

**“SAFEGUARDING STABILITY IN A CHANGING WORLD” ADDRESS BY MR. JOHANNES !GAWAXAB,
GOVERNOR OF THE BANK OF NAMIBIA, AT THE BLOOMBERG ‘NAMIBIA IN FOCUS’ EVENT,
TUESDAY, 5 SEPTEMBER 2023, WINDHOEK, NAMIBIA.**

Director of Ceremonies

Executive Directors of Government Offices/Ministries and Agencies,

Distinguished Speakers,

Distinguished Panellists,

Captains of Industry,

Members of the Media,

All invited guests,

Ladies and gentlemen,

Good Morning

1. This event is a testament to our nation's commitment to opening our doors to the world, showcasing the incredible potential that lies within Namibia as a prime investment destination. My remarks this morning will shed light on key aspects that define us, empower us, and make us a beacon of stability and progress by examining both our shining achievements and the challenges that continue to beckon our resolve. *Put simply, how does Namibia stack up?*

2. Since the great lockdown of the century, global growth has been inconsistent. Even before Covid-19, geopolitical and trade tensions affected the world economy. After the pandemic, emerging economies experienced robust growth of over 4% annually, while advanced economies saw a slower recovery, averaging about 2% annually. Covid-19 caused untold human suffering, and wide-ranging measures were necessary to protect lives and prevent economic collapse. However, the pandemic's effects have persisted, leading to

increased global debt, supply chain disruptions, and logistical challenges that have affected the movement of goods and people. These factors have contributed to shortages and reduced productive capacity in both advanced and emerging market economies.

3. Regarding the global fiscal outlook, the recent financial turmoil has worsened the already uncertain and complex situation due to tight financing conditions and increasing concerns about debt vulnerabilities. According to the United Nations Development Programme, *“52 countries are either in debt distress or one step away from debt distress and potential default”*.¹

4. The post-COVID-19 period has been marked by a significant surge in inflation - not observed in decades. This is primarily due to energy and food prices, which have risen sharply due to supply shortages, geopolitical tensions, drought, and the ongoing Russia-Ukraine conflict. This journey of taming inflation has, since mid-2021, been a roller coaster of a prolonged tightening policy cycle until now. This decisive action by central banks has, as expected, redirected headline inflation towards the target. According to the IMF projections, global headline inflation will decrease from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. Whilst headline inflation is moderating worldwide, core inflation remains sticky, and we expect global interest rates to remain high for some time as central banks continue to anchor inflation expectations. This is evidenced by the US ten-year bond yields, which have increased to over 4% in nominal terms since the global financial crisis.

5. Consequently, nominal interest rates have increased due to stricter monetary policies. The effectiveness of these policies in bringing inflation back to target depends on the natural real interest rate level. According to the IMF, the long-term natural real interest rate, known as r^* , may decline over the next three years due to factors such as longer lifespans, concentrated wealth, and weak productivity growth. However, it's unclear whether we will return to the low global r^* that was in place before the pandemic, even if the rate does decrease. In a highly uncertain environment, some argue that central banks may have pushed nominal interest rates too high, which could lead to a high risk of debt sustainability in the future. In the long run, falling inflation could lower the real interest rate, which might stimulate economic activity. Since we cannot predict r^* with certainty in advance, it's crucial to adjust policy rates correctly to avoid creating fiscal risk or loosening conditions after this tightening policy cycle.

¹ UN official has warned that urgent measures are needed to help 52 countries facing debt repayment problems that put some at risk of default. Mr Achim Steiner, head of the United Nations Development Programme, told AFP that 25 of the 52 spent more than a fifth of government revenues servicing external debt. <https://www.straitstimes.com/world/middle-east/un-development-chief-sounds-alarm-over-debt-distress>

6. In terms of global growth outlook, it is projected that global growth will decrease from 3.4 percent in 2022 to 2.9 percent in 2023 but will then increase to 3.1 percent in 2024. As for Namibia's domestic outlook, GDP growth is expected to slow down in 2023 and 2024 due to weak global demand and limited growth in primary and secondary sectors. The Namibian economy is predicted to grow by 3.3 percent in 2023 before decreasing to 3.0 percent in 2024, driven by the primary sector.

7. Regarding Namibia's domestic inflation, the headline inflation rate has decreased from a peak of 7.3% in August 2022 to 4.5% by the end of July 2023. We predict that the average inflation rate for 2023 will be 5.6% and 4.5% for 2024.

8. Now that I have provided the macroeconomic context, let me turn attention to how Namibia fares. In their seminal book "Why Nations Fail," Daron Acemoglu and James Robinson explore the critical factors that determine the success or failure of nations. They argue that political and economic institutions play a central role in shaping a country's destiny. Inclusive institutions promote political pluralism, safeguard property rights, and foster economic opportunity, paving the way for prosperity. Conversely, extractive institutions that consolidate authority and wealth among a select few invariably result in poverty and instability.

