

FY2021/22 Mid-Year Budget Policy Speech

Presented

by

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Minister of Finance

Available on the Website: www.mof.gov.na

3 November 2021

Honourable Speaker;
Honourable Members of the National Assembly;
Fellow Namibians;

1. Today is a special day for all Namibians. In about six hours, at the Conference of Parties (COP26) in Glasgow, our President will announce the preferred bidder to do a feasibility study for the production of green hydrogen and related products in our country. With that announcement, Namibia is sending a strong message to the World. We are telling the world of our big dreams and aspirations, we are announcing our readiness to decarbonize our country, our region, our continent and contribute to net-zero carbon emission global goals. Namibia is saying to the world, I am ready to play my part to achieve the Sustainable Development Goals (SDGs). This is indeed a moment, we as Namibians, should be proud of and celebrate together. I shall return to this matter later.

Honourable Speaker,
Honourable Members,

2. Being alive to our difficult present, but full of hope for our common future, I rise before this august House to table the FY2021/22 Mid-Year Budget Review and Medium Term Fiscal Policy Statement.

3. The Mid-Year Budget Review provides us with an opportunity to take stock of the strides we have taken since the beginning of the financial year, to judge our collective performance and make the requisite adjustments to ensure that we remain on course to attaining our annual priorities.

4. I table this Mid-Year Budget Review in a continuously difficult economic environment. As a country and broadly as a region, we have just turned the corner on a devastating third wave of COVID-19, which regrettably resulted in a loss of valuable lives, greatly overwhelmed our health systems, and severely disrupted already weak economic activity.

5. While the spread of the virus appears to have abated somewhat, there still remains a real risk of potential reemergence of additional waves of infections which could disrupt the sense of normalcy prevailing currently. As such, the speedy roll-out of the COVID-19 vaccine to the majority of our population and

achieving herd immunity, remain our main defense to curb against rising infections. Indeed, vaccination is our best bet for saving lives and reigniting economic activity.

6. The ongoing COVID-19 pandemic has reinforced the depth and severity of the prolonged economic recession that characterized our economy since 2016. The recently released *National Accounts* show that the economy contracted by 8.5 percent in 2020, worse than our initial estimates during the Main Budget in March.

7. In the context of these developments and constraints, limited fiscal space and subsequently safeguarding public debt sustainability, emerge as the primary economic challenge which Namibia has to contend with in the near term. This situation warrants targeted policy interventions to reboot economic growth and employment creation, albeit with limited fiscal space.

8. In March this year, I tabled the FY2021/22 Budget under the theme "*Boosting Resilience and Recovery*". This still remains our key preoccupation, even during this Mid-year Budget Review. We are committed to fostering economic recovery and insulating our economic capacity and socioeconomic structure, although within a severely constrained resource envelope. We are dedicated to ensuring that Namibia prospers again.

9. At the same time, we are awake to the stark realities before us. Our economy is undergoing difficult headwinds and our fiscal affairs remains in a precarious position. Economic growth is even weaker than we initially projected and public revenues still remain at an all-time low. Faced with such tough economic circumstances, we have to make tough choices. My job is to strengthen the fiscus, despite the mounting spending pressures.

10. It is in this context, *Honourable Speaker*, that I, in terms of Article 126 of the Namibian Constitution, read with Section 1(1) of the State Finance Act, table the Appropriation Amendment Bill and the Amended Estimates of Revenue, Income and Expenditure for FY2021/22 for the favourable consideration and approval by this House.

What Does this Budget Review Offer?

Honourable Speaker,
Honourable Members,

11. This Budget Review, as the one I tabled before you last year, centers on stabilizing the medium term macro-fiscal framework and reviving sustainable economic growth as the key pillars for long-term fiscal sustainability:

    (i) ***first***, the review simultaneously amended the appropriated expenditure ceilings and reallocates resources to alternative priority programmes with a view to meet obligatory operational expenditure and realize allocative efficiency,
    (ii) ***second***, it continues the provision of resources to programmes aimed at combating and mitigating the socio-economic impacts of COVID-19, in particular to account for the impact of the third wave on various sectors, and
    (iii) ***third***, it maintains the fiscal consolidation policy stance for the next MTEF and outlines the associated policy priorities consistent with broader economic objectives of sustainable growth, macroeconomic stability and fiscal sustainability.

