



REPUBLIC OF NAMIBIA

Ministerial Statement

On the Government fiscal position and financing of budget deficit for FY2015/16

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Minister of Finance

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Honourable Speaker,

Honourable Members of Parliament,

1. I wish to take this opportunity to update the Honourable Members and the Namibian public on the status of the Government financial position, the funding plans for the budget and some of the policy responses that Government is pursuing to mitigate the fiscal risks in the medium-term.
2. As a custodian of Public Finance Management, I would like to reassure this august House and the public that Government will continue to execute the national budget as planned with optimum prudence and without compromising macroeconomic stability and sustainability of fiscal operations. These are the fundamental principles which form the basis of our fiscal and financial management of long duration.
3. **Honourable Speaker**, indeed there are five main areas of macro-fiscal risks which the Government is giving priority attention as highlighted in the recent IMF Article IV Consultation for Namibia. These pertain to the potential impacts of the global economic turn of events, the medium-term revenue outlook on taxes on international trade under SACU, domestic financial market liquidity conditions and the financing of the budget deficit, the stock of international reserves and the fiscal policy stance in the presence of global uncertainties.
4. With respect to the global turn of events, the global economy as recently assessed by the International Monetary Fund and the World Bank is estimated to slow down to 3.1 percent in 2015, significantly down from 3.4 percent growth rate in 2014. This is due to the sharp slowdown in Emerging Markets and Developing

Economies, particularly the BRICS economies (Brazil, Russia, China and South Africa). Sub-Saharan African economy has not escaped from this particularly challenging environment.

5. In addition, ***Honourable Speaker***, the global financial markets are undergoing fundamental shifts, triggered by improving conditions in Advanced Economies, the normalization of monetary policy especially the exit from quantitative easing in the United States of America and the consequent outflow of capital from Emerging Markets. Capital flows to Emerging Markets has weakened sharply, with some projections estimating that net capital flows to Emerging Markets and Developing Economies will be negative for the first time since 1988. The commodity price super-cycle has ended, with prices for both fuel and non-fuel commodities on the downward spiral due to falling demand, especially in the light of the slowdown of the Chinese economy.
6. In regard to the South African economy which is intimately linked to the Namibian economy through the trade and SACU links, IMF projects a meager growth of 1.3 percent for 2015, significantly down from 2.0 percent estimated in the 2015 Budget. This outlook is likely to continue in the medium-term. There are thus significant risks going forward.
7. For Namibia as a small open economy, our efforts are to pursue domestic demand-driven and export-led inclusive growth through improving our productive capacity and diversifying the economy, while protecting budgetary allocations to social sectors. This is the budget policy emphasis as layout the FY2015/16 Budget Statement
8. We anticipate pressure on revenue and this will increase sharply next year due to a significant reduction in revenue from SACU,

which accounts for about 34 percent of Namibia's revenue. The adjustments in SACU revenue means that Namibia will have to contend with the negative adjustment in the next two financial years, given the weak prospects for the South African economy.

9. However, I wish to state that it is not for the first time that the volatility in SACU revenue has occurred. Namibia has been able to navigate through the effects of such volatility. It is our plan to do so going forward, through expanding and deepening the domestic revenue base, accelerating the tax administration reform agenda and adjusting expenditure levels in line with the changing revenue and macroeconomic environment. Let me also reiterate that Namibia views SACU as an important platform for achieving greater regional integration and industrial development. We have made efforts to contribute to the normal functioning of SACU institutions. As a country, we would advance these goals through the national Industrial Policy, the Growth at Home Strategy and other structural reforms.
10. **Honourable Speaker**, the Government expansionary fiscal policy for the past 6 years has supported the growth of the economy, provision of increased services to more Namibians and creation of jobs, especially in the public infrastructure development and construction sector. Government is, however, cognizant that prolonged fiscal expansion has exerted pressure on the stock of official international reserves held at the Bank of Namibia and also, to some extent, on the liquidity position in the domestic market. In practical terms, however, the foreign reserves situation should not be overstated. The current official reserves level is three times more than sufficient to support the currency peg of the Namibia dollar to the South African Rand. In addition, the capital assets invested abroad are a competitive strength for Namibia and the major investment projects in the

mining sector are expected to commence with production and export stage.

