IJG Namibia Economic Update
Monetary Policy Update
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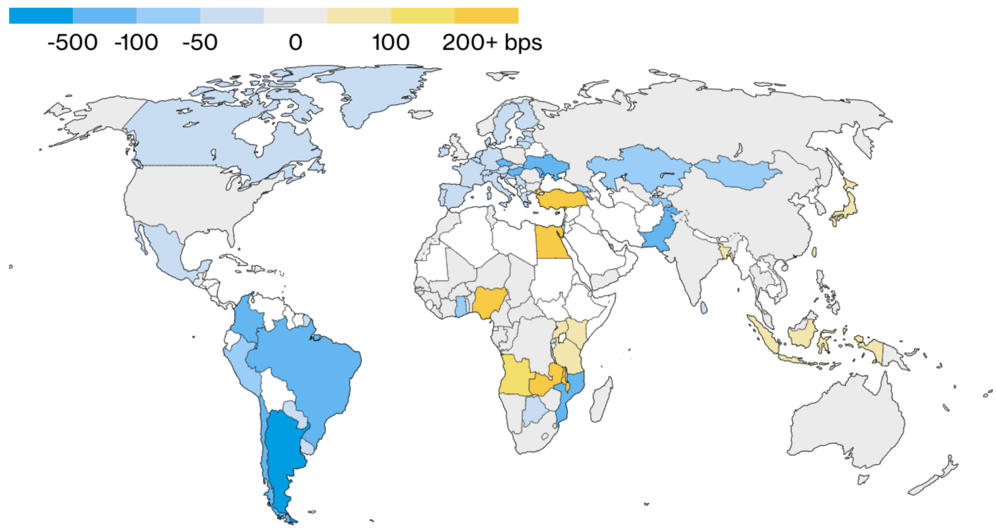
Global Environment

Monetary policy trajectories among major economies have started diverging during 1H24, following a phase of unusually synchronised interest rate hikes in 2022 and 2023.

The Swiss National Bank became the first major developed-market central bank to embark on an interest rate-cutting cycle, cutting rates by 25bps to 1.50% in March, its first rate cut since December 2014. This was followed by a second 25bps cut at its June meeting. The Central Bank of Mexico similarly cut its target rate by 25bps in March, to 11%, for the first time since February 2021. The move aligns with the Central Bank of Brazil, which initiated its policy-easing cycle in August 2023 and lowered its Selic target rate three times this year, by a cumulative 125bps to 10.50%.

By contrast, the Bank of Japan took its policy rate out of negative territory in March, raising borrowing costs for the first time since 2007, and now targets a range of 0.0% - 0.1%, as inflation is becoming more sustainable. The Bank of Indonesia lifted its benchmark rate by 25bp in April, to 6.25%, while Turkey's central bank increased its policy rate again in March by 500bp, to 50%.

