About the Bank of Namibia and the Impact of Monetary policy in Namibia

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Bank of Namibia

Outline

Bank of Namibia

Central Banking History

…mainly as commercial banks or clearing houses

Riksbank: 1668

As a joint stock bank and to lend to government in addition to acting a clearing house for commerce.

Bank of England: 1694

Founded as a joint stock company to purchase government debt.

Other central banks across Europe

To aid in government financing and to deal with monetary disarray such as currency instability and hyperinflation.

Most central banks doubled as commercial banks

But also played the Lender of Last Resort role and sole issuer of bank notes and coins (currency).

The central bank is the institution at the centre of the country’s banking system – it is the authority responsible for policies that affect a country’s supply of money and credit

About the BoN

What is Bank of Namibia?

The Bank of Namibia is the central bank of the Republic of Namibia, created under Article 128(1) of the Namibian Constitution

Complemented by Bank of Namibia Act No. 1 of 2020 ….hence wholly owned by the Government

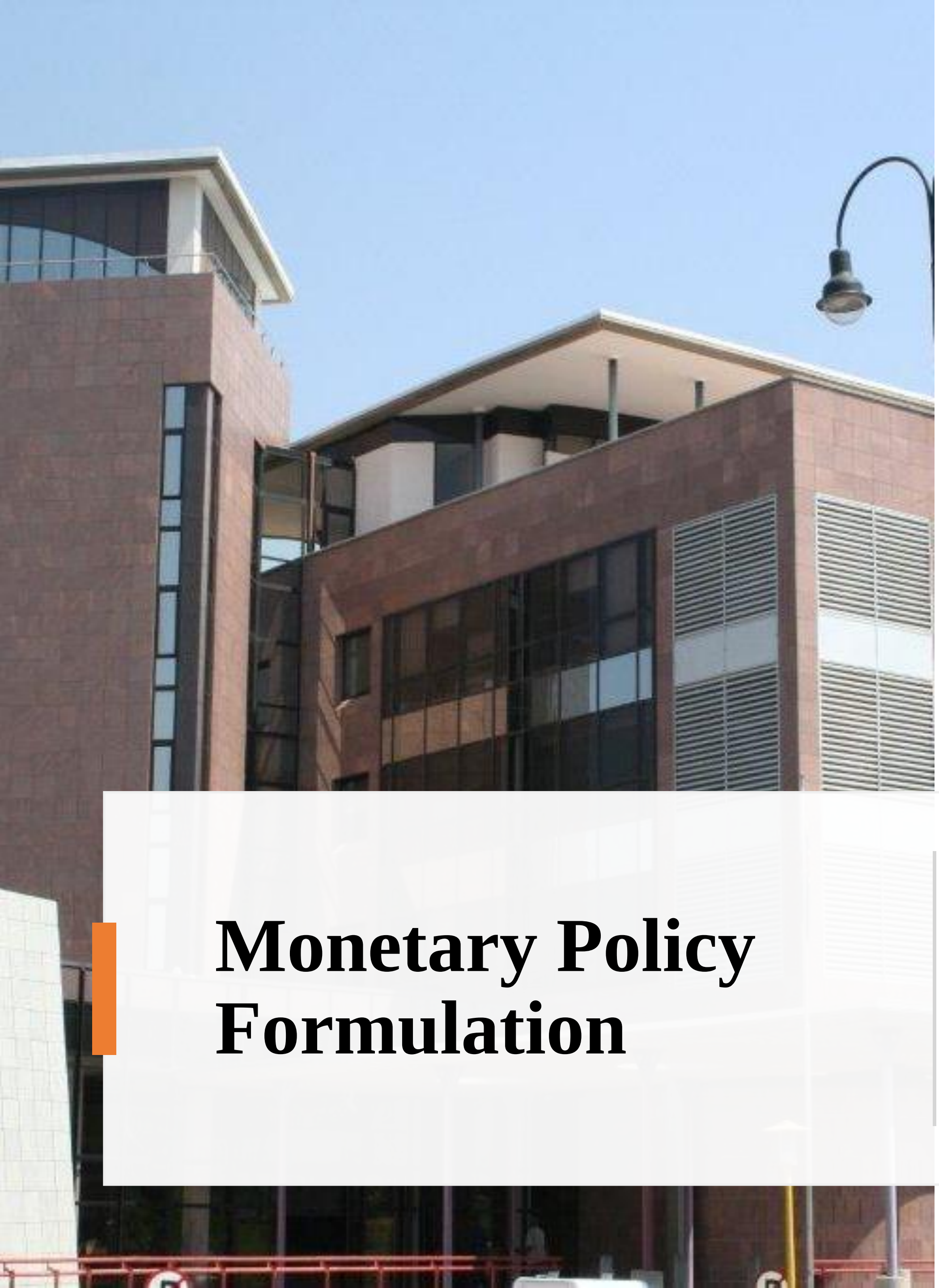
Mandate of the BoN

To promote monetary stability and to contribute towards financial stability conducive to the sustainable economic development of Namibia.

