



FY2017/18 Mid-Year Budget Review Speech

**Presented
By**

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INTRODUCTION

Honourable Speaker, Sir;

Honourable Members of the National Assembly;

Fellow Namibians;

1. I have the honour to table the 2017/18 Mid-Year Budget Review, a third since the maiden introduction in 2015. This Mid-Year Budget Review is presented against the backdrop of an uptick in the global economy, but amidst the subdued economic outlook for the Sub-Saharan African region.
2. While the global economic landscape offers a window of opportunity for resurgent trade, the medium-term outlook is clouded with downside risks on revenue as a direct offspring from sluggish regional growth prospects. Low regional growth episode presents multiple risks for Namibia.
3. As a small open and resource-based economy, with a trade to GDP over 100 percent, Namibia is vulnerable to external shocks through the trade link. Commodity price volatility exert pressure on economic activity, public revenue, international reserves and the external position. Equally, weak external demand in our main trade partners presents challenges for the export sector, which limits potential growth. As such, measures to improve the productive capacity of the economy as well as economic diversification are critical for Namibia to bolster resilience.
4. An anonymous quote asserts “ *everyone is saying that we’re on a tightrope, and we certainly are in mid-air over a gorge. But where is the rope?*”
5. The presentation of this Budget Review answers this rhetoric question, by showing the gains we have achieved since the FY2016/17 Budget Review. It also recognizes the implementation challenges and unintended consequences associated with the steep expenditure consolidation. Not only do we have the rope, but also shows a way walk the rope.

Honourable Speaker,

- deriving from the 2016/17 Budget Review, the 2017/18 budget has closely aligned expenditure to the revised macro-fiscal framework,
 - fragile domestic economic growth outlook mirrors regional economic trajectory, regional interconnectedness and downside risks,
 - in more than one respects, the macroeconomic fundamentals and market confidence have improved, relative to the previous year,
 - a gradual containment of expenditure as a proportion of GDP, reduction in the budget deficit and stabilization of public debt as a ratio of GDP,
 - foreign reserves have improved and the current account deficit has narrowed,
 - however, the steep expenditure reductions resulted in implementation difficulties in some sectors, necessitating the recalibration of the fiscal consolidation path to avert prolonged negative effects on growth and reversals in the delivery of essential services,
 - economic activity slowed, in part due to the corrective policy response to reaffirm sustainability. Moderate recovery is now under way, and
 - higher than expected expenditure on outstanding spending invoices arose out of a combination of fiscal indiscipline, budget over-commitment and forced spending cuts.
6. The 2017/18 Mid-Year Budget Review leverages on these early outcomes of the fiscal consolidation framework and offers practical policy measures to strengthen the positive outcomes while, at the same time, mitigating the unintended negative consequences emanating from the implementation of a relatively steep expenditure correction.

7. As such, this Budget Review,-

- *provides for a half-year assessment of the budget execution and the freeing-up of resources to enhance allocative efficiency and contribute to the consolidation and growth stimulus efforts,*
- *provides additional resources to plug allocation gaps arising from the once-off settlement of unpaid invoices from the previous financial year, while providing a limited envelope of resource allocation to address shortfalls in priority areas,*
- *provides the macro-fiscal framework and make advance announcement of the medium-term policy framework and spending priorities for the next MTEF, thereby enhancing transparency and openness of the budget process to the legislature and the public.*

8. I, therefore, in terms of Article 126 of the Namibian Constitution, read with Section 1(1) of the State Finance Act, have the honour to table, for the favourable consideration and approval by this House, the FY2017/18 Appropriation Amendment Bill and the Adjusted Estimates of Revenue, Income and Expenditure for FY2017/18 proposed in the Medium-Term Budget Policy Statement.

9. At the same time, *Honourable Speaker*, I present the Medium-Term Budget Policy Statement, which provides the macroeconomic and fiscal context underpinning the Budget Review, the fiscal stance for the next MTEF, policy priorities and the proposed medium-term aggregate expenditure ceilings for the next MTEF consistent.

