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

26 October 2026

1. Executive summary

Since the August 2026 MPC decision, Namibia's inflation outlook has become more challenging, with headline inflation rising to 5.4% in September, driven largely by higher transport costs. Meanwhile, domestic credit growth has improved. Regional monetary conditions have also tightened, with South Africa raising its policy rate to 7.25%, while Lesotho and Eswatini increased their rates to 7.00%. **Against this backdrop, a 25-basis-point hike to 7.00% appears warranted to reinforce price stability amid rising inflationary pressures and maintain alignment with monetary conditions across the Common Monetary Area (CMA). However, a hold at 6.75% remains a credible alternative.**

2. Analysis

Namibia's headline inflation accelerated to 5.4% in September 2026, up from 5.0% in August and 3.2% a year earlier. Core inflation also increased to 4.0%, indicating a modest strengthening in underlying price pressures. The increase in headline inflation was driven primarily by higher transport costs, while food inflation moderated, providing some relief to overall price pressures. ***(See figure 1)***

The near-term inflation outlook remains exposed to elevated fuel and transportation costs. Petrol prices increased by N$1.50 per litre in October, while international petroleum prices, higher shipping costs and a weaker Namibian dollar against the US dollar continue to exert upward pressure on fuel costs amid geopolitical tensions and disruptions to global oil supply. Looking ahead, persistent El Niño conditions and the recent foot-and-mouth disease outbreak pose additional risks to agricultural production and livestock supply, potentially placing further upward pressure on food prices in 2027.

Regionally, South African annual consumer price inflation rose to 4.5% in September 2026, up from 4.4% in August 2026, with prices increasing by 0.4% month-on-month. The main contributors to annual inflation were transport, housing and utilities, and insurance and financial services. This reflects continued price pressures within the Common Monetary Area (CMA), with inflation remaining above the midpoint of South Africa's 3% ± 1 percentage point inflation target range.

Domestic credit conditions strengthened in August 2026, with Private Sector Credit Extension (PSCE) growth accelerating to 5.4% year-on-year from 4.2% in July, the highest rate recorded since September 2025. The improvement was driven primarily by stronger business borrowing, with business credit growth increasing to 5.9% from 3.7% in July, supported by higher uptake of overdrafts and loans and advances across several sectors. Household credit growth also improved, rising to 4.9% from 4.6% over the same period, supported by increased demand for mortgage credit, instalment sale and leasing finance, and other loans and advances. Overall, the acceleration in PSCE growth points to improving private sector credit demand and more supportive domestic credit conditions. ***(See Figure 4)***

Namibia's international reserves strengthened in August 2026, increasing by 0.7% month-on-month to N$58.5 billion, supported primarily by net commercial bank transfers and higher Customer Foreign Currency (CFC) placements. The improvement reinforced the country's external liquidity position, with reserves covering approximately 3.6 months of imports, rising to 4.0 months when oil and gas exploration-related imports are excluded. Reserve holdings remained adequate to support the Namibia Dollar–South African Rand currency peg

and meet short-term international obligations, although coverage of currency in circulation edged down to 10.0 times from 10.1 times in July. ***(See Figure 5)***

Namibia's external trade position improved in August 2026, with the merchandise trade deficit narrowing to N$3.9 billion from a revised N$5.9 billion in July and N$5.3 billion in August 2025. The improvement was driven by an 18.8% month-on-month increase in export earnings to N$12.7 billion, supported by higher exports of uranium, nickel ores and other products. Imports increased marginally by 0.2% to N$16.6 billion, reflecting continued demand for petroleum products, mineral inputs and capital-related goods. Despite the narrowing deficit, imports continued to exceed exports, highlighting Namibia's ongoing dependence on imported goods**. (*See Figure 7)***

Namibia's economic growth strengthened in the second quarter of 2026, with real GDP expanding by 4.8% year-on-year, up from 3.1% in the first quarter and 1.7% in the corresponding quarter of 2025. In nominal terms, GDP increased by 8.1% to N$70.6 billion, compared with N$65.3 billion a year earlier. The improved performance was supported by strong growth in Agriculture and Forestry, Health, and Wholesale and Retail Trade, indicating a broadening recovery across key sectors. The acceleration in economic activity provides a more supportive domestic growth backdrop for the upcoming monetary policy decision, although the sustainability of this momentum will remain important in assessing the balance between growth and price stability. ***(See figure 8)***

