FY2018/19 Mid-Year Budget Review Speech

Presented
By

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Honourable Speaker;
Honourable Members of the National Assembly;
Fellow Namibians;

1. I have the honour to table the 2018/19 Mid-Year Budget Review and Medium-Term Policy Statement, a fourth since its maiden introduction in 2015. This Mid-Year Budget Review is not an additional budget proposal. It is not a fiscal mechanism for correcting large arrear spending outlays, it is a fiscal proposal for internal allocative efficiency within the appropriated ceilings. It is an assertion that we must live within our means.

2. The Review is an additional component to enhance budget transparency, as it provides advance information of the medium-term policy interventions and spending priorities for the next MTEF. This forward looking perspective provides the legislature and the Namibian public the opportunity to make inputs into the budget preparation processes for financial year 2019/20 well in advance of the tabling of the annual budget.

3. *Honourable Speaker*, this Budget Review is presented against the backdrop of the progress we have made as a nation, the challenges we face and the opportunities which we should seize.

4. A cyclical downswing in the domestic economy presents us with the opportunity to reboot our toolkits and strategy for more medium to long-term sustainable socio-economic outcomes. The challenges of inequality, poverty and unemployment are the structural macro-critical challenges which we must overcome to achieve meaningful and shared prosperity: -

    - with a Gini coefficient ratio of 0.56, Namibia is the second highest unequal society in the World. Whilst we have reduced this from 0.71 in the 1990s, this progress is not good enough. Much needs to be done for us to achieve the shared prosperity and equitable distribution of wealth and income goals, which we committed to in Vision 2030 and the Harambee Prosperity Plan;

- latest data shows that , absolute poverty affects 17.4 percent of the population, and, affects 10.7 percent of the population;
- unemployment is at 34 percent and youth unemployment at 45.5 percent;

- to these challenges we also have limited industrial and productive capacity, a shortage of technical skills and low quality of educational outcomes. These present overarching constraints to growing our economy.

Honourable Speaker,

5. Nations experience defining moments in history and the recent second land conference was such a moment for Namibia. It reminded me of a quote by Franklin D Roosevelt when, at a defining point in the history of the USA he said: "*The point in history at which we stand is full of promise and danger. The world will either move forward toward unity and widely shared prosperity - or it will move apart*."

6. The spirit, enthusiasm and consensus taken from the conclusion of recent Second Land Conference shows, yet again, that Namibians from all walks of life can join together and progress towards the common goals of a better quality of life and equality in an inclusive society. We have resolved to address this land issue, which can ultimately empower our people and exploit value from this asset for the betterment of all our people. That same spirit is needed to confront our current economic challenges.

7. Over the past three decades or so, we have, as a nation, made significant progress in the following areas:

8. Investments in social capital and, policy initiatives in education, health services and social safety net programs, have contributed to a reduction in inequality and poverty.
    - from a global perspective, inequality is the second highest in the World , although it has fallen from 0.70 in 1993/4 to 0.56 in 2015/16,

- poverty levels are high in the context of average national incomes, however, is continues on a downward trajectory, from 41 percent in 1993/4 to 17.4 percent in 2015/16,
- unemployment remains stubbornly high, requiring a holistic approach to make a significant impact on this structural challenge,

9. In addition, *Honourable Speaker*, and against the backdrop of a complex set of external shocks to our economy coinciding with domestic structural constraints since 2016, we have adopted a responsive macro-fiscal policy framework to chart an escape route from this precarious economic and fiscal environment.

10. Since 2016:-

- We have rebalanced the macro-fiscal framework, thus placing public finance on a s that will ensure future sustainability. This does , however, require us to ensure that expenditure remains aligned to public revenue and that we live within our means and utilize emerging fiscal to enhance the quality of outcomes from public spending,

- the framework for long-term sustainable fiscal operations is improving.

- nominal GDP numbers for 2017 are 2.7 percent better than projected in the budget, thus, cushioning fiscal ratios against overshoots,

- the past year's revenue outturn was 3.7 percent better than projected due to efforts to collect tax arrears. However, a principle l amount of N$3 billion remains outstanding,

- expenditure is closely aligned to budget revenue, with 51 percent mid-year revenue outturn comparing well against historical averages,
- we have reduced the budget deficit by a cumulative of 3.8 percent of GDP over the past three years, or some 1.3 percent annually over the same calendar, from 8.1 percent in FY2015/16 to about 4.4 percent this year,

- spending as a proportion of GDP has been reduced from a high of 40.2 percent in FY2015/16 to an estimated 34.6 percent this year, taking us back to FY2012/13 levels
  - the external trade deficit has narrowed by 34.9 percent leading to the Current Account deficit as a ratio of GDP improving to 4.9 percent in 2017, from 18.0 percent in 2016 and 1.3 percent during the second quarter of 2018.
- foreign reserves have risen to 5.2 months of import cover in September 2018, as imports slowed due to a depressed domestic economy.

11. Nonetheless, we have not emerged unscathed. High financing needs and liquidity constraints in the domestic economy have hindered the implementation of a steadier and growth friendly fiscal stance: -

  - Potentially low growth miss this year requires us to revisit our policies, , create effective partnerships and develop efficient and effective implementation modalities,
  - per capital incomes are falling as domestic growth declines and economic outlook weakens,
  - domestic demand is falling as private sector investment flows are weak,
  - jobs have been lost in some sectors of the economy.
  - in sectors such as manufacturing and agriculture, retail, wholesale production has stagnated and productivity falling,
  - industrialization and economic diversification have made limited impact against a backdrop of an increasingly integrated regional, continental and global economy with digitalization being the primary driver
  - poor quality outcomes in the social sectors continue to impact negatively on national competitiveness and long-term productivity,
  - our national competitiveness is declining due to a lack of innovation and structural reforms in core areas. and
  - the quality and priorities of public are still, in many sectors, inefficient.

