Media Release

Bank of Namibia

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**BANK OF NAMIBIA RESPONDS TO CURRENCY CONVERSION AGREEMENT CONCERNS**

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## Background

1. The Bank of Namibia (BON) and the Banco Nacional De Angola (BNA) implemented the Currency Conversion Agreement on 18 June 2015. This milestone Agreement allows for the direct exchange between the Angolan Kwanza and Namibia Dollar at commercial banks and bureau de changes at Helao Nafidi (Oshikango) and Santa Clara border towns. The ultimate aim of the agreement is to promote and facilitate trade between the Angolans and Namibians at the two border towns. The direct conversion between Namibia Dollar and Angolan Kwanza helps to reduce the transaction costs for individuals and small businesses as they do not have to pay double commission by first converting Kwanzas into USD and then into Namibia Dollars to pay for goods and services at Oshikango and vice-versa. This means that the Agreement is meant to promote trade and not to evade foreign currency exchange restrictions control of Angola and Namibia.

## Challenges Experienced

2. **Following the implementation of the Currency Conversion Agreement, some challenges were experienced as the amounts exchanged at the beginning were more than what both Central Banks expected.** This led to necessary changes, including designating commercial banks and bureau de changes as being the only entities allowed to exchange Kwanzas in Namibia within allowable limits.

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**Correct information pertaining to implementation progress to date**

3. The implementation of the Currency Conversion Agreement has been largely commended as a progressive intervention by many stakeholders. Equally, some stakeholders raised concerns that require further clarifications. Some of the expressed and publicized concerns over the currency conversion agreement are, however, not factual as they are based on speculations. This led the public to think that *"kwanza exchange deal throttles banks"* or *"banking sector liquidity crisis exacerbated by Kwanza Agreement"* or that *"Kwanza adds woes to government cash problem"* based on some of the headlines that appeared in the print media recently. The following are among the specific incorrect information that need to be rectified:

4. **It was alleged that the Namibia Dollar is not spent in Namibia and that much of it was taken back into Angola following the implementation of the Agreement. This is not correct and not supported by currency in circulation data. In fact, the data shows that there was no significant additional demand for currency in circulation, the objective indicator to explain such a situation**. The data on currency in circulation, which means banknotes and coins issued by the Bank of Namibia, shows that as at the end of May 2015 (shortly before the implementation of the Currency Conversion Agreement), it was N$3.68 billion. Comparatively, after the implementation of the agreement as at 27 October 2015, this figures stood at N$4.02 billion representing an insignificant increase of N$334 million compared to the value of Kwanza during the same time, equivalent to about N$3.1 billion. Moreover, although the increase during this period is insignificant, it is also fair to say that this small increase cannot all be explained by the Kwanza/Namibia Dollar exchange because other developments also need to be taken into account. It is also worth noting that some of the Namibia Dollar equivalent of the Kwanzas exchanged by businesses and individuals with accounts in Namibia remained in their accounts held with Namibian commercial banks.

5. It should also be noted that the Currency Conversion Agreement is applicable at both the northern towns of Oshikango and Santa Clara. There is therefore

nothing wrong with such insignificant amount of Namibia Dollars being in Angola as long as it is done within the framework of the Agreement.

6. **The Bank has received information that there could be some illegal activities taking place at the two border towns of Oshikango and Santa Clara.** As expected criminal elements always try to gain from well-intentioned arrangements. In this regard, the Bank and law enforcement agencies are closely monitoring the situation and will take the necessary actions, if warranted.

7. **It was speculated that BNA is unlikely to have sufficient hard currency (US Dollars) to exchange for the N$2.8 billion worth of Kwanza in Namibia. This concern is not supported by facts. We, however, acknowledge that the amount of money exchanged at the start of the Agreement was beyond the expectations of both the Central Bank of Angola and the Bank of Namibia. As a result, the repayment schedule had to be revised to avoid putting unnecessary pressure on the foreign reserves of Angola at once.** It should be noted however, that BNA is honouring the payment schedule. To date, BNA has paid Namibia in US Dollars equivalent of about N$282 million which has brought into the country the much needed foreign reserves.

8. **It was further alleged that the Currency Conversion Agreement was very likely to be the proximate cause of the "current banking sector liquidity crisis" in Namibia. This information is incorrect. The Bank of Namibia has not observed any liquidity crisis in the Namibian banking sector.** Data shows that during the first 9 months of 2015, the overall liquidity position of the banking industry averaged N$3.0 billion in comparison to N$3.2 billion and N$2.8 billion over the same periods of 2014 and 2013, respectively. The liquidity levels of the banks have therefore been within the normal ranges.

9. **The Currency Conversion Agreement was also linked to Namibia raising a hard-currency Eurobond to protect the country's external position.** It

should be made clear that the Eurobond has nothing to do with the Currency Conversion Agreement. The Namibian Government has always followed a prudent debt management policy, which stipulates that a large part of deficit financing should be raised in the domestic markets with the view to further deepening the domestic capital markets. The policy also dictates that the rest of the funding should come from foreign sources to diversify the Government source of funding. As it has happened before, raising funds through the Eurobond is therefore within the spirit of sovereign debt management policy. As a Government agent for debt management, it is important to indicate that the Namibian Government is able to meet its current funding needs at reasonable costs as demonstrated by the recent over subscription of the Euro bond. Further, during the first half of the fiscal year, Government was able to raise about 60 percent of the total amount it intends to borrow for the whole fiscal year in the domestic and South African market. This is part of the deliberate strategy to front-load the domestic borrowing plan.

10. **It has been reported that business people are concerned with inflated exchange rate between Angolan Kwanza and N$ which was said to have gone up by 40%. We agree that as Namibians we would wish our currency to be competitive relative to the Kwanza to attract more Angolan customers to Namibia.** The Bank has raised this issue with BNA and it is under discussion. However, we would also like to stress that, Angola as a sovereign state, it is within her full right to set the exchange rate at the level she sees fit to prevent unnecessary outflow of foreign exchange from Angola.

11. **The Bank of Namibia respects views and welcomes advice from its stakeholders with the view to making the Currency Agreement work better to promote trade between the two nations.** The Bank will therefore continue to work closely with the Central Bank of Angola to address challenges as they arise. Once the discussions are duly concluded, the public will be informed about the outcome of the discussions. It should be emphasized, however, that this Agreement is benefiting Namibia in various

ways. Community members of the two border towns are now able to exchange respective currencies for payment of goods and services from businesses at the border towns. As a country, Namibia is benefiting from this Agreement because the Bank of Namibia is paid in US Dollars for the equivalent amount of Kwanzas deposited by our commercial banks, which contribute positively to our much needed foreign reserves.

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