



Mid-Term Budget Review FY2020/21

20 Oct '20

Overview

Overall, while the budget seems to set many positive initiatives in motion, it leaves many questions unanswered, most notably surrounding action on reform.

The key take-away from this budget is the deep damage that COVID-19 has done to the already fragile local economy, with growth forecast to contract by the largest quantum on record, with the Ministry of Finance projecting a contraction of 7.9% in 2020 (Cirrus -8.5%), resulting in a material reduction in revenue for the current year, and continuing for another two years into the future. In addition, health and stimulus related measures have driven an upswing in expenditure at the same time that revenue has fallen, resulting in a record-level budget deficit for the current year, of 10.2% of GDP, resulting in a jump in the debt stock to an estimated 68.8% of GDP by year end.

The revenue forecasts appear to be good – leaning towards the conservative. However, the Minister was cautious on his expenditure reductions despite the material reduction in revenue over the MTEF period. This means that the deficits are large throughout the forecast period, and the debt stock will continue its rapid rise.

This presents a very chilling dilemma for the Ministry, in that a balance must be struck between maintaining a sustainable fiscal path and avoiding a debt trap (deficits not exceeding nominal GDP growth in the medium term), while at the same time being cognizant of the fragility of the economy and the crippling impact of further austerity.

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Mid-Term Budget Review Summary (NAD'm)

	2019/20	2020/21	2020/21	2021/22	2022/23	2023/24
	Actual	Budget	Mid-year	Projection	Projection	Projection
GDP	178,940	171,133	174,063	183,139	193,212	203,839
Revenue	58,525	51,397	55,179	54,534	56,759	62,543
% of GDP	29.7	30.0	31.7	29.8	29.4	30.7
Expenditure	67,343	72,772	72,772	68,480	69,849	71,246
% of GDP	33.8	42.5	41.8	37.4	36.2	35.0
Budget Balance	-8,818	-21,375	-17,593	-13,945	-13,090	-8,703
% of GDP	-4.1	-12.0	-10.1	-7.6	-6.8	-4.3
Debt	100,400	117,275	119,756	134,631	148,753	158,438
% of GDP	56.1	68.5	68.8	73.5	77.0	77.7
Interest payments	6,876	7,737	7,737	8,503	8,825	8,825
% of Revenue	11.0	15.0	14.0	15.6	15.5	14.1
Guarantees	11,207	11,129	12,700	12,952	13,566	14,208
% of GDP	5.6	6.5	7.3	7.1	7.0	7.0

Source: Cirrus Securities, Ministry of Finance





The forecast increase in debt, off the already high levels, will only be sustainable if a material increase in growth can be achieved (GDP and revenue). In this regard, a notable risk exists around the region's post-COVID recovery, and the effectiveness of the reform programme used to rekindle economic activity. Given the very limited additional scope for fiscal (and monetary) stimulus, this rekindling of growth can only really stem from reallocation of current resources, off-balance sheet activities, and non-monetary reform. This includes, importantly, a more efficient allocation of finite (albeit material) financial resources towards higher-quality (from a socioeconomic perspective) spending activities. Further, it requires new thinking with regards to off-balance sheet activities, including the use of PPPs, guarantees, leveraging state assets and similar. Finally, it means reform that makes it easier and cheaper for businesses to propagate, grow, survive and thrive in the country, including the reduction in "indirect-taxes" in the form of excessive regulation and crippling bureaucracy.

With regard to these reforms, the former two (being reallocation of capital and off-balance sheet activities) are discussed at a high level in the budget. This is certainly a step in the right direction; however, details are limited. Notably absent with regards to the reallocation of resources is mention of Air Namibia and the Namibia Students Financial Assistance Fund, while much anticipated wage-bill reform is mentioned, but not actioned. The main concern pertaining to these reforms is whether their breadth and depth are sufficient to drive material, rapid, growth recovery in the short term.

With regard to general reform to rekindle and grow the country's economic activity, while there appears to be a good understanding of the reform need, there is simply no material comment as to what will be done. Beyond the (highly welcomed) promise for substantial guarantees (N\$500 million) for an SME funding strategy, no significant detail is provided as to how growth will be rekindled. Much importance is placed on the upcoming Harambee Prosperity Plan 2, however, this is of little comfort, as there is both scant evidence that a new plan will achieve what previous plans failed to achieve (implementation), but also this suggests a lack of urgency for much needed general reform.

For the majority of the economy, particularly the smaller enterprises that create most of the country's formal and informal employment, deep and rapid reform to the business environment is vital. The layering of bureaucratic and regulatory costs on small businesses in a shrinking economy now subject to a COVID-19 type shock, requires rapid action. The delay in such meaningful reform (which was promised in the May budget), is of great concern.

Thus, while the reforms discussed are certainly positive in principle, more needs to be done to ensure urgent implementation, should there be a wish to see any meaningful growth recovery in the near term, and the avoidance of a debt trap over the medium term. As is almost always the case, world over, reform is driven by necessity rather than want. This said, some material reform proposals are visible in this budget – the question remains, however, if these will migrate from proposal to reality, and what roadblocks will lie in their path. The proof of the pudding will, as always, be in the eating.

Summary of proposed reforms

Summarised Activity	Nature	Timeline	New/Old	Potential Impact
To reignite a post-COVID-19 economic recovery and job creation				
Finalization and implementation of an Harambee Prosperity Plan II.	Indirect Action	End 2020	New	Medium
Leveraging private capital through public, private partnerships, various forms of leveraging state assets and improving the investment climate.	Promise	None	Old	Medium/High
Supporting targeted productive infrastructure investment through decongestion of the public procurement processes, implementation of AfDB-funded projects for agricultural mechanization, logistics infrastructure and school renovation programme.	Promise	None	Old	High
Scaling up support to the SME sector and youth entrepreneurship, including a further N\$500 million funding for SMEs through commercial banks backed by a Government guarantee.	Action	Nov-20	New and Old	High
To strengthen macroeconomic stability and fiscal sustainability.				
Implementing a post Covid-19 growth-friendly fiscal consolidation program, aimed at reducing growth in public debt through: -expenditure containment and concerted reduction in the budget deficit,	Action	On-going	New	High



-unwinding the once-off discretionary spending on COVID-19 impacts.				
Reviewing public sector wage bill and assess the options for voluntary retirement for the 55-60 years age cohort, in combination with the vacancy freeze procedures.	Promise	None	Old	High
Assess the restructuring of the Public Service Medical Aid Scheme (PSEMAS) for alternative modes of benefit delivery.	Promise	None	Old	Medium
Finalization and implementation of the State Asset Ownership Policy and Public Enterprises reforms to enable state divestiture options and the listing of State assets.	Action	None	New and Old	Medium/High
The listing of shares by the Mobile Telecommunication Company (MTC).	Action	End 2020	Old	Medium
To safeguard the continued provision of essential services and improvement of administrative efficiency in service delivery.				
Increased funding and partnerships to provide for land serving, provision of affordable housing and improved sanitation and other basic utilities.	Action	On-going	Old	High
Maintain existing forms of social safety net.	Action	On-going	New and Old	Low
Improved social safety system administrative efficiency through establishment of a Central Registry System.	Promise	None	New	Medium
To further mobilize domestic resources to finance the national development agenda				
Launch the Namibia Revenue Agency (NamRA).	Action	2021	Old	Medium/High
Enhancing tax compliance and protect the tax base from base erosion and leverage international tax cooperation to boost national tax administration capacity.	Promise	None	Old	Low
Introduce a temporary Electronic Filing Tax Relief Programme.	Promise	None	New	Low
Re-engineering the VAT refunds audit process to reduce the turnaround payment for undisputed VAT to no more than 90 days.	Action	Feb-21	New	High
Mobilization of domestic savings by bringing to market domestic investible opportunities through public divestitures and PPPs.	Promise	None	Old	Medium
To implement key structural policy reforms.				
Finalization and promulgation of amendments to the Namibia Investment Promotion Act.	Promise	None	Old	Medium
Finalization of the Special Economic Zone Policy and accompanying policy incentives to retool and modernize the current incentive regime.	Promise	None	Old	Low/Medium
Improving the ease of doing business and national competitiveness, entailing process re-engineering of the National Single Window Facility and the Integrated Client Facility.	Promise	None	Old	High
Decongesting administrative bottlenecks in the public procurement function to improve the turnaround time for public tender adjudication.	Action	Nov-20	New	High

Source: Cirrus Securities, Ministry of Finance



Key points from the speech

Key theme

The Budget Review and the Medium-Term Budget Policy Statement focus on the creation of sustainable economic growth and stabilizing the macro-fiscal framework, in order to mitigate and control the impact that the COVID-19 pandemic has had and will continue to have on the Namibian economy.