12. Honourable Speaker, in this Mid-Year Budget Review and Medium-Term Budget Policy Statement:-

- savings are recommended d from non-core operational spending lines and development projects with a low budget implementation rate,
- allocative efficiency is increased by a reallocation of resources to those areas where they will make a difference,
- provision for frontline services have been protected in this mid-year budget review,
- targeted allocations are made to address the immediate priorities identified at the 2nd National Land Conference, , and
- a package of policy proposals and spending priorities for the 2019/20 Budget and MTEF are proposed to enable both the legislature and the public to make inputs on these.

Honourable Speaker,

13. This Mid-Year Budget Review is presented against the backdrop of a domestic economy that continues to be subdued. The economy has been in recession for the last ten-quarters from the middle of 2016. The causes for this include:-

- commodity price crash and persistent droughts which affected the agricultural and water sectors,
- weak growth in neighbouring trading partners have adversely impacted adversely on the domestic economy and continue to do so.
- volatility in the global capital and financial markets, which impact on , exchange rates and domestic policy responsiveness.
- the fiscal impact of high budget deficit financing needs in turn, weakens fiscal policy responsiveness and, fiscal consolidation becomes necessary. Fiscal consolidation reduces public expenditure and therefore has a negative impact on the domestic economy. The limited fiscal space left

available, requires us to revisit our fiscal and economic policies and our institutional arrangements to ensure that we can emerge from the current economic challenges.

- domestic revenue is declining due to falls in SACU receipts, accumulating arrears and lower than projected VAT income.
- limitations on institutional capacity and initial challenges in procurement processes resulted in delays in expected outcomes and thus, compromising the timely delivery of targeted fiscal investment stimuli,
- he development budget implementation rate of approximately 27 percent mid-year resulted in this part of the budget not having the expected positive economic impact.
- domestic consumption has fallen, and households have high-levels of domestic debt.
- domestic private sector investment and foreign direct investment in the economy allied with significant capital outflows have had an impact in improving national competitiveness driven by private sector-led growth and job creation agenda,

14. Against this background, Honourable Speaker, and in terms of Article 126 of the Namibian Constitution, read with Section 1(1) of the State Finance Act, I have the honour to table, for the favourable consideration and approval by this House, the FY2018/19 Appropriation Amendment Bill and the Adjusted Estimates of Revenue, Income and Expenditure.

15. At the same time, *Honourable Speaker*, I present the Medium-Term Budget Policy Statement for the next MTEF, setting out the macro-fiscal context and the fiscal stance for the next budget and MTEF. The Policy Statement also sets out policy priorities and indicative expenditure ceilings for the next MTEF.

16. *Honourable Speaker*, while the domestic economy is still recovering from a complex set of adverse shocks and within a narrow fiscal space for the budget levels and servicing our debt stock. In our quest to continually improve the living conditions of all Namibians, we need to restart the growth engines within the constraints of a sustainable framework. A package of measures become necessary and urgent:-

- prioritizing and scaling-up spending on pro-growth programs,
- deploying ring-fenced project financing with limited, but targeted debt commitment on competitive terms,
- addressing constraints on private sector development and unlocking private capital,
- addressing bottlenecks in the central procurement, both for procuring units and the Central procurement Board,
- improving competitiveness of the Namibian economy and implementing structural reforms to enhance business climate,
- eliminating potential corruption and over-pricing in public procurement ,
- strengthening allocative efficiency to ensure that critical service delivery is not impaired due to budget constraints,
- improves the efficiency of the operations of SOEs.

What does this Mid Year Budget Review Offer?

Honourable Speaker,
Honourable Members,

17. Namibian public finance currently faces a triple challenge. A prolonged consolidation period has reduced economic growth, leading to job losses, declining consumption related to public spending in real terms. To return to positive growth, the economy needs to be stimulated to enhance investment, consumption, exports and productive capacity. Ultimately job creation with fair

remuneration, the elimination of poverty and significantly improved equality must remain the main goals of economic and social development.

18. Improved public spending, supported by better revenues and fiscal buffers would be needed to bring about such countercyclical intervention. At this time, when the economy is emerging from a downturn, our public finances have limited capacity to provide such stimuli. The revenue projections will not allow us to make significant increases in public expenditure; create large financial buffers; and, take up more debt. Taking on more debt is unsustainable. Aggressive domestic mobilization through punitive tax increases is also not a viable option. Combined, these factors limits prospects for increased public spending in the short to medium-terms.

19. This Mid-Year Budget Review and its Medium-Term Policy Framework therefore:-
    - retains policy consistency with the macro-fiscal framework announced in the 2018/19 budget,
    - reallocates resources to address priority needs, mainly in the social sectors to enable uninterrupted provision of basic public services and social safety nets,
    - maintains the gradual fiscal consolidation policy stance over the next MTEF with added impetus on growth friendliness of the consolidation policy stance, and
    - leverages private capital for enhanced infrastructure development,
    - seeks to partially compensate losses in SACU revenue with improved domestic revenue,

20. Its Medium-Term Policy Statement proposes frontloading actions and policies which would promote growth, job creation, private sector partnerships and unlocking domestic savings to finance local investment opportunities, while limiting further public debt increases.

