NATIONAL BUDGET REVIEW 2020/21
"Approaching the Precipice"
28 May 2020

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Contents

Key Points in the Speech ... 3
FY2020/21 ... 3
Revenue ... 5
2019/20 Outturn ... 5
2020/21 Revenue Review ... 6
MTEF Revenue Estimates ... 8
Tax Policy and Tax Administration Reforms ... 8
Expenditure ... 9
2019/20 Outturn ... 9
Sectoral splits 2020/21 ... 10
Operational Budget ... 11
Development Budget ... 13
MTEF ... 14
Budget Balance and Financing ... 15
2019/20 Outturn ... 15
2020/21 Deficit Review ... 15
Funding Requirement 2020/21 ... 16
Conclusion ... 18

Key Points in the Speech

(From speech with editing)

- The domestic economy is projected to contract by 6.6% in real terms this year. The economy is not expected to recover in 2021 as a moderate growth rate of 1.1% is expected.

- For 2019/20, the revenue outturn is projected at N$58.6 billion, consistent with the Budget Review estimates.

- For FY2020/21, total revenue is estimated at N$51.4 billion, 14.3% below the indicative MTEF estimates for 2020/21. This is a result of the COVID-19 induced impact on the various revenue streams.
    - SACU revenue of N$22.3 billion will anchor the projected revenue for FY2020/21. Going forward, this is however expected to come under pressure due to subdued economic and trade conditions.
    - A 32.8% decline in VAT collections is expected.
    - Individual income tax is projected to fall by 20.3% due to wage reductions and job layoffs.
    - Corporate income tax is estimated to fall by 25.5%.

- The preliminary expenditure outturn stood at N$66.8 billion in 2019/20.

- The budget deficit for FY2019/20 is estimated at 4.7% of GDP, compared to the 4.1% budgeted. This is mainly as a result of revisions in nominal GDP.

- Public debt stood at 54.8% of GDP by the end of FY2019/2020.

- Debt servicing interest payments is 13.5% of revenue, and contingent liabilities for Government are approximately 6.3% of GDP, below the 10% maximum cap.

FY2020/21

- As a result of COVID-19 related uncertainties, the Minister announced a single-year budget, totaling N$72.8 billion.

- Non-interest operational expenditure is budgeted at N$57.9 billion, 8.8% more than the previous year.

- The development budget is increased by 8.4% from the actual development budget spending in the previous year, to N$6.4 billion.

- The budget deficit is estimated at 12.5% of GDP on the back of a weak revenue outlook. This is expected to be a once-off rise in the budget deficit.

- The deficit will be financed through a combination of own savings and domestic and external borrowing.

- Taking into account the total financing requirements, the debt stock is estimated to rise to N$117.5 billion. This is an increase from 54.8% of GDP to 68.7%.

- No new taxes were introduced, as the current economic climate does not allow for it.

- The previously announced proposal to disallow tax deductibility of royalties for mining companies has been withdrawn.

- The previously announced income tax and VAT proposals such as dividend tax for residents, taxation of trusts and subjecting the income derived from commercial activities of charities, religious and educational organisations to income tax, the introduction of VAT on income of listed asset managers and sugar tax are still under review. Extensive stakeholder consultations will first take place.

- The Ministry of Health and Social Services is allocated N$7.95 billion, 12.4% of the total non-interest expenditure. The funding would allow the health sector to roll-out measures for combating COVID-19.

- The Ministry of Basic Education, Arts and Culture receives N$14.2 billion, equivalent to 22.1% of the total allocation, while Higher Education, Training and Innovation receives N$3.3 billion or 5.1% of the total allocation.

- The Ministry of Finance is allocated N$6.2 billion, 9.7% of the total allocation. Of this amount, N$2.6 billion (40.4%) is allocated for PSEMAS, while a total amount of up to N$772 million is for the Emergency Income Grant. The Wage Subsidy Program in collaboration with Social Security Commission is allocated N$400 million.

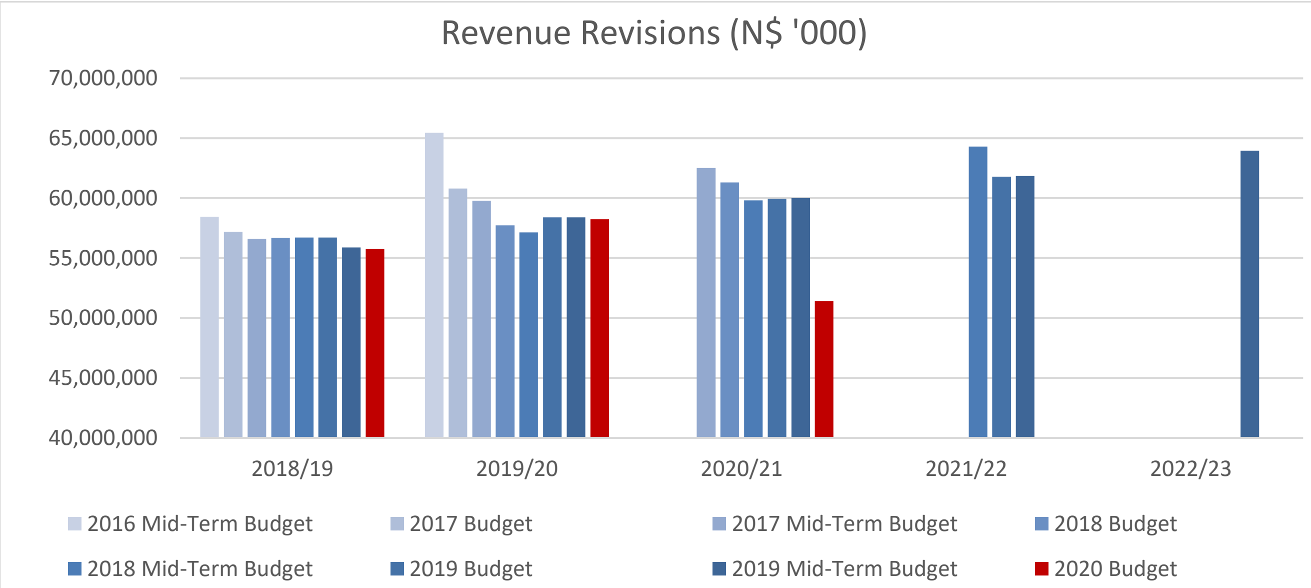
- The Public Safety Sector takes up the third largest share of the budget allocations, totaling N$13.1 billion or 20.6% of the total allocation.

Revenue

In the build-up to the budget IJG ran various scenarios in order to attempt to deduce the extent of the COVID-19 induced lockdown measures would have on government revenues. While there was little high frequency data from which to estimate the revenue for the 2020/21 fiscal year, the result of the exercise was that there was little hope of revenue growth for the year, even with a SACU revenue boost. The revenue forecasts from the ministry of finance in the budget came in even below our expectations for a large drop in revenue in 2020/21, and we should highlight the fact that this was recognised by the ministry before revenues actually disappoint is positive in the sense that it means the ministry is planning for a realistic future. This is a crucial first step in weathering the COVID-19 economic storm.