9. Namibia has meticulously crafted and upheld inclusive institutions. With its independence, our judiciary stands as a watchman - guarding the rule of law and property rights. Our government follows a time-tested policy formulation process that is both pragmatic and inclusive, premised on participatory democracy. This approach provides policy certainty for both local and foreign investors, with recourse for uncertainties.

10. Namibia's history is a canvas painted with the colours of peace and stability. While turbulence has resurfaced across parts of the African continent, our nation has maintained a steadfast commitment to tranquillity. This buttresses investor confidence.

11. Namibia's financial sector is recognised as one of the most sophisticated and modernized on the continent. The banking sector is characterised by high levels of profitability, maturity, and adequate capitalisation. In recent times, the government and regulators have invested considerable resources into addressing some gaps, especially on the inclusion and transformation front, to ensure we have a banking industry that works for Namibia. We have made great strides in updating our regulatory framework by amending old laws and providing greater harmonisation across the various agencies and policies at play in the financial space.

12. Both the public and private sector have played a pivotal role in expanding the types of instruments on offer in local capital markets. The Namibian government has introduced

an inflation-linked bond class in the last decade and remains one of the few in the region to have done so. Furthermore, there has recently been the listing of a key government asset by way of Mobile Telecommunications Company (MTC), a public enterprise, on the Namibia Stock Exchange (NSX) in 2021. This historic NAD 2,7 billion listing represents the largest capital raising on Namibia's Stock Exchange (NSX) and was the first by a state-owned enterprise. On the private sector side, we've had five listings of Green or ESG bonds spearheaded by three of our local commercial banks.

13. The NSX has grown significantly over the years, with 50 companies listed on the Main Board with an overall market capitalisation of NAD 2.1 trillion as at June 2023. This makes the NSX among the top five exchanges on the African continent in terms of market capitalisation. The NSX is currently in the process of launching a bond trading system that will further increase liquidity in the bond market. Namibia's first Central Securities Depository to allow investors across the globe to participate in Namibia's capital markets will soon be launched. Once registered, it will introduce better efficiency and transparency in the trading of Namibian securities while simultaneously reducing the associated risks. As an issuer, the State is further committed to leveraging off technology to provide retail investment avenues that speak to the Namibian experience while fortifying defenses against emerging financial risks.

Ladies and gentlemen,

14. You would agree that domestic savings are necessary for economic growth, as they provide the resources needed for investments. According to the Official Monetary and Financial Institutions Forum's (OMFIF) latest Africa Financial Markets Index, Namibia had the largest pension holdings per capita on the continent for the third consecutive year in 2021. At the end of March 2023, the country's non-bank financial institutions sector assets stood at N\$381.8 billion of which total retirement fund assets amounted to N\$216.7 billion (USD14.6 billion) with N\$106.4 billion being held locally - providing a base to facilitate growth and innovation of the local capital market. It remains imperative that Namibian savings are optimally channelled and utilised to develop the domestic economy.

15. The country's public debt management approach is based on prudence. The majority of Namibia's public debt is funded locally, minimising external vulnerabilities, supporting local financial markets, and fostering financial self-sufficiency. The strategy further enhances sovereign sway over our debt management strategy as it reduces dependency on policy actions taken by other countries or international financial institutions. As at the end of August 2023, Namibia's total public debt stood at N\$146.5 billion, and N\$109.8 billion (75 percent) of this is funded domestically.

Ladies and gentlemen,

16. As we take stock, we must also acknowledge the challenges. No journey is without its rugged terrains, and Namibia's path to foster economic development is no exception. Gross Fixed Capital Formation (GFCF) is considered a meaningful indicator of future business activity, confidence, and economic growth. Notably, GFCF's direct contribution to Namibian GDP fell from a high of 34.0 percent in 2014 to 14.5 percent by 2022, which likely explains why the Namibian economy has struggled to emulate the robust growth rates it experienced between 2010 and 2015 over much of the past seven years. In 2022, the largest contributing sectors to GFCF in Namibia were Mining and Quarrying (28.5 percent), Finance and Real Estate (18.6 percent), and Manufacturing (17.2 percent), where these three sectors collectively accounted for over a third of Namibia's GDP. This further underpins the importance of capital accumulation in driving growth in our economy.

17. Compounding the socio-economic challenges, Namibia still faces high unemployment rates and income inequality. Namibia is considered one of the most unequal societies worldwide despite government efforts to redistribute resources and provide social protection programmes. This is a result of a history of unequal opportunities. According to the Namibia Statistics Agency, 33.4 percent of Namibians are unemployed. This is potentially a source of instability if responsive policies and measures are not pursued aggressively.

17. Admittedly, our skills base and educational attainment demand a re-orientation to empower our citizens to thrive in the globalised arena. We have observed the government taking action to address this by promoting vocational training, entrepreneurship, and relaxation of migration policies to attract skilled workers into the economy. The newly introduced Digital Nomad Visa and Visa Upon Arrival interventions will likely attract skilled workers and make Namibia more attractive to foreign investment.

