Republic of Namibia

Reply by the Minister of Finance On Matters Raised during the Second Reading of the 2017/18 Appropriation Amendment Bill and the 2018/19- 2020/21 Medium Term Budget Policy Statement

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Minister of Finance

21 November 2017

Honourable Speaker,
Honourable Members,

1. I now take this opportunity to respond to the questions, comments and matters raised during the Second Reading of the 2017/18 Appropriation Amendment Bill and the Medium Term Budget Policy Statement for the 2018/19 - 2020/21 MTEF.

+ the Whips of all Parties for their fruitful discussion and support.

2. Let me at the on-set thank the Honourable Members who have taken the floor and made comments on the proposals. Making input on the proposals is well in line with the Mid-Year Budget Review policy objectives for making advance announcement of the policy proposals for the next budget and seek input from the legislature well in advance of the tabling of the budget and MTEF.

3. As I have stated in my tabling Statement, the Medium-Term Budget Policy Statement for the next MTEF seeks to achieve three core objectives:-

    - *maintaining a gradual fiscal consolidation through a gradual reduction of the budget deficit over the MTEF, thus addressing long-term debt stabilization and the concerns raised by credit rating agencies,*

    - *providing additional resources to correct for budgetary shortfalls which arose as a result of the front-loading of spending on the previously unreported spending arrears as well as to cater for allocation shortfalls on the provision of critical services, mainly in the education sector, and*

    - *proposing a moderate scaling-up of development spending on growth-enhancing infrastructure* *through a set of mutually-reinforcing interventions, consisting of targeted capital spending in logistics and agricultural mechanisation, operationalization of the Infrastructure Fund and harnessing alternative forms of financing such as Public, Private Partnerships.*

4. These objectives will be increasingly refined and reinforced during the next budget and MTEF and imply a recalibration of the fiscal stance set forth in the current MTEF to support uninterrupted provision of essential services and give greater impetus to economic growth objectives, while curbing growth in non-essential spending.

5. This adjustment framework is anchored on, and consistent with the realignment in the macro-fiscal framework established by the FY2016/17 Mid-Year Budget Review and the current MTEF.

6. A weaker growth outlook stemming from a multiplicity of external and domestic factors is one of the weaknesses cited by the credit rating agencies in their ratings action on Namibia. It is thus important to foster the growth potential of the economy through well targeted policy intervention measures and moderate targeted spending on infrastructure.

Honourable Speaker,

7. I listened objectively to the issues raised during the Second reading of the Appropriation Amendment Bill. I appreciate the input and suggestions made as this input will improve the budget process, budget policy and allocative efficiency going forward.

8. I wish to thank the Honourable Members and the political parties particularly those who have taken the floor for their principle support and the comments.

9. In particular, I wish to thank Honourable Nico Smit from the Official Opposition Party, the Popular Democratic Movement (PDM) as rebranded, for the input.

10. [I thank Honourable Maamberua from Swanu, Hon. Murorua from the UDF; Hon. Mike Kavekotora from the RDP and Hon. Meundju Jahanika from NUDO for their valuable inputs].

11. [It will be remiss of me if I did not thank the Honourable Members from the SWAPO Party who took the floor to make their contributions and proposals]

12. *Honourable Speaker*, the interventions made refer to various aspects of the Appropriation Amendment Bill and the Medium-Term Budget Policy Statement. I will respond to the questions raised and proposals made from the thematic perspective.

13. The sub-themes made are mainly in regard to (i) macro-fiscal projections, (ii) revenue projections (iii) domestic policy interventions and structural policy reforms and infrastructure development and (iv) budget allocations and allocation classification to various Offices/Ministries and Agencies.

14. Honourable Nico Smith was elaborate in this interventions across these thematic areas. While his interventions made reference to some of the routine aspects of the budget process, some such concerns are not benchmarked on

actual realizations to date and factual considerations. The proposals in the Mid-Year Budget Review incorporate more risk factors than those referred to by Honourable Smith.

15. As the economic and financial environment remains dynamic, consideration of such risk factors and the latest new developments in the economy will be further refined as part of the 2018/19 budget and MTEF preparation.

MACROECONOMIC METHODOLOGY AND PROJECTIONS

16. *Honourable Speaker*, on the macroeconomic framework, the questions raised were in regard to the methodology, assumptions and the plausibility of the macroeconomic projections.

