BUDGET SPEECH

1992

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BUDGET STATEMENT: FINANCIAL YEAR 1992/93

1. INTRODUCTION

1.1 A close study of the two previous Main Budget, as well as the two corresponding Additional Budgets, shows clearly that they were based on three main aims or principles:
Firstly, economic growth, or a general increase in the standard of living; secondly, equity, or greater equality in the access to economic opportunities and resources;
and thirdly, discipline, or a clear realization that a country, like an individual, cannot in the long run live beyond its means without coming to grief.

1.2 Right at the beginning of my term as Minister of Finance I want to state categorically that I fully support this underlying philosophy and that I will attempt to give effect to it to the best of my ability. Temporary exigencies may from time to time necessitate an apparent deviation from these principles, but in the long run they must remain the guiding lights of our economic and fiscal policies.

1.3 Let's look at them a little more closely before we go on to the less less exciting business of facts and figures. If one should, on a random basis, ask anyone in the street or in the rural areas what he thinks should be the Government's first priority, it is very likely that he will say the elimination or at least alleviation of the extreme inequalities in our economic and social system, and this would be quite understandable if one bears in mind that 5 per cent of our population earn more than 70 per cent of the Gross Domestic Product (GDP), while the poorest 55 per cent earn only 3 per cent.

1.4 This is an unbearable situation and no one can convince me of of anything else. Unfortunately, as was strikingly stated in last year's Budget Speech, one cannot solve this problem by cutting the cake into smaller and smaller pieces in order to distribute it among a larger number of people. This is the communist recipe and we have now clearly seen where that leads: The people whose slice of the cake is, as it were, reduced by force, become less productive, less innovative and less enterprising, with the result that the economy stagnates and eventually the whole structure comes tumbling down. Reducing economic inequalities can therefore never be a matter of robbing Peter to pay Paul, but can only be achieved by ensuring high economic growth and in this process paying special attention to the needs of disadvantaged groups.

1.5 Economic growth is therefore the key work, but economic growth can itself be a very elusive ideal if circumstances are not favourable. First of all, it must be clearly stated that achieving economic growth is

largely the task of the private sector. As in the case of the forced redistribution of wealth, the state has been notoriously unsuccessful in the production and distribution of consumer goods and of most services. One could cite many examples, but this would probably be impolite. The main thing is that we should learn from the experience of others and restrict the role of the state to its natural function, namely to facilitate growth by providing the necessary infrastructure, ensuring that law and order prevails, developing the country's human resources through education and health care and generally creating an environment of stability that inspires confidence.

1.6 This brings me back to the third principle or aim underlying this Budget and the two previous post-independence Budgets, namely fiscal discipline. Nothing can so easily undermine business confidence and endanger a country's macro-economic stability as lack of fiscal discipline, that is, a Government which overspends and overborrows, thus fanning the flames of inflation, putting pressure on the external value of the country's currency and in general start the country on a downward spiral.

1.7 The task of ensuring a country's economic stability is usually shared between the Government, with its fiscal policy, and the Central Bank, which is in charge of monetary policy. In our case, however, the Central Bank, the Bank of Namibia, has little or no control over monetary matters because of our membership of the Common Monetary Area. This places a double responsibility on the shoulders of the Government to inspire confidence in investors by following prudent fiscal policies.

1.8 Thus, to go back to our starting point, while it is obvious to everyone that the most glaring shortcoming and iniquity in our economy is the wide disparities of income and wealth, with the high level of unemployment as its worst manifestation, and while all of us, and particularly the Government, must do everything in our power to relieve the effects of this inequality, the only real solution in the long term is to start at the other end, that is, to start with good government, which will instill confidence in all sectors of the business community, both local and foreign; who will then see this country as a safe and profitable haven for their money, their enterprise and their skills; which will give rise to a high rate of economic growth; which will create the necessary opportunities of employment and betterment of the unfortunate ones who have in the past been handicapped by institutional and ideological obstacles not of their own making. It will also generate the necessary revenue for the Government to further assist them in their struggle by the expansion of educational, health and other services.

1.9 This must be our long-term ideal and I hope that this Budget will pass the test of fiscal discipline and restraint, while at the same time doing everything possible to facilitate and encourage growth and development, on the other hand, and promote the ideal of equity, on the other hand.

1.10 I must stress, however, that the ideals of greater equality and of a higher standard of living for all are long-term ideals, by which I mean not only that they will obviously take time to achieve, but that we will have to apply ourselves to their achievement persistently, tenaciously and tirelessly no matter how long it takes or how insurmountable the obstacles might seem.

1.11 There will always be short-term problems which will, as it were, force themselves on our attention and will seem to hamper the attainment of our long-term objectives. Such problems at the present moment are the serious drought we are experiencing, and the effect of the generally depressed state of the world economy on our own. These conditions will pass, however, and when they are past our compass must still point in the direction of our long-term objectives.

1.12 Finally, if I can sum up my economic philosophy and the one which underlies this Budget: We must never try to impress the world and to buy popularity by means of quick-fix solutions, but must stick to the straight and narrow road no matter how stony and steep it might be because it is the only one that is guaranteed to get us there. As was said: "Rapid growth may create a sensation, but it is sustained growth that creates wealth." What we want to create is wealth and not a short-lived sensation, and we will need the assistance of the whole business community and of every worker in this country in order to achieve this.

2. CURRENT ECONOMIC DEVELOPMENTS

GLOBAL OVERVIEW

2.1 Largely as a result of the near collapse of the former centralized economies and the negative growth performance of the US and the UK, the IMF calculates that the growth in world output during 1991 was a negative figure of 0,3 per cent. Developing countries, on the other hand (and that includes Namibia), improved their position during 1991, with their real GDP rising by 3,3 per cent. Inflation expectations were also adjusted upward during 1991 with industrial countries recording a consumer price rise of 4,4 per cent, while developing countries still struggled with an average rate in excess of 40 per cent.