Ladies and gentlemen,

18. Looking forward, the future of Namibia's economy looks bright. Namibia is perfectly positioned to meet the world's energy demand as it develops its green hydrogen and oil and gas industries.

19. Namibia aspires to produce hydrogen and its derivatives at highly competitive costs and create an at-scale green fuels industry that will serve markets in Europe, China, Japan, South Korea, and other parts of the world. At scale, the hydrogen industry could grow Namibia's economy substantially. By 2030, it could contribute US\$4.1 billion to GDP, 32 percent more than 2030 GDP estimates with no hydrogen industry. The industry also stands to create an estimated 18,000 jobs.

20. In April 2023, Namibia's third significant light oil discovery was announced, marking yet another success in a series of discoveries in the Orange Basin over the past year.

The nascent oil and gas sector has the potential to profoundly reshape the nation's economic landscape, as at least 3 billion barrels in oil reserves have been discovered within Namibia's borders. Notably, three of the country's oil discoveries rank among the world's top 30 largest deepwater oil discoveries since 2015. Once commercial viability has been proven, production is set to commence within the next four to six years.

21. The launch of Namibia's Sovereign Wealth Fund in May 2022 couldn't have come at a more opportune time. The Bank of Namibia manages the Welwitschia Fund under the auspices of the Ministry of Finance to facilitate the transfer of wealth sourced from Namibia's abundant natural resources so that generations to come also benefit even long after the current resource base is depleted. This will be done through the Intergenerational Savings Fund, which will facilitate the investment of defined proceeds from the present utilisation of natural resources and from divestiture in state assets. Furthermore, the Stabilization Account of the Fund will aim to insulate the budget and economy from commodity price volatility and external shocks to the Namibian economy.

Ladies and gentlemen,

22. The success of nations is a multifaceted equation, extending far beyond mere resource endowments. It hinges on a nation's capacity to adapt, innovate, and cultivate a favourable environment for entrepreneurship and business growth. Institutions play a pivotal role in this equation, acting as the bedrock upon which economic prosperity is built. Namibia, with its forward-looking approach, has established key institutions to fortify its economic landscape.

23. One of them is the Bank of Namibia, which stands as a guardian of financial stability, meticulously managing the nation's monetary policy. Our Monetary Policy Framework has proven its efficacy time and again. The benefits of the one-to-one peg arrangement to the South African Rand outweigh any perceived disadvantages. This arrangement provides a stable anchor for our economy, shielding us from external volatility while fostering a conducive environment for sustainable growth. Furthermore, the robustness of our financial system reflects our meticulous operational framework, designed to weather global uncertainties, and ensure the resilience of our domestic institutions. However, we are open to innovation and adapting fast without placing undue risks on the stability of the system.

24. Likewise, the Namibia Revenue Agency is critical in securing domestic resources and establishing fiscal buffers to shield against economic shocks. Impressively, Namibia's tax-to-GDP ratio, standing at approximately 18.5 percent according to the OECD's

Revenue Statistics in Africa 2022 Report, ranks amongst the highest in Sub-Saharan Africa. The Namibia Investment and Promotion Development Board, on the other hand, has been instituted to attract Foreign Direct Investment (FDI). By streamlining bureaucratic processes, introducing competitive incentives on the global stage, and labour market reforms, Namibia strives to create an environment conducive to investment. The Investment Promotion and Facilitation Bill, designed to protect investors, reinforces this commitment. Further to that, Namibia recognises the need to leverage the private sector's potential, a lesson learned from the successful listing of MTC. The nation looks forward to expanding such initiatives to revitalise underperforming commercial public enterprises and foster partnerships that drive economic progress. In unison, these institutions exemplify Namibia's dedication to crafting a prosperous future by enhancing its economic adaptability and resilience.

25. Ladies and gentlemen, in closing, I have provided a scorecard of how we stack up as a nation. By all measures, *Namibia INC* stacks up well despite the challenges. The challenges are daunting but not insurmountable, whereas the opportunities are vast. As we gaze ahead, the vista before us is one of optimism, opportunity, and collective progress. Namibia's journey toward diversification, productivity enhancement, and sustainable growth reflects its unwavering commitment to resilience and prosperity. Our dedication to fostering long-lasting employment opportunities, value addition, and fiscal responsibility underscores the country's determination to chart a robust economic path. To navigate our way out of these challenges, we must first mobilise domestic resources and build fiscal buffers, strengthen our institutions, uphold the rule of law, and engage in structural reforms.

26. I thank each one of you for your presence here today, and I look forward to the insightful discussions that follow my intervention. With its abundant natural endowments, strong institutions, and political stability, Namibia is poised for a growth take-off. The proverbial Namibian plane is on the tarmac, engines roaring, ready for take-off. This is a boarding call for those who will join us in navigating the challenges and seizing the opportunities that lie ahead, propelling Namibia towards a horizon of unparalleled promise and prosperity.

Thank you.