About the BoN

Functions of the BoN

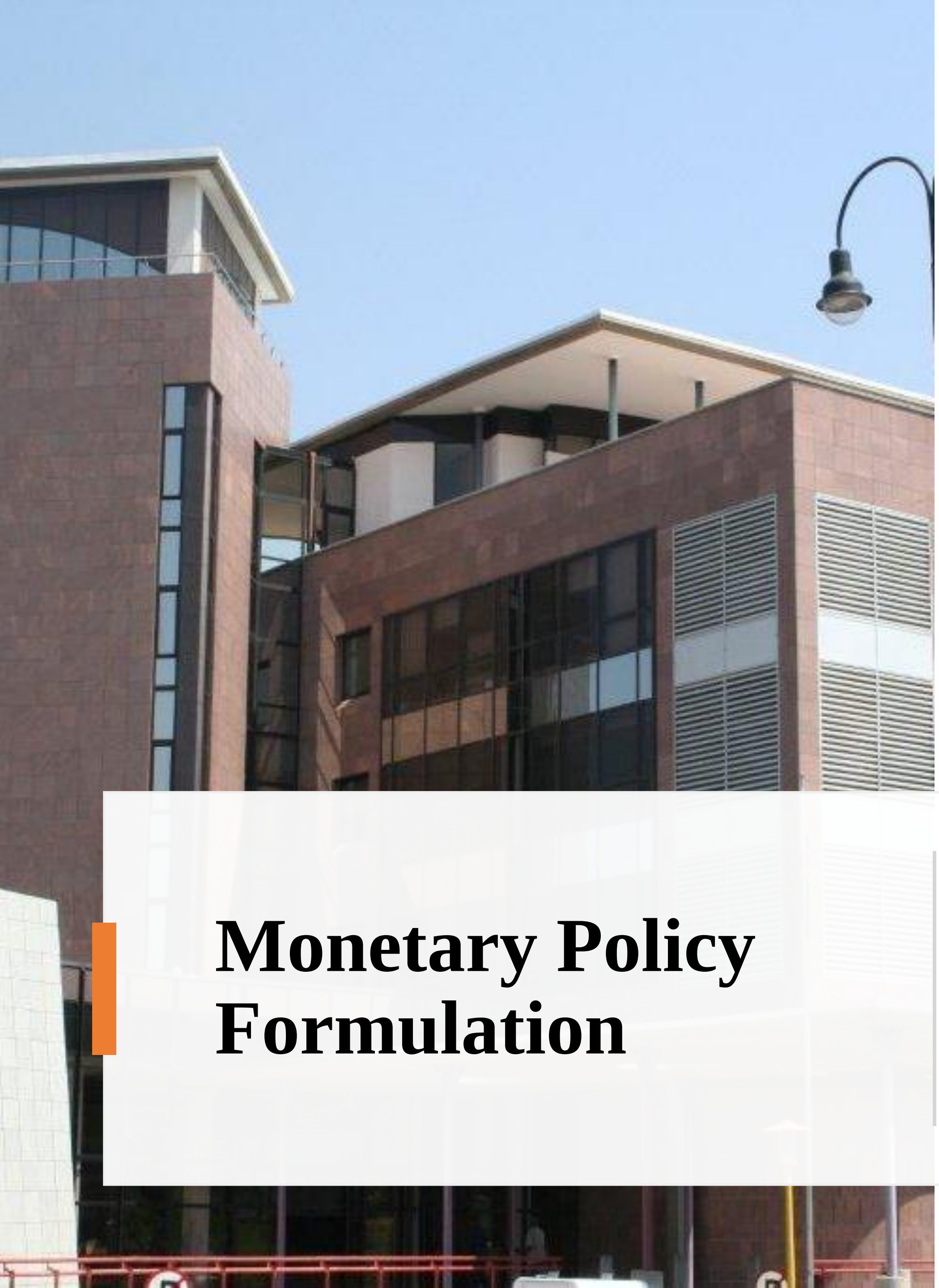
- Implement monetary policy of Namibia
- Safeguard and enhance financial stability
- Promote price stability
- Hold and manage reserves prudently
- Provide currency, Government debt issuance and banking services
- Promote financial sector development
- Regulate and supervise banking institutions
- Provide fiscal advice, depository services and fiscal agencies services to the Government



