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## REPO RATE REDUCED FROM 7.75 PERCENT TO 7.50 PERCENT

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On the 12<sup>th</sup> and 13<sup>th</sup> of August 2024, the Monetary Policy Committee (MPC) of the Bank of Namibia held its fourth bi-monthly meeting for 2024 to decide on the appropriate monetary policy stance to be implemented over the next two months. To continue supporting the domestic economy while simultaneously 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 7.50 percent. This decision was made following a comprehensive review of domestic, regional and global economic developments.

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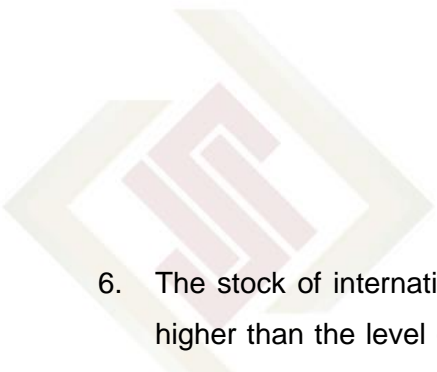
### RECENT ECONOMIC DEVELOPMENTS

The domestic economic recovery continued during the first six months of 2024, although growth is forecast to decelerate for 2024 as a whole. Inflation continued to moderate, while the growth in Private Sector Credit Extension (PSCE) remains subdued. The merchandise trade deficit widened further while the stock of international reserves remained sufficient to support the currency peg and meet the country's international financial obligations.

1. Domestic economic activity rose during the first half of 2024 relative to the same period in 2023; however, growth is expected to slow in 2024. While the increase in economic activity during the first half of the year was broad-based, it primarily emanated from the *mining, electricity generation, wholesale and retail trade, tourism, communication and transport* sectors as well as the *livestock marketing* subsector. Looking ahead, growth in Namibia's real gross domestic product is projected to decelerate to 3.1 percent in 2024 from 4.2 percent in 2023. This revised projected growth is 0.6 percentage point lower than the forecast at the previous MPC meeting. The slower growth is anticipated to be mainly driven by a slowdown in the primary industry, partly reflecting the prevailing drought conditions.




2. Risks to the domestic economy, stemming from both external and domestic factors, have remained broadly unchanged since the previous MPC meeting. The external risks include unduly tight global monetary policies, disruptive geopolitical tensions and conflicts as well as geoeconomic fragmentation. Mounting unfavourable developments in the international natural diamond market present an additional adverse external risk to domestic growth. Internal risks remain the persistent drought conditions and water supply interruptions, particularly at the coastal towns.
3. Domestic inflationary pressures have continued to ease year-to-date. On average, inflation slowed to 4.8 percent during the first seven months of 2024, from 6.2 percent recorded during the same period in 2023. The disinflation continued to be primarily driven by relatively lower average *food* inflation. Since the last MPC meeting, inflation eased from 4.9 percent in May to 4.6 percent in both June and July 2024, mainly reflected in the categories of *alcoholic beverages and tobacco* and *transport*. Going forward, the forecasts of average inflation for 2024 and 2025 have been revised downwards to 4.7 percent and 4.4 percent, respectively, compared to previous projections of 4.9 percent and 4.5 percent. The downward revision to the inflation forecast is attributed to the appreciation of the Namibia Dollar and the moderation in crude oil prices.
4. Since the previous MPC meeting, annual growth in PSCE has exhibited some volatility while remaining subdued. PSCE growth rose from 1.6 percent in April 2024 to 3.2 percent in May 2024 before falling to 1.8 percent in June 2024. Meanwhile, the growth in PSCE slowed to 2.0 percent during the first half of 2024, compared to 2.8 percent recorded in the corresponding period in 2023. Overall, PSCE growth continues to be restrained by tight lending conditions, amid eroded real incomes and a restrictive monetary policy.
5. Namibia's merchandise trade deficit widened to N\$19.9 billion during the first half of 2024 compared to N\$12.3 billion in the same period in 2023. The wider trade deficit was primarily underpinned by higher import payments in the categories of *machinery, equipment* and *base metals* largely due to increased exploration activities. The higher deficit was further exacerbated by a decline in export receipts, attributable to lower diamond exports, largely reflecting the depressed diamond prices.

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6. The stock of international reserves as at the 31<sup>st</sup> of July 2024 stood at N\$60.8 billion, higher than the level of N\$55.6 billion recorded on the 31<sup>st</sup> of May 2024, mainly due to higher SACU receipts. This most recent level translates to an estimated import cover of 4.1 months, remaining adequate to sustain the currency peg between the Namibia Dollar and the South African Rand and meet the country's international financial obligations.