10. The presentation of the Medium-Term Budget Policy Statement offers latitude of transparency into the budget process by making advance announcement of the next MTEF policy proposals, thus enabling the legislature to assess the proposed interventions in the light of the current MTEF proposals.

Current Conjuncture and what this Budget Review Offers

Honourable Speaker,

Honourable Members,

11. The current conjuncture of gradual growth and tightness of the fiscal adjustment path presents opportunity for the policy framework which balances between the consolidation policy stance and providing for a package of policy actions to protect the gains made through consolidating expenditure, while at the same time mitigate the unintended consequences,
12. At the current conjuncture:
 - domestic economic growth has slowed in tandem with the regional averages,
 - per capital incomes are stalling due to sluggish growth conditions,
 - gains in job numbers have narrowed and, in some sectors such as construction, have reversed,
 - allocative efficiency needs to be scaled-up to ensure that critical service delivery is not impaired by budgetary shortfalls,
 - efficiency gains are a priority target as there is no substitute for doing more with less,
 - fiscal space remains narrow, building buffers is indispensable for long-term sustainability,
 - fiscal consolidation has yielded gains which must be protected from reversals, while unintended negative consequences must be mitigated,
 - graft and fiscal indiscipline should be deterred and nipped in the bud,

- the financial management system must prevent and deter incidences of budget over-commitments.

13.To recap, we had less options than to implement a steeper fiscal consolidation this time last year:-

- the domestic economy came under pressure, growth and income estimates were revised downwards sharply,
- absent timely corrective action, financing needs were elevated beyond what the market could provide,
- market confidence was at an all-time low and liquidity diminished, putting the financing of the budget deficit at risk,
- a commensurate corrective action was urgently needed. We responded timeously,
- as a result, the policy framework was recalibrated and expenditure realigned to a revised framework,
- we have regained market confidence and growth is resuming again. Ascending to higher rates of growth requires patience and prudence to guard against reversals.

14. While the Mid-Year Budget Review allows for allocative efficiency and expenditure correction in respect to the FY2017/18, its Medium-term Policy Framework proposes a package of policy actions to mitigate the unintended consequences.

15.This Budge Review and its Medium-Term Policy Framework:-

- provides limited additional resources to address spending on outstanding contractual obligations and meeting critical needs in respect of the delivery of essential public services,

- maintains the fiscal consolidation policy stance with added impetus to enhance the growth friendliness of the fiscal consolidation policy stance, while guarding against excess procyclicality,
- proposes to scale-up the development budget priority infrastructure spend through the establishment and operationalization of the Infrastructure Fund with a knock-on effect on growth and activity in the construction sector, which is currently contending with prolonged recessionary pressures,
- additionally harness alternative means of financing through Public, Private Partnerships, SME Financing Strategy, targeted guarantee support to qualifying Public Enterprises and better leveraging of select state assets, and
- proposes tackling the productive capacity and structural transformation of the economy through implementation of provisions of Public Procurement Act, Growth at Home strategic interventions and local economic development interventions contemplated in the Namibia Investment Promotion Act as may be amended.

Economic, fiscal and financial context

Honourable Speaker,

16. The global economic landscape presents differentiated speed of economic recovery. Globally, the International Monetary Fund projects an uptick in global economic activity and improvement in trade volumes. The global economic activity rate is projected to rise from 3.2 percent in 2016, to 3.6 percent in 2017 and reach an estimated 3.7 percent in 2018.
17. Equally, the world trade volume is projected to rise by 4.2 percent in 2017 and 4.0 percent in 2018, from 2.4 percent recorded in 2016. Non-fuel commodity prices are projected to taper off in 2018, after a moderate recovery in 2017.

