DEMOCRACY REPORT

• BY ROBIN SHERBOURNE | SPECIAL BRIEFING REPORT | NOVEMBER 2021

Photo: Eagle FM

Minister of Finance Iipumbu Shiimi

The Mid-Term Review FY2021/22:

Stabilising the Ship in Choppy Covid Waters

Growth – it will take three years for the economy to return to its size pre-Covid

As in all budgets, the level of resources available to the Minister of Finance is primarily dependent on the performance of the economy.

The table below (Table 1) shows how the Minister's growth forecasts have changed since the onset of the Covid-19 pandemic in early 2020.

Whilst at the beginning it was thought the pandemic would reduce GDP over two years, the view now is that most damage was inflicted in 2020 after which some degree of bounce back would be experienced, but that a good deal of permanent economic "scarring" meant a full return to pre-Covid levels of activity would not take place for some years.

Further revisions to GDP may show the damage was not quite as bad as the latest estimate of -8.5%, but that number has become progressively more negative since the budget in May 2020.

The Minister expects all major sectors of the economy to grow in 2022, but the numbers he presents show that he believes the economy will only return to its pre-Covid size at the beginning of 2024.

This seems realistic given the length of time it will take the tourism and hospitality sector to recover.

With little government fiscal stimulus available given the state of public finances and limited new private sector investment likely, it is hard to see what will drive growth over the coming years unless the government's green hydrogen plans take off.

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Table 1: Estimated Growth Rates and Forecasts over Covid Period

	2015	2016	2017	2018	2019	2020	2021 (f)	2022 (f)	2023 (f)	2024 (f)
Budget FY20/21 (27 May 2020)										
GDP growth	4.5%	-0.3%	-0.3%	0.7%	-1.1%	-6.6%	-1.1%	3.6%	2.2%	n/a
MTR FY20/21 (20 October 2020)										
GDP growth	4.5%	-0.3%	-0.3%	1.1%	-1.6%	-7.9%	2.2%	3.9%	n/a	n/a
Budget FY21/22 (17 March 2021)										
GDP growth	4.3%	-0.0%	-1.0%	1.1%	-1.6%	-7.3%	2.1%	2.8%	n/a	n/a
MTR FY21/22 (3 November 2021)										
GDP growth	4.3%	0.0%	-1.0%	1.1%	-0.9%	-8.5%	1.9%	2.8%	3.4%	2.7%

Revenues – a much better outturn for FY20/21 and a slightly stronger outlook for FY21/22

The Minister has provided an updated view of revenues this year.

Overall revenue in FY20/21 reached N$57.8 billion compared to the N$51.4 billion expected in the May 2020/21 Budget. The drop in SACU revenue was the single most important item at the time of the March 2021/22 Budget and this has not changed.

Corporate income tax revenue has been revised down slightly whilst other smaller revenue streams have performed in different ways compared to forecasts in March. As a result, the Minister has over N$1.5 billion more revenue than he expected earlier in the year.

The Minister puts much of this down to the N$408.6 million raised from the fish quota auction held earlier in the year, N$400 million from additional dividends declared by Namibia Post and Telecommunications Holdings Ltd, N$693.8 million due to an underestimate on individual income taxes and N$304 million from other mineral royalties.

Table 2: Changes in Revenue Streams (N$m)

Revenue Stream	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY21/22
	Actual	Actual	Actual	Actual	Budget	MTR
Income tax on individuals	13,267	13,588	14,147	13,786	13,875	14,569
Corporate income tax	7,860	7,325	7,257	7,559	7,187	7,056
VAT	12,049	11,461	11,515	8,326	10,511	10,511
SACU	19,597	17,375	18,922	22,252	14,750	14,750
Total tax revenue	54,591	51,813	54,816	54,575	48,821	49,412
Total other revenue and grants	4,005	3,934	3,611	3,263	3,244	4,189
Total revenue and grants	**58,659**	**55,882**	**58,536**	**57,838**	**52,065**	**53,601**

Source: Estimates of Revenue and Expenditure (FY17/18 from Fiscal Strategy)

Expenditure – more spending rather than paying down debt

On the expenditure side, the Minister announced that savings of N$41.4 million and N$279.8 million had been made from the operational and development budgets respectively.

These were obtained through a consideration of execution rates at half-year by a joint Treasury and National Planning Commission review.

