MID-YEAR BUDGET REVIEW 2020/21

2020/21 - 2023/24

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Quick Take

On 20 October 2020 Minister of Finance, Ipumbu Shiimi, tabled his first Mid-Year Budget Review. This document has been eagerly anticipated due to the lack of Medium-Term Expenditure Framework (MTEF)s projections in this year's main budget late in the May budget. The May budget document was thus a single year framework due to the heightened uncertainty produced by the global Covid-19 pandemic, and unprecedented external shock to the Namibian economy. Guidance received at the time was that MTEF projections would accompany the mid-year review along with fiscal reform measures to bring about a more stable expenditure trajectory. Expectations were thus high considering that the mid-year review is a tool generally used in the reallocation of expenditure within existing frameworks and not to rewrite the course of government expenditure for years to come.

It then does not come as a surprise that what was tabled was relatively run-of-the-mill in terms of mid-year budget reviews. Yes, MTEF projections were provided, but only at a high level. Detail regarding reallocations of N$702m within the unchanged expenditure ceiling of N$72.77bn for 2020/21 were provided but not much more depth on the expenditure breakdown to be expected over the MTEF period. It is good to note that N$100m of the reallocations were in favour of the development budget from operational expenditure. Generally we have seen the opposite in recent years. The development budget, at 9.0% of total expenditure in 2020/21, is however still well below the 20% target government set itself and inadequate for the purposes of achieving Namibia's various development goals in IJG's view.

While the expenditure ceiling remains unchanged from the May projection, revenue collection in the current financial year is now projected at N$55.18bn from N$51.40bn in May. This is largely attributable to stronger than expected personal and company income tax collections for the year thus far. As a result of the uptick in revenue expectations the projected deficit for 2020/21 is also reduced to N$17.59bn, with an overall funding requirement of N$23.95bn. Both the deficit and funding requirement for 2020/21 are the largest in absolute and relative terms in recent memory. Debt levels are expected to reach N$119.76bn or 66.9% of GDP in the current financial year due to the elevated funding requirement. To put these statistics into perspective, current year debt-to-GDP ratio is almost three times larger than that of 2014/15, a few short years ago.

Of even more concern than government's runaway debt position is the cost of this debt as it is recurrent and reduces the amount of tax revenue that can be allocated to the development budget, as noted in a prior paragraph. Debt service costs-to-revenue are up to 15.3% versus a target of 10%, approaching debt trap levels. In 2020/21 40c out of every N$1.00 government spends goes towards the compensation of employees, 13c goes toward consumptive goods and services, 15c goes toward subsidies, and 10c toward social benefits. Of the 22c left, 13c that could have gone towards productive expenditure, goes towards interest payments on debt, leaving a paltry 9c for development projects such as the development of schools, healthcare facilities and water infrastructure.

The eagerly anticipated MTEF projections how that expenditure in 2021/22 will drop by 5.9% to N$68.48bn, and grow by 2.0% per year thereafter. Revenue expectations for 2021/22 are relatively flat from the current year, contracting by 0.2%, due to an anticipated decrease in SACU revenues. Projections are for revenue growth of 4.5% in 2022/23 and 9.4% in 2023/24. With revenue growth projected to outpace expenditure growth, expected deficits will decrease to 7.3% of GDP in 2021/22, 6.4% of GDP in 2022/23, and 4.1% of GDP in 2023/24. While decreasing, the projected deficits are still large by any measure and the funding required to run these deficits is projected to push debt up to N$156.68bn or 76.9% of GDP by 2023/24. Debt service costs are projected to also continue to increase, topping out at 17.8% in 2022/23.

The global monetary environment is more accommodative than ever before with developed market central banks pushing interest rates to all time lows and providing liquidity on a massive scale. In this context, Namibia's fiscal decay in terms of debt burden, cost of servicing debt, and lack of policy tools with which to stimulate economic recovery, has yet to really concern investors, allowing government to fund itself more cheaply regardless. Thus despite the fiscus being less financially equipped to achieve government's stated development goals than possibly ever before, debt markets seem stable and funding remains abundant. It is very unlikely that government runs out of money in the short term.

This is not reason to breathe a sigh of relief in our view. Various hurdles remain to be crossed in the next year or two. The first of which may be the maturity of the first Eurobond. It is very possible that if the current funding environment prevails at this time next year it will be possible for MoF and BoN to roll the first Eurobond as per their intention in this mid-term budget review. A year is potentially a long time though, especially in times of heightened volatility such as recently seen, and although we expect current debt market conditions to prevail for some time and the rolling of this bond to be successful, should things change and should that Eurobond come up for redemption it would mean a large increase in funding costs and potentially plunge the country into a debt trap.

Various other risks abound and further external economic shocks cannot be ruled out. As such it is imperative that fiscal reforms are implemented along with investment friendly policy in order to rebuild fiscal capacity through economic growth. This brings us back to the second reason we so eagerly anticipated this mid-year review, promised policy and fiscal reforms. The mid-year review encouragingly notes as objectives both "re-igniting economic growth and anchoring fiscal sustainability".

In the mid-year review MoF broadly lays out interventions to be prioritized over the MTEF period. In summary these interventions are:

- *Broad-based Economic Growth and Recovery Plan to ensure re-ignition of economic growth and job creating as critical anchors for macroeconomic stability, fiscal sustainability and the reduction [of] poverty and inequalities.*

- *Government will employ measures and reforms to reduce the overshooting expenditure through a combination of expenditure reduction initiatives, namely:*
    - *Wage bill reform,*
    - *Implement the recommendations arising from public expenditure reviews in the health and education and extending such targeted reviews to other sectors,*
    - *Reforming the Public Service Medical Aid Scheme (PSEMAS).*

- *Provision of essential services and protection of social safety nets,*

- *Implementation of the intervention measures on growth and fiscal adjustment accompanied by a resource mobilization agenda, centred on tax administration reforms and the mobilization of alternative forms of financing.*

- *Accelerating implementation of key enabling structural policy reforms such as promulgation of the Namibia Investment Promotion Act, the implementation of the Special Economic Zone policy and related means of its implementation, improving efficiency in the public procurement function and the administrative reforms to improve the ease of doing business.*

- *Scaled-up increased access to finance for SMEs.*

- *Finalizing and implementing the Public Asset Ownership Policy and further undertaking public enterprises restructuring reforms to enable divestiture of portions of Government shareholding for investment in productive capital projects.*

- *Finalizing the design features of, and establish the Sovereign Wealth Fund for long-term intergenerational equity and to support macroeconomic objectives.*

While it is encouraging to see these reforms laid out and prioritized in the mid-term review document we look forward to further elaboration on these interventions. We eagerly anticipate signs of implementation as the roadmap to a more sustainable fiscal trajectory and market/investor friendly policy. We agree with the two-pronged approach as only with both fiscal stability and investment friendly policy, as alluded to indirectly above (more directly elsewhere in the document), will Namibia be able to return to economic growth, and to see reduced unemployment, poverty and inequality.

The finance minister and his team have acknowledged both the need for fiscal stability and investment friendly policy and have highlighted the need for public and private sector to work together to achieve these goals. We titled our May budget review "Approaching the Precipice". We believe that we are still moving towards that ledge but the more market friendly approach to escaping the current economic stagnation and fiscal deterioration noted in this mid-year budget review does renew the credibility of the reform message.

Key Points in the Speech

(From speech with editing)

2019/20 Outturn

- The domestic economy is projected to contract by 7.9% this year. This is a downward revision from the contraction of 6.6% estimated in the Budget Statement earlier this year (May).

- The revenue outturn for 2019/20 amounted to N$58.5m, more or less in line with the budget revenue estimate of N$58.3m and amounts to 32.7% of GDP.

- Total expenditure, including interest payments amounted to N$67.3bn, relative to the N$66.6bn budget. The non-interest operational budget implementation rate stood at 99.3% and the development budget execution rate stood at 88.1%.

- The budget deficit was 4.9% of GDP, compared to the budgeted 4.1% due to the revisions in nominal GDP.

- Interest rate payments consumed 11.9% of revenue, reflecting the increasing cost of high public debt stock.

- Total debt stood at N$100.4bn, equivalent to 56.1% of GDP.

