BoN MPC Meeting
April 2024

Key Focus Points:

- The MPC **left the repo rate unchanged** at 7.75%.
- The BoN expects real GDP growth to slow to 3.7% in 2024.
- The central bank revised its inflation forecast upwards to an average of 4.9% in 2024, from 4.8% previously.
- The preliminary stock of international reserves stood at N$54.3 billion on 31 March, enough to cover 3.8 months of imports.

Macro Backdrop

The Bank of Namibia (BoN) expects **real GDP growth to slow from 4.2% in 2023 to an upwardly revised 3.7% in 2024** from the previous meeting. Domestic downside risks to the growth forecast include drought, sporadic rainfall conditions, and water supply interruptions at the coastal towns. Meanwhile, external risks persist, such as a tight global monetary policy stance, troublesome geopolitical tensions, and geoeconomic fragmentation.

PSCE growth remained subdued since the January MPC meeting, coming in at just 1.7% y/y in February. The BoN projects PSCE growth to improve marginally to around 2.0% y/y in 2024.

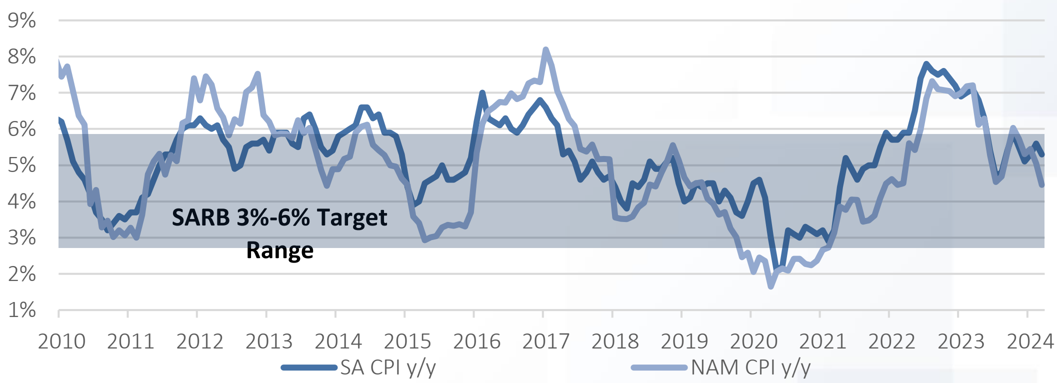
The preliminary stock of international reserves stood at N$54.3 billion on 31 March, a slight decrease from the N$55.8 billion reported at the January MPC meeting, which the BoN attributes to net commercial bank outflows and government foreign payments. At its current level, the **stock of international reserves is estimated to cover 3.8 months of imports** and thus remains sufficient to support the currency peg.

Inflation

The March CPI data released by the Namibia Statistics Agency showed that the annual inflation rate fell to 4.5% in March, from 5.0% in February. Despite slowing for a 12th consecutive month, and reaching its lowest level since March 2022, food inflation remains the largest contributor to the NCPI rate.

The BoN expects Inflationary pressures to continue easing in 2024, and forecasts Namibian **inflation to average 4.9% in 2024**, a 0.1 percentage point upward revision from its previous forecast in January. The upward revision accounts for uncertain rainfall conditions and persistent geopolitical tensions having the likelihood to induce oil price spikes. IJG's inflation model is currently forecasting the domestic inflation rate to slow to around 4.2% in 2024.

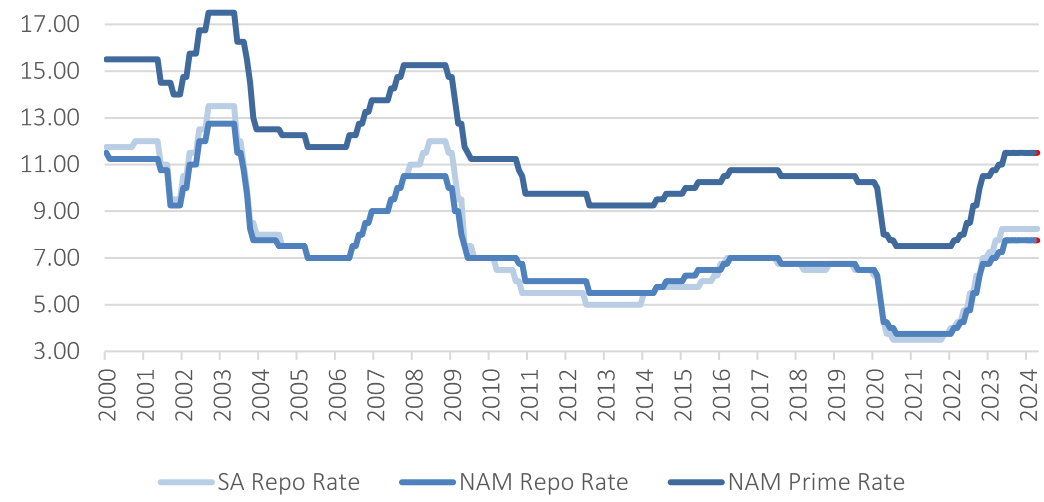
Namibia vs South African CPI (y/y)



