Bank of Namibia

Opening Remarks

By Mr Ebson Uanguta, Deputy Governor

Bank of Namibia

AT THE SEMINAR ON MONETARY POLICY IN THE MEFMI COUNTRIES: FRAMEWORKS DESIGN, IMPLEMENTATION AND EFFECTIVENESS
WINDHOEK, NAMIBIA
22 – 26 JULY 2013

Dr. Ellias Ngalande, the Executive Director, MEFMI,

Distinguished Discussants,

Fellow Economists,

Ladies and Gentlemen.

1. I am pleased to be here this morning to officiate this Seminar on " Monetary Policy in the MEFMI Countries: Frameworks Design, Implementation and Effectiveness ". I would like to take this opportunity to extend a warm welcome to all participants, particularly those who are visiting Namibia for the first time.

2. The seminar, as you all know, has been organized by our Institute MEFMI, which has been instrumental in upgrading capacity across the region. The seminar, which is designed for senior level economists in Central Banks, Ministries of Finance and Economic Planning and Development of MEFMI

member countries responsible for monetary policy design, implementation, analysis and monitoring, allows for discussion and debate amongst the region's premier economic decision makers. The seminar will discuss issues related to monetary policy frameworks in developing countries in general and in the MEFMI region, in particular based on a collection of papers written by you leading analysts and policymakers in our region. It is thus, gratifying to note that the agenda of the Seminar covers a wide range of very interesting research and technical papers relating to the way the Monetary Policy Framework is designed, run and monitored in our economies.

3. Ladies and Gentlemen, I am told that this seminar is not different from the traditional MEFMI regional retreat of Heads of research and policy units which was restructured to focus on one of the important recommendations made in the last retreat held in Swaziland in March 2012. In the latter retreat, participants recommended that in order for MEFMI to increase research capacity and analytical skills and to enable member states to significantly contribute to MEFMI publications, MEFMI needed to do the following: (i) to look at possibilities of setting up a research review panel made of staff members from member states; (ii) to call for thematical research topics from member states and encourage them to undertake evidence based research/studies; (iii) to collaborate with AERC to beef up evidence based policy decision making; and (iv) to start publishing research papers and technical papers from Member States.

4. Thus, this seminar provides another forum for you, senior economists from all over the MEFMI region, to examine pertinent issues related to monetary policy frameworks. I believe that, at the conclusion of the seminar, the wisdom of the distinguished participants will be able to put forward clear ideas and analytical thoughts to the macroeconomic

challenges that lie before us. In the meantime, let's move on to the subject of the seminar now.

5. Strictly academically, the monetary policy framework consists of an institutional arrangement, which provides an anchor to identify monetary policy objectives and describe how the policy is implemented through a set of instruments and their intermediate and operating targets. In essence, monetary policy has its means, i.e., the framework, and its ends, i.e., macroeconomic objectives, the chief among others being price stability. When those two are congruent, the monetary policy is considered well-defined.

6. Let's go backwards here and have a look at the ends first. The universal aim of monetary policy is achieving price stability; a secondary aim of monetary policy may be growth. For instance, commonly seen in the preamble to central banks acts is a clause stating that the bank is supposed to "…regulate the monetary and credit system with a view to securing monetary stability and fuller utilization of the country's productive resources…". Therefore, the central bank is concerned with not just inflation and price stability, but also with economic growth.

7. To achieve these ends central banks have to find and calibrate tools that are appropriate to achieving the objectives. Broadly speaking, central banks tend to target one or more of monetary aggregates, inflation or exchange rates. All three of these have an impact on the real economy and have implications for price stability.

8. In the recent past, countries have moved towards inflation targeting regimes. However, such a regime requires that the central bank's policies remain independent of the fiscal authority, have market credibility and are

time-consistent. Given that conditions in developing countries including those in the MEFMI region may not allow for such freedoms, inflation targeting may prove to be ineffective in such economies. Indeed, these are interesting times in which to be an economist; and in such times, we must occasionally toss conventional prescriptions aside and seek customized solutions. But for that it is necessary to fully understand our individual economies.

