NATIONAL BUDGET REVIEW 2019/20

2019/20 - 2021/22

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Contents

Key Points in the Speech

(From speech with editing)

- Development budget allocation increased by 42.0%, with greater emphasis on economic growth enhancing infrastructure investment and crowding in private sector participation. The development budget is increased to N$7.9 billion, from N$5.5 billion this financial year.

- Progress made over last three years:
  - Public expenditure is aligned to revenue. Over the past three years, revenue grew by 3.8%, relative to 0.4% growth in expenditure.
  - Expenditure as a proportion of GDP reduced from 42% in FY2015/16 to 34.9% in FY2018/19.
  - The budget deficit narrowed from 8.1% in 2015/16 to 4.0% in FY2018/19.
  - Growth in the public debt stock slowed to an annual average of 11.2% in the past two years, compared to an average of 30.1% the previous three years. The moderate increase in debt relative to previous years has averted a severe contraction on the domestic economy and the provision of social services.
  - The current account deficit narrowed significantly, from 14.1% of GDP in 2016 to 2.1% in 2018/19.
  - The international reserves stock has strengthened from 2.1 months of import cover in 2016 to 4.2 months by February this year.
  - The intensity of the recession has eased from -0.9% in 2017, to an estimate of between -0.5 to -0.2% in 2018.

- For FY2018/19, revenue outturn is projected at N$56.7 billion, consistent with the Budget Review estimates. By Mid-March 2019, revenue outturn was N$55.0 billion, 97.1% of the collection target.

- For FY2019/20, total revenue is estimated at N$58.4 billion, 3.0% better than the estimated outturn for 2018/19 and 29.7% of GDP.

- Over the MTEF, revenue is projected to increase on average by 3.0%, at N$59.9 billion in FY2020/21 to reach N$61.8 billion by FY2021/22. As a proportion of GDP, total revenue is estimated to moderate from 29.7% of GDP in FY2019/20 to about 29.2% over the remainder of the MTEF, mainly on account of the expected slackness in the growth of SACU receipts and domestic revenue streams.

- The budget deficit for FY2018/19, is estimated at 4.4%.

- Public debt is approximately N$87.5 billion or 46.3% of GDP by the end of FY2018/19.

- Debt servicing interest payments is 10.2% of revenue, and contingent liabilities for Government are approximately 5.8% of GDP below the 10% maximum cap.

FY2019/20

- Expenditure is set to increase to N$66.5 billion in 2019/20, an increase of 2.0% from the previous year.

- Expenditure is growing at 1.3% on average over the MTEF. Revenue is growing at an average of 3.0% and improved alignment of expenditure to revenue is achieved.

- Non-interest operational expenditure is budgeted at N$52.2 billion, 1.8% less than the previous year.

- The development budget is increased by 42.2%, to N$7.9 billion from the revised N$5.6 billion the previous year, to give greater impetus to economic growth.

- The budget deficit is estimated at N$8.2 billion or 4.1% of GDP and averaging 3.4% over the MTEF, compared to 4.4% in FY2018/19.

- Taking into account the total financing requirements, the debt stock is estimated at N$96.3 billion, 46.3% of GDP and 50.8% over the MTEF and peaking at 52.3% by FY2021/22.

- Interest payments, averages N$6.7 billion or 11.2% of revenue over the MTEF. This is above the 10% cap, reflecting the increasing burden of debt servicing obligations.

- At 51% of non-interest operational expenditure, and 15.5% of GDP, the Central Government wage bill has increased by 110% over the past five years preceding FY2018/19.

- The following tax proposals will be finalised for tabling:
    - Phasing out the current tax incentive for manufacturers and exporters of manufactured goods, repealing the Export Processing Zone and introducing the Special Economic Zones, with a sunset clause for current operators with the EPZ status.
    - Introducing a 10% dividend tax for dividends paid to residents. This is to enhance the fairness and equity of the tax regime.
    - Abolishing the current practice of a conduit principle in the taxation of trusts to harmonize the taxation of trusts.

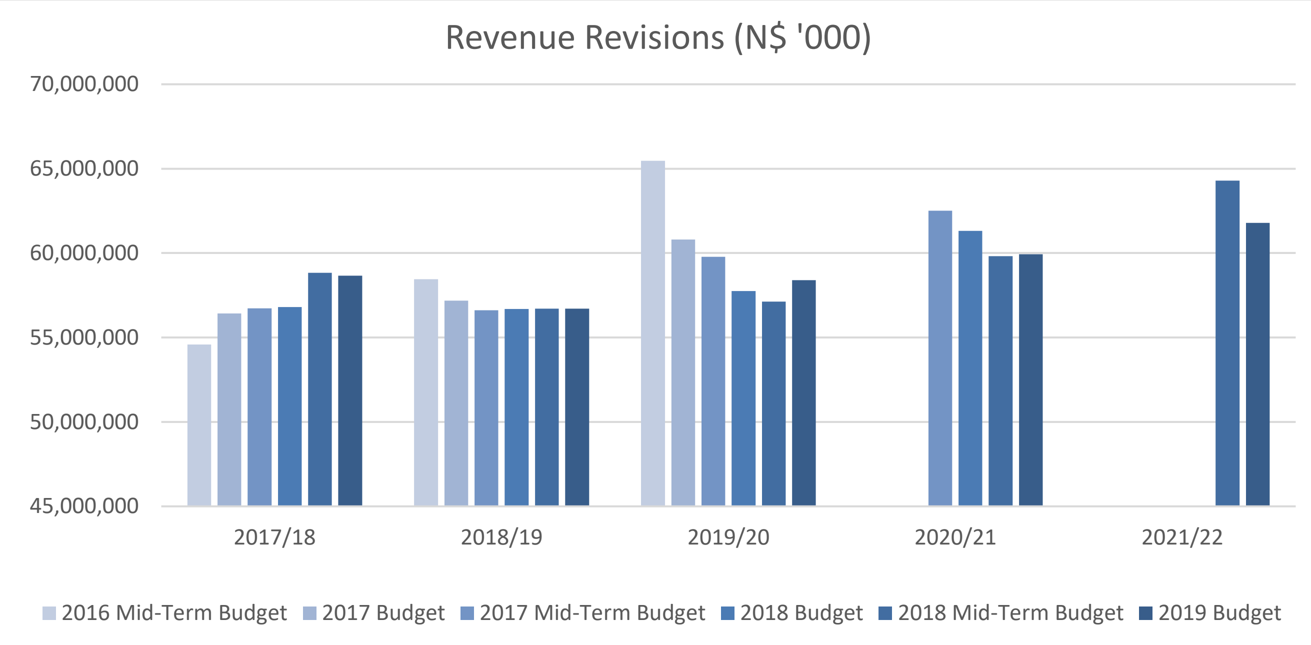
- Subjecting income derived from commercial activities of charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act to normal corporate tax requirements.
- Deepening the current hybrid tax system by taxing all income earned from foreign sources. Namibian residents will have to declare such income in their annual tax returns.
- As a tax incentive for saving and improved domestic investment capability, increase the tax deductibility of retirement fund contributions from the current N$40,000 per annum to 27.5% of income with a maximum of N$150,000 to encourage savings and provisions for retirement.
- Introduce VAT on income of listed asset managers and on proceeds of the sale of shares or membership in a company owning commercial immovable property.
- Disallow deductibility of royalties for non-diamond mining entities.

- The following excise levies and duties will also be introduced for domestic revenue purposes:
  - increase the fuel levy by 25 cents per litre for all levied fuel products.
  - Expand coverage of export levy to include other specific agricultural, forestry and game products and other mining products currently not covered.
  - Increase the export levy for dimension stones from the current 2% maximum to 15%.
  - Introduce an export levy of 15% for timber.

