BANK OF NAMIBIA

Minutes of the Monetary Policy Committee (MPC) Meeting

Windhoek, 10 - 11 February 2025

Bank of Namibia

"Our Vision is to be a leading central bank committed to a prosperous Namibia"

MPC MEMBERS PRESENT

Johannes !Gawaxab	Governor (Chairperson)
Leonie Dunn	Deputy Governor
Emma Haiyambo	Director: RFSDD[1]
Nicholas Mukasa	Director: Financial Markets Department (FMD)
Johan van den Heever	Technical Expert: RFSDD
Romeo Nel	Technical Advisor to the Governor

SECRETARY

Doughlas Ndana	Senior Economist: RFSDD

APOLOGIES

Ebson Uanguta	Deputy Governor

[1] Research and Financial Sector Development Department (RFSDD)

OTHERS PRESENT

Marsorry Ickua (Officer in Charge); Postrick Mushendami (Deputy Director: RFSDD); Sanette Schulze Struchtrup (Deputy Director: RFSDD); Abigail Nainda (Deputy Director: RFSDD); Anthea Angermund (Deputy Director: FMD); Israel Zemburuka (Director: Strategic Communications and International Relations); Daisy Mbazima-Lando (Principal Economist: RFSDD); Reinhold Kamati (Economic Advisor: RFSDD); Brian Mbazuvara (Technical Expert: RFSDD); Grace Hamauka (Principal Economist: RFSDD); Mukela Mabakeng (Technical Expert: RFSDD); Gracianu Kavaleka (Senior Economist: RFSDD); Kennedy Stephanus (Economist: RFSDD); Daniel Kavishe (Principal Economist: FMD); Aloys Mwashekele (Senior Economist: FMD).

PARTIAL ATTENDANCE

Florette Nakusera (Director: Financial Stability and Macroprudential Oversight Department (FSMOD)); Anna William (Deputy Director: FSMOD); Rehabeam Shilimela (Technical Expert: RFSDD); Gerson Kadhikwa (Technical Expert: RFSDD); Saara Mukumangeni-Kashaka (Principal Economist: RFSDD); Elifas Iiyambula (Principal Economist: RFSDD); Heinrich Namakalu (Senior Economist: RFSDD); Mutu Katjiuanjo (Senior Economist: RFSDD); Metilda Ntomwa (Senior Economist: RFSDD); Hileni Shifotoka (Senior Economist: RFSDD); Vejama Mootu (Senior Economist: RFSDD); Hilya Lazarus (Senior Economist: RFSDD); Sevelia Nakalemo (Senior Economist: RFSDD); Christof Kalumbu (Senior Economist: RFSDD); Isabel Nghinamupika (Economist: RFSDD); Malcolm Tsuseb (Economist: RFSDD); Joel Kagola (Economist: RFSDD); Lina Heita (Economist: RFSDD); Maria Ngolo (Graduate Accelerated Program Candidate); Naufiku Hamunime (Technical Expert: Strategic Communications and International Relations (SCIRD); Aili Andreas (Financial Analyst: Banking Supervision).

ECONOMIC DEVELOPMENTS REPORT

Following the tradition, economic developments were split into global and domestic components. First, a report on global economic developments was presented.

THE GLOBAL ECONOMY

1. **The MPC noted that the global economic recovery continued at a modest pace since the previous MPC meeting.** The MPC was informed that the global economy grew at a relatively stable but modest pace since the previous MPC meeting, with

growth divergent across monitored economies. In this regard, the US registered a solid growth rate during the fourth quarter of 2024, albeit at a slower pace than in the preceding quarter. In the Euro Area, growth was stable over the same period, although it remained subdued. The Chinese economy expanded at a relatively robust rate, supported by a series of stimulus measures. Over the medium term, the International Monetary Fund, in its January 2025 World Economic Outlook (WEO) Update, projected global growth to edge slightly higher from an estimated 3.2 percent in 2024 to 3.3 percent in both 2025 and 2026.

2. **The balance of risks to the global economic outlook remained tilted to the downside.** These risks included the new wave of protectionist policies in the form of tariffs by the US, the potential intensification of trade tensions, and weaker global demand. Other significant downside risks were renewed spikes in commodity prices, potentially tighter monetary policy, and the likely escalation of geopolitical tensions and geoeconomic fragmentation.

3. **The MPC noted that the Brent crude oil futures increased relative to the previous MPC meeting.** Since the last MPC meeting, Brent crude future prices increased noticeably to mid-January 2025, but thereafter prices softened to around US$75 per barrel on the 7th of February 2025. This was primarily due to potential oversupply from the United States. The price of Brent crude oil also increased both year-on-year and month-on-month to an average of US$79.55 per barrel in January 2025 following US sanctions on Iran and Russia and the adverse weather conditions which affected a significant part of the northern hemisphere.