2020/21 Mid-Year Review

- The preliminary revenue outturn amounted to N$26.1bn, representing 51% of the budgeted revenue and about 3% better than the average historical half-year collection rate.

- The half-year expenditure execution was N$35.8bn, 49.0% of the budget.

- The mid-term non-interest operational budget execution rate stood at 50.9%, while the development budget implementation rate stood at 50.8% by the end of September 2020.

- Total debt stood at N$106.1bn at the half-year mark, equivalent to 60.9% of GDP and reflect 53% of the budgeted financing requirements.

The FY2020/21 Appropriation Amendment Bill

- In respect to the FY2020/21 Appropriation Amendment Bill, a total amount of N$841.6m was freed up from existing Vote ceilings for proposed reallocation as a result of the Mid-Year Budget Review process.

- This consists of N$701.6m realised from the Operational budget and N$140m from the Development Budget.

- Out of the N$701.6m realized from the Operational Budget, N$100m is proposed for reallocation to the Development Budget, in addition to the N$140m realized for reallocation across the Budget Votes within the Development Budget. Thus, the total amount proposed for reallocation to the Development Budget is N$240m, while N$601.6m is proposed for reallocation across the Budget Votes within the Operational Budget.

Other Key Points Made

- Reviewing the public sector wage bill and assessing the options for early voluntary retirement for the 55-60 years age cohort, in combination with the vacancy freeze procedures.

- Introducing a one-year, Electronic Filing Tax Relief Programme to taxpayers with outstanding tax arrears who file their returns electronically, starting in February 2021. The relief is in the form of 100% of penalties and 95% interest to be written off if capital tax debt is settled within 3 months from commencement of programme.

- Re-engineering the VAT refunds audit process to reduce the turnaround payment for undisputed VAT to no more than 90 days after receiving the VAT claim by February 2021.

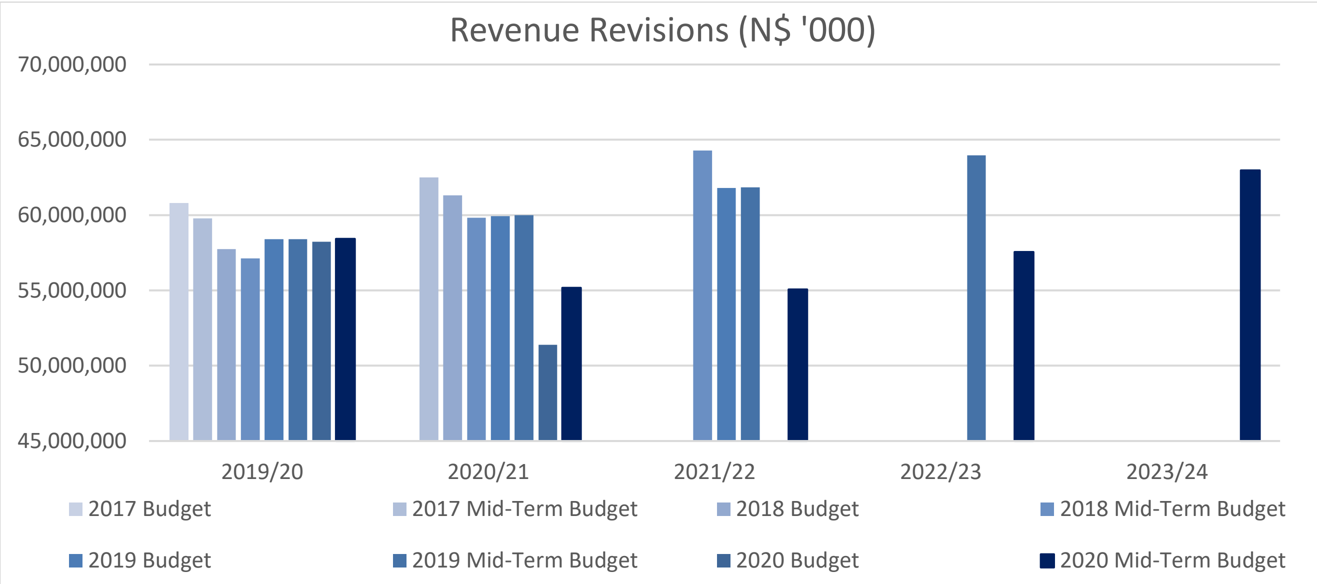
- Finalisation and promulgation of amendments to the Namibia Investment Promotion Act.

- Finalisation of the Special Economic Zone Policy.

Revenue

2019/20 Outturn

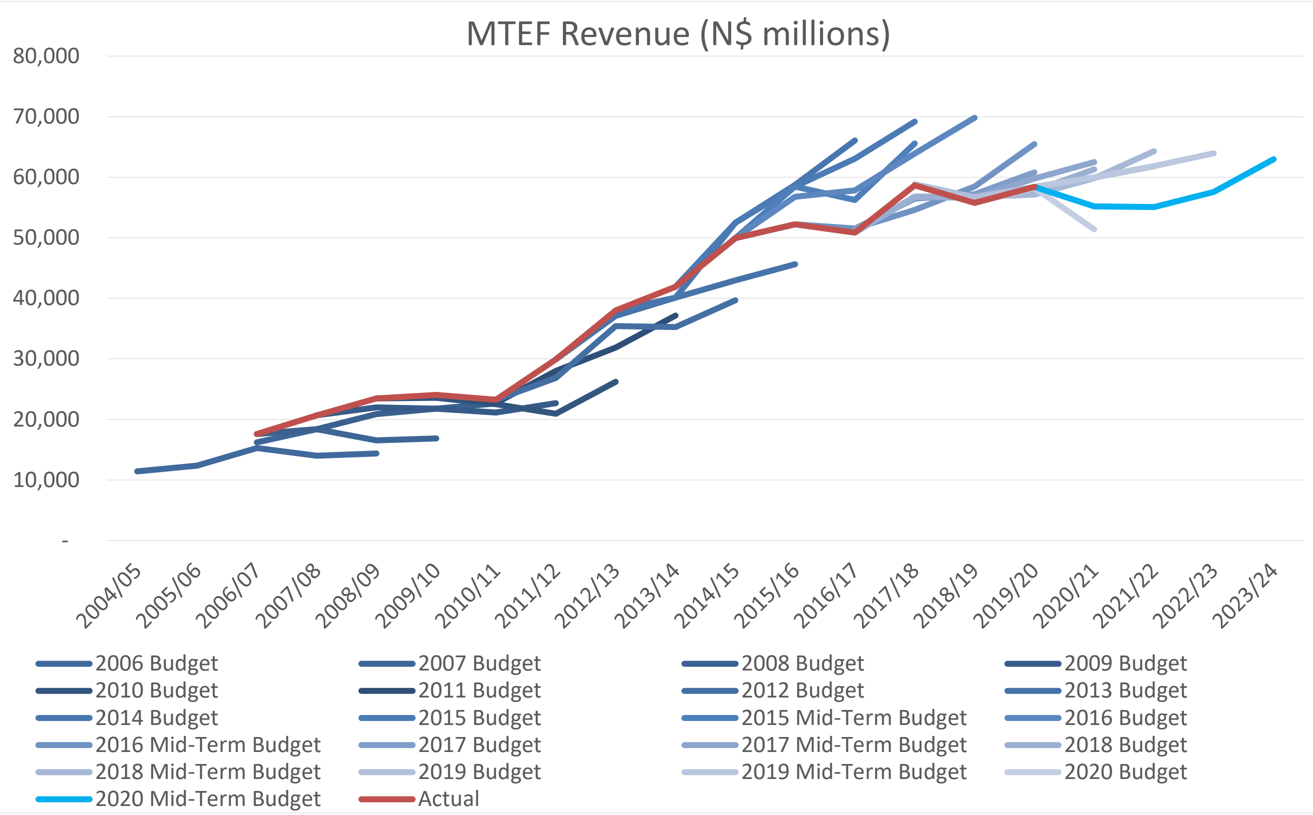
The revised revenue collection for 2019/20 came in at N$58.43bn, slightly above the revised March figure, but not markedly so. Revenue for the period was 4.8% higher than that of 2018/19 and well in excess of the 2019 nominal GDP growth of 0.4%. SACU receipts came in 8.9% higher than the prior year and was thus the largest contributor to the revenue growth. Going forward, however, the Ministry of Finance expects government revenues to grow at a slower rate than nominal GDP over the next three years, a sign of stagnating economic activity.



