MID YEAR BUDGET REVIEW 2021/22

2021/22 - 2024/25

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Contents

Key Points in the Speech

(From speech with editing)

Outturn 2020/21

- The domestic economy is projected to grow by 1.9% this year, a downward revision from 2.1% estimated in the main Budget. The revision reflects low base effects and slightly lower production prospects, compounded by the rampant third wave of the COVID-19 pandemic and the subsequent restrictive measures introduced to contain the spread of the virus.

- A deficit of N$3.1bn was recorded on the current account during the second quarter of 2021, compared to a surplus of N$5.4bn during the corresponding period of 2020. The considerable decline in SACU receipts also contributed to this development.

- The stock of international reserves increased to N$45.9bn at the end of September 2021, boosted primarily by the additional allocation of IMF Special Drawing Rights (SDR), supported by strong inflows from foreign borrowing activities.

- Nominal GDP as per the final National Accounts for 2020 was registered at N$178.1bn, which is 4.1% better than MoF's estimates.

- Actual revenue outturn amounted to N$57.8bn equivalent to 32.5% of GDP, significantly better than the budget revenue estimate of N$51.4bn.

- Total expenditure, including interest payments amounted to N$72.0bn, relative to N$72.8bn budget reflecting an underspending on the development budget and statutory expenditure.

- The budget deficit stood at 8.0% of GDP, compared to the budgeted 12.5% due to a combination of upward revisions in nominal GDP, superior revenue performance and underspending.

- Interest rate payments lingered at 12.8% of revenue, significantly overshooting the 10% benchmark and reflecting the steadily increasing cost of high public debt stock.

- Total debt stood at N$110.6bn, representing 62.1% of GDP.

FY 2021/22

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

- The execution rate on total expenditure and commitments (excluding statutory spending), stood at N$32.2bn at mid-year, equivalent to some 49.0% of the budget.

- The development budget implementation rate including expenditure commitments by the end of September 2021 stood at 39%.

- At the half-year mark, the total debt stock stood at N$126.1bn, equivalent to 68.3% of GDP.
- Namibia's first Eurobond was successfully redeemed today, the 3rd of November 2021.

FY2021/22 Appropriation Amendment Bill

- Revenue estimates for the year have been adjusted upwards to the tune of N$1.5bn, reflecting primarily N$408.6m raised from fish quota auctions, N$400m from additional dividends declared by NPTH, N$693.8m due to underestimation on individual income taxes and some N$304m from other mineral royalties.
- Overall, a total of N$2.2bn has been made available [on the expenditure front] for reallocation across the Budget Votes. This is against total funding requests of N$7.1bn received from Offices, Ministries and Agencies during the review.
- the Development Budget ceiling is reduced on a net basis by N$279.8m from N$5.5bn to N$5.2bn.
- The non-interest Operational Budget is increased by N$2.2bn from N$53.9bn to N$56.1bn.
- Statutory expenditure is reduced marginally from N$8.5bn in the main budget to N$8.3bn.
- The reallocation of resources proposed above lifts the global expenditure ceiling for FY2021/22 from N$67.9bn to N$69.7bn.
- Overall, the budget deficit will remain unchanged at 8.6 percent of GDP.

Fiscal Outlook and Medium-Term Policy Stance

- Total revenue and grants for FY2022/23 is projected at N$53.9bn, a mere 0.5% higher than the estimated revenue for FY2021/22.
- Over the MTEF, revenue is expected to grow moderately at an average pace of 5.7% to reach N$60.6bn in FY2023/24 and N$63.1bn by FY2024/25.
- These revenue forecasts did not include the potential proceeds from the listing of MTC.
- The total expenditure ceiling is projected to reduce to N$68.3bn in FY2022/23 and remain steady thereabout over the remainder of the MTEF.
- In the baseline scenario, the budget deficit is projected to reduce to about 7.4% of GDP in FY2022/23 and average about 4.7% of GDP over the MTEF, reaching about 3.0% of GDP in FY2024/25.
- The projected budget deficit is still relatively high, particularly in FY2022/23 and public debt as a percentage of GDP is projected to increase from 68.7% in FY2021/22 and peak at 74.2% by FY2023/24.

Policy Priorities over the MTEF

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

- The Special Economic Zone (SEZ) policy framework is currently making rounds through stakeholder consultations.

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

- Cabinet has approved the policy framework for the sovereign wealth fund for Namibia, the Welwitschia Fund.

- Government has undertaken concerted efforts to attract private sector investment in a potential new sector of green hydrogen, which augurs well to decarbonize the country and the region.

- The Central Securities Depository (CSD) conditions are due to be published in the Government Gazette, paving the way for the licensing and subsequent operationalization of the long overdue CSD in Namibia.

- The Public Procurement Amendment Bill has progressed and is currently at the Legal Drafting stage with anticipation to table the bill in the National Assembly during the next session [2022].

- The Namibia Revenue Agency (NamRA) was officially launched by His Excellency the President on 7 April 2021.

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

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

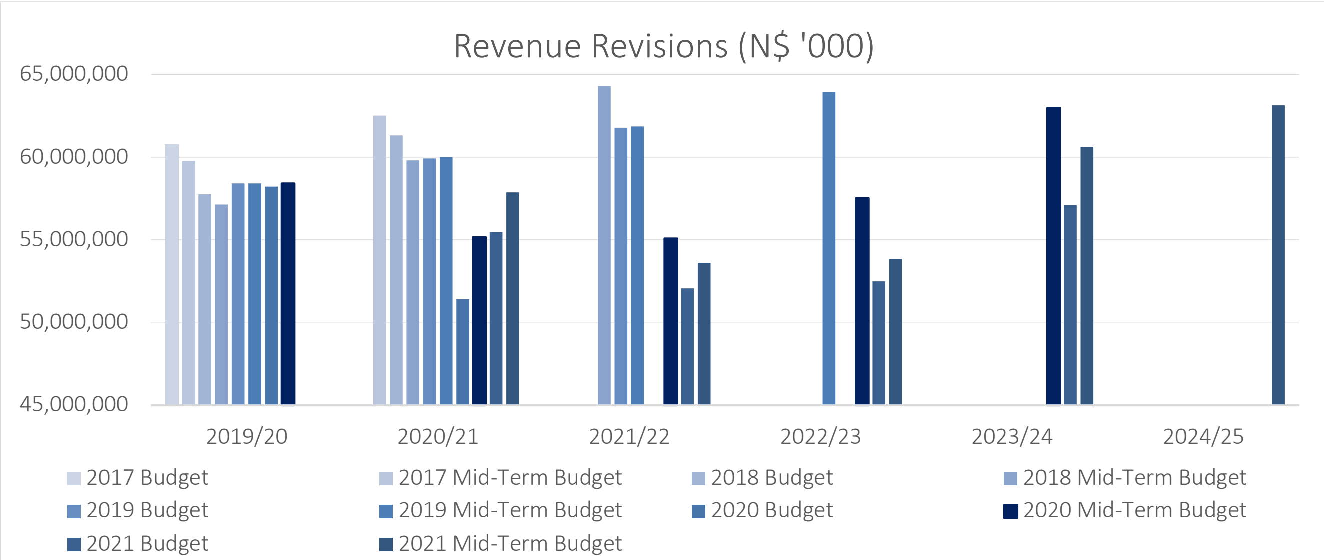
- The Value Added Tax Amendment Bill is also at the initial stages of ministerial approval, incorporating zero rating the supply of sanitary pads and extending the VAT charge on the fees of all asset managers to ensure fairness of the tax system. The Bill will make rounds of stakeholder consultations and is anticipated to be tabled in the National Assembly in 2022.

Revenue

2020/21 Outturn

The revised revenue figure for 2020/21 materialised at N$57.84bn, 4.3% higher than the estimated N$55.46bn figure in March. Revenue for the period was 1.0% or N$587.0m lower than in 2019/2020. The Ministry of Finance noted that the decrease in revenue was driven by contractions in the main tax categories, most notably, a 21.2% y/y decline in domestic taxes on goods and services. Taxes on international trade and transactions (SACU) was the only category that recorded positive growth, increasing 17.6% from the prior year.

