BUDGET STATEMENT

1995

By

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BUDGET STATEMENT : FISCAL YEAR 1995-96

1. INTRODUCTION

Mr. Speaker, Honourable Members,

1.1 A national budget plays a central role in the development process of a country, and, in the Namibian situation, it has even more crucial importance. Unlike many developing countries, Namibia, because of its membership in regional trade and monetary associations, cannot pursue independent and active monetary and exchange rate policies. In the absence of these other policy instruments and in the face of government having a relatively high share in spending in GDP and fixed capital formation, the budget remains the single most important instrument for allocating, redistributing resources and for stabilising the economy. As such, effective formulation and implementation of the budget assumes critical importance to achieve economic and social objectives.

1.2 As customary, the presentation of the 1995-96 budget would take into account the conditions in the global, regional and national economy in the recent past, and the medium term economic outlook. The 1995-96 budget comes at a unique time in the history of Namibia. It marks a watershed between the conclusion of a five-year post-independence period of political consolidation and the beginning of another era of high expectations for economic progress and human development. That is to say, it marks the period where post-independence political gains would have to be translated into meaningful material improvements for the people in all spheres of life. In this regard, the formulation of a national medium-term plan to help guide the economy is an appropriate and timely venture.

1.3 The on-going process of preparing the national development plan (NDP1) has brought into sharp focus the problems of and prospects for the economy. In my statement today I would try to highlight the economic problems that we currently face, and, finally, the main objectives that should be addressed through the budget to attain these objectives with a view to position the economy on a satisfactory and sustainable growth path.

1.4 Before I commence with the particulars of the Budget for fiscal year 1995-96, I would outline recent economic trends and pertinent economic issues, which are likely to impact upon Namibia's economic and fiscal performance during the 1995-96 budget cycle.

2. RECENT ECONOMIC DEVELOPMENTS

The global economic situation

2.1 The recovery of world economic activity and trade became more firmly established during the first half of 1994. Continental western Europe and Japan began to emerge from some of the deepest recessions in half a century. At the same time, upswings have gained momentum in the United Kingdom, Canada, and Australia, while in the United States a high level of capacity utilisation has already been restored. A particularly positive aspect of the world economic situation remains the rapid expansion in many Asian and some Latin American developing countries. The rapid decline in output during the early part of the transition process in central Europe and the Baltic region has bottomed out, and economic growth has resumed in some countries in this region, while output declines continued to persist in others. Although the outlook is beginning to improve in some African countries as a result of stronger commodity prices and enhanced economic reform efforts, economic conditions remain difficult in most of the continent.

2.2 The average rate of expansion in world output accelerated slightly from 2,3 per cent in 1993 to 3,2 per cent in 1994. In contrast with the rather divergent cyclical developments among **industrial countries** during 1993, the output performance of industrial countries in 1994 was much more synchronized, broader and stronger. As a result, the average output growth of industrial countries has strengthened from 1,2 per cent in 1993 to 3 per cent in 1994. Many major industrial countries which were still in the grip of the recessionary conditions during 1993 have recovered well in 1994. In *Germany* the recovery was particularly noticeable where an output decrease of 1,1 per cent in 1993 was reversed into an output growth of 2,8 per cent in 1994. The *USA*, whose output levels already expanded by 3,1 per cent during 1993, continued its expansionary drift during 1994 with output rising by 4 per cent. The *Japanese* economy has begun to turn around, albeit hesitantly, and its output level which in 1993 fell by 0,2 per cent recorded an increase of 0,9 per cent in 1994. The recovery in the *United Kingdom* has gained further momentum, with output growth improving from 2,1 per cent in 1993 to 4 per cent in 1994. In most industrial countries economic policy has played an important role in alleviating recessionary tendencies and in stimulating the natural forces of recovery. Ensuring a vigorous and durable expansion is especially important for these countries in view of the need to reduce their high levels of unemployment.

2.3 Among **developing countries** economic performance during 1994 has been widely divergent. These divergences are related to the varying degrees of success that countries have had implementing appropriate macro-economic stabilisation and structural reform policies. While the average output growth for developing countries as a group improved mildly from 5,1 to 5,7 per cent between 1993 and 1994, the output of the African continent improved more notably from 1 to 3,3 per cent over the same period. The recent pickup of commodity prices and the recovery of demand in industrial countries were some

positive factors for the region.

The economic situation in South Africa

2.4 South Africa, which, according to Bank of Namibia estimates, accounts for 87 per cent of Namibia's imports and 27 per cent of our exports, and with which Namibia associates in the area of monetary and trade policy, still has a major leverage on the local economy. In view of this, let me describe a few recent trends in the economy of our important and advancing neighbour.

2.5 The economy of South Africa has picked up remarkably as both domestic demand and exports expanded in an environment of increased stability and confidence. South Africa's output is estimated to have expanded by about 2 per cent during 1994, compared with a growth rate of 1,2 per cent in 1993. Poor agricultural output, ongoing labour disputes and stoppages, the continued uncertainty about the prospect of economic stability in South Africa, and also the structural weaknesses in the economy were some of the factors which contributed to the rather hesitant upturn in economic activity in South Africa during 1994. It is clear that the South African economy has not yet approached the potential required by its reconstruction and development programme.

2.6 South Africa's foreign trade has shown a dramatic turn-about during 1994. The balance on the current account has switched from a surplus of about R 6 billion in 1993 to an estimated deficit of R 0,5 billion. This change resulted from a sharp increase in merchandise imports caused by the strong expansion of fixed capital formation and the further depreciation of the rand earlier in the year which in turn has raised import prices. Exports, on the other hand, also expanded impressively after a somewhat sluggish performance earlier in the year. The volume of gold exports, however, has recorded a fairly strong decrease. The deficit on the current account was counter balanced by substantial net capital inflows during the latter part of 1994, owing to South Africa's much improved foreign financial relations.

2.7 During the latter half of 1994 dramatic food price increases, higher mortgage bond rates and escalated indirect taxes put strong upward pressure on South Africa's consumer price inflation. Consequently, the inflation rate is expected to increase from 9 per cent in 1993 to about 10 per cent in 1994.

The national situation

2.8 Mr. Speaker, in view of the fact that the Budget for 1995-96 is tabled a mere 6 weeks after the end of calendar 1994, I would only be able to give a provisional account of general developments in the Namibian economy during last year. The Ministry of Finance would, of course, be in a better position to compile and publish the usual detailed "***Economic Review***" in a few months time, and a more accurate record of recent economic developments, as compiled by the Central Statistics Office, would then be presented.

2.9 The post-independence recovery in economic activity in Namibia, which had started in 1991 and continued during 1992, faltered somewhat in 1993, but regained its vigor during last year. In contrast with the slight relapse in the country's economy during 1993, when the **real gross domestic product** (at basic prices) fell by 1,6 per cent, a considerable recovery was recorded during 1994, and it is estimated that a real growth rate of 5,8 per cent was achieved. It is also evident that the sectoral performance of the Namibian economy is well balanced and the output in virtually all sectors continued to expand consistently.