- growth for Advanced Economies hovers around 2 percent, reflecting demand improvements in the Euro Area and moderate growth for the US and UK economies, and
- Emerging Markets and Developing Economies will anchor global economic performance with activity pitched at about 4.5 and 4.9 percent for 2017 and 2018 respectively, thanks for expansionary policies for China and India

18. The prospects for the Sub-Saharan African Region are anticipated to brighten moderately, with growth rising from the worst performance in two decades of 1.4 percent in 2016 to 2.6 percent in 2017 and 3.4 percent in 2018. This regional outlook is underpinned by low growth outlook for the region's biggest economies of Nigeria and South Africa. On the other hand, the soft recovery in commodity prices, improvement in agricultural output as well as continued flow of capital to the region support a moderate growth recovery going forward.

- growth for the South African economy stood at 0.7 percent in 2016 and it is projected at 1.1 percent in 2017 and averaging 1.5 percent over the next MTEF,
- Angola, Africa's third largest economy and a key source of demand for Namibia, is projected to grow at about 1.5 percent in 2017 and strengthening moderately to 1.6 percent in 2018.

19. In spite of the upswing in global economic growth, significant risks and uncertainties still linger on medium-term growth outlook. This is in regard to increasing protectionism, possible tightening of financial conditions in Emerging Markets and Developing Economies due to monetary policy rate normalization in the US expected by the end of 2017 and continued rising geopolitical tensions. The low growth environment in the region also come with revenue risks, especially on revenue from SACU.

Honorable Speaker,
Honourable Members,

20. The subdued regional economic outlook and the new growth normal for our largest neighbouring trade partners, continue to present a particularly challenging trade and economic environment for Namibia.
21. As a small and open economy, Namibia's best hopes lies in economic transformation, regional integration and leveraging regional and global value chains. We enjoy a relatively good enabling environment, with political and macroeconomic stability and a predictable policy environment. It is, therefore, material and timely for policy interventions to improve the productive capacity of the economy, diversify economic activities, generate much needed jobs and bolster resilience to shocks. We need to improve the range of finished goods Namibia can trade with in SADC and the African continent.

Domestic economic developments and macroeconomic impacts

22. Turning on the domestic economic developments and outlook, the year 2016 presented challenging developments since the global financial crisis in 2009. Economic growth slowed to about 1.1 percent, down from 6.0 percent in 2015, in line with the 2016/17 budget estimates of 1.3 percent.
23. This outturn mirrors the regional economic performance and it is due to a confluence of factors:-
- primary industries remained in contraction since 2013 which was due to subdued commodity prices, especially for the uranium sub-sector, production constraints in the diamond industry and the severe drought condition and related water challenges in the agricultural sector. Primary industry sector has now eased out of negative growth territory and will be a key driver for growth going forward,

- secondary industries declined as the construction sector adjusts to a bust period after completion of large private and public infrastructure projects and the end of unsustainably high expansion ,
- the tertiary services sector continues to anchor growth, but weak demand conditions have impacted on especially the retail and wholesale sector, while tourism and financial intermediation sectors remained relatively robust,
- on the demand side, consumption has slowed as measured by the deceleration in private sector credit extension and the reduction in Government material consumption of goods and services,
- the payment of outstanding invoices previously accumulated by Offices/Ministries and Agencies has injected liquidity in the market, this alleviating the burden on the balance sheets of service providers,
- monetary policy has remained generally accommodative and the recent Repo Rate cut in August this year to 6.75 offers a good respite to support domestic demand and investment,
- exports have started to regain momentum as large investment projects such as Swakop Uranium have commenced with export activity and imports have slowed to normal trend due to completion of major investment projects and fiscal consolidation measures,
- the trade balance has improved and Current Account deficit has narrowed from 14.1 percent of GDP in 2016 to an estimated 5.8 percent of GDP by September 2017,
- the Overall balance of payments remains in surplus of about N\$3 billion as at September 2017, and

- the international reserves have increased to 5.1 months equivalent of import cover which is more than sufficient to support the currency peg, thanks to Rand denominated loan proceeds and more inflows from export earnings going forward.

