OFFICIAL OPPOSITION BUDGET RESPONSE

BY

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ON THE 2017/18 FINANCIAL YEAR NATIONAL BUDGET,

AS INTRODUCED BY THE MINISTER OF FINANCE

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CHECK AGAINST DELIVERY

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Honourable Speaker, Honourable Members,

I rise to comment on the National Budget for the 2017/18 Financial Year as tabled in this August House by the Minister of Finance, Hon. Calle Schlettwein. The adjustments made during the Mid-term Budget Review of 27 October 2016 and the 2017/18 National Budget, including the Medium Term Expenditure Framework (MTEF) are largely cosmetic. **It is my opinion that the 2017/18 National Budget represents very little deviance from the revised figures presented in October 2016, and as a result contains very little by way of substance.**

As my point of departure, I wish to high light the projections for Gross Domestic Product (GDP). GDP represents the combined output of all economic sectors and therefore is very similar to turnover if the country were viewed as a large corporation. In a hypothetical firm if sales were to fall short of designated targets, turnover decreases and in turn the expenses of the firm increase as a percentage of that decreased turnover. The same applies to GDP. If actual GDP is less than projected, yet expenses remain the same, the loss becomes bigger expressed as a percentage of GDP. This is a brief explanation of what happened to the Namibian economy in 2016. As a result, it is therefore necessary to carefully analyse the GDP projections for the 2017/18 Financial Year, and to consider the assumptions on which they are based.

According to the National Budget tabled in February last year, GDP for the 2016/17 Financial Year was projected at just over N$189 billion. In the Mid-Term Budget presented in October 2016, GDP was revised downwards to N$158,6 billion, **representing a reduction of more than 16%. This clearly indicates that the 8% expenditure cuts undertaken by the Finance Minister at the time were inadequate in making a meaningful difference in terms of the realised deficit.** Furthermore, the revised 2016/17 budget can technically be regarded as a rebasing of the MTEF, and this is evident from the new MTEF in which the revised 2016 GDP has been adopted unchanged, and serves as the new base value from which all future projections are calculated.

Projected GDP for the 2017/18 Financial Year is just over N$171 billion, which is N$26,6 billion less than the GDP projection for the 2017/18 Financial Year which was published in October 2016. According to the National Budget tabled in February 2016, estimated GDP for the 2017/18 Financial Year was N$219,5 billion.

Therefore, the projected GDP of N$171 billion as provided by the Finance Minister a week ago is thus N$48,5 billion less than the estimate provided a year ago, constituting a downward revision of just over 22,9%. This is not an isolated statistic, as a careful analysis of the new national budget reveals that all components suffered a severe downward revision of between 18% - 24% compared to the lofty figures published a year ago.

The real tragedy is that these ratios show that the Namibian economy has failed to grow by one quarter of the size it was expected to reach by February 2017. However, this reality is hidden by the budgeting process because the new calculations are all based on the revised Mid-Term Budget tabled in October 2016, and not the values contained in the 2016/17 National Budget tabled in February 2016. As a result, **the projected size of the overall economy now, is more than 22% less than what was projected in February 2016.**

Honourable Speaker, Honourable Members,

The same principle that was applied to the GDP calculations has been repeated throughout the rest of the budget. The main adjustments were all made in the Mid-Term Budget Review, and have been introduced almost unchanged into the 2017/18 National Budget. All reduced estimates are also within the 18% - 22% range.

With regards to taxes on income and profit; the projected figure in this regard for the 2017/18 Financial Year is N$19,161 billion. This is virtually identical to the revised 2016 estimate of N$19,842 billion, and therefore my analysis is that this change is cosmetic in nature, and is not supported by any substantial difference in the tax base this year compared to the last. In fact, the difference is less than 1%. However, compared to the 2016/17 National Budget tabled in February last year, where the estimated income from tax component was N$24,771 billion, the loss is dramatic and disconcerting. **This represents a**

20,62% reduction, also confirming the fact that the economy lost approximately one fifth of its generative capacity in a single year. This is deeply disturbing as it immediately invalidates the soundness of all the projections made in the new budget.

It would have been far more acceptable had the Ministry of Finance missed its budgetary targets by a range of 5%. However, the Ministry has consistently missed the mark by about 20%, and in some cases by as much as 24%. This unequivocally repudiates the validity of the budget process, drawing into question the reliability of the figures presented to this August House by the Finance Minister a week ago.