Exchange-rate developments provided mixed support to the domestic inflation outlook during October. The Namibia dollar strengthened against the US dollar and euro, with the respective exchange rates declining by approximately 1.0% and 0.9% between the first and latest observations provided. In contrast, the exchange rate against the British pound remained broadly unchanged. The strengthening against the US dollar may help moderate imported inflationary pressures, particularly for fuel and other dollar-denominated imports, although the overall impact will depend on international prices and other cost pressures. ***(See Figure 6)***

Within the Common Monetary Area (CMA), monetary policy conditions have tightened, with South Africa raising its repo rate to 7.25%, while Lesotho and Eswatini increased their policy rates to 7.00%. Following Namibia's August MPC decision to maintain its policy rate at 6.75%, Namibia now has the lowest policy rate within the CMA. This widening interest rate differential provides additional regional context for the upcoming MPC decision, particularly amid rising domestic inflationary pressures and the need to maintain external stability.

Regional inflation risks remain elevated, particularly amid persistent fuel-price pressures. In South Africa, the SARB has revised its near-term inflation forecasts upwards, largely due to higher fuel prices. Headline inflation is expected to remain above 5% later in 2026 and early 2027 before easing as fuel-price pressures recede, with inflation projected to return to around 3% towards the end of 2027. Meanwhile, inflation in Lesotho stood at 2.6% in August, while Eswatini's inflation edged up to 2.9% in September. Despite relatively moderate inflation in these two economies, continued fuel and transport cost pressures and the risk of broader second-round effects remain relevant to the regional outlook. ***(See Figures 2 and 3)***

Overall, Namibia's macroeconomic outlook presents a more challenging policy environment, as improving domestic credit conditions coincide with mounting price pressures and tighter monetary conditions across the Common Monetary Area. International reserves remain adequate, providing continued support for the exchange-rate arrangement and external obligations. However, the acceleration in private sector credit extension suggests that domestic credit demand is gaining momentum, while the regional interest rate differential has widened following recent policy rate increases in South Africa, Lesotho and Eswatini.

3. Sentiment and Outlook

The October 2026 Monetary Policy Committee meeting takes place against a backdrop of stronger domestic economic growth and mounting inflationary pressures. Real GDP growth accelerated to 4.8% in the second quarter of 2026, while private sector credit growth strengthened and international reserves remained adequate. However, rising fuel and transport costs, alongside the risk of foot-and-mouth disease disrupting livestock production and supply, pose challenges to the near-term inflation outlook.

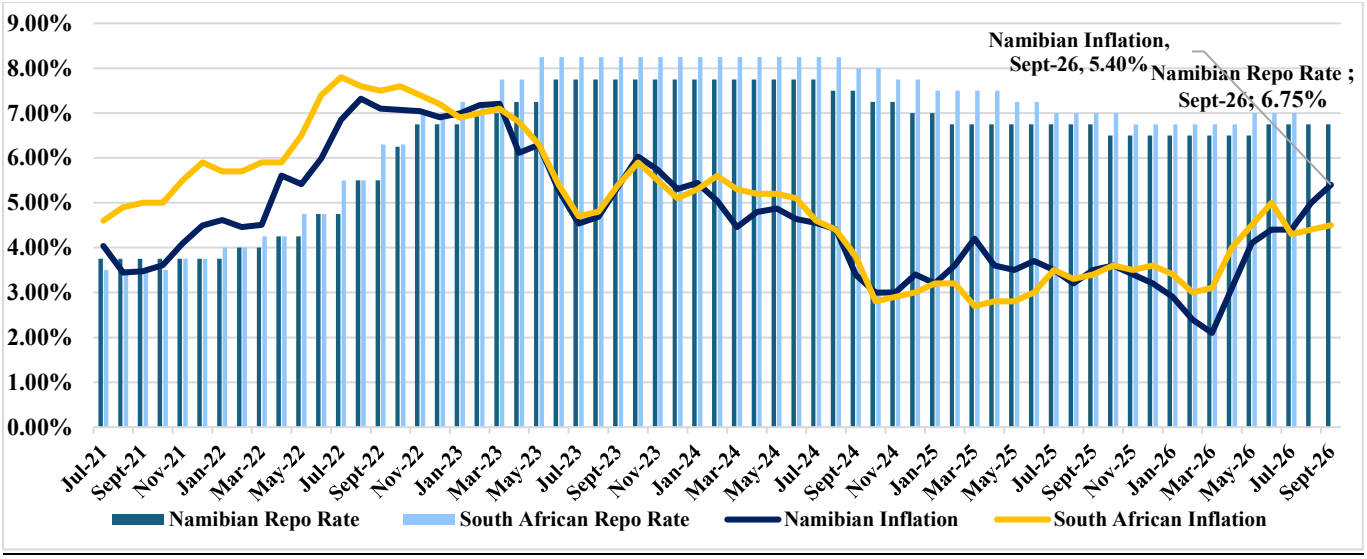
While inflation remains predominantly supply-driven, the persistence of external cost pressures since March raises concerns about potential second-round effects. Higher taxi and e-hailing fares have further strained household purchasing power and increased costs for businesses subsidising employee transport. Having experienced elevated costs for much of the year, businesses may increasingly adjust prices to recover accumulated expenses, while workers seek wage adjustments to compensate for lost purchasing power. Expectations of continued inflation could reinforce these responses, allowing inflationary pressures to persist beyond the initial shock. Although moderating transport price increases and favourable base effects could support lower annual inflation during 2027, continued geopolitical uncertainty surrounding energy supplies and shipping routes, alongside substantial domestic fuel under-recoveries, complicates prospects for sustained relief.

