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SPEECH BY HON NICO SMIT ON THE

REVIEW OF THE 2019/20 BUDGET AND THE 2019 TO 2021 MEDIUM TERM EXPENDITURE FRAMEWORK

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Hon Speaker, Hon Members,

I find it ironic that the Hon Minister of Finance has once again announced his intention to critically reform policy across all sectors, calling for a larger participation by the private sector in the economy, when in the first instance it seems to have escaped him that in a healthy economy based on sound principles and sound policies, the PRIVATE SECTOR IS THE ECONOMY, and not a coincidental tag-along.

To think that the **government** is the economy, illustrates a deep sense of illusion, a fundamentally flawed way of thinking which displays a fatal hangover from the old socialist times. An economy that is centrally planned by an all-powerful politburo is doomed to stagnate, and eventually to fail. The only thing that props up such an economy is the government's ability to borrow from the private sector.

The following Hon Speaker, is my view of our entire budget process. We have a strong handle on our economic data, the ministry has a good grasp of the dynamics that will produce its income, and how much that income will be. But it has completely lost its grip on governance, having forgotten that its role is to govern and not to micro-manage the economy down to the lowest levels.

Making statements that policy changes are critically needed to create opportunity for increased private sector participation, is issuing a public acknowledgement that the government is both at the end of its resources, and at the end of its ability to manage the economy.

Gross Domestic Product

Hon members, it is heartening to see that Gross Domestic Product projections for the coming years are now based on rational, realistic assumptions reflecting the real impact of the three-year recession.

Whereas last year's budget still assumed a nominal growth rate of 7.5% for 2018, the estimated outcome now stands at only 2.18%. Based on this very subdued performance, growth for 2019 is projected to come to 4.8% with 4.1% the year after and 4.9% in the final year of the Medium Term Expenditure Framework.

These are reasonable projections based on reasonable assumptions, supported by historical performances of the last three years.

This budget will arguably turn out to be the turning point in the economic cycle. It is difficult to say at this point exactly how the fiscal year will develop, and we are sensitive to the uncertainty that goes with any budget but to make sense of where we are headed for the next three years, it is important to review where we came from over the previous three years.

As all the members of this house should know, the fiscus grew nominally by around 18% per annum from 2013 to 2015. While I specifically pointed out at the end of 2015 that we were headed for a calamity, these words were not heeded and the Hon Minister still gave us a budget at the beginning of 2016 that assumed the heydays would continue.

Remember though, that in October 2015 the government was forced to launch the first Eurobond. If it had not been approved in time, you would not have been paid at the end of that month. That bond bolstered the government's coffers, and it helped the treasury to reset foreign reserves which at that point, were precipitously low.

Hon Speaker we may argue that the bond was based on Namibia's good credit record but I have to remind you that the first Eurobond was the trigger of the debt escalation that has now become one of our biggest medium term problems. Remember also that this happened just over three years ago, implying that if we continued on that trajectory, Namibia would have been in a much deeper crisis than is the case.

However, may I also remind you Hon Members that it was at the end of 2016 with the Additional Appropriation Bill that the Hon Minister slammed on the brakes, abruptly curbing spending by N$4 billion and sending a massive shockwave through the economy, fundamentally destroying the construction sector and creating havoc in the auto industry. It is not my intention to gloat, Hon Members - the repercussions were far too serious, but I found it slightly amusing when the Bank of Namibia constantly hammered on the point that

Namibians are buying too many expensive imported goods, meaning vehicles, and then it turned out that the government was the biggest culprit.

As they say, the rest is history and it became clear to every Namibian that the government was financially on its knees. If you disagree, please go try and convince any one of those thousands of people who were retrenched. I am sure they will have a different view.

Hon Speaker while the PDM acknowledges the painful three years we have just experienced, we appreciate the "new normal" that was adopted for the new MTEF, believing that now for the first time, all the promises to the contrary, we have a workable budget based on reasonable projections, that will eventually lead us back to the level of growth we require to make a significant impact on the large social deficits that continue to plague ordinary Namibians.

Sadly those imbalances will not be corrected during this year, nor during the next three years while we recoup from a calamity that must be laid squarely at Swapo's door.

Income

It is commendable that the fiscus performed exactly as budgeted last year. The initial 2018 budget expected an income of N$56.7 billion and as indicated in the revised budget, it came exactly to that figure.

This immediately showed me that the fundamental problem in our budgeting is not the ministry's ability to determine what a realistic level of income is, but to contain its expenditure.

It is no longer a case of wondering what the economy will do and what the government will gain from it, it is essentially only a matter of how well it can align what it spends with what it earns.

Yet I need to remind that the published income figures, clearly demonstrate how skewed our economy is, and how much it is still based on the misguided belief that the government must control the economy.

Let me state it clearly, the N$58.4 billion total income the ministry expects to collect during this year, is in all likelihood a dependable projection. Our recent history attests to this. But it is a futile undertaking when not balanced by expenditure.

We have stated often that the fundamental principle that must guide every year's budget, is the intention to have a surplus, not a deficit.

Hon Members, in a healthy economy, the income from Value Added Tax would be much bigger than the income from international trade. In our case it is not, pointing to a structural weakness in the Namibian economy. These are issues with which the government must concern itself, not the mind set to continue financing its own inefficiencies by borrowing more and more.