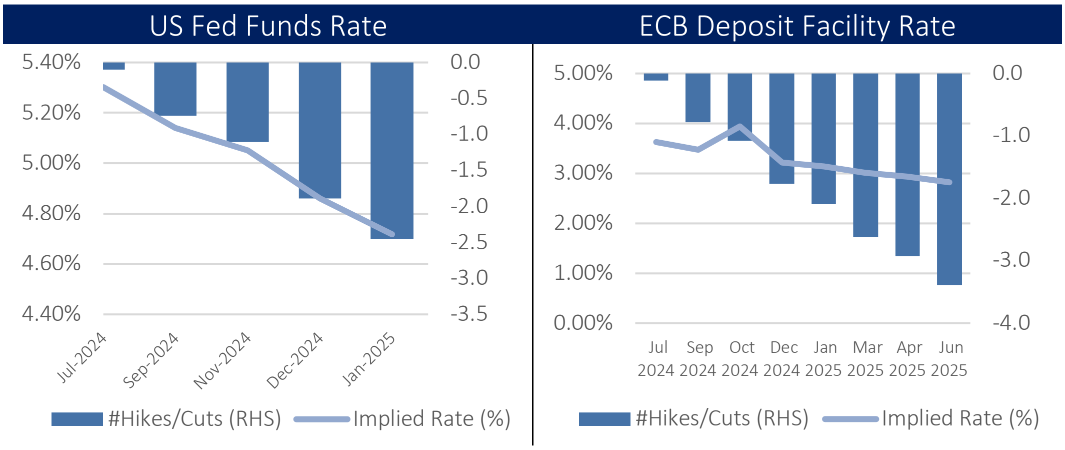
Change in Borrowing Costs This Year



Source: Bloomberg

The world's most powerful central bank, the US Federal Reserve, however still has rates on a plateau, having left rates at a 23-year high at all FOMC meetings this year. At the start of the year, Federal Reserve officials projected that they would cut rates three times this year. By June, however, this has been revised down to a single rate cut, with some policymakers not forecasting any. Fed chair Jerome Powell noted at the May announcement that "it is likely to take longer for us to gain confidence that we are on a sustainable path down to 2 per cent inflation," signalling that rates will likely remain higher-for-longer. The market is currently pricing in nearly two 25bp rate cuts by the Fed this year, down from five in January.

US Fed Funds Rate, ECB Deposit Facility Rate, and Nr of Rate Hikes/(Cuts)



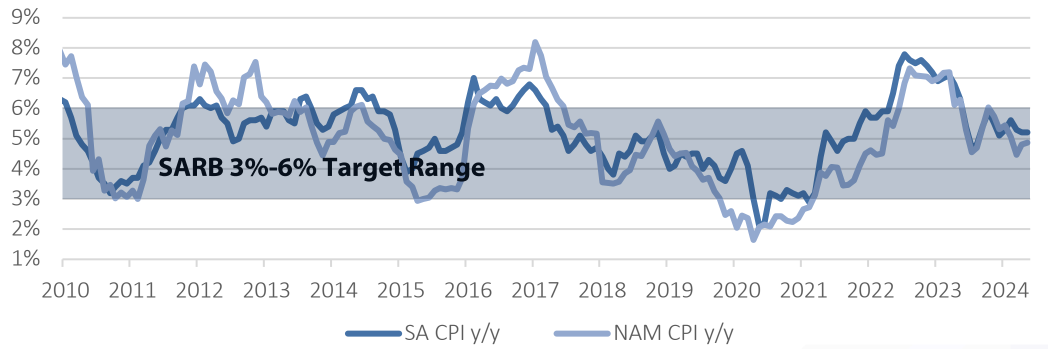
Source: Bloomberg

The European Central Bank (ECB), meanwhile, started its rate cutting cycle in June, delivering a 'hawkish' 25bp cut. ECB President Christine Lagarde however stressed that this is not yet a "dialing back" phase of interest rates, but rather a "moderation in the level of restriction," emphasising the need for more data and analysis to confirm the disinflationary path. She has stressed several times that the bank was not pre-committing to any further interest rate moves. The market is currently pricing in nearly 2 more rate cuts by the ECB by year-end.

South Africa

Closer to home, the South African Reserve Bank (SARB) has left the country's repo rate unchanged at 8.25% at all its MPC meetings this year. The 30 May announcement also saw the SARB leave its inflation forecast for 2024 unchanged at 5.1% but revised its 2025 forecast down from 4.6% at the March meeting to 4.5% in May.

Namibia vs South African CPI (y/y)



