BoN MPC Meeting
June 2025

Key Focus Points:

- The **MPC unanimously voted to keep the repo rate unchanged at 6.75%.**
- The central bank expects real GDP growth to improve from 3.7% in 2024 to 3.8% 2025.
- The BoN forecasts Namibian inflation to average 3.9% y/y in 2025.
- The stock of international stood at N$57.4 billion at 31 May 2025, enough to cover 3.7 months of imports.
- The MPC ‘urged’ commercial banks to narrow the differential between the prime and repo rates from the current 3.75 percentage points to 3.50 percentage points.

Macro Backdrop

During the Bank of Namibia’s (BoN) third MPC announcement meeting for the year, Governor Johannes !Gawaxab revealed that domestic economic activity has expanded year-to-date, albeit at a slower pace than the comparable period a year ago. This documented expansion in economic activity stems from solid year-to-date performance from catalyst sectors such as mining, tourism, wholesale and trade, communications and transport. Despite solid performance from these sectors, the construction and agriculture sectors underperformed, as well as the already struggling diamond mining subsector.

The central bank forecasts real GDP growth to slightly improve from 3.7% in 2024 to 3.8% in 2025 before reaching 4.0% in 2026. Nevertheless, domestic and international risks such as tariff and trade policy restrictions, weak international diamond prices, water supply interruptions and animal disease outbreaks pose downside risks to the GDP growth prospects.

PSCE growth has ticked up since the February MPC meeting, rising to 4.8% y/y in April from 3.9% y/y in February. The observed growth in PSCE signals to a steady recovery in credit demand by both corporates and households, with the annual growth rate gradually approaching pre-pandemic levels. Notably, the first quarter of 2025 recorded strong PSCE growth, surpassing the performance observed in the same period in 2024. On the monetary front, the stock of international reserves fell from N$59.7 billion in March to N$57.4 billion in May due to trade-related outflows, customer foreign currency withdrawals and revaluation losses. The level of foreign reserves translates to an import cover of 3.7 months which is deemed sufficient to maintain the currency peg between Namibia and South Africa.

Inflation

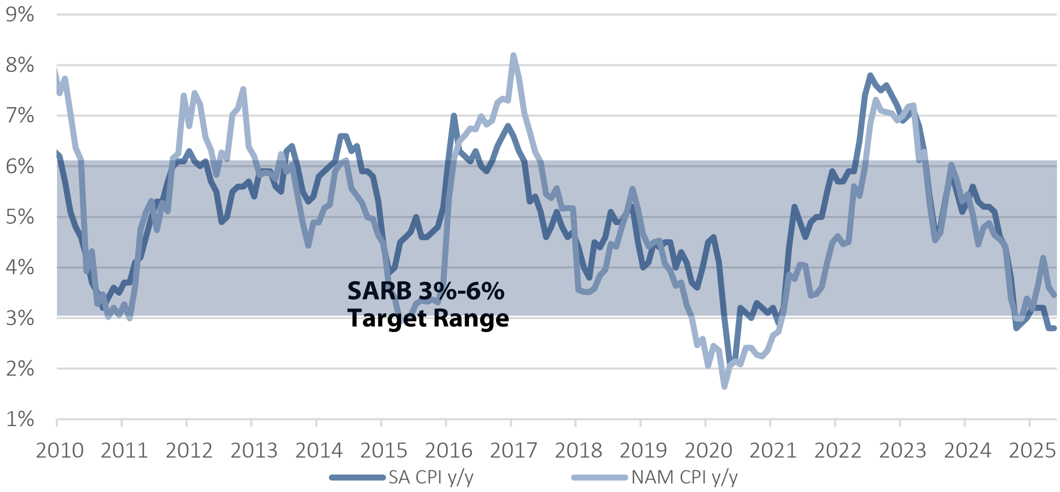
The Namibian annual inflation rate moderated to 3.5% y/y in May, down from 3.6% y/y in April, while monthly inflation remained steady at 0.2% m/m. Three of the twelve CPI basked categories recorded a quicker annual increase in May than in April, seven recorded a slower pace, and two categories recorded steady inflation. This slight moderation in the inflation rate is primarily due to softer inflation in the housing and utilities basket item and the ongoing disinflationary trend in the transport category.

Over the past five months, annual inflation averaged 3.6% y/y - notably lower than the 4.9% y/y average recorded over the same period last year. The central bank has revised its inflation forecasts downward, projecting 3.9% y/y for 2025 (0.3 percentage points lower) and 4.3% y/y for 2026 (down by 0.2 percentage points). This is in line with IJG’s inflation model, which forecasts Namibian inflation to trend within a range of 3.4% to 4.4%, with a baseline forecast of 3.9% in 2025.

As of the end of May, the inflation differential between Namibia and South Africa stood at 0.7 percentage points, where South Africa's inflation rate is currently trending at 2.8% y/y - below the South Africa Reserve Bank's (SARB) target band of 3% - 6%.

Recent headlines around the SARB's consideration to lower South Africa's inflation target to 3.0% - a move expected to result in lower interest rates and a stronger rand due to reduced inflation expectations – have raised questions about the potential impact on Namibia's monetary policy. Governor Johannes !Gawaxab noted that the BoN is currently running simulation models to assess the likely effects, with a detailed report expected in the coming weeks. Preliminary insights suggest that economic growth forecasts will be revised down by 0.1 percentage point to 3.9% in 2026 and by 0.2 percentage points to 4.1% in 2027. This adjustment is driven by a stronger real exchange rate, which weakens export competitiveness, and by increased savings from lower inflation, which can moderate growth. The lower inflation target is also expected to anchor inflation expectations, resulting in downward revisions to inflation projections for 2026 and 2027.

