Unpacking the Macroeconomic Policy

Amidst intense geopolitical tensions, macroeconomic policy-making is coming to the fore.

A plethora of Central Banks (CB's) have been meeting or are scheduled to meet soon. They are deciding on interest rate settings under conditions of high uncertainty regarding the inflation- and general economic outlook, that is the setting of Monetary Policy.

At the time of writing, we are still awaiting the mid-term Budget for South Africa, which represents Fiscal Policy, while information is also emerging regarding the USA's fiscal year ended September 2023. In the latter, the deficit has surged to $1.7tn, which is worrying investors in US Treasuries, as is evident in a surge in yields.

Most CB's are striking a cautious tone, that is pausing their Monetary Policy tightening campaigns, which, in our view, is long overdue. They need to see what effect their shock treatment will have on the real economy and to accept that inflation will not decline in a straight line to their targets. The latter is amply demonstrated by an interruption in the downward trend of inflation wrought by the oil price surge in the third quarter of the year.

The Federal Open Market Committee (FOMC), the policy making body of the Federal Reserve (Fed) held rates steady at 5.50% in their latest meeting. This follows a pause and a hike, respectively, in their previous two meetings. Similarly, the Monetary Policy Committees (MPC's) of the following CB's held rates unchanged in their latest meetings:

- ECB (Europe 4.50%),
- BOE (England 5.25%),
- SARB (SA 8.25%),
- BoN (Namibia 7.75%) and
- BoB (Botswana 2.65%).

We foresee that interest rates will plateau at these levels and that the next move, in all likelihood, is down, in the second half of 2024. By that time, a clearer picture will have emerged regarding the state of the real economy, geopolitical impacts such as on fuel prices and distorting base effects should have worked themselves out.

On the Fiscal Policy front, we expect good news (Namibia) and bad news (RSA). The buzzword in SA is fiscal slippage, which means we expect a deterioration in the health of the South African fiscal trajectory. The soggy economy results in an undershoot in Revenue collections, while Expenditure pressure will remain high. The latter is driven by the wage bill, the high and rising interest bill, the continuation of the social grants, and the atrocious financial state of local governments and SOE's (State Owned Enterprises).

The Namibia Mid-Year Budget Review

The positive effect on Revenue was evident from an improving economy. However, it was whittled away by a gross underestimation of the interest bill, as well as other unforeseen and unavoidable emergency expenditures. The latter was attributable to SOE's (TransNamib and MeatCo), PSEMAS, NSFAF and drought relief.

- **Macroeconomic assumptions**
  This was in line with our expectations. Nominal GDP growth was revised substantially – for FY23 and FY24 to +11% pa and for the next few years to an average of 7.5%. For the first two quarters of calendar 2023 (CY23) it grew by an average of 15.4%.
- **Revenue from domestic sources**
  Personal Income Tax (PIT) should be up by 9.4% according to the Minister of Finance (MoF) and Corporate Income Tax (CIT) by 14.7% in FY24. VAT, which, including the Fuel Levy, makes up 23% of Total Revenue, is now


estimated to jump by 17.2%. PIT and CIT together make up 34% of total Revenue.