In terms of taxes on domestic trade, this component consists overwhelmingly of VAT receipts and has remained static. The difference between the 2016/17 National Budget's N$14,785 billion and the revised budget's N$14,218 billion is insignificant. This value has been introduced in the 2017/18 National Budget as N$14,025 billion, again revealing a cosmetic adjustment as there is no sound basis to assume that nominal income in VAT will be any less this year than in the previous year. However the decreasing trend displayed through the comparison of the three values stated above, indicates that the Government expects its reduced spending to have a slow but measurable effect on retail spending, especially on luxury goods.

Honourable Speaker, Honourable Members,

With regards to taxes on international trade, in the revised budget tabled in October 2016, the Minister of Finance emphasised the shortfall in this regard. This is of course due to the Southern African Customs Union (SACU) transfers which Namibia receives by virtue of its membership therein. The SACU transfers constitute the single biggest tax revenue component for Namibia, and loss or reduction in income from this source has a disproportionately negative impact on the overall tax income of the state.

In this regard, it is quite obvious that the Finance Minister was not entirely accurate when he blamed state revenue shortfall in 2016 on a reduction in the SACU transfers. In the 2016/17 budget, SACU transfers were estimated at N$14,121 billion, far short of the N$19 billion it was projected to be. In the revised budget tabled in October 2016, SACU transfers remained at N$14,121 billion, clearly indicating that the Government was assured of this income, and that a reduction in SACU transfers was certainly not the reason for the economic decline of 2016.

According to the 2017/18 National Budget, the Finance Minister is very optimistic that SACU transfers will return to normalised levels, revealing an ambitious estimate of N$ 19,597 billion. Based on the trend from 2016, it must be assumed that the Finance Minister has a reasonable expectation that the Government will receive the expected fund. ***A cautionary note is worth reflecting on here, as***

history has shown us that there is no guarantee that the projected SACU transfers will materialise.

It is worth noting that the N$5 billion difference between the 2016/17 estimate of N14 billion in SACU transfers and that estimated for the 2017/18 Financial Year runs consistently through the budget as a whole. In fact it is only this N$5 billion that makes a difference on the income side, with all other components being very static.

However, it must be pointed out that should this expected N$5 billion increase in SACU transfers be threatened in any way, or if it does not materialise, then the 2017/18 National Budget as tabled by the Minister of Finance becomes entirely irrelevant.

All efforts to reduce the budget deficit and bring the overall debt load in line with the expected output rely entirely on this money being guaranteed during this year. It is no exaggeration to state that if all aspects of the budget turn out in the manner in which they have been presented, yet the SACU pool of taxes is reduced, then Namibia's credit ratings by international ratings agencies will be jeopardised significantly.

Honourable Speaker, Honourable Members,

Total tax revenue expected during the 2017/18 Financial Year is projected at N$53,375 billion. This amount is only marginally less than the revenue of N$54 billion in the 2016/17 National Budget. However, it is substantially more than the N$48,676 billion of the revised Mid-Term budget with the difference being the N$5 billion expected from the increase in SACU transfers.

In terms of income from non-tax items; fees and grants add an additional N$3 billion to income, bringing the total disposable income to an estimated N$56,425 billion. Once again, and to emphasise the point I made earlier regarding the expected increase in SACU transfers; compared to the revised 2016 estimate of N$51,5 billion, it is only this N$5 billion that constitutes growth.

The income side of the 2017/18 National Budget reveals that the Government's expectation for the nominal growth of the economy is around 7%. However, given the inflationary environment, it unfortunately means that real effective growth will be 0%, or less depending on inflation rate.

Honourable Speaker, Honourable Members,

The operational expenses of N$50,84 billion outlined in the 2017/18 National Budget are for all practical intents and purposes the same as the revised figure of N$50,72 billion outlined in the Mid-Term Budget Review of 2016. **This reveals Government's firm intention to keep its operational costs, which includes the massive and unsustainable public service wage bill**, contained for this year. This is the only expense category where it is noteworthy to look at the projected spending over the MTEF since the nominal values are essentially flat.

For 2018 operational expenses are reduced marginally to N$49,6 billion. On face value, this represents another cosmetic adjustment, for there are no sound reasons to believe that public service employment will in actual fact be reduced. Although the Finance Minister has provided us with a concise employment schedule, his reference to natural attrition is unsubstantiated and not well thought through. To maintain its output at a certain level, all Government Ministries/Agencies/Offices need a specific staffing component.

Natural Attrition: the approach of reducing staffing numbers by not replacing those lost through resignation, retirement, infirmity or death, implies an unmanaged scenario. Where this type of staff reduction has been followed in other economies, the end result was typically a loss of the most competent people, with the eventuality that the least competent individuals remain.