2019/20 Outturn

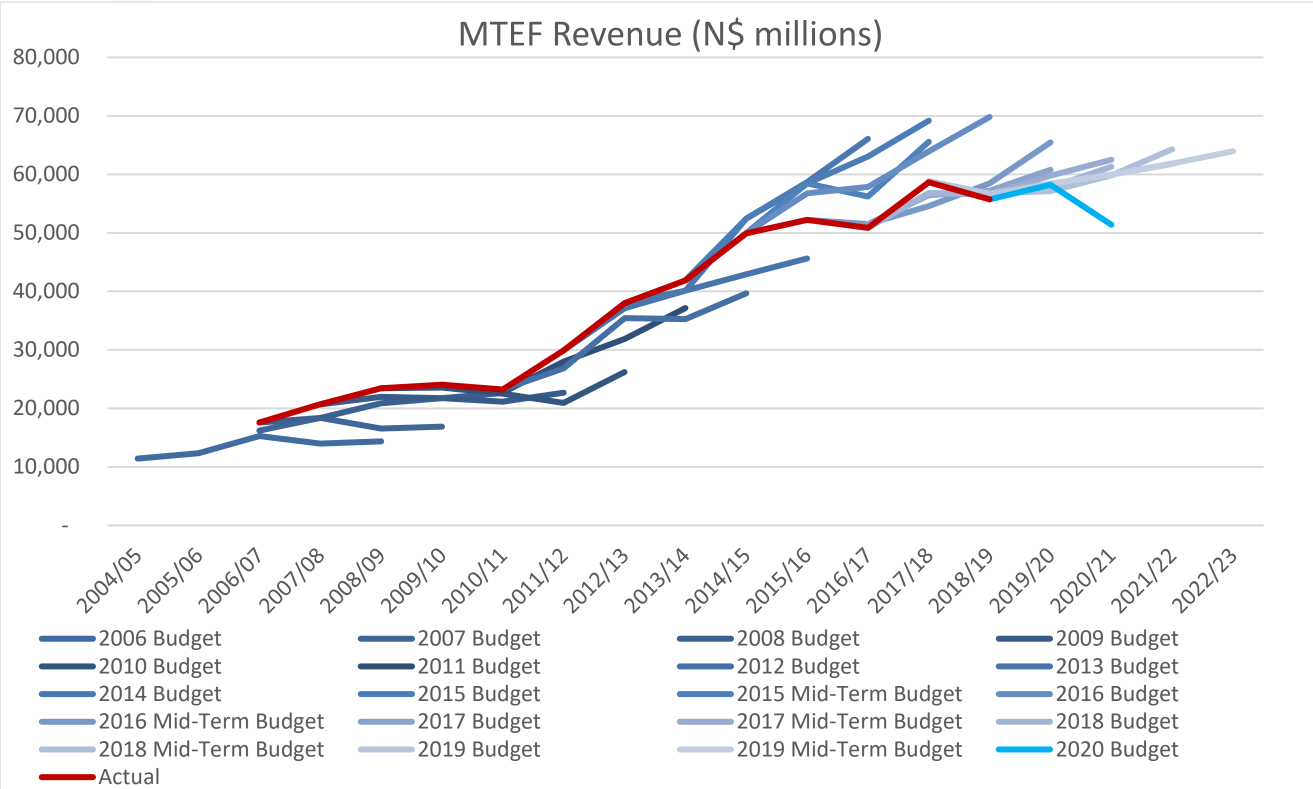
Revised revenue collection for 2019/20 is estimated to have come in at N$58.24bn, slightly below the November mid-term review and April 2019 budget amounts, but not materially so. Revenue for 2019/20 came in 4.5% higher than in the prior year, in excess of 2019 nominal GDP growth of only 0.4%. Over the last five years, however, government revenues have grown at a substantially slower rate than nominal GDP, a sign of a stagnating business climate.



Source: MoF, IJG Securities

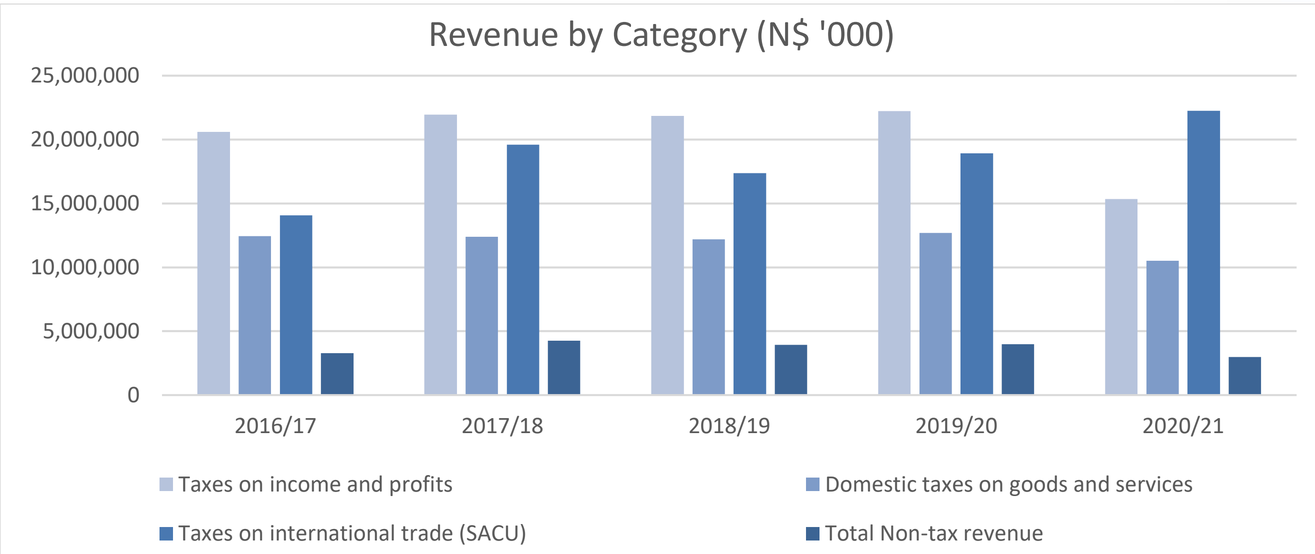
Total revenue to GDP amounted to 30.0% in 2019/20 according to the ministry of finance, although using updated nominal GDP data this ratio increases to 33.0%. This is an increase from the 31.3% total revenue to GDP figure of 2018/19, largely boosted by an 8.9% increase in SACU revenues in 2019/20.

