BoN MPC Meeting
August 2024

Key Focus Points:

- **The MPC reduced the repo rate from 7.75% to 7.50%.**
- The central bank lowered its GDP growth forecast for 2024 to 3.1%.
- The Bank of Namibia (BoN) forecasts inflation to average 4.7% in 2024.
- The stock of international reserves stood at N$60.8 billion on 31 July, enough to cover 4.1 months of imports.

Macro Backdrop

The central bank lowered its real GDP growth forecast for 2024 to 3.1%. The slower growth is mainly due to prevailing drought setbacks and a slowdown in the primary industries. The governor mentioned that risks to the domestic economy remained broadly unchanged since the previous MPC. As mentioned above, persistent drought conditions and water shortages are some internal risks, while the unfavourable developments in the global diamond market present additional external risk to domestic growth.

Growth in PSCE remains subdued, coming in at 1.8% y/y in June and averaging 2.0% over the first half of the year. PSCE growth notably averaged 2.8% over the first half of 2023.

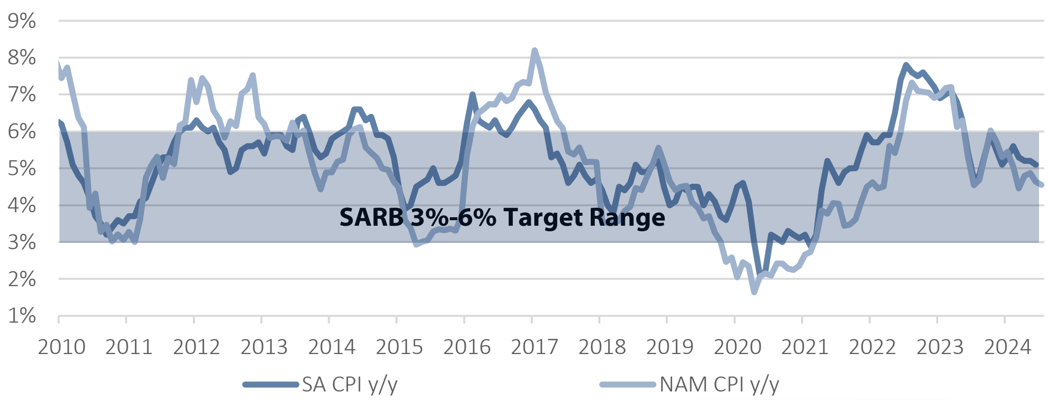
The stock of international reserves stood at N$60.8 billion on 31 July, up from N$55.6 billion on 31 May. Higher SACU receipts continue to be the main reason for this increase. This current level translates to an approximate import cover of 4.1 months, and thus remains sufficient to sustain the currency peg.

Inflation

Annual inflation in Namibia remained steady in July, holding at 4.6% y/y. Goods inflation stood at 5.3% y/y in July, down from 5.8% y/y in June. Conversely, services inflation accelerated to 3.4% y/y in July, compared to 2.9% y/y in May and June. While the IMF notes that global services price inflation is hampering disinflation efforts, this is not the case in Namibia, where services inflation remains subdued, well below the 2015-19 average.

Going forward, the BoN revised its average inflation rate forecast for 2024 down to 4.7%. This is slightly above IJG's inflation model, where we predict that the annual inflation rate will average between 4.0% and 4.5% in 2024.

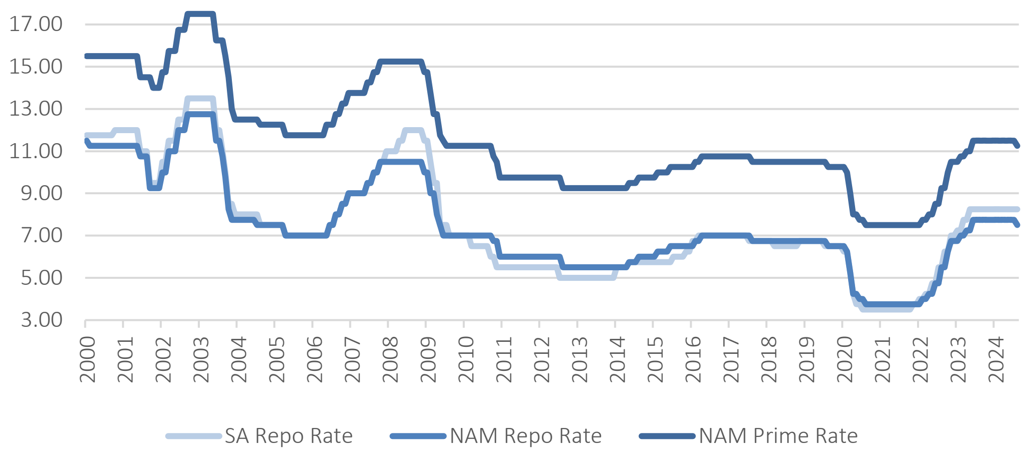
Namibia vs South African CPI (y/y)