To illustrate: imagine the scenario where you work in a certain department and over a period of a year, 5 of your co-workers resign and are not replaced. The work load remains the same, which effectively means that those employees left behind are compelled to carry a heavier work load without corresponding salary adjustments. The natural consequence of this will be further resignations with severe impacts for efficient and speedy public service delivery.

The solution to Government's wage bill should be exactly the opposite of what the Finance Minister has proposed. Incompetent

and unproductive public servants must be removed from the public service by means of voluntary retrenchment packages in order to reduce the overall staff complement. Those that remain should then be better remunerated so that the total output or productivity of a department can be increased without necessarily increasing the combined wage bill thereof.

To follow an unmanaged strategy would only be to set the Government up for a continuation of the growth in the public service wage bill accompanied by a staggering loss of productivity. Where an unmanaged model is applied, the end result is often the complete loss of output and functionality. Such an outcome can only be remedied at a later time and at much greater cost.

For the 2019 Financial Year operational expenses are projected at N$50,6 billion, confirming the Government's medium term view of reducing total employment by about 7% per year, while keeping salaries abreast with only an inflationary adjustment of approximately 7% per year. With this approach, the *hope* is that the total number of public servants will reduce while the wage bill liability will remain constant.

The fact that State Owned Enterprises (SOEs) will receive less from state coffers in the 2017/18 Financial Year is a welcome development. The fact that there are a multiplicity of poorly managed, financially reckless and unaccountable entities that have drained the public purse for too long is equally as questionable as the bloated public service. Despite the creation of a Government Ministry tasked with the responsibility of improving SOE management and service delivery, the recent debacle at the SME Bank, and complete lack of any tangible turnaround strategy aimed at improving governance and performance of this sector, there remains a wholesale lack of political will on the part of Government to address this problem. **When one considers that the SOE Sector in Namibia exists solely to serve the imperative of "jobs for comrades", then SWAPO's lackluster approach in the above regard is easily explained, yet no less acceptable**.

Honourable Speaker, Honourable Members,

Regarding the development budget, this expenditure component is the single most distressing element in the budget as a whole. This is because the accounting gymnastics has continued unbridled in this category. On paper, it appears as though the intention is to stabilise investment in capital projects at a level of N$6,7 billion, resulting in a mere 3% reduction from last year's revised figure. However, this projection masks the ugly truth that expenditure experienced a significant reduction of 24% during 2016. In the 2016/17 National Budget tabled last February, N$9,06 billion was allocated for development which was later reduced to N$6,9 billion in October 2016. **This N$2 billion cut in development spending represents the**

lion's share of the N$5 billion cuts the Finance Minister was forced to implement.

These figures corroborate the precarious nature of our current economic situation, and it further reveals that the entire Government is bargaining on the N$5 billion windfall in the form of the expected increased SACU transfers. This does however only serve to confirm my earlier observation that should the expected SACU transfers not materialise for whatever reason, the risk to the current budget structure increases exponentially.

Total operational and development expenditure for the 2017/18 Financial Year amounts to N$57,54 billion, and it is for this amount that the Minister of Finance has asked this August House for its consent.

As Members of Parliament, as national leaders and as custodians of the national interest; I urge you to pause for a second and contemplate this matter before you automatically grant him this permission.

Total expenditure excludes the very substantial N$5 billion that must be paid in interest on the Government's accumulated debt which is a liability that cannot be negotiated away. The budgeted provision for interest, the so-called statutory expenses, also clearly show the creative accounting that Government dabbled in last year. According to the speech made by the Minister of Finance on 27 October last year, one billion dollars saved on interest formed part of the overall austerity package. **This, we were told in October, had the resultant effect of lowering interest payments from N$4,875 billion to N$3,875 billion. However this was little more than window-dressing, for that N$1 billion in savings is back and spread evenly over the estimated interest payments for the 2017, 2018 and 2019 fiscal years.**

Honourable Speaker, Honourable Members,

What is perhaps the most significant element in the new MTEF is the realisation by Government that it cannot undo the sins of 2010 – 2015 in a single year. The unfolding of economic realities during 2016 has brought the Government to its knees, and it must now face the very real possibility of losing access to both domestic and foreign capital markets if Namibian Government bonds are relegated to junk status. As a result it is plainly obvious that the MTEF is designed to appease the International Monetary Fund (IMF) in terms of the budget deficit. However, this issue did not surface recently and was already on the radar as far back as May 2016, hence the Finance Minister's plea to all Namibians to tighten their belts.

