REPUBLIC OF NAMIBIA

BUDGET STATEMENT FOR 1998/99

I. OPENING REMARKS

1. Mr. Speaker and Honourable Members, it gives me great pleasure to present the Budget proposals for the financial year 1998/99 to this august House. This is the eighth Budget since Independence and my second opportunity as Minister of Finance to table the National Budget in accordance with Article 126 of the Namibian Constitution and as further delineated in the State Finance Act, 1991.

2. Using the National Budget as its principal economic instrument for intervening in the economy, the Government has managed in the previous seven years to build institutions and capacity, create social and physical infrastructure, combat natural emergencies and accelerate the pace of economic development within an overall stable macro-economic environment. This, in turn, has provided the basis for unity, peace, reconciliation and stability enjoyed by every citizen of this country, which makes the notion expressed by some that only a few people benefit from the Budget totally wrong.

3. When His Excellency Dr. Sam Nujoma, President of the Republic of Namibia, addressed the first 1998 Cabinet meeting less than two months ago, he appealed for co-operation and dedication towards adopting **NAMIBIA VISION 2030**. In his address, His Excellency also highlighted some areas where Government should formulate clear and measurable policy objectives, find solutions and implement strategies to realise VISION 2030. Some of these issues dealt with are land, ex-combatants, human resources, WASCOM implementation and the Budget deficit. I cannot agree more with the notion of a longer term vision, since even the Bible teaches us that "*Where there is no vision, the people perish*" (Proverbs chapter 29, verse 18).

4. Mr. Speaker, I cannot claim that the Budget I am tabling today is in every respect in conformity with His Excellency's long term vision, since between now and the year

2030 a number of difficult choices and important trade-offs in political, economic and social spheres will have to be made so as to mold a solid foundation from which we can look ahead to the year 2030 with confidence. What I can say, however, is that this Budget introduces measures and changes that will enhance achieving that Vision.

5. Therefore, Mr Speaker, fiscal year 1998/99 will be a year in which we will be compelled to take vital and tough decisions, reflecting complex trade-offs. It is evident that the Government cannot succeed in continuing to pursue conflicting policies if it wants to achieve the country's main economic goals and objectives as stated in NDP1. It should not carry on justifying more government intervention and involvement. Similarly, in order to fight unemployment Government should not continue with service delivery in areas that are conventionally not core functions of Government. Failing to reverse these trends soon and effectively, the burgeoning expansion of government, leading to high Budget deficits and rapidly increasing public debt, will cause a considerable degree of macro-economic and financial instability and hardship for our and the next generation.

6. The most pressing challenges and trade-offs confronting Government at present, as well as over the long term, are and will remain the following:

- To choose between the welfare of those already productively employed and that of those under-employed or even those not employed at all.

- To address the unemployment dilemma by either expanding the government wage bill in order to employ more civil servants or by promoting private sector development which would be able to absorb more labour.

- To determine the medium to long-term impact on unemployment of the continued prioritisation of social service delivery at the expense of economic sector support.

- To acknowledge that the current distribution of land in Namibia perpetuates colonial injustices and to urgently address this sensitive issue through pragmatic policies and measures.

- To empower the Regions of Namibia and their people by increasing responsibilities in public administration and service delivery and funding thereof, so as to achieve stronger regional development.

- To implement measures that will relieve Government from borrowing extra funds to finance over-spending on recurrent expenditures and on the wage bill in particular.

- To reconsider the Government's borrowing strategy in the light of the sharp increase in the issue of short-term financing instruments in the domestic money market and the consequential funding problems, as well as escalating costs of borrowing.

7. Mr. Speaker, these and many more complex challenges demand tough decisions to be taken and difficult trade-offs to be made. Therefore, the policy framework for the 1998/99 Budget that I am presenting to this august House, rests solidly on the Government's overall development objectives as delineated in NDP1 and as envisaged in the Namibia Vision 2030. What has become necessary now, however, is to make the required policy adjustments, corrections and trade-offs to bring the country's economic development back on track to achieve the long-term goals envisaged by the Plan and the Vision. But, before outlining the policy guidelines for the budget, let us share an overview of some of the recent economic developments.

II. THE ECONOMIC ENVIRONMENT

(a) The external economic environment

8. Mr. Speaker, the **global economy** is enjoying the fourth episode of relatively rapid growth since the early seventies. World output has expanded by 4.2 per cent in 1997 compared to 4.1 per cent in 1996. This expansion is underpinned by continued solid growth with low inflation in industrial and transition nations, as well as developing countries as a group.

9. However, the instability and uncertainty caused by the upset in Southeast Asian markets, which saw considerable depreciation in the value of financial and real estate assets, as well as exchange rates, are expected to cause a less favourable outlook in 1998 for most industrial countries whose exports and growth will be affected. This, in turn, could also harm the export base of many developing countries, including Namibia, for example in the sale of gem diamonds.

10. Mr. Speaker, the real GDP growth in the **developing countries** has remained relatively buoyant in 1997. In most developing countries, low or declining inflation and generally prudent fiscal policies suggest that threats to growth arising from policy imbalances have been significantly reduced. However, in a number of cases, large external imbalances and fragile banking systems have emerged and have affected investor confidence.

11. In **sub-Saharan Africa**, the strengthening of growth in 1997 has been broadly based across countries, and was mainly achieved through improved macro-economic policies and structural reforms. **South Africa**, on the other hand, managed to record a growth rate of only 1.7 per cent.

12. An important feature within the SADC-Region during the year is the admission in September 1997 of **the Democratic Republic of Congo and the Republic of Seychelles**. The admission of these two countries has increased the market size of the region, which should strengthen the region's competitive position for international capital flows and enhance prospects for intra-regional trade.