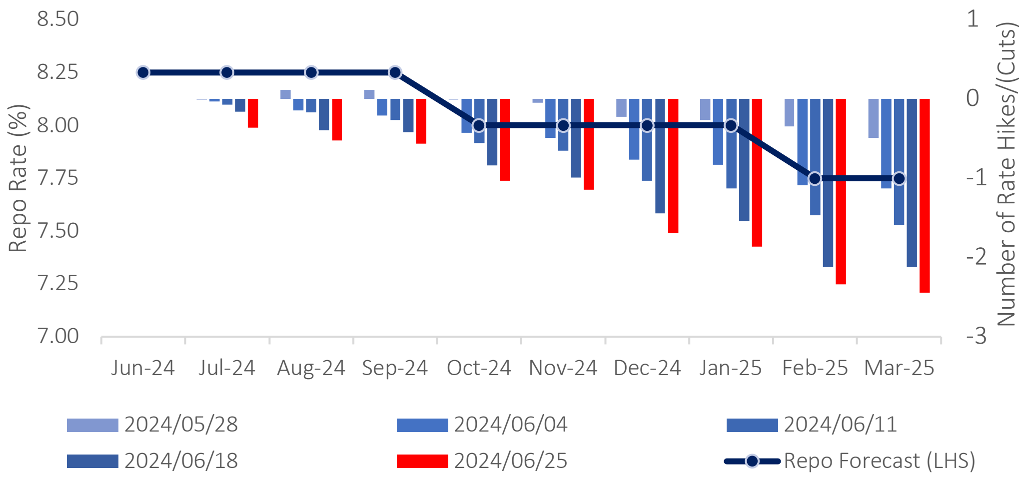
Source: Namibia Statistics Agency, IJG Securities

With the release of the Monetary Policy Review in May, the SARB mentioned that South Africa would benefit from a move to a single point inflation target that would give it a permanently lower inflation profile and borrowing costs than the current target band. The report did not specify an inflation target, but Governor Kganyago, who has previously advocated for a target of 3%, has stated that the SARB is collaborating with the National Treasury to establish a framework for determining the nature of a new target.

South Africa's headline CPI rate returned to the SARB's target band in June 2023 already, however Governor Kganyago pointed out in the central bank's annual report that it "has since then been stuck in the top half of that range, making no clear progress towards our 4.5% midpoint objective". He added that although South Africa's recent inflation has been "relatively benign" compared to advanced and emerging market economies, the country is projected to have the third-highest inflation rate among the G20 nations from 2026, based on the IMF's forecasts. He noted that South Africa's inflation target of 4.5% is relatively high compared to its peers, which negatively impacts its competitiveness. "South Africa can and should have lower inflation," he said.

At present, the Forward Rate Agreement (FRA) curve is pricing in a single 25bp cut towards the latter end of the year, versus three cuts that were priced in at the beginning of the year. A lower target could delay rate cuts, although we view such a decision as unlikely in the near term.

Implied Probability of Rate Hikes/(Cuts) Over Time (SARB)

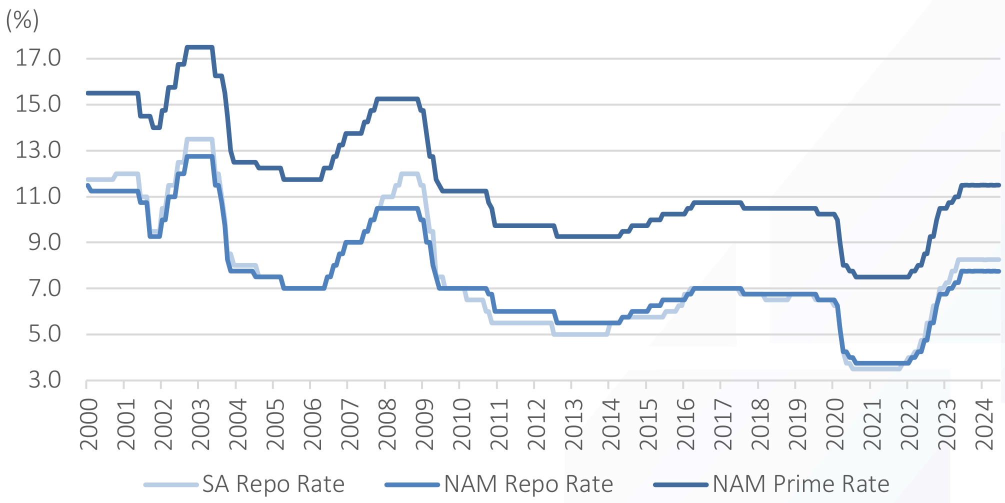


**The columns indicate the number of 25bp hikes/(cuts) expected for a given month as at the date indicated in the legend (RHS).*
Source: Bloomberg, IJG Securities