Economic, fiscal and financial context

Honourable Speaker,

21. Before I delve into the medium-term fiscal stance, the budgetary priorities for the next MTEF and what this Appropriation Amendment Bill means , allow me to provide the economic, financial and fiscal context within which this review was done and on which its forward look policy statement is anchored.

22. We live in an interconnected world, with intertwined trading and financial systems as well as peoples to peoples relations. The global economy is projected by the International Monetary Fund to remain upbeat, following a cyclical upswing which started in 2016 in most Advanced Economies.

23. Growth for the world economy has strengthened from 3.3 percent in 2016 to 3.7 percent in 2017 and it is projected to plateau at this activity rate this year and over the next year, reflecting the materialization of risk factors; chief among them being the ongoing trade war between the US and China.

24. Growth for Advanced Economies is projected at 2.4 percent in 2018, reflecting upbeat growth for the United States estimated at 2.9 percent in 2018, mainly as a result of spending increases and tax rate cut stimulus. The outlook for Advanced Economies is expected to taper off over the medium-term, slackening to 2.1 percent in 2019 as policy effectiveness wanes and the realization of downside risks continue to unveil.

25. As a manifestation of the downside risks, the world trade volume is forecast to decelerate from an upswing of 5.2 percent in 2017 to 4.2 percent in 2018 and further to 4.0 percent in 2019.

26. At the same time, *Honourable Speaker*, the global economic activity is saddled with high public, private sector and household debt. The total gross public debt for the world is estimated at 82.1 percent of global GDP in 2018. The high debt level is concerning as it serves as a drag on growth due to erosion of fiscal space, which limits room for policy countercyclicality during economic

downturns, lengthens recessionary periods and comes with associated high debt servicing costs.

27. Notwithstanding the overall improvement in global economic activity, economic expansion has become less balanced across economic regions and countries.

28. For Emerging Markets and Developing Economies, growth is expected to remain static at 4.7 percent since 2017 over the next two years, largely reflecting the slowdown in China, owing to internal rebalancing and the effects of the ensuing trade war with the United States.

29. Prospects for the Sub-Saharan African Region are anticipated to brighten, with growth rising from 2.7 percent in 2017 to 3.1 percent in 2018 and 3.8 percent in 2019. This is largely driven by recovery in commodity prices, especially high oil prices benefiting oil producing countries and improvement in agricultural output for much of the region.

30. Closer to home, the South African economy which is the destination of about 14 percent of Namibia's merchandize exports has entered a technical recession by the Second Quarter of this year, reflecting continued contractions in such key sectors as agriculture, transport, retail trade and manufacturing. Under these subdued conditions, the South African economy is projected to grow by a lower output rate of about 0.8 percent this year and rise to 1.4 percent by 2019.

31. For Angola, the Sub-region's third largest economy and an equally key trading partner for Namibia, an annualized contraction of about 0.1 percent is projected for this year, after a decline by 2.5 percent in 2017, with a rebound to positive territory of 3.1 percent next year.

32. The main attendant risks to global growth is the continued increasing intensity of the ongoing trade war, increasing protectionism, tightening financial conditions in Emerging Markets and Developing Economies due to monetary policy rate normalization in the United States and the continued rising

geopolitical tensions. These risks, which have become increasingly manifest, have global ramifications through trade and financial market channels.

33. Indeed, the low growth outlook for Namibia's main regional trading partners present multiple challenges with respect to overall domestic economic performance and revenue outlook, especially on the revenue from SACU and subdued consumer demand over the medium term.

34. In this environment, the global policy agenda emphasizes policy packages which foster inclusive growth, reducing debt vulnerabilities consistent with a steady fiscal consolidation, advancing revenue mobilization, enhancing spending efficiency and fostering private investment.

Domestic Economic Developments and Outlook

Honourable Speaker,
*Honourable Members***,**

35. Against this background of uneven global and regional economic landscape, coupled with Namibia's country-specific factors, the domestic economy remains under recessionary pressure.

36. Economic growth contracted by 0.9 percent in 2017, from a slow positive growth of 0.6 percent in 2016. For 2018, overall activity rate will remain subdued, with a contraction about 0.2 percent estimated, after two consecutive quarters of contraction during the year. Improvement on the pace of activity is dependent on the timeliness and speed of implementation of growth enhancing budgetary interventions, implementation of structural policy reforms to restore the ease of doing business and increased private sector investment activity.

37. From the sectors, of industry considerations;-

- the primary industries will anchor economic recovery over the medium-term. After posting robust growth of 10.6 percent in 2017, the primary industries are estimated to grow by about 5.7 percent in 2018 as production ramp up by Husab Uranium Mine reaches full capacity, with the agricultural sector expected to further support the outlook. Fish processing activities remain subdued, with a contraction of about 8.0 percent this year on account of high cost of fishing and stock pressures. Over the medium-term, growth in primary industries is expected to moderate to 3.2 on average over the MTEF, reflecting onshore diamond production constraints, depressed uranium prices and as output from the mining sector normalizes to long-term trend.

- secondary industries output is expected to remain in contractionary territory due to recessionary pressures in the manufacturing and construction sectors over this year,

- the tertiary services sector, which accounts for over 57 percent of GDP and key to economic recovery, is estimated to continue experiencing recessionary pressures this year, posting an estimated contraction of about 1.4 percent, owing to continued weak domestic consumption demand weighing on the wholesale and retail sector and fiscal consolidation effects across the public sector. In the best case scenario, this sector is only expected to ease out of recessionary pressures in 2019. Over the MTEF, growth for the tertiary services sector is projected to hover around 1.9 percent.