17. Let me state that Namibia follows modern day macro-fiscal forecasting methodology, which is continuously aligned to best international practices and the developments in the domestic economy.
    - *the Macroeconomic model in use is an integrated, dynamic model, which integrates macroeconomic and fiscal forecasts in a consistent framework, allowing for the assessment of the impact of various policy scenarios and shocks on various macroeconomic accounts and debt sustainability analysis,*

    - *The baseline projection scenarios are anchored on the most recent actual realisations, principally on the National Accounts as produced independently by the*

Namibia Statistics Agency and actual fiscal realisations,

- *a comprehensive set of industrial survey and expert views collected by an inter-institutional team precede the preparation of the macroeconomic framework and serves as a basis for updated assumptions and input into the modelling framework,*

- *international assumptions on the global economy, trade and commodity prices are based on year-to-date realisations and outlook by International Monetary Fund (IMF) and other reputable international bodies and as well as peer review considerations from regular engagements such as the Annual Article IV Consultations,*

- *macroeconomic modelling forecast are made by an independent, inter-institutional and multidisciplinary Macroeconomic Working Group, comprising the Ministry of Finance, Namibia Statistics Agency, the Bank of Namibia and the National Planning Commission, thus retaining professional independence and objectivity. Furthermore, the plausibility of the projections are informed by independent expert views from the private sector and input from other professional bodies such as the Economic Association of Namibia.*

18. Adjustments to the macroeconomic outlook is inherent in macroeconomic forecasting due to dynamics of economic, trade and financial environment. For instance, IMF revises its projections of the global economy four times in a year (January, April, July and October).

19. Some of the comments made on GDP projections are attempted extrapolations which are not supported by actual facts.

20. For instance, GDP outturn for 2016 is published in the 2016 National Accounts. Actual nominal GDP for 2016 is N$161.69 billion, compared to the 2017/18 budget projection of N$156.21 billion in calendar year terms, indicating that the budget projections were cautious and the outturn was 3.1 percent better than projected. Thus the actual baseline was better than the earlier projections and it is the basis for forward projections in a consistent framework I referred to earlier.

21. Year-on-year, the growth in actual nominal GDP averaged 9.5 percent since 2014. For 2016, quite a difficult year, it stood at 9.1 percent. The Medium-Term Budget Policy Statement estimates the year-on-year growth in nominal GDP for 2017 at 7.8 percent, which is below the 9.1 percent actual realisation for 2016. This is projected to grow by an average of 6.1 percent over the next MTEF. All these estimates are below historical averages and even below the outturn for 2016, which was the most difficult year. So the concerns propagated that the projections are without a foundation is, itself, shaky in the presence of verifiable empirical facts.

22. Further, *Honourable Speaker*, the actual real GDP growth rate for 2016 is 1.1 percent, much closer to the 2017/18 budget estimate of 1.3 percent and significantly different from IMF projection of 0.2 percent. This is not to argue for the forecasting power of the different projection models, but to underscore that local modellers and industry experts have better knowledge of the domestic economy than anybody else.

23. From economic sectors point of view, what is different this year relative to 2016 is the uptick developments in the primary industries and continued growth in the tertiary services sector. We are contented by better rains received this year, which heralded an end to the drought in 2016. Diamond mining production has risen on account of increased mining capital. Activities in the mining sector for the past eleven months of the year have been supported by better relative prices for all commodities other than uranium.

24. Hence, *Honourable Speaker*, the estimated growth of 1.6 percent for 2017 is anchored on the 1.1 percent baseline actual outturn and the outlook on the various sectors of the economy as well as the demand side projections. Based on this baseline, the Preliminary Quarterly National Accounts for 2017, supported by the leading indicators to date, indicate that growth in the mining sector which was in contraction during the past three consecutive years and accounts for over 11 percent of GDP is now in positive territory. Agriculture has also rebounded. The consecutive Quarterly National Accounts indicate that these sectors are enjoying double digit growth as a result of base effects and an uptick in growth conditions. We anticipate that the Annual National Accounts for 2017 will provide a better view which overcomes the limitations posed by the sample size of the Quarterly GDP estimates.

25. Suffice to emphasize that the cautious optimism remains as regards the MTEF outlook. As customary, we will update the projections with the latest available information during the budget preparation process early next year.

REVENUE OUTTURN AND OUTLOOK

26. *Honourable Speaker*, let me now turn my attention to matters raised on the revenue estimates and projections. The main concerns raised is in regard to the estimated 11.5% percent growth in revenue estimates for 2017/18 which is said to be the weakest assumption in the Mid-Year Review. In this regard, there are two important aspects which I should emphasize:-

- The overall revenue estimate for 2017/18 was revised upward by about N$300 million or 0.5 percent only, relative to the budget. This is on account of revenue collection to date which shows overall collection rate of 56.8 percent by the end of October compared to the historical outturn of 54.4 percent over the same calendar. The estimated outturn is also bolstered by the recovery of outstanding tax arrears which now stands at N$539 million and it will proceed well for the reminder of the financial year.

