Budget Statement

Presented

by

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I. INTRODUCTION

Honourable Speaker,

Honourable Members of Parliament,

Fellow Namibians,

1. I have the honour to table the FY2016/17 Budget, a second under the Presidential administration of His Excellency, President Hage Geingob.

2. Allow me, *Honourable Speaker*, to use this opportunity to once again wish you and the Honourable Members a prosperous and, indeed, a productive year ahead.

3. I wish to thank His Excellency, the President and the Right Honourable Prime Minister for the guidance during the budget formulation process. Equally, I thank my Cabinet colleagues for the support they have rendered me and for the common commitment to implement spending allocation measures that support our fiscal consolidation stance.

4. Honourable Speaker, our country and people have rallied behind the common aspiration for achieving shared prosperity for all. The Government has articulated this policy agenda and as Jacob Lew said "The budget is not just a collection of numbers, but an expression of our values and aspirations."

5. Honourable Speaker, this budget is underpinned by two fundamental and mutually-reinforcing policy objectives. The first objective is to reassert and re-establish a sustainable path for public finance, thereby maintaining macroeconomic stability as a basic enabler for future sustainability and socio-economic development. The second objective is to redirect increasingly scarce financial resources to the priority areas of national development; with the objectives of unlocking potential economic growth, job creation and poverty eradication towards the achievement of shared prosperity for all.

6. These objectives are premised against the backdrop of significant developments in the external economic environment on the one hand, and on the other hand, the urgency with which the Government has undertaken to promote and advance the national development agenda.

7. Honourable Speaker, a fortnight ago, when His Excellency the President opened the Third Session of the Sixth Parliament, he implored all of us collectively, to decisively move faster ahead when he stated: *" in 2016, it is time to turn words into reality, it is time to implement and, therefore, this is the year of implementation*".

8. This budget, therefore, gives scope for the implementation of national priorities commensurate with the available resource envelope.

9. This budget proposes the commencement of a growth-friendly fiscal consolidation, anchored on the reduction of public expenditure. It proposes the targeting of resources to the productive sectors of the economy, solidifying gains in the social sectors and instituting measures to improve the quality of spending.

10. *Honourable Speaker*, We aim to achieve the dual objective of aligning the future fiscal policy trajectory to the changing macroeconomic environment, whilst giving precedence to the implementation of priority development programmes for continued progress on the economic and social fronts. Hence the theme of this budget is: "***Towards Pro-growth Fiscal Consolidation***". This theme and fiscal policy stance are necessary for the future sustainability of positive development outcomes. And it requires that we innovate, improve returns on our investments and implement policy reforms to optimise outcomes that will lead to timely, reliable and affordable quality service delivery to the nation.

11. When addressing the last Session of Cabinet in December 2015, His Excellency President Geingob articulated the four pillars for accelerated socio-economic development agenda, to be enshrined into the high-impact

"***Harambee Prosperity Plan***". These are the pillars of economic and infrastructure development, social development, and effective governance and service delivery.

12. These overarching pillars of the medium-term policy focus resonate well with our national development goals and constitute the key levers for the transition to the Fifth National Development Plan.

Honourable Speaker, Honourable Members;

13. In this context and, in terms of Article 126(1) of the Namibian Constitution, I have the honour to table for the favourable consideration of this House, the following documents:

    (a) The Appropriation Bill, 2016/17; and

    (b) the Estimates of Revenue, Income and Expenditure for the Financial Year 2016/17 and the corresponding Medium-term Expenditure Framework (MTEF) for the financial years 2016/17 to 2018/19;

14. Additionally, *Honourable Speaker*, I present the Fiscal Strategy Policy Framework, the Development Budget and the Accountability Report as important policy information and public accountability documents.

II. BUDGET POLICY PRIORITIES – PROGRESS ON OUTCOMES AND THE MTEF COURSE OF ACTION

15. *Honourable Speaker*, when I tabled the FY2015/16 Budget and MTEF, I laid out the budget priorities. These priorities have been reiterated in the 2015 Mid-Year Budget Review.

16. Namibia's economy is small and open and, therefore, vulnerable to volatility from external factors including, trade volumes between SACU and the rest of the World. Whilst we shall continue to use the MTEF as tool for sound expenditure planning, we need to recognise that this is a framework of what

we expect to happen and not what will actually happen. Therefore, in the medium-term, we shall revisit the MTEF forecasts on an annual basis to see if we need to rebalance our budget proposals on what we know are the financial resources and policy space available to us at that point in time. To ensure that our budgets are realistic, credible and targeted; we shall continue with the Mid-Term Review of the annual budget as a means of assessing what we have achieved in the financial year to date and where we need to redeploy our resources to those activities that are identified as national policy objectives.

17. We have set forth four priority focus areas for the budget, namely; economic growth and sustainable development, poverty eradication and the improvement of social welfare, progress towards prosperity and; lastly, improved delivery of timely, reliable and affordable services to the public.

18. Given this set of broader national priorities, I wish to emphasize the indispensable need for continuing to entrench macroeconomic stability. This is a non negotiable basic enabling factor for ensuring a sustainable path for the efficient management of public finance.

19. The implementation of interventions in these core priorities has progressed, thus demonstrating Government's commitment to achieve accelerated results that will lead to shared prosperity for all Namibians.

