



THE NAMIBIAN BUDGET

2015/16 – 2017/18

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Outline

- Macro Backdrop
- Revenue
- Expenditure
- Budget balance
- Shortcomings
- Suggestions



Macroeconomic Backdrop

- Namibian economy growing at above trend rates
 - Spurred by unprecedented fiscal and monetary policy, as well as FDI (particularly mining sector)
- Rapidly decoupling from languishing SA economy
 - Single currency concerns
- Growing macroeconomic imbalances starting to appear
 - Demand side inflation (particularly services)
 - Education, utilities, transport, housing etc.
 - Hidden by falling cost-side inflation
 - High PSCE growth
 - Increasing household debt
 - Major BOP imbalance
 - Declining reserves
- Some changes structural, but others very cyclical

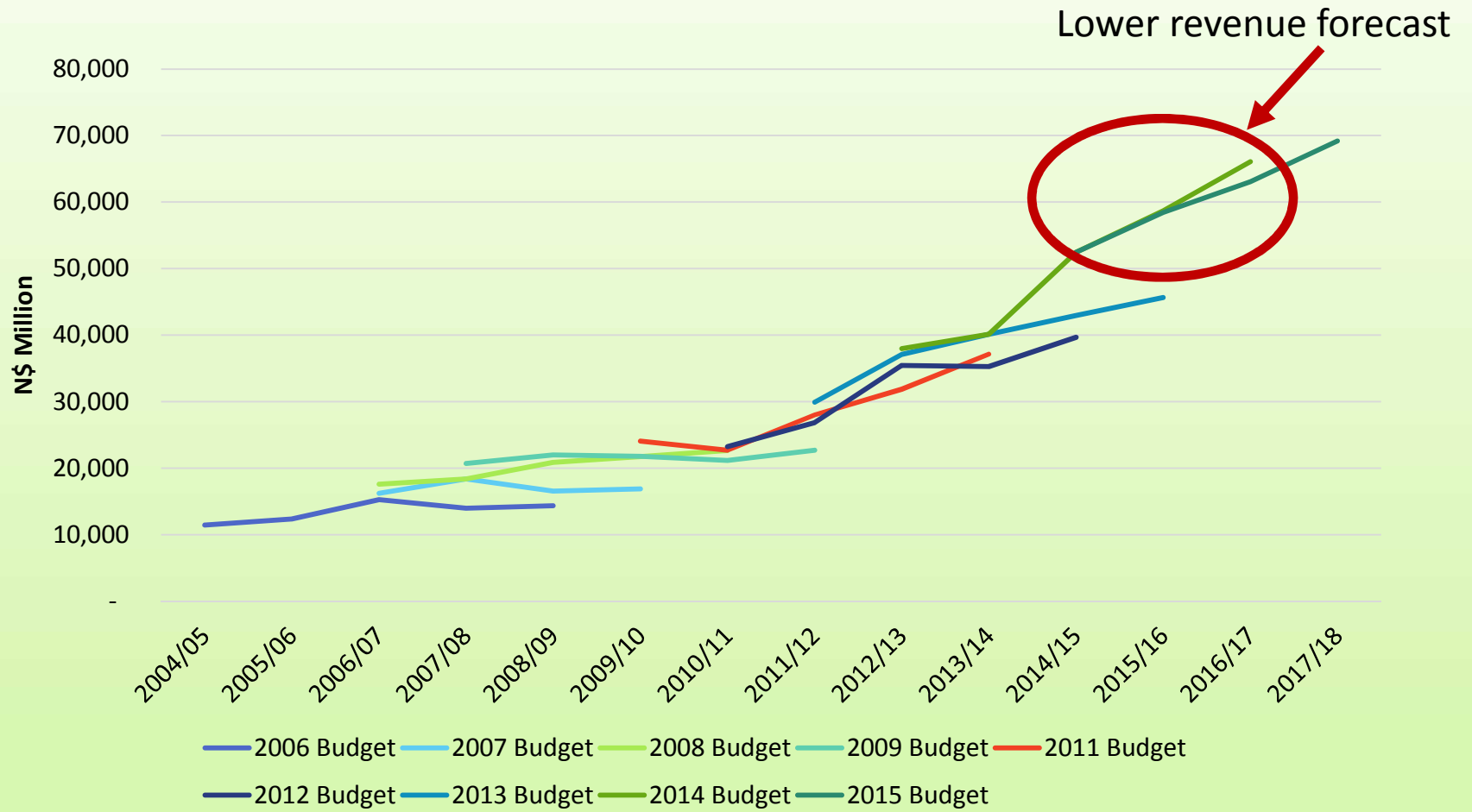


Revenue

- Forecasts of revenue collection growth for FY15/16 of 11.4%.
- Forecast revised down by 0.4% when compared to previous forecast for current year.
- Total revenue expected at N\$58.4bn in 2015/16
- Revenue forecast to grow by 7.9% in FY16/17 and 9.7% in FY17/18.
- More realistic forecasts than those of 2014/15 (20+% growth).
- Recognition of possible decline in SACU receipts – weak SA + global situation.
- Main revenue source still taxes, particularly tax on income and profit.

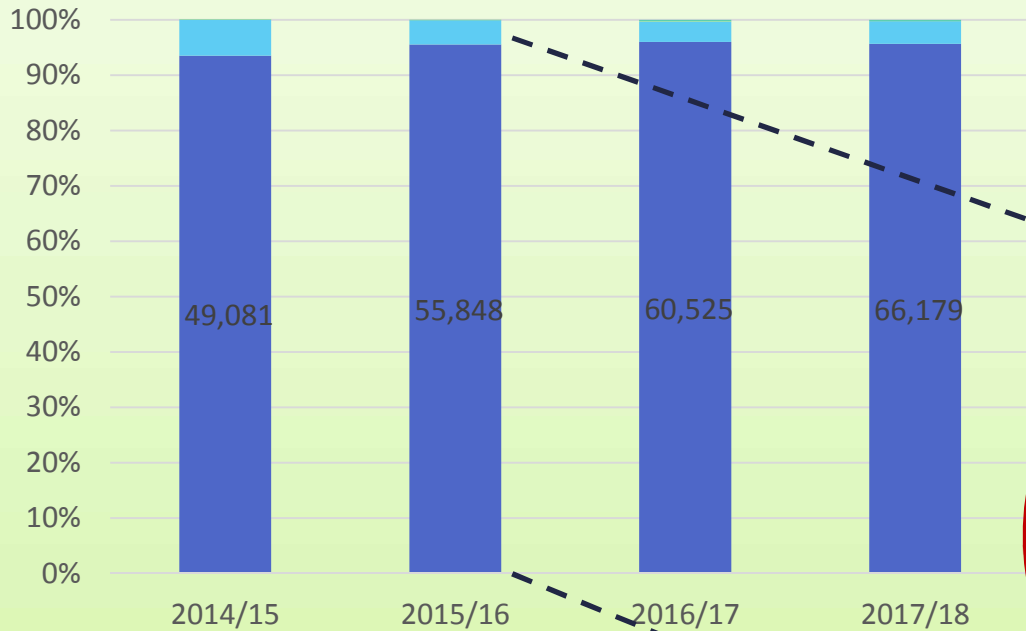


Revenue



Revenue Breakdown

Sources of Revenue

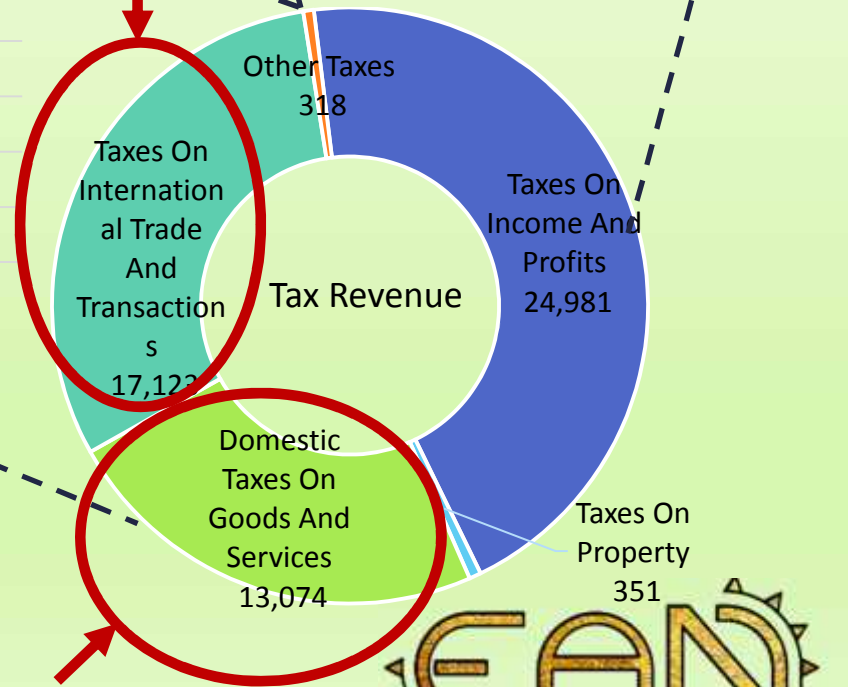
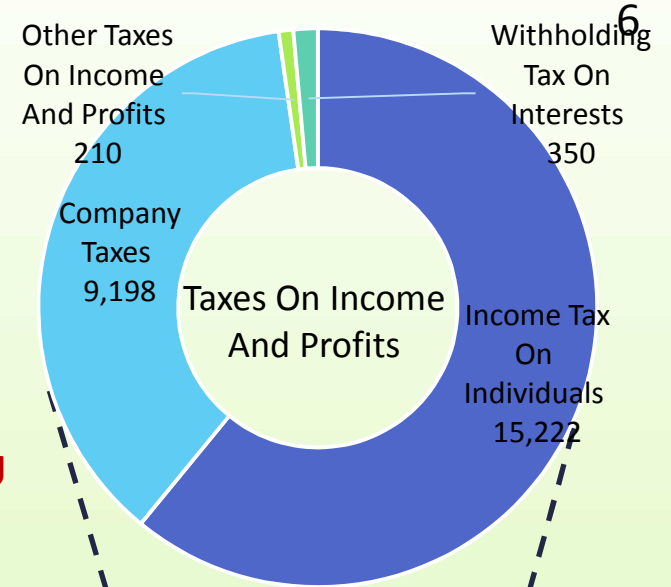


