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FOR IMMEDIATE RELEASE

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**REPO RATE REDUCED FROM 5.25 TO 4.25 PERCENT**

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*The Monetary Policy Committee (MPC) of the Bank of Namibia has decided to cut the Repo rate by 100 basis points to 4.25 percent. The MPC took the decision in order to support weak domestic economic activity and provide short-term relief amid the extraordinary circumstances arising from the Covid-19 pandemic. This stance will not compromise the one-to-one link between the Namibia Dollar and the South African Rand.*

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**RECENT ECONOMIC DEVELOPMENTS**

Global economic activity is projected to contract significantly in 2020 mainly on account of COVID-19 pandemic. Since the previous MPC meeting, inflation rates in most key monitored economies declined, while monetary policy stances became even more accommodative.

1. The global economy is projected to contract by 3.0 percent in 2020, much worse than the 0.1 percent negative growth during the 2008/2009 global financial crisis. The projected contraction is mainly on the back COVID-19 pandemic which has caused severe economic disruptions. In the Advanced Economies (AEs), the growth is projected to contract by 6.1 percent in 2020, while the Emerging Markets and Developing Economies (EMDEs) are projected to contract by 1.0 percent in 2020. Key risks to the global outlook remain and include uncertainty regarding the pandemic, and the extent of supply disruptions.
2. Commodity and capital markets remained volatile due to the effects of uncertainty surrounding the COVID-19 pandemic. All monitored commodity prices remained weak as a result of lower demand from major economies such as China, except for gold which rallied due to safe haven demand. Brent crude oil prices declined significantly, reflecting the effects of excess oil supply coupled with subdued demand. This could bring some relief

to importers such as Namibia. Given low energy and food prices environment, inflation generally declined across most monitored economies. Exchange rates, and in particular those of the EMDEs, depreciated significantly.

3. Since the previous MPC meeting, inflation in key monitored economies declined while most central banks in both the AEs and EMDEs have adopted accommodative monetary policies by cutting interest rates during March and April 2020.

**Domestic economic activity slowed during the first three months of 2020. The inflation rate declined, while the growth in Private Sector Credit Extension (PSCE) remained subdued. The stock of international reserves remained sufficient to support the currency peg.**

4. Domestic economic activity slowed during the first three months of 2020 compared to the same period in 2019. The slowdown in growth was mainly reflected in declining economic activity in sectors such as mining, wholesale and retail trade, manufacturing, as well as tourism, with especially tourism arrivals falling back sharply. Activity in other sectors such as transport and storage, however, continue to record positive growth during the first two months of 2020. Preliminary estimates indicate that the domestic economy will contract significantly in 2020.
5. Annual average inflation for the first three months of 2020 declined further to 2.4 percent from 4.5 percent in 2019. This is mainly on account of a decline in all three top categories, namely food and non-alcoholic beverages, housing and transport inflation. Going forward, overall inflation is projected to average below 3.0 percent in 2020.
6. Average growth in PSCE remained subdued at 6.7 percent during the first two months of 2020, reflected in credit extended to both businesses and households. Since the previous MPC meeting, the annual growth in PSCE declined further to 6.1 percent at the end of February 2020, from 7.2 percent in December 2019 as reported in the previous MPC statement.
7. As at 31<sup>st</sup> of March 2020, the stock of international reserves stood at N\$33.0 billion, from N\$32.2 billion reported in the previous MPC statement. This amount of international reserves is estimated to cover 5.3 months of imports of goods and services. At this level,

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reserves are sufficient to protect the peg of the Namibia Dollar to the Rand and meet the country's international financial obligations.

### **COVID-19 Measures**

8. Since its last extraordinary MPC, the Bank has noted positive developments aimed at cushioning the economy from the effects of the pandemic. The Bank, in its role as the regulator of commercial banks, has undertaken policy and regulatory changes to allow commercial banks the necessary space to help individuals and businesses during this extraordinary time. These efforts together with Government's recently announced stimulus package are believed to help mitigate the impact of COVID-19 on vulnerable sectors, people's livelihood and on the economy.

### **Monetary Policy Stance**

9. On the 15th of April 2020, the Monetary Policy Committee (MPC) of the Bank of Namibia held a meeting and decided to cut the Repo rate by 100 basis points to 4.25 percent. This decision was taken following a review of the global, regional and domestic economic and financial developments, taking due notice of the headwinds presented to both the global and domestic economy on account of the Covid-19 outbreak and response. At its new level the repo rate will provide some short-term relief to borrowers.



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