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## REPO RATE REDUCED BY 25 BASIS POINTS TO 7.00 PERCENT

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On the 2<sup>nd</sup> and 3<sup>rd</sup> of December 2024, the Monetary Policy Committee (MPC) of the Bank of Namibia held its sixth and final bi-monthly meeting for 2024 to decide on the appropriate monetary policy stance for the next two months. To continue supporting the domestic economy while safeguarding the peg between the Namibia Dollar and the South African Rand, the MPC unanimously decided to reduce the policy rate by 25 basis points to 7.00 percent. This decision was reached following a comprehensive review of current and expected domestic, regional and global economic developments.

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## RECENT ECONOMIC DEVELOPMENTS

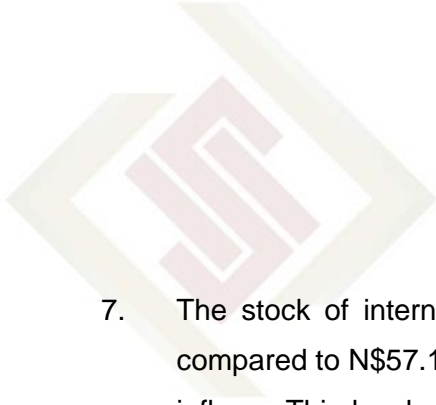
Domestic economic activity continued to expand during the first ten months of 2024. The domestic disinflationary process progressed steadily since the previous MPC meeting, while growth in Private Sector Credit Extension (PSCE) improved despite remaining subdued. The merchandise trade deficit widened further, while the stock of international reserves remained sufficient to maintain the currency peg and meet the country's international financial obligations.

1. Domestic economic activity strengthened during the first ten months of 2024 relative to the same period in 2023. The expansion was primarily driven by the *mining, electricity generation, wholesale and retail trade, tourism, communication and transport* sectors, and the *livestock marketing* subsector. However, the *diamond* and *crop production* subsectors contracted during the period under review, whilst the construction sector remained subdued.
2. Expected real GDP growth has been revised upward since the last MPC meeting. From 4.2 percent in 2023, real GDP growth for 2024 as a whole is projected to moderate to




3.5 percent, 0.4 percentage point higher relative to the projection at the previous MPC meeting. The upward revision emanated from a stronger-than-anticipated performance in the primary industry, especially *gold* mining. Likewise, the growth projection for 2025 has been marginally revised upward by 0.1 percentage point to 4.0 percent.

3. Risks to the domestic economic outlook stemming from external factors have gained more prominence, while those from domestic factors remained broadly stable relative to the previous MPC meeting. External risks include the escalation of geopolitical tensions, geoeconomic fragmentation, and weaker global demand. Other risks are sovereign debt distress, renewed fluctuations in commodity prices, and the contraction in the Chinese property market. Internally, drought conditions and water supply interruptions continue to pose downside risks to the growth outlook, particularly in coastal towns.
4. Domestic inflation decelerated further since the last MPC meeting. Inflation averaged 4.5 percent in the first ten months of 2024, a notable deceleration compared to 6.0 percent during the same period in 2023. Similarly, inflation slowed from 3.4 percent in September to 3.0 percent in October 2024. The inflation rate registered in October 2024 is the lowest since February 2021. The disinflationary trend is attributed to the sustained lower average *food* inflation and, most recently, the deceleration in *transport* inflation. Looking ahead, the medium-term inflation projection remains unchanged from the previous MPC meeting, with forecasts of 4.3 percent for 2024 and 4.0 percent for 2025.
5. The annual growth in PSCE remained subdued. In this regard, PSCE growth averaged 2.2 percent during the first ten months of 2024, lower than the 2.5 percent recorded during the same period in 2023. The sluggish growth has been attributed to weak demand, reinforced by the high-interest rate environment. Since the last MPC meeting, however, annual growth in PSCE improved to 3.4 percent at the end of October 2024 from 2.1 percent at the end of August 2024, driven by both businesses and households.
6. Namibia's merchandise trade deficit widened further, reaching N\$31.6 billion during the first ten months of 2024, relative to N\$28.2 billion during the corresponding period of 2023. The wider trade deficit is largely due to increased import payments, especially in the categories of *consumer goods*, *machinery* and *base metals*. The impact of higher imports on the trade deficit was, however, partially offset by a rise in export receipts, notably from *uranium* and *gold*.

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7. The stock of international reserves rose to N\$60.9 billion as of October 31, 2024, compared to N\$57.1 billion at the end of September 2024, primarily attributed to SACU inflows. This level of reserves translates to an estimated import cover of 4.1 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 hydrocarbon exploration and appraisal-related activities, the import cover stood higher at 4.9 months.