20. Within the inclusive growth and sustainable development agenda;-

- *The targeted policy package is to diversify and industrialize the economy, develop the skills base and implement structural policy reforms to draw more Namibians into the mainstream economic activity.*

- *We have achieved free primary and secondary education as a basis for expanded access to education. Increasingly more resources are allocated to improve access to tertiary education, vocational training, as well as funding for innovation and Research & Development.*

- *Infrastructure development in the logistics sector has benefited through direct funding from the development budget and targeted actions by Public Enterprises. This priority objective will be pursued over the MTEF, with priority funding for road, rail, water, energy and ICT infrastructure so as to make the goal of a logistics hub a reality.*

- *New instruments for SME funding in the form of a Venture Capital Fund, a Credit Guarantee Fund and a Challenge Fund are being developed to further scale-up support to SMEs. The Investment Bill is due for tabling in Parliament and a reviewed set of investment incentives is being formulated as we prepare for the National Investment Conference in May this year.*

- *Development Finance Institutions will remain key catalysts for economic development in promoting domestic investment and access to finance. The roles of the Development Bank, AgriBank and SME Bank have been delineated in relation to their lending portfolio and client-base, and*

- *the Public-Private Partnership legislation is due for tabling in this House, once the legal certification process is finalized. This will provide an added window for private sector development and infrastructure development through PPPs, with a pilot project proposal for developing affordable housing units in urban areas, and*

- *in line with the national commitment to provide affordable housing to our people, funding is made available in support this commitment.*

21. In respect to the **priority** on poverty eradication and the improvement of social welfare;-

    - *The Ministry of Poverty Eradication and Social Welfare has been hard at work to define an integrated package of cross-cutting instruments for driving back the frontiers of poverty and vulnerability, through a wide range of national consultation.*

- *In particular, improved quality and coverage of social safety nets are implemented. This budget proposes to increase Old-age pension and improved coverage in respect of Orphans and Vulnerable Children and Veterans of the liberation struggle ,*
- *In the ensuing fiscal year, Government will undertake expenditure review in the social sectors as a basis for consolidating the various social safety nets and improving their targeting,*
- *The tax policy reform agenda will continue over the MTEF, with key amendments having already been approved and implemented last year. Our focus is not only to broaden and deepen the tax base, but also to make the tax system more progressive, so that it contributes positively to the social objectives of reducing income inequalities. We understand that the proposed Solidarity Tax is not fully understood by various sections of society. Therefore, this and other high-impact programmes for targeted funding from this Tax need to be well defined. We shall therefore continue to engage the public on the specific tax proposal for a broader understanding on the benefit, principles and administrative arrangements for this national intervention.*

22. ***Honourable Speaker***, we recognize the income inequalities and skewed ownership of sources of income that we have inherited from many years of divisive policies and exclusion prior to the independence of our country still exist. We have made positive progress in addressing these structural challenges. And more still remains to be done. Hence, the budget avails resources to specific interventions to tackle the persistent high inequality through the promotion of wealth creation and shared prosperity:-

23. In this respect:-

- *Government is implementing its commitment on delivering affordable serviced land and housing under the Mass Land Serving and Mass Housing programmes,*
- *The Public Procurement Act has been promulgated last year and the subordinate regulations are due for gazetting. The local economic*

development content of the Public Procurement Act will draw more enterprising Namibians into the mainstream economic activity, while increasing the public procurement multiplier effects in the economy.

- *Public consultation is now underway on the provisions of the New Equitable Economic Empowerment Framework (NEEEF), promoting affordable and sustainable access to the means of production, while maintaining responsible lending,*
- *Further facilities are being developed to support SME access to finance and mentorship programmes,*

24. Lastly, the Government has assigned great priority to increased delivery of public services through a performance-oriented and results-based work culture. To this effect;-
    - *the reform agenda for the public enterprises sector has started under the mandate of the Ministry of Public Enterprises to ensure good governance, internal efficiency and effective provision of goods and services, and*
    - *the stage has been set for a performance-driven work culture through the implementation of performance agreements at all levels of public service delivery.*

III. ADDRESSING MACRO-CRITICAL RISKS, ANCHORING MACRO-ECONOMIC STABILITY

25. *Honourable Speaker*, on the 3rd of November 2015, I had the privilege to table the first Mid-Year Budget Review for Namibia. On that occasion, I laid out the medium-term policy framework and fiscal stance, which will underpin the FY2016/17 Budget and the coming MTEF.

26. The Mid-year Review critically highlighted the key macro-critical policy issues to be addressed over the next MTEF, namely

- *The structural challenges of addressing unemployment, inequality and implementing measures to eradicate poverty, through targeted* *developmental intervention measures. Multi-pronged interventions, better targeting and more urgency are required to make a meaningful impact on these structural challenges.*

- *Secondly, the declining public revenue due to contractions in receipts from the Southern Africa Customs Union (SACU) and the impact of external factors on the domestic economy requires that we align the expenditure outlook to the revenue outlook and the changing macroeconomic environment. Consistent with the Mid-Year Budget Policy Framework, this budget further proposes the fiscal consolidation stance over the MTEF.*

- *Thirdly, we have to contend with the widening twin deficits regarding the budget deficit and the current account deficit as a result of shocks on revenue and the weakening of the external trade position. The fiscal consolidation framework will seek to reduce the budget deficit over the MTEF in order to stabilize growth in public debt. Its pro-growth dimension supports interventions to help lift tomorrow's growth potential of the economy. However, more structural policies to improve the productive and export-oriented capacity of the economy are needed to buttress the external position over the medium to long-term.*

- *Fourthly, we had to contend with declining levels of international reserves as a consequence of negative trade balances, with reserves reaching as low as 1.3 months of import coverage in October 2015. We have been able to raise reserve levels above the international benchmark level of three months of import cover, thanks to timely interventions.*

27. ***Honourable Speaker***, we made notable progress in addressing some of these challenges. We have been able to earn and retain our sovereign credit rating and implement policy advice from the Article IV Consultations, thanks to our common commitment to implement timely and credible policy measures to mitigate downside risks to our economy. Through this budget, we reiterate our commitment to address the sovereign credit risks and implement policy measures set forth in the ratings recommendations.