13. Other developments include the signing of two more protocols: one on **Mining**

and the other on **Education and Training**; as well as the adoption of two declarations: one on G**ender and Development** and another on the **need to ban anti-personnel landmines**. The protocol on **Mining** provides for the harmonisation of national and regional policies, strategies and programmes related to the development and exploitation of mineral resources in the region, with the ultimate goal of promoting interdependence and integration of the region's mining industry. This should enhance the region's competitiveness for investment in the mining sector. The protocol on **Education and Training** lays down the policy framework for the SADC region to progressively move towards equivalence, harmonisation and eventual standardisation of the member States' education and training systems. The declaration on **Gender and Development** adopts equality as a fundamental human right and demands equitable representation of women and men in decision making structures at all levels, while that on **anti-personnel landmines** envisages a "landmine free" Southern Africa by calling for a total ban on use, production, trade and stockpiling of anti-personnel landmines within the SADC region.

14. Under the **Finance and Investment Sector**, co-ordinated by South Africa, SADC is moving ahead with initiatives for the gradual and progressive integration of the sub-region's financial systems, and for the harmonisation and co-ordination of efforts to make cross-border capital flows possible and to attract foreign direct investment capital to our region.

15. Mr. Speaker, Namibia has fully supported these regional initiatives not only from a political perspective, but rather in an attempt to brace the regions ability to take fuller advantage of opportunities arising from globalisation

(b) <u>The Namibian economy</u>

16. Mr. Speaker, after this brief world economic overview, I would also like to take this opportunity to make a thorough review of the latest developments in the Namibian economy. The second verse, third line of the Namibian National Anthem reads: "*Contrasting beautiful Namibia*", which not only refers to the diversity of our

geographical features, but seems to apply with equal force to the erratic behaviour of our climate and the degree of unpredictability of economic trends with each coming year.

17. The latest and still preliminary information released by the Central Statistics Office of the National Planning Commission reflects a real growth of only 1.4 per cent in the Namibian economy in 1997 compared to 2.5 per cent in 1996 and to 3.3 per cent in 1995. The growth rates over the last two years are fairly disappointing compared to the economic expansion recorded in the early and mid 'nineties, the recent good growth performance in sub-Saharan Africa, and the growth rates projected in NDP1. Clearly, Mr. Speaker, these figures demonstrate that over the last two years the Namibian economy has been performing way below its productive potential which we know exists and which was envisaged in our medium-term Plan. We would, therefore, be failing in our duty not to examine the causes for the recent sluggish economic growth.

18. The economic slowdown over the past two years should partially be attributed to climatic influences over which we have little or no control and partially to fairly slow policy responses to seize production opportunities in sectors that are less vulnerable to the climate.

19. In analysing the sectoral growth, it becomes evident, that, although the adverse climatic conditions improved considerably in the 1996/97 rainy season, the recovery of the agricultural sector has not yet been fully realised. This is attributable to farmers' strong retention of livestock on the land to replenish the herds, but whose growth had been much less than the high rate of drawdown in livestock in 1996 to counter the onslaught of the drought at that stage. The buildup of the national herd gives, however, hope for future agricultural growth, provided, of course, that our weather cycle does not dictate otherwise.

20. Also affected by climatic conditions are the fishing and electricity generating sectors. The fishing industry posted a 3 per cent decline in real value added in 1997, basically because of poor fish catches. Fortunately, the conditions in this sub-sector

have improved considerably since then. The electricity and water sector recorded a massive reduction in real value added, mainly on the grounds of the limited electricity generation by the Ruacana hydro-electric power station during the year, which is a rather cheap source. Instead, the demand had to be met through costly importation of electricity from South Africa.

21. After the immediate strong post-independence expansion in private residential and non-residential building activity, a marked slowdown was evidenced over the past two years. High real interest rates continue to limit a more robust expansion of private investment. In addition, the public investment programme had been curtailed partly because of fiscal pressures and partly because major investments in office accommodation and in other infrastructural projects had reached completion. These factors caused a rather strong decrease of some 9 per cent in the real value added of the construction sector in 1997.

22. Mr. Speaker, since Namibia is both contrasting and beautiful, there are, therefore, also some sectors that recorded output growth rates above the national average during 1997. The joint mining sector expanded its output by 3.4 per cent, which primarily reflects the continued increase in uranium production. The manufacturing output growth of about 8 per cent was significantly supported by the strong recovery in the fish processing industry which had suffered sizeable output losses in the previous year. The combined output of the tertiary sectors has expanded steadily since Independence and has proven to be a consistent contributor not only to economic growth, but also to increased employment. The sectoral growth of 4 per cent in 1997 emanated from firmer output expansion in trade and tourism, as well as a stronger rise in the staffing of the government sector in comparison to the previous three years.

23. The demand side of GDP weakened considerably, reflecting sluggish consumer demand and relatively weak real domestic investment activity. Real government consumption, on the other hand, registered a substantial growth having expanded moderately in the previous four years. The rather strong increases recorded in 1995

and 1996 in Namibia's real exports, were lowered significantly and in 1997 a real increase of less than one per cent was recorded.

24. However, firmer export commodity prices and currency depreciation, combined with weaker import volumes and prices, have started to narrow the trade deficit that began emerging some three years ago. As a result, the overall current account surplus improved moderately during 1997.

25. The Namibian inflation rate averaged about 8 per cent during 1997. The moderation in the inflation rate indicates that the restrictive monetary policy stance pursued by member countries of the common monetary area finally began showing an impact on inflation in Namibia, as well as in the region as a whole.