- Secondly, and most important, the spike in revenue estimates for 2017/18 is mainly due to the upswing in SACU receipts for this financial year, which increased by N$5.5 billion or 39.3 percent relative to the previous year. The estimated year-on-year growth of 11.5 percent is exclusively due to the upsurge in SACU revenues. Less SACU, budget revenue growth is only around 1 percent. SACU receipts are predetermined a year in advance and accordingly decided upon by the SACU Council of Ministers. To refer to a predetermined revenue flow as a weakest assumption in the budget is not a plausible argument because the SAU formalities have been exercised in the Customs Union for more than 100 years now. Over the MTEF, revenue is projected to grow on average by about 3.3 percent.

27. The key policy stance is that we have now aligned expenditure to a revised macroeconomic and revenue framework which will be the basis for implementing the gradual fiscal consolidation going forward. Measures to improve revenue collection, preventing tax base erosion and tax administration are part of this medium-term policy interventions.

28. We have exercised caution to consider the likely downward adjustments in SACU revenues starting next year and the adjustment provisions will be further refined during the preparation of the 2018/19 MTEF.

DOMESTIC POLICY INTERVENTIONS AND STRUCTURAL POLICY REFORMS

29. *Honourable Speaker*, let me again emphasize the key domestic policy intervention measures to support the economy, continue with the implementation of the fiscal consolidation framework and the provision of essential services.

30. As I have stated in the Ministerial Statement on November 17 Fitch Ratings Opinion on Namibia, the downgrade on the sovereign bonds reflect a number of fiscal vulnerabilities and weak potential growth over the medium-term.

31. The 2017/18 Mid-Year Budget Policy Statement sets forth an implementable framework for addressing the weaknesses raised by both Moody's and Fitch. This framework which was reinforced since the 2016/17 Mid-Year Budget Review has produced tangible results. It needs to be complemented by other structural policy measures in order to reinforce its positive impacts.

32. The key policy attention is to implement measures to support growth for the real and services sectors of the economy and lift the future growth and job creation potential.

33. A gradual fiscal consolidation is among the key policy frameworks over the next MTEF, with the objective of stabilizing growth in public debt and eventually reducing total debt. Although there was a once-off interruption in the fiscal consolidation stance, the policy going forward proposes the continued reduction in expenditure as a proportion of GDP, which has been falling from 42.8 percent 2015/16 to 35 percent by 2017/18.

34. The wage bill reform is an essential component of the fiscal consolidation effort. This consists of a set of measures which have been approved by Cabinet and the implementation of vacancy replacement trade-off rules.

BUDGET ALLOCATIONS AND ALLOCATION CLASSIFICATION TO VARIOUS OFFICES/MINISTRIES AND AGENCIES

Honourable Speaker,
Honourable Members

35. Let me end my response by addressing the comments and concerns made on the detailed allocation proposals, espoused in the 2017/18 Appropriation Amendment Bill.

36. As tabled, the Bill proposes additional allocation of N$4.1 billion, of which 53.7 percent or N$2.2 billion is cater for the spending arrears which have been front-loaded in the budget to prevent continuous negative effects to suppliers of goods and services and the economy at large. The remaining N$2.4 billion is to address critical shortfalls in especially the social sectors for which the education sector is proposed to receive about 70 percent to avoid interruption of services and skills development in the sector.

37. The allocation to address the impact of the previously unreported spending arrears is once-off. Comments have been made on how these funds are allocated to the various Budget Votes and the anomalies such classifications present.

38. I concur with these observations. These funds have been inadvertently allocated to the *Subdivision 044-1: Social Grants*. Subsequently, the allocations have now been reclassified under *Subdivision 027-7: Others* in respect of the Budget Votes affected by this incidence.

39. An amendment is also made to *Table 5A* on *Operational Budget Ceilings* by indicating *Suspension Amounts* per Vote as well as to the detailed tables on Summary of Expenditure allocation by Vote. These changes do not impact on the overall proposed ceilings amount and the Appropriation Amendment Bill.

40. I have circulated the errata on these changes.

Honourable Speaker,

41. With these remarks, I wish to thank the Honourable Members for the input provided. I now seek for your support in order for us to realize the allocation intentions proposed in the Appropriation Amendment Bill and the Medium-Term Policy Framework.

I thank you

(1) SME - funding

(2) additional - under funded priority services.

(3) lack of vehicles.

(4) Question on corruption value/loss to the economy