



**REPUBLIC OF NAMIBIA
MINISTRY OF FINANCE**

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KEYNOTE SPEECH

**Honourable Carl H-G Schlettwein,
Minister of Finance, Namibia**

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Excellencies,

Distinguished Delegates and Participants,

Mrs Durant, Deputy Secretary-General of UNCTAD

Ms Blankenburg, Head of the UNCTAD Debt and Development Finance Branch,

Ladies and gentlemen,

I am pleased and honoured to deliver the introductory keynote statement at this important global platform. UNCTAD's Debt Management Conference is the largest such conference at the global stage, bringing together academic experts, high-level policy-makers and practitioners of debt management, civil society representatives and the private sector to discuss a topic that is increasingly worrisome, – that of growing global indebtedness and how best to manage it. For developed and developing countries alike, the matter remains one of how debt can be used as a transformational financial instrument -so that growth rather than recession, and ultimately inclusive development - rather than crisis, eventuates.

The spectre of increasing global debt is haunting the global development agenda. Global debt is now at historic highs. According to the April 2018 stocktaking by the International Monetary Fund, global debt is now in excess of 225 percent of global GDP, a new record. As stated in the UNCTAD Trade and Development Report 2019 before us today the explosion of global private debt came about due to more than three decades of financial deregulation and heavily privatized credit creation and financial intermediation in developed economies. In the developing economies debt also reached its highest level on record reflecting a very steep increase in private indebtedness, from 79 percent in 2008 to 139 percent in 2017. Public indebtedness in 2017 in all economies picked up significantly as well and especially after the 2010 financial crisis, albeit not at comparable levels to private debt with over 100 percent of GDP in developed countries and about 51 percent in developing economies.

Such meteoric rise in global debt threatens to stifle global economic expansion and derail global development agendas such as Agenda 2030 and the Paris Agreement through its strain on fiscal space in especially developing economies, and the resultant disability to remain countercyclical.

This year, the Conference will address such important issues as current trends in the unfolding developing country debt crisis, recent debt transparency initiatives, policies to support long-term debt sustainability, the role of debt and disaster relief in the context of increasing global climate change and the role of the international community in strengthening debt management.

Globally, we are witnessing a steep rise in debt uptake, with the unhealthy dependence on debt for global growth reflected in the ever-greater levels of global debt stocks. UNCTAD's 2019 Trade and Development Report shows how global debt stocks have expanded to their highest levels ever in 2017, even beyond the levels experienced at the time of the global financial crisis. Bloomberg recently reported that by the end of 2018, global debt stocks amounted to more than three times global GDP. These levels reflect a profound systemic instability of the global economy and its governance and regulatory structures. Of course, we know that debt is a necessary and sometimes most useful financial instrument, but the growing indebtedness in the context of a deregulated global financial sector has not, as the figures show, led to an increase in real investment. In developing countries in particular, we know that the rising indebtedness, borne of private capital inflows, has sadly more to do with the lack of return in the places they come from than a genuine interest and risk appetite for the countries they are coming to. Unabated illicit outflows further contribute to the precarious situation in many developing countries. We are living in fragile times.

The growing share of private debt is a long-standing phenomenon in developed countries, where the share of private debt as a percent of developed country GDP has doubled over three decades (between 1980 and 2017). But for developing countries, the private sector share of debt, expressed as a per cent of GDP, has nearly doubled in only the last ten years. Private sector debt of all

developing countries taken together now accounts for nearly 140 percent of developing country GDP.

The indebtedness of high-income developing countries should perhaps raise the most alarm, with total debt-to-GDP at 215%, with the private sector accounting for over three quarters of this debt exposure, standing at approximately 165 percent of GDP. However, both middle-income and low-income developing countries have also increased their indebtedness, with middle-income country debt now surpassing the value of GDP, and in the case of low-income countries, external debt stocks have doubled since 2009, in many cases undoing the positive impact of debt relief programmes of the 1990s and early 2000s.

Now more than ever, financial innovation has increased the complexity of instruments and also their management. In a retrospective review of the global financial crisis, the Bank for International Settlements pointed out that in an environment of low rate of return on most traditional fixed-income assets, there was “an irresistible incentive for the financial industry to innovate securitized assets” in the build up to the global financial crisis. At the time, the innovations were mostly related to securitization of mortgages in the US and other developed markets. At the time of the crisis, there was considerable relief that developing countries were mostly insulated to the global financial crisis, although not the slowdown in the global economy, of course, but now the innovation of the private financial sector is well in our backyards. I am looking forward to hearing from the experts in the session entitled “Debt and the securitization of development finance – Useful innovation or recipe for more toxic debt?”

