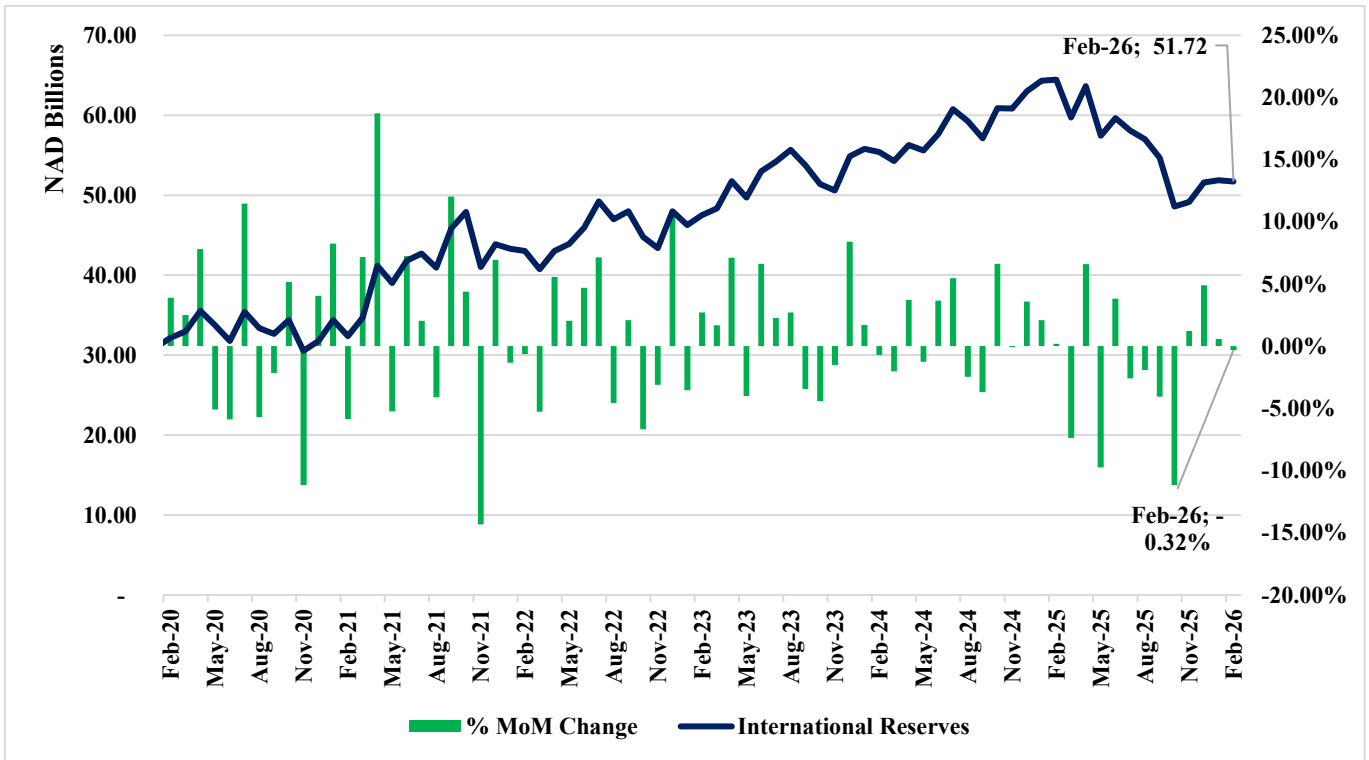
Figure 4: PSCE Annual Growth Rates (Feb 2021 – Feb 2026)



Source: BoN

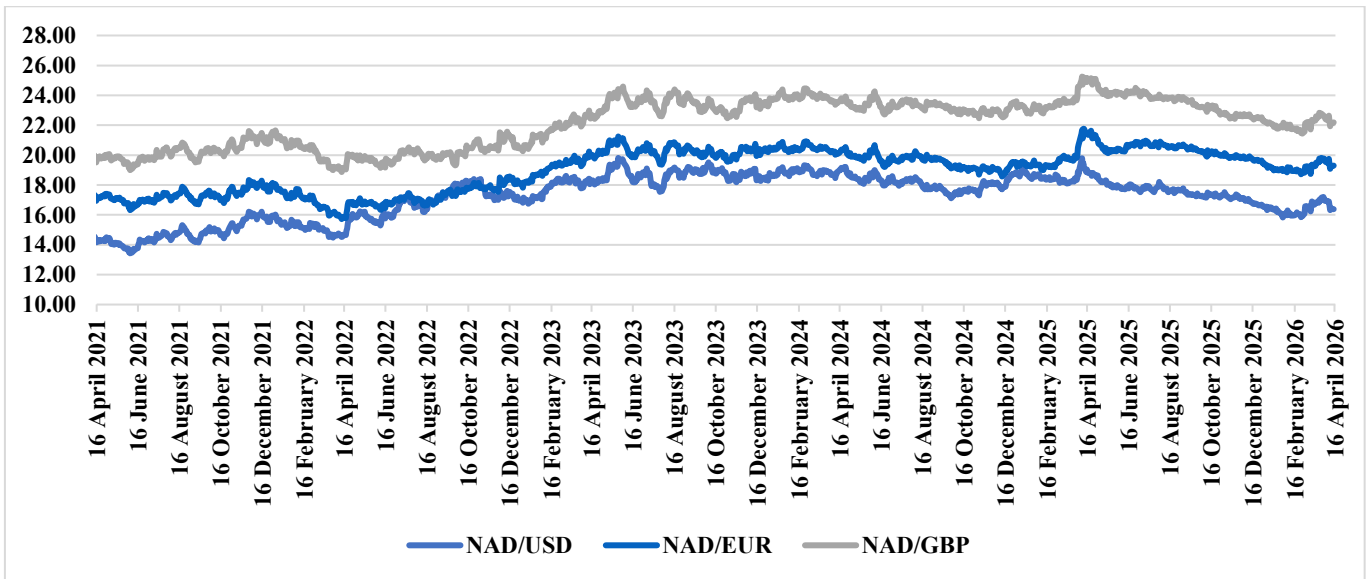
⁶ Every other CMA country bar Namibia had an MPA in March

Figure 5: International Reserve Levels & Monthly Growth Rates (Feb 2020 - Feb 2026)



Source: BoN

Figure 6: Various Currencies vs NAD



Source: HEI Research