The Economic Stimulus and Relief Package

In an attempt to protect lives and livelihoods from the impact of COVID-19, the Government launched a N\$8.1 billion Stimulus Package, with a further N\$600 million provided for sanitation and hygiene facilities at public schools, which consisted of –

- N\$4. billion in accelerated VAT and service invoice payments, which was completed by July.
- N\$1.2 billion as a direct cash injection of which (to date):
 - 769,130 individuals have benefitted from the emergence income grant, which totals to N\$576.8 million; and
 - N\$65.8 million in wage subsidies have been paid to 4,006 employers and 15,656 employees.
- N\$1.4 billion in cash-based budget provision, whereof (to date):
 - N\$651.4 million has been spent on health-related items and facilities (N\$727 million was allocated);
 - N\$229.2 million of the N\$600 million which was allocated to the education sector, was spent by mid-year; and
 - N\$80 million was allocated and spent on the water sector.
- N\$2.4 billion of liquidity support in the form of guarantees for loan uptakes through development finance institutions and commercial banks.

Fiscal Outlook and Mid-Term Policy Stance

Although the growth outlook is contingent on the risks and the likely duration of the pandemic, following an expected contraction of 7.9% in 2020, positive growth of 2.2% is projected by 2021, increasing an average of 3.6% over the next medium-term.

Revenue and grants for FY2021/22 is projected at N\$55.2 billion, and due to lower than expected SACU revenue streams, will be 0.2% lower than the FY2020/21 projection. Over the medium term, total revenue is estimated at 30% of GDP and projected to increase to N\$57.5 billion in FY2022/23 and N\$62.9 billion in FY2023/24, increasing on average by 4.2%.

Aggregate expenditure is expected to decrease 5.9% from the N\$72.8b in FY2020/21 over the medium term, to N\$68.5 billion in FY2021/22, N\$69.8 billion in FY2022/23 and N\$71.2 billion in FY2023/24, a 2% average y/y growth rate.

In this framework, total debt as a proportion to GDP is expected to increase to 73.2% and 76.9% in FY2021/22 and FY2023/24, respectively.

In order to ensure sustainable and stable growth, the fiscal policy stance adopted for the medium-term will be to:

- Reduce growth in public expenditure relative to revenue;
- Decrease the budget deficit; and
- Implement tax administration and structural policy reforms.

Policy Priorities over the Mid-Term

There are five key policies that are to be implemented over the medium term:

- Implementing an Economic Growth and Recovery Plan as part of the Harambee Prosperity Plan II, with the aim of economic growth, job creation and social progression.
- Ensuring macro-economic stability and fiscal sustainability through expenditure, non-tax domestic resources mobilization and structural policy reforms.
- Improving provision of essential service delivery through improved administration and increased expenditure.
- Tax administration reforms and alternative forms of financing to mobilize domestic resources.
- Increase private sector economic growth through the implementation of macro-critical structural policy reforms.



The FY2020/21 Appropriation Amendment Bill

A total of N\$841.6m was freed up for reallocation during the Mid-Year Budget Review process, of which N\$701.6 million and N\$140 million was realized from the Operational Budget and Development Budget, respectively. Of this, N\$601.6 million is reallocated across the Budget Votes within the Operational Budget, and the remaining N\$100 million to be allocated to the Development Budget along with the N\$140 million that is to be reallocated within the same overarching budget.

The entire internal savings is proposed for reallocation, as follows:

- N\$326.4 million to the Ministry of Basic Education, Arts and Culture for educational infrastructure and personnel related expenditure;
- N\$147.6 million to the Ministry of Health and Social Service for the procurement of pharmaceuticals, COVID-19 related expenditure and the required optimal personnel;
- N\$157.7 million to the Ministry of Gender Equality, Poverty Eradication and Social Welfare to strengthen the coverage of social grants;
- N\$50 million to the Electoral Commission of Namibia for costs related to the upcoming Regional and Local Authority Elections;
- N\$475 million to the Ministry of Public Enterprises to support the operations of Namibia Wildlife Resort and TransNamib (for the maintenance of the railway);
- N\$40 million to the Ministry of Agriculture, Water and Land Reform for expenditure on water infrastructure;
- N\$22.3 million to the Ministry of Defence and Veteran Affairs to meet the finding needs for the Veterans Subvention Program;
- N\$10.7million to the Ministry of Industrialization and Trade for the Integrated Client Facility and to support the operation for Public Enterprises under its mandate; and
- N\$11.9 million to the Ministry of Home Affairs, Safety and Security for the Visa Sticker Program.

Tax Policy and Tax Administration Reforms

Given the current, difficult economic environment, the Minister has announced that no new taxes will be introduced. We welcome the Minister of Finance's announcement that the economic landscape does not warrant the introduction of any new taxes, as these would likely be positively counter-productive at the current point in time. However, one of the key policies for the medium-term mentioned by the Minister of Finance, is the mobilization of domestic resources to finance the national development agenda, by improving administrative efficiency and mobilizing non-tax resources. In order to achieve the aforementioned, various tax related measures are to be implemented, including:

The launch of the Namibia Revenue Agency, which will be responsible for administering Namib's tax system and custom services.

- Increasing national tax administration capacity, to improve tax compliance, protect the tax base from tax avoidance schemes and further to improve tax cooperation on an international level.
- Implementation of a tax relief programme (Electronic Filing Tax Relief Programme), in terms whereof taxpayers with outstanding tax returns who file the returns electronically, will get relief in the form of:
 - 100% on penalties and 95% interest to be written off if capital tax debt is settled within three months;
 - 100% on penalties and 75% interest to be written off if capital tax debt is settled within twelve months; and
 - 100% on penalties and 95% suspension of interest for taxpayers of pandemic-impacted industries.
- Improving the VAT audit process to reduce the repayment period of undisputed VAT claims to under 90 days.

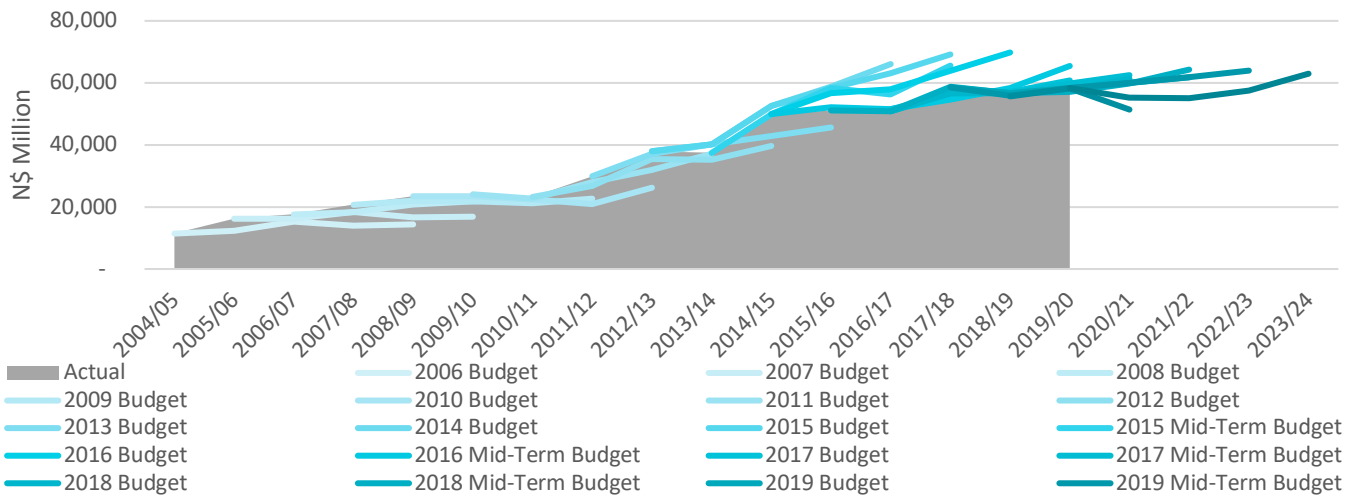


Revenue

From a revenue perspective for the current year, revenue has been revised up by 7.4% when compared to the May forecasts, driven by improvement in income tax on individuals (revised up 27.9%) and corporate tax (revised up 18.9%), particularly. Despite the now-improved expectations for FY2020/21, revenue for the financial year is expected to be 12% lower than was the case in FY2019/20. For FY2021/22, total revenue is expected to decline by an insignificant 0.2%, as recovery in major domestic revenue lines is offset by a major reduction in SACU receipts, which are expected to fall by 20.5%.

