



5 November 2009

**Annual address of Mr Tom K Alweendo**

**Governor of Bank of Namibia**

*“Accelerated economic growth and job creation: the need for a paradigm shift”*

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Ladies and gentlemen,

Thank you for attending our regular annual address. I know that we are competing for your time with many other events. The theme of my annual address this year is on the need for a paradigm shift, in order to accelerate economic growth and job creation. Before doing that, I would like to give you a brief update on the state of the economy and the banking system.

As we all know the global economy went through a period of extraordinary financial instability in 2008 and 2009. This was accompanied by the worst global economic down turn and a collapse in trade. No country escaped the reach of this economic storm, and we were no exception. Our export oriented sectors, notably minerals and tourism, have been especially hard hit. Consequently, the economy is expected to contract by about 1.1 percent in 2009, while a moderate recovery is envisaged for 2010. In part, due to depressed international demand conditions, inflationary pressures have been largely under control. The annual rate of inflation has declined to 7.1 percent in September. Declining levels of inflation has allowed the Bank of Namibia to ease monetary conditions, but domestic demand is yet to show a sustained recovery. In line with the global economic recovery, there are encouraging signs of a recovery in the Namibian economy, but it will take a while for economic activities to reach pre-crisis levels and become more sustainable.

With respect to the financial system, our banks remain profitable. Banks are adequately capitalized, sufficiently liquid, and non-performing loans as a ratio to total loans remain well below internationally acceptable standards. I am also certain that most of you have been following the recent debate on the appropriateness of the difference between the Bank of Namibia’s official interest rate and the commercial banks’ average lending rates.

At the heart of the debate is whether the interest rate differential is a correct reflection of the risk commercial banks undertake to intermediate between the savers and borrowers.

We do agree that commercial banks, just like any other business, need to be rewarded for the risk they take in conducting banking business. We also believe that the reward must be commensurate with the risk being taken. As we all know, the banking system is the main

transmission channel for our monetary policy actions. That means therefore that for our monetary policy to have the intended effect, the transmission channel must be effective. That is why we have started a dialogue with the commercial banks to ensure that the transmission mechanism works effectively.

There are some who suggest that our actions in this regard are irresponsible. They accuse us of causing financial instability. They also accuse us of chasing away potential investors. Let me assure you that, as a regulator of the banking sector, we are well aware of our responsibilities. In carrying out our responsibilities, we will always do so in the best interest of Namibia. After all, financial stability is one of our main objectives and we take our responsibilities seriously.

Let me now return to the main topic for tonight. In less than five months we will celebrate our 20<sup>th</sup> independence anniversary. Twenty years is an appropriate period to take stock of our achievements since independence and to reflect on the way forward. Our 20<sup>th</sup> anniversary as a sovereign nation is also symbolic in the sense that we will be exactly 20 years away from the target date of Vision 2030. According to V2030, in twenty years from now we want to be a prosperous and industrialized nation; and we want to enjoy peace, harmony and political stability. More specifically, the Vision states that Namibia will be an upper income country. That means that we should have a per capita income of at least US\$17,000 and unemployment of below 5 percent. Let us therefore pause for a moment and ask ourselves whether we are on track towards meeting these noble objectives.

To be sure, we certainly have achieved a lot in the last twenty years and we have every reason to celebrate our achievements. It is not an overstatement to say that we have been the envy of many countries in the Sub-Saharan African region. Our achievements can be grouped under three categories, namely political, macroeconomic, and social.

Political stability is an indispensable condition for sustainable economic development. Without political stability economic development is simply not possible. We should be proud that in a relatively short time we were able to establish a stable and mature democracy. We have managed to build strong institutions, including independence of the judiciary, good governance and protection of property rights. In just a few days from today, Namibians will for the fifth time go to the ballot boxes for the presidential and national assembly elections. I would like to wish all the political parties taking part in the elections good luck. Indeed we have reason to celebrate.

As to macroeconomic stability we have equally been successful. Inflation has been low and stable; fiscal policy has been prudent and sustainable; and our external balance has been healthy over the years. Moreover economic growth has been positive, resulting into modest gains in per capita income.

Recently the World Bank reclassified Namibia from being a lower-middle-income country, to an upper-middle-income country. This should bolster us to want to do more. We are one of only a few countries in Sub-Saharan Africa that has an investment credit rating. With a credit rating, we are able to access international capital markets at relatively better terms. While we may not

need to borrow externally for now, external borrowing may be necessary during times of crisis or when in need of additional capital to support faster economic growth.

We also have one of the highest savings rates in the world, almost comparable to rates in East Asia. However, I remain concerned that up to now we failed to transform all our savings into domestic investment. Over the years we wasted precious time engaging in useless debates as how to utilise our own capital to generate higher economic growth. It is simply no longer credible on our part to request other countries to financially assist us while we are happy to continue exporting our own capital. This remains a challenge that we can no longer afford to ignore.

Equally, on the social front our achievements have been many and laudable. Today there are many more children in schools than at independence. Our national spending on education as a percentage of total spending is among the highest in the world. More health facilities have been constructed since independence. At least 90 percent of all Namibians have access to safe drinking water. This is an achievement that even some of the dynamic fast growing emerging market economies is yet to achieve. So our achievements are numerous and we should celebrate.

While our achievements are impressive, our challenges are equally daunting. The risk is that if we do not address the challenges facing us as a matter of priority, the gains we have achieved thus far might be eroded.

As to whether we are likely to achieve V2030, according to our research the picture does not look too encouraging. Indications are that on the two key goals of per capita income and employment creation, we are not making sufficient progress. The current per capita income is US\$4,200. At the current growth rate, we project that by 2030, our per capita income will be US\$10,000. This is no near the required level of US\$17,000. The message is that at the current rate of progress, we are not getting there.

