Wealth creation, poverty reduction

INTERVIEW WITH HON SAARA KUUGONGELWA
MINISTER OF FINANCE OF THE REPUBLIC OF NAMIBIA

SAARA KUUGONGELWA has been the Minister of Finance since May 2003. She came to the Finance Ministry from the Naitonal Planning Commission where she served as Director-General (Ministerial Rank) for eight years. She has a BA in Economics from Lincoln University in the USA and an MA in Financial Economics from the London School of African and Oriental Studies.

What do you consider to be the main objectives of financial policy (fiscal and monetary) in Namibia?

The Ministry of Finance has the mandate of developing and administering fiscal and financial policies geared at ensuring macroeconomic stability and equitable and sustainable socio-economic development. This mandate bestows upon us the responsibility of public finance management and the stewardship of the financial sector.

The Government fiscal policy is aimed at promoting economic growth and welfare for all Namibians, while maintaining sound fiscal prudence. We have pursued countercyclical fiscal policy which provides for strengthening fiscal space during periods of good economic performance and expansionary policy during subdued economic environment. As a result of this policy impetus, Namibia has been able to withstand the severe effects of the recent global economic downturn.

Fiscal sustainability is an important element in the conduct of fiscal policy. The Government has adopted fiscal benchmarks which places caps on expenditure and budget deficit for the purpose of safeguarding fiscal prudence.

Tax policy is a key lever for fiscal policy's contribution to social welfare. Through the years, Government has endeavoured to strike a balance between the marginal effective tax rates in order to maintain the incentive for economic agents to invest and produce, while contributing to wider socio-economic objectives.

Monetary policy plays an equally important role in maintaining macro-economic stability. The key policy objective is to maintain price stability. Namibia maintains a currency peg with the South African Rand due to the country's membership to the Common Monetary Area (CMA).

This alignment also necessitates that the key policy rate, the Repo Rate does not deviate significantly from the effective Repo Rate maintained by South Africa in order to avoid substantial capital outflow/inflow. In other words, our monetary policy is subordinated to the exchange rate policy. Volatility in the South African Rand has a direct and immediate effect on our exchange rate and price competitiveness. The same holds for inflationary developments as a currency peg has the disadvantage of imported inflation as well as the advantage of imported price stability. On average, Namibia has been better-off, with relative price stability being a defining feature of our macroeconomic environment.

What are the key challenges in establishing high and sustained economic growth rates in Namibia and how are you stimulating domestic economic growth in the country?

Namibia has historically experienced positive economic growth rates in the order of 4.6 per cent over the last ten years. However, the growth rates achieved have not been sufficiently robust and fell below an annual target rate of 7 percent, which was required to achieve the Vision 2030 targets. The growth rates have largely been driven by investment in the minerals sector and have not generated commensurate growth in employment or significant reduction in poverty and income inequalities.

The Global Competitiveness Reports for Namibia cite, among others, underachievement in educational outcomes, the cost of doing business and skills shortage as constraints for robust economic growth in Namibia. Thus, in order to realize broad-based growth, a focused growth strategy which tackles skills development, especially technical skills, and prioritizes sectors commanding high growth and employment creation is needed. This is the focus of the 2011/12 budget and 2011/12 – 2013/14 MTEF.

You will have noticed that in the 2012/13 budget, Government has adopted a Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) with a dual objective to stimulate growth in strategic sectors of the economy, and secondly, to create jobs. The priority sectors of agriculture, transport, tourism, housing and sanitation were selected on the basis of high-growth and job creation potential. The fiscal expansionary policy which underpins the current budget and MTEF constitutes a long-term growth stimulus package. It is an investment in a better tomorrow. It demonstrates our resolve to direct fiscal policy towards domestic development challenges and competitiveness.

To what extent has the macro-economic stability and development been achieved in Namibia? Please outline the latest trends in GDP growth, inflation and real interest rates over the past three years.

Successive international assessments have commended Namibia's achievements on the macroeconomic stability front. We have also received positive ratings for our fiscal prudence. The achievements include a stable macroeconomic environment, relative price stability, low inflation levels and low Government debt levels. Prior to the onset of the global financial crisis, Namibia was able to create fiscal space, characterized by three years of consecutive budget surpluses since 2006/07.

Gross Domestic Product (GDP) growth rates averaged 3 percent during the 2007–2009 period, with estimates for 2010 put at about 5 percent given substantial fiscal stimuli provided for by the current budget. The annual growth rates compare favourably with the Southern African average, although slightly below Sub-Saharan Africa aggregate levels. The contraction of 0.7 percent experienced in 2009 is not the severest in comparison to the global average. In other words, we have been able to weather the storm relatively well, thanks to the effectiveness of our countercyclical fiscal and monetary policies.

The inflationary environment is generally stable. Inflation peaked at 14.3 percent in 2008 as a result of an unprecedented period of high food and oil prices experienced that year. Inflationary pressures have eased since then, reaching 4.5 percent in 2010. The stable inflation environment has allowed an accommodating monetary policy during the peak of the global financial crisis and, thus, helped to shore up domestic demand.

Interest rate adjustments, a key policy tool for the conduct of monetary policy, have been generally effective in constraining inflationary pressures in 2009 and improving domestic demand conditions in the subsequent period. Expansionary monetary policy pursued by the Central Bank ushered in a period of relatively low interest rates. I am glad to see that commercial banks were able to extend the low interest rate environment to consumers.

