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A local NGO gives President Hage Geingob (2015- present) high marks for effort in a review of his first year in power. Finance minister Calle Schlettwein sharply decreases total government spending for 2016/17 although growth is forecast to increase to an annual average of 6.25% during the 2017/18 and 2018/19 fiscal years. Inflation accelerates again to 6.1% as the effect of low global oil prices continue to fall away.

IPPR report generally positive on Geingob's first year

A panel of independent experts that the **Institute of Public Policy Research (IPPR)** commissioned has made an informed – and impartial – assessment of the first year in office of President **Hage Geingob** (2015-present).[1] In its March 2016 report the IPPR commended Geingob for articulating an agenda prioritising transparency and poverty eradication but noted that action had sometimes failed to match ambitions.

> *"On the whole, President Geingob's performance in his first year of office has been a mixed bag made up of some great rhetoric, wonderful intentions, interesting policy pronouncements, and some sound action and consultation on certain policies."*[2]

The ten panel members, who scored Geingob's performance on 12 thematic areas from 1 (very poor) to 10 (excellent), included **University of Namibia (UNAM)** emeritus professor **Andre Pisani** as chair, along with IPPR executive director **Graham Hopwood**; political commentator Dr **Elijah Nguare**; **Namibia Media Trust (NMT)** chair and founder of ***The Namibian*** newspaper, **Gwen Lister**; **Namibia Institute of Democracy (MID)** executive director, **Naita Hishoono**; and **McHenry Venaani**, leader of the parliamentary opposition and president of the **Democratic Turnhalle Alliance (DTA of Namibia)**.[3]

The report noted that Geingob had drawn a great deal of praise for his policy pronouncements from his April 2015 inaugural address onwards, contrasting this with the criticism he had received on a number of issues. These include his oversized government, the high perks his large team of advisors have received, inadequacies in the way he deals with corruption, and the slow pace with which the government is implementing his pronouncements.[4] However, the IPPR report recognised that Geingob himself had acknowledged some of these deficiencies,[5] which were a motivating factor in his decision to launch a new five-year *"targeted impact plan"* last December to accelerate measures to achieve poverty reduction and other socio-economic goals (see *ARC Briefing Namibia January 2016*).

As a key example, the IPPR highlighted the gap between Geingob's promises on greater transparency by government ministers and officials, and their enactment. On fighting corruption, although Geingob set a positive personal example in declaring his assets, he has not insisted that members of cabinet and other members of parliament (MP) are publicly accountable. The government has yet to publish a

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[1] Institute for Public Policy Research (IPPR), Democracy Report, March 2016, One Year of Geingob: An Analysis of The Namibian President's Hits and Misses During His First Year in Office.

[2] IPPR, Democracy Report

[3] IPPR, Democracy Report

[4] IPPR, Democracy Report

[5] IPPR, Democracy Report

new **National Assembly (NA)** asset register a year after MPs were sworn in (see *ARC Briefing Namibia July 2015*). In this regard, the IPPR found that although he has encouraged the disclosure of assets, Geingob has missed important opportunities to show broader transparency and accountability by enforcing this practice at a broader level.[6]

> *"Further, while his rhetoric on the fight against corruption has been strong, real action has been lacking, and there is some public skepticism about certain tenders that the President has been reported to have defended – e.g. the controversial airport tender and the **Xaris** deal, amongst others."*[7]

The IPPR praised Geingob's efforts to reduce poverty and to appoint ministers on the basis of expertise. It hailed Geingob's creation of the poverty eradication and social welfare ministry to promote efforts to reduce poverty, wealth inequalities and food insecurity.[8] The IPPR also welcomed Geingob's instructions to those on the ruling **South West African People's Organisation (SWAPO)** party list for the 2014 NA election who would serve in parliament, to submit their CVs to ensure that they were placed in offices where their expertise would best serve the nation.[9] Geingob himself referred to this process in his 100-day self-assessment:

> *"As you are aware, cabinet ministers were selected and allocated to various ministries based on their qualifications and level of expertise, after thorough analysis of their CVs, which I had requested. These appointments have rejuvenated the people as well as the ministries themselves."*[10]

Schlettwein trims spending in the 2016/17 budget…

A more conservative fiscal stance was the hallmark of the 2016/17 budget and new three-year **Medium-Term Expenditure Framework (MTEF)** tabled in the NA on 25 February by finance minister **Calle Schlettwein**.[11] The MTEF covers the 2016/17 to 2018/19 fiscal years with the latter two years being projections in nominal terms, i.e. not taking account of inflation.

