NATIONAL BUDGET REVIEW

2015/16-2017/18

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Highlights

- ✓ The budget and the MTEF are aimed at tackling the structural challenges that affect the development potential of the local economy, unlocking opportunities for jobs and wealth creation and improving the welfare of Namibians in an inclusive and sustainable manner.

- ✓ It is a pro-poor, pro-growth budget, with deliberate scaled-up resource allocations to the targeted programmes for broad-based economic growth, job creation and poverty eradication over time.

- ✓ Policy priorities have been identified as i) growth; ii) reduce poverty and improve social welfare; iii) prosperity and wealth creation; iv) performance-orientated and results-based public service delivery.

- ✓ The prolonged low growth spell for the South African economy poses inescapable consequences for Namibia, particularly in regard to export growth and revenue accruing from the Southern African Customs Union (SACU).

- ✓ Revenue for the budget year is projected at N$58.44bn, an increase of 8.7% over the previous year. For the MTEF, revenue is projected to increase at a moderate pace of about 9.0%, to reach N$69.18bn by the end of the MTEF or about 35.0% of GDP.

- ✓ A number of revenue collection initiatives are expected to be undertaken in the current fiscal year, including the full implementation of the e-filing tax system by 2016.

- ✓ Corporate income tax to be reduced to 32% from 33%.

- ✓ Withholding tax on services rendered by non-residents will be reduced from 25% to 10%.

- ✓ The budget proposes an expenditure outlay of N$67.08bn for the 2015/16 financial year, equating to 40.8% of GDP. This represents 7.0% nominal increase over the past year, a much moderate expansion rate, compared to 27.7% over the previous year. For the MTEF, total expenditure is forecast to moderately increase to N$72.06bn by 2017/18 and average 39.0% of GDP.

- ✓ Total non-interest expenditure for 2015/16 will increase to N$63.23bn, from N$57.69bn in 2014/15, and average around N$65.56bn over the MTEF.

- ✓ Interest payments, which represents Government obligations to debt servicing is estimated at N$3.87bn in FY2015/16 or some 6.6% of revenue, seen against the limit of 10% of revenue.

- ✓ Non-interest operational expenditure for the budget year is set at N$52.12bn or 31.7% of GDP, representing a 3.0% nominal increase over the previous financial year, due to expenditure commitments arising from public sector remuneration corrections as well as adjustments to the Government structure.

- ✓ The development budget, which is key to infrastructure development and fiscal countercyclicality is proposed to increase at a rate of 15.9% to N$11.10bn in the budget year and average around N$12.05bn over the MTEF. As a portion of GDP, the development budget allocation increases from 6.4% in 2014/15 to 6.7% in 2015/16 and averages around this level over the MTEF.

- ✓ In addition to the development budget allocation, budgetary allocations are made under the operational budget for targeted transfers to State-owned Enterprises for investment in strategic infrastructure projects such as the Kudu Gas-to-Power project (N$4.93bn over the MTEF), railway (N$3.79bn over the MTEF) and road network rehabilitation (N$3.27bn over the MTEF) and the Mass Housing project (N$1.25bn over the MTEF).

- ✓ In terms of the projected revenue and expenditure proposals for the MTEF, the budget deficit is projected at 5.3% of GDP in the 2015/16 financial year and average 3.8% over the MTEF, which is well within the 5% target cap.

- ✓ Total debt is projected to increase to an average of 31.5% of GDP over the MTEF, seen against the threshold of 35.0%. Government intends to finance the substantial component of the deficit from domestic borrowings. Contingent liabilities are projected to increase to an average of 8.7% over the MTEF, as Government extends support to SOE project financing on the strength of their balance sheets.

- ✓ The sovereign guarantees in the pipeline include the construction of a dual carriage between Windhoek and Okahandja to the Road Fund Administration, the construction of the national fuel storage facility, fuel pipeline and the fuel offloading jetty at Walvis Bay by National Energy Fund, and guarantees to NAMCOR and NamPower for the Kudu Gas-to-Power Project and the Mass Housing Programme.

- ✓ Old Age Pension grant has been increased by N$400.00 to N$1,000.00 per month. This will further be increased annually to reach N$1,200.00 per month at the end of the MTEF period. Other social grants will be strengthened in coverage. This places our elderly above the national poverty line, which is estimated at N$530.00 per month in 2015.

- ✓ Investment in peace, public safety, security and rule of law remains key to our national development. A total allocation of N$14.29bn in FY2015/16 or some N$42.77bn is made over the MTEF to the safety and security sector.

- ✓ A total allocation of N$8.16bn is made to the administrative sector. This is 10.8% increase from the previous budget and funds the rendering of the services emanating from the constitutional changes and functional realignments to the structure of Government. Over the MTEF, this allocation amounts to N$23.76bn.

- ✓ Four new budget Votes have been created as a result of the changes to the Government structure. New functions and offices have also been defined, while some functions have been re-arranged.

- ✓ An amount of N$499.24m is allocated to the Contingency Provision for the budget year and N$1.10bn over the MTEF to cater for unforeseen emergencies. An amount of N$334.0m was allocated during 2014/15 and N$319.48m was spent. I have distributed the information regarding the use of the Provision in the last financial year.

Overall budget theme and focus:

The new Minister of Finance, Honorable Calle Schlettwein announced four key priorities for his Ministry and the Government for the current MTEF, along with key interventions required to achieve these priorities. These are (verbatim) as follows:

1. **Inclusive growth:**
    - diversifying and industrializing the economy, through targeted budgetary allocations to the priority economic sectors with high economic growth and job creation potential;
    - continuous development of functional and technical skills through increased access to tertiary education and vocational training;
    - developing and supporting domestic and regional value chains in the areas of comparative and competitive advantage;
    - crowding-in the much needed investment through private sector and SME support programmes as well as harnessing PPPs;
    - enhancing greater access to development finance through the operations of domestic Development Finance Institutions and tailor- made commercial credit offerings; and
    - leveraging PPPs for infrastructure development and public service delivery.