- Grants
- Return On Capital From Lending And Equity Participation
- Non - Tax Revenue
- Tax Revenue



VAT

SACU



Expenditure

- Expenditure is to increase to 67.08 billion in FY15/16
- An increase of 11.6% from 2014/15.
- Also up 4.7% when compared to the previous estimates for 2015/16.
- Of this, N\$63.2 billion is non-interest expenditure.
- The remainder (just under N\$4bn) being the interest costs of Government's debt.
- The global increase is much more moderate than the 26.3% increase of 2014/15.
- This expansion can be (partially) justified by the rapid pace of growth in the local economy.
- Revenue forecast to grow 6.2 and 1.2% in FY16 and FY17, respectively.



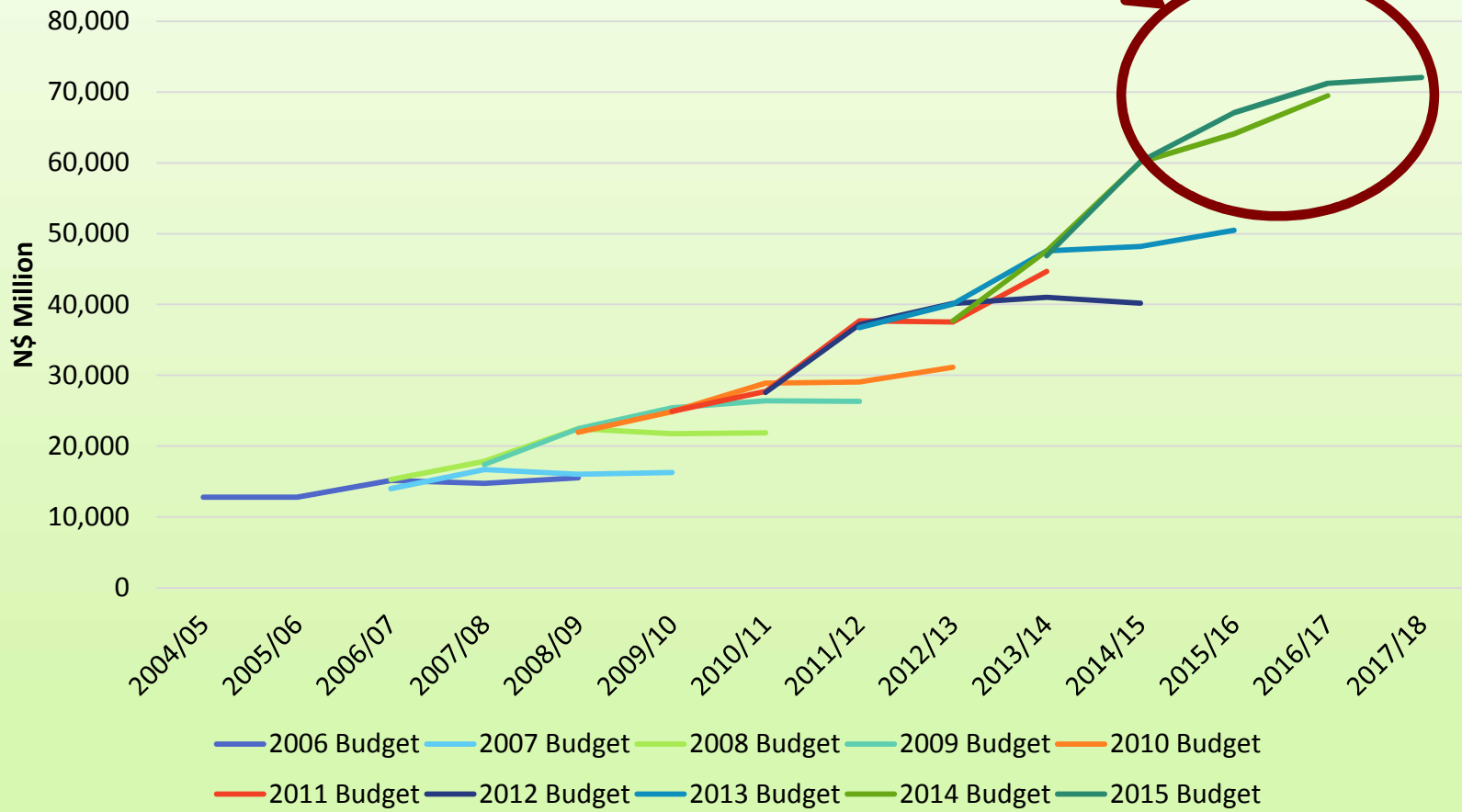
Expenditure

- Expenditure remains heavily slanted towards wages and salaries
- N\$4.93 billion over the MTEF to support the Kudu Gas-to-Power Project
- N\$3.27 billion allocated to road construction
- N\$1.25 billion was allocated over the MTEF for the Mass Housing Project,
- N\$7.75 billion was allocated to agriculture, including the green scheme.
- Huge allocation to Defence, making it second only to Education in receipt of funds
- A number of social spending initiatives launched or extended, most notably the increase in pensions from N\$600 per month to N\$1000 per month.
- In addition, provision of free secondary education is to be rolled out during the MTEF