- on the demand side, consumption demand remains weak on account of policy neutrality and highly leveraged private and household sectors. The estimated decline in consumption demand by 1.7 percent in 2018 indicates a slow easing from the contraction of 3.3 percent in 2017 as private consumption remains benign. The weak domestic demand conditions is reflected by the slowdown in year-to-date Private Sector Credit Extension relative to the previous corresponding period.

- The decline in investment over the past years calls for a comprehensive set of coordinated actions and policy reforms to enhance competitiveness, strengthen partnerships to foster business confidence and continue entrenching policy certainty.

- Exports of goods and services are estimated to grow by 2.3 percent this year, following a contraction in 2017 as import flows continue to lag due to weak consumption demand. This results in positive spin-offs for the Current Account balance, the trade balance and the stock of international reserves.

- monetary policy has remained generally accommodative at 6.75 percent

- the Current Account deficit has narrowed from 14.0 percent of GDP in 2016 to 4.9 percent of GDP in 2017 and 1.3 percent during the second quarter of 2018,

- the international reserves have increased to 5.2 months of import cover in September 2018, which is 7.7 times higher than the currency in circulation and more than sufficient to support the currency peg

Fiscal Policy Developments

Honourable Speaker,

38. I now give an account of the fiscal policy developments for FY2017/18 and the Mid-Year outturn for FY2018/19.

39. The 2017/18 Appropriation Amendment Act provided for an Additional Budget of N$4.1 billion or some 6.5 percent of the original appropriated expenditure of which N$2.2 billion was devoted to settle spending arrears and the remainder for reallocation to Offices/Ministries and Agencies to meet identified spending shortfalls.

40. The budgeted nominal GDP was revised to N$176.1 billion, revenue was revised upward by 1 percentage point to N$56.7 billion and expenditure increased to N$66.5 billion, as a result of the additional budget. This had the effect of increasing the budget deficit from 3.6 percent of GDP to 5.3 percent,

reversing progress on fiscal consolidation and triggering a sovereign rating credit downgrade to sub-investment grade by credit rating agencies. Total debt stock was estimated to increase by 3.6 percent to N$74.2 billion.

41. The actual outturns for FY2017/18 indicate progress on these targets:-

- all identified spending arrears were settled, relieving balance sheets and creating domestic financial flows,
- total revenue outturn of N$58.8 billion was 4.3 percent better than the original budget and 3.7 percent better than the revised budget revenue, thanks to targeted collection effort by the Receiver,
- Actual expenditure outturn was N$67.7 billion, 1.7 percent higher than the revised budget as a result of overspending by some Budget Votes. Overspending above appropriated levels is a fragrant violation of the provisions of the State Finance Act and it must not continue without the law taking its course on wanton overspending,
- As a result of better nominal GDP and revenue outturn, the budget deficit of 5.0 percent is marginally better than the 5.3 percent estimated in the revised appropriation, in spite of the aggravating effect of observed overspending.
- similarly, public debt as a ratio of GDP stood at 40.4 percent, better than 42.1 percent in the revised appropriation, and
- debt servicing stood at 8.9 percent of revenue, while guarantees accounted for 7.2 percent of GDP, relative to the targets of 10 percent of revenue and 10 percent of GDP respectively.

Honourable Speaker,

42. These outcomes underscore the need for income generation through growth, exercising spending discipline, improving the quality of spending and timely implementation of dependency structural policy reforms as a basis for successful implementation of a growth-friendly fiscal consolidation.

Mid-Year Budget Outturn

43. In respect to the current year budget execution rate, the Mid-Year revenue outturn amounted to N$28.8 billion, equivalent to 50.8 percent of the budgeted revenue of N$56.7 billion, on par with a similar rate of 50 percent collection rate achieved over the previous corresponding period and the recent historical six-month average collection rate of 50 percent of total collections. In this respect, revenue collection is expected to be in line with budget expectations.

44. The budget execution rate by the end of September 2017 stood at 50 percent, compared to 47 percent execution rate for the corresponding period. The Mid-term operational budget execution rate stood at 51 percent, while the development budget outturn was estimated at 27 percent by the end of September 2018.

Sovereign Ratings Assessments

Honourable Speaker,

Honourable Members,

45. The domestic debt held by Government is still rated at investment grade by credit rating agencies. Fitch Credit Rating Agency, in its latest rating action in July this year, has reaffirmed the sovereign rating for Namibia at a sub-investment grade of BB+, with as stable outlook.

46. The stable outlook reflects the Government commitment to steady fiscal consolidation, public debt stabilization objectives and the prospect of a return to a moderate growth outlook.

47. At the same time, rating agencies have raised concerns on the public sector wage bill which absorbs about 50 percent of revenue, volatility of budget revenue due to high reliance on SACU receipts, a narrow domestic productive and manufacturing capacity which impairs the current account balances, high inequality and high unemployment.

48. In this context, bringing about sustainable growth, reducing growth in public debt and improvements in external balances will be key progress points on addressing the ratings weaknesses.