2. **Poverty reduction:**
    - strengthening social safety nets in coverage and quantum as the first line of defence against poverty for the vulnerable members of our society;
    - supporting the creation of decent jobs and self-employment opportunities in the private sector;
    - implementing policies that promote local access to, and ownership of the resources, and nurturing the capacity to exploit the resources profitably;
    - developing social security networks that are sustainable and meaningful; and
    - designing and implementing redistributive tax policies that are pro-poor and pro-growth.

3. **Wealth creation:**
    - empowering Namibians in a manner that creates sustainable and broad- based wealth creation;
    - promoting affordable and sustainable access to finance and means of production, while maintaining responsible lending;
    - developing facilities to support SME access to finance and mentorship programmes;
    - increasing the share of local ownership and value share in the value chains across various industrial and service-oriented activities;
    - encouraging wealth accumulation and prudent management; and
    - expanding the provision of basic amenities to all Namibians.

4. **Service delivery, accountability and value for money:**
    - improve service delivery by strengthening internal efficiency of the public service sector through performance measures and accountability;
    - continuous skills development; and
    - reform of public enterprises to ensure affordable, competitive, reliable and sustainable service delivery.

Outturn 2014/15

Revenue

Total revenue for 2013/14 was recorded at N$41.91bn which is 10.3% higher than the previous year and 4.4% higher than the previously budgeted number. The revenue outturn for 2014/15 is estimated to come in slightly higher than was projected in the previous MTEF, largely on account of better than expected performance in domestic tax revenue streams, given a better economic performance than originally forecast and increased tax collection and administrative efforts. As such, projected revenue for 2014/15 now stands at N$53.9bn, up from the N$52.5bn projected in February 2014.

Expenditure

Preliminary expenditure figures suggest that total expenditure for the 2014/15 fiscal year will come in at N$54.3bn, an effective 90.2% execution rate of N$60.20bn initially budget for. The execution rate is significantly lower than the previous year's execution rate of 98.2%.

Deficit

As a result of better than projected revenue collection and weak execution of expenditure, the projected deficit for 2014/15 will be significantly below the 5.5% budget deficit projected in the 2014/15 MTEF.The budget deficit is likely to be below 4.2% of GDP.

Debt

Although the debt issued increased in nominal terms, as a proportion of GDP, the debt ratio of 23.7% for 2014/15 remained in line with the 2013/14 figure of 23.5% and is well below the current Sovereign Debt Management Strategy debt-to-GDP cap ratio of 35%.

Revenue

Over the 2015/16 MTEF, the main sources of revenue for the Government will remain tax revenues, particularly income tax revenue, value added tax revenue and SACU receipts from the common revenue pool for the free-trade area. Taxes on income and profits and domestic taxes on goods and services are projected to become more significant over the MTEF, contributing 42.7% and 22.4%, respectively in the 2015/16 period, increasing to 46.2% and 23.9% by 2017/18.

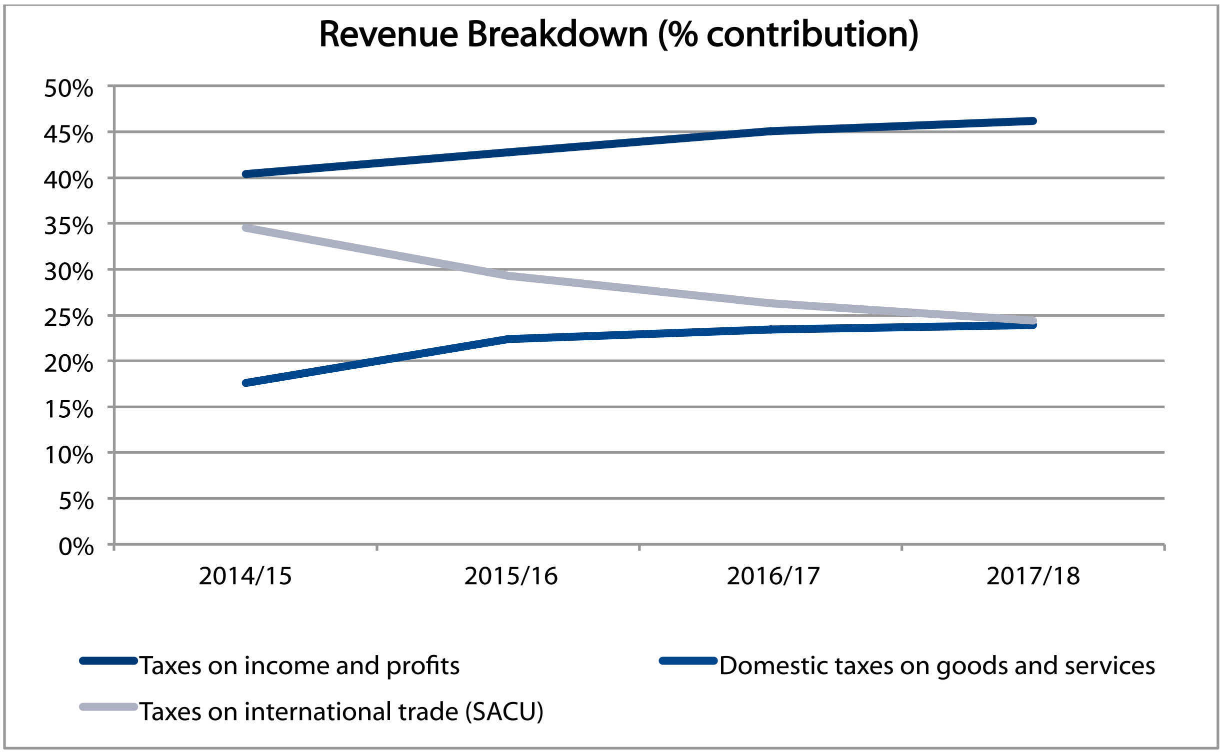
Taking into consideration the projected economic outlook, total revenue and grants for the MTEF are projected to increase at a moderate pace of about 11.4%, or N$5.9bn, in the 2015/16 financial year, with growth primarily stemming from domestic taxes on goods & services (N$3.84bn) and taxes on incomes & profits (N$3.80bn). These increases are partially offset by declines in the SACU revenue and non-tax revenues, declining N$993m and N$834m respectively.