(c) Medium-term fiscal trends

26. Given the consistency of the Namibian tax regime since 1994/95 the composition of Government revenue has remained quite steady, while the trend in revenues in relation to GDP has stabilised at around 32 per cent. In 1997/98 a sudden jump in revenue was recorded, which was mainly attributable to windfall tax receipts from diamond mining due to extraordinary gem sales ex-stockpile, and this pushed up the revenue to 35 per cent of GDP.

27. Government's expenditure trends largely mirror the government's wage and employment policies. Various wage measures had been introduced and in 1994/95 total expenditure fell to 34 per cent of GDP. With the WASCOM wage restructuring, overall government expenditure began rising rapidly over the next two fiscal years and by 1997/98 it is estimated to have reached a level of 38 per cent of GDP. The implementation of WASCOM resulted in a strong increase in real wages, without a reduction in the size of the civil service as was the intention.

28. The combined impact of revenue and expenditure developments is directly reflected in the size of the fiscal deficit in relation to GDP. Between 1992/93 and

1994/95 the deficit narrowed strongly from 5.2 per cent to 2.0 per cent.

29. Mr. Speaker, fiscal year 1996/97 was characterised by considerable imbalances, with line ministries' expenditures grossly exceeding their budgetary limits and with revenue collections slightly weaker than forecasted. This deterioration caused the overall fiscal deficit to widen significantly to reach an unprecedented level of 6.1 per cent of GDP. I gave a comprehensive report on the difficulties experienced in fiscal year 1996/97 when I tabled the Additional Budget for 1997/98 last year, which I need not repeat here today. What I may say, is that we have responded assertively with appropriate austerity measures to limit the further expansion of the wage bill, to secure savings from non-wage related items and to strengthen revenue collections. In addition, Treasury was authorised by Cabinet to put in place monthly spending restrictions for each vote by laying down monthly Treasury Authorisation Warrants (TAWs). Also it was permitted to severely restrict any additional expenditure requests submitted by offices/ministries/agencies during the course of the year. On the basis of these measures, it was possible to formulate a reasonably moderate additional budget for 1997/98. However, because the provision for interest payments was underestimated in the main budget, combined with the additional cost of borrowing to cover cash shortages, which had to be provided for in the additional Budget, the Budget deficit rose from 3.5 per cent of GDP in the main Budget to 4.4 per cent of GDP after the additional Budget. Thanks to an unforeseen surge in revenue collections from diamond mining it was possible to reduce the actual deficit for 1997/98 to a level of around 4 per cent of GDP.

(d) Medium-term prospects in the Namibian economy and its significance for the budget

30. Mr. Speaker, allow me to make a few remarks about the medium-term economic and sectoral outlook that may affect the fiscal environment. Critical, of course, is the anticipated climatic development. Local, regional and international sources seem to concur that the *El Nino* phenomenon has a distinct impact on Namibian weather patterns and that the recent deterioration in high temperatures and low rainfalls must be

attributable to *El Nino*. Presenting the budget at a time when the rainy season has not come to its final conclusion, puts me in the difficult situation to act not only as economic but also as weather forecaster. Everybody talks a lot about weather, but little can we do about it, so remarked Mark Twain a long time ago.

31. In the growth projections for 1998 made by the Ministry of Finance and the Bank of Namibia, we have factored in the current poor weather prospects by means of a negative agricultural output assumption for the year. Apart from this drawback, the remaining sectors are expected to recover well from the relapse encountered during 1997. In particular, the fishing and fish processing industries are anticipated to contribute generously towards economic growth on the grounds of the increased quota allocations. New marine diamond prospects would come into operation during 1998, while a slightly better performance is also expected from base-metal industry, thus maintaining overall mineral output growth. Other secondary production will expand as the momentum of manufacturers settling in Namibian EPZ's picks up and raises real manufacturing production. Output growth in the tertiary sector is expected to be slightly lower, reflecting the modestly reduced expansion of the civil service.

32. The combined impact of these projected developments will, despite the threatening drought, raise GDP growth from 1.4 per cent in 1998 to 4.3 per cent in 1998.

33. Domestic consumption demand originating from both households and government will remain rather subdued, while private fixed capital formation and exports are expected to expand more strongly. The combination of these forces is also likely to gradually strengthen the current account balance, which will raise the prospects for a stronger build-up of foreign exchange reserves.

34. Consumer price inflation is assumed to remain at a steady and average level of 7 per cent per annum as a result of the lower inflation expectations in South Africa, as well as the subdued domestic demand and the prospects of more moderate wage increases in Namibia. Interest rates are expected to ease further because of a less

restrictive monetary policy stance originating in South Africa, but given the current demand weakness, this would not immediately affect the level of domestic demand in Namibia.

35. Apart from Namibia's resource based industries, such as agriculture, fishing and mining, whose progress is largely dependent on natural and external influences, and apart from the EPZ development which is expected to advance more strongly in future, the possibilities to accelerate economic growth in Namibia over the medium term are slim. Neither is there fiscal room, nor a desire, to further expand government services. Besides, attracting and establishing big secondary and tertiary industries requires a longer time horison. For these reasons, the Government has decided to move more aggressively into the development of small, medium and micro-enterprises in the country. The policy framework to achieve this goal is already in place, while the vital strategic ingredients are currently being considered. Funds have been earmarked for the SME development programmes in the budgetary allocations for 1998/99.