Honourable Speaker,
Honourable Members,

12. Before I outline the fiscal policy stance for the next MTEF and zoom into the key prescriptions of the FY2021/22 Appropriation Amendment Bill, allow me to highlight the prevailing economic environment under which this Mid-year Budget Review was prepared.

Economic, fiscal and financial context

13. In its World Economic Outlook (WEO) Report released in October 2021, the International Monetary Fund (IMF) projects an uneven recovery in economic activity over the medium term, with elevated risks to economic prospects and even more complex policy trade-offs going forward:-

- global growth projection for 2021 has been revised down marginally to 5.9 percent, while maintaining the forecasts for 2022 at 4.9 percent,
- Advanced Economies are estimated to post a 5.2 percent growth in 2021, before moderating slightly to 4.5 percent in 2022,
- Emerging Markets and Developing Economies are estimated to recover to a growth of 6.4 percent in 2021,
- meanwhile, the world trade volume is estimated to have rebounded by 9.7 percent, driven by normalization in economic activity across the globe,
- as well, commodity prices display stronger near-term prospects in line with recovering economic activity.

Honourable Speaker,

14. On the regional front, the pace of economic recovery remains subdued, compromised by pervasive negative output gaps and low vaccine roll-out:-

- economic growth in the Sub-Saharan African Region is estimated at 3.7 percent in 2021, before increasing marginally to 3.8 percent in 2022,
- for our biggest trading partner, South Africa, growth is projected at 5.0 percent in 2021, before tapering off to 2.2 percent in 2022.
- the Angolan economy, an important source of demand for Namibia, is projected to contract by 0.7 percent in 2021, continuing a persistent recessionary trend over the past five years.

15. The risks to the recovery in global economic activity remain the slower pace of vaccinations particularly in our region, which may allow new variants to spread before herd immunity is reached.

Honourable Speaker,
Honourable Members,

16. Allow me to zoom into developments in the domestic economy.

Domestic economic developments and outlook

17. The domestic economy is projected to grow by 1.9 percent this year, a downward revision from 2.1 percent estimated in the main Budget. The revision reflects

low base effects and slightly lower production prospects, compounded by the rampant third wave of the COVID-19 pandemic and the subsequent restrictive measures introduced to contain the spread of the virus.

18. From the sectors of industry point of view, growth will be anchored by output from primary industries and tertiary industries on the back of a strong recovery in mining, supported by minor growth in agriculture as well as strong activity in wholesale and retail, transport, and financial services. Secondary industries are projected to contract, largely due to expected declines in electricity and water production as well as the construction sector.

19. While the domestic economy is estimated to return to a positive growth trajectory, that growth is still not strong enough to regain the revenue prospects lost during the recession and pandemic periods.

Honourable Speaker,

20. On the monetary and external sectors;

- the annual inflation rate moderated to 2.2 percent in 2020 before accelerating to 3.5 percent by September 2021, driven in part by the pass-through effects of the recovery in international oil prices supported by subsiding deflationary pressure in the rental market. Over the medium term, inflation is expected to remain well anchored, with potential further upside risks stemming from exchange rate volatility, energy prices and supply pressures. The monetary policy stance remained fairly accommodative over 2020 as well as during the first ten months of 2021,

- As the economic recovery gathers steam, import flows increased significantly relative to exports, resulting in a deterioration in the current account. A deficit of N$3.1 billion was recorded on the current account during the second quarter of 2021, compared to a surplus of N$5.4 billion during the corresponding period of 2020. The considerable decline in SACU receipts also contributed to this development,

- nevertheless, the stock of international reserves increased to N$45.9 billion at the end of September 2021, boosted primarily by the additional

allocation of IMF Special Drawing Rights (SDR), supported by strong inflows from foreign borrowing activities. The stock of reserves is equivalent to 6.7 months of import cover auguring well relative to the 3.0 months international benchmark.

