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FOR IMMEDIATE RELEASE

REPO RATE MAINTAINED AT 3.75 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to keep the Repo rate unchanged at 3.75 percent. The MPC is of the view that the rate remains 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

Global economic activity, though showing some signs of recovery during the third quarter of 2020, is still expected to contract in 2020. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) remained well contained. Monetary policy stances of key monitored economies were generally accommodative.

1. The global real Gross Domestic Product (GDP) improved in the third quarter of 2020 compared to the previous quarter, although still contracting on an annual basis. The improved GDP growth was observed across the monitored AEs and EMDEs, mainly due to the lifting of lockdown measures that resulted in slightly higher levels of economic activity in the third quarter. Overall, for 2020, the International Monetary Fund (IMF) projects a less severe contraction of 4.4 percent for the global economy, which is 0.8 percentage point better than what was estimated in the previous World Economic Outlook Update. The global economy is expected to improve further in 2021 and expand to 5.2 percent.

2. For 2020 as a whole, the IMF projects the AEs real GDP to contract by 5.8 percent from 1.7 percent positive growth in 2019. In the EMDEs, GDP growth rates indicate a notable rebound in economic activity during the third quarter of 2020. The Chinese economy recorded a growth rate of 4.9 percent in the third quarter of 2020, while the other monitored EMDEs recorded less severe contractions compared to the second quarter of 2020. The improvement is mainly due to the relaxation of COVID-19 lockdown restrictions and a recovery in production volumes during the period under review. It is projected that EMDEs will record a negative growth rate of 3.3 percent in 2020, lower than the positive growth rate of 3.7 percent observed last year.
3. Key risks to the global outlook include the depth and extent of second wave of COVID-19 pandemic outbreaks, slow progress with the rollout of vaccines, as well as the US-China trade tensions. In addition, cross-border spillovers from weaker external demand could further magnify the impact of country- or region-specific shocks on global growth.
4. All monitored commodity prices declined in October 2020, except for copper and zinc that increased due to more positive economic activity recovery prospects. Stock markets performed better in November 2020 compared to the previous month, mainly on the back of optimism around COVID-19 vaccines and a possible economic stimulus in the US. The MPC was encouraged by news of the start of a rollout of vaccination but is mindful that this will take considerable time to reach all vulnerable people across the globe.
5. Since the previous MPC meeting, inflation rates have varied among the key monitored economies, but have remained generally low. In this regard, inflation declined in the US, Euro area, Japan, China and South Africa in October 2020, while it increased moderately in the remaining monitored economies. All monitored AE central banks maintained their policy interest rate at their recent monetary policy meetings, while continuing to implement supportive non-conventional monetary policy measures.

Domestic economic activity declined during the first ten months of 2020 and is estimated to register an overall contraction in 2020, before an expected modest recovery in 2021. Inflation remained low during the first ten months of 2020. Private Sector Credit Extension (PSCE) growth declined during the first ten months of 2020, while the stock of international reserves remained sufficient to support the currency peg.

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6. Domestic economic activity, though showing some positive signs of recovery in the third quarter, slowed during the first ten months of 2020, compared to the same period of 2019. The contraction was mainly reflected in lower activity observed in mining, agriculture, manufacturing, tourism, wholesale and retail trade as well as transport and storage. On the contrary, activity in the telecommunication and local electricity generation subsectors as well as the construction sector improved during the same period. The domestic economy is estimated to contract by 7.3 percent in 2020 before returning to a moderate recovery of 2.6 percent in 2021.
7. Annual average inflation declined to 2.2 percent during the first ten months of 2020 compared to 4.0 percent in the corresponding period of 2019. The lower inflation was mainly due to the decline in transport and housing inflation, mainly on account of deflationary pressure emanating from the depressed rental market and low international price of oil. On a monthly basis, the inflation rate declined to 2.3 percent in October 2020, from 2.4 percent in September 2020. Overall inflation is projected to average 2.3 percent in 2020.
8. Average growth in PSCE declined to 3.6 percent during the first ten months of 2020, lower than the 6.8 percent recorded over the same period in 2019. The slowdown in PSCE was due to lower demand for credit arising from weak overall domestic economic activity and the repayments made by businesses during the period under review. The growth in credit extended to businesses declined to 0.8 percent during the first ten months of 2020 compared to 8.7 percent over the same period in 2019. Since the previous MPC meeting, growth in PSCE slowed to 1.4 percent at the end of October 2020 from 2.6 percent in August 2020, mainly due to a lower uptake of credit by businesses.
9. As at the 30th of November 2020, the stock of international reserves stood at N\$29.9 billion compared to N\$32.7 billion reported in the October 2020 MPC statement. The decline of reserves was on account of the net purchases of Rand by commercial banks coupled with exchange rate revaluations through the appreciation of the Rand. This latest amount of international reserves is estimated to cover 4.5 months of imports. At this level, the reserves remain sufficient to protect the peg of the Namibia Dollar to the South African Rand, while meeting the country's international financial obligations.

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Monetary Policy Stance

10. On the 8th of December 2020, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to keep the Repo rate unchanged at 3.75 percent. This decision was taken following a review of global, regional and domestic economic and financial developments. The MPC is of the view that at 3.75 percent, the Repo rate remains 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 17th of February 2021.



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