KEYNOTE ADDRESS BY MR. JOHANNES !GAWAXAB, GOVERNOR OF THE BANK OF NAMIBIA, AT THE FINANCIAL STABILITY REPORT LAUNCH ON THURSDAY, 28 APRIL 2022, WINDHOEK, NAMIBIA

Director of Ceremonies,
Mr Petrus Kafidi, Acting Deputy CEO, Market Conduct & Operations, NAMFISA,
Deputy Governor Uanguta and Deputy Governor Dunn,
Management and staff from both the Bank of Namibia and NAMFISA,
Members of the media,
Ladies and Gentlemen,

Good morning,

1. I am delighted to be here this morning to mark the official release of the 2022 Financial Stability Report. The previous speakers have said a lot, and we all have a good understanding of the report's content and the state of our financial system, as highlighted in the report. My task here is to launch this report officially, but please allow me to make a few remarks before I do so.

2. **It is now well understood that our country and the world at large have gone through unprecedented times over the past two years**. The Covid-19 pandemic that has preoccupied our lives over this period has had an impact of a scale and magnitude that was last felt with the Great Depression. The pandemic has tested us both individually, collectively, and economically in ways, we could never have imagined. With challenges come opportunities. The pandemic has provided us with an opportunity to reflect on our ways of life and enabled us to build a new economic architecture and financial system that will allow us to bounce back and bounce back even better and more resilient than before.

   Ladies and gentlemen,

3. **The stability of any financial system is a prerequisite for economic growth and prosperity.** The financial sector plays a vital role through financial intermediation by channeling mobilised savings to support economic activities. The essential measure of a stable financial system is one in which financial institutions, markets, and market infrastructures facilitate the smooth flow of funds between savers and investors, which helps promote economic growth. As Alan Greenspan, the former US Fed President, enjoins, *"when consumers are not worried about the money they have in their pockets, we have Monetary Stability, while when consumers are not worried about their savings in financial institutions, then we have Financial Stability."* As a Central Bank, we continue

to carry out the dual mandate of ensuring both monetary and financial stability – a task that we continue to carry out with the required zeal and forthrightness.

4. **Our two Regulators – Bank of Namibia and NAMFISA – continue to safeguard and ensure that our financial system remains sound and stable in Namibia.** The Bank of Namibia Act 1 of 2020 expanded the Bank's responsibility to include macroprudential oversight of the financial system. To enable the execution of this new responsibility, respond to the changes in the macroeconomic environment, and implement its Strategic Plan, the Bank reviewed its organisational structure during the reporting year. The review led to establishing a new department to deal with financial stability and macroprudential oversight headed by Florette Nakusera, a passionate and well-rounded former Chief Economist of the Bank. The new department is responsible for safeguarding and enhancing financial stability, identifying risks and vulnerabilities in the financial system, and assessing the system's resilience to domestic and external shocks. At the same time, we have delegated operational oversight of the Bank's financial stability and regulatory and supervisory functions and structures to one of our Deputy Governors, Ms. Leonie Dunn. Her main charge is to assist in modernising the financial system while maintaining its integrity and stability.

5. **The restructuring mentioned and appropriate resourcing demonstrate increased efforts to carry out the mandate bestowed upon us by the new Act.** Through these efforts, we are strengthening the Financial System Stability Committee's (FSSC) efforts to assess systemic risks and assisting the Bank of Namibia's newly formed Macroprudential Oversight Committee (MOC) in developing and implementing macroprudential policies to reduce systemic risks to the financial system.

6. **The French economist and statesman commonly known as Turgot once said:** "*the whole mass of humanity – marches constantly, though slowly, toward greater perfection."* With these bold moves, we are incrementally perfecting our system. The foundation we laid during the reporting period will not only ensure that Namibia continues to benefit from a well-run and managed financial system that is second to none on the African continent, but it will also ensure that when shocks strike, the risk of a systemic event that brings down the entire financial sector, is effectively mitigated.