Total revenue

Current year revenue has been revised up by 7.4% when compared to May forecasts, on account of improvement in income tax on individuals (revised up 27.9%) and corporate tax (revised up 18.9%)

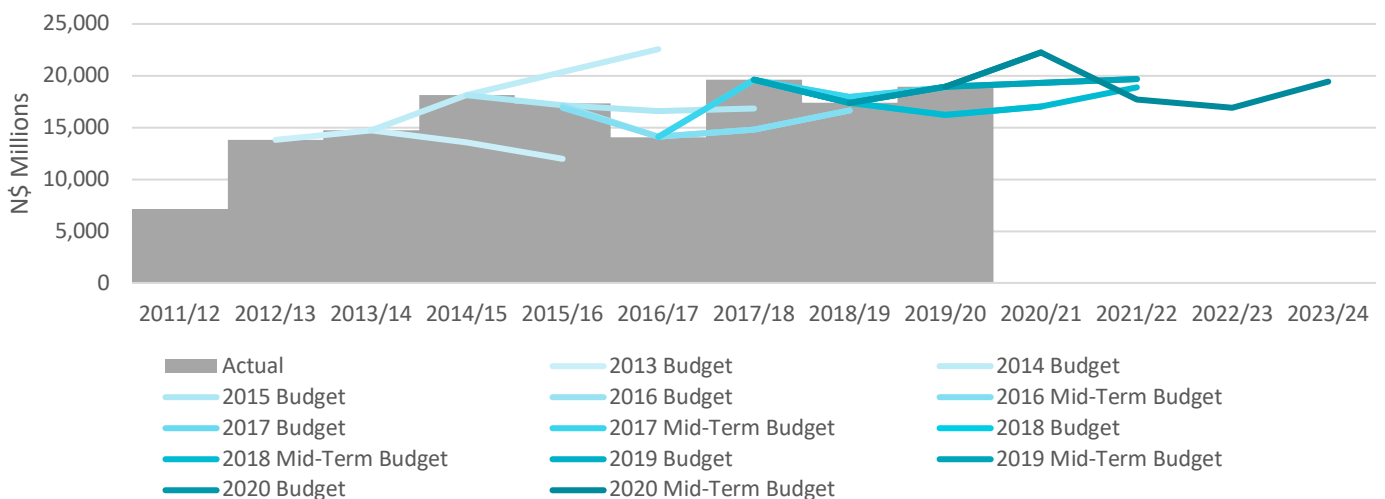


Source: Cirrus Securities, Ministry of Finance

Overall, SACU receipts are expected to represent 40.3% of the current year's revenue, falling to 32.1% next year as SACU adjusts downward and domestic revenue recovers. Total SACU receipts are expected to remain low for the rest of the MTEF period (from N\$22.25 billion in FY2020/21, to N\$17.68 billion in FY2021/22 and N\$16.91 billion in FY2022/23), only recovering to 2020 levels in FY2023/24. This will contribute to the country's on-going twin-deficit problem, as it heightens the fiscal deficit (discussed elsewhere in this document), but also contributes to the current account deficit, where historically SACU represents approximately 30% of all current account credits. Given the leverage effect on the current account deficit that this reduction in income will have, a doubling in the deficit in FY2021/22 and FY2022/23 is plausible.

SACU

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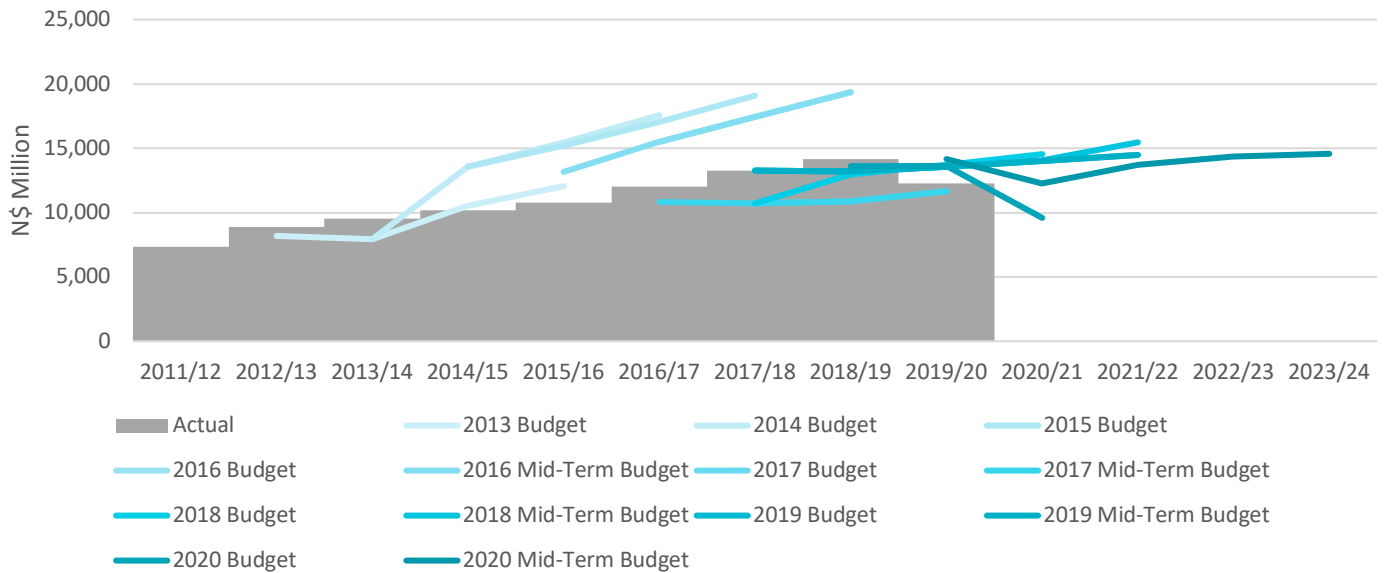
Source: Cirrus Securities, Ministry and Finance



From a domestic revenue perspective, the outlook for the current year is poor, based on the COVID-19 shock, with all of the major revenue lines (income tax on individuals, company tax and value added tax) seeing material reductions of 32.2%, 33.8% and 13.0%, respectively, when compared to FY2019/20.

Income tax on individuals

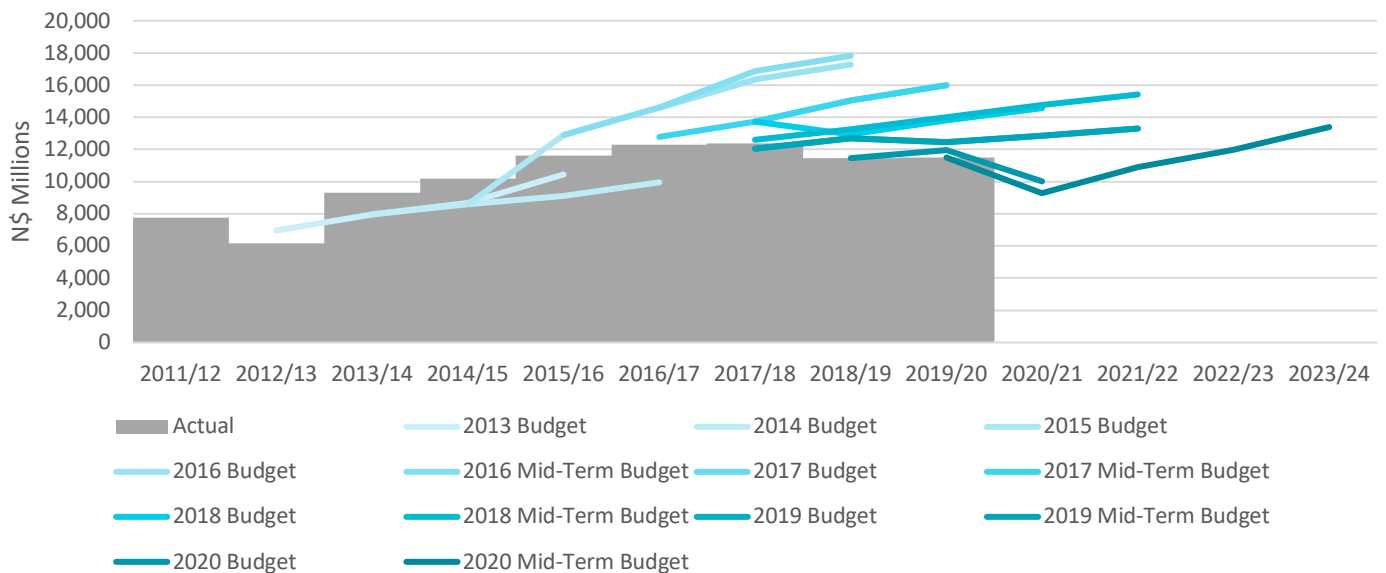
Reduction of 32.2% from revenue of income tax on individuals expected