Source: MoF, IJG Securities

Total revenue to GDP amounted to 32.6% in 2019/20 according to the Ministry of Finance. This is an increase from the 31.3% total revenue to GDP figure of the prior year, mostly stemming from an 8.9% increase in SACU revenues in 2019/20.

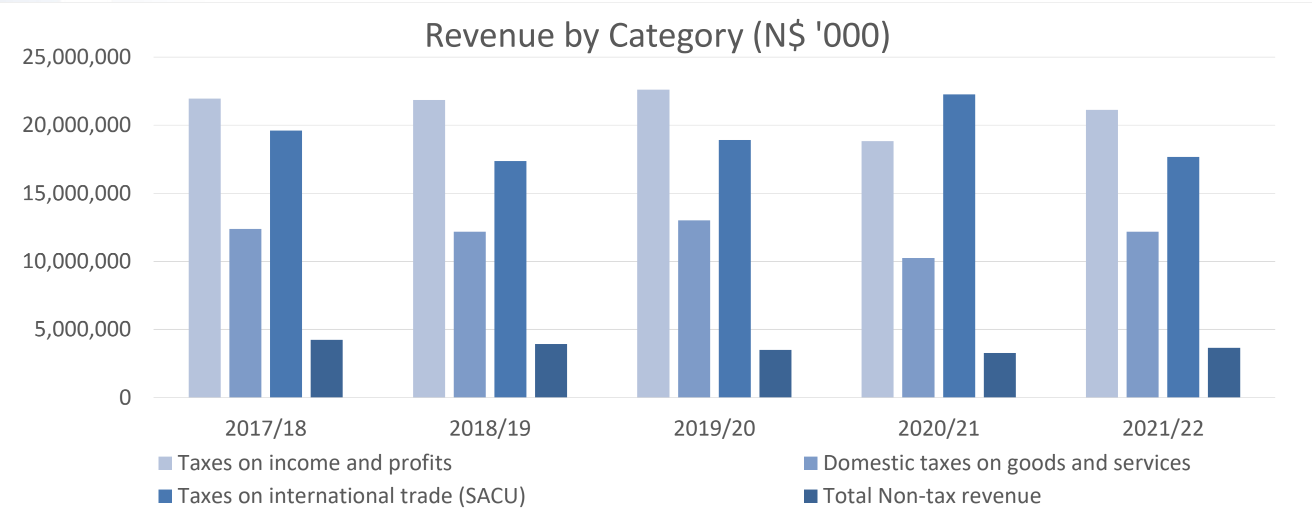
2020/21 Revenue Review and Mid-Year Outturn



Source: MoF, IJG Securities

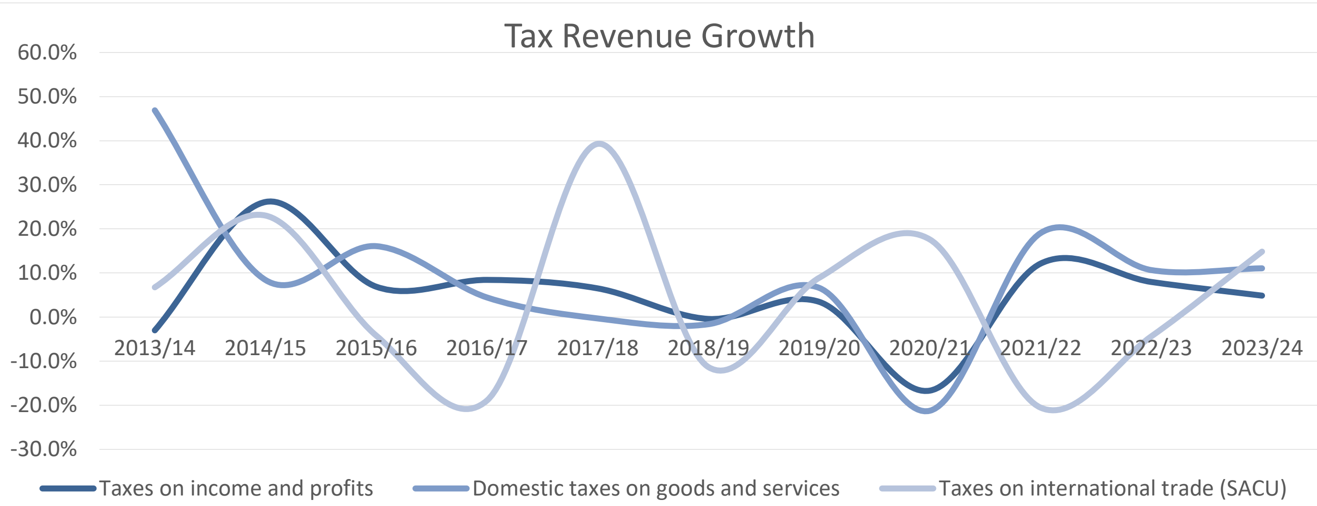
According to the Ministry of Finance, the mid-year revenue outturn amounted to N$26.18bn, representing 51% of the budgeted revenue for the current year. The minister noted that this is about 3% better than the average historical half-year collection rate. The ministry, somewhat surprisingly, revised its revenue estimates upwards for the year by N$3.78bn to N$55.18bn, citing that it was done to reflect the monthly collection in the last six months of the financial year. This is however still N$4.82bn less than was estimated to be collected in 2020/21 in last year's mid-year budget review.

The upward revision in revenue this year stems from an increase in expected income tax revenue from companies and individuals. A relatively small portion of the expected outperformance in this category, compared to the March budget, is offset by downward revisions in expected VAT receipts and withholding tax on interest.



Source: MoF, IJG Securities

SACU revenues for the coming fiscal year are expected to increase by 17.6% from N$18.92bn in 2019/20 to N$22.52bn, contributing a meaningful and welcome boost to revenue. As SACU revenue is directly related to the economic performance of the member countries, the expectation of the Ministry of Finance is that SACU receipts will be lower in the coming years, as these economies are facing subdued economic growth themselves. Negative adjustments to the already lower expected SACU revenues are expected in each of the MTEF years until 2023/24. According to the ministry, SACU receipts are expected to decline at an average rate of about 3.4% over the MTEF.

