MID YEAR BUDGET REVIEW 2022/23
2022/23 – 2025/26
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Contents

Key Points in the Speech

(From speech with editing)

Domestic Economic Developments and Outturn 2021/22

- The Namibian economy is expected to grow by 2.8% this year, before expanding further by 3.4% in 2023. This is a marginal downward revision from the estimates in the main budget which projected 2.9% growth in 2022 and 3.7% in 2023. The revision reflects updated information from industrial surveys, especially output from the mining sector and year-to-date performance.

- The current account deficit is estimated to have widened significantly in 2022 driven by higher import payments and further reinforced by the considerable decline in SACU receipts over the period.

- The stock of international reserves remained sufficient to cover international obligations at N$48.9bn in September 2022, translating into 5.7 months of import cover.

- There was a strong recovery in Foreign Direct Investment (FDI) flows into the economy during the first half of 2022.

- Actual revenue for 2021/22 came in at N$55.4bn, marginally better than the revised estimate of N$53.4bn in February.

- Total expenditure amounted to N$70.2bn, slightly higher than the revised budget estimates of N$69.7bn.

- The actual budget deficit was recorded at N$14.9bn or 7.9% of GDP, notably better than the Ministry of Finance's revised projections of 8.7%.

- Total debt stock stood at N$126.1bn, representing 66.9% of GDP.

FY 2022/23

- The preliminary revenue outturn at the end of September 2022 stood at N$30.4bn, equivalent to 51.0% of the initial revenue projections and about 3.0% higher than the historical mid-year collection rate.

- The execution rate on operational expenditure was 49.6% by the end of September 2022.

- The development budget implementation rate (including expenditure commitments) stood at 38.0% by the end of September 2022.

- At the half-year mark, the total debt stock stood at N$136.2bn, equivalent to 69.0% of GDP.

FY 2022/23 Appropriation Amendment Bill

- Total revenue for FY2022/23 was revised upwards by N$4.4bn. The budget review exercise further identified potential savings for re-allocation across votes to the tune of N$387.3m.

- The allocation for interest payments has been reduced slightly to N$9.1bn.

- The operational budget has been increased from N$56.6bn to N$60.1bn.

- The development budget ceiling has been adjusted upwards from N$5.0bn to N$5.5bn.

- The nominal budget deficit is reduced from N$11.1bn to N$10.6bn. As a ratio of GDP, the deficit is reduced marginally from 5.6% to 5.3%.

Fiscal Outlook and Medium-Term Policy Stance

- Over the MTEF period, revenue is expected to grow by an average of 7.4% to reach about N$78.3bn by FY2025/26.

- The total expenditure ceiling is projected to grow by 2.4% on average over the MTEF to reach N$80.0bn in FY2025/26.

- The budget deficit is projected to decline to about 5.3% of GDP in FY2022/23 compared to 5.6% estimated in the main budget in February 2022. Over the MTEF, the deficit is projected to average about 2.4% of GDP.

- The public debt stock is expected to increase to N$138.4bn, equivalent to 69.6% of GDP in FY2022/23. Over the MTEF, the pace of debt accumulation is projected to peak in the next financial year resulting in a stabilization of the debt ratios over the remainder of the MTEF, as nominal GDP growth outpace debt growth.

Policy Priorities over the MTEF

- Following the launch of the Welwitschia Sovereign Wealth Fund in May, government progressed in developing the requisite law for the Fund and are currently soliciting inputs into the draft bill from stakeholders. The aim is to table the bill before Parliament in the next financial year.

- A revised version of the Namibia Investment Promotion and Facilitation Bill has been produced by the dedicated Technical Committee and will be workshopped for inputs from several stakeholders over the next two months.

- The Special Economic Zone (SEZ) Policy was approved by Cabinet in August 2022.

- Work to revamp the productivity of government Green Scheme Projects through leasing to the private sector is still ongoing.

- On green hydrogen, the government is negotiating the terms and conditions of the agreement with the preferred bidder, Hyphen.

- The Ministry of Mines and Energy has engaged stakeholders and is now finalising revisions to the Minerals Act, among others, to ensure maximising the rent appropriation from the country's natural resources.

Tax Policy and Administration Reforms

- The non-mining company tax rate will be reduced by two percentage points over the two outer years of the next MTEF. Accordingly, the tax rate will be reduced to 31% effective in FY2024/25, with a further reduction to 30% in FY2025/26.

- The Ministry will undertake an assessment of the consideration to increase the threshold for income tax on individuals from the current N$50,000 to N$100,000.

- The Income Tax Amendment Bill will be tabled in the National Assembly in this financial year. The Bill contains proposals to increase the deductibility on pension fund contributions and educational policy deductions to a maximum of N$150,000.

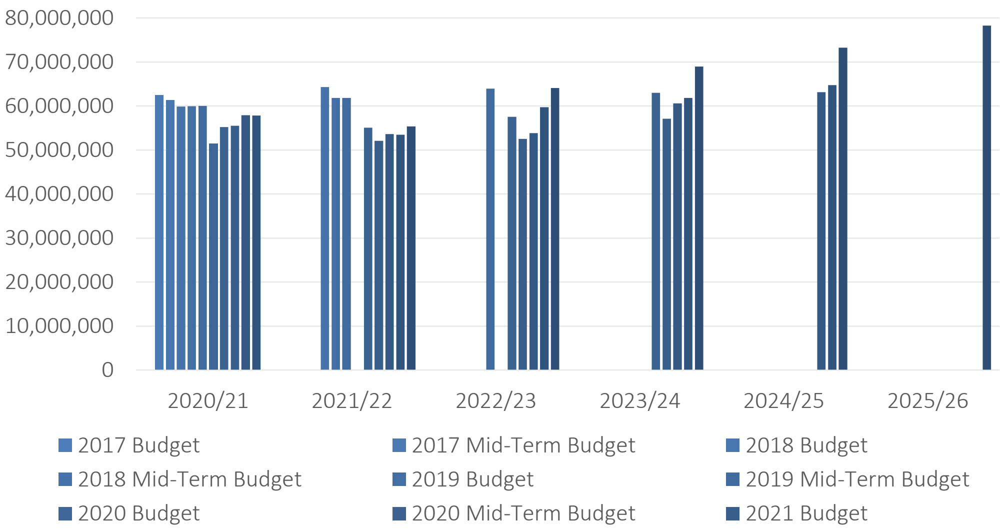
Revenue

2021/22 Outturn

The revised revenue figure for 2021/22 materialised at N$55.37bn, 3.7% higher than the revised estimated N$53.43bn figure in February and was largely driven by higher-than-expected tax revenue collections. Revenue for the period was down 4.3% y/y or N$2.46bn from the N$57.84bn recorded in 2020/2021. Revenues from taxes declined the most, falling by 6.1% y/y or N$3.33bn largely due to a significant decline in SACU revenues which fell by N$5.1bn over the period.

Tax revenues on individuals rose to N$14.63bn, up 6.25% y/y from the year prior. Tax collections from corporates slightly dropped from N$7.56bn in 2020/21 to N$7.49bn in 2021/22. Non-taxable income came in at N$4.11bn, representing a 37.2% y/y jump from 2020/21.