Source: Cirrus Securities, Ministry of Finance

VAT

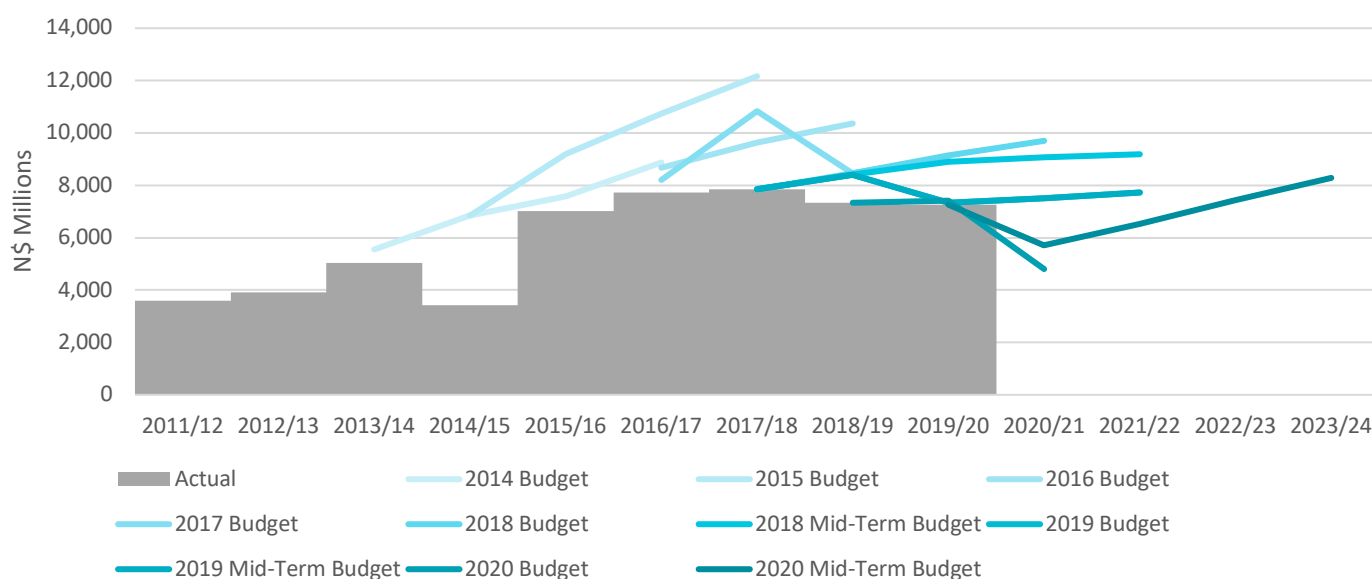
VAT revenue to decrease 13% compared to FY2019/20



Source: Cirrus Securities, Ministry of Finance

Company taxes

Decrease of 33.8% in revenue from company taxes expected for FY2020/21



Source: Cirrus Securities, Ministry of Finance

Going forward, domestic revenue is expected to recover relatively slowly, and only return to pre-COVID levels in FY2022/23. For the upcoming financial year, income tax on individuals is expected to grow 11.6% to N\$13.69 billion, company tax is expected to grow 14.5% to N\$6.54 billion and VAT is expected to grow 17.6% to N\$10.91 billion.

Contribution to revenue

Revenue is projected to grow 2.1% over the next two years after which growth accelerates to 9.4% in FY2023/24

N\$ Million	Actuals FY2019/20	Budget estimates FY2020/21	Mid-year estimates FY2020/21	Projections FY2021/22	Projections FY2022/23	Projections FY2023/24
Revenue	58,425	51,397	55,179	55,075	57,541	62,976
Income Tax on Individuals	14,147	9,585	12,261	13,685	14,370	14,569
VAT	11,516	10,018	9,284	10,914	11,987	13,396
Corporate Tax	7,257	4,803	5,710	6,538	7,439	8,284
SACU	18,922	22,252	22,252	17,683	16,909	19,419

Source: Cirrus Securities, Ministry of Finance

Revenue adjustments

Domestic revenue is expected to recover relatively slowly, and only return to pre-COVID levels in 2022/23. SACU revenue are projected to fall 20.5% in the next financial year

	Change: FY2019/20 to Oct FY2020/2021	Change: May to October	Change: FY2020/21 to FY2021/22
Revenue	-12.0%	7.4%	-0.2%
Income Tax on Individuals	-32.2%	27.9%	11.6%
VAT	-13.0%	-7.3%	17.0%
Corporate Tax	-33.8%	18.9%	14.5%
SACU	17.6%	0.0%	-20.5%

Source: Cirrus Securities, Ministry of Finance

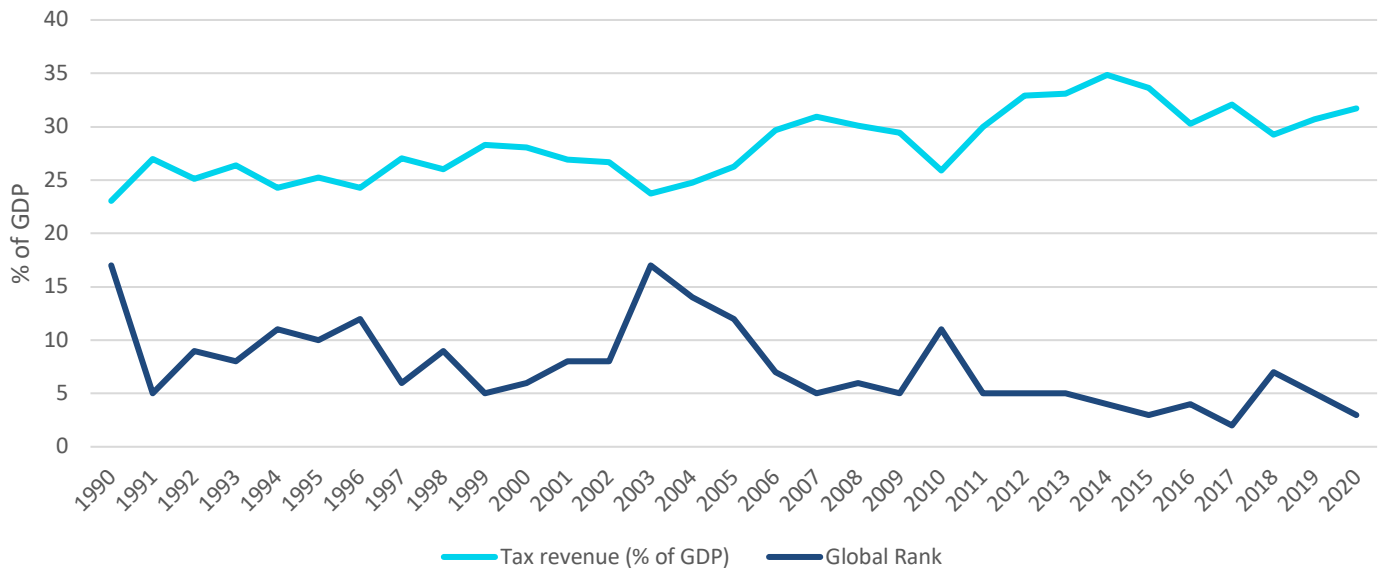
While revenue has fallen dramatically, as a percent of GDP it remains high by global standards. At 31.6% in FY2020/21, falling to 29.8% in FY2021/22, Namibia remains amongst the top-five countries in the world when measured by this metric. This strong revenue pool puts the country in a relatively strong position from a socio-economic development perspective, if these funds are well used to provide critical development and business-enabling services. However, the country has run substantial budget deficits for a number of years (as discussed elsewhere in this document), despite the robust nature of the revenue pool. This gives a clear



indication that the resolve of these deficits should be sought on the expenditure side of the budget, or through growth in GDP, rather than through seeking to extract more revenue from the current economic activity in the country. Thus, the lack of additional tax proposals and pragmatic proposals around improving tax compliance rather than increased taxation for the already compliant, are welcomed.

Revenue as % of GDP

Revenue as a percent of GDP it remains elevated at 31.6% in 2020/21. Namibia remains amongst the top-five countries in the world when measured by this metric.