Fiscal Policy

Honourable Speaker,

24. Let me now turn on the fiscal policy developments.

25. The FY2016/17 Budget Review has revised the budget by 6.8 percent to N\$64.5 billion and public revenue by 10.9 percent to N\$51.5 billion, with the revised budget deficit estimated at 6.3 percent.

26. In terms of the outturn, public revenue outturn was recorded at N\$50.85 billion, reflecting a collection rate of 98.7 percent and a shortfall of 1.3 percent or some N\$647.1 million relative to the revised target. This was mainly due to lower outturn on Value Added Tax as a result of weak domestic consumption demand.

27. Total expenditure outturn for FY2016/17 stood at N\$62.2 billion, 1.4 percent more than the revised appropriation of N\$61.5 billion, as a result of expenditure overrun on personnel spending.

28. As a result, the budget deficit for FY2016/17 increased from the revised budget estimate of 6.3 percent to 6.9 percent. Public debt as a ratio of GDP stood at 38.3 percent, about 0.8 percent better than the budget estimate of 39.1 percent. This was thanks to better nominal GDP outturn relative to the revised forecast.

Mid-Year Budget Outturn

21. In respect to the current year budget execution rate, the Mid-Year revenue collection amounted to N\$28.03 billion, equivalent to 49.7 percent of the budgeted revenue of N\$56.4 billion, generally on par with a similar rate of 49.6 percent collection rate achieved in the previous corresponding period. Revenue collection is expected to be in line with budget expectations, with a moderate

over performance of about N\$300 million expected due to ongoing Tax Arrear Recovery Incentive Program and the elasticity of some revenue streams.

22. The budget execution rate by the end of September 2017 stood at 48.9 percent, compared to 50.2 percent execution rate for the corresponding period. The Mid-term operational budget execution rate stood at 51 percent, while the development budget outturn was estimated at 34 percent by the end of September 2017.

Sovereign Ratings Assessments

23. The recent downgrading of Namibia's sovereign credit rating by Moody's Rating Agent raised three main concerns, namely imbalances of public finances, weak institutional capacity and liquidity vulnerabilities going forward. While we find such action to have lacked substantive assessment of domestic developments and consultation, the key consideration is for Namibia to continue addressing the rating weaknesses raised by ratings agencies, public finance rebalancing and addressing the developmental needs in the real sector.
24. *Honourable Speaker*, the incidence of accumulated spending arrears arose from a combination of factors. First, it is an accountability and fiscal reporting function for the accounting officers to ensure that funding obligations are budgeted for and reported for budgeting purposes. Secondly, the steep fiscal consolidation might have had unintended consequences for not having provided for optimal funding for basic services, which require continuous provision.
25. We now have to deal with the consequences of a sovereign credit rating downgrade as a result of the 11 August 2017 credit rating action by Moody's Investor Services. While we find such action to have lacked substantive assessment of domestic developments and consultation as well as less forward looking, the key consideration is for Namibia to continue addressing the rating weaknesses and addressing the developmental needs in the real sector.

26. Our policy response agenda is already expressly articulated in the budget policy framework for 2017/18 as a consistent policy framework emanating from the 2016 Mid-Year Budget Review. This policy framework is focused on improving the real economy and finds great latitude of cohesion in the *Harambee Prosperity Plan* and NDP5.

27. We are committed to:-

- the pro-growth fiscal consolidation stance announced in the 2017/18 budget to stabilize and eventually reduce public debt,
- strengthening institutional capacity, policy frameworks and appraisal capacity to manage fiscal risks effectively,
- implementing time-bound tax policy and administration reforms to enhance buoyancy of domestic revenue generation. In this regard, we are strengthening both the tax base broadening and deepening, while protecting the tax base from erosion, profit shifting and illicit flows,
- fast-tracking implementation of the announced structural reform measures to support higher, inclusive growth, and
- consolidating these measures into an implementable plan of action through this 2017 Mid-year Budget Review and the next MTEF strategic interventions,