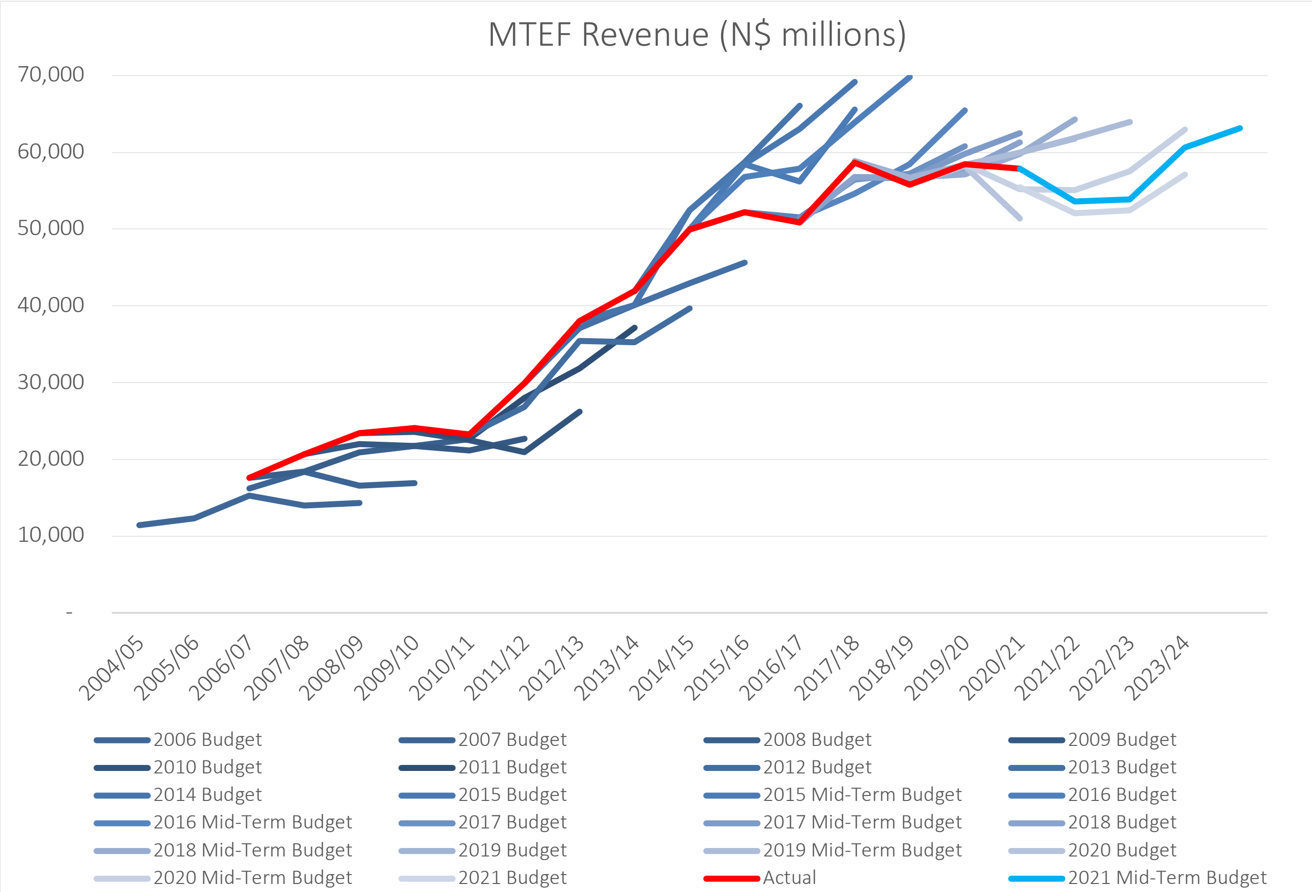
Revenue from tax on income and profits was revised up by N$3.15bn to N$22.29bn. The increase stemmed from upward revisions in income tax on individuals, which increased by N$1.26bn and company taxes which grew by N$1.77bn from the estimate in March.



Source: MoF, IJG Securities

Total revenue to GDP amounted to 32.5% in 2020/21 according to the Ministry of Finance, a 100-basis point upward revision from the 31.5% estimate in March. This comes in slightly below the 32.6% total revenue to GDP figure of 2019/20, when revenue increased in all but 3 categories, compared to 2020/21, where SACU receipts was the only positive category.

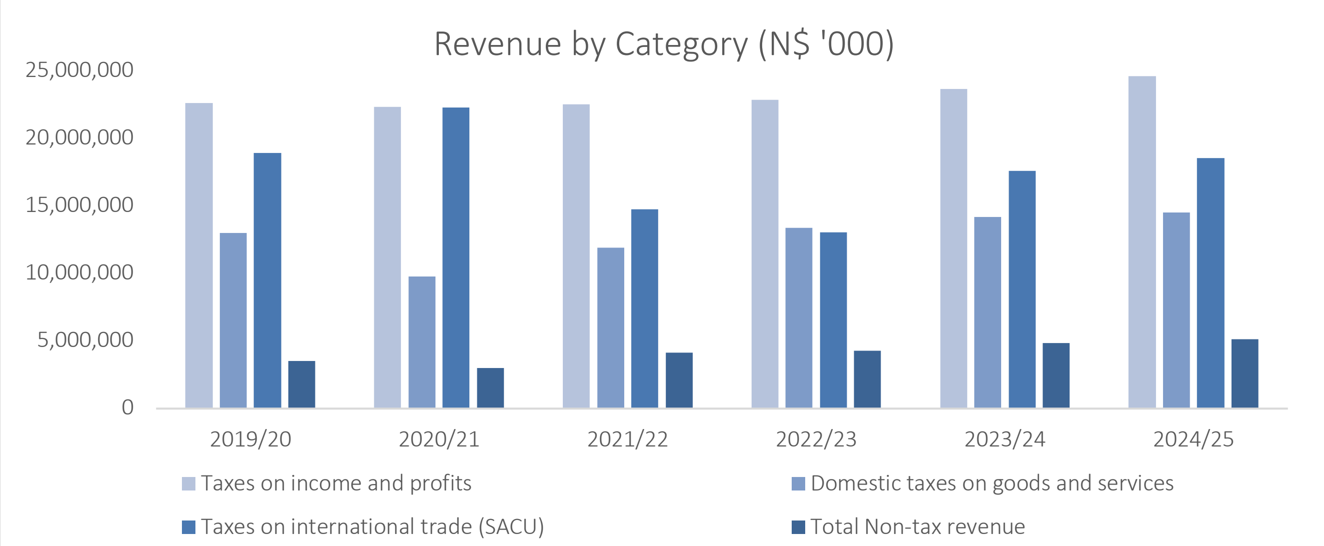
2021/22 Revenue Review and Mid-Year Outturn



Source: MoF, IJG Securities

According to the Ministry of Finance, the preliminary revenue outturn stood at N$27.2bn in September or 52.0% of the budgeted revenue for the year. According to the minister, this figure is about 4% better than the average historical mid-year collection rate. As such, the revenue estimate for the year has been revised up by N$1.54bn to N$53.60bn, reflecting N$408.6m from the sale of fishing quotas, a N$400m additional dividend declared by NPTH and N$304m from mining royalties. An additional N$693.8m upward revision resulted from a prior underestimation of individual income taxes.

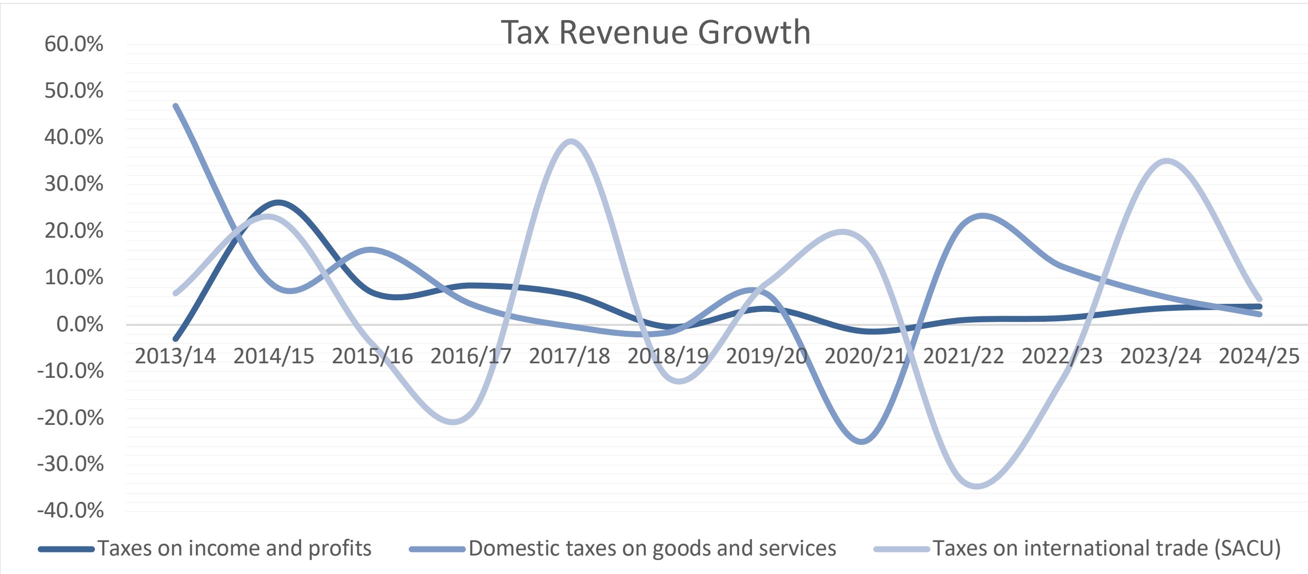
Despite the upward revision, revenue collection in the 2021/22 fiscal year is set to be the country's lowest since 2016/17. However, the minister noted that the potential proceeds from the listing of MTC have been excluded from revenue forecasts, thus a successful IPO could result in an upward revision when Minister Shiimi addresses the nation in March next year.



