PDM
Popular Democratic Movement

PARLIAMENT OFFICE
Office 154, Southern Wing,
Parliament Building, Love Street,
Central Business District, Windhoek
Tel: +264 61 288 2563
Fax2E: +264 886 557 471
Email: pdmnamibia@gmail.com

# SPEECH BY HON NICO SMIT MP ON THE 2018 BUDGET

## THURSDAY, 15 MARCH 2018, NATIONAL ASSEMBLY

**Macro-economic Developments**

**Overview**

**Hon Speaker, Hon Members**

I rise to contribute to the 2018/19 budget debate.

This budget has shown clearly that there are three issues that are having a major negative effect on Namibia's economic growth. These are the size of the public service that saddles us with an unsustainable wage bill; non-performing state-owned enterprises that constantly require bailouts we cannot afford and the rising interest payments on the government's bloated debt and guarantees. Until this government finds the moral courage and political will to address these issues effectively, there can be no suggestion of economic recovery for this country.

The budget has put the Ministry of Finance in a tight spot. Exploding government debt in 2016 and 2017 has eroded all so-called fiscal space.

While the consolidation process is ongoing, it is clear that the main issues that landed the economy in such serious trouble in 2016 have not been resolved in 2017 and definitely not in the 2018 budget. Although the Hon Minister has tried hard to convince us of the opposite, his own ministry's budget figures show us how unreliable the process is.

The public sector wage bill is the number one drag on economic growth. The government's reluctance to address this issue has taken us through two years of kicking the can down the road with the vague hope that in the next budget, we will have solved some of the economic problems.

This has not happened; the problems are still there, now looming larger than ever.

Unless the government has the guts to draw up, publish and implement a rationalisation strategy for the civil service, the same problems will still be with us five years from now. This is actually confirmed by the Hon Minister's own figures in the new budget.

Non-performing state-owned enterprises are the second biggest drag on the available resources. Despite talking about privatisation or partial sale of entities, to date these agencies have not been aligned to break-even strategies of any kind. The Ministry of Public

Enterprises is merely a watchdog without any legal backing. This in itself is a further drag on government's finances.

Although not yet a severe brake on economic growth, the rising interest payments on the government's bloated debt and guarantees will turn into one of the top three impediments to economic growth and to a sound budget, within the next five years.

As of this year, interest payments will for the first time since Independence, exceed 10% of revenue, and according to the published figures, it is expected to stay above 11% for the duration of the Medium Term Expenditure Framework. This is a key metric employed by the International Monetary Fund. If it stays elevated (as indicated), both Government debt and the parastatals for which the government issues guarantees, run a real risk of another credit downgrade.

The 30% increase in the development budget is a farce. It is useless to announce a seemingly large increase in capital investment, when the underlying base is so insignificant that it hardly has any effect on the overall budget. The capital budget was pirated in the mid-year review last year to find the N$4 billion to keep the government afloat for another six months.

When capital investment has been reduced to less than 10% of all expenditure, a 30% increase is just window-dressing. Ultimately, it will have less than a 3% impact on the development targets the government wants to achieve with this budget.

**Hon Speaker, Hon Members**

**GDP Projections**

The outlook for Gross Domestic Product – GDP - growth underpins all the other projections for revenue and expenditure. If these calculations are based on weak assumptions or exogenous conditions change to such an extent that they are no longer reliable, then the GDP projections must be recalculated from scratch

A review of GDP projections for the past two years reveals just how unreliable the broader budget process was. As I warned this August House a year ago, the underlying assumptions were preposterous - with the result that the main budgetary process was discredited in totality.

At the beginning of 2016, the Hon Minister projected GDP of N$189.2 billion. As everybody now knows, economic output did not come close to that projection. In fact, the actual outcome was only N$164.2 billion or some 13.2% less than forecast. In the meantime, it also transpired that revenue was under severe pressure and that the deficit will explode.