2020/21 Revenue Review



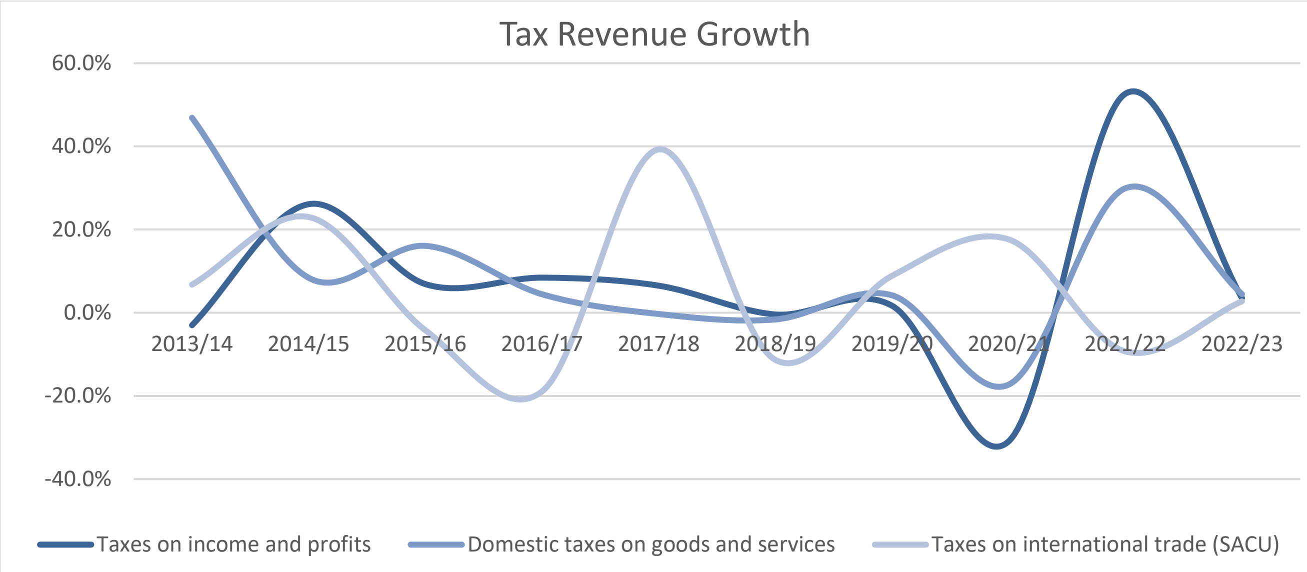
Source: MoF, IJG Securities

Total revenue collection for 2020/21 is expected to come in at N$51.40bn, an 11.7% or N$6.84bn decline when compared to estimated collection in 2019/20. This is also N$8.60bn less than was estimated to be collected in 2020/21 in last year's mid-year budget review a few short months ago. The large downward revision in expected revenue is a factor of the economic crisis caused by the COVID-19 pandemic and the accompanying containment measures. The uncertainty surrounding the extent of the economic crisis is the reason that this year's budget was only tabled in May. We are of the view that delaying the tabling of the budget to obtain more information from which to plan expenditure for the year was a prudent move from the finance ministry given the extent of economic uncertainty.



Source: MoF, IJG Securities

Between the various government revenue streams, it is only SACU revenues that will increase in 2020/21, providing a meaningful boost at a time when it is very needed. SACU revenues for the year will be N$22.25bn, some N$3.33bn or 17.6% more than in 2019/20. The timing for a large increase in SACU revenues could not have been better. However, it is not clear what is expected for the following year but it will likely be a relatively large drop or rebasing. It is likely that a decline in SACU revenues in 2021/22 will mitigate some of the rebound we expect to see in other tax line-items.



Source: MoF, IJG Securities

While the above figure has yet to be updated for the outer MTEF years (2021/22 and 2022/23) as the budget tabled yesterday is a single year budget rather than the usual MTEF budget, it is clear that government expects significant declines in personal and company tax revenue as well as VAT revenue. Income tax on individuals is expected to decline by 29.6% or N$4.04bn to N$9.59bn, well below our expectations. Some industries, particularly tourism and hospitality, have been particularly hard hit by the impact of the COVID-19 pandemic and have already seen layoffs and reduced salaries. This phenomenon has spread to other industries impacted by the lockdown with salary reductions not uncommon. IJG expects unemployment to rise by between 5 and 8 percentage points this year as the economy contracts by the most on record. The drop in income tax on individuals is reflective of these expectations.

With a largescale impact expected in income tax on individuals it follows that company tax will also come under significant pressure. IJG expects the impact of the economic climate to be harshest on business revenues, and the finance ministry seems to agree. Company tax is expected to drop by an unprecedented 35.2% or by N$2.61bn to N$4.80bn in 2020/21. The Namibian business climate was already under pressure after four years of very low growth or recession and this economic crisis has come at a particularly inopportune time for most corporates. Many will be focused on survival rather than expansion leaving profits and taxes severely depressed.

Tax on goods and services, mainly comprised of VAT, is expected to decrease by 17.3% to N$10.51bn in 2020/21, another significant drop of N$2.2bn from last year. This rounds out the decreases in government revenue from the largest revenue line-items to N$9.07bn from last year. A further N$1.11bn drop is expected from smaller revenue streams, with only the N$3.33bn SACU revenue increase providing some relief to the fall in revenues. The overall expected decrease in revenues in

2020/21 thus amounts to N$6.84bn when compared to 2019/20. In a year where expenditure is set to increase significantly off the back of COVID-19 relief measures, the decrease in government revenues will mean a significantly larger budget deficit than expected previously, putting immense strain on fiscal sustainability.

MTEF Revenue Estimates

The budget for 2020/21 is a one-year document, unlike the usual MTEF budget which spans three years. There is thus, unfortunately, no clear guidance on what the ministry of finance expects on the revenue front for the next two years. This may be prudent as the picture is likely to change significantly and rapidly, and much will need to be done in terms of fiscal reforms in order deal with the outsized deficit in 2020/21 and to ensure long term fiscal stability. These fiscal reforms will take some time to devise and thus we expect to see more detail on these in the October mid-term budget review. The finance minister has said as much in his budget speech.

Tax Policy and Tax Administration Reforms

Very few tax policy amendments and reforms were announced in the budget. The Minister noted right off the bat under the tax policy sub-section of his speech that now would not be the appropriate time to introduce new taxes, given the country's current economic climate. We share this sentiment. Even before the government implemented the lockdowns which halted most economic activity, Namibia was already on the wrong side of the Laffer curve in our view. Increases in the tax rate would, as a result, not have a positive impact on tax revenue.

In an attempt to restore investor confidence, the ministry of finance has decided to withdraw the previously announced decision to disallow tax deductibility of royalties for mining companies. This is a positive development in our view and will provide some, if limited relief, to Namibian miners.

It was further stated that the previously announced income tax and VAT proposals are still being reviewed and that 'extensive' stakeholder consultations will take place before a final decision is taken to implement these changes. This includes the dividend tax for residents, sugar tax, taxation of trusts, subjecting income derived from commercial activities of charitable, religious and educational organisations to income tax and the introduction of VAT on income of listed asset managers.