2.10 Honourable members will recall that I ascribed the relapse in the economy during 1993 to a sharp decline in Namibia's diamond production, due to a significant cut in our diamond export quota, and to a lesser extent to output decreases in commercial agriculture and other mining. During 1994, in contrast, the diamond mining industry recovered remarkably with diamond production increasing by some 9 per cent, compared to a sharp production decrease of about 27 per cent in 1993. Despite the country's adverse climatic conditions, due to late rains in the 1993/94 season, agricultural output also improved considerably. The increased livestock marketing was strongly stimulated by firmer meat prices. The subsistence agricultural sector also seems to have recovered significantly from the aftermath of the devastating drought of 1992.

2.11 Notable increases in tourism traffic in Namibia during 1994 impacted favourably on the performance of the wholesale and retail trade, catering and accommodation sector, whose real value added improved by almost 6 per cent after an almost stagnant expansion was recorded in the previous year.

2.12 The output growth in fishing and fish processing slowed down significantly in 1994 after vigorous expansions were recorded during period 1991 to 1993. The lower output growth rate in these sectors did, of course, reflect the poorer catches as a result of recent adverse climatic and oceanic conditions towards the latter half of the year. The growth in general government's contribution to domestic production also fell slightly in response to measures, such as tightened budgetary allocations and an employment freeze, which allowed little expansion of employment in government.

2.13 A near 6 per cent increase was recorded in Namibia's **real gross domestic expenditure**, compared to a 7 per cent decrease in the previous year. This improvement in overall real gross domestic expenditure in 1994 is basically explained by a much slower draw-down of inventories than in 1993. Other components of final demand performed rather sluggish, with real private consumption expanding by 1 per cent and real government consumption falling by 1,6 per cent. The level of both consumption aggregates were adversely affected by the high rate of inflation last year.

2.14 **Real gross domestic fixed investment**, which in 1993 had increased by about 4 per cent, fell back in 1994 by an estimated 3 per cent. The decelerated expansion of real fixed capital formation during 1994, compared to 1993, should, however, be seen in the context of large build up of fixed capital outlays in the

fishing and fish processing sector after independence, which now seems to level off. Reflecting the higher capital budget for 1994-95, the general government's real capital outlays expanded slightly by 2 per cent during 1994.

2.15 The marked improvement in Namibia's output performance during 1994, was accompanied by a further strengthening of the country's surplus on the **current account of the balance of payments**. According to Bank of Namibia estimates, the current account surplus expanded from N$ 582 million, or 6,9 per cent of GDP, in 1993 to N$ 681 million, or 7,2 per cent of GDP, in 1994. This improvement was made possible by the firmer trade surplus and a mildly higher level of net transfer receipts in 1994 than in 1993.

2.16 Mr. Speaker, let me also make a few conceptual remarks about the post-independence trends in Namibia's balance of payments. Namibia has maintained strong current account surpluses, ranging between 2 per cent of GDP in 1990 and a ratio of 7 per cent last year. These high positive ratios are rather uncommon amongst developing countries. The current account surpluses, which, by definition, equal the excess domestic saving above domestic investment, are offset on the capital account of the balance of payments as large capital outflows in search for alternative real and financial investment opportunities outside the country. Put in simple terms, Namibia generates more savings than it is able to absorb in real investments in the country. The problem which Namibia faces is not so much a problem of excessive savings, but rather one of lacking investment avenues and opportunities. Our recent strong current account surpluses do, therefore, not necessary portray a favourable picture, as they characterise an economy that performs way below its full potential.

2.17 The considerable downward trend in inflation recorded in Namibia during 1993, was reversed when consumer price inflation began to accelerate strongly towards the latter half 1994. This is evident in the trends of **consumer price inflation** in Namibia, as measured by increases in the consumer price index for Windhoek. The inflation rate decelerated to a recent low of 7,8 per cent in the third quarter of 1993, put began to pick up again and stood at 11,9 per cent during the last quarter of 1994. For 1994 the inflation rate averaged almost 11 per cent, compared to $8^1/_2$ per cent in 1993. The strong growth in money supply and domestic credit extension, together with factors such as a stronger inflationary drift in South Africa and the depreciation of the rand, were some of the causes for rising inflationary tendencies in Namibia. Food prices, in particular, which during the first half of 1994 rose rather modestly, escalated strongly during the latter half of the year, basically reflecting supply constraints in agricultural products.

2.18 **Monetary developments** during 1994 were characterised by strong increases in virtually all monetary aggregates. Credit extended by the monetary system to the private sector, which is the major origin of Namibia's money supply growth, expanded on average by 32 per cent during 1994, compared to 25 per cent in 1993. The level of net claims by the monetary system on the central

government, on the other hand, remained stable throughout 1993 and 1994, thus ruling out arguments of government crowding out private credit. The robust increase in credit extension to the private sector, did, of course, strongly influence the growth of Namibia's broadly defined money supply, ***M2***. The increases in ***M2*** escalated from 25 per cent in September 1993 to almost 43 per cent in September 1994. For 1995 as a whole the average quarterly increases amounted to 31 per cent, compared to an average rise of 29 per cent in 1993.

2.19 This, Mr. Speaker, concludes my account of recent global, regional and national economic developments. My overview of the world and regional economic situation has revealed some rather promising highlights, which have impacted favourably on the Namibian economy, in terms of increased supply and demand levels and improved external balances. The International Monetary Fund cautions, however, that, although the recent indicators have been encouraging and point to some upward potential, many difficult tasks continue to confront policy makers to ensure a strong and durable expansion with low inflation and high levels of investment over the long run. From my review of recent local economic developments, it is evident that this word of caution from the IMF applies with equal force to our situation in Namibia.

3. THE ECONOMIC CHALLENGES OF GOVERNMENT

3.1 Although the recent developments in the Namibian economy have been encouraging indeed, it is appropriate to also look at some of the country's underlying macro-economic problems evidenced over a longer period of time. The state of the economy can be reviewed in terms of major indicators of economic performance, *viz.* per capita income, level of unemployment, welfare of the people, savings and investment, balance of payments, and terms of trade.

Inadequate rise in *per capita* income

3.2 Since independence, Namibia's *per capita* income, that is the average increase in income per head of the population, advanced a mere 0,2 per cent per annum. This means, in essence, that only a slight improvement in the standard of living of the people has been achieved. Yet, compared with other African countries, Namibia's *per capita* income is very high. This relatively high *per capita* income, however, conceals great variations of economic conditions and standard of living amongst different groups of the population, manifesting characteristic features typical of an extremely dualistic society. While Namibians as a group might have maintained its standard of living, some of them might have managed to even improve their livelihood, while the poor may have become poorer. An essential pending challenge for the government will, therefore, be to activate the trend in the growth of *per capita* income and improving the living standard of the poor. This could be done on a sustained basis only if growth of the economy is reactivated and resources are redirected to alleviate poverty.

3.3 In this regard, in the five-year period after independence, government has attempted to redefine its priorities and redirect resources accordingly.

Consequently at present, education, health and social services absorb a significant portion of government's budget aimed at developing the country's human resources and improving future income-earning capabilities of the population. The present concern of government is the efficacy with which this policy is being implemented to achieve stated objectives.