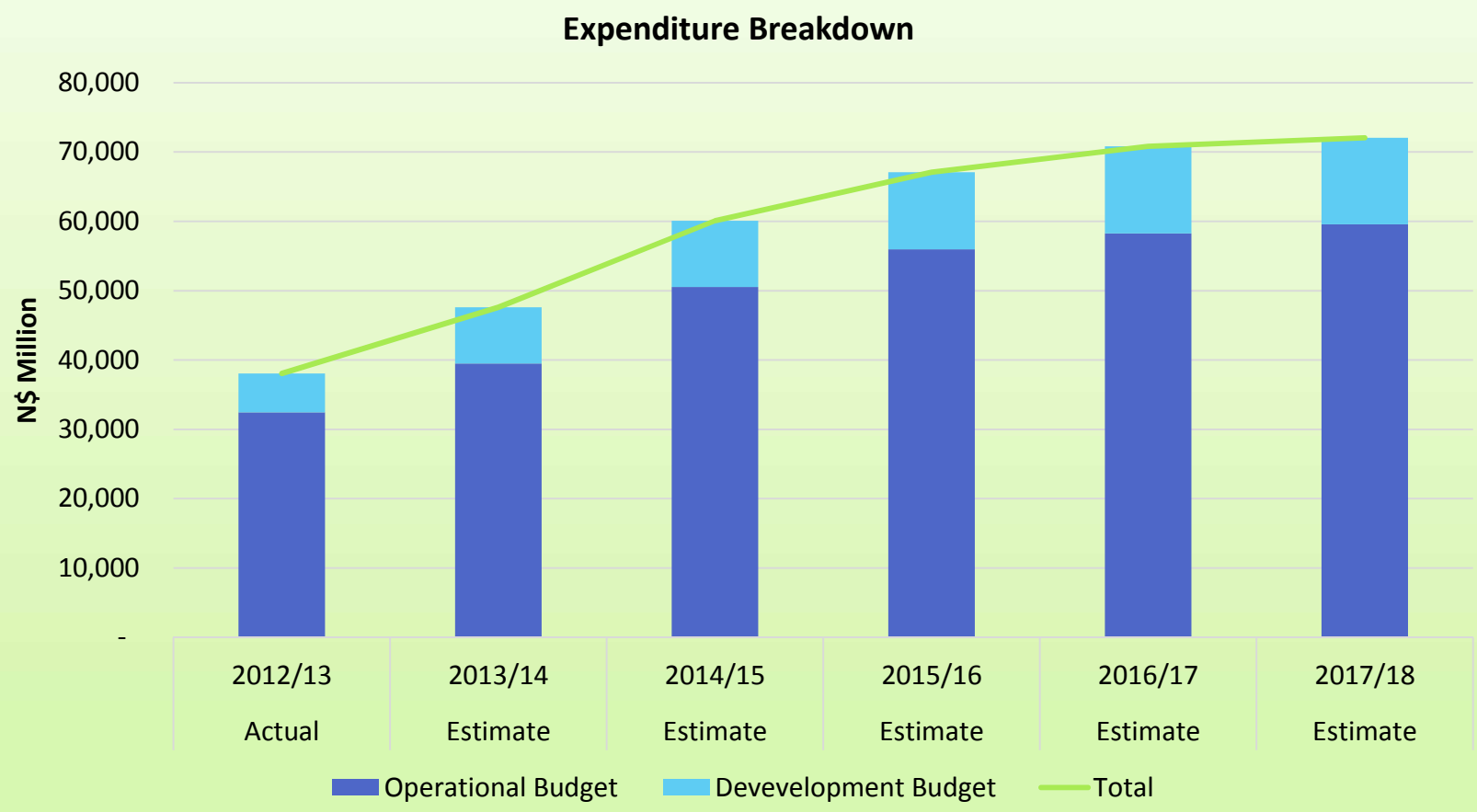


Expenditure

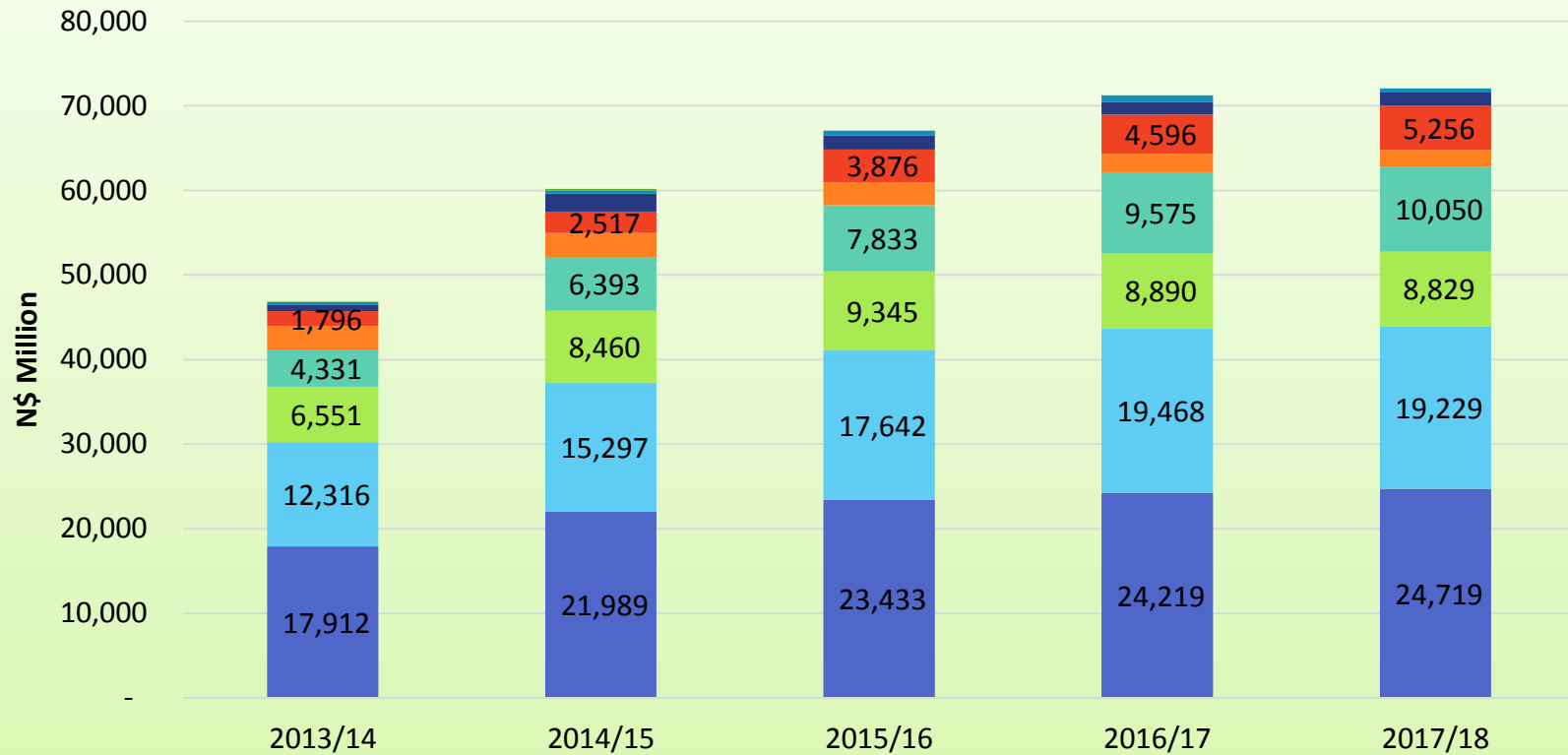
Expenditure to flatten off? See history



Expenditure



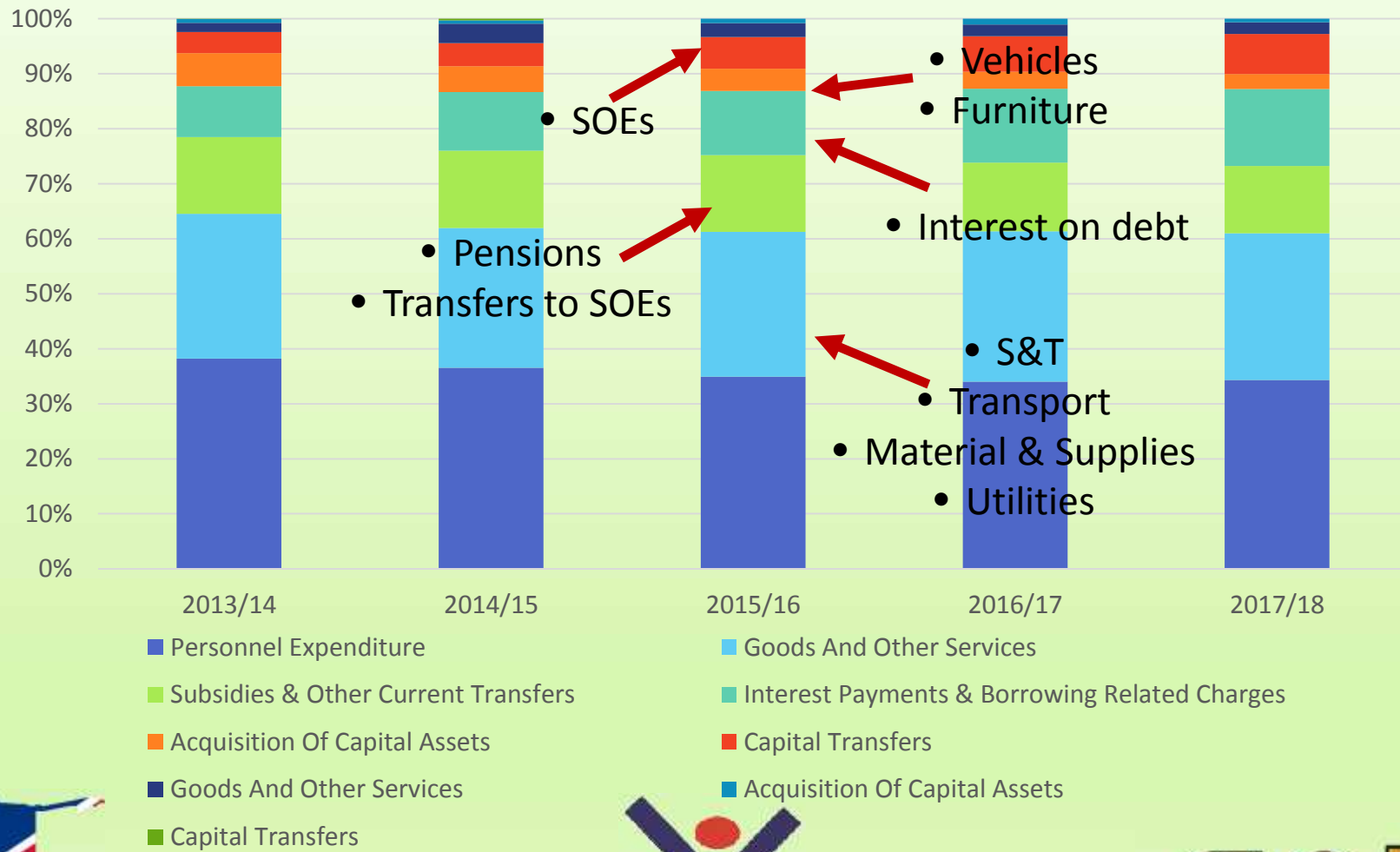
Expenditure



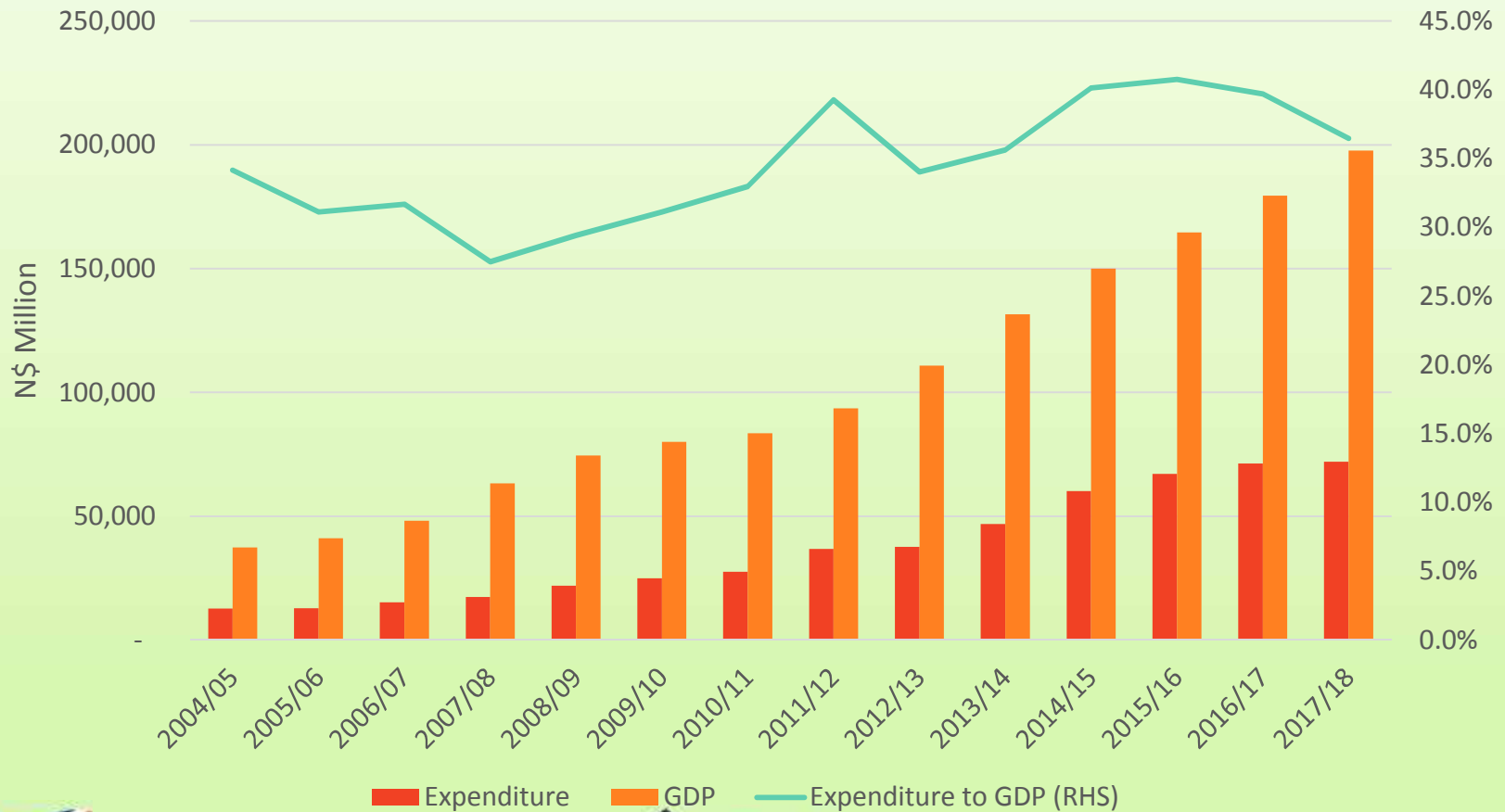
- Personnel Expenditure
- Goods And Other Services
- Subsidies & Other Current Transfers
- Interest Payments & Borrowing Related Charges
- Acquisition Of Capital Assets
- Capital Transfers
- Goods And Other Services
- Acquisition Of Capital Assets
- Capital Transfers



