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FOR IMMEDIATE RELEASE

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## REPO RATE UNCHANGED AT 3.75 PERCENT

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*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.*

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### RECENT ECONOMIC DEVELOPMENTS

Global economic activity contracted during the second quarter of 2020 and is further expected to contract for the whole of 2020, before recovering in 2021. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) declined in recent months. Monetary policy stances of key monitored economies remained generally accommodative.

1. The global real Gross Domestic Product (GDP) contracted during the second quarter of 2020. The negative growth was mainly on the back of severe contractions in both the AEs and EMDEs as a result of the COVID-19 pandemic. Going forward, the International Monetary Fund (IMF) now projects a contraction of 4.4 percent for the global economy in 2020 as a whole. This is an upward revision from -5.2 percent projected earlier in the June 2020 World Economic Outlook (WEO). In 2021 the global economy is expected to improve to a positive growth rate of 5.2 percent.
2. Real GDP in most of the monitored AEs contracted during the second quarter of 2020. The Japanese economy registered the most severe decline in GDP followed by the United Kingdom (UK), Euro area and the United States (US). These contractions were mainly on the back of economic lockdowns that were imposed to contain the spread of the COVID-19 pandemic. For 2020 as a whole, the IMF projects the AEs real GDP to contract by 5.8



percent, an upward revision from -8.0 percent projected in June 2020. Similarly, all monitored EMDEs recorded negative real GDP growth rates for the second quarter of 2020, with the exception of China. Going forward, the EMDEs are projected to record a negative growth rate of 3.3 percent in 2020, a downward revision from -3.0 percent projected in June 2020. This is also significantly lower than the positive growth rate of 3.7 percent observed last year.

3. Key risks to the global outlook include possible second waves of infections in some regions, slower progress with the development and rollout of vaccines, as well as the US-China trade tensions.
4. Commodity prices declined in September 2020 compared to the previous month, except for copper which increased slightly. Stock market performances were volatile, partly reflecting the uncertainties regarding additional fiscal support in the US, the upcoming US election, and the surge in new COVID-19 cases globally.
5. Since the previous MPC meeting, inflation in key monitored economies declined in August 2020, except in the US, Brazil, Russia, and Angola. The decline in the rate of inflation is mainly attributed to falling energy prices and weak global economic activity. All monitored AE central banks maintained their policy interest rate at their recent monetary policy meetings, with the AE central banks continuing to implement supportive non-conventional monetary policy measures.

**Domestic economic activity contracted during the first eight months of 2020 and is projected to register an overall contraction in 2020, before an expected modest recovery in 2021. Inflation declined during the first nine months of 2020 and is projected to remain subdued for the rest of 2020 and 2021. The rate of growth in the Private Sector Credit Extension (PSCE) declined during the first eight months of 2020. The stock of international reserves remained sufficient to support the currency peg.**

6. Domestic economic activity slowed during the first eight months of 2020, compared to the same period of 2019. The contraction was mainly reflected in sectors such as mining, manufacturing, tourism, wholesale and retail trade as well as transport and storage. On the contrary, activity in the telecommunication and local electricity generation subsectors improved during the same period. 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.

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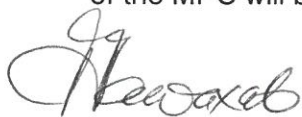
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7. Annual average inflation declined to 2.2 percent during the first nine months of 2020 compared to 4.2 percent in the corresponding period of 2019. The lower inflation was mainly due to the decline in transport, housing and food inflation. On a monthly basis, the inflation rate increased to 2.4 percent in both August and September 2020, from 2.1 percent in July 2020. Overall inflation is projected to average 2.3 percent in 2020.
8. Average growth in PSCE declined to 4.1 percent during the first eight 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. The growth in credit extended to businesses declined to 1.6 percent during the first eight months of 2020 compared to 9.0 percent over the same period in 2019. Since the previous MPC meeting, growth in PSCE slowed to 2.6 percent at the end of August 2020 from 2.8 percent in June 2020, mainly due to a lower uptake of credit by businesses. It was noted that the maximum repayment period for vehicle instalment sale agreements was extended as from the 1<sup>st</sup> of September 2020, providing support to credit extension for households in particular.
9. As of the 30<sup>th</sup> of September 2020, the stock of international reserves stood at N\$32.7 billion, compared to N\$35.4 billion reported in the August MPC statement. This amount of international reserves is estimated to cover 4.9 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, while meeting the country's international financial obligations.

## MONETARY POLICY STANCE

10. On the 20<sup>th</sup> of October 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 is still 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 8<sup>th</sup> of December 2020.



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