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FOR IMMEDIATE RELEASE

## **BANK OF NAMIBIA CALLS FOR ACTIONS TO BUILD RESILIENCE AGAINST ECONOMIC SHOCKS**

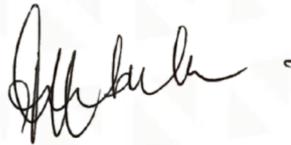
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1. Inflation is likely to remain elevated in the short to medium term, and as a result, the Bank of Namibia, as the monetary authority, will likely continue to tighten financial conditions in response to rising inflation in order to avoid embedding the current high level of headline inflation expectations and shore up firm price-setting behaviour. Mr. Johannes !Gawaxab, Governor of the Bank, stated this in a public lecture delivered today at Rundu titled "Navigating Current Economic Shocks: Policy Options."
2. "It is important to maintain a foundation that safeguards macroeconomic stability in the country, that is essential for economic growth and development, and for this reason, the Bank of Namibia cannot sit idle and watch inflation run away," he said.
3. Therefore, the Bank has moved quickly to ensure price stability, using the tools at its disposal as a member of the Common Monetary Area (CMA), by preventing the wage-price-setting spiral that could lead to inflation becoming entrenched, preventing capital outflows to the anchor country, and maintaining the one-to-one peg with the South African Rand. In this regard, the Bank raised the repo rate by a cumulative 100 basis points since February 2022 (25 basis points in February, 25 basis points in April and 50 basis points in June 2022). The Governor signalled that this trend is likely to continue to counter inflationary pressures and most importantly align the domestic interest rates to the CMA's interest rates.
4. The current inflationary pressures in the economy are imported and primarily the result of supply-side factors, particularly the constraints imposed by the Russia-Ukraine war, with concerns about commodity shortages growing as hostilities between the warring parties intensified. Fuel prices, in particular, have underpinned the rise in inflation across countries, including Namibia, and the resulting rise in the prices of basic commodities has put pressure on households and businesses whose incomes have already been hit by a series of shocks, according to the Governor.
5. These developments, the Governor, was quick to point out, were a direct result of external factors beyond the control of any authority. To cushion the economies against inflation, central banks around the world have reduced the monetary stimulus that was in place since the Covid-19 pandemic, increased interest rates or are using other monetary policy tools.

6. The public lecture aimed to provide a basic understanding of current economic shocks, their origins, and how Namibia, as a small open economy, can insulate itself from mounting externally driven shocks and pressures. To that end, the Governor emphasized policy actions for inclusive economic growth to assist the country in navigating these turbulent times: "As the country reels from yet another external shock, we should aim to identify solutions that drive economic recovery and development by building a resilient economy and capitalising on digitisation," he said.
7. Inflation acts as an additional tax on the poor and vulnerable, it is therefore critical for national-level actions to support these groups specifically, particularly by strengthening social protection programs, in the short term. Moreover, the current situation presented an opportunity for diverse solutions that drive economic recovery and development by establishing a resilient economy and long-term economic development.
8. He cited, for instance, the two Kavango regions' potential to contribute to solving national economic problems due to their fertile land, immense supply of water, favourable climate conditions, and abundant natural resources by insulating the country against external shocks such as food prices. "The Kavango East and Kavango West regions have the highest agricultural potential, which can significantly contribute to food security and diverse exports," he said.
9. He said that given the current situation, the private sector has a great chance to step up and serve as the engine of growth because the government is no longer able to do so. In order to maintain a competitive economy moving forward, other crucial changes include breaking up monopolies in significant economic sectors and advancing the SOE's reform agenda.
10. Dispelling recent claims that Namibia is among the riskiest nations to lend to, the Governor was adamant that despite the nation's vulnerabilities because of the higher level of public debt as a percentage of GDP which stands at 69 percent, Namibia is still able to meet its obligations. It is important to note that countries that have defaulted in the past are those with higher levels of external debt as a share of total public debt.
11. In the case of Namibia, however, the external debt constitutes about 25 percent of the total public debt, and that level coupled with a sufficient level of foreign reserves, which currently stands at around 5 months of import cover, the country remains in a healthy position to comfortably meet its international obligations. Moreover, the current revenue collection effort is also more than sufficient to enable the economy to meet both its current operations and debt obligations. Going forward, the country has several promising economic opportunities ahead of it, including in the extractive and green energy sectors, and these are sure to cause government revenues to improve further.

12. Finally, the Governor stated that maintaining macroeconomic stability and restoring fiscal sustainability is key to the economic recovery of Namibia. Additionally, he stated that there is a need to attract more foreign direct investment and encourage private sector participation to enhance economic growth. Ensuring food and energy security and encouraging start-ups and self-employment in all sectors will also spur growth.
13. "What we do know is that we live in a shock-prone world, and the evidence is clear, given the latest developments in the last five years and counting. As a result, it is critical to build a resilient economy and nation. We should focus on what brings us together rather than what divides us. Our success will be determined by how we seize this opportunity to build a prosperous Namibia," he concluded.
14. The public lecture forms part of the Bank's outreach to the Kavango East and Kavango West Regions respectively. The presentation of the Governor can be found at this link: <https://www.bon.com.na/getattachment/182df902-f884-45f1-b39c-2eac2273f959/.aspx>

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