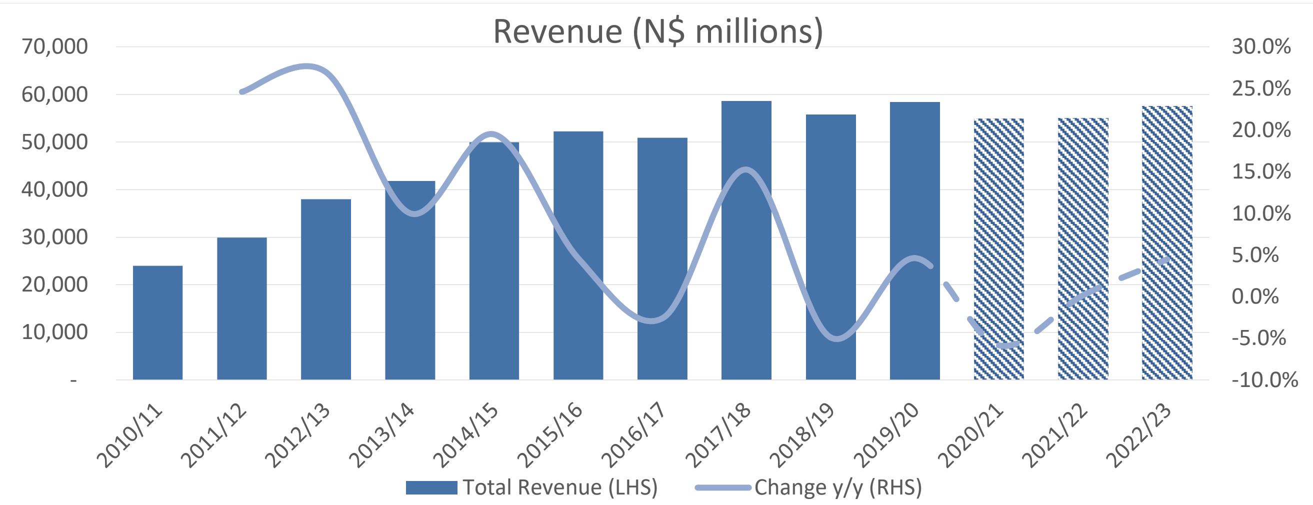


Source: MoF, IJG Securities

Taxes on income and profits make up 34.0% of the total revenue estimate and is expected to decline by 16.7% in 2020/21 to N$18.84bn. This estimate is a relatively large upward revision from the forecast N$15.38bn in May. Most of this increase will come from income tax on individuals which has been revised up by N$2.68bn. In an effort to incentivise taxpayers to file their tax returns and to boost tax revenues, the Ministry of Finance is introducing a one-year, Electronic Filing Tax Relief Programme which allows taxpayers with outstanding tax arrears to write off 100% of penalties and 95% of interest if the returns are filed electronically and within three months from the commencement of the programme. As the programme starts in February 2021, it should lead to improved revenue collection in the 2020/21 year.

Forecasts for company tax in 2020/21 has also surprisingly been revised up, from N$4.80bn in the May budget statement to N$5.71bn. This revised figure is however still N$1.55bn lower than the N$7.26bn collected in 2019/20. The Ministry of Finance expects revenue from company taxes to return to the (already relatively low) levels of 2019/20 in 2022/23 only. Profit margins for many companies have already been reduced preceding the Covid-19 pandemic, meaning that a sufficient drop in companies' revenue during the lockdowns would likely have resulted in a large number of companies recording negative taxable income and thereby not contributing anything to government's pockets.

Domestic taxes on goods and services (VAT) make up 18.6% of total revenue and is expected to amount to N$10.24bn in 2020/21. This is N$730m lower than was forecasted in the budget statement a few short months ago and a decline of N$2.76bn compared to what was received in 2019/20. From February 2021 onwards, the Ministry of Finance plans on restructuring the VAT refunds audit process to reduce the turnaround payment for undisputed VAT to no more than 90 days after receiving the VAT claim.



Source: MoF, IJG Securities

MTEF Revenue Estimates

The outlook for revenue "growth" remains quite bleak. Revenue is expected to grow by an average of 4.7% over the 2021/22 to 2023/24 period, although it should be noted that this figure is pushed up by a relatively high growth rate expectation in the outer years of the MTEF. Omitting the 2023/24 growth figure of 9.5% sees the average growth rate drop to 2.3%. Total revenue is forecast to decrease by 0.2% from N$55.18bn in 2020/21 to N$55.08bn in 2021/22, after which the Ministry of Finance expects an increase to N$57.54bn in 2022/23.

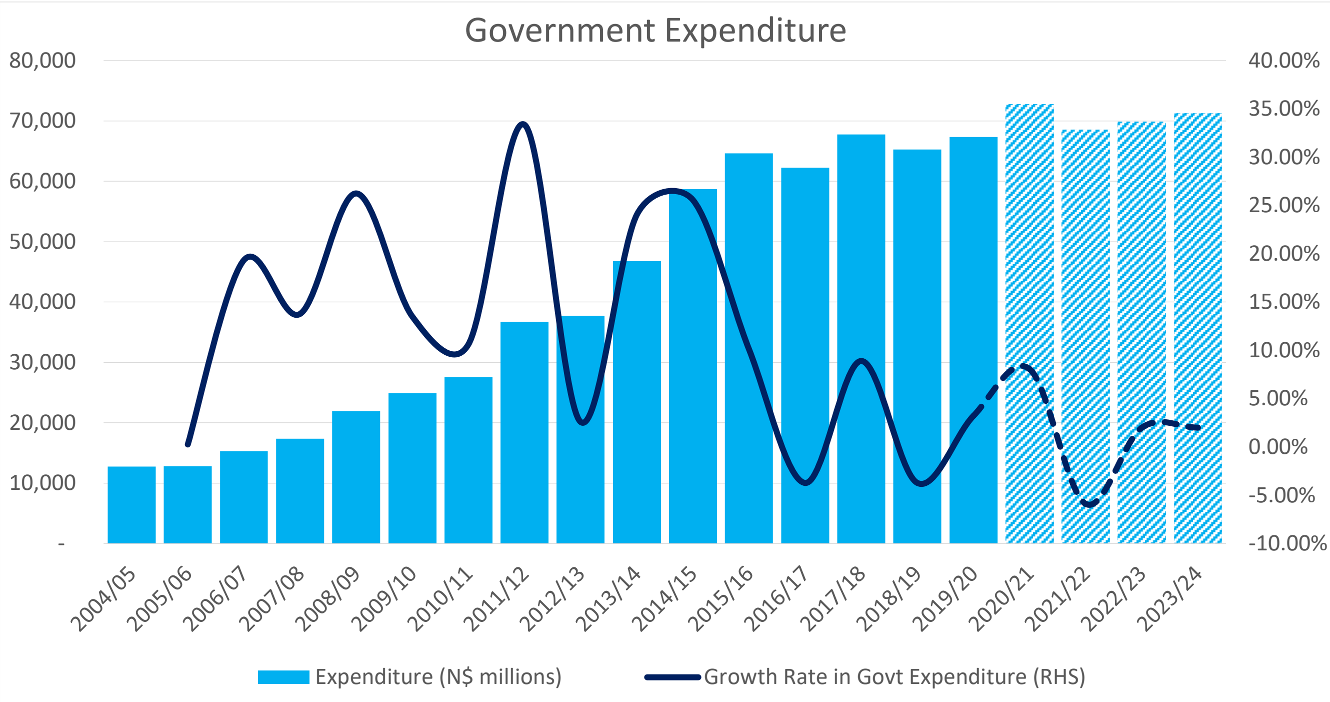
SACU revenues are expected to remain mostly flat over the MTEF, as a rather steep contraction of 20.5% is expected in 2021/22 along with a further decrease of 4.4% in 2022/23. The decline in SACU receipts, coupled with subdued economic activity and low domestic consumer demand means that revenue growth is likely to remain sluggish over the MTEF. The Ministry of Finance expects revenue growth to only return from 2022/23 as the impact of Covid-19 moderates, global economic growth returns, and commodity prices increase.

One of the few positives to draw from the MTEF estimates is that the ministry at least continues to err on the side of caution with its more conservative revenue forecasts. These conservative forecasts are more accurate and should assist in expenditure planning going forward.