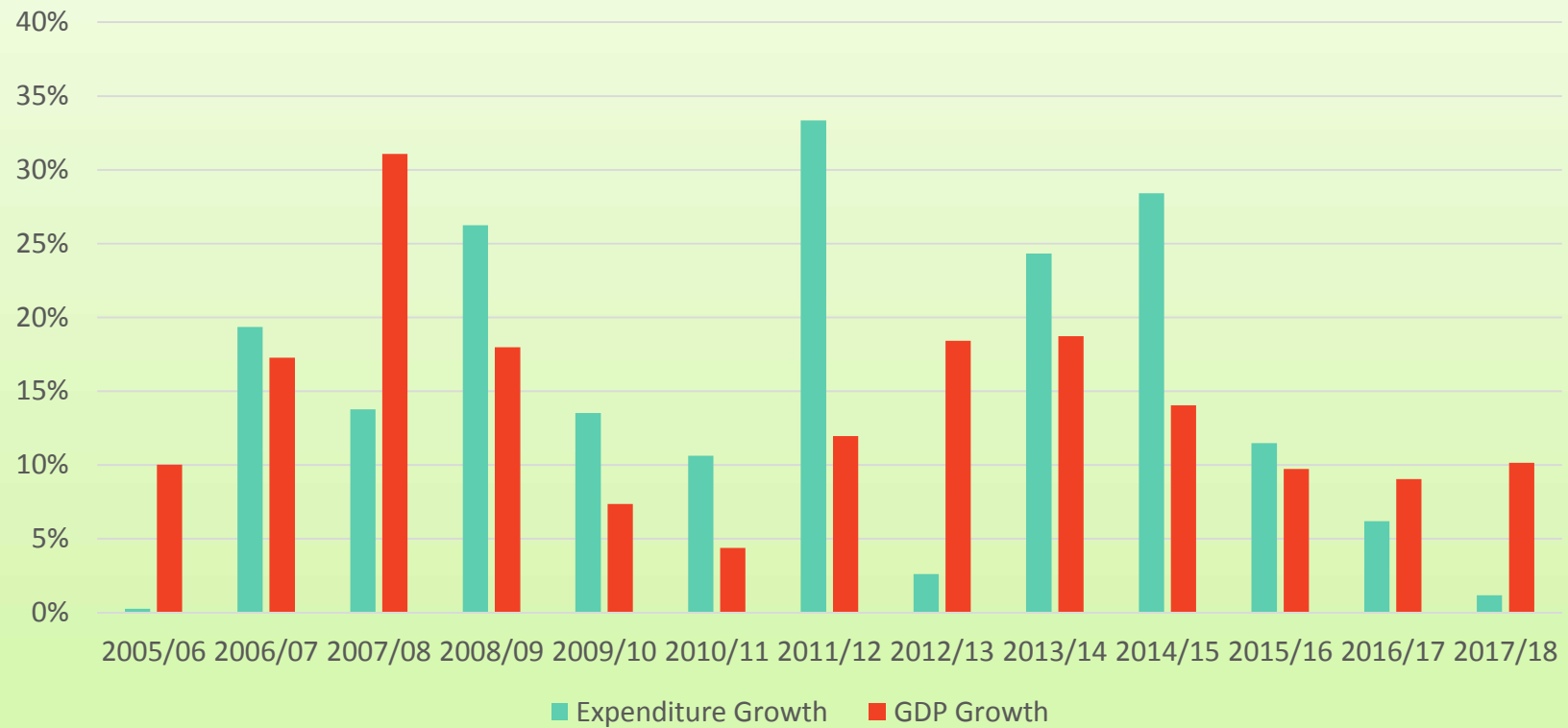
Expenditure Breakdown



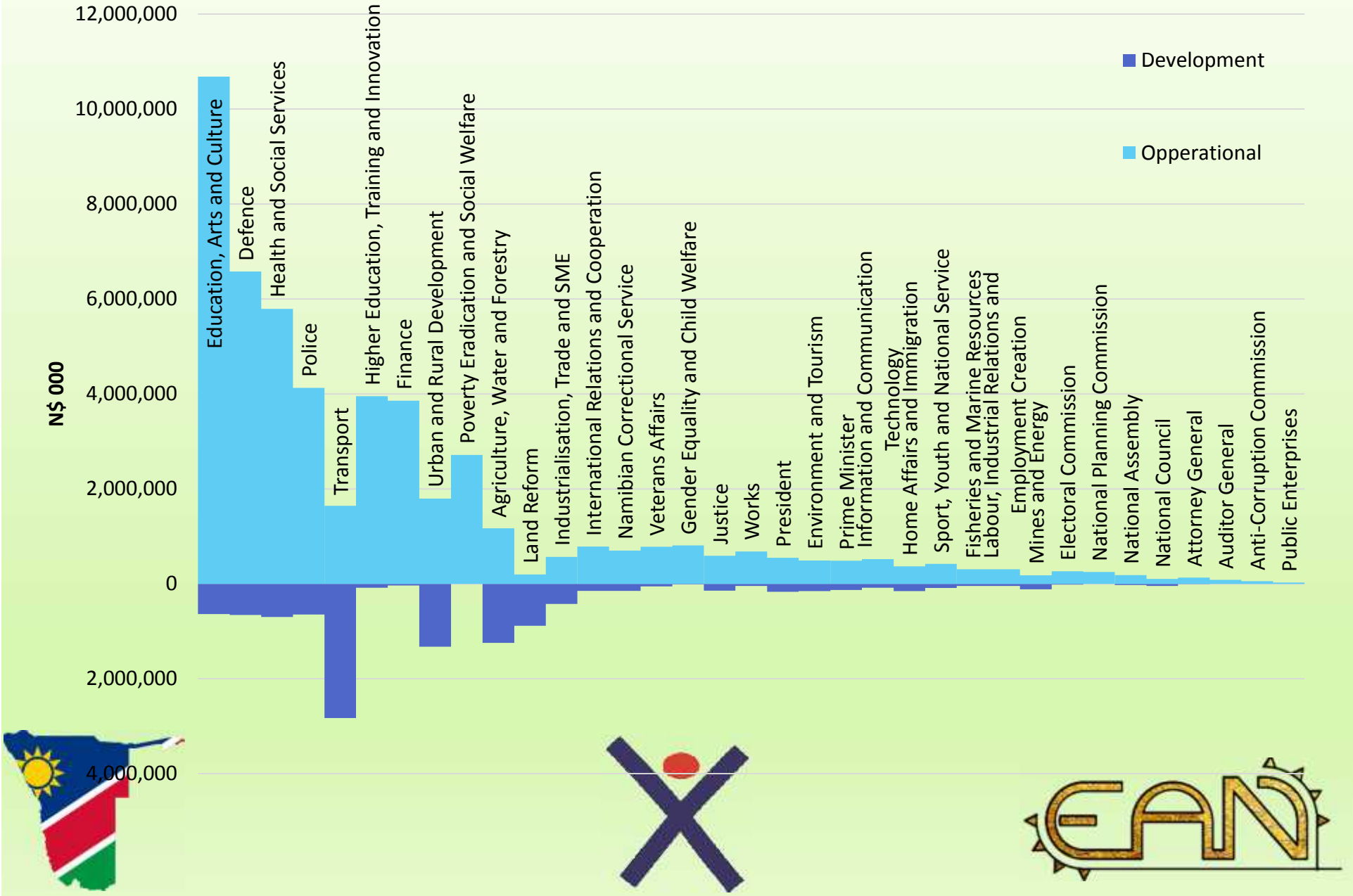
Government's Involvement in Economy



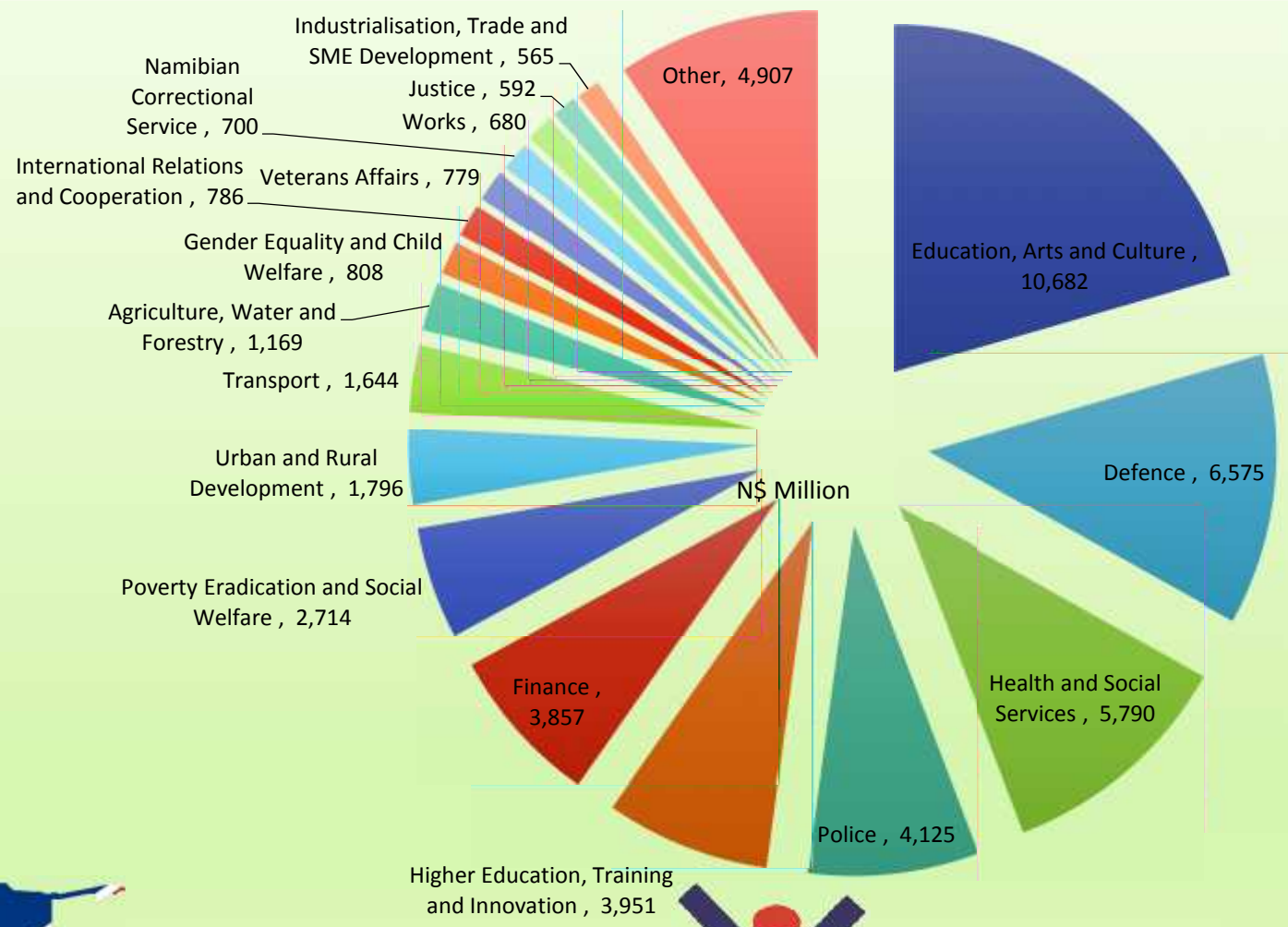
Expenditure Growth



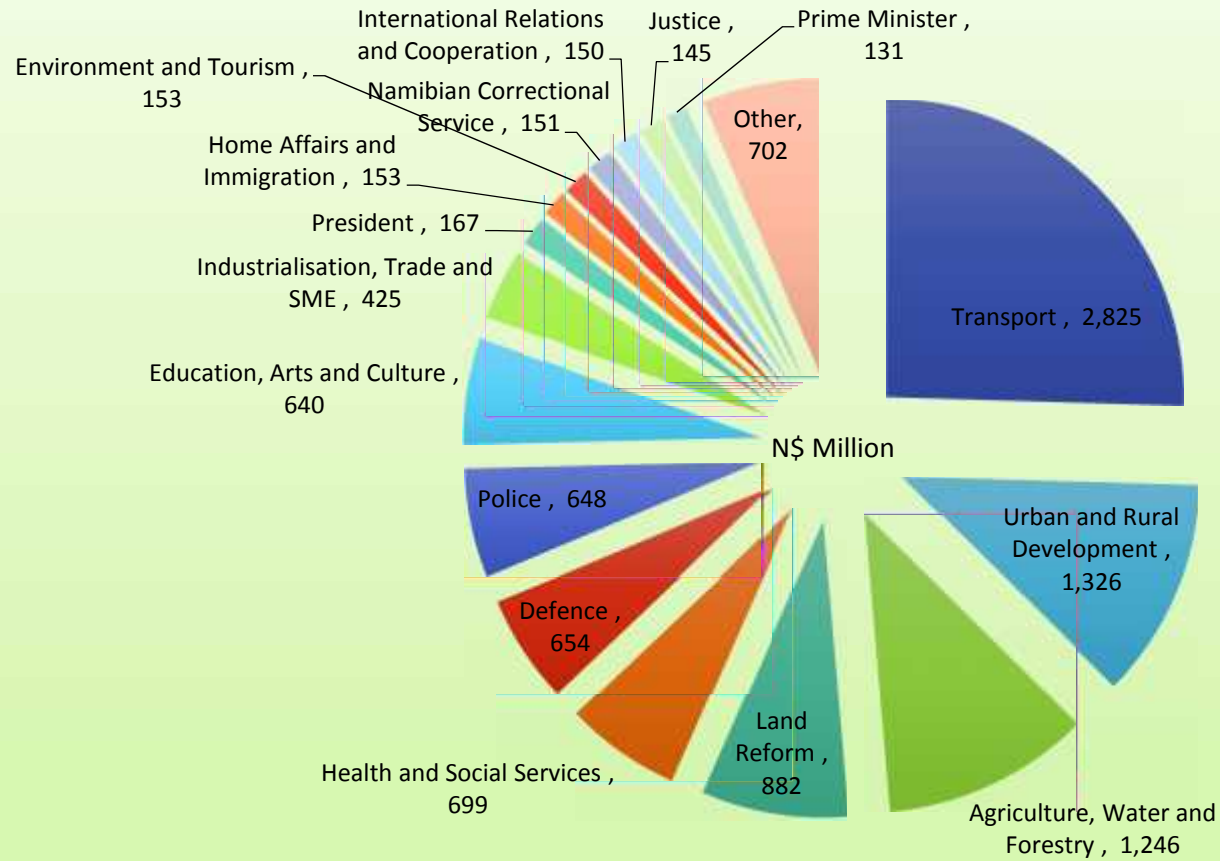
Expenditure by vote (2015/16)



Operational Budget (2015/16)



Development Budget (2015/16)