Rather than use the additional revenues and the expenditure savings to reduce debt, the Mid-Term Review makes N$2.2 billion available for reallocation across budget votes.

Table 3: Reallocations of Expenditure Highlighted by Minister in Speech

Item	Amount
Development Budget	-N$279.8 million
Non-interest Operational Budget	+N$2.2 billion
Statutory Expenditure	-N$300 million
Ministry of Education, Arts and Culture (for personnel)	+N$400 million
Ministry of Health and Social Services (to boost Covid-19 response plan)	+N$400 million
Ministry of Works and Transport (to cover property rentals, rates and taxes and personnel	+N$89 million
Ministry of Gender Equality, Poverty Eradication and Social Welfare (to support roll out of social grants)	+N$15.3 million
Ministry of Home Affairs, Immigration, Safety and Security (for fleet maintenance and the Institute of Forensic Science)	+N$27 million
Ministry of Public Enterprises (leasing TransNamib locomotives, Agribusdev debt and NWR)	+N$220.4 million
Ministry of Environment, Forestry and Tourism (for anti-poaching activities)	+N$4 million
Ministry of Agriculture, Water and Land Reform (for utilities and Agribank loan scheme)	+N$7.6 million
Ministry of Defence and Veteran Affairs (for personnel and veterans)	+N$477.1 million
Ministry of Finance (for PSEMAS shortfalls and subscription fees)	+N$230 million
Ministry of Industrialisation and Trade (for Integrated Client Services Facility and public enterprises)	+N$43.2 million
Ministry of Information, Communication and Technology (for NBC)	+N$141.7 million
Office of the Judiciary (for utilities and IT equipment)	+N$10 million
Ministry of Justice (for witness fees)	+N$5 million
Ministry of Higher Education, Technology and Innovation (for NSFAF)	+N$166 million
Ministry of Labour, Industrial Relations and Employment Creation (for personnel expenditure)	+N$1.3 million
Total	**+N$2,237.6 million**

Much of this reallocation is for personnel expenditure which one would expect to have been incorporated into the main budget earlier in the year. The additional allocations to the Ministry of Public Enterprises go to the usual suspects:

Agribusdev	N$45.3 million
Epangelo Mining	N$3.6 million
Lüderitz Waterfront	N$5.1 million
Namibia Wildlife Resorts	N$53.4 million
TransNamib	N$67.7 million
Roads Contractor Company	N$11.9 million
Zambezi Waterfront	N$4.5 million
Namibia Airports Company	N$29 million
Total	**N$220.5 million**

The savings combined with the reallocations yield amended expenditures by Vote as shown in the table below. It can be seen that some Votes receive a smaller allocation (highlighted in red) whilst others receive a larger allocation compared to March and some remain unchanged. The Defence, Finance, Education (including Higher Education), Health, Information and Communication Technology, and Public Enterprise Votes appear to be the big winners from the MTR. Defence spending rises from 8.0% to 8.4% of total spending.

Table 4: Amended Spending by Vote (N$'000)

N$'000	Appropriated Amounts in Budget	Amended Amounts in MTR	Difference
Vote 01 Office of the President	609,152	600,152	-9,000
Vote 02 Office of the Prime Minister	416,998	397,598	-19,400
Vote 03 National Assembly	117,187	111,187	-6,000
Vote 04 Auditor-General	108,267	108,267	0
Vote 07 International Relations and Cooperation	827,698	827,698	0
Vote 08 Defence	5,428,595	5,884,095	455,500
Vote 09 Finance	4,696,983	4,916,983	220,000
Vote 10 Education, Arts and Culture	13,777,815	14,173,815	396,000
Vote 11 National Council	88,367	85,967	-2,400
Vote 13 Health and Social Services	8,081,016	8,429,816	348,800
Vote 14 Labour, Industrial Relations	162,692	162,092	-600
Vote 15 Mines and Energy	212,441	198,441	-14,000
Vote 16 Justice	491,405	489,405	-2,000
Vote 17 Urban and Rural Development	1,613,925	1,575,300	-38,625
Vote 18 Environment, Forestry and Tourism	524,688	502,288	-22,400
Vote 19 Industrialisation and Trade	159,797	200,450	40,653
Vote 21 Judiciary	371,152	381,152	10,000
Vote 22 Fisheries and Marine Resources	191,426	188,426	-3,000