Monetary Policy Formulation

Monetary Policy Instruments and Goals

Policy Instrument	Policy Instrument
Repo rate	Stable exchange rate
Open Market Operations	Low and stable inflation
Buying/selling of foreign currency	

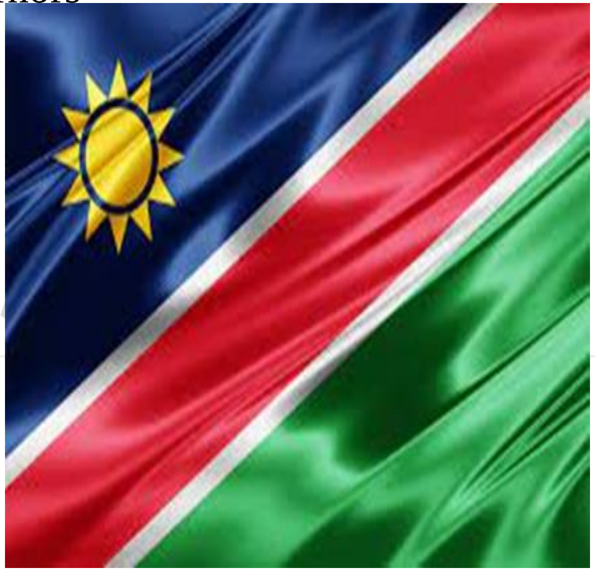


Monetary Policy Formulation

Monetary policy formulation processes

Monetary policy in Namibia is set by the BoN's MPC, consisting of the Governors and senior officials

The MPC normally meets 6 times per year, primarily to decide on an appropriate level of short-term interest rates



Detailed analyses and forecasts are presented to the MPC by the Research and Financial Sector Development Department and by the Financial Markets Department

Close attention is paid to global and domestic economic and financial conditions, Namibia-SA interest rate differentials, and the adequacy of Namibia's foreign exchange reserves

The MPC's degrees of freedom are constrained by the need to maintain the 1:1 exchange rate with the Rand

Why is Inflation bad?

" Inflation is violent as a mugger, frightening as an armed robber and deadly as a hitman"