How do you assess the relative importance of foreign direct investment versus domestic investment with regard to Namibia's recent economic stability?

FDI complements domestic investments, and provides numerous benefits such as skills & technology transfers, access to (foreign) markets and employment creation, amongst others. Given the above, and taking into account our development status, it is vital that we engage foreign investors to support our economic activities.

As you are aware, given the historical background of our people, not many have acquired or gained the resources to invest in the economy on their own, and more importantly in areas which require significant investments. This imbalance in our economy is historical and is evident even in income distribution, where economic resources are unevenly spread. Therefore, if we are to accelerate our development plans, we have to depend, to an extent, on foreign direct investments. That is why, shortly after independence, we introduced the Foreign Investments Act, 1990, as amended, (Act no. 27 of 1990) which provided incentives for foreign investors.

There are domestic investments which have made a tremendous impact on our economy, especially in the retail industries. However, the majority of our people are not active yet in the strategic mineral sector. Hence, gradual reforms are needed to ensure equity and transformation.

Given the above, you will appreciate that in order to ensure sustained economic growth, we need to attract investors. And we are pleased about the positive impact of FDI in mining, property, retail and construction. As part of our transformation, we also encourage our local and domestic investors to form joint ventures with foreign investors.

I therefore reiterate that foreign direct investment is complementary to domestic investment. And government has no deliberate policy biased towards

Namibia's inflationary environment is generally stable

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the promotion of foreign direct investment as opposed to domestic investment. Hence, you will appreciate that government has put in place the required institutions, policies and legal frameworks conducive to attracting foreign direct investment, as well as to encourage domestic investors and the promotion of the development of the private sector.

It has been suggested that further taxes on the mining sector will be introduced to compensate for a decline in income from the Southern African Customs Union. What is the status of this proposal?

Thank you for raising this matter. We have over the years projected a decline in revenue from SACU, which has been a major contributor to our revenue. However, as you are aware, the new SACU Revenue Sharing Formula is under review, and the interest of all members in the Customs union are being considered. But as an economy, we need to diversify our sources of revenue, so that we are not only dependant on one source. We are therefore examining ways and means through which our economy can support our revenue demands. And this is a broad approach, which includes exploring the full potential of our economy. The proposed taxation in the mining sector aims to optimize the flow of revenue from mineral resources, in line with the public ownership of the resources and international best practice of rent capture in natural resources.

How are you strengthening the regulatory framework in the financial sector?

A key lesson from the global financial crisis is the need for regulatory reform in the financial sector, especially the banking industry. In fact, it was due to a lax regulatory environment, especially in a number of countries in the developed world, which triggered the worst global economic downturn since the 1930s.

I must, however, hasten to add that our financial institutions escaped the worst effects of the crisis. This is a result of low exposure to toxic products and low integration with the global financial system. Our regulatory regime provided part of the cushion. We should not, however, rest on our laurels. At the global level, significant emphasis has been placed on strengthening regulatory architecture and strict adherence to Basel IV requirements.

At home, Bank of Namibia in consultation with the Ministry and the banking industry, has been hard at work to institute a crisis surveillance mechanism and financial stability framework to guard against the onset of future crises. Associated with the roll-out of the surveillance mechanisms is the strengthening of the institutional capacity and policy response mechanisms to deal with future adverse developments in the financial sector. We are developing a Financial Sector Strategy which provides broad sector development goals. The Strategy would provide for, among others, the establishment of deposit insurance and a more visible supervisory regime as well as disclosure requirements for both bank and non-bank financial sectors. Amendments to the Banking Institutions Act have been enacted in 2010. This year we anticipate the roll-out of a more streamlined Financial Institutions and Markets Bill for the non-bank financial sector.

What is your vision for Namibia's economic development over the next decade?

Namibia has entered the second decade of the 21st century having weathered the shocks exerted by the global economic downturn relatively well. The country has also posted significant progress on the socio-economic front.

We have expanded access to public health and education. Social safety nets have been strengthened as part of a broad-based human resources development and social protection agenda. Despite our limited resources, Namibia is amongst only three Sub-Saharan African countries which provide old age grants to its elderly population. Orphans and vulnerable children and, most recently, veterans of the liberation struggle, have been added to the social safety net mix. This record of progress is nonetheless mired by attendant and severe structural challenges. As stated earlier, the positive economic growth rates recorded in recent years have not been sufficiently robust and broad-based. Unemployment has not abated and poverty levels and stark inequalities continue to prevail.

Going forward, there is broad consensus that accelerating growth, addressing unemployment and skills shortages, must be the central focus of resource allocation and the socio-economic development agenda. Government has undertaken to give priority attention to key labour intensive and growth enhancing sectors, including public education and the health sector. Policy reform is also being advanced to further improve the overall business environment and competitivess, thereby creating an enabling environment for the private sector to play its role as the engine of growth and wealth creation.

I am thus optimistic that the next decade will usher in opportunities for broad-based economic growth as the global economy recovers and domestic growth and employment creation takes hold. During the next three years, the economy is projected to grow by 5.3 percent or even 6.4 percent given the targeted fiscal expansion. This policy focus will underpin the implementation phase of NDP4. There are therefore grounds for optimism as we chart our path to realising the national vision of accelerated poverty reduction and wealth creation for the majority of our people. F