The major drag and significant risk for revenue growth is the projected reduction of SACU revenues, on account of lower growth outlook for the South African economy and clouded by the uncertainty regarding the pending negotiations on SACU Revenue Sharing Formula and institutional arrangements. SACU revenue for 2015/16 is estimated at N$17.1bn or 29.3% of total revenue, a decrease of 5.5% from the estimated revenue for 2014/15. What does however come as a relief is the strong domestic growth that drives growth in revenue and expenditure taxes and as a result SACU is becoming relatively smaller in future projections. SACU's contribution to total revenue is projected to decrease 10.1ppt from 34.5% of total revenue in 2014/15 to 24.4%. Despite the decrease in SACU revenues, it remains significant in the total context and continues to pose a systemic risk to government should there be a structural change in formula.

A point of note on SACU revenue is that South Africa's total custom and excise duties is R80.6bn, of which R51bn gets paid out to its neighbouring countries whose combined size is a mere 10th of the South African economy. Considering the current pressure on the South African economy and strain on its budget, the formula negotiations will become of increased importance to South Africa.

As per the South African budget SACU payments is set to decrease by 29.4% in 2016/17, however as per the Namibian budget the drop in SACU revenues are projected to be a mere 3.1%.

Taxes on income and profits are set to increase by N$3.80bn or 17.9% to N$24.98bn in 2015/16. This increase stems from non-mining companies and income tax on individuals that are projected to increase N$1.69bn and N$1.65bn respectively. Considering a decrease in the corporate tax rate and unchanged rates for individuals, it is evident that these increases are a function of a strong macro-economic backdrop which is conducive to increased labour opportunities, wage growth and profitability for the corporate sector.However it can be questioned whether a 32% increase in taxes from non-mining companies is realistic and achievable.



Source: MoF, IJG Securities

Taxes on goods and services revenues are projected to increase at a significant rate of 41.6% or N$3.84bn in 2015/16. In our view this increase is attributed to a number of factors, namely a low base, strong domestic demand and the increase in the pension grants which will be spent on goods and services. VAT saw a decrease of 7.8% in 2014/15 as VAT charges on imports of mining companies in 2013/14 was reclaimed in 2014/15, puttingtotal VAT collection under pressure and effectively creating a low base.

N$ '000	Estimate 2014/15	Forecast 2015/16	2014/15 Growth	2015/16 Contribution	Forecast 2016/17	Forecast 2017/18
Taxes on income and profits	21,182,252	24,981,078	*17.9%*	*42.7%*	28,409,200	31,939,984
Taxes on property	274,124	345,358	*26.0%*	*0.6%*	382,042	422,943
Domestic taxes on goods and services	9,234,111	13,073,902	*41.6%*	*22.4%*	14,785,738	16,559,817
Taxes on international trade (SACU)	18,116,627	17,123,200	*-5.5%*	*29.3%*	16,589,068	16,866,587
Other taxes	273,587	317,990	*16.2%*	*0.5%*	351,444	389,270
Total tax revenue	**49,080,701**	**55,841,528**	***13.8%***	***95.6%***	**60,517,492**	**66,178,601**
Total Non-tax revenue	3,378,345	2,543,778	*-24.7%*	*4.4%*	2,340,250	2,834,693
Other	13,475	56,240	*317.4%*	*0.1%*	192,485	167,446
Total Revenue	**52,472,521**	**58,441,546**	***11.4%***	***100.0%***	**63,050,227**	**69,180,740**
As a % of GDP	35.00%	35.50%			35.10%	35.00%

Source: MoF, IJG Securities

The notable tax developments during the current fiscal year are the reduction in corporate income tax to 32% from 33%, as well as the reduction in withholding tax on services rendered by Non-residents from 25% to 10%.

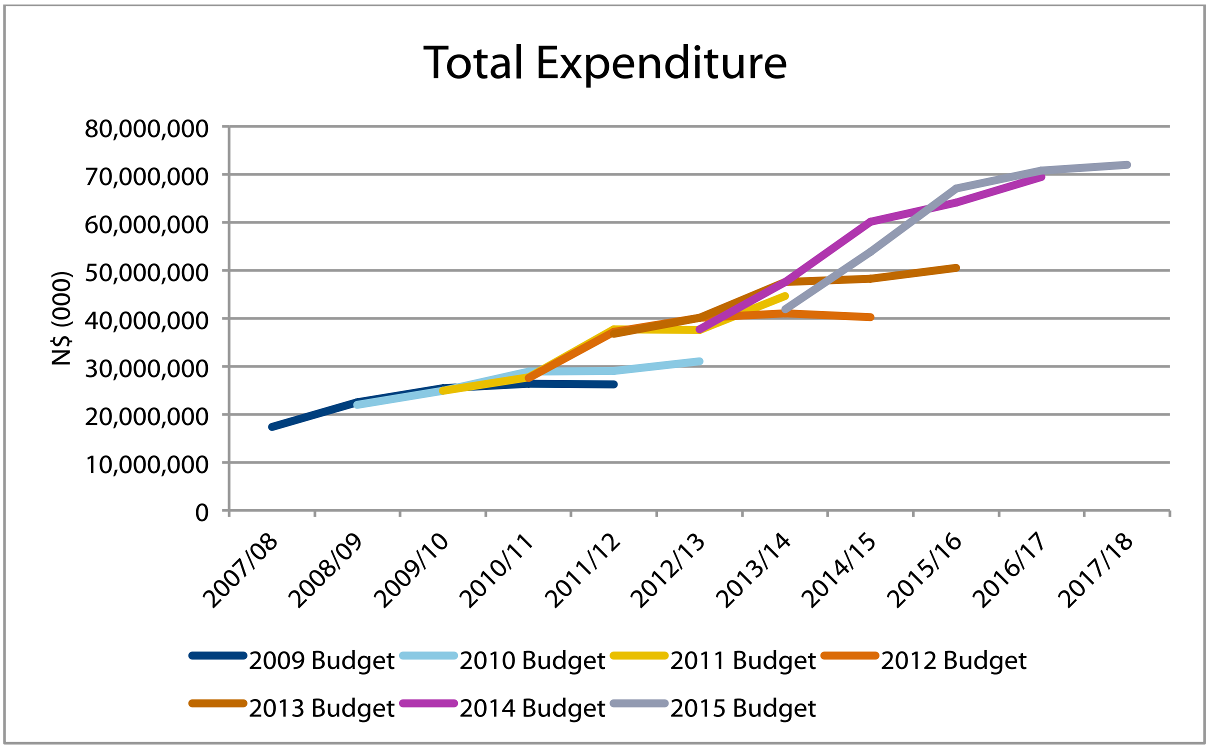
Also notable is the implementation of the first phase of environmental taxes that will encompass the carbon dioxide emission tax on motor vehicles, incandescent light bulbs and motor vehicle tyres, as considered and announced last year. The environmental taxes also contributes to the growth seen in domestic taxes on goods and services.