Expenditure

2019/20 Outturn

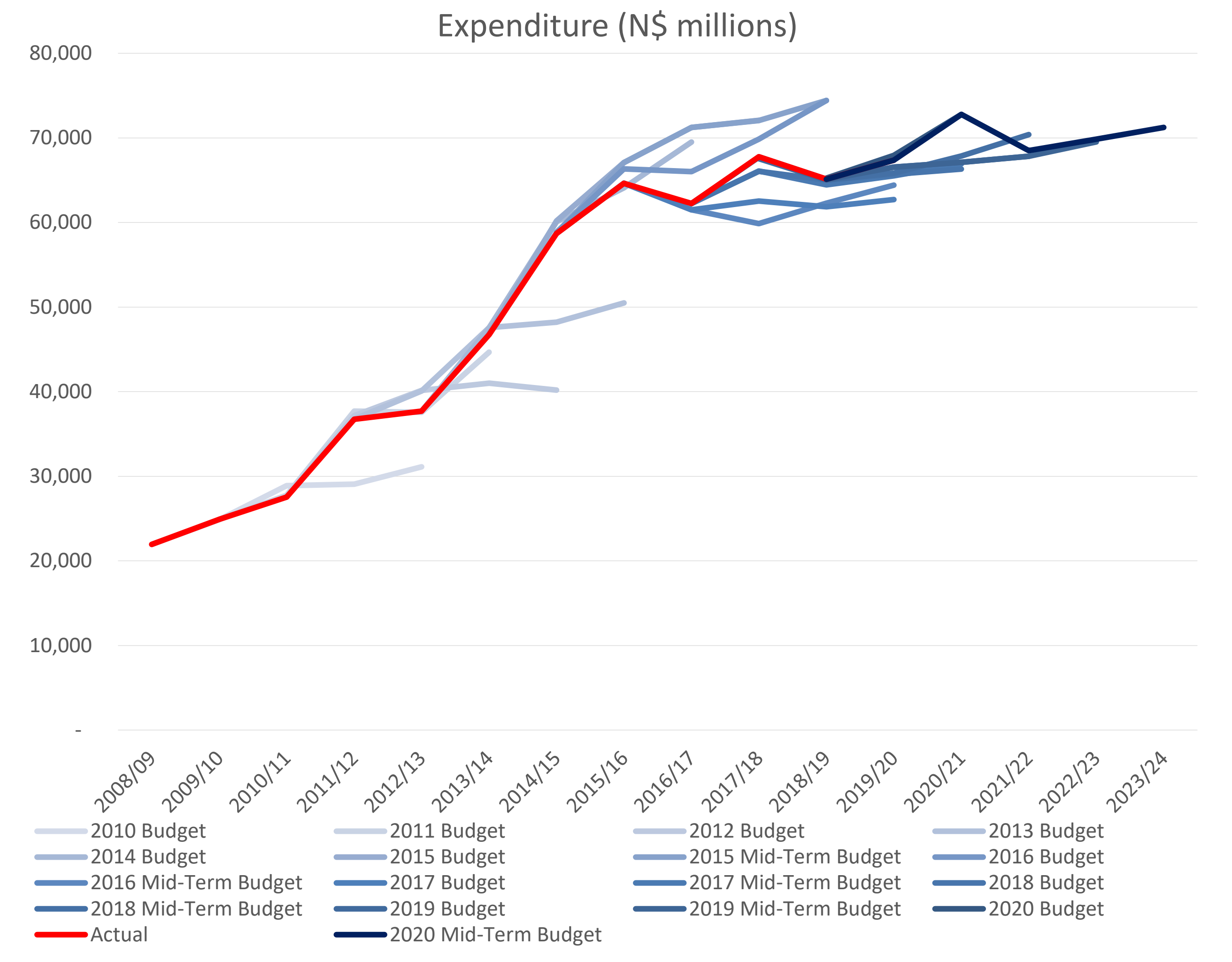
Expenditure for 2019/20 came in at N$67.34bn, slightly below the May budget figure of N$67.94bn. Fiscal expenditure as a percentage of GDP was 37.6%, up from 36.5% in 2018/19. Government expenditure as a proportion of GDP remains elevated and the increased proportion seen in 2019/20 indicates a reversal of the declining trend in this ratio seen between 2015/16 and 2018/19. The non-interest operational budget execution rate was 99.3% in 2019/20, while the overall expenditure execution rate was 101.2% due to increased statutory spending. The compounded growth rate in expenditure for the four years between 2015/16 and 2019/20 was 1.0% with the latter year budget only 4.2% larger than in the former. This constitutes a complete shift from the 18.6% compounded growth rate in expenditure for the period between 2010/11 and 2015/16, highlighting the extent of the fiscal consolidation that has taken place over the period.



Source: MoF, IJG

2020/21 Expenditure Review and Mid-Year Outturn

The total expenditure ceiling for 2020/21 (including statutory spending) remained unchanged from the may budget at N$72.8bn. The increase of 8.1% when compared to 2019/20 is largely attributed to spending aimed at reducing the impact of the Covid-19 pandemic and accompanying lockdowns. Mid-year expenditure amounted to 49.0% of total budgeted expenditure for 2020/21, reflecting a higher execution rate than in the 2019/20 budget year. The half-year development budget expenditure execution rate including expenditure commitments was 50.8%.



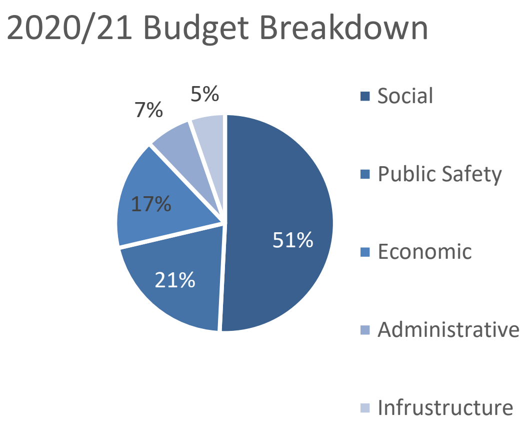
Source: MoF, IJG

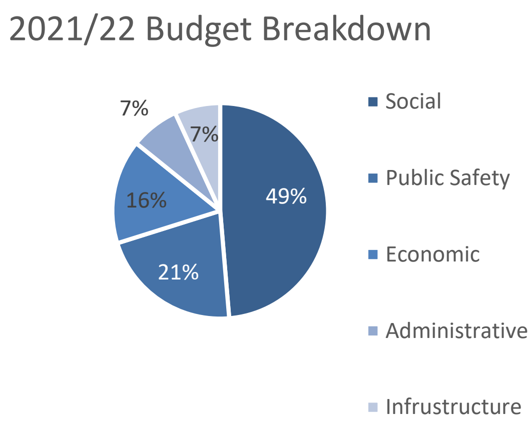
The objective of the mid-year budget review remains to identify the need for increased funding where needed and to reallocate funds between votes to satisfy these needs. As such this mid-year review sees no changes to the overall ceiling set in May, but does see reallocations of expenditure between votes. The Covid-19 pandemic set the scene for reallocations in the current budget year.

The budget documents note that the state of emergency, declared in March this year, resulted in certain activities not being carried out as planned and thus budget allocations not spent during the first half of the financial year. As such reductions and reallocations within the Operational budget amount to N$702m, of which N$602m was reallocated within operational votes and N$100m was reallocated to the development budget.

Reallocation towards Vote	*N$ millions*
Ministry of Gender Equality, Poverty Eradication and Social Welfare	157.7
Health & Social Services	147.6
Education, Arts and Culture	126.4
Public Enterprises	75.0
Electoral Commission	50.0
Defence and Veterans Affairs	22.3
Home Affairs, Immigration, Safety and Security	11.9
Industrialisation and Trade	10.7

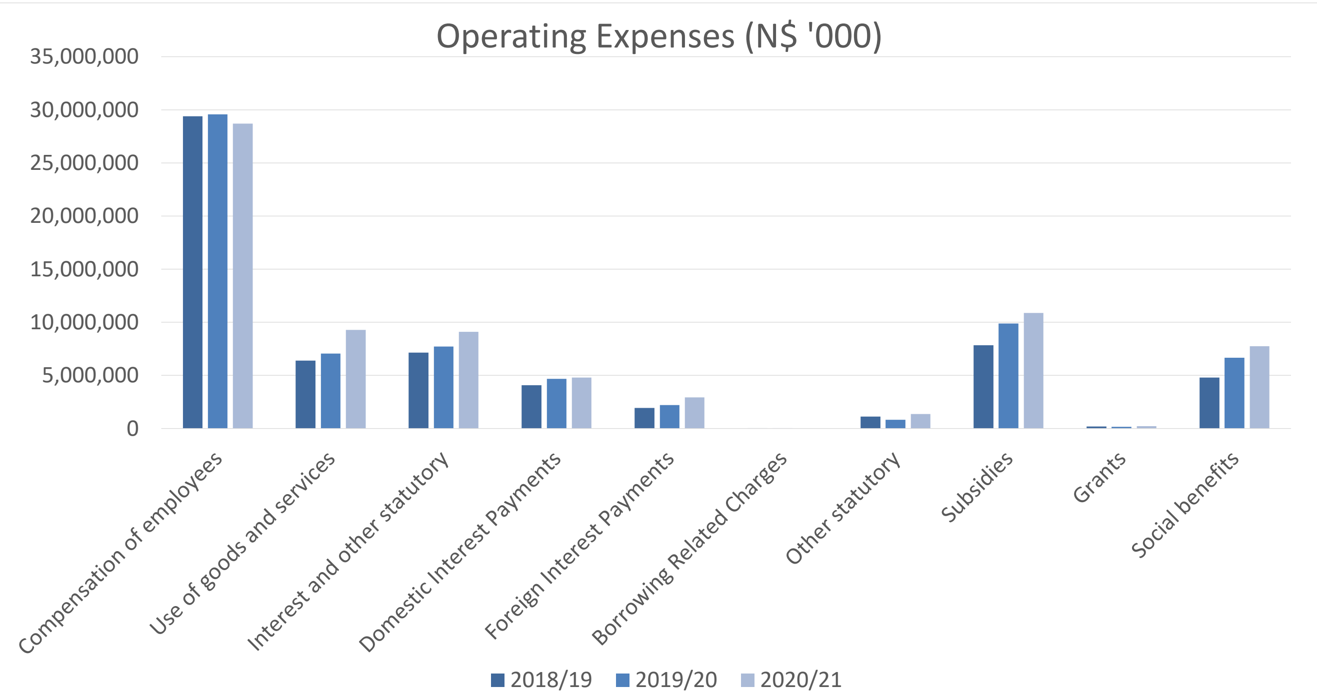
The N$100m that was reallocated to the development budget will cater for a shortfall in the Education, Arts, and Culture Infrastructure Covid-19 Response Programme. A further N$100m was reallocated to the aforementioned programme from within the development budget, along with a N$40m reallocation towards water supply infrastructure. The additional funds reallocated within the Development budget were sourced from projects with an execution rate of below 10% with little prospects of execution acceleration. The reallocation of funds from the Operational budget to the Development budget resulted in a revised Development budget ceiling of N$6.5bn, or 9.0% of total expenditure for 2020/21.