IV. WHAT DOES THIS BUDGET OFFER?

Honourable Speaker,

28. This budget and the Medium-term Expenditure Framework provide resources and funding strategies aimed at tackling the structural challenges that affect the development potential of our economy and improving the welfare of Namibians in an inclusive and sustainable manner. It is a consolidation budget with a pro-growth dimension.

29. As such:-

- Overall allocations to education and health sectors as well as social welfare programmes are scaled-up to guard against slippages in the provision of services. This was still possible within the reduced overall expenditure ceiling.
- Social Safety Nets are strengthened, consistent with the commitments announced in the FY2015/16 budget,
- Unproductive capital expense is reduced, while productive development infrastructure allocations are maintained under the Development Budget and the priority infrastructure projects under various Public Enterprises
- Continued investment in the maintenance of law and order and democratic governance is made to safeguard peace and stability, and
- Government contractual and statutory commitments are resourced, providing assurance to meet these commitments.

30. More importantly, *Honourable Speaker*, “not everything that counts can be counted, and not everything that can be counted counts” . More funding therefore does not necessarly guarantee greater success. Policy reforms, innovation, intergrity of institutions, internal efficiency and implementation capacity are critical determinants of successful outcomes and accelerated results. This should form the main defining strategy for Offices/ Ministries and Agencies in this new paradigm of executing our sectoral mandates

Honourable Speaker,

31. Before I proceed to the specific elements of the medium-term budget policy stance and budget allocations, allow me to highlight the economic context under which this budget and MTEF come into operation.

V. GLOBAL AND REGIONAL ECONOMIC AND FINANCIAL CONTEXT

32. This budget is presented against the backdrop of highly uneven and fragile global economic growth. Global economic growth is estimated at 3.1 percent in 2015, representing a slowdown from the growth rate of 3.4 percent witnessed in 2014. The International Monetary Fund (IMF) projects a pickup in the growth trajectory to 3.4 percent in 2016 and 3.6 percent by 2017.

33. However, considerable asymmetry and downside fragilities underpin this growth trajectory. While growth for the Advanced Economies is projected to be firmer and more broad-based, Emerging Markets and Developing Economies which account for about 70 percent of global growth continue to face a more challenging outlook. Three transition forces underpin the growth prospects for this group of economies. These are in regard to the normalization of monetary policy in the World's largest economy, the United States of America, the slowdown and internal rebalancing in the World's second largest economy, China, and the prevailing lower prices across a broad range of commodities.

34. The combined effect of these factors has triggered net capital outflows from Emerging Markets and Developing Economies and sharp volatilities in financial and capital markets across the globe, including excess volatility in exchange rates and currencies, with implications on the external position and sovereign debt financing position for these economies.

35. Indeed, Namibia is no exception to these developments. The Namibia Dollar, through the currency peg mechanism as well as the domestic interest rate environment has not been spared from these excess volatilities.

36. The Sub-Saharan African region has also taken a knock from the generalized slowdown in Emerging Markets economies. In fact, the soft landing for the Chinese economy has resulted in a much harder landing for Sub-Saharan African economies through the trade channel.

37. Closer to home, the South African economy, which is closely linked to Namibia through strong trade, monetary and financial ties, is projected to grow at a rate of about 0.9 percent in 2016, which represents a further slowdown from 1.3 percent in 2015. This low growth trend for the South African economy holds negative implications for Namibia through trade and financial linkages as well as revenue derived from SACU.

VI. DEVELOPMENTS IN THE DOMESTIC ECONOMY

38. *Honourable Speaker*, the above developments in the global and regional economies have inescapable direct and indirect consequences for our economy.

39. Domestic economic growth for 2015 is estimated at 4.5 percent, reflecting a deceleration from the growth rate of 6.4 percent posted in 2014. This is lower than the 5.7 percent growth rate anticipated in the previous budget, as well as the revised 5.1 percent envisaged in the Mid-Year Budget Review. However, this pace of growth mirrors the historical average growth rate for Namibia and signals a readjustment from the boom years of expansionary fiscal and monetary policies. It is a paradigm which calls for supportive policy and structural reforms in the medium-term to realise a more robust and inclusive growth trajectory.

40. On the demand side, high investment especially in the minerals and retail sectors normalized as most of the recent investment projects reached completion stage. Final consumption demand also softened, reflecting effects of monetary and fiscal policy tightening, while export growth moderated, mainly due to subdued commodity prices in the minerals sector.

41. On the supply side, mining output for some of the major commodities was weaker due to low prices and weak external demand which, together with the effects of the drought in the agricultural sector, resulted in the estimated reduction in output from the primary industries. On the other hand, activity in the secondary and tertiary industries lent support to growth during 2015, though retail growth slowed from recent high rates as growth in credit extension began to subside.

Inflation and Monetary Policy

42. *Honourable Speaker*, domestic inflationary conditions were stable during 2015, with consumer price inflation reaching its lowest level since 2010 at 3.4 percent, thanks to lower oil prices and its concomitant positive effects on transport related cost prices.

43. However, the effects of high household credit extension and monetary policy normalization in major economies as well as continued weakening of the South African Rand in 2015, necessitated gradual domestic monetary policy tightening by a cumulative 75 basis points to date since February 2015.

44. Through the Mass Urban Land Servicing and the Mass Housing Programs, we are tackling the prime cause of price escalation in the housing sector.

45. Currency depreciation is expected to drive up the price level of imported goods in the coming months, which will combine with drought-related food price increases to lead to higher inflation.

Balance of Payments and Foreign Reserves

46. *Honourable Speaker*, one of the macro-fiscal structural challenges that we should overcome in the medium to long-term is the reversal of the twin deficits for the budget and the current account.