Development budget – large projects

- State Security Infrastructure – N\$1.5bn
- Construction of the Second Office of the Prime Minister – N\$646 million
- Construction of a New Parliament Building – N\$613 million
- Construction of Head Office for MHA – N\$778 million
- Upgrading of Police Stations – N\$981 million
- Construction of Police Accommodation – N\$851 million
- Purchasing, Constructing and Renovating of Diplomatic Premises – N\$1.4billion
- Research and Development (Defense Force) – N\$6.7billion
- Renovations of School Nation Wide – N\$700 million
- Extension of Existing National Council Building – N\$300 million
- Construction and upgrading of Primary Health Care Clinics Nationwide – N\$905 million
- Construction and upgrading of Primary Health Care Centers Nationwide – N\$647 million
- Rural Electrification – N\$683 million
- Upgrading and Construction of Lower Courts – N\$ 534 million
- Various urban + rural development – township upgrading + formalization, rural + urban sanitation
- Construction of MICT Head Office – N\$290
- Acquisition/Construction of Offices for MoV HQ & Regional Offices – N\$308 million

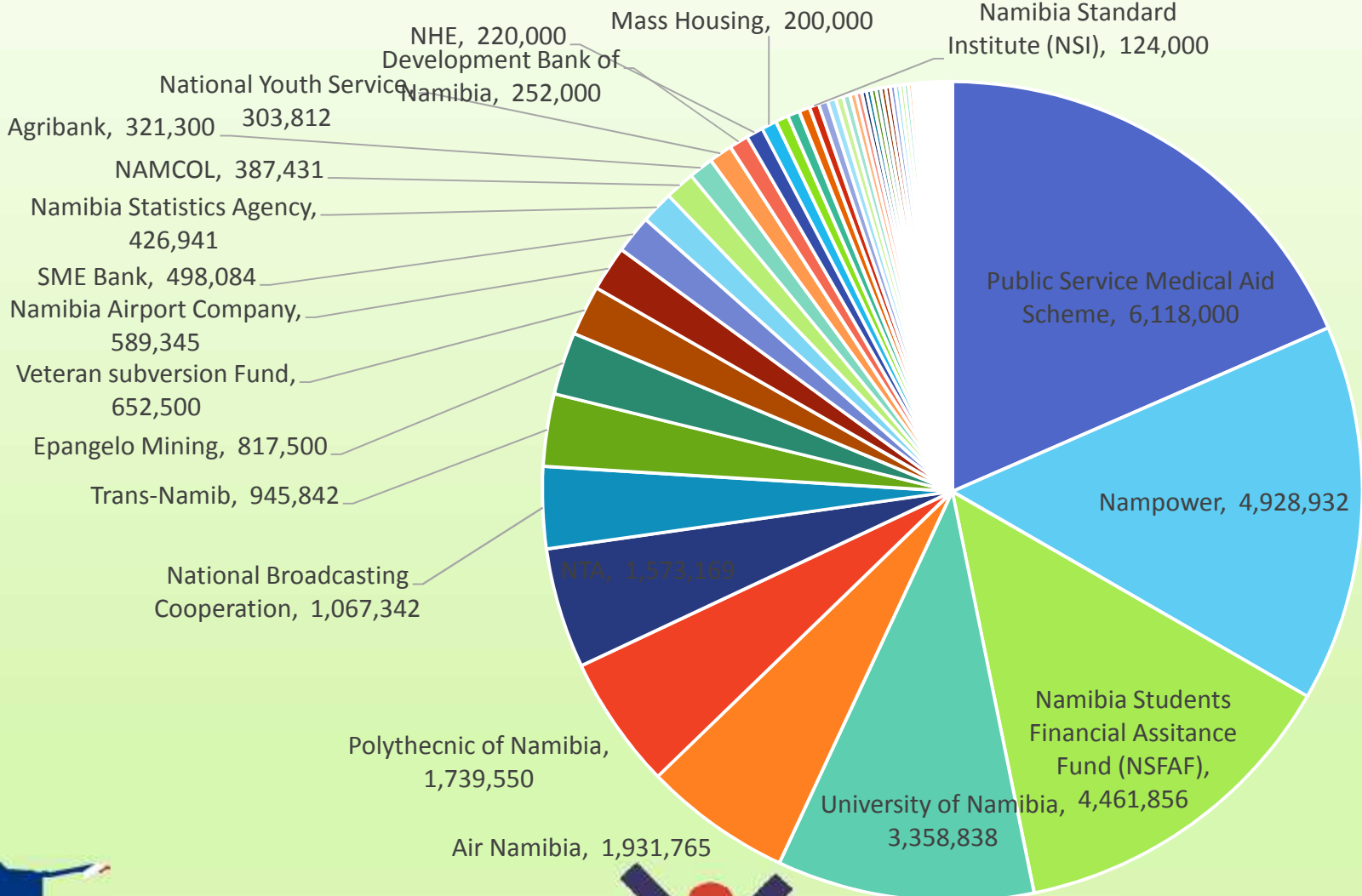


Development budget – large projects

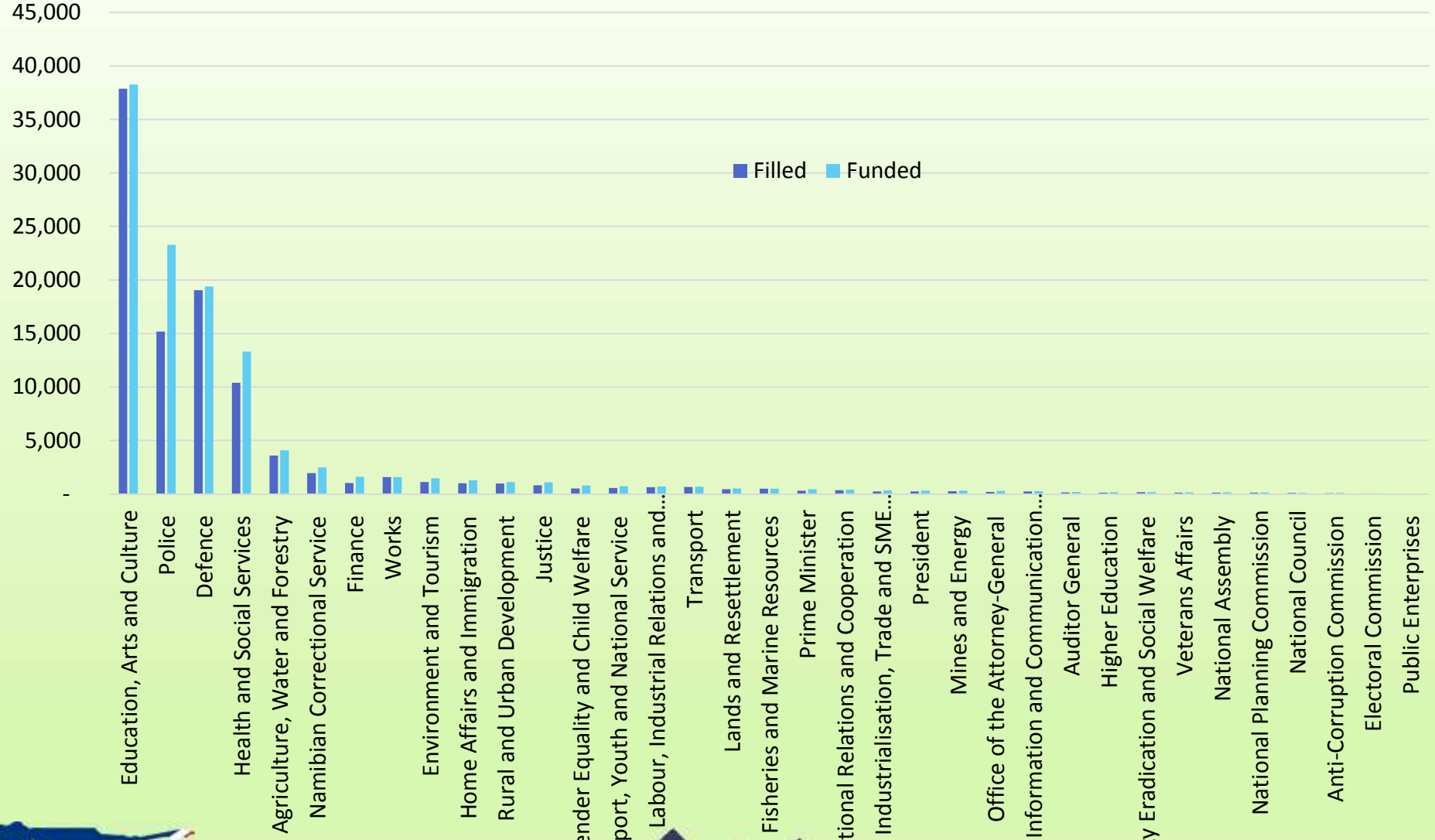
- Construction and Upgrading of MET Headquarters – N\$274 million
- Construction of Ministry of Trade Headquarters – N\$400 million
- Construction of Sites and Premises Industrial Estates – N\$923 million
- Special Industrialization Programme – N\$1 billion
- External Trade Infrastructure Development – N\$1.6 billion
- Product Development and Group Purchasing Project – N\$400 million
- Construction of MAWF Regional Offices – N\$480 million
- Green Scheme – N\$3.1 billion
- National Horticulture Development Initiative – N\$1.2 billion
- Construction of Large Dams, Desalination and Provision of Water to larger Settlements – 3.1 billion
- Railway Network Upgrading – N\$5.3 billion
- **Development of the Cape Fria- Katima Mulilo Railway Line – N\$2,4**
- Northern Railway Line Extension – N\$2.1 billion
- Various roads
- Land Purchase Project – N\$2.4 billion
- Development of National Fundamental Data Sets – N\$201 million
- Construction of Ministerial Head Quarter – N\$300 million