36. Mr. Speaker, this concludes my review of the external and domestic economic environment. What is striking in this review is the high degree of uncertainty currently prevailing in the global, regional and local economies. The effect of the Southeast Asian financial crisis, threatening drought conditions, and disappointing growth performance of our largest trading partner, South Africa, are all risk factors that we have taken into account when formulating the 1998/99 Budget. In particular, we have concluded that in a year surrounded by such uncertainties, it was of paramount importance to keep the Budget deficit strongly in check.

III. PERTINENT POLICY ISSUES

37. Mr. Speaker, having gone through a two-year recessionary phase, the economy of Namibia is expected to bounce back to a level where per capita income will rise again in real terms. Still, the threat of the drought and the fragility of the economy in general require appropriate policy responses from Government. In addition, we had to take decisions on some vital trade-offs and reprioritisations in order to arrive at a fair and

equitable fiscal approach to address the current economic challenges. This was not an easy task, given the limited scope of budgetary resources and our continued commitment to fiscal prudence, on the one hand, and the high and persistent demands laid against the exchequer, on the other. It was also realised that certain persistent obstacles will have to be readdressed with more vigour in the policy framework for the 1998/99 Budget.

38. It is against this economic and policy environment that we had to formulate the budget for 1998/99. Let me, therefore, mention some of the vital policy considerations that went into the formulation of the budget.

IV. ECONOMIC AND BUDGET OBJECTIVES

39. Mr. Speaker, in preparation of the Budget, I have presented to the Cabinet Treasury Committee and subsequently to the Cabinet detailed proposals on policies and strategies to be pursued during fiscal year 1998/99 to achieve the broad NDP1 objectives of growth, equity, job creation and poverty alleviation. Thoughtful considerations went into the formulation, discussion and refinement of these policies, and I believe that these will be able to complement and supplement the budget I am tabling today. In essence, the proposed framework tries to stimulate the debate on current policy issues and options to be addressed. Some policy proposals will require fresh strategic approaches; others are aimed at consolidating and reinforcing those policy initiatives spelled out and agreed upon in NDP1. Let me therefore briefly deal with some of the vital elements of the policy framework for the Budget that were approved by Cabinet.

(a) Activating private sector development

40. Because the Budget is to boost economic growth directly and indirectly together with other policy measures, the Government is committed to make the conditions in which the **private sector** operates more conducive. This commitment is clearly reflected in the White Paper on the Policy and Programme for Small and Micro

Enterprises adopted by Cabinet last year. The White Paper recognises the necessity of a critical look at the regulatory environment which still handicaps the unfolding of indigenous entrepreneurship in Namibia. I trust that the more matured section of the private sector will also support the policies and participate in programmes to uplift small and micro enterprises. We have made an exceptional effort to partially fund the requirements for beginning implementing certain of these programmes already during 1998/99.

41. **Outsourcing** of government functions and activities, through a process of commercialisation and hopefully eventual privatisation is another important approach to achieve the dual goal of boosting the development of the private sector, on the one hand, and to improve the efficiency and effectiveness of public service delivery, on the other. It is within this context that the policy framework for outsourcing is currently being formulated for consideration by Cabinet later during this month. We do admit that the adoption of outsourcing policies has been considerably delayed in terms of the timeframe provided by WASCOM, but I believe that with these policies in place the speed in outsourcing state activities and functions can be considerably speeded up. This is already evident in the preparatory work done in this respect throughout Government and in the Ministry of Works, Transport and Communication (MTWC 2000), in particular. As far as privatisation is concerned, it is fully acknowledged that this process has to be accompanied by a drive to deregulate the protected environment in which parastatals normally operate and by a policy and legal framework to ensure adherence to a consistent set of rules and prompt actions for people and worker empowerment.

(b) <u>Coming closer to the people</u>

42. To bring the government closer to the people of Namibia, so as to understand the diversity of the needs amongst different regions in Namibia, the Government is continuing with its drive towards a decentralised Government in Namibia.

43. With the creation of the President's Economic Advisory Council (PEAC) we

believe that we are now able to share the responsibility of policy making with a wider section of the community. It is expected that PEAC will in future also have inputs to give in the policy formulation for the National Budget.

(c) Revisiting reintegration programmes for ex-combatants

44. Mr. Speaker, it was decided to review the current programmes designed to safeguard the humanity, interests and work opportunities of ex-combatants. We are investigating the possibilities to consolidate the multitude of programmes and institutions involving ex-combatants into one body or, at least, to put them under one controlling body.

(d) Making the budget gender sensitive

45. Current budgetary policies are not gender sensitive at all, and the budget reveals little about the resource allocation between men and women. We, therefore, support the initiative of the Department of Women's Affairs in the Office of the President with the assistance of Sida to secure a more gender-orientated budget formulation and implementation process. To demonstrate the willingness to support such initiatives, the Ministry of Finance will as from the 1999/2000 Budget require line ministries to disaggregate the staffing and remuneration figures reflected in the Budget document to improve gender analysis.

(e) Strengthening fiscal management capabilities

46. Mr. Speaker and Honourable Members, you will agree with me that the fiscal management and expenditure planning capabilities Government-wide need to be strengthened considerably. Therefore, a broad-based approach involving a critical look at the adequacy and efficacy of the organisational structures and institutional linkages have been initiated, while the staffing requirements, information systems, enabling legislation and capacity building efforts will be evaluated. Substantial assistance from bilateral and multilateral institutions have already been pledged to support our efforts in

this regard.

