

Monetary Policy Outlook

13 August 2025

1. Executive summary

Since June 2025, Namibia's inflation has eased and credit growth and reserves have improved. The economy grew 2.7% in Q1, led by the tertiary sector. The Bank of Namibia is reviewing lending practices amid a high prime lending rate spread. Ahead of the August 13 MPC meeting, the decision is expected **between holding the 6.75% repo rate or cutting it by 25 basis points**, with trade uncertainty still a factor and the policy decision on inflation targeting at the South Africa Reserve Bank.

2. Analysis

Since the last MPC announcement in June, Namibia's inflation has eased from 3.7% to 3.5% in July. Core inflation also declined from 4.2% to 3.9%, driven mainly by lower costs in transport, recreation, culture, and hospitality sectors.

Private Sector Credit Extension (PSCE) grew 5.7% year-on-year in June, up from 4.17% in May, marking the highest annual growth since March 2020¹. This increase was largely driven by business credit, which rose 10.6% year-on-year and 1.6% month-on-month. Household credit growth remained subdued, increasing 2.4% year-on-year and 0.8% month-on-month. International Reserves grew by 3.82% month-on-month to reach N\$59.6 billion which translates to approximately 3.9 months of import cover, sufficient in order to maintain the currency peg with the South African Rand.

On 31st July 2025, the South African Reserve Bank (SARB) announced a 25-basis-point reduction in the repo rate to 7%, marking the second consecutive cut and the third this year. The decision was influenced by moderate inflation forecasts, weak Q1 GDP growth, and the impact of higher tariffs. Inflation stood at 3%, the lower bound of the target range, with core inflation at 2.9%. The SARB signaled a preference for inflation to remain at the 3% lower bound rather than the 4.5% midpoint. This shift in stance has strengthened the rand and is intended to support further currency gains while reducing borrowing costs.

In Namibia, tariffs imposed by the United States were set at 15%, considerably lower than the 30% applied to South Africa. Since March 2025, Namibia's trade deficit has been shrinking, culminating in a trade surplus in May 2025. To sustain this positive trend under the new tariff regime, diversifying trade will be essential. The economy continued to expand in Q1 2025, with nominal GDP reaching N\$62.4 billion and real GDP rising to N\$39.97 billion, representing a 2.7% year-on-year increase, though at a slower pace than in previous quarters. Growth was driven mainly by strong performances in the tertiary sector, particularly health services, wholesale and retail trade, and financial services, while contractions in agriculture, forestry, fishing, quarrying, and manufacturing tempered overall momentum. Since the last meeting, the Bank of Namibia has intensified its scrutiny of commercial lending practices, highlighting Namibia's relatively high prime lending rate spread of 3.75% above the benchmark, which exceeds the 3.5% norm observed in other Common Monetary Area (CMA)

¹ March 2020 YoY PSCE growth stood at 6.10%

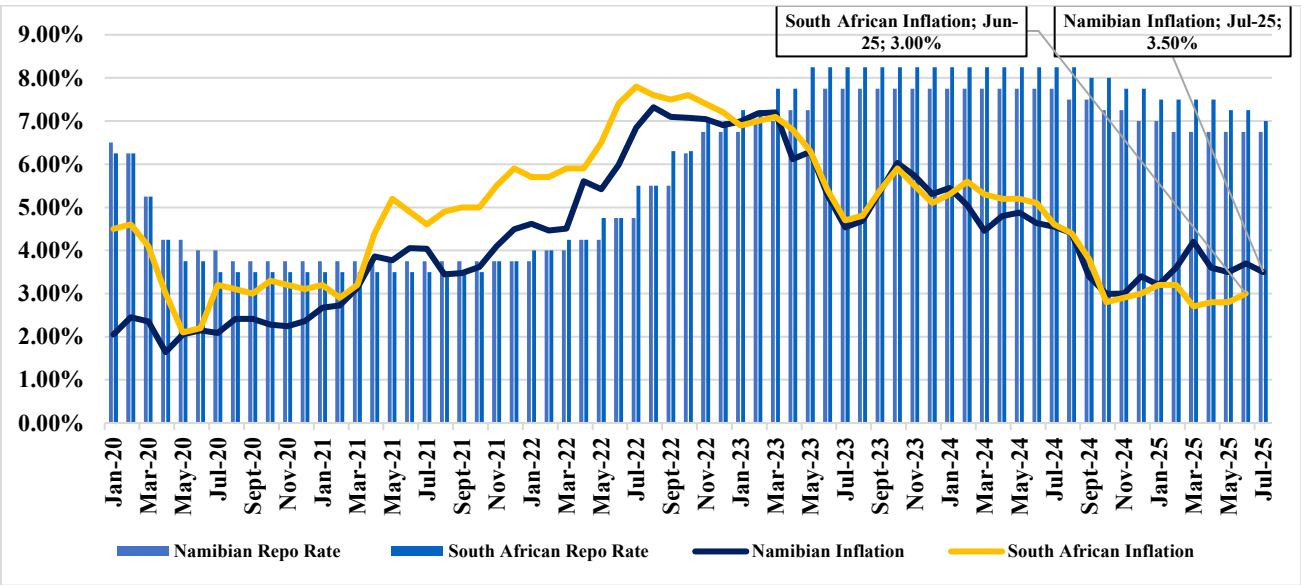
countries. The repo rate for Namibia, Lesotho, and Eswatini is currently 6.75%, with Lesotho recently reducing theirs by 25 basis points, while Eswatini maintained its rate.