Additionally, normal sin tax adjustments as per the SACU Agreement are effective from 27 February 2020 and are summarised in the table below:

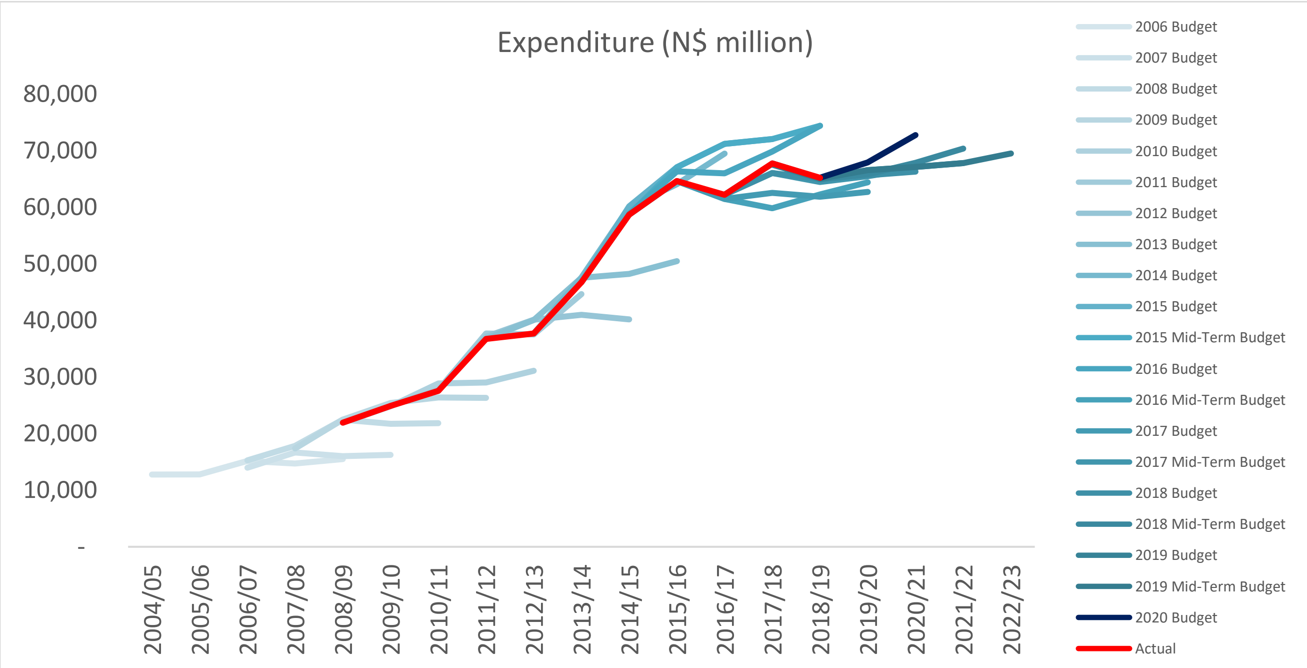
Commodity	*Increase*
Beer	N$0.08
Wine (750 ml)	N$0.14
Sparkling wine (750 ml)	N$0.61
Whiskey	N$2.89
Cigarettes (20 pack)	N$0.74
Piped tobacco	N$0.40
Cigars	N$6.73

The Minister noted that the current national ban on the sale of alcohol products 'saves' consumers on "sin" taxes. This ban will result in lower excise revenue collection in the current year.

Expenditure

Total expenditure (including interest) for 2020/21 is expected to total N$72.77bn increasing by 7.1% y/y from the previous budget year and far outweighing revenue of only N$51.40bn. This represents an 8.4% increase from the expectations tabled in the 2019 mid-term budget review.

The title of the budget document,l "Together Defeating COVID-19, Together Thriving Again" truly summarises the goal of the sharp one-year increase in the expenditure ceiling which is aimed at fighting the spread of the virus. Operational expenditure (excluding interest payments) is set to increase by 6.4% to N$57.9bn, while the development budget is set to grow by 9.9%y/y to N$6.4bn. Seeing as much of the deficit will be financed by debt, interest payments and guarantees are set to rise by 9.6% to N$8.4bn, while interest payments alone are expected to rise by 20.8% to N$7.7bn.



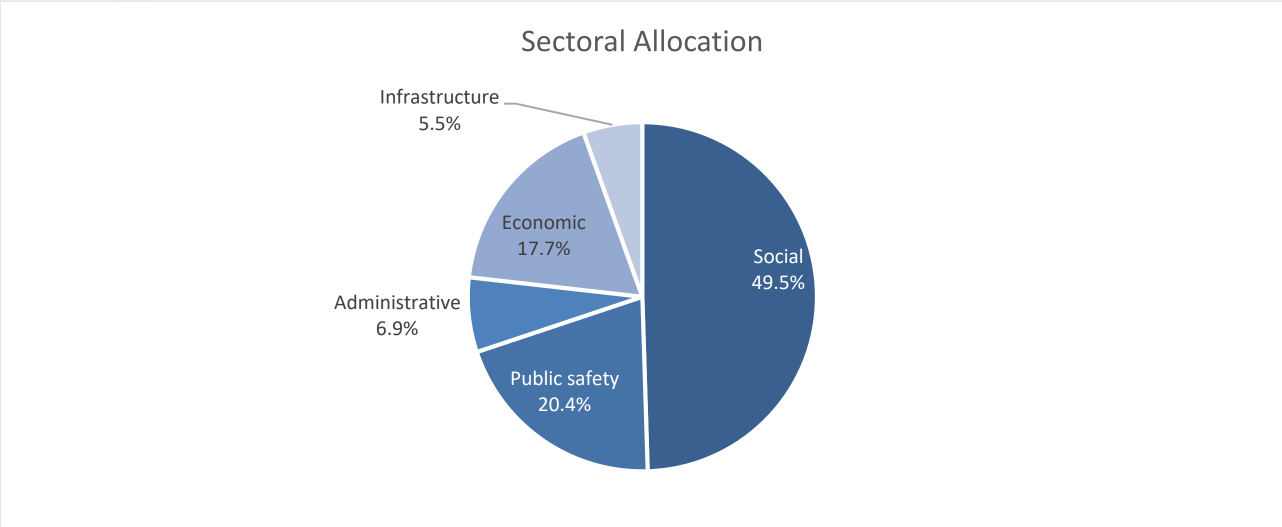
Source: MoF, IJG Securities

2019/20 Outturn

2019/20 marked the second year where expenditure was relatively in line in with forecasts. Expenditure for 2019/20 amounted to N$65.2 billion, slightly ahead of the N$65.1 billion forecasted expenditure in the 2019 mid-term budget. This translated to a 40.0% expenditure to GDP figure.

The budget was fully implemented, with the non-interest operational budget execution rate estimated at 99.5%, while the development budget execution rate stood at 83.2%. The development budget stood at 9.7% of non-interest expenditure during 2019/20 well above the 6.8% of what was spent during the first half of the 2019/20 but still short of the long term 20% target.

Sectoral splits 2020/21



Source: MoF, IJG Securities

The budget allocates 49.5% or N$31.8bn of the N$64.2bn non-statutory expenditure to social sectors. This is in line with the previous budget sectoral allocation of 47.4%, with the increase mainly due to allocations to the health sector to build up the capacity to deal with the COVID-19 pandemic.

The Ministry of Health and Social Services will receive N$7.95bn or 12.4% of the total non-statutory expenditure. The Ministry of Basic Education, Arts and Culture receives N$14.2bn, equivalent to 22.1% of the total allocation, while Higher Education, Training and Innovation receives N$3.3bn or 5.1% of the total allocation of which N$900.2m is for UNAM, N$503.9m for NUST and N$1.5bn for NSFAF, including a guarantee-backed loan facility of N$238m. The Ministry of Gender Equality, Poverty Eradication and Social Welfare is allocated N$5.3bn, 8.2% of the total allocation, mainly to cater for the social safety nets.

The Public Safety Sector takes up the second-largest share of the budget allocations, totalling N$13.1bn or 20.6% of the allocation. Of this, the Ministry of Home Affairs, Safety and Security receives N$5.95bn, 9.3% of the total allocation while Defence and Veteran Affairs is allocated N$6.2bn, about 9.7% of the total non-statutory expenditure.

