

Johannes !Gawaxab: Navigating the climate crisis - central banks, green finance, and Namibia's hydrogen future

Keynote address by Mr Johannes !Gawaxab, Governor of the Bank of Namibia, at the Global African Hydrogen Summit, Windhoek, 4 September 2024.

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Director of Ceremonies
Distinguished Speakers and Panellists,
Captains of Industry,
Esteemed guests,
Ladies and Gentlemen, Good afternoon,

We stand at a pivotal moment in history, facing challenges that demand both urgency and action. Climate change has evolved from a future concern into a present crisis, affecting economies, ecosystems, and communities around the world. As central banks, our role has traditionally focused on maintaining price stability and safeguarding financial systems. Yet, as the realities of climate change unfold, we must ask ourselves: what is our responsibility in this unprecedented situation? And how can we support the transition to a sustainable, low-carbon economy while protecting the financial systems we oversee?

For Namibia, this challenge presents a unique opportunity. Our country has set bold ambitions to become a leader in green hydrogen production and is positioning itself at the forefront of the global energy transition. This is not just about responding to climate change; it is about leading in the emerging green economy. While this ambition is challenging, Namibia has a proven track record of rising to the occasion when it matters most, demonstrating our ability to lead and innovate in critical moments.

Today, I invite you to explore these crucial questions with me as I outline the steps the Bank of Namibia plans to take to address the evolving economic and environmental landscape and align our financial sector with Namibia's green hydrogen agenda to foster a resilient, low-carbon economy.

Ladies and gentlemen,

Global temperatures are rising, and as the World Meteorological Organisation notes, are "likely to reach new highs over the next few years," making it clear that climate change is not a distant threat but a present and escalating crisis. The economic impact of these events is staggering, with annual global damages from weather-related events having more than doubled in the past twenty years to reach \$275 billion USD in 2022. As the frequency and severity of climate related risks increases, Central banks, will need to assess and understand the economic impact of climate change and reflect on the scope of responsibilities we wish to carry in managing climate-related risks.

Central banks typically have two core mandates: maintaining price stability and safeguarding financial stability. There is increasing empirical evidence that the physical impacts of climate change are already affecting inflation in many economies,

particularly in the Global South. As extreme weather events become more frequent and severe, they could disrupt agricultural and industrial production, leading to supply shocks and cost-push inflation. For instance, Namibia has experienced several severe droughts in recent years, including 2013, 2016, 2019 and, most recently, 2024 with a national state of emergency having been declared on account of the persisting national drought. These drought episodes have severely impacted the country's water supply, energy generation, and industrial production capacity - contributing to inflationary pressures.

In addition to maintaining price stability, safeguarding financial stability is a critical responsibility of central banks. Climate change and environmental degradation pose significant risks to the stability of individual financial institutions and the financial system as a whole. In light of this, there are at least three reasons why central banks need to be concerned about climate change, and the loss of nature.

Firstly, we must respond to environmental externalities that impact our core mandates. The physical and transition impacts of climate change create financial risks that need to be mitigated. Mark Carney, the former Governor of the Bank of England, aptly stated, "Climate change is the tragedy on the horizon," emphasising the urgent need for action. These risks can threaten macroeconomic and price stability, making it crucial for regulators and supervisors to understand, assess, and address them within our prudential and monetary policy frameworks.

Secondly, central banks occupy a unique position within the financial system that enables us to influence market behaviour. By aligning financial markets with sustainability goals in a phased approach, we can play a vital role in supporting the transition to a low-carbon, environmentally sustainable, and resilient economy. While central banks cannot replace government policies on climate change and nature, we can ensure that the financial system supports this critical transition.

Finally, we must lead by example. As we ask supervised entities to disclose climate- and nature-related risks and consider these factors in their decision-making processes, we must apply the same standards to our own operations. This commitment to transparency and accountability will strengthen our credibility and effectiveness in managing climate-related risks.

Consensus has started to emerge within the global central banking community that addressing climate and nature-related risks in the pursuit of price and financial stability falls squarely within our mandates and remit to a large extent. This has been affirmed by the 138 central banks that have joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), including the Bank of Namibia, which gained membership to this pivotal network in December 2023. The NGFS has also emphasised the role of central banks in actively supporting the scaling up and expansion of sustainable finance.

Ladies and gentlemen,

Against this backdrop, we are of the view that the Bank of Namibia has a role to play in not only in managing climate and nature-related financial risks but also in supporting the scaling up of sustainable finance and investment in emerging renewable sectors.

Several factors compel us to take a more active stance. Namibia's bold move into the Green Hydrogen sector illustrates the country's leadership in the transition agenda. Moreover, the Namibian banking industry has shown commendable initiative by adopting a sustainability agenda of its own accord, with a number of local banks having issued Green and Sustainable Bonds to support green and social projects.

In the face of these developments, it is clear that addressing climate change and the associated macroeconomic risks requires a comprehensive and coordinated approach involving the Central Bank, other regulators, and the broader financial sector. To this end, the Bank of Namibia is committed to playing an instrumental role in facilitating engagement on sustainability within the financial sector. We are adopting a proactive and forward-looking approach to support the just transition to a green and blue economy, ensuring the stability, resilience, and sustainability of both the banking sector and the broader economy.

