Navigating current economic shocks: Policy options, 20 July 2022

Bank of Namibia

Mr. Johannes !Gawaxab, Governor

Presentation outline

- The Bank's mandate & governance structure
- Overview of the current economic landscape
- Economic developments (global & domestic)
- Inflation and monetary policy developments
- The Common Monetary Arrangements
- Household vulnerability
- Possible reforms & other policy options
- Potentials in the Kavango regions
- Conclusion

Bank of Namibia

Bank of Namibia

Mandate of the Bank

Bank of Namibia establishment

- BON established by Article 128 of the Constitution;
- Complemented by Bank of Namibia Act No. 1 of 2020.
- Wholly owned by the Government of the Republic of Namibia

Bank of Namibia

Mandate of the Bank

- Promote price stability
- Fiscal advisor and banker to Government
- Manage foreign reserves and currency
- Ensure sound financial system
- Conduct economic research
- Host Financial Intelligence Centre & Namibia Deposit Guarantee Authority
- Macroprudential oversight (economic & financial market development in Namibia); Bank of Namibia Act No. 1 of 2020, Section 73

Governance structure

- Board members appointed by the President
- Governor and Deputy Governor part of the board
- Executive Director of Ministry of Finance – Ex Officio
- Annual Report to Finance Minister by end March each year
- Regular consultation with Finance Minister, but independent

Bank of Namibia

Functions of the Bank

- Issuing notes and coins
- Banker to the banks
- Conduct of bank supervision
- Formulating and executing monetary policy
- Management of foreign exchange reserves
- Exercise of exchange control
- Government banker, agent and adviser
- Financial stability
- Economic research, statistics and analysis

Bank of Namibia

Introductory remarks

Perfect storm

- There is a perfect storm brewing in the global economy. Recessions are either caused by a demand shock (think 9/11), a supply shock (think of the first oil price increase) or a financial shock (think Lehman Brothers and the Great Recession). Covid delivered all of the above in a **single package**.
  - The invasion of Ukraine by Russia reinforced these shocks (unprecedent confluent of shocks: exogenous shocks on top of external shocks).
  - ***Nothing to do with how the economy is managed or recklessness from our end.***

Third shock

- Tightening financial conditions as central banks aim to contain surging inflation

Uncertain times

- Covid-19 and its variants + Ukraine-Russia conflict + the associated supply chain disruptions render the current times uncertain:
  - Not clear how long Covid and its variants will be around;
  - Not clear how long the war will rage;
  - Not clear what other possible external shock may emerge

What we know

- **What we know is that we are in a shock-prone world…**
  - And it is important that we build a resilient economy and nation - not focused too much on what divide us but on what unite us

Economic developments

Bank of Namibia

Global GDP growth

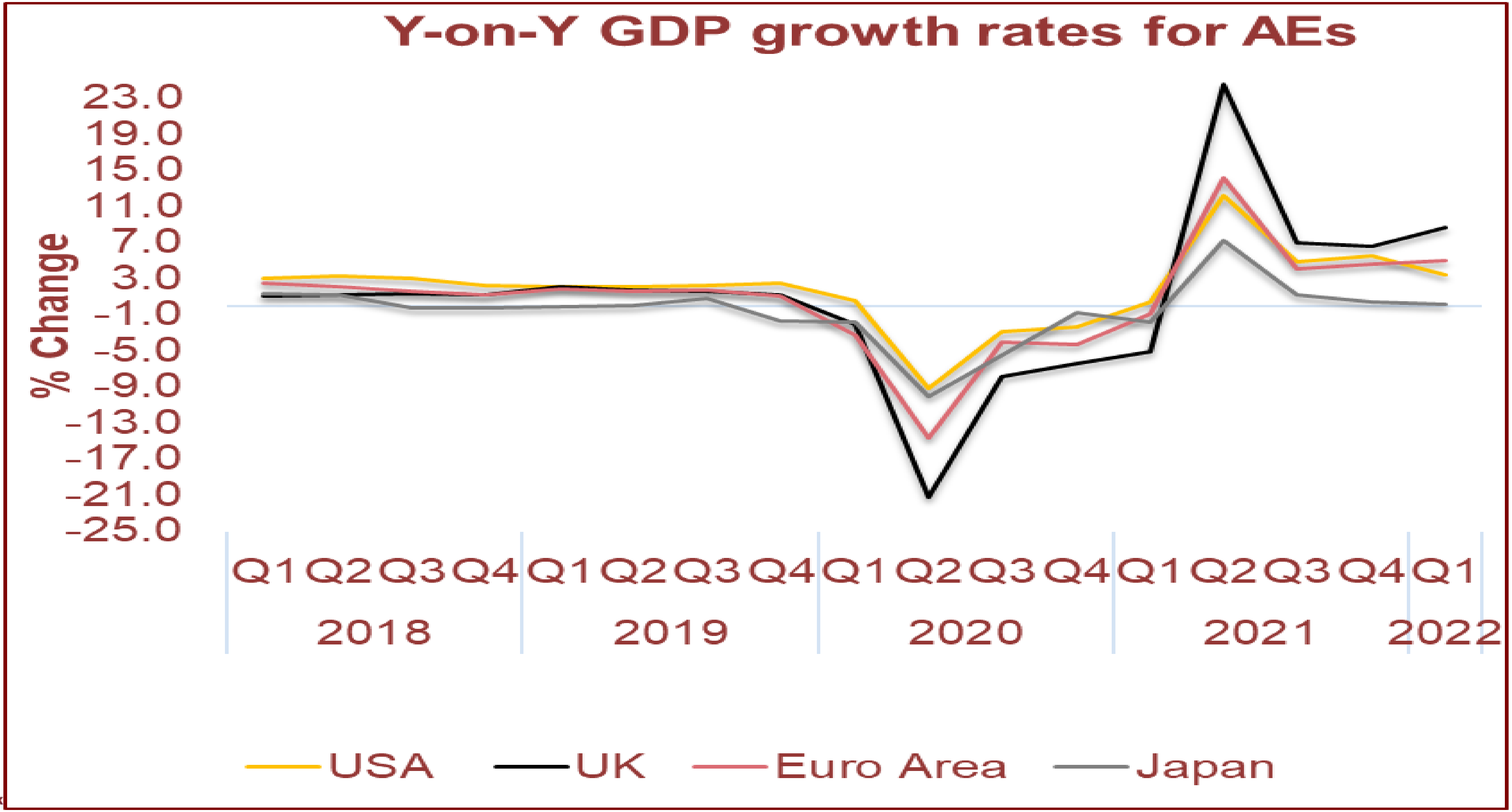
Regions	Actual 2020	Actual 2021	Projections 2022	Projections 2023	Differences from January 2022 WEO 2022	Differences from January 2022 WEO 2023
World Output	**-3.1**	**6.1**	**3.6**	**3.6**	**-0.8**	**-0.2**
Advanced Economies	**-4.5**	**5.2**	**3.3**	**2.4**	**-0.6**	**-0.2**
United States	-3.4	5.7	3.7	2.3	-0.3	-0.3
Euro Area	-6.4	5.3	2.8	2.3	-1.1	-0.2
Germany	-4.6	2.8	2.1	2.7	-1.7	0.2
France	-8.0	7.0	2.9	1.4	-0.6	-0.4
Italy	-9.0	6.6	2.3	1.7	-1.5	-0.5
Spain	-10.8	5.1	4.8	3.3	-1.0	-0.5
United Kingdom	-9.3	7.4	3.7	1.2	-1.0	-1.1
Japan	-4.5	1.6	2.4	2.3	-0.9	0.5
Canada	-5.2	4.6	3.9	2.8	-0.2	0.0
Other Advanced Economies	-1.8	5.0	3.1	3.0	-0.5	0.1
Emerging Market and Developing Economies	**-2.0**	**6.8**	**3.8**	**4.4**	**-1.0**	**-0.3**
China	2.2	8.1	4.4	5.1	-0.4	-0.1
India	-6.6	8.9	8.2	6.9	-0.8	-0.2
Russia	-2.7	4.7	-8.5	-2.3	-11.3	-4.4
Brazil	-3.9	4.6	0.8	1.4	0.5	-0.2
Sub-Saharan Africa	**-1.7**	**4.5**	**3.8**	**4.0**	**0.1**	**0.0**
South Africa	-6.4	4.9	1.9	1.4	0.0	0.0
Nigeria	-1.8	3.6	3.4	3.1	0.7	0.4
Angola	-5.6	0.7	3.0	3.3	0.0	0.0

- Following a solid rebound in 2021 to 6.1 percent on the back of softening of pandemic related restrictions.
- Growth in the global economy is markedly revised down to 3.6 percent in 2022.
- Given latest developments, the IMF is poised to revise the projections downward.
- *According to the World Bank Group, the invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9 percent in 2022.*