21. At this point, *Honourable Speaker*, let me turn the focus onto fiscal policy developments.

Fiscal Policy Developments

22. With regard to the actual outturns in respect of the previous year, FY2020/21:-

- nominal GDP as per the final National Accounts for 2020 was registered at N$178.1 billion, which is 4.1 percent better than our estimates,
- actual revenue outturn amounted to N$57.8 billion equivalent to 32.5 percent of GDP, significantly better than the budget revenue estimate of N$51.4 billion,
- total expenditure, including interest payments amounted to N$72.0 billion, relative to N$72.8 billion budget reflecting an underspending on the development budget and statutory expenditure. The non-interest operational budget implementation rate stood at 101.3 percent, while the development budget execution rate stood at 95.7 percent,
- the budget deficit stood at 8.0 percent of GDP, compared to the budgeted 12.5 percent due to a combination of upward revisions in nominal GDP, superior revenue performance and underspending,
- interest rate payments lingered at 12.8 percent of revenue, significantly overshooting the 10 percent benchmark and reflecting the steadily increasing cost of high public debt stock, and
- total debt stood at N$110.6 billion, representing 62.1 percent of GDP.

23. Turning to the current year, FY2021/22, mid-term assessment,

- the preliminary revenue outturn by September 2021 stood at N$27.2 billion, equivalent to 52 percent of the budgeted revenue and about 4 percent better than the average historical mid-year collection rate,

- the execution rate on total expenditure and commitments (excluding statutory spending), stood at N$32.2 billion at mid-year, equivalent to some 49.0 percent of the budget. Meanwhile, the half-year statutory expenditure execution stood at 43.8 percent, while the development budget implementation rate including expenditure commitments by the end of September 2021 stood at 39 percent,

- at the half-year mark, the total debt stock stood at N$126.1 billion, equivalent to 68.3 percent of GDP. This amount is inclusive of US$500 million outstanding on the first Eurobond, which I am pleased to note has been successfully redeemed today, 3 November 2021. The debt stock reflects that 57 percent of the budgeted financing requirements has been effectively met by the mid-year point.

Fiscal Outlook and Medium-Term Policy Stance

Honourable Speaker,
Honourable Members,

24. Allow me to shift focus towards the macro-fiscal policy outlook for the medium-term.

25. On the growth front, there are bright prospects for the medium-term albeit rather moderate. Anchored on assumption that the COVID-19 pandemic will remain contained, and the economy will gradually open up, growth is projected to accelerate further to 2.8 percent by 2022 and further strengthen to an average of 3.0 percent over the next MTEF. However, speedier implementation of the second Harambee Prosperity Plan (HPP2) will add further impetus to these prospects.

26. On the demand side, the projected growth in the domestic economy is expected to be anchored on:-

- steady improvement in consumer demand both domestically and globally, as economic activity normalizes,

- improved momentum in exports driven by upbeat production levels and complemented by the projected gradual recovery in commodity prices, and

- reinvigoration in investments, both by the private and public sectors.

27. From the sectors of industry viewpoint, all major industry sectors are expected to record growth in 2022, although some will be moderate in comparison to 2021:-

    - overall growth is projected to be anchored by a strong recovery in the primary industries, which are estimated to grow by 4.9 percent in 2022 and remain steady at an average of 4.8 percent over the MTEF, anchored on strong performance by the mining sector broadly and diamond mining in particular,

    - growth in secondary industries is expected to recover marginally in 2022, while tertiary industries are expected to moderate somewhat weighed down by the lingering health and economic risks stemming from the COVID-19 pandemic,

28. Nevertheless, the projected growth outlook is still underpinned by significant downside risks stemming from uncertainties regarding the resurgence of new waves of the pandemic.

29. As regards to fiscal aggregates, total revenue and grants for FY2022/23 is projected at N$53.9 billion, a mere 0.5 percent higher than the estimated revenue for FY2021/22. The projected revenues are pulled down mainly by the expected lower SACU receipts in the near term. Over the MTEF, revenue is expected to grow moderately at an average pace of 5.7 percent to reach N$60.6 billion in FY2023/24 and N$63.1 billion by FY2024/25, reflecting the pace of economic recovery. As a proportion of GDP, total revenue is projected to average around 28.5 percent of GDP over the MTEF, still lower than the long-term average.

30. These revenue forecasts did not include the potential proceeds from the listing of MTC, which will only be accounted for once the Namibia Post and Telecom Holdings (NPTH) has formally made the dividend declarations henceforth.

31. At this pace of projected revenue growth coupled with elevated public debt levels, it is critical for total aggregate expenditure over the MTEF to remain aligned to the revenue outlook so as to safeguard fiscal sustainability and stabilize the growth in public debt.