(f) Deepening the financial system

47. Considerable headway has been made so far to further deepen the Namibian financial system, but many initiatives and actions need to be followed up to ensure consistency and faster progress. In particular, new legislations related to the banking and insurance industry are being followed up with enabling and supporting regulations. Like in many line ministries, the Ministry of Finance is considering the commercialisation and/or outsourcing of the Financial Institution Supervision function, the administration of the Motor Vehicle Accident-Fund and that of the medical aid scheme, as this will ensure a more professional service to its clients and better investor protection.

48. To stimulate the primary listing of truly Namibian companies on the NSE, as opposed to the continued demand for dual listings on our exchange, we are looking into the current definition of "Namibian asset" and at the same time, reviewing the domestic investment requirement for institutional investors. In addition, the stock exchange is in the process of introducing paperless trading and establishment of a central depository.

49. The study to determine the feasibility of establishing a development bank in Namibia is still continuing.

50. Mr. Speaker, fresh policy approaches toward public debt management are also beginning to emerge, which are mainly aimed at stimulating the development of the local capital market. In this regard we have taken the decision to consolidate all existing government bonds, that is the buy-back and reissue of existing government bonds held by individuals, banking institutions and institutional investors. This process, which will commence next month, would put the Treasury in a position to improve upon the current composition of various debt instruments. In particular, medium-term bonds should gradually reduce the use of short-term treasury bills to fund the bulk of the budget deficit. This, however, will only be possible in a more active and liquid bond market and, to achieve this, market-making for government bonds has become a vital

requirement, which will be addressed during the course of the year.

51. In the same vein, we are also considering measures that could be put in place to neutralise or, at least, minimise foreign exchange risks, so as to tap some external funding sources available to Namibia. In this regard, Namibia may seek a sovereign credit rating, and indications are that a favourable rating is likely for Namibia.

(g) Exchange control

52. The exchange control regime in Namibia, during recent years, was characterised by a continuous liberalisation process which included divesting of more authority to authorised dealers. This move was clearly in conformity with the Bank of Namibia's objective of transforming from a regulatory to a monitoring authority. To this end, the liberalisation process was, initially, designed to address the Financial Rand system. We all know that the dual exchange rate system was designed to act as a buffer for foreign currency outflows from the common monetary area and as a disincentive for disinvestments from the CMA. This mechanism was abolished during 1995.

53. The second phase of the liberalisation process allowed institutional investors to acquire foreign assets by way of asset swaps providing for the exchange with foreigners of part of their foreign assets for local assets, while direct investment abroad by Namibian corporations was also sanctioned.

54. As a further liberalisation measure, Namibia acceded to Article VIII, Sections 2, 3 and 4 of the IMF Articles of Agreement, with effect from 20 September 1996. IMF members accepting the obligations of Article VIII are required to refrain from imposing restrictions on payments and transfers from current international transactions. Following on this, the Bank of Namibia, during 1997, abolished virtually all quantitative limits applicable to international payments for goods and services.

55. During mid-1997, the Bank of Namibia, in collaboration with the Ministry of Finance issued various statements confirming its commitment to the liberalisation

process, but emphasised that the macro-economic conditions prevailing at that stage were not conducive to the opening-up of the capital account as far as investments abroad by Namibian individuals were concerned.

56. It gives me great pleasure, therefore, to announce that the Ministry, in close liaison with the Bank of Namibia, has revisited our stance in the matter and in the light of improved balance of payments conditions decided to allow private individuals resident in Namibia to operate Foreign Currency Accounts with local authorised dealers or, alternatively, invest abroad up to a maximum limit of N$350 000. Namibian residents will, furthermore, be allowed to retain any form of income (with the exclusion of export proceeds) abroad. The Bank of Namibia will, henceforth, also consider applications by private individuals to invest in fixed property, for example, holiday homes and farms, in SADC member countries. This move is an attempt to allow Namibian individuals to extend investments horizons regionally and internationally.

57. In a further effort towards economic and financial harmonisation within our regional block, Namibian corporations will now be allowed to invest substantial amounts in member countries of SADC. In addition, the Government realises its obligation towards our regional partners and, accordingly, dual listing of companies on the NSE and other SADC Stock Exchanges will henceforth be allowed.

58. Mr. Speaker, the Government is committed to the process of exchange control liberalisation and the free cross-border flow of currency, goods and people. To this end, it has been decided to release emigrants' blocked funds locked in the Namibian economy. Measures will, however, be put in place to prevent Namibia being used as a conduit for the illegal export of capital and to ensure that the Exchange Control provisions of the member countries are being enforced. Further details on this concession and other liberalisation measures adopted by Namibia, will be announced by the Bank of Namibia in due course.

59. With these liberalisation measures, I reiterate the Government's stance towards the gradual phasing-out of exchange controls in a prudent manner to instill confidence

in the investment community.

60. Mr. Speaker, the main thrust of the proposed policy framework is to recognise pertinent policy issues that impede more rapid economic development and growth, to consolidate and reinforce the policy directives of NDP1 and those initiatives taken during the course of the year, and to bring the caliber of fiscal management back on an even higher footing. The process of addressing these policy issues, has led to a number of vital recommendations, which, although not always directly related to the Budget itself, form an effective foundation to address persistent and contemporary economic obstacles in a pragmatic way.

V. THE BUDGET AND FINANCING FRAMEWORK FOR 1998/99

61. Mr. Speaker, having outlined the economic background and the policy framework for the Budget, I will now present the Budget proposals which are fully incorporated in the Budget document handed out to Honourable Members today.