- **Revenue from the SACU pool**
  The amount to be received in FY24 is fixed at N$24.3bn, which is about a third of Total Revenue. It is up from N$14bn pa over the past two years. The MoF expressed reservations regarding the outlook. He is budgeting for it to decline, but to remain around N$21bn pa over the next three years.
- **Total Revenue**
  In FY24, the upshot is that it will amount to just about N$4bn better than Budgeted in February 2023 for a total of N$78.6bn, a 22% increase over FY23. However, for FY25 (+0.5%) and FY26 (+3.9%), virtually no growth in Total Revenue is expected, only to pick up to +10% in FY27, by which time it should amount to N$90bn.
- **Expenditure**
  Unfortunately, there is an overrun of N$4.5bn on this side of the equation, this means that the total for FY24 comes to N$88.9bn. N$1.5bn is ex-Budget and funded by grants and Africa Development Bank loans. The Interest Bill exceeds estimates by N$1.7bn and the rest is made up as mentioned above. The one outstanding feature that is noteworthy is the discipline in the Wage Bill. The MYBR has virtually the same number as that of the Budget, namely N$32.8bn for FY24. It will mark six years of extraordinary containment – it grew an average of 2% per annum over this period. The acid test is to come in the 2024 election year.
- **Deficit and debt**
  The bottom line is that the deficit at N$10.4bn amounts to 4.5% of GDP which is still too high. For FY25 it is envisaged to expand to 5.4% of GDP and then to fall to 2% by FY27. It remains to be seen whether this is actually the target of the MoF, or whether it is just illustrative. As it stands it means that the debt trajectory has improved. It should however stabilise at 66% of GDP and decline to 62% by FY27, whereas until recently 70%+ was envisaged. Following the next fiscal year, FY25, which starts with the Budget in March 2024, there is only one year left to the maturity of the $750m Eurobond, at the current exchange rate, equivalent to N$14,250m – an amount that exceeds the annual Budget Deficit. This was not addressed explicitly yet, however, the sooner the fiscus demonstrates credible preparations for this maturity, the better.
- **Creditworthiness**
  Credit ratings, currently at BB- were, once again, not mentioned. It had been deteriorating after we had long since lost our investment grade. Over the past ten years the Debt-to-GDP ratio climbed from 27% to 66% - double the ratio that the fiscus once used to regard as healthy and sustainable in their benchmarking. Targeting a maximum of 3% deficits to achieve a declining Debt-to-GDP trajectory is the only way of recovering an investment grade. It will take great determination and several years.

The MYBR is not the forum where tax changes or major policy shifts are announced. However, the MoF made mention of a newly formed Tax Policy Unit within the Ministry, as well as the

new SOE policy being hammered out. Overall, the indicative numbers set out in the MYBR for the upcoming budget of February 2024 and the following two fiscal years are quite "soft", therein that Revenue is, once again very conservatively estimated, while very low growth rates are envisaged for Expenditure. Nevertheless, it amply illustrates the possibility that the deficit and debt ratios to GDP could shrink quite fast – the former to 2% and the latter to 62%.

Day of the Girl Child

On 11 October, the world celebrated International Day of the Girl Child, an annual and internationally recognised observance that empowers girls and amplifies their voices by creating awareness of their challenges. In celebration of this day, Capricorn Asset Management (CAM) and Capricorn Group employees, in their role as Changemakers, donated 15 800 sanitary pads and 270 re-usable pads to more than 70 vulnerable young girls from orphanages and other vulnerable communities in Windhoek under the banner of the "Dignity for Every Girl" initiative.

The donation ensured that 70 young girls received a monthly supply of disposal sanitary pads for a year and three washable pads that can last up to 5 years. The reusable/washable sanitary pads that were accompanied by a small guidance booklet, were purchased by the Capricorn Foundation through DEAR (Daring Eagle Attaining Results) Girl Namibia, a long-standing CSR partner of the Capricorn Foundation that focuses on empowering and inspiring Namibian girls, particularly in deprived communities.

"Research shows that the dignity as well as education of underprivileged girls is affected due to the lack of access to adequate feminine hygiene products. Capricorn Group believes in supporting projects that address the basic needs of the vulnerable, especially the youth. For this reason, we encouraged our employees, in support of our Group's purpose of being Connectors of Positive Change, to sign up for this initiative, to spend time with the group of 70 girls and to use their personal resources to purchase these feminine hygiene products. This way, we are all doing our part to support and empower a young girl and addressing period poverty." Marlize Horn, Group Executive: Brand & Corporate Affairs and Executive Officer: Capricorn Foundation said.

A big thank you goes out to our CAM staff who personally donated N$10 000 to the initiative. We would like to commend them for being true connectors of positive change and for all the hard work and dedication they bring to all of our CSR initiatives.