32. The key premise of our medium term fiscal framework is that in the absence of strong economic growth, revenue will remain subdued. And without revenue growth, expenditure cannot be increased.

33. Accordingly, aggregate expenditure over the next MTEF is only projected to rather remain stagnant, consistent with the fiscal consolidation policy stance.

34. The total expenditure ceiling is projected to reduce to N$68.3 billion in FY2022/23 and remain steady thereabout over the remainder of the MTEF. These anticipated aggregate expenditure levels will serve as a guide in the preparation of the next MTEF, albeit subject to fiscal sustainability and affordability evaluation pre-budget. If further adjustments are required to protect public finances, we will make the necessary amendments.

35. Against this background, *Honourable Speaker*, it is going to be a difficult exercise for us to keep within these extremely constrained resource envelopes. We will need support and cooperation from all policymakers as we balance to maintain fiscal sustainability in the near term.

36. In the baseline scenario, the budget deficit is projected to reduce to about 7.4 percent of GDP in FY2022/23 and average about 4.7 percent of GDP over the MTEF, reaching about 3.0 percent of GDP in FY2024/25.

37. The projected budget deficit is still relatively high, particularly in FY2022/23 and public debt as a percentage of GDP is projected to increase from 68.7 percent in FY2021/22 and peak at 74.2 percent by FY2023/24. These high debt levels remain a real concern in the medium term.

38. The fiscal consolidation exercise we have pursued since 2016 had yielded some fruits and the primary fiscal balance had almost been recovered. Nonetheless,

much of these gains had been undone by our interventions to combat the spread of the COVID-19 pandemic. As such, there is still an imperative to maintain a growth-friendly fiscal consolidation process to restore fiscal and debt sustainability in the medium term. At the same time, the scope for further expenditure consolidation has thinned significantly, signaling a need to greatly shift focus towards resuscitating sustainable economic growth.

Policy Priorities over the MTEF

Honourable Speaker,
Honourable Members,

39. Since I tabled the main budget in March this year, we have made some advances in implementing several policy measures. To this effect, I am pleased to share progress as follows:-

- the second Harambee Prosperity Plan (HPP2) was launched by His Excellency the President during March this year, outlining targeted policy programmes to enhance service delivery, contribute to economic recovery and engender inclusive growth,

- the revised Namibia Investment Promotion Bill has been certified by the Attorney General and is due to be presented before this House for deliberations during the current session of parliament,

- the Special Economic Zone (SEZ) policy framework is currently making rounds through stakeholder consultations. I urge the private sector to actively participate in this process and provide inputs to strengthen the proposed suite of investment incentives,

- the Initial Public Offering (IPO) of MTC, the first for a public enterprise, just closed on the Namibia Stock Exchange (NSX) two days ago,

- the Office of the Prime Minister has appointed a private sector consultant to map out and cost the optimal restructuring of the Public Service Medical Aid Scheme (PSEMAS). Further details on the costing of various

options will be provided during the main budget. In the meantime, minor reforms have been introduced at the scheme, such as an SMS notifications system for PSEMAS members launched in July 2021. As a result, a total of 67 suspected cases of fraudulent claims have been detected and are currently under investigation,

- regarding the Namibia Student Financial Assistance Fund (NSFAF), during the annual awards this year, we undertook a mean-testing exercise on parental income to ensure that funding is dedicated to eligible needy students. This exercise isolated 1,209 applicants with parental income above the N$500,000 threshold, who could have cost the Fund around N$43 million per annum. Furthermore, Cabinet has approved the Students Financial Assistance and Debt Recovery Policy, which the Fund is promptly implementing. I implore all previous NSFAF beneficiaries, as upstanding citizens, to support and cooperate with the Fund to repay outstanding debts and ensure financial sustainability going forward. I believe paying back NSFAF loans is the right thing to do. Refusing to pay back when earning a decent income - some are even driving expensive cars - is morally abhorrent, it is unpatriotic and can be equated to stealing the future of the youth of today,

- Cabinet has approved the policy framework for the sovereign wealth fund for Namibia, the Welwitschia Fund. The fund will be seeded and operationalized in due course,