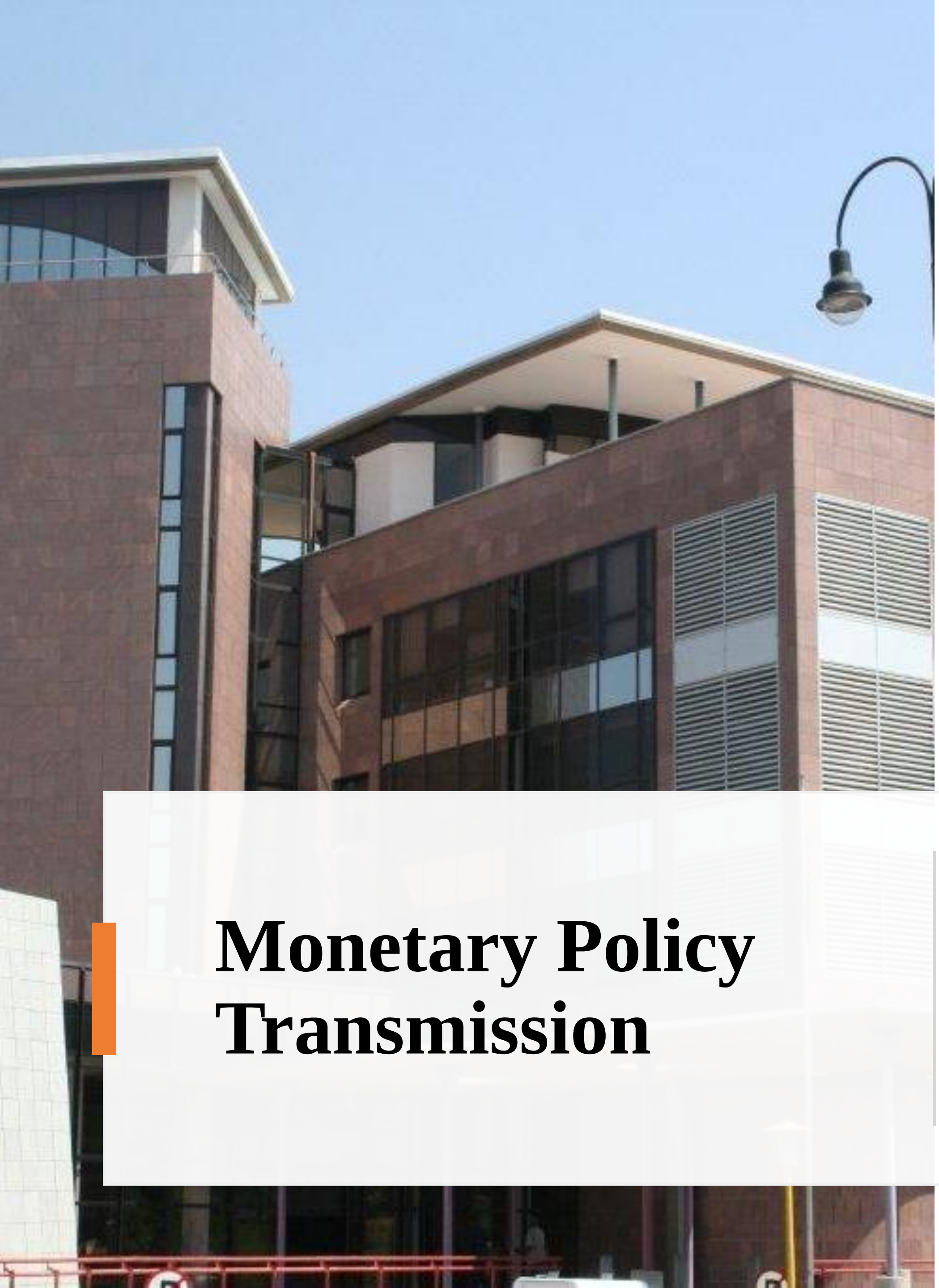
It reduces the purchasing power of consumers, esp. low income

Very high inflation affects employment in the long-term and will require even higher interest rates to bring it down

It reduces real income of consumers

High inflation slows down economic growth

The Bank of Namibia strives to contain inflation before it becomes a real problem to consumers and the real economy using the repo rate.



Monetary Policy Transmission

How the Repo rate affects Namibians

Namibia uses the Repo rate to attain the objectives of price and exchange rate stability.