Schlettwein had warned in his mid-year budget review in early December that the government would have to recalibrate its spending in light of slower GDP and revenue growth prospects, coupled with an unsustainable build-up in public debt due to increased borrowing during recent years to finance higher budget deficits caused by the previous expansionary fiscal stance (see *ARC Briefing Namibia November 2015*). Despite this, Schlettwein announced no increases in existing taxes such as individual income tax or value-added tax (VAT) or the tapping of major new taxation sources.

Schlettwein said "*two fundamental and mutually-reinforcing policy objectives"* underpinned his budget.[12] The first was to re-establish a sustainable path for public finances so as to maintain macro-economic stability, with the second being to redirect increasingly scarce financial resources to the priority areas of national development. Overall, the budget proposed the start of "*a growth-friendly fiscal consolidation, anchored on the reduction of public expenditure*".[13]

Schlettwein acknowledged that declining growth in public revenue due to contractions in receipts from the **Southern African Customs Union (SACU)** and the impact of external factors on the domestic economy requires a realignment of expenditure projections to the revenue outlook.[14] The widening of both the budget and the current account deficits due to revenue shocks and the

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[6] IPPR, Democracy Report

[7] IPPR, Democracy Report

[8] IPPR, Democracy Report

[9] IPPR, Democracy Report

[10] President's Speech on the Occasion of his 100 Days in Office, State house, 29 Jun 2015.

[11] Budget Statement Presented by Calle Schlettwein MP, Minister of Finance, 25 Feb 2016; Mew Era 26 Feb 2016.

[12] Budget Statement, 25 Feb 2016.

[13] Budget Statement, 25 Feb 2016.

[14] Budget Statement, 25 Feb 2016

weakening of Namibia's external trade position made it desirable to reduce the budget deficit as a proportion of GDP and stabilise growth in public debt.[15]

Accordingly, with total revenue estimated only 2% higher at N$57.8 billion (US$3.7 billion) in 2016/17 compared to the previous year, total spending has been reduced by 1% to an estimated N$66.0 billion (US$4.2 billion), resulting in a modestly reduced budget deficit of N$8.2 billion (US$0.5 billion). This would be equivalent to -4.3% of GDP, compared to -5.2% in 2015/16. Revenue will be shored up this year by substantially higher personal income tax and value-added tax (VAT) receipts, as SACU receipts are estimated to fall by 17% to N$14.1 billion (US$0.9 billion), due mainly to Namibia having to make a sizeable repayment (N$3 billion, US$0.2 billion) in respect of previous over-disbursements in its favour. On the expenditure side, recurrent spending was virtually unchanged, while development spending was cut by 18% to N$9.1 billion (US$0.6 billion), partly to accommodate a 56% rise in interest payments on Namibia's public debt to N$4.9 billion (US$0.3 billion). On the positive side, following large increase in 2013/14 and 2014/15, the public sector wage bill will rise by only 3.7% (less than the current inflation rate, so a cut in real terms) to N$25.1 billion (US$0.6 billion) in 2016/17.[16]

However, while the MTEF projects a continued reduction in the budget deficit, to 2.7% of GDP in 2017/18 and to 1.8% in 2018/19, this would only be so if revenue growth resumes as forecast. Total revenue rises by a projected 10.5% to N$63.9 billion (US$4.1 billion) in 2017/18 and by just over 9% to N$69.8 billion (US$4.4 billion) in 2018/19, mainly reflecting a recovery in SACU receipts to N$16.7 billion (US1.1 billion) by 2018/19 (24% of total revenue).