Eastern European countries even had to contend with an average consumer price inflation of 135 per cent.

2.2 The expectations for the world economy for 1992 and 1993 are slightly more positive. The IMF expects the world's real GDP, i.e. at zero inflation, to grow by 1,4 per cent during 1992 and forecasts the real growth for 1993 at 3,6 per cent. Based on the beneficial effects that political and economic reforms have had in some developing countries and assuming that these reforms will be permanent, the IMF expects real growth in the developing countries to jump to 6,7 per cent in 1992 and then to recede to 5,4 per cent in 1993. The volume of world trade, according to the IMF, will grow from 3,3 per cent during 1991 to 5 per cent in 1992 and to 6,3 per cent in 1993.

THE SOUTH AFRICAN ECONOMY

2.3 The downturn in the South African economy deepened further during 1991 with the real gross domestic product declining by 0,6 per cent. The contraction of economic activity during 1991 could be ascribed to reduced output levels in the primary and secondary sectors of the South African economy, which were accompanied by sharp declines in personal consumption expenditure and in fixed investment. However, real government consumption expenditure rose slightly.

2.4 The deepening of the recession in South Africa and the decrease in Domestic expenditure resulted n a decline in merchandise imports, whereas South Africa's export performance continued to improve at a fairly rapid rate. Consequently a substantial increase occurred in the surplus on current account of the balance of payments. For 1991 the surplus stood at R7,4 billion as against R5,8 billion in 1990. The large surplus on current account was supported by an improvement in the capital account, which together resulted in an increase in the gross gold and other foreign reserve position from R7,3 billion at the end of 1990 to R9,8 billion at the end of 1991. The rising foreign exchange reserves of South Africa made it possible to maintain relatively stable exchange rates with the rest of the world. Between 1990 and 1991 the rate of inflation for consumer goods in South Africa rose by less than one percentage point, while in the case of producer goods it started to edge downward, both as far as imported goods and South African produced goods are concerned. On South Africa's financial markets fairly liquid conditions prevailed during 1991, which, together with Reserve Bank intervention, led to a gradual softening of most money market rates. On the capital market interest rates remained rigid, mainly as result of continued high trading levels.

THE NAMIBIAN ECONOMY

GENERAL ASSESSMENT

2.5 As regards the Namibian economy, some individual sectors of the economy are showing substantially improved achievements, while others are continuing their lackluster performance. In general, however, the economic climate remains subdued and reflects conditions in the rest of Southern Africa and of the world, which is not really surprising in view of the high degree of openness of the Namibian economy. Inflation also remains a problem, but as regards the balance of payments, considerable progress was made during 1991 through enhanced export performance in some sectors, although the current account balance remains under strain.

DOMESTIC PRODUCTION

2.6 The rate of expansion in real economic activity in Namibia in 1991, as Measured by the increase in the real gross domestic product, was 5,1 per cent, with fishing showing an increase in production of 56 per cent and diamond mining of 84 per cent. Most of the other sectors, however, including commercial agriculture, showed reductions n their real output rates.

PRICES

2.7 Inflation, as measured by the consumer price index for Windhoek, decelerated satisfactorily from an annual average of 15,1 per cent in 1989 to 12,0 per cent n 1990, and to 11,9 per cent during last year. However, the trend towards single digit inflation during the first half of 1991 was reversed when monthly rates of inflation started to increase again in the second half and still seem to be increasing. Consumer items that showed above average price rises were tobacco products, clothing and footwear, as well as furniture and equipment. In a macro-economic sense, the accelerated consumer inflation may be explained by excess demand which is still present in the local economy due to the high rates of increase in labour remuneration in the private sector a sharp rise in consumer bank credit and, of course, the reinforced inflationary expectations which were incorporated into price and wage-setting decisions. The argument of imported inflation does not hold true this time in view of the gradual downward trend in South African wholesale / producer prices.

BALANCE OF PAYMENTS

2.8 Since 1987 Namibia had recorded trade deficits, i.e. merchandise

Imports exceeded merchandise exports. During 1990 the trade deficit amounted to R396 million, which reflected the sharp decline in export proceeds from Namibia's agricultural and mineral products. During 1991, however, Namibia's export proceeds recovered quite remarkably, based mainly on the much improved diamond exports and a sharp rise in fish exports. Namibia's total export proceeds grew to a record high of some R3,3 billion in 1991 as against R2,8 billion in the previous year. This resulted in a fall in the trade deficit from R396 million in 1990 to R147 million in 1991. Because of the slow growth in some net factor payments and a sharp increase in transfer receipts, mainly resulting from improved customs receipts, the overall balance on current account was transformed from a deficit of R595 million in 1990 to a surplus of R228 million in 1991.

ECONOMIC PROSPECTS FOR 1992 AND 1993

2.9 After a quite satisfactory turn-out of economic developments in Namibia during 1991 in which output gains in diamond mining and fishing generated a real growth rate of 5,1 per cent, the country's economy seems to be cooling off during the current calendar year. The internationally experienced recession in the uranium market will of course also have an adverse effect on the local uranium industry with consequential harmful effects on related industries and on the overall growth prospects for the economy as a whole. The same applies to the current serious drought. On the expenditure side of the economy, the picture also looks somewhat gloomy, since private consumption expenditure is being eroded y inflationary pressures as well as by slow real growth in some sectors and consequent downward pressure on wage bills and employment. For reasons of fiscal discipline, growth in government expenditure is also being strictly kept in check although some increase will be allowed in the Government's real fixed capital outlays as a boost to the private sector and the economy in general.