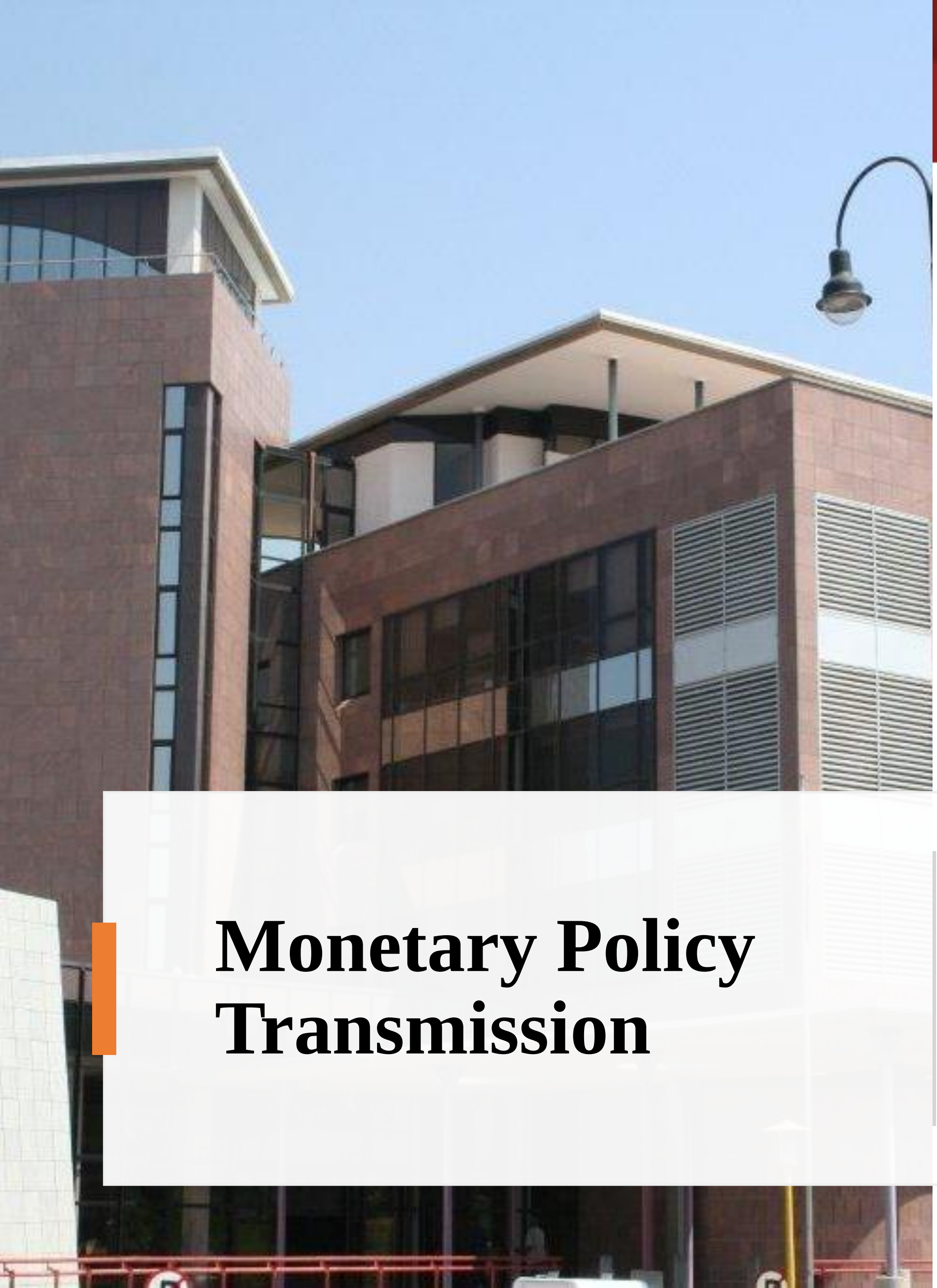
In Namibia, almost immediately after the official rate is changed, commercial banks accordingly adjust their lending rates.

Firms and individuals respond to the change in commercial bank lending rates by altering their spending and investment decisions and hence affecting aggregate demand and inflation.

However, higher interest rates will also positively benefit savers as market rates such as deposit rates will also increase.

For Namibia, changes in the borrowing/spending behavior of individuals are usually more pronounced than those in businesses.

Also expectations about the Repo rate influences consumer behaviour trickling down to domestic demand.



Monetary Policy Transmission

How the Repo rate affects Namibians Cont…

A higher repo rate tends to slow credit extension, reduce asset prices, moderate domestic expenditure and rein in inflation.