Source: Namibia Statistics Agency, Statistics South Africa, IJG Securities

Interest Rates

Historical Policy Rates



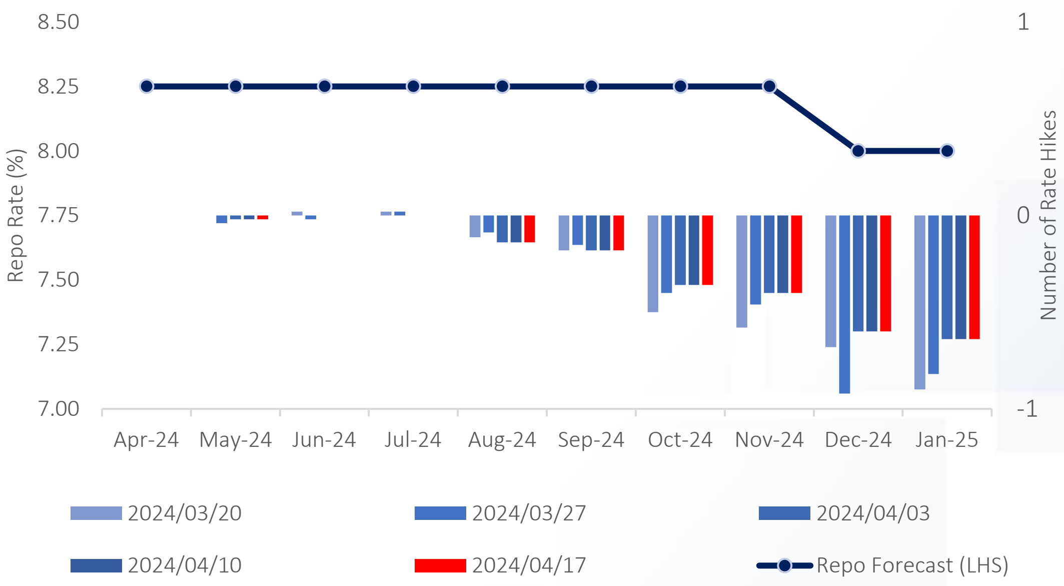
Source: Bank of Namibia, Statistics South Africa, IJG Securities

The **decision to leave rates unchanged** leaves the 50bps spread between Namibia and South Africa's rates in place. No mentions were made of the capital flows between the two countries at this announcement, suggesting that the MPC remains comfortable with the current levels.

The current pricing of the Forward Rate Agreement **(FRA) curve indicates that the market is currently only pricing in a single 25bp rate cut in South Africa in 2024**, down from two earlier this year. Consumer prices in South Africa rose by 5.3% y/y in March, slightly lower than the 5.4% y/y forecasted. The South Africa Reserve Bank's (SARB) hawkish tone however persists.

Minutes of the SARB's March MPC Meeting suggest that the likelihood of rate cuts in 2024 are low. Their forecasted inflation is skewed upwards due to adverse weather effects lowering supply of food, and the weak exchange rate, along with pressure from weaker terms of trade.

Implied Probability of Rate Hikes/(Cuts) over time (SARB)



**The columns indicate the number of 25bp hikes expected for a given month as at the date indicated in the legend (RHS).*
Source: Bloomberg, IJG Securities

Our Take

The MPC's decision was expected, given the SARB's decision last month to leave rates unchanged, and the fact that the current 50bp rate differential between Namibia and South Africa's has not resulted in further capital outflows to South Africa in recent months. We remain of the view that the anticipated rate cutting cycle will be shallow, especially over the next 12 to 18 months, both in the US and regionally.

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