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REPO RATE MAINTAINED AT 6.75 PERCENT

On the 14th and 15th of April 2025, the Monetary Policy Committee (MPC) of the Bank of Namibia held its second 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 amid heightened global policy uncertainty, the MPC unanimously decided to keep the Repo rate unchanged at 6.75 percent. This decision was reached following a comprehensive review of current and expected domestic, regional, and global economic developments.

RECENT ECONOMIC DEVELOPMENTS

Domestic economic growth was experienced in 2024 and continued during the first two months of 2025. Despite a recent uptick, domestic inflation appeared to be well-contained. Growth in Private Sector Credit Extension (PSCE) remained subdued and broadly unchanged since the previous MPC meeting. The merchandise trade deficit improved, and the stock of international reserves remained sufficient to maintain the currency peg and meet the country's international financial obligations.

1. Real Gross Domestic Product (GDP) expanded at a solid pace of 3.7 percent in 2024, albeit slower compared to 4.4 percent in 2023. The moderation was attributed to a contraction recorded in the primary industries, particularly in the *diamond mining* subsector. The activity in the domestic economy expanded further during the first two months of 2025, relative to the corresponding period in 2024. The positive performance was driven by the *mining*, *tourism*, *wholesale and retail trade*, *communication*, *transport,* and *construction* sectors.

2. Real GDP growth for 2025 is estimated to be around 3.5 percent to 4.0 percent, slightly weaker compared to the forecast during the previous MPC meeting. Downside risks to the outlook have intensified, primarily driven by elevated global policy uncertainty and escalating trade wars. Other notable external risks include geopolitical tensions and the sustained depressed international diamond prices. Internally, delays in the upgrading and rehabilitation of infrastructure, challenges following the recent rain-induced damage, the outbreaks of animal health diseases and water supply interruptions, particularly in coastal towns, may pose downside risks to the domestic outlook.

3. Inflation averaged 3.7 percent during the first quarter of 2025, relative to 5.0 percent in the corresponding period in 2024. The slowdown in inflation was primarily ascribed to lower *housing* and *transport* inflation. However, the domestic disinflationary process has started reversing since the last MPC meeting. Inflation edged up to 4.2 percent in March 2025 compared to 3.2 percent recorded in January 2025, driven by *housing*, *food*, *transport,* and *alcoholic beverages*. Looking ahead, the average inflation forecasts for both 2025 and 2026 have been revised upwards to 4.2 percent and 4.5 percent, respectively, compared to previous forecasts of 4.0 percent and 4.4 percent. The upward revision is primarily due to a weaker exchange rate and higher administered price assumptions.

4. The annual growth in PSCE remained broadly unchanged since the last MPC meeting. PSCE growth stood at 3.9 percent in February 2025, fractionally lower than the 4.0 percent registered in December 2024, primarily ascribed to weak demand for credit by *households*. However, PSCE growth averaged 4.0 percent during the first two months of 2025, notably higher compared to 2.0 percent in the same period in 2024, due to increased demand from *businesses*, especially in the category of *other loans and advances*. Despite this recent uptick overall credit growth remains sluggish.

5. Namibia’s merchandise trade deficit narrowed by 2.9 percent to N$4.6 billion during the first two months of 2025. The improved position was due to increased export receipts, primarily from *gold* and *uranium*. However, this gain was partially offset by the rise in import payments, especially in the categories of *machinery* and *consumer goods*.

6. The stock of international reserves stood at N$59.7 billion as at the end of March 2025, lower compared to N$64.3 billion recorded at the end of January 2025. The decline was

due to rising imports and government payments. This level of foreign reserves translates to an estimated import cover of 3.9 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. It is also above the international benchmark of country's foreign reserves holdings of 3 months.

7. Since the start of April 2025, the Namibia Dollar exchange rate against major currencies has, on balance, depreciated primarily due to elevated global uncertainty following escalation in global trade tensions. The most recent levels of the exchange rate are also weaker than those at the previous meeting as uncertainty remains elevated.

