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REPO RATE MAINTAINED AT 6.75 PERCENT

On the 16th and 17th of June 2025, the Monetary Policy Committee (MPC) of the Bank of Namibia held its third bi-monthly meeting of the year to decide on the appropriate monetary policy stance for the next two months. To continue safeguarding the peg between the Namibia Dollar and the South African Rand, while supporting the domestic economy, the MPC unanimously decided to keep the Repo rate unchanged at 6.75 percent. This decision followed a comprehensive review of current and projected domestic, regional and global economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic activity expanded year-to-date, although at a slower pace relative to the same period a year ago. Domestic inflation is well-contained. Annual growth in Private Sector Credit Extension (PSCE) continued with an uptick trend but remains still subdued. The merchandise trade deficit improved somewhat but remained high, while the stock of international reserves continued to be sufficient to maintain the currency peg and meet the country's international financial obligations.

1. Domestic economic activity expanded during the first four months of 2025, albeit at a slower pace compared to the corresponding period in 2024. This expansion was primarily sustained by the *mining, tourism, wholesale and retail trade, transport, and communication* sectors. Meanwhile, the *construction* and *agriculture* sectors as well as the *diamond mining* subsector remained weak.
2. Looking ahead, real GDP growth is projected to marginally improve from an estimated 3.7 percent in 2024 to 3.8 percent in 2025 and 4.0 percent in 2026. This outlook, however, is susceptible to some key downside risks, including tariff restrictions,



prolonged multilateral policy uncertainty and depressed international diamond prices. Additionally, escalating geopolitical tensions, including the recent Israel-Iran conflict, could significantly weigh on growth. Domestically, water supply interruptions, especially in coastal towns, and animal disease outbreaks as well as slow development budget execution may continue to pose downside risks to growth.

3. Annual inflation averaged 3.6 percent during the first five months of 2025, lower compared to 4.9 percent during the same period in 2024. The deceleration was primarily observed in the housing, transport and alcoholic beverages categories. Additionally, inflation fractionally edged down to 3.5 percent in May 2025, from 3.6 percent in the preceding month, mainly on account of slower inflation in housing, augmented by the deflation in transport.
4. For 2025 and 2026, inflation projections have been adjusted downward to 3.9 percent and 4.3 percent respectively, 0.3 percentage point and 0.2 percentage point lower than previous forecasts. The revision for 2025 primarily reflects the smaller-than-anticipated increment in administered prices and a stronger exchange rate.
5. The annual growth in PSCE has ticked up since the previous MPC meeting, registering 4.5 percent in April 2025 relative to 3.9 percent in February 2025. Similarly, growth in PSCE increased on average to 4.4 percent during the first four months of 2025 compared to 1.7 percent in the same period in 2024. These increases were reflected in credit extended to both businesses and households. Despite trending above inflation for the past seven consecutive months, PSCE growth remains sluggish.
6. Namibia's merchandise trade deficit narrowed by 19.8 percent to N\$11.4 billion during the first five months of 2025 compared to the same period in 2024. This improved position was attributed to a faster increase in export receipts, notably from uranium and gold, relative to the rise in import payments.
7. The stock of international reserves stood at N\$57.4 billion as at the end of May 2025, dropping from N\$59.7 billion recorded at the end of March 2025. The decline was mainly due to trade-related outflows, customer foreign currency withdrawals and revaluation losses. This level of foreign reserves translates to an estimated import cover of 3.7



months, which is deemed adequate to sustain the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

The global economy maintained a moderate pace of growth in the first quarter of 2025, with the medium-term outlook remaining under significant downward pressure. Since the previous MPC meeting, global inflation generally slowed, while key stock and bond markets remained relatively volatile. Monetary policy stances eased across most of the monitored central banks.