Revenue Revisions
(N$ '000)

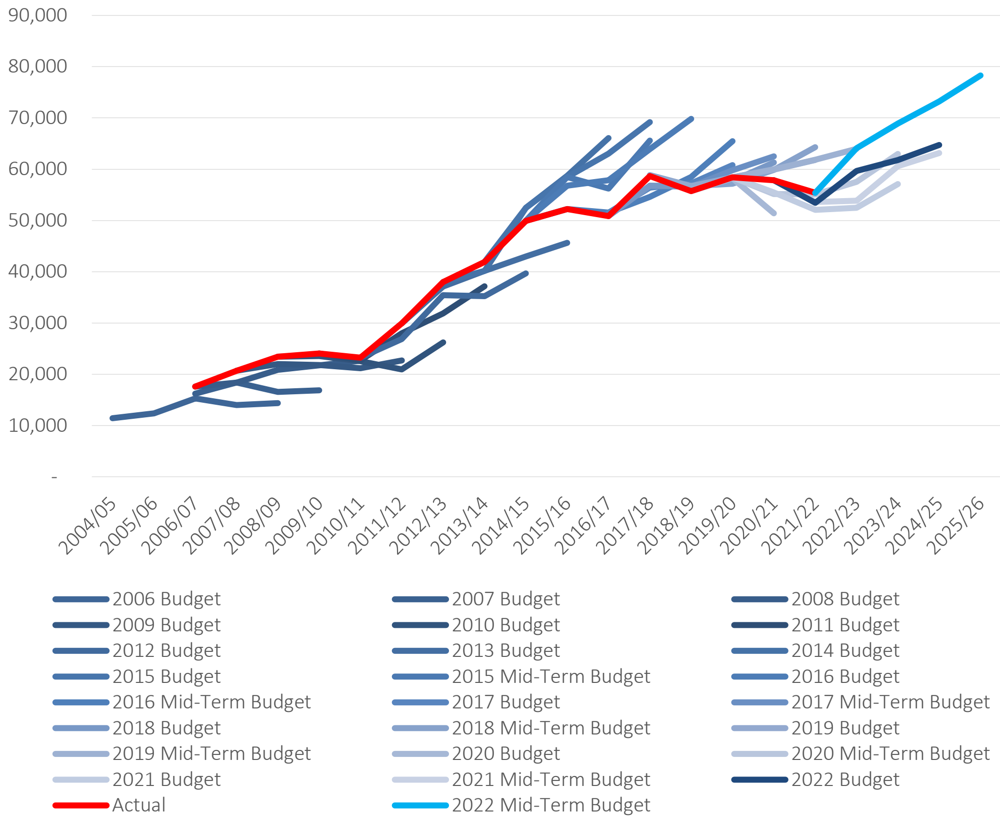


Source: MoF, IJG Securities

According to the Ministry of Finance, total revenue to GDP amounted to 29.4% in 2021/22, representing an 80-basis point upward revision from the 28.6% estimate in February but 310 basis points below the 32.5% total revenue to GDP figure recorded in 2020/21. The fall in total revenue to GDP comes on the back of the 4.3% y/y fall in revenue collections coupled with the 5.8% y/y increase in the GDP figure.

2022/23 Revenue Review and Mid-Year Outturn

MTEF Revenue
(N$ millions)



Source: MoF, IJG Securities

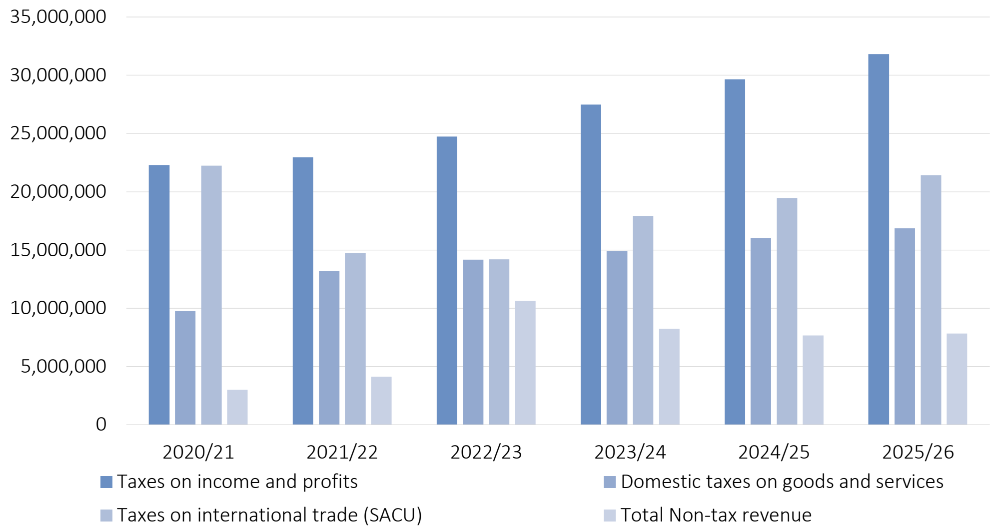
According to the Ministry of Finance, the preliminary revenue outturn stood at N$30.4bn in September or 51.0% of the budgeted revenue for the year and is about 3.0% higher than the average historical mid-year collection rate.

Revenue estimates for the year was revised upwards by N$4.4bn to N$64.06bn. The increase is estimated to come from predominantly tax revenues which was revised up by 6.1% or N$3.06bn. In this regard, the Ministry of Finance expects N$1.17bn more to flow from corporate taxes mainly from non-mining and diamond mining companies while domestic taxes on goods and services (largely from VAT) are expected to bring in an addition N$1.23bn. Income tax on individuals is expected to contribute a further N$645m, 4.4% more than the N$14.7bn previously estimated.

Non-tax revenue is also expected to bring in an addition N$1.32bn after dividends profit share from state owned enterprises and other companies were revised up by 28.38% to N$6.91bn from the N$5.38bn previously estimated. Details regarding the expected dividends were sparse in the mid-term budget statement. The ministry noted in the 2022/23 budget statement in February that dividends and other proceeds were expected from state-owned entities to the tune of N$5 billion, which included a N$400m special dividend from Namibia Post and Telecom Holdings which was deferred from 2021/22, N$2.5bn proceeds from the disposal of MTC shares, more than N$1.2bn worth of dividends from Namdeb Holdings, Debmarine Namibia and NDTC as well as a N$400m special dividend from NAMDIA (NAMDIA has since declared a N$150m dividend to government). It remains however unclear from where the remaining balance (circa N$2.3bn, including the NAMDIA shortfall) will come from if not from significantly higher-than-expected dividends from Namdeb Holding, Debmarine Namibia, and NDTC.

If achieved, the revised revenue collection planned for 2022/2023 will be Namibia's highest to date topping the N$58.73bn collected in 2017/18.