49. We are committed to:-
    - continued implementation of the pro-growth fiscal consolidation stance, with frontloaded measures to bring about inclusive growth as a necessary condition for generating increased per capita incomes, jobs and for stabilizing growth in, and eventually reducing the public debt,

    - In this regard, fast-tracking implementation of the announced structural reform measures is a critical step forward,

    - strengthening institutional capacity, policy frameworks and appraisal capacity to manage fiscal risks effectively and enhance policy certainty, and

    - implementing progressive and equitable tax policy and administration reforms to boost revenue mobilization objective. In this regard, we are broadening and deepening the tax base while protecting it from erosion, profit shifting and illicit flows,

Macro-fiscal Outlook and Fiscal Stance for the next MTEF

Honourable Speaker,

50. Let me now turn to the fiscal outlook and priority intervention measures for the next MTEF,

51. Based on the preliminary outturns for the first two quarters of 2018, the medium-term macro-fiscal framework estimates the economy to remain under recessionary pressures for the remainder of this year. This outlook will only improve on account of better outturns for the last two quarters of the year and the implementation of large capital project injections budgeted for in the

FY2018/19. Implementation of these intended spending stimulus continue to lag, exerting high opportunity costs on the economy.

52. The outlook for the next MTEF projects a rebound of economic activity to positive growth territory in 2019 going forward. However, such growth outlook will be moderate and underpinned by downside risks, reflecting domestic implementation challenges and weak economic outlook for Namibia's main trading partners in the region.

53. Growth for 2018 is estimated at a contraction of 0.2 percent, a moderate improvement from the contraction of 0.9 percent posted a year ago. The outlook will rebound to 0.9 percent growth in 2019 and average around 2.3 percent over the MTEF. At this rate, policy interventions to lift tomorrow's growth potential, the timeliness and quality of such policies are, therefore, critical over the next MTEF.

Honourable Speaker,
Honourable Members,

54. Implementation challenges in the public procurement of major works, goods and services is concerning and a binding constraint to bring about acceleration of implementation of major capital projects across the public sector and the socio-economic benefits public investment projects would occasion.

55. All stakeholders, procuring agencies and the Central Procurement Board must come together to devise effective modalities for a more robust procurement regime within the framework of the Public Procurement Act and to bring about operational efficiency in public sector procurement function.

56. In this regard, I will convene a stakeholder forum in the coming month to devise effective modalities for addressing these institutional constraints and process modalities within the framework of the law. Such modalities must necessarily enhance cost and operational efficiency, deter graft and guard against fiscal risks.

57. We must proceed to unlock opportunities for a more private sector-led growth, implement a more conducive policy framework and address binding constraints on the ease of doing business and national competitiveness more effectively. Investment-led growth instead of consumption-led growth is aspired.

58. On the fiscal front, *Honourable Speaker*, total revenue for FY2018/19 is estimated to remain more or less unchanged from the budget projections, based on the Mid-Year outturn which is generally on target. Some revenue categories such as Other Mining Company tax and withholding taxes on individuals are expected to perform better than the estimate in the main budget. Such likely over- performance is, however, counterbalanced by downward revisions on VAT and Non-Mining Company Tax on account of slackness in consumption demand and subdued economic activity.

59. As such, total revenue and grants for FY2018/19 is estimated at N$56.7 billion as budgeted, increasing moderately by a percentage point to N$57.1 billion in FY2019/20, mainly on account of the anticipated further reduction of about 6.7 percent in SACU receipts relative to the current year. For the outer years of the MTEF, total revenue is projected to grow by an average of 4.3 percent to reach about N$64.3 billion by FY2021/22.

60. As a proportion of GDP, total revenue is projected to slow to 30.2 percent in FY2018/19, from 32.9 percent in FY2017/18. Over the next MTEF, revenue is expected to average around 28.5 percent of GDP. The weak outlook on revenue is mainly stemming from the continued decline in SACU revenue as a result of the subdued economic growth for especially the South African economy.

61. In this context and to anchor fiscal sustainability, expenditure ceilings over the next MTEF will not increase significantly, but remain in line with the aggregate levels set out in the current MTEF.

62. Thus, the fiscal policy stance for the next MTEF will seek to achieve the four-mutually reinforcing objectives of:-

- reinvigorating economic growth through a growth-friendly targeted funding of public investment stimulus package and prioritized procurement regime for key public infrastructure investment projects,

- implementation of key dependency structural policy reforms to promote the ease of doing business and revenue mobilization reforms,

- proceeding with the fiscal consolidation program commensurate with domestic financing requirements, and

- leveraging alternative forms of financing for the funding and implementation of the budget.

63. In particular, the policy stance over the next MTEF, is to:-

    - frontload implementation of growth enhancing public investment stimulus within a balanced fiscal consolidation policy with the objective of supporting domestic economic activity and job creation, while maintaining debt stabilization and social development objectives of fiscal policy,
    - maintain the budget deficit at no more than 4.4 percent of GDP in FY2019/20 and reach an average of 3.6 percent of GDP over the MTEF,

    - reduce the growth of total public debt after a peak of about 48.7 percent of GDP through gradual reduction in the growth of public expenditure reduction of the budget deficit and revenue mobilization measures.

64. This stance requires implementation of revenue raising and alternative forms of financing, particularly PPPs, effective Public Enterprises reforms and structural policy reforms to aid the fiscal consolidation path, while keeping fiscal risks in check.

65. Efficient management of Public Enterprises is necessary to reduce the perpetual overreliance of some of the Enterprises on the national budget. Public

Enterprises reforms must aim to elevate the role of the individual Public Enterprise in the economy. The litmus test to guarantee continued existence of the Public Enterprise is the business viability and the flow of net economic gains from its operations. Commercial Public Entities must achieve self-sustainability instead of being a perpetual drain on scarce public resources.