Source: MoF, IJG Securities

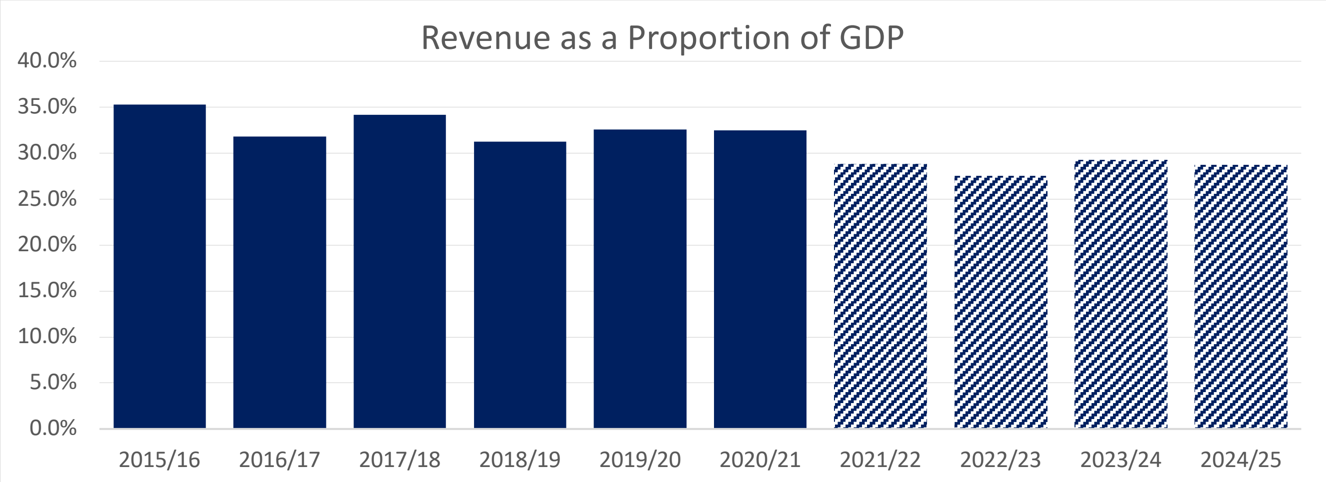
SACU revenues, which are tied to the economic performance of member countries, are expected to decline by 33.7%. This trend is expected to persist in the near term, with SACU revenue as a proportion of total revenue, expected to decay from 38.5% in 2020/21 to 24.2% in 2022/23. However, SACU receipts are expected to increase in 2023/24 as the post-pandemic recovery gains traction in the medium-term.

Domestic taxes are expected to increase by 21.7% this year, driven by an anticipated N$2.19bn increase in VAT collections. This increase stems from a low base, caused by the strict lockdowns enforced in 2020, which constrained consumer spending, thus decreasing VAT collections.



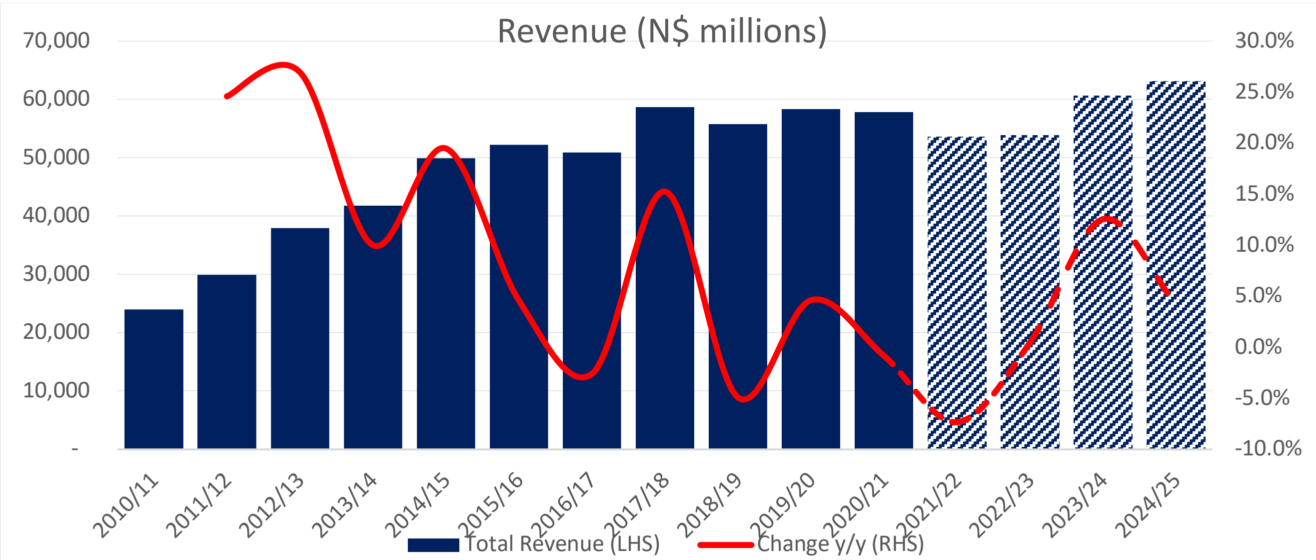
Source: MoF, IJG Securities

Taxes on income and profits constitute the largest share of total revenue at 42.0% and are expected to increase by 1.0% in 2021/22 to N$22.53bn. The increase is expected to come from a N$801m expansion in income tax revenue. The ministry noted that the Income Tax Amendment Bill is at the initial stages of ministerial approval and includes the proposed introduction of a withholding tax at a 10% rate on dividends paid to Namibians.



Source: MoF, IJG Securities

As a percentage of GDP, the government expects revenue to slow from 32.5% in 2020/21 to 28.8% in 2021/22 and to further moderate to 27.5% in 2022/23. This is mainly a result of the deterioration in SACU receipts. Over the MTEF, total revenue is projected to average around 28.5% of GDP.



Source: MoF, IJG Securities

MTEF Revenue Estimates

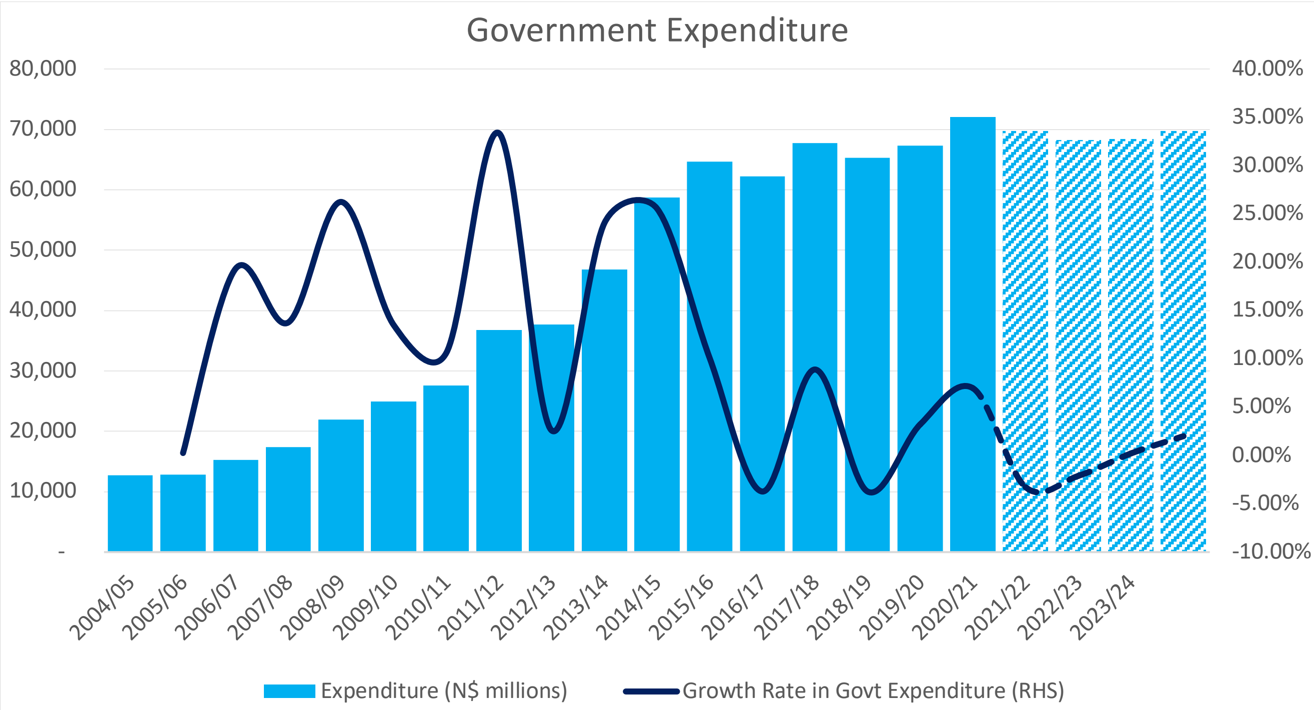
Revenue collection is expected to contract by 7.3% in the 2021/22 fiscal year, before gradually recovering in the MTEF. Overall, revenue is forecast to grow by an average of 9.9% from 2021/22 to 2024/25, which includes an optimistic expansion of 12.6% in 2023/24. For the most part, the ministry's revenue forecasts are rather conservative and could surprise to the upside, especially given that the MTC listing has been excluded from the 2021/22 estimate.