Monetary policy literature generally supports looking through temporary supply shocks, particularly where higher import costs already constrain household purchasing power and domestic demand. However, prolonged disruptions increase the risk of inflation becoming embedded in domestic pricing behaviour and expectations. While higher interest rates cannot directly reverse external supply pressures, a measured adjustment could help contain demand-driven inflation and limit the emergence of second-round effects, supporting lower inflation over the medium term. Nevertheless, adequate reserves and Namibia's historically manageable interest rate spread with South Africa provide some flexibility to maintain the current stance.

On balance, a 25-basis-point increase in the repo rate to 7.00% is the most likely outcome at the Bank of Namibia's MPC announcement on 28 October 2026, reflecting heightened inflation persistence risks and the need to prevent broader domestic price pressures from becoming entrenched. **A hold at 6.75% remains a credible alternative** should the Committee conclude that inflation expectations remain anchored and underlying pressures are sufficiently contained. A larger 50-basis-point increase cannot be ruled out, although this would require a stronger assessment of inflation persistence risks.

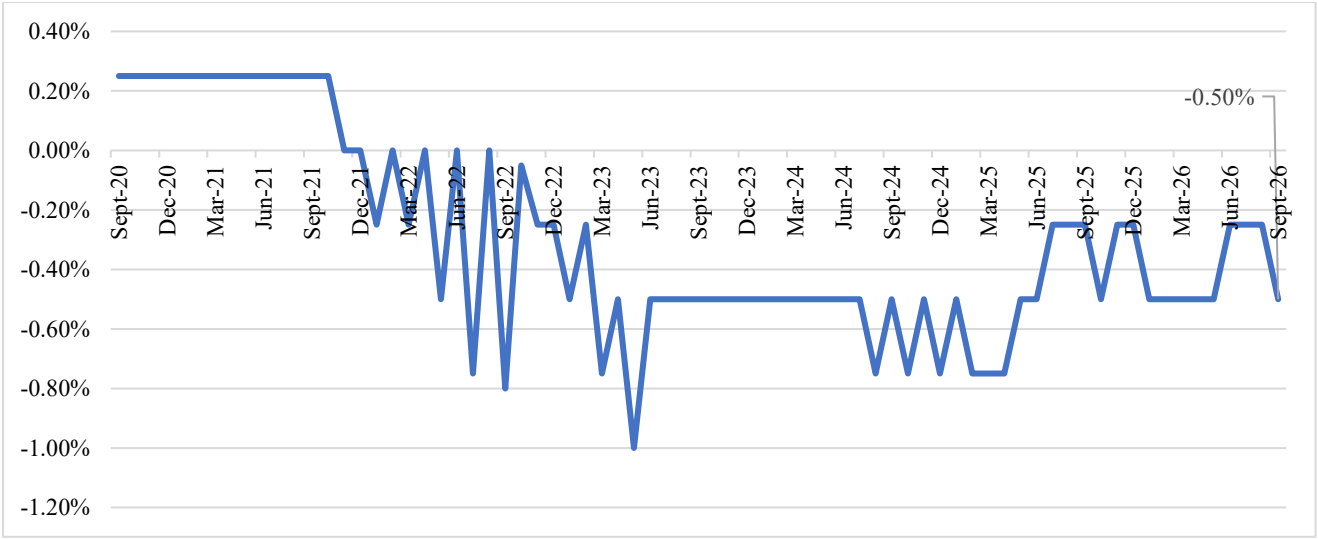
4. Figures

Figure 1: Namibia and South African Repo Rates July 2021– September 2026



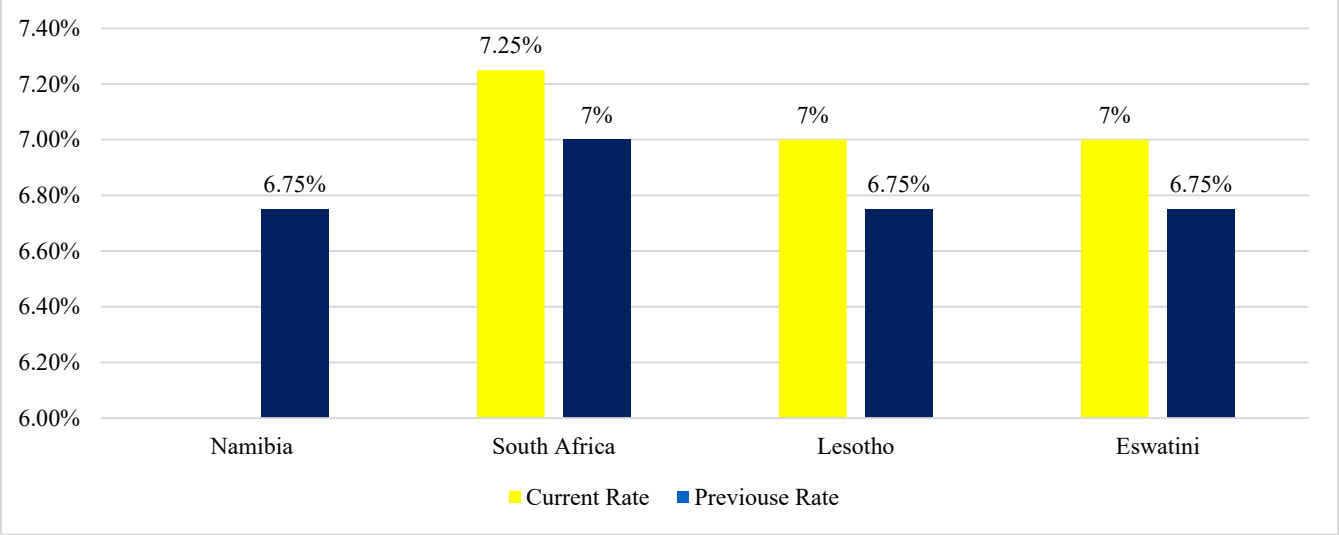
Source: Bank of Namibia, Namibia Statistics Agency, South African Reserve Bank & StatsSA