The economic collapse of 2016 might be offered as an excuse for the underperformance, except that such an argument does not hold water. Only the government believed the ambitious budget it launched in March 2016. The Popular Democratic Movement expressed its serious doubts at the time about the reliability of the 2016 budget.

During 2016, it became clear that we were right and the Hon Minister wrong. By the end of that year, we received the fateful mid-year budget review, where the Ministry of Finance was forced to downgrade all the income and expense projections by roughly 18%. In essence, the Minister tabled an entirely new budget, which became the blueprint for the 2017 main budget.

Here again, the same pattern repeated itself. The idealistic, but devoid of reality, projection of an N$219.5 billion GDP for 2017 was revised down at the end of 2016 by an unprecedented almost 20% (19.8%) to N$176 billion. Economic output could not even reach that projection, eventually turning out at N$171.9 billion, another 2.42% lower than the revised estimate.

For this year 2018, GDP is projected to exceed N$184 billion. Since the actual nominal growth between 2016 and 2017 was only 4.5%, how can the Hon Minister want us to believe that his 7.5% growth estimate for this year is reliable, given the adjustments in the 2017 mid-year review?

In the mid-year review of 2017 growth over the MTEF was projected at a steady 6%. If the actual outcome was only 4.5%, what reasonable grounds are there to assume the economy will record nominal growth of 7.5% this year? As I said at the end of last year, this is a dangerous and unrealistic assumption and one that has been proven false for two years in a row.

All in all, the assumptions underlying the budget seem to be erratic and expedient to say the least. The Hon Minister made statements about economic growth in the fourth quarter of last year, and about the preliminary outturn for 2017 but these were only based on preliminary estimates.

Granting him the benefit of the doubt since he indicates these figures as estimates, I am wondering how he reached his conclusions. The Namibia Statistics Agency will only publish the 4th quarter GDP figures and the preliminary National Accounts on 29 March this year, yet the minister is already telling us that the contraction in 2017 is an estimated 0.4%. Where does the Hon Minister get this from?

At this point, the view of such a mild recession is not supported by the facts. New credit to the private sector, for instance, has collapsed and only very recently showed some sign of renewed momentum but still very weak compared to historical levels.

**Hon Speaker, Hon Members**

**Fiscal Income**

Receipts from the Southern African Customs Union were the budget's saving grace last year. Contrary to the indications at the end of 2016, tax income on international trade, or what we call SACU receipts, were almost 39% more last year than the previous year, 2016.

The Hon Minister always makes a point that this is agreed in advance and that it is guaranteed unless there is a major upheaval in the South African economy. According to the statements in the MTEF Fiscal Strategy (p31), SACU receipts will be 11.7% **less** this year and reduce by another 7% next year, but will still be substantially higher than in 2016 (roughly by N$5 billion over the two years).

In theory this should be sufficient to make up for the N$4 billion front-loading forced upon us at the end of 2016, which ultimately triggered the economic implosion which haunted us throughout 2017.

It is also noteworthy that the projected SACU receipts over the MTEF are somewhat less optimistic than in the revised 2017 budget but I believe the slight downward adjustment has been done under guidance of the SACU meeting according to the Revenue Sharing Formula.

An over-dependence on SACU revenues is another one of the basic structural problems in our economy. It is also a sign that the counter-cyclical budgets which the ministry introduced in 2010 and the massive stimulus the economy received, did not produce the desired results. The stellar growth rates of 2013, 2014 and 2015 were bought with borrowed money. Now we sit with the immense debt, a very low return on our investment, and we continue to rely on taxes on external trade to make up almost one third of Government revenues.

**Hon Speaker, Hon Members**

The clearest signal from this budget is that Government revenue will remain largely static over the MTEF. The only significant target is that revenue will reduce as a share of the larger economy.

This does not make sense. If nominal growth for the economy as a whole is projected to grow by 7.5%, 8.7% and 9.2% respectively for 2018, 2019 and 2020, then there must be a commensurate growth in Government revenues.

