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FOR IMMEDIATE RELEASE

REPO RATE REDUCED FROM 4.00 TO 3.75 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to reduce the Repo rate by 25 basis points from 4.00 percent to 3.75 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 economic activity contracted during the second quarter of 2020 and is expected to contract for 2020 as a whole. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) remained low in recent months. Monetary policy stances of key monitored economies were generally accommodative.

1. The global real Gross Domestic Product (GDP) recorded a more severe contraction during the second quarter of 2020 compared to the preceding quarter. The contraction is mainly on the back of weaker economic activity in both the AEs and EMDEs as a result of the COVID-19 pandemic. Going forward, the International Monetary Fund (IMF) projects the global economy to contract by 4.9 percent in 2020, from a positive growth rate of 2.9 percent in 2019. The 4.9 percent is a downward revision by 1.9 percentage points when compared to the forecast in the April 2020 World Economic Outlook (WEO). This contraction makes it the deepest global recession since the Second World War and the largest collapse in per capita income since 1870. Despite various health protocols to manage the pandemic and good progress in developing a vaccine, uncertainty remains on when and to what extent economic activities will normalise.



2. Most of the monitored AEs recorded steeply negative real growth rates during the second quarter of 2020, compared to the first quarter. The deeper contractions were mainly on the back of economic lockdowns that were imposed to contain the spread of the COVID-19 pandemic which negatively affected global economic activity. The AEs real GDP is projected to contract by 8.0 percent in 2020, compared to positive growth of 1.7 percent in 2019. Among the monitored EMDEs, China recorded a positive GDP growth rate during the second quarter of 2020 compared to a contraction in the first quarter. Going forward, the EMDEs are projected to record a negative growth rate of 3.0 percent in 2020 from a positive growth rate of 3.7 percent observed in 2019.
3. Key risks to the global outlook include increased uncertainty regarding the progress and direction of the COVID-19 pandemic, as well as the US-China trade tensions.
4. Commodity prices, in general, increased in July 2020 while the price of uranium declined. Similarly, stock market indices increased in July 2020 on the back of a positive development with regard to a COVID-19 vaccine, as well as significant fiscal and monetary stimuli.
5. Since the previous MPC meeting, inflation in key monitored economies remained well contained. All monitored AE central banks maintained their accommodative monetary policy stances and implementation of non-conventional monetary measures to ease credit flow and support their economies. In the EMDEs, most of the monitored central banks reduced their policy rates at their most recent meetings, except for China that maintained its policy rate.

Domestic economic activity contracted during the first half of 2020 and is projected to register an overall contraction for 2020. The rate of inflation remained low for the first seven months, while the Private Sector Credit Extension (PSCE) growth declined during the first six months of 2020. The stock of international reserves remained sufficient to support the currency peg.

6. The COVID-19 pandemic has caused domestic economic activity to contract severely during the first six months of 2020. The slump was reflected in sectors such as mining, agriculture, manufacturing, construction, tourism, wholesale and retail trade as well as



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transport and storage. Activity in the telecommunication and local electricity generation subsectors, however, showed some improvements in the first half of 2020 compared to the same period in 2019. Going forward, the domestic economy is projected to contract by 7.8 percent in 2020 (under the baseline scenario) before a moderate recovery of 2.1 percent in 2021.

7. Domestic inflation remained at a historic low level. Annual average inflation declined to 2.1 percent during the first seven months of 2020 compared to 4.3 percent in the corresponding period of 2019. The lower inflation was mainly due to the decline in transport, housing and food inflation. On a monthly basis, the inflation rate remained unchanged at 2.1 percent in July 2020. Overall inflation is projected to average around 2 percent in 2020.
8. Average growth in PSCE declined to 4.7 percent during the first six months of 2020, lower than the 6.9 percent recorded over the same period in 2019. The slowdown in PSCE was due to lower demand for credit and the repayments made by businesses during the period under review. This was mainly as a result of a slowdown in the growth of credit extended to businesses by 2.2 percent during the first six months of 2020. Since the previous MPC meeting, growth in PSCE slowed to 2.8 percent at the end of June 2020 from 3.7 percent in April 2020.
9. As at the 31st of July 2020, the stock of international reserves stood at N\$35.4 billion, compared to N\$33.7 billion reported in the June MPC statement. This amount of international reserves is estimated to cover 5.3 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 to meet the country's international financial obligations.

Monetary Policy Stance

10. On the 18th of August 2020, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to reduce the Repo rate by 25 basis points, from 4.00 percent to 3.75 percent, a new historic low. This decision was taken following a review of global, regional and domestic economic and financial developments. This translates to a cumulative 2.75 percentage points reduction in the

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Repo rate since the beginning of 2020. The MPC had to balance the need for further monetary stimulus in the face of the COVID-19 pandemic-induced weaknesses of the economy, against the importance to not undermine sound saving and investment decisions in the economy.

11. The MPC is of the view that at 3.75 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 MPC also noted the efforts made to support economic activity and bridging the financing gaps left by the pandemic, and is confident that this will further underpin a recovery of the Namibian economy.



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