2.10 In view of the above developments and trends – internationally, regionally and locally – it is difficult to anticipate any significant real growth for the Namibian economy during the current year. One has to take into account that, apart from the serious drought that is facing this sub-region, the economic climate in the whole of Southern Africa is disappointing indeed. It is not unlikely that the economy in South Africa will show signs of stagnation as long as the constitutional future of that country has not been decided. That in itself, due to the close financial, trade and monetary relations between Namibia and South Africa, will of course have adverse consequences for the local economy.

2.11 Returning to the drought, the IMF estimates that for the 13 countries

In Southern Africa 7 to 9 million tones of additional maize imports with an estimated value of between US$1,9 billion, will be required during 1992 to counter the effect of the drought. In the case of Namibia, the effect of the drought, as was the case in 1981, initially shows up mainly in increased output from the agricultural sector as large numbers of livestock are being marketed, followed later by a slowing down in the marketing effort soon after the drought.

2.12 It is further anticipated that by 1993 Namibia's uranium production would have stabilized itself, albeit on a lower level than that previously recorded. Because of uranium mining's large weight in total economic activity, this development should have a stabilizing influence on Namibia's real economic growth. With a small recovery expected in the rest of the mining industry and with a possible firmer increase in fish catches, a growth rate of about 3 per cent is tentatively suggested as a feasible target for next year. The Government's capital budget is firmly geared towards keeping the construction and related industries on an even keel during this difficult phase. The movement in private consumption expenditure depends very much on the course inflation will take during the next year. The current decrease in South Africa's production price index should n due course lead to a slow-down of consumer price inflation in Namibia. As far as private real fixed investment is concerned, it is the serous intention of Government to increasingly provide an attractive and conducive environment for local and foreign entrepreneurs to invest in Namibia. Apart from the drought and the glut in the uranium market therefore, the signs are present that economic conditions in Namibia in general will improve during 1993.

3. THE PREVIOUS FINANCIAL YEAR – 1991/92

3.1 Turning now to the Government's finances, I am glad to be able to report that the 1991/92 financial year turned out much better than expected. Although the books have not been finally closed and audited I can inform the honourable members that we once again succeeded in turning an expected deficit into a surplus. But allow me to give you the details.

REVENUE

3.2 In the Additional Budget for 1991/92 total revenue from **own sources** was estimated at R2 496 million. However, in actual fact total collections amounted to R2 635 million, which is R139 million more than the estimate. A few of the largest contributors to this surplus were Diamond Profit Tax R14 million; General Sales Tax R21 million; Diamond Export Duty R5 million; Income Tax on Individuals R85 million; Other Government Revenue, which represents collections by

the different ministries R48 million, and Customs and Excise R46 million. On the other hand, there were a number of sources from which the collections were below the estimates, for example, Income Tax on Companies (other than mining) R32 million; Non-resident Shareholders' Tax R19 million; Levy on Fuel R29 million; and Loan Recoveries R9 million.

3.3 Revenue from **other sources** was estimated at R258 million, but only R145 million was collected, which amounts to a shortfall of R113 million. Foreign contributions was R38 million below the target and nothing was received as compensation for the use of the Rand, while the expected receipts were R75 million. The compensation was, however, received early n the new financial year.

3.4 It was also estimated that a net amount of R17 million would be raised through the issue of **Treasury Bills**, which in fact materialized.

3.5 To summarise, **total revenue** for the financial year from all sources was estimated at R2 771 million, while R2 797 million was collected, i.e. R26 million more than expected.

EXPENDITURE

3.6 In the Additional Budget for 1991/92 the total expenditure to be financed was estimated at R3 073 million. From preliminary figures it now appears that total expenditure will be only R2 952 million, an underspending of R121 million. I am sorry to say that more than 50 per cent of this amount represents an underspending of development capital. In some cases tenders were only awarded in February and March this year in spite of direct instructions from the Cabinet that development projects should be expedited. The underspending on current expenditure is less than 2 per cent, which is normal.

SURPLUS

3.7 I have mentioned that total revenue amounted to R2 797 million and expenditure to R2 952 million. Therefore, the deficit for the year was R155 million. However, it must be borne in mind that a surplus of R375 million was brought forward from the previous financial year, which is enough to wipe out the deficit of 1991/92 and still leave us with a surplus of R220 million. I would say that this was a very good performance, especially if it is remembered that more than R500 million was spent on capital investments, while only R17 million was borrowed through the issue of Treasury Bills and R67 million was received as foreign aid. In other words, it can be said that all investment capital for the past financial year was financed from own

sources, most of it by means of saving rather than borrowing. Namibia is a country with many blessings.

4. THE NEW FINANCIAL YEAR – 1992/93

FORMAT OF THE BUDGET

4.1 In this budget speech last year, my predecessor mentioned a number of changes in the format of the budget to give it a functional focus with expenditure items arranged according to economic classifications. The new enlarged format of the 1992/93 budget brings the economic classifications closer to those recognized internationally and is much more informative as regards expenditure items.

4.2 There are, however, still some areas which need further attention. One major area is the presentation of development projects, which will receive increasingly higher allocations of resources consistent with the Government's priorities since Independence.

DEVELOPMENT EXPENDITURE

4.3 At present development projects are included in the estimates of expenditure and listed as ongoing or new projects in the footnotes to the estimates of the different operating agencies. However, the projects are not adequately explained in terms of their objectives and physical targets or outputs.

4.4 Normally development projects create financial commitments beyond the current year and a multi-year format is therefore more appropriate for a proper understanding of their financial implications.

4.5 A financing plan for such projects is also critical to indicate how internal revenue sources, foreign aid and borrowings are applied. We intend to include this additional information in the budget document next year.

ACCOUNTING SYSTEM

4.6 An effective accounting system is the mainstay of any financial management system. Successful planning and budget execution depend on a reliable accounting system that produces timely and accurate management information.