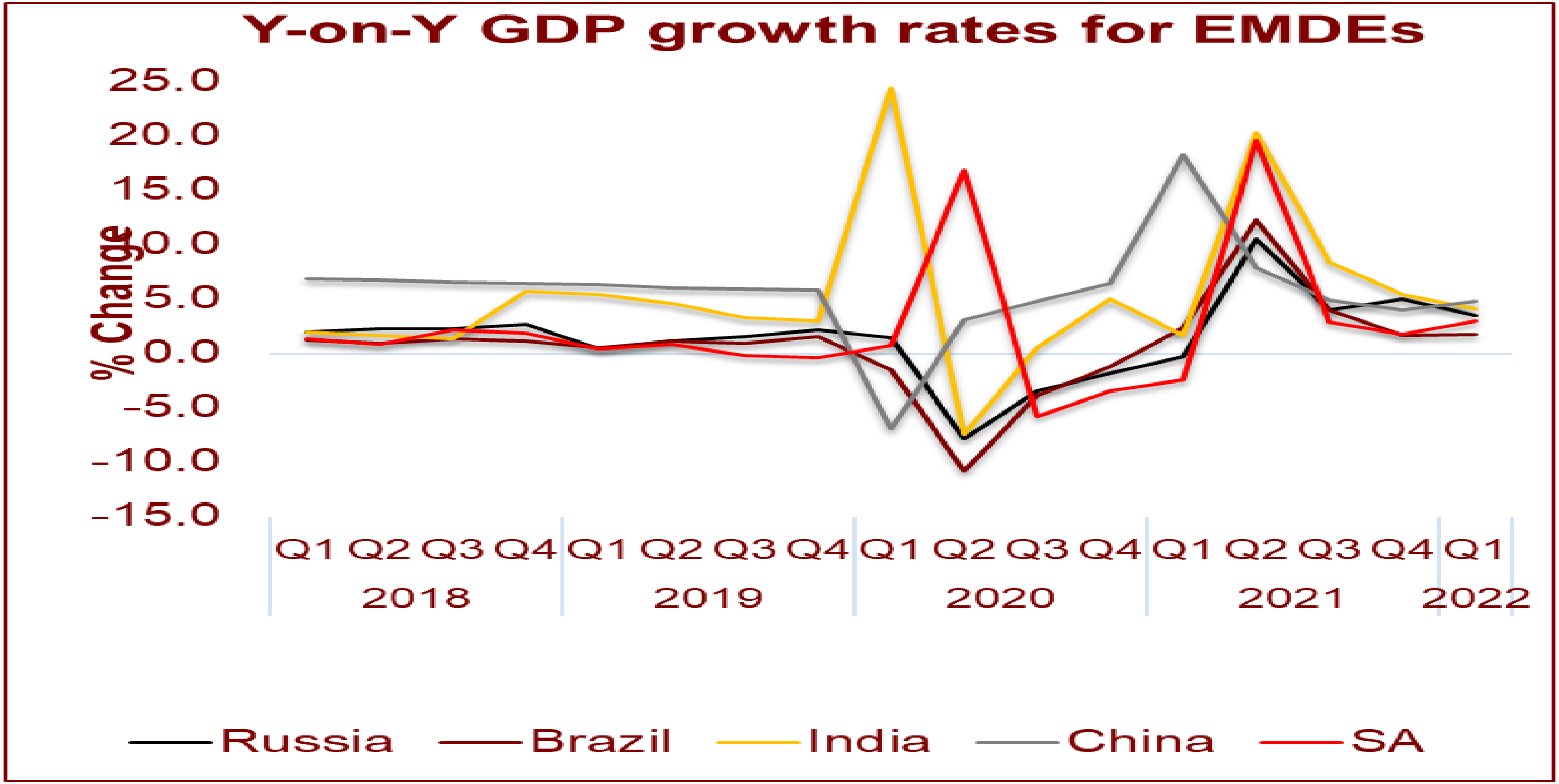
Bank of Namibia

Source: IMF WEO April 2022

Economic activity for AEs

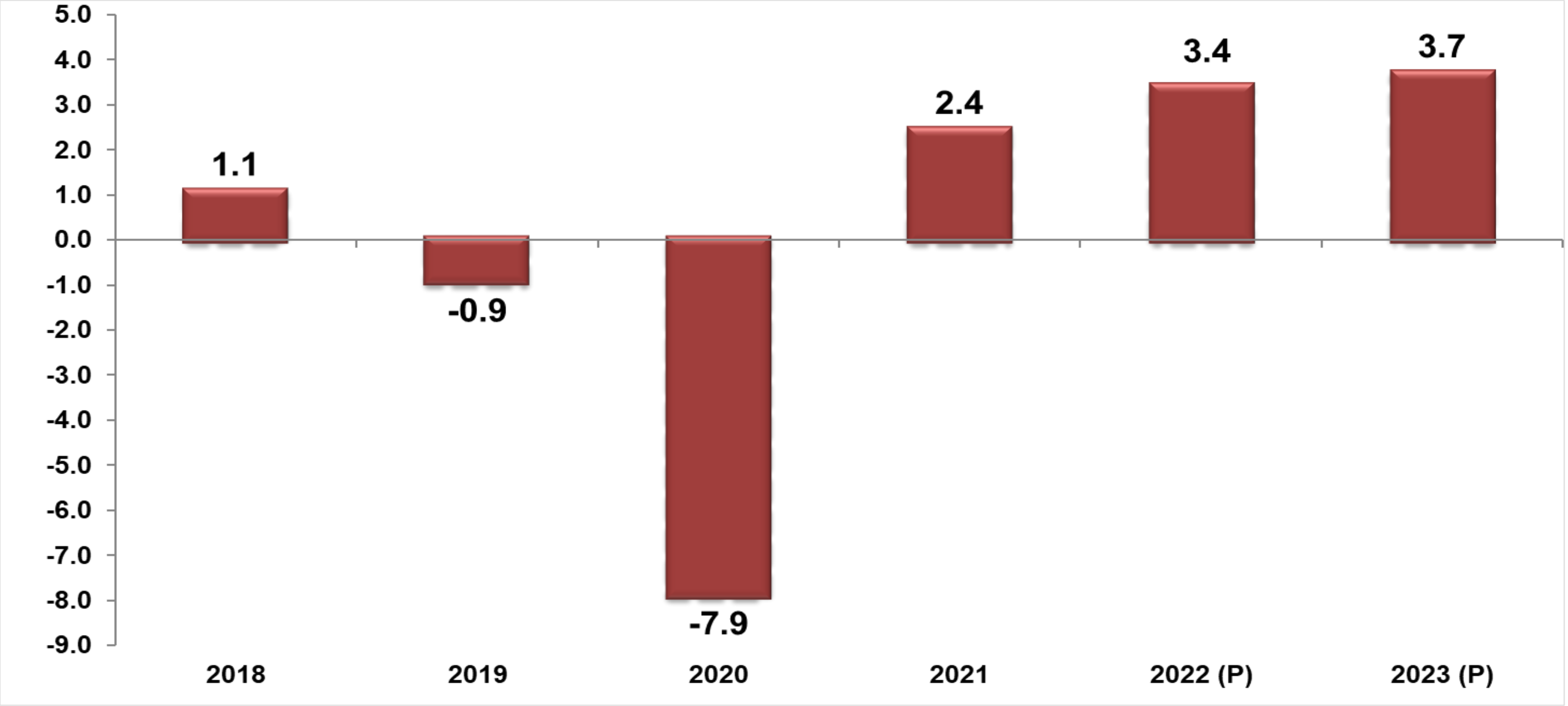


Economic activity for EMDEs



Economic growth in Namibia

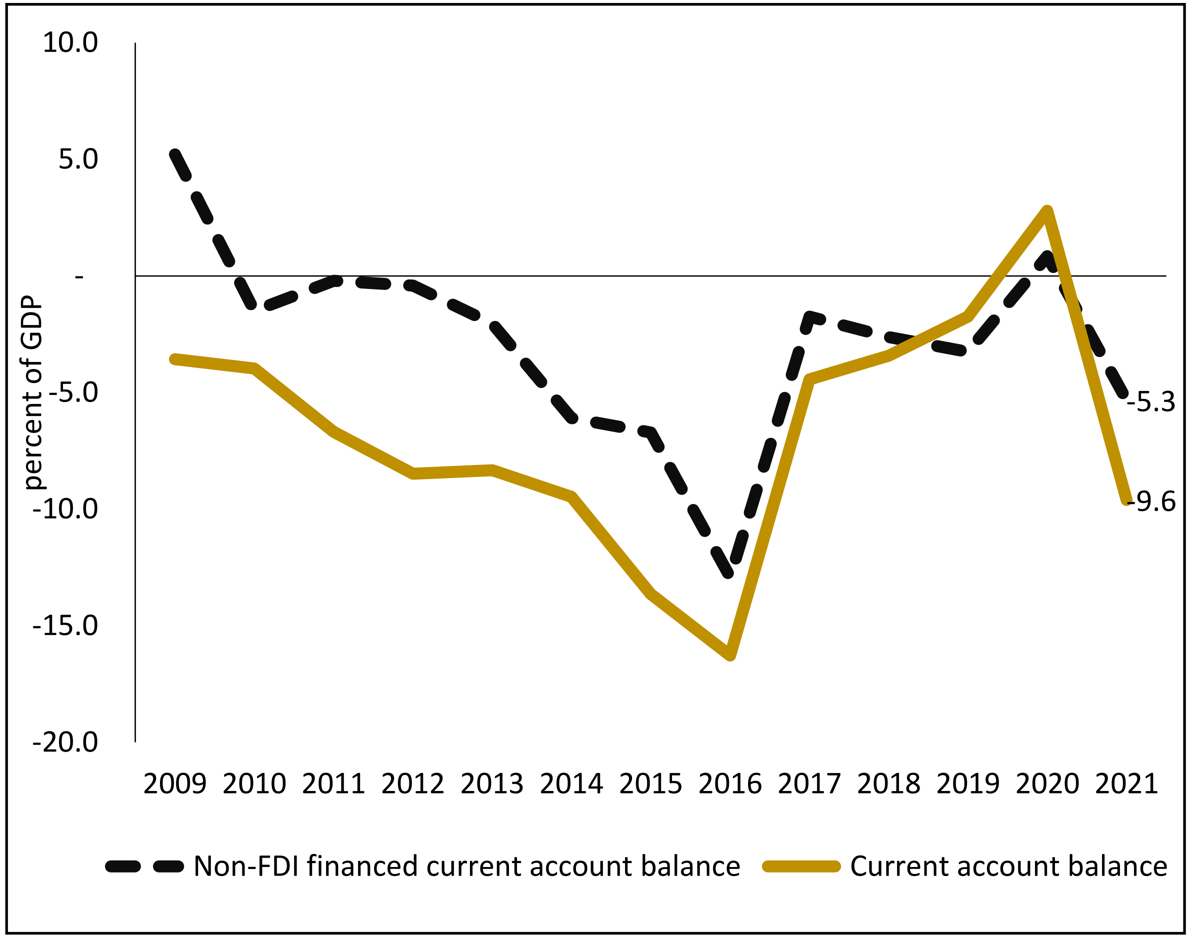
Until recently, Namibia’s real GDP growth has been strong, average growth of 3.5% per annum since independence (the Bank is busy revising the economic growth projections- uncertainties prevail).

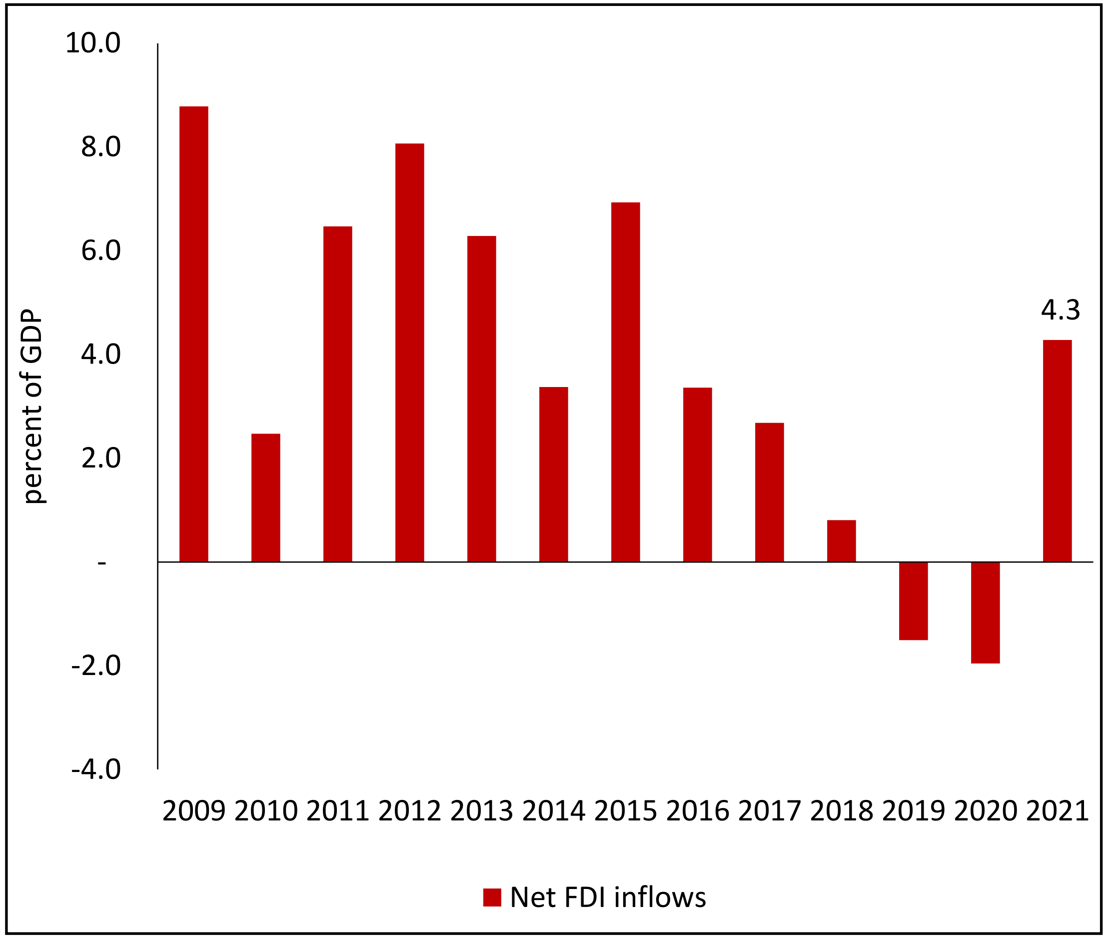


Bank of Namibia

Current account balance deteriorated in 2021, partly financed by net FDI inflows

The deterioration in the current account balance was associated with notable capital inflows in the form of direct and other investments.





Bank of Namibia

The merchandise trade deficit deteriorated further during the first four months of 2022, driven by a higher fuel import bill

Sovereign debt vulnerability ranking

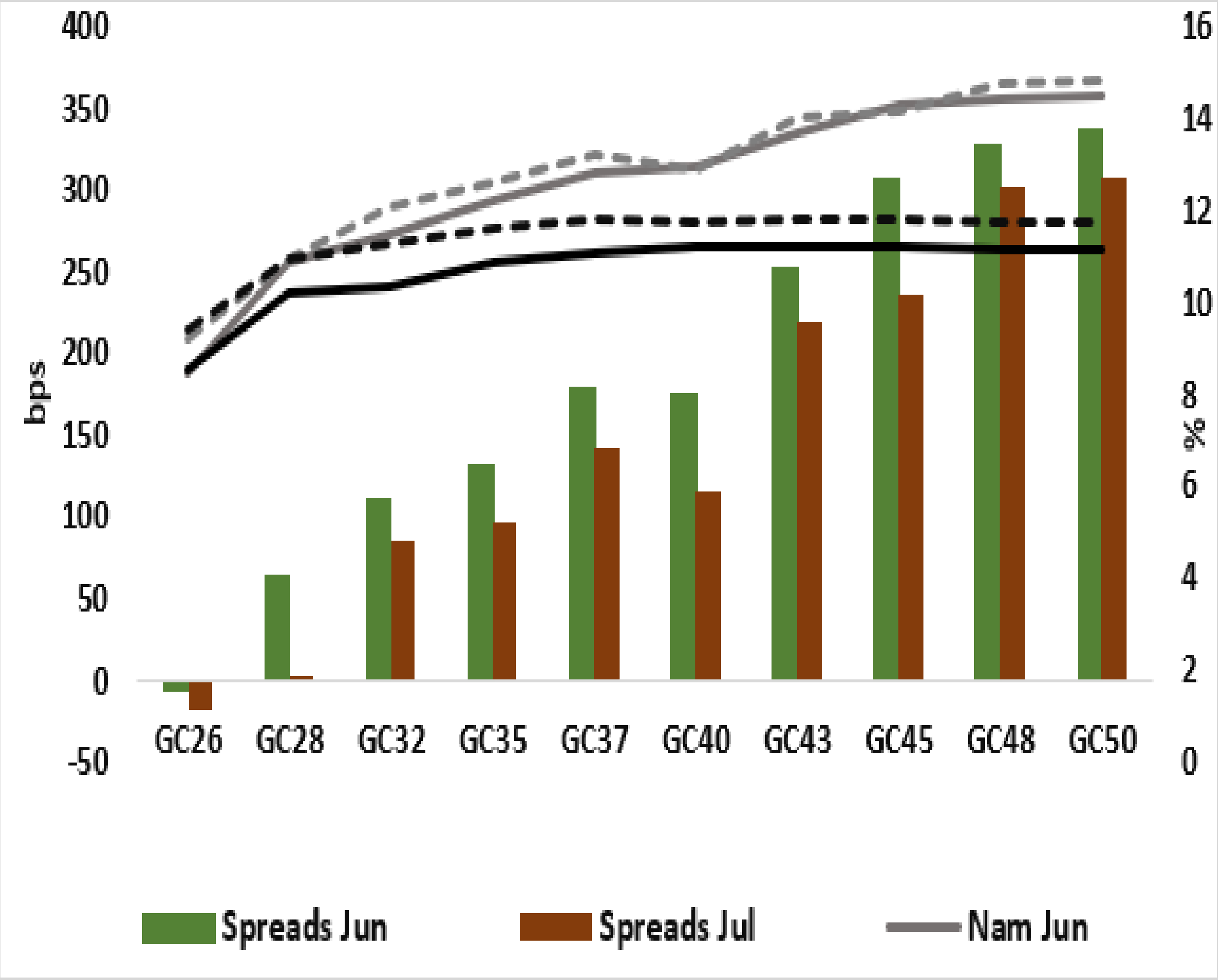
	Sovereign Debt Vulnerability Ranking	Government Bond Yield (Latest)	5Y Credit Default Swap Spread (Latest, Bps) 1 basis point (bps) = 0.01%	Interest Expense 2022 (% GDP)	Government Debt 2022 (% GDP)
El Salvador	1	31.8%	3,376	4.9%	82.6%
Ghana	2	17.1%	2,071	7.2%	84.6%
Tunisia	3	32.1%	1,200	3.0%	87.3%
Pakistan	4	16.8%	1,492	4.8%	71.3%
Egypt	5	13.2%	368	8.2%	94.0%
Kenya	6	14.6%	1,134	4.4%	70.3%
Argentina	7	20.7%	4,470	1.7%	74.3%
Ukraine	8	60.4%	10,856	2.9%	49.0%
Bahrain	9	6.6%	327	4.5%	116.5%
Namibia	10	9.4%	593	4.2%	69.6%
Brazil	11	6.0%	299	7.2%	91.9%
Angola	12	12.0%	834	4.0%	57.9%
Senegal	13	10.2%	602	2.1%	75.3%