Revenue by Category (N$ '000)

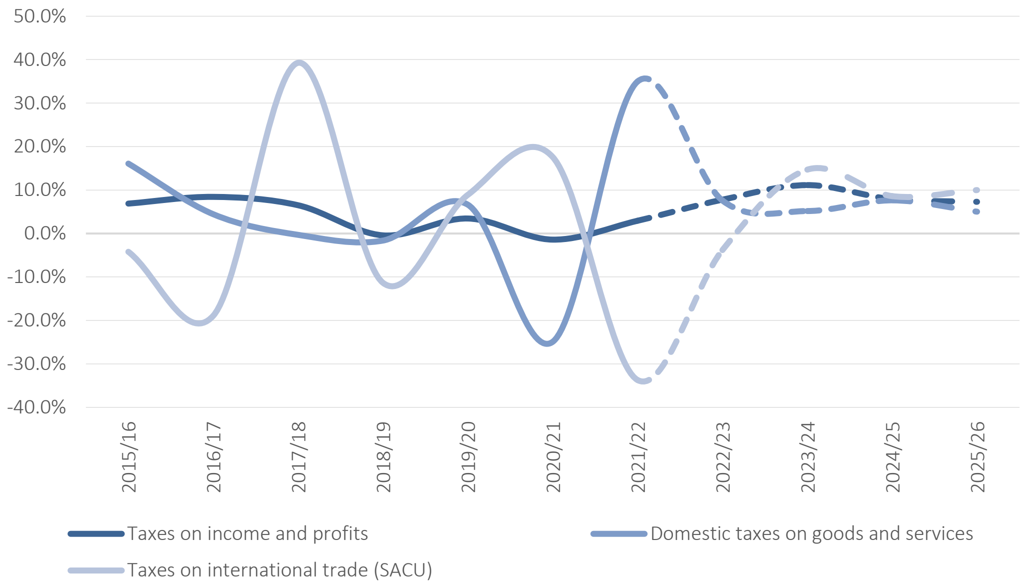


Source: MoF, IJG Securities

SACU revenues, which are tied to the economic performance of member countries, were unrevised and are estimated to reach N$19.20bn in 2022/23 before falling to just below N$18.0bn in 2023/24. Of course the revenue formula adjustments mean that only N$14.19bn of the SACU revenues will reach Namibia in 2022/23. SACU revenues are expected to recover in 2024/25 and 2025/ to N$19.46bn and N$21.41bn, respectively.

Domestic taxes on goods and services are expected to increase by 9.48% this year, driven by an estimated N$491m increase in VAT collections. Levies on fuel have been left unchanged at N$1.17bn, interesting considering the temporary relief granted on fuel levies and taxes earlier this year.

Tax Revenue Growth

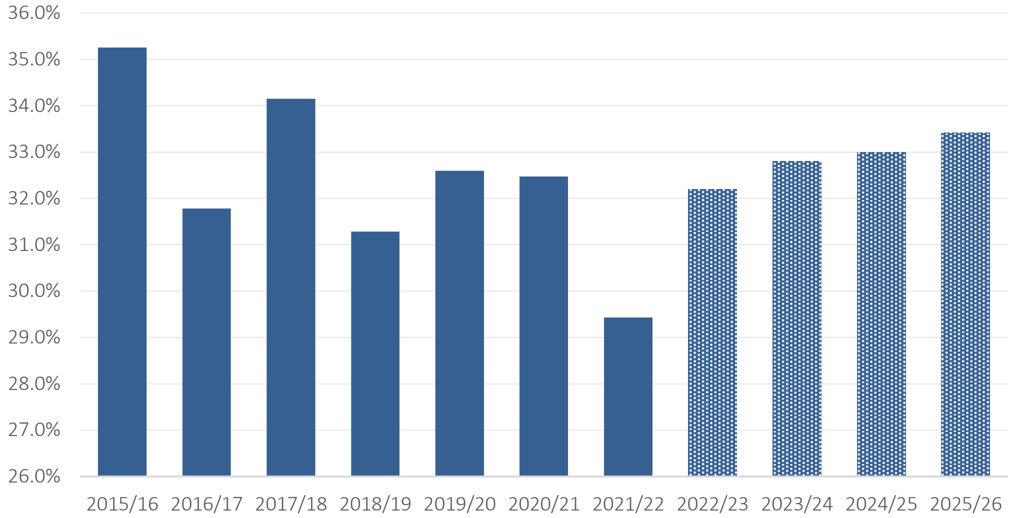


Source: MoF, IJG Securities

Taxes on income and profits constitute the largest share of total revenue at 39.0% and are expected to increase by 4.3% y/y to N$53.44bn in 2022/23. The increase is expected to come from corporate taxes and taxes on individuals as noted above. Notably, collections from company taxes are expected to increase on average by 16% over the MTEF despite the ministry announcing a 2-percentage point reduction in the corporate tax rate over the latter years of the MTEF.

The ministry noted that the Income Tax Amendment Bill, which has been under consideration for several years now, is in the legal drafting stage and will be tabled in the National Assembly in this financial year. The bill in the past included various proposal including the introduction of a withholding tax at a rate of 10% on dividends paid to Namibians among others. Noticeably, no mention was made about the withholding tax in the mid-year review statement nor was there any specific provision for the withholding tax over the MTEF which may signal an even longer deferral of the planned withholding tax.

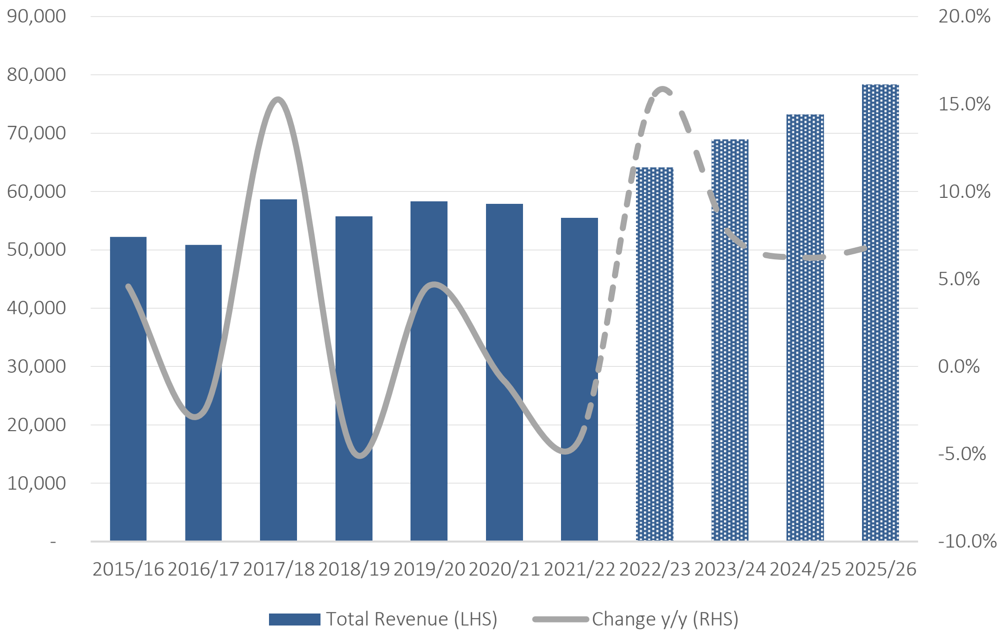
Revenue as a Proportion of GDP



Source: MoF, IJG Securities

As a percentage of GDP, the government expects revenue to increase from 29.4% in 2021/22 to 32.2% in 2022/23 and to moderate to 32.8% in 2023/24. Over the MTEF, total revenue is projected to average around 33.1% of GDP.

Revenue
(N$ millions)



Source: MoF, IJG Securities

MTEF Revenue Estimates

Revenue collection is expected to increase by 15.7% y/y in the 2022/23 fiscal year, before slowing to single digit growth over the MTEF. Overall, revenue is forecast to grow by an average of 6.9% from 2023/24 to 2025/26. The ministry ascribed the projected increase in revenue collection to recovering economic activity and improved tax compliance and collections of tax arrears in line with tax administration reforms. The diamond sub-sector was pointed out as the sector to spur expected growth in company taxes, royalties, and dividends. SACU revenues are also expected to improve on the back of an expected economic recovery in the region and normalisation of regional trade flows.