62. I have to admit that the room for manoeuvre on both the revenue and expenditure sides of the budget is limited indeed. We have cut expenditure demands to affordable limits, we have prioritised and reprioritised them and have adopted a financing framework which we feel is a balanced approach given our faithful commitment to bringing down the budget deficit. This commitment is based on the conviction that we cannot condone a situation whereby future generations would be held liable for servicing the debt now incurred to provide services to our generation. We are also convinced that letting the deficit get out of control, is tantamount to surrendering our economic sovereignty to international institutions. Mr. Speaker, I believe that the accumulation of public debt to fund unauthorised expenditure is an inexcusable, immoral and unpatriotic act, and I, therefore, urge Members of the Select Committee on Public Accounts to come down hard on these types of violations. Those ministries who keep their expenditures within approved limits should be rewarded with access to additional funds, while those who spend over and above approved ceilings should be penalised for causing a draw-down of the Government's bank deposits and,

hence, the country's foreign reserves, which will inevitably lead to additional debt. This may also result in the implementation of austerity measures which may affect those line ministries that are managing their budgets within approved limits, thereby causing unwarranted shifts in spending priorities. This, Mr. Speaker, is the main cause for the expansion of social ministries at the expense of economic ministries over recent years.

63. It is with these perceptions in mind that I now have the honour to outline the essential aggregates of the 1998/99 Budget.

(a) <u>Expenditure proposals</u>

64. The expenditure proposals for 1998/99 were made taking due cognisance of the need to reduce the budget deficit from the alarming level of 6.1 per cent of GDP in 1996/97, and also taking into account some urgent funding requests for credible development programmes that are consistent with government's development objectives.

65. The tabled Budget provides for expenditures of **N$6784 million** for 1998/99, which is 17.9 per cent above the main Budget 1997/98 expenditure level, or 11.4 per cent above the revised 1997/98 Budget. In relation to GDP, the total Budget expenditure is expected to increase from 36.6 per cent in 1997/98 to 38.5 per cent in 1998/99, which is basically the result of expenditure proposals I will highlight in due course.

66. A relatively large amount of **N$442 million** has been put aside for financing **statutory expenditure**, which mainly includes interest payments on government debt and represents a direct charge against the Budget. This provision more than doubled from the previous year's allocation, because the 1997/98 Budget was understated, which was subsequently corrected in the revised Budget.

67. Total expenditure to be voted by this House for 1998/99 is estimated at **N$6342 million**, which represents an increase of 14.4 per cent over the previous

Budget. Of this provision, 53 per cent is allocated to **community and social services**, 30 per cent to general **government services**, and 17 per cent to **economic services**. This functional expenditure distribution did not change materially from the previous Budget, reflecting Government's existing priorities and I believe that, as we approach the next millennium, a relook at possible reprioritisation of expenditure allocations is warranted.

68. Mr. Speaker, the expenditure allocation by ministries indicates that both education ministries together receive 25.5 per cent of the total Budget. This is followed by the Health Ministry with 13.5 per cent. In the third place is the Defence Ministry with an allocation of 6.5 per cent which is equal to the provision for statutory expenditure, followed by Agriculture, Water and Rural Development with 6.0 per cent. A detailed distribution chart is attached to my Statement.

69. The **capital expenditure** to be voted is **N$883 million**, which is 11.6 per cent below the allocation for 1997/98. This decrease has to be qualified, however, by pointing out that the 1997/98 provision included a number of major capital transactions that were not repeated in 1998/99. The purchase of General Motors vehicles, which had required considerable payments in 1997/98, is but one such item. In addition, all onlending transactions shown in the 1997/98 capital Budget and in the revenue estimates, respectively, are now netted off in financing of the budget, which is a more correct way of accounting for onlending arrangements in the Budget. Moreover, major building activities for government office accommodation and other infrastructure projects had been completed during 1997/98, which also justified a reduction in this provision.

70. The proposed allocation for **recurrent expenditure** is **N$5459 million** which is 20 per cent above the 1997/98 Budget. This provision takes into account approved policy directives, as well as existing and new funding requirements from various Offices/Ministries/Agencies. The largest percentage increase under the category of recurrent expenditure is registered in "*Subsidies and other current transfers*", which is mainly attributable to considerable increases in transfers to Government's educational

institutions, such as UNAM, the Polytechnic and Namcol, benefit payments by the Medical Aid Scheme, and the allocation to the Contingency provision. The **Contingency provision** alone has been increased from N$65 million to N$110 million to retain extra funds, should the drought conditions not improve and Government intervention would again be required.

71. Without the contingency provision, the remaining subsidies and current transfers amount to N$911 million which is 38 per cent more than budgeted for last year. This sharp increase is due to the continued and growing dependence by some Government agencies and enterprises on the National Budget. I want to urge line ministries to keep the demands of these institutions at bay and monitor their budgets and performance regularly. If line ministries loose control over the finances of agencies under their control and supervision, the Ministry of Finance will have to assume a more assertive role to control and monitor their financial performance and compliance with budgetary allocations.

(b) <u>Wage bill developments and proposals</u>

72. Mr. Speaker, allow me also to make a few remarks on developments regarding the Government's wage bill. In my statements on the 1997/98 main and revised Budgets, I explained to Honourable Members the complexity surrounding the Government's wage bill. Many the WASCOM recommendations have been implemented and the **High-Level Committee** has recently made fundamental, yet practical, proposals to reduce the size of the wage bill relative to the total budget and thereby making the budget a much more development orientated instrument than at present. Moreover, the severe fiscal pressures that emerged between fiscal years 1996/97 and 1997/98 prompted Cabinet to introduce budgetary and other fiscal adjustments aimed at relieving budgetary pressure and instilling fiscal discipline. Recommendations of the High-Level Committee and austerity measures approved by Cabinet form an integral part of the expenditure proposal and allocations for the budget of 1998/99.