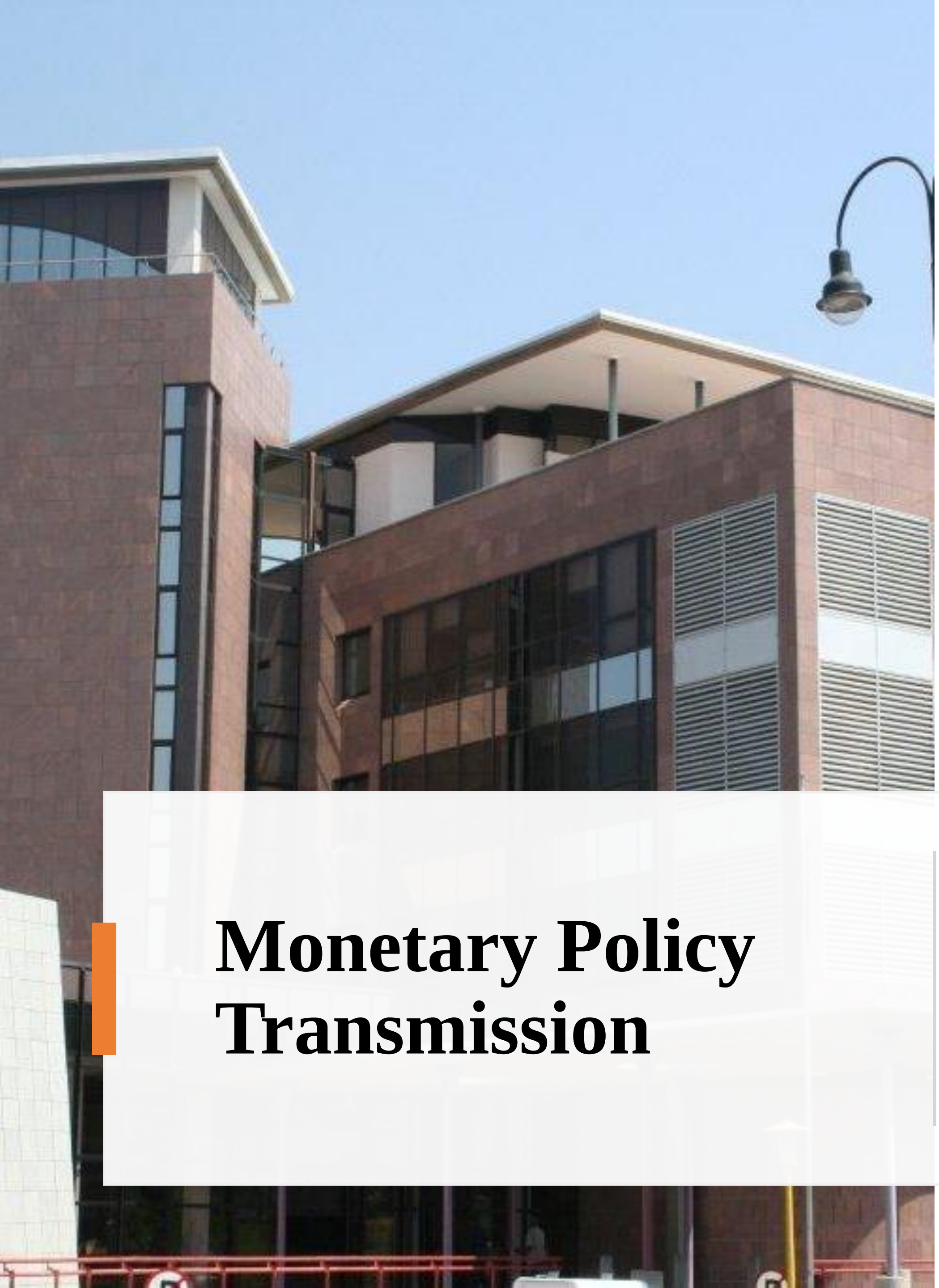
Conversely a lower repo rate tends to boost credit extension, raise asset prices, increase domestic expenditure and accommodate higher inflation

Interest rate arbitrage

As a member to the CMA, Namibia maintains a one-to-one exchange rate between the Namibia Dollar and the South African Rand

This requires that interest rates in Namibia must be at or close to the level of interest rates in South Africa

… Otherwise money will flow to the country where the interest rates are significantly higher, upsetting the CMA agreement



Monetary Policy Transmission

The short- and long-run consequences of monetary policy run in opposite directions

An easy credit, low interest rate policy stimulates the economy in the short run, boosting the use of credit, raising expenditure, bolstering economic growth and employment creation…