Non-tax revenue is expected to taper down somewhat over the MTEF. The ministry expects non-tax revenue to average around N$6.0bn over the period with dividends and profits from SOE estimated to come in above N$3.1bn in each year.

We have noted in last year's mid-year budget review that the ministry's revenue forecasts then were rather conservative and that we expected a surprise to the upside. This year is rather the opposite. We consider the revenue forecast somewhat optimistic and a surprise to the downside is more probable in our view.

Tax Policy and Tax Administration Reforms

A few tax policy amendments and reforms were announced in the mid-year budget review. The Ministry of Finance continues to adhere to its principal decision not to introduce any new tax proposals that could restrain economic growth given that the domestic economic climate remains vulnerable. In addition, the Minister stated that the MoF is focused on implementing measures that could provide relief to taxpayers in the near- to medium-term.

The minister announced the following:

- A reduction in the corporate income tax rate for non-mining companies to 31% (from the current 32%) effective in 2024/25, with a further reduction to 30% in 2025/26.

- That the Ministry will undertake an assessment to review the threshold for individual income tax from the current N$50,000 to N$100,000.

- MoF is implementing a proposal to increase tax deductibility on pension fund contributions and educational policy deductions to a maximum of N$150,000.

- Providing relief through zero-rating of VAT on the supply of sanitary pads, among others, by 2022/23.

- Enforcement of withholding tax on services in which taxpayers will be required to provide proof of actual tax withheld from payments.

- Managing the roll out of a modified Electronic Filing Tax Relief Programme to offer relief to taxpayers by writing off a percentage of the interest and penalties owed as a tax arrears, which was announced in the budget speech in February 2022.

The minister noted that the previously announced tax proposals and considerations will be revisited once the economy has adequately recovered, and both corporate and individual incomes have stabilised.

We welcome the announcement of the reduction in the corporate tax rate, as it is a step in the right direction. We share the Minister's sentiment that tax changes that could harm economic growth should not be introduced right now but given that a cut in the corporate tax rate and an increase in the individual income tax threshold would be beneficial to individuals and corporates now, we would have liked to see these proposals being implemented a lot sooner than in the outer years of the MTEF period.

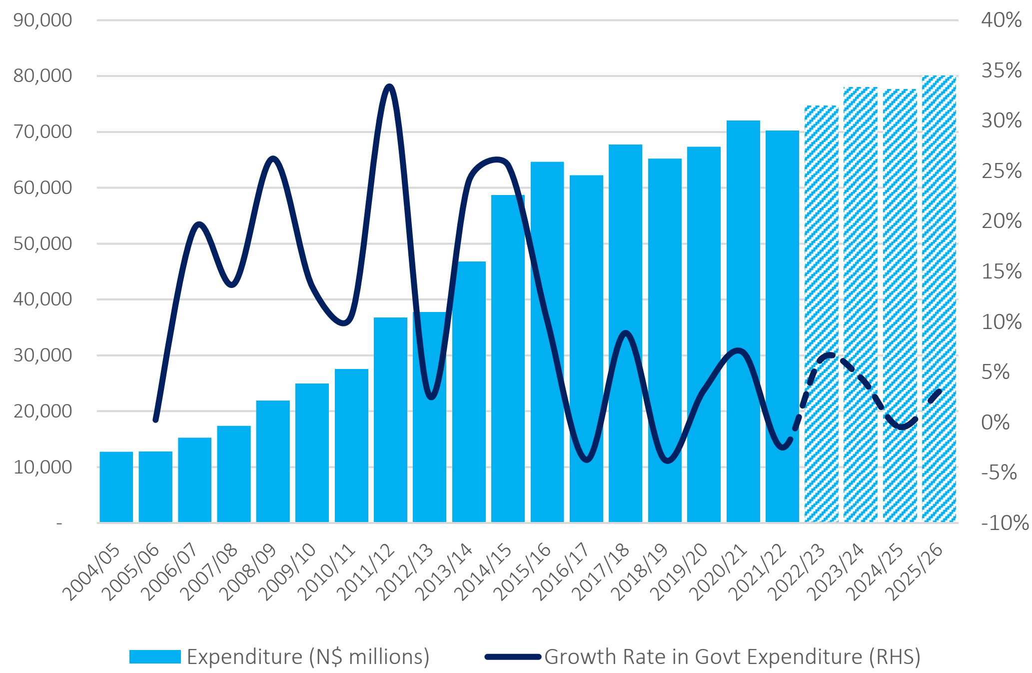
Expenditure

2021/22 Outturn

Expenditure for 2021/22 was 0.8% higher than expected in the February budget, at N$70.24bn. Fiscal expenditure as a percentage of GDP was 37.3%, an improvement from 40.4% in 2020/21, and in line with 2019/20. The Ministry predicts that it will continue to whittle down to 35.0% in 2023/24 and 34.3% in 2024/25.

Operational expenditure amounted to N$56.95bn, an overspend of 1.1%. The Ministry says that personnel expenditure on the votes of the Ministry of Education, Arts & Culture as well as the Ministry of Health and Social Services was the main driver behind the expenditure increase during the budget year. Development expenditure came in at N$4.69bn, representing an execution rate of 92.7%. Actual interest payments of N$7.67bn came in lower than the revised budget estimates of N$8.30bn.

Government Expenditure
(N$ millions)



