BUDGET SPEECH
1991

BY

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BUDGET STATEMENT: FINANCIAL YEAR 1991/92

EMBARGOED TILL END OF DELIVERY

BUDGET STATEMENT: FINANCIAL YEAR 1991/92

1. INTRODUCTION

When I presented my previous Main Budget to this House on 6 July last year, this Government had only been in power for about 3 ½ months. It therefore could hardly be expected that that Budget would fully reflect the views and the general approach of the new Government, since much of it was of necessity still an overhang (if not a hangover) of the pre-independence regime.

Today, however, it is a different story. The members will notice, simply by glancing at the budget document, that this is a completely different animal from the one you saw last year – and I am not referring only to the fact that the front cover has changed from white to red. Honourable members will discover that there have been many changes, not only to the format of the Budget, but also to the way in which the Budget is being employed by the Government as an instrument of economic policy. More about that later.

For now, I just want to point out that since the last Budget some events of major economic significance have taken place on Namibian soil that reflect our acceptance into the world economic community. Just to highlight one or two of these, there was the 10th annual meeting of the Southern Africa Development Coordination Conference (SADCC). Then there was the passage by Parliament of the Foreign Investments Act followed by the first Private Sector Investment Conference, which was attended by 429 representatives of major foreign companies and organizations. In the most recent past Namibia has become a member of the African Development Bank and right at this moment the I's are being dotted and the t's crossed for Namibia's final and formal accession to the Common Monetary Area.

Many more details of this nature could be mentioned, but to me the most important fact of all is that Namibia has since independence experienced a period of stability, pragmatic government and good internal and international relations which has engendered confidence and trust among our trading partners and is sure to show dividends in future, both literally and figuratively.

Of course, this does not mean that all our problems have been solved. Far from it, but we are steadily getting to grips with one problem after the other, the groundwork is being laid and the climate is improving, although it may not yet be apparent to all the pessimists in our midst.

The theme of last year's budget, delivered on the 6th July 1990, centered around the subject of setting the stage for sustained economic growth by throwing off the shackles of the past. The major economic challenges were identified as:

- to reactivate the economy
- to reduce income disparities
- to restrain and redirect public expenditure

To quote from my budget speech last year: "…in the medium and long term the equity issue may best be tackled by increasing the rate of growth of the Namibian economy," and further on "Addressing the country's equity problem at an acceptable pace without jeopardizing growth will be the major challenge."

I further said that we have achieved freedom and independence, but that there cannot be final victory until victory has been achieved over poverty, disease and underdevelopment in all its manifestations. We have declared war on poverty and underdevelopment in all its manifestations. We have declared war on poverty and underdevelopment. The struggle is now on for economic dignity.
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This is still a good summary of the challenge before us and although some progress has been made since the last Budget, much still remains to be done. Our most daunting problem remains our high unemployment rate, which in turn springs from a disappointingly low rate of economic growth. Of course, the other major problem mentioned in last year's Budget Speech, namely the inequitable distribution of the national income and the national assets, is still there and is receiving continuous attention, but the simple truth is that we will not solve our problems by cutting the cake into smaller and smaller pieces in order to distribute it among a larger number of people. As the Honourable Prime Minister has said in a recent article in a financial journal: "You cannot redistribute poverty. You must create wealth before you can redistribute it to build schools and roads". Thus, the size of the cake must be increased and, as you will see, this is where the main emphasis has been placed in this Budget.

Let us dwell a little longer on the subject of economic policy. In my reply to the second reading debate of the Additional Budget I had the following to say:
“The most important issue we should address ourselves to now is: - How will Namibia achieve rapid and sustained economic growth, and a society with less uneven wealth distribution? The “free market” participants in the debate argue for redistribution through growth. Wealth, it is believed, will trickle down to the poorer sections of the community automatically through economic growth. Redistribution is seen as a “spin-off” of the creation of new wealth. Simply put, economic growth in a free market system will see the poor’s incomes rise at a faster rate than those of the rich.

“Opponents of this policy argue for drastic redistribution of existing wealth. In their view, the creation of new wealth is a “spin-off” of redistribution, and not the other way around”.