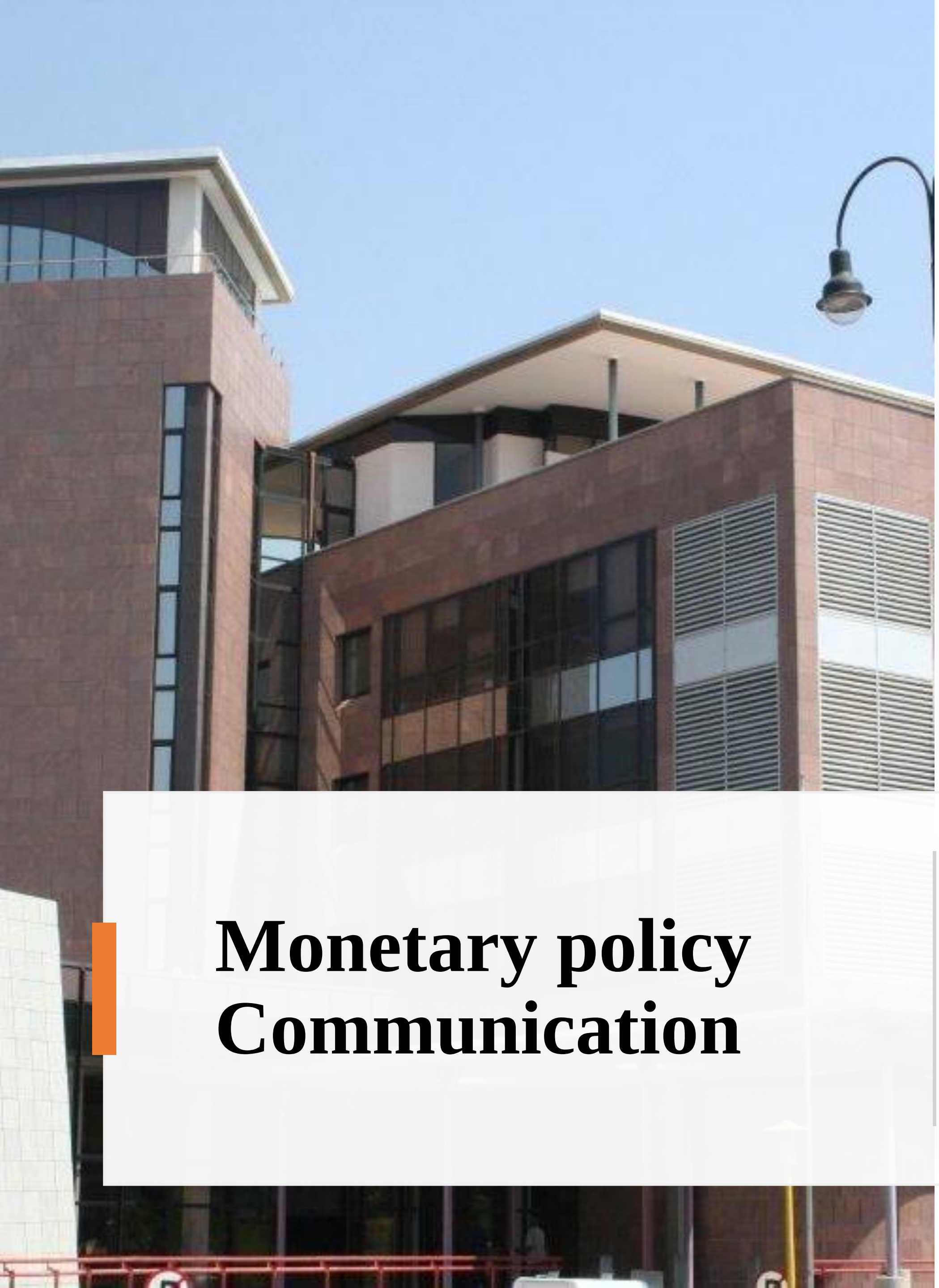
… But in the long run the stimulus leads to higher inflation and higher indebtedness as expenditure continues to exceed production

This necessitates an increase in interest rates to rein in the over-expenditure, rising inflation, excessive use of credit and lack of saving

Therefore, if you start off with a very stimulatory monetary policy you end up with a very restrictive one

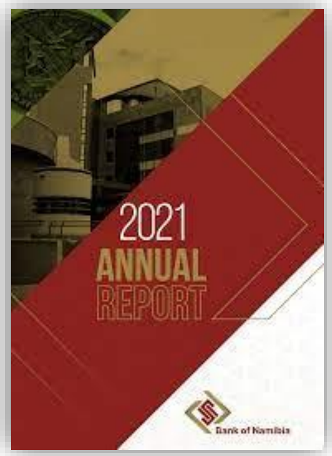
And vice versa: An overly tight policy will eventually result in very low inflation and a very easy monetary policy