- Government has undertaken concerted efforts to attract private sector investment in a potential new sector of green hydrogen, which augurs well to decarbonize the country and the region. We are encouraged by the positive response to the Request for Proposals (RFP). Subject to confirmation of feasibility of the two identified sites, i.e., Springbok and Dolphine, this activity has the potential to attract over N$7 billion in Foreign Direct Investments (FDI) in the coming years, create well over 20,000 jobs during the construction phase and raise about N$100 million in annual concession fees for the Government. Going forward, more sites will be placed on auction in the near future,

- in the financial services sector, the Central Securities Depository (CSD) conditions are due to be published in the Government Gazette, paving the way for the licensing and subsequent operationalization of the long overdue CSD in Namibia. At the same time, the State Finance Act Amendment Bill will be tabled in Parliament tommorow, which will enable the Government, the biggest issuer in the domestic market, to participate in the envisaged CSD,

- on the designated SME financing facilities to assist SMEs adversely impacted by the COVID-19 pandemic (administered by the Bank of Namibia and the Development Bank of Namibia), poor appetite and limited uptake has been noted. In this regard, the Government is reviewing the mechanics of these schemes, while simultaneously exploring alternative options to avail financing to distressed businesses. At the same time, Government is fast-tracking the implementation of other components of the SME Financing Strategy to address youth unemployment. The Collateral Guarantee Scheme (CGS) has been rolled out with N$9.5 million in loan approvals secured, 58 percent of which were extended to youth-owned businesses. Equally, a pilot Mentoring and Coaching Programme (MCP) was rolled out to 200 participating SMEs, the results of which are being analysed to determine pathways for the envisaged national MCP,

- the Public Procurement Amendment Bill has progressed and is currently at the Legal Drafting stage with anticipation to table the bill in the National Assembly during the next session. Concurrently, Government has developed the Codes of Good Practices to be issued in terms of Section 70(1) of the Public Procurement Act, 2015 to support businesses owned by the youth, women, and local producers. The Code of Good Practices was gazzetted few days ago on 29 October 2021 for public comments. We urge all Namibians to study the Code and provide inputs. Furthermore, steps have been taken to address critical capacity challenges identified in both the Procurement Policy Unit (PPU) and the Central Procurement Board (CPB) as well as to exempt key public enterprises

with adequate capacity to manage their own procurement functions such as NamPower,

- a team of consultants have been appointed by the Office of the Prime Minister to map out and finalise the wage bill reforms. This team is encouraged to fast track the completion of their assignment,

- an expression of interest for investors to partner with Government in the National Single Window; the New Container Terminal at the Walvis Bay Harbour and the Special Economic Zone in Walvis Bay closed few days ago. In the coming days, a credible evaluation process will ensue to gauge the interest of investors. This is yet another demonstration that Namibia is engaging the world in a transparent manner.

40. In the area of tax policy and tax administration reforms, *Honourable Speaker*, I would like to report progress as follows:-

- the Namibia Revenue Agency (NamRA) was officially launched by His Excellency the President on 7 April 2021. The entity is currently ceased with establishing its corporate identity, including crafting operational policies and finalizing staff recruitment and transfers. Further, NamRA is instituting administrative mechanisms to ensure that the freight tax provision in the law is fully complied with.

- the Government is still exploring options to reduce the non-mining company tax, with consideration to effect it in the outer years of the next MTEF,

- the Income Tax Amendment Bill is at the initial stages of ministerial approval, it contains the proposed introduction of a withholding tax at a rate of 10% on dividends paid to Namibians, increasing the deductibility on pension fund contributions and educational policy deductions to a maximum of N$150 000.00, and enforcing the administration of withholding tax on services by requiring taxpayers to provide proof of actual tax withheld from payments. The Bill will undergo public

consultations for inputs after which it is anticipated to be tabled in the National Assembly during the next session,

- The Value Added Tax Amendment Bill is also at the initial stages of ministerial approval, incorporating zero rating the supply of sanitary pads and extending the VAT charge on the fees of all asset managers to ensure fairness of the tax system. The Bill will make rounds of stakeholder consultations and is anticipated to be tabled in the National Assembly in 2022. I should hasten to say that Government approaches tax amendments with an open mind. Should the consultations process prove that some of the proposed amendments could be harmful to the socio-economic wellbeing of Namibia, we will reconsider our position accordingly.

Honourable Speaker,

41. In light of the precarious economic and fiscal situation I highlighted prior, there is an absolute and urgent need to expedite the implementation of policy initiatives across multiple stakeholders to address the growth and fiscal challenges in a systematic and comprehensive way.