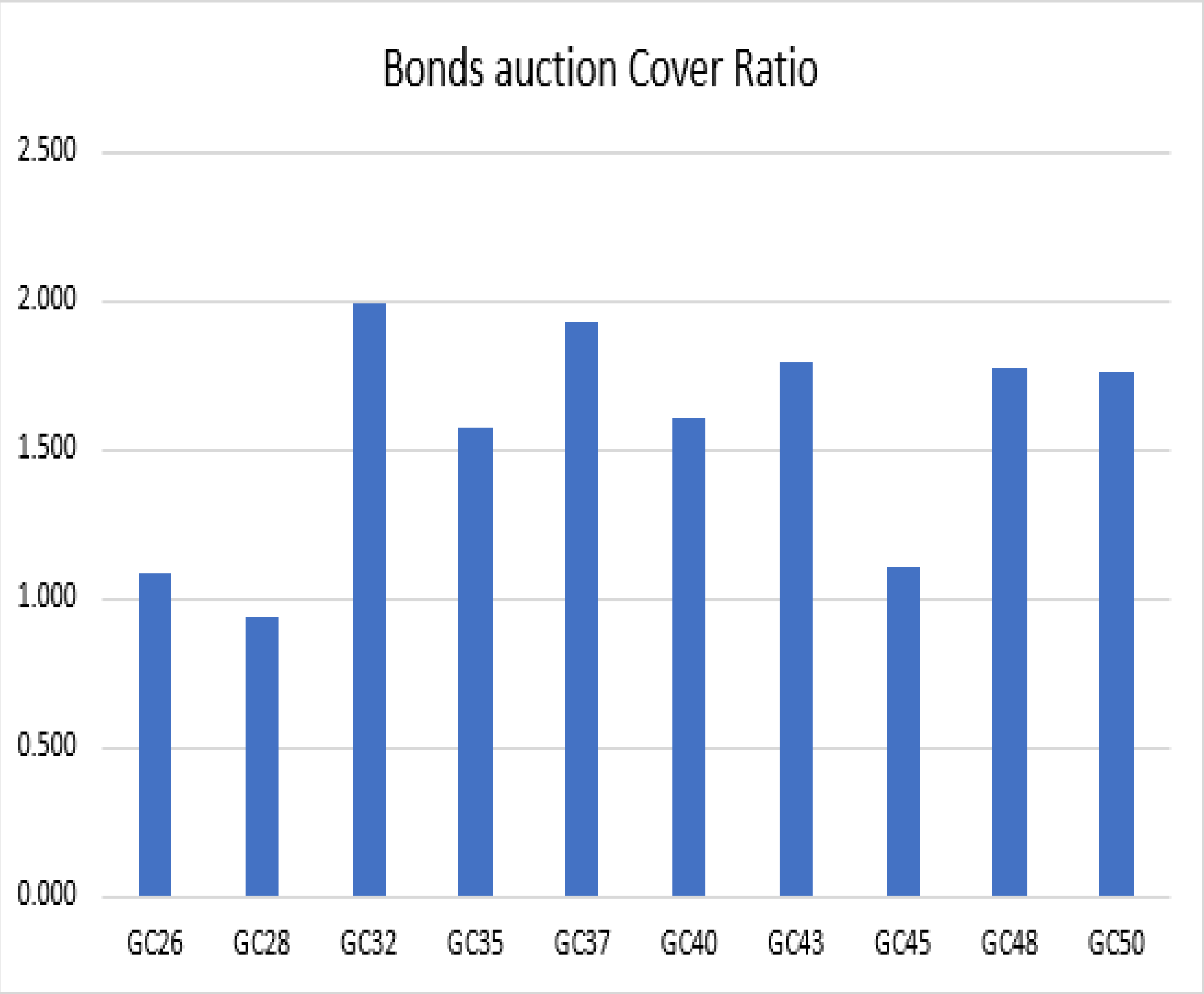
HIGHER RISK OF DEFAULT

While we are not necessarily disputing the existing vulnerabilities:

- The rating downgrade does not factor in oil prospects nor green hydrogen potential.
- Revenues for diamonds – 1.5% of GDP, Namdeb's forecast is 2.6% of GDP.
- Current account deficit widened because FDI went from negative in 2020 to 5 % of GDP in 2021.
- Successive series of external shocks, droughts pandemic and geopolitics.
- The debt profile is predominantly domestic (minimal exchange rate and foreign interest rate risks).
- They only looked at the following: Fiscal metrics (9.5% of GDP, 68% of GDP), weak growth prospects (2.4% in 2021), and current account deficit (9.2% of GDP, 11.3% of GDP in 2022).

Market pricing (spreads) to SA are generally healthy, thus the risk of default is minimal





The market is a good leading indicator of prospects and shows Namibia will be able to finance itself.

Bank of Namibia

Inflation Dynamics

Bank of Namibia

What is inflation?

- Inflation is the measure of how prices of goods and services such as petrol, food, clothing, rent, travel and health care are increasing over time.

- If prices increase, more money is needed to pay for the same amount of goods.

- E.g if N$10 bought you 1L of milk and a loaf of bread in 2017, today, you might need N$20.

- This means your money has lost value.

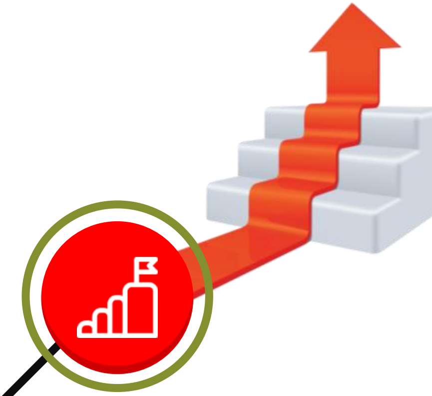
Bank of Namibia

Effects of surging inflation

Inflation: the biggest challenge facing monetary authorities

Inflation is taxing on the poor and undermines confidence in the economy

Ensure that the current high level of headline inflation does not become embedded in inflation expectations and price setting behavior.



Containing inflation is necessary for a stable economy that supports people’s jobs and incomes.

‘Inflation may be caused by a reduction in an economy’s ability to supply goods and services, an increase in demand for goods and services, or both’- Joseph E. Gagnon

What are the general causes of inflation?

Bank of Namibia

Demand-pull inflation	Demand-pull inflation happens when the demand for certain goods and services is greater than the economy's ability to meet those demands.
Cost-push inflation	Cost-push inflation is the increase of prices when the cost of wages and materials goes up.
Increased money supply	An excessive increase in the **total amount of money in circulation, which includes cash, coins, and balances and bank accounts**, that is not commensurate with the goods and services in the economy.
Devaluation	**Devaluation is** a downward **adjustment in a country's exchange rate, resulting in lower** value for **a country's currency.**
Rising wages	An increase in what is being paid to workers.
Policies and regulations	Certain policies can also result in either a cost-push or demand-pull inflation. E.g lowering/increasing of income taxes

Drivers of the current surge in inflation

Drivers of inflation

Supply factors

01

Labor market imbalances

- Reduced labor due to feast of Covid-19
- Early retirements
- Retrenchments

03

Lockdowns
- Contact-intensive sectors
- Restrictions
- Reduced production due to low demand
- School closures

05

Supply chain distortions

- Unavailability of goods
- Distorted transportation and logistics
- Surging commodity prices- Russia-Ukraine conflicts

Demand factors

02

Accommodative monetary policies

- Ultra-low interest rates
- Unconventional monetary policies

04

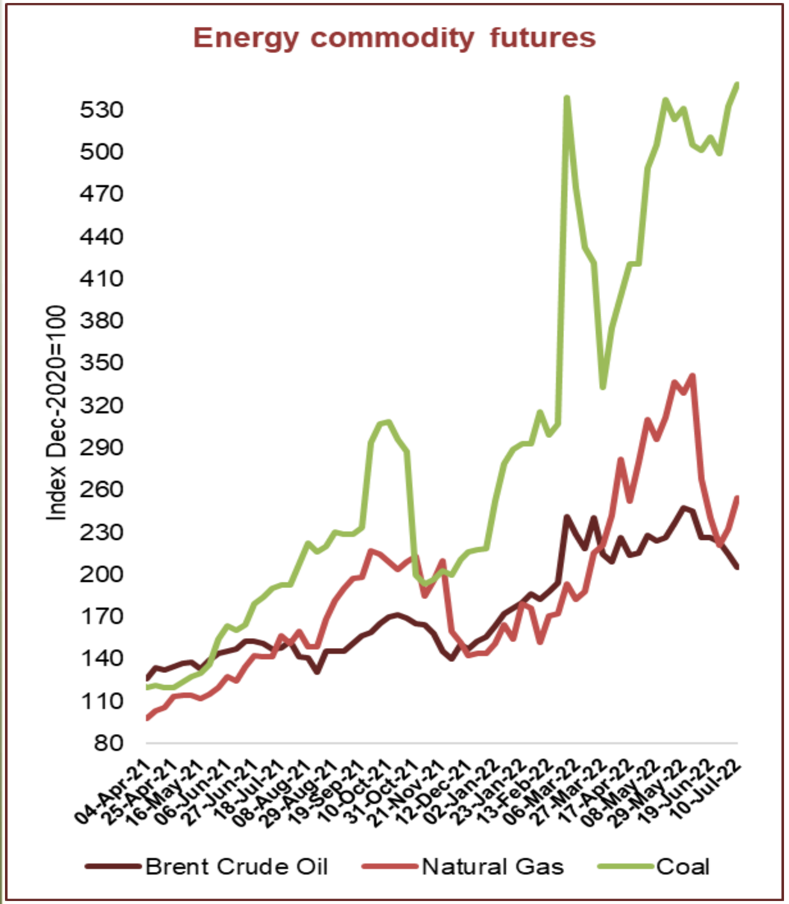
Expansionary fiscal policy
- Fiscal policies aimed at supporting households and businesses in 2020/21