The VAT threshold was raised from N$200,000 to N$500,000, as announced last year, following a lengthy consultation process. The higher threshold is focused on encouraging investments and creating a more conducive business environment for small businesses.

Additionally, excise taxes or sin taxes on alcoholic beverages and tobacco products were adjusted in line with the SACU common excise policy.

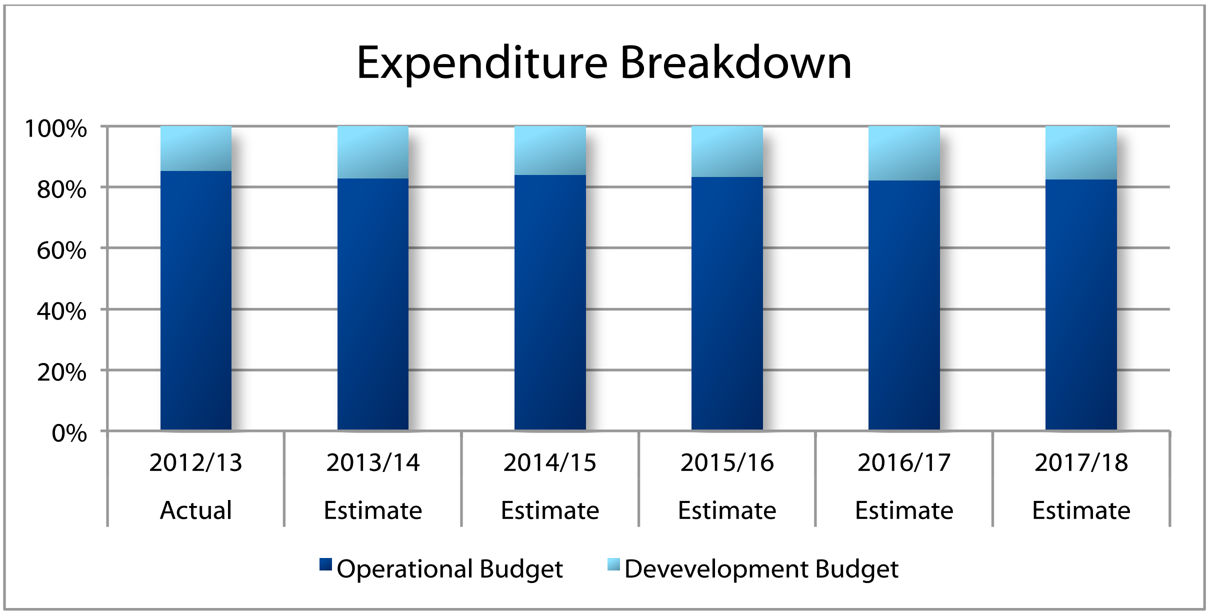
Expenditure

Following a 26.3% increase in budgeted expenditure in 2014/15, expenditure growth has moderated dramatically in the current budget. Total expenditure is to increase to N$67.08bn, up 11.6% when compared to 2014/15 and up 4.7% when compared to the previous estimates for 2015/16. Of this, N$63.2bn is non-interest expenditure, highlighting the fact that at just under N$4bn, the interest costs of Government's fast increasing debt, is becoming sizable in nature. Nevertheless, at approximately 6.6% of GDP, this remains below the prudential limit of 10%. The global increase is still, however, much more moderate and reasonable than 26.3% increase of 2014/15. Moreover, this more-moderate increase in the overall expenditure envelope can be justified by the strong growth seen in the local economy over the past half decade, which growth is expected to continue for the next three years and beyond. However, the budget remains sizable relative to GDP, at 40.8% in 2015/16 and averaging 39.0% over the MTEF.