Revenue

2018/19 Outturn

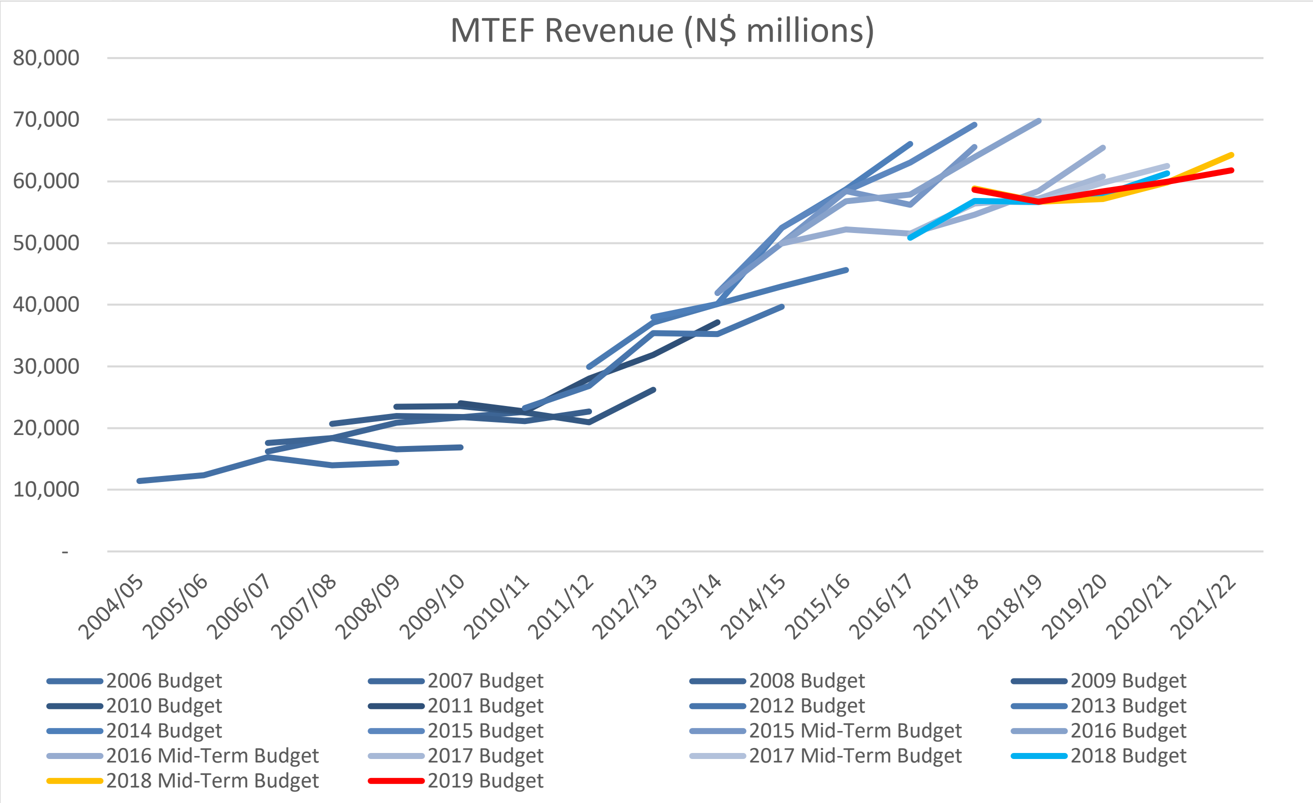
Revised revenue collection for 2018/19 is estimated to have come in at N$56.70bn, exactly in line with the October mid-term review and March 2018 budget amounts. The minister noted in his speech that revenue outturn was N$55.0bn by Mid-March 2019, representing 97.1% of the budgeted estimate and as such, no revenue shortfalls are expected by the ministry. This is a result of better than expected outturn on Personal Income Tax, mining company taxes and other categories of non-tax revenues. The minister did, however, point out that collection pressures remain for non-mining company tax and value-added tax. This is to be expected in an economy where both business and consumer confidence is low as a result of the difficult economic climate. Revenue collection for 2018/19 was 3.3% lower than that of 2017/18, which stems from declining SACU revenues.



Source: MoF, IJG Securities

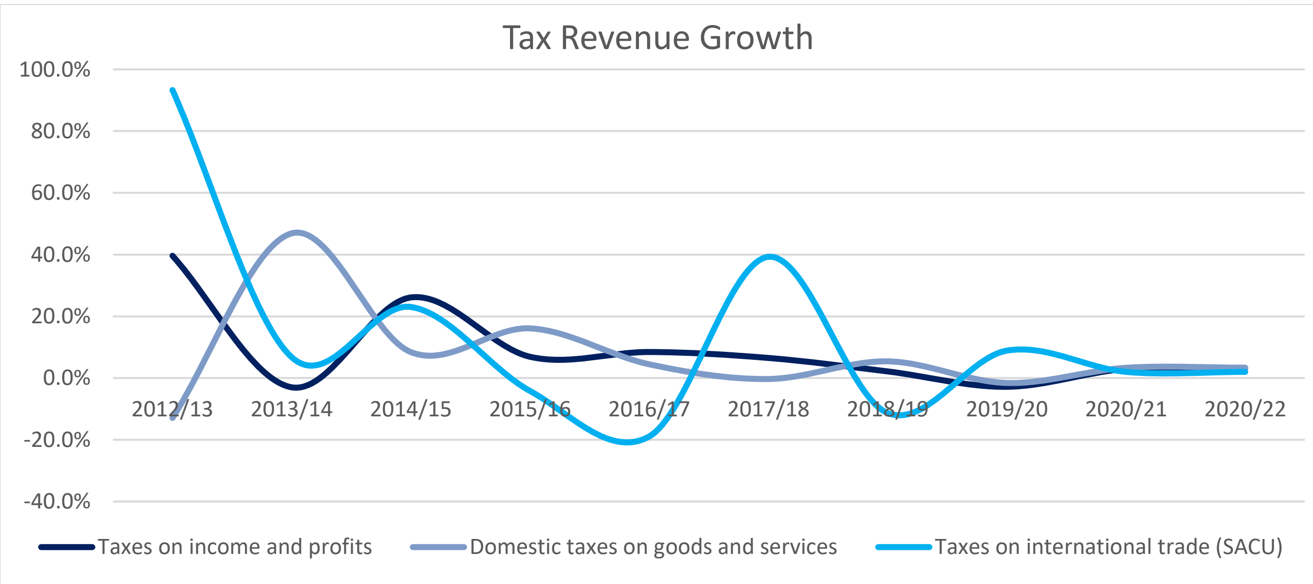
Total revenue to GDP amounted to 30.2%, which is once again exactly as forecasted in the October mid-term budget. This is however a decrease from the 32.0% total revenue to GDP figure of 2017/18, mainly due to higher nominal GDP for the year. The ministry expects this declining trend in total revenue to GDP to continue until 2021/22, as revenue growth is estimated to remain subdued, whereas nominal GDP is expected to grow at a faster rate.