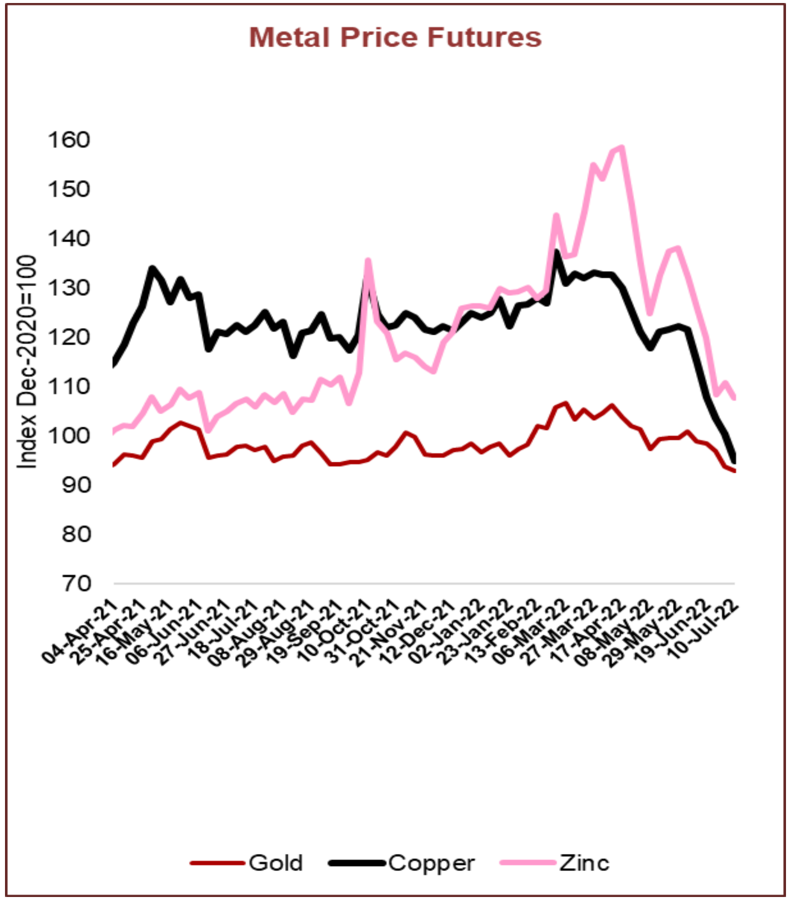
06

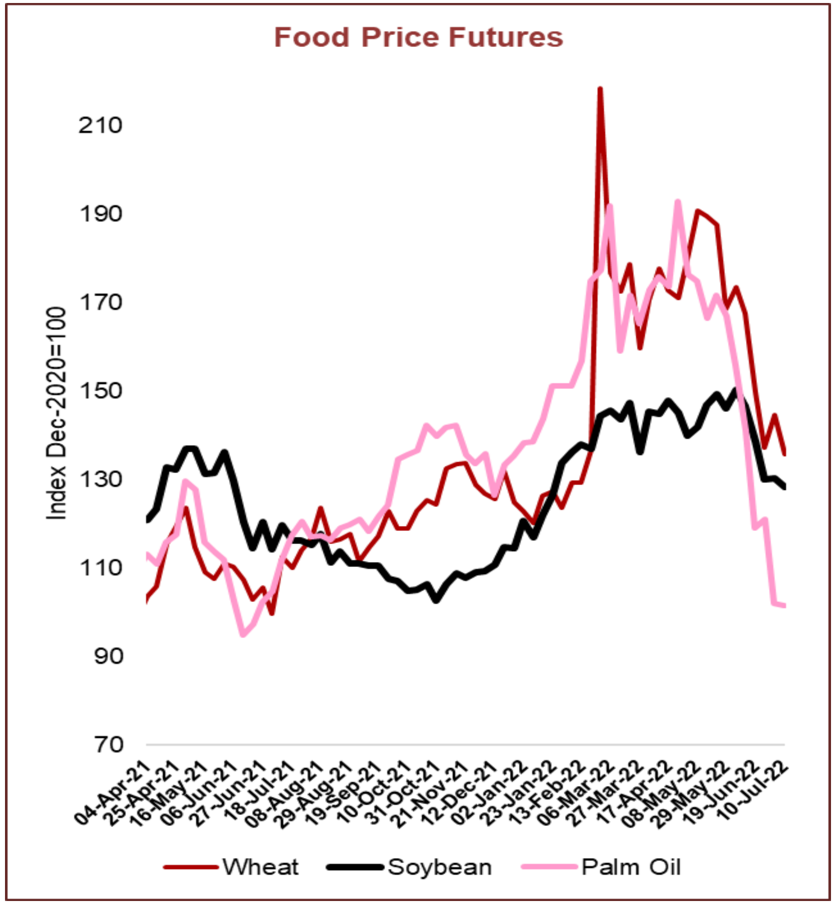
Recovery
- Easing of restrictions
- Vaccine discovery and distribution
- General confidence in the sentiments

Commodity prices

Metals, food, energy prices have surged, but have moderated since May-2022, except coal that continued to increase.





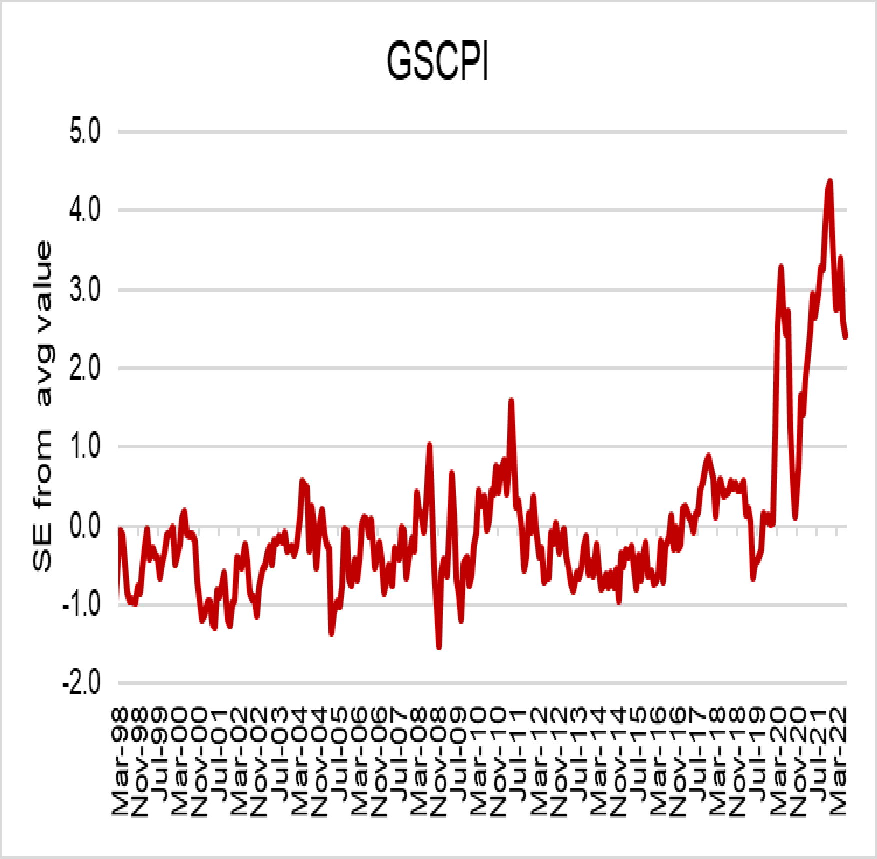


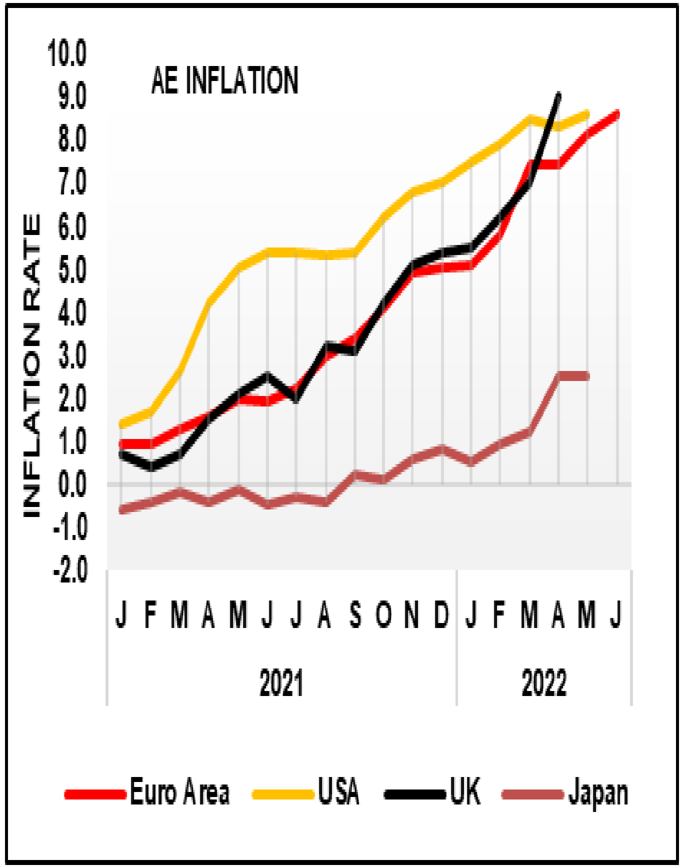
Bank of Namibia

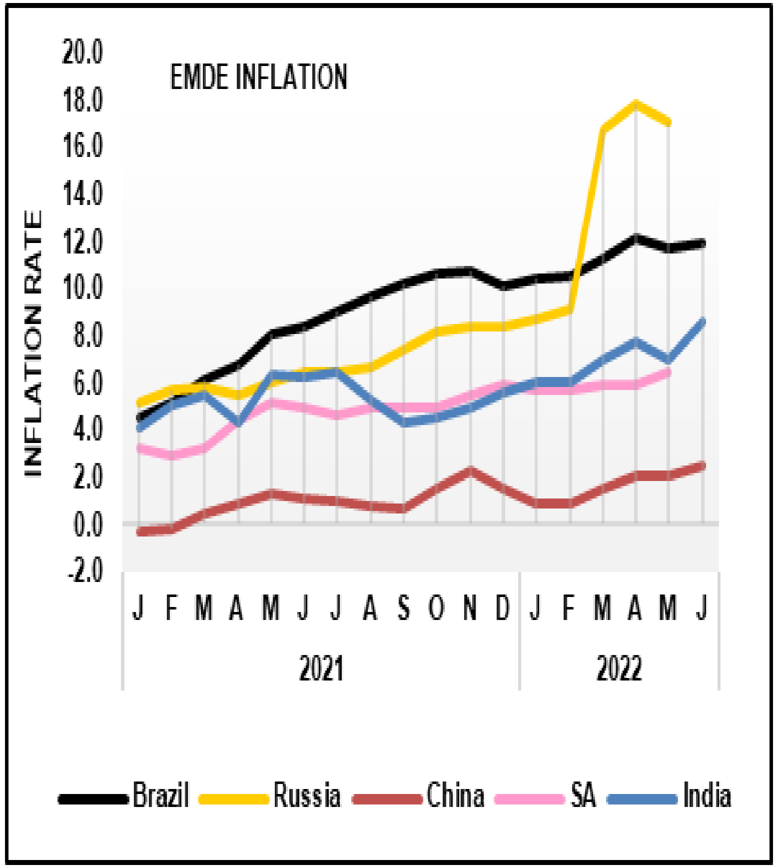
Global inflation

Supply disruptions due to the pandemic and Russia-Ukraine war resulted in high inflation rates

Global Supply Chain Pressure Index (GSCPI)