47. There have been positive developments in this regard. The Overall Balance of Payments returned to a surplus of N$12.6 billion during 2015, compared to a deficit of N$1.8 billion in 2014. This was primarily due to the capital and

financial account surplus from the Eurobond issuance in the last quarter of 2015. The current account deficit widened further to an estimated 9.7 percent of GDP (from 8.8 percent in 2014) as a consequence of a negative trade balance. This is to say that measures to improve the productive and exporting capacity of the economy and a stronger fiscal balance should assume policy prominence during the ensuing period.

48. *Honourable Speaker*, for the greater part of 2015, we have had to contend with decreasing levels of foreign international reserves to as low as 1.3 months of import cover, seen against the international benchmark of three months of import coverage. Significantly high imports of machinery and luxury goods continued to erode the reserves stock. Low levels of official reserves constitute sovereign credit rating weakness.

49. As such, Government has utilized a portion of the Eurobond issuance last year in combination with Rand denominated domestic asset swap in order to defend the reserve position. Through this intervention, we have been able to rebuild the reserves to 3.4 months of import cover. In absence of this timely intervention, the reserves would have been below one month of coverage by this date. Going forward, there is confidence that export growth from the major investment undertakings in the mining sector, supported by domestic policy response, will form a sustainable basis for enhancing the external position.

Exchange Rate and Currency Movements

50. With respect to the exchange rate, we have witnessed excess volatility during 2015 and the year-to-date. The South African Rand, to which the Namibia Dollar is pegged on parity, has depreciated against the US Dollar, by over 30 percent since September 2015. The sharp depreciation of the Rand reflects external volatilities in the international financial markets, subdued commodity prices and economic challenges in South Africa.

51. The deterioration in the currency has immediate implications for our economy. While depreciation confers competitiveness to the exporting sector, it has

immediate effects on raising sovereign debt and debt servicing as well as a higher import bill and, consequently, inflationary costs.

52. *Honourable Speaker*, I am aware that there have been mixed public reactions regarding the relevance of the currency peg to the South African Rand. Let me use this opportunity to reassure the public that due to the significant trade linkages, the currency peg to the South African Rand remains a relevant policy and a credible anchor of domestic price stability and trading for Namibia. Such relevance only gets eroded if imported inflation and excess volatility becomes a permanent occurrence and fundamental macroeconomic imbalances emerge.

Capital Market Developments

53. Government's borrowing strategy continues to promote domestic capital market developments. During 2015, a total amount of N$5.1 billion or some 63.0 percent of the expected borrowing requirements was sourced locally, with concerns about tight liquidity levels in relation to placements on bonds and treasury bills being evident. As such, the rest of the financing requirements, mainly the US$750 million and R870 million were sourced from the international market and the Johannesburg Stock Exchange listing. Out of the proceeds of the Eurobond listing, US$250 was used to finance development budget spending, US$300 million was set aside to defend the reserve position and will serve as a source for Eurobond debt servicing, while US$190 million was set aside for financing the deficit in the coming year.

54. This recourse to international funding sources demonstrates clearly the importance of Namibia's diversification in terms of debt instruments. Further prudent management of public finances and a measured consolidation in the coming MTEF will safeguard the country's investment grade credit rating, allow for the fiscal space needed to fund policy priorities and to respond quickly to future economic developments.

Regional economic integration

Honourable Speaker,

55. In terms of the regional integration agenda, progress has been achieved to unlock gridlocks in reviving the SACU institutional arrangements. The meetings of SACU institutional bodies are expected to return to normalcy, with the decisive SACU Council retreat scheduled for April this year.

56. Namibia believes that SACU has an important role to play as the engine of regional integration and industrialization. We believe that SACU revenues are currently broadly shared in a manner that reflects the realities of the SACU economies.

57. In regard to SADC, the Tripartite Free Trade Agreement between and among the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the Southern African Development Community (SADC) was launched in June 2015. The Free Trade Area is an opportunity for unlocking intra-African trade. Namibia thus needs to establish a market share in this greater continental trading arrangement, while improving her productive capacity.

58. *Honourable Speaker*, following a protracted period of resolving the outstanding issues the EU-SADC-EPA negotiations have been successfully concluded. The Partnership Agreement is expected to come into force early this year.

59. It should be recalled that Namibia had only initialled, but not signed the SADC-EU Agreement nearly a decade ago. As a nation, we raised and persisted on matters of domestic industrial development, which were not fully addressed in the Agreement. This is especially in regard to infant industry protection, taxes to promote industrial development and the Most Favoured Nation clauses. It is pleasing to note that all SADC Member States, which had

ratified the Agreement by then, had joined forces in a constructive engagement with the EU for an all-encompassing Agreement. Together with other SADC Member States, we have prevailed in our negotiated settlement and now look forward to ratifying the Agreement.

Fiscal Developments

60. *Honourable Speaker,* the Mid-Year Budget Review provided details of the revenue and expenditure execution in respect to the most recent actual year as well as estimates for the current year. The total revenue for 2014/15 stood at N$49.93 billion, this being 4.8 percent lower than the budgeted revenue, but a 19.1 percent increase from the previous year.

61. The preliminary revenue outturn for the FY2015/16 is estimated at N$56.76 billion, which is 4.6 percent lower than the budget estimates of N$58.44 billion, due to adjustments for shortfalls from the previous year and a lower than anticipated economic activity.

62. Total spending for the FY2014/15 amounted to N$58.70 billion, reflecting a spending rate of 97.5 percent, compared to 98.2 percent in the previous year. Operational expenditure execution rate was 97.5 percent, and the corresponding utilization rate for the development budget was 90.1 percent.