Vote 23 Works	492,589	575,089	82,500
Vote 24 Transport	2,506,644	2,448,644	-58,000
Vote 26 National Planning Commission	182,781	182,781	0
Vote 27 Sport, Youth and National Service	278,750	276,250	-2,500
Vote 28 Electoral Commission of Namibia	72,419	69,419	-3,000
Vote 29 Information and Communication Technology	354,050	495,750	141,700
Vote 30 Anti-Corruption Commission	62,771	62,771	0
Vote 31 Veteran Affairs	861,344	878,444	17,100
Vote 32 Higher Education, Technology	3,147,300	3,313,100	165,800
Vote 34 Public Enterprises	733,396	953,828	220,432
Vote 36 Gender Equality, Poverty Eradication	5,444,795	5,450,306	5,511
Vote 37 Agriculture and Land Reform	1,255,940	1,222,640	-33,300
Vote 38 Water	465,262	463,262	-2,000
Vote 39 Home Affairs, Immigration	5,712,272	5,750,272	38,000
Total	59,449,917	61,375,688	1,925,771
Interest payments	8,500,000	8,300,000	
Total Including interest payments	**67,949,917**	**69,675,688**	

With these reallocations, spending by sub-division changed as set out in the table below. Total expenditure rises from the N$67.9 billion set out in the March Budget to N$69.7 billion. The Development Budget, which is often touted as a spur to growth, is cut from N$5.5 billion to N$5.2 billion.

Table 5: Total Spending by Sub-Division (N$m)

Sub-Division	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22 Budget	FY21/22 MTR
Operational						
Personnel Expenditure	29,171	29,389	29,570	28,666	28,459	29,630
Good and Services	8,421	6,403	6,652	8,933	7,538	7,983
Subsidies and Other Current Transfers	16,867	12,815	16,775	19,197	17,198	17,983
Interest Payments and Guarantees	5,430	7,143	6,885	7,738	8,500	8,300
Development						
Good and Services			433	443	249	229
Acquisition of Capital Assets	4,180	4,689	4,655	4,548	3,831	3,643
Capital Transfers	1,259	4,801	612	1,417	1,425	1,353
Total Expenditure	**65,328**	**65,241**	**67,409**	**72,397**	**67,950**	**69,676**

Source: Estimates of Revenue and Expenditure (Table 8 Estimates of Revenue and Expenditure)

Overall Fiscal Picture – deficit peaks this year and then declines until FY24/25

The GDP and revenue and expenditure forecasts discussed imply that revenue declines from 32.5% to 28.8% of GDP and expenditure from 41.4% to 37.5% of GDP between FY20/21 and FY21/22 leaving the budget deficit at 8.6% of GDP, unchanged since the budget in March.

As in most other parts of the world, Covid-19 has led to higher levels of public spending (not only on health) and public debt and Namibia is no exception.

Revenues in FY20/21 and FY21/22 fall far short of covering operational expenditure and also covering expenditure excluding interest payments (the "primary balance").