Source: MoF, IJG

Changes to the breakdown were small and thus the overall expenditure profile remains heavily tilted towards the social sectors, mainly education and health. Public safety also retains a large allocation in 2020/21. Across votes, personnel expenditure makes up the single largest operating expense in the budget, followed by goods and services, and interest and statutory payments.



Source: MoF, IJG

Vote Allocations	*Revised Ceilings 2020/21 (N$)*
Ministry of Education, Art and Culture	13,417,175,000
Ministry of Health and Social Services	7,813,446,000
Ministry of Finance	5,975,723,000
Ministry of Defence	5,904,103,000
Ministry of Gender Equality, Poverty Eradication, and Social Welfare	5,387,163,000
Safety and Security	5,106,759,000
Ministry of Higher Education, Training and Innovation	3,147,428,000
Ministry of Urban and Rural Development	1,106,463,000
Veterans Affairs	864,952,000
International Relations and Cooperation	862,355,000
Ministry of Agriculture and Land Reform	855,152,000
Ministry of Public Enterprises	808,888,000
Department of Works	525,578,000
Ministry of Information and Communication Technology	483,832,000
Ministry of Environment, Forestry and Tourism	463,177,000
Office of the President	444,629,000
Home Affairs and Immigration	417,082,000
Ministry of Justice	415,746,000
Office of the Prime Minister	406,368,000
Judiciary	371,152,000
Ministry of Transport	341,248,000
Electoral Commission of Namibia	332,182,000
Water	272,483,000
Ministry of Sport, Youth and National Service	251,878,000
Ministry of Fisheries and Marine Resources	199,383,000
Ministry of Labour, Industrial Relations and Employment Creation	166,053,000
National Planning Commission	161,094,000
Ministry of Mines and Energy	136,433,000
Ministry of Industrialisation, Trade and SME Development	133,486,000
National Assembly	121,084,000
Auditor General	108,267,000
National Council	89,367,000
Anti-Corruption Commission	61,612,000
Attorney General	-

Source: MoF

MTEF Expenditure Projections

The lack of MTEF projections in the May budget was attributed to the disruption and uncertainty caused by the Covid-19 pandemic. At the same time there was a change in finance minister, which we view as a positive for future economic policy, but the regime change left little time for fresh ideas to filter through to the MTEF projections. We are thus pleased to see high-level MTEF projections in this 2020/21 mid-year review. More detail would have been welcome but current economic uncertainty and constraints to the changes permitted with the mid-year review are likely the cause for the omission.

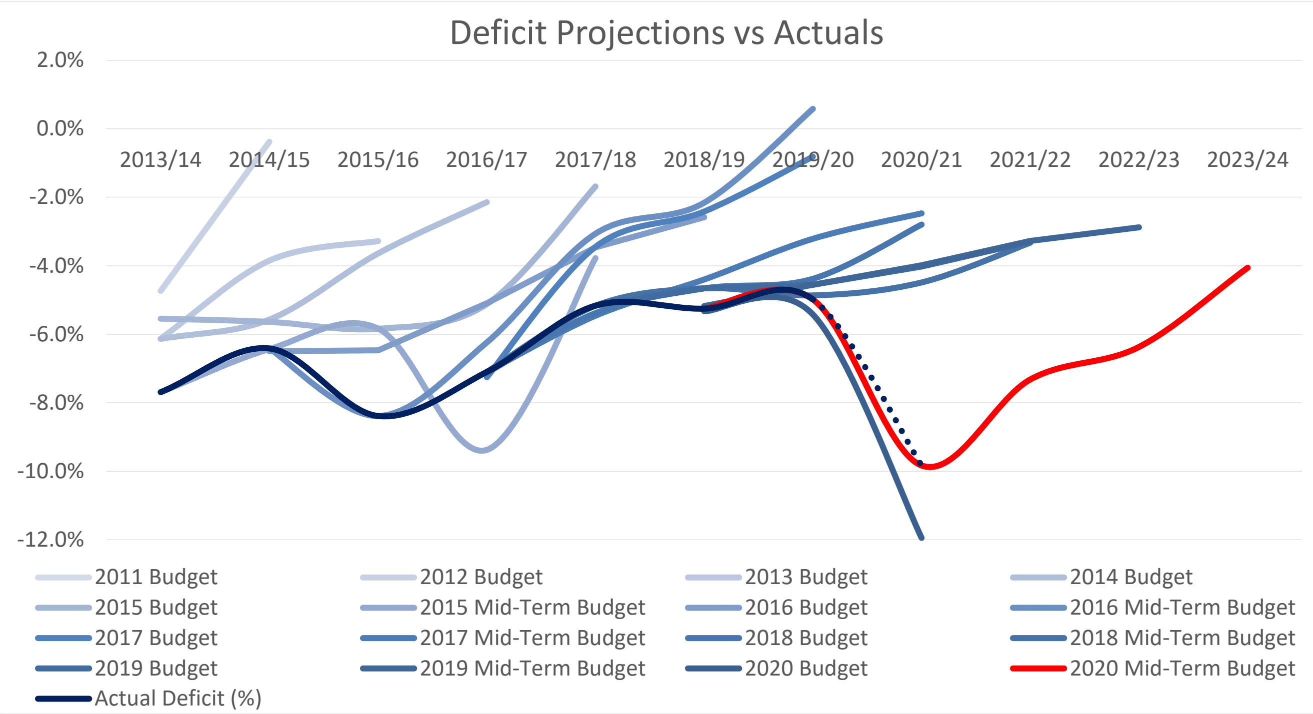
Expenditure is expected to decline by 5.9% in 2021/22, after the elevated levels of the current financial year. Thereafter growth is projected at 2.0% for the next two years. For perspective on how much expenditure growth has slowed since 2015/16, the 2023/24 budget year expenditure projection of N$71.25bn is more or less in line with what was expected for 2016/17, eight years earlier, at the mid-year budget review in 2015.

It is encouraging to see the high-level projections for expenditure increasing so slowly given the fact that the fiscus is facing a ballooning debt burden and revenues are unlikely to exceed 2019/20 levels until 2023/24. Unfortunately, the high-level projections do not give us insight into the mechanics of where precisely government intends to spend the N$68.48bn plus per year over the next few years. It is difficult to deduce whether these projections are thus realistic or not. A raft of reforms and interventions were included in the budget documents, including wage bill reform, public service medical aid scheme (PSEMAS) reform, “accelerating implementation of key enabling structural policy reforms such as promulgation of the Namibia Investment Promotion Act”, to name a few, but without detailed numbers the expected impact of these are difficult to deduce.