The minister announced that the government is exploring options to reduce the non-mining company tax, which is expected to affect the latter years of the MTEF. Additionally, a VAT amendment bill is also in the early stages of ministerial approval, which will extend the VAT charge on the fees of all asset managers. The Value Added Tax Amendment Bill is expected to be tabled in the national assembly in 2022.

Expenditure

2020/21 Outturn

Expenditure for 2020/21 came in at N$72.04bn, marginally below the March budget figure of N$72.11bn. Fiscal expenditure as a percentage of GDP was 40.4%, up from 37.6% in 2019/20. This is the highest this figure has been since 2015/16 and is a reversal of the declining trend in this ratio seen until 2018/19. The Ministry predicts that it has more or less peaked and will whittle down to 34.9% in 2022/23 and 33.0% in 2023/24. The non-interest operational budget execution rate was 101.3% in 2020/21, while the development budget implementation rate stood at 95.7%.

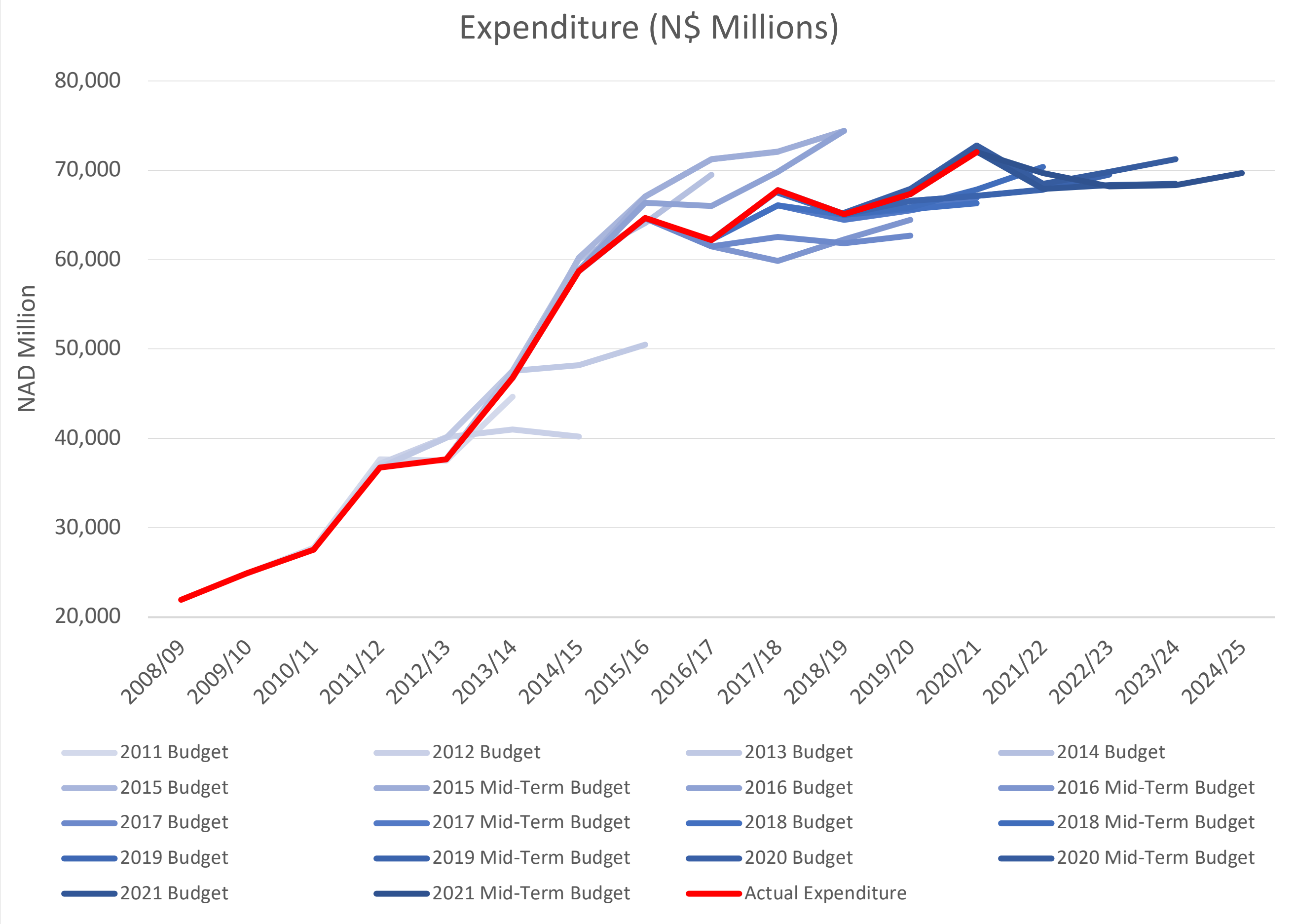


Source: MoF, IJG Securities

2021/22 Expenditure Review and Mid-Year Outturn

Mid-year expenditure amounted to 49.0% of total budgeted expenditure for 2021/22, exactly in line with the execution rate in the 2020/21 budget year. The statutory expenditure execution stood at 43.8% while the half-year development budget expenditure rate including expenditure commitments was 39.0%.

As is the objective of the mid-year budget review, focus was directed toward identifying the need to reallocate funds between votes to satisfy the needs that could not be postponed to future financial years. As such this mid-year review sees the expenditure ceiling for 2021/22 revised up by N$1.73bn to N$69.68bn from the March budget. This is a 3.3% decline from 2020/21, but an increase of 2.5% from the expenditure ceiling projected in March.



Source: MoF, IJG Securities

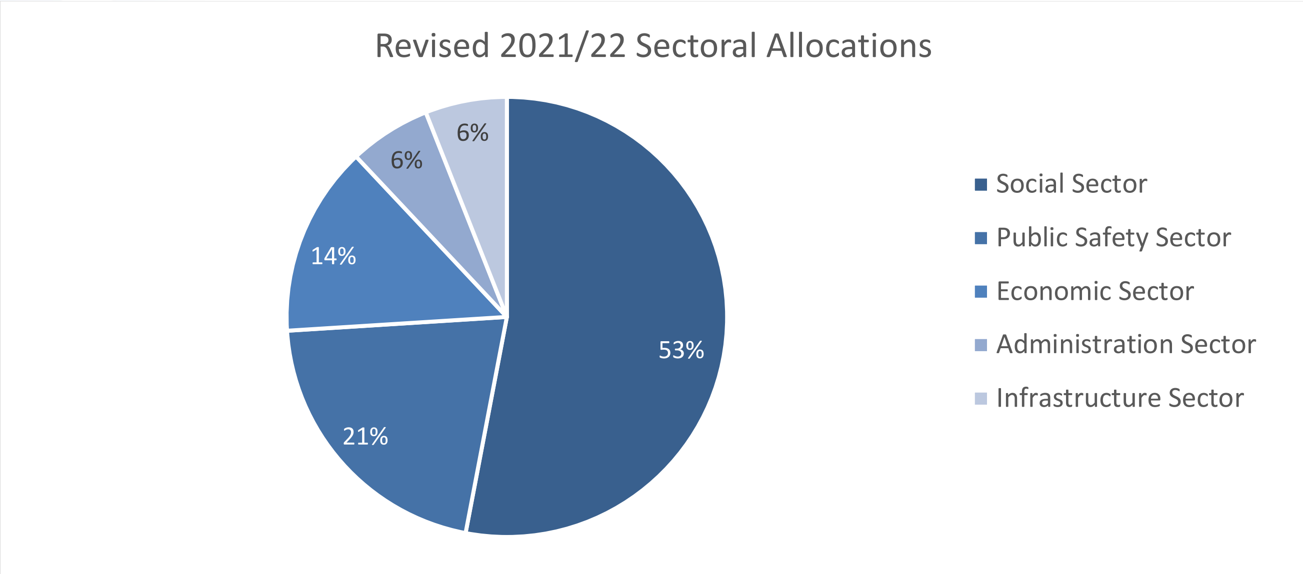
The budget documents note that N$290.8m worth of savings were realized on the development budget. The savings were identified after applying criteria such as projects on which tenders were not awarded, projects without any contractors on site, projects with 0% execution rate or with an execution rate below 60%. These savings resulted in the development budget shrinking by 5.2% to N$5.23bn. Only 3.7% of these savings were re-allocated within the budget (to complete construction of the head office building of the Ministry of Home Affairs), with the remaining 96.3% being allocated to the operational budget.