Rising level of unemployment

3.4 According to the 1991 population census, the level of unemployment in the country lies in the vicinity of 20 per cent of the economically active population. Of more immediate concern at present is the fact that it is rising. The situation reflects not only the sluggishness of the economy in the past, not so much in terms of output but rather in terms of job creation, but it also reflects the rapid rate of population growth which is roughly equal to the growth of the economy. In the face of these realities the daunting task of providing jobs will not be easy. Considering the existing constrained capacity of the economy to provide adequate wage employment, generating enough job opportunities would be another challenge that government will have to face.

Unsatisfactory welfare situation of the country

3.5 Welfare and security of people are the sum-totals of human development. Improvements in human development has several dimensions. Income is but one such dimension; there are other equally important factors such as longevity and knowledge. *Per capita* income wise, Namibia fares better among many developing countries. It comes as 98th out of 173 countries. However, the UNDP 1993 Report on Human Development Index, a composite measure of human progress, which includes facets such as life expectancy, adult literacy and mean years of schooling, places Namibia in the 135th position. This shows that economic growth *per se* is not a sufficient condition to attain a higher living condition for a society. There is no automatic link between income and human development, though economic growth could, in the long-term, help attain other development objectives. In this regard, bringing about a measurable improvement in the general welfare of the people will be another challenge for the government in the coming few years.

High consumption and low investment rates

3.6 Despite a virtual stagnation in income *per capita*, high level of consumption is a striking feature of the Namibian economy. Total consumption as a proportion to GDP in 1994 was almost 90 per cent, compared to a ratio of 61 per cent in 1980. Over the same period, government consumption alone increased its ratio relative to GDP from about 25 per cent to as high as 32 per cent. A rising consumption propensity mirrors a declining rate of saving and, perhaps, a diminishing willingness to invest in the economy. This is evidenced by the fact that while fixed capital formation still amounted to about 27 per cent in the early 'eighties, the ratio declined to less than 20 per cent in the early 'nineties. Another challenge for government will, therefore, be raising the investment and the

saving rate to support higher rates of growth of the economy.

Restraining and redirecting government expenditure

3.7 In my opening remarks I have pointed out that the major policy instrument that Namibian Government could effectively use at present for promoting national development is the national budget. This means to meet most of the challenges identified above, government has to use fiscal policy instruments most prudently. On the other hand, the challenges for accelerating growth, reducing income inequality, combating poverty, building up essential social infrastructures, all at the same time will inevitably require an increase in public expenditure. Already, however, the share of government expenditure, by the standards of other countries, is characterised as too high. The impact of a further growth in expenditure on the deficit level and on macro-economic stability is evident. Prospects for augmenting total revenue, which is now about 35 per cent of GDP, are limited. In the face of these realities, meeting the challenges of development in a fiscal framework that does not endanger macro-economic stability will itself be a serious challenge for government. This would mean restraining and redirecting expenditures. The major part of real gains in this area will have to come more from eliminating inefficiencies in spending and raising its effectiveness through restructuring the composition of expenditures than from additional budgetary allocations that might be permitted by increases in domestic revenue.

Maintaining a sustainable balance of payments position

3.8 Unlike the 'eighties, which were characterized by wide swings in the current account balance from deficit to surplus, the last five-year period after independence, witnessed consistent surpluses. As a result, in the last two years ending 1994, the country is expected to build up its foreign exchange reserves. This is a welcome development considering the need to support our national currency. In large part, this was achieved as a result of a slow down of investment which was caused by declines in the share of exports and imports of goods and non-factor services in GDP.

3.9 Such a situation, however, might not be sustained in the long term. A faster economic growth will require a higher investment rate and a more dynamic external sector. During the next five-year period, maintaining a sustainable current account balance, in the face of a rising investment rate will also be another goal that is a challenge for the government.

Deteriorating terms of trade

3.10 The terms of trade is one of the most important indicators of external shocks to an economy. It shows the extent to which a country's export prices perform in relation to import prices. In this regard, over the last 5 years there was on the average 2 per cent per year deterioration in Namibia's terms of trade. Worsening terms of trade imply that Namibia would be required to export

increasing volumes of merchandise in order to finance a given volume of imports.

3.11 The sources for this problem is not difficult to discern. It has to do with the problem of adaptability of the economy to a fast changing global economic situation. For Namibia, not only the structure of production and exports has remained about the same, but also the destination of its exports did not show any significant variations. But in the meantime, globally, the composition of commodity trade and the distribution of the gains from it has changed significantly. Countries which pursued responsive policies diversified their exports and their markets and benefited from it considerably. They shifted their trade from goods and services of low income and price elasticities to other goods and services of higher income and price elasticities, and from slow growing to fast growing regions of the world. Those countries which failed to see the need for policy reforms to adapt to changing circumstances lost miserably. The challenge for Namibia in the near future would therefore be to decide on a strategy of diversification of production, exports and markets in order to augment the growth and the resilience of its economy.

3.12 Mr. Speaker, this concludes my diagnosis of Namibia's underlying macro-economic, and to large extent also structural and social problems, which would require more than one budget to deal with. Nonetheless, we should not overlook these weaknesses indefinitely. In this regard, I believe that Namibia's first NDP would be a suitable policy instrument to address many of these challenges.

4. THE EXPECTED ECONOMIC ENVIRONMENT FOR 1995

Global economic prospects for 1995

4.1 There are strong indications that the economies of the leading industrial countries would experience a fairly synchronized recovery during the next twelve months. Strong economic growth would also be maintained in Asia and in developing countries.

4.2 While the rate of expansion in the *USA* may decelerate from 4 per cent in 1994 to an expected 2,9 per cent in 1995, it is anticipated that the growth in *European countries* would accelerate markedly. *Japan* is also expected to accelerate its growth rate from 0,9 per cent in 1994 to 2,6 per cent during this year. Against this background, it is anticipated that the real economic growth in major industrial countries during 1995 would remain on the preceding year's level about 3 per cent.

4.3 At the same time, with large margins of economic slack in many countries, there seems to be little immediate risk of a generalized pickup in inflation, notwithstanding a significant rise in the prices of some primary commodities. Modest increases would nonetheless be foreseen, particularly in the *USA*, where inflation is expected accelerate from 2,7 per cent in 1994 to 3,4 per cent in 1995, and in the *United Kingdom* where inflation over the same period are expected to increase from 2,5 to 3,1 per cent.

4.4 Although speculative behaviour have initially contributed to some increases in commodity prices, the present indication is that the broadening of recovery among the industrial countries would be the most important factor in the general pickup in commodity prices. This would significantly improve the outlook for economies heavily dependent on commodity exports. The indications are also good for the gold price to break through the 400 dollar per ounce mark. Having witnessed sharp price movements in the oil price during 1994, the recovery in world output would probably cause a moderate increase in the oil price. Foreign exchange markets are expected to remain stable with the USA-dollar weakening further in the next few months but gaining strength afterwards. An upward drift of interest rates is also a distinct possibility. Furthermore, the successful conclusion of the Uruguay Round of multilateral trade negotiations, are expected to considerably enhance trading opportunities for all countries.