Figure 2: Namibia vs South Africa Repo Rate Spread



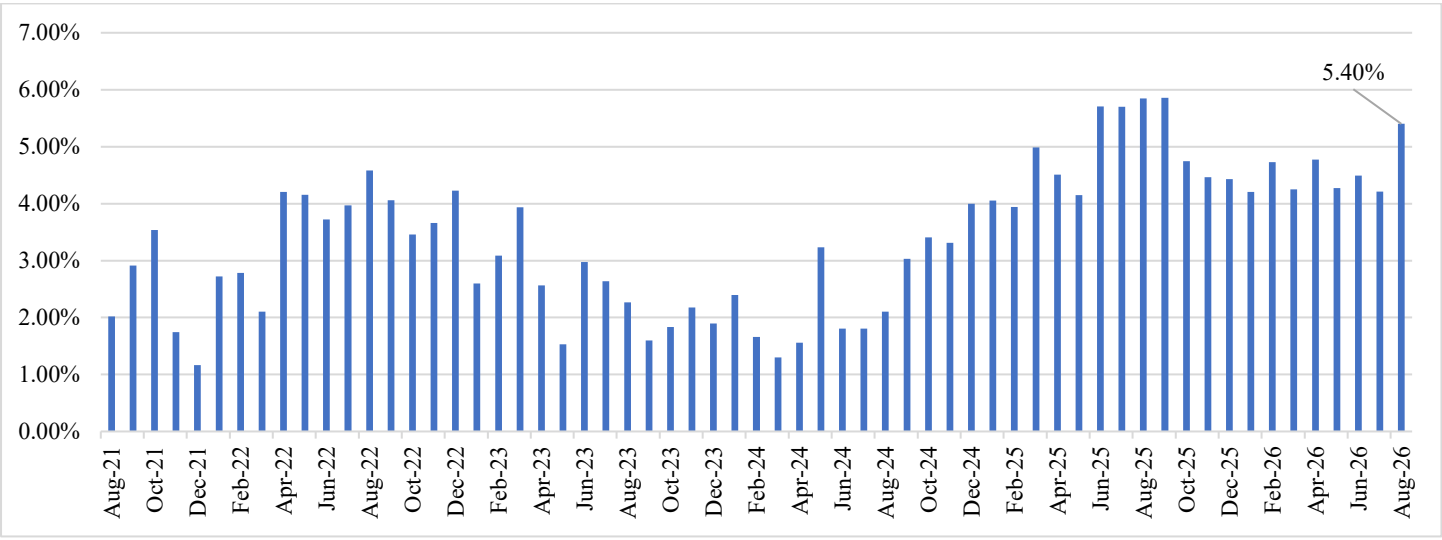
Source: BoN & SARB

Figure 3: Namibia vs CMA Bank Rates[1]



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

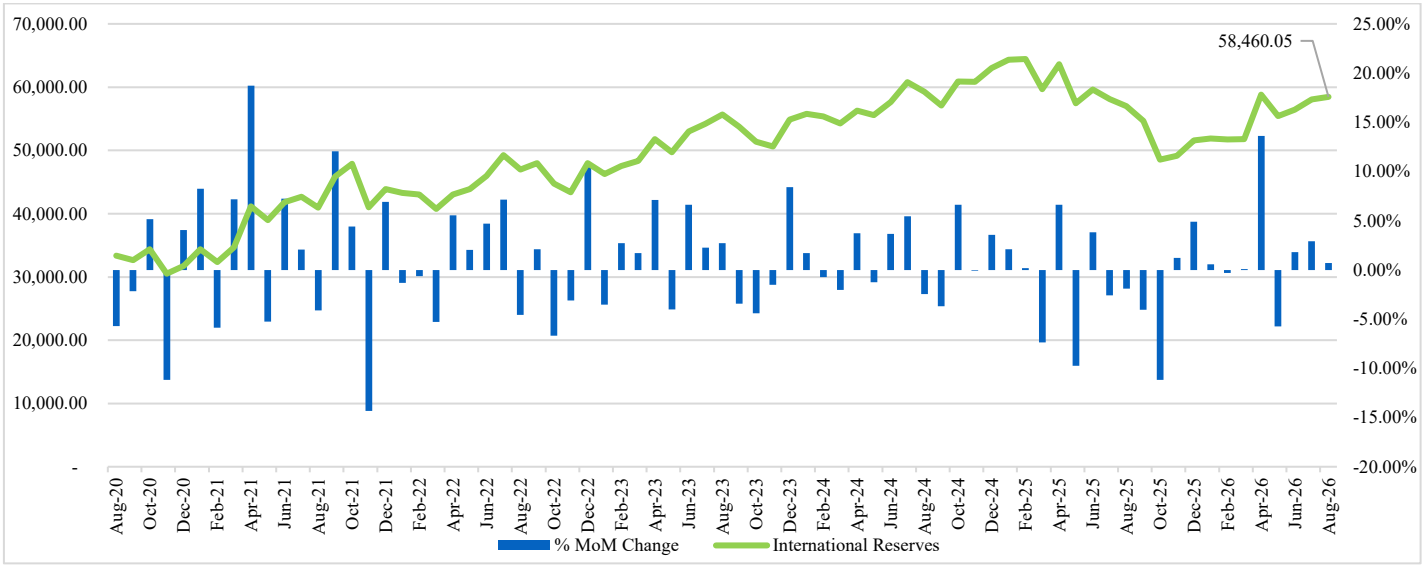
Figure 4: PSCE Annual Growth Rates (August 2021 – August 2026)