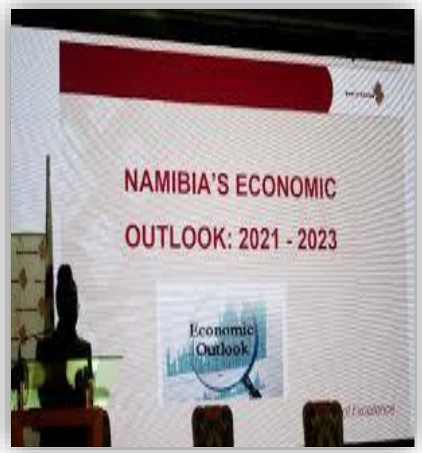
The circle of life in monetary policy

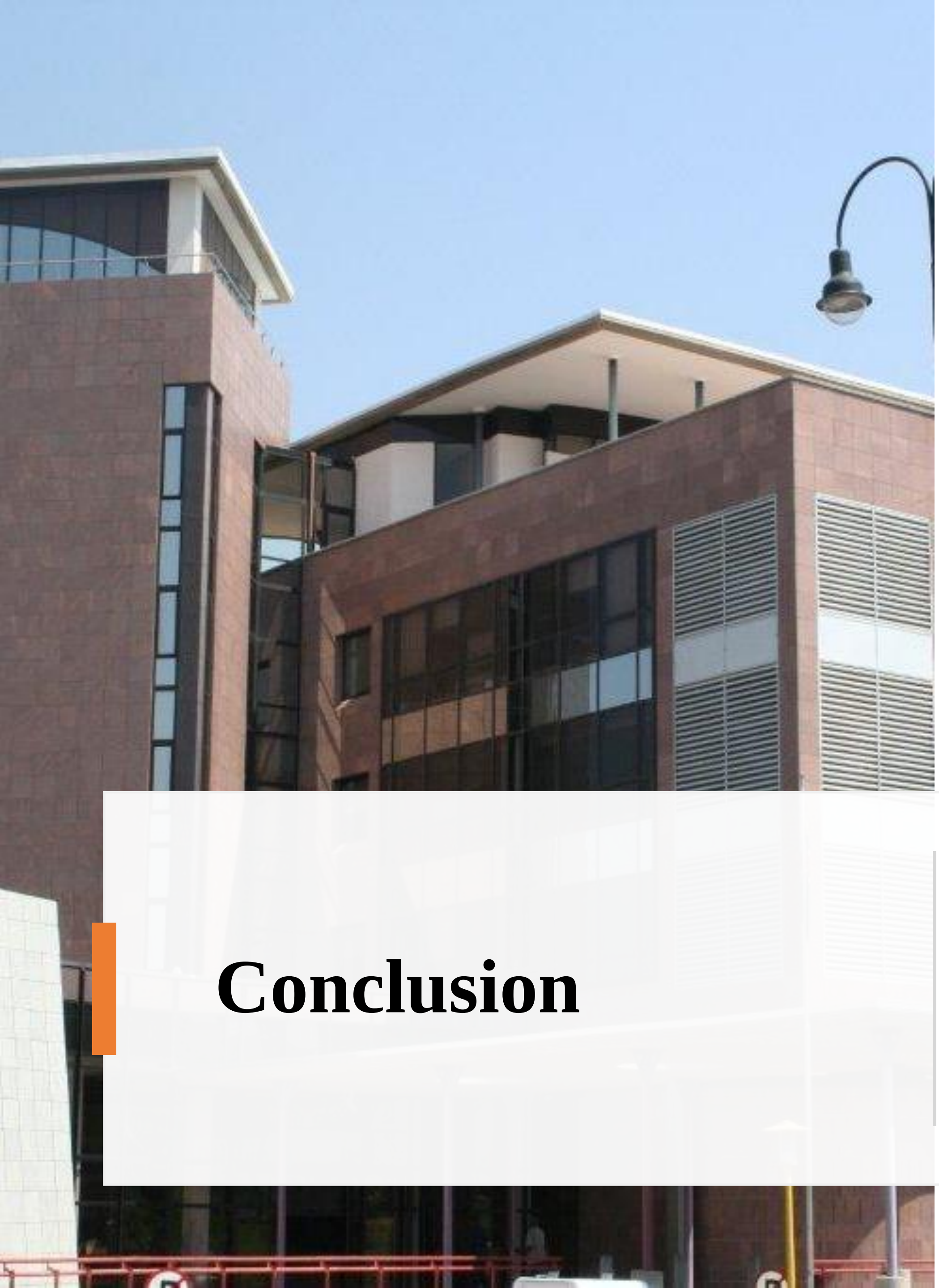


Monetary policy Communication

Publications







Conclusion

Key Take-aways

Repo rate changes, particularly, increases may have short-term pains, but a necessary in the longer term

Namibia’s monetary policy stance can deviate to some extent from that of South Africa, relying on the transaction costs, other frictions, capital controls and prudential requirements imposed on banking and other financial institutions to moderate capital movements in response to small differences in interest rates.

Given the fixed exchange rate regime, monetary policy remains submissive to the fixed peg, hence limiting monetary policy instruments available to the BoN

Bank of Namibia

THANK YOU