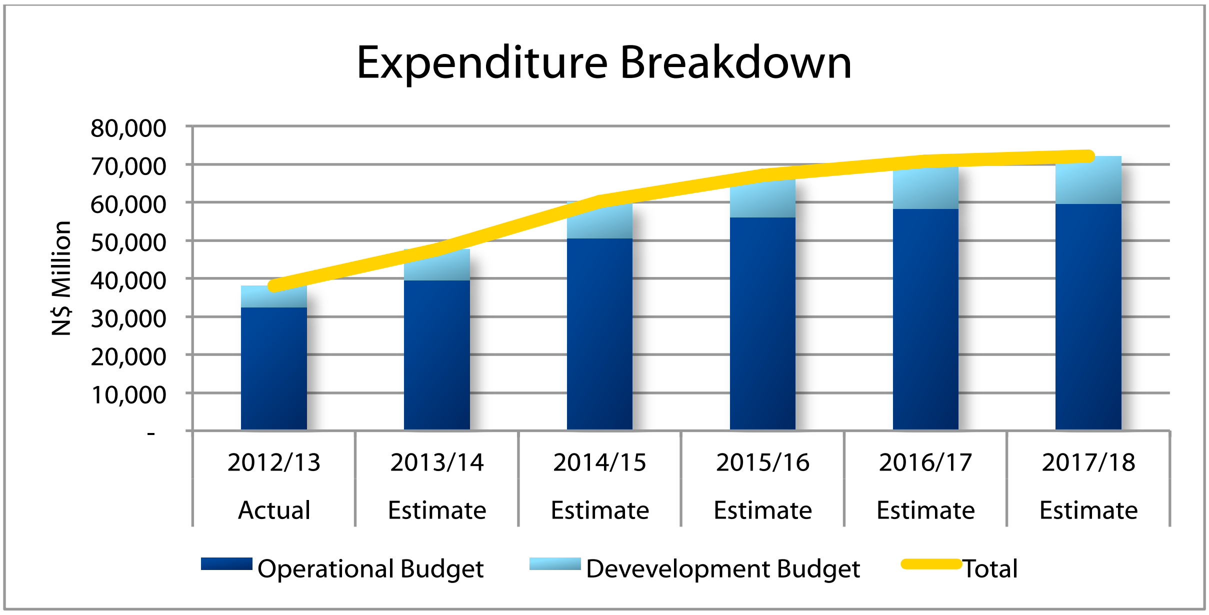
Source: MoF, IJG Securities

The current budget expenditure breakdown remains highly concentrated in favour of the operational budget over the development budget, with the former receiving a total allocation of N$56.0bn (including debt servicing costs), while the latter received just N$11.1bn. As such, for 2015/16, the development budget represents 16.5% of total expenditure, well below the targeted level of 20.0%. Over the MTEF, the ratio is expected to be slightly better, at 17.2%, but still below the 20.0% target.



Source: MoF, IJG Securities

Over the MTEF, growth in expenditure is expected to slow considerably, with total expenditure expected to grow by just 7.4% in total between 2015/16 and 2017/18. However, if history is any predictor of the future, it is unlikely that such low rates of expenditure growth will be seen to play out, and future budgets are likely to see expenditure increasing over current forecasts.



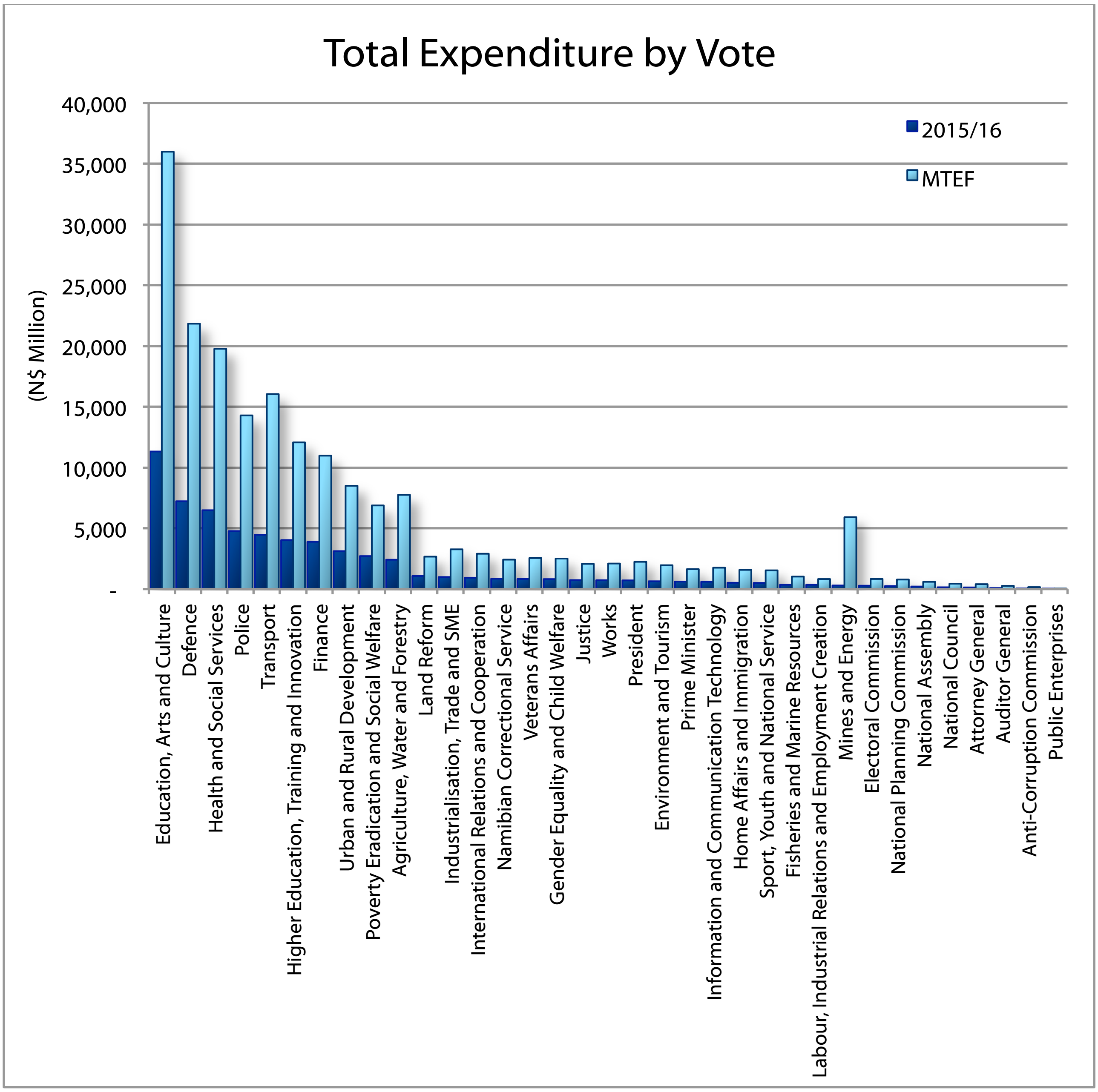
Source: MoF, IJG Securities

From a ministerial point of view, expenditure remains highly skewed towards education, in line with the country's keen focus on improving educational coverage, and to some degree, outcomes. Following the announcement of the new Cabinet and development of new Ministries earlier this month, the Ministry of Education was divided into the Ministry of Education, Arts and Culture and the Ministry of Higher Education, Training and Innovation. The former becomes the largest recipient of government funds in the current year and through the MTEF, while the latter takes the sixth place. In total, the two Ministries will receive N$15.4bn in 2015/16, and N$48.1bn over the MTEF. This breaks down as N$11.3bn in the current fiscal year, and N$36.0bn across the MTEF period for the Ministry of Education, Arts and Culture; and N$4.0bn in the current year and N$12.1bn across the MTEF for the Ministry of Higher Education. As has been largely anticipated, budgetary provision has been made in the current year and through the

MTEF for the continued dissemination of free education. Following the announcement of free primary education in 2013, Government has been actively pursuing the extension of this policy to cover secondary education, which it appears will now come to fruition through the MTEF, starting in the current fiscal year.