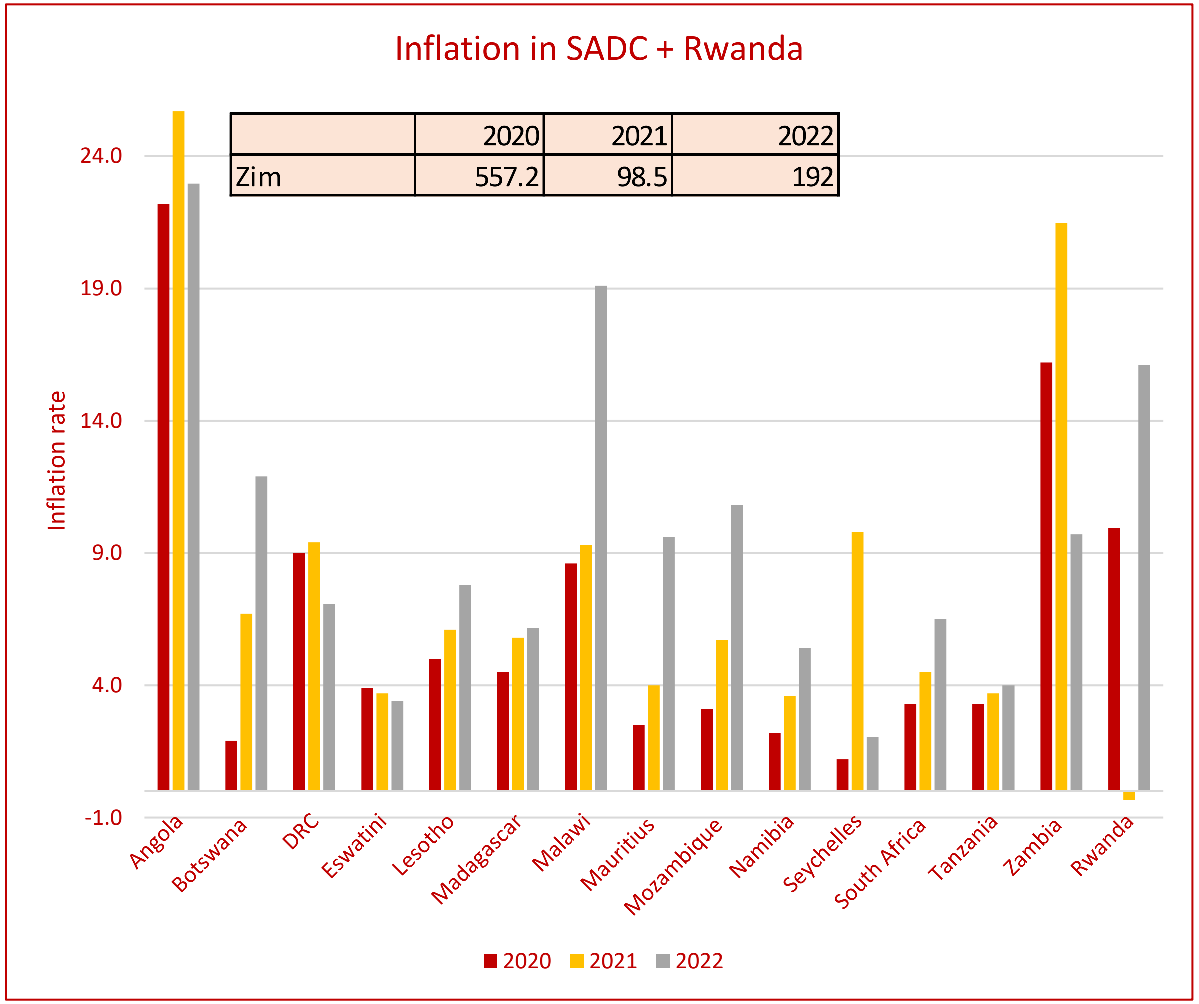


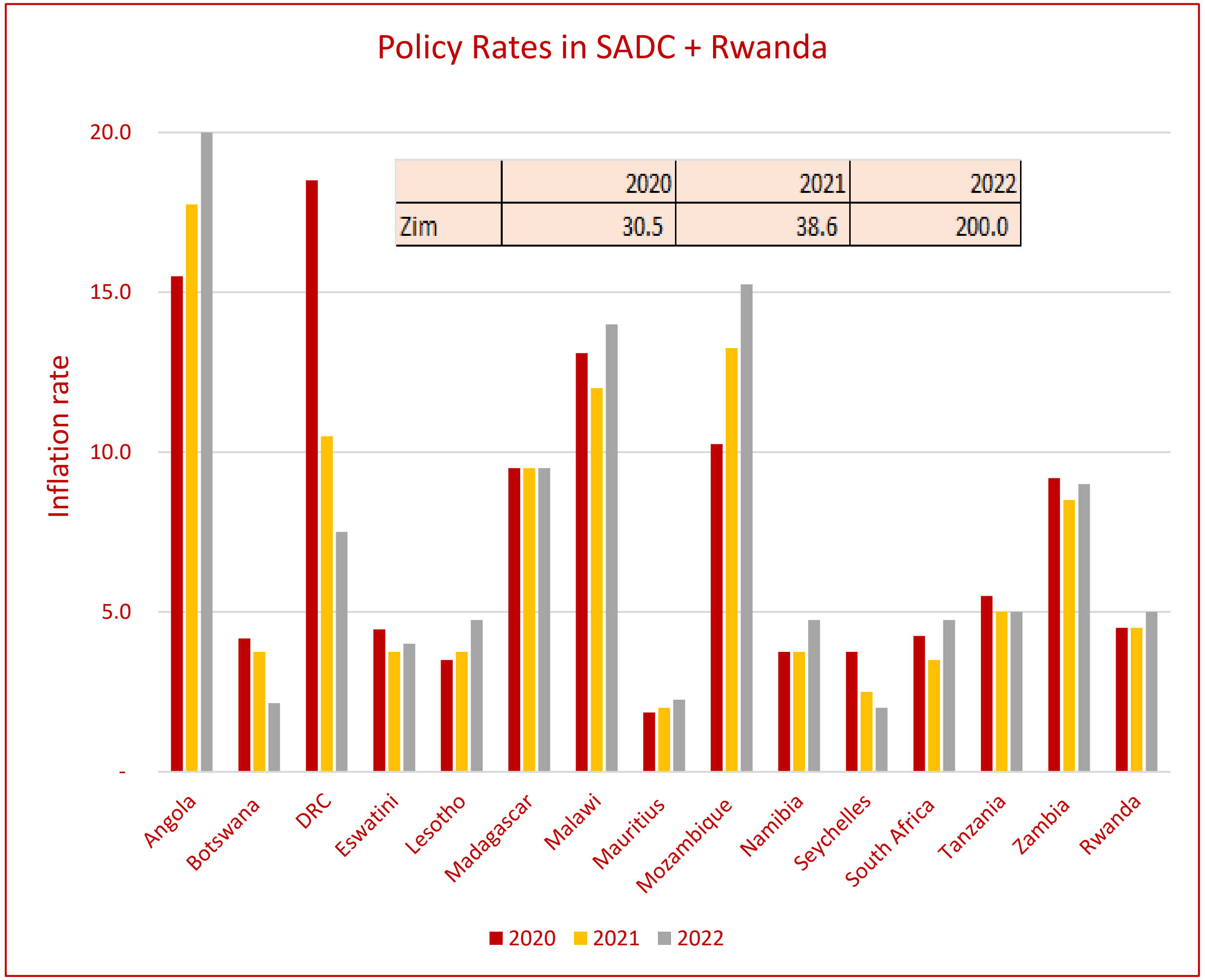


Source: Trading Economics

Bank of Namibia

Inflation in SADC remains high, with resultant increase in policy rates

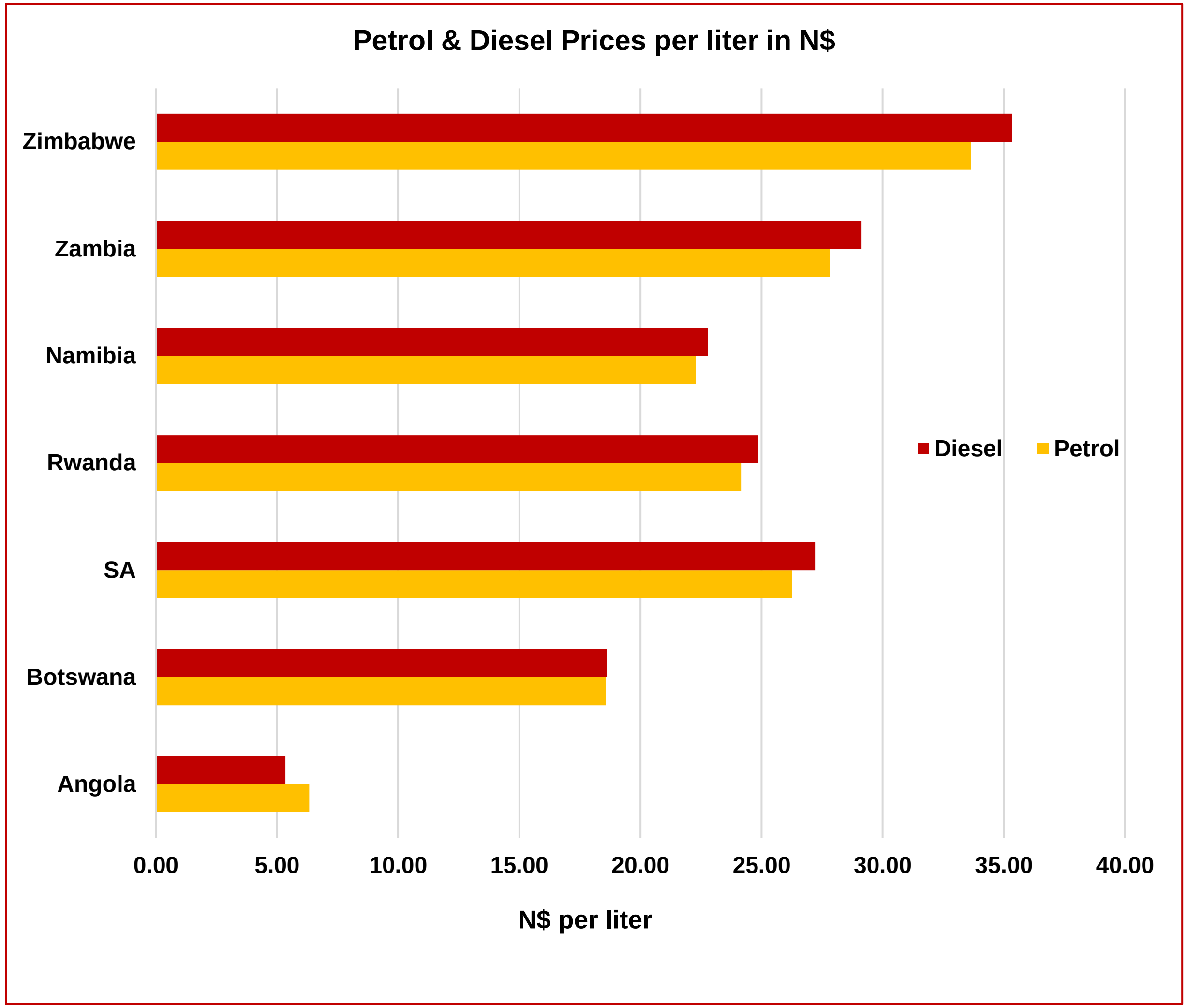




Source: Trading Economics and various central banks

Bank of Namibia

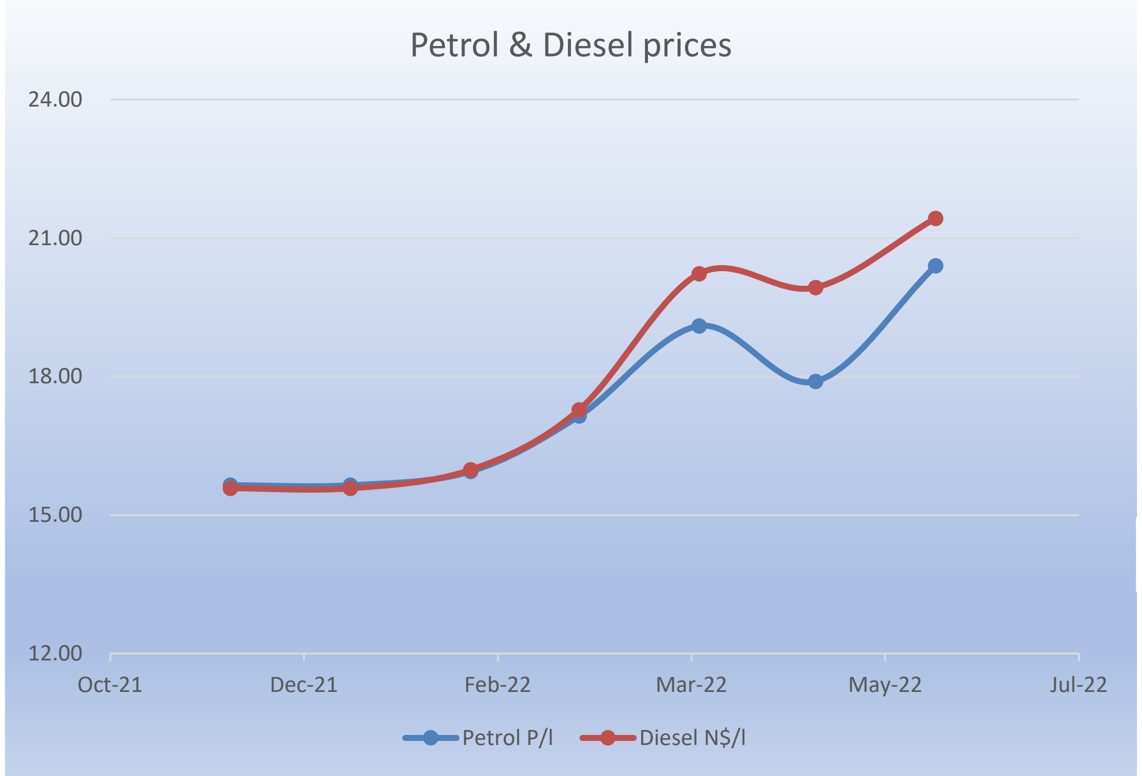
Prices of fuel (petrol octane-95 and diesel elevated except in Angola)



- Namibia is among the countries with high fuel prices of fuel.
- Angola is one of the countries with low prices because Angolan Government subsidises fuel prices.
- The subsidy amount is estimated to be about U$3.5 billion per year.

