

TALKING POINTS BY THE GOVERNOR OF THE BANK OF NAMIBIA MR. JOHANNES !GAWAXAB, AT THE MAPPING NAMIBIA'S POST COVID RECOVERY STAKEHOLDERS' MEETING ON TUESDAY, 22 FEBRUARY 2022, WINDHOEK.

Director of Ceremonies,
Honourable Deputy Ministers,
Honourable Members of Parliament,
Deputy Governors and Board Members of the Bank,
Captains of Industry,
Esteemed Representatives of civil society,
Distinguished Speakers and Panellists,
Members of the Media,
Distinguished Ladies and Gentlemen,
Fellow Namibians.

- 1. Good morning and thank you for joining us for the Bank of Namibia's stakeholders' seminar on "Mapping Namibia's Post-Covid Economic Recovery".** Let me at the outset thank the speakers and all invitees for honouring our invitation despite your busy schedules, which attests to the importance you attach to what I believe is a timely seminar. I am glad to note that in our midst we have a wide variety of stakeholders, from across many important sectors.
- 2. As we grapple to find ways to economic recovery post Covid-19, the theme for this seminar is both timely and relevant.** Firstly, it allows us to interrogate how best and how far we have implemented micro and macroeconomic policy interventions to address the challenges imposed by the COVID-19 pandemic on our economy. Secondly, it also allows us to shape the post-Covid 19 economic environment with appropriate policy interventions to usher a period of recovery and long-term growth.
- 3. Covid-19 continues to have far-reaching effects on people's lives, families, and communities as well as on the global economy.** Amid the bleak economic reality, government and companies in response are focused on driving a dual agenda of protecting lives and livelihoods. As the crisis continues to upend lives, the country continues to find ways to understand the full impact on businesses and government and how best to respond.

4. Namibia is facing fundamental yet inter-related and self-reinforcing economic headwinds. The country faces the following challenges: growth, inclusion, fiscal sustainability and unemployment. The era of being bystanders in solving our challenges has long ended; apportioning blame is neither helpful; nor will armchair criticism without offering practical solutions contribute to improving the quality of lives of Namibians. The time has come to pinpoint the source of uncertainty, bottlenecks to growth and getting rid of them and galvanising the level of economic activity to restore growth through complementary policy interventions. In this regard, we have a collective responsibility, regardless of the sectors we may find ourselves.

What have we done as the central bank?

5. Director of Ceremonies, Ladies and Gentlemen, allow me at this point to briefly narrate the Covid-19 story and touch on some policy measures put in place to address the impact of Covid-19 in Namibia.

6. Almost two years ago, in March 2020, Namibia recorded its index case of COVID-19 and on 17 March 2020, a state of emergency was declared. A travel ban was imposed, stopping all international flights in and out of Namibia. While these measures were expected to reduce the direct health impact of Covid-19, contain the geographical spread of the virus and allow time for healthcare facilities to be readied, 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.

7. Against the above background, the Monetary Policy Committee (MPC) of the Bank of Namibia 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.

8. Given Namibia's membership of the Common Monetary Area and the one-to-one currency peg, the Bank of Namibia's monetary policy stance is usually broadly aligned with that of the SARB. During the course of 2021 the policy environment changed

significantly with inflation rising ominously. The SARB increased its policy interest rate in November 2021, but the Bank of Namibia, despite the possibility of capital flight, felt that it was too early to raise interest rates as the economy was still struggling to recover and the initial position since August 2020 was one of a marginally higher repo rate in Namibia than in South Africa. This meant that Namibia's repo rate was maintained at 3.75 percent while that of South Africa was raised from 3.50 percent to 3.75 percent last November. However, in January SARB further increased their repo rate yet again with 25 basis points to 4.00 percent. This, therefore, for all intents and purposes, necessitated the Bank to increase the repo rate to 4.00 at the first MPC meeting of 2022. This was dictated by the need to maintain the peg and curb further capital flight, despite the slow economic recovery. What is worrying for the central bank, however, is that, despite the generally accommodative monetary policy environment, even with the recent increase—by historical standards, new credit extension uptake and activity remain invariably subdued.

9. The Bank of Namibia's response to Covid-19 has assisted in Namibia's economic restart and recovery. The economic impact of the COVID-19 pandemic created various challenges for borrowers, and consequently for banking institutions. In addition, the COVID-19 pandemic emerged at a time when Namibia was already facing an economic downturn as afore-mentioned. Against this backdrop the Bank of Namibia issued the Determination on policy changes in response to economic and financial stability challenges, following the fallout of the COVID-19 Pandemic (BID-33). The Determination BID-33 makes provisions for banking institutions to grant capital payment moratorium where a holiday is allowed on the principal amount for a period ranging from six months up to a period, but not exceeding twenty-four months (two years). In order not to withdraw these measures prematurely a revision of BID-33 in October 2021 has been made, extending these further to April 2023.

10. Other relief measures were granted on the Capital Conservation Buffer, changes in the Large Exposure Limits and the Liquidity Mismatch Limits for the time-bands of 0-7 days and 8-31 days that were reintroduced. The Bank also agreed to amend the Determination on Asset Classification and Provisioning to lengthen the duration or period before loans should be written off. The holistic revisions include an amendment to the effective date, clarification of burden sharing, treatment of write-offs including collateral haircuts in the BID-33 amendments, reinstatement of liquidity mismatch limits and reporting guidance on provisions reporting.

11. The Bank also supported other initiatives to ease credit conditions. These included the extension of the maximum period over which instalment sale credit on motor vehicles can be repaid – this was raised from 54 to 72 months. Furthermore, the maximum loan-to-value ratio on mortgage loans for the acquisition of secondary residential properties was also raised. This made it possible to purchase additional properties using a home loan. The Bank further provided a N\$500 million guarantee towards the SME Covid-19 Loan Scheme.