For the second consecutive year, Defence gathered the second largest allocation in 2015/16 at N$7.2bn, and over the MTEF period at N$21.8bn. This allocation primarily goes to fund the large number of Defence Force soldiers on the Ministry's books. Health and Social Services receives the third largest allocation, of N$6.5bn in 2015/16 and N$19.8bn across the MTEF.

While the many of the other allocations to Ministries are broadly in line with historic allocations, it is interesting to note the sizable allocation made to the Ministry of Mines and Energy across the MTEF, despite the relatively small allocation in the current fiscal year. This allocation is made in order to support the development of long term security in supply of electricity, most notably the Walvis Bay thermal power plant and the Kudu gas-to-power project. In this light, the Ministry is in line to receive a little over N$5.0bn in 2016/17 and 2017/18 toward these two projects.



Source: MoF, IJG Securities

Sectoral Allocation

	Expenditure			Growth		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
Social	26,720	27,199	27,411	*20.8%*	*1.8%*	*0.8%*
Public safety	14,296	14,198	14,282	*10.7%*	*-0.7%*	*0.6%*
Administration	6,487	6,000	5,819	*-12.0%*	*-7.5%*	*-3.0%*
Economic	9,913	12,604	11,846	*-20.0%*	*27.1%*	*-6.0%*
Infrastructure	5,799	6,646	7,458	*9.5%*	*14.6%*	*12.2%*
Total (excl. statutory payment)	**63,215**	**66,648**	**66,816**	*5.2%*	*5.4%*	*0.3%*

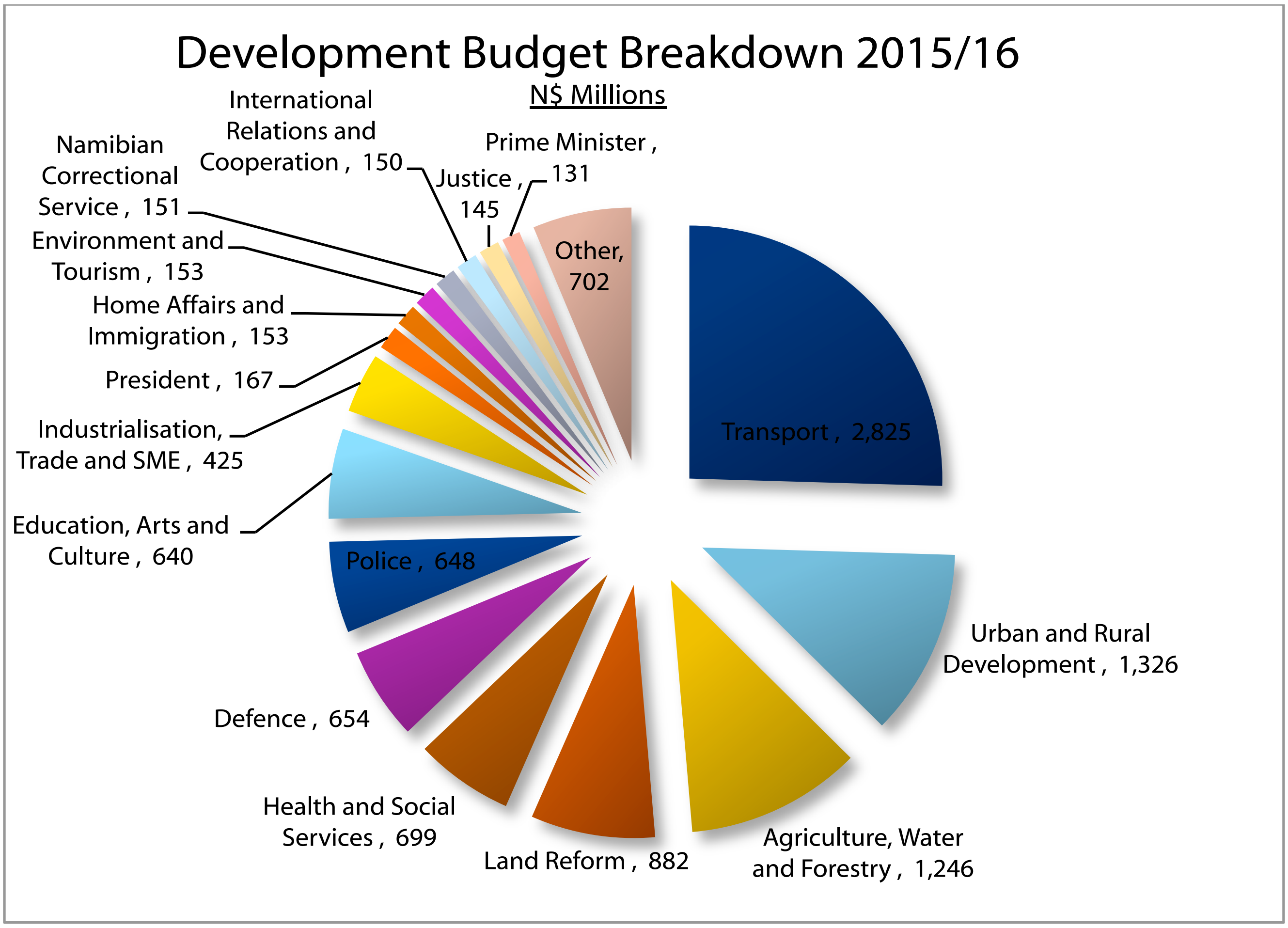
From the perspective of allocation of funds by sector, social spending continues to represent the lions share of expenditure. Moreover, it is the fastest growing sector in the 2015/16 fiscal year, illustrating the strong focus on poverty aliviation and social support under the current President and Government. In this regard, a number of social spending initiatives have been launched or extended, most notably the increase in pensions from N$600 per month to N$1000 per month, an extremely positive and long over due development.