2019/20 Budget Review



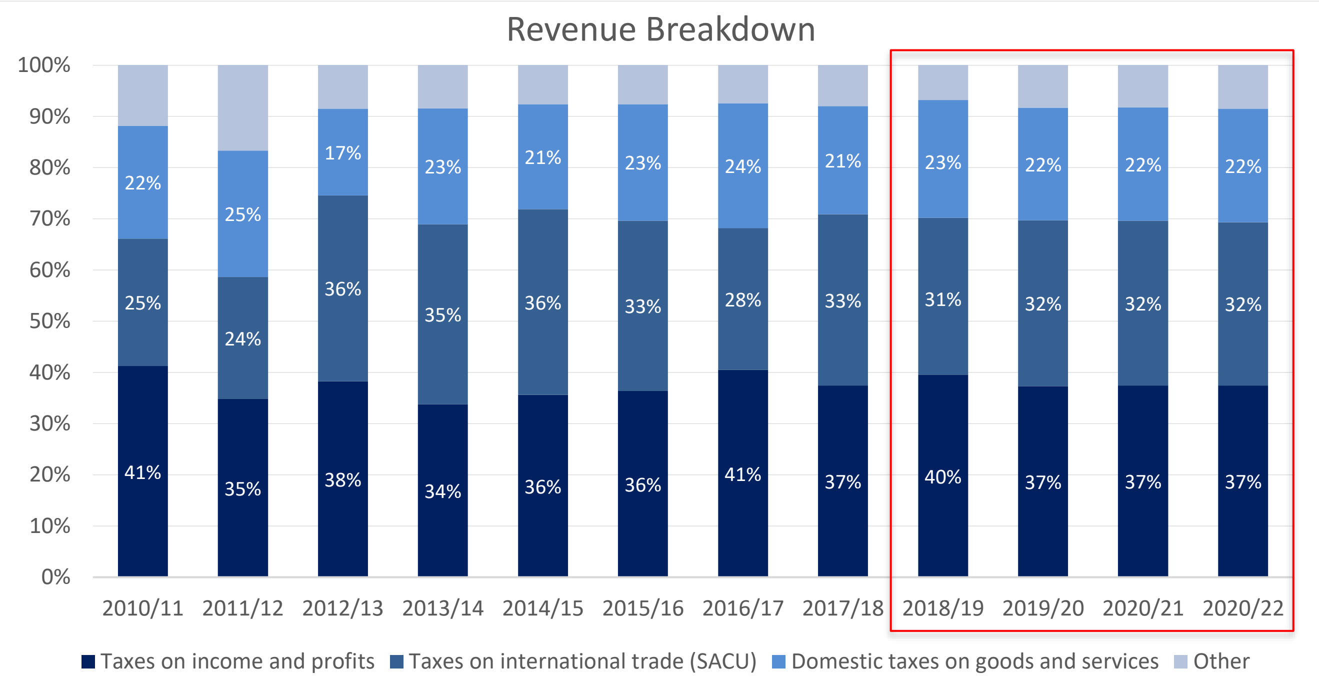
Source: MoF, IJG Securities

Total revenue collection for 2019/20 is expected to come in at N$58.40bn, N$1.69bn (or 3.0%) more than the estimated collection in 2018/19. This is also more than the N$57.13bn expected in the 2018/19 mid-year budget review. The Ministry of Finance anticipates that the growth in total revenue will be driven mainly by better SACU receipts, although this will be somewhat offset by downward revisions in the estimates for non-mining company tax and VAT. Income tax on individuals and companies is underperforming projections as we expected, but the increase in SACU revenue will make up for this in 2019/20.



Source: MoF, IJG Securities

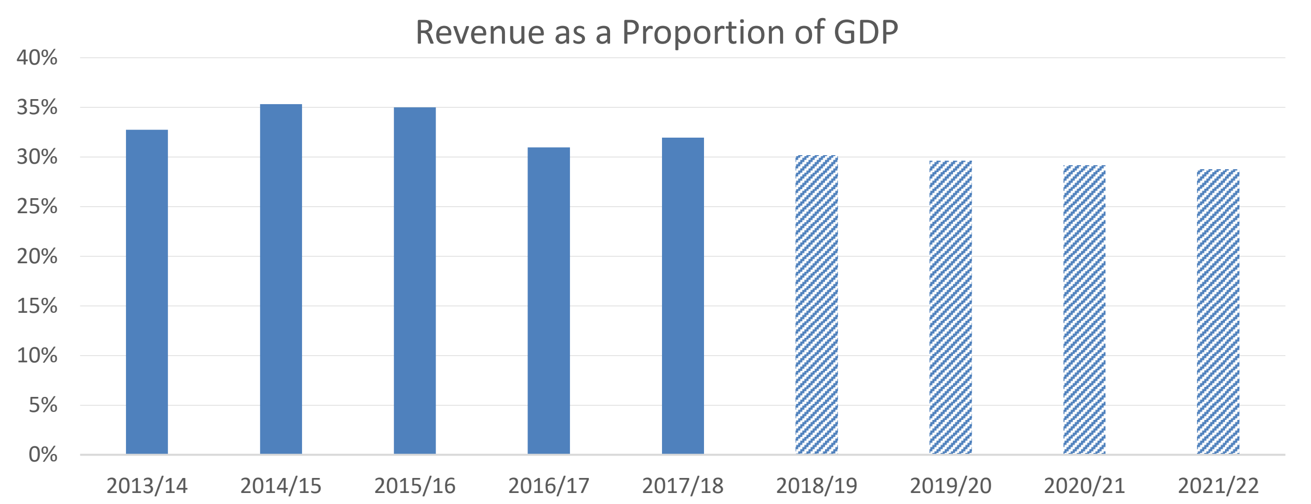
The ministry estimates that SACU revenues for the coming fiscal year will increase by 8.9% from N$17.37bn to N$18.92bn. SACU receipts have rebounded, according to the ministry, and are expected to increase by a moderate 2.0% over the MTEF. Despite a negative revenue formula adjustment for the 2019/20 budget year which will see Namibia lose out on N$2.51bn of its nominal share of N$21.43bn, SACU revenues have exceeded projections easing pressure on the deficit. SACU revenues are expected to make up about 32% of government revenue in 2019/20. Volatility and downside risks in SACU revenue remain, and over or under performance of the SACU revenue pool during the period will affect SACU receipts going forward.



Source: MoF, IJG Securities

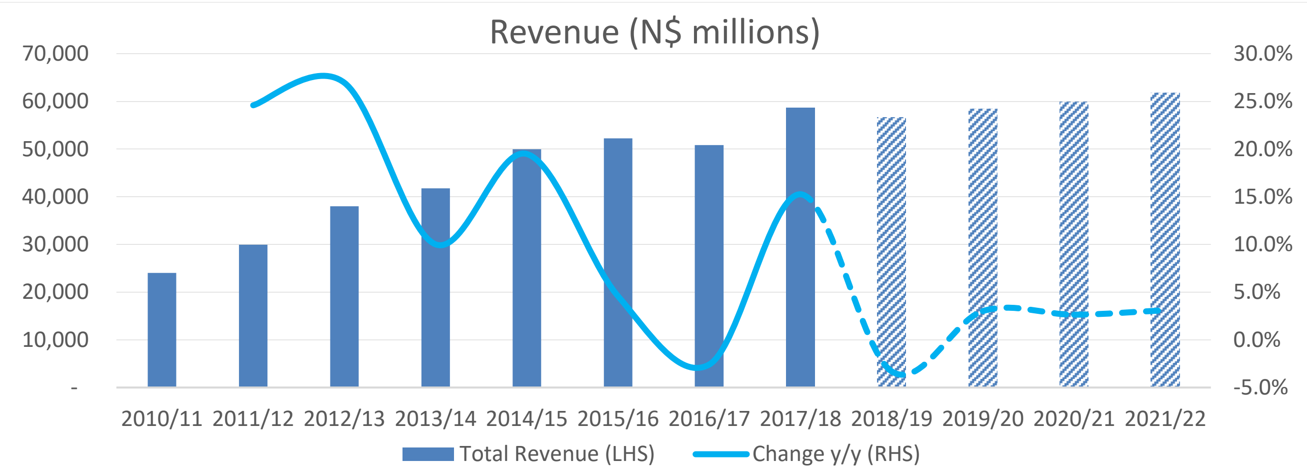
As is the norm, taxes make up the bulk of government revenue in 2019/20. Taxes on income and profits make up the largest share of total revenue at 37.4%. Taxes on income and profits are expected to decline by 2.8% in 2019/20 to N$21.78bn, which the ministry says is due to the reduced output of the diamond sector, and lower corporate income tax collection from non-mining companies. This is to be expected, given the continued weak economic climate and we believe it is prudent for the ministry to plan as such. The ministry estimates that taxes on income and profit will increase to N$22.43bn in 2020/21 to N$23.14bn in 2021/22, with most of this increase expected to come from income tax on individuals.

Taxes on domestic goods and services (VAT) are expected to fall by 1.6% to N$12.85bn, after which the ministry expect growth in these taxes to return. VAT revenue is expected to increase to N$13.28bn in 2020/21 and N$13.72bn in 2021/22 as the ministry expects consumption demand to pick up. These figures are however significant downward revisions of about 10.4% from the forecasted VAT revenue amounts in the 2018/19 Mid-Term budget.



Source: MoF, IJG Securities

As a percentage of GDP, government expects revenue to slow from 29.7% in 2019/20 to 29.2% in 2020/21 and to further moderate to 28.8% over in 2021/22. This is mainly due to slow expected growth in SACU receipts and domestic taxes as a result of a continued low growth environment. The ministry estimates SACU revenue to hover around 9.3% of nominal GDP over the MTEF. This conservative outlook, as we have stated in the past, is reasonable in our view and reduces the likelihood of downside surprises. There has been a vast improvement in the accuracy of the budgeting process over the last three years.



