BoN MPC Meeting
April 2025

Key Focus Points:

- **The MPC kept the repo rate unchanged at 6.75%.**
- The central bank expects real GDP growth to slow to between 3.5% to 4.0% in 2025.
- The BoN forecasts Namibian inflation to average 4.2% in 2025.
- The stock of international reserves stood at N$59.7 billion at 31 March 2025, enough to cover 3.9 months of imports.

Macro Backdrop

The Bank of Namibia (BoN) **revised its 2025 real GDP growth forecast downward to a range of 3.5% to 4.0%**. The downward revision was largely driven by elevated global uncertainty stemming from geopolitical tensions, heightened risks of trade wars and an unclear global policy environment. These external challenges, combined with key internal risk – such as delays in infrastructure upgrades and rehabilitation, damage caused by excessive rainfall, water supply disruptions and outbreaks of animal diseases, pose downside risks to the country's economic outlook, according to the BoN. Additionally, weak demand for diamonds continues to strain the diamond subsector.

PSCE growth remained subdued since the last MPC meeting, easing to 3.9% y/y in February. The PSCE growth rate is however currently trending higher compared to the 2.0% growth rate recorded a year ago. This uptick is primarily driven by increased credit demand from businesses, particularly within the loans and advances category.

Namibia's stock of international reserves stood at N$59.7 billion at the end of March, down from the N$64.3 billion reported at the end of January. The BoN ascribed the decline to increased government payments and a rise in imports. Despite the decrease, **the current level of reserves equates to an import cover of 3.9 months**, which exceeds the international adequacy benchmark of three months. This level remains sufficient to maintain the currency peg and meet the country's external financial obligations.

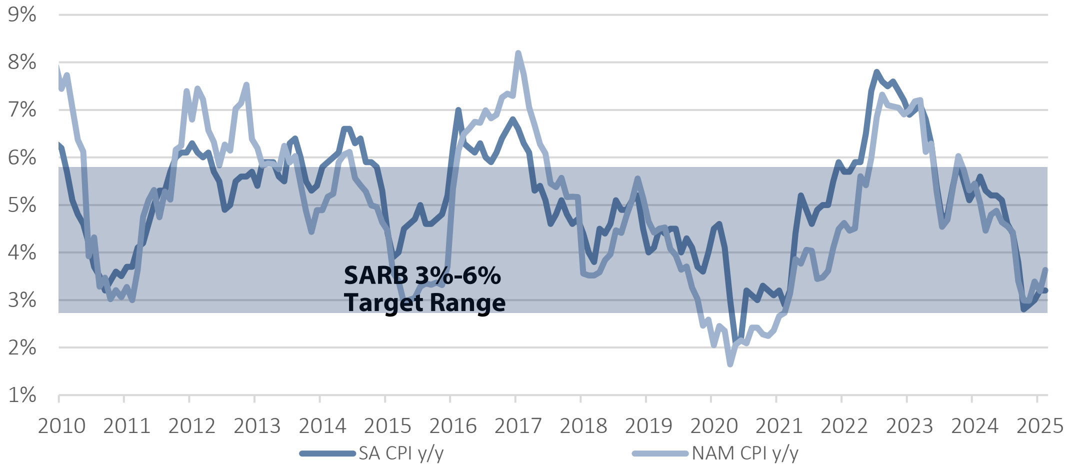
Inflation

The Namibian annual inflation rate accelerated to 4.2% y/y in March, up from 3.6% y/y in February. While hotel and clothing prices softened, the increase was largely driven by higher prices in food and non-alcoholic beverages, alcohol and tobacco and transport. Housing and utilities inflation, along with recreation, also edged slightly higher.

Looking ahead, the BoN has revised its average inflation forecasts for both 2025 and 2026 upward to 4.2% and 4.4%, respectively. These forecasts represent a slight increase from the previous estimates of 4.0% for 2025 and 4.4% for 2026. The upward revision was mainly driven by expectations of a weaker exchange rate and higher assumptions for administered prices.

This is in line with IJG's inflation model, which forecasts Namibian inflation to trend within a range of 3.3% to 4.7% in 2025.