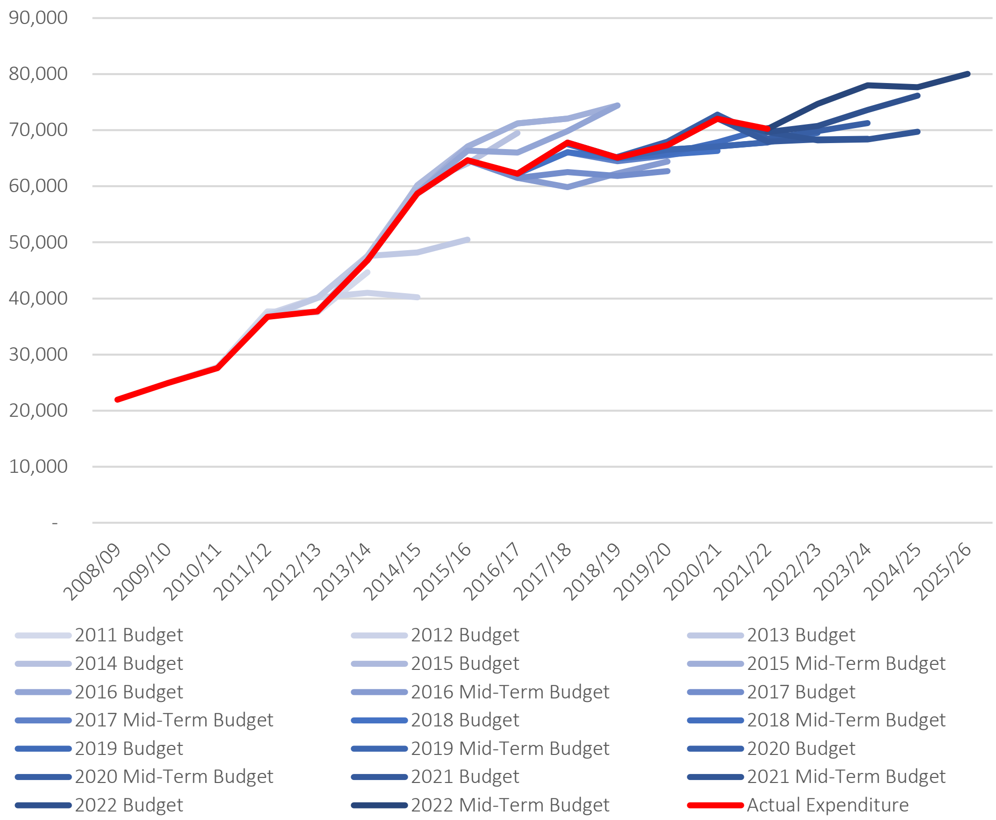
Source: MoF, IJG Securities

2022/23 Expenditure Review and Mid-Year Outturn

This mid-year review sees the total expenditure ceiling for 2022/23 (including statutory spending) revised up significantly from the February budget mainly due to the 3.0% increase in public servants' remuneration and "in lieu of keeping up with rising cost of utilities and general inflationary pressures". As such the expenditure ceiling for the fiscal year has been revised up by N$3.93bn or 5.5% to N$74.69bn. This represents an increase of 6.3% from 2021/22.

Total mid-year expenditure and commitments amounted to N$31.9bn by the end of September, representing an execution rate of 42.7%. The budget documents have this at 45.1%, but it seems as if that is based on the February budget figure. The operational expenditure execution stood at 49.6%, while the half-year development budget execution rate was 38.0%.

Expenditure
(N$ millions)



Source: MoF, IJG Securities

The development budget has been revised up by N$497.7m to N$5.50bn, after N$165.8m worth of savings were realised. The budget review exercise enabled a reallocation of funds within the development budget, with the Ministry noting that projects "that were performing" were prioritised. The additional allocations on the development budget will be split as follows:

- **President**: N$15m allocated to complete the Hosea Kutako Shire project.
- **Defence**: N$33m was allocated to the Research and Development project.
- **Urban and Rural Development**: N$75.0m for the Land Servicing Programme.
- **Trade and Industrialisation**: N$25.0m for NIDA projects.
- **Fisheries and Marine Resources**: N$10.0m to complete the construction of the Head Office building.
- **Works and Transport**: N$449.0m for Roads Project and to revamp the Apron at Hosea Kutako Airport.
- **Higher Education, Technology, and Innovation**: N$10.0 million for "projects".

The review of the operational budget identified potential savings of N$387.3m for re-allocation across votes. Still, additional funding requests of N$2.25bn across the votes, coupled with an additional N$1.25bn for the 3% increase in civil servant salaries meant that the operational budget was revised upwards by N$3.50bn to N$60.06bn.

VOTE	RECOMMENDED ADDITIONALS	SALARY INCREMENT & BENEFITS	TOTAL REVISED OPERATIONAL BUDGET
PRESIDENT	94,500,000	2,662,000	665,669,000
PRIME MINISTER	-	6,151,000	384,483,000
NATIONAL ASSEMBLY	55,000,000	1,431,000	167,031,000
AUDITOR GENERAL	4,790,000	3,614,000	116,671,000
INTERNATIONAL RELATIONS & COOPERATION	72,000,000	6,223,000	853,965,000
DEFENCE	14,000,000	175,518,000	5,775,213,000
FINANCE	(32,750,000)	20,595,000	5,194,620,000
EDUCATION, ARTS & CULTURE	572,890,000	506,757,000	14,854,632,000
NATIONAL COUNCIL	9,700,000	1,267,000	102,900,000
HEALTH & SOCIAL SERVICES	316,000,000	185,169,000	8,651,502,000
LABOUR, INDUSTRIAL RELATIONS & EMPLOYMENT CREATION	25,000,000	4,432,000	184,788,000
MINES AND ENERGY	-	4,418,000	145,544,000
JUSTICE	-	11,490,000	429,843,000
URBAN AND RURAL DEVELOPMENT	5,400,000	26,610,000	1,063,783,000
ENVIRONMENT, FORESTRY & TOURISM	35,000,000	14,303,000	488,255,000
INDUSTRIALISATION & TRADE	38,900,000	2,832,000	219,834,000
JUDICIARY	10,700,000	6,534,000	386,714,000
FISHERIES & MARINE RESOURCES	-	5,813,000	169,360,000
WORKS	17,435,000	12,012,000	552,163,000
TRANSPORT	100,000,000	5,691,000	404,804,000
NATIONAL PLANNING COMMISSION	3,203,000	2,000,000	187,984,000
SPORT, YOUTH & NATIONAL SERVICE	43,000,000	4,507,000	312,428,000
ELECTORAL COMMISSION OF NAMIBIA	10,131,000	1,652,000	97,132,000
INFORMATION & COMMUNICATION TECHNOLOGY	35,100,000	3,159,000	525,131,000
ANTI-CORRUPTION COMMISSION	9,600,000	1,600,000	73,971,000
VETERANS AFFAIRS	156,260,000	1,449,000	1,029,153,000
HIGHER EDUCATION, TECHNOLOGY & INNOVATION	159,000,000	1,546,000	3,408,646,000
PUBLIC ENTERPRISES	103,000,000	646,000	894,315,000
GENDER EQUALITY, POVERTY ERADICATION SOCIAL WELFARE	6,614,000	8,672,000	5,512,746,000
AGRICULTURE & LAND REFORM	109,785,000	24,082,000	1,044,635,000
WATER	13,471,000	6,879,000	223,683,000
HOME AFFAIRS, IMMIGRATION, SAFETY & SECURITY	263,000,000	194,706,000	5,941,824,000
TOTAL	**2,250,729,000**	**1,254,420,000**	**60,063,422,000**

Source: MoF, IJG Securities

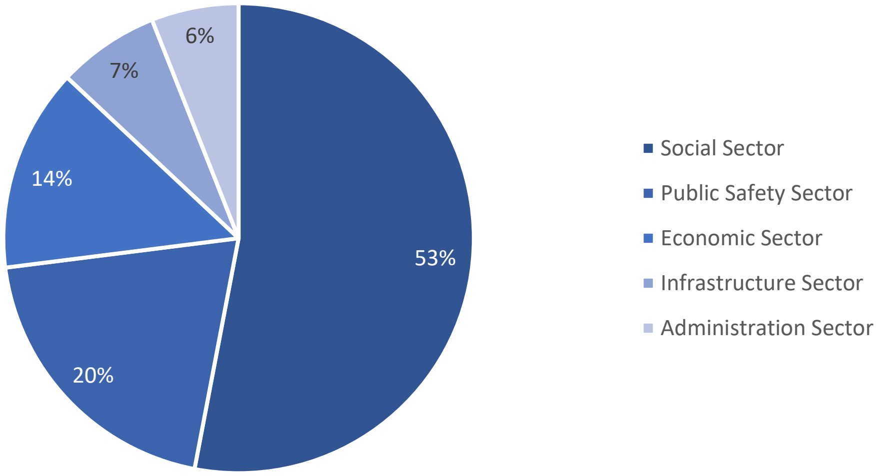
The Ministry of Education, Arts and Culture saw the biggest increases to its operational budget with an additional N$506.8m allocated to personnel expenditure due to the salary hikes (making up about 40% of the entire government's wage bill increase) and an additional N$572.9m allocated to other personnel expenditure. The Ministry of Health and Social Service's operational budget was revised up by N$501.2m. The Minister noted in his speech that the Auditor General has flagged persistent overspending by the two votes in previous financial years, primarily due to underbudgeting, which the Ministry of Finance wishes to address with these allocations according to the budget documents.