4.7 At Independence we inherited a very costly but ineffective accounting

system consisting of a number of isolated computer applications which do not help either the ministries with their financial administration or the Treasury with timely management reports. To make matters worse, a large number of suspense accounts have been built up over the years. Large amounts were charged to these suspense accounts and consequently fiscal discipline has been undermined.

4.8 From the beginning of this fiscal year, procedures are being streamlined with the help of an adviser from the International Monetary Fund. The number of suspense accounts in use has been drastically reduced and the accounting and financial procedures are being tightened to promote an atmosphere of strict fiscal discipline.

4.9 Cabinet has also approved the implementation of integrated computerized financial management system in the Treasury and at ministries. The work has already started and we hope to have the new system implemented by 1993/94.

REVENUE

4.10 The total revenue fro 1992/93 has been estimated at R2 977 million after provision has been made for the tax proposals with which I will deal later on. This is R224 million more than the revised estimate of R2 753 million, excluding loans, in the Additional Budget for 1991/92.

4.11 Tax and Duties are expected to be R200 million more; Licenses R1 million Other Government Revenue R16 million; Foreign Contributions R20 million; and Compensation for the use of the Rand R69 million. On the other hand, Loan Recoveries is expected to be R24 million less; Customs and Excise R11 million less; and Contribution from the Amortisation Fund R48 million less than the revised estimate for 1991/92.

4.12 Allow me to spend a few minutes more on some of the expected Increases and decreases in revenue collections: -

Income tax payable by diamond mines is expected to be R53 million. Nothing was collected in 1991/92 because new areas were being developed and the deductible capital investments were more than the taxable income. The last remaining part of these costs will be deducted from income this year and it is therefore expected that the mines will start paying tax again;

- **Income tax payable by other mines** is expected to decrease by R6 million. The decrease is due to different factors at

different mines. In one case it is due to the loss of markets and in other cases metal prices did not increase at the same rate as the escalation in production costs;

- **Companies (other than mining)** are expected to pay R10 million less tax than last year, which is mainly due to an over-estimate last year:

- Since new diamond mines are now in production, it is expected that **diamond profits tax** will increase by R16 million. Similarly because of the increased production, **diamond export duty** is expected to rise by R10 million;

- **Non-resident Shareholders' tax** will be R10 million less;

- Honourable members will remember that a new **Sales Tax Act** was approved by this House earlier this year. The Sales Tax base was broadened extensively by that Act and a number of goods and services previously exempt, became taxable. An additional R65 million is therefore expected to be collected from Sales Tax.

- **Income Tax on Individuals** is estimated to contribute R400 million to the fiscus this year which is an increase of R70 million on the estimate in the revised budget last year. Revenue from this source was underestimated in the previous year, while it is also expected that general salary increases will have an increasing effect on collections.

- Increases in fuel prices have been announced recently and it is expected that collections of **Levy on Fuel** will be R10 million more than the estimate for 1991/92.

- It will also be noted from the Estimate of Revenue that **Loan Recoveries** is R24 million down on the previous year's figure. The main reason is that in last year's budget provision was made for writing off R16 million worth of loans to Municipalities. This amount was debited to the Vote of Local Government and Housing and credited to Loan Recoveries. In addition to that, agricultural loans ere transferred from the Ministry of Agriculture, Water and Rural Development to the Agricultural Bank and no further income will be received from that source as it is now collected by the Agricultural Bank.

- Collections of revenue by the different ministries are included under **Other Government Revenue,** which is expected to increase by R16 million. The main contributors here are

Fisheries and Marine Resources, with quota levies, and Communication, with postal and communication revenue.

- **Customs and Excise** is down by R11 million due to the fact that the 1991/92 estimates included arrear payments for the previous year. Our negotiations with the Southern African Customs Union have not been finalized, but at this point in time it is felt that the amount of R889 million gives a fair reflection of Namibia's compensation for its membership in SACU.

- **Compensation for the use of the Rand** will be up by R69 million, because the payment for 1991/92 was only received at the beginning of this financial year.

- **Foreign contributions** expected to be received include expected drought assistance from donor countries. In addition to the amounts reflected in the budget, Namibia receives substantial aid, either by way of direct financing of capital projects, or other assistance given in kind.

EXPENDITURE

CURRENT EXPENDITURE

4.13 Total current expenditure for 1992/93 is estimated at R2 831 million, Which is R305 million more than the R2 526 million for 1991/92. The Ministries receiving the biggest shares of total current expenditure are Education and Culture with R684 million, and Health and Social Services with R424 million, or 24 and 15 per cent respectively of the total current expenditure.

4.14 During the discussions of the separated votes my colleagues will of Course give more information on expenditure on their individual votes, but allow me to point out a few of the special provisions: -

- A **general salary increase for teachers and nurses** has been announced earlier on by the Cabinet. For this purpose an amount of R50 million has been provided under the vote of the Prime Minister.

- Similarly a **general salary increase for all Government officials** has been announced, the effect of which will be R138 million. This amount has also been provided under the vote of the Prime Minister together with an additional R15 million for specific occupational adjustments.

- By this time it is common knowledge that there will be **local and regional elections** later on this year. The estimated cost of the elections is R12 million and the amount has also been provided on the vote of the Prime Minister.

- At present there is still a disparity in **old age pensions** payable to the aged in this country. The Cabinet, and especially the Honourable Minister of Health and Social Services, is confronted with this issue. R12 million has been set aside on the vote of Health and Social Services for the equalization of social pensions.