66. In keeping with the policy stance for the next MTEF, aggregate expenditure ceilings for the next MTEF are proposed at about N$65.8 billion in FY2019/20, N$67.9 billion in FY2020/21 and about N$70.4 billion in FY2021/22. This spending outlay provides for about N$1.7 billion additional spending to the indicative ceilings for FY2020/21 and maintains ceilings for FY2019/20 more or less at indicative levels provided for in the current MTEF. Increased spending prioritization is therefore the main facet for the next budget and MTEF.

Budget Priorities for the MTEF

67. *Honourable Speaker*, in keeping with the overarching priorities of fiscal sustainability and reinvigorating growth as a necessary condition for job creation, growth for per capita incomes and the reduction of public debts, the key budgetary priorities for the FY2019/20 – 2021/22 MTEF are to:

- frontload the implementation of announced public sector investment stimulus and the promotion of private-sector led investments to support domestic economic activity. The pre-qualification stage for the key development projects funded under *Economic Governance and Competitiveness Support Program* in collaboration with the African Development Bank such as the agricultural mechanization program, Walvis Bay-Kranzburg railway rehabilitation, Windhoek-Hosea Kutako International Airport road is completed. The engagements with AfDB have also been completed to achieve optimal local participation and sourcing of goods and services. This intervention will inject about N$2.0 billion annually over the next two years, to be scaled-up by a further N$4 billion from domestic co-funding. The establishment of a Venture Capital Fund, the Credit

Guarantee Scheme and the Training and Mentorship Program for the implementation of the SME Financing Strategy at the Development Bank of Namibia will be further complemented by the establishment of Youth Skills-based Funding Facility designed to serve aspiring youth entrepreneurs, particularly for artisans and young professions. Our collaboration and partnerships with the private sector is to address binding constraints for a more elevated private sector participation and to unlock domestic savings and investment opportunities. Partial listing of select State assets remains an important strategy to better utilize the underutilized value of State assets to finance national development as well as leveraging PPPs in this regard. The measures to improve the targeting and quality of intervention strategies to enhance economic growth will be further enhanced by the ongoing work on the Systematic Country Diagnostics study in collaboration with the World Bank Group

- Maintaining a gradual fiscal consolidation policy with strong growth impetus remains a central policy stance to safeguard macroeconomic stability and long-term fiscal sustainability, while supporting economic growth and job creation objectives. This will continue to be pursued along the fiscal adjustment path for the next MTEF, with the budget deficit projected to average around 3.6 percent of GDP and debt to plateau at about 48.7 percent of GDP. The domestic market will remain the key source for financing, with the support mechanisms arising from partial listing of some of the State assets and PPP formations.

- Providing scaled-up resource allocation to implement priority resolutions identified at the Second National Land Conference held early October this year. These are the priorities for more serviced land in urban and peri-urban areas, delivery of low cost housing, improving animal health and processing facilities in communal areas and resettlement and post-resettlement support program.

- Protecting expenditure in the social sectors of education, health and skills development by maintaining expenditure allocation in real terms and implementing measures to improve internal efficiencies, quality of spending and outcomes. A public expenditure review in the Basic Education sector was completed in collaboration with UNICEF and a similar undertaking is underway in the health sector with the support of the World Bank Group. Work to establish the Central Social Registry will commence to achieve greater efficiency in the administration and targeting of the social safety nets.

- Thus sustainability and efficiency of many Public Enterprises remains a concern. The demand for subsidies while at the same time utility prices are significantly higher than the regional average cannot any longer be the norm. We shall therefore strengthen subsidy agreements and performance contracts to ensure sustainable pricing and enhance outcomes. We are looking forward to the implementation of the Amended Public Enterprises Governance Act, which will greatly enhance governance, supervision and management of public enterprises performance.

- alongside these measures to strengthen the quality of spending are the ongoing reforms to curb growth in public service personnel and public sector wage bill. Personnel growth has been contained through vacancy freeze and compensatory hiring procedure as natural attrition takes its course. It is to the credit of tripartite stakeholders that no general wage and inflationary adjustments have taken place this year, reflecting the common understanding of all parties. The state of public finances and the economy warrants that any future adjustments should generally be within the Consumer Price Index in order for any such adjustment to be within affordability range. This reform agenda must extend to the entire public sector.

- Mobilizing domestic resources for development through unlocking domestic savings to plug perpetual savings-investment gap. The domestic asset requirements for institutional investors have been increased from the 35 percent to 45 percent by December 2018 and further partnerships and collaboration with the private sector will seek to enable domestic savings to better serve the economy.

- Progress is made on the tax administration reforms to operationalize the Revenue Agency for Namibia by March 2019. A skills audit for the existing staff is due for completion by Mid-November 2018 and I will soon announce the founding Board of Directors for NAMRA to pave way for the next set of recruitment process, starting with the position of a Commissioner.

- implementing supportive policies and structural reforms to broaden economic base, local economic development and advance national industrialization and economic diversification will be key to amplify effects of fiscal policy on the economy. The low-hanging fruit is the application of the preference provisions of Public Procurement Act and the related provisions of the Investment Promotion Act which are now under review.