Bank of Namibia

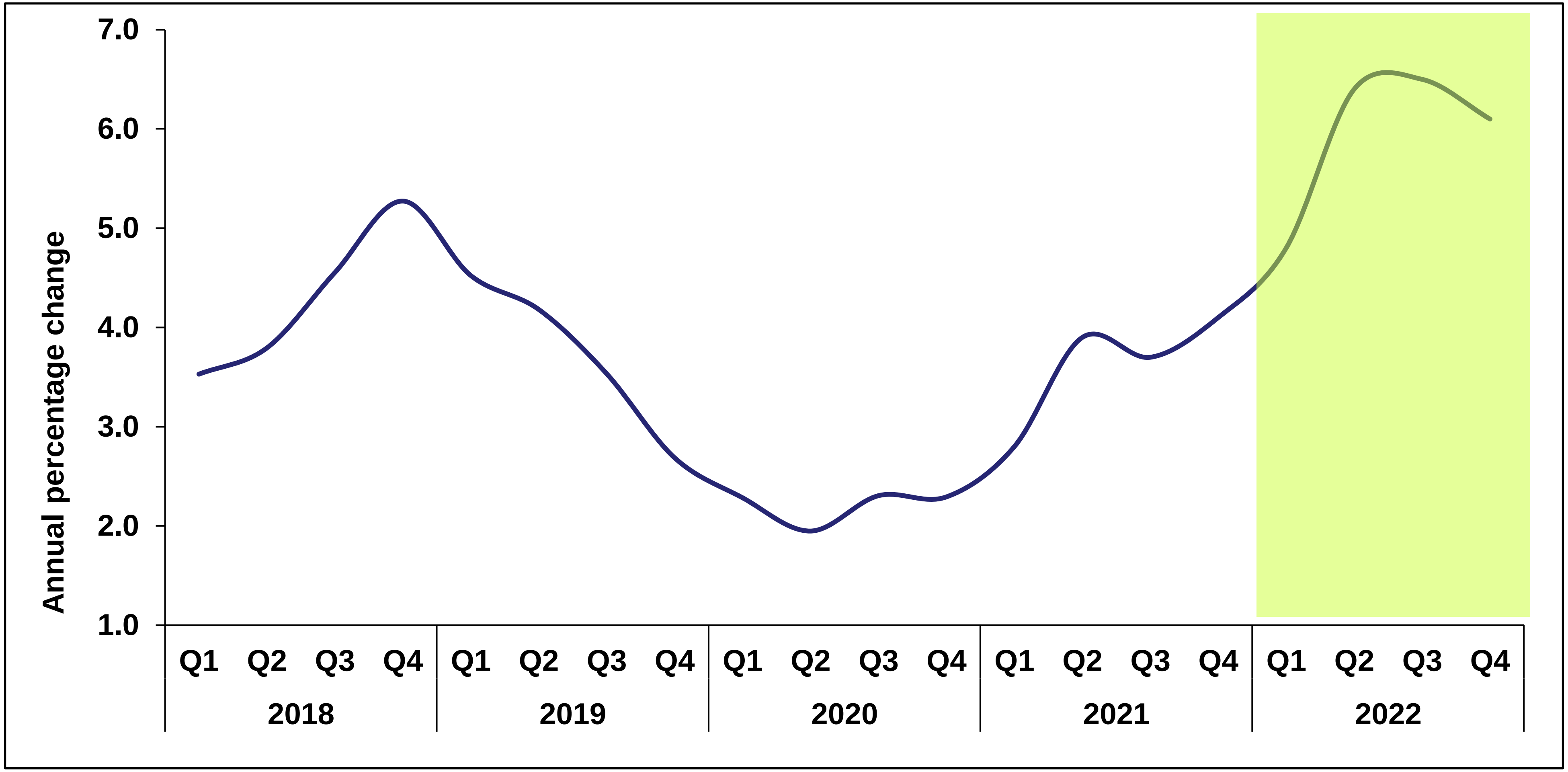
Key drivers of inflation in Namibia



Food inflation

	Jun-20	Jun-21	Jun-22
Bread and cereals	-1.1	5.6	7.0
Fish	4.6	0.9	7.0
Milk, cheese and eggs	4.8	4.1	4.2
Oils and fats	8.5	16.7	26.2
Fruit	21.2	6.0	18.1
Sugar, jam, honey, syrups, chocolate and confectionery	4.3	1.0	6.5
Food products n.e.c.	3.2	1.1	5.6
Non-alcoholic beverages	3.6	2.6	5.4
Coffee, tea and cocoa	10.3	1.9	4.8
Mineral waters, soft drinks and juices	1.7	2.8	5.6
Meat	8.0	16.0	4.5

Inflation projections in Namibia



- Annual inflation is expected to average 5.9 percent in 2022, up from 3.6 percent in 2021.
- Given the latest developments we are busy revisiting the forecasts (uncertainties).

Monetary policy to contain inflation

Bank of Namibia

Inflation under control (stable prices)

The effects of changes to the repo rate take on average 6 to 9 months

1. The repo rate is set

2. Alignment of expectations: The repo rate moves the country's overall cost of credit

3. Consumers and companies react to changes in the cost of credit

4. Consumers and companies' reaction influences the prices of products and services

Bank of Namibia

Effects of higher interest rates

Personal

- Increased cost of borrowing
- Improved return for savers
- Higher mortgage interest payments
- Increased cost of borrowing
- Banks may be more willing to lend

Economy

- Inflation will reduce
- Economic activity will tend to be slower
- Unemployment could rise
- Governments will see rising borrowing costs
- Currency will appreciate (exports become less competitive and imports become cheaper)

Bank of Namibia

Hypothetically, a 50 basis points increase on N$1 million mortgage, assuming prime rate (from 8.50% to 9.00%) your monthly instalment is likely to increase by about N$ 319.03.

Why increase repo rate?

Price stability

- ❖ Protecting the value of the dollar in your pocket and provide certainty: consumption and investments.

Capital outflow

- ❖ To ensure that capital doesn't flow out to the relatively more advanced South African financial markets in search for better return.

Maintaining the peg

- ❖ Ensure that the reserves are adequate to maintain the 1:1 peg between the Namibia dollar and the South African Rand.

Bank of Namibia

CMA arrangements

The Common Monetary Area (CMA)

- Namibia was a de facto member of the Common Monetary Area (CMA) upon independence but formally joined in 1992.

- CMA members include South Africa, Namibia, Lesotho and Eswatini.

- A multilateral agreement is in force for all member states and a bilateral agreement is in place between South Africa and each member country.

- Under the CMA agreement, Namibia pursues a fixed exchange rate regime where the Namibia dollar is pegged 1:1 to the South African Rand.

- The agreement allows the South African Rand to be legal tender in Namibia along with Namibia dollar.

Bank of Namibia

Fixed exchange rate

Disadvantages

1. Loss of monetary policy autonomy
2. Asymmetric of disturbance
shocks from anchor country
3. Capital outflows

Advantages

1. Elimination of transaction costs
(no currency conversion costs)
2. Macroeconomic stability including price and exchange rate stability
3. Fiscal discipline
4. Compensation for loss of seigniorage
5.Access to deeper financial markets

Monetary policy tools and objectives

Namibia

Policy tool
- BoN repurchase rate
- Open market operations
- Buying/selling of foreign currency
- Issue of BoN bills

Intermediate target
- Maintain the exchange rate peg

Ultimate Target
- Low and stable inflation
- Sustainable economic growth
- Support financial stability

South Africa

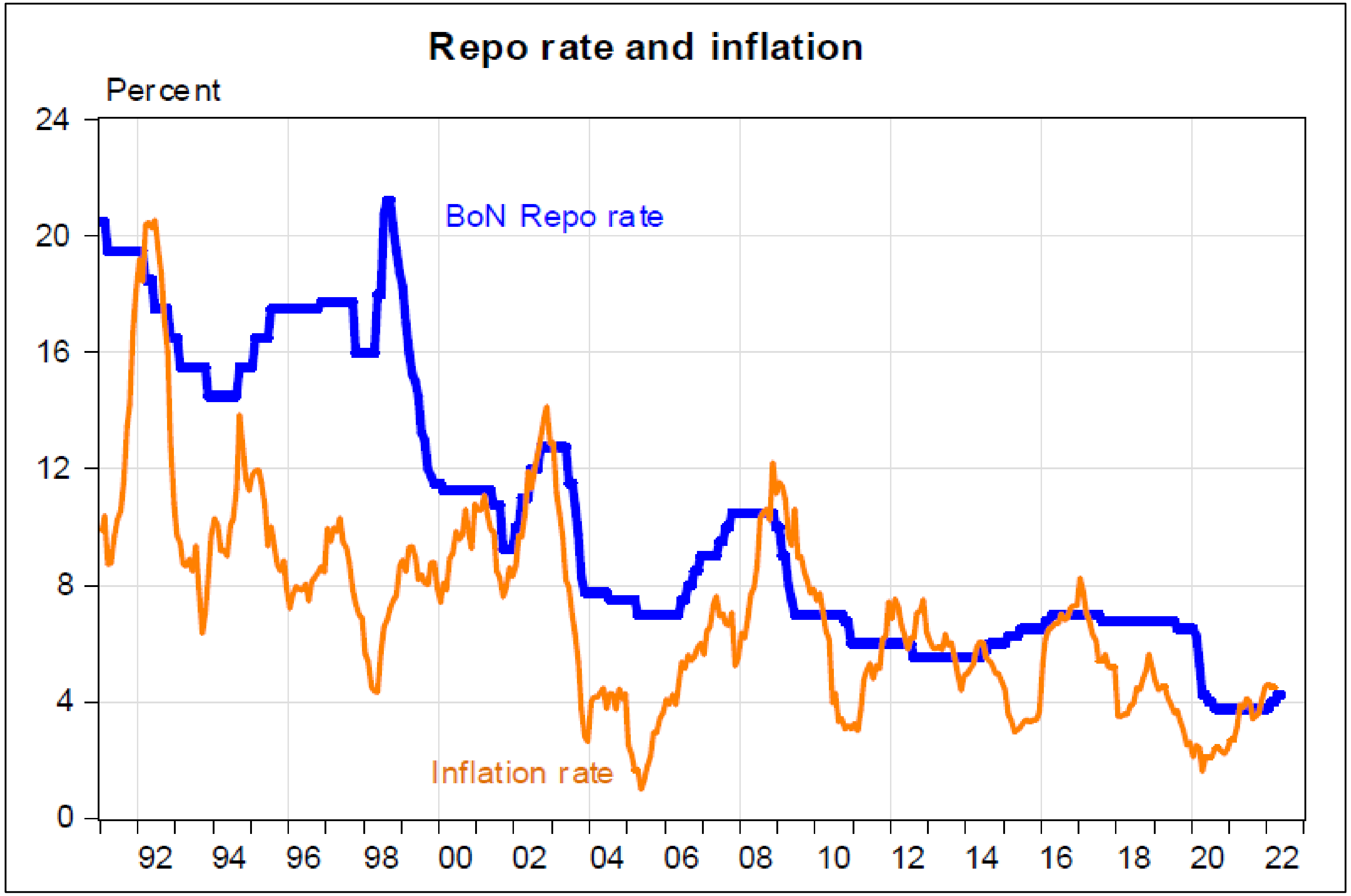
Policy tool
- South African repurchase rate
- Open market operations
- Buying/selling of foreign
- currency

Intermediate target
- General levels of money market interest rates

Ultimate Target
- Low and stable inflation (3-6 %)
- Sustainable economic growth
- Support financial stability

Bank of Namibia

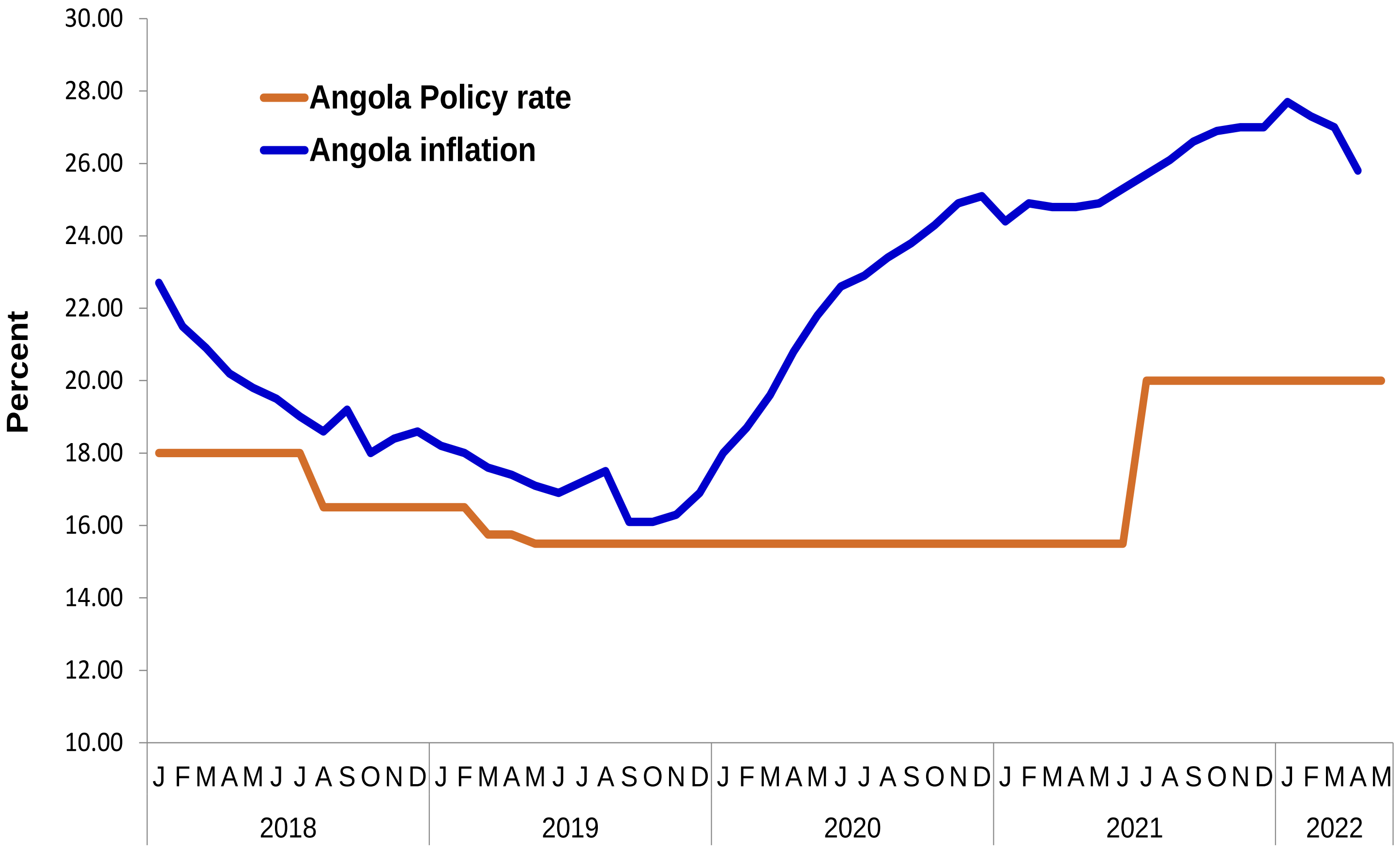
Independent conduct of monetary policy - as per the Bank of Namibia Act of 2020



- In order to support the economy, amidst the pandemic, the Bank swiftly adopted ultra-low interest rates in 2020.
- It kept the Repo rate at a record-low level through to early 2022.
- As inflation pressures started building up internationally and locally and central banks started reducing monetary stimulus;
- The Bank raised the Repo rate by 25 basis points in February 2022 and again by 25 and 50 basis points in April and June, respectively.