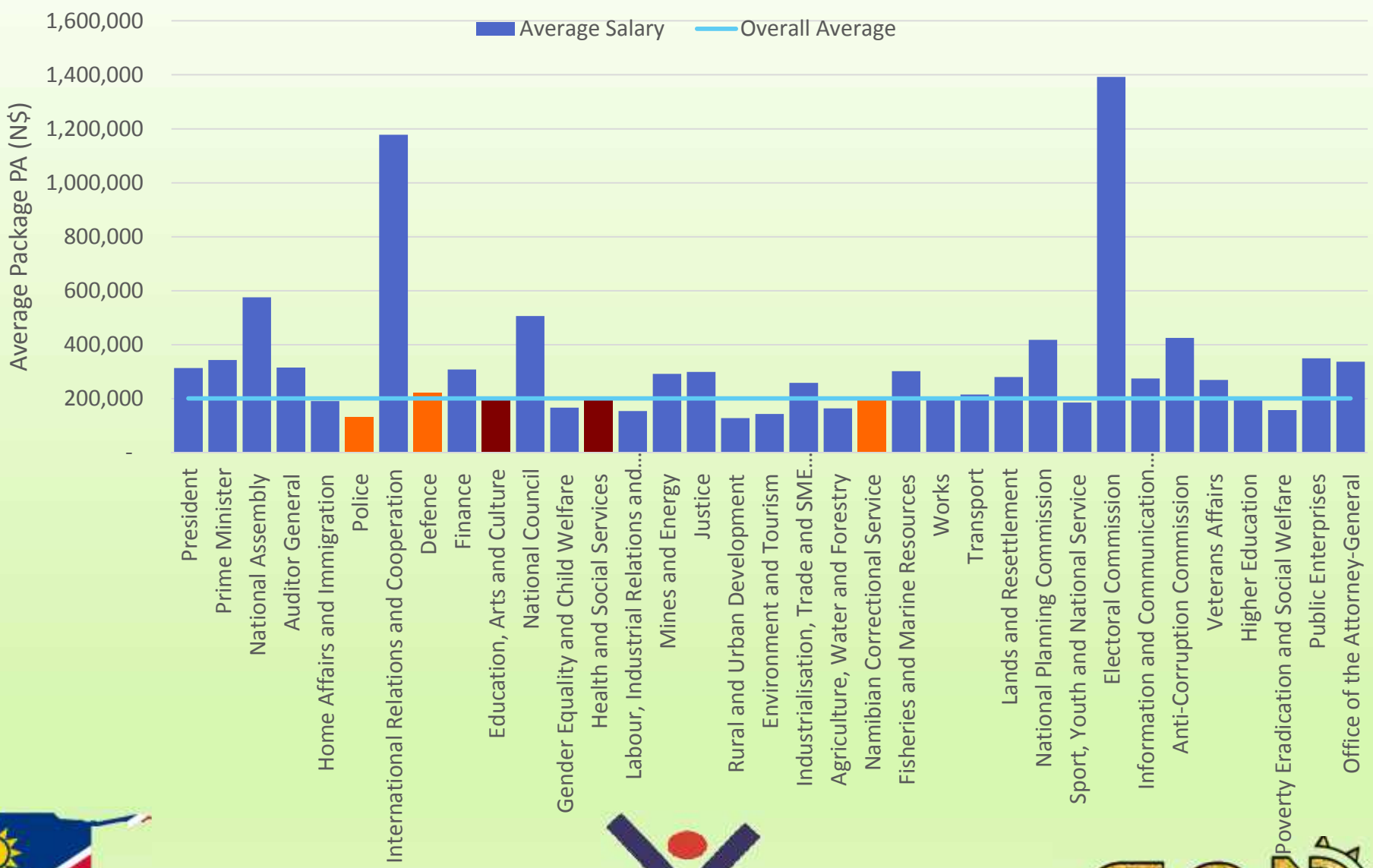
Transfers to SOEs (MTEF)