Tax Policy, Revenue enhancement and Tax Administration Reforms

Honourable Speaker,

68. In regard to income generation and public revenue, the risks of continued SACU revenue decline adds pressure on public expenditure which has been already significantly reduced to minimum levels required to maintain the provision of services to the public. The decline in SACU revenue leaves a shortfall for which replacement revenue is necessary to maintain core expenditure on essential services.

69. I have announced several tax policy proposals in the FY2018/19 Budget, with the objective of partially generating replacement revenue due to continued significant declines in SACU revenue. The proposals also seek to strengthen equity and progressivity of the tax system. I need to reiterate the fact that the

proposals are still being consulted on, since being announced during the tabling of the current budget in March this year.

70. It is unfortunate that a perception is created that these proposals are final and not open for revision. I believe Lincoln Steffens is correct when he says, and I quote: “The commercial spirit is the spirit of profit, not patriotism; of credit, not honor; of individual gain, not national prosperity; of trade and dickering, not principle.” I however hope that in trying times like these we can leave behind the blaming games, the they and us approaches, and instead understand clearly that we are one nation in which we depend on each other. Our President HE Hage Geingob has so many times appealed to us to hold hands and to share, to consult and move forwards together.

71. On the contrary, after an initial round of consultations, we had made detailed income tax proposals available for further stakeholder consultation. During the said consultations, concerns have been raised on aspects that may place additional pressure on the economy instead of stimulating growth and confidence. Of course, we need to be responsive to these concerns and will, therefore, provide adequate time for consultation and stakeholder input.

72. However, tax policy measures to bring all potential taxpayers in the tax net and equally taxing all units generating similar taxable income must continue. Our efforts to improve tax administration and compliance as well as efforts to collect outstanding tax arrears due to the Receiver equally have to remain high priorities.

73. We are looking forward to the revised tax proposals that will flow out of the Working Group forum which we, together with private sector stakeholders, have established. The intent of our tax proposals must remain to improve and stabilize our revenue base, while at the same time ensuring that the Namibian economy remains an attractive and competitive investment home.

74. In the light of these objectives we are now scrutinizing proposals to improve equality within the tax system, while ensuring a progressive tax system. We are looking at incentivizing contractual savings by increasing the threshold of tax-deductible pension and annuity contributions, avoiding unsustainable tax increases on individuals, maintaining current provisions for loss provisions in the Income Tax Act, and avoiding unintended consequences on the proposed withholding tax on domestic dividend tax.

75. To this effect, emphasis will be placed on the refinement of the following proposals:

- *taxing foreign income of Namibian residents,*
- *providing for specific taxation of trusts,*
- *phasing out ineffective tax incentives,*
- *introducing thin capitalization rules to combat transfer pricing on interest paid on foreign loans,*
- *taxing commercial income of charitable, religious, educational institutions,*

76. Namibia supports the tax movement to eliminate base erosion and profit shifting created by transfer pricing. The key to success in this regard is to tailor Transfer Pricing legislative measures and develop transfer pricing audit capacity. Most countries have started modestly and built their transfer pricing legislation and systems progressively over decades and are still in the process of improving them, and that too applies to Namibia. We have already progressed on transfer pricing audits under the Large Taxpayers and Investigations Unit of the Receiver of Revenue.

The FY2018/19 Appropriation Amendment Bill

Honourable Speaker,
Honourable Members,

77. I now turn to the FY2018/19 Appropriation Amendment Bill.

78. The incidence of large unreported arrear spending outlays arising from previous years has been effectively addressed in the last financial year as part of the FY2017/18 Budget review.

79. For the FY2018/19 Budget Review, the main considerations are the potential resource shortfalls on critical services, especially in the social services sector. These were considered against potential savings and projected underspending on programs and projects which have not yet commenced or with low implementation rate.

80. The total assessed critical funding needs for the remainder of the financial year amounts to N$1.8 billion, to be availed through virements (reallocation within Votes) the suspensions (reallocation between Votes) of funds from the operational and development budgets as follows:-

- a total amount of N$27.32 million is realized from the operational budget, mainly from spending items such DSA, trainings, office refreshments,

- on account of the 27 percent implementation rate of the development budget by September 2018, an amount of N$1.79 billion was realized from the development budget, mainly from projects with zero implementation rate and those with low implantation rate.

- Out of the total proposed reallocations, N$696.4 million or 38.3 percent of the total is reallocated within the respective Votes through virementation.

- An amount of N$1.12 billion or 61.7 percent is suspended for reallocation among Votes.

81. The proposed budgetary net reallocations are targeted at addressing shortfalls experienced in various frontline services, with the social sector taking up 62.7

percent of the total reallocation or some N$702.8 million, followed by the public safety sector with 16.4 percent or some N$184.5 million, infrastructure sector with 11.4 percent or some N$127.5 million, economic sector with 8.3 percent or some N$93.0 million, while the administrative sector receiving about 1.2 percent or some N$13 million.