An additional N$872.9m has been added on the goods and services budgets of the various votes to cover projected shortfalls on utilities, funding to combat the outbreak of foot and mouth disease and lung sickness, as well as to broadly stem the erosion of purchasing power due to high inflation, particularly on transport.

N$531.1m was allocated to subsidies and other transfers to government organisations to cover shortfalls on student funding at NSFAF and the refurbishment of locomotives for TransNamib. N$99.3m was allotted for the acquisition of capital assets, primarily to purchase medical equipment for the medical internship programme.

The allocation for interest payments has been marginally reduced to N$9.13bn, from N$9.21bn previously, “in line with better outcomes year-to-date”.

Revised 2022/23 Sectoral Allocations



Source: MoF, IJG Securities

The revisions resulted in changes to the breakdown of the overall expenditure profile. With the increased allocations to the Education and Health Ministries, the social sectors now make up an even larger portion of the overall expenditure profile at 53% (from 46% previously). The increase has primarily come at the expense of the economic sectors which saw a 12 percentage point drop and now accounts for 14% of overall spending. Public safety now takes up 20% (from 18%), while the infrastructure and administration sectors continue to account for 7% and 6%, respectively.

MTEF Expenditure Projections

MTEF Expenditure Growth	
2022/23	6.3%
2023/24	4.5%
2024/25	-0.5%
2025/26	3.1%

The Ministry of Finance has also revised the 2023/24 expenditure ceiling up materially by N$4.43bn or 6.0% to N$78.02bn. If realised, this will translate to an increase of 4.5%. Thereafter expenditure growth is expected to marginally fall by 0.5% to N$77.66bn in 2024/25 before increasing by 3.1% to N$80.05bn in 2025/26.

The minister said that the 2023/24 fiscal strategy will center on “maintaining prudent expenditure management and promoting economic recovery”.

An allocation has been made for the National Census to be undertaken in 2023/24, while the provisions towards the PSEMAS have been reduced by N$1.0bn over the two-year period spanning from 2023/24 to 2024/25 as the Ministry expects the government to gain from the planned reforms to the benefit structure of the scheme.

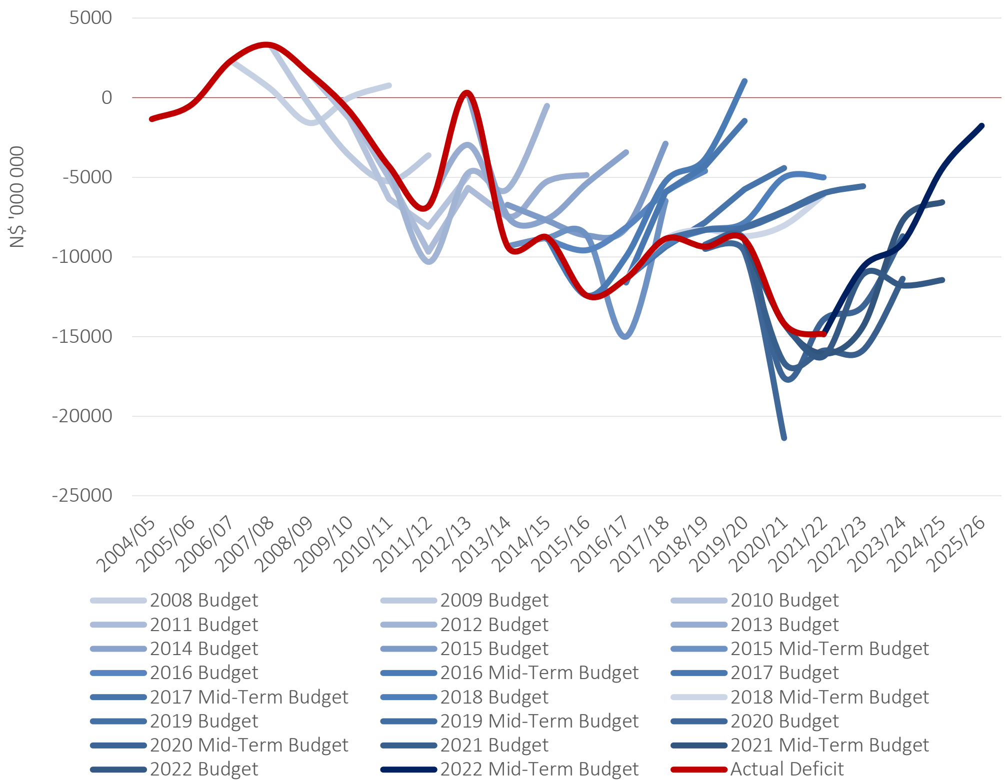
Encouragingly, the budget documents show that the development budget will grow by 21.9% in 2023/24 to N$6.67bn, after the February budget showed a decline.

Budget Balance and Financing

2021/22 Outturn

Revenue for 2021/22 was adjusted meaningfully upward from N$53.43bn to N$55.38bn with the mid-year review as elaborated on earlier in this document, while expenditure was revised up more modestly to N$70.24bn. Thus, the budget deficit for 2021/22 amounted to N$14.86bn, or 7.9% of GDP, versus the February budget estimate of N$16.24bn, or 8.7% of GDP. This makes the 2021/22 budget year one of the few where the actual deficit outturn was significantly smaller than forecast in prior periods. In the figure below this is clearly visible with the prior periods, denoted in blue, lying below the actual line, denoted in red. The uncertainty brought on by the pandemic resulted in revenue collection projections which proved too conservative. This impacted expenditure as the MoF cut the budget ceiling from the prior year, with the downside being less economic support for businesses and industries hard hit by the reaction to the pandemic.