The growing global debt burden and its associated fragility comes at an unfortunate time for developing countries, with global economic growth subdued, trade wars, climate emergencies and threats to multilateralism all contributing to uncertainty, the aspirational demands of the 2030 Sustainable Development Goals can appear unattainable. The high levels of indebtedness inevitably mean that there is reduced room to adjust and manoeuvre when external shocks do come. It will not take much for the most highly indebted countries to become financially distressed, and

for smaller and poorer developing countries, with their fast-growing exposure to foreign capital and integration into international financial markets, to be teetering on the edge of crisis, should commodity price shocks or environmental disaster ensue. In fact, most of these downside risks have materialized and their impacts are felt in the growth matrix of these countries. Oil price is estimated to contract by 9.6 percent this year, while non-fuel commodity prices have decelerated to about 1 percentage point this year, compared to 6.4 year-on-year growth in 2017. A study carried out in 2010 by the United Nations Conference on Trade and Development (UNCTAD) on the impact of 21 large natural disasters that struck developing countries between 1980 and 2008 showed that large-scale shocks can add, on average, 24 percentage points to the debt-to-GDP ratio of affected countries in the three years that follow the event.

Climate change and the need for budgetary expenditures associated with mitigation and adaptation are now part of the background against which all countries of the world are increasingly managing public expenditure and public debt. Namibia, for example, as an upper middle-income country, is in the throes of a severe drought, which is affecting the southern African region. This is part of El Nino cycle, which has led to recurrent droughts that affect not only the agricultural sector, but industrial activity that is dependent on water. This year, as the government, we have called upon not only to provide food emergency relief and emergency water provision for people as we have done in the past, but also provide subsidies for animal feed, so that we do not, as a consequence, negatively impact our food and water security and productive capacity going forward. In the FY 2019/2020, we allocated, including own internal savings, an amount of N\$379 million within the Emergency Fund to deal with the severe effects of the drought. In addition, we received N\$ 179 million from external sources to supplement relief efforts, bringing the total expenditure to N\$558 million.

It bears pointing out, that while Namibia's per capita income categorization - along with other middle-income countries acknowledges the progress we have made in poverty reduction, we are not protected from economic stagnation or the effects of climate change. Middle-income countries remain highly vulnerable to external factors and environmental disasters, but our higher income

status means we are often overlooked in the provision of concessional lending by the international community. Specifically, and in the case of an environmental disaster, middle-income countries are ineligible for immediate and efficient financial support from multilateral sources. Moreover, this income classification belies the development challenges that remain. Namibia for example, faces challenges of inequality, poverty and unemployment. Our Gini co-efficient remains one of the highest in the world, around 10 per cent of the population is affected by absolute poverty and a third of work force, in broad terms, is unemployed, with broad unemployment of the youth as high as 46 percent.

But amid these realities, this conference provides an opportunity to share experiences and learn from lessons of others. From my perspective, and to answer the implicit question in the conference theme “*Making debt work for development*”, the discussion needs to be underpinned by the examination of the policies and actions countries undertake to make responsible use of debt, be it external or domestic, so that indebtedness can be associated with transformational and sustainable development, rather than that which is wasteful.

Excellences,

Let me take this opportunity to share with the conference the policies and measures that the Namibian government has been pursuing over the past four years in regard to shocks on growth and debt management. At the time of the FY 2016/2017 budget statement, our economy was exposed to a complex set of domestic and external shocks. GDP growth had declined from 6.1 percent in 2015 to 0.6 per cent in 2016; due to a combination of reduced public expenditure and commodity price crashed, the latter having affected our export earnings. As a result, the immediate effect on public debt stock was unprecedented. Debt grew at 30,1 per cent per year and the high debt servicing burden had led to a credit rating downgrade, from investment grade to sub investment grade, for our foreign denominated bonds. Lost fiscal space coupled with high debt burden meant we had limited capacity to implement countercyclical policy to support the economic recovery. We could neither take up more debt, nor implement tax policy changes to boost public revenue or activity in a low growth environment.

Our policy response was two-fold. We chose to prioritize and scale-up spending on development and pro-growth programs and deploy ring-fenced project financing with limited, but targeted debt commitments. We undertook to address constraints on private sector development and support local participation, we strengthened allocative efficiency to ensure that critical service delivery was not impaired due to budget constraints, reviewed SOE governance law to facilitate SOE reforms and improve efficiency, took measures to enhance the competitiveness of the Namibian economy and implemented structural reforms to address impediments to businesses; all at the same time as implementing a sustainable fiscal framework designed to contain wasteful expenditure and reduce the budget deficit and growing indebtedness.