63. For the FY2015/16, total expenditure by Mid-February is estimated at N$53.08 billion, representing 79.1 percent of the N$67.08 billion budget. This comprised 80.8 execution rate for operational budget and 71.6 percent for the development budget. The Mid-Year Appropriation Amendment Bill proposed a reallocation of N$4.01 billion within and across programmes and maintained the overall expenditure ceiling of N$67.08 billion. It is expected that the budget execution rate would approximate historical spending rates by the end of the financial year.

64. For the FY2014/15, the budget balance stood at a deficit of 6.0 percent of GDP, an upward revision from the 5.5 percent budgeted deficit, given the

shortfalls in revenue as a result lower economic growth outturn. A similar trend prevailed during FY2015/16, with downward adjustments in revenue, as announced in the Mid-Year Budget Review. Sufficient financing has been secured during the year to fully fund this deficit level and no funding shortfall is experienced. However, a policy stance to reduce the budget deficit and stabilize growth in public debt is necessary.

65. As a result of increasing financing needs, the total debt stock has risen from N$35.95 billion in FY2014/15, to an estimated N$59.79 billion by the end of FY2015/16 and stands now at about 37 percent of GDP. While this level of debt is well below the median of 40 percent for Namibia's sovereign rating peer group of BBB-, it is, in effect, estimated to have exceeded the national cap of 35 percent in the current financial year. The fiscal consolidation stance proposed in this budget and MTEF is aimed at stabilizing this growth in public debt and bringing the proportion of public debt within the threshold level.

66. The depreciation of the Namibia Dollar in recent times has increased debt servicing cost for the foreign debt portfolio. Total interest payments have increased to N$3.13 billion in FY2015/16, from N$2.52 billion in FY2014/15. As a ratio of revenue, debt servicing stood at 5.5 percent by FY2015/16, while contingent liabilities is estimated at 3.8 percent of GDP in FY2015/16, both of which are below the ceilings of 10 percent of revenue and GDP respectively.

Honourable Speaker,

67. The Government Accountability Report gives a detailed account of achievements by Votes and Programmes. I will rely on my Cabinet colleagues to expand on the key achievements by programmes under their institutional mandate during the Committee Stage.
68. Let me now to turn to the details of the FY2016/17 Budget and the medium-term outlook.

VII. THE MEDIUM-TERM ECONOMIC OUTLOOK

69. *Honourable Speaker*, in spite of a particularly challenging external economic and financial landscape, our economy is projected to grow by 4.3 percent in 2016. This growth trajectory is further projected to improve to 5.9 percent by 2017 and average around 4.9 percent over the MTEF, in spite of headwinds from the subdued regional economic and financial environment, weak commodity prices and subdued trade environment.

70. These projected growth rates are above global averages and consistent with historical performance of our economy. It is a growth outlook that outstrips the projected Sub-Saharan Africa average growth levels of 4.1 percent over the medium term.

71. On the demand side, increased exports from the recent investment projects in the minerals sector as well as steady private sector investment are expected to anchor the growth outlook.

72. On the supply side, increased output from the mining sector is expected to lead recovery in the primary sector, amidst the adverse impact of the poor rainfall conditions in the agricultural sector due to the prevailing *El Nino* event affecting the Southern African sub-region. Continued growth in the tertiary industries is also expected to support the outlook, as tourism benefits from the depreciation of the Namibia Dollar and the logistics sector is boosted by new port infrastructure. For the coming financial year, the gradual pace of fiscal consolidation demonstrates Government's commitment to growth-friendly fiscal policy, to cushion the tapering off of boom cycles in the construction and retail sectors.

73. Revenue for the 2016/17 budget year is projected at N$57.84 billion, an increase of 2 percent over the previous year, given the sharp reduction in SACU receipts. For the MTEF, revenue is projected to increase at a moderate pace of about 7.2 percent, to reach N$69.82 billion by the end of the MTEF or about 27.5 percent of GDP. This projected annual growth rate in revenue is

lower than the actual average growth of about 14.0 percent observed in the last three years due to the projected decline in SACU revenues and an adverse external environment.

74. The major drag and significant risk for revenue growth is the projected reduction of SACU revenues, on account of lower growth outlook for the South African economy. In the coming financial year, Namibia has to repay a total of N$2.96 billion back to the SACU Common Revenue Pool due to the deficit experienced in the Pool as a result of the factors I alluded to above and *ex-ante* payments made to Member States. Continued implementation of domestic tax policy and administrative reform agenda as well as the industrial development capacity will contribute to increasing the increasing contribution of revenue from own source.

The FY2016/17 Budget and Expenditure Outlook for the MTEF

Honourable Speaker,
Honourable Members,

75. I table before you a N$66.00 billion budget, equivalent to 34.9 percent of GDP. This expenditure outlay represents a 1.6 percent reduction from the previous year's budget and a 7.3 percent cut from the indicative ceiling for FY2016/17 proposed in the previous MTEF.
76. Of this N$66.00 budget, the total non-interest expenditure for 2016/17 amounts to N$61.12 billion, a reduction from N$63.22 billion in 2015/16 and averaging around N$64.91 billion over the MTEF, in line with the fiscal consolidation stance.

77. Over the MTEF period, total expenditure is proposed to increase by an average of 3.8 percent annually, ushering in a period of fiscal consolidation over the entire MTEF, in line with the proposed policy stance.

78. The key levers for fiscal consolidation are the non-essential operational expenditure items such as materials and supplies, subsistence travel, overtime, furniture and office equipment and vehicles, as well as the

postponement of other non-productive capital spending on office buildings in respect of the development budget. Thus, non-interest operational expenditure for FY2016/17 is reduced by N$106.9 million relative to its FY2015/16 level, while the development budget in respect of non-productive undertakings is reduced by N$1.99 billion.