Expenditure

Hon Speaker, let me state at the outset that the expenditure side of the budget is the only actual component over which the government has full control. It decides how much it wants to spend and on which items. Therefore, if public spending does not achieve the intended results, there is only one organisation to blame, the government itself.

Again, total expenditure of just over N$60 billion, excluding interest on debt, is in all likelihood an accurate figure.

However, the discrepancies are enormous and continue to confront us despite several years of promises that the government will put its own house in order.

We welcome the N$28 billion spending on the social sectors, realising that in a developing country, health and education are the two pillars of social advancement. But we need to ask the critical question regarding value for money, what we get back on our investment, and most importantly, what we do to rectify the pervasive wastage in these two sectors.

Our education, which is critical to our economy suffers under the same burden of central planning as does the rest of the economy. The financing of our educational system is in need of a complete overhaul, and this will not happen by changing, yet again, the school curricula.

The same applies to the health sector. Central planning must be abolished and every public health facility must be accountable to the voters it serves at local level. Clinics are not elevated structures that patronise their patients, they are directly responsible for the wellbeing of their immediate constituencies. As such they, and every staff member who works there, must be accountable to its regional authority.

Hon Speaker, the glaring oversized expenditure on public safety is as much a concern now as it has been for many years. We need a small professional army and that's it. We **do not** need an army that is the last resort for employing the unemployable. Military expenditure must be aligned with the need for defence, nothing else.

As a comparison, the N$327 million allocation to the Judiciary is a standing joke. How can any law enforcement be expected to be functional when the final leg of justice is vastly underfunded? The allocation to judiciary illustrates just how skewed our priorities are.

Deficit

Hon members, it cannot have escaped your attention that the primary deficit, the difference between revenue and expenditure, is expected to be less than N$2 billion or less than one percent of the total economy.

Why then, does the ministry have to adjust its deficit figures year after year?

With the data currently available, indications are that the 2018 deficit will be on target at about 4.5% of GDP and that this level will also be achieved during this year. On the surface this seems commendable, but it must be noted that last year's projection for this year, was a deficit of 4%, so already there is half a percentage point difference.

In the bigger picture, that deviation does not upset the apple cart but it confirms the negative trend in the sense that the Minister is always forced afterwards, to make provision for bigger than forecast deficits.

Similarly, in last year's budget, the 2020/21 deficit would have been 2.3% of GDP, but unsurprisingly, this has also been adjusted upward to 4%.

This budget marks the sixth budget in a row where deficits had to be adjusted upwards. For the years 2015 and 2016, the adjustment was dramatic, costing Namibia its investment grade rating, but it fell in subsequent years to around 4.5%. It now appears we are stuck at this level, and that deficits of that magnitude have become the new normal for the budget.

From the history of the past six years it seems to me that a deficit level of less than 4% is nonsense. If the Minister is serious about the claimed sustainability of the Namibian economy, that cycle will have to be broken. If not, we will continue indefinitely to spend money that could have gone into development, on interest payments.

Debt

Hon Speaker, Honourable Members, the government's ballooning debt has become a major concern.

We agree that a nominal debt level is largely academic provided it does not exceed certain internationally determined levels. Thus the only important metric is what percentage of revenue is taken up by debt servicing.

Debt is not paid by the rest of the economy, it is paid by the government and to be able to do so, it has to use its income. Interest payments on debt therefore axiomatically reduce government income, increasing the deficit.

As I pointed out earlier, the primary deficit is modest but when debt servicing costs of more than N$6.5 billion are added, it changes the ratio significantly. As stated by the Hon Minister, this is more than 11% of revenue, substantially exceeding the 10% cap which is regarded as the maximum sustainable level. With the additional burden of government guarantees, the potential liabilities further increase. This was one of the key issues raised by the ratings agencies when Namibia's foreign debt was downgraded.

A rising sovereign debt is not necessarily bad but it begs the question what has been achieved with this debt. It is in this regard that I fear we fail the test.

The new debt of the past three years, 2016 to 2018, has not been incurred to invest in development. It has been consumed without a measurable return on investment. As you will all remember, the government experienced negative cash flow at the end of 2016 and the beginning of 2017.

While we are all relieved that this situation has been reversed, I must remind you that government debt in the local capital market is acquired almost entirely by institutional investors. This is largely in response to the adjusted regulations for Domestic Asset Requirements which were raised to 45% of total assets.

This level can be raised again at the discretion of the Ministry of Finance, but at some point, the government's ability to service its debt obligation will be scrutinised by the investors.

Regardless of how we look at the government's debt and guarantees, it is obvious that these are unsustainable, being the main reason, we believe, why the Minister has emphasised debt levels and debt servicing for several years.

We have also noticed that despite various undertakings to curb wastage and unnecessary spending, the government has failed repeatedly to address the size of its civil service. That not much has been achieved is clearly reflected in the expenditure figures.

Hon Speaker, Hon members, you are all familiar with this situation. What it boils down to is that for every dollar spent by the government on salaries and wages, it only receives back 15 cents through VAT. In a shrinking economy the so-called multiplier effect is very small so the argument that the wage bill contributes to the consumer side of the economy, is not valid. At most it is neutral.

Hon Speaker, in conclusion the civil service remains a drain on the fiscus and we contend that unless a definite, workable downsizing scheme is implemented, the drag on the economy will far outweigh the benefits. Thus the government, through its civil service, is not adding value but diminishing the growth potential of the Namibian economy.

I thank you.