3. Outlook

The Bank of Namibia is scheduled to hold its next Monetary Policy Committee meeting on August 13th, 2025. Market expectations are divided between **maintaining the current repo rate at 6.75%** to preserve a cushion allowing commercial banks to sustain a prime lending rate spread in line with other CMA members, and **cutting the rate by 25 basis points**, supported by moderate inflation trends, strong reserve levels, and the recent easing of tariff pressures compared to the initially planned higher tariffs in April. However, uncertainty around trade remains a factor in the decision. The Bank of Namibia will weigh these considerations carefully as it aims to support economic growth while managing inflationary pressures.

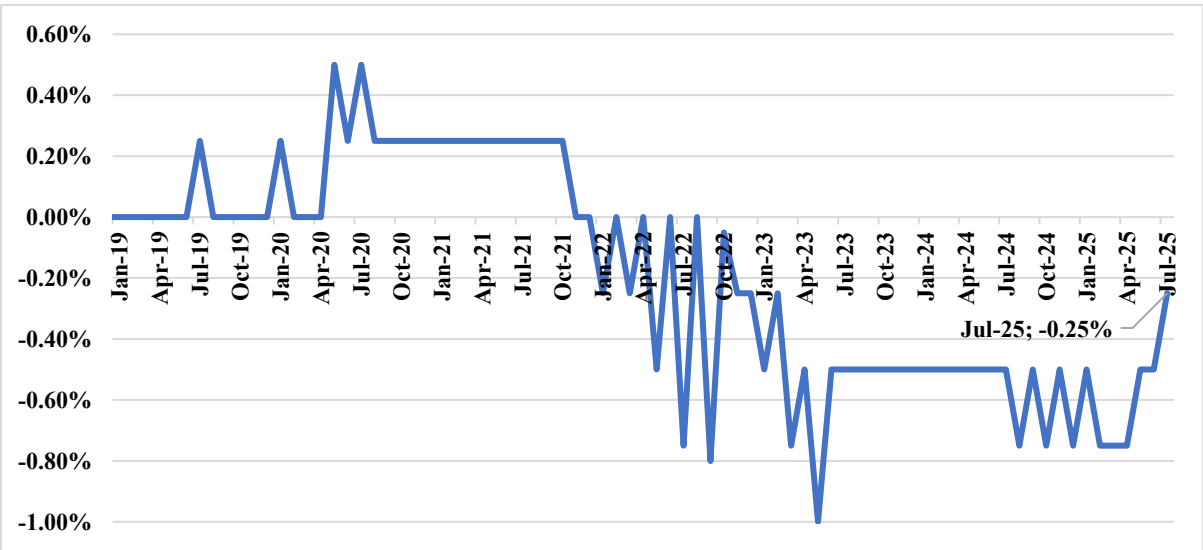
4. FIGURES

Figure 1: Namibia and South Africa Repo Rates, Jan 2020 – July 2025



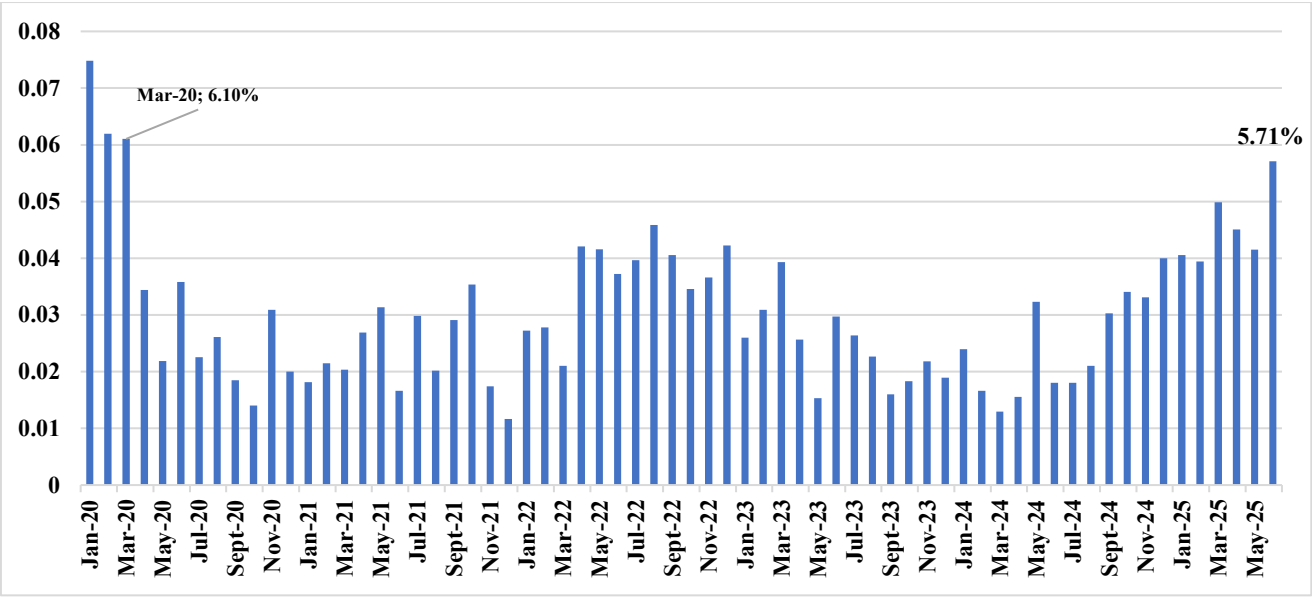
Source: Bank of Namibia, South African Reserve Bank & HEI Research

