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Response Speech by Hon Nico SMIT (MP) on the National Budget for 2024/25 and the Medium Term Expenditure Framework up to 2026/27

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Fighting inflation by Stoking inflation

Confidence

Hon Speaker, Hon Members, I believe felicitations are in order for the Minister since it is on his watch that total expenditure in the national budget exceeds N$100 billion for the first time ever in the history of our country. This is indeed a landmark event, showing not only how far we have come in our development aspirations but also how much confidence there is in the reliability of the budgeting process.

But I want to caution my colleagues in this august House that we are following a risky and dangerous budgetary path, one that we have traversed already once in the past, and which has wreaked

havoc on the well-being of our citizens.

A responsible budget in my view, would have utilised the revenue windfall and the renewed vitality of the economy, to improve our resilience. It is fairly useless when there is an unexpected 12% increase in revenue, to immediately follow this as a cue to increase expenditure by the same amount.

Looking at the budget at face value, one cannot help but be impressed with the enormity of this most important of all national endeavours. The distance between the devastation of three years of recession and two years of Covid, and the 2024/25 budget is so large, it does not appear as if any direct impact remains of those very difficult years.

Hon Speaker, Hon Members, I think it is safe to say that we have truly overcome the recession cum Covid slump, and that we are again in charge of our destiny at levels above 2019 just before Covid struck.

To confidently estimate that GDP for the ensuing year will exceed N$275 billion and then shoot past N$300 billion in the Medium Term, is indicative of the depth and reliability of the budget process as a fiscal management tool.

The fundamentals driving the current budget

Hon Speaker, Hon Members in the words of the Minister, the budget is built on three reinforcing policy pillars, namely boosting domestic demand, investing in public infrastructure, and reducing the pace at which new debt is incurred. As part of the latter undertaking, there are specific provisions in the budget to make provision for the demands of the capital market and for the huge impact that the redemption of the Eurobond will have on the fiscus come October next year.

Hon Speaker, Hon Members, as noble as this approach may sound, it is also the broad framework that reveals the weakness of the overall budget.

It is no exaggeration to state that the budget is to a large extent enabled by inflation, and that the rather impressive escalations are mostly the result of inflationary increases. What is disconcerting is that the opportunity was not grabbed to make full provision for the redemption of the Eurobond, or to bring the Development Budget to a level of about 25% of total expenditure. Remember that the development budget was pilfered all through 2017 to 2021.

The nominal growth in the budget values is a clear indication that the apparent benefits are derived from inflationary pressures. Take, for instance, the ministry's view on Gross Domestic Product. A year ago, the estimate was for N$227 billion for the current fiscal year. What a surprise it was when the new budget upgraded this view to a GDP of N$276 billion for 2024/25.

That is a staggering 22% increase and it did not come from economic growth or from increased investment. No, it is in part the effect of inflation transmitted to the Namibian fiscus through the significant jump in SACU revenues, consequently also in Namibia's allocation from the Common Revenue Pool.

Hon Speaker, Hon Members, let me explain so that my colleagues in this House can clearly understand what is driving the budget, and what are the growing risks associated with this type of budgeting. I do not want to pour cold water on your party plans, but this is an almost exact repeat of the elevated type of projections that we were fed in 2014 and 2015, and which came crashing down in 2016, taking us into our longest and most severe recession since Independence.

A year ago, the ministry was expecting roughly N$24 billion from the SACU Revenue Pool. Through the inflationary effect on all international trade between the customs union and the rest of the world, that amount now exceeds N$28 billion, giving the fiscus a four billion dollar windfall which was not expected, as the minister explains in his budget statement.

Through positive adjustments to almost all revenue streams, and hoping for other smaller contributions in the form of dividends, revenue for 2024/25 is finally estimated at some N$90 billion or 11.5% more than the estimates in the revised budget of last year.

Furthermore, the expected annual increase in revenue over the next two years is only about 5% but as a percentage of Gross Domestic Product, it remains static at around 30%.

Immediately, these figures should point at some fairly obvious disparities in the adjustments from last year to the current fiscal year, and the comparisons of growth over the Medium Term Expenditure Framework. In practice, it means that the government's income grows at the same pace as the economy, and that the recent revenue windfalls are something of the past.

Hon Speaker, Hon Members, earlier I stated that GDP growth, after suffering some significant massaging of the data, jumped by 22% compared to the estimates in the main budget. The first significant adjustment happened with the revised budget tabled as the Midyear Review but the current estimates are still nearly 12% more than the adjusted level.

So, if the economy grew at a revised 5.6% while the fiscal framework for the current budget settles between 11% and 12% more than last year's revised budget, where does the additional growth come from?

This is a valid question since the answer lies in inflation. The first figure, the 5.6% GDP growth is a so-called 'real' value, i. e. it makes provision to remove the effect of inflation. The 11% to 12% adjustments of the new budget are nominal values, meaning that they reflect the expected values by which the underlying budgetary components will increase, expressed in monetary terms.