42. From an economic fundamental perspective, our growth prospects were hamstrung by the downturn in commodity prices, persistent draughts, compounded by low productivity outside the mining and service sectors, and constrained diversification opportunities due to limited know-how and productive capacities in the economy. Going forward, the primary policy pillars over the MTEF will center on reversing the tide of low growth through a micro level exploration of potential complex economic activities for the private sector to expand into. Gradually, this exercise should increase the stock of know-how, allowing for higher productivity, export diversification, and job creation over the long term.

43. As I have indicated earlier, the near-term outlook is clouded with significant macroeconomic risks that requires urgent and coordinated policy responses. I believe, however, we have a credible plan. The implementation of HPP2 will propel Namibia to new growth frontiers and create jobs for the youth. As such, the structural policy priorities that will underpin the upcoming MTEF are:-.

- ***First***, the primary focus will be on accelerating economic recovery, diversification, and job creation. The strategic interventions in this respect will entail:-

    - *implementation of a comprehensive and internally consistent* **Economic Diversification and Growth Strategy**, as part of Pillar 2 of HHP2. *Overall, interventions will primarily be directed at developing complementary new engines of growth through facilitating a more private sector driven economic growth by dedicating policy actions to addressing binding constraints to enhancing productivity and economic diversification,*

        - ✓ *the strategy is underpinned by the growth diagnostic work underway undertaken with the support of the Growth Lab at Harvard University. The strategy is anchored on 97 identified prospective products which hold potential for the Namibian economy, in the following sectors:*
            - *Food Industry,*
            - *Machinery & Electronics,*
            - *Metals, Mining & Adjacent Industries,*
            - *Transportation & Logistics,*
            - *Chemicals & Basic Materials*

        - ✓ *diversification into these products and sectors will be pursued at a micro level through (a) targeted investment promotion to potential investors for nascent products. To this effect, the Investment Promotion Tool detailing key products, markets and target investors was launched on 29 October 2021 for utilization by the Namibia Investment Promotion and Development Board and the various Embassies abroad, this will indeed revolutionalise economic diplomacy going forward, (b) productivity enhancing taskforces will be pursued with local players for existing products, with the*

*first taskforce targeting **High Value Fruits** producers commencing this month, and*

- ✓ *exploring mechanisms to attract specific complementary talents that will promote new engines of growth and enable opportunities for Namibians at all skill levels.*

- *reviewing the sustainability of production and productivity of Government Green Scheme Projects and public enterprises in the agriculture sector as they hold significant potential to contribute to resuscitating sustainable growth,*

- *concretizing diversification opportunities in the service sector and designing a customized approach for strategic initiatives such as green energy,*

- *exploring a region-specific approach for creating economic and productive diversification opportunities, particularly around the largest urban centres in the country,*

- *reassessing the support to the SME sector and youth entrepreneurship, through speeding up the establishment of the Venture Capital Fund to provide patient equity financing, including to distressed businesses,*

- *supporting NamPower to continue with targeted investments in energy generation and transmission capacity and refurbishment of water supply infrastructure, and*

- *implementation of the ongoing N$4 billion AfDB-funded projects for agricultural mechanization, logistics infrastructure and school renovation programme and the completion of the ongoing large capital projects in the road sector.*

- ***Second***, anchoring macroeconomic stability and fiscal sustainability requires redoubled efforts and will focus on the following:-

    - *anchoring public debt stabilization objectives through a combination of a growth-friendly fiscal consolidation program, focused on expenditure containment in line with muted revenue prospects, gradual dephasing of the COVID-19 response and growth enhancing structural policy reforms I outlined earlier,*

    - *putting a moratorium on mass personnel recruitment in the civil service while concurrently speeding up the work of the Steering Committee on wage bill reforms aimed at reducing personnel expenditure over the MTEF,*

    - *implementing the restructuring of PSEMAS, with the costing of various benefit structures expected to be concluded by December 2021,*

    - *closing down the Southern Times Newspaper in line with the recent Cabinet Decision,*

    - *maximizing the rent appropriation from natural resources through auction mechanisms while at the same time maintaining Namibia's positioning as a premium investment destination, and*