Bank of Namibia

Policy rates and inflation rates for other countries – Angola



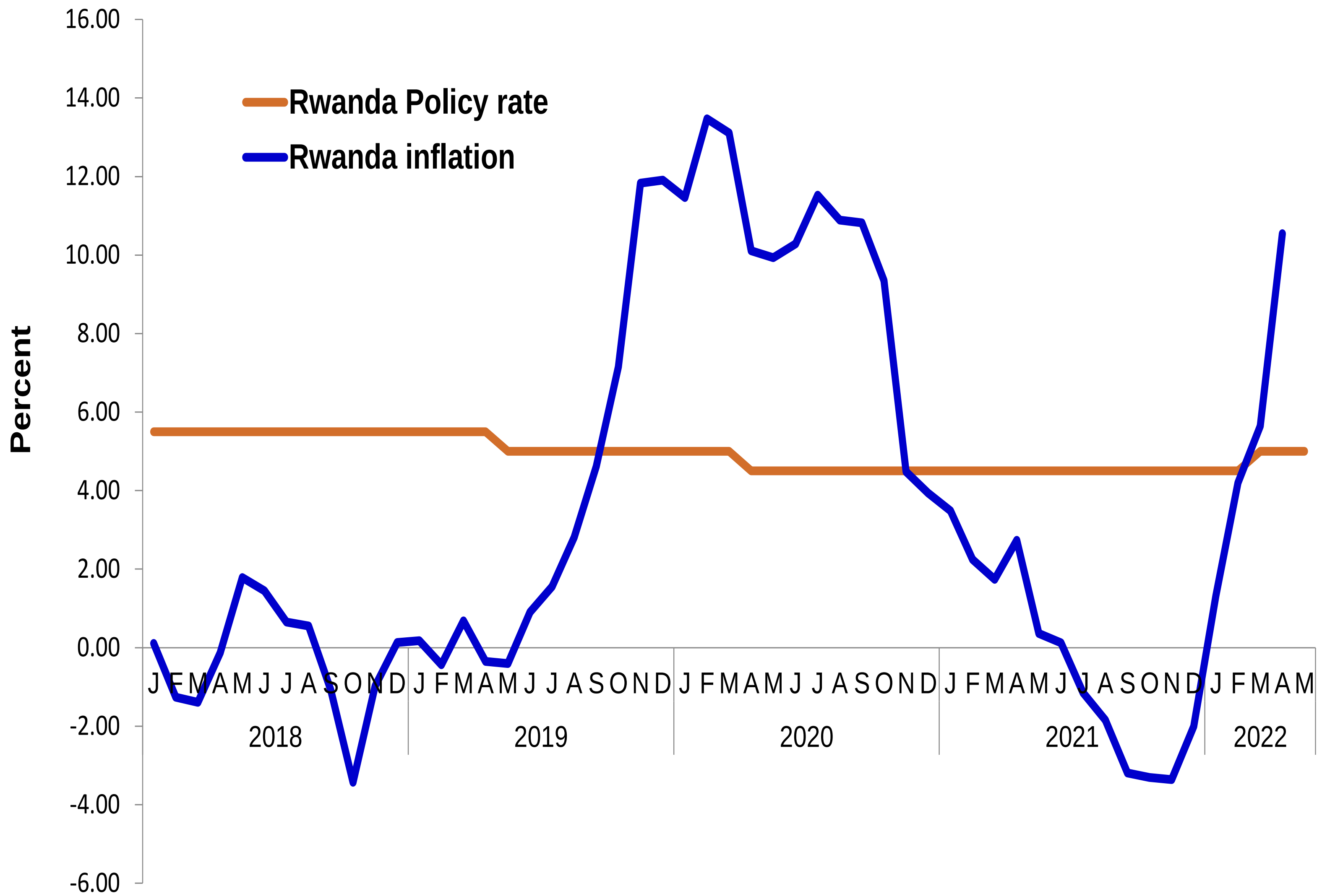
- Angola's GDP is largely derived from services, construction, manufacturing, mining and agriculture.

- The annual GDP of Angola was US$62.3 billion (2020), with the per capita income of US$6,020 (2020).

- Angola’s inflation increased since late 2019 and the policy interest rate appear to have been used to moderate inflation in 2021

Bank of Namibia

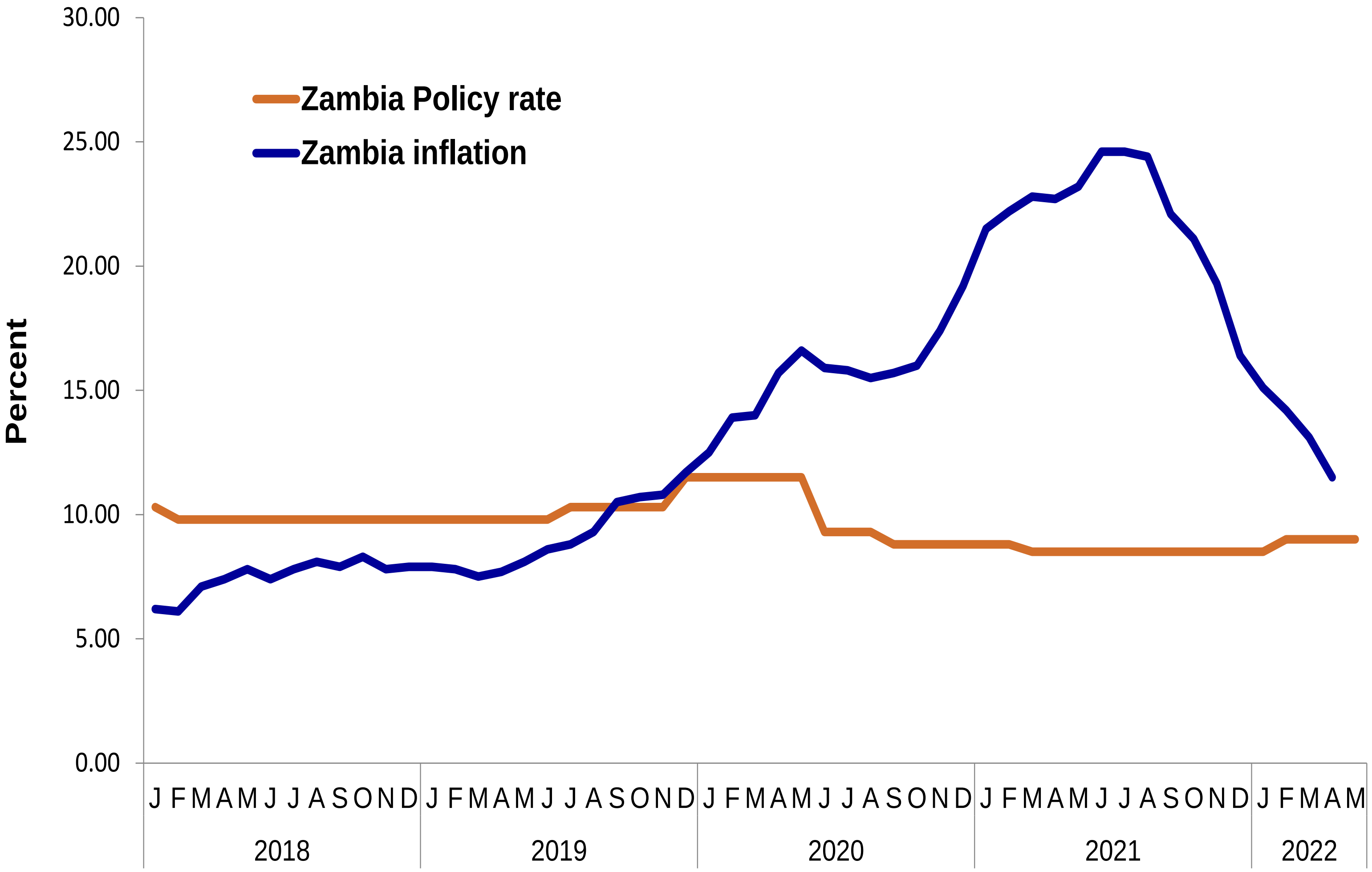
Policy rates and inflation rates for other countries - Rwanda



- Annual GDP of about US$10.3 billion (2020) and per capita income of around US$800 (2020).
- Rwanda's policy interest rates remained virtually unchanged despite fluctuation in inflation over the last four years.
- This indicates that interest rate policy is not much used in Rwanda.

Bank of Namibia

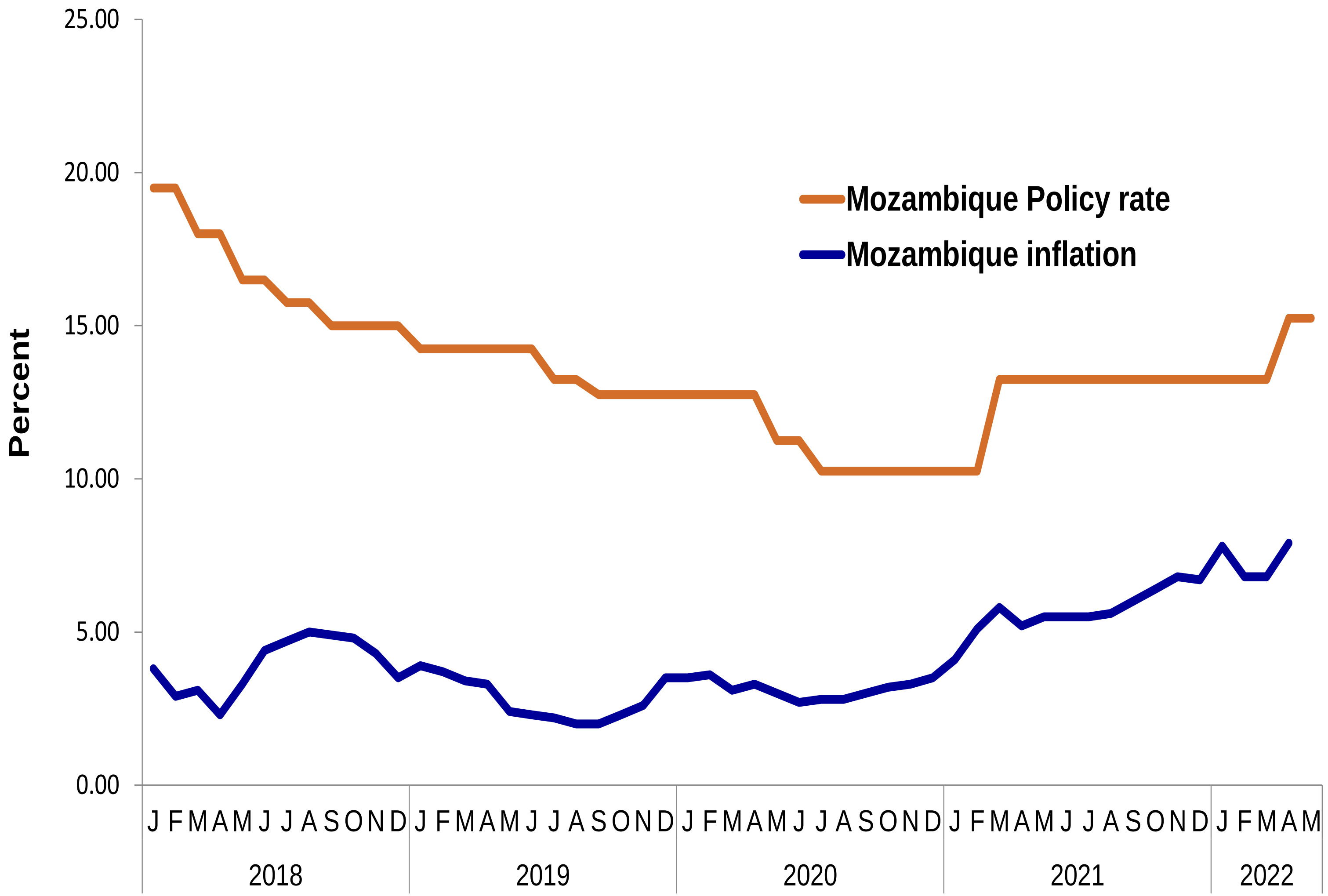
Policy rates and inflation rates for other countries - Zambia



- The size of the Zambian economy stood at US$19.3 billion (2020) with per capita income of US$1,051 (2020).
- Zambia's inflation has been on the rise from 2018 to mid-2021 when it started to fall.
- Similar to Rwanda, interest rate policy is not much used in Zambia to tame inflation, at least during this period

