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REPO RATE REDUCED FROM 7.50 PERCENT TO 7.25 PERCENT

On the 14th and 15th of October 2024, the Monetary Policy Committee (MPC) of the Bank of Namibia held its fifth bi-monthly meeting for 2024 to decide on the appropriate monetary policy stance to be implemented over the next two months. To continue supporting the domestic economy while simultaneously safeguarding the peg between the Namibia Dollar and the South African Rand, the MPC unanimously decided to cut the Repo rate by 25 basis points to 7.25 percent. This decision was made following a comprehensive review of current and expected domestic, regional and global economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity rose during the first eight months of 2024, although growth slowed on a quarterly and yearly basis during the second quarter of 2024. Inflation receded notably, and the projected medium-term inflation path has been revised downwards. Growth in Private Sector Credit Extension (PSCE) remained subdued. The merchandise trade deficit widened further, while the stock of international reserves continued to be sufficient to preserve the currency peg and meet the country's international financial obligations.

1. Domestic economic activity rose during the first eight months of 2024 relative to the same period in 2023. The recovery was broad-based, with notable increases in the *mining*, *electricity generation*, *wholesale and retail trade*, *tourism*, *financial services*, *communication* and *transport* sectors as well as the *livestock marketing* subsector. The pace of expansion nevertheless lost momentum. In this regard, the Namibian economy recorded a slower growth rate of 3.5 percent during the second quarter of 2024, compared to 4.3 percent and 3.6 percent in the preceding quarter and the corresponding quarter of 2023, respectively. Looking ahead, growth is projected to moderate to 3.1 percent in 2024 and 3.9 percent in 2025, compared to a firmer pace of 4.2 percent recorded in 2023. The anticipated slowdown is primarily attributed to the weakening primary industry, partly reflecting the prevailing drought conditions and sluggish global demand.

2. Risks to the domestic economic outlook stemming from external factors have intensified, while those from domestic factors remained broadly unchanged since the last MPC meeting. External risks include the escalation of geopolitical tensions, especially in the Middle East, geoeconomic fragmentation and weaker global demand. Internally, drought conditions and water supply interruptions, particularly at the coastal towns, continue to pose risks.

3. The domestic disinflation cycle continued year-to-date. Inflation averaged 4.6 percent in the first nine months of 2024, compared to 6.0 percent recorded during the same period in 2023. The decrease in inflation was essentially driven by lower average *food* inflation, with *communication* and, most recently, *transport* inflation also playing a role. Since the previous MPC meeting, inflation has surprised to the downside, falling from 4.6 percent in July 2024 to 3.4 percent in September 2024, the lowest since August 2021, mainly due to the deceleration in *transport* inflation. Going forward, the medium-term inflation forecast has been revised downward to 4.3 percent in 2024 and 4.0 percent in 2025, compared to 4.7 percent and 4.4 percent, respectively, at the previous MPC meeting. The revised forecast is due to a more favourable outlook for international crude oil prices and a stronger exchange rate.

4. Since the last MPC meeting, annual growth in PSCE exhibited a modest improvement to 2.1 percent at the end of August 2024 from 1.8 percent at the end of June 2024. However, the average PSCE growth for the first eight months of 2024 was lower at 2.0 percent, compared to 2.7 percent during the corresponding period in 2023. The continued sluggish growth in credit extended to the private sector has been driven by weak demand amplified by the still prevailing tight lending conditions. Nevertheless, the recent tax relief, moderately lower interest rates, and government expenditure could potentially stimulate credit demand going forward.

5. Turning to the external front, Namibia's merchandise trade deficit widened to N$25.8 billion during the first eight months of 2024, relative to N$21.2 billion in the same period of 2023. The wider trade deficit was primarily driven by higher import payments, especially for *machinery* and *consumer goods*, which were partly offset by a marginal increase in export receipts during the period under review.

6. The stock of international reserves stood at N$57.1 billion as at the 30th of September 2024 compared to N$60.8 billion at the end of July 2024. The decline was mainly driven by net commercial bank outflows, customer foreign currency withdrawals, foreign government payments and the appreciation of the exchange rate. This level corresponds to an estimated import cover of 3.9 months, which remains adequate to sustain the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations. Excluding oil and appraisal activities, the import cover stood higher at 4.6 months of imports.