But here is the catch; nominal adjustments have never been this high since 2016 when it was assumed that economic expansion will simply continue on the tangent that it followed from 2011 to 2015. Remember also that those lofty budgets were debt driven, not supported by investment or increases in productivity. In fact, productivity became something of a joke since why would the government worry about output and performance when more money could simply be poured into the system year after year by borrowing and then squandering it on a bloated, inefficient civil service?

The nominal budget for 2024/25 and the subsequent two years in the Medium Term Expenditure Framework, are obviously inflation-driven. It is a risky form of budgeting since our local inflation does not stem from any domestic pressures but are mostly transmitted to the Namibian economy through our substantial imports. Please understand this clearly; the inflation that we started experiencing at the end of 2022 did not originate in increased local demand - it was the result of the drastic increases in oil prices following Russian's antics in Eastern Europe.

Hon Speaker, Hon Members, exactly how severely that transmission mechanism operated and for how long it will continue, are considerations outside the ambit of the

Namibian budget. The only important consideration is that the source of inflation is exogenous, therefore we do not and cannot control it, thus any monetary policy action by the Bank of Namibia, is futile.

The relationship between Government and the Central Bank

Will somebody, anybody, please explain to me how it is possible that not a single learned individual in the ministry's small army of budget advisors, can grasp the fundamental disjunction between inflation, interest rates and economic growth?

When the Minister states that a large slice of the 8.8% increase in the operational budget rests on an intended 5% increase in civil service wages "to guard against the erosion of purchasing power," it is almost laughable so ridiculous is this statement.

What is the sense of increasing the spending power of the civil service when the Bank of Namibia has the authority to dilute any increases as much as they want without bothering to hassle with unions and the Ministry of Labour?

Citing its mandate to keep inflationary pressures under control, the Bank of Namibia increased the repurchase rate in 2022/23 from 3.75% in 2020/21 to 7.75% in June last year. Since very few people ever make percentage calculations, let me point out to you that the repo rate increase is four percentage points, but the actual increase was more than 100%.

Under ideal conditions, the Central Bank in most countries will be independent of the government and will set monetary policy according to its mandate. Not so in Namibia. The Bank of Namibia is a state-owned enterprise as confirmed by the minister by listing it as a source of revenue. This is a very dangerous liaison, and the Central Bank with its power over monetary policy, is leading us down the same path that we followed in 2016.

Hon Speaker, Hon Members, figure this one out for yourselves. If increases in the repo rate are ostensibly meant to drain liquidity to curb inflation, then it is axiomatic that a 5% increase in the government wage bill will stoke inflation, opening the door for another hike in interest rates.

The fact of the matter is that the government depends on dividends from its Central Bank and when interest rates are too low, according to its own view, the Central Bank forfeits the income derived from higher interest rates. The ordinary Namibian is punished by this charade and the Minister of Finance plays along by promising its workers an increment to neutralise the harmful effect of high interest rates.

If the government were a small employer, the effect would be negligible but seeing that the government is the biggest employer by far in the country, any adjustments to civil service wages has a significant impact on the budget.

What is considered a manageable debt level?

The official discussion around government debt is just as obtuse as the assumptions that nominal growth will continue to hug the 12% level, when in fact we have proven, historical evidence that this is not the case. Or at least, as the Minister of Finance, one has to be cautious about the fact that the planned scenario may not materialise. Two good years (2022 and 2023) are no proof that the next year will follow the trend despite all the optimistic estimates.

The debt rhetoric has become so misleading, only the most gullible of Swapo's voting flock still swallow this hogwash. The anomalies in the argument are so pervasive, very little sense remains.

Government debt exceeded 62% of GDP. Then by some magic, a 12% nominal increase in GDP and a relative slower borrowing requirement brings this down to 60%, at a deficit of N$8.9 billion, which must be financed from the capital market. This is intended gradually to reduce the debt burden as a percentage of GDP without actually bringing the debt down.

Hon Speaker, Hon Members, we must assume that every year over the Medium Term Expenditure Framework, government debt will continue to balloon by between N$9 billion and N$10 billion. It is only that misleading ratio of debt to GDP that makes a difference, and this only holds water if GDP continues to increase at a nominal rate close to or exceeding 12% per annum.

This type of scenario planning and careless assumptions, we have also seen in the past. Were it not for reckless budgeting in 2015 and 2016, we would not be saddled with a debt burden today that equals roughly two thirds of our entire economy.

What cannot be argued away is that the interest on the debt siphons away around N$12.8 billion just in this year, and that this trend also continues indefinitely. This constitutes about 14.2% of revenue and 4.7% of GDP, as the minister reminded us, but he forgot to tell us that the International Monetary Fund's fiscal level for debt sustainability is around 10% of revenue. Anything above that and the IMF starts flashing red lights, which indeed it has been doing since 2017.

We cannot get around the brute fact that our national debt is way too high and that it will remain at that level despite all the unconvincing rhetoric. If there were N$12.8 billion more every year to spend on development projects and infrastructure, imagine how much further advanced Namibia could have been.

The Swapo-induced drain on the Namibian economy becomes even more visible when the cost of financing the debt is compared to the investments that enter the economy through the development budget.