- Now I want to move on to **drought relief.** Instead of a head over heels approach, the Cabinet decided to first appoint a Drought Relief Committee to determine the extent of the drought and to come forward with a drought relief plan and a budget. The Committee did an excellent job and the results are included in this budget. The Ministry of Agriculture and Rural Development will be the coordinator of the drought relief programme. A sum of R80 million was put on the vote of Agriculture and Rural Development for a number of drought relief schemes. A further R28 million was provided under Water Affairs to supply water in drought stricken areas and His Excellency the President himself has taken charge of this action. Another R12 million for specific health services relating to the drought has been provided under the vote of Health and Social Services. In total therefore an amount of R120 million has been provided for drought relief. Apart from this R120 million, aid in kind worth many millions of Rand is expected from donor countries, who also indicated that they will make cash contributions to the State Revenue Fund to pay for part of the R120 million. I am very thankful to the many friends this country has in the international community.

- Finally, I would like to congratulated the Ministry of Agriculture, Water and Rural Development with the quick and efficient manner in which they dealt with the recent outbreak of **foot-and-mouth disease in the Kavango.** The disease was first reported on 10 April 1992 and positively diagnosed in Pretoria four days later. By 21 April 11 784 head of cattle in the area where the disease had broken out, had been vaccinated (89 per cent of the total cattle population in that area) and by 9 May the number of cattle vaccinated had increased to 34 579. By 23 May all the animals in the Kavango region (more than 90 000) had been vaccinated. Since 28 April no further outbreaks had been recorded, but preventative measures are continuing. The success of this operation can only be attributed to the dedicated

work of the State Veterinarian and his personnel, who have prevented what could have been a major national catastrophe.

CAPITAL EXPENDITURE

4.15 An amount of R669 million has been provided in the Budget as capital expenditure and lending, which is R89 million more than the R580 million of the previous financial year. Here I wish to point out that although the full amount of R28 million for drought relief under Water Affairs was indicated as current, by far the larger part of the installations will be permanent and can also be regarded as capital works. I would estimated that this would apply to not less than 75 per cent of the R28 million, bringing the total amount for capital spending to R690 million.

4.16 The votes of Transport and Works are the two largest spending agencies on the capital programme, with R177 million and R162 million respectively. Let's now look at some of the appropriations.

Civic Affairs

4.17 An amount of R9 million has been provided for the completion of a number of border control posts and for installing weighbridges at some of the border control posts.

Foreign Affairs

4.18 A number of missions have been opened in foreign countries and in some cases chanceries and houses for officials still have to be purchased. An amount of R21 million has been included for this purpose, and in years to come this will lead to a reduction of current expenditure.

Education and Culture

4.19 The Ministry of Education and Culture is facing a severe shortage of classroom facilities in many parts of the country, but especially in the northern areas. A large number of projects are already under construction and new ones will have to be started in this financial year. An amount of R47 million has been included for a total of 40 projects of the Ministry.

Health

4.20 As in that case of Education and Culture, the Ministry of Health and Social Services has a large number of projects under construction and in addition new hospital extensions at Nankundu, Opuwu and Okahau will be started this year. A total amount of R28 million has been included for projects of the Ministry. Apart from facilities that will be financed through the budget, FINNIDA will spend R10 million on the hospital at Engela and France will spend R5 million on the hospital at Eenhana. The Ministry of Health and Social Services will proceed with negotiations for further aid outside the Budget.

Mines and Energy

4.21 An amount of R34 million has been included for Mines and Energy of which R8 million has been earmarked for geological survey facilities, R16 million for electrification in the Kavango and R10 million for electrification in Ovambo.

Housing

4.22 The housing shortage remains a problem and it has been decided to keep up the pace at which Government started erecting houses last year. A sum of R25 million has been included under the vote of Local Government and Housing for low-cost housing. In addition to that the National Housing Enterprise has obtained large loans to enable them to spend up their construction of low-cost housing.

Agriculture

4.23 A figure of R56 million has been included for Agriculture and Rural Development, of which by far the largest part relate to projects that were started last year. Some of the largest projects are: -

Ovambo Irrigation -	R9 million
Buffalo Omega Cropping -	R4 million
Agricultural Development Centers -	R7 million
Namibia/Angola International Border Fence -	R4 million

Water

4.24 A total of R56 million is included for Water Affairs of which the largest amounts go to the Omdel Dam (R14 million) and the Oshakati – Omakango – Oshikango State Water Scheme (R16 million). In addition to these allocations the Vote of Agriculture and Rural Development includes an amount of R9 million for rural water supply schemes.

Transport

4.25 No new projects are included under Transport as the ongoing projects already require an amount of R100 million. An amount of R75 million has been provided for the purchase of a jet aircraft for the Government. Of this amount R29 million was paid on 13 May 1992. The balance will be paid on delivery of the plane which is expected to be 15 July 1992.

STATUTORY EXPENDITURE

4.26 Statutory expenditure, which mainly represents capital repayments and interest on public debt not guaranteed by South Africa, amounts to R43 million for the financial year. In his Additional Budget Speech this year, my predecessor explained the rescheduling of debts which were guaranteed by South Africa. We are now reaping the fruit of the rescheduling as the first instalment in terms of the rescheduling arrangements will only be payable in the 1995/96 financial year.

DEFICIT

4.27 I have indicated that the expected current expenditure will be R2 832 million and capital expenditure R669 million. To this we have to add R43 million for statutory expenditure, and the total estimated expenditure for 1992/93 will then be R3 544 million. I also indicated that total revenue will be R2 977 million, leaving a deficit for the 1992/93 financial year of R567 million. However, I indicated that the 1991/92 financial year closed with a surplus of R220 million, which can be used to finance part of the deficit. The net deficit for the 1992/93 financial year will therefore be R347 million which I propose that we borrow on local as well as foreign markets. Negotiations for these loans are presently in progress and it is anticipated that approximately R100 million could be obtained under concessionary terms from donor countries and development banks. The net deficit to be funded by borrowings constitute some 4,73 per cent of total

GDP. Bearing in mind that, with the exception of R17 million Treasury Bonds, we have not borrowed any money since Independence, the amount to be funded by borrowings is well within accepted norms.