Prospects for the South African economy for 1995

4.5 The recent positive advances made in the South African economy, the prospects of a stronger rate of expansion in the world economy, together with a number of promising developments have laid the foundation for an accelerated tempo of economic progress in South Africa. Apart from the more favourable external environment, South Africa also expects a significant increase in capital spending by domestic and foreign investors, greater availability of foreign sources of finance and a generally improved business and investment confidence. Against

this backdrop, it is anticipated that the output growth in South Africa can reach 3,2 per cent during 1995, compared to a growth rate of 2,1 per cent last year.

4.6 The combat against inflation in South Africa would, however, still receive high priority, and it is envisaged that a restrictive monetary policy stance would tighten further during 1995, with a possible upward adjustment in the bank rate. Given the rather huge demands of the reconstruction and development programme, on the one hand, and the commitment to fiscal discipline, on the other, the fiscal policy stance in South Africa is expected to remain neutral.

4.7 As far as exchange control is concerned, it is clear from recent disclosures that South Africa is to ease the present exchange control regulations in order to open up its protected domestic economy. Observers have noted that a process of phasing out exchange control over the next twelve months seems likely, and that the financial rand would be abolished during 1995.

Prospects for the Namibian economy for 1995

4.8 Having regained its momentum after the mild relapse during 1993, the Namibian economy is expected to sustain a firm rate of economic expansion. The external environment has improved significantly as most of our trading partners anticipate higher levels of trade and output. However, given the exceptionally high rate of output increase in 1994 of 5,8 per cent, and the likelihood of setbacks in agriculture and fishing, it is unlikely that the country would be able to achieve an overall growth rate of more than 3 per cent during 1995.

4.9 The agricultural sector's prospects are less promising in view of the gradual implementation of South Africa's GATT proposals to lower trade barriers, which could impact adversely on the agricultural export prices and hence also on output volumes. In the event of a drought, the prospects for the sector and for the economy would, of course, dwindle significantly. The conditions in the fishing industry also seem uncertain in the short-term which resulted in a downward adjustment of the output projection for this sector for 1995. However, given the existing output momentum of output in the leading primary sector industries, the robust performance in the secondary and tertiary sectors, the favourable conditions amongst our trading partners and the expectation of a slightly increased domestic demand, would considerably enhance the overall business and investment confidence in the country.

4.10 Despite the low level of international inflation, the restrictive stance of monetary policy and the possibility of cheaper imports as a result of opening up foreign trade according to the new GATT rules, which might lead to lower price rises or even price decreases, it is still expected that the Namibian inflation rate would show a mild increase. Factors that could put upward pressure on local price levels are higher inflation expectations in South Africa, the continued depreciation of the rand (including that which could result from the withdrawal of the financial rand) and the impact that higher mortgage interest rates could have on the cost of housing. On balance, an annual rate of 12 to 13 per cent is

anticipated for 1995.

4.11 The medium-term prospect of the Namibian economy is also affected by imminent changes in the policies of two regional agreements to which Namibia is a signatory: the first is the Common Monetary Agreement, in terms of which Namibia keeps its exchange control policy consistent with that of South Africa, and the second is the South African Customs Union Agreement, which is currently being renegotiated. Mr. Speaker, in view of the consequential changes expected in the exchange control and foreign trade dispensations amongst the members of the CMA and SACU, it is appropriate to make a few explanatory remarks in this regard.

4.12 Very little is known about the timing and magnitude of the pending relaxation of the current exchange control regulations of the CMA. It is understood, however, that the financial rand would disappear as soon as the discount between the commercial and financial rand is reduced, that exchange control over non-residents could be eased faster than that over residents. I do not foresee any serious implications for Namibia as a result of the withdrawal of the financial rand, especially not at a time when the discount between the two currencies would be rather small. Namibia would also welcome the easing of exchange control, as the current measures had adversely affected Namibia's ability to attract foreign investment, *inter alia* because of the tedious process of securing the repatriation of foreign capital from Namibia.

4.13 As far as the Customs Union is concerned, there are various developments which could affect Namibia. Firstly, South Africa, and therefore all other SACU members, are committed to open up their protected domestic economies by starting the process of implementing measures required for compliance with the new GATT rules. This move *per se* would affect Namibia's economy in dissimilar ways. On the one hand, Namibia would be in a position to diversify its foreign trade, especially its imports, as the industries in SACU, who would begin to loose their protection, are forced to either become more competitive or be replaced by imports from outside SACU. On the other hand, Namibia also fosters some of these protected industries and sectors in its territory. These industries would also have to adapt to the new GATT rules by being forced to compete price and quality wise against foreign suppliers to the SACU region. As I have pointed out previously, Namibia's agricultural sector could be adversely affected by the new trade rules and other measures.

4.14 Secondly, the SACU Agreement which unites Namibia, South Africa, Botswana, Lesotho and Swaziland into a customs union is currently being renegotiated. Political and economic change in Southern Africa have led to a situation where member countries of SACU felt a need to review the existing trade and customs arrangements as contained in the SACU Agreement and the Secret Memoranda of Understanding. The existing SACU Agreement is a fairly inward-looking, secretive and untransparent treaty, with South Africa still dominating the determination of various policy variables, such as the common external tariff and excise duty rates.

4.15 Namibia has approached the renegotiation with informed objectivity and has tabled a *Statement of Position* setting out the following key objectives for the renegotiations:

(a) the democratisation of the Agreement to enable it to reflect the interests of all parties;

(b) the acceptance that the new SACU Agreement represents a building block in the moves to increased economic integration in the sub-region;

(c) a commitment to an outward looking customs union achieving economic development through the growth of internationally competitive industry; and

(d) an equitable, efficient and transparent revenue sharing formula.

4.16 These objectives, which Namibia has advanced at a meeting of ministers in Pretoria on 11 November 1994, were accompanied by detailed and definite proposals on various issues related to SACU. This House would, of course, be required to ratify the new SACU Agreement and I would make a more elaborate presentation in this regard at that stage.

5. THE FORMULATION OF THE 1995-96 BUDGET

5.1 The preparation of the 1995-96 budget commenced with the drafting of background research outlining recent economic trends and pertinent economic issues that are likely to influence Namibia's economic and fiscal performance during the budget cycle 1995-96 and beyond, and providing a policy framework for the budget.

5.2 These considerations were thoroughly dealt with amongst the Ministry of Finance, the National Planning Commission and the Bank of Namibia and culminated in a submission to Cabinet with the aim of obtaining approval for pursuing certain objectives and introducing certain policy measures.

The objectives for the 1995-96 budget

5.3 Given this background, it is evident that the budget that I table today is a well conceived strategy containing measures able to contribute towards the achievement of the predetermined objectives, approved by Cabinet against the background of the expected economic environment and the underlying economic problems of the country.

5.4 Mr. Speaker, it is appropriate, therefore, to review the objectives for the 1995-96 budget which Cabinet appraised and approved recently. These objectives are the following:

(a) to provide a strong stimulus to and signals for faster economic growth to ensure a rising *per capita* income for the population;

(b) to facilitate and assist the private sector to generate adequate job opportunities to reduce the level of unemployment;

(c) to design economic and social programmes to help the poor and the relatively more vulnerable groups of the population to share more from the benefit of growth and to give access to services that raise their productivity; and

(d) to continue to restrain the growth of expenditure while at the same time redirect its composition within a framework that does not endanger macro-economic stability.