Deficit Forecasts



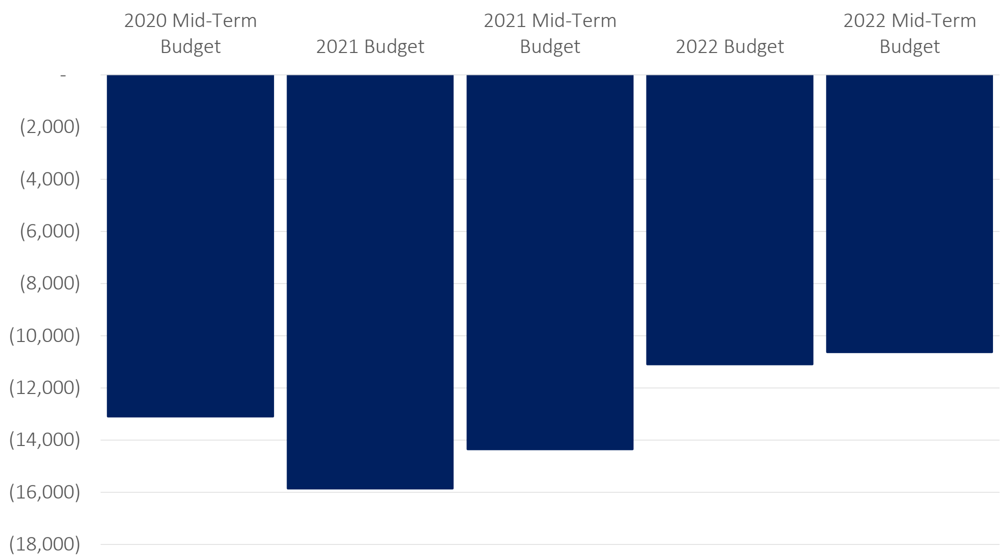
Source: MoF, IJG Securities

2022/23 Budget Balance Review

Projected revenue for 2022/23 was revised upwards by N$4.39bn or 7.3% to N$64.06bn after being revised downwards by 10.8% in the February budget. Thus estimated revenue for 2022/23 is some N$10.21bn or 19% higher than expected in last year's mid-year review. This is a very substantial increase and driven only partly by overall better performance on most tax revenue line-items. The majority of this increase stems from estimates of dividends and profit share from SOE's and other companies which rose from N$1.17bn last November to N$6.91bn in the current budget documents. Much of this is due to Debmarine dividends and the proceeds from listing MTC Limited which were held over to the current year. The N$4.39bn increase in estimated revenue from the February budget is mostly made up of improved tax revenue expectations.

Projected expenditure for 2022/23 was revised upwards by N$3.93bn or 5.5% from the February budget. Total expenditure for 2022/23 is now estimated to reach N$74.69bn making this the largest budget ever tabled by the MoF. The minister of finance alluded to the policy of fiscal consolidation having largely run its course in the February budget and the tabling of this mid-year revision cements this guidance. Thus, 89.5% of the estimated increase in revenue is allocated to expenditure within the same budget year. Most of the increase in expenditure has been allocated toward the operational budget, with only around N$500m allocated toward the development budget.

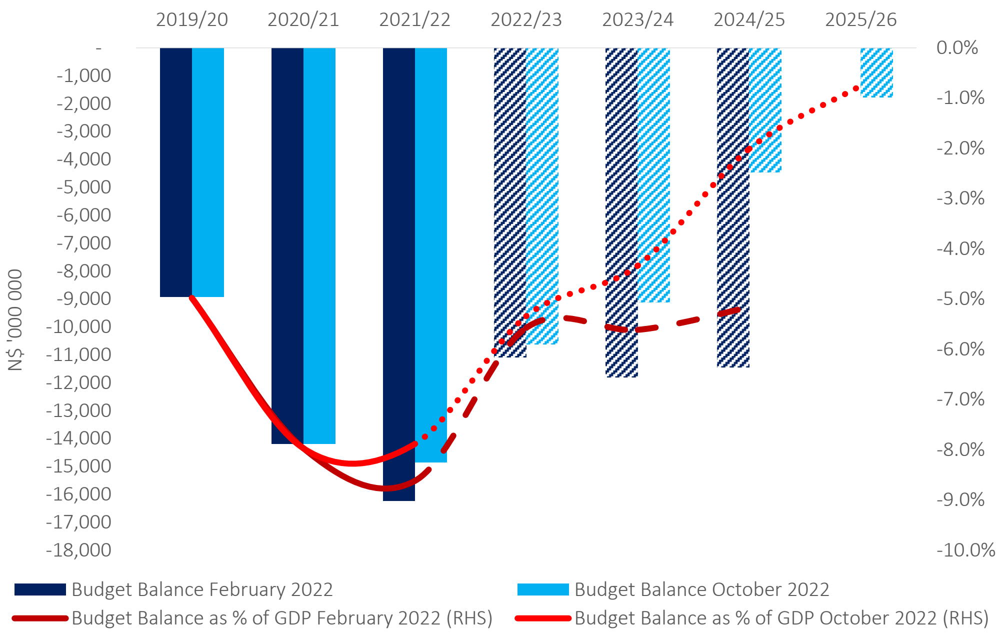
2022/23 Budget Deficit Projections



Source: MoF, IJG Securities

The net effect of the improved revenue estimate along with the slightly smaller increase in expenditure is a N$460m decrease in the deficit for the 2022/23 year. The deficit-to-GDP ratio however improved from 5.6% to 5.3% due to improved nominal GDP expectations. 2022/23 marks the 10th straight year of budget deficits coming in at or above 5.0% (rounded to 1 decimal in this case). At N$10.63bn the 2022/23 budget deficit will be the smallest deficit of the last three years, though, and this despite increased civil service wages.

Budget Balance

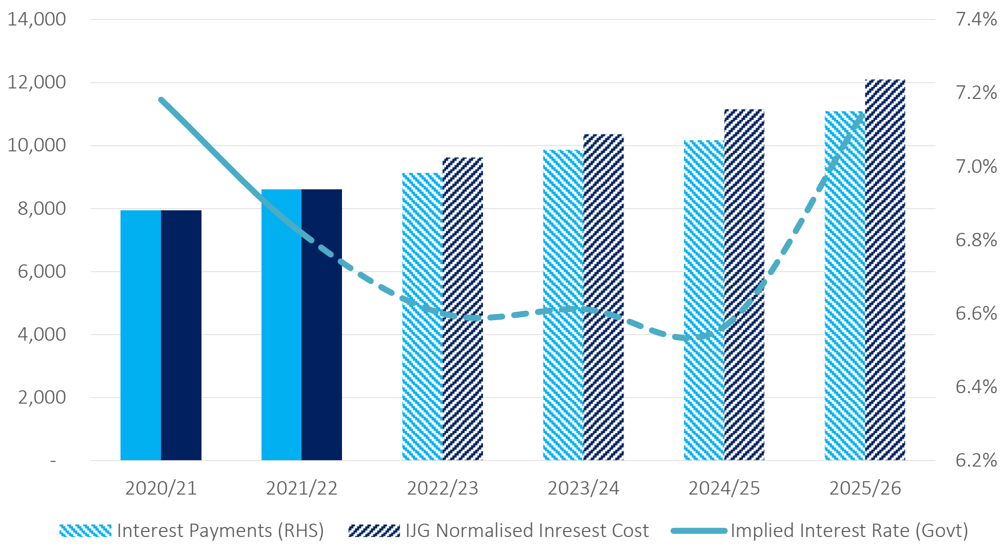


Source: MoF, IJG Securities

The funding requirement for the year is similarly little changed from February and amounts to N$19.0bn. The breakdown of funding has also changed little, with domestic debt issuance now expected at N$10.37bn, sinking fund utilisation of N$2.6bn, AfDB funding of N$1.92bn, and IMF funding of N$3.48bn. Domestic debt is set to reach N$105.31bn by March next year with foreign debt to reach N$33.07bn.

Total debt-to-GDP is expected to amount to 69.6% in 2022/23, slightly below the February expectation of 70.3%. This metric remains concerningly high for a country in which economic activity is relatively concentrated in a few industries. It is of some comfort that domestic debt makes up the bulk of the national debt, as this reduces the impact of currency depreciation on the probability of default on such foreign debt. Our preferred metric to track in terms of debt sustainability and sovereign risk is interest payments (including statutory commitments) as a percentage of revenue. This metric is somewhat improved at 14.3% from 15.5% in the prior year due to improved revenue figures. We are however not convinced that the interest rate implied by the budget documents will materialise as they seem to be based on the very low rates seen in response to the pandemic. Rising inflation and global interest rates have already led to domestic short-term rates rising significantly. We once again expect higher interest costs than those forecast in the budget, but also point out that these increases in expenditure are less material than in prior years in the context of higher estimated revenues.