4. **Diamond prices trended downwards since the last MPC meeting, mainly ascribed to weaker global demand.** The Zimnisky polished diamond index continued to trend downward since the last MPC meeting. The sustained declining trend in global diamond prices was primarily due to weaker consumer demand, especially in the United States and China, coupled with competition from lab-grown diamonds.

5. **Gold futures increased, while uranium futures extended their decline since the last MPC meeting.** Gold futures traded stronger, with prices increasing from US$2 669 per ounce on the 29th of November 2024 to US$2 888 per ounce on the 7th of February 2025. The price of gold continued to rise on account of safe-haven demand, amid geopolitical tensions, inflation concerns and tempered interest rate expectations.

Conversely, uranium futures dipped marginally below US$70 per pound on 7th February 2025, from US$78 per pound due to sufficient supply and globally uncertain demand.

6. **Copper futures were higher, while zinc futures receded compared to the levels observed at the December 2024 MPC meeting.** Copper prices rose by 5.0 percent to US$9 465 per metric tonne between the 29th of November 2024 to the 7th of February 2025. The increase was mainly supported by increasing concerns regarding tightening supply, amid solid demand related to global energy transition and electrical network development. In contrast, zinc prices declined by 8.1 percent during the same period owing to slowing demand from China.

7. **MPC members noted that while generally contained, inflation had ticked higher in most of the monitored economies.** The MPC was informed that consumer prices edged higher in all the key AEs, most notably in Japan and the Euro Area. Inflation also increased in most of the monitored Emerging Market and Developing Economies (EMDEs), particularly in Russia, where inflationary pressures persisted. However, inflation decelerated in India during the period under review. Looking ahead, global inflation was projected to recede from an average of 5.8 percent in 2024 to 4.2 percent and 3.5 percent in 2025 and 2026, respectively.

8. **Monetary policy easing continued across the monitored economies.** The MPC noted that most monitored central banks continued to ease the degree ofmonetary policy restraint, with expectations of rapid rate cuts diminishing. In this connection, the US Federal Reserve, the European Central Bank, the Bank of England, and the South African Reserve Bank (SARB) continued to reduce policy rates since the previous MPC meeting. Meanwhile, the central banks of Japan, Brazil and Russia tightened policy rates, while the Bank of India and the People's Bank of China kept their policy rates steady during the period under review.

9. **The MPC noted the recent global economic developments.**

THE DOMESTIC ECONOMY

A presentation on domestic economic developments was delivered to the MPC.

10. **The MPC noted that domestic economic activity expanded further during 2024, albeit at a slower pace compared to 2023.** The MPC was informed that, since the preceding MPC meeting, activity in the domestic economy expanded further during

2024, though at a slower pace relative to the prior year. The positive performance was primarily driven by the *mining*, *electricity generation*, *wholesale and retail trade*, *tourism*, *communication* and *transport* sectors, and the *livestock marketing* subsector. Conversely, the *diamond mining*, *diamond processing* and *crop production* subsectors, contracted during the period under review, with the *construction* sector remaining subdued. Furthermore, growth was forecast to recede from 4.2 percent in 2023 to 3.5 percent in 2024 before rebounding to 4.0 percent in 2025, remaining unchanged compared to the projections at the previous MPC sitting.

11. **External risks to the domestic economic outlook intensified.** The committee noted that downside risks to the growth outlook persisted, with external risks intensifying considerably, particularly in the wake of heightened trade tensions. Other major external risks were geopolitical tensions, weaker global demand, depressed global diamond prices, and the delayed stabilisation of the Chinese property market. Internally, adverse weather conditions, water supply interruptions, particularly at the coastal towns, animal health diseases and delays in infrastructure improvements posed downside risks to the growth outlook.

12. **The MPC noted that despite the deceleration in domestic inflation in 2024 compared to 2023, it had ticked up since the last MPC meeting.** Inflation averaged 4.2 percent during 2024, lower than the 5.9 percent recorded in 2023, primarily driven by lower inflation in the *food* and *transport* categories. However, since the previous MPC sitting, inflation had on balance marginally increased to 3.2 percent in January 2025 from 3.0 percent in October 2024. This was attributable to a rise in *food* and *transport* inflation. Looking ahead, inflation was projected to average 4.0 percent in 2025 and 4.4 percent in 2026. The 2026 forecast was 0.2 percentage point higher than the forecast at the previous MPC meeting, partly due to a slightly more depreciated exchange rate assumption.