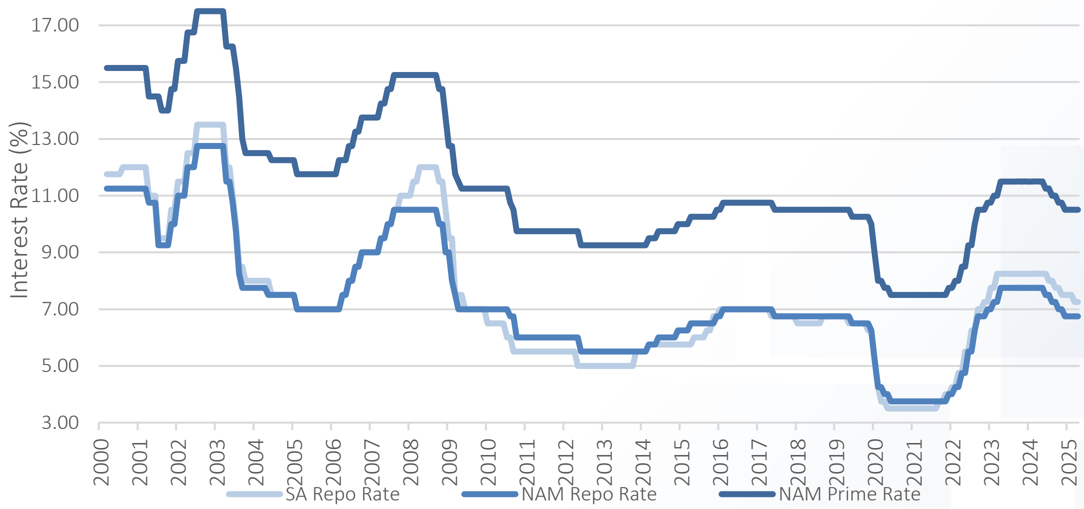
Namibia vs South African CPI (y/y)



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

Interest Rates

Historical Policy Rates (%)



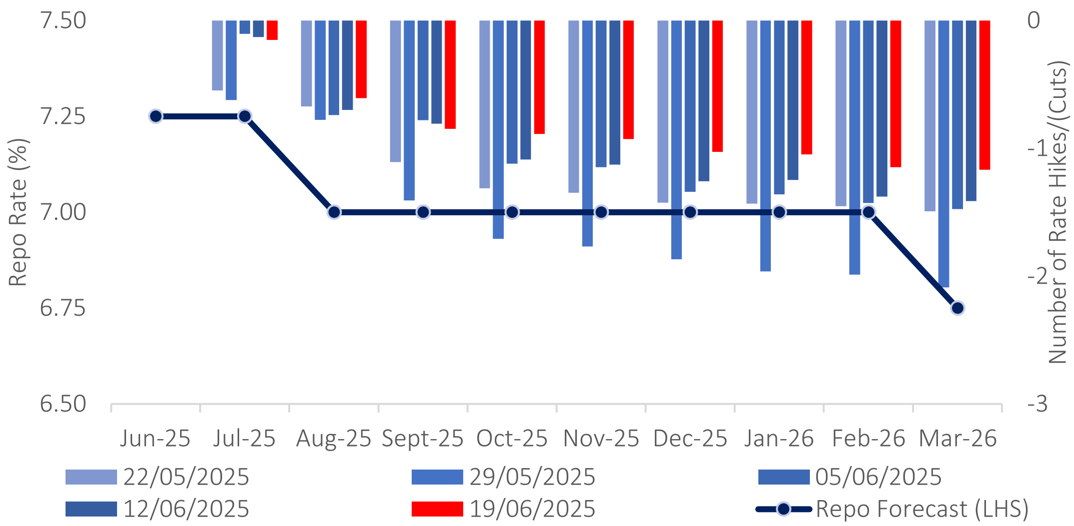
Source: Bank of Namibia, South African Reserve Bank, IJG Securities

The unanimous decision to maintain the repo rate at its current level of 6.75% was driven by the BoN's mandate to safeguard the currency peg between Namibia and South Africa, as well as reducing the interest rate differential between these two countries in its efforts to promote orderly capital flows. In addition, concerns regarding the escalating Middle East conflict, which could have direct repercussions by increasing oil prices and fuelling upward inflationary pressures, were also taken into consideration by the MPC.

The interest rate differential between Namibia and South Africa currently stands at 50 basis points. This is after South Africa elected to reduce its repo rate by 25 basis points during its most recent MPC meeting in May.

The current pricing of the Forward Rate Agreement (FRA) curve indicates that the market is pricing in one 25bp rate cut in South Africa in July.

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 keep the repo rate at 6.75% was in line with expectations, following the SARB's May rate cut, which narrowed the rate differential between Namibia and South Africa to 50bps.

What stood out from yesterday's statement was the MPC's call on commercial banks, '*urging*' them to narrow the differential between the prime and repo rates from the current 3.75 percentage points to 3.50 percentage points, in order to align with the rest of the CMA countries. Notably, the paragraph starts with the MPC encouraging banks to make this adjustment but, ends with language that implies an impending mandate: *"Given the adjustment that is required on their operating models, the commercial banks will be given specified time frame to align accordingly."*

It will be interesting to see how commercial banks respond if they are merely being encouraged to narrow the rate differential. However, if the change is imposed, there could be an impact on PSCE growth, as commercial banks' risk-reward considerations for issuing loans will be affected by this.

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