

Bank of Namibia



**KEYNOTE ADDRESS BY THE GOVERNOR OF THE BANK OF
NAMIBIA**

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AT THE BANK OF NAMIBIA'S STAKEHOLDERS SEMINAR

**THEME: THE IMPACT OF COVID-19 ON THE NAMIBIAN ECONOMY:
MAPPING THE WAY TO RECOVERY**

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**NAMIBIAN INSTITUTE OF PUBLIC ADMINISTRATION AND
MANAGEMENT (NIPAM)**

WINDHOEK

NAMIBIA

Director of Ceremonies,
Honourable Ministers and Deputy Ministers,
Honourable Members of the National Assembly Standing Committee on Economics and Public Administration,
Honourable Members of the National Council Standing Committee on Public Accounts and the Economy,
Board Members of the Bank of Namibia,
Honourable Regional Governors,
Executive Directors of Government Offices/Ministries and Agencies,
Representatives of Civil Society,
Chief Executive Officers of regulated institutions,
Captains of Industry,
Distinguished Speakers and Panelists,
Market Economists and Analysts,
Members of the Media,
Distinguished Ladies and Gentlemen,
Fellow Namibians.

Good Morning!

- 1. I am delighted to welcome you all to this pivotal Bank of Namibia’s Stakeholders’ Seminar on the “Impact of COVID-19 on the Namibian Economy-Mapping the Way to Recovery”.** Let me at the onset thank the speakers and all invitees for honouring our invitation despite your busy schedules, which attest to the importance you attach to this timely Seminar. I am glad to note that in our midst we have a wide variety of stakeholders, from across many important sectors. It is further gratifying that ordinary Namibians are also following the presentations and deliberations of this event through online platforms.
- 2. The theme for this Seminar is timely and relevant.** It allows us to interrogate how best and how far we have implemented policy interventions to address the challenges imposed by the COVID-19 pandemic on our economy.

3. Namibia and the world have been wounded by this invisible disease and is hurting economically. Our economy will be 7.8 percent lesser this year, more than 12,000 Namibians tested positive and 132 have died as a result of Covid-19 and related illnesses. The disease has exacerbated inequality and poverty. It has become a great un-equalizer and has undone some socio-economic gains made during the past three decades.
4. Director of Ceremonies, Ladies and Gentlemen, allow me at this point to briefly narrate the COVID-19 story and touch on economic policy measures put in place to address the impact of COVID-19 in Namibia.
5. **As alluded to earlier, on 14 March 2020 Namibia recorded its index case of COVID-19 and on 17 March 2020, the President declared a state of emergency which imposed a travel ban on all international flights in and out of Namibia.** While these measures were expected to reduce the direct health impact of COVID-19 and contain the geographical spread of the virus, they were however also anticipated to have a significant impact on various sectors of the economy, such as tourism and entertainment, as social distancing measures were enforced. The economy was already weak prior to the onset of the COVID-19 pandemic and therefore, the Bank of Namibia had to act very quickly.
6. **Against the above background, the Monetary Policy Committee (MPC) of the Bank of Namibia acted swiftly and reduced the repo rate in both March and April 2020.** Firstly, on 20 March 2020, the MPC held a special meeting and reduced the repo rate by 100 basis points to 5.25 percent. This was followed by a further reduction of 100 basis points at the subsequent MPC meeting on 15 April 2020 with the repo rate reaching 4.25 percent. Moreover, two more rate cuts of 25 basis points each were announced at the June and August 2020 MPC meetings, respectively. As a result, the repo rate reached a new historic low of 3.75 percent in August 2020.
7. **Despite successive reductions in the repo rate since March 2020, Private Sector Credit Extension (PSCE) remained subdued.** Average annual growth in PSCE for the period April to August 2020 stood at 2.7 percent, from 7.3 percent during the

corresponding period of 2019. The key factor underpinning weak PSCE was the contraction in credit extended to businesses because of repayments and write-offs made during the period under review. On average, credit to the corporate sector contracted by 1.1 percent year-on-year during April to August 2020 from positive growth of 8.1 percent during the same period last year. Growth in credit to households similarly slowed to 5.6 percent from 7.0 percent over the same period. Furthermore, all other credit categories (i.e. Mortgage, Instalment and leasing as well as Overdraft) registered subdued growth rates during the period April to August 2020, compared to the same time in 2019 as the COVID-19 pandemic impacted the economy, resulting in subdued overall demand for credit facilities.