The Economic sector takes up the third largest share of the budgetary allocations at 17.7%. A total of N$11.4bn is allocated to the sector. This is largely made up of the Ministry of Finance allocation of N$6.bn, about 9.7% of the total allocation. Out of this amount, N$2.6bn is allocated for PSEMAS, N$772m is for the Emergency Income Grant, while the Wage Subsidy Program in collaboration with Social Security Commission is allocated N$400m.

An amount of N$330m is for Government's contribution to GIPF for Political Office Bearers and N$102.8m for Political Party funding. N$90m is allocated to AgriBank to support its loan book. Similarly, a total of N$64.0m is allocated to DBN for SME and youth entrepreneurship support facilities. A total of N$210.9m is earmarked for the transitional arrangements for the establishment of NAMRA in the budget year, while N$36.9m, N$36.6m and N$2m are allocated for the Financial Intelligence Centre, Central Procurement Board and Financial Literacy Initiative respectively.

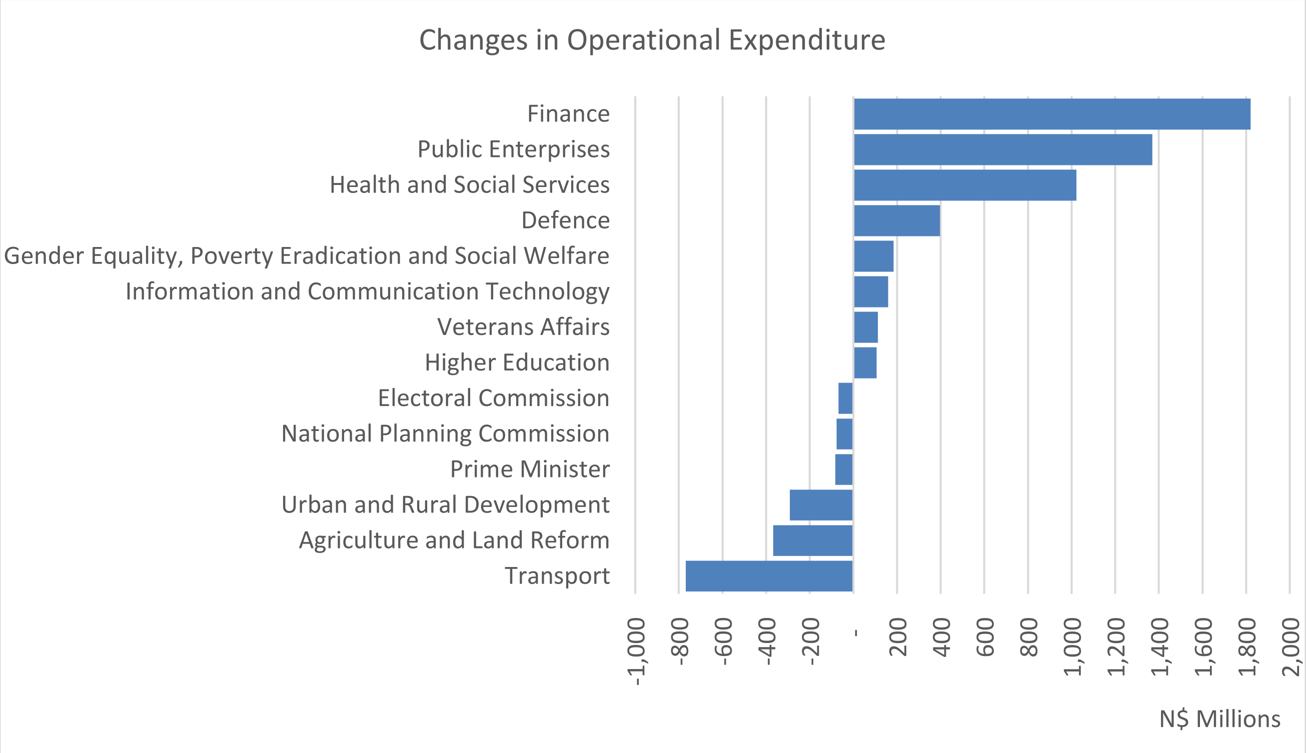
On the infrastructure side, it has been announced that NamPower will be investing about N$10bn in energy generation and transmission, particularly solar and wind power generation over the next three years. According to the budget speech, this will boost the provision of affordable and reliable domestic power generation and improve the balance of payments.

Operational Budget

Seeing as COVID-19 has been declared the top priority, indicative operational expenditure has been increased by N$2.1bn directly related to the Economic Stimulus and relief package. This package consisted of numerous action points at various levels of implementation:

- An emergency budget of N$727m was frontloaded to the health sector.
- An emergency income grant providing a once-off payment of N$750.00 grant to a targeted low-income group affected by COVID-19. Of this N$562m has already been disbursed, while another N$90 million is to be paid once the remaining beneficiaries have been verified.
- A National Employment and Salary Protection Scheme for COVID-19 was launched to provide wage subsidies for severely affected sectors at a cost of N$645m. The government will contribute N$400m while the Social security commission will provide the remaining N$245m.
- Payment of overdue unpaid invoices for suppliers of goods and services to the Government valued at N$1.2bn and VAT refunds estimated at N$3.0bn.
- A non-agricultural SME loan scheme at DBN, for which a N$500m Government guarantee is provided.
- An agricultural business loan scheme and bridging finance for AgriBank for which N$350m Government guarantee is provided.
- A one-year tax-back loan scheme capped at N$470m for non-mining corporates and a similar scheme for individuals capped at N$1.1bn.
- waiving of levies and duties on kerosene fuel
- an emergency budget of N$600m is availed to the Ministry of Basic Education, Arts and Culture for the provision of water, ablution facilities and hostels at about 193 schools.

These emergency allocations have enabled the country to respond timely to the most urgent priorities during the pandemic. When considering operational expenditure by vote, we see that finance is the main recipient of increased budget allocation to the tune of N$1.82bn, which is made up largely of the N$1.17bn emergency income grants and wage subsidies, while another N$500m is earmarked for contingencies.