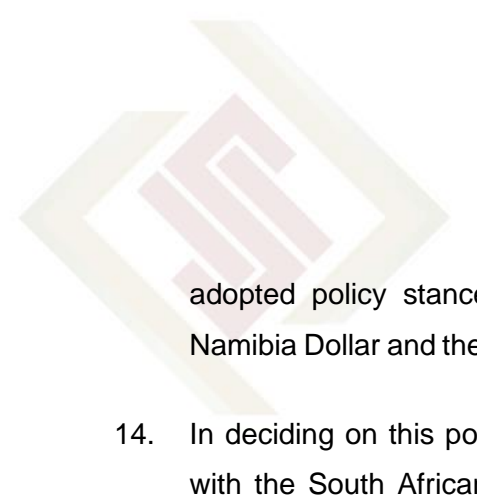
**The global economic recovery has slowed somewhat since the previous MPC meeting. Inflation rose in most monitored economies while the monetary policy easing cycle continued to gain momentum.**

8. The global economic recovery is estimated to have slowed since the previous MPC meeting. Among the monitored economies, available third-quarter data indicates that growth has moderated in the United States, the United Kingdom, Japan, China and Russia. Looking ahead, the International Monetary Fund, in its October 2024 World Economic Outlook (WEO), projected a stable growth rate of 3.2 percent in both 2024 and 2025, broadly unchanged from the July 2024 WEO Update.
9. International prices of key commodities were mixed relative to the previous MPC meeting. Buoyed by safe-haven demand, the gold price surged to a peak of nearly US\$2 800 per ounce in late October 2024 but thereafter retreated to around US\$2 640 per ounce at present, roughly the level observed at the time of the previous MPC meeting. Zinc prices increased, partly reflective of the rise in demand from China, while copper prices softened somewhat but remained elevated. Furthermore, maize prices were higher, partly driven by unfavourable weather conditions. Since the previous MPC meeting, diamond prices have been fairly stable but remained significantly lower than in the corresponding period a year ago, reflecting weaker global demand and competition from lab-grown diamonds. Uranium spot prices declined somewhat since the previous meeting but remained elevated relative to the same period in 2023, sustained by strong demand for cleaner, safer and more secure energy. The Brent crude oil price trended downward since the October 2024 MPC meeting, mainly due to weaker global demand.

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10. Global equity markets gained since the last MPC meeting, led by the S&P 500, which has continued to set multiple record highs. The upward momentum was partly driven by optimism regarding the November 2024 US election results and monetary policy easing. Bond yields rose somewhat owing to the ongoing gradual reversal of quantitative easing and the anticipated expansionary fiscal policy in the United States.
  11. While the broad trend continues to be downward, global inflation rose marginally in most of the monitored economies since the previous MPC meeting. In the Advanced Economies (AEs), inflation moderately increased in the United States, the Euro Area and the United Kingdom, but slowed in Japan. Similarly, across the key Emerging Market and Developing Economies (EMDEs), inflation was higher in Brazil and India whilst decreasing in South Africa, China and Russia. On a positive note, global inflation is projected to decrease in 2024 relative to 2023 and decelerate further in 2025, with a faster pace of disinflation expected in AEs than in EMDEs.
  12. Monetary policy easing has progressed across most of the monitored economies since the last MPC meeting. The US Federal Reserve, the European Central Bank, the Bank of England, the South African Reserve Bank (SARB) and the People's Bank of China all reduced rates at their most recent MPC meetings. Meanwhile, the Bank of Brazil and the Bank of Russia have tightened policy rates, while the Bank of Japan and the Bank of India have held rates steady.

## **MONETARY POLICY STANCE**

13. In deciding on an appropriate course of action, the MPC noted the most recent slowdown in inflation and welcomed the medium-term inflation outlook that remained well contained. Risks to the forecast, however, remained. The MPC was further gratified by the moderate pickup in PSCE growth, which, in its latest print, marginally outpaced the concurrent inflation rate. Noting the relatively high level of domestic real interest rates, the ongoing need to support the domestic economy, the adequate level of foreign reserves, orderly capital flows, and recent monetary policy easing trends in key central banks, the MPC unanimously decided to reduce the Repo rate by 25 basis points to 7.00 percent, with immediate effect. Commercial banks are accordingly expected to reduce their lending rates by 25 basis points, bringing their prime rate to 10.75 percent. The



adopted 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. In deciding on this policy stance, the MPC also considered the policy rate differential with the South African Reserve Bank, with a keen desire to close the gap over the medium term. Furthermore, the committee welcomed the current fiscal policy stance which is supportive of macroeconomic stability, underlining the importance of Government's growth-friendly fiscal path and investment in growth-enhancing initiatives. Finally, the MPC deliberated on the potential implications of the SARB's proposed downward revision of its inflation target for both South Africa and Namibia's monetary policy and inflation trajectories.
15. The next MPC meeting will be held on the 10<sup>th</sup> and 11<sup>th</sup> of February 2025.



Johannes !Gawaxab  
**GOVERNOR**