Namibia Budget Overview

Policy is in fire-fighting mode. When one's house is on fire, one needs to do anything and everything to put out the fire and worry about the costs later, so to speak. The fiscus is in a similar situation due to the impact of Covid-19.

In this case, the fire is the threat to the lives and the livelihoods of the nation due to Covid-19. Therefore, this year's Budget for Namibia is a once-off, exceptional situation driven by the threat on the economy and the effect of the lockdowns that have been implemented as a response to the virus. Resulting in revenue sources collapsing and spending needs surging at the same time.

This year revenue will be harshly affected. Income tax on individuals and corporates is expected to fall by about a third to N$15.4bn as economic activity contracts domestically, regionally and globally. Tax on the consumption of goods and services is expected to fall by 15% to N$10.9bn. Other, smaller sources of revenue, such as fees, fines and non-tax revenue are also expected to halve. Fortunately, Namibia's income from the SACU revenue pool for the year has already been agreed upon and it comes to N$22.2bn (+17.6%). This means that overall, the Minister of Finance (MoF) expects revenue of N$51.4, whereas October last year an amount of N$60bn was budgeted for FY21. Furthermore, expected revenue is subject to continued and considerable uncertainty due to the unknowable economic effects of the Covid-19 virus and the policy responses to it, such as lockdowns and restrictions.

On the other side of the coin, spending needs have surged. Where previously total expenditure for FY21 was penciled in at N$67bn, it is now expected to amount to N$72.8bn. The increase in spending is centered on the category "Subsidies and Other Transfers", which is estimated at N$19.9bn, up by 54%. In pre-Covid-19 years it amounted to the order of N$13bn. Interest payments, the cost of debt, is also set to rise by nearly 10% to N$8.4bn. Expenditure on goods and services is set to increase by 22% to N$9bn. The countervailing force, hopefully, lies in containing the wage bill. The MoF budgets for a decrease of 3.5% in personnel expenditure to N$28.7bn. In the prior year it amounted N$29.8bn.

The result of this negative "jaws effect", a simultaneous fall in revenue and an increase in spending, is that the deficit surges to an unprecedented level of N$21.4bn, about three times the size of what was previously expected. The previous record was set in FY16 at N$13.5bn. Other than that, the deficit normally ranges between N$5bn and N$10bn. The funding plan of the MoF for the N$21bn deficit appears to be credible. Amongst others, it calls for the drawdown of N$9.1bn of cash reserves and the raising of N$10.4bn on the domestic capital market, which is doable, in our view.

However, there are more funding needs as maturities come due and an "overdraft" at the Bank of Namibia (BoN) of N$2.9bn needs to be repaid. This means that more funding sources need to be accessed – in this case external. It comes in the form of loans from the African Development Bank (Afdb) and other "covid-related" sources. We assume that the latter is from international institutions such as the WHO, the IMF, and/or the World Bank.

Again, one trusts that the FY21 situation is a once-off exception to the rule and that prudent management will prevail over the coming years. As it stands, if the budgeted numbers for FY21 comes about, total debt will amount to N$117.5bn, or 67.9% of GDP, a far cry from what was previously regarded as a healthy ratio. Adding guarantees to the mix means that Government's debt and contingent liabilities amount to 75% of GDP. Furthermore, interest costs on this level of debt will gobble up 16.4% of total revenue, leaving less and less disposable income for other essential goods and services.

A credible five-year fiscal management plan may restore

investor confidence and some creditworthiness in the eyes of rating agencies. This should help to contain the interest rate that investors demand for lending to Government. This is crucial because the interest bill will be key to the containment of public spending. Such a credible plan must show that the wage bill will be maintained at current levels and, preferably be managed down. Furthermore, it must show that the expenditure on goods and services and on subsidies and transfers will be managed back down to pre-Covid-19 levels within the next two years.

A debt trap comes about when new debt is needed to pay and to service current debt, that is, debt gets a life of its own and grows uncontrollably. Namibia is not in such a debt trap yet, but it is looming. The alternative to a credible five-year plan is a wage bill that grows too fast for the economy, interest payments that claim an ever-increasing portion of revenue and "temporary" Covid-19 related spending that becomes permanent.

We do not see a default by the Namibian Government on its debt on the horizon, but then, in the words of the MoF: "Going forward it is of absolute necessity that the budget deficit and its associated higher debts be significantly reduced over the MTEF through a combination of higher economic growth and expenditure restraint".

In the meantime, bond yields for investors remain elevated. This means that prospective returns of the asset class are attractive, in our view.

We have seen an increase in sin taxes however, no new tax changes has been implemented. Tax amendments previously announed in the FY19, such as the introduction of withholding tax on dividend income, are still under review.

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