Fiscal Outlook and Fiscal Stance for the next MTEF

Honourable Speaker,

Honourable Members,

28. In regard to the medium-term outlook, the Medium-Term macro-fiscal framework projects moderate improvement in economic and revenue outlook, consistent with the regional economic outlook and the impact of domestic policy interventions:-

- growth for 2017 is estimated at 1.6 percent, a moderate improvement from 1.1 percent recorded a year ago and strengthening to 2.9 percent in 2018 and averaging around 3.7 over the MTEF,
- growth will be led by recovery in the primary industries, particularly mining and agriculture,
- tertiary industries, which account for over 50 percent of GDP, will continue to support the outlook, on the back of growth outputs from transport, financial intermediation, tourism and telecommunication sub-sectors, while output from secondary industries may recover from the current contraction when the construction sector overcomes recessionary pressure and manufacturing continues its recent growth in GDP contribution of 3 percent.

29. On the fiscal front, estimated revenue for FY2017/18 is moderately adjusted upward by some N\$300 million, as a result of anticipated better performance of Individual Income Tax, the introduction of environmental taxes, the export levies, improved fuel levies and some categories of non-tax revenue relative to the budget estimates. The outturn on VAT has however to be adjusted downwards by 12.9 percent on account of low consumption demand. On balance however a small positive balance remains.

30. The expected outturn on VAT is adjusted downwards by 12.9 percent on account of hitherto low consumption demand.

31. Over the MTEF, total revenue is projected at about 56.6 billion in FY2018/19, N\$59.78 billion in FY2019/20 and to reach about N\$62.5 billion in FY2020/21. The low growth outlook on revenue is mainly stemming from the slowdown in SACU receipts which are projected to decline by 10.2 percent to N\$17.4 billion in FY2018/19 and reach an estimated N\$20.0 billion in FY2020/21. Already, a 10 percent reduction in SACU revenue for FY2018/19 has been anticipated and factored in the current MTEF projections.

32. The subdued growth environment, both domestic and regional, remains the most elevated downside risk on revenue over the medium-term. These risks have, to a large extent, materialized. They will remain material over the next MTEF.
33. In this context and to anchor fiscal sustainability, expenditure ceilings over the MTEF will not increase significantly.
34. The fiscal policy stance for the next MTEF will seek to achieve the three-mutually reinforcing objectives of:-
- entrench fiscal sustainability through a balanced fiscal consolidation program,
 - providing fiscal policy support to the fledgling economic growth, and
 - contributing to the achievement of socio-economic objectives set out in the Harambee Prosperity Plan and Vision 2030.
35. In particular, *Honourable Speaker*, over the next MTEF, the Government will:-
- maintain a balanced fiscal consolidation policy with the express objective of stabilizing the growth in public debt over the medium to long-term, while maintaining the growth-friendliness and social development objectives of fiscal policy,
 - gradually reduce the expenditure- to-GDP ratio threshold from 40 percent of GDP to 30 percent over the MTEF and reduce the budget deficit threshold from 5 percent of GDP to below 3 percent of GDP over the MTEF,
 - reduce the growth of total public debt after a projected peak of about 44.2 percent of GDP through gradual reduction in the budget deficit to bring public debt within 35 percent threshold in the long-term, and

- implement alternative forms of financing to curb the growth in projected debt, particularly PPPs and leveraging of categories of state assets as well as structural reforms to aid the fiscal consolidation path, while keeping contingency liabilities in check.
- Implement measures aimed at improving the performance of Public Enterprises to elevate their role in the economy and improve the delivery of sustainable, reliable and affordable services to the public. Secondly, Public Entities must achieve self-sustainability instead of being a perpetual drain on scarce public resources. This is particularly so for commercial Public Entities.

36. Within this policy stance, aggregate expenditure ceilings for the next MTEF are proposed at N\$64.5 billion in FY2018/19, N\$65.5 billion in FY2019/20 and N\$66.9 billion in FY2020/21. This spending trajectory provides for about N\$5.4 billion additional spending to the current MTEF ceilings as means of implementation of the proposed intervention measures.

