



NATIONAL ASSEMBLY

CONTRIBUTION BY HON NICO SMIT ON THE 2023 MID-TERM BUDGET REVIEW INTRODUCED BY THE MINISTER OF FINANCE AND PUBLIC ENTERPRISES

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Hon Speaker, Hon Members, the Minister of Finance and Public Enterprises, Hon Ipumbu Shiimi must be a very happy man. On his watch, revenue has significantly outperformed the projections in the main budget tabled on 22 February this year, and he has managed to keep government debt as a percentage of Gross Domestic Product, below the 70% mark.

Following the tabling of the Mid-Year Budget Review, it is now public knowledge that the economy has performed better than expected for the first six months of the fiscal year. This has enabled the Minister to adjust the outlook for full-year revenue collection by some N\$3.8 billion to N\$78.5 billion, an adjustment that has a large influence on the budget deficit.

As at mid-year, the primary budget balance has improved nearly three-fold to a surplus of N\$2.7 billion while the overall deficit has increased marginally from N\$9.1 billion in the main budget to N\$9.7 billion in the mid-year review. Of course, this is not adding the hefty increase in interest payment on government debt and the large guarantees the government has to honour on bleeding state-owned enterprises.

Coupled with the strong 22% growth in Gross Domestic Product, the budgeted deficit now amounts to some 5.3% of GDP which is more or less in line with the deficits of the past two years.

On the face of it, Hon Speaker, Hon Members, it seems that the economy, and by implication, the fiscus, is doing much better than what we expected at the beginning of this year. There is also a

perceptible improvement despite the slightly lower growth ratios for this year compared to 2022.

All in all, it seems that our worries of the past seven years are over.

It is at this point, however, that I must caution the members of this august House. Our economic problems are actually far from over. The rebound in the economy during 2022 and 2023 looks spectacular but those are mere statistical gains. It is only now that the economy is back at pre-Covid levels, which in our case is not a great achievement since we had four years of recession before Covid.

The economic performance of the past two years makes it appear that we have overcome all the problems but that is far from the truth. The underlying trouble is still there, and as I will indicate later, the current uptick will not last. If we do not take care of the fundamental problems in our economy, in another two or three years, we will be right back where we were in 2016.

Hon Speaker, Hon Members, one may ask whether the published figures are reliable. To this I can only answer a very firm Yes. And I want to use just one example to this august House that the figures as presented to us, are close to real outcomes.

Take, for instance, the calculations for Gross Domestic Product. In the main budget at the beginning of the year, the GDP estimate for 2023/24 was pencilled in as N\$215.280 billion. In the mid-year review, this has been adjusted to N\$232.797 billion. When I compare this to Government debt as a benchmark, I get to an actual GDP of N\$232.917 billion.

The difference is negligible, given the size of the base values and it provides confirmation that the adjusted budget figures as presented to us in the mid-year review are indeed on the mark.

But Hon Speaker, Hon Members, Namibia's national budget is not determined by one single person, neither are the budget priorities determined by only a few people. And this is where I need to caution this august House.

On paper the mid-year review looks good; one can even say it looks excellent but the underlying shortcomings which led to our 7-year recession are all still extant and will not disappear in just one year when we have finally managed to turn the negative tide.

I want to list the problems that we face systematically so that you can see for yourself there is still a long road ahead to get us out of the trouble and problems caused by the Swapo financial management.

1. The size of the Civil Service

In 2016, the government committed itself in public to reduce employment in the Civil Service by 2% a year. That has not happened. The Civil Service is still the big elephant that consumes whatever green shoots we are likely to see.

As far as the wage bill is concerned, it is bigger than ever and continues to consume more than two thirds of the government's current expenditure.

The Civil Service is a drag in more than one way. The shortfall on the government's medical aid scheme, PSEMAS, is again featuring in the list of the Minister's concerns, after stealing the headlines for several years.

When are we going to get to that point when PSEMAS is reined in once and for all? If one adds the additional burden on the wage bill that comes

from medical aid claims, then the wage bill is heading for 70% of total operational expenditure.

Hon Speaker, Hon Members, another casualty is the Government Institutions Pension Fund (GIPF). For the first time in its history the GIPF has expended more in benefits that it has accrued in contributions. Fortunately, the GIPF is saved by the income earned on its very substantial investments, but one cannot escape the economic fundamental that if a fund dishes out more than what it gets in, despite its investment size, its assets will slowly but surely be eroded.

It completely baffles me how a government can afford to give its staff wage increases, if it must borrow more and more money to pay for that commitment. And surely the pinnacle of stupidity is certainly giving increases but then the Bank of Namibia depletes that small relief through punitive interest rates. What is the sense of getting, say a N\$250 raise per month, but then having to pay N\$300 or more on higher interest rates? It does not make any sense at all, but this is the skewed way in which our economy is planned.

2. The dismal size of capital expenditure

Hon Speaker, Hon Members, operational expenditure makes up just more than N\$66 billion of the total budget of N\$86.4 billion, which the Minister tabled in February. Compare this to the development budget which came to a paltry N\$6.5 billion and which has not been adjusted in this mid-year review.

You will remember that we started pilfering the development budget in the revised additional budget at the end of 2016 as an emergency to overcome the severe contraction that the economy suffered. At that time it was required and certainly expedient but we have not managed to restore the level of investment into the economy. Continuing with an investment of only 7.5% of total expenditure is perpetuating the damage that we suffered in 2016 and from which we have not yet managed to recuperate.

If we are in any way serious about the long-term development of Namibia, we have to bring back the investment level in the development budget to 25%. In practice it means that one quarter of our resources must go into investment every year, and that investment must be in the form of tangible infrastructure, not foreign reserves or sovereign funds or sinking funds.