5.5 Cabinet also approved a number of longer-term policy measures and strategies to assist in achieving the above set objectives. While some of these measures and strategies fall beyond the scope of this budget, I will later highlight those that have been suitably addressed in the budget for 1995-96. I should point out that our forthcoming annual budget cannot redress all those macro-economic problems and challenges which I have highlighted earlier. To effectively deal with these challenges a broader and longer term effort is required, and in this respect the policies and strategies envisaged by Namibia's first National Development Plan to be tabled in this House soon would adequately address these challenges over the next five years, provided, of course, that all role players are fully dedicated to and pursue the policies and strategies of the NDP1.

The format and presentation of the 1995-96 budget

5.6 The format and presentation of the budget document, which reflects estimates of revenue and expenditure for the fiscal year 1995-96, have not changed from those used for the previous budget. The main presentation is arranged by budget vote for ease of reference and gives information about expenditure in the previous two fiscal years. In addition, various tables are displayed to reflect the financing framework of the budget, revenue estimates, expenditure estimates arranged according to functional, economic and institutional categories, as well as the staffing position of central government during 1995-96. These presentations serve a valuable purpose for analytically inclined members and other observers and commentators.

5.7 The printed budget document is once again accompanied by a detailed account of all development projects as prepared by the **National Planning Commission**. Development projects are presented according to functional and institutional categories and according to regions. Details are also provided about the source of funding, that is whether projects are funded within or outside the budget, funded by State Revenue Fund allocations, grants and/or loans, while also featuring tentative projections about capital projects for the subsequent two

years. The Development Budget contains invaluable analyses and presentations about development capital allocations according to different criteria. It is also important to note that the Development Budget also includes most of the donor funded projects, which are not reflected in the Main Budget. This inclusion, for the first time, provides a framework within which all development expenditures undertaken by central, regional and local government, including their recurrent cost implications, can be assessed. Therefore, I wish to congratulate the Director General and the staff of the National Planning Commission for this excellent presentation.

5.8 Although the detail contained in these two documents is overwhelming, I believe it is essential not only to display the full contents and implications of the government's expenditure programmes, but also to prove transparency in government finance and to demonstrate the seriousness with which we approach the country's challenges.

The accounting system

5.9 As far as our **accounting system** is concerned, I can report that the development and implementation of the Integrated Financial Management System (IFMS) is progressing steadily but fell slightly behind the initial time table. Nonetheless, the Funds Control System (FCS), which is a sub-component of the IFMS, has been implemented at 19 ministries, votes or offices and is operating effectively. The FCS will be implemented at the remaining 7 offices before the end of March 1995. Test runs have been completed on the budgeting module and the implementation phase is planned for the period April to June 1995. It is envisaged, therefore, that the 1996-97 budget would be prepared using this system.

6. ESTIMATE OF REVENUE FOR 1995-96

6.1 **Total revenue** from all sources for 1995-96 is estimated at N$ 3 828 million, which is N$ 589 million, or 18 per cent more than the revenue estimated at the time of the main budget for 1994-95. In relation to Namibia's projected GDP, total revenue is expected to increase from 33,1 per cent in 1994-95 to about 35 per cent in 1995-96. However, total **tax revenue**, which is estimated to rise from N$ 3003 million to N$ 3371 million over the same period, would remain on about 31 per cent of GDP during both fiscal years, implying a fairly steady overall tax burden for the country. The fact that these consistent tax ratios were achieved during a period when tax rates, especially for income tax, were generally reduced, demonstrates two things. Firstly, Namibia's tax yields, relative to economic activity in the country, are expected to respond favourably to tax rate decreases, and, secondly, the improved and streamlined tax system would have a positive impact on collections. In view of these developments, I would like to make a few brief remarks on some of the major revenue sources.

6.2 **Tax on income and profits** is expected to amount to N$ 1021 million in 1995-96, compared to about N$ 900 million in the previous budget. This represents

an increase of N$ 121 million or 13 per cent. Of this increase, N$ 54 million would originate from income tax on individuals and N$ 110 million is expected from non-mining companies. These improved income tax proceeds reflect our enhanced collection efforts, the favourable economic environment and the inclusion of Walvis Bay tax payers. Diamond mining company tax would remain on N$ 105 million, mainly as a result of increased capital expenditure claimed as a result of the moving of operations to new locations. Non-diamond mining companies are expected to reduce company tax payments by N$ 33 million. This reduction does not represent a decrease in normal income tax for the sector, since the 1994-95 income tax figure included a final tax payment relating to a prior tax year. In terms of the new co-ownership agreement with CDM, diamond profits tax was of course repealed.

6.3 **Domestic taxes on goods and services** are expected to yield an additional N$ 92 million, which mainly originates in equal proportions from the three main tax types, *viz*. general sales tax, additional sales duty and fuel levies. The improved tax collections in this category reveal the expected improvement in domestic expenditure, as well as the inclusion of Walvis Bay.

6.4 The favourable economic conditions anticipated in Namibia, especially in the building and property market, during fiscal year 1995-96 are reflected in a N$ 12 million increase in **transfer duties** and a N$ 10 million increase in **stamp duties**.

6.5 **Taxes on international trade and transactions** during this fiscal year consist almost exclusively of Namibia's customs and excise receipt from SACU. In terms of our new agreement with CDM, diamond export duties have now been converted into a diamond royalty, which, according to our revenue classification, is not regarded as a tax revenue, but as property income to government in recognition of the rights to mineral exploration granted to CDM. The diamond royalty would yield an estimated N$ 140 million in 1995-96, as against diamond export duties of N$ 120 million in 1994-95.

6.6 Namibia's customs and excise compensation will increase from N$ 902 million in 1994-95 to about N$ 1155 million in 1995-96. This, incidentally is not an estimate, but an amount agreed amongst the members of SACU and based on the prescribed formula. The 28 per cent increase in this fiscal year is indeed a significant improvement over the previous year, and should be viewed within the context of the mechanism of the revenue sharing formula, which is applied with a two year lag and uses import data as its main determinant. The 1995-96 revenue share is based on import data of 1993-94, a year in which imports from both SACU and abroad registered sharp increases. The strong surge in the importation of fishing vessels, as well as the raised excise duty rates during 1993-94 have also contributed to Namibia's high SACU revenue share for 1995-96.

6.7 There are a few individual revenue items to which I would like to draw attention to. Firstly, the recent deterioration in the oceanic conditions, which led to the

lowering in certain fishing quotas, has resulted in a downward adjustment in the **fishing quota levies**. Consequently, only about N$ 95 million is expected from this source during 1995-96, compared to an initially estimated N$ 110 million in the previous fiscal year. Secondly, the revenue estimates also contain an item labelled **"dividends"**. This represents an expected dividend receipt from the Bank of Namibia of N$ 20 million, while N$ 13 million is foreseen as a dividend from CDM. Thirdly, Honourable Members will notice an increase of about N$ 49 million in the estimate for **administrative fees and charges** in 1995-96 compared to the previous fiscal year. This increase reflects the continuous efforts to adjust user charges for government supplied services as well as improved collection efforts. Fourthly, the figure presented in the revenue estimates for **external grants** represents the sum-total of all grants actually committed and accounted for in the development budget, and nothing else. This way of estimating foreign grants was introduced to prevent downward adjustments later during the year.