Source: MoF, IJG Securities

MTEF Revenue Estimates

Total revenue growth is expected to average about 2.9% over the MTEF. Total revenue of N$59.94bn is estimated for 2020/21, while N$61.80bn is estimated for 2021/22. As mentioned above, government expects revenue as a percentage of GDP to slow to 28.8% over the MTEF.

Most of this growth is estimated to come from taxes on income and profits, which will stem from increased revenue from income tax on individuals as the ministry expects both domestic and external demand conditions to improve in the outer years of the MTEF. The ministry however estimates individual income tax to grow at a slower pace during 2019/20 and 2020/21 as a result of “sticky wages and limited job growth in the economy”.

Tax Policy and Tax Administration Reforms

Several changes to Namibian taxation have been announced in this year's budget. Overall, the approach has been quite prudent as the Minister (quite correctly) noted that "aggressive tax policy during economic downturns is mostly seen as counterproductive". The argument has been made several times that Namibia is already on the wrong side of the Laffer curve for increases in the tax rate to have a positive impact on tax revenues, and it seems to some extent, that is a sentiment the Minister shares. As a result, there has been some backtracking on some of the previously proposed tax amendments like increases in the corporate tax rate and non-deductibility of some categories of income tax. Both of which are positive developments.

However, there have still been some major amendments in Namibian tax, which the minister expects to generate N$400 million in domestic revenue. According to the speech, the amendments aim to plug some of the tax planning and avoidance opportunities currently available to taxpayers. Some of the proposals, like disallowing the deductibility of fees and interest paid to non-residents for calculating taxable income until payment of withholding tax paid is proven, achieves these goals perfectly. However, not all of the changes are likely to have such a straight forward effect.

The first notable change is the phasing out the current tax incentive for manufacturers and exporters of manufactured goods, repealing the Export Processing Zone ("EPZ") and introducing Special Economic Zones ("SEZ"), with a sunset clause for current operators with EPZ status. Off the bat, it does not seem that the change from EPZ to SEZ will have much of a long-term impact as incentives for the EPZ will simply be replaced by new (and possibly even more incentives) in the SEZ. However, there may be increased revenues in the short term.

Secondly, the introduction of a 10% dividend withholding tax is set to be tabled in the coming financial year. The rationale behind the implementation of this tax is to increase the fairness and equity of the tax regime. Currently some interest-bearing investments, which are subject to interest withholding tax, are structured to pay dividends instead. However, it is worth noting, that for most firms, dividends are paid from after tax income and will now be taxed again if paid out to shareholders. Although this will incentivise retaining income in businesses, most shareholders expect some type of cash return. Thus, the dividend withholding tax will inevitably lead to lower returns on investments which will hamper the competitiveness on Namibia as an investment destination. We feel that this tax may disincentivize entrepreneurs on the margin in an already difficult economic climate and as such is poorly timed given that the minister notes elsewhere in his speech that government aims to attract more private sector investment and involvement in stimulating economic growth.

Another, notable change is the abolishment of the conduit principle in the taxation of trusts. Essentially, this would mean that the reduction of income tax by taxing the individual instead of the trust itself would no longer be possible. This is a loophole that has been abused for some time. However, minimising tax payable from income generating trusts would theoretically still be possible by means such as remunerating Trustees for services rendered, applying increased interest rates on loan accounts and so forth. To make sure that all loopholes are eliminated, and unintended consequences are kept to a minimum legislation will have to be extremely well thought through. These structures and their tax treatment are notoriously complex.

Unfortunately, amendments like those proposed have the potential to punish a large group of people for the misconduct of a few. This is also the case for subjecting income derived from commercial activities of charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act to normal corporate tax requirements.

Similarly, disallowing deductibility of royalties for non-diamond mining entities, has been another extremely popular method of reducing tax burden by amortising intangible assets. Again, the misuse of this method, which is intended to promote research and development, has caused this loophole to be closed.

Another amendment is to tax all income earned from foreign sources which Namibian residents will have to declare such income in their annual tax returns. Generally, a country has either a source based or a residency-based tax system. By implementing the "hybrid" system it seems the Ministry of Finance is aiming to have the best of both worlds. This will likely lead to businesses migrating their residency to other countries to avoid any type of double taxation. This measure is thus investment negative with regards to corporate investment and may disincentivise skilled individuals from retaining residence status as well.

A strange amendment has been that listed asset managers will now be subject to VAT. This cost will undoubtably be passed onto consumers and may act as a disincentive to save and invest. However, the tax incentive which increases the tax deductibility of retirement fund contributions from the current N$40,000 per annum to 27.5% of income with a maximum of N$150,000 will help to offset this to some extent and has been a welcomed development.

In terms of excise levies and duties the following items will be included:

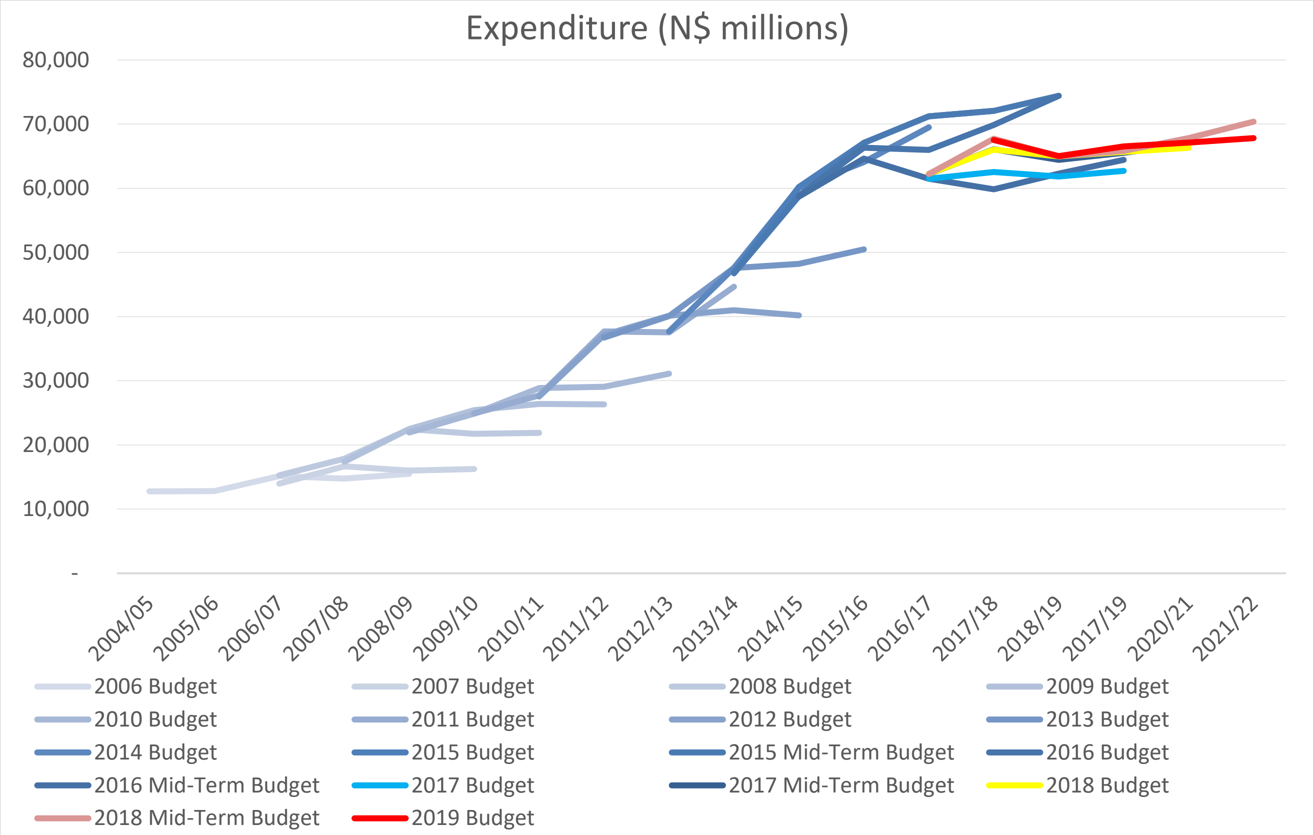
- increase the fuel levy by 25 cents per litre for all levied fuel products in terms of the Section 54 of the Customs and Excise Act,
- expand coverage of export levy to include other specific agricultural, forestry and game products and other mining products currently not covered,
- increase the export levy for dimension stones from the current 2% maximum to 15%,
- introduce an export levy of 15% for timber,

Additionally, normal sin tax adjustment as per the SACU Agreement are effective 21 February 2018 and are summarised in the table below"

Commodity	*Duty*	*Increase*
Beer	N$1.74	N$0.12
Wine (750 ml)	N$3.15	N$0.22
Sparkling wine (750 ml)	N$10.16	N$0.84
Whiskey	N$65.84	N$4.54
Cigarettes (20 pack)	N$16.66	N$1.14
Cigars	N$7.80	N$0.64

Lastly, the introduction of ITAS and the establishment of the Namibia Revenue Agency (now expected 1 October 2019) should ensure increased compliance and efficiency of personal and corporate tax collections, which is expected to support higher tax revenues over the MTEF.