37. The additional resources will be utilized to fund the priority funding needs over the next MTEF, within the expressed policy stance.

Budget Priorities for the MTEF

38. For the FY2017/18 – 2019/20 MTEF, the key budgetary priorities and implementation strategies are to:-

- ***provide targeted support to fledgling economic growth.*** The means of implementation are the establishment and operationalization of the Infrastructure Fund at the Development Bank of Namibia, with the initial size of N\$2.5 billion, harnessing PPPs with initial estimated investment outlay of about N\$2 billion, utilizing the AfDB infrastructure loan to the tune of ZAR 4.0 billion, partial listing of select

State assets as a means of raising capital and implementing the SME Financing Strategy through establishment of a Venture Capital Fund, the Credit Guarantee Scheme and the Training and Mentorship Program. The infrastructure investment intervention will effectively double the size of the Development Budget over the next two years, with beneficial growth and job creation outcomes,

- ***maintaining gradual fiscal consolidation policy stance to safeguard macroeconomic stability and long-term fiscal sustainability*** through a smoothly paced fiscal consolidation program and shifting more resources from non-core to core priorities and basic public services. This will entail the a systematic reduction in expenditure as a proportion of GDP by about 1 percentage points annually, reduction in the budget deficit will be systematic, from the revised 5.3 percent in FY2017/18 to about 4.2 percent in FY2018/19 and hover around 2.9 percent over the next MTEF, public debt is expected taper of around 44 percent of GDP over the MTEF, which is lower than the African average of about 50 percent of GDP. Alternative means of financing will prevent escalation of debt to this level.
- ***effective expenditure control measures and fiscal risk management framework*** to ensure that public expenditure is contained within the budgetary and financing framework and the quality of expenditure is improved,
- ***Protecting expenditure in the social sectors of education, health and skills development*** through gradual allocation to these sectors to maintain expenditure in real terms and implementing measures to improve internal efficiencies and the quality of outcomes,
- ***Mobilizing domestic resources for development*** through tax policy and tax administration reforms, increasing domestic asset requirement for institutional investors alongside measures to improve investment climate, establishment and operationalization of the Revenue Agency

for Namibia and introduction of measures to protect the revenue base from base erosion and illicit financial flows, and

- *implementing supportive policies and structural reforms* to broaden economic base, local economic development and advance national industrialization and economic diversification agenda. The low-hanging fruit is the application of the preference provisions of Public Procurement Act and the related provisions of the Investment Promotion Act which are now under review.

Tax Policy, Revenue enhancement and Tax Administration Reforms

Honourable Speaker,

42. The conduct of fiscal policy must be accompanied by effective domestic resources mobilization and increasing tax capacity. This is out of the recognition that no country can depend on other countries resources to finance its development agenda.
43. As such, Namibia takes pride from the fact that national revenue accounts for about 98.5 percent of total revenue and grants disbursed through the State Revenue Fund.
44. We will continue to strengthen the mobilization of domestic revenue streams through tax policy and tax administration reforms to support the implementation of the fiscal consolidation and enhance the distributional impacts of tax policy.
45. As the economic recovery takes shape, it is not my intention to increase general tax rates. But we intend to bring all potential taxpayers in the tax net and achieve full compliance. This is to allow for economic agents to produce and invest, while creating incentive to work and promoting equity and fairness of the tax system.
44. Following the passing of the Namibia Revenue Agency Bill by this House a week ago, the Ministry of Finance in collaboration with all stakeholders will proceed

with the orderly implementation of the transitional arrangements for this important reform.