   Ladies and gentlemen,

7. **In my remarks this morning, I'd like to emphasize four points that we must keep on our radar in order to achieve shared success in the future in maintaining financial stability and carrying out effective macroprudential oversight.**

a. **Constantly monitoring developments in the global economy and their potential impact on the financial system's resilience**.

Due to rising inflationary pressures that were predominantly driven by supply chain constraints, central banks across the globe commenced increasing policy rates from the middle of 2021. Inflationary pressures continue to build up, worsened by the Russia-Ukraine conflict, which led to significant increases in food and energy prices and further impacted supply chains. According to the IMF's Global Financial Stability Report, repercussions of this conflict and ensuing sanctions continue to reverberate globally and will test the financial system's resilience through various potential amplification channels. Like in other countries, inflation is the single most difficult challenge for the Bank of Namibia – and, as previously stated, it is not of our making.

Therefore, the current inflation environment presents a difficult policy trade-off between protecting the most vulnerable from rising fuel and food costs amidst the necessary policy tightening. Consequently, households who spend a large portion of their income on food and transportation already feel the effects due to their purchasing power which have been eroded by rising inflation. Despite that the recent inflation uptick is on account of supply and external factors on which the Bank has limited control, the preoccupation of the Central Bank~~s~~ is to mitigate against second-round effects that such inflation pressures could cause. In this regard, the Bank raised the policy rate in the last monetary policy committee meeting. This monetary policy stance is pursued to ensure that (i) the peg between the Rand and Namibia Dollar is supported and hence mitigate against imported inflation, (ii) domestic inflation expectations from households and firms do not translate into a higher inflation outcome[1]; (iii) credit conditions remain moderate and do not add demand pressure which feeds into imported inflation; and (iv) inflation volatility remain low and less risky to financial stability[2].

The Bank has done so within the parameters of the fixed exchange rate arrangement, which comes with obligations and thus limits monetary policy flexibility. While these steps will not immediately reduce inflationary pressures, the medium-to-long term risk outlook could easily de-anchor if we as a country do not take the bold steps that will benefit us in the long run. The slower growth and rising prices, coupled with the war in Ukraine, and tightening financial

[1] Persistent high inflation can de-anchor inflation expectation as wage demands set in and firms increase prices to preserve sales margins. This leads to self-fulling and unleashes peril through second-round effects in the economy.
[2] High inflation volatility (represented by large month-on-month changes) increases risk premium charged in the financial sectors.

conditions, will exacerbate the difficult policy trade-off between supporting the recovery and containing inflation and debt. Going forward, administered prices in the housing, utilities, and energy sub-sectors should be adjusted cautiously to prevent runaway inflation. Hence, this time calls for the effective use of stabilisation mechanisms at our disposal in addition to monetary policy to stabilise the general price level and inflation ultimately.

b. Monitor the financial sector-sovereign nexus.

In the wake of the pandemic, financial institutions globally have increased their holdings of domestic government/sovereign debt, thereby tightening the linkage between the health of the financial system and the level of sovereign debt or the "financial sector-sovereign nexus". As at December 2021, the largest four banks in Namibia held 14.1 percent of the sovereign debt stock. Moreover, non-bank financial institutions' holdings of government debt were much higher at 35.5 percent over the same period. This relationship demonstrates the limited availability of investment instruments in Namibia. In emerging markets, banks' holdings of government debt as a percentage of their assets increased to a record 17 percent in 2021. The situation in Namibia shows that relative to banks' total assets, government securities holdings by banks stood at 11.8 percent in December 2021. Similarly, NBFIs had invested 11.8 percent of their total assets in government securities over the same period. Overall, the risks emerging from this nexus are being closely monitored, and diversifying investment opportunities alongside sustained fiscal consolidation will go a long way towards easing this risk going forward.