This year, the Bank of Namibia took a significant first step by developing a Sustainability Framework which outlines the Banks' vision to institutionalise sustainable finance within the financial industry and establish a dedicated industry body to champion sustainability within the Namibian financial system. These initiatives, which are set to be officially launched in the coming weeks, align with Namibia's goal of becoming a net clean energy-based country by 2050.

Ladies and gentlemen,

The world is evolving rapidly as it accelerates towards achieving net-zero targets. New markets and new growth pathways are emerging as nations race towards this sustainable future, and those who embrace the green agenda will have a competitive advantage in the race for capital. As the central bank, we fully support the Green Industrialisation Blueprint, which outlines our nation's roadmap toward economic diversification and societal advancement. This green agenda is not just about reducing emissions; it is about fostering investment, especially in the manufacturing sector, and setting the stage for reforms that will eliminate barriers to productivity and encourage robust, export-led growth.

With that said, why should institutional investors see Namibia as the destination of choice? At the forefront is our commitment to creating the right regulatory environment to unlock the country's hydrogen potential. To ensure this, Namibia will introduce a comprehensive national strategic and legislative framework through the Synthetic Fuels Act. This legislation will establish standards that conform to international guidelines, thereby reducing operational uncertainties for developers and ensuring compliance with international export market requirements.

Distinguished guest, this is your invitation to join us.

As we extend this invitation, we are keenly aware of the potential positive externalities that green hydrogen projects could generate for existing sectors of our economy and support the government's diversification agenda.

To fully capitalise on these emerging opportunities, it is imperative to fast-track ongoing measures to improve the business environment. This includes ensuring a predictable

regulatory framework, easing constraints for hiring skilled foreign workers, and strengthening governance through improved accountability and transparency.

In this vein, to strengthen the governance and management of the country's prospective energy revenues Namibia launched the Sovereign Wealth Fund. The Welwitschia Fund, Namibia's first sovereign wealth fund, was established at a pivotal moment, given the nascent economic discoveries in the country. Launched with USD17.7 million (NAD 262 million) in seed capital, the Fund will play a critical role in safeguarding the interests of future generations by serving as a strategic investment vehicle for Namibia's long-term economic and environmental well-being.

Another important objective of the Welwitschia Fund is to support fiscal and macroeconomic stabilisation and contribute to Namibia's official foreign reserves. The Sovereign Wealth Fund Bill, currently being finalised by the MOPPE and the Bank of Namibia, is a significant piece of legislation that aims to enshrine these objectives. This Bill, which will be tabled before parliament in the coming year, includes provisions for establishing the Welwitschia Fund as a separate legal entity, with clear governance structures, management responsibilities, investment guidelines, risk management principles, and rules for the distribution and withdrawal of funds. Notably, the Welwitschia Fund intends to adhere to the Santiago Principles, committing to transparency, good governance, accountability, and prudent investment practices.

Revenue flows from emerging sectors like oil, gas, and green hydrogen will help Namibia reduce its reliance on traditional economic sectors, thereby mitigating risks and contributing to economic stability. The promulgation of the Sovereign Wealth Fund Bill will ensure that the Fund is well-managed, enhancing Namibia's financial independence and capacity to respond to challenges and opportunities. The Bank of Namibia has been entrusted with managing the Fund's assets, and as of August 20th, 2024, the Fund's asset base has grown to USD 24 million (NAD 428 million), representing a significant increase. However, we need to manage two key transitions: a just energy transition and managing expectations over the next 5-10 years before revenues from oil, gas, and renewables, including green hydrogen, begin to flow. Until these revenues materialise, current economic realities may warrant fiscal consolidation to ensure macroeconomic stability and a sustainable financial foundation leading up to 2030.

Ladies and gentlemen,

As we stand on the brink of a new energy dawn, our country, rich with promise yet burdened by the past, calls us to find a path that is both fair and just. In a world where clean energy shines bright, we dream of a future that is pure and light. Yet, in the soil beneath our feet lies a treasure we must leverage to uplift our people, breaking the chains of poverty, inequality, unemployment, and pain. In pursuing our Noble Energy dream, let us be wise and mindful of the reality that capital flow may take five to ten years. We must build tomorrow with hope, not haste, and avoid borrowing sorrow from a future that has yet to unfold. As we look ahead, the Bank of Namibia is committed to ensuring that our financial system is not only resilient to climate risks but also a driver of sustainable growth. As former United Nations Secretary-General Ban Ki-moon stated, "We are the first generation to feel the effect of climate change and the last generation who can do something about it." This powerful reminder urges us to seize this moment and lead by example, ensuring a stable, sustainable, and prosperous future for all.

Namibia's journey toward a green economy is not just a policy decision; it is a call to action. We are building a future where economic growth and environmental sustainability go hand in hand. This is your invitation to join us on this journey. Together, we can harness the power of innovation and investment to create a greener, more prosperous Namibia. Let us embrace this opportunity and work collectively to drive the green agenda forward. The world is watching, and the time to act is now.

I thank you.