Source: MoF, IJG Securities

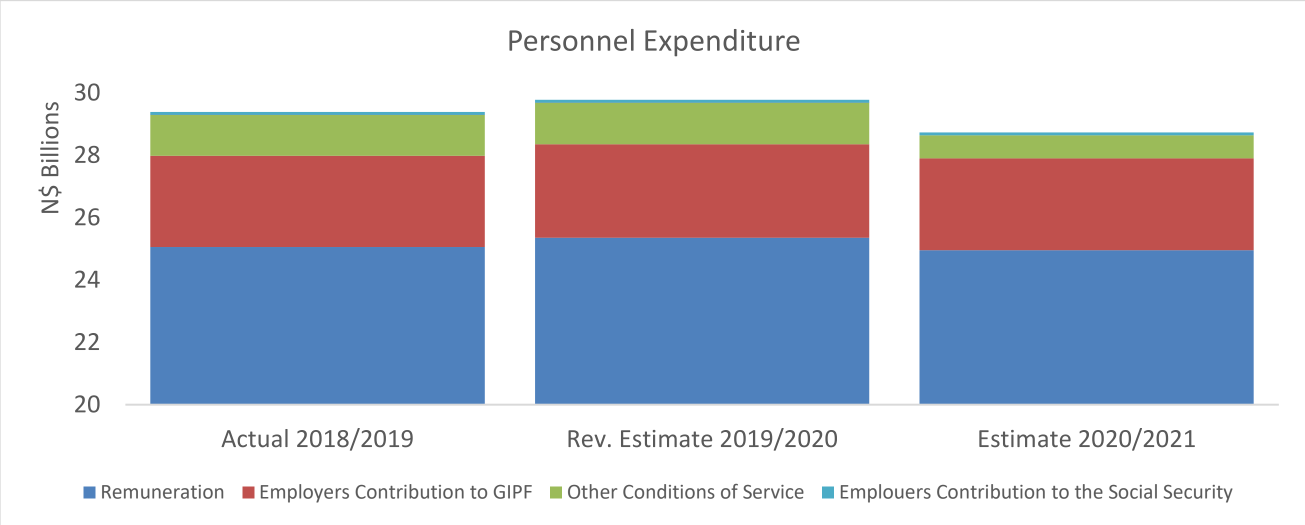
The second-largest increase in operational expenditure went to the public enterprises' vote, who saw their operational budget expand by N$1.37bn. This was largely neglected in the budget speech as well as the expenditure framework. The increase was made up by the single line item of Subsidies & Other Current Transfers to parastatals. Air Namibia is to receive N$984.6m in the 2020/21 financial year which is undoubtedly to see it through the period of little to zero revenue during global lockdowns and travel bans. This does, however, fall short of the N$2.0bn Namibian dollars bailout request from Air Namibia received in November 2019 despite not releasing financial results for over a decade. The company has been experiencing losses for numerous years and has been the recipient of transfers from as early as 2001 costing the taxpayers billions. Furthermore, the National Institute of Pathology is to receive a transfer of N$146m to beef up its COVID testing capacity, while the Agro-Marketing and Trade Agency and Agricultural Business Development Agency are to receive N$60m each.

Health and social services will see their operational budget increase by N$1.0bn, most of which is made up of the N$727m emergency funding, while the rest of the N$273m has also been earmarked for various other COVID-19 related expenditure.

Once again, the defence vote has received an increase in the operational budget of roughly N$396.2m. This includes a N$132.1m increase in materials and supplies, a N$55m increase in transport and a N$98m increase in transfers to Individuals and Non-Profit Organizations which is labelled confidential. According to the expenditure framework, the Ministry of Defence aims to add 1,000 recruits to the defence force.

The transport vote has seen its operational budget slashed by a whopping N$768.3bn, which is largely due to the exclusion of Public and Departmental Enterprises and Private Industries under the planning and development programme. Furthermore, the transport vote's transport budget has been cut by N$239.2m as the government fleet will not be renewed for the next five years.

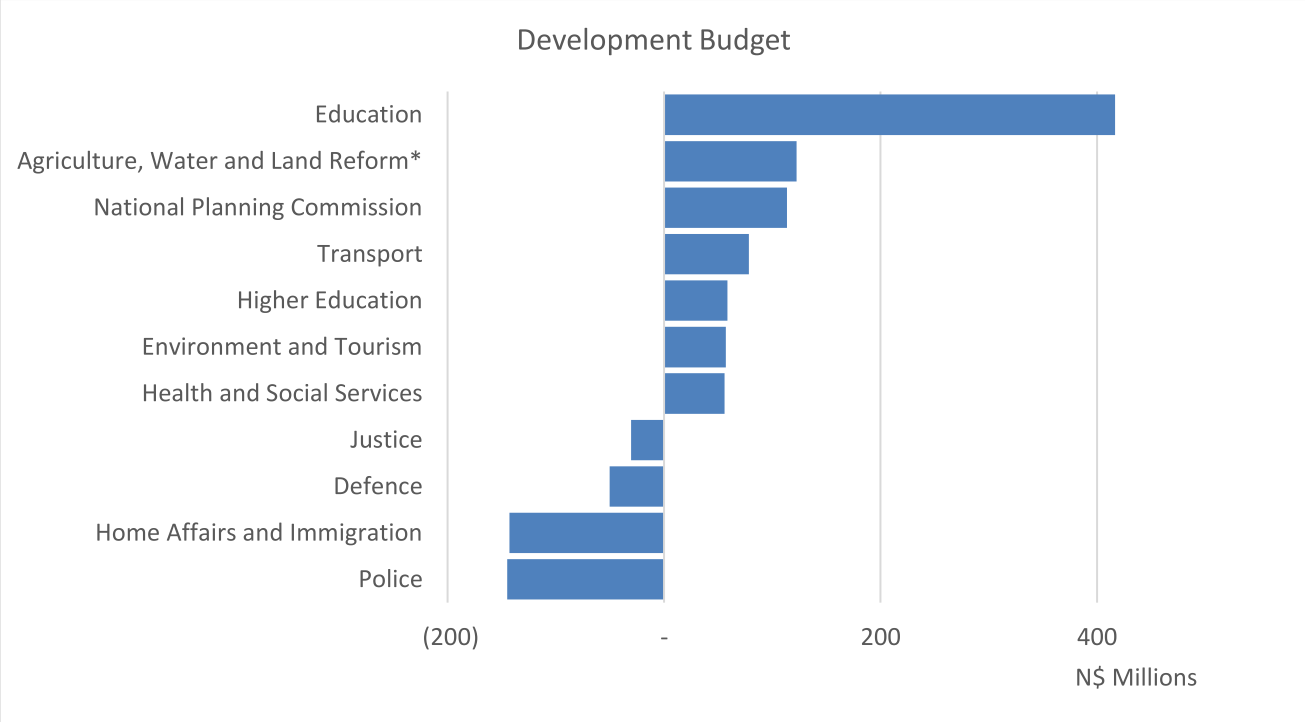
Overall personnel expenditure is forecast to contract by 3.5% or N$1.0bn to N$27.8bn in the 2020/21 budget year, with N$587.9m of the savings coming from the reduction of benefits such as leave gratuity, transport privileges and clothing allowances. Remuneration and pension contributions are expected to decline by 1.6% and 1.9% respectively, likely due to the freezing of hiring and natural attrition of the workforce. With the increase in other budget items and a decline in the wage bill, personnel costs now make up 45% of total non-statutory expenditure and 50% of the operational budget. The reduction in personnel expenditure seems to be relatively spread out over votes. However, it remains to be seen whether the reduction in the wage bill can be achieved.



Source: MoF, IJG Securities

Development Budget

The development budget is set to grow by 9.9% y/y. However, the total development budget allocation for the 2020/21 was scaled down to N$6.4bn from the previously estimated N$8.1bn. This would mean that the development budget makes up 10% of the total non-statutory budget, half of the 20% long-term target. The Infrastructure Sector remains the sector with the highest allocation with 32%, followed by the Economic Sector with an allocation of 24%, Social Sector with an allocation of 20% and Public Safety and Administration sectors' receiving an allocation of 13% and 11% respectively.



*Source: MoF, IJG Securities *Adjusted for the restructuring of ministries*

However, the increase in allocation from last year's budget is largely due to the N$600m provision of water, ablution facilities and hostels at about 193 schools which was availed directly to the Ministry of Basic Education, Arts and Culture. This is offset by an N$80.1m reduction in the Construction, Renovation and Improvement budget for the ministry.

Water, which is now a vote on its own, is also set to receive an increased allocation. Most of water's N$656.7m development budget will be spent on the Construction, Renovation and Improvement of water infrastructure.