The review of the operational budget resulted in savings of N$41.4m and was realised. Still, Treasury's analysis projected an execution rate of 102% for the year, and as such the operational budget was revised upwards by N$2.25bn to N$56.15bn.

VOTE	SAVINGS		RE-ALLOCATION		REVISED CEILINGS 2021/22
	Operational	Development	Operational	Development	Total
PRESIDENT	-	(9,000,000)	-	-	600,152,000
PRIME MINISTER	(5,000,000)	(14,400,000)	-	-	397,598,000
NATIONAL ASSEMBLY	(5,000,000)	(1,000,000)	-	-	111,187,000
AUDITOR GENERAL	-	-	-	-	108,267,000
INTERNATIONAL RELATIONS & COOPERATION	-	-	-	-	827,698,000
DEFENCE	-	(2,500,000)	458,000,000	-	5,884,095,000
FINANCE	(10,000,000)	-	230,000,000	-	4,916,983,000
EDUCATION, ARTS & CULTURE	-	(4,000,000)	400,000,000	-	14,173,815,000
NATIONAL COUNCIL	(2,400,000)	-	-	-	85,967,000
HEATH AND SOCIAL SERVICES	-	(51,200,000)	400,000,000	-	8,429,816,000
LABOUR, INDUSTRIAL RELATIONS AND EMPLOYMENT CREATION	-	(1,900,000)	1,300,000	-	162,092,000
MINES AND ENERGY	(1,000,000)	(13,000,000)	-	-	198,441,000
JUSTICE	(2,000,000)	(5,000,000)	5,000,000	-	489,405,000
MURD	-	(48,000,000)	9,375,000	-	1,575,300,000
ENVIRONMENT, FORESTRY AND TOURISM	(3,000,000)	(23,400,000)	4,000,000	-	502,288,000
INDUSTRIALISATION & TRADE	-	(2,500,000)	43,153,000	-	200,450,000
OFFICE OF THE JUDICIARY	-	-	10,000,000	-	381,152,000
FISHERIES & MARINE RESOURCES	(3,000,000)	-	-	-	188,426,000
WORKS	-	(1,500,000)	84,000,000	-	575,089,000
TRANSPORT	-	(63,000,000)	5,000,000	-	2,448,644,000
NPC	-	-	-	-	182,781,000
SPORT, YOUTH AND NATIONAL SERVICE	-	(2,500,000)	-	-	276,250,000
ECN	(3,000,000)	-	-	-	69,419,000
MICT	-	-	141,700,000	-	495,750,000
ANTI-CORRUPTION COMMISSION	-	-	-	-	62,771,000
VETERANS AFFAIRS	-	(2,000,000)	19,100,000	-	878,444,000
HIGHER EDUCATION, TRAINING AND INNOVATION	-	(200,000)	166,000,000	-	3,313,100,000
PUBLIC ENTERPRISES	-	-	220,432,000	-	953,828,000
GENDER EQUALITY, POVERTY ERADICATION	-	(9,800,000)	15,311,000	-	5,450,306,000
AGRICULTURE & LAND REFORM	(5,000,000)	(35,900,000)	7,600,000	-	1,222,640,000
WATER	(2,000,000)	-	-	-	463,262,000
HOME AFFAIRS, IMMIGRATION, SAFETY & SECURITY	-	-	27,000,000	11,000,000	5,750,272,000
TOTAL	**(41,400,000)**	**(290,800,000)**	**2,246,971,000**	**11,000,000**	**61,375,688,000**

Source: MoF, IJG Securities

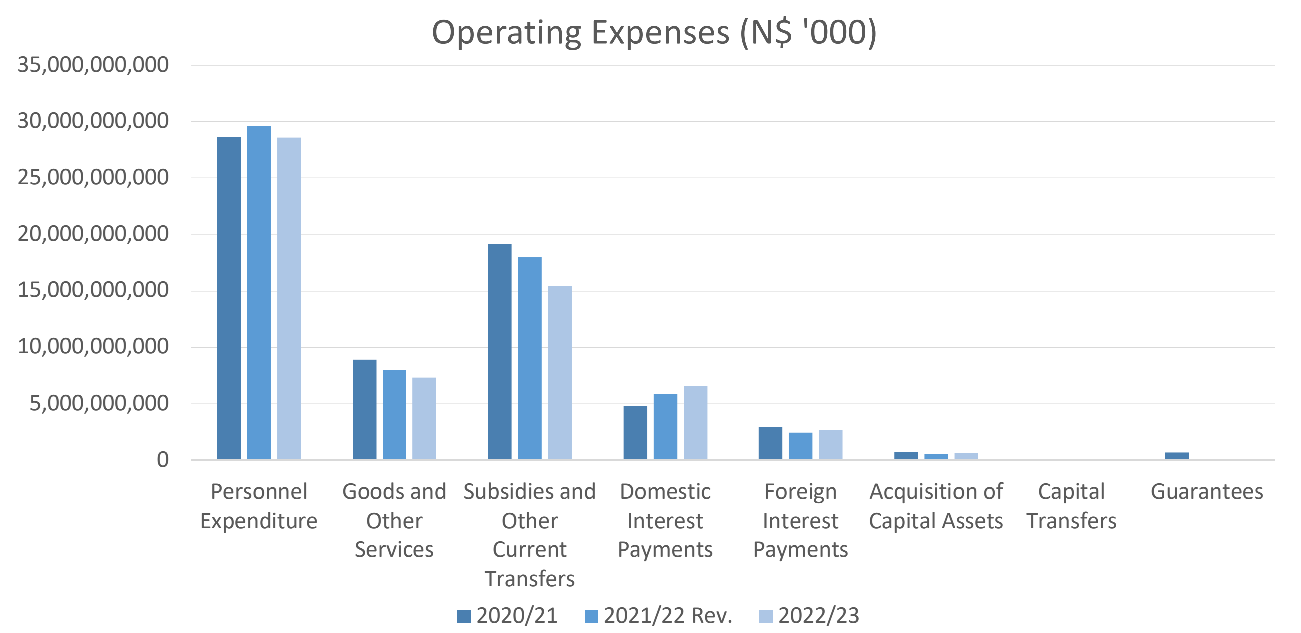
The Ministry of Defence saw the biggest re-allocation to its operational budget at N$458.0m towards remuneration of personnel. The Ministry of Education, Arts and Culture's operational budget was revised up by N$400.0m for the same reason, while the Ministry of Health and Social Services was increased by the same amount to cover expenses for the Covid-19 response plan.



Source: MoF, IJG Securities

The revisions resulted in very small changes to the breakdown with the overall expenditure profile remaining heavily tilted toward the social sectors (Education and Health) at 53%, which is normal in a country with high unemployment, low skills, little access to healthcare, and low per capita incomes. Public safety now takes up one percentage point more (21%) at the expense of the administration sector which now accounts for 6% of overall spending along with infrastructure.

Unsurprisingly, across votes, personnel expenditure continues to make up the single largest operating expense in the budget and has been revised up by N$1.17bn to N$29.63bn in 2021/22 from the March budget. Subsidies follows at N$17.98bn and goods and services at N$7.98bn, with both categories revised up from the projected figures in March.