73. The measures proposed by the High-Level Committee basically include organisational and institutional reforms and a process of outsourcing. However, the implementation of such fundamental policies requires time, difficult strategic decisions as we go along and tedious consultations and negotiations with organised labour, with the result that we cannot expect a quick-fix solution in this particular fiscal year.

74. To supplement the process of down-sizing through outsourcing, the Office of the Prime Minister with Cabinet's concurrence instructed all accounting officers to abolish all unfunded vacancies on their establishment. Furthermore, Cabinet instructed all accounting officers to cut 2 per cent from the provision for personnel expenditure of their votes in 1998/99 compared to the 1997/98 allocation. Those Ministries that were able to initiate outsourcing programmes will be in a position to meet this requirement, but, as indicated in the 1998/99 Budget, many votes were not able to bring about such cuts without negatively influencing the quality of service delivery. In this regard, further conditions need to be laid down.

75. Since the wage restructuring was carried out in 1995/96, a wage freeze was adopted which actually widened the glaring inequalities in the wage hierarchy of civil servants, particularly between the management cadre and the rest of the civil service. Government decided, therefore, to address these inequalities in the 1998/99 Budget by making funds available for wage adjustments for staff below management cadre. Considerable wage negotiations with the recognised trade unions preceded this decision. The negotiations have, however, reached temporary a deadlock. Nonetheless, the Office of the Prime Minister will continue to devise a salary adjustment scheme for sub-management ranks of the civil service for which **N$141 million** has been set aside.

(c) <u>Resource mobilisation</u>

76. The total revenues and grants for 1998/99 are estimated at **N$6108 million**, which is 17.5 per cent higher than the estimate of the previous budget or 13.3 per cent more than the revised Budget of 1997/98. The detailed estimates of revenue and

grants for 1997/98 and 1998/99 are set out in the Budget document for scrutiny by Honourable Members. In relation to GDP, total revenue is expected to increase slightly from 33.1 per cent to 34.5 per cent between 1997/98 and 1998/99.

77. The total tax burden, that is the ratio of **tax revenue** to GDP, is to increase from 28.9 per cent in 1997/98 to 30.5 per cent in 1998/99. The reasons for this will dawn on you soon. The composition of revenue has not changed significantly and is still well balanced between taxes on income and profits; domestic taxes on goods and services; and revenue from the customs union pool.

(d) <u>Tax reform issues</u>

78. The tax reform project which commenced in September 1996, has progressed very well. Various tax legislative amendments have been made to simplify procedures and the tax laws. Part of the reform project is to improve our ability to administer tax laws by designing and developing a new computerised tax administration system. The design phase of the of the computerised system has been successfully completed and contractors are now developing the system. The development and implementation of this system is expected to be completed towards the end of the year.

79. In addition, we will continue to review existing legislation, so as to improve its effectiveness, to simplify the legislation and administration, and to improve compliance by taxpayers, as well as to make taxation more taxpayer-friendly. I will soon approach this august House to seek approval for these amendments.

80. My predecessors and I have foreshadowed the introduction of a **value added tax (VAT)** a number of times during recent years. It is my pleasure to inform this august House that appropriate measures are currently being put in place to introduce VAT by April next year. The intention is to replace the existing sales tax and additional sales levy with a single-rate VAT on a revenue-neutral basis, with minimum exemptions and zero-rated commodities. The latter two requirements are necessary to keep the VAT-rate as low as possible. Further announcements will be made in the course of the year.

81. A VAT computer model has already been designed, which will be developed into a computerised VAT system once VAT legislation has been formulated and the documentation designed. The IMF has offered to second a long-term VAT expert to assist us through the implementation of this project.

(e) Tax proposals

82. I have no doubt, that this section of any county's budget statement is the most anxiously awaited one.

83. In the preparation of the Budget it has become evident that resource demands were exorbitantly high. Although these demands have been scaled down forcefully, the remaining funding requirement was still excessive. We have considered all options on further scaling down demands, but had to come to the conclusion that the drought provision, salary adjustments for lower ranks of the civil service and other essential expenditure programmes required us to consider raising additional revenue so as to keep the funding gap under strong check.

84. It is against this background that I call upon all Namibians to support the measures that I am about to announce for the sake of continuity and stability in the delivery of public services and for the sake of bringing down the borrowing requirement to an affordable and sustainable level. I, therefore, rely on each loyal Namibian to accept the following announcements as his or her contribution towards the solution:

Sales tax

85. I propose that with effect from 1 May 1998 the GST rates be amended as follows: on **goods** the rate will increase from 8 to 10 per cent and on **services** the rate will be lowered from 11 to 10 per cent.

86. This amendment to the general sales tax rates is expected to generate additional

revenue from this source of N$132 million.

Additional sales levy

87. The tax category "spirits and tobacco" is currently subject to an ASL rate of 15 per cent. The proposed new rate will be 25 per cent as from 1 May 1998.

88. Beer is currently subject to an ASL rate of 10 per cent. The new rate will be 15 per cent as from 1 May 1998.

89. These rate adjustments are expected to contribute an additional N$21 million to the revenue for 1998/99.

Income tax

90. I propose that income tax rates be raised as follows:

91. For companies, other than mining companies, the income tax rate will increase from 35 to 40 per cent.

92. For mining companies, other than diamond mining companies, the rate will be increased by 5 per cent.

93. For individuals in the income group of N$100 001 or more per annum, the maximum marginal rate will increase from 35 per cent to 40 per cent. For individuals with annual incomes below N$100 000, no rate increases are provided.