On the other side Ministry of Home affairs and immigration as well as police will see their development budgets decline. Both of these will primary be reductions in the construction and renovation budgets.

MTEF

Seeing as this was a one-year budget, there are no explicit forecasts for expenditure going forward. It is positive to note that government is sticking to fiscal consolidation in some of the areas where it matters, such as the civil service wage bill and the non-renewal of the government fleet. Unfortunately, the impact of the lockdowns on revenue will be difficult to offset without serious expenditure on relief measures and social safety nets. If the impact of the pandemic continues, then the outlook for expenditure may deteriorate significantly.

Budget Balance and Financing

2019/20 Outturn

Revenue for 2019/20 has been revised down by N$167m from the amount expected at last year's mid-term budget. This is relatively insignificant when looking forward at the challenges posed in 2020/21. Revenue for 2019/20 revenue came in at N$58.24bn, or 4.5% above that of the prior year. SACU revenue growth of 8.9% was the major driver of this growth, with taxes on income and profits growing at 1.7% and domestic taxes on goods and services growing at 4.2%.

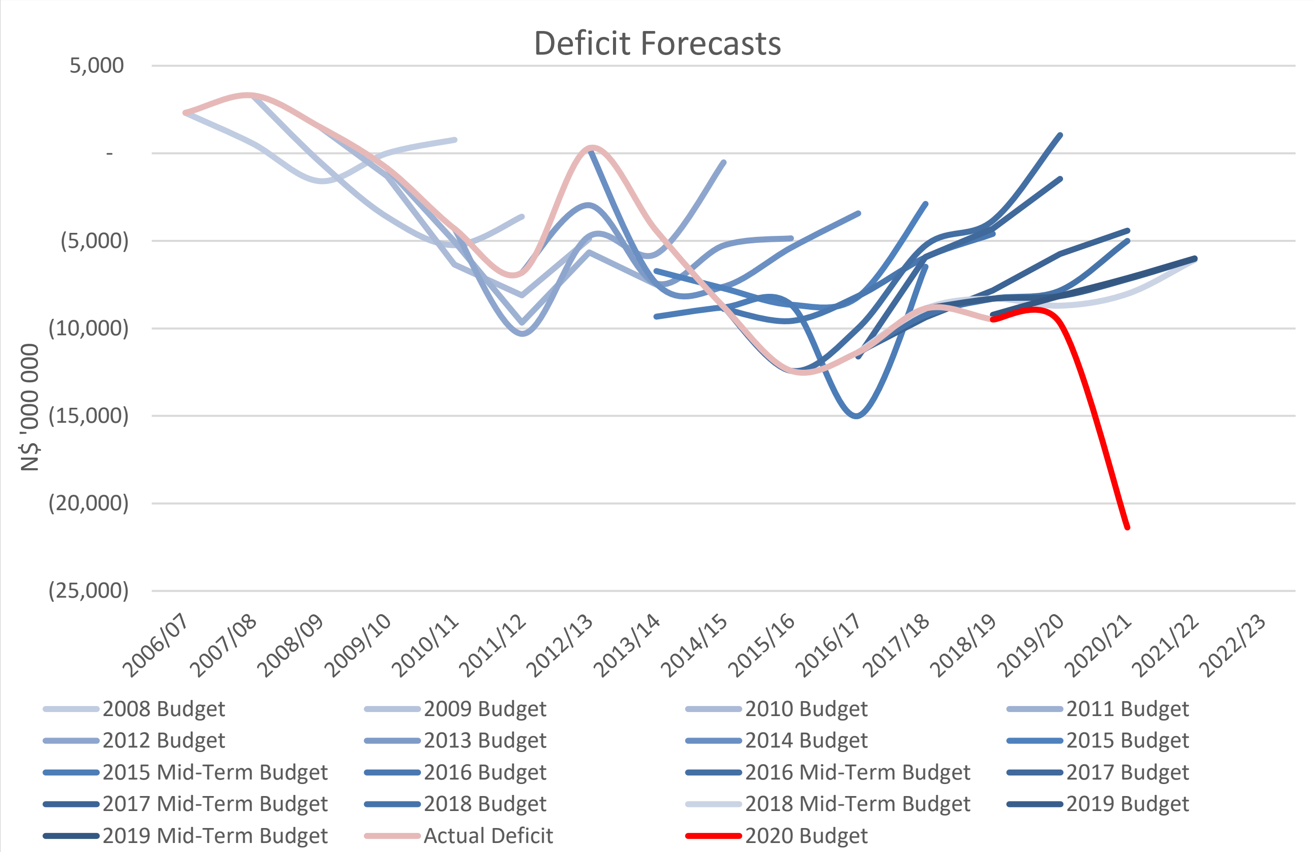
Total expenditure for 2019/20 came in well above the mid-term estimate at N$66.55bn, at N$67.94bn. This brought the deficit to 4.7% of GDP, up from expectations of 4.1%, although disappointing nominal GDP for the year also played a role in the expansion of the ratio. IJG's calculation of the ratio amounts to a 5.5% deficit based on the documented budget balance of N$-9.70bn and the ministry's revised estimate for nominal GDP of N$176.43bn in 2019/20.

2020/21 Deficit Review

Revenue collection for 2020/21 will be depressed due to the economic crisis resulting from COVID-19 and measures to contain the spread of the virus. The ministry of finance expects revenue for the year to come in at N$51.40bn versus the mid-year budget estimate of N$60.00bn. A breakdown of the expected decreases in the various revenue lines is available elsewhere in this document. Given the fact that a large deficit was already forecast for the 2020/21 year in previous budget documents, the downward revision of revenue estimates mean significant pressure on the fiscus for the year ahead, and possibly further down the line as well.

While revenue will contract, expenditure is set to increase. Where last year's mid-year review expected expenditure for 2020/21 to amount to N$67.13bn, the finance ministry now budgets expenditure of N$72.77bn for the year. The 7.1% increase in expenditure from the prior year is well above inflation and even further above previous expectations for expenditure growth which were budgeted to grow at a slower pace than revenue for the foreseeable future. This increase in expenditure stems largely from the COVID-19 relief package which was unforeseeable at the time of the prior budget review but highlights the necessity of having fiscal room to deal with external shocks, especially when the global economy is in a late phase expansion as it arguably was in 2018 and 2019.