11. As I have announced in my maiden Budget Statement, I will introduce a Mid-Year Budget Review this year. The review will serve three primary objectives, that is, to improve the quality of spending by identifying internal savings in the current fiscal year and reallocating a significant part of the savings to other priority programmes where value could still be realized. Secondly, the Review would allow Government to align the expenditure priorities to the updated macroeconomic and revenue outlook and thirdly to afford the legislature unfettered opportunity to interrogate the budget policy and expenditure priorities for the ensuing MTEF. I intend to table the Medium-Term Budget Policy Statement and Mid-Year Budget Review proposals in this House at the beginning of November, 2015. Indeed, the Review will provide specific details of the Government financial position and medium-term outlook.

12. **Honourable Speaker**, there has been several commentaries from the public and media houses regarding the financing of the budget deficit in the current year and the liquidity position in the domestic market. Indeed, the effect of a fast increase in the supply of credit to finance household and Government borrowing during the past few years meant that there is, to some extent, less liquid assets available to support increased borrowing activity. This, however, does not take away the fact that substantial domestic capital continues to flow out of the country. A total cumulative amount of N\$ 61.9 billion financial assets from institutional investors is currently invested abroad, on account of better financial returns. If capital can still flow out of the country in substantial ^{amounts} ~~sizes~~, the claim of ~~credit~~ drying up needs to be fully substantiated.

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13. We are on course with funding the budget through revenue collection, domestic borrowing and diversifying our borrowing requirements with foreign borrowing in line with the Debt Management Strategy.
14. Our policy remains to fund up to 80 percent of the Government financing needs from the domestic sources, depending on available liquidity in the domestic market. This is a strategy that has helped to develop the domestic capital markets. However, certain local capital investors go as far as being excessively speculative and make over-priced offers. And when Government shuns their overpriced deals, they then claim to be overlooked or that Government is facing tight cash flow situation.
15. Nonetheless, I am pleased to inform the House and the public that ^{by the end of September 2015} the Government has already successfully funded 61 percent of the budget deficit half-way through the budget implementation calendar. A total of N\$4.17 billion was raised from the domestic market, R1.5 billion was raised on the Johannesburg Stock Exchange (JSE) and we will proceed to raise additional financing from the international market, which will be used to partly boost the country's foreign reserve position and fund the budget in line with the budget financing plan. Government will persist in its prudent execution of the Financing Plan to address the remaining needs. Government will also pursue other domestic policy options and leveraging alternative innovative funding means in order to alleviate pressure on the budgets in future.

Conclusion

16. **Honourable Speaker**, let me conclude by laying emphasis to the fact that the Government has put in place appropriate plans and implementation modalities to execute the budget as appropriated.

17. The global macroeconomic environment has changed and Government needs to adjust its operations in line with the changing environment. Government is satisfied that over 61 percent of the deficit financing needs is already met half-way through the budget implementation phase, with the remaining funding needs to be raised over the remaining calendar in line with the cash-flow needs.
18. We have already commenced with the Mid-Year Budget Review to enhance the quality of spending and align the spending proposals to the dynamic macroeconomic environment. I will also put forth policy proposals for addressing domestic economic priorities and redirect resources to the most productive programmes and compelling priorities. For this reason, the Mid-Year Budget Review will propose spending cuts on least productive items in the manner that does not impair service delivery.
19. I, therefore, wish to reassure the public that macroeconomic stability, fiscal prudence and sustainability remain key in the conduct of Government fiscal policy and economic management. Our policies will remain robust, pro-growth, pro-poor, pro-business and in support of the national development agenda in a dynamic and integrated global economy.

I thank you for your attention.