The money spent on development can be viewed as the investments we make in our future to grow the structures that the rest of the economy depends on to expand. In very simple language, if we as a nation fail to invest in our future (as clearly indicated by the figures) we move faster and faster to the so-called debt trap. If I go by the figures given us in the mid-year review, this is a mathematical certainty.

3. Our national debt has not suddenly vanished

Hon Speaker, Hon Members, we are going to pay an astonishing N\$12,368 billion in statutory expenses. This is the interest we pay on our debt as well as the guarantees the government has extended for the bleeding parastatals.

Although the Hon Minister has managed to arrest the debt ratio compared to GDP, nominal debt continues to grow. It means we must still borrow from the capital market to fund our bloated operational expenditure.

It is true that we have come a long way to extending the maturity profile of our sovereign debt but that does not mean we can afford to pay about 15% of our resources to service debt. Seeing that the Hon Minister has managed to budget for a primary surplus, I must commend him for his earnest efforts

to change our debt profile, but despite any small gains he makes to reduce the debt ratio, the actual debt continues to grow.

The risk here is that we do not have any protection against unforeseen events. Take Covid as an example. We were so indebted at the start of Covid that we as a nation were at the mercy of the capital markets and of friendly donors. And we were punished severely if one just looks at the spreads between local debt and the South African benchmarks.

The painful effect of interest payments is glaringly reflected in the mid-year review where an additional N\$1.7 billion had to be appropriated to service the increase in interest payments. Ascribing this to higher interest rates is utter nonsense, like a fool's paradise. It is out and out a function of the size of the total debt. If our national debt was manageable, then the level of interest on that debt becomes academic.

4. The government's leadership corps has not bought into the frugality mantra

Hon Speaker, Hon Members, every year, the Hon Minister offers us an austerity narrative, which we would like to believe. But come the mid-year

revision, the deficit remains elevated despite the substantial growth in revenue.

Again, in this mid-year review, the Hon Minister laments the fact that despite clear guidelines on the merits of additional funding, the total requests still came to N\$5.3 billion. This indicates that Executive Directors are not in control of their budgets and that budget overshoots are not viewed as incompetent financial management and control.

This is where the budgeting conundrum is vividly demonstrated. The ministries, agencies and offices requested in total more than N\$5 billion but the projected increase in full-year revenue only comes to N\$3.8 billion. I am sure the Hon Minister now knows the meaning of the expression “between a rock and a hard place.”

Fortunately, and again I am very glad to be able to point this out, the Appropriation Amendment bill only makes provision for additional expenditure of N\$2.47 billion across the 39 primary votes.

I share the Hon Minister’s exuberance over the better-than-expected economic performance and revenue outturn, but I wonder if he does not cringe secretly when he has to entertain the inflated views his Swapo colleagues hold of the economy’s broader

performance. The way that I know the members on the other side of the House, if it appears that there is five dollars lying around somewhere unattended, somebody will devise a scheme for how to get hold of those five dollars.

Hon Speaker, Hon Members, I am afraid this is exactly what this mid-year review will accomplish. It presents the appearance that we are out of the doldrums, but in fact, we are not. It is still a long haul before the economy will be back to the output level it attained in 2014 and 2015. And the damage that was done in the ensuing years was enormous, so do not make the mistake of thinking the economy, and the budget are fine.

As I listened to the Hon Minister when he made his Mid-Year Budget Review speech, it struck me that all the old culprits are still there.

The Students' Fund has been in trouble for a very long time. Exactly how much more money will it need and how many incompetent hours will be wasted to manage a type of funding institution which is very successful in the private sector, but cannot find its pace under civil management?

TransNamib is another case in point. Every year we are fed huge promises how this glutton will be brought in line as a proper commercial entity and every year it only survives on government bail-outs. The same with Meatco, Namcor, the National Housing Enterprise, Seaflower and a host of entities all helping to reduce the size of the economic cake for everybody. It is amazing how soon we have forgotten Air Namibia and it is even more amazing that there were numerous public voices demanding the government to keep funding the national carrier's losses from the fiscus. I assume it is no different with a lot of other parastatals.

One particular money monster that has helped undermine government finances for three decades is the many local authorities where the councillors and staff do not have the foggiest clue what they are supposed to do. But as long as they receive their salaries and the government is prepared to foot the bill, so long will the economy continue to suffer from the depleting effect of inefficient local authorities who see the national budget as their own personal piggy banks.

Hon Speaker, Hon Members, I noticed that the Hon Minister, amongst others, placed some hope on the diamond industry, and I do not want to burst his bubble but the diamond industry is in serious

trouble. The contractions that are now experienced in the retail side of the industry will eventually work through to the processing and mining side. With the government being a 50% partner in NamDeb, do not be amazed when even this behemoth at some point requires its shareholders to make good the operational shortfall.

Crucial social safety mechanisms like the proposed National Pension Fund, for instance, are still just talk, talk, talk, twenty-five years down the line. This means that an entire generation of workers who could have benefited from a government-backed pension fund, regardless how modest that pension may be, now has nothing to fall back on in their old age except the standard government old age pension, which is a subsidy and a further drain on the fiscus. Do you see or hear anything about the National Pension Fund in the budget? No, nothing.

In short, Hon Speaker, Hon Members, join me in being happy for the Hon Minister that at least, after seven years of drought, there are some green shoots, but this time for real. But then heed my words that our troubles are far from over, that our interest payments are devouring our investment future, and that we basically survive on the grace of SACU transfers.

Were we not liable to pay more than N\$12 billion in statutory expenses, imagine what could have been accomplished with that money if it could have been invested in the development budget? Then consider the size of the development budget, N\$6.5 billion, which is a joke for an economy of our size, and realise what we would have achieved if the debt overhang did not steal our future growth.

I thank you