The global economy expanded at a firm pace in the fourth quarter of 2024, but the medium-term outlook has been subjected to significant downward pressure. Since the last MPC meeting, global inflationary trends have been mixed, while monetary policy stances remained steady across most of the monitored central banks.

8. Global growth remained resilient during the fourth quarter of 2024, with growth rising in most of the key monitored economies, except in the US where it slowed, albeit still registering a firm growth rate. However, global growth prospects have come under immense downside pressure, due to ramifications of the trade policy shifts in the US. Consequently, global growth forecasts for both 2025 and 2026 are anticipated to be revised downwards.

9. Prices for most key international commodities exhibited increased volatility since the last MPC meeting. Specifically, the downward trajectory in diamond prices observed at the previous MPC meeting persisted, reflecting weaker global demand and competition from lab-grown diamonds. Crude oil prices initially trended upwards to the end of March 2025, but fell notably in early April 2025 due to concerns about reciprocal tariffs and the increase in supply from non-OPEC countries. Copper and zinc prices trended downwards on account of the US trade policy uncertainty. Uranium spot prices also declined, attributable to increased global supply. Conversely, the price of gold trended upward driven by safe-haven demand, which was amplified by trade tensions.

10. Since the last MPC meeting, global equity and bond markets exhibited heightened volatility, primarily attributed to considerable uncertainty regarding the US trade policy. While stock markets initially gained, the recent imposition of "reciprocal" tariffs resulted

in significant losses. Pivoting to bond markets, yields have increased since the last MPC meeting, driven by high uncertainty as well as concerns regarding the outlook for global growth and inflation. Both equity and bond markets, however, staged partial recoveries of recent losses following the introduction of a 90-day pause of punitive reciprocal tariffs.

11. Inflation showed mixed patterns since the last MPC meeting. In key advanced economies, consumer price inflation trended lower, especially in the US, Euro Area, and Japan, while the United Kingdom observed an uptick. Conversely, inflationary pressures persisted in most of the monitored emerging markets and developing economies, with inflation rising in Brazil, Russia, and South Africa. Meanwhile, inflation decelerated in India, while China recorded deflation. Looking ahead, global inflation is projected to recede from an average of 5.8 percent in 2024 to 4.2 percent in 2025 and 3.5 percent in 2026. Nevertheless, significant uncertainty regarding the forecast remains.

12. Most monitored central banks have kept their policy rates unchanged since the previous MPC meeting, given elevated uncertainty. The US Federal Reserve, the Bank of England, the Bank of Japan, the People's Bank of China, the South African Reserve Bank, and the Bank of Russia kept their policy rates steady. In contrast, the European Central Bank and the Bank of India eased rates, while the Bank of Brazil tightened rates.

MONETARY POLICY STANCE

13. In determining the appropriate monetary policy stance, the MPC considered the extraordinary level of uncertainty introduced to the global economy by trade policy shifts, which was likely to dampen growth. The MPC noted that the potentially slower global growth would lower the projected trajectories of most commodity prices, oil included, but this favourable impact on domestic inflation seemed to be offset by a weaker exchange rate. Some upward price pressures from administered prices also seemed likely in the coming months. Accordingly, the MPC was in broad agreement with a projected trajectory for inflation that accelerates moderately but then straddles levels around 4.5 percent in the medium term.

14. While the relatively high level of domestic real interest rates, adequate level of foreign reserves and sluggish credit growth suggested the possibility of a further reduction in the Repo rate, the MPC was cognisant of the need to avoid significant interest rate differential within the CMA, in the interest of orderly capital flows. The Committee was

also mindful of the magnitude of the trade deficit and the impact of the imminent settling of international debt obligations on the country’s international reserve holdings.

15. Against this background, the MPC decided to keep the Repo rate unchanged at 6.75 percent. 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.

16. The next MPC meeting will be held on the 16th and 17th of June 2025.

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