Expenditure



Source: MoF, IJG Securities

2018/19 Outturn

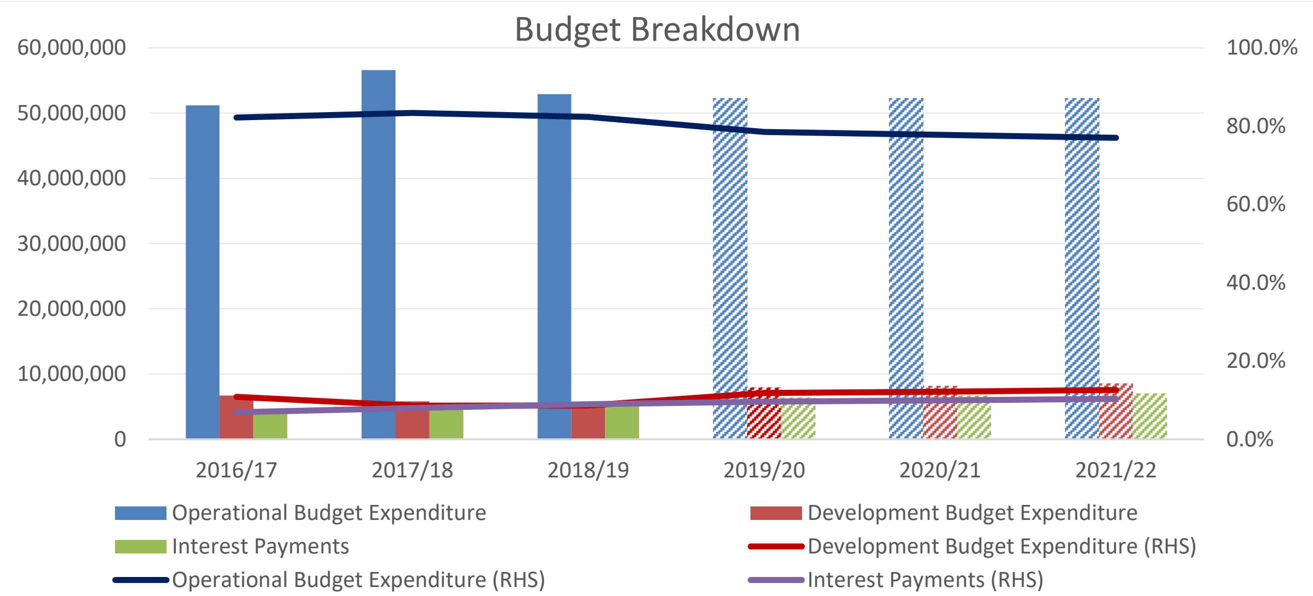
The 2018/19 year is the first for a number of years where expenditure was in line with forecasts according to the budget documents. Expenditure for 2018/19 is estimated to reach N$65.02bn, 3.7% down from expenditure in 2017/18 and a negligible change from last year's March budget and mid-year budget review projections for 2018/19. The development budget made up only 9.5% of non-interest expenditure during 2018/19 versus projections for 10.2% and a target of 20%. The development budget has become the casualty of the fiscal consolidation process as it is easier to put infrastructure and development projects on hold than it is to rein in operational expenditure.

Expenditure for the year amounted to 34.6% to GDP, an improvement from 42% in 2015/16. Fiscal consolidation has resulted in government playing a smaller role in the economy which is a positive development we hope to see continue. Fiscal controls seem to have improved as the 2018/19 budget outturn is very close to the forecast from March 2018. This is also a very positive development as improvement in fiscal controls and governance is critical to managing the still very precarious fiscal position.

The preliminary expenditure execution rate for 2018/19 amounted to 99.6% by mid-March with operational budget expenditure execution at 99.8% and the development budget execution at 79.4% according to the budget statement. Our calculations suggest that should the individual execution rates be correct then overall execution cannot be in excess of 97.5%, pointing to just one of many discrepancies in the numbers.

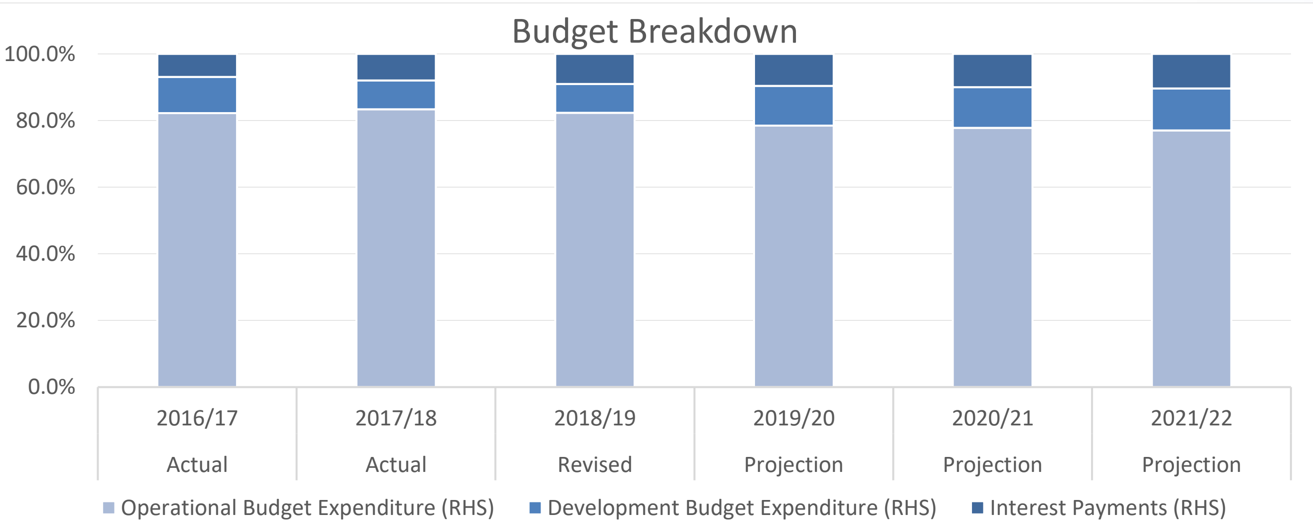
2019/20 Budget Review

Expenditure is expected to increase by 2.4% to N$66.55bn in 2019/20, from N$65.02bn in 2018/19. This is an upward revision of 1.1% from the mid-term budget review last year, and the highest forecast expenditure ceiling for the year since the inclusion of 2019/20 in an MTEF period. The first year in which a forecast for 2019/20 was included was in the 2016/17 mid-year review, after the start of the fiscal consolidation period. Expenditure over the MTEF is forecast to be N$67.13bn in 2020/21 and N$67.83 in 2021/22, signaling a relatively modest increase in expenditure going forward.