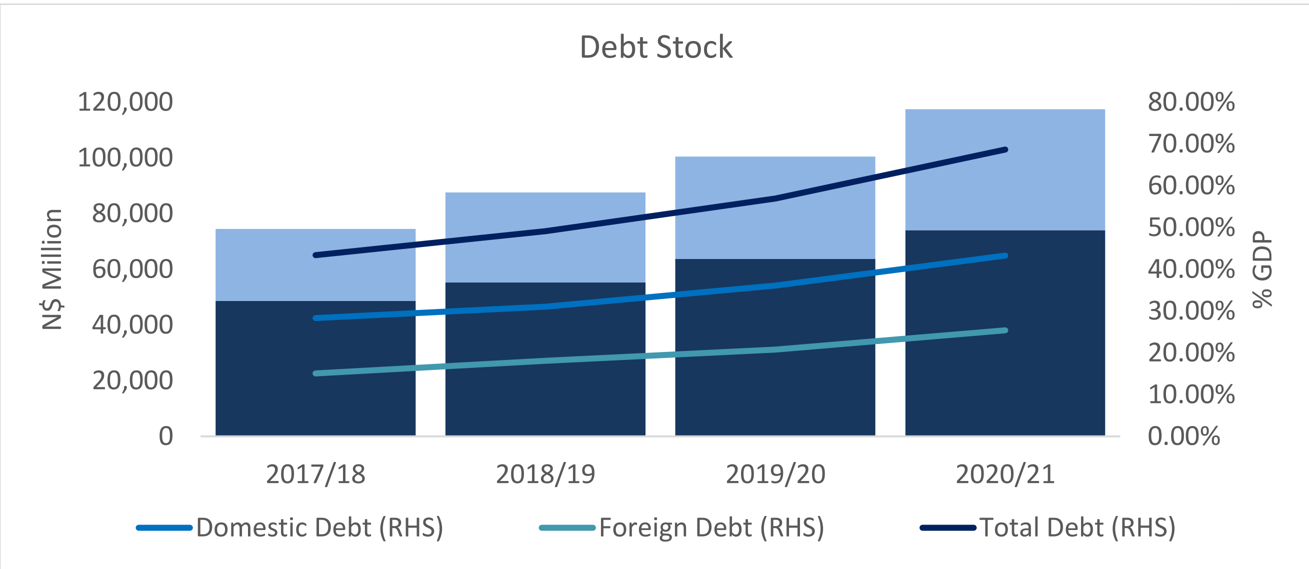
The depressed revenue and increase in expenditure for the 2020/21 fiscal year result in a massive increase in the budget deficit to **N$21.38bn** from prior expectations of N$7.13bn. This means that the budget deficit grows from 5.5% of GDP last year to 12.5% in 2020/21, well above the previous high of 8.4% in 2015/16 and a far cry from the positive balance seen in 2012/13. The 2020/21 budget deficit dwarfs IJG's expectations of around N$16.5bn for the year, largely due to a deeper contraction in expected revenues.



Source: MoF, IJG Securities

Funding Requirement 2020/21

The borrowing requirement for 2019/20 amounted to N$10.77bn, funded primarily through domestic debt issuance of TBs and bonds. The deficit 2020/21 deficit at N$21.38bn will be too large to fund exclusively through domestic debt issuance alone. That is even before additional funding requirements of N$4.84bn are added to the borrowing requirement for the year. The total borrowing requirement for 2020/21 comes to N$26.21bn, dwarfing any funding requirement that Namibia has attempted to raise in the past.



Source: MoF, IJG Securities

Financing sources are more diverse than before due to the exacerbated funding requirement. The below table summarises how the finance ministry aims to fund the current year deficit and additional borrowing requirements:

Funding 2020/21 ('000)	
Financing requirement	-26,210,113
Cash reserves	**9,115,000**
Domestic Debt	**10,338,713**
External (Disbursements)	**6,756,399**
AfDB (BBO)-ZAR	2,000,000
AfDB (long Term Project Funding-ZAR	1,526,399
Other Borrow (COVID -19)	3,230,000

Source: MoF, IJG Securities

The domestic borrowing requirement at N$10.34bn is in line with last year's amount, although only N$8.3bn was raised during the year. This suggests that raising this amount is very possible in the domestic market as Namibia has substantial regulated savings of which 45% is required to be invested in Namibian assets. The N$9.12bn to be sourced from the reserves is also readily available to be utilized and the AfDB funding of N$3.53bn is very likely to flow during the year. The other borrowings of N$3.23bn are less easy to explain, although COVID-19 related it is unclear where these funds will be sourced from.

Although it may seem as though there is ample ability to fund the excessive deficit of the current year there are various pitfalls associated with raising such a large amount of money. Firstly the utilization of cash reserves will lead to a weaker reserve position which will mean less certainty around the currency peg and the financial stability it provides. The reserve position stood at just under N$33bn at the end of March 2020, or 4.6 times import cover according to the finance minister. A N$9bn reduction would leave N$24bn in the reserves, or just over 3 months' worth of import cover. While not excessively risky at this level it should be remembered that the reserves have been boosted over recent years by asset swaps and regulated capital flows into Namibia. There may be some relief in the fact that trade deficits are expected to reduce as demand for imports drop. However, this is a temporary benefit stemming from reduced consumption and lower living standards.

Debt sustainability also becomes a real issue as debt-to-GDP is expected to push past 68%, or over 75% when government guarantees are added. We have said before that debt-to-GDP in itself is not a very accurate indicator of fiscal sustainability. Debt service costs in relation to government revenue are a much better measure. Debt service costs to revenue are expected to rise to 17.1% in 2020/21 from 11.9% last year. This is well in excess of the 10% prudential limit government imposes on itself and is likely to be viewed in a very negative light by lenders and rating agencies.

Conclusion

Leading up to 2020 the Namibian economic climate was already very much stagnant with little growth expected and persistent twin deficits. The current economic crisis that has accompanied the COVID-19 healthcare crisis has thus collided with a Namibian economy already on its knees, making this the toughest budgetary environment in Namibia's independent history. The economic consequences of the lockdowns implemented to contain the healthcare crisis will have a severe impact on the Namibian government's finances for at least this year, if not for the next three years. Under these circumstances it is encouraging to see the ministry of finance table realistic revenue expectations. This will mean that the finance team is prepared for shocks and already structuring how to deal with the ballooning borrowing requirement and fiscal deterioration. It is just a first step but essential to navigating the current crisis.

That said there is very little else positive to be taken from this budget. The 11.7% decline in revenues and 7.1% increase in expenditure over the prior year result in a budget deficit of 12.5% of GDP and a borrowing requirement of N$26.21bn. This will push debt-to-GDP (including guarantees) over 75% and debt service costs will eat up over 17% of revenue in the current year. Fiscal sustainability has been deteriorating for almost five years now, but with the onset of the COVID-19 economic shock the situation has moved towards a tipping point. The utilisation of reserves is not sustainable over time and is a once off solution, as is raising external debt with the above mentioned stretched fiscal metrics.

It is highly likely that revenues will disappoint again in the 2021/22 budget year due to the impact of the current crisis on business and therefore tax revenues. SACU revenues are also likely to rebase due to reduced demand domestically as well as globally and the impact thereof on imports and exports. As such expenditure will have to be brought in check and real fiscal reforms will need to be implemented. The finance minister noted that there would be an update regarding this by the mid-term budget review in Oct/Nov. This is highly anticipated and will point to whether Namibia moves towards a sustainable future or faces a tipping point where financial stability is brought into question. We believe that the finance team has the ability to right the ship, but only if provided adequate support from cabinet. Subtle hints that this is not yet in place are visible in the large N$1.0bn transfer to Air Namibia and expansion of the military amongst other things.

A point has been reached where there is little room for error in terms of correcting the trend in fiscal deterioration. Fiscal and economic policy reform will need to be rapid and decisive now if Namibia is to return to a growth trajectory that will result in an improvement in living standards, increased availability of jobs, and reduced unemployment.

IJG has warned successively that fiscal space would be needed to deal with external shocks and that every year that passes in which steps are not taken to rebuild fiscal capacity is a missed opportunity to prevent a long-term economic setback such as that on which Namibia now stands on the precipice of.

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