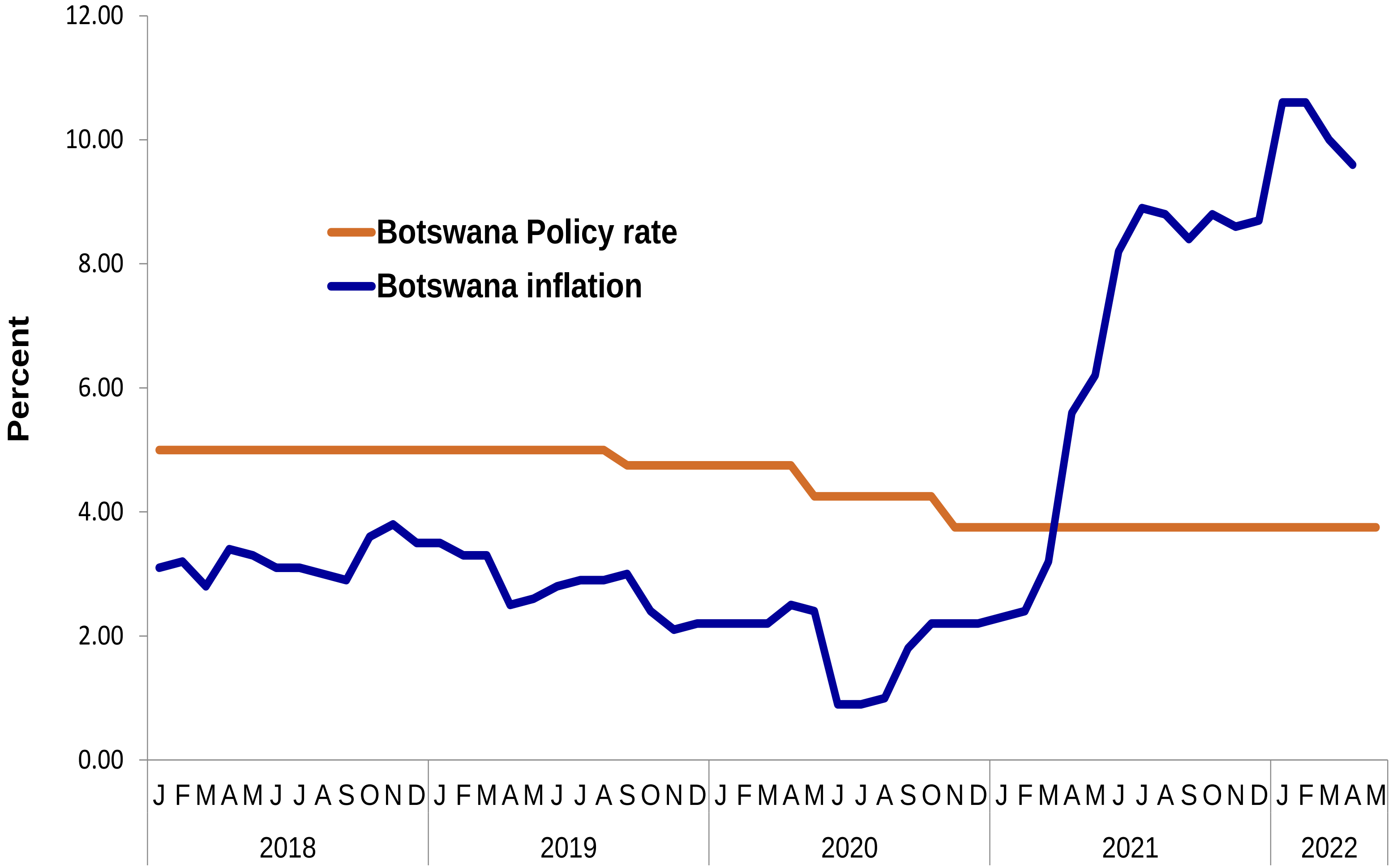
Bank of Namibia

Policy rates and inflation rates for other countries - Mozambique



- The size of the Mozambique economy was at US$14.0 billion (2020) with per capita income of US$448.61 (2020).
- Mozambique's inflation has been on a steady rise since 2019 but remained at acceptable level.
- The policy rate tracked the movements in inflation, suggesting that interest rate policy is used to tame inflation.

Policy rates and inflation rates for other countries - Botswana



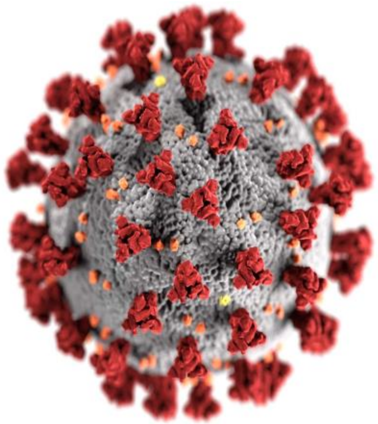
- The size of the Botswana economy was at US$15.8 billion (2020) with per capita income of US$6,711 (2020).
- Botswana's inflation has been on a steady rise since 2020 but the policy rate remained flat.

Bank of Namibia

Cushioning the vulnerable

Bank of Namibia

Economic challenges in Namibia



Bank of Namibia

The effects of the current hardships on the vulnerable households

Bank of Namibia

01

Problem statement

- The most vulnerable have been finding the going harder
- Successive series of drought, pandemic and global shocks
- The prospect of most to slip further into extreme poverty (income inequalities)

02

Nature of the impact

- The cost of living has been rising (food, energy and other necessities)
- Distressed incomes and losses of jobs
- Surging inflation
- Social tension is building up

03

Current relief measures

- Fuel relief measure :N$1.20 (petrol) and N$ .30 (diesel)
- Reduction in levies on all petroleum products
- Development Bank of Namibia (DBN) has provided N$8 million to finance 28 rural youth enterprises

04

- **Status quo**
- Very narrow structure of the economy
- Fiscal space is constrained: debt and budget balance above the SADC threshold
- Although the 2023/24 fiscus could improve – SACU- under compensation and recovery

Bank of Namibia

Kavango region

The way forward

1. Endowed with fertile land
2. Conducive climate conditions

   (above average rainfall)
3. Abundant natural resources (Forestry & Water)

Opportunities from import substitution

- List of our import bill that shows 15 products that are currently imported in significant quantities that can be substituted with domestically produced goods or scaled up as some are already produced locally as well.

- In total, the import bill of these 15 products translated to N$5 billion in 2021.

- If we substitute these imports or a significant portion thereof by producing them cost-effectively here at home, it will have a massive impact with added multiplier benefits.
  - Opportunities for self-employment
  - SMEs

- A Harvard Growth Lab study on the economic complexity have diversification opportunities that include inter alia the **food industry**, chemicals, and basic materials

GOODS	2021 VALUE N$
FOOD PRODUCTS IN THE FORM OF:	
1. **MAIZE (INCL. SEEDS)**	1,280,288,574
2. **SUNFLOWER-SEED AND SAFFLOWER OIL**	606,730,627
3. **FRUITS**	354,298,297
OF WHICH: APPLES	*83,410,976*
ORANGES	*38,923,041*
LEMONS (CITRUS FRUIT, FRESH OR DRIED)	*18,120,275*
PEARS	*10,584,739*
4. **FROZEN CHICKEN**	302,165,399
5. **CHEESE AND CURD**	215,424,236
6. **MARGARINE**	85,326,012
7. **YOGURT AND BUTTERMILK**	72,866,848
CHEMICAL PRODUCTS IN THE FORM OF:	
8. **FERTILIZERS (INCL. AMMONIA NITRATE)**	548,572,208
9. **WASHING AND CLEANING PREPARATIONS**	509,754,917
10. **SOAP AND ORGANIC SURFACE-ACTIVE PRODUCTS**	144,786,875
PLASTIC AND RUBBER PRODUCTS IN THE FORM OF:	
11. **ARTICLES OF PLASTICS**	452,393,138
12. **SACKS AND BAGS**	146,907,135
13. **ACRYLIC POLYMERS AND POLYETHYLENE**	128,249,142
OTHER GOODS IN THE FORM OF:	
14. **TOILET PAPER**	138,882,130
15. **TEXTILES FABRICS (INCL. UNIFORMS)**	49,339,399

Bank of Namibia

Food security

Cattle Marketing –new market in Ghana

Horticulture Production

Solar Energy Plant

Fodder

Feedlots

Value addition to our timber production and marketing

Bank of Namibia

Policy options: Namibia needs to do a couple of things to recover and grow

We need to maintain the macroeconomic stability including restoring the fiscal sustainability and stable prices and financial system

We need to implement the reforms resolutely to attract the needed investment and encourage private sector participation

We need to invest in new engines of growth while improving the old ones: health, technology, skills and education.

We need to ensure **food** and energy security (including clean energy), encourage start-ups and self employment in all sectors, substitute our imports, value addition

We must leverage digitalization as a key enabler in our development agenda

Fixed broadband roll-out

2.5 subscriptions per 100 people

- Namibia 224th out of 230 countries on the cost of data
- 1 gigabyte of data in Namibia costs an average of US$22.37, more than 5.5 times the following highest SACU country
- Mobile broadband adoption still lags at 30 percent, despite a smartphone equipment access rate estimated at 66 percent

FinTech Framework

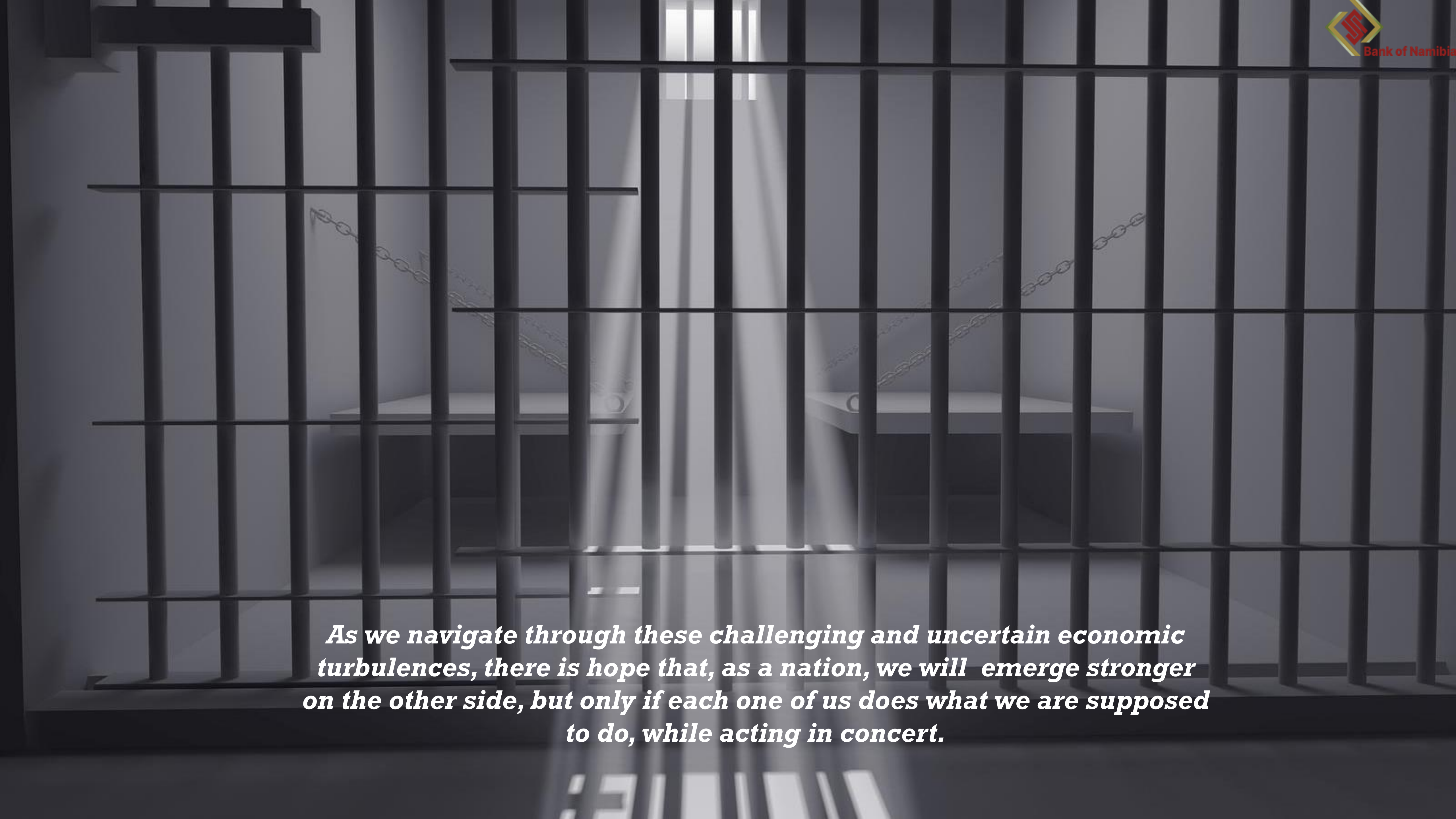
Innovation Hub

- Phased-approach Regulatory Program
- Test and Learn
- Chatbots virtual bots
- Spur digital start-ups

Skills development in the technology

Support the academia

- To ensure that our education system is oriented toward equipping our youth with the relevant skill sets to thrive in the new world of work.


Bank of Namibia
As we navigate through these challenging and uncertain economic turbulences, there is hope that, as a nation, we will emerge stronger on the other side, but only if each one of us does what we are supposed to do, while acting in concert.

Poverty is not natural, it is man-made: ***Nelson Mandela***

Imperfect action is better than perfect inaction: ***Harry's Truman***

Bank of Namibia

Bank of Namibia

THANK YOU