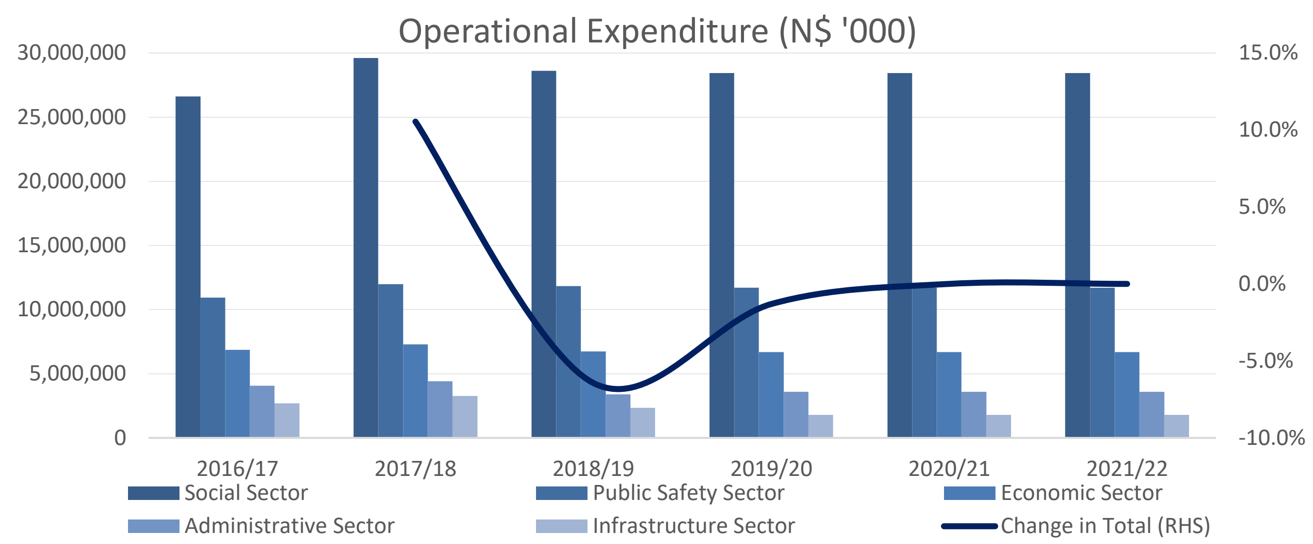


Source: MoF, IJG Securities

Fiscal consolidation measures have seen the Namibian budget become ever more operational over the last three years. The 2015/16 allocation to the development budget amounted to N$11bn versus N$5.56bn in 2018/19. 2019/20 sees a reversal of this trend as the development budget has been increased by 42.2% to N$7.91bn. This is another positive take away from the budget for the coming year and one which was largely unexpected. Still the operational budget will make up 78.5% of total expenditure (down from 82.4%), while the development budget will make up 11.9% and interest payments 9.6%.

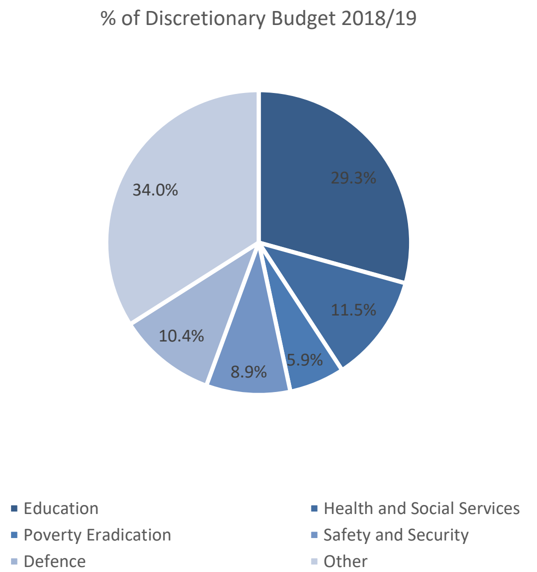


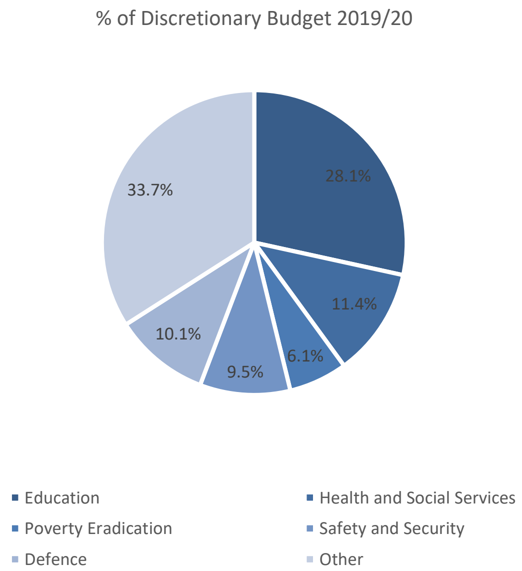
Source: MoF, IJG Securities



Source: MoF, IJG Securities

Operational budget expenditure retains a heavy weighting toward the social sectors – basic education, higher education, health and social services, and poverty eradication being the largest of these. Basic education receives N$13.7bn, up from N$13.5bn in the prior year and accounting for 22.8% of non-interest expenditure. Higher education receives N$3.14bn, down from N$3.42bn last year, accounting for 5.2% of non-interest expenditure. After education health and social services receives the largest budget allocation, now only slightly ahead of interest costs on debt. Health and social services receives N$6.87bn in 2019/20, up from N$6.71bn in the prior year. Poverty eradication receives N$3.59bn in 2019/20, up from N$3.44bn in 2018/19 and rounds out the larger allocations to social services. Basic education personnel expenditure of N$11.4bn accounts for almost 40% of the N$29.9bn personnel bill in the 2019/20 year.





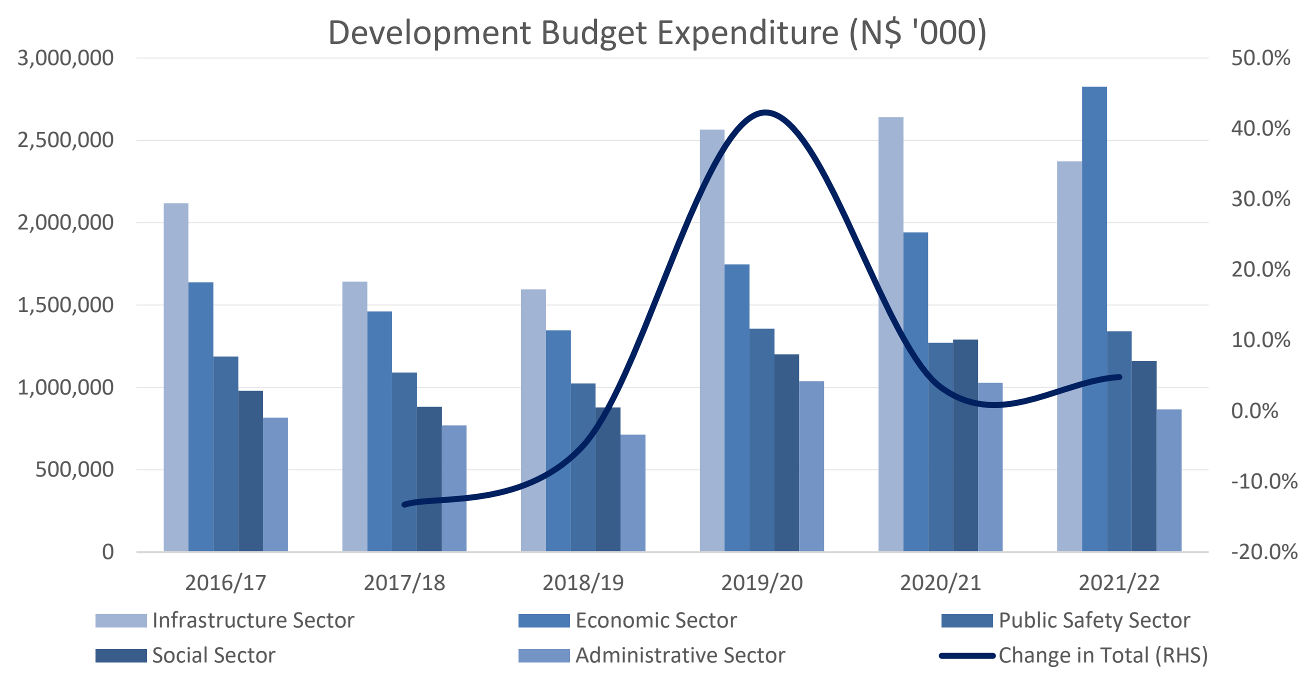
Source: MoF, IJG Securities

The ministry of defence receives N$5.88bn in 2019/20, a decrease of 3.3%. This is a welcome decrease as the defence budget is bloated after years of acting as a redistributive/social budget allocation. Safety and security's budget for 2019/20 increased with 6.3% to N$5.55bn. The budget allocation for the finance ministry for 2019/20 has been increased by 2.1% to N$4.41bn, largely on account of the N$2.4bn cost of PSEMAS which falls under the ministry.

