BoN MPC Meeting
December 2024

Key Focus Points:

- **The MPC reduced the repo rate from 7.25% to 7.00%.**
- The Bank of Namibia (BoN) revised its GDP growth forecast for 2024 to 3.5%.
- BoN forecasts inflation to average 4.3% in 2024.
- The stock of international reserves stood at N$60.9 billion on 31 October, enough to cover 4.1 months of imports.

Macro Backdrop

The BoN has revised its real GDP growth forecast for 2024 upwards to 3.5%, an increase from the previously projected 3.1%. This adjustment is due to stronger-than-expected performance in the primary sector, particularly gold mining. The growth forecast for 2025 has also been slightly raised by 0.1 percentage point, now at 4.0%.

In October, the annual growth in PSCE stood at 3.4% y/y, with an average growth rate of 2.2% for 2024 so far, slightly lower than the 2.5% recorded during the same period in 2023. The reduced growth is attributed to weak demand and the high-interest rate environment.

As of 31 October, the stock of international reserves stood at N$60.9 billion, up from N$57.1 billion at the end of September. This level provides an import cover of approximately 4.1 months, which is sufficient to maintain the currency peg.

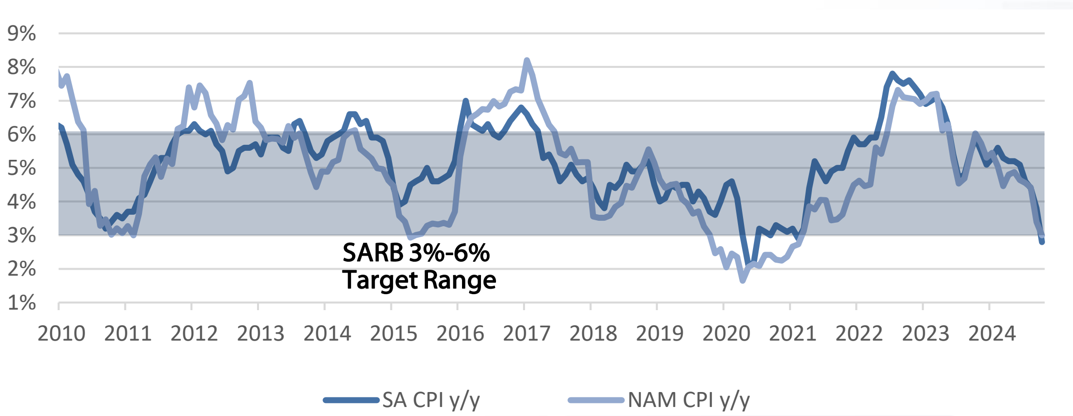
Inflation

Namibia's CPI slowed to 3.0% y/y in October, primarily due to moderated price increases across several key categories and a deflationary impact from fuel prices. However, persistent inflationary pressures remain in housing, utilities, and food. With fuel prices continuing to exert a disinflationary effect, CPI is likely to remain subdued in the near term. Key risks include potential rises in food and utility costs, which could counteract further benefits from declining transport prices.

Looking ahead, the BoN's medium-term average inflation rate projection remains at 4.3% for 2024 and 4.0% for 2025.

This is in line with IJG's inflation model, where we predict that the annual inflation rate will average between 4.2% and 4.3% in 2024.

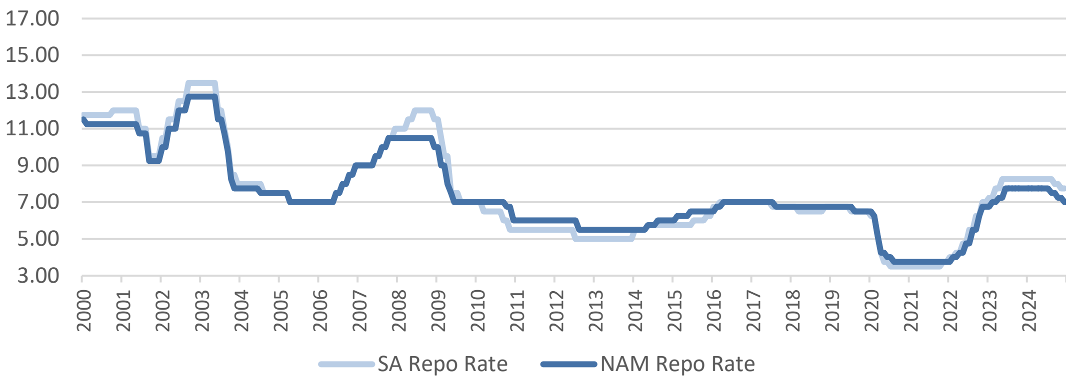
Namibia vs South African CPI (y/y)



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

Interest Rates

Historical Policy Rates (%)



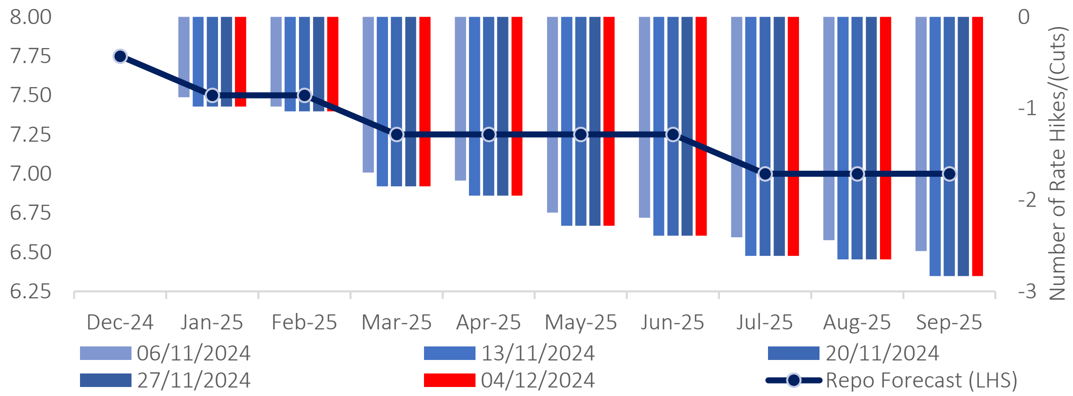
Source: Bank of Namibia, South African Reserve Bank, IJG Securities

The decision to reduce the repo rate by 25 basis points (bps)to 7.00% was expected. However, this action has increased the gap between Namibia and South Africa's repo rates to 75bps. The Governor noted that the MPC is focused on narrowing this gap over the medium term.

In light of relatively high domestic real interest rates, the continued need to support the domestic economy, adequate foreign reserves, stable capital flows, and recent monetary policy easing by key central banks, the MPC made a unanimous decision to lower the repo rate.

The current pricing of the Forward Rate Agreement (FRA) curve indicates that the market is pricing in two 25bp rate cuts in South Africa by the end of the first half of 2025. South Africa's inflation rate dropped to 2.8% y/y in October, down from 3.8% y/y in September. This marks the lowest CPI print since April 2021, and inflation is now trending below the South African Reserve Bank's target range, as shown in the chart on the previous page. The MPC noted that they are aware of the SARB's proposed downward revision of its inflation target.

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

Looking ahead, Namibia's interest rates are expected to remain influenced by domestic economic conditions and regional developments. The 25bps repo rate cut signals the BoN's commitment to supporting growth, though the rate gap with South Africa may be a key focus in the medium term. With inflationary pressures subdued and global monetary easing trends, further rate cuts could be considered, depending on economic performance. Overall, the MPC's cautious approach will continue to guide interest rate decisions in the coming months.

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