Second, however, is expenditure on public saftey, much of which is made up of Defence spending. Somewhat peculiarly, this is not only the second largest category of expenditure, but is also the second fastest growing expenditure sector.

According to the MTEF, although figures differ from the budget speech, expenditure on administration is set to fall by 12.0% in the current fiscal year, despite the new structures of Government introduced post March 21st, 2015. Similarly, spending on economic activities is set to decline by 20%, a development that will be welcomed by the private sector in all liklihood. Finally, Infrastructure expenditure is set to increase by 9.5%, during the current fiscal year, albeit off a low base.

Development Budget

On the side of the Development Budget, Transport makes up the single largest recipient of funds, receiving a total of N$2.8bn in the current year. These funds will be used, primarily, for the construction and upgrading of the local road infrastructure, and to a lesser extent, airport infrastructure. Second to this is expenditure on Urban and Rural Development, totalling N$1.3bn, which spending focses primarily on rural sanitation, notably water and sewerage services. Finally, closing out the three largest allocations is Agriculture, Water and Forestry, which will receive N$1.2bn in thecurrent financial year, which will be used, primarily, to support the Green Scheme and for the construction of water pipelines across the country. These three votes represent close to 50% of the total development budget's allocations.



Source: MoF, IJG Securities

In addition to the development budget allocation, budgetary allocations were provided for targeted transfers to State-owned Enterprises for investment in strategic infrastructure projects such as the Kudu Gas-to-Power project, railway and road network rehabilitation, Walvis Bay Port expansion and the Mass Housing project.

These allocations include:

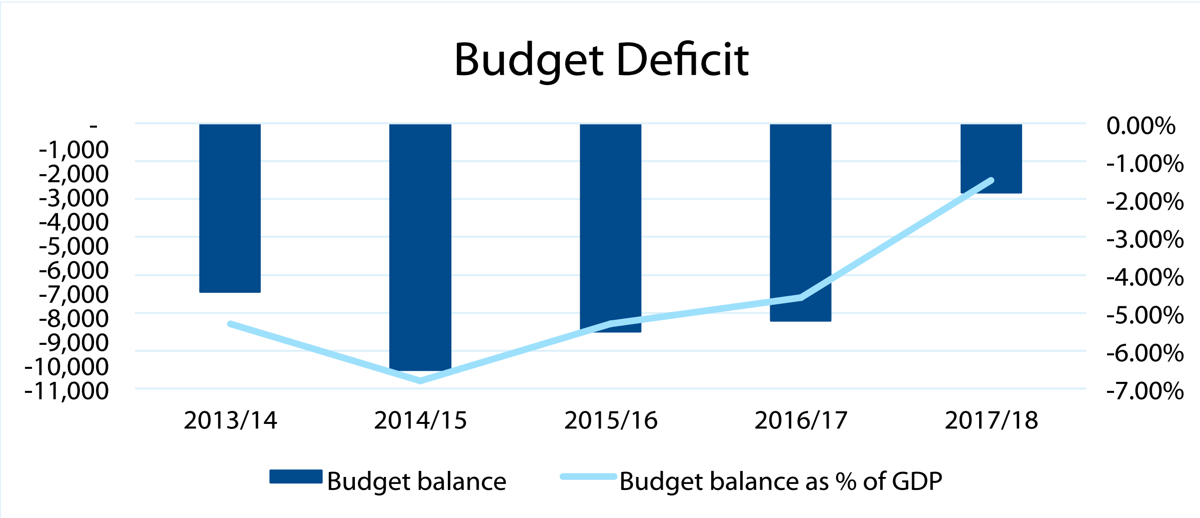
- N$4.93bn over the MTEF to support the balance sheets of Nampower and Namcor for the Kudu Gas-to-Power Project. In addition, the State will provide a guarantee for the financing that will be sourced outside the budget
- N$1.25bn over the MTEF for Mass Housing Project. In addition, Government will issue a sovereign guarantee to the tune of N$2bn for NHE to access funding for this vital project,
- N$3.27bn over the MTEF for the roads projects, in addition to N$1.7bn to be raised by the Road Fund Administration, and
- N$945.84 million for railway projects, with funding outside the scope of the State Revenue Fund to the tune of N$3.79bn over the MTEF.
- N$7.75bn is allocated to the Agricultural Sector to cater for, among others, the Green Scheme programme and other interventions in the sector over the MTEF.

Budget Deficit

The 2013/14 actual budget deficit stood at N$6.984bn, or 5.3% of GDP, compared to the estimated figure of N$7.434bn, largely due to poor execution of the development budget during the period. The estimated budget deficit for 2014/15 has expanded from N$7.732bn to N$10.226bn, or 6.8% of GDP, on the back of an increase in the estimated operational expenditure during the period.

From an absolute perspective the estimated deficit is set to decline from N$10.226bn to N$8.641, or by 15.5%, for the 2015/16 financial year, dropping to 5.3% of the revised estimated GDP figure of N$165bn. The decline is attributable to an increase in tax revenue of 13.8% for 2015/16, and a restrained increase in non-interest expenditure of 5%. The budget deficit as a percentage of GDP remains on the decline after adjusting for changes in the estimates of prior periods and this is forecasted to continue for the duration of the MTEF, with the budget deficit projected to be 1.5% of GDP in 2017/18.

Once again we see the usual projected (but not always fulfilled) decline in the budget deficit towards the end of the MTEF. The projected deficits over the MTEF tends to be overly conservative in the outer years, which questions the extent of the projected consolidation.



Source: MoF, IJG Securities

The outturn of the borrowing requirement

A not uncommon increase in the estimated deficit for 2014/15 was financed through a combination of government cash balances and debt issuance, with foreign borrowing declining. Actual government cash balances utilised during the 2013/14 period turned out to be N$2bn or half of the amount estimated in last year's budget release. The estimated amount of cash utilized during the 2014/15 period was N$3.9bn or N$1.9bn more than expected in the previous budget.