Namibia

The Bank of Namibia's (BoN) MPC has so far mimicked the SARB in leaving rates unchanged this year. Governor !Gawaxab however stressed at several occasions that the BoN's MPC decisions are independent from the SARB's, which he evidenced by the current 50bp rate differential between the two countries. The fact that Namibia's monetary policy framework is underpinned by currency peg to the South African rand however means that the BoN cannot deviate too far from the SARB.

Historical Policy Rates



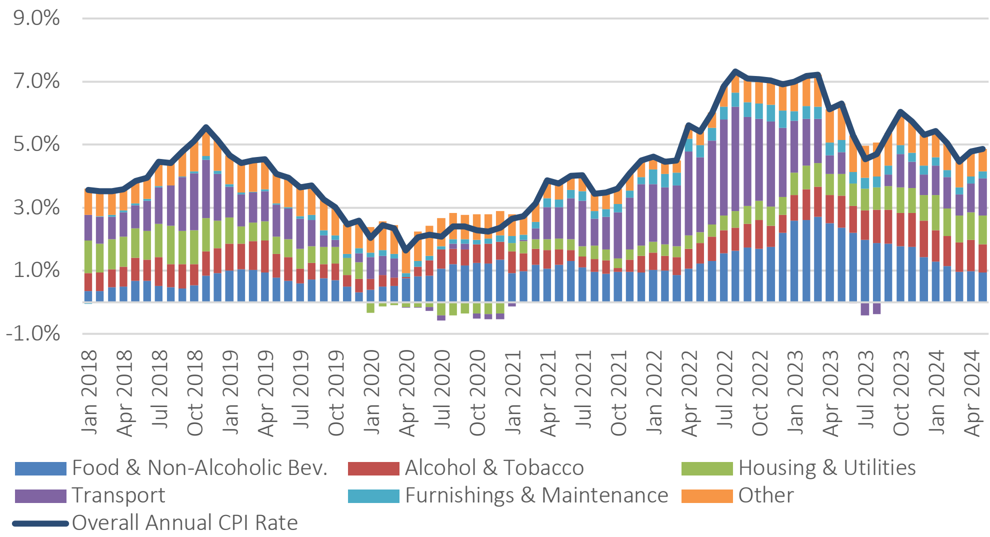
Source: Bank of Namibia, South African Reserve Bank

After slowing steadily since October 2023, the annual Namibian inflation rate has been ticking up from 4.5% in March to 4.9% in May. This has primarily been driven by quicker transport inflation, on the back of fuel price increase by the Ministry of Mines and Energy in recent months. At the end of May, domestic fuel prices were 14.0% higher than they were a year ago, resulting in the transport category contributing 1.18 percentage points to the overall inflation rate in May. With fuel prices left unchanged in June (and 16.3% higher year-on-year), we expect the category to continue exerting upward pressure on the overall inflation rate over the short-term.

The Namibia Statistics Agency (NSA) reported rental inflation of 3.6% y/y in January, before reporting it at 2.6% y/y in February. As rental payments make up a large portion (23.3%) of the CPI basket, and is typically only adjusted in the beginning of the year, the modest inflationary adjustment is not a significant contributor to inflation in 2024.

After peaking at 14.6% y/y in March 2023, food inflation has slowed to 4.7% y/y in May, although the ongoing drought could result in a reversion of this trend. At present, supply side factors continue to be the driver of domestic inflation, evidenced by goods inflation (of 6.2%) trending significantly higher than services inflation (2.9%).