5. TAX PROPOSALS

INTRODUCTORY REMARKS

5.1 Mr. Speaker, we now come to the part of the annual Budget Speech which is always awaited most eagerly, and also most apprehensively, by honourable members of this House, as well as by the general public, because this is the part which touches each person's pocket.

5.2 My predecessor, in his Budget Speech last year, pointed out that increasing tax rates o an existing tax base would serve no purpose. It would merely send wrong signals to the international community and would make it more difficult for Namibia to compete for investment capital.

5.3 This statement is in complete conformity with my own views expressed earlier on, namely that economic growth is a prerequisite for any other economic objectives that we might want to achieve, and that increases in tax rates at this stage would not be conducive to the promotion of economic growth.

5.4 On the other hand, I need not remind you that the State has many obligations to fulfil and that somehow or other the funds for this must be found. The answer, for the time being, lies in another principle that I expounded earlier on, namely fiscal discipline. Fiscal discipline not only means that the State must act with constraint when it comes to expenditures; it also means that the taxpayer must "render unto Caesar the things which are Caesar's" and that the State must apply the necessary discipline in the administration of the tax system to ensure that this is done.

ADMINISTRATIVE MEASURES

5.5 To ensure that taxes are properly charged and collected requires attention to three aspects, namely good communication with the tax-paying community, adequate staff structures and the procurement of well-trained personnel and competent advisers.

5.6 As regards the first aspect, namely good communication in order to ensure a well-informed tax-paying public, I am pleased to be able to inform you that the Government almost immediately after independence started taking steps to achieve this objective. One of

the more visible results of this was that a regional tax office was recently opened at Ondangwa to establish closer contact with the people in the north. Over the course of the next five years we intend to further expand our communication network by opening regional offices at several other major centers in Namibia as well.

5.7 As regards the adequacy of staff structures and availability of competent personnel, I was personally shocked to discover that the administrative costs of our present tax administration amounts to only about one half of one per cent of tax revenue. On the one hand, it is of course a feather in our cap that we have been able to achieve so much with so little, but on the other hand one must ask yourself whether you can really perform your task properly in this way. My Ministry has been fortunate to obtain the services of a very experienced and competent international tax expert to study this matter and, as was to be expected, he has advised that a bigger investment must urgently be made to ensure a more efficient tax administration. He is now studying the personnel structures and requirements in more detail and once he has reported on that, we will have to do our utmost to ensure proper staffing by means of recruitment, training and, if needs be, mechanization and computerization.

5.8 Mr. Speaker, I want to emphasize that this matter of efficient and effective tax administration is something that I personally regard in a very serious light and on which I am going to concentrate from now on. I have already indicated what steps we are taking to overhaul and tune up our tax machinery, but the general public also has an obligation towards the State and the county. One would hope, of course, that every person in this country will realize this and of his own accord take the necessary steps to honour his obligations. This is undoubtedly true of many people, but certainly not of all of them. This latter group can expect to be given a very hard time by my Ministry from now on. In extreme cases, we will not hesitate to make use of the provisions in the legislation which enable us to institute criminal proceedings against those who consistently shirk their duty. I refer specifically to Section 96 of the Income Tax Act and Sections 45 and 46 of the General Sales Tax Act. After this somewhat stern run-up I now turn to the formal tax proposals or statutory measures.

STATUTORY MEASURES

5.9 Mr. Speaker, many people have speculated and tried to forecast the income tax measures to be announced for the 1992/93 financial year. I can announce here today that from a purely fiscal point of view Government has studied the various possibilities carefully and has decided that we can, and should afford the introduction of certain

measures which will hopefully stimulate our sluggish economy substantially:

MARRIED WOMEN

5.10 The **first important aspect** which is being addressed, is the final removal of all discriminatory provisions in respect of married women who earn income independently of their husbands. For tax purposes, such women will in future be treated exactly like married men, which means that the married woman who earns income independently of her husband becomes a taxpayer in her own right and must therefore also register as a taxpayer. It implies that such married women will qualify for any tax credit on income they have earned, but, looking at the other side of the coin, will also be responsible for the settlement of any tax liability to the shoulders of her husband!! This is done to give effect to Article 23(3) of the constitution which provides that women in Namibia "need to be encouraged and enabled to play a full, equal and effective role in the … economic … life of the nation."

INCOME TAX ON INDIVIDUALS: RATES AND ABATEMENT STRUCTURE

5.11 Mr. Speaker, we now come to the all-important aspect, namely income tax rates and the abatement structure applicable to individuals. I have pleasure to announce today a general lowering of the marginal tax rates, including the lowering of the Maximum Rate from 42 to 40 per cent. To counteract fiscal drag (also called bracket creep) new income tax scales have been developed which will benefit all taxpayers and, amongst others, provide that the minimum rate will be 14 per cent applicable up to a taxable amount of R10 000, progressing to the highest rate of 40 per cent when the taxable amount exceeds R80 000. The personal abatements will be adjusted as follows:

- Individuals below the age of 65 years: R5 000

- Individuals supporting children: R1 000 for one child, R1 500 for two children and R2 000 for three or more children.

- Individuals above the age of 65 years: An additional R1 000.

- Individuals who are the sole breadwinners: An additional R3 000.

5.12 It is clear, therefore, that the individual becomes the unit of taxation and that the distinction between married and unmarried is not an important factor for tax purposes anymore. This is done to give effect to the well known tax principle of neutrality. However, those

who are the sole breadwinners, in other words, the only person in the household to support their families, are given an additional R3 000 income rebate, which means that such individuals will qualify for an income rebate of R8 000 per annum. Widows and widowers are also included in this category.

5.13 Mr. Speaker, it is hoped that these adjustments in the tax rates and income rebates will ease the tax burden and act as a moral boost for economically active people to work harder in this special country of ours.