9. It was a Greek philosopher who first advised “know thyself” but the Greeks may not be going through the best of times right now. And, analogous to this, any competent policymaker must know his or her own economy inside out. He must know what makes the economy tick; how the linkages in the economy interact with each other; how signals and information get transmitted through these linkages; and what each of the knobs and dials on his dashboard does to calibrate the economy. The process of self-discovery is as relevant for the individual as it is for the economy. The process of improving the economy starts after the process of understanding.

10. For instance, monetary policy may be transmitted through a variety of different channels. Most commonly, the real interest channel is used to influence aggregate demand and fine-tune the economy. But we must take a step back and ask ourselves: do the linkages hold as strongly in the actual economy as they do in theory, especially given the high level of inflation and the high frequency of price changes that most developing economies face?

11. Monetary policy may also be transmitted through the balance sheets of banks and firms. Once again, we must know how bank lending and pricing

behaviour changes in response to changes in the policy rate. Then, there's also the exchange rate channel and finally, the expectations channel. But the key idea here is that a thorough understanding of all these transmission channels is needed in order to calibrate an effective monetary policy framework.

12. The transition from understanding these channels to developing the proper mechanisms to impact our objectives may not be smooth. After all, we should concede that there are some things that we have absolutely no control over in the short-run. Similarly, a certain policy measure may also produce conflicting outcomes, such as a reduction in inflation paired with a rise in current and fiscal accounts; how should we proceed then? We need to stay abreast of a very steep learning curve and constantly keep checking if the relationships that we have assumed, while developing our models, still hold. The economy is a living, evolving organism. Relationships between variables break down every so often. This only adds to the excitement of being a policymaker, ladies and gentlemen!

13. Ladies and Gentlemen, the complexity and the uniqueness of our economies only emphasize the need to develop a thorough grass-roots understanding of the economies, and a customized toolbox to deal with the multiples challenges along the way. Far too often have we relied on conventional diagnoses and prescriptions without fully understanding the symptoms. I challenge you all to question the assumptions that you have based your frameworks on; let's take nothing as a given and let's make our policy directives as unique as the economies they target.

14. I'm in a room full of economists and researchers here and it is probably unnecessary to say this, but, at the end of the day and despite our best efforts, even seemingly seamless plans may fail and our policy

instruments may let us down. Yes, it is tough to map out the behavior of an informal sector that is probably the size of the formal economy; yes, it is difficult to impose fiscal discipline; yes, it is almost impossible to control the international prices of fuels and grains; and yes, our textbooks seem to be clueless when it comes to tackling today's economic problems. But this only underscores the need – no, the necessity – to fully understand the nature of our economies. Know thy economy, ladies and gentlemen!

15. And now I invite you all to share your ideas and experiences among yourselves. Talk about the real life situations and the nature of your economies; talk about your toolkits; and talk about how they have fared with time. I can tell you that we, at the Bank of Namibia, have come a long way from the days of rationalized credit and strict controls on exchange rate. We have moved towards a better understanding of our economy and we've made some significant progress towards discovering the impact that our monetary policy has on the real economy. I hope that you will get a chance to share your thoughts with us and lead our minds to previously unexplored territories.

16. Admittedly, there is certainly still a lot to be accomplished ahead of us. It is recognised that it will only be through sustained research, by unceasing original thinking and, above all, by a great deal of practical experimentation, that we may be able to discover most of the answers that we need. Nevertheless, seminars such as this provide the opportunity for adding depth to our knowledge by way of dialogue and discussion in discovering opportunities and defining new implementation strategies.

17. On that note, ladies and gentlemen, let us share our insights regarding monetary policy frameworks; and let's get to know our economies. I now

have the pleasure to declare open this seminar on " Monetary Policy in the MEFMI Countries: Frameworks Design, Implementation and Effectiveness ".

Thank you for your time and I wish you all an amazing stay in Windhoek!