However, at that time the Finance Minister's call for a reigning in of spending was an exercise in window-dressing, as his Ministry was at the time already hard at work revising the entire 2016/17 National Budget. It came as no coincidence that the revised budget was presented on 27 October 2016, only a few days prior to the arrival of the IMF delegation for the series of meetings that constitute the Article IV Consultations. By this time, the Finance Minister was well aware that if a revised and approved budget was not available for the Article IV Consultations, the IMF would have downgraded Namibia's ability to service its liabilities. The Finance Minister also knew then, as he does now, that the international ratings agencies take their cue from the deliberations and the report released after the Article IV Consultations, and that our debt was certain to be downgraded to junk status if he did not revise the budget in time.

It must be clear to all Members of this August House that Namibia was spiralling down a debt trap over which it had little control. Only after tabling of the revised budget was the debt contained to some extent. According to the new budget, the 2016 deficit was reduced to 6,3% of GDP, a figure that would have mushroomed to over 8% were it not for the cuts. For 2017, the target is 3,6%, reducing to 2,5% in 2018 and to only 1% in 2019. **I will caution to say that these projections rest on highly questionable assumptions.**

Honourable Speaker, Honourable Members,

It almost goes without saying that the single biggest risk to the Namibian economy over the 2017/18 Financial Year would be if for some reason the projected N$5 billion windfall from SACU transfers failed to materialise. I have emphasised this point numerous times already and there are no rational reasons to believe that the indicated

N$19,6 billion in SACU transfers will materialise. The implied risks associated with the windfall are all exogenous, meaning that our Government has zero control over these factors. It may very well be the case that we will again receive only N$14 billion in SACU transfers as was the case in 2016, and thereby repeating the implosion of taxes on international trade which we first saw in 2015.

The South African economy is expected to grow at approximately 1% this year, and we therefore have very little, if any reason to be optimistic over an expected increase in SACU transfers. Conditions are currently no better than what they were in 2015 or 2016, in fact political risk in South Africa is at a heightened level, and I therefore call for a moment's reflection on the basis of the expectation of an increase in N$5 billion in the above regard.

The second largest risk Namibia faces is the public sector wage bill. The lack of political will to address the issue of the enormously bloated and economically unproductive public service with a structured and managed strategy, unambiguously indicates that we are stuck with exactly the same problems that we faced in 2016 and have faced for a number of years. It is my opinion that a far more proactive, performance-based approach is needed. **Government must once and for all cease to act as an employment creation agency, and should instead expend its energy on creating and maintaining a legislative and policy environment that is conducive to business registration**

and attractive to foreign investment. The fact that Namibia has fallen four places in the most recent rankings on doing business internationally is testament to this misplaced focus.

A prosperous private sector will not only create the employment needed, but it will also create sustainable employment that lifts people out of poverty. Such a private sector is ideally not dependent on government hand-outs, or the promotion of only those projects that are supported and run by politically connected individuals. **Government must adopt a neutral approach to the economy, and towards creating an enabling legislative and policy environment in which the private sector and SMEs can flourish, and must at all costs refrain from the tendency to micromanage every last project down to employment level.**

The third most significant risk faced by the Namibian economy, one which is indeed very real and tangible is the 26% reduction in the Development Budget that has been observed from the beginning of 2016 to the present. I understand why this drastic step was taken last year, as we needed to avoid a catastrophe at all costs. I also wish to commend the Finance Minister for his attempts to drive development spending back to the N$9 billion level, but that is over three years, and in practical terms it means that by the end of 2019 we will only be back to 2016 levels.

Honourable Speaker, Honourable Members,

In conclusion, I wish to reiterate one or two key points.

The 2017/18 National Budget as presented by the Minister of Finance rests on key assumptions that in my opinion are highly problematic, and which pushes us dangerously close to economic ruin. **The risks faced by our economy are significant, and it should be clear in no uncertain terms that our collective long term prosperity and well-being has been wagered by the ruling party in exchange for short term political gain.** Unproductive public spending, an unwillingness to tame the behemoth that has become the public service and its accompanying wage bill and wanton mismanagement of public resources. The failure to address these various risk factors whilst blame-shifting towards what the ruling party has claimed are economic forces beyond Government's control, is what has placed Namibia in the most precarious of positions. Each and every member of this August House has a duty to act responsibly, and I urge all of you to act responsibly in considering your approval of the 2017/18 National Budget.

I so move.