c. Strengthen Collaboration and Exchange of Information

The rapid and undeniable convergence that is taking place in the financial system, both globally and domestically, requires strengthened collaborations between regulators and the financial sector as a whole. The emergence of technology which saw the rise in tech-based financial solutions enterprises (Fintechs) requires that we change not only the way we regulate the financial system but also our risk assessment tools and methodologies. While these innovations are welcomed as they help modernise our financial system and enhance financial inclusion, we must remain vigilant in monitoring and assessing risks associated with these newcomers. The debate is not whether we need more or fewer regulations BUT rather that we need smart regulations that speak to the times we live in. The timely exchange of accurate information is at the core of this enhanced collaboration. Therefore, to effectively deal with the interconnectedness between the banking and non-bank industries and ensure effective oversight, the Bank of Namibia and NAMFISA should continually modernise our collaborative tools and frameworks. I'm convinced that the bilateral agreement and data sharing between the two institutions is a great step in the right direction.

d. A critical catalyst to enable optimal benefit to be derived from a stable and modernised financial system is the focus on investing in fit-for-future skills

The world around us is changing fast, and we must change with it. To keep up with this fast-changing world, we must re-skill, up-skill, and re-tool for the future. We must sharpen our digital capability sword as much as we can. Think about it, these last two years have taught us that businesses that can sell their services and products online are likely not only to survive but to thrive during these uncertain times. This is true for businesses in the financial services sector as well. As the industry forges ahead, regulators cannot afford to lag behind. Therefore, we need to re-skill and up-skill in the usage of regulatory technology for risk-based supervision, data mining, and analysis to effectively supervise and regulate the increasingly sophisticated tech-fuelled financial system. The Bank's newly adopted Strategy responds to this demand by embracing digital transformation to ensure the Bank's operations are future-fit and modern. The Bank also established an Innovation Hub to catalyze this transformation. We have adopted robotics and artificial intelligence as must-have tools in our toolbox. Furthermore, I am proud of the collaborations we have begun with other key national institutions to meet their digital transformation needs while also modernising our financial system in support of the national push for digitisation in line with the Fourth Industrial Revolution. We will make an announcement soon to that effect.

However, as advanced technologies become more prevalent, we become more vulnerable to cyberattacks and other risks associated with these technologies. With rising technology changing the way we access and consume information, we need to design mechanisms that allow us to monitor cyber risks, particularly those affecting our systemically important financial institutions. To win the war against cyber attackers, hackers, and other online criminals, we must create a framework at the national level that allows for the sharing of information across industries and regulators on the prevalence of these activities, as well as establish a national focal point for reporting incidents and ensuring mitigating actions are taken at the national level to protect our IT infrastructure and services. As a result, financial and other regulators such as CRAN, the Ministry of Information and Communication Technologies, as well as a broad range of stakeholders need to spearhead the necessary collaborations on this front. Such collaboration will provide our financial system with greater and enhanced protection by effectively identifying emerging risks and vulnerabilities and taking corrective action promptly. Our speed and tenacity will ensure that we effectively identify risks and take appropriate action before escalating into a systemic crisis.

8. **Ladies and gentlemen, the current regulatory environment requires swift and bold interventions to safeguard the stability of our financial system.** The interventions the two sister regulators took to cushion the impact of the pandemic on our regulated entities and their clients have helped avoid what would otherwise have been a catastrophic situation. One of the things we have learned from past financial crises is that the inability to process real-time data and act in time can have far-reaching negative consequences for the entire system. In the short term, the Bank of Namibia will continue to do everything within its mandate to contain inflationary pressure and maintain price stability. Furthermore, the Bank will work toward finalising its position on emerging trends and innovations such as cryptocurrencies and Central Bank Digital Currencies. In so doing, the Bank will research the application of these innovations, locally and in other jurisdictions, including the risks and benefits associated with such innovations.

9. **As we are dusting ourselves off from the devastating impact of the pandemic, we should look toward the road of economic recovery with renewed zeal, determination and resilience.** I'm delighted to note that, despite everything we have gone through together, the report we are launching today informs us that our financial system remains **SOUND** and **STABLE**.

10. In conclusion, let me thank the teams from our two institutions for this timely report, and with that, I now have the pleasure of declaring the 2022 Financial Stability Report officially launched.

I thank you.