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

Interest Rates

Historical Policy Rates (%)



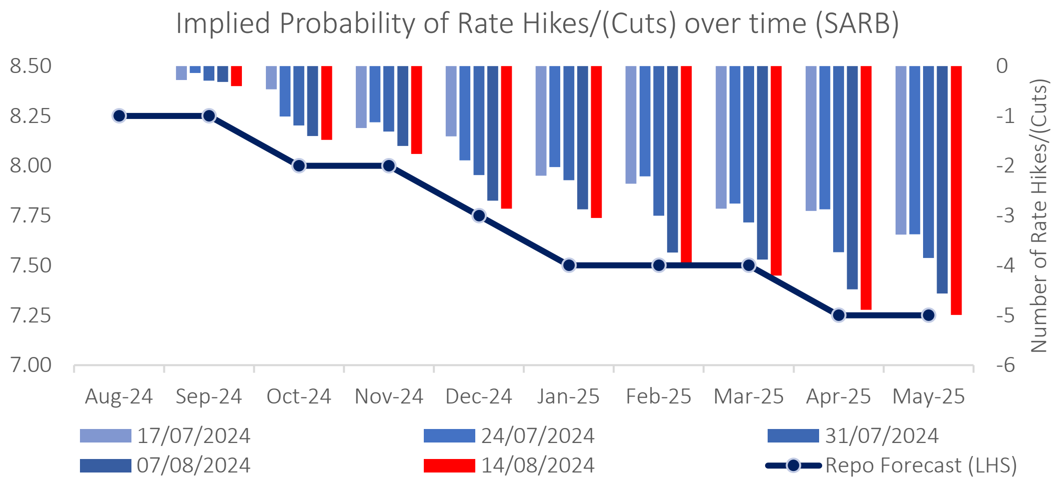
Source: Bank of Namibia, South African Reserve Bank, IJG Securities

The somewhat unexpected decision to reduce the repo rate to 7.50%, widens the spread between Namibia and South Africa's rate to 75bps. In response to a question regarding this increased spread, the governor simply pointed out that the spread was 150bps in 2008 and 2009.

The governor mentioned that they witnessed N$14.2 billion worth of capital outflows to South Africa year-to-date. The same period last year saw R10.6 billion worth of outflows. Despite the N$3.60 billion increase in outflows, the governor expressed little concern, explaining that R3.0 billion of the outflows were trade-related and primarily used for purchasing merchandise.

The current pricing of the Forward Rate Agreement (FRA) curve indicates that the market is pricing in two 25bps rate cuts in South Africa by Christmas this year. The inflation rate in South Africa came in at 5.1% y/y in June, slightly lower than the 5.2% y/y witnessed in May. CPI in South Africa is at its lowest for the year and is currently trending within the SARB's 3-6% target range.

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

Given the current economic conditions, the MPC's decision to reduce the repo rate to 7.50% reflects a balancing act between supporting domestic growth and managing the country's financial account. The BoN's comfort with the negative interest rate differential with South Africa has allowed it to take a dovish stance and prioritise economic growth. With international reserves at healthy levels and ample liquidity in the banking system, this comfort is not unwarranted. The BoN's nuanced view on growth, which has been disparate and largely attributable to primary industries, is welcomed. Should we see rates in South Africa lowered later this year, the domestic interest rate environment would certainly be accommodative for a broader economic recovery, with the fiscal environment already much improved from prior years.

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