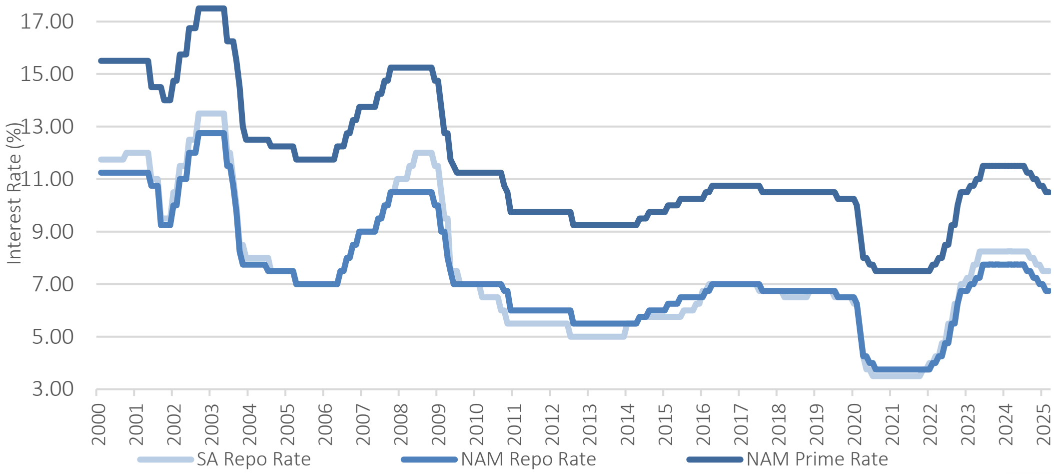
Namibia vs South African CPI (y/y)



Source: Namibia Statistics Agency, Statistics South Africa, IJG Securities

Interest Rates

Historical Policy Rates (%)

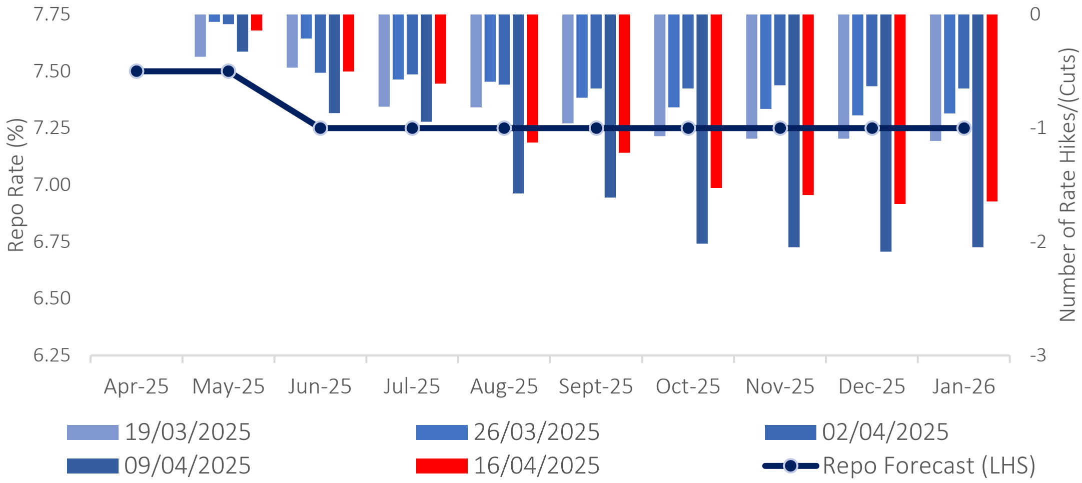


Source: Bank of Namibia, South African Reserve Bank, IJG Securities

The **decision to leave the repo rate unchanged at 6.75%** was primarily driven by well-contained current levels of inflation, as well as the need to avoid a significant interest rate differential within the CMA, in order to maintain orderly capital flows. While factors such as a relatively high level of domestic real interest rates, sluggish credit growth and an adequate level of foreign reserves supported the case for a potential rate cut, preserving alignment with CMA partners, especially South Africa, remained the overriding priority.

The current pricing of the Forward Rate Agreement **(FRA) curve indicates that the market is pricing in one 25bp rate cut in South Africa around mid-year**. In February, South Africa's inflation rate registered at 3.2%, remaining well within the South African Reserve Bank's (SARB) target bounds of 3%-6%, as shown in the chart on the previous page.

Implied Probability of Rate Hikes/(Cuts) over time (SARB)



**The columns indicate the number of 25bp hikes expected for a given month as at the date indicated in the legend (RHS).*
Source: Bloomberg, IJG Securities

Our Take

The BoN's decision to maintain the repo rate at 6.75% was expected, given the SARB's decision to hold rates steady at its March MPC meeting, which left the rate differential between Namibia and SA unchanged at 75bps. Interestingly, the MPC has removed from this Monetary Policy Statement the sentence that noted their intention to close the differential over the medium term — a sentence that appeared in the last two MPC announcements. Little of note was asked by the media or discussed during the Q&A session.

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