Figure 2: Namibia vs South Africa Repo Rate Spread (Jan 2019 – July 2025)



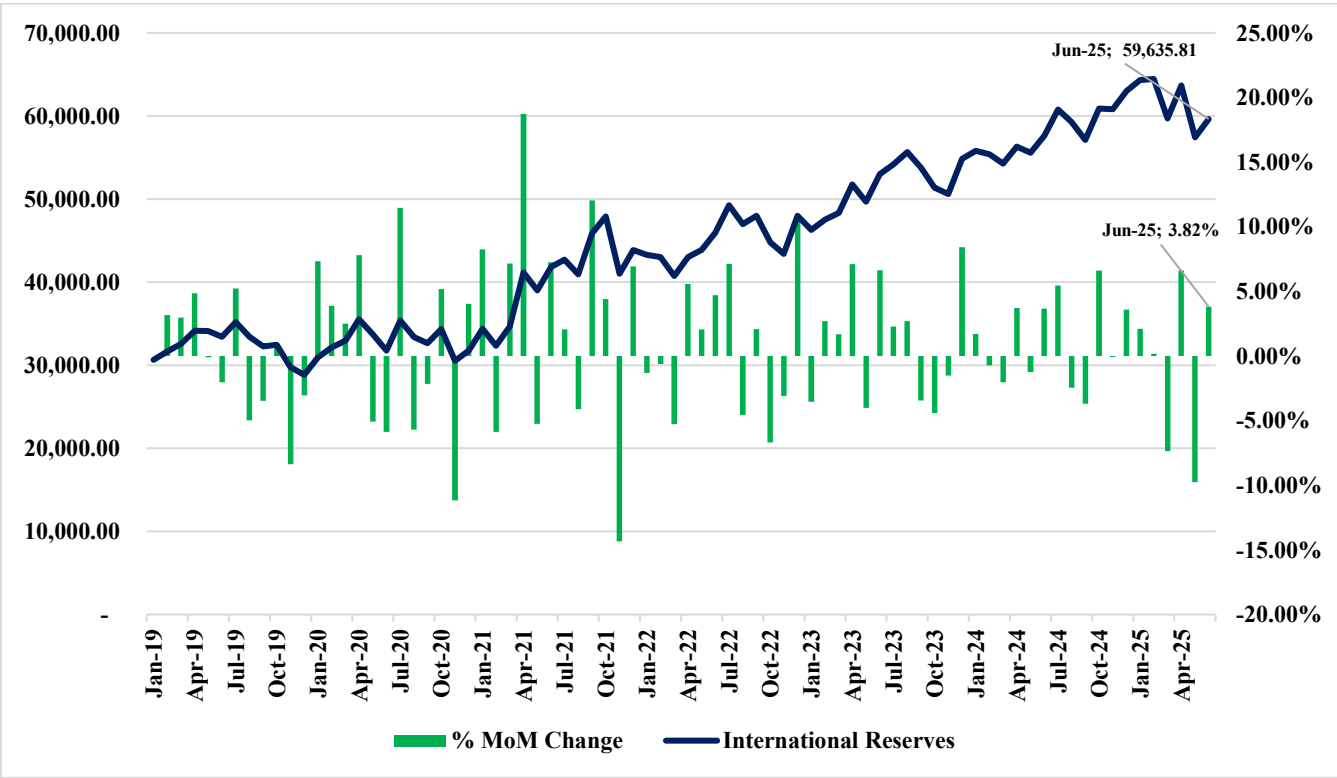
Source: Bank of Namibia, South African Reserve Bank & HEI Research

Figure 3: PSCE Annual Growth Rates (Jan 2020– June 2025)



Source: Bank of Namibia

Figure 4: International Reserve Levels and Monthly Growth Rates (Jan 2019– June 2025)



Source: Bank of Namibia