13. **Annual growth in Private Sector Credit Extension (PSCE) improved since the last MPC meeting, despite remaining subdued overall.** PSCE growth increased to 4.0 percent in December 2024 from 3.4 percent recorded in October 2024. Furthermore, PSCE growth averaged 2.5 percent in 2024, a modest improvement compared to an average of 2.4 percent in 2023. The increase was evident in both the *business* and *household* sectors, particularly in the category of *other loans, advances and overdrafts*.

14. **Turning to the fiscal front, the Central Government's debt stock rose during the fiscal year up to the end of December 2024, primarily due to increased allotments of Treasury Bills (TBs) and Internal Registered Stock (IRS).** Central Government's debt stock stood at N$164 billion, representing increases of 10.2 percent year-on-year and 0.6 percent month-on-month. The rise mainly reflects higher issuance of both TBs and IRS. At this level, the debt-to-GDP ratio was computed at 68.2 percent using the four-quarter-rolling GDP method and 60.9 percent using the Ministry of Finance and Public Enterprises' methodology.

15. **On the external front, Namibia's merchandise trade deficit deteriorated during 2024, mainly due to a surge in imports.** The trade deficit widened to N$42.0 billion during 2024 from N$31.0 billion recorded in 2023. The widened trade deficit primarily reflected higher import payments, especially in the categories of *consumer goods*, *machinery* and *base metals*. Additionally, the decline in export earnings, notably from *diamonds* and *uranium*, further exacerbated the deterioration in the trade deficit.

16. **The stock of international reserves remained sufficient to support the currency peg and fulfil Namibia's international financial obligations.** The preliminary stock of international reserves stood at around N$65 billion as at 31st January 2025, higher compared to N$60.9 billion at the end of October 2024. The increase was mainly due to SACU receipts and exchange rate depreciation. This level of reserves translated to an estimated import cover of 4.3 months, which remained adequate to sustain the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

17. **The MPC took note of the recent developments in the domestic economy.**

ADOPTION OF THE MONETARY POLICY STANCE

18. **The MPC deliberated on both global and domestic economic developments.** MPC members reflected on the recent developments in the global and domestic economies and noted in summary that:

- Since the previous MPC meeting, the global economic recovery continued at a relatively stable, albeit modest pace, characterised by divergent growth across the monitored economies.
- Global growth forecasts for 2025 and 2026 remained broadly consistent with previous projections, although the balance of risks continued to tilt to the downside.

- Despite generally remaining contained, inflation edged higher in most of the key economies, while monetary policy easing progressed across major monitored economies.
- Developments in international prices for key commodities diverged since the previous MPC meeting, with diamonds continuing their downward path.
- Domestically, economic activity expanded further during 2024 relative to 2023, amid slower growth rates projected for 2024 and 2025.
- Domestic disinflation persisted in 2024, despite ticking up recently compared to the previous MPC. Fairly low inflation was anticipated to continue in 2025.
- The Central Government's budget deficit narrowed during the first nine months of the FY2024/25; however, a deterioration was anticipated for the FY2025/26 given imminent fiscal challenges, particularly on the revenue side.
- PSCE growth improved somewhat since the last MPC meeting but remained generally subdued.
- Foreign exchange reserves remained sufficient, while the merchandise trade deficit widened further on account of higher import payments.

19. **The MPC decided to continue easing policy in a measured way by lowering the Repo rate by a further 25 basis points to 6.75 percent, with immediate effect.** Four members voted to reduce the Repo rate, while two preferred to keep it unchanged. Commercial banks were accordingly expected to reduce their lending rates by 25 basis points, bringing their prime rate to 10.50 percent. The newly adopted policy stance would continue safeguarding the one-to-one link between the Namibia Dollar and the South African Rand while supporting domestic economic activity.

20. **In determining the appropriate monetary policy stance, the MPC considered several factors in support of a rate cut.** These included the most recent slow rates of inflation and its projected well-contained trajectory over the medium term, the relatively high level of domestic real interest rates and the adequate level of foreign reserves. Furthermore, the MPC considered the orderly capital flows that were being observed and the monetary policy easing trends among key central banks. The need for support to the economy was further underlined by recently released official data on the labour market.

21. **Going forward, the MPC was wary of other cautionary factors.** In particular, the MPC remained cognisant of the margin between policy rates in Namibia and the anchor

country, South Africa, and aimed to narrow the policy rate differential over the medium term. The Committee was also mindful of the widening domestic trade deficit, the more challenging fiscal environment that was likely in 2025/26, the potential impact of the imminent settling of international debt obligations on the country’s reserve holdings and the increased level of global policy uncertainty.