Staffing – Positions by OMA



Salaries

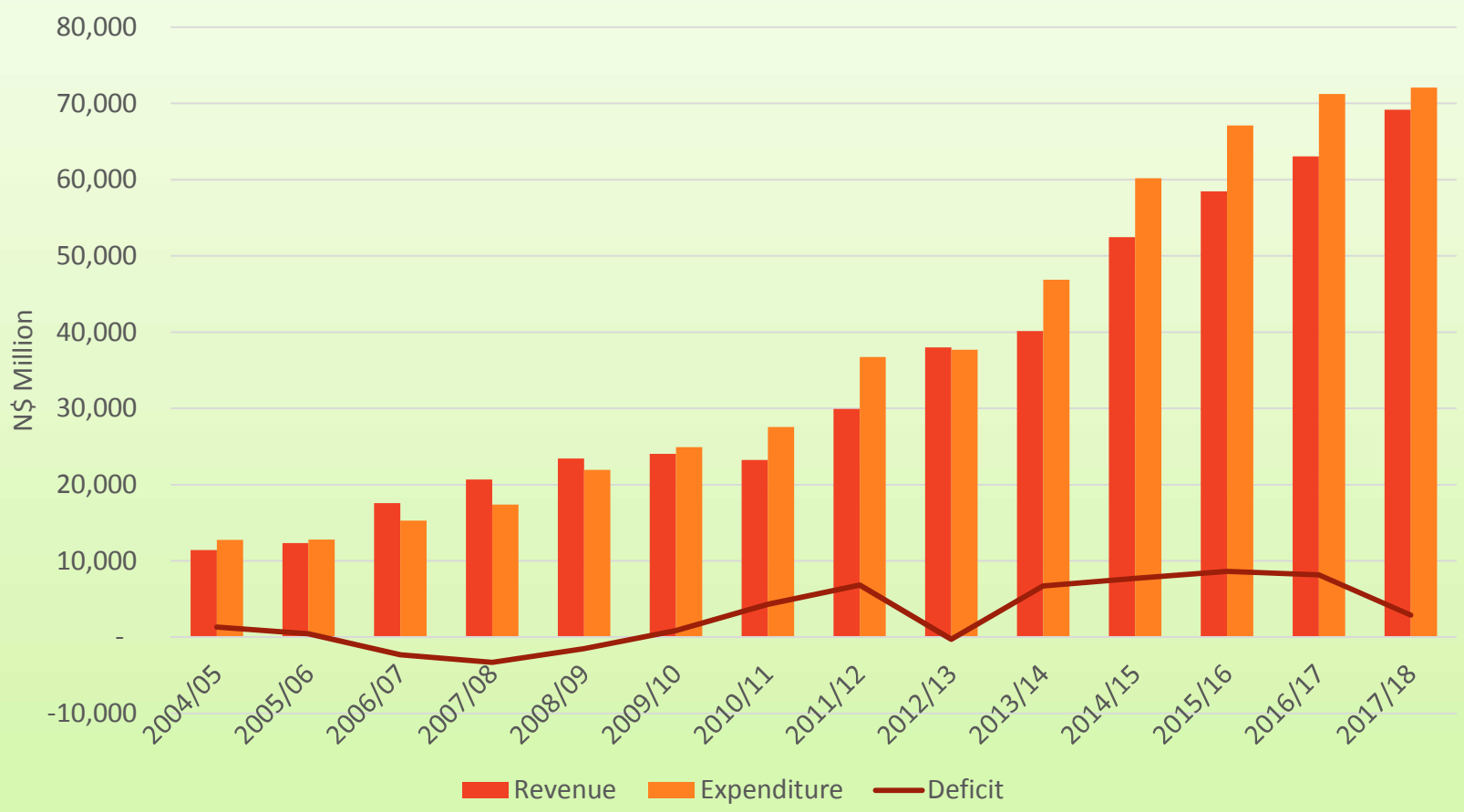


Budget Balance

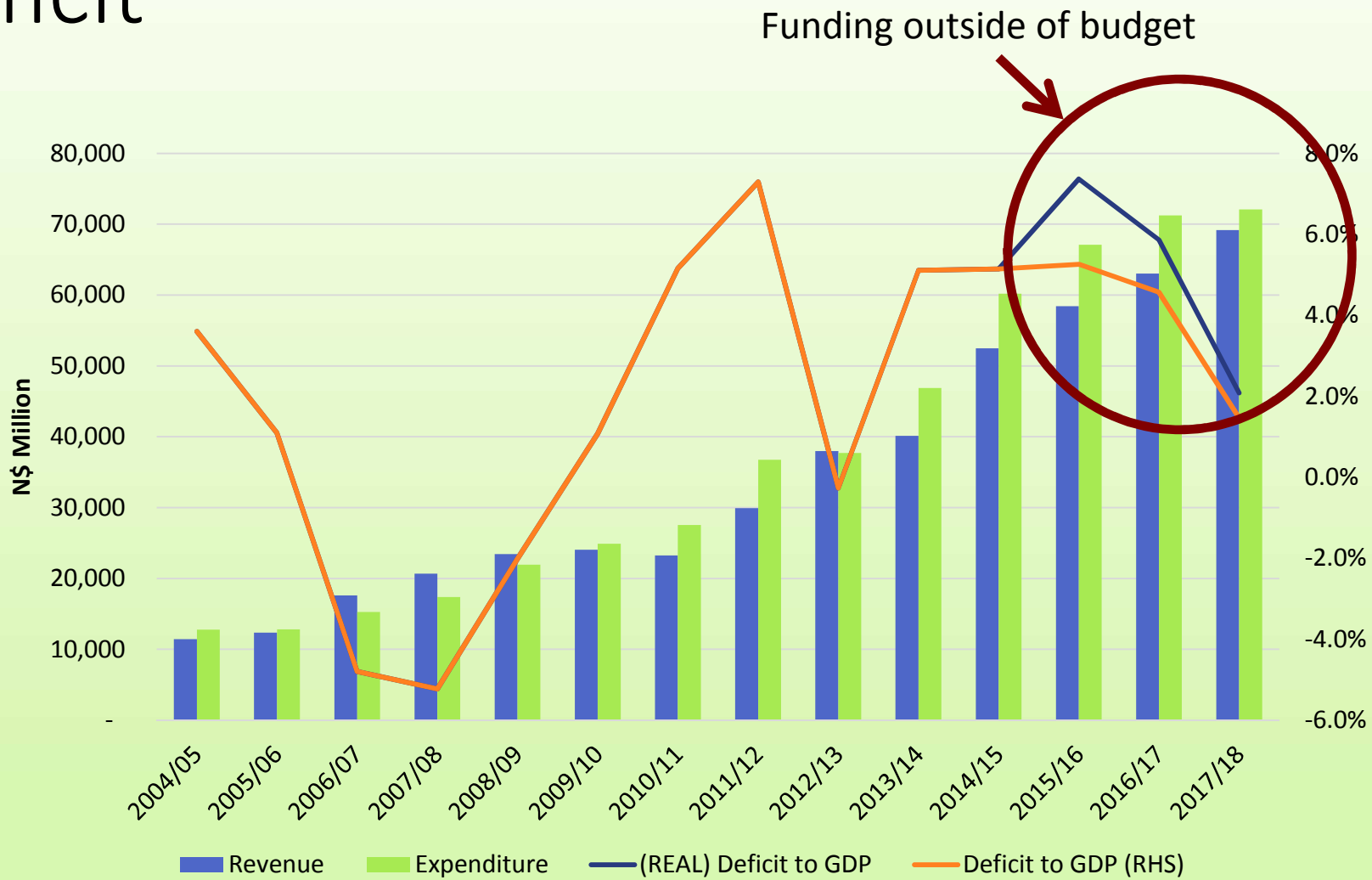
- Projected budget deficit of 5.3 percent of GDP
- On the high end given the extended period of expansive fiscal policy seen in the country since 2011.
- That said, the deficit is expected to be reduced in the latter years of the MTEF, although such forecasts are usually unreliable if history is anything to go by.
- Total debt is projected to increase to an average of 31.5% of GDP over the MTEF, below the 35% threshold, but still high compared to five years ago when the level was little over 16%.
- Still low by global standards
- Contingent liabilities are projected to increase to an average of 8.7% of GDP over the MTEF, below the 10% benchmark.
 - Construction of a dual carriage between Windhoek and Okahandja
 - National fuel storage facility, fuel pipeline and the fuel offloading jetty at Walvis Bay
 - Kudu Gas-to-Power Project
 - Mass Housing Programme.



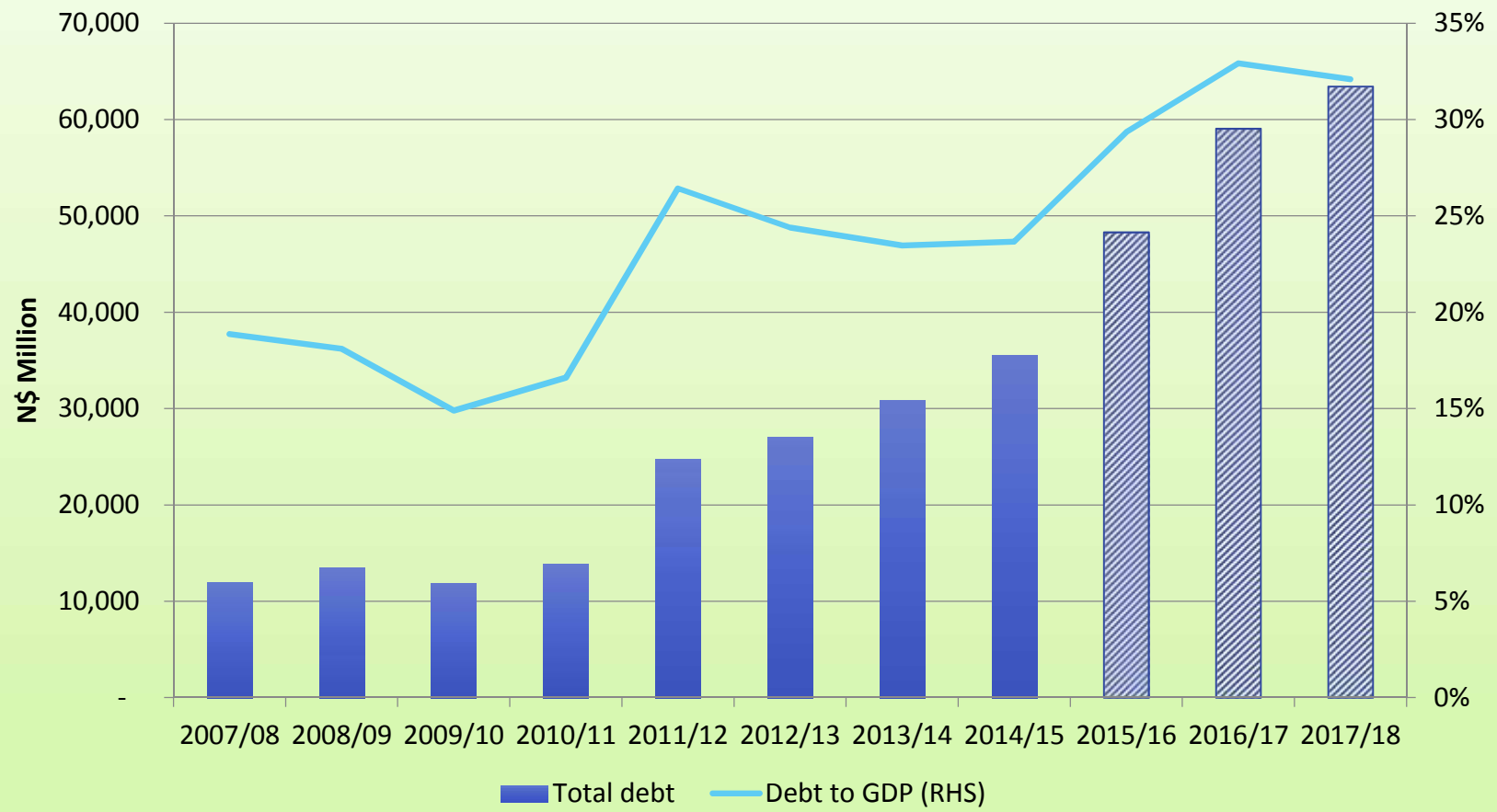
Budget Balance



Deficit



Debt



Shortcomings

- Must consider reason we pay tax
 - Redistribution
 - Social support
 - Service delivery
 - Water, electricity, education, health, police etc.
- Does budget achieve these?
 - Very poor on redistribution, unless you consider government salaries etc. redistributive.
 - Limited social spending, but improving
 - Some service delivery, but highly inefficient.
- Does it align to NDP4?
 - Definite improvements, still not entirely



Shortcomings

- Inefficient allocation driven by hugely flawed budgeting process
 - Last minute changes
 - Rolling 3 year budget
 - Poorly aligned to development plan cycle
 - Little analysis of funding applications
 - Little M&E
 - Little idea of developmental outcomes
 - Questionable forecasts
 - Limited data availability



Concerns

- **MAJOR** under allocation to housing
- Little structural change in economy – cyclical growth?
- Interest charges to **N\$10 billion** per year by 2017/18
- Crowding out risk?
 - Should growth slow
 - Should
- **Expenditure envelope stretched to the maximum**
 - Next few years will be critical



Concerns

- Fast growing expenditure increasing deficit and debt stock
 - Means MOF has VERY LITTLE policy space should further counter-cyclical policy be needed in future
 - We need look no further than SA to see this in action
 - Without any changes to expenditure, will be at the top of the prudential limit by 2016/17, and expenditure always revised up.
 - Very difficult to reduce operational expenditure
 - Development expenditure most important, and most likely to suffer
 - Exploiting all avenues to increase spending – guarantees, outside budget, etc.



Suggestions

- **Introduce genuine 3-year MTEF budgets**
- **Align budget cycles with development plan cycles**
- **Align budget expenditure with NDP priorities**
- **Ensure project & programme alignment to NDP priorities**
- **Ground up budgeting every 3 or 6 years**
- **Minimise additional budgets (5%)**
- **Introduce regular audits of vehicle, furniture and other assets**
- **Ensure proper analysis and appraisal of projects and programmes**
- **Review the roll of MOF in budgeting**
- **Focus on returns on expenditure**
- **Develop watertight indicators**
- **Introduce M&E on results (not just expenditure)**



Thank you