Source: Cirrus Securities, Ministry of Finance

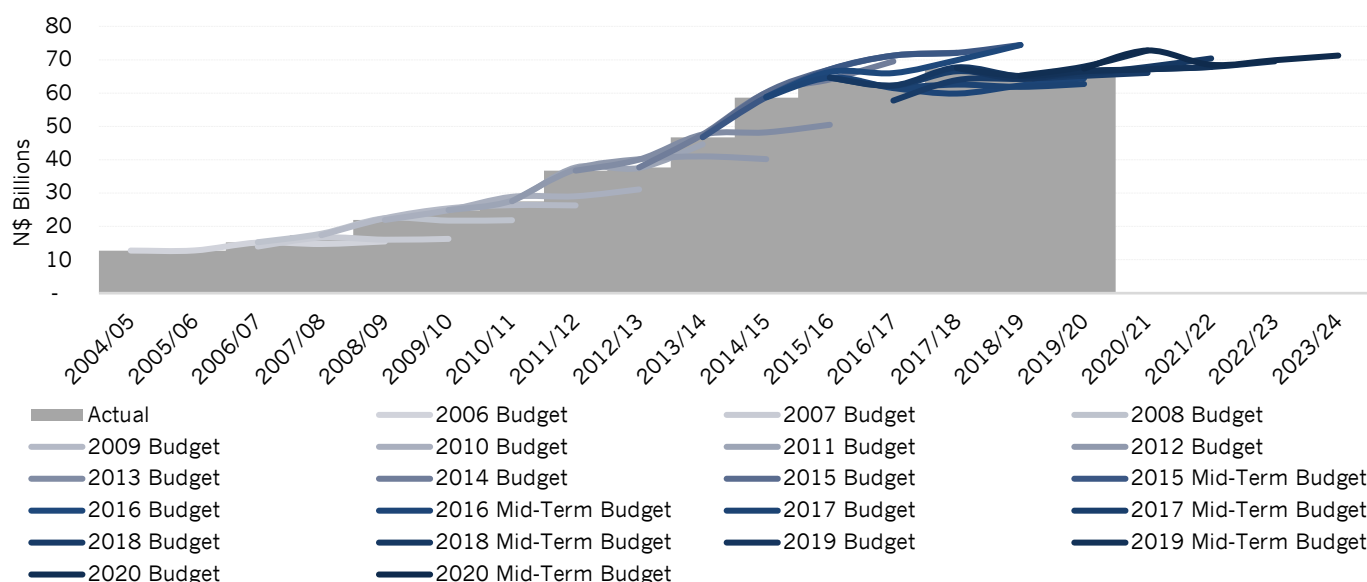
On the revenue front, a material risk exists around the region's post-COVID recovery, and the effectiveness of the reform programme used to rekindle economic activity. Given the very limited additional scope for fiscal (and monetary) stimulus, this rekindling of growth can only really stem from reallocation of current resources, off-balance sheet activities, and non-monetary reform. This is further discussed in the early sections of this document.

Expenditure

Total expenditure (including interest payments) for the current financial year remains unchanged at N\$72.8 billion. However, excluding interest payments, total expenditure has slightly reduced from N\$64.3 billion to N\$63.7 billion. As a result, operational expenditure will represent 89.8% of total Government expenses (excluding interest payments) for FY2020/21.

Total expenditure

Estimated total expenditure decreasing 1.0% to N\$63.7 billion and 50.8% has been earmarked for the Social Sector



Source: Cirrus Securities, Ministry of Finance

Familiar large beneficiaries received the lion's share of the FY2020/21 Budget. Education, Arts and Culture expenditure remains the largest recipient receiving 22.8% of budget funds, followed by the Health and Social Services vote which received 12.6% of budget funds, while the Defence vote received 9.8% of total budget funds. Worryingly, interest payments are now the third largest expense in the budget amounting to N\$7.7 billion, which means that Government spends N\$300 million less on servicing its debt than it does on total Health and Social Services.

Top 10 Global Revised Ceilings (Operational And Development) (N\$ Millions)

Vote	Original Appropriation	Revised Ceiling
Education, Arts and Culture	14,185.75	14,512.18
Health and Social Services	7,951.31	8,051.88
Defence	6,229.10	6,224.10
Finance	6,219.50	5,979.92
Safety and Security	5,434.91	5,441.76
Gender Equality, Poverty Eradication and Marginalised	5,255.12	5,412.84
Higher Education, Training and Innovation	3,301.67	3,226.63
Transport	2,403.67	2,318.79
Rural and Urban Development	1,713.16	1,645.96
Agriculture and Land Reform	1,337.41	1,337.41

Source: Cirrus Securities, Ministry of Finance

Since the May budget, a total of N\$841.6 million has been freed from existing votes and will be reallocated to other votes. The savings are accounted for by a N\$701.6 million reduction from developmental projects due to savings from Daily Subsistence Allowance (DSA) given the COVID-19 travel restrictions and social distancing measures, goods and services for delayed activities and subsidies and current transfers. Furthermore, N\$140.0 million from the Operational Budget will now be reallocated due to savings from projects with less than 10.0% execution rate along with projects that are delayed due to COVID.



The major sources for the reallocation of the operational funds are:

- Ministry of Finance: N\$238.1 million
- Ministry of Transport: N\$84.9 million
- Ministry of Higher Education, Training and Innovation: N\$73.5 million
- Ministry of Urban and rural Development: N\$56.7 million
- Ministry of International Relations and Cooperation: N\$38.9 million
- Ministry of Sport, Youth and National Service: N\$36.5 million

Furthermore, the major developmental budget suspensions occurred in the following Ministries:

- Health and Social Services: N\$47.0 million
- Mines and Energy: N\$15.0 million
- National Planning Commission: N\$15.0 million
- Urban and Rural development: N\$10.5 million
- Industrialisation and Trade: N\$10.0 million

N\$100.0 million from the N\$701.6 million saved through the operational budget will be reallocated to the Development Budget. This results in an increased Development Budget expenditure of N\$6.51 billion for FY2020/21.

The N\$841.6 million reallocation of the expenditure is as follows:

- Ministry of Basic Education, Arts and Culture
 - N\$200 million for educational infrastructure
 - N\$126.4 million for personnel related expenditure
- Ministry of Health and Social Services
 - N\$147.6 million for the procurement of pharmaceuticals and COVID-19 related expenses along with the required optimal personnel.
- Ministry of Gender Equality, Poverty Eradication and Social Welfare
 - N\$157.7 million to strengthen the coverage of social grants
- Electoral Commission of Namibia
 - N\$50.0 million for costs relating to the upcoming regional and local authority elections
- Ministry of Public Enterprises
 - N\$35 million to support TransNamib in maintaining the railway
 - N\$40 million funding towards NWR's operations
- Ministry of Agriculture Water and Land Reform
 - N\$40.0 million for water infrastructure
- Ministry of Defence and Veteran Affairs
 - N\$22.3 million to meet the funding needs for the Veterans Subvention Program
- Ministry of Industrialization and Trade
 - N\$10.7 million for Integrated Client Facility and supporting the public enterprises under its mandate
- Ministry of Home Affairs, Safety and Security
 - N\$11.9 million for the Visa Sticker Program

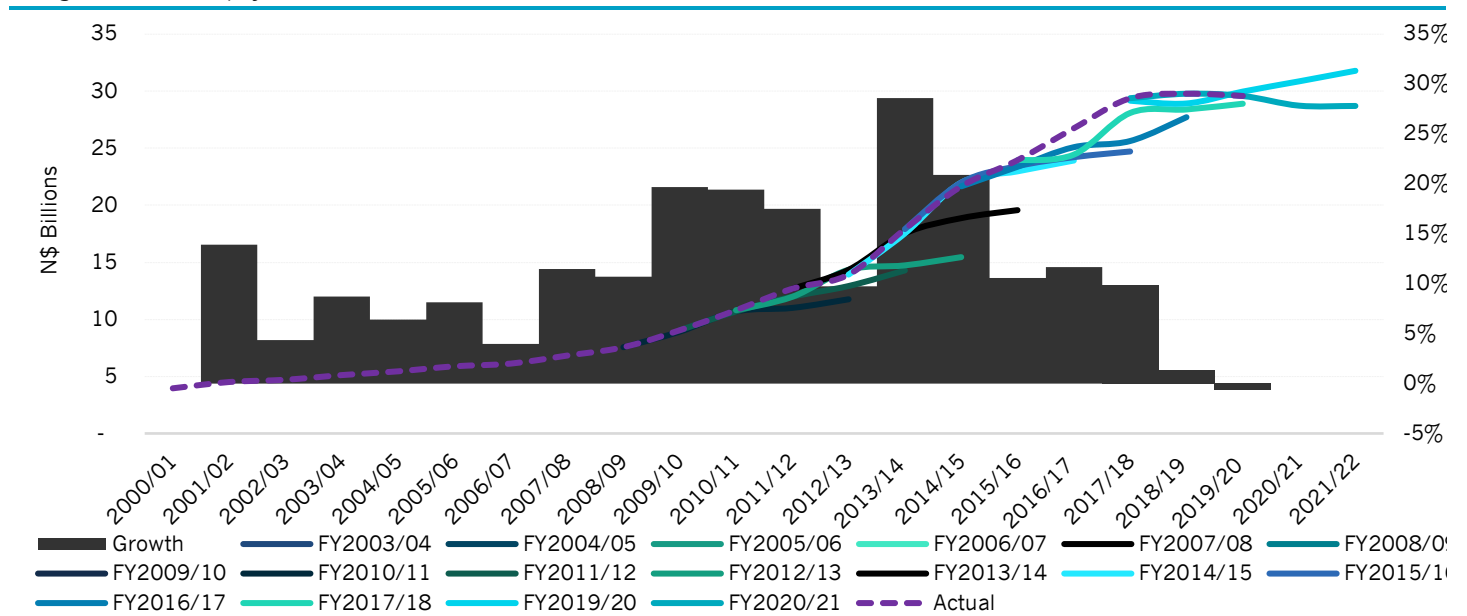
The increased spend for the Development Budget is welcomed and bucked the recent trend of reallocation of development expenditure to operational spend. Nevertheless, further reforms to overall expenditure are still needed. The Minister stated that over the next MTEF they will target measures and reforms to reduce the overshooting expenditure through various reduction initiatives. Targeted initiatives include:

- Wage bill reforms by offering voluntary early retirement for the 55-60-year cohort along with the net reduction in the size of the civil service through general vacancy freezes and natural attrition;
- Implement the recommendations of arising from public expenditure reviews in the health and education and extending such targeted reviews to other sectors; and
- Reforming the Public Service Medical Aid Scheme (PSEMAS) to improve its governance model and benefit structure.