Operational Budget Ceiling	2018/19	2019/20	Change
Ministry of Education, Art and Culture	13,719,953,000	13,767,697,000	0.3%
Ministry of Health and Social Services	6,712,176,000	6,868,271,000	2.3%
Ministry of Defence	6,084,115,000	5,884,817,000	-3.3%
Safety and Security	5,221,800,000	5,550,941,000	6.3%
Ministry of Finance	4,317,554,000	4,409,320,000	2.1%
Ministry of Poverty Eradication and Social Welfare	3,437,619,000	3,592,653,000	4.5%
Ministry of Higher Education, Training and Innovation	3,422,172,000	3,137,381,000	-8.3%
Ministry of Transport	3,472,098,000	3,443,437,000	-0.8%
Ministry of Agriculture, Water and Forestry	1,958,090,000	1,959,307,000	0.1%
Ministry of Urban and Rural Development	1,861,202,000	1,982,234,000	6.5%
Ministry of Gender Equality and Child Welfare	1,209,723,000	1,296,314,000	7.2%
International Relations and Cooperation	881,675,000	941,274,000	6.8%
Veterans Affairs	708,426,000	685,060,000	-3.3%
Department of Works	690,043,000	606,060,000	-12.2%
Home Affairs and Immigration	609,159,000	677,129,000	11.2%
Ministry of Information and Communication Technology	445,597,000	321,148,000	-27.9%
Office of the President	405,533,000	435,369,000	7.4%
Ministry of Environment and Tourism	398,564,000	461,731,000	15.8%
Judiciary	371,348,000	368,444,000	-0.8%
Ministry of Land Reform	366,036,000	496,792,000	35.7%
Office of the Prime Minister	362,007,000	459,391,000	26.9%
Ministry of Industrialisation, Trade and SME Development	337,478,000	295,026,000	-12.6%
Ministry of Justice	301,629,000	326,952,000	8.4%
Ministry of Sport, Youth and National Service	290,056,000	285,999,000	-1.4%
Ministry of Fisheries and Marine Resources	252,106,000	250,214,000	-0.8%
Ministry of Mines and Energy	251,471,000	286,165,000	13.8%
Attorney General	206,747,000	204,013,000	-1.3%
Ministry of Labour, Industrial Relations and Employment Creation	189,405,000	189,924,000	0.3%
National Planning Commission	160,395,000	241,584,000	50.6%
National Assembly	110,838,000	126,848,000	14.4%
Auditor General	110,399,000	109,265,000	-1.0%
National Council	99,160,000	94,763,000	-4.4%
Electoral Commission of Namibia	78,718,000	288,358,000	266.3%
Anti-Corruption Commission	60,755,000	61,610,000	1.4%
Ministry of Public Enterprises	41,780,000	40,022,000	-4.2%
Overall	59,145,827,000	60,145,513,000	1.7%

Source: MoF

The table above highlights the changes in total allocation from 2018/19 to 2019/20. These include the development budget allocations. As total expenditure is increasing by N$1.5bn in 2019/20 and the development budget is increasing by N$2.3bn it shows that further efforts to curb spending in the operational budget are ongoing.



Source: MoF, IJG Securities

Within the development budget allocation, infrastructure receives the largest allocation at N$2.57bn, up from N$1.60bn in 2018/19. This seems to be largely a reallocation of operational expenditure which has decreased from N$2.35bn to N$1.81bn. The budget statement notes that in addition to this allocation to infrastructure development, the private sector will be empowered to contribute to infrastructure development through the Public Private Partnership (PPP) framework which is now operational, as well as targeted development through SOE investment. The Road Fund is expected to contribute N$1.4bn to infrastructure development in 2019/20 and N$7bn over the MTEF. The first of the anticipated PPP projects to go ahead would be the new Ministry of Justice headquarters.

The PPP framework, if implemented correctly, could be a powerful tool with which to unleash private sector investment into the economy. Land servicing and construction of housing units, water and electricity infrastructure development and healthcare are some of the avenues into which PPP investment is to be steered according to the budget speech. Opportunities for the PPP framework to be exploited for excess personal gain will need to be addressed and managed, as well as the policy uncertainty still hampering investor confidence.

In addition to the increased allocations to the infrastructure development spend, 2019/20 will be the first year in which the African Development Bank (AfDB) infrastructure financing kicks in. These funds will be spread out over three years now instead of two and will go some way in adding to the road and rail infrastructure in Namibia.

Budget Balance and Financing

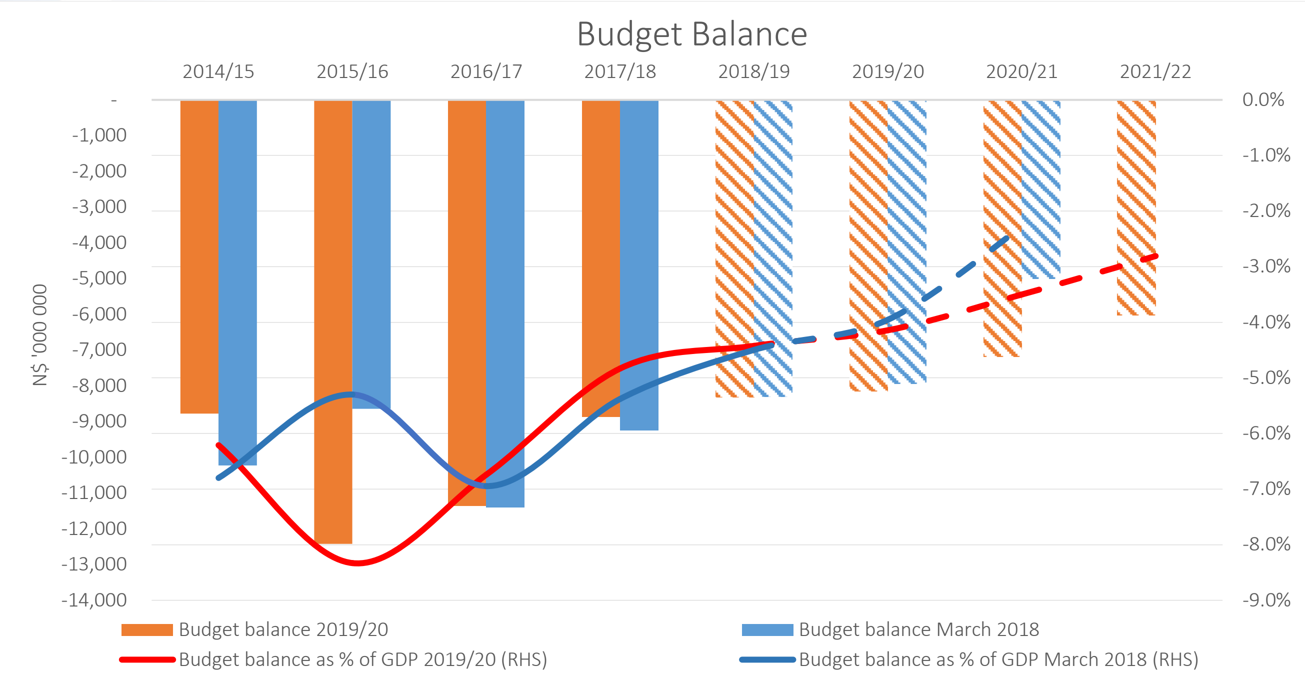
2017/18 Outturn

Revenue estimates for 2018/19 have been left unchanged at N$56.70bn as tabled at the Mid-Term Budget review in October 2018. The minister mentioned that he does not expect a shortfall in terms of revenue collection, since the fiscus had already collected 97.1% or N$55bn of the revenue earmarked for 2018/19 by mid-March. The high collection rate is a result of the personal and corporate tax arrears collection initiatives that ran during the first half of 2018. The revenue estimate for 2018/19 is 3.3% lower than the N$58.66bn collected during 2017/18 as SACU revenues for the year were lower than anticipated.

