Date: **12 February 2025**

Attention: **News Editor**

Ref: **9/6/2**

REPO RATE REDUCED BY 25 BASIS POINTS TO 6.75 PERCENT

On the 10th and 11th of February 2025, the Monetary Policy Committee (MPC) of the Bank of Namibia held its first bi-monthly meeting of 2025 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 decided to reduce the Repo rate by 25 basis points to 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 activity expanded further during 2024 but at a slower pace compared to 2023. Inflation remained well contained since the previous MPC meeting. Growth in Private Sector Credit Extension (PSCE) has modestly improved, albeit remaining subdued. The merchandise trade deficit widened further, and the stock of international reserves remained sufficient to maintain the currency peg and meet the country's international financial obligations.

1. Activity in the domestic economy expanded further during 2024, albeit at a slower pace relative to 2023. 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. The *diamond mining, diamond processing* and *crop production* subsectors, however, contracted during the period under review, while the construction sector remained subdued.

2. The projections for real Gross Domestic Product (GDP) have remained unchanged since the previous MPC meeting. Real GDP growth is projected to slow from 4.2 percent in 2023 to 3.5 percent in 2024 and rebound to 4.0 percent in 2025. Risks to the economic

outlook have continued to gain prominence, especially in the wake of heightened trade wars. Other key external risks include geopolitical tensions, weaker global demand, and the delayed stabilisation of the Chinese property market. Internally, adverse weather conditions, depressed diamond prices and water supply interruptions, particularly in coastal towns, continue to pose downside risks to the growth outlook, as do delays in the improvement of infrastructure.

3. While domestic inflation decelerated in 2024 compared to 2023, it has ticked up since the last MPC meeting. Inflation averaged 4.2 percent during 2024, compared to 5.9 percent in 2023. The disinflationary trend was primarily driven by lower inflation in the *food* and *transport* categories. Since the previous MPC sitting, however, inflation has on balance marginally increased to 3.2 percent in January 2025 from 3.0 percent in October 2024, attributable to *food* and *transport* price inflation. Looking ahead, inflation is projected to average 4.0 percent in 2025 and 4.4 percent in 2026. The 2026 forecast is 0.2 percentage point higher than the forecast at the previous MPC meeting, partly due to a marginally more depreciated exchange rate assumption.

4. The annual growth in PSCE rose most recently, despite remaining subdued overall. Since the last MPC meeting, PSCE growth increased to 4.0 percent in December 2024 from 3.4 percent recorded in October 2024. Moreover, PSCE growth averaged 2.5 percent in 2024, a modest improvement compared to an average of 2.4 percent in 2023. The rise in PSCE growth was evident in both the *business* and *household* sectors, particularly in the category of *other loans, advances and overdrafts*.

5. Namibia's merchandise trade deficit continued to deteriorate, reaching 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*. The decline in export earnings, notably from *diamonds* and *uranium*, further exacerbated the trade deficit. Since the previous MPC meeting, the exchange rate has depreciated moderately.

6. 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. The latest level of reserves translates to an estimated import cover of 4.3 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 economic recovery continued at a modest pace since the previous MPC meeting. Inflation, while generally under control, edged higher in most monitored economies while the monetary policy easing cycle continued across most of the monitored central banks.

7. Since the previous MPC meeting, the global economy grew at a relatively stable but modest pace, with growth divergent across monitored economies. The United States 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, has projected global growth to edge higher from an estimated 3.2 percent in 2024 to 3.3 percent in both 2025 and 2026.

8. International prices for key commodities have diverged since the previous MPC meeting. Diamond prices continued the downward trajectory observed at the previous MPC meeting, reflecting weaker global demand and competition from lab-grown diamonds. The price of crude oil initially increased strongly but has since declined, primarily attributed to potential oversupply from the United States. Uranium spot prices also declined, falling below US$70 per pound most recently due to increased global supply. Moreover, zinc prices exhibited a downward trend mainly attributable to slowing demand from China. Conversely, the gold price edged higher since the last MPC meeting, driven by safe-haven demand. Similarly, copper prices rose, owing to concerns regarding tightening supply. Finally, wheat prices increased compared to the levels at the previous MPC meeting, mainly due to lower production in the Black Sea region.

9. Since the last MPC meeting, global equity markets initially exhibited some volatility, especially following the US Federal Reserve's stance on its potential policy rate path. However, markets subsequently rallied, supported by increased investor confidence, strong earnings and robust economic data from the United States. Bond yields increased in the key Advanced Economies (AEs), mainly on account of higher inflation, changes to

interest rate expectations and concerns regarding fiscal sustainability in some countries. Conversely, bond yields in some of the monitored EMDEs declined, consistent with reasonably contained inflation and easing monetary policy.

10. Inflation has ticked up in most of the monitored economies since the previous MPC sitting. Consumer prices edged higher in all the key AEs, most notably in Japan and the Euro Area. Similarly, inflation 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, essentially due to slowing food prices. Looking ahead, global inflation is 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.

11. Most monitored central banks have continued to ease monetary policy but in a gradual fashion, with expectations of rapid rate cuts diminishing. The US Federal Reserve, the European Central Bank, the Bank of England, and the South African Reserve Bank have all cut policy rates. In contrast, the central banks of Japan, Brazil and Russia have continued to tighten policy rates, while the Bank of India and the People's Bank of China have kept their policy rates steady since the last MPC meeting.

MONETARY POLICY STANCE

12. In determining the appropriate monetary policy stance, the MPC considered several factors in support of a rate cut. These included the most recent slowdown in 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 orderly capital flows 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.

13. The MPC remains cognisant of the margin between policy rates in Namibia and the anchor country, South Africa, and will aim to narrow the policy rate differential over the medium term. The committee is also mindful of the widening of the trade deficit, the impact of the imminent settling of international debt obligations on the country's international reserve holdings as well as the increased level of global policy uncertainty.

14. Against this background, 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 are accordingly expected to reduce their lending rates by 25 basis points, bringing their prime rate to 10.50 percent. The newly 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.

15. The next MPC meeting will be held on the 14th and 15th of April 2025.

Johannes !Gawaxab
GOVERNOR