The global economic recovery slowed slightly since the previous MPC meeting, reflective of subdued growth in the Group of Twenty (G20) countries during the second quarter of 2024. Global inflation has generally drifted lower since the previous MPC meeting, while the monetary policy easing cycle has continued to gain momentum.

7. The global economic recovery softened since the previous MPC meeting, with output in the G20 countries expanding at a slower pace of 3.1 percent during the second quarter of 2024, down from 3.2 percent in the preceding quarter. Among the monitored economies, growth was weaker in Japan, China, Russia and South Africa although relatively robust in the United States and India. Looking ahead, the International Monetary Fund in its July 2024 World Economic Outlook (WEO) Update has projected global output growth to moderate from 3.3 percent in 2023 to 3.2 percent in 2024 before rising marginally to 3.3 percent in 2025. This forecast may change in the October 2024 WEO expected to be released next week.

8. Prices of most key commodities rose compared to the preceding MPC meeting. The price of gold trended higher over the two-month period, buoyed by safe-haven demand. Likewise, zinc and copper prices increased over the same period, partly due to relatively lower global interest rates and a weaker US Dollar exchange rate. Furthermore, food prices were higher largely due to concerns over unfavourable weather conditions in some key export countries. While the uranium spot price initially fell towards the end of August, reflecting softening market fundamentals and market rebalancing, it recovered in the subsequent six weeks. Meanwhile, diamond prices have stabilised since the last MPC meeting, amid increased rough diamond inventories in India. Weaker global demand, particularly from the United States and China, continuously puts downward pressure on diamond sales. The price of Brent crude oil declined notably up to 10 September 2024

but recovered thereafter. The decline was mainly due to the renewed escalation of the conflict in the Middle East.

9. Global equity markets rallied since the last MPC meeting, led by the S&P500 and NASDAQ. The positive momentum has been attributed to fair macroeconomic data, robust corporate earnings, and expectations of interest rate cuts on the horizon. Meanwhile, bond yields extended their decline in August and the first half of September 2024 as investors priced in lower inflation rates along with the potential easing of monetary policy rates. Most recently, however, bond yields surged partly owing to the escalation of tension in the Middle East and stronger economic data from the United States.

10. Inflationary pressures have eased in most of the monitored economies since the previous MPC meeting. In the Advanced Economies (AEs), inflation slowed in the United States and the Euro Area, while it remained steady in the United Kingdom, but rose in Japan. Across the key Emerging Market and Developing Economies, inflation outcomes were lower, except in India where it rose sharply. Over the medium term, global inflation is forecast to gradually moderate in 2024 and 2025 from its 2023 high.

11. Monetary policy easing in the monitored economies has gained momentum since the previous MPC meeting. The US Federal Reserve, the European Central Bank and the South African Reserve Bank have cut rates at their most recent MPC meetings. Meanwhile, the Bank of England has paused its rate cut on the back of concerns regarding inflation in both 2024 and 2025. The Bank of Japan likewise held rates at its most recent meeting after hiking at the previous meeting to cushion the depreciation of the currency and contain inflation. On the other hand, the Bank of Russia and the Central Bank of Brazil increased their policy rates to contain inflationary pressures.

MONETARY POLICY STANCE

12. In discussing the monetary policy stance, the MPC noted the growing momentum in the international monetary policy easing cycle, the retreat in domestic inflation over the medium term, along with the recent downside surprise in the September 2024 inflation print. The MPC also noted that the domestic economy, while growing at a moderate pace, was operating below full capacity, with private sector credit extension remaining subdued. This suggested that further support to the domestic economy is warranted. With the latest

projections indicating a lower and well-contained trajectory for inflation over the medium term, and with international reserves at a level deemed robust, the committee unanimously decided to reduce the Repo rate by 25 basis points to 7.25 percent per annum, effective immediately. Concurrently, commercial banks are expected to reduce their prime lending rate by the same magnitude to 11.00 percent.

13. In deciding on this policy stance, the committee was wary of the renewed widening of the policy rate differential with the anchor country, South Africa, but was comforted by Namibia's recent experience of orderly capital flows along with adequate levels of international reserves. The newly adopted policy stance will continue to safeguard the one-to-one link between the Namibia Dollar and the South African Rand, while supporting domestic economic activity.

14. The next MPC meeting will be held on the 2nd and 3rd of December 2024.

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