



Date: 17 June 2020
Attention: News Editor
Ref: 9/6/2

FOR IMMEDIATE RELEASE

REPO RATE REDUCED FROM 4.25 TO 4.00 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to reduce the Repo rate from 4.25 percent to 4.00 percent. The MPC is of the view that at this level the rate is appropriate to continue supporting domestic economic activity while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand.

RECENT ECONOMIC DEVELOPMENTS

The global economy contracted during the first quarter of 2020. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) declined. Monetary policy stances of key monitored economies were generally accommodative.

1. The global real GDP contracted during the first quarter of 2020, due to negative growth recorded in the key monitored AEs and EMDEs during the same period, as a result of the Covid-19 pandemic. Going forward, the IMF projects the global economy to contract by 3.0 percent in 2020 compared to a positive growth of 2.9 percent in 2019.
2. Most of the monitored AEs recorded negative real growth rates during the first quarter of 2020 compared to 2019. The contractions are mainly on the back of lockdown strategies aimed at containing the spread of COVID-19. This forced businesses to close, resulting in lower domestic economic activity. The AEs real GDP is projected to contract by 6.1 percent in 2020 compared to a positive growth rate of 1.7 percent in 2019. Among the monitored EMDEs, China and Brazil recorded GDP contractions during the first quarter of 2020, while Russia and India recorded positive but lower growth rates. Going forward, the EMDEs are projected to record a negative growth rate of 1.0 percent in 2020 from a positive growth rate of 3.7 percent observed in 2019.

3. Key risks to the global outlook include, amongst others, increased uncertainty regarding the progress and direction of the Covid-19 pandemic, as well as the US-China trade tensions.
4. Commodity prices declined in April and May 2020 with the exception of gold and uranium prices. Financial markets recovered in April and May 2020 on account of both monetary and fiscal support.
5. Since the previous MPC meeting in April 2020, inflation in key monitored economies slowed, mainly attributed to lower energy prices and weak global demand. Most central banks in both the AEs and EMDEs maintained accommodative monetary policy stances, including the adoption of non-conventional monetary policy measures. These include asset purchasing and extending lending facilities to maintain the continued flow of credit and liquidity in their economies amid the COVID-19 pandemic.

Domestic economic activity contracted during the first four months of 2020. Inflation remained muted while Private Sector Credit Extension (PSCE) growth declined. The stock of international reserves remained sufficient to support the currency peg.

6. Domestic economic activity declined during the first four months of 2020, relative to 2019. The contraction was widespread among sectors, including the mining, manufacturing, wholesale and retail trade, transport and the tourism sectors. A few economic indicators such as local electricity generation and building plans approved, however, showed some improvement during the first four months of 2020, relative to the corresponding period of 2019. However, the domestic economy is projected to contract further in 2020.
7. Annual average inflation declined to 2.1 percent during the first five months of 2020 compared to 4.4 percent in the corresponding period of 2019. The decline was mainly due to a decrease in inflation for the categories of transport, housing and food during the period under review. On a monthly basis, inflation stood at 2.1 percent for May 2020, higher than the 1.6 percent reported in April 2020. Overall inflation is projected to average around 2 percent in 2020.

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8. Average growth in PSCE slowed to 5.8 percent during the first four months of 2020, lower than the rate of 6.4 percent recorded over the same period in 2019. The slowdown in PSCE was due to lower credit demand by businesses. Since the previous MPC meeting, growth in PSCE slowed to 3.7 percent at the end of April 2020, from 6.7 percent reported in the previous MPC statement.
9. As at the 31st of May 2020, the stock of international reserves stood at N\$33.7 billion, compared to N\$33.0 billion reported in the previous MPC statement. This amount of international reserves is estimated to cover 5.1 months of imports of goods and services. At this level, the reserves remain sufficient to protect the peg of the Namibia Dollar to the South African Rand and meet the country's international financial obligations.

Monetary Policy Stance

10. On the 16th of June 2020, the Monetary Policy Committee (MPC) of the Bank of Namibia held its meeting and decided to reduce the Repo rate from 4.25 percent to 4.00 percent, a historic low. This decision was taken following a review of global, regional and domestic economic and financial developments. This translates to a cumulative 2.50 percentage point reduction in the Repo rate since the beginning of 2020. The MPC had to balance the need for further monetary stimulus in the face of the pandemic-induced weakness in the economy, against the importance to not undermine sound saving and investment decisions in the economy. The MPC is of the view that at 4.00 percent the repo rate is appropriate to support domestic economic activity while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand. The next meeting of the MPC will be held on the 18th of August 2020.



DEPUTY GOVERNOR

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