According to the published figures, revenue for 2018 is projected at N$56.7 billion, almost exactly the same as last year, thus zero growth but for GDP a 7.5% nominal growth is assumed. How is that possible? Either the GDP forecast is doubtful or the static revenue level hides another fact, one which is not immediately obvious. Revenue growth of only 1.8% for 2019 and 6.18% for 2020 is very pessimistic. It is a tell-tale sign of a hidden impediment in the larger economy.

Another fundamental, and unfortunately structural weakness in the economy, is the size of the government's contribution. We have stated for almost ten years that the government is crowding out the private sector, yet at the same time, it is accusing the private sector of not supporting development goals.

The painful results of what happens when the government has become the elephant in the economic house, we experienced in 2016 and 2017. Despite this being pointed out many, many times by institutions like the IMF and the ratings agencies, Government intransigence continues to prevail against all common sense.

That the chickens have come home to roost is clearly shown in this budget. The growth expectations for Government revenue are dismal, especially against the assumed GDP growth.

This budget confirms that the government will continue with its intentional control of the economy instead of focusing on policies that enhance revenue growth so that the increased fiscal income can be employed for development. The published budget, unfortunately, testifies to the contrary.

I also suspect that the GDP growth versus revenue discrepancy is largely based on a slump in revenues from the diamond industry. The minister knows this and has made provision for the shortfall by adjusting revenues downwards. It is revealed by the figures although not stated publicly.

**Hon Speaker, Hon Members**

**Expenditure**

Expenditure is the only aspect of the budget over which the government has control, although I am sure they want to convince an unsuspecting public otherwise. The economic damage of 2016 showed us what happens when the government does not want to listen to sound analysis and stubbornly continues with the budgeted expenditure framework despite all signs shouting of an impending calamity.

Eventually economic reality caught up with the depleted Government resources and the N$4 billion front-loading was dumped in our laps. The consequences we are all painfully aware of. It is still with us, even in this new 2018 fiscal year.

The government's delayed response and fiscal stubbornness have also cost the country its standing in the international world, as our credit rating now relegates us to junk status. Trying to turn the tide, fiscal consolidation has become the new budget flavour, despite producing very little results in 2017. Fiscal consolidation is a noble concept but what exactly does it mean, and more importantly, what is the impact on the ordinary, everyday Namibian?

This is shown by the expenditure pattern for the MTEF.

For 2018, operational expenditure has been cut by 8.3% relative to 2017 yet it is basically the same as in 2016. In the Fiscal Strategy it is described as "phased fiscal consolidation" to support macro-economic stability and debt stabilisation.

In our opinion, it is nothing like that. It is only a public statement that the gravy train has been stopped for all those who criminally skimmed off the government's development targets to line their own pockets to the detriment of their fellow Namibians. Now we sit with a mangled Namibian House, the construction of which has been impaired for many years. This all happened on the Swapo watch, and shows a lack of looking out for the country as a whole.

It is clearly shown by the figures in the MTEF and cannot be concealed.

After this year's 8.3% downward adjustment, operational expenditure will remain stuck at the N$51 billion level, with one half of that amount, slightly more than N$25 billion, consumed by the insatiable public service in the form of the national wage bill. Not only is this out of alignment with any country in the world, it is also much higher than our peers in SADC.

Our civil servants are simply devouring our prosperity by their numbers.

The Hon Minister has made much noise about the 30% increase in capital spending, in other words, productive investments from the resources of the budget, but he is very quiet on the fact that it is precisely the development budget that he pilfered last year for the mid-year review to prop up the civil service monster for another six months.

This is the third and probably most important structural impediment in the Namibian economy. It is also the biggest drain on resources and at some point, the government will have to concede that it cannot be an employment agency, and that it cannot continue indefinitely to keep dead-in-the-water parastatals alive that do not contribute to economic growth. Until that happens, Namibia's economic future will remain muted and we will see the same static budgets year after year.

No fixing the problems, no economic growth to speak of.