8. Global growth was steady during the first quarter of 2025 relative to the fourth quarter of 2024, with divergences between individual countries having been noted. Among the monitored economies, growth slowed in the United States (US), United Kingdom, Brazil and Russia. Growth remained weak in South Africa and steady in China, whereas it picked up in the Euro Area, Japan and India. Global growth prospects have deteriorated since the previous MPC meeting, with the International Monetary Fund (IMF) now projecting world output growth to slow from an estimated 3.3 percent in 2024 to 2.8 percent in 2025 and 3.0 percent in 2026.
9. Prices for most key international commodities increased since the last MPC meeting. The price of gold has continued to rally, reaching a new all-time high most recently, buoyed by safe-haven demand. Crude oil futures prices have also increased, mainly ascribed to the recent escalation of geopolitical conflict in the Middle East. Turning to base metals, copper futures were higher primarily due to supply disruptions, while zinc futures marginally ticked up due to tighter supply. Moreover, uranium spot prices also edged higher, supported by improved risk appetite and positive investor sentiment regarding the growing number of nuclear reactors. Diamond prices remain subdued attributed to weaker global demand and competition from lab-grown diamonds.
10. Since the previous MPC meeting, global stock markets initially sold off in early April 2025, before recovering subsequently. These developments largely reflected the US' announcement of reciprocal tariffs and its subsequent 90-day suspension. Pivoting to key bond markets, yields mostly fluctuated sideways but have returned to levels



observed at the previous MPC meeting, although with a downward bias in the case of South Africa.

11. Global inflation has generally receded since the April 2025 MPC sitting, despite some cost pressures from rising tariffs. Among the monitored Advanced Economies (AEs), inflation moderated in the Euro Area and Japan, edged up in the United Kingdom, and remained stable in the United States. Furthermore, inflation slowed in most of the key Emerging Market and Developing Economies (EMDEs). Meanwhile, deflationary pressures persisted in China. Going forward, the IMF projects global inflation to decline from 5.7 percent in 2024 to 4.3 percent in 2025 and 3.6 percent in 2026. Inflation is now projected to come down at a slower pace than previously anticipated, mainly due to the potential impact of trade tariffs and the ongoing conflict in the Middle East.
12. Since the last MPC meeting, most of the monitored central banks have reduced their policy rates, marking a deviation from their previously unchanged monetary policy stances. In the key AEs, the Bank of England and the European Central Bank reduced rates, while the US Federal Reserve and the Bank of Japan maintained rates steady. Among the EMDEs, most central banks lowered their policy rates, except the Bank of Brazil, which continued to tighten.

MONETARY POLICY STANCE

13. Against this background, the MPC decided unanimously to keep the Repo rate unchanged at 6.75 percent, a full percentage point decrease compared to a year ago. Commercial banks are accordingly expected to maintain their prime lending rates at 10.50 percent. This policy stance will continue safeguarding the one-to-one link between the Namibia Dollar and the South African Rand while supporting domestic economic activity.
14. While the MPC has decided to maintain the Repo rate at its current level, it has been discussed and observed that within the countries of the Common Monetary Area (CMA), the longstanding practice has been that the prime rate does not exceed 3.50 percentage points above the Repo rate, only with the exception of Namibia that has maintained margins of 3.75 percentage points. In this regard, the MPC is urging the commercial



banks to heed the call of the Bank to start aligning their margins above the repo rate to the levels of other CMA countries. This move will address this anomaly and in time provide relief to consumers. Given the adjustment that is required on their operating models, the commercial banks will be given specified time frame to align accordingly.

15. In considering the appropriate monetary policy stance, the MPC was wary of the prevailing uncertainty from fundamental global economic and trade policy shifts. Furthermore, the escalating Middle East conflict and its potential ramifications for global inflation and growth could not be overlooked. It was evident that these evolving developments were gradually working to suppress the monetary policy space that would have otherwise been directed to support economic activity. This stance is also a step towards reducing the interest rate differential between Namibia and South Africa, in the interest of orderly capital flows.

16. The next MPC meeting will be held on the 11th and 12th of August 2025.



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