On the back of this, spending growth resumes (both recurrent and development), by 6% to N$69.9 billion (US$4.4 billion) in the next fiscal year and by 6.5% to N$74.4 billion (US$4.7 billion) in 2018/19. By the end of the current MTEF, interest payments on public debt are projected to have increased to N$6.0 billion (US$0.3 billion), despite a forecast reduction in outstanding debt as a proportion of GDP to 27%, although the actual amount of debt will have further increased to N$69.6 billion (US$4.4 billion).

Schlettwein's new tax proposals are fairly modest and most have been in the pipeline for some time. He provided no projections of how much extra they would bring in. They include:

- an environmental (vehicle emission reduction) tax;
- a levy (rate still to be determined) on raw material exports to promote local value-addition (despite the mining industry's contention that most mineral exports are semi-processed not raw materials, eg uranium oxide);
- finalising consultations on the proposed (and controversial) 'solidarity tax' to redistribute income to the poor;
- assessment of the feasibility of a 'presumptive' tax on informal sector activities; and
- improved recovery of tax arrears.[17]

On the policy side Schlettwein announced the development of proposals for "*the partial listing of some of the public enterprises (parastatals) on the **Namibian Stock Exchange (NSX)***".[18] The **International Monetary Fund (IMF)** has long called for Namibia to institute a privatisation programme, given the vast sums that state-owned enterprises such as **Air Namibia** and the surface transport operator **TransNamib** have consumed in government subsidies during the past two decades (see *ARC Briefing Namibia July 2015*). Other initiatives include a raising of the domestic asset requirement threshold (the proportion of funds under management that Namibian institutions must hold in local assets) from the current 35% to between 40-50% and a new public-private partnership (PPP) law, drafting of which is now at a final stage for tabling in parliament this year. The PPP is designed to provide an

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[15] Budget Statement, 25 Feb 2016

[16] Budget Statement, 25 Feb 2016

[17] Economic Association of Namibia (EAN), The Namibian Budget, March 2016

[18] Budget Statement, 25 Feb.2016

incentive framework for attracting private sector funding into infrastructure developments, thereby reducing the state's contribution.

Namibia Budget 2016 - key numbers								
	2015/2016 (Estimated)		**2016/2017** (Estimated)		**2017/2018** (Forecast)		**2017/2018** (Forecast)	
Revenue	N$m	US$	N$	US$	N$	US$	N$	US$
Income/profits taxes	23,671	1,498	24,771	1,568	27,739	1,756	30,711	1,944
Taxes paid by individuals	13,162	833	15,481	980	17,422	1,103	19,355	1,225
Diamond mining taxes	2,167	137	2,341	148	2,482	157	2,379	151
Non-mining co. taxes	7,410	469	5,840	370	6,659	422	7,274	460
VAT	12,903	817	14,597	924	16,868	1,068	17,829	1,129
International trade taxes (mainly SACU)	16,905	1,070	14,121	894	14,829	939	16,660	1,055
Total Revenue & Grants	**56,765**	**3,593**	**57,845**	**3,662**	**63,915**	**4,046**	**69,816**	**4,419**
Expenditure								
Operational (recurrent)	52,170	3,302	52,064	3,296	53,970	3,416	57,714	3,653
Development	11,045	699	9,057	573	10,906	690	11,008	697
Interest payments	3,130	198	4,875	309	4,982	315	5,696	361
Total Expenditure	**66,345**	**4,200**	**65,996**	**4,178**	**69,858**	**4,422**	**74,418**	**4,711**
Budget balance	**-9,580**	**-606**	**-8,151**	**-516**	**-5,943**	**-376**	**-4,602**	**-291**
% of GDP	-5.8		-4.3		-2.7		-1.8	
Financing requirement[19]	15,672	992	8,471	536	6,293	398	4,952	313
Cash reserves	0	0	2,980	189	0	0	0	0
Domestic borrowing	8,130	515	3,892	246	4,793	303	3,952	250
Foreign borrowing	13,200	836	1,600	101	1,500	95	1,000	63
Total debt stock	**60,910**	**3,856**	**65,102**	**4,121**	**69,032**	**4,370**	**69,623**	**4,407**
% of GDP	37		34		31		27	

Most local economic analysts praised the move to fiscal consolidation. **Simonis Storm Securities (SSS)** economist **Frans Uusiku** commented:

[19] Includes new debt disbursements, bond redemptions etc.