Chart 1: Revenue, Expenditure and Budget Balance as % of GDP

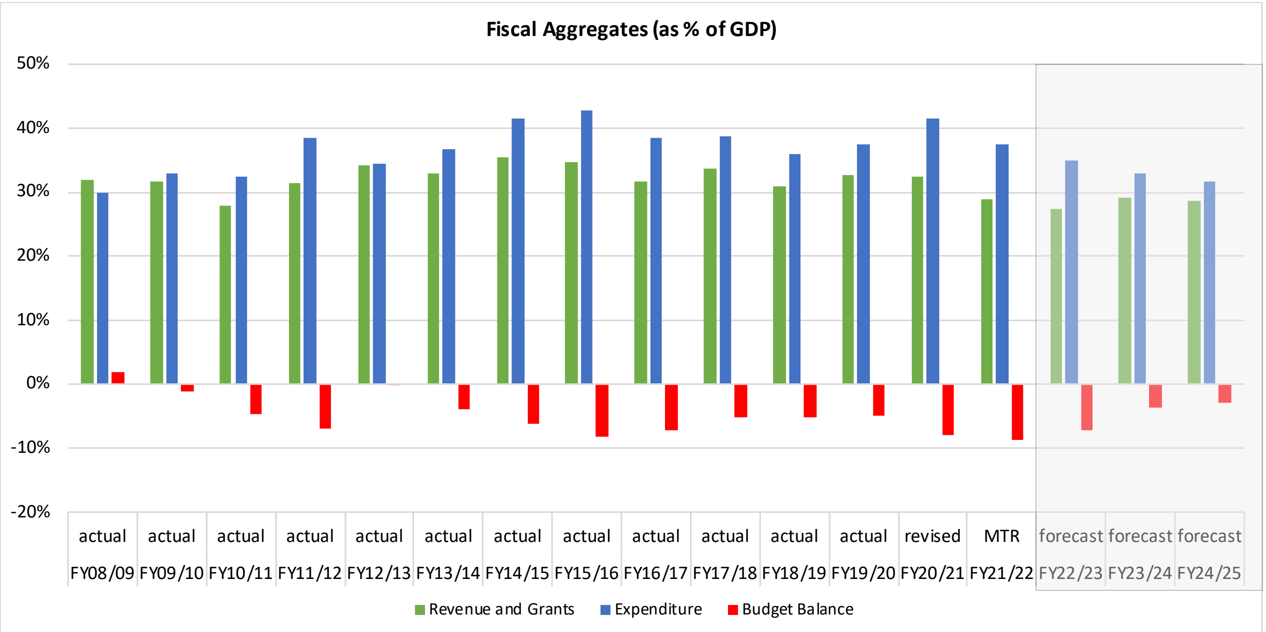
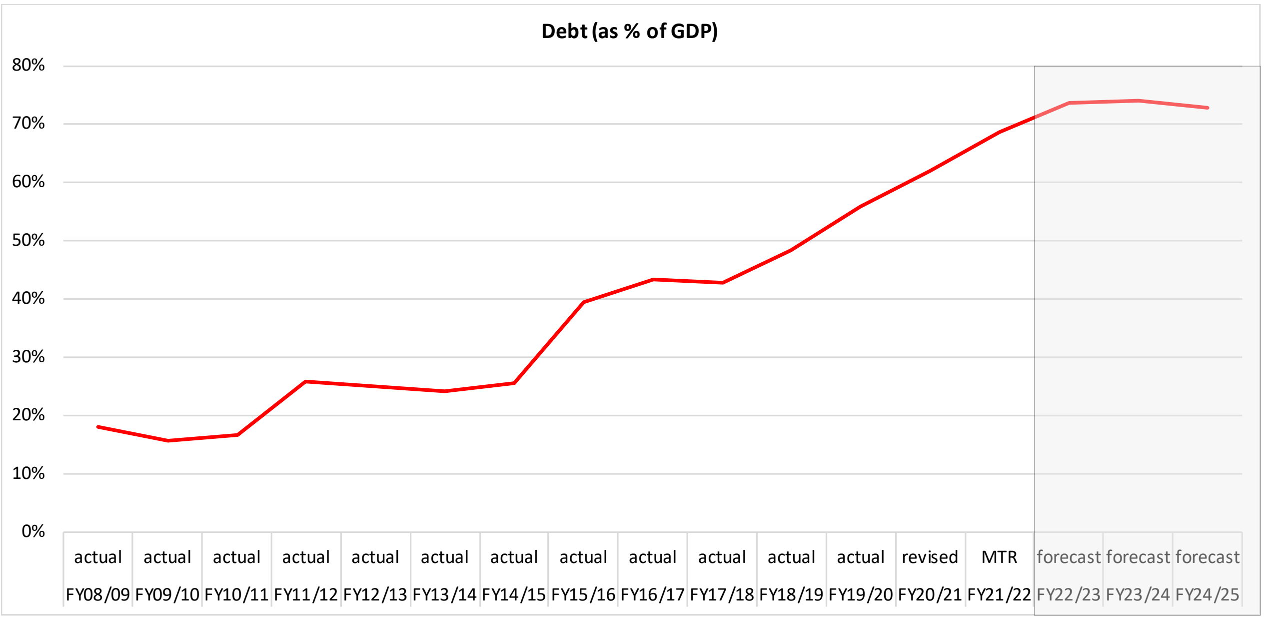


Chart 2: Debt as % of GDP



As a result of low growth and the high deficit, public debt is set to rise from 62.1% of GDP (already a post-Independence high) to 68.7% of GDP in FY21/22. It is expected to peak at 74.1% of GDP in FY23/24.

Issues of Note

Like most Mid-Term Reviews, this latest did not see any major new announcements. Rather the Minister gave brief updates on initiatives that have already been in the pipeline.