82. Specifically, the reallocation proposal is distributed as follows:-

- N$236.9 million is allocated to Vote 10: Ministry of Basic Education, Art and Culture to cater for the continued implementation of the new curriculum and recruitment of teachers,
- N$189.3 million is allocated to Vote 32: Higher Education, Training and Innovation as subsidy to support programs of higher learning and training.
- N$175.1 million is allocated to Vote 13: Health and Social Services to cater for intake of health professionals, allocation to the Special Fund and procurement of pharmaceuticals under NIP.
- N$99.8 million is allocated to Vote 31: Veteran Affairs for the monthly Veterans Subvention and improvement grant,
- N$272 million is allocated to Vote 09: Finance, of which N$95 million is for contributions to the Pension Fund, N$7 million for Financial Intelligence Centre to be supported with a further N$3 million from internal virementation to bring this to N$10 million, and N$170 million is proposed for allocation to the Contingency Fund, mainly for funding priority needs arising from the 2018 Land Conference Resolutions and drought relief commitments,
- N$4 million is allocated to Vote 04: Auditor General for expenses related to audit activities,
- N$5 million is allocated to Vote 21: Judiciary for the expenses on professionals in the cluster,
- N$5 million to Attorney General for the expenses on professionals for Prosecutor General
- N$50 million is allocated to Vote 06: Safety and Security for utilities, rental and related expenses,
- N$124.5 million is allocated to Vote 08: Defence for utilities and transport related expenses

- N$ 99.7 million is allocated to Vote 29: Information and Communication Technology for NBC operational expenses,
- N$27.8 million is allocated to Vote 23: Department of Works to cater for rental fees,
- N$1.8 million is allocated to Vote 27: Youth, National Service, Sport and Culture for international sports commitments,
- N$9.8 million is allocated to the Vote 28: Electoral Commission of Namibia for mobile voter registration facilities,

83. The overall outcome of the Mid-Term Budget Review is limited to reallocations within and between Votes, without any additional expenditure in the overall non-statutory expenditure ceiling, which remains at N$58.5 billion.

84. The past year's Mid Year Budget Review has achieved the purpose of settling large spending arrears arising from past periods. Effective steps have also been taken to eliminate and provide for the settlement spending arrears arising from the past financial year. The only consideration made in this Review is in regard to procurement challenges for pharmaceuticals in the health sector.

85. However, *Honourable Speaker*, incidences of overspending have been observed in respect of some budget votes, often arising from budget over-commitments such as those of personnel hiring without prior provisioning in the budget. Such actions do not only violate the respective provisions of the State Finance Act, but impinge on the financial discipline and roll back the adopted consolidation policy measures.

86. I, therefore, wish to reiterate my call on Accounting Officers across the whole spectrum of public service, Public Enterprises and Regional and Local Authorities to ensure that budget over-commitments and unauthorized expenditures do not reoccur. I count on the support of my Cabinet colleagues in this respect.

87. The details of the resource reallocation proposals for FY2018/19 are contained in the Appropriation Amendment Bill and the Adjusted Estimate of Revenue and Expenditure provided for in the Medium-Term Policy Statement document.

Conclusion

88. In conclusion, *Honourable Speaker, Honourable Members*; we have progressed to put the budget on a sustainable fiscal framework. However, broad-based measures have to be implemented support domestic economic growth and job creation objectives.

89. This is to be achieved within a sustainable fiscal framework, for which an adjustment pathway consistent with the means of implementation is set out in the medium-term policy statement for the next MTEF.

90. For growth to take traction and be able to increasingly draw a large number of people into mainstream economic activity, we need to muster effective implementation capacity, develop partnerships and implement a package of integrated and mutually reinforcing measures. The contribution of all stakeholders is necessary to achieve this objective.

91. In seizing the opportunities before us and the prevailing challenges, the contribution of all stakeholders is necessary. We must summon the common purpose and resolve to move forward with resolute and optimism.

92. "*If everyone is moving forward together, then success takes care of itself."* This quote by Henry Ford says it all.

93. This budget review is consistent with this policy path. It contains current year spending within appropriated level and adopted fiscal adjustment path. It sets forth a medium-term policy stance which emphasizes inclusive growth and job creation objectives within a broadly balanced fiscal consolidation framework.

94. I wish to express my profound gratitude to His Excellency President Hage Geingob for his leadership and support.

95. Equally, I thank His Excellency Vice President Nangolo Mbumba, the Right Honourable Prime Minister Kuugongelwa-Amadhila, the Honourable Deputy Prime Minister Netumbo Nandi Ndaitwah for their support and guidance

96. I thank my Cabinet colleagues for their support during stage of temporary adjustments in our economy. In particular, I thank Honourable Obeth Kandjoze, Minister of Economic Planning and Director General of the National Planning Commission and his entire staff for the joint work and usual support during the review process.

97. My gratitude also extends to my Permanent Secretary, Madam Ericah Shafudah and my officials who put in late hours in preparing the documentation and all senior officials in all M/O/As for the hard work and understanding for the necessity of the fiscal stance. I thank the Bank of Namibia for the usual support.

98. I thank the Development Partners and specifically the European Union for the continued budget support, the Government of the Federal Republic of Germany for the technical assistance through the GIZ and financial cooperation with the KFW, the Peoples Republic of China for grant assistance in several infrastructure projects. Our gratitude also goes to Finland, the United Kingdom, Spain and France for several joint projects in cultural, social and economic programmes. I express our gratitude to the African Development Bank, IMF and the World Bank Group for the technical assistance rendered.

99. This support from all our development partners in critical areas of Namibia’s national development is much appreciated. In the spirit of Sustainable Development Goals, Namibia looks forward to continued cooperation to address the persistent developmental challenges.

100. I also wish to thank the financial services industry players, the Bankers Association of Namibia, Asset Managers, Insurance industry, the Namibia Chamber of Commerce and Industry, Namibia Savings and Investment Association and the Economic Association of Namibia for collaboration and support.

101. I thank the team at the Government Printers for their untiring support in the printing and the Budget Review and Budget documents annually.

Hon Speaker,
Hon Members,

I appeal for your support and thank you for your attention.