The civil service wage bill remains unsustainably high, and a major concern and contributor to long-term sovereign risk for Namibia. Currently, personnel expenditure is projected to remain unchanged at N\$28.7 billion for FY2020/21. Thus, personnel expenditure continues to represent more than half of total revenue at 52.0%, and represents 50.2% of total operational expenditure. Due to Government expecting higher revenue collection, the personnel expenditure to total revenue metric improved to 52.0% from 55.9% in the previous forecasts. However, as a percentage of The Operational Budget, personnel expenditure now makes up 50.2% from the previous 49.6%.

Personnel expenditure

Largest cost for taxpayers



Source: Ministry of Finance

This MTEF illustrates that Government continues to spend beyond sustainable long-term levels, where despite strong revenue collection, large deficits are run. This is driven, in part, by the civil service wage bill, which as well as being one of the largest in the world, relative to GDP, consumes the largest share of public revenue, without adding commensurate value and output to the local economy.

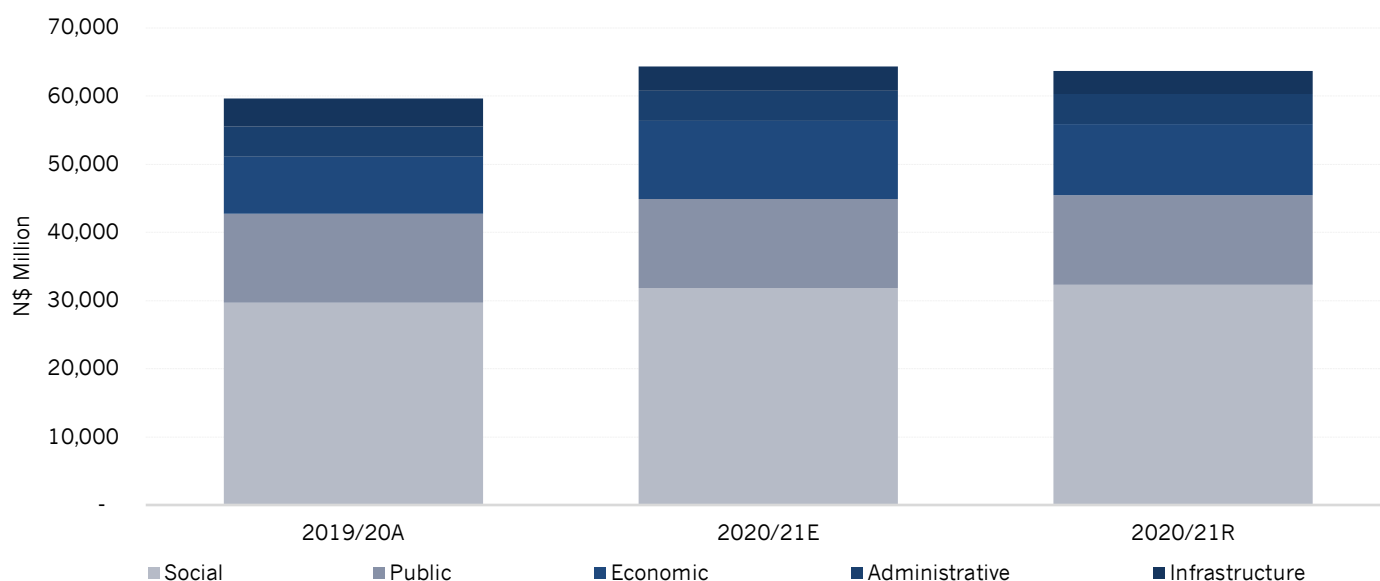
In addition to the abnormally large wage bill, vast transfers to often sub-optimally managed and/or non-viable SOEs drain much of the finite resources of the state. In this regard, and worryingly, no mention is made to Air Namibia or NSFAF in the MTEF or in the Minister's speech. Given the known financial status of these, and other SOEs, as well as the contingent liabilities linked to AirNamibia particularly, this omission may well be a source of fiscal slippage going forward.

As mentioned in the FY2019/20 MTEF report, a concerted effort by Government is needed to achieve fiscal consolidation and steer the country away from a debt trap. Simply assessing options is not viable, swift action is needed if real results want to be realised.



Total operational and developmental expenditure

Social sector will continue to receive the bulk of the expenditure



Source: MTEF

The majority of Government funds are earmarked for the social sector, followed by the public, economic, administrative and infrastructure sectors, respectively.

Interest payments for FY2020/21, which account for 10.6% of total expenditure, have seen downward revisions since the 2020 Budget review, decreasing by N\$706 million to N\$7.7 billion. As previously expected, of the N\$7.7 billion in interest payments, N\$4.8 billion is directed to domestic creditors and N\$2.9 billion will be paid to foreign creditors. However, the remainder N\$706 million expenses, previously listed as statutory expense charges, has since been revised to N\$0. Moving forward, the Ministry of Finance expects that interest payments will increase by 9.9% to N\$8.5 billion in FY2021/22 and remain at N\$8.8 billion in the subsequent financial years.

Interest Payments

FY	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total Interest Payments	4310	5423	5989	6951	7738	8503	8825	8825
As a % of Revenue	8.5%	9.2%	10.7%	11.9%	14.0%	15.6%	15.5%	14.1%
As a % of Expenditure	6.9%	8.0%	9.2%	10.3%	10.6%	12.4%	12.6%	12.4%
As a % of GDP	2.7%	3.2%	3.4%	3.9%	4.4%	4.6%	4.6%	4.3%

Source: Ministry of Finance

As a result, debt servicing costs now are expected to account for a total of 14.0% of total Government revenue in FY2020/21 (increasing to 15.6% in 2021/22 and 15.5% in 2022/23), 2.4 percentage points lower than previously estimated. This is 4.0 percentage points higher than the self-imposed benchmark of 10.0% and 3.0 percentage points higher than FY2019/20. Moreover, Government debt servicing is expected to represent 4.4% of GDP, 0.8 percentage points higher than in FY2019/20 and 1.4 percentage points higher than the self-imposed benchmark of 3.0%. Moreover, interest payments are now the third largest expense account for in the Budget, second only to Operational and Development expenditure on the Education, Arts and Culture and Health and Social Services.

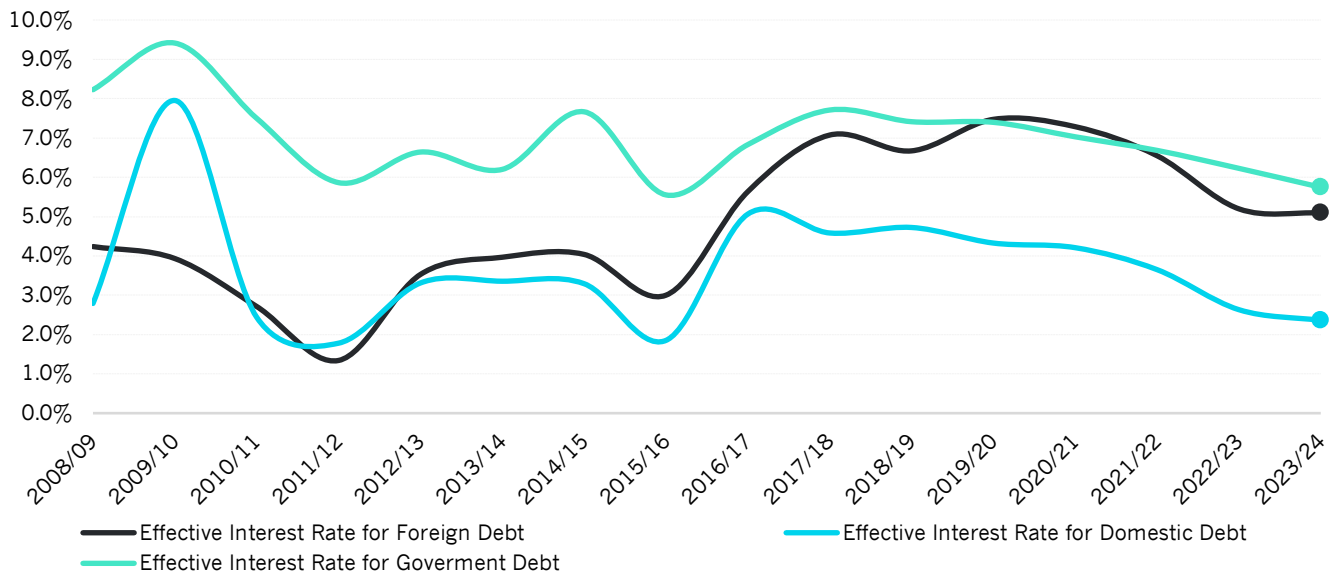
The Ministry expects to service its debt at marginally lower effective interest rate levels than those of FY2019/20. The effective foreign interest rate (in Namibia Dollars) for FY2020/21 is expected to be 7.3%, whereas effective domestic interest is anticipated to equate to 4.2% (heavily influenced by the 0% rate assumed on treasury bills). These represent lower funding costs when compared to FY2019/20, for both domestic and foreign debt with respective decreases of 0.1 percentage point and 0.2 percentage points, respectively.