> *"This was in line with our expectations, which demonstrates a careful consideration of a prudent fiscal position. The budget modalities and principles were very much anchored in the MTEF for 2015/16-2017/18, with minor adjustments made to revenue streams (tax proposals)."* [20]

However, Uusiku expressed concern at the sharp rise in outstanding public debt from N$36 billion ($2.3 billion) in 2014/15 to N$61 billion ($3.9 billion) in 2015/16, equivalent to 37% of GDP, breaching the government's own rule that debt should not exceed 35% of GDP.

> *"Although the minister did not announce any move to raise additional debt, the sluggish growth prospects for Namibia are likely to drag this figure closer to 40%. This would put the country into a precarious situation as Namibia's sovereign rating peer group of BBB- is 40%."*[21]

PSG Namibia analyst and equity strategist **Eloise du Plessis** expressed surprise that while Schlettwein had tabled the numbers generally anticipated, there were no increases in income tax given the government's tight financial squeeze.

> *"It seems the government has decided to take up more debt and not increase pressure on the citizens."* [22]

Economist and **Capricorn Asset Management (CAM)** investment strategist **Suta Kavari** commented:

> *"Though questions remain regarding the underlying growth assumptions, which are rather optimistic, the budget did meet the mark. And while not going far enough, government's fiscal consolidation stance should be applauded."* [23]

Inflation accelerated again in February

Domestic inflation rose for the third successive month in February, spiking up by 0.8 percentage points to 6.1% year-on-year (y/y), almost double the 3.6% y/y rate recorded in February 2015. Inflation accelerated because six of the 12 categories, with the highest weightings, in the basket of goods used to calculate the **National Consumer Price Index (NCPI)** recorded higher prices. The depreciated **South African** rand, to which the Namibia dollar is linked at par, has had an impact on import costs and the upward inflationary spiral is unlikely to slacken much if at all during coming months. This has coincided with the falling away of the depressant inflationary impact of last year's sharp drop in oil prices. Accordingly, we would expect the **Bank of Namibia** (central bank) to continue monetary policy tightening by raising its repurchase (repo) rate a further 25 basis points at either its next rate setting meeting on 13 April, or the one after that, on 15 June.

Namibia Statistics Agency (NSA) data shows the main drivers of higher inflation were – again – alcoholic beverages and tobacco (7.9% y/y), housing, water, gas, electricity and other fuels (7.4%), food and non-alcoholic beverages (7.2%), and now transport also (4.7% compared to only 0.9% in January).[24] Higher food price inflation was largely due to the drought conditions still prevailing in much of Namibia and parts of South Africa as reflected by more expensive fruit, vegetables and grain products such as bread and (mainly imported) cereals. The four inflation-driver categories in February have a combined 72% weighting in the NCPI basket of goods. The y/y inflation rate for transport had turned positive in January for the first time in 12 months, when it had remained deflationary on a month-on-month (m/m) basis, but no longer. The second successive monthly rise confirms the effects of low oil prices have now dropped out of the equation. **Windhoek** stockbrokers **IJG Securities** commented:

> *"The prolonged low oil prices, due to the oil rout, have provided consumers with some price relief worldwide, and to some extent in Namibia as well. The effects of cheap transportation flow*

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[20] New Era, 29 Feb 2016.

[21] New Era, 29 Feb 2016.

[22] The Namibian, 26 Feb 2016.

[23] New Era, 29 Feb 2016.