7. TAXATION PROPOSALS

7.1 Mr. Speaker, I now come to that part of the annual Budget Speech, which will affect all of us as members of the tax-paying public, namely my tax proposals. The overall objectives of my tax proposals are three-fold. They aim, firstly, to continue rationalising and streamlining the tax system so as to make it easier for the tax-paying public to comprehend and apply the systems. Secondly, they also strive to improve administrative controls and to enhance collections. Thirdly, some degree of tax relief is granted to stimulate domestic economic activity and to assure a competitive tax regime within the region.

Administrative measures

7.2 Mr. Speaker, it is my pleasure to report that the Oshakati Regional Office of the Directorate Inland Revenue is functioning well and that a regional office has been opened in Walvis Bay last Wednesday. Records of taxpayers in Walvis Bay, Swakopmund, Henties Bay and Arandis have been transferred to that office, and I hope that this would encourage better relations between the tax paying public and the Receiver in that region.

7.3 The process of dividing the Revenue Office in Windhoek into a regional office and a head office, as well as efforts to modernise all the procedures in the Directorate, are well under way.

Statutory measures

General

7.4 The Receiver of Revenue has in the past charged simple interest on outstanding income tax, sales tax and additional sales duties at a rate of 15 per cent per annum. Since this rate compares more favourable with commercial bank interest rates, taxpayers who are in arrears tend to use the fisc as a cheap

source of financing debts. It has, therefore, become necessary to address this anomaly by increasing the interest rate on outstanding tax to 20 per cent per annum compounded on daily balances.

Sales tax

7.5 Schedule 2, Division 1, of the Sales Tax Act has specified certain goods that could not be acquired by manufacturers without attracting sales tax. Some of these items are in fact business inputs, the cost of which is recovered from the selling price, which in turn attracts further sales tax at the final transaction stage. To redress this inconsistency, it is proposed to amend Schedule 2, Division 1, so as to allow sales tax free purchases of certain goods, which previously did attract sales tax. Examples of these type of goods are millstones, furnace electrodes, cutting oils etc. I am convinced that this concession will serve as a further incentive to manufacturers.

7.6 Further minor technical amendments in the **Sales Tax Act** and in the **Additional Sales Duties Act** are also proposed to simplify the administration of these taxes.

Income tax on individuals

7.7 Continuing on the course of gradually lessening the overall tax burden in the country and of simplifying the tax system, I am proposing firstly to do away with the present abatement system by exempting the first N$ 15 000 income from tax. All tax payers earning less than N$ 15 000 per year will no longer be required to submit annual tax returns. The abolishment of the abatement system will, of course, greatly simplify the income tax system and administration.

7.8 I further propose that the maximum marginal rate be reduced to 35 per cent for taxable annual incomes above N$ 80 000. At present the rate of 35 per cent is applied to income exceeding N$ 50 000 per annum, while the rate of 38 per cent was triggered at an income more than N$ 120 000 per annum. The aforementioned amendments and new rates will apply from the 1st of March 1995. I am happy to announce that all taxpayers will benefit from these two proposed amendments. Those with annual incomes from N$ 35 000 and above will gain some 6 to 8 per cent, whilst lower income groups will save between 10 and 32 per cent on tax.

7.9 Moreover, the proposed reduction of the top marginal rate to 35 per cent, will not only benefit our tax payers, but will also place Namibia on par with our neighbours as far as attracting foreign investment is concerned.

Company tax

7.10 In line with the reduction of the top marginal rate of tax for individuals to 35 per cent, it is proposed that the tax rate for non-mining companies be set at 35 per cent as well, effective for companies whose tax year commences on or after the 1st of January 1995.

Further amendments to the income tax act

7.11 It is further proposed to:

(a) increase the amount of gratuities paid on retirement exempted from tax from N$30 000 to N$50 000 to lighten the burden of persons going on retirement.

(b) exempt any amounts transferred from a retirement fund to another retirement fund from tax.

(c) allow donations to registered welfare organisations and approved educational institutions (including schools) as expenses deductible from income. It is anticipated that this allowance will promote community participation, also by means of aid, in the affairs of the relevant institutions. Simultaneously, this could reduce the government's financial burden in this regard.

(d) review livestock values after consultations with the Ministry of Agriculture and representatives of the agricultural community. Any increase resulting from this review will be taxed at a tariff rating.

7.12 Amendment bills will be tabled in this House to implement the tax proposals and a regulation will be published in the Government Gazette to announce any new livestock values.

8. EXPENDITURE PROPOSALS FOR 1995-96

Trend and level of total expenditure

8.1 The total expenditure provided in the budget for 1995-96 amounts to N$ 4341 million. This is N$ 650 million or almost 18 per cent more than the expenditure provided in the previous fiscal year. In relation to the country's GDP total expenditure would increase from 37,7 per cent in 1994-95 to 39,8 per cent in 1995-96. On the face of it, the budget seems mildly expansionistic, particularly when compared to an expected inflation rate of 12 to 13 per cent. However, when analysing the composition of the expenditure, it would become evident that considerable emphasis was placed on capital investment and development.

8.2 Of the total expenditure for 1995-96, 3 per cent is earmarked for statutory expenditure, as against a share of 4 per cent in 1994-95. The share of current expenditure would decrease mildly from 82 to 81 per cent of total expenditure between 1994-95 and 1995-96, while capital expenditure and lending would increase its share from 14 to 16 per cent during the two fiscal years. The share allocated for personnel expenditure, included in current expenditure, would remain on about 47 per cent.

Current expenditure

8.3 Total current expenditure to be voted for 1995-96 amounts to N$ 3540 million, which represents an increase of N$ 520 million over the level of the previous fiscal year. Of this total personnel expenditure would attract some 57 per cent during both fiscal years.

8.4 The allocation according to budget votes shows that Education and Culture would reduce its share in total current expenditure to be voted from 30 per cent in 1994-95 to 28 per cent in 1995-96. Similarly, the allocation to the Health and Social Services vote would be cut down from 18 to 17 per cent between the two fiscal years. Another important indicator is the allocation for defense. Namibia appropriates about 7 per cent of current expenditure and some 5 per cent of total expenditure for this purpose, which compares favourably with fairly high ratios amongst similar developing countries.

8.5 Once again a provision of N$ 50 million was made under the vote of Finance for a Contingency Fund. This provision has proved to be quite practical in the past fiscal year to cover urgent unforeseen needs that cropped up during the year, which were then properly accounted for in the additional budget.