79. Interest payments, which represent the Government obligations to debt servicing, are budgeted at N$4.88 billion in FY2016/17 or some 8.5 percent of revenue, seen against the statutory cap of 10 percent of revenue.

80. Non-interest operational expenditure for the budget year is set at N$52.06 billion or 27.5 percent of GDP, representing a 0.1 percent nominal reduction over the previous financial year and taking into consideration Government contractual commitments, remuneration adjustments and the provision of critical public services.

81. The recent trend in growth in remuneration expenditure and related budget subdivisions has been a cause for concern. Whilst these categories of expenditure support gainful employment and opportunities for many Namibians, we must seek to ensure that recurrent expenditure is not funded in the long-term at the expense of other public investments to improve the productive capacity of the economy.

82. In this regard, and in keeping with Government's commitment to ensuring that all public institutions become more effective in what they do; more efficient in how they do things; and, more economic in the use of public funds, a realignment of growth of remuneration expenditure in line with inflation is currently under consideration. We are proposing that any public sector wage increases should be capped to a maximum of the annual inflation rate. We would further propose that there should be no net increase in the current size of the civil service. Both of these proposals should remain in place for the MTEF.

83. As part of the consolidation stance, the development budget is also reduced, but such cuts mainly lie in the postponement of the construction of office blocks for various Offices, Ministries and Agencies which are non-productive investments. Taking into consideration these effects, the total development budget has been reduced to N$9.06 billion in FY2016/17 and rises moderately over the MTEF to reach N$11.01 billion by FY2018/19.

84. In addition to the development budget allocation, budgetary allocations are made under the operational budget for targeted transfers to Public Enterprises for investment in strategic infrastructure projects. Among the key off-budget infrastructure projects are railway works, the rehabilitation of several national road projects, energy and water infrastructure development projects.

85. Going forward, Government must seek a better alignment of the development budget to our economic priorities, industrialization policy and our Growth at Home Strategy. This alignment would further be optimized through leveraging local sourcing requirements, PPPs, improved Namibian ownership and the development of value chains across the development initiatives.

Budget Balance and Financing Options

Honourable Speaker,

86. In line with the projected revenue and consolidated expenditure outlook for the MTEF, the budget deficit is projected at 4.3 percent of GDP in the budget year and is expected to average around 3.0 percent over the MTEF. For policy consistency purposes, this deficit outlook trajectory defines the fiscal consolidation path over the MTEF as a means to stabilize growth of the public debt.

87. Total debt is now estimated at about 37 percent of GDP. For the FY2016/17, this proportion is projected to reduce to 34.6 percent and is forecast to average around 30.6 percent over the MTEF, thanks to the consolidation phase and better improvements in the pace of economic activity. Given the downside risks to growth and revenue, continued measures to curtail significant growth in public expenditure will augur well with the lasting effects

of stabilizing public debt levels within the threshold of 35 percent. Within this framework, no significant additional expenditure is anticipated over the next two years.

88. In nominal terms, total debt is projected to increase to N$63.73 billion in FY2016/17, from N$61.32 billion in FY2015/16, and to average around N$68.22 billion over the MTEF. This forecasted annual growth in public debt is offset by a relatively healthy Year-on-Year growth in nominal GDP.

89. Government intends to finance the substantial component of the deficit from the domestic and regional capital markets. Contingent liabilities are projected to increase to an average around 9 percent over the MTEF, as Government extends support to SOEs for project financing on the strength of their balance sheets.

VIII. EXPENDITURE PRIORITIES AND INTERVENTIONS FOR MTEF

Honourable Speaker,

90. Reasserting a credible path for the sustainability of public finances is but one objective of the budget that I lay before this honourable House. The growth and social development dimension, which comes about by virtue of deliberately directing increasingly scarce resources to the priority areas of national development, is yet another important objective.

91. These overarching pillars of the medium-term policy focus, resonate well with our national development goals and constitute the key levers for the transition to the Fifth National Development Plan.

92. Let me now give a synopsis of the main budgetary provisions made in this budget and over the MTEF.

Economic and Infrastructural Development

93. The budget proposes an allocation of 22.2 percent of total non-interest expenditure or some N$13.56 billion to the economic and infrastructure

sectors, for investment in growth enhancing infrastructure, including in the logistics, water and energy sectors. Over the MTEF, this allocation amounts to as much as N$44.75 billion, equivalent to 23.0 percent of total non-interest expenditure.

94. In addition, an amount of N$17.23 billion is allocated as targeted subsidies and other current transfers to Public Enterprises for targeted development of key national infrastructure projects.

95. The key projects are the rehabilitation of the national railway, the on-going expansion of the Port of Walvis Bay, several national roads, water infrastructure, the Mass Housing Programme and increased funding to the Public Financial Institutions for private sector support and SME development.

Social Sectors,

96. *Honourable Speaker*, over 46 percent of total non-interest expenditure is allocated to the social sectors to protect and improve on the achievements we have made in the areas of education, health, poverty eradication and social welfare as well as the housing sector. Thus, a total of N$28.53 billion is allocated to the social sector in FY2016/17 and an average of N$91.41 billion over the MTEF

97. *Honourable Speaker*, these are substantial allocations which, in themselves, do not buy success. Efficiency gains and improvement in the quality of outcomes are increasingly needed to realize value for money.

   - **Education** is the largest recipient of this allocation, with a combined allocation of N$16.20 billion in the budget year and N$52.28 billion over the MTEF,

   - Out of this allocation, the Ministry of Basic Education, Arts and Culture receives N$12.79 billion in the budget year or 79.0 percent of the total allocation to the education sector.

