Media Release

16 March 2016

The National Budget 2016/17 Review

For immediate release

On the 16th of March, 2016, the Economic Association of Namibia (EAN) in partnership with the Institute of Public Policy Research hosted a review on the National Budget 2016/17, held at Nice restaurant and attended by around 90 guests.

To enable an in depth discussion of the national budget Mr Rowland Brown, Chairperson of the EAN and Head of Research at IJG Securities, gave a critical and constructive review of the National Budget, and the Honourable Minister of Finance, Calle Schlettwein, gave the keynote address.

Brown summarised the main reasons for tax collection (i.e. to cater for economic growth, employment, housing, education, and healthcare) and raised the question of whether the budget addressed these aims adequately.

Brown noted that the outlook for the domestic economy had weakened due to infrastructural constraints, increasing inflation, falling SACU revenue and currency depreciation.

He stressed the importance of counter-cyclical fiscal policy, noting that the government's coffers have decreased significantly due to high spending in the past.

Brown highlighted a downward revision in the revenue forecast for 2016/17, compared to the ambitious targets contained in the previous year's budget. While noting the Ministry of Finance's projected growth in revenue over the MTEF, Brown considered the projections ambitious given the downside risks.

He welcomed the capping of government expenditure, following six years of expansionary expenditure. Total expenditure was 1.1% lower than the previous. While welcoming the cut in expenditure, Brown noted that the cuts were mainly in the development budget, which now makes up just 13.7% of total expenditure. Brown added that the development budget is of high importance for future investment in infrastructure and is targeted at 20% of expenditure.

In his presentation he also noted that while the development budget was cut, the operational budget increased by 1.6%, mainly due to high personnel costs, which now constitute 38% of total government expenditures.

Brown also added that the average salary for civil service employees has almost doubled between 2010 and 2016, thereby significantly increasing the burden on the state. In a global comparison, Namibia's ratio of civil service wage bill as a percentage of GDP is the 6th highest in the world, a reason for concern according to Brown.

Brown criticised a project called 'State Security Infrastructure' which focuses on the construction and renovation of accommodation facilities in the regions to accommodate the President and his entourage. The projects total are expected to be N$ 1.6 billion, which according to Mr Brown equals the costs of servicing 32 000 erven for Namibian families.

Brown argued for the importance of cutting wasteful government expenditures, especially in the Ministry of Defence and the construction of the new parliament building, and rather channel the money towards the improvement of the housing situation where it would enable the government to provide around 385 000 serviced erven to the Namibian population – enough for almost every Namibian household.

Brown commended the Minister of Finance on the improvements in the budget with respect to the prioritisation of government expenditures and the Minister's efforts to date. He agreed that the budget is moving in the right direction but added that a lot of work still needs to be done

Brown summarised that more spending and investment is needed on key infrastructure projects and poverty reduction initiatives, while expenditures for the new parliament building and the research and development component of the Defence Ministry should be shelved.

Minster Schlettwein, responding to Brown's concern on the growth forecasted, added that the budget's growth target was not overly optimistic at 4.3%, and was lower than projections by both the IMF and rating agencies. The Minster further explained that higher prices for certain commodities and a growing tourism sector will support the growth rate going forward.

Minister Schlettwein added that the economy depends on government consumption, but stressed the need for private sector participation in the economy through public private partnerships. The Minister added that private capital could be tapped into to provide funding for infrastructure projects focusing on areas like water, transport and agriculture.

Addressing the need to cut expenditure, the Minister stressed the difficulties in terminating ongoing projects over a short period of time. Nevertheless, the Minister added that certain projects which did not adhere to the tender process, like the housing project and the construction of a new airport, were stopped by the Ministry of Finance.

Minister Schlettwein confirmed that the economy was coming out of a cycle were money was abundant and high growth was maintained through expansionary budgets, and now government has used up some of its fiscal space.

The Minister labelled the high wage bill as the "elephant in the room", but also stressed the difficulties of lowering the wage bill in an environment of high unemployment and increasing inflation.

The Minister noted the high budget allocation to the Ministry of Defence, but added that the defence budget was cut and that it was a move into the right direction.

In closing, Minister Schlettwein sounded optimistic that the economy would maintain a stable outlook over the medium term and added that the budget touched on the two pillars of pro-poor economic growth policies and a stable macroeconomic environment.

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