**Global economic activity continued on a gradual expansion path during the second quarter of 2024, with growth expected to remain broadly stable in 2024 and 2025. While inflation recently exhibited a mixed picture, it is significantly lower than a year earlier. The monetary policy easing cycle has commenced even though most monitored central banks continued to exercise caution regarding interest rate reductions.**

7. Global economic activity has demonstrated resilience since the last MPC meeting, partly due to improved global trade, easing financial conditions and relatively lower inflation. Available second-quarter output data indicates that growth improved in the United States and the Euro Area but moderated in China. Going forward, the International Monetary Fund projects a broadly stable global economy, with growth moderating from 3.3 percent in 2023 to 3.2 percent in 2024 before edging up slightly to 3.3 percent in 2025. The 2025 forecast represents a modest upward revision of 0.1 percentage point compared to the April 2024 projection.
8. Prices of most key commodities have declined since the preceding MPC meeting. Diamond prices continued to trend downwards on the back of weaker global demand, especially in the United States and China. Zinc and copper prices also fell, driven by weaker demand from China and higher global inventories, respectively. Likewise, the uranium spot price has fallen from its peak at the beginning of 2024 but remains elevated due to the global commitment towards cleaner, safer and more secure energy sources. Conversely, the price of gold continued to rise supported by safe-haven demand. The price of Brent crude oil rose up to early July 2024, partly due to supply cuts by the Organization of Petroleum Exporting Countries and heightened tensions in the Middle East. Most recently, however, the price of Brent crude oil fluctuated downwards to levels slightly below those at the time of the previous MPC meeting. Food prices as measured by the United Nations' Food and Agriculture Organization Food Price Index ticked up in




July 2024, underpinned by robust demand for meat and seasonal supply shortages of milk and sugar.

9. Global equity markets generally trended upwards in the first four weeks after the previous MPC meeting, but some key equity markets then experienced significant pullback since the middle of July 2024. Driven by valuation concerns, profit-taking, particularly from big technology companies, softer economic data and divergent monetary policies, some key equity markets experienced steep declines during the first week of August 2024 but recovered some of the lost ground thereafter. The volatility of key bond and equity markets also rose sharply over the same period, reflecting higher economic uncertainty and geopolitical tensions.
10. Trends in global inflation have been mixed since the June 2024 MPC meeting. In the AEs, inflation remained steady in the United Kingdom, the Euro Area and Japan while it declined in the United States. Among the monitored EMDEs, inflation rose in Brazil, China and Russia but receded in India and South Africa. Global inflation is, however, generally cooling-off compared to 2023 and is expected to continue its downward trajectory in 2024 and 2025. The pace of disinflation is now anticipated to moderate over the forecast horizon due to the expected persistent services price inflation, particularly in the AEs.
11. Most monitored central banks have continued to remain cautious about cutting policy rates, primarily due to lingering inflation, but the monetary policy easing cycle has started in some monitored economies. The Bank of England and the People's Bank of China have recently cut rates following the European Central Bank earlier on, while the Bank of Japan and the Bank of Russia raised policy rates at their latest monetary policy meetings.

## **MONETARY POLICY STANCE**

12. The MPC observed that despite the gradual global disinflation, most monitored central banks have remained restrictive even though some have taken the first step in easing monetary policy. In Namibia, economic activity remained on a recovery path but with a lower growth rate forecast for 2024, in part due to drought-induced setbacks. There has been a welcome slowdown in inflation. Private sector credit extension has been weak for a protracted period and the domestic economy, in aggregate, was also deemed in need of essential support. With inflation and inflation expectations slowing and nominal interest



rates unchanged, real interest rates have increased thereby signalling an effective tightening of monetary policy. International reserves remain adequate and have in fact increased further. Considering these factors, the MPC felt that a moderate easing of monetary policy was warranted.

13. Consequently, the MPC decided to reduce the Repo rate by 25 basis points to 7.50 percent. Commercial banks are accordingly expected to reduce their lending rates by 25 basis points and to speedily transmit the interest relief to borrowers. The banks' prime lending rate will therefore decline from 11.50 percent to 11.25 percent. This policy stance will continue to support domestic economic activity and safeguard the one-to-one link between the Namibia Dollar and the South African Rand supported by the adequate stock of international reserves. The MPC is of the view that as the monetary policy easing cycle progresses, the margin between the repo rates of the Bank of Namibia and the South African Reserve Bank will again narrow.

14. The next MPC meeting will be held on 14 and 15 October 2024.



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