    - *implementing the State Asset Ownership Policy and other Public Enterprises reforms to pursue state divestiture options, optimize the utilisation of government assets and broadly weaning public enterprises off the national budget to safeguard fiscal space.*

Honourable Speaker,
Honourable Members,

44. With regard to policy considerations in the realm of tax policy and tax administration reforms over the upcoming MTEF, we will explore:-

- *imposing carbon tax on electrical geysers as a mean to encourage broad-based adoption of solar geysers to contribute to net zero targets on climate change,*

Honourable Speaker,

45. Alongside the Medium Term Budget Policy Statement, I am tabling the FY2021/22 Appropriation Amendment Bill.

FY2021/22 Appropriation Amendment Bill

46. The FY2021/22 Mid-year Budget Review exercise focused on reallocating the realized resource envelope across critical expenditure items that could not be postponed to future financial years.

47. The reallocated amount constitutes of N$41.4 million and N$279.8 million realized from suspensions on the Operational Budget and Development Budget, respectively. These internal savings were obtained through a Treasury and National Planning Commission review considering execution rate by half-year, stage of the procurement process, coupled with projected expenditure outturn by the end of the financial year.

48. As I alluded to earlier, revenue estimates for the year have also been adjusted upwards to the tune of N$1.5 billion, reflecting primarily N$408.6 million raised from fish quota auctions, N$400 million from additional dividends declared by NPTH, N$693.8 million due to underestimation on individual income taxes and some N$304 million from other mineral royalties, among others.

49. The ideal situation would have been to utilize the additional revenue to reduce the budget deficit, however, we are faced with projected shortfalls on personnel and other obligatory expenditure items which would otherwise result in overshoots and outstanding invoices. To avert that outcome in the coming years, Treasury is undertaking an exercise to improve budget accuracy in the affected Votes.

50. Overall, a total of N$2.2 billion has been made available for reallocation across the Budget Votes. This is against total funding requests of N$7.1 billion received from Offices, Ministries and Agencies during the review.

51. Against this background, *Honourable Speaker*, *Honourable Members*, I propose the following amendments for your favourable consideration and approval:-

- the Development Budget ceiling is reduced on a net basis by N$279.8 million from N$5.5 billion to N$5.2 billion,
- the non-interest Operational Budget is increased by N$2.2 billion from N$53.9 billion to N$56.1 billion,
- statutory expenditure is reduced marginally from N$8.5 billion in the main budget to N$8.3 billion,

52. The reallocation of resources proposed above lifts the global expenditure ceiling for FY2021/22 from N$67.9 billion to N$69.7 billion. The proposed reallocations are primarily to address underbudgeting on personnel expenditure, utilities and other spending items across Budget Votes and to meet resource shortfalls at Health and Social Services as a result of the third wave of COVID-19.

53. Overall, the budget deficit will remain unchanged at 8.6 percent of GDP, as was in the main budget, leaving the net borrowing requirement largely static.

54. The reallocation of the recommended N$2.2 billion is proposed to various Budget Votes as follows:-

- the Ministry of Education, Arts and Culture is allocated N$400 million to cater for underbudgeting on personnel related expenditure,
- the Ministry of Health and Social Services is allocated an additional N$400 million required to boost the COVID-19 response plan,
- the Ministry of Works and Transport is allocated N$89 million, apportioned as N$47 million to cover property rentals, N$34 million for rates and taxes, and N$5 million for personnel expenditure,

- the Ministry of Gender Equality, Poverty Eradication and Social Welfare is allocated an amount of N$15.3 million to support the rollout of social grants,
- the Ministry of Home Affairs, Immigration, Safety and Security is allocated N$27 million for fleet maintenance and for the operations of the Institute of Forensic Science,
- the Ministry of Public Enterprises is allocated a total of N$220.4 million to support the operations of public enterprises including the leasing of locomotives by TransNamib, settlement of debt for AgriBusDev and operational support for Namibia Wildlife Resorts, among others,
- the Ministry of Environment, Forestry and Tourism will receive an additional N$4 million for anti-poaching activities,
- the Ministry of Agriculture Water and Land Reform is allocated a total of N$7.6 million for utilities and the Agribank loan scheme,
- the Ministry of Defence and Veteran Affairs is allocated N$477.1 million consisting of N$458 million to meet the funding shortfall on personnel expenditure and N$19.1 million for veterans expenditure,
- the Ministry of Finance will be allocated an additional N$230 million, consisting of N$200 million for PSEMAS funding shortfalls because of increased claims due to the third wave of COVID-19 and N$30 million for subscription fees,
- the Ministry of Industrialization and Trade is allocated N$43.2 million for remuneration, the Integrated Client Services Facility (ICSF), utilities as well as expenditure of various public enterprises under its purview,
- the Ministry of Information, Communication and Technology will receive N$141.7 million for the operations of the Namibia Broadcasting Corporation,
- the Office of the Judiciary will receive N$10 million to cater for utilities and IT equipment,
- the Ministry of Justice is allocated N$5 million to cater for witness fees,
- the Ministry of Higher Education, Technology and Innovation is allocated N$166 million for the NSFAF operations, and
- the Ministry of Labour, Industrial relations and Employment Creation is allocated N$1.3 million for personnel expenditure.