Implementation of reforms is always a major determining factor in the success of such reforms, and given the current fiscal trajectory implementable reforms are essential. The other determining factor now is timeliness. Reforms are needed in the very near term.

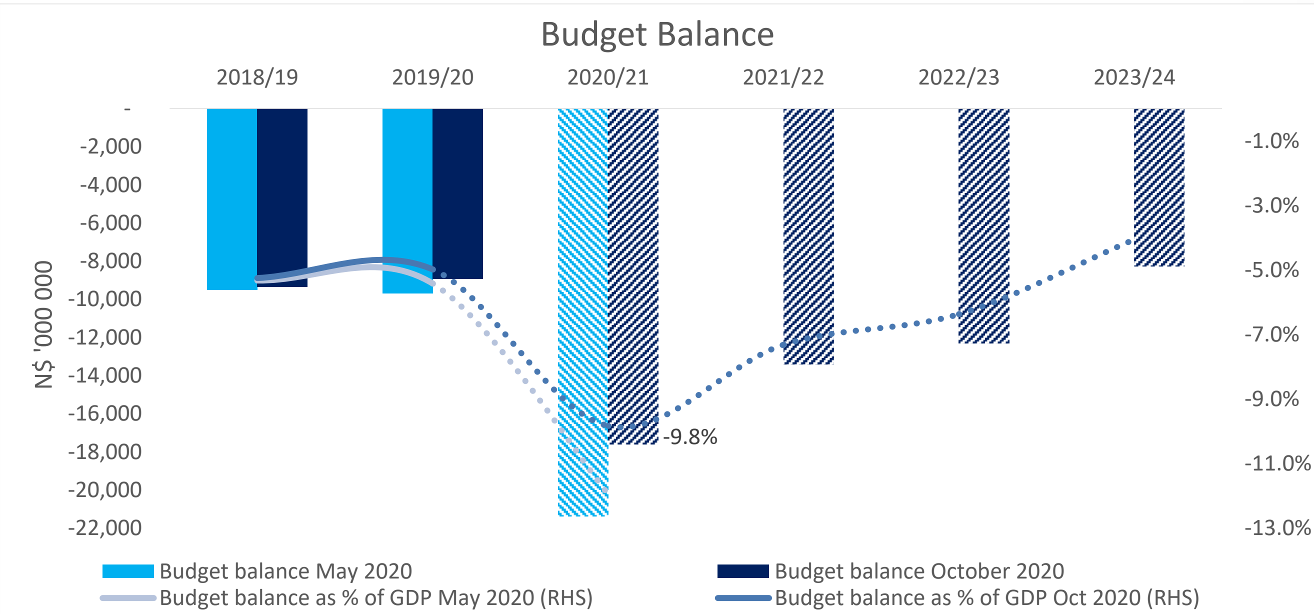
Budget Balance and Financing

2019/20 Outturn



Source: MoF, IJG

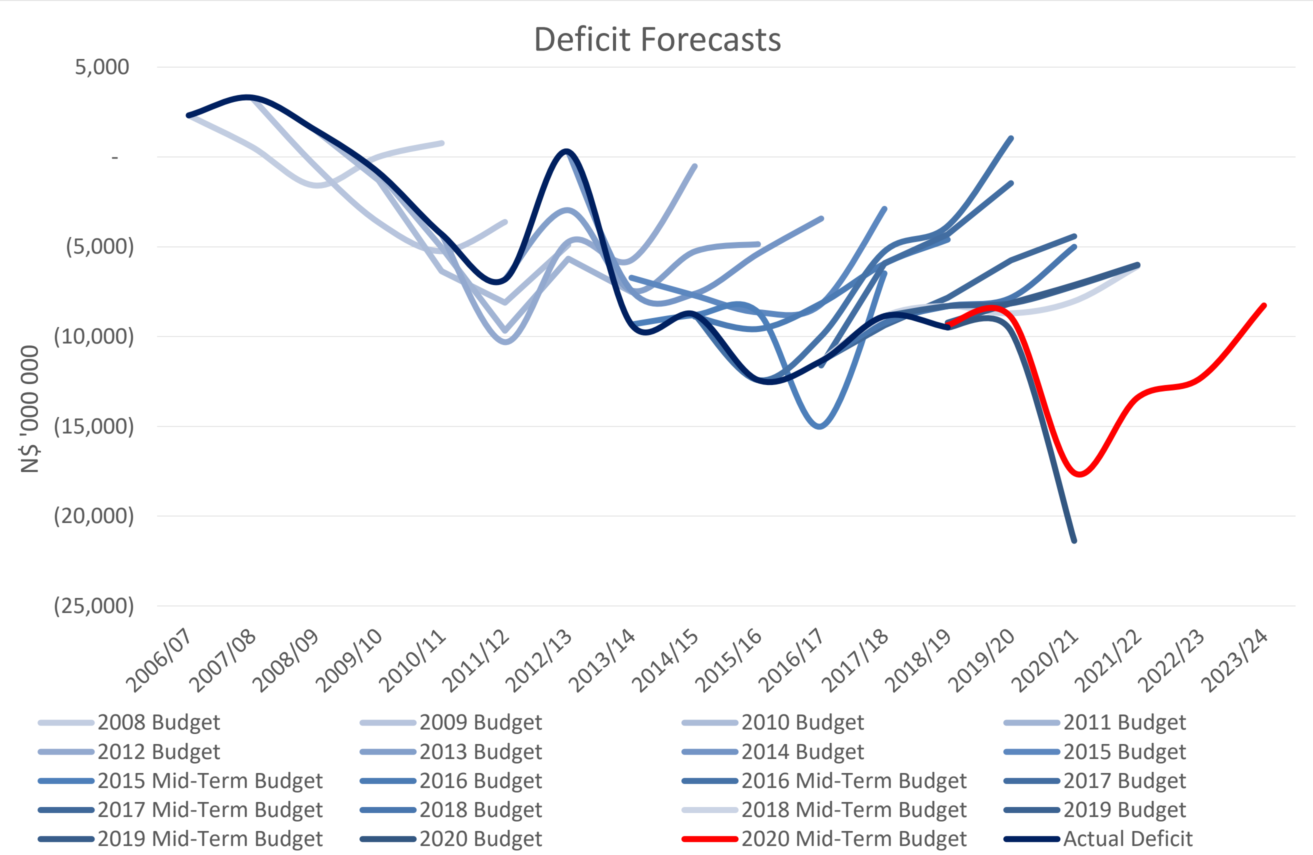
The revised revenue collection for 2019/20 came in at N$58.43bn, slightly above prior expectations, while expenditure for 2019/20 came in at N$67.34bn, slightly below the May budget figure. The result was a slightly smaller than expected deficit of N$8.92bn or 5.0% of GDP. In nominal terms we have to this point seen seven consecutive years of budget deficits in excess of N$8.0bn with only 2017/18 posting a deficit below 5.0% of GDP. These actual figures are in stark contrast to projections for deficits to narrow to below 3.0% in the outer years of any given MTEF projection as is evident in the above figure. This is despite ongoing fiscal consolidation.



Source: MoF, IJG

2020/21 Budget Balance Review and Mid-Year Outturn

Estimated revenue for 2020/21 was revised upwards by N$3.78bn to N$55.18bn due to personal and companies tax revenue expectations improving, while expenditure was unchanged at N$72.77bn. This resulted in a slightly smaller deficit expectation of N$17.59bn or 9.8% of GDP when compared to the May budget. The 2020/21 budget deficit still holds the dubious honour of Namibia's largest deficit in recent history, topping the N$12.42bn (8.4% of GDP) deficit of 2015/16. 2020/21's deficit is larger than Namibia's entire government budget for 2007/08. The Covid-19 pandemic, an external shock, is directly responsible for the large deficit this year due to spending related to curbing the impact of the virus, as well as decreased revenue due to various restrictions on economic activity. We have warned repeatedly about the lack of fiscal capacity with which to deal with external shocks such as the one currently being experienced, and due to this lack of capacity it is highly unlikely that the Namibian economy will rebound from this shock as was the case after the global financial crisis in 2009.

