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The 2023 Namibian Budget in review

"Economic Revival and Caring for the Poor"

Theme

The theme of the Budget is changing from "consolidation" to "sustainability", which means that, as Revenue recovers due to better economic conditions, Expenditure is also allowed to grow. This helps economic growth, but it results in a deficit that will only reach 3% of GDP in five years' time. The Minister of Finance (MoF) set the Budget's sub-title as "Economic Revival and Caring for the Poor".

Economic Revival is evident therein that

- spending on Goods and Services will rise by 21.3%,
- Subsidies and Transfers by 16.7% and
- Capital Spending by 51.6%.

But, fortunately, the

- Wage Bill is set to rise by only 2.6%.
- Small tax breaks will also help.
- The threshold below which no Personal Income Tax is payable, rises to N$100,000 and the
- Corporate Tax rate will be lowered to 30% by FY26.

Caring for the poor is evident in the

- increases in grant amounts and
- expansion of coverage of vulnerable children grant by another 30,000 children.
- Old Age, Disability, Orphan and Vulnerable Children, as well as the Conditional Income Grants, are all increased by N$100 per month.

Total Revenue is budgeted to rise by 16.5% to N$74.7bn and Expenditure by 13.2% t N$84.6bn in FY24, resulting in a deficit of N$9.8bn, equal to 4.6% of GDP. Over the next two years, FY25 and FY26, it is estimated to decline to 3.8%. If a "consolidation" stance were still in effect, the decline in the deficit would have been faster. Nevertheless, funding pressure on the domestic market will reduce sharply.

Revenue

The sturdy rise in Revenue of 16.5%, following on an already significantly recovered Revenue base in FY23, is largely due to a surge of 71.6% in SACU Receipts to N$24.3bn, making up 32.6% of the total.

Personal Income Tax (PIT) is set to rise by 3.0% to N$16.7bn, 22% of the total and Corporate Tax (CIT) by 8.6% to N$8.8bn, 11.8% of the total.

Indirect taxes, VAT and the Fuel Levy are budgeted to rise by 5.5% to N$16.7bn or 22% of the total.

There are also a plethora of other taxes that, in total, amount to N$8.1bn or 10.8% of the total. These consist of, amongst others, of dividends and profit share expected from a number of sources such as NPTH, NamDia, NamDeb and BoN, in total N$2.6bn, mineral royalties (diamond and other) of N$2.3bn, admin fees and fines of N$1.4bn, as well as several other, smaller sources.

No new taxes are implemented. The focus will rather be on administrative reforms and tax compliance, such as with the tax arrears relief program. A little relief will come by way of the small tax breaks mentioned above. The usual hikes in sin taxes take immediate effect.

The increases in the main domestic sources of Revenue, Personal Income Tax, Corporate Tax and VAT, are quite conservatively forecasted, in our view, given that nominal GDP is likely to grow at higher rates than those apparently assumed by the MoF.

Expenditure

It is heartening to see that there are no significant overruns on the numbers given in the Mid-Year Budget Review (MYBR) of October 2022. Total Expenditure grew by 6.2% in FY23 to N$74.7bn. In the coming year, FY24, it is estimated at N$84.6bn, growing by 13.2%.

As mentioned above, this sturdy growth is driven by spending categories outside of the Wage Bill, which is comforting, because it is the latter that has been a source of concern in the past. At times it has gobbled up as much as 55% of total Revenue. By FY26 it should have declined to 42.8% of Revenue if the forecast of the MoF holds.

The Budget goes through the usual review of the so-called Sectoral allocation. These can be gauged by the breakdown of the "39 Votes", which is largely by the Ministry.

Social
Health, Education, Youth, Gender and Social Welfare.
N$38.4bn

Infrastructure
Transport and Works.
N$4.2bn

Economic
Agriculture, Industrialisation, Mines, National Planning Commission, Finance.
N$10.6bn

Public Safety
Home Affairs, Safety and Security, Judiciary, Anti-Corruption Commission.
N$14.1bn

Administration
Urban and Rural Development, Offices of the President and Prime Minister.
N$5.3bn

To these must be added the N$10bn Interest Bill and the N$2bn of Development Expenditure outside the Budget to get to the total Expenditure level of N$84.6bn.