The lower financing cost are expected to continue as the Ministry anticipates that it will be able to service its debt at lower rates in the future. The effective funding rate for domestic debt is expected to decline from the preceding period to 3.7%, 2.6% and 2.4% in FY2021/22, FY2022/23 and FY2023/24, respectively. The same trend is expected with effective foreign interest rate which is expected to cost 6.5%, 5.2% and 5.1% in FY2021/22, FY2022/23 and FY2023/24, respectively.

Effective Interest Payments

Government financing costs expected to decrease over the MTEF



Source: Cirrus Securities and Ministry of Finance

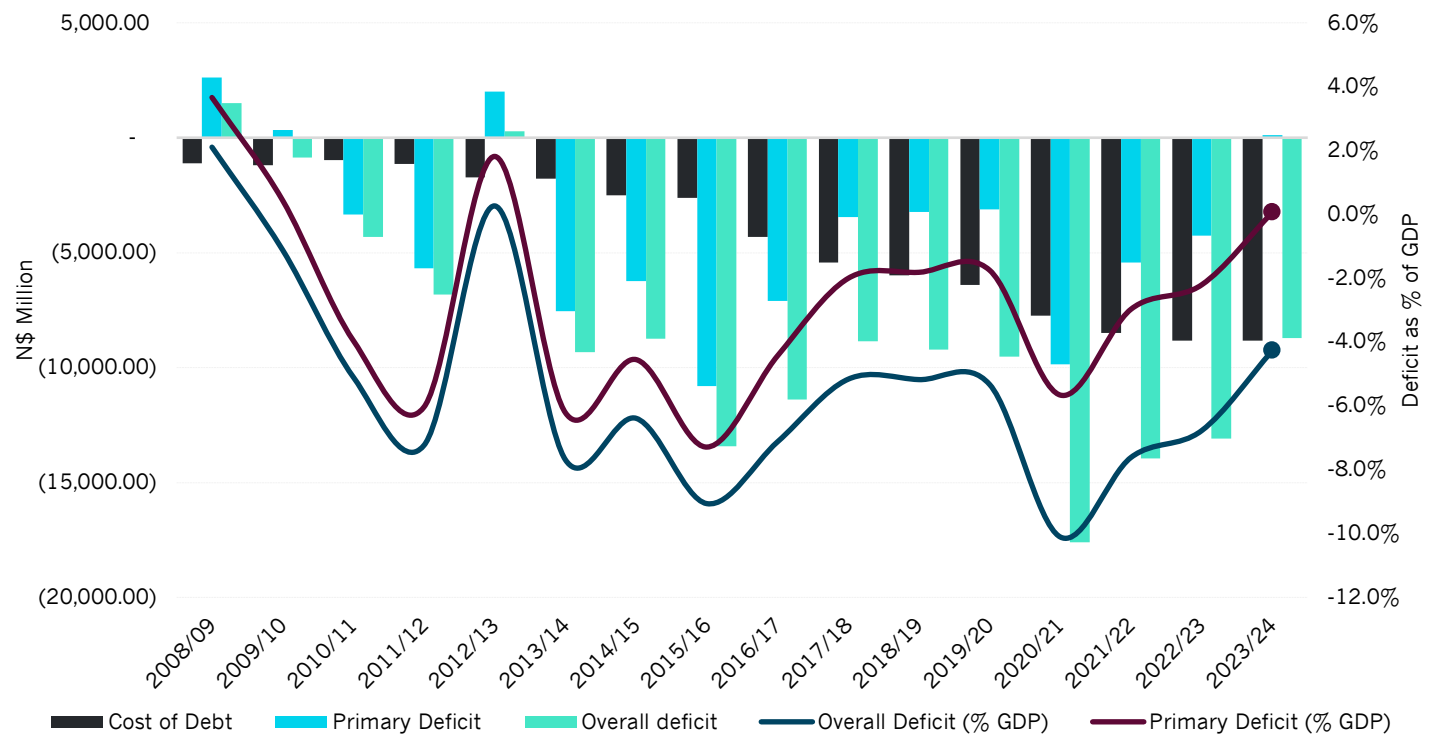
These subsequent decreases in the cost of funding will be unlikely play out as forecast, as currency weakness, heightened credit risk and current funding pressures will remain and potentially worsen in coming years. It appears, however, that increased local-asset-requirements for pension funds and life insurance funds may be on their way, which may result in temporarily lower funding costs, albeit marginally so.

Deficit

The Minister of Finance, in his Mid-Term Budget address, revised the deficit 18% lower than was initially reported. The deficit is expected to be N\$17.6 billion in the FY2020/21 compared to N\$21.4 billion initially reported. The lower estimate comes from a N\$3.7 billion upward revision in revenue collection for FY2020/21, while primary expenditure remained unchanged at N\$67.1 billion (over N\$72.7 billion). Nonetheless, the deficit is expected to remain the largest on record for the country. Further, the Ministry of Finance is projecting the deficit to be N\$13.9 billion, N\$13.01 billion and N\$ 8.7 billion in FY2021/22, FY2022/23 and FY2023/24, respectively.

Deficit

Deficits to remain above N\$13.5 billion in the next two financial years



Source: Cirrus Securities, Ministry of Finance

Historically, the budget deficit has always been forecasted to recover in outer MTEF years, however, it has proven difficult for Government to achieve this consolidation in reality, and large-for-longer deficits had become the pre-COVID norm. Current forecasts show the budget deficit to recover through 7.3%, 5.9% and 4.1% of GDP in FY2021/22, FY2022/23 and FY2023/24, respectively. The problem is that as it stands, Namibia's debt-to-GDP ratio is already elevated at 68.8%. Therefore, if Government fails to deliver on current forecasts, there is a risk is that the debt-to-GDP ratio will expand to unsustainable levels.

Current projections forecast average revenue growth of 4.2%, while expenditure is targeted to remain flat in real terms, increasing 2.0% on average over the MTEF. While it appears that revenue is growing twice as fast as expenditure, it is growing off a lower base. Therefore, in dollar terms, revenue is only growing 40% faster than expenditure. As a result, given the base effects, the budget deficit will decrease by approximately N\$862 million per annum.

Pre-COVID, the normalized budget deficit was approximately N\$8 billion. However, post COVID it appears as if the budget deficit has structurally reset, with a normalized deficit of around N\$13 billion. The current approach of saving N\$862 million a year on the budget deficit means that it will take Government approximately 16 years to return to a budget surplus, which was last witnessed in FY2012/13.



Base effects on deficit

The FY2020/21 contraction in revenue implies that revenue is growing off a much lower base, thus in dollar terms it will take time to reduce the deficit

	FY2020/21	Average growth over MTEF	Namibia Dollar increases per annum
Revenue	N\$55.2 billion	4.20%	N\$2.3 billion
Expenditure	N\$72.8 billion	2.00%	N\$1.5 billion
Deficit	N\$17.6 billion		N\$0.86 billion

Source: Cirrus Securities, Ministry of Finance



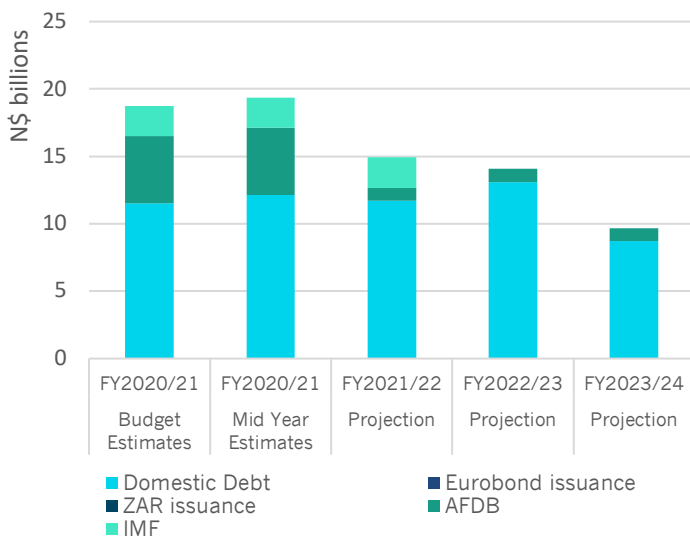
Debt and guarantees

Total debt stock is expected to rise 32.3% from N\$119.8 billion at the end of FY2020/21 to N\$158.4 billion over the following next three years. The Ministry of Finance forecasts total Government debt at N\$134.7 billion, N\$148.8 billion and N\$158.4 billion in FY2021/22, FY2022/23 and FY2023/24, respectively. What stems from the funding mix is that Government is extremely focused on the split of domestic debt relative to foreign debt. This is clear as foreign debt as a percentage of total debt decreases from 36.7% in FY2020/21 to 31% over the forecast period. The ratio of domestic debt stock to foreign in FY2021/22 is forecast to be 62:38.