It is true that together, the commodity prices shock and repeated droughts, and weak fiscal buffers had left us with a narrow fiscal space. But we have addressed these challenges, with the key goals of job creation, public sector wage bill management without retrenchment, reduction of poverty and significant improvements in equality underpinning our actions.

The fiscal policy consolidation to avert further slippages on the budget deficit and public debt rise was unprecedented. Public spending, which was the main driver of the exuberant economic growth rates of 5.7 percent and above between 2010 and 2015, has been contained during the last four years. The total public expenditure consolidation over the past four years amounted to about 8 percent of GDP, mainly the reduction of non-interest public spending, supported by public sector wage bill containment and expenditure containment on unproductive capital outlay, and reduction in SOE subsidies. Certainly, this has had a drag on economic growth through fiscal multipliers, but it was necessary to stabilize the budget and the macro-fiscal framework.

I am pleased to say that four years down the line we have achieved the following:

Government expenditure has reduced as a proportion of GDP from 43% to 35%, the budget deficit has narrowed from 8 per cent in 2015/2016 to 4 per cent this year, growth in public debt stock has moderated to an annual average of 11 percent, down from 30 percent, averting the proverbial fiscal cliff, severe contraction in the economy and debt overhang. Spending on social services remains

protected to guard against reversals and, finally, our international reserves stock has strengthened from 2.1 months of import cover in 2016 to 4.6 months in September 2019. Achieving economic growth driven by private sector investment and exports and a growth trajectory that is more inclusive and with more jobs is now an important objective going forward.

These challenges of balancing economic growth and developmental goals while, at the same time, avoiding macro-economic instability and loss of fiscal sustainability have not been easy in Namibia. And it is clear we have some way to go.

As a relatively small open economy, Namibia has sought to put the Addis Ababa Action Agenda and its emphasis on domestic resources mobilization and sustainable and inclusive development at the centre of our financial management for development. We are mindful always that our policy space can be impinged upon by the expectations of international financial markets and consequently the ability to sustainably finance our national development agenda. We too recognize that no country can sustainably depend on external resources for its own development. As such, our national budgets are funded from own revenue to the score of 98.5 percent, with external grants making up about 1.5 percent or so.

During the fiscal consolidation process, we have had a facility from the African Development Bank, of which N\$4 billion or US\$272 million was earmarked for growth enhancing capital spending in logistics, educational infrastructure and agricultural mechanization infrastructure, in addition to our development budget allocation of N\$7.9 billion. We have sought to increase economic growth and government revenue, mindful that there are real constraints as to how much domestic resource mobilization is possible through increased taxation. Our prescribed tax-to-GDP ratio averages around 30 percent appearing as very high. However, considering that no capital gains tax is asked and that the effective tax rate for corporates hovers around 21 %, policy space is limited in both directions (tax relief to stimulate growth or higher tax income to reduce debt take up). We have however commenced reforms aimed at better tax administration by the establishment

of the Namibia Revenue Agency, an autonomous tax authority, which is due to open its doors in April 2020.

And we are seeking to find ways to reinvigorate the role of financial sectors in supporting long-term productive investment that can enhance the ability of trade, technology and transnational companies to work for inclusive growth and development. The domestic financial sector, whose size is about twice the size of GDP, holds potential to finance investment opportunities in both listed and unlisted space as part of domestic resources mobilization. The leveraging of state assets through partial listing and divestiture as well as public, private partnerships are further important avenues being utilized through this reform and resource mobilization initiative.

But of course, commitments to the quadruple A Addis Ababa Agenda remain a serious challenge within the global systemic realities, of financial flows, illicit financial outflows, global economic fragilities, climate change, multilateral and governance failures, to name but a few. As a developing country, Namibia calls on all nations, to engage in reinvigorated debate that addresses some of these systemic issues which weaken the ability of developing countries to create policy space and effectively manage their macroeconomic frameworks for more stable, sustainable and inclusive outcomes.

I would like commend the work done by the UNCTAD, to promote in-depth analysis, multilateral trading systems and on-the-ground technical cooperation for a better understanding of what we, as developing countries, require from the international community and why, at this juncture.

This 12th Debt Management Conference is an integral part of this effort.

I look forward to the debates to come in the course of this conference.

Thank you all for your kind attention.