8.6 Another objective of the forthcoming and the previous budgets is to bring about a balance between labour and non-labour related charges, by constraining the expansion of the salary and wage bill in relation to total expenditure, because these charges began to escalate disturbingly soon after independence. To this end, a government wide rationalisation process was initiated and within certain staff categories vacancies were frozen. Also, given the existing government employment levels and its impact on the budget, there was very little scope to materially improve the overall wage structure. Yet, as I have pointed out in my additional budget statement last month, the Government does realise that an indefinite suspension of a general salary adjustment may lead to financial hardship amongst officials, declining morale and work effort and problems in staffing large numbers of skilled positions. This reminds me of an Ugandan Public Service Salaries Review Commission, which in 1982 amongst its findings said that "*the civil servant had either to survive by lowering his standard of ethics, performance and dutifulness or remain upright and perish. He chose to survive*." Against this background, I would like to refer you to a provision under the vote of the Office of the Prime Minister amounting to N$ 134 million. This amount is equivalent to a 10 per cent general salary increase for all civil servants, and an appropriate announcement as to how this provision would be utilised will soon be made by the Right Honourable Prime Minister.

Capital expenditure

8.7 An amount of N$ 680 million has been provided in the 1995-96 budget as capital, lending and equity participation. This is N$ 91 million, or 26 per cent, more than the amount provided in the previous budget and N$ 235 million more than in the 1993-94 fiscal year. The 16 per cent share of capital and lending in

total expenditure for 1995-96 compares favourably with ratios of 14 and 13 per cent allocated for this purpose in the previous two fiscal years. The total development budget, excluding provisions for operational capital, amounts to N$ 583 million. Of this total 79 per cent are funded internally from own resources, while projects funded in the budget by means of grants and development loans account for 5 and 16 per cent of the total respectively. In addition to this provision on the budget for 1995-96, a further N$ 310 million would be spent outside the State Revenue Fund, which is exclusively funded by foreign grants. This brings the total Development Budget for 1995-96 to N$ 893 million and to N$ 990 million, if operational capital is included. The overall provision for capital investment inside and outside the budget would amounts to 9 per cent of GDP.

8.8 Given the detailed account of the Development Budget which contains project-by-project information and also features development projects arranged according to functional, sectoral, institutional, regional and source of funding criteria, I would not make further remarks about the individual projects envisaged for 1995-96. I would, however, like to make a few observations, which were highlighted in the Development Budget.

8.9 A total of 536 projects financed inside and outside the budget are included in the three-year Development Budget. Of these projects, 269 projects are "new" projects, introduced in 1995-96 or later. During the three-year period, ending 1997-98, 290 projects will be concluded. This reflects the priority given to the finalisation of existing projects.

8.10 Of the development expenditure allocated inside the State Revenue Fund, seven votes account for 72 per cent in 1995-96. These votes comprise Education and Culture, Health and Social Services, Water Affairs, Regional and Local Government and Housing, Agriculture and Rural Development, Transport, and Mines and Energy. However, it must be borne in mind that certain votes, such as Mines and Energy or Fisheries, attract relatively large amounts of donor resources.

8.11 The Development Budget also tries to reflect Government's sectoral priorities. In particular, an effort has been made to strike a balance between spending on social sectors and infrastructure, on the one hand, and spending on productive sectors, on the other. Government continues to concentrate a large share of its resources on the social sectors. This reflects not only the need to correct the injustices of the past, but also a conviction that an educated and healthy society will ultimately be an economically prosperous one. Government has nevertheless began to allocate a larger share of resources to the productive sectors. While it is not the role of Government to involve itself directly in production, there is much that Government and donors can do to create an enabling environment for private sector development and job creation.

8.12 During the Budget preparation process, projects were classified into four sectors, namely **productive sectors**, such as agriculture, forestry, wildlife, mining, energy, manufacturing, commerce and tourism, **social sectors**, such as education, health, water, culture and sport, **infrastructure sectors**, such as transport and buildings, and **public administration** to cover all other public functions.

8.13 According to this classification, **productive sectors** were allocated 28 per cent of the resources in 1995-96. This high share largely reflects the priority given to agriculture in the Development Budget. It also reflects the concentration of efforts to promote and enhance the role of the private sector in productive activities. Manufacturing industry receives a small but increasing proportion of total resources, as the Ministry of Trade and Industry makes efforts to structure its development activities.

8.14 The share of **social sectors** in total development expenditure is set at 37 per cent in 1995-96. This reflects the priority given by Government to the development of human resources. Further increases in the allocation of resources to rural water supply will depend on the growth of institutional capacity. Resources are being used to expand the coverage of primary social services, in particular in rural areas.

8.15 Namibia has a well-developed infrastructure, but it is inequitably distributed. The **infrastructure sectors** would account for 23 per cent of the development budget in 1995-96. The provision of electricity in rural areas forms an important part of this spending. The emphasis in the transport sector is on the completion of two large trunk road projects: the Trans-Caprivi and Trans-Kalahari highways.

8.16 **Public administration** draws about 12 per cent of the 1995-96 development budget, a large share of which is allocated by donors to institutional capacity building and technical assistance in the public sector, with an apparent emphasis on management of the economy.

Statutory expenditure

8.17 Statutory expenditure, which represent a direct charge against the State Revenue Fund in terms of legislation other than the Appropriation Bill, were reduced from N$ 132 million in 1994-95 to N$ 121 million in 1995-96, mainly as a result of the repeal of a diamond mining lease agreement with Namib Finance Corporation. What remains as statutory charges are principally debt related expenditure. Interest on public debt is estimated to increase from N$ 101 million in 1994-95 to N$ 120 million in 1995-96, mainly as a result of higher lending interest rates.

8.18 Having detailed our revenue and expenditure proposals, I would like to share with you one rather camouflaged facet of our national budget. Mr. Speaker, we should bear in mind that the tax concessions and incentive measures, such as accelerated depreciation, abatements of various kinds, special deductions, duty

free inputs, and so on, which were granted over recent years, do represent considerable amounts of sacrificed public resources. Since these are revenues foregone, which could have been allocated into other avenues, they are typically labelled "tax expenditure". Moreover, as these amounts do not appear in the budget, the government's overall priorities in terms of expenditure allocations are rather distorted. While the expenditure provisions in the budget would clearly display the high emphasis government places on the social sectors, the considerable tax expenditure allocated indirectly through the tax system to the private sector as a contribution, or perhaps subsidy, for stimulating private sector development are concealed and, therefore, often conveniently ignored.

9. THE LEVEL AND FINANCING OF THE DEFICIT

9.1 Mr. Speaker, before I consider the expected deficit for 1995-96 and proposals of how to fund it, let me briefly take you back to the previous fiscal year. Exactly three weeks ago I tabled the Additional Budget for 1994-95, in which I presented the additional revenue sources for the fiscal year, the supplementary expenditure requirements and, as a consequence, also the revised net borrowing need of central government. Within this short period it is not expected that any material deviation from the revised framework would develop.

9.2 However, our experience over the last few years has shown that the outturn of various revenue sources can differ from the initial and revised estimates, especially when the final accounts have been prepared. In addition, because of the time lag between the preparation of additional budget requests and the ultimate approval of the Bill, the actual disbursements on various expenditure programmes may not necessarily reflect the exact budgetary appropriations. These deviations have in the past led to some degree of under-expenditure. Also, the government's borrowing programme is to a large extent guided by the latest budgetary framework, which, in the likely event of additional revenues and under-spending during the remainder of the year, would cause a positive cash balance to be left on 31 March 1995.