Source: MoF, IJG Securities

MTEF Expenditure Projections

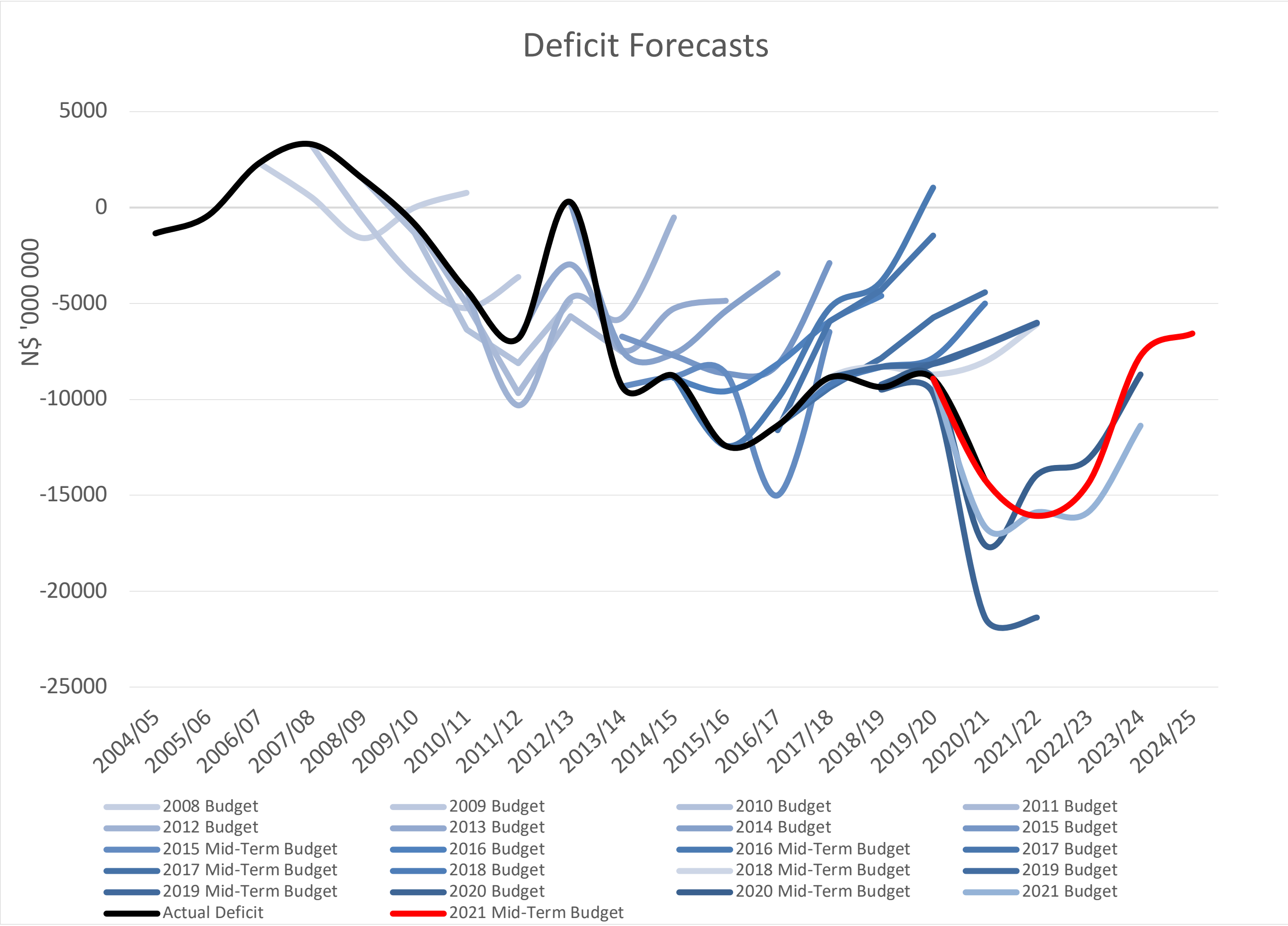
MTEF Expenditure Growth	
2021/22	-3.3%
2022/23	-2.1%
2023/24	0.2%
2024/25	2.0%

The Ministry of Finance has revised down the 2022/23 expenditure ceiling slightly from the March budget to N$68.20bn, from N$68.34bn. If realized, this will translate to a decline of 2.1%. Thereafter expenditure growth is expected to be subdued at 0.2% to N$68.35bn in 2023/24 and 2.0% to N$69.71bn in 2024/25.

While we welcome the projected decline in expenditure in 2022/23, it is dependent on government cutting personnel expenditure by N$1.03bn which could prove difficult. We anticipate it to be equally difficult to maintain the low growth in expenditure ceilings thereafter as inflationary pressure and rising interest rates will necessitate government to borrow more from the development budget or save more from the operational budget in order to not exceed the stated expenditure ceilings.