PROVIDENT FUNDS AND BENEFIT FUNDS

5.14 **Thirdly,** at present, provident funds and benefit funds cannot be approved for tax purposes, and contributions to these funds are therefore not deductible. Provision will now be made for such funds to be recognized as further instruments to provide greater social benefits to employees. The basic difference between a pension fund and provident fund is the fact that if an employee retires, he or she becomes entitled to a once-only lump sum and no further payments in the case of a provident fund may in future receive the whole amount in cash, of which two-thirds will be taxable at marginal rates. A benefit fund is not a retirement fund, but provides additional benefits in the case of serious illness or disability.

TOTAL ALLOWABLE CONTRIBUTIONS TO RETIREMENT FUNDS

5.15 **Fourthly,** in line with the adjustments in the tax rates which I have announced earlier, contributions to pension funds, provident funds and retirement annuity funds will now be deductible to a greater extent than before. Up to now, employees who belonged to a pension fund could only claim a deduction for contributions made during the tax year of up to R3 000, and the deductions in respect of contributions to retirement annuity funds ere limited to R5 000, less any allowance claimed in respect of pension contributions. The “ceiling” in respect of the total allowable contributions to retirement funds (i.e. pension, provident and retirement annuity funds) is now being raised to R15 000 per annum. No specific maximum allowable amounts for different funds will be prescribed in future. The total amount claimed will be limited to R15 000 and the make-up of this amount will no longer be important. Arrear contributions, however, will not be allowable n future, and neither will lump sum contributions.

COMMUTATION OF SMALL ANNUITIES

5.16 **Fifthly,** the Income Tax Act at present provides that where the

annual amounts of annuities do not exceed R120, the total value of annuities to which any member of a pension fund or retirement annuity fund becomes entitled, may be commuted to a lump sum. The amount of R120 has never been adjusted to counter the effects of inflation. In the light of the obvious administrative burden which pension fund administrators experience in this regard, this amount is now adjusted upward to R5 000.

TAXABILITY OF DIVIDENDS

5.17 Mr. Speaker, in the line with Namibia's intention to, firstly, protect local capital and, secondly, to attract foreign capital, another important aspect I want to address now, as **item six,** is the taxability of dividends.

5.18 Current income legislation provides for an exemption of dividends accruing to a company, but not to individuals. The paying company, however, has to pay tax on its taxable income and the fact that shareholders have to pay tax on dividends declared to them by the company, amounts to double taxation.

5.19 With the exception of dividends payable by building societies, dividends declared to individuals in Namibia will in future be tax-exempt. This measure will hopefully act as an incentive for those investors who invested on foreign stock exchanges and have to pay non-resident shareholder's tax on dividends received, to rather invest locally in order to obtain their dividends tax-free. It will also hopefully speed up the establishment and functioning of a local Stock Exchange.

NON-RESIDENT SHAREHOLDER'S TAX

5.20 In line herewith, **seventhly,** the rate of non-resident shareholder's tax is to be lowered from fifteen to ten per cent to attract foreign investment in Namibia.

WRITE-OFF PROVISIONS

5.21 Mr. Speaker, the **eighth important aspect** which has to be addressed is the so-called writing-off provisions in respect of the acquisition of machinery, implements, utensils and motor vehicles. Allow me to talk to our Namibian farmers and businessmen on a lighter note. What would be the reason, one might ask, why a small enterprise would use heavy duty four-by-fours for lightweight deliveries? And the answer immediately comes to one's mind: Could it not be that our write-off provisions are too liberal?

5.22 Mr. Speaker, in the line also with the amendments pertaining to mining taxation which I shall announce later on, it was decided that the write-off concession for the cost of machinery, utensils, implements, articles and so-called “non-passenger vehicles”, be altered. Up to now businesses could deduct the full cost of these capital items in the tax year in which such items were acquired. In future the cost of acquisition of machinery, implements, utensils, articles and motor vehicles, now including also the so-called “passenger vehicles”, will be allowed as a deduction from income as follows:

One-third in the year such equipment was acquired, one-third in the subsequent tax year and one-third in the year thereafter.

COMPANY TAX

5.23 The rate at which ordinary companies are taxed is 42 per cent at present. Although ordinary companies contribute only about 11 per cent of the total revenue from taxation, it is accepted practice that the rate should always remain on par with the top marginal rate for individuals to avoid, for instance, income splitting between companies and individuals. It follows therefore that the effective rate at which the taxable income of companies is taxed, should also be 40 per cent.

MINING TAXATION

5.24 After intensive studies and submissions from the Ministry of Mines and Energy, it is now expedient to review the **Mining Taxation Policy.** The current hardships of the mining sector is well known and to support this sector, I am announcing very significant measures here today. These measures were arrived at after in-depth consultations between the Ministry of Finance and the Ministry of Mines and Energy.

MINING TAX RATES

5.25 **The first aspect** to be addressed is the mining tax rate. Presently, the rates of income tax for mining companies are as follows: -

- Ordinary mining companies: 40 cents of each Rand taxable income, plus a surcharge of 5 per cent.

- Gold and uranium mines: According to a formula $Y = 60 – 480/x$, plus a surcharge of 5 per cent.

- Diamond mines: 50 cents of each Rand taxable income, plus a surcharge of 10 per cent.

It is now proposed that the existing formula for gold and uranium mining companies be extended to all mining companies in Namibia, with the exception of diamond mining companies.

5.26 The existing formula now to be extended to all mining companies (with the exclusion of diamond mines), will however be made subject of a minimum tax rate of 25 per cent, and the surcharge of 5 per cent will be abolished. The applicable formula to mining companies will therefore be as follows:

Y = 60 – 480/x. In this formula, "Y" represents the tax rate to be determined and "x" the ratio expressed as a percentage which the taxable income so derived bears to the income so derived. So, when "x" equals 24 per cent, then "Y" equals 40 per cent. When "x" equals 30 per cent, then "Y" equals 44 per cent, but when "x" equals only 15 per cent, then "Y" equals only 28 per cent.

