

NAMIBIA

CENTRAL BANKS POLICY MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

INTRODUCTION

1. Namibia suffered from the negative impact of the COVID-19, as with other countries globally. It reported its first confirmed COVID-19 case on 14 March 2020. A state of emergency was declared on 17 March 2020 with partial lockdown and other preventative measures to contain the spread of the virus. As at 24 July 2020, there are 1 618 confirmed cases, 72 recoveries, 1 539 active cases, and 7 deaths.
2. A state of emergency was declared on the 20th of March 2020, and initially followed by a partial lockdown of major urban centres, in the Erongo and Khomas regions effective the 27th of March 2020, which was later extended to the rest of the country until the 4th of May 2020. In addition to the partial lockdown¹, other measures under the State of Emergency include, *inter alia*:
 - Ordering of public and private institutions to work from home, except essential services;
 - Banning of air travel from the rest of the world;
 - Closing of borders for international visitors, borders only open for trade; and suspension of Parliament sessions.
3. These measures, explicitly outlined in Annex 1, were in addition to initial measures that closed schools, prohibition of large gatherings, including the celebrations of Namibia's 30th independence anniversary, and introduction of social distancing. Most of these measures, including regular wearing of face masks in public places and banning of air travel from the rest of the world are still in force (Annex 1).
4. The analysis of the impact of COVID-19 suggests an escalation of the already-depressed economic environment in Namibia. The impact is expected to be widespread and to transmit through various paths. The most direct impact has been on the tourism and service sectors, particularly the accommodation establishments (i.e., hotels and lodges) the transportation of both passengers and cargo and other related services. This would mainly be as a result of many countries implementing travel bans, including Namibia, and the resultant impact of the disruptions in the global supply and value chains. In this regard, the

¹ Each Stage (Annexure 1) of the lockdown will have average observance period of 28 days. This period may be reduced or extended, subject to changing country situation.

Namibian economy is expected to contract by 6.9 percent in 2020, followed by a marginal recovery of 1.8 percent in 2021.

5. Further, the negative impact in the capital and commodity markets such as the depreciation of the exchange rate and the significant decline in commodity prices have led to some mining activities being halted and put under care and maintenance. The impact through trade, particularly minerals, will be as result of slowing global economic growth and disruptions to supply chains and logistics.
6. Volatilities in financial markets, i.e equity prices will have implications for the financial sector in Namibia in terms of exposure of pension funds, etc. on equities, with implications for financial stability as well as the exchange rate.
7. Equally, the performance of banks is expected to be affected as result of impact of COVID-19, which has placed financial strain on local industries, corporations, small businesses and individuals. Ultimately, these exposures will translate in financial stability stress as balance sheets get deteriorate.
8. As a result of the lockdown aimed at containing the spread of the Covid-19, most domestic economic activities generally came to a standstill. This has affected the cash flows of many businesses, and particularly the small and medium enterprises as well as those in the informal sector, whose survival largely depends on daily operations. This has subsequently threatened employment and increased the prospects of job shedding as the financial positions of many business entities deteriorate.
9. To safeguard the macroeconomic and financial stability, protect jobs as well as cushion the impact of the COVID-19, numerous measures have been taken, summarised as follows:

Monetary Policy and Banking Sector Regulatory Measures:

- In the first half of 2020 the policy rate has been reduced by a further 250 basis points, bringing it to 4.00 percent by mid-year.
- Instituted a loan repayment moratorium in the form of repayment holiday;
- Relaxed the regulation in terms of write-off and provisioning by commercial banks;
- Implemented liquidity relief measures for commercial banks;
- Relaxed the capital conservation buffers; as well as
- Relaxed the concentration limits / or exposure to a single entity.

The Central Government

The measures by central bank were complemented with the central government's support package, designed, and implemented as an economic relief and stimulus package at the tune of N\$ 8.1 billion, which entails:

- Wage subsidies for the hardest hit sectors (N\$400 million);
- Accelerated of repayments of overdue and undisputed VAT refunds (N\$3 billion);
- Accelerated payment of overdue invoices of goods and services provided to Government (N\$800 million);
- Non-agricultural small businesses loan scheme (N\$500million);
- Agricultural businesses loan scheme (N\$200 million);
- Granting of the policy relief to borrowers by the Development Finance Institutions, namely Development Bank of Namibia and the Agricultural Bank of Namibia;
- Tax-back loan scheme for non-mining corporates;
- Relaxation of labour regulations to protect jobs to ensure flexibility of wages;
- An emergency income grant for households (N\$562 million)
- Tax-back loan scheme for tax registered and tax paying employees and self-employed individual persons who have lost incomes or part thereof (N\$1.1 billion);
- Water subsidy during the lockdown (N\$10.0 million) and an
- Additional support to the health sector (N\$ 1.1 billion).

10. To complement the Government and central bank measures, several private and parastatals also adopted measures to support households and businesses to cope with the challenges associated with COVID-19.

11. Ultimately the impact of the COVID-19 on the Namibian economy would result in a slowdown of the economic activity. This includes loss of export earnings as exports fall, and increase in the unemployment rates as some entities are forced to close down or scale down, and a reduction in remittances as well as an increase in the public debt level given the exchange rate depreciation and addition emergency spending. Despite that the partial lockdowns are being gradually lifted, business and economic activity remained slow. What this implies is that, Namibia could potentially regress with respect to meeting the SADC macroeconomic convergence targets. The recent plummeting of oil prices as a result of the reduced global demand compounded by the ongoing price war and increase in the supply is however good for Namibia as a net importer of oil and petroleum products. The severity of the COVID-19 will largely depend on the ability to contain the spread of the virus and by

implication the duration of the lockdown (domestic and elsewhere) as well as how quick business and economic activity return to normal. Lastly, the speed at which the rest of the world recovers and return to normalcy will also play a vital role in Namibia's recovery.