Total expenditure for 2018/19 is expected to be N$64.27bn as per the MTEF documents, however the minister noted during his speech that according to estimates for March 2019, expenditure commitments stood at N$64.8bn, suggesting a N$500m expenditure overrun. The expenditure ceiling for 2018/19 differs in various locations in the budget documents and is recorded as N$65.02bn in some documents. The total expenditure estimate for 2018/19 is a 1.7% downward revision from the N$66.1bn tabled in parliament for 2017/18 which included outstanding invoices to the construction industry.

The budget deficit is estimated to narrow by N$551m to N$8.31bn in 2018/19, or 4.4% of GDP as per the budget statement. The 2018/19 deficit estimate is an improvement from the 2017/18 deficit of N$8.86bn or 4.8% of GDP. Government's adoption of fiscal consolidation in 2016 has resulted in the budget deficit narrowing by almost 30% to N$8.86bn as at 2017/18, and is expected to narrow by a further 6.5% in 2018/19.

The N$8.31bn deficit was funded through local debt issuance (i.e. TB's, vanilla and inflation linked bonds) of N$5.3bn and N$3bn in foreign borrowing (AfDB). The local debt issuance of N$5.3bn represents a 1.8% or N$1.8bn shortfall from the N$7.1bn planned issuance as per Bank of Namibia's (BoN) initial borrowing plan released at the start of the fiscal year. BoN has revised the borrowing plan three times since then, in October, November and January, increasing the borrowing requirement by 7.8%, 13.3%, and 16.1% from the initial requirement, respectively. Over the period domestic debt has increased 13.7% to N$55.3bn according to IJG's records versus N$54.9bn in the budget documents. The budget documents thus estimate that local debt for 2018/19 is 0.8% lower than the actual issuance recorded by Bank of Namibia. We thus expect total domestic and foreign debt is higher than the N$87.1bn noted in the budget documents for 2018/19, bringing total debt as a proportion of GDP to 46.6%, up from 40.6% in 2017/18.

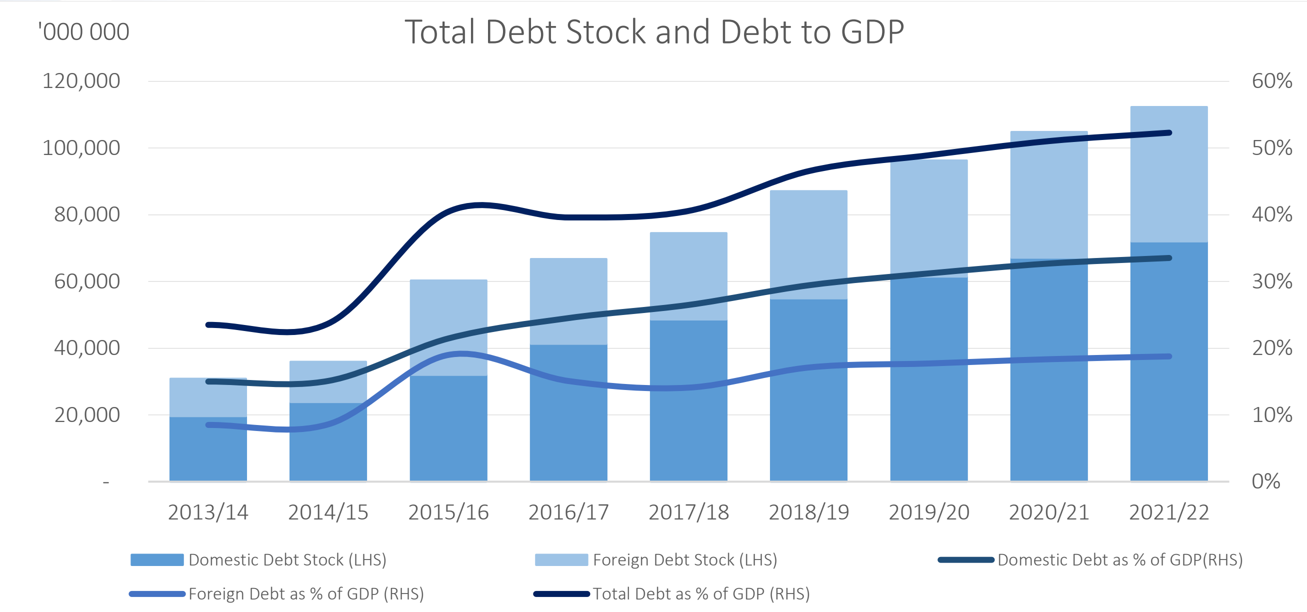


Source: MoF, IJG Securities

2019/20

Total revenue for 2019/20 has been revised upwards by 2.2% from the mid-term review in October to N$58.40bn, 3.0% higher than the N$56.70bn forecast for last year. The increased revision is largely anchored on expectations for improved SACU receipts. Namibia's revenue share from the Common Revenue Pool is expected to post marginal growth over the MTEF with N$18.92bn projected for 2019/20. Non-tax revenue is expected to increase by 24.3% in 2019/20 and will offset the anticipated declines in tax collection from non-mining companies and lower VAT due to subdued consumption demand. Economic growth remains weak and government remains committed to its pro-growth fiscal consolidation policy. Expenditure estimates for 2019/20 have been modestly revised up by 1.1% from last year's mid-term review but is 3.5% higher than the expenditure estimates for 2018/19. The budget deficit for 2019/20 is estimated to narrow to N$8.15bn, or 4.1% of GDP, trimmed down from a high of 8.3% of GDP in 2015/16. MoF further estimates that the budget deficit will narrow to N$7.19bn in 2020/21, before improving by almost N$1.2bn to N$6.03bn in 2021/22.

The total borrowing requirement for 2019/20 will be N$9.22bn as per the budget documents and will be financed accordingly via a combination of local and foreign borrowing. Budget documents further state that N$6.52bn of the net borrowing requirement will be funded through local debt issuance and N$2.70bn through foreign debt. Bank of Namibia advised that the new fiscal year borrowing plan will be released following the budget speech. This will provide more clarity into the how funding will be spread out over the course of the fiscal year. The 2019/20 borrowing requirement is 13.8% less than the N$7.1bn borrowing requirement from 2018/19 which highlights government's expectation's that its fiscal consolidation policy and a positive economic outlook will provide some relief. Interest cost related to the already tapped AfDB funding will commence during 2019/20. Domestic debt is expected to rise at a quicker pace than external debt over the next three years. As a result, debt as a percentage of GDP is expected to increase to 48.9%, 51.0% and 52.3% in 2019/20, 2020/21 and 2021/22 respectively. This is well above prior forecasts, and the one part of the budgeting process which has not improved sufficiently.



Source: MoF, IJG Securities

With the forecast rise in total debt, debt servicing costs are expected to escalate as well over the MTEF. Interest payments on debt for 2019/20 is estimated to be N$6.40bn or 3.3% of GDP. Interest payments have increased from 9.3% of revenue in 2017/18 to 11.0% by the 2019/20. From there interest costs will stabilise around 11.2% and 11.4% of revenue in 2020/21 and 2021/22 respectively, as government continues to run budget deficits. The fiscus is in breach of its self-imposed 10% cap on interest in relation to revenue.

Government, for the foreseeable future, is most likely compelled to finance the budget deficit largely through local debt issuance, and foreign borrowing limited to sources such as the AfDB. The first euro-bond matures in November of 2021 and Namibia's current sub-investment grade credit rating will make it more expensive to tap foreign capital markets over the MTEF. Fitch stated that Namibia bears risks in not being able to service its debt and make sufficient provision for maturing debt. BoN manages a sinking fund intended to provide for maturing debt redemption, specifically external debt. The minister specified in his speech that 70% of the sinking fund is earmarked for redemption of maturing debt. The fact that the portion of the second Eurobond allocated to the sinking fund for the first Eurobond remains in tact is highly encouraging and points to a strong resolve from finance and BoN to maintain prudent financial controls during the current trying times. It is the finance ministry's intention to continue to build up these sinking fund balances on a quarterly basis to ensure debt sustainability. Given the large stock of short dated debt currently in issuance this is imperative.

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