5.27 The present rate of tax at 50 per cent of each Rand taxable income, plus a surcharge of 10 per cent will be retained in respect of diamond mining companies.

DEDUCTION OF EXPENSES FOR THE PROTECTION OF THE ENVIRONMENT

5.28 The present Income Tax Act does not provide for a deduction, or an allowance to restore the environment after cessation of mining operations. Amendments will be effected to the Income Tax Act which will enable mining companies to deduct from taxable income a provision of an adequate amount to enable a mining company to restore the environment to the satisfaction of the Minister of Mines and Energy, and the Minister of Wildlife, Conservation and Tourism.

OTHER AMENDMENTS IN RESPECT OF MINING TAXATION

5.29 Other envisaged amendments to the Income Tax Act in regard to mining taxation include the following: -

- At present, **capital expenditure** is allowed in full in the year of production. "Capital Expenditure" is now to be redefined to mean "exploration expenditure or development expenditure."

- In the **calculation of the taxable income** for income tax purposes there will be allowed as deduction in the year of production: -

(i) all exploration expenditure incurred in or before the year of production, and

(ii) one-third of all development expenditure incurred in or before the year of production, one-third the following year and the last third the year thereafter.

- In respect of **capital expenditure incurred after the mine comes into production,** there will be allowed as deductions from the gross income received or accrued to in favour of a mining Company:

  (i) all exploration expenditure incurred, and

  (ii) in the case of development expenditure incurred, one-third of such expenditure, and one-third of such expenditure in each of the two immediately succeeding years.

- All **exploration expenses** incurred in Namibia for existing mining companies will be allowed in order to encourage exploration activities.

- **Ringfencing,** as far as exploration expenditure is concerned, is now also completely removed in order to encourage mining companies to embark on more extensive exploration activities in Namibia.

5.30 All in all, Mr. Speaker, this would leave us with a tax climate which will be very conducive to the expansion of mining operations in Namibia. The benefits to our economy will be an increase in job opportunities and, hopefully, increased revenue from this sector in future.

5.31 To sum up, in making these announcements I hope that our taxpaying public will now heave a sigh of relief and act as responsible citizens, individuals and corporations.

5.32 The loss in State Revenue is estimated at approximately R30 million as far as the lowering of the tax rates and increasing certain deductible ceilings are concerned. One should bear in mind that increased spending activity caused by people having a bit more cash in their pockets will boost local business, with a subsequent increase in revenue, for instance from sales tax collections.

5.33 There is one final proposed amendment to the Income Tax Act which I would like to bring to your attention. It relates to double taxation agreements, or rather agreements for the prevention of double taxation of the same income by different countries. At present the Act

authorizes the Minister of Finance to enter into such an agreement only with one country, namely South Africa. It is obviously necessary to conclude such agreements with other countries as well, and in fact two of them are already being negotiated, namely with Germany and Romania. It is therefore proposed that the Act be amended to enable the Minister to enter into such an agreement with any country.

6. NATIONAL CURRENCY

6.1 Finally, I would like to make a few remarks on a subject which invariably excites great interest and speculation whenever it is brought up, namely that of Namibia's own national currency. As you all know, Article 128(1) of the Constitution clearly implies that Namibia shall have its own currency. Section 19(1) of the Bank of Namibia Act, 1990 (Act No 8 of 1990) goes one step further and states:

> "The President may by proclamation in the Gazette determine the monetary units, and the symbols to be used for such units, which shall, from a date specified n such proclamation, be the currency of Namibia."

6.2 In conformity with these legal provisions, Cabinet as early as 17 January 1991 decided, inter alia –

- That, in line with the provisions of the Namibian Constitution, Namibia will have its own currency.

- That the specific date on which the new currency will be introduced will be decided upon by Cabinet at the opportune time.

- That the Ministry of Finance goes ahead with all the preparations of the currency.

6.3 The Ministry of Finance, in cooperation with the Bank of Namibia, has in the meantime gone ahead with the implementation of these provisions and Cabinet decision, and the preparations for the issue of a national currency have reached an advanced stage. The precise date of the introduction of the currency will, in accordance with the Cabinet decision, be decided on by Cabinet, in due course.

6.4 Namibia has also in the meantime become a full-fledged member of the Common Monetary Area and in terms of the Multilateral Monetary Agreement, which forms the legal basis of the Common Monetary Area, each contracting party shall have the right to issue its own currency, subject to prior agreement with the other members.

6.5 In due course therefore, once Cabinet has decided on the date, Namibia will issue its own currency which will circulate in Namibia side by side and on a par with the South African Rand. I want to stat categorically that the introduction of an own national currency in Namibia does not imply that Namibia will withdraw from the Common Monetary Area or that South African currency will be withdrawn from Namibia or that exchange control will be instituted between the two countries. These latter steps will require quite separate decisions based on circumstances at the time, circumstances which do not exist and are not foreseen at the present time. Thus, once Namibia's own currency has been introduced, both currencies will be legal tender in Namibia and will be convertible at par by the banking system.

6.6 I have discussed this matter with the South African Minister of Finance, as is required by the Multilateral Monetary Agreement, and he has expressed his full concurrence with our views and intentions.

7. CONCLUSION

7.1 Mr. Speaker, with these remarks I wish to present the Budget for the financial year 1992/93 to this honourable House. I hope that the prophets of doom will be disappointed and that those among you who wish and expect the best for our country, will be happy that you have once again been presented with a Budget that not only bears witness to the health of the government finances, but should also contribute to the greater health of our economy.