



BoN HOST DISCUSSION ON CRYPTO-CURRENCIES WITH STAKEHOLDERS



Listening attentively, Hon Calle Schlettwein, Minister of Finance, Mr. Iipumbu Shiimi, Governor: Bank of Namibia and Ebson Uanguta, Deputy Governor: Bank of Namibia

Windhoek, 26 February 2018 - The Bank of Namibia held a seminar to unpack opportunities and risks presented by the ongoing craze around crypto-currencies as well as the Block chain technology which underpins virtual currencies. The seminar exclusively organised for the Bank's stakeholders and policymakers, was delivered by Dr. Joachim Bald, a consultant based at the Frankfurt School of Finance and Management.

The Deputy Governor of the Bank of Namibia, Ebson Uanguta, welcomed the over 57 invited stakeholders who included the Minister of Finance, Hon. Calle Scheltwein. Uanguta stated that the new wave of technological innovations – called fintech – has accelerated change in the financial sector: "We need to be aware and fully understand fintechs so as to take certain appropriate and informed decisions."

In his presentation Dr. Bald clarified the wide-held notion that virtual currencies are a form of money, arguing that the essential functions of money that of being a medium of exchange, a store of value and a unit of account may not be present in cryptocurrencies.

He said that although cryptocurrency mining is a necessary tool to control money creation and keep the currency in scarce supply thus boosting demand, the emission gains (seigniorage) are squandered through time consuming and energy intensive computations.

Dr. Bald further punched holes in beliefs that the Block chain is a safe medium, stating that the innovation has been hacked before and therefore it is potentially vulnerable: "The trading

venues and exchanges are shockingly amateurish accompanied by crashes and huge spreads everywhere, he said."

In his opinion, Dr. Bald believes that because of the high volatility of crypto-currencies they are bound to crash: "They are a straight-up 'pump and dump' Ponzi scheme."

Dr. Bald concluded the seminar with his personal advice to stakeholders to think twice about the sustainability of the cryptocurrencies phenomenon but emphasized that the underlying technology, Block chain, has great innovation potential for the real sector and encouraged research in that area.

The Bank of Namibia published a position paper on Distributed Ledger Technologies (Block chain) and Virtual Currencies last year. The paper indicates that the Bank does not consider virtual currencies to be legal tender and a payment instrument in Namibia, and cautioned users to be aware of the risks involved.

Additionally, trading in virtual currencies is not currently regulated in Namibia and thus individuals that engage in such trading would be doing so at their own risk. These include credit, liquidity, operational and legal risks. Further, the paper cautioned users of virtual currencies to be aware of risks related to Money Laundering and the Financing of Terrorism when engaging in the trading of virtual currencies.

The paper is available at: <https://www.bon.com.na/Bank/Payments-and-Settlements/Publications/Position-Papers.aspx>