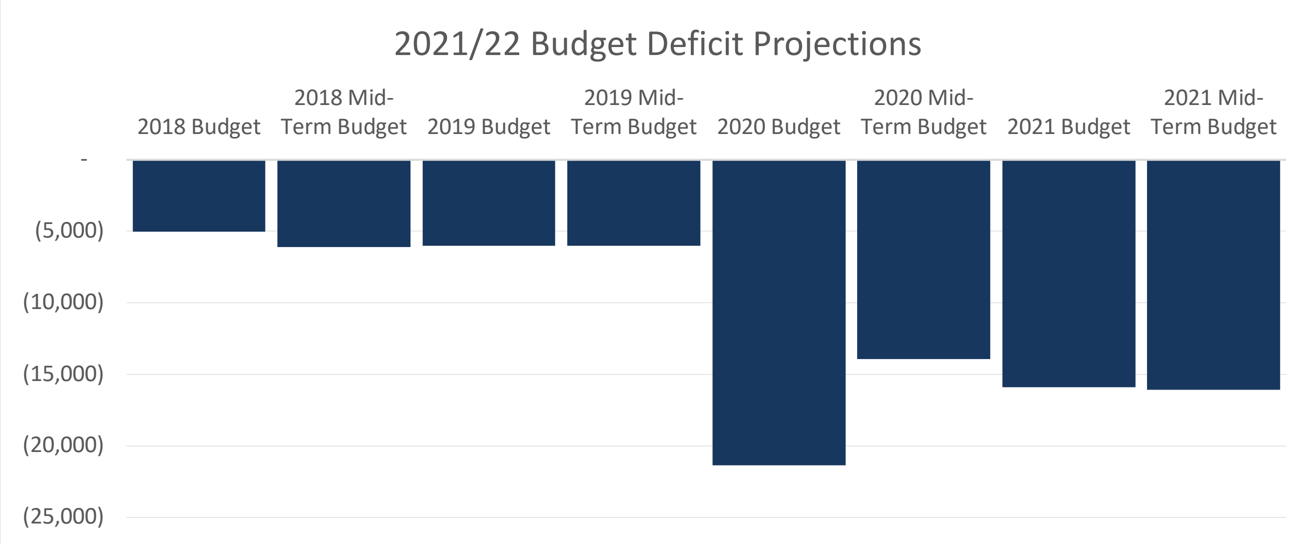
Budget Balance and Financing

2020/21 Outturn



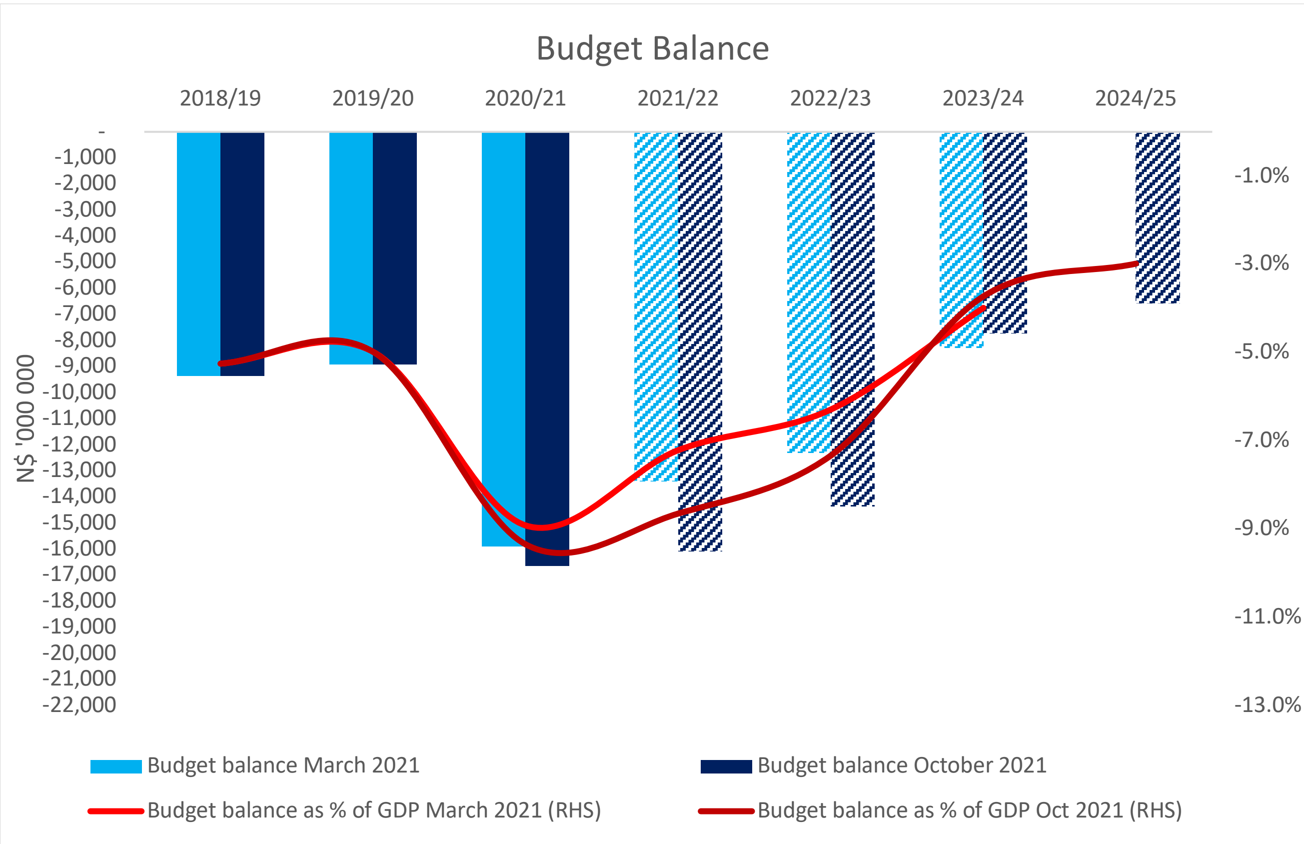
Source: MoF, IJG

Government revenue for 2020/21 was revised upwards by N$2.38bn to N$57.84bn in the latest budget. Expenditures for 2020/21 were revised downwards by N$70m to N$72.04bn. The projected deficit for 2020/21 now stands at N$14.20bn, or 8.0% of GDP. The previous budget report tabled in March 2021 predicted a budget deficit of 9.5% of GDP for 2020/21. While the budget deficit narrowed relative to past estimates, the MoF expects it to widen in the coming year. During 2021/22 the budget deficit is expected to peak at 8.6% if GDP before declining to 7.3% of GDP in 2022/23. This comes after the March 2021 budget envisaged the budget deficit peaking during 2020/21.



Source: MoF, IJG

The public debt-to-GDP ratio is estimated at 62.1% for 2020/21. This is a slight downward revision from 62.6% estimate made in the March 2021 budget. This is an encouraging sign, but it is not part of a wider trend. In 2021/22 the public debt-to-GDP ratio is expected to rise to 68.7%. The stock of public debt is expected to increase further and reach 74.1% of GDP in 2023/24. The fiscal trials of 2020/21 are so far proving to have not weighted as heavily on Namibia's debt burden as first expected, if only due to the large SACU receipt during the period. Given the forecasted increases in the debt-to-GDP ratio, budget-deficit, and real-value of interest payments on that debt over the coming years the country can only hope for a few more pleasant surprises.



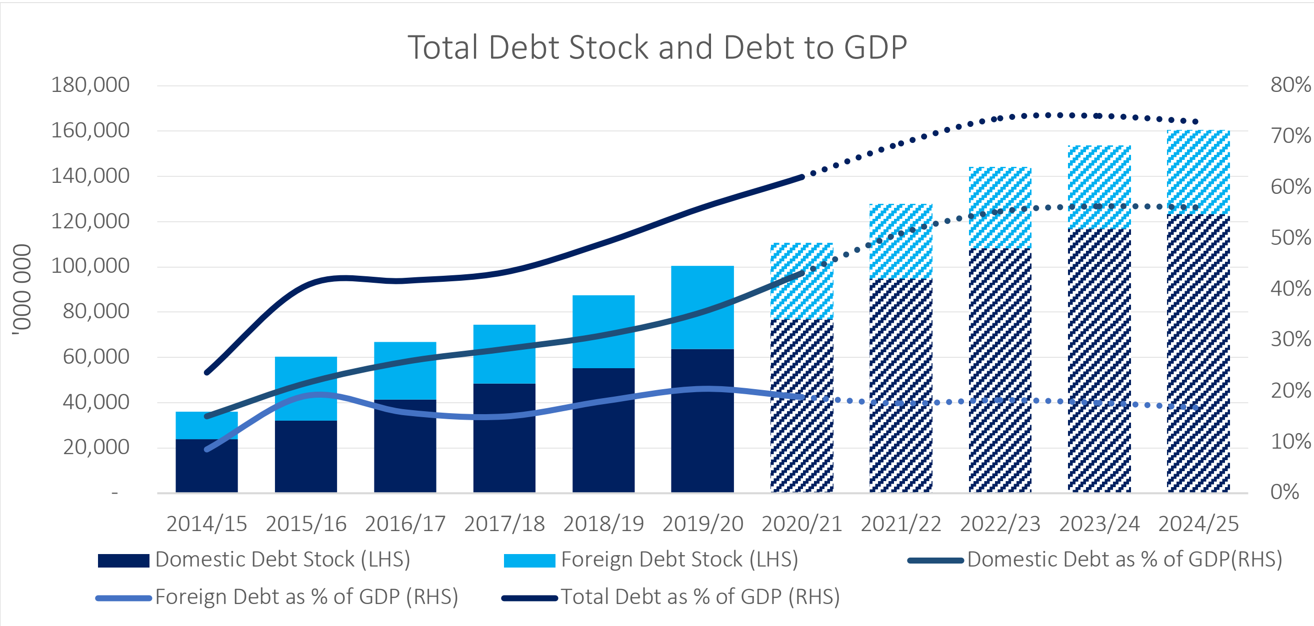
Source: MoF, IJG

2021/22 Budget Balance Review

Projected revenue for 2021/22 was revised upwards by N$1.53bn or 2.9% to N$53.6bn after being revised downwards by 4.7% in the previous budget. This increase stems largely from upwards revisions in individual income taxes non-tax revenue. Revenue from company taxes was revised downwards from March's estimate. Taxes generated from international trade, a line item all but interchangeable with SACU receipts, are estimated to fall by 33.7% from 2020/21 to 2021/22. That translates to a N$7.50bn decrease in tax revenues. Worryingly, SACU receipts are expected to fall further before reaching a nadir of N$13.03bn in 2022/23. In 2020/21 revenues from SACU receipts totalled N$22.25bn.

Projected expenditure for 2021/22 was revised upwards by 2.5% from the March budget. Total expenditures are estimated to reach N$69.68bn in 2021/22. Even though revenues are expected to grow more than expenditures in the coming financial year, the Minister of Finance noted that Namibia remains in a precarious fiscal position during his speech to Parliament on 3 November. Accordingly, public expenditures are expected to fall to N$68.20bn in 2022/23. Achieving long-term fiscal sustainability will be challenging. Minimising consumptive expenditures will help. Additionally, the government will need to ensure that its expenditures help build a resilient economy.

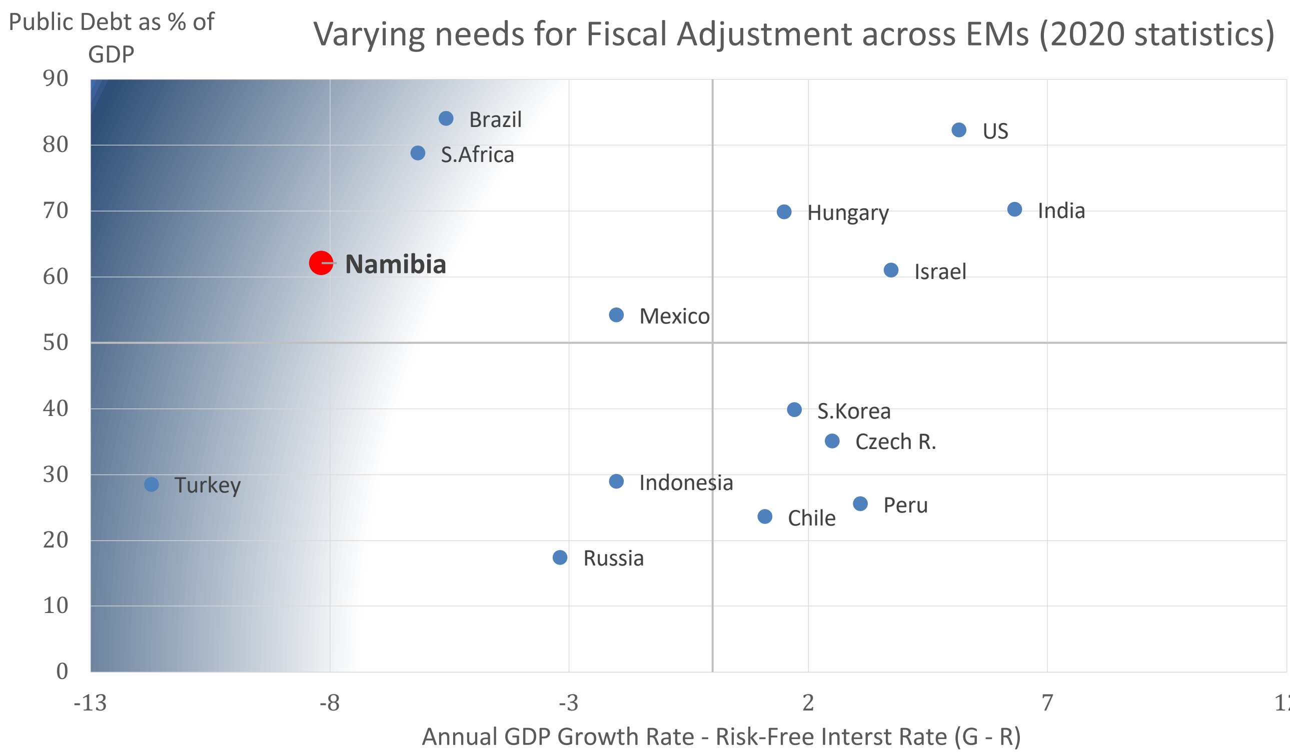
The government's total funding requirement (the sum of the government budget deficit, cash requirements, project financing, provisions for bond redemptions, foreign debt repayment and contingent liabilities) for 2020/21 is estimated to have been N$19.42bn. In 2021/22 that funding requirement is predicted to have risen to N$30.24bn. This is attributed largely to increases in provisions for bond redemptions, which in in 2020/21 were N$1.62bn versus N$7.92bn for 2021/22. This includes the redemption of the Eurobond and GC21. The first Eurobond was today redeemed in full. Therefore, it is likely that the current future estimates of the funding requirement, which show a steady decrease, are likely to be realised. By 2024/25 the funding requirement is expected to fall to N$13.33bn, still a large amount.