12. Despite the amendments made to BID-33 and low interest rates, growth in credit extended to the private sector was slower in 2021 compared to 2020, due to lower demand mainly because of persistent subdued domestic economic activity. As I stated earlier, notwithstanding the lowered interest rate, on an annual basis, growth in PSCE moderated to an average annual rate of 2.5 percent in 2021, from an annual average of 3.5 percent recorded during 2020.

13. Low interest rates and special relief measures can only go so far, and sadly some businesses that were already reeling from the contractions of the pre-covid years, thereafter, amplified by the Covid-related disruptions, could not be rescued. Reflecting the difficult economic conditions, banks' nonperforming loans increased relentlessly up to the third quarter of 2021 when it reached 6.9 percent of the loan book. Fortunately, in the fourth quarter the nonperforming loans ratio receded slightly, which may be an early sign that the worst fallout of the pandemic is behind us.

Ladies and gentlemen,

14. Monetary policy alone is not enough. Though monetary policy has provided substantial support to the economy – 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 as well as strong private sector, domestic and foreign investments and risk taking.

15. To place the Namibian economy on a sound and sustainable growth path, the Bank of Namibia stands ready to provide support to the economy, ostensibly within the scope of its mandate. Price and financial stability are important for maintaining purchasing power, containing the costs of living and of doing business, and supporting Namibia's competitiveness while creating certainty and confidence. Nevertheless, improving the potential growth rate of the economy should be a collective effort both from the public and private sectors. Monetary stimulus alone cannot engineer healthy, durable growth. A broad and encompassing policy

response is thus crucial to ensure that we do not overly rely on individual measures that could lead to unintended consequences when kept in place for too long.

16. The Post-covid economic recovery faces a number of significant hurdles. Apart from the need to address electricity and digital infrastructure, urgent attention has to be given to creating policy certainty, ensuring professional service delivery and diligent execution of policy, and addressing accountability issues. All of this must be accomplished while the fiscal situation is very tight – Namibia really has to do more with less.

17. The potential to overcome supply-side constraints, improve productivity, potential growth, and job creation can be unlocked through private sector led activities. To this end, impetus must be given to the implementation of the various recommendations and objectives on the matter. We need to demonstrate strong leadership, entailing a bold assessment on how to improve efficiency and ensure value for money of all institutions without exception.

18. The Post-covid economic recovery has several positives lined up to bolster its start out of the blocks. All is not doom and gloom. The Green Hydrogen initiative is progressing significantly. Our ports infrastructure has already been upgraded so that a virtual doubling of traffic can be handled, catapulting Namibia's role as a logistics hub. The recent oil find at sea has stirred considerable excitement. A number of mining and manufacturing projects are underway or in the pipeline. In the past three years the mining sector alone invested N\$14.1 billion or 7.2 percent of GDP. The cumulative investments (sum of investments in the past three years and ongoing investments) by the mining sector in the economy is estimated at N\$20.6 billion worth of investments equivalent to 10.5 percent of 2022 GDP. Furthermore, research work in collaboration with the Harvard Growth Lab on diversifying the economy and raise our growth rate is progressing well and specific sectors have been identified and linkages with markets proposed. The tourism sector stands ready to capitalise on further lifting of pandemic-related restrictions and normalisation of visitor numbers. And in the meantime, the national spirit has been lifted by the widespread rains that have fallen across Namibia, transforming many frowns into smiles and bringing the promise of higher production in this very decentralised sector that employs 170,000 Namibians.

19. So, how will we see economic recovery and growth in a post-pandemic Namibia? Well, the first thing I might say is that we are not finished with the pandemic just yet, and if I were to be asked to volunteer some thoughts, beyond monetary and financial stability, on Namibia's post-Covid recovery, I would suggest the following:

In the short- to medium-term.

- a) Improving domestic resource mobilisation and specifically tax compliance.
- b) Better coordination of government policies and programs and elimination of fragmentations and inefficiencies.
- c) Private sector investments in high labour-absorptive sectors such as agriculture,
- d) Promoting and attracting foreign direct investment through incentives in exchange for jobs and export earnings;
- e) Reforming, strengthening, and optimising of our SOEs especially commercial ones. There is need to demonstrate in a most practical way government efforts to move towards privatisation, outsourcing and liquidation of non-performing SOEs that continue to be a drag on the budget.
- f) Structural reforms to enable growth and this includes leveraging our assets and developing self-sustaining economies in our municipalities, town and village councils;

And in the long-run

- g) Optimising our natural resources and ensure a smooth energy transition from fossil to renewables;
- h) Technological progress and know-how agglomeration are fundamental to the process of structural transformation that characterises economic development; and
- i) Remove rigidities, promote competition and inclusion.

20. These are some of my thoughts on how we can jump start the economy, but obviously this is what this seminar is meant for, and further thoughts and policy recommendations will come from this platform. What I wanted to emphasise is that, as we are making the expected exit from subdued growth and adverse impact of Covid-19 towards restoring growth, it is critical that we generate policy interventions to make the economy more resilient to shocks, restore fiscal sustainability and improve standards of living of our people. I have no doubt that we'll emerge stronger this time around.

21. Finally, Desmond Tutu stated, "it may appear daunting, but I am a prisoner of hope. We are more connected than ever before, we have more knowledge, and if we work together, there are solutions." This, ladies and gentlemen, is our charge, and it necessitates collective action and unity of purpose, because we are only as good as the community or economy in which we live.

With that, I thank you for your attention!