- The Ministry of Higher Education, Training and Innovation gets N$3.41 billion in the budget year and N$11.48 billion over the MTEF. Access to tertiary education will be further expanded through formula-based funding, increased financial assistance to students and funding for innovation, Research and Development as well as facilities for vocational training,

- The Old Age Pension grant is increased by an additional N$100.00 to N$1,100.00 per month. The MTEF allocations make provision for an additional N$100.00 per month in the next budget. At this level of grants, our senior citizens are placed above the national poverty line, making the grants an effective and credible shield against poverty and vulnerability.

- A total amount of N$7.23 billion is allocated to the **Ministry of Health and Social Services** for the coming financial year or some N$22.17 billion over the MTEF for the provision of health services and related facilities. We also intend to bring about efficiency in the administration of PSEMAS through the introduction of a biometric card

Public Safety and Order

98. The public safety sector is allocated an amount of N$13.01 billion for FY2016/17, and some N$41.02 billion is made available over the MTEF, representing the continued investment in peace, public safety and rule of law.

Administrative Sectors

99. A total allocation of N$6.03 billion is made to the public administration sector to support effective governance and efficient administration of the public sector and functional realignments to the structure of Government. Over the MTEF, this allocation amounts to N$17.55 billion.

100. An amount of N$200 million is allocated to the Contingency Provision for the budget year and N$278 million for the following year to cater for unforeseen emergencies such as drought relief and others. In respect of the

previous financial year, a total of N$499,29 million was allocated to the Contingency Fund and the total amount has been committed. I have distributed the information regarding the use of the Provision in the last financial year.

IX. POLICY INTERVENTIONS FOR THE MTEF

Honourable Speaker,

101. Doing more with less requires that we implement administrative, structural and policy reforms to make efficiency gains and optimize outcomes. It is, therefore, important that implementation of key policy reforms is accelerated in various sectors of the economy under the mandate of Offices/Ministries and Agencies.

Tax Policy Proposals

102. In regard to tax policy, the following measures, some of which were announced previously, will be undertaken during the budget year and over the MTEF:-.

- *we will proceed to finalize the approval and implementation process of the environmental and export taxes to promote domestic value addition as previously announced,*
- *increasing the fuel levy administered under Schedule 1, Part 5 of the Customs and Excise Act. This is a fuel levy duty which is different from the National Energy Fund levy and it has remained constant since 1998.*
- *the work to assess the feasibility of a presumptive tax on informal sector, develop the Double-Taxation Agreement Policy and increasingly leverage international tax cooperation on matters of illicit trade flows and transfer pricing will continue and driven to finality,*
- *the Customs Bill which seeks to domesticate regional and international best practices is at legal drafting stage and it is one of the legislative amendments due for tabling this year,*

- *we will continue to finalize the consultation on the proposed introduction of Solidarity Tax during the course of the coming year, with the view to develop the tax proposal. While we have made progress to reduce income inequalities from the Gini Coeffient of 0.70 to 0.597 by 2009/10, Namibia remains one of the countries with significantly high income inequalities with highly concentrated wealth. The Solidarity Tax will be a progressive, redistributive tax which will contribute to the reduction of income inequalities and take into consideration the income levels and the ability to pay. Thus, it is not a tax base-broadening measure, but a redistributive tax with a relatively high tax threshold. As I have stated, the proceeds of the tax will accrue to a designated fund which attracts a separate audit and Parliamentary approval. I have established a Task Team that will also comprise independent tax experts to formulate a White Paper on the specific tax proposal and its modalities. This concept Paper will form the basis for finalizing the consultations and formulating the tax proposal.*
- *We will proceed with strengthening the provisions for recovery of tax debts, deploy the new Integrated Tax System and implement the transitional modalities for the establishment of a Semi-Autonomous Revenue Agency, and*

Honourable Speaker,
Members of the House,

103. Taking into account sales volumes and targets set for the total tax burdens on respective excisable commodities, the following Sin tax percentage increases have been agreed upon to become applicable retrospectively with effect from 24 February 2016 as is required under the SACU Agreement:-

- *Malt beer* *8.5%*
- *Unfortified wine* *8.0 %*
- *Fortified wine* *6.7 %*
- *Sparkling wine* *8.0 %*
- *Ciders & alcoholic fruit beverages* *8.5 %*

- *Spirits* *8.2 %*
- *Cigarettes* *6.7 %*
- *Cigarette tobacco* *6.8 %*
- *Pipe tobacco* *7.0 %*
- *Cigars* *6.7 %*

104. These amended rates of duty are set out in more detail in the Taxation Proposal which I am tabling today in terms of section 65(1) of the Customs and Excise Act, 1998 and which will be deemed to have come into operation as from midnight 24th February 2016. A Government Notice to this effect will be tabled in the National Assembly within the period prescribed in section 65(8) of the Act.

Public Finance Management Reforms

Honourable Speaker,

105. In the realm of Public Finance Management, we have made progress on some of the key reforms.

- *a Mid-Year Budget Review was introduced in November last year, as a measure to enhance allocative efficiency and inject greater transparency into the budget process.*
- *the Public Procurement Bill was tabled in this House and subsequently enacted. The Ministry is now proceeding with the finalization of the regulations,*
- *the Public Private Partnership legislation is now at legal drafting and certification stage for tabling in Parliament this year. This legislation is destined to play a catalytic role in leveraging private sector funding and efficiencies and thus mitigating public financial obligations.*
- *The Ministry of Finance is working closely with the Ministry of Justice and Law Reform and Development Commission on the drafting of a new Public Finance Management Bill*, which will amend and modernize the present day State Finance Act.
- *We intent to roll-out the Public Expenditure Reviews, especially in the social and welfare-related sectors to, among other things, support the*

formulation and targeting of interventions for poverty eradication and social protection, and

- *An Asset Management Policy for the management of public assets is being developed and this will be finalized during the coming financial year*

X. Financial Sector Law Reforms

Honourable Speaker,

106. The financial sector is a key catalyst for investment and wealth creation through its intermediation role and provision of access to finance. Several policy reforms have been initiated to elevate the role of the sector in the economy. Most of these reforms are being undertaken within the framework of the Financial Sector Strategy and the Financial Sector Charter.