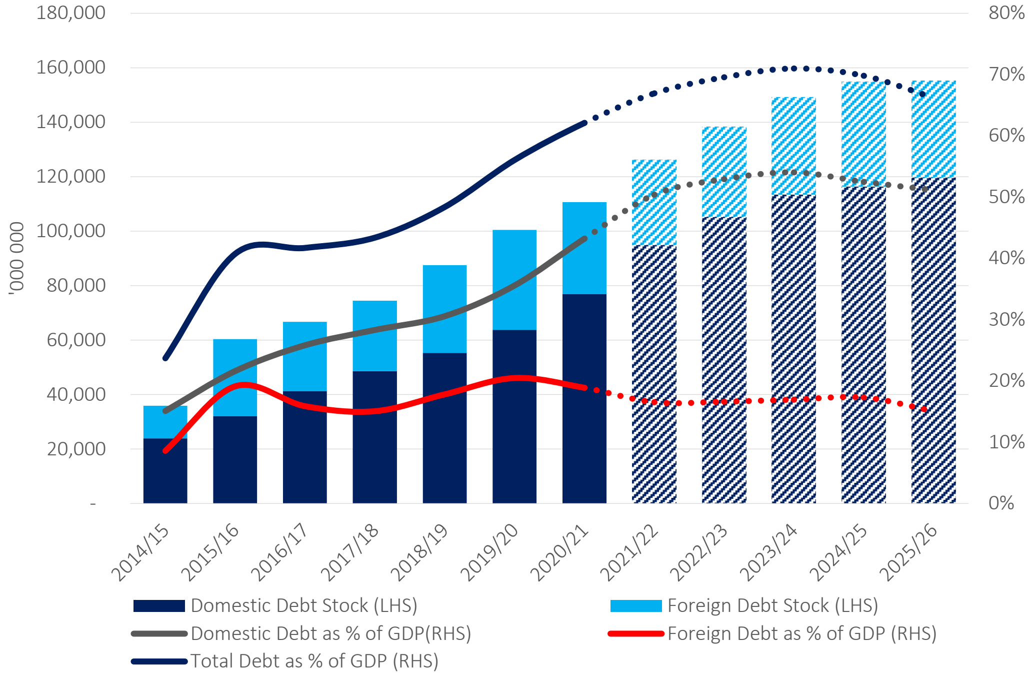
Projected Interest Costs vs IJG Expectations



MTEF Deficit and Funding Projections

The MoF projects that the budget deficit will narrow substantially in the outer MTEF years due to revenue growth outpacing expenditure growth. MoF projects the budget deficit to amount to N$9.11bn in the coming financial year, N$4.46bn in 2024/25, and N$1.76bn in 2025/26. In relation to GDP, projected budget deficits thus drop from 5.3% in the current year to 4.3% in 2023/24, 2.0% in 2024/25, and just 0.8% in 2025/26. For each of the coming MTEF years, MoF thus projects a primary surplus, or a surplus before accounting for interest payment and statutory commitments. Forecasts for decreasing budget deficits have been the norm from MoF for many years, and only really paused due to the uncertainty created by the pandemic. The track record of achieving these deficits is however dismal as can be seen in the first graph under this section.

Total Debt Stock and Debt to GDP



Source: MoF, IJG Securities

Total debt as a percentage of GDP is expected to rise to 71.0% in 2023/24, but start to drop thereafter. Debt-to-GDP is expected to drop to 69.8% in 2024/25 and then to 66.2% in 2025/26. The MoF thus expects nominal GDP growth to outpace growth in debt over the MTEF period. The MoF however estimates that interest costs as a percentage of revenue will drop more slowly, remaining at 14.3% in 2023/24, dropping to 13.9% in 2024/25, but increasing again to 14.2% in 2025/26 due to higher interest rates expected on debt. As mentioned, we expect higher interest costs in the short term and thus both budget deficits as well as interest as a percentage of revenue to exceed the MoF's estimates in most MTEF years.

Outlook

In our brief "Outlook" conclusion to the National Budget tabled in February this year we pointed out that fiscal consolidation as a policy seemed to be falling from favour, with the minister stating that "the scope for further expenditure consolidation has thinned significantly". The minister also stated that future revenue increases would be redirected toward reducing the borrowing requirement. This second statement implied that expenditure ceilings would not increase by a larger amount than revenue, while the first implied expenditure ceilings would likely start to increase at a more meaningful pace than seen in recent years.

The mid-year budget review confirms the guidance provided in the February budget with expenditure ceilings estimated to grow at 3.3% (on average) per annum from the 2021/22 budget, while revenue is estimated to grow at a significantly quicker 9.0% (on average) per year over the same period. In nominal terms, revenue is estimated to grow by N$5.73bn per annum on average over the period while expenditure is estimated to grow by N$2.45bn per annum on average. As a result, the MoF estimates that budget deficits have peaked, and that debt-to-GDP is set to peak in 2023/24 and decline thereafter. This is thus the most optimistic budget tabled in the last five years from a revenue perspective.

Our optimism for the implications of improved revenue collection and increased spending toward achieving government's various development goals maintains only two caveats, the fact that these revenue estimates need to materialise before that revenue can be put to good use, and the efficiency and effectiveness of the use of funds.

Almost all of the increase in estimated revenue for 2022/23 is passed on to the operational budget in the current year. The revenue and expenditure estimates for the outer MTEF years indicate that this is likely to be a trend going forward. The majority of the increase in expenditure has been allocated to the social sectors, with a large portion thereof allocated to salary increases. No mention is made of rightsizing the development budget. This is a sign of the pressure that has built up during the fiscal consolidation years. Budget ceilings were contained but undoubtedly weighed on the various ministries' ability to achieve their respective goals.

The minister noted in his budget speech that government will partner with international DFI's in order to execute large capital projects. Indeed, such collaborations are already the case but have previously fallen outside the primary budget expenditure framework. This will change going forward and these projects will be incorporated in the budget and bring some alignment between the budget deficit and the funding requirement. The positives of partnering with DFI's on capital projects are likely to be better checks and balances on how the funds are put to use, ring fencing of funding for specific economically viable projects, and accountability. The negative lies in the fact that if DFI's fund 100% of the projects on the books it means that there is potential room within the budget ceiling for reallocation of funds that would have been spent on capital projects toward operational expenditure. This could result in further fiscal slippage and wastage.

We remain sceptical of the estimated rate at which the budget balance will move toward an almost balanced position. Only two budgets have been more optimistic in the last decade, those of mid-year 2016/17 and 2017/18. Neither projection played out as expected. Those estimates underestimated the deficit of 2019/20 by around N$10bn and N$7.5bn respectively. Granted, we are more optimistic that the economic recovery currently underway will translate to improved deficit metrics in the current and next financial years, but we do not anticipate that the improvement will be as great as the MoF projects and the latter MTEF years hold even greater uncertainty. We err on the side of caution with regards to overoptimistic revenue projections precisely because Namibia's own recent history has shown us that the potential for revenue to underperform and thus for debt issuance to balloon unexpectedly is high in a small open and undiversified economy. We would caution our decision makers to do the same.

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