[24] Namibia Statistics Agency, Namibia Consumer Price Index, February 2016

through to many other basket categories, and in this way contributed to lower overall inflation. However, we expected to see higher inflation as the effects of the drop in the price of oil over the past year and the knock on effects thereof wear out." [25]

IJG Securities noted that with the increase in "sin taxes" announced in the budget, the prices of alcoholic beverages and tobacco can be expected to register further increases in March. IJG Securities expects inflation to accelerate further in 2016:

"The full benefit of cheap oil has worn out with the weak currency causing import prices to rise. Looming drought conditions as well as increasing utilities costs should further see inflation pick up in basket categories such as food and non-alcoholic beverages, alcoholic beverages and tobacco and housing." [26]

Implications

The recently published IPPR report on Geingob's first year as president unsurprisingly concludes the jury is still out on whether the successes outweigh the failures. Despite having the leader of the parliamentary opposition as one of its panelists, the report is a balanced appraisal which Geingob – while he may disagree with some findings – is unlikely to fault on grounds of overt political bias. If anything, it highlights that Geingob has set himself higher standards then either of his two predecessors both ethically and in articulating a poverty reduction and fair wealth creation strategy for Namibia. This makes it likely he may be judged more critically if performance greatly falls short of his pledges.

The main problems are those which have bedeviled the SWAPO government since it came to office at independence in 1990, namely, a creeping cronyism reflecting a sense of growing entitlement to a share of the wealth generated by Namibia's rich endowment of natural resources by upwardly mobile – as opposed to genuinely impoverished – Namibians. This is a conundrum that the planned black economic empowerment (BEE) law may further exacerbate since most commentators concur that those most likely to benefit from mandatory asset transfers will be the same small band of politically well-connected individuals who have already made millions out of preferential allocations of fishing and oil exploration licences in the name of 'Namibianisation'. It remains to be seen whether Geingob will have the perspicacity and political strength of will to recognise that BEE, while superficially advancing the participation of Namibians in economic activities, will if anything diminish the opportunities if it leads to nervous foreign investors shunning Namibia for more welcoming jurisdictions in **sub-Saharan Africa** (notably **Botswana**, **Mauritius** and **Rwanda**) and further afield. That means recognising the example of South Africa's failed BEE programme, which is generally viewed as having increased inequality within indigenous communities rather than narrowed it.

Whether the 2016/17 budget numbers and macro-economic projections will prove realistic will depend on a number of factors, most of which are outside Namibia's control. This is why some local analysts believe that while the finance minister made a welcome – and long-overdue – step towards fiscal consolidation by reigning in the high expenditure growth of recent years, his economic and revenue growth assumptions err on the side of optimism. Slower than currently projected economic growth would result in the share of GDP accounted for by both the budget deficit and outstanding public debt coming in higher than as forecast in the current MTEF. Since virtually all previous MTEFs have over-estimated revenue growth and under-estimated expenditure growth also, the prospects of the government hitting its budget and debt targets are probably 50:50 at best.

Schlettwein is optimistic about resumed revenue growth in 2017/18 and 2018/19. With Namibia's imports having grown substantially during 2014-15 (although by less in **United States** dollar terms), its share of SACU receipts would be higher during the last two MTEF years especially as Namibia has to pay back a substantial chunk of its previous receipts in 2015/16. However, if revenue falls short,

[25] IJG Research, Namibia CPI- February 2016.

[26] IJG Research, Namibia CPI- February 2016.

the commitment to increase spending again in 2017/18 and 2018/19 would risk inflating the currently-projected budget deficits for those years and result in accelerated growth in public debt.

Calls on the public purse will be met by foreign borrowing. With the South African rand/Namibia dollar continuing to depreciate against major currencies that can only inflate the cost to Namibia, both in the higher value of the principal debt in local currency terms but also in debt servicing expenses, especially as a higher proportion of the existing public debt stock comprises non-local currency denominated borrowing. However, after rising sharply to N$13.2 billion (US$0.8 billion) in 2015/16 – 62% of the total financing requirement – new foreign borrowing is forecast to decline to an annual average of only N$1.4 billion (US$0.1 billion) during the current three-year MTEF. Schlettwein may get away with this, although we anticipate that come the budget next year – or even earlier, in the mid-year budget review this November – he may need to make further spending cuts or introduce some income tax increases to keep the budget deficit and public debt down.

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