Source: BoN

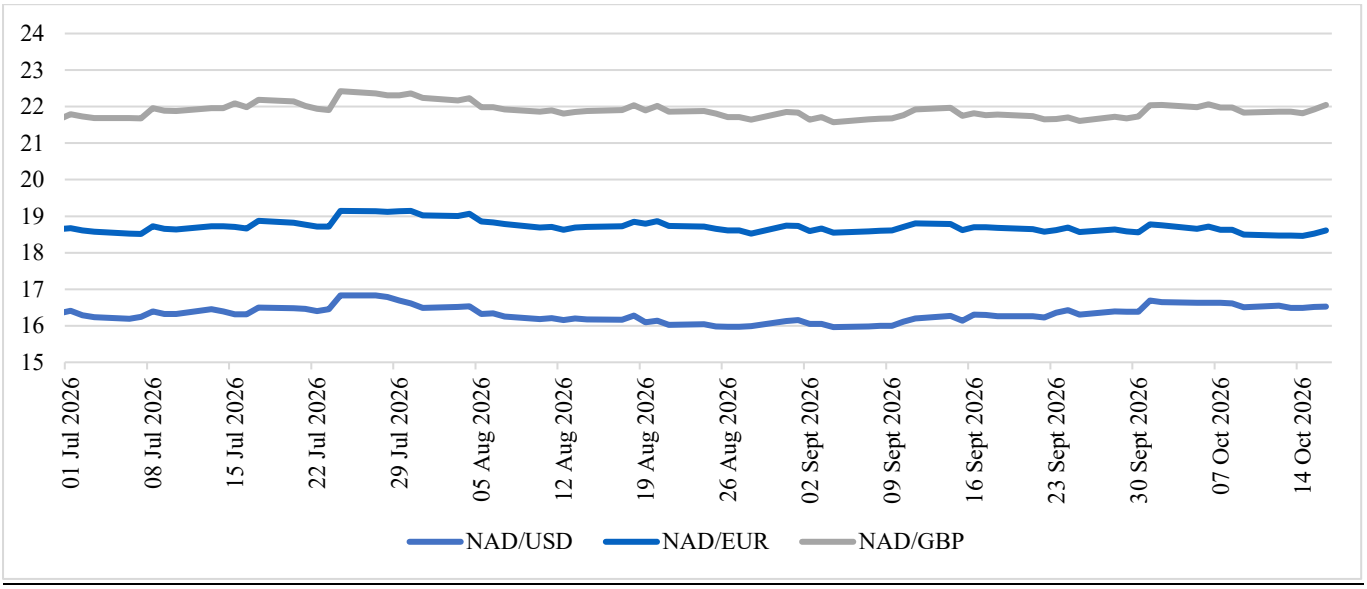
[1] Every other CMA country bar Namibia had an MPA in May

Figure 5: International Reserve Levels & Monthly Growth Rates (August 2020 – August 2026)