- In the **banking financial sector**, I intend to table amendments to the Banking Institutions Act with the view to improving the supervisory regime, especially in respect of microfinance and second-tier banks, provisions for financial stability as well as promoting Namibian ownership in the sector, and
- Loan-to-Value regulations will be introduced in respect of acquisition of secondary residences, as a measure to limit individuals' exposure to credit risk and price escalation especially in the housing market.

107. National consultations on the New Equitable Economic Empowerment Framework (NEEEF) are now underway under the Office of the Prime Minister. The empowerment provisions proposed in the Framework will provide the necessary catalyst for more Namibians to participate in mainstream economic activity and support the financial sector development agenda.

108. In the **non-banking financial sector**:-

- the Financial Institutions and Markets Bill, the NAMFISA Bill and the Financial Adjudicator Bill are at legal drafting stage and will bring about better supervision and adjudication standards in this multi-billion sector.

In the meantime, a substantial body of regulations and market standards have been drafted in preparation for the implementation of these regulatory reforms,

- the Micro-Lending Amendment Bill and the NASRIA Bill are also proposed for tabling to this House, once the certification process is finalized, and

- we have started with industry consultation on the amendments to Regulation 28, Regulation 15 and Regulation 29 to among others, lift the domestic asset requirement threshold from the 35 percent of total assets to between 40 and 50 percent over the MTEF period. This regulatory measure will support the national development goals for the mobilization of domestic savings to fund local economic development, and

- Government will develop proposals for the partial listing of some of the Public Enterprises on the Namibian Stock Exchange (NSX) and assessing the feasibility of listing an infrastructure bond on NSX.

109. *Honourable Speaker*, these are only some of the policy measures and interventions. Sectoral policy and legislative reforms aimed at improving the general business environment and administrative efficiency across the spectrum of the public sector are also being spearheaded under the various O/M/As.

110. The budgetary allocations and other policy intervention measures set out in this budget represent the Government's resolve to address the socio-economic challenges that we face in a more targeted manner.

XI. ACKNOWLEDGEMENTS

Honourable Speaker,

111. There is, therefore, more to this Budget than the tightening of the fiscal purse. The budget gives scope to maintain the provision of essential services. It calls for greater resource prioritization and quality of spending which Offices/Ministries and Agencies have to embrace.

112. Let me extend my gratitude to the Minister of Economic Planning and Director General of the National Planning Commission and his staff for his supportive role throughout the budget formulation process.

113. I thank the Governor of the Bank of Namibia and his staff for the stewardship of the banking sector and for routine policy coordination and initiative. Equally, I thank Namfisa for the sterling efforts and the regulatory reforms to improve supervision and compliance in the non-banking financial sector.

114. I am indebted to my Deputy Minister of Finance, Honourable Natangue Ithete for the all-round support in the day-to-day execution of our mandated responsibility. I thank my Permanent Secretary, the Management and the Budget Team at the Ministry of Finance for the hard work and selfless efforts devoted in the preparation and finalization of this budget. I equally extend my sincere gratitude to the staff of the Receiver of Revenue and Commissioner of Customs and Excise and their staff for the revenue management and collection activity which enables the state to increasingly fund the socio-economic development needs of the country.

115. *Honourable Speaker*, it will be remiss of me if I did not express our sincere appreciation for the financial and technical support we continue to receive from our development partners. These have gone a long way to make a meaningful impact on lives of ordinary Namibians.

XII. CONCLUSION

Honourable Speaker and Members of the National Assembly,

116. Joseph Stiglitz said that, and I quote "*macroeconomic policy can never be devoid of politics: it involves fundamental trade-offs and affects different groups differently*"

117. We are experiencing such trade-offs vividly, hence our emphasis on stability and inclusivity and pro poor policies for a prosperous Namibia.

118. In this Budget, we have undertaken to:-

- Strengthen macroeconomic fundamentals as a basis to long-term fiscal sustainability and the sustained funding of interventions to grow the economy.
- This Budget marks a firm commencement of the fiscal consolidation programme that curtails the negative effects of excessive budgetary expansion and fiscal austerity.

- It inspires confidence in the future, by placing fiscal operations on a long-term sustainable path, fund growth-enhancing infrastructure and social development programmes. The priorities on education and skills development, the provision of health services and infrastructure development are retained.

- The Budget allows the Government to meet its financial operations and contractual obligations, without compromising service delivery to all Namibians.

- We are committed to the improvement of social welfare through poverty eradication programmes and better safety net systems.

- The institution of performance contracts is an added facet through which accountability for the resources allocated and its effective use are monitored.

- Through this budget, we strike a fine balance between growth and fiscal consolidation. The country's growth outlook is reasonably robust in relation to regional and global averages. We can, therefore, look forward to the future with confidence.

Honourable members,

119. Targeted resource allocation proposals have been made. What matters is effective implementation and results-based management. And we need to act decisively. I thus seek for your support and insights going forward.

120. I conclude my 2016 budget statement with a quote from the renowned black American athlete Jesse Owens. He said "*We all have dreams. But in order to make dreams come into reality, it takes an awful lot of determination, dedication, self-discipline and effort."* We will need all of these attributes in the years ahead if we are to make Namibia the country we all desire to see.

121. It is now my distinguished honour to submit for your favourable consideration the Appropriation Bill 2016/2017, the Estimates of Revenue, Income and Expenditure and the 2016/17 – 2018/19 MTEF.

I thank you.