**Hon Speaker, Hon Members**

**Budget Deficit**

On paper, the deficit is estimated to have been reduced to 5.4% in 2017 from the unsustainable 7% in 2016. We applaud this but need I remind you we have heard this before.

As a percentage of the total economy, the deficit is projected to gradually reduce over the MTEF but the debt stock keeps growing. In fact, it is the Ministry of Finance's intention to borrow just as much money this year as it did in 2017, well over N$9 billion. This trend will continue in 2019 with another borrowed N$9 billion. It is only in 2020 that borrowing is foreseen to decrease to about N$6 billion for that year but at that point, the debt stock will be close to N$100 billion or about 45% of the expected GDP.

The result is that our annual interest payments will exceed the 10% threshold, taking up more than 11% of our resources every year, with total debt remaining stuck at the 45% of GDP ratio. This is some ten percent higher than the 35% ceiling imposed by the cabinet itself when it became apparent that the economic expansion can only be maintained by borrowing more and more.

At this point I must caution this August House that not all institutions involved with Namibia's economic fortunes share this view. The research component of Fitch Ratings, the first group to downgrade our creditworthiness, stated in their latest assessment of Government debt (February 2018) that total debt will reach 70% of GDP by 2022 if the government does not come up with a tangible turnaround strategy.

This is the third budget in a row where the government's unwillingness or inability to address the real economic problems is glaringly displayed. The only solution they have offered in the past is to continue to borrow. It is this pattern that makes other players wary of the soundness of our budget process.

Deficits have to be financed by borrowing the money, either in the local capital market or from funders in foreign capital markets. Namibia has no control over exchange rates and over benchmark rates in these markets. Against the background of two credit downgrades, this constitutes a very serious risk and one that has to be reckoned with in every fiscal year.

We can afford the interest payments for now, but unless we see a substantial reduction in sovereign debt, both nominally and as a percentage of GDP, our economic future will remain uncertain. Some 33% of the total debt is due in the next 12 months, and the average debt maturity profile is only six years.

Although the Bank of Namibia has tried to move the maturity cusp out to a point exceeding ten years, it has not been very successful. While liquidity improved by a lot in 2017, there is very little appetite in the local market for debt instruments longer than 12 years. This we see week after week as the results of the debt auctions are published. Investor confidence is low for longer maturities and basically absent for very long maturities.

Extending the debt maturity profile is arguably one of the most difficult hurdles the Ministry of Finance is facing but it is not because of market conditions, it is solely because the budget has failed to produce the desired outcomes. This negative reinforcement has been happening for several years.

The market's response in 2016 and 2017 is the clearest warning signal that investors do not share the ministry's view of economic developments or the confidence in their own projections.

Restoring confidence in Namibia's sovereign debt pivots on one point only: reining in the budget deficit. This must be tangible, visible and demonstrable otherwise markets will continue to penalise us and confidence will remain low.

**It starts and ends with the deficit**.

**Hon Speaker, Hon Members**

**In Conclusion**

The 2018 budget and the commensurate Medium Term Expenditure Framework is a gallant attempt to restore economic growth, and to allay our fears that the Ministry of Finance is failing to get us out of the dark pit it has dug over the previous years.

The four minor adjustments, all between 3% and 5% to specific votes, are indeed too little too late. It is meaningless to make small adjustments to the overall budget without addressing the fundamental, deep-seated structural problems.

I have dwelt on each of the three main problems in the context where they are relevant. Unless we see a tangible change in the unfounded sentiment to use the budget as a piggy bank for inefficient ministries and parastatal institutions, there will be no significant economic revival.

Our national debt and the interest payments will continue to erade the money that should have been used for capital investment.

Politicians are fond of pointing out that government debt is a form of borrowing from future generations and that this constitutes real-time investments that will enhance life for those future Namibians. That is true provided the debt is invested productively. If we simply borrow to cover running expenses, we are not investing for our children's sake, we are stealing from them.

Ultimately, we ruin their future.

I THANK YOU HONOURABLE SPEAKER