55. Further breakdown of the reallocations is contained in the Appropriation Amendment Bill and the Adjusted Estimates of Revenue and Expenditure.

Conclusion

56. As I conclude my statement, *Honourable Speaker, Honourable Members*, this Budget Review deters foreseeable underspending on obligatory operational items while maintaining the provision of essential goods and services. At the same time, it entrenches allocative efficiency by reallocating resources to priority programmes where funding is required to achieve better outcomes.

57. The Budget Review has also preserved spending dedicated to combating the spread of the COVID-19 pandemic, although there is consideration to gradually phase out such spending in the near term to maintain fiscal sustainability. Thankfully for Namibia, we have been able to secure an ample supply and variety of vaccines, sufficient to sustain our vaccination campaign in the near term. The ball is therefore in our court to rise above vaccine hesitancy and misinformation to ensure that we attain herd immunity and subsequently normalize economic activity.

58. The Medium Term Budget Policy Statement sets out the economic diversification plan and policy priorities which must be firmly implemented in the short and medium term. Accordingly, the private sector will be an important partner in pursuing this new modus operandi. I therefore urge the business community to indulge us as we seek to engage in dialogue to understand and subsequently resolve the ongoing binding constraints to productivity and growth in existing sectors.

59. *Honourable Speaker*, allow me at this point to thank His Excellency President Hage Geingob, His Excellency Vice President Nangolo Mbumba, Right Honorable Prime Minister, Dr Saara Kuugongelwa-Amadhila, Deputy Prime Minister Hon. Netumbo Nandi-Ndaitwah and indeed all my Cabinet Colleagues and all of you, Honourable Members of this august House for your support and collective leadership during these trying times.

60. I would like to extend specific gratitude to the trade unions and indeed all civil servants for heeding our call and keeping their belts tightened. We still plead with them to maintain patience especially in the next fiscal year, which promises to be more difficult, so we allow the economy to recover more firmly.

61. I also wish to thank Hon. Obeth Kandjoze, Director General of the National Planning Commission and his entire staff for the joint work and usual support. I equally thank the Governor of Bank of Namibia, Mr. Johannes !Gawaxab and his staff for continued fiscal advisory and inputs.

62. My gratitude further extends to my colleague, the Acting Executive Director, Mr. Francois Brand, and all my other colleagues at the Ministry for continued teamwork in preparing the budget review documents under great time pressure.

63. I would like to thank the Namibian technical team and my colleagues, members of the Green Hydrogen Council that managed and evaluated the bids for the feasibility study on green hydrogen at the two sites I mentioned earlier. With the support of international expertise from the EU and USA, we have shown that Namibia is able to execute strategic projects at global standards.

64. As I end my statement this afternoon, I would like to evoke the eternal words of the American televangelist Robert Schuller, who once said "tough times never last, but tough people do". We are undergoing tough economic times at the moment, but they will not last! As Namibians, we are a tough people, so we shall overcome! As a country, we have a demonstrated history of overcoming challenges. This time is no different. We shall persevere, we shall persist, and Namibia will prosper again!

65. On that note, *Honourable Speaker,* I hereby table for consideration by the House:
    - the Mid-Year Budget Policy Speech for FY2021/22,
    - the FY2021/22 Mid-Year Budget Policy Review and Medium Term Fiscal Policy Statement for the FY2022/23 – 2024/25 MTEF, and
    - the Government's Accountability Report for FY2020/21.

I thank you kindly for your attention.