“The emphasis on both sides, however, is on growth. The argument only revolves around how to achieve it. The Government’s growth strategy is essentially a combination of both. Government sees as an important part of its growth strategy, the development of the impoverished regions and the underprivileged of the past. The philosophy of self-sufficiency (not in an absolute but rather relative interpretation) receives content hereby. Urbanisation and agricultural development in the communal areas play an important part in our strategy.”

Our policy is summed up as follows: -
GROWTH WITHOUT REDISTRIBUTION IS MEANINGLES, WHILE REDISTRIBUTION WITHOUT GROWTH IS NOT A SUSTAINABLE POLICY.

Our top priority must now be job creation, through development investments and expansion of productive capacity in Namibia. Apart from heavy development expenditure by Government, our policies regarding the encouragement of private sector investment is geared to achieve this goal through the creation of a conducive environment. This is the thrust of the Budget before you, with the emphasis on the capital budget geared to revitalizing the economy and creating employment.

Economic growth and expansion therefore represents the one pole of the present Budget. The other one is financial discipline. In spite of all the pressing needs calling for increased public expenditure, all will be lost if we don't at all times keep the Budget as lean as possible and live within our means. No less an authority than the famous President Franklin D. Roosevelt of the United States has said: "Any government, like any family, can for a year spend a little more than it earns. But you and I know that a continuance of that habit means the poorhouse." These words are gospel truth and it is within this context that I have framed today's Budget around the central theme: Economic growth through a lean but expansionist budget. To some it might seem as if we are trying to reconcile opposites and indeed it will be a difficult balancing act, but it represents the basic economic problem faced by everyone from the humblest individual to the largest nation, and the only long-run solution is to follow the straight and narrow road. Tempting though the other road might be, we all know where it leads.

As is customary, I will now, as a background to our own economic situation, review the international economic scene. After that I will take a close look at Namibia's economy in the recent past and give a brief prognosis for the years 1991 and 1992. We then turn to the Budget, looking first at the Budget outcome for 1990/91 and then at the Budget for the current fiscal year, 1991/92. In this way we finally reach the bottom-line, the specific taxation and other fiscal measures proposed for the fiscal year 1991/92.

2. **ECONOMIC OVERVIEW: HISTORICAL TRENDS, PRESENT CONDITIONS AND FUTURE PROSPECTS**

2.1 THE WORLD ECONOMY

The pattern of world economic activity has changed significantly over the past year. After seven years of sustained economic growth the United States has slipped into recession, while Japan and Germany have continued to grow relatively strongly.

Employment too began to stagnate, resulting in unemployment rates starting to rise for the first time since 1983, while inflationary pressures worsened, particularly after the rise in oil prices in the second half of the year. The financial markets of the major industrial countries were put under considerable strain, which, coupled with the continued tension in the Middle East, as well as the unsettled relations between the Soviet Union and her traditional allies, militate against a firm view on international economic prospects.

On the assumptions of an average oil price of about $20 per barrel in 1991, a mainly restrictive economic policy in most of the industrial countries to contain inflation, and the maintenance of private sector confidence at a reasonable level, it is expected that the world growth I production and demand will be markedly lower in 1991 than in 1990. Depending on how soon the tight international relations can be normalized, the recessionary contraction in the world economy could prove to be of a relatively short duration. The OECD, for example, expects the lower turning point of the downswing to be reached as early as the middle of 1991. In the second half of the year and in 1992 the rate of increase in the GNP of OECD members taken together may accelerate from slightly more than 1 ½ per cent to about 2 ½ per cent.

Concomitant to the slow-down in economic activity, a further decline in the growth rate in the volume of world trade is projected for 1991. In view of the projected levelling-out in the demand for consumption and capital goods and of zero growth in inventory accumulation, it is also expected that there will be a further slight fall in the average commodity prices. A downward trend has been evident in these prices since the middle of 1988, but this may reach the lower turning point in 1991 and be followed by a moderate upward trend.

Certain specific trends and events in the world and regional economy which have had a direct effect on Namibia during the period under review, will be dealt with in my account on domestic economic developments.

2.2 THE NAMIBIAN ECONOMY

2.2.1 Introduction

In view of circumstances that prevailed at the time of independence and various rather harsh external shocks, the economy of Namibia after independence moved essentially into a consolidation phase and, as was expected a year ago, a massive recovery was neither imminent or