Source: MoF, IJG

Total debt as a percentage of GDP is expected to rise to 68.7% in the current fiscal year. As stated earlier, this percentage is expected to rise to a high of 74.1% of GDP in 2023/24. This is worrying. Both the domestic debt stock and foreign debt stock are set to increase in the coming years. If global interest rates start to normalize in the coming years that will push a greater percentage of an already strained government budget into debt servicing payment.

The y-axis of the graph below shows public debt as a percentage of GDP – the larger this number, the more damaging interest rate hikes are to public finances. The x-axis is the country's growth rate minus risk-free rate (the yield on the country's 10-year treasury bond, in Namibia's case the GC30). Simply put, when this difference is *negative*, the government will not be able to grow itself out of debt, instead the real value of debt payments will increase over time. The shaded area captures those economies where one or both issues are present. Brazil, South Africa and Turkey are three EMs where substantial structural adjustments may need to be made in coming years as interest rates across the world start to normalise. Namibia is in the same bracket. Granted, all data in this graph is from 2020, a horrendous year for global growth. Additionally, Namibia's economy is growing again, so its fiscal health will necessarily improve. This graph is not meant to give a current analysis of the budget deficit. Instead, this graph shows that Namibia has structural fiscal problems that will need addressing in the long run. It will take time to draw down the debt-to-GDP ratio and create a growth friendly environment. The sooner that starts to happen, the better.



Source: MoF, IJG, Bloomberg

MTEF Deficit and Funding Projections

Perhaps optimistically, the government expects the budget deficit to narrow from 2022/23 onwards. This is highly conditional on strong, consistent GDP growth rates. Should the best-case scenarios come to fruition we will see corresponding drops in the debt-to-GDP ratio and real cost of interest payments.

Outlook

The Minister of Finance tabled the Mid-Year Budget Review and 2022/23 to 2024/25 MTEF Fiscal Policy Review to a sombre National audience this afternoon. Eighteen months since the onset of the Covid-19 Pandemic and five years since Namibian economy entered recessionary territory, economic opportunities still seem to be decreasing for many, if not most, Namibians. And while the National Budget is not meant to solve all these challenges, as we have repeatedly pointed out, it can't, it is a measure of the fiscus' ability to underpin stability and the policy direction needed to create an enabling environment for growth. In this light the Minister reiterated the theme for the year, "*Boosting Resilience and Recovery*".

Revenue collection is crucial to the fiscus' ability to undertake developmental investment that has the ability to boost capacity and future revenues. In this regard, and contrary to the May 2020 budget estimates, revenue collection for 2020/21 exceeded all expectations, coming in 4.3% higher than estimated in March this year at N$57.84bn. This is the third highest nominal revenue figure for the fiscus, ever. Of course, the influence of an uncharacteristically large SACU Revenue Pool Share masked much of the contractions in taxes on income and profits and VAT, a much more appropriate guideline on domestic economic performance.

The outlook for revenue going forward is decidedly more gloomy though. Revenue is estimated to contract by 7.3% to N$53.60bn in the current year, 2021/22, and remain around these levels in the next. It is only in 2023/24 that any meaningful increase in fiscal revenue is expected, and even then, this figure is projected to surpass 2017/18 revenue by only 3.3%, some six years after the fiscus recorded that peak. The revenue outlook thus reiterates the need for a prudent fiscal budget and a structural reallocation of expenditure away from consumptive activities and toward projects and activities which enhance the productive capacity of the country.

Given this conclusion it is concerning to note that the reallocations tabled in this Mid-Year review are primarily a shift from the development budget to the operational budget. The additional funds availed in this 2021/22 budget are also directed at operation expenditure rather than development. As a result the net impact of the N$1.73bn increase in the expenditure ceiling is a decrease of N$279.8m in the development budget and an increase of N$2.21bn in the operational budget (the difference being a slightly lower statutory cost than estimated). The development budget now accounts for only 7.5% of total expenditure including statutory payments.

For much of the MTEF however, expenditure is encouragingly set to remain below the N$69.68bn estimate for the 2021/22 year before reaching more or less this level again in the outer year 2024/25. And while flat expenditure ceilings in the past have been to the detriment to the development budget, the projections are for higher allocations to the development budget in the 2022/23 and 2023/24 years. This is encouraging, especially as transfers to Public Enterprises ("PE") such as NamPower are included in these higher allocations at the same time that progress is being made on the Public Procurement Amendment Bill which is envisioned allow PE's to deploy capital more efficiently.

Flat projected expenditure ceilings coupled with revenue growth post 2022/23 once again results in projections for narrower budget deficits in the outer MTEF periods. Next year, 2022/23, poor revenue collection projections are still expected to result in a large projected deficit of 7.3% of GDP. Thereafter the deficit is expected to moderate to 3.7% of GDP in 2023/24 and 3.0% in 2024/25. It is difficult to be optimistic regarding projections for smaller deficits however as they seldom materialise. That said, revenue projections are more conservative than they have been in the past and expenditure has been reasonably well-maintained bar the necessary Covid-19 induced increases. Additionally, the current leadership at the ministry of finance have yet to establish a track record in terms of achieving estimates and forecasts, with the minister taking the helm in the midst of the Covid-19 pandemic last year, and an exodus of high-level officials in the current year replaced by new faces.

The team at the ministry of finance may be relatively fresh, but the significant challenges they face, being slow revenue growth, large deficits, and rapidly growing debt stock and corresponding interest costs, have become the norm. The latter being a particular challenge as debt-to-GDP is projected to reach 74.1% and debt service costs to reach 17.1% of revenue by the end of the MTEF. Thus not only is revenue growing slowly, but debt costs are taking up a growing proportion of that revenue. Should what is becoming a, status quo of revenue growing at a slower pace than debt service costs, not be contained in this MTEF period, it is likely that even in the absence of further economic shocks, the fiscus may delve into a debt trap. Thus, prudent fiscal management is of the essence.

The short- to medium-term fiscal outlook, while by no means rosy, is somewhat bolstered by the large regulated savings pool that has enabled the last nine years' worth of deficits. We have previously elaborated on the comfort that this asset provides the fiscus given regulation dictating the level invested domestically. The lack of assets in the Namibian market means investing in government debt is unavoidable, thus supporting deficits. However, as previously pointed out, this remains a temporary solution and very much ties the livelihoods of the nation's citizens to the performance of its government.

If the fiscus remains consumptive in nature and does not structurally adjust expenditure toward productive activities that generate future revenue, a point will be reached when debt service costs start reducing the consumptive/operational expenditure of the fiscus, reducing the provision of social services to those in need, while at the same time resulting in the erosion of the savings pool which so many have worked so hard for. Such a scenario should be avoided at all costs as the impact thereof will be doubly detrimental to the livelihoods of Namibians. Such is the need for prudent structural reforms to the expenditure profile towards developmental expenditure to improve the nation's productive capacity.

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