Increase in the development budget

Hon Speaker, Hon Members, the fact that the development budget has been increased by more than 50% compared to previous years, is another con that only surfaces when the actual values are compared to the interest that Namibia has to pay every year on its government debt.

The sad reality is that debt servicing takes up more resources than what is invested into projects and infrastructure. Even after the hefty hike in the development budget, it is still marginally less than what is devoured by debt payments.

The N$12.7 billion earmarked for the development budget is the biggest budget joke especially if you consider that N$3.2 billion of this amount comes from grants and loans. In the Minister's own words, there is a dearth of capacity in the civil service to execute projects and implement budget allocations, which, in my view, translates to a situation where the status quo will continue, the development budget will be prone to virement, and new projects will only be funded through issuing new debt, or knocking on other institutions' doors for more loans to invest in infrastructure.

Going by the ratios of the International Monetary Fund which set 25% of GDP as an appropriate investment level, it implies that every year some N$69 billion must be invested in the economy, at current levels.

It means that we are about N$55 billion short on our investments to grow the economy at a rate of roughly 5% per annum, which is the stated investment level in the National Development Plans, but which has never been achieved. The pilfering of the development budget has carried on for years so it is unrealistic to assume that this damage will be remedied in one MTEF cycle. It is an unfortunate fact that if we do not start with a far more aggressive approach to investment, we will continue to move backwards in terms of infrastructure.

Our only option will be to acquire more debt, descending into a debt spiral that feeds off the money that should have been invested in our future.

A reliable roadmap to put Namibia's fiscus back on track

Hon Speaker, Hon Members, it is obvious that 2022 and 2023 have been very kind to the Minister of Finance. Coming from an extremely low base in 2020 and 2021, the improvement in economic output provided just the sort of positive spin for which we yearned.

Together with all my colleagues, I am very glad for the two "good" years following Covid. The fact that the 2024/25 budget indicates a continuation of this good economic environment brings consolation to many ordinary Namibians who have suffered extraordinarily during 2020 and 2021.

But don't forget, it is only recently (2023) that the economy's output reached its pre-Covid level, and it will take several years before we can talk about a "normal" economy. Since I am deeply aware of the hardship caused by the recession and then by the Covid pandemic, it is such a relief to receive a budget where the green shoots that we have been waiting for, are finally materialising.

But I want to caution my colleagues in this august House that we are following a risky and dangerous budgetary path, one that we have traversed already once in the past, and which has wreaked havoc on the well-being of our citizens.

A responsible budget in my view, would have utilised the revenue windfall and the renewed vitality of the economy, to improve our resilience. It is fairly useless when there is an unexpected 12% increase in revenue, to immediately follow this as a cue to increase expenditure by the same amount.

This windfall should have gone to improve those funds and structures that we need in times of calamity, like the next drought or the next pandemic.

Hon Speaker, Hon Members, our new budget direction makes it appear as if we have turned the corner and prosperity for all is just a matter of a few bigger budget appropriations. It is not, and I am afraid that I cannot condone this budget. It is just a repeat of a very dangerous road we have travelled before.

As an election gimmick of Swapo, it may possibly be successful but I have also become convinced by recent political developments that our populace has started to see through the fluff of the budget rhetoric.

We have been blessed indeed by exciting new developments in the economy, notably the discovery of large deposits of oil, and of the interest in renewable energy and so-called green industries. Again, now that the hype has subsided somewhat, I need to remind you all that despite whatever expectations there may be, the reality is that it may take up to ten years before Namibia sees a tangible benefit from oil.

Similarly, green hydrogen, all the rave through 2023, is only at the conceptualisation stage. The scientists know how to make green Hydrogen and investors are keen to support this budding industry, but other than fertiliser and chemicals, the big breakthrough in Hydrogen as a transport fuel is yet to happen, or rather to be discovered or invented.

We have zero control over that process,. and must approach our budget responsibilities with that reality uppermost in our minds. In the meantime, we owe it to the next generations to bring the government debt down, to invest in projects and infrastructure that lead to economic growth, and to ensure that the wealth of the nation is not stolen by a few fat cats with good connections.

Finally, Hon Speaker, Hon Members, I am also thankful, like any other Namibian for the intention to bring tax levels in line with the social reality of Namibia.

The relief from adjustments to tax brackets is appreciated and I am sure it was done to help Swapo's election strategies, but they only apply if you have a job. If you are one of the vast cohort of unemployed, it does not make any difference at all.

The increase in the old age grant is also very welcome but the Minister knows as well as I that you cannot sustain even a small family on N$1400 per month, and that it is an unfortunate reality that Ouma ends up looking after the children with inadequate contributions from the parents.

Hon Speaker, Hon Members, overall, the budget is impressive, the growth over previous years is impressive, but the additional liquidity is not channelled correctly. Improving our resilience should have been the watchword, reducing the debt burden must be a priority, and investing in the productive side of the economy to boost future revenue should be the fundamental principle of our national budget, not the other way round.

I thank you