9.3 Although the exact location of additional revenue, possible under-spending and/or over-borrowing is not known at this stage, an estimate of the surplus cash balance, based on previous years' experience, is conservatively put at N$ 100 million. This anticipated closing cash balance of the 1994-95 fiscal year I propose transferring as opening cash balance to the 1995-96 fiscal year.

9.4 This then brings me to the bottom line, that is how to finance the shortfall of expenditure above total resources for 1995-96. In my presentation of expenditure I have pointed out that the total expenditure proposed for 1995-96 amounts to N$ 4341 million, of which N$ 680 million was allocated for capital expenditure and **N$ 3661 million** for current and statutory expenditure.

9.5 Domestic revenue, excluding foreign grants, to be mobilised in 1995-96 is estimated at **N$ 3828 million**. Set off against current and statutory expenditure of **N$ 3661 million** would leave a excess of **N$ 167 million**. This amount

implies that Namibia was able to retain a saving of about 5 per cent after covering its current and statutory expenditure with resources mobilised locally.

9.6 This then leaves us with the financing of the capital expenditure of **N$ 680 million**, for which I propose utilising the following resources: Firstly, I have just noted that a saving of **N$ 167 million**, which is the excess of current revenue over current and statutory expenditure, is one source of funding. Secondly, an amount of about **N$ 39 million** is earmarked and committed to be channelled through the State Revenue Fund as foreign development grants. Thirdly, I also reported earlier that cash balances to remain after the close of the final accounts for 1994-95 are estimated at **N$ 100 million**. Utilising these three sources of funding would cover **N$ 306 million** or 45 per cent of total capital expenditure, leaving a deficit of **N$ 374 million** to be financed through loans.

9.7 **N$ 92 million** or almost one-quarter of the deficit would be financed through special aid assistance loans, which have already been arranged with foreign development agencies. The balance of **N$ 282 million** would be financed through issuing securities on the local money and capital market.

9.8 The net borrowing requirement during 1995-96 of **N$ 374 million** constitutes 3,4 per cent of the projected GDP of **N$ 10 920 million**. This is a considerable improvement, compared to the deficit to GDP ratio of 4,2 per cent envisaged for the 1994-95 fiscal year. The amount to be funded on the local capital market would amount to 2,6 per cent of GDP, compared to a ratio of 3,8 per cent put forward in the previous fiscal year. It is also important to stress that all foreign development loans are highly concessionary and carry a grant element of at least 25 per cent. In addition, most of these loans are hedged against possible exchange rate losses, through an arrangement between the Ministry of Finance and the Bank of Namibia whereby the Bank makes counter-investments in foreign currencies.

9.9 Mr. Speaker, although both our outstanding debt and its servicing are well within manageable proportions, I would be failing in my duty not to mention that a considerable burden would have been created if Namibia would have proceeded to service the pre-independence debt. We are extremely grateful to the most considerate way in which the President of the Republic of South Africa has agreed to accommodate Namibia in this very delicate matter. Final arrangements to revert responsibility for the debt servicing back to South Africa are currently being made.

10. CONCLUSION

10.1 In conclusion, Mr. Speaker, I would like to explain how the 1995-96 budget proposals are expected to meet the objectives set by Government. Let me therefore return to the earlier stated objectives.

10.2 The first and second objective is **to provide a strong stimulus to and signals for faster economic growth** and **to facilitate and assist the private sector to**

generate adequate job opportunities. On the macro side, it is evident that the total envisaged spending for 1995-96 of N$ 4341 million, which is 18 per cent up on the previous year, would provide a significant cash injection into the economy. What is more, the 26 per cent increase in government's estimated capital expenditure would boost Namibia's trade and construction industry, and at the same time raise and improve the country's social and physical infrastructure, thus enhancing future income generating opportunities. The same logic applies to the income tax concessions granted this year, which in the household sector would raise disposable income and in the business sector would increase retained profits for possible reinvestment.

10.3 The third objective is **to design economic and social programmes to help the poor and the relatively more vulnerable groups of the population**. Government continues to concentrate a large share of its resources on the social sectors. About half of the 1995-96 budget is designated for this purpose. This reflects not only the need to correct the injustices of the past, but also a conviction that an educated and healthy society will ultimately be an economically prosperous one. Within the social sectors the poor and vulnerable groups are specifically targeted. User charges for government provided services, such as school hostels, medical care and water supply, are specifically directed at easing the distress of the poor and other disadvantaged groups.

10.4 The last objective is **to continue to restrain the growth of expenditure while at the same time redirect its composition within a framework that does not endanger macro-economic stability**. It is not expected that the expenditure increase envisaged in the 1995-96 budget would be contained below the anticipated inflation rate, mainly as a result of a general salary increase. At the same time, however, it is expected that our resources would adequately cover the rise in expenditure. Since this would reduce the government's net borrowing requirement in relation to GDP below the level of the previous year, I do not believe that the 1995-96 budget would cause macro-economic imbalances. I also believe that the composition of expenditure proposed in this budget is much more growth and development orientated. The provision made for social services in relation to total expenditure fell from 53 per cent in 1994-95 to 50 per cent in 1995-96, while share of economic services rose mildly from 17 to 18 per cent over the same period. I still feel uneasy, however, that general government services still absorb a large cut of 29 per cent of the budget.

10.5 Mr. Speaker, I admit that much remains to be done to fully achieve the above stated objectives. It would be possible to advance numerous policies and strategies to address each of the objectives, but in this process we will soon realize that, although one strategy may adequately address one objective, it is in conflict with another. I believe, however, that within the economic constraints, we have made sound trade-offs and have come considerably closer to accomplish these challenging targets.

I thank you.

Annexure "A"

Annexure "B"

Financing framework of the 1995-96 budget
N$ millions

Financing / Expenditure	Domestic revenue	Foreign grants	Cash balances	Net borrowing	TOTAL
Current expenditure	3661	**--**	**--**	**--**	**3661**
Capital expenditure	167	39	100	374	**680**
TOTAL	**3828**	**39**	**100**	**374**	**4341**

Existing and proposed rates of normal income tax on individuals							
Existing 1995 rates				Proposed rates			
Annual taxable income (N$)		Annual tax		Annual taxable income (N$)		Annual tax	
From	To	Tax (N$)	%	From	To	Tax (N$)	%
1	10,000	0	14	0	0	0	0
10,001	15,000	1,400	20	0	0	0	0
15,001	20,000	2,400	22	0	0	0	0
20,001	25,000	3,500	26	1	15,000	0	0
25,001	30,000	4,800	30	15,001	20,000	0	19
30,001	40,000	6,300	34	20,001	30,000	950	22
40,001	60,000	9,700	35	30,001	40,000	3,150	27
60,001	80,000	16,700	36	40,001	50,000	5,850	32
80,001	120,000	23,900	37	50,001	80,000	9,050	33
120,001		38,700	38	80,001		18,950	35