The borrowing requirement over MTEF

Although the 2015/16 budget deficit is expected to decrease to 5.3% it remains of an expansionary nature. Deficit estimates across the MTEF term have been revised upward. The trend since the recession of 2008 has been for expansionary budgets and this trend continues under the newly elected government.

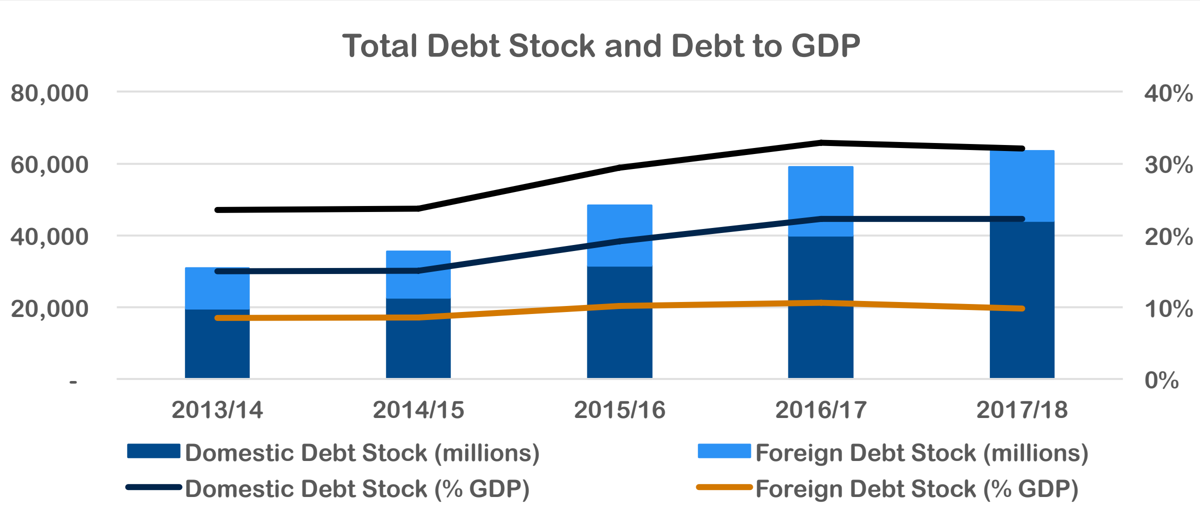
The GC15 and GC18 will be redeemed during the current MTEF putting additional pressure on government to finance the budget. The financing requirement for 2015/16 year is expected to be N$12.2bn due to new disbursements of foreign loans. This is a substantial increase from the N$6.455bn in the corresponding period on the previous budget.

Government is looking to move away from utilising cash balances to finance the deficit with only N$500m estimated for use in 2016/17 and none in 2017/18. Government is looking to ramp up domestic and foreign borrowing through the MTEF in order to make up for the shortfall. Estimated net domestic debt issuance is expected at N$8.9bn in 2015/16 with foreign issuance amounting to N$2.7bn. Both these figures are estimated to decrease modestly in 2016/17.

The increase in foreign debt issuance will most likely see government utilise the remainder of its N$3bn Medium Term Note Programme (MTNP) listed on the JSE, of which N$850m has thus far been issued. Total net foreign issuance over the next two financial years is forecasted to amount to N$4.8bn, or N$2.6bn more than the current MTNP allows for, and thus we expect to see additional foreign debt issuance programmes in the near future. Whether these will be in South Africa or Europe will depend on currency depreciation expectations.

The debt position

Total debt stock is estimated to increase by 36.6% in 2015/16 to 29.3% of GDP from the current year's 23.7%. Although this is a large increase it is well below the 35% threshold announced in the budget speech. Total debt is estimated to average 31.5% of GDP over the MTEF, a substantial increase from previous budgets, once again highlighting the expansionary nature of the budget.
Total interest payments are projected to increase by 53.8% to N$3.9bn, or 2.4% of GDP, in 2015/16. Total interest payments are also expected to grow to 2.7% of GDP by 2017/18, on the back of elevated domestic and foreign debt issuance.



Source: MoF, IJG Securities

Total Guarantees are projected to increase to N$22.3bn over the MTEF period which is 11.3% of GDP in 2017/18 and breaches the targeted level of 10%. We are however not too concerned about this, as strong nominal growth in GDP will automatically bring the ratio back within the limit.

We view the size of the domestic borrowing requirement as a big hurdle for the government to overcome. The sure size of N$8.9bn to be raised is a challenge in an environment where local investors' demand for fixed income securities is becoming saturated. The start of an interest rate hiking cycle also does not bode well for the successful issuance of N$8.9bn worth of debt securities. What is also concerning is that a number of SOEs, like NamPower, NamWater and NamPort might be looking at coming to the market with debt paper, further competing with government for funds.

It is our expectation that we would see spreads of government bond yields increasing over the South African benchmarks due to sheer volume of supply. It is also expected that the corporate sector will start to pay up for listed debt as corporate paper is benchmarked off the government yield curve. Therefore funding in general in Namibia is set to become more expensive and liquidity will slowly start drying up in our economy.

Overall view:

Generally, we are of the view that the current budget is reasonable, particularly given the limited time to add new Ministries and the little time available to the new Minister to make his mark. We are relieved to see moderation and caution exercised in the preparation of forecasts, particularly on the revenue front. Moreover, we believe that the time for fiscal belt tightening is upon us, and thus view the slowing of expenditure growth as a highly positive development, which we hope to continue in coming years as laid out in the MTEF. In addition, we firmly agree with the four broad focal points outlined by the Minister, and commend the Ministry for their efforts to increase social pensions, a much needed and overdue initiative. We remain concerned about the excessive defence budget, as we believe these funds could be better used elsewhere. Most encouraging, however, is the tone and rhetoric in the budget speech, which emphasizes the need for various reforms, expenditure reviews, an outcome focus, and ultimately, greater accountability of the public service to the people.

Finally, we note that the current review of the budget was performed without access to the final Estimates of Revenue and Expenditure, which has yet to be released. We also note a number of contradictions between figures in the Medium Term Expenditure Framework and the Budget Speech. In this light, once the Estimates books become available, we will provide further insight on specific areas of interest, as well as complete our *Investment Implications* document.

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