45. During the next session of Parliament, it is my intention to table:-

- *the tax proposal for the introduction of the presumptive tax on the informal sector, while giving due consideration to the micro units, and*
- *introduce measures to protect the tax base from erosion, profit shifting and illicit flows by eliminating some categories of tax exemptions,*

The FY2016/17 Appropriation Amendment Bill

*Honourable Speaker,
Honourable Members,*

51. Let me now turn to the FY2017/18 Appropriation Amendment Bill.

52. The FY2017/18 Budget Review has to address the settlement of accumulated spending arrears which have not been reported for budgeting purposes. The review also has to meet urgent resource shortfalls to prevent adverse reversals in the provision of public services and basic needs in the social sectors.

53. The total funding needs to meet these identified critical needs during the financial year amounts to N\$4.52 billion.

- a total amount of N\$486.8 million is realized from internal savings by various Offices/Ministries and Agencies. This comprises N\$121.4 million from the operational budget and N\$365.4 million from the development budget. These amounts are to be suspended for reallocation across Offices/Ministries and Agencies,
- the net funding needs amount to N\$4.04 billion,

- a total of N\$400 million is released from the cash reserves and N\$50 million from extra-budgetary accounts to partially finance the net funding needs,
- on the operational budget, the realization of internal savings was mainly made on the non-essential spending items such DSA, trainings, office refreshments, corporate gifts, printing, transfers to SOEs with exception to SOEs in social sectors, Office furniture, Vehicles and operational equipment, respectively,
- on the development budget, given the importance of capital projects as a key stimulant of the economy, only projects with less impact on the economy were targeted. The expenditure revision targeted projects with zero implementation rate, especially for feasibility studies, and
- overall the suspensions from development budget constitutes 75 percent, whilst the remaining 25 percent from the operational budget.

54.The proposed budgetary allocation N\$4.5 billion and reallocation of internal savings of N\$486 million are targeted to address shortfalls experienced in various areas.

55.In terms of sectoral allocation, social sector by far is the main beneficiary, taking up half of the total re-allocation, followed by the economic sector with 14 percent, while infrastructure and administration sectors gained 8 percent each.

56.Specifically, the additional budget allocation is distributed as follows:-

- N\$2.2 billion is to cater for FY2016/17 expenditure arrears whose payments were frontloaded in August 2017,
- N\$807.7 million is allocated to Vote Higher Education specifically for UNAM, NUST, NSFAF and NTA,
- N\$899 million is allocated to Vote Basic Education to cater for, among others, procurement of text books, hostel catering, school feeding program and remuneration,
- N\$100 million is allocated to Vote Health and Social Services to cater for pharmaceuticals and personnel expenditure

- N\$41 million is allocated to Vote Poverty Eradication and Social Welfare for social grants
- N\$42.8 million is allocated to Vote Home Affairs and Immigration for remuneration,
- N\$16 million is allocated to Vote Mines and Energy for operational expenses
- N\$17 million is allocated to Vote Labour and Social Welfare for utilities and court disputes,
- N\$150 million is allocated to Vote Safety and Security for operational expenses,
- N\$100 million is allocated to Vote Defence to meet long-term contractual obligations,
- N\$ 80 million is allocated to Vote Information and Communication Technology for NBC operational expenses,
- N\$130 million is allocated to Vote Works to cater for rental fees (Office accommodation),
- N\$11 million is allocated to Vote Industrialization, Trade and SME Development for operational expenses (Namibia Standards Institute)

Honourable Speaker,

Honourable Members,

57. Outstanding payments for services rendered have to be settled in a timely manner. Critical public services must be rendered to avoid reversals.

58. For this specific purpose, I wish to table, the additional budget for FY2017/18 amounting to N\$4.04 billion or some 6.5 percent of the appropriated expenditure. This additional budget comprises an amount of N\$2.2 billion to account for the settlement of outstanding invoices emanating from FY2016/17 and N\$2.4 billion for allocation to the various OMAs with critical resource shortfalls for the provision of services.

59. The Government has honoured the commitment to frontload the settlement of overdue invoices utilizing the current budget. This resulted in shortfalls which need to be addressed to ensure continuous provision of services as originally budgeted for.