The picture does not look any better with our efforts to reduce unemployment. According to the 2004 labour force survey, unemployment rate was 36 percent. It is a pity that the responsible people for collecting employment statistics are not able to provide the latest unemployment figures. This is notwithstanding the fact that unemployment is at levels where anywhere else it will be declared as a crisis. We again project that if we continue with the same strategies, by 2030 the unemployment figure will be much higher than the current level. The sad thing is that the majority of the unemployed, about 60 percent, are the young people, especially those with little education. We must realise that prolonged youth unemployment has far reaching consequences. Youth unemployment will result into too many shattered dreams, it leads to loss of identities, and lack of zeal for life in general. The message is that we can no longer pretend that everything is in order.

While our economic growth has been positive, it has not been high enough to make a meaningful impact on poverty reduction. According to the latest poverty report, 28 percent of Namibians are classified as poor; and 14 percent are classified as severely poor. To put this in a proper context, poor means a household of four individuals, living on less than N\$262 per month. Severely poor refers to a household living on less than N\$185 per month. Let us for a moment pause and reflect on what it means to be in this category. It could well mean that the person cannot feed herself; it means she cannot provide her child with the necessary education; and she cannot afford a decent shelter. International experience has shown that the best way to permanently address poverty is not through social safety nets, but through sustained and high economic growth. Once again, the message is that we need to act now.

Having realised that, at the current rate, we are not likely to achieve V2030 objectives, what must we do. I do not pretend to have all the correct answer but all I know is that we, all of us, need to do something fast. Let me, however, share with you few ideas.

A number of indicators suggest that we have been successful at managing our economy at the macro level. Where we do not do so well though is at the micro level. For example, the cost of doing business is perceived to be too high; research and development necessary for innovation is lacking; and there is a severe deficit of skills. I would like to advance two other possible reasons why our growth have been sluggish and without job creation.

Because of the many social challenges dating back to the legacies of apartheid, we followed a balanced approach to economic development. This means that we decided to develop all economic sectors at the same time. The results of this strategy are less successful than what we have hoped for. While it is true that we have made progress, when compared to faster growing and dynamic economies we have fallen behind.

Given the size of our domestic economy, our economic policy must, out of necessity, be more outward looking. We cannot rely on internal consumption and the only way is to adopt an export-led economic development strategy. With the exception of this current year, world trade has been growing at an exponential rate and the size of the world market has increased manifold. This provides an opportunity for small open economies to benefit. However, to be able to compete in the world market, we need to produce sufficient quantities at the right price and quality.

Specifically, I would like to suggest that we adopt a targeted approach towards economic development. Resources, financial and human, should be targeted towards economic sectors with high potential for growth and job creation. Our recent research indicates that the sectors with the highest potential for faster growth and job creation are transport infrastructure, tourism and agriculture. Therefore, we would like to suggest that relatively more resources should be channelled to these sectors over the next ten years. If we do this in a correct manner, the economy could grow at close to 7 percent per annum, which is more in line with what is required to meet Vision 2030.

I am aware of earlier planned interventions that were abandoned because they were thought to be too expensive. Let me say here that I do not want to give an impression that the proposed intervention will be cheap. While it is necessary to consider the cost of intervention, we should do so in relation to the opportunity cost of not intervening. So far our approach to economic development has been somewhat too cautious, except that the results are not encouraging.

In addition to a targeted approach and more government intervention, there must also be other accompanying reforms. Here I have in mind reforms, for example, of our education system and the labour market.

The skills deficit seems to be on the increase. It is encouraging that Government has adopted an ambitious plan to revamp our education system. I would like to encourage organized business to also play its rightful role in skills development. It is as if our private sector still views skills development as an additional cost rather than an investment for the future. We need to have a true partnership, a partnership based on mutual desire to progress, between the Government and the private sector to address the problem of skills deficit.

Let us also agree that the most effective way in which we can address the quality of our education system is when education is once more regarded as a meaningful profession to pursue. Today education is regarded as the profession of the last resort. Our research suggests that the young people who enrol to become teachers are those who have passed grade 12 with the lowest points. It is hardly surprising therefore that we have not been able to produce the engineers, the scientists, and the economists that we so much need. The only way to change this is to make teaching an attractive profession. This we can do, as a first step, by starting to reward our good teachers and educators commensurately.

As with regard to the labour market, it appears that our labour market is too rigid, unnecessarily adding to the costs of doing business. In this regard, organized labour should try to look beyond the interest of their immediate constituent. What is good for the workers is not necessarily good for the country. It does not help we protect a few jobs at the expense of lower future unemployment. In today's globalized world, it becomes virtually impossible to protect jobs. When job losses occur, however, there should be temporary social support to assist the unemployed from falling below the poverty line.

One of the weakest links in the chain of our economic development cycle has been the lack of effective monitoring and evaluation. This weakness is in part due to weak state capacity, which is in turn linked to lack of skills and sometimes lack of commitment. It is necessary to strengthen our monitoring and evaluation mechanisms. A key reform in this regard would be to strictly enforce accountability. There should be consequences when agreed targets are not met and we should not entertain rewarding non-performance. What is clear is that if we fail to improve our monitoring and evaluation structures, a more government interventionist approach to economic development will be a waste of resources and we might as well not do it. We also know that not doing it is not a viable proposition. The stakes are simply too high.

Ultimately development starts with all of us. As individuals, let us be aware of the great potential that is within all of us; let us believe that it can be done; as proud Namibians let us embrace values of hard work and sacrifice. The time is now for all of us to act; it is time to act with conviction and also to act differently. Let us not allow our destiny to be determined for us by events happening around us; let us be the architects of our destiny. We owe this to ourselves and certainly we owe it to the future generation.

I thank you.

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