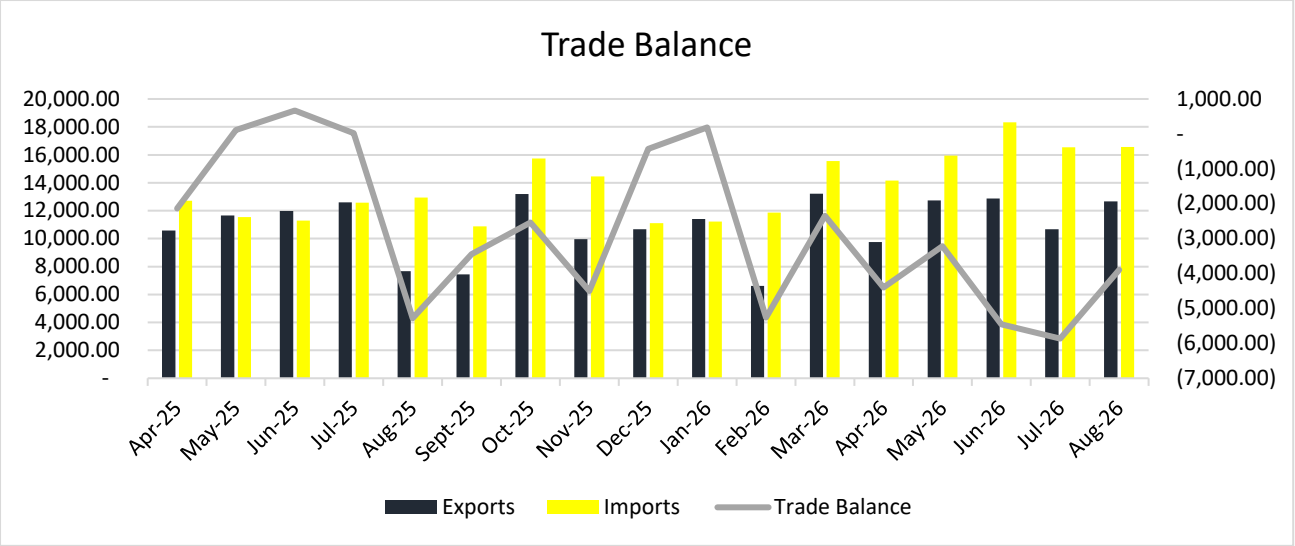
Source: BoN

Figure 6: Various Currencies vs NAD



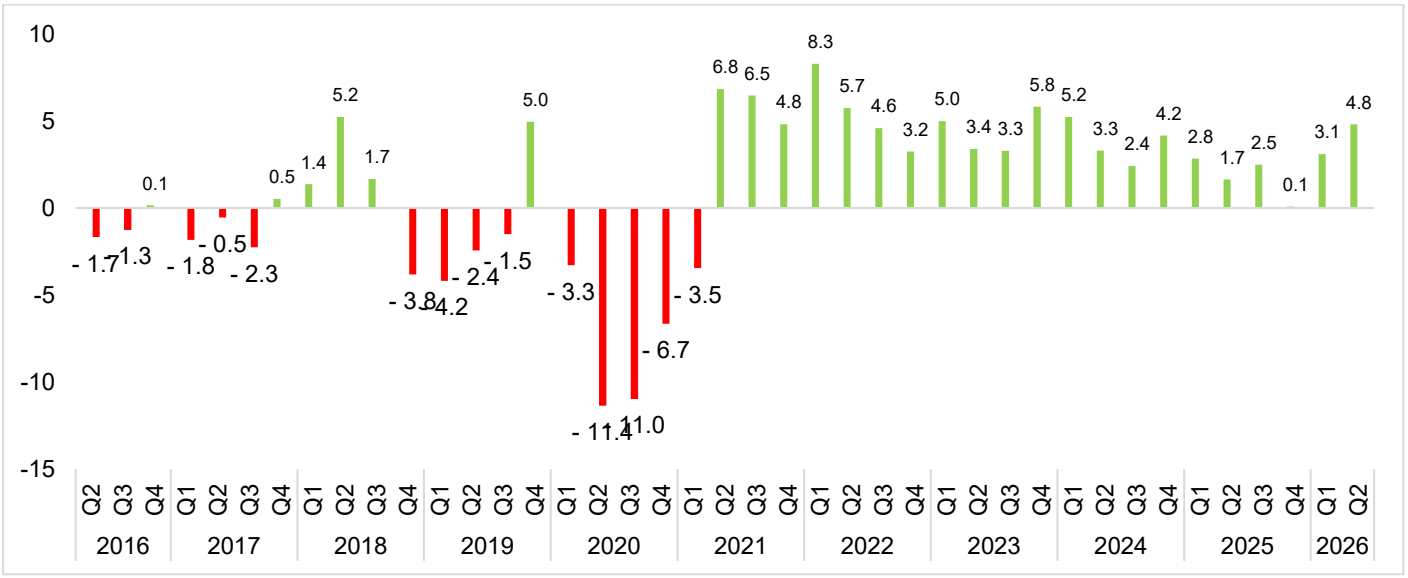
Source: HEI Research

Figure 7: Export And Import Value (N$ Millions) Vs Trade Balance, April 2025- August 2026



Source: NSA

Figure 8: Real GDP Growth Rates (2016Q2 - 2026Q2)



Source: NSA