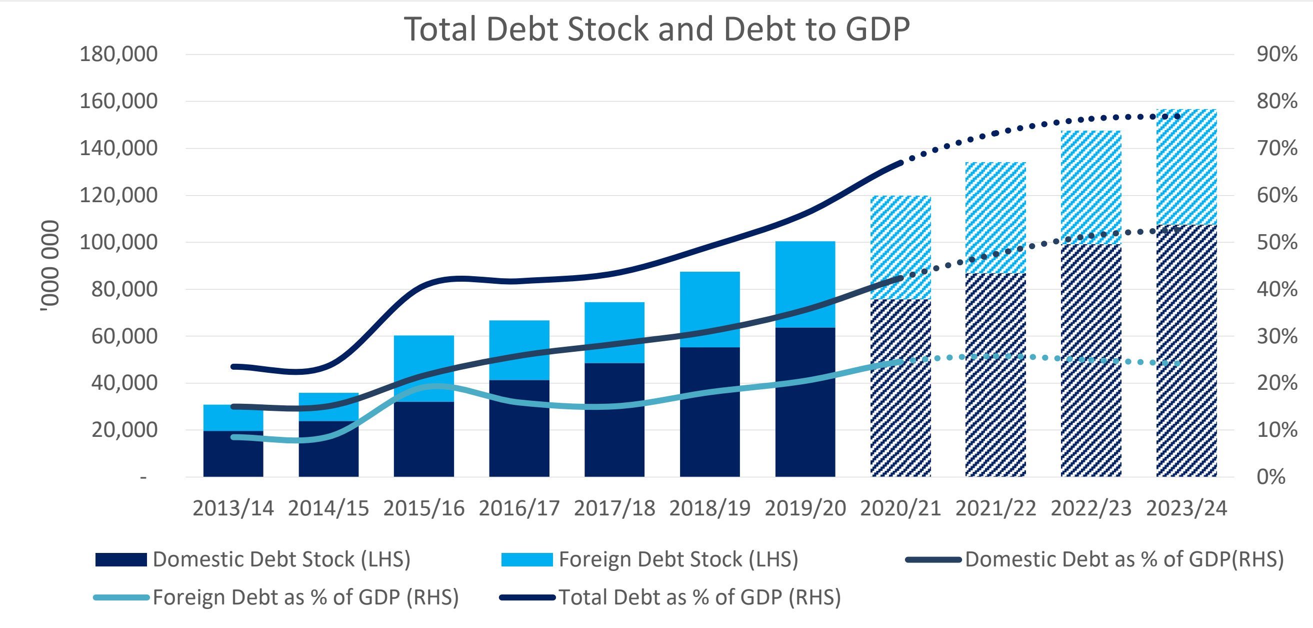


Source: MoF, IJG

The improvement in revenue expectations has resulted in a decrease in the overall funding requirement projections for 2020/21 to N$23.95bn from the N$27.74bn expected in May. While a move in a positive direction, this still constitutes the largest finding requirement in Namibia's history. The net funding requirement after taking into account the use of reserves of N$8.38bn is expected to be N$15.57bn. The vast majority of this net borrowing requirement is to be funded through domestic debt issuance of N$10.05bn. Thus far auction demand has proven more than sufficient and we expect government to succeed in raising their targeted amount in the domestic market.

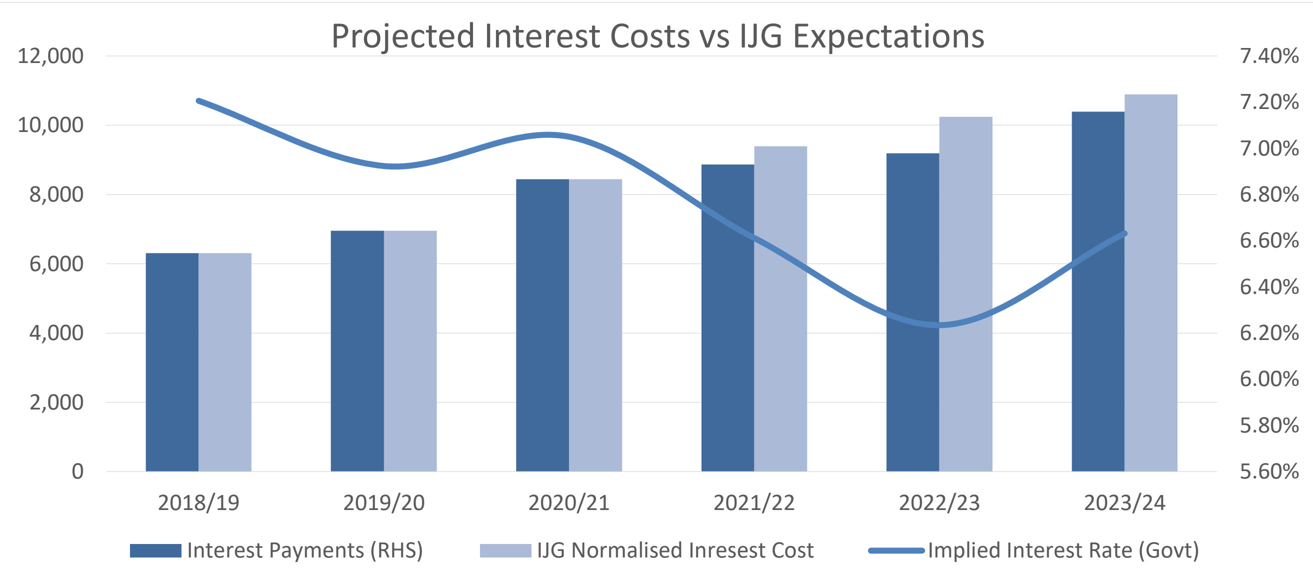
A further N$7.78bn is set to come from external funding sources with both the African Development Bank (AfDB) and International Monetary Fund (IMF) coming to the party. The budget documents note that government will have access to the US$190m (N$2250) Rapid Financing Instrument (RFI).

The government debt stock is expected to grow to N$119.76bn (excluding guarantees of N$12.7bn) by the end of the 2020/21 financial year, to some 66.9% to GDP. At this point historic prudential limits are a distant memory. Interest costs on this debt stock are expected to amount to N$8.44bn (excluding statutory payments) or 15.3% of expected revenue, pushing toward debt trap territory.



Source: MoF, IJG

Once again we note that the expected interest rate on government debt seems to be declining. Although currently global monetary policy is historically accommodative and inflationary pressures remain muted we believe that the expected decline in average rate over the MTEF period may be optimistic. We thus expect interest costs to surprise to the upside going forward as indicated below. Should this materialize we would see bigger than expected deficits going forward.



Source: MoF, IJG

MTEF Deficit and Funding Projections

The ministry of finance projects decreased deficits going forward. The 2021/22 deficit is projected to drop to N$13.41bn or 7.3% of GDP, followed by 6.4% of GDP in 2022/23, and 4.1% in 2023/24. These constitute a continuation of large deficits if expectations materialise, and while consolidatory in terms of lack of increases in expenditure, mean that the fiscus will remain very vulnerable to external shocks over the MTEF period. Especially given the now already elevated debt levels expected.

As a result of the large deficits expected over the MTEF government debt is projected to increase steadily to N$156.68bn by 2023/24, or some 76.9% of GDP. Along with this interest costs as a proportion of revenue are expected to grow further to 17.8% in 2022/23 according to our calculations. It is interest costs in relation to revenue that provides for much long term concern given the lackluster economic environment we are likely to continue to see over the next few years. Interest cost is a recurrent expenditure which does not contribute in any way to future productive capacity (largely as the debt on which it is based was mainly used for consumptive purposes). The fact that this expenditure now exceeds the development budget means that there is less money for necessary infrastructure projects such as those needed in health, education, and water supply.

Embedded in the projections for the 2021/22 financial year are plans to roll the first Eurobond as the sinking fund for the redemption of this bond has been utilized in Covid-19 relief efforts. The success of this effort is not guaranteed although present global conditions are favourable. Should monetary policy remain accommodative for the next 12 months or so there is a high likelihood of rolling this debt in our view, but much can change in 12 months and we continue to see this as a major risk to fiscal stability.

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