



REPUBLIC OF NAMIBIA

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CONTRIBUTION TO THE DEBATE ON THE APPROPRIATION BILL

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**DEPUTY MINISTER OF INTERNATIONAL RELATIONS AND
COOPERATION**

**National Assembly
Windhoek
10 March 2016**

Honourable Speaker
Honourable Members

The features of the Budget presented by the Honourable Calle Schletwein reflects a reduction in expenditure with N\$ 1 billion, an increase in sin taxes fuel levy. Further, it was announcement that export levies will be introduced. Meanwhile, income and corporate taxes remain intact.

In the academic field of Economics, a reduction in government expenditure coupled with increase in taxes is called tight fiscal policy, as opposed to easy fiscal policy which is characterised by a reduction in taxes and an increase in spending. This does not automatically results in economic growth. Other supportive macro-economic policies should be employed to complement the fiscal policy. These include structural change in trade, monetary policy, and other related measures.

It is common cause in economics that the performance of the economy is determined by the fiscal policy and monetary policy that the government and the central bank put in place. The fiscal policy measures adopted in the Budget with respect to indirect taxes are friendly to economic growth. In its publication, *Fiscal Policy and Long term growth*¹ the International Monetary Fund (IMF) states that raising direct tax could negatively affect economic growth. Meanwhile, indirect taxes could be justified on the basis of the harmful effect that commodities have. Further these can be counterweighted by the spending on programmes that benefit poor people.

Accompanying monetary policy is in order, especially the ^{recent} announcement in the increase of rates by the bank of Namibia. From a lay man's view, such measures would not be welcomed in view of the increase in loan repayments. However, the rise in interest have benefits for long-term investments. More importantly, from a broader macro-economic perspective, such measures are aimed at economic growth. Generally, increased rates and taxes brings down inflation, when such inflation is due to demand-pull factors. However, the type of inflation in Namibia is the one cause by cost-push factors, namely that firms try to maximise their profits. In his publication entitled *Economics for South African Student*², Philip Mohr cautions that the reduction in spending will adversely affect unemployment. I am not worried for I know that the large percentage of reduction in the overall expenditure is more on the operational budget, with the development budget reduced from N\$ 11 to N\$ 9 billion. Employment creation depends on the development budget.

Honourable Speaker
The reduction in ^{my} N\$ 2 billion on the development budget could be offset by the ratio of the composition of the construction industry benefiting from government spending. Yours truly alluded in his doctoral thesis entitled *The economic diplomacy of a small state, the case of Namibia*.³ About the anomaly in allocating a share of only one third to Namibians, unlike the Mozambican model where 70% of the construction industry

¹ International Monetary Fund, 2015, Fiscal policy and long term growth, *IMF Policy Paper*, June 2015.

² Mohr P., *Economics for South African Students*, Pretoria: Van Schaik Publishers.

³ *Mushelenga P*, 2015, *The economic diplomacy of a small state: the case of Namibia*, a doctoral thesis, University of South Africa.

is in the hands of indigenous businesses. If we adopt this model, we will efficiently address the cost-push inflation effect with the contractionary fiscal and monetary policies that we have adopted in the Budget.

Honourable Speaker

The link between policy planning and budgeting should be underscored. This has gained momentum over the past years, especially in developing countries. In their paper entitle *A guide to public financial management literature*⁴ Rebecca Simson, Natasha Sharma and Imran Aziz recommend measures that are required in effective budgeting, namely maintaining fiscal discipline, allocating resources in accordance with policy priorities and efficiently delivering service – value for money . Accordingly, effective allocation of resources in important to deal with development in both economic and social sectors of the economy. This should be accompanied by proper policy implementations.

The National Development Plan (NDP 4) lists agriculture, tourism, manufacturing industry and logistics as the priority areas. Honourable Muharukua expressed disappointment that agriculture is neglected. But looking at the development budget document, there is provision for increase in the allocation to projects of crop and horticultural improvement and live-stock productivity improvement, as well as pre- and post-harvest management. The Budget is, therefore, aligned to the NDP4 – perhaps, it is a question of: to what extent? It should off course be noted that a considerable time have lapsed since the formulation of the NDP4, and in the meantime, new trends developed and therefore, new priority area arises. For example, one of the priorities in the budged addresses what lawyers would call the intervening acts of God, namely drought. I applaud the prioritising of drought relief, pharmaceuticals and universal grant for secondary education in the Budget.

Honourable Speaker

Let me move to international relations

Trends in the international political system signify efforts towards peaceful cooperation have been observed. In the area of nuclear disarmament, diplomatic engagements with Iran resulted in successful conclusion, followed by the lifting of sanctions. Iran is Namibia's old friend and an important trade partner. The lifting of sanctions, therefore, adds meaningful impetus to existing relations.

The new US's foreign policy towards Cuba, another Namibia's old friend and ally, too, is commendable. The resilience of the people of Cuba has paid-off. They have set a good example for small states to be assertive and be true to their conviction. I salute them for their fortitude, against all odds.

It is my wish that sooner rather than later, there will be another policy shift in the approach to the long-standing Middle East question. The people of Palestine have repeatedly suffered. Open biasness on the part of powerful forces in the international community towards Israel continue to manifest itself in the manner that they handle

⁴ Overseas Development Institute, 2011, *A guide to public financial management literature*, for practitioners in developing countries, London: Overseas Development Institute.

international law-making at the UN Security Council, eventually subjecting the issue to soft-law. A lasting peace is due in that region and large states who holds the key should open the door for entry into a yard symbolising a destiny of peace, hope and progress

With these words, I support the budget for the financial year 20-6/17 and the Medium Term Expenditure Framework for the year 2016/17 – 2018/19.

I thanks you