On the revenue side, the Minister noted that the Namibia Revenue Authority (NAMRA) had been established on 7 April.

Government is still exploring the idea of cutting the non-mining corporate tax rate from the current 32%, but only "at the outer years of the next MTEF".

The Income Tax Amendment Bill, covering the withholding tax on dividends, increasing pension fund and education deductibility, and enforcing the administration of the withholding tax on services, is at the early stages of ministerial approval.

The VAT Amendment Bill, covering VAT on sanitary pads and the fees of all asset managers, is also at the early stages of ministerial approval.

The revised Namibia Investment Promotion Bill (which will supersede the current Act) has been certified by the Attorney-General and is due to be presented to Parliament. The Namibia Investment Promotion Act was promulgated in August 2016 (Act No.9 of 2016) and it has taken more than five years to recognise its flaws and to come up with an alternative. No mention was made of the pending National Equitable Economic Empowerment Framework legislation.

Government is grasping the twin thorns of the Public Service Medical Aid Scheme (PSEMAS) and the Namibia Student Financial Assistance Fund (NSFAF). Options for reform of the former will be finalised in December and presented in the next budget while Cabinet has approved a debt recovery policy for the latter.

Cabinet has approved a new Sovereign Wealth Fund, to be called the Welwitschia Fund, which will be seeded and operationalised "in due course". Given the state of the public finances, it is not clear what money will be used to seed such a fund which is normally created by governments with significant surpluses to invest, for example, from the sale of oil and gas. The Minister gave no indication that the windfall from the sale of MTC shares would go into the fund or into general revenues.

A team of consultants has been appointed to "map out and finalise the wage bill reforms" for the public sector. It will be interesting to see what they come up with, but the problem is clearly the size of the public sector and not just the wages paid to civil servants. At the same time there is a focus on "putting a moratorium on mass personnel recruitment".

Following Cabinet approval, the *Southern Times* newspaper will be closed down.

Some vague mention was made about public enterprise reform, but the reallocations mentioned above suggest little of substance is actually happening.

The Government remains convinced that its green scheme projects and public enterprises in the agriculture sector "hold significant potential to contribute to resuscitating growth".

The Minister confirmed that Namibia's US$500 million Eurobond had been successfully redeemed as planned on 3 November. As explained in his last budget speech, this had been accomplished by strong-arming the GIPF to swap foreign assets for local government debt. He did not address the question of what had been achieved by borrowing this money.

The second, larger US$750 million Eurobond matures in 2025. Namibia's foreign exchange reserves have been boosted by the addition of Special Drawing Rights from the IMF and now stand at 6.7 months of import cover, which is high by Namibian standards.

The Minister faithfully mentioned the President's Harambee Prosperity Plan II, launched in March, as well as a string of other initiatives, including the special economic zone policy framework, expressions of interest to partner Government in the national single window, the new container terminal at Walvis Bay and the special economic zone at Walvis Bay, and addressing the poor uptake of SME support.

Conclusions

The Mid-Term Review contained no major new policy announcements or surprises.

The Minister was faced with slightly more revenue than he expected in March, as well as some savings.

Instead of paying down debt, he decided to spend the additional money, in large part on personnel costs whilst the development budget was cut.

With such a large public sector and so many loss-making public enterprises, flat revenue growth gives the Minister little room for manoeuvre.

Once the costs of maintaining the status quo have been covered there is little room for additional spending and forecasts presented by the Minister suggest little is likely to change up to the next presidential elections.

The key to reducing debt to more sustainable levels is to reinvigorate investment and growth – especially private and foreign direct investment, both of which have fallen steadily since 2016 (see the IPPR's Quarterly Economic Reviews).

This is recognised by the Minister who made mention of several initiatives to do this – the revised NIPA, cutting the corporate tax rate, starting SEZs, 97 potential product lines (including high value fruits) identified by the Harvard Growth Lab – but things seem to be moving at a leisurely pace.

Government's green hydrogen plans have the potential to change this rather bleak picture, but at this stage it is hard to assess how realistic they are and over what timescale they can be rolled out.

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About Democracy Report

Democracy Report is a project of the IPPR which analyses and disseminates information relating to the legislative agenda of Namibia's Parliament. The project aims to promote public participation in debates concerning the work of Parliament by publishing regular analyses of legislation and other issues before the National Assembly and the National Council. Democracy Report is funded by the Embassy of Finland.

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