The cumulative budget deficit over the MTEF is forecast to amount to N\$53.3 billion. This will see total debt increase to 77.7% of GDP. As is indicated in the table below, the borrowing strategy is to fund N\$45.6 billion of this from within the domestic market. This domestic funding requirement essentially represents 20.9% of the pension and life insurance assets as at the end of the 2019 calendar year. This suggests that a further increase in Regulation 13 domestic asset requirements is approaching.

Source of funding

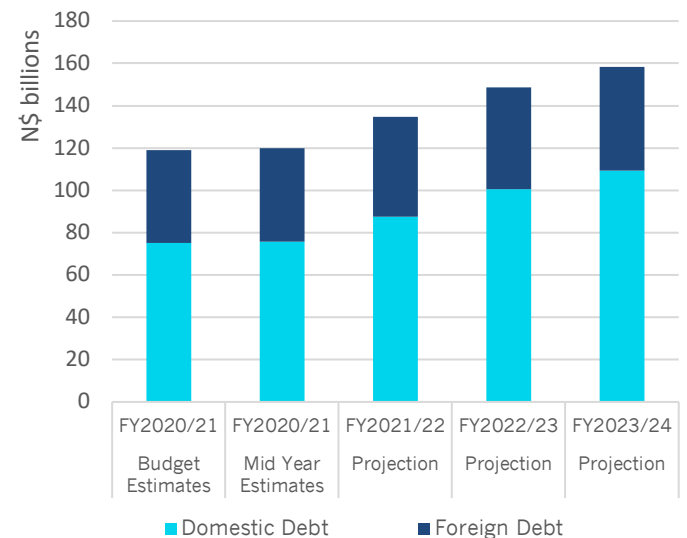
The borrowing strategy has remained largely unchanged with the lion share raised in the domestic market



Source: Cirrus Securities, Ministry of Finance

Debt split

Foreign debt is projected to decrease from 36.7% in FY2020/21 to 31% over the MTEF



Source: Cirrus Securities, Ministry of Finance

The total funding requirement for this year has decreased from N\$27.7 billion to N\$23.95 billion, however the utilization of cash balances of N\$8.38 billion mean that the net funding requirement decreased from N\$19.4 billion to N\$15.6 billion. Despite the funding requirement decrease on the back of a smaller budget deficit, the borrowing strategy remains unchanged. In fact, the Bank of Namibia is marginally increasing domestic issuance from N\$11.5 billion to N\$12.1 billion in order to rebuild some buffers.

For the current year, Government plans to raise N\$7.2 billion in foreign debt, which includes N\$5 billion from AfDB and N\$2.25 billion from the IMF. As the borrowing strategy remains mostly unchanged despite the changes in the budget deficit, there is a positive movement in cash of N\$3.8 billion this year. We view this in a positive light as it enables government to restore a portion of the buffers that have been tapped into during the Covid-19 crisis.

Lastly, given the excess liquidity in global markets, low interest rates and a weak rand, we would have viewed a net issuance in the Eurobonds (foreign debt) in a positive light. In our view a potential Eurobond issuance would have been a good tool to fund the budget deficit while supporting foreign reserves at the same time. The future funding of the large budgeted deficits throughout the MTEF period remain a material concern, as it is unlikely that the domestic market will be able to responsibly and sustainably



fund the quantum of deficit proposed by the Ministry. Moreover, increased Regulation 13 requirements will heavily prejudice the owners of the capital in question, being the pensioners (current and future) and savers of the country.

Funding Requirement

In light of a revised smaller deficit, the borrowing strategy has been largely kept unchanged with an attempt to restore buffers.

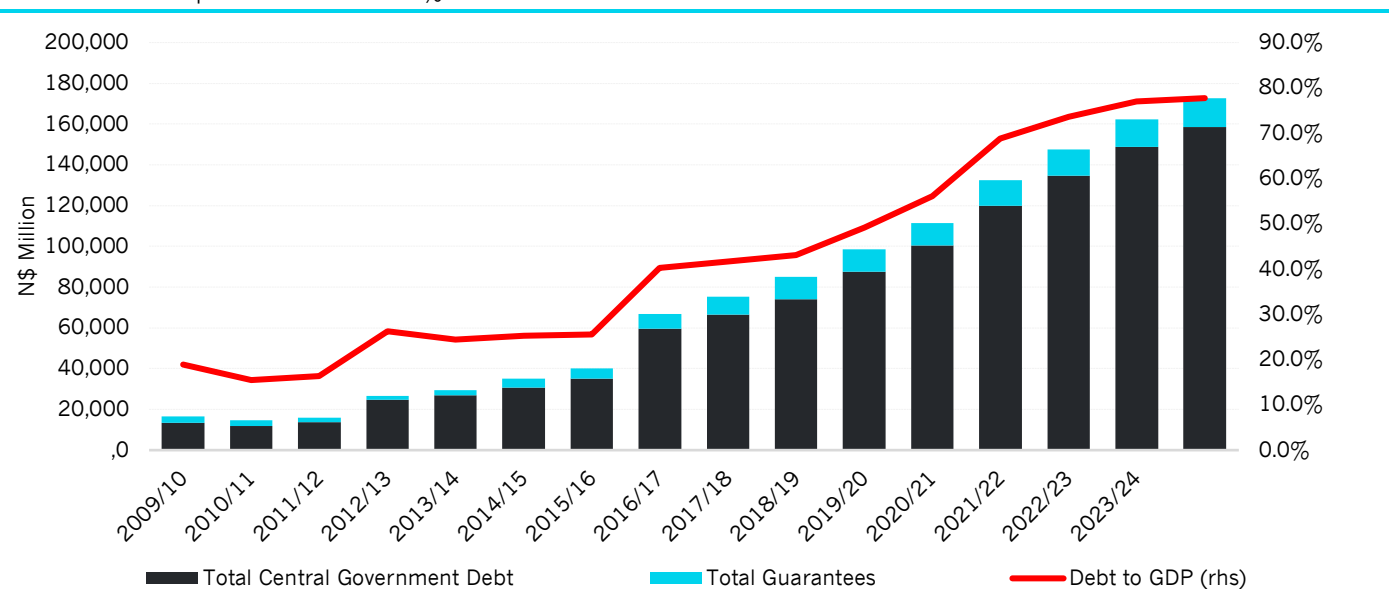
N\$ Millions	Budget estimates FY2020/21	Mid-year estimates FY2020/21	Projection FY2021/22	Projection FY2022/23	Projection FY2023/24
Budget deficit	- 21375	- 17,593	- 13,945	- 13,090	- 8,703
Cash	- 2,890	- 2,890			
Project finance	- 1,526	- 1,526	- 981	- 982	- 982
Bond redemption	- 1,615	- 1,615	- 398	- 1,560	- 157*
Foreign debt repayment	- 330	- 330	- 396	- 475	- 570
Total Funding Requirement	- 27,736	- 23,954	- 15,720	- 16,107	- 10,412
Own financing	8,380	8,380	3,782		
Net Funding Requirement	- 19,356	- 15,574	- 11,938	- 16,107	- 10,412
Domestic debt	11,500	12,117	11,695	13,090	8,703
Eurobond issuance					
ZAR issuance					
AfDB	4,990	4,990	981	982	982
IMF	2,249	2,250	2,250		
Cash movement	- 617	3,783	2,988	- 2,035	- 727

Source: Cirrus Securities, Ministry of Finance

*The Ministry of Finance as failed to include the redemption of two JSE bonds, the NAM01 and NAM03 that matures on the 19-Nov-22 and 1-Aug-23, respectively.

Debt-to-GDP

Debt to GDP is expected to rise to 77.7% of GDP



Source: Cirrus Securities, Ministry of Finance



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