94. For individuals the rates will become effective on 1 March 1998, and for companies at the beginning of the year of assessment of such company commencing on or after 1 January 1998.

95. The increased income tax rates are expected to generate an additional N$111,7

million in revenue.

96. Mr. Speaker and Honourable Members, I will soon approach this august House to seek approval for affecting these tax rate amendments. Indeed, one could say that these measures are rather harsh. Mr. Speaker, if it was legally permissible to introduce a tax only on the salary of civil and public servants, I would certainly have done so. Fortunately, or unfortunately, discriminatory laws are not permissible. Besides, the problem we are facing is a national one, whose solution should be laid not only before the Government, but also before all civil servants, organised labour, the private sector and the public at large.

97. What I would like to add, is that the tax measures that I have proposed are essentially of a temporary nature. The permanent solutions to the funding problem are being addressed by implementing measures that I have outlined under the policy framework for the Budget. In addition, a number of other tax and non-tax revenue sources are being examined for the contribution they can make to the Budget and what impact they will have on the economy. In this regard, Cabinet has instructed the Ministry of Finance with the active assistance of the Treasury Cabinet Committee to consider introducing an estate duty, a land tax, stamp duties on stock market transactions and a capital gains tax, and to come up with other possible sources of revenue. Obviously, vigorous actions will continue to institute measures to reduce the size of the civil service, and in this regard we count on the support and understanding of the Namibian public, including organised labour. If we cannot proceed urgently and speedily with the down-sizing of the civil service, the situation created by the revenue generating measures announced today may remain in place for a number of years, contrary to our intentions and will unduly impact on the performance of the economy and the welfare of the broader community.

(f) <u>The level and financing of the deficit</u>

98. The result of the expenditure proposals and revenue estimates, combined with the tax amendments is an overall budget deficit of **N$676 million** or 3.8 per cent of an

estimated GDP of **N$17.6 billion**. Without the additional revenue to be raised from the proposed tax rate amendments, the deficit would have been in the region of 5.3 per cent of GDP, which is clearly on an untenable and unsustainable high level and which is the basic rationale for the rather unpleasant economic medicine I had to prescribe today.

99. Let me end with a couple of remarks on the Government's debt position. The relatively large fiscal deficit that emerged towards the close of 1996/97 was primarily financed by drawing down the government's cash deposits at the Bank of Namibia. In 1997/98 central government had to borrow additional funds in the domestic market to restore the deposit level, which caused government's overall indebtedness to increase.

100. As a consequence, total government debt in relation to GDP has risen from 13 per cent at the end of 1995/96 to about 21 per cent at the end of 1997/98. Given the rather modest net borrowing requirement in 1998/99, the total debt is expected to grow only moderately, and at the end of 1998/99 the debt to GDP ratio is estimated to be 23.4 per cent.

101. With the timeous implementation of the important recommendations made in this framework regarding Namibia's public borrowing policies, we believe that the growth in the public debt, as well as the expansion of the cost of borrowing, will gradually level off. In the final analysis, it is not so much the way Namibia funds its fiscal deficit that will contain the public debt, but rather the size of the fiscal deficit itself and the speed in which the economy is growing and financial system is deepening.

VI. CONCLUDING REMARKS

102. Mr. Speaker and Honourable Members, the tabling of the Budget today has coincided with so many worrying socio-economic developments. Although the economy is beginning to emerge from a shortlived recession, yet another drought is looming, trade unions are making legitimate and unaffordable demands and the public sector is expanding instead of shrinking. The environment in which I had to formulate

the Budget was certainly not conducive for presenting a pleasant and agreeable Budget.

103. Yet, I am convinced that I managed to lay before you a policy framework and Budget that will form the foundation to look ahead to the year 2030 with more confidence and wisdom. This framework, together with the wisdom of hindsight of things that had gone wrong in the past, gives us hope to achieve the long-term **Namibia Vision 2030**.

104. Since the National Budget is a dynamic economic tool or instrument, the document layed before you should not be regarded as cast in stone. The Government will continue introducing reforms that may affect the revenue and expenditure sides of the Budget. In particular, fiscal discipline and expenditure control measures will be intensified, especially with respect to funding vacancies for which some provision has been made in the Budget. In this regard, I will receive the strong support from the Office of the Prime Minister which is expected to control the staff numbers and manage Government's outsourcing programmes.

105. Finally, Mr. Speaker, I would like to state that the Budget tabled today is the product of high level interaction amongst officials and technicians of the Ministry of Finance, the National Planning Commission and the Bank of Namibia, as well as intensive Cabinet participation. If anything has been achieved in the 1998/99 Budget, it is the fact that we have carefully examined the current and long-term obstacles, weighed up the options to confront the problems and have finally opted for a solution, which may not be the most pleasant, but the best in the short-term, and which certainly makes people aware of the Budget complexities and the consequences of their and our actions. The Budget formulation process prompted me to reflect upon the words of **Martin Luther King Jr.** stating "*All progress is precarious, and the solution of one problem brings us face to face with another problem.*" I therefore wish to express my appreciation to all officials involved in the Budget process for their energetic inputs. Especially, I wish to thank His Excellency the President for providing the long term Vision, the Right Honourable Prime Minister for leading the ad hoc Budget Committee

on the Budget finalization and all Cabinet Colleagues for their understanding and their willingness to move ahead confidently with appropriate actions.

106. Although the Budget may seem harsh on the revenue side, there is much more to the Budget; the socio-economic impact of the expenditure side of the Budget, as well as policy measures, should not be underestimated. Hence, there is something for everyone in this particular Budget.

I thank you.