The total Interest Bill is set to rise by nearly 10% to N$10bn, equal to 13.4% of Revenue. This is the only ratio where the MoF mentioned a "benchmark". In this instance 10%. This benchmark will not be reached, as the ratio is set to rise to 14.2%. We would like to see more of these "benchmark" ratios being mentioned, such as the debt-to-GDP and deficit-to-GDP ratios.

Deficit and Debt

Benchmarking of the major ratios will assist the market and credit raters, enabling them to gauge the medium term strategic plan of the MoF. As it stands currently, there seems to be little urgency to right the ship with the intent of regaining an investment grade credit rating. The MoF rightly said that we will have to get on a debt reduction path, because the trajectory is too high.

This year a marginally positive Primary Balance will be achieved, which is quite an important small win. This is the balance between Revenue and Expenditure, excluding Interest. This means that, if there was no interest expense, we would have a balanced Budget.

Total Debt has broken through N$150bn, equal to 70.1% of GDP. This growth rate in debt remains too high and can only be brought down by having smaller deficits in future. Three quarters of debt is domestic, amounting to N$113bn. This means that N$37.9bn is foreign debt of which some is Rand denominated. We do not have the details of the latter as of yet.

Guarantees are rising again due to the off-budget borrowing by Ministries and Agencies, such that Debt & Guarantees as a % of GDP rises to 76% and does not decline much. This is where creditworthiness takes a hit.

Initiatives

Details are given regarding many programs, initiatives and spending priorities.

- **Namibia Investment Promotion and Development Board (NIPDB).** Three main sectors of high value fruits, beef value chain and film and television are to be prioritised.
- **Training and skills development.** New Vocational Training Centres and a faculty in NUST for Technical Vocational Education and Training (TVET) with an eye on green hydrogen and oil.
- **National Population and Housing Census.** N$706m to the NSA.
- **General Registration of Voters.** N$295m to the ECN
- **Transfers to commercial SOEs** have been reduced significantly to around N$425m from the billions of the past years.
- **Youth programs** driven by the National Youth Service, the Ministry of Youth, Sports and National Service, Agribank, Development Bank of Namibia and the Environmental Investment Fund.
- **Supply side reforms.** Rigid laws and regulations, suboptimal education outcomes and limited know-how.
- **Energy and water security.** Engagement with Nampower regarding the expanded generation and transmission projects end ensure system stability. Namwater is engaged in multiple projects. MoF urges action regarding the desalination plant at the coast, which was already approved by Cabinet in July 2021.
- No further contribution to the Welwitschia Fund for now.
- **DBN and BoN** business rescue programs and SME loan schemes.
- **The Namibia Investment Promotion and Facilitation bill.** The Ministry is supposedly currently in consultations and workshops regarding this bill.
- **TransNamib** is set to upgrade railway lines and rolling stock with funding coming from DBSA, DBN and AfDB.
- An in-depth review of **MeatCo** has been undertaken and the results are now under consideration.
- **Green schemes and the Neckertal Dam Irrigation Project** appear to be moving forward. The Ministry of Agriculture has acquired two farms near Neckertal.
- **The Central Securities Depository** (CSD) is expected to go live in 2Q23.
- **The Minerals Act** is under consideration and consultations with stakeholders are underway.

Conclusion

Overall, it is a budget for the times. The list above brings to the fore again the immense degree of pressure for fiscal policy to address social ills and needs.

A very challenging balancing act had to be maintained. However, we would have liked to see a degree of consolidation be maintained to address the deficit and debt trajectories and at least the mention of bettering the credit rating.

Nevertheless, the borrowing requirement is not onerous and sufficient provision is being made for upcoming maturities. This means that we continue to have a constructive view on Government bonds and TBs that offer good returns and low counterparty risk.

Last year this time our theme was budgets and bullets as Ukraine was being invaded. It is now the one year anniversary of the war and it is still casting a long shadow across the world. However, the Namibian economy is recovering after a multi-year slump. We should not forget that we are at the tail end of large macro shocks that are only now slowly dissipating.