- 8. In addition to cutting the repo rate, the Bank of Namibia implemented a set of macroprudential and liquidity policy measures to soften the blow of the potential impact of the COVID-19 outbreak on individuals, Small and Medium Enterprises (SMEs) and corporations and on the banking system in general.** These policy measures entailed loan repayment moratorium, liquidity relief measures, and relaxation of the capital conservation buffer and concentration risk/single borrower limit, which were captured in the Determination on Policy Changes in Response to Economic and Financial Stability Challenges (BID-33).
- 9. Since the implementation of these measures in March/April 2020, the banking industry has collectively approved most of its clients' request for repayment holidays, especially for individuals and sectors hit hardest by COVID-19.** Since, the effective implementation of the debt relief measure on 1 April 2020, the banking industry received a total of 22,506 applications for repayment holidays for the period up to July 2020 which declined to 19,308 as at 30 September 2020. However, the total loans approved in volumes increased from 10,071 in July to 12,170 at the end of September 2020.
- 10. Applications approved originated from various sectors of the economy impacted by the COVID-19 pandemic.** The number of loan approvals per the top five sectors indicated that individuals dominated the approvals with 8,101 up to September 2020 from

6,563 recorded on 15 July 2020, followed by real estate and business services sector with 1,258 for September, an increase from 1,263 from July. Trade, tourism, and hospitality sector stood at 1,028 during September, up from 896 recorded in July, while the transport sector stood at 428 loan approvals during September, which is higher than the 392 recorded in July. Construction stood at 385 loan approvals for September up from 324 recorded in July 2020. Banks also received 34 new applications from mining companies amounting to N\$391.6 million during the period to September 2020. Other sectors that were granted loans as at 31 September 2020 were agriculture sector with 194 approvals, Electricity, gas and water sector which stood at 98 approvals, Finance and insurance at 157 approvals, Government services at 31 approvals, Manufacturing at 114 approvals, wholesale and retail sector at 17 approvals, fishing sector received 9 approvals while the others sectors were allocated 316 approvals.

11. The Bank of Namibia working within its mandate and using the monetary policy and regulatory tools at its disposal, is committed to limiting the impact of the pandemic on Namibia's economy. To date, we have taken the following steps: We have significantly reduced the repo rate which is presently standing at 3.75 percent the lowest in the history of independent Namibia. The low interest rate will make it easier for borrowers to meet their financial obligations and the lower cost of capital will make investments much more attractive, if not compelling. We have allowed banks to grant payment holidays and have provided other relief measures to banks to expand lending. Moreover, the Bank was instrumental in setting up the Credit Guarantee Scheme, assisting the Ministry of Finance in establishing a SME-specific COVID-19 relief scheme and providing sound policy advice where and when required to support the Namibian economy.

At this juncture, allow me to briefly talk about policy interventions in the post COVID-19 era.

Policy measures in the post COVID-19 World

12. Given the above developments and policy interventions, the key question is what could happen to policy interventions put in place going forward? Despite a combination of monetary, fiscal and macroprudential policy support, the economic shock from COVID-19 will probably take longer to subside than its global financial crisis counterpart. Global activity has rebounded from the lows of April (when most of the world faced a strict lockdown), as restrictions on economic activity and people's mobility have been lifted. But activity indicators are still significantly below pre-crisis levels, and as activity gradually converges towards 'normal' levels, the pace of convergence slows. Indeed, some commentators argue that the harder part of the economic normalisation begins now. Most countries, private and official institutions, on balance, do not project a return of real GDP to pre-COVID-19 levels until late-2021 or even late-2022. Negative output gaps are expected to be the norm¹.

13. Given Namibia's membership of the CMA and the one to one currency peg, the Bank of Namibia's monetary policy stance is usually broadly aligned with that of the SARB. We foresee that the Bank's monetary policy stance will also remain broadly accommodative in the near term. In assessing the appropriate path for monetary policy going forward, the Bank will be monitoring incoming economic and financial data and reports to assess the outlook and risks thereof. Monetary policy is currently well calibrated to support the mandate of the Bank of Namibia, namely: to promote monetary stability and to contribute towards financial stability conducive to the sustainable economic development of Namibia. At this point, a patient approach to monetary and macroprudential policy changes is appropriate unless there is a material change to the outlook for growth, inflation, private sector credit extension, reserves, and the exchange rate.

¹ See "The interest rate cycle during and after the COVID-19 pandemic" Keynote address by Ms Fundi Tshazibana, Deputy Governor of the South African Reserve Bank, at the Absa Annual Fixed Income Conference, 7 October 2020.

14. Though monetary policy has provided substantial support to the economy – with BON cutting the benchmark interest rates to a record low of 3.75 percent - the pace of recovery will depend on factors outside the Bank’s control such as improved sovereign debt sustainability, structural reforms and the implementation of an accelerated growth and recovery strategy.

15. **In conclusion, to place the Namibian economy on a sound and sustainable growth path, the Bank of Namibia stands ready to provide support to the economy within the scope of its mandate.** Price and financial stability create certainty which are important for maintaining purchasing power, containing the costs of living and of doing business, and supporting Namibia’s competitiveness. Nevertheless, improving the potential growth rate of the economy should be a collective effort both from the public and private sectors. A broad and encompassing policy response is thus crucial to ensure that we do not rely overly on individual measures that could lead to unintended consequences if they are kept in place for too long. For example, if an exceptional level of central bank support remains in place for a prolonged period of time, the cost of capital may become distorted, debts may accumulate excessively and asset prices would be further stimulated, posing risks to financial stability. Overall, the recovery of the Namibian economy requires a multi-pronged policy approach and I trust that this seminar will support that course through robust dialogue and inputs to the process of building a stronger Namibian economy based on improved fundamentals.

Whether my remarks leave you seeing Namibia’s glass as half full or half empty, I’d ask you to change yours now to help reimagine, reboot and re-skill the nation towards a durable and sustainable recovery.

Thank you for your attention!