Breakdown of the Namibian Annual CPI Rate

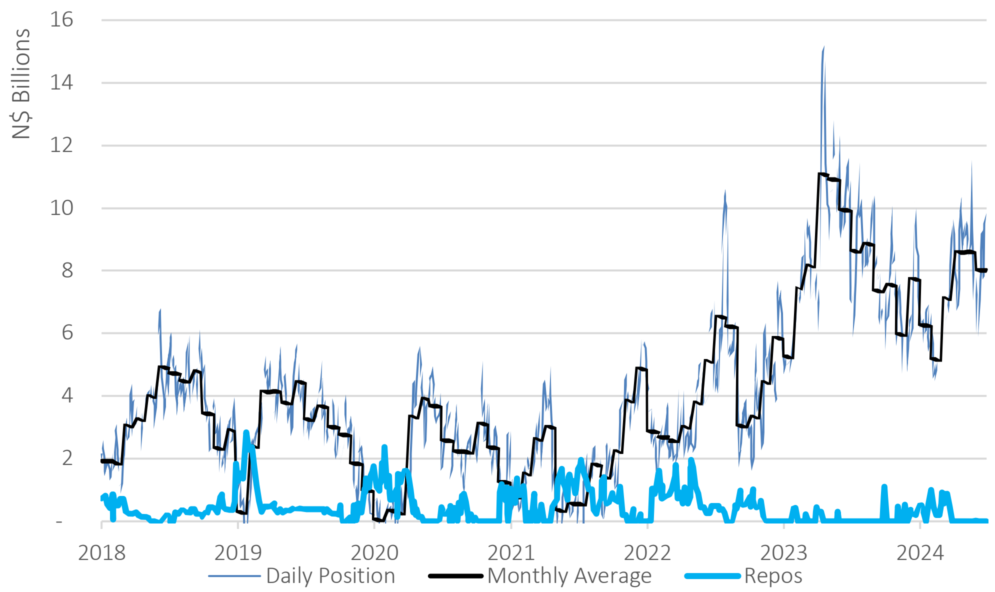


Source: Namibia Statistics Agency, IJG Securities

At its Monetary Policy Dialogue in June, the governor noted that the BoN expects the annual inflation rate to continue ticking higher over the next few months and to “turn at 5.2% in July” before slowing to around 4.6% in September. IJG’s inflation model is currently forecasting the annual Namibian inflation rate to average between 4.3% and 5.2% in 2024.

While concerned by price stability, the BoN is not an inflation-targeting central bank, and the country’s monetary policy is submissive to the fixed peg, which limits how far Namibia’s interest rates can deviate from South Africa’s, as it could lead to excessive capital outflows. Responding to a question from the media after the June MPC announcement, the Governor noted that they have seen N$12.2 billion worth of capital outflows to South Africa year-to-date. By comparison, the same period last year saw about N$9.9 billion worth of outflows. The Governor however added that they “are not too concerned about it at this point”. The liquidity position of the Namibian banking industry remains particularly strong at present, trending above N$9.00 billion for most of June.

Namibian Banking Liquidity



Source: Bank of Namibia, IJG Securities

At the Monetary Policy Dialogue, members of the MPC were asked how wide of a rate differential with South Africa they are comfortable with. The Governor answered that they are "willing to stomach about 75bps", citing an internal study the BoN has done.

The MPC members were also asked whether a narrower spread between the country's prime- and repo-rates is something worth considering, to which the governor simply replied "I do not think so". After modelling this and consulting with the commercial banks, the conclusion was reached that the current spread is deemed appropriate. The Governor made the point that since financial stability is part of the BoN's mandate, it would be inappropriate for the central bank to tell the commercial banks to work with a narrower spread.

Outlook

Going forward, we do not expect the BoN to start the rate cutting cycle ahead of the SARB, given that the current rate differential is close to the maximum the MPC is comfortable with. Despite the higher capital outflows to SA this year, the MPC is clearly comfortable with the situation. We would therefore not be surprised to see the BoN follow suit when the SARB starts cutting rates. That being said, we do not foresee the expected cutting cycle to be a particularly deep one. Especially in Namibia, where the rate differential with South Africa will have to be closed at some point.

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