60. *Honourable Speaker*, let me emphasize that the purpose of the Mid-Year Budget Review is not a window for additional budgets. It is a framework for assessing allocative and spending efficiency midway through the budget implementation and reallocates resources within the appropriated ceiling to enhance allocative efficiency and to redeploy resources to their best alternative uses.
61. Additional budget is, therefore, a once-off special consideration and it must not, and will not be considered as a norm.
62. I should also emphasize that accumulation of unreported and unbudgeted spending invoices deviates from accountability provisions of Public Finance Management which public officials should uphold in high esteem.
63. Accumulation of unreported spending arrears is a result of a combination of fiscal indiscipline, budget over-commitments and budget overruns due to steep fiscal consolidation.
64. I, therefore, wish to urge accounting officers across the whole spectrum of public service and the General Government to ensure that budget over-commitments and unauthorized expenditures do not reoccur. I count on the support of my Cabinet colleagues in this respect.
65. The details of the reallocation are contained in the Appropriation Amendment Bill and the Adjusted Estimate of Revenue and Expenditure provided for in the Policy Statement.

Conclusion

66. To conclude, Honourable Speaker, Honourable Members; the economic and fiscal environment has changed and remains dynamic. Our economy, small as it is, remains resilient and growth is resuming and firming. Current and medium-term economic growth are still in the positive growth territory, setting a firm basis for the recalibration of fiscal policy.

67. This Mid-Year Budget Review proposes a fundamental, but balanced alignment of the Government fiscal operations to the new macroeconomic and fiscal framework.
68. The consolidation framework has the objective of placing our public finances on a sound, prudent and sustainable path. It is balanced consolidation adjustment, with a supportive policy package to enhance efficiencies and quality of spending and cushion the adverse impact of expenditure cuts on growth and service delivery. For this purpose, we have chosen to provide greater support to the real economy.
69. Achieving shared goals and fiscal sustainability is a collective responsibility. At this juncture, we can make it or break it. Retaining fiscal sovereignty is not a matter of choice. We have collectively chosen build the Namibian house together. We have chosen to make it. As Fidel Castro once stated “ Every country must be absolutely free to adopt the type of economic, political and social system that it considers and convenient”.
70. We are reasserting our time-tested national commitment that sustainability is at the core of our fiscal policy. And sustainable development outcomes obtain from resilient policy frameworks. This is the policy course of action which we have acceded to when we set out our long-term aspirations in Vision 2030. This is what we aim to achieve as we pull together to achieve the goals of the Harambee Prosperity Plan. This is what we aspire to achieve in the Fifth National Development Plan (NDP V).
71. May I conclude my statement by expressing my profound gratitude to His Excellency President Hage Geingob for his understanding and support.
72. Equally, His Excellency Vice President Nicky Iyambo, Right Honorable Prime Minister Kuugongelwa-Amadhila, the Hon. Deputy Prime Minister Netumbo Nandi Ndaitwah and my Honourable Cabinet Colleagues have stood by our proposals in the face of the pain that these measures will cause. We are however

unanimous in our conviction that we are on the right path. And that the long-term gains far outweigh short-term pain.

73. I thank Hon. Tom Alweendo, Minister of Economic Planning and Director General of the National Planning Commission and his entire staff for the joint work and usual support. I thank Bank of Namibia for all-round support.

74. My gratitude also extends to my Permanent Secretary, Madam Ericah Shafudah, my officials who put in late hours in preparing the documentation and all senior officials in all M/O/As for the hard work and understanding for the necessity of the fiscal stance.

75. I also wish to thank the financial services industry players, the Bankers Association of Namibia, Asset Managers, Insurance industry, Economic Association of Namibia for collaboration and support.

76. Let me end with the quote from Franklin D. Roosevelt. He said “ *We have always known that heedless self-interest was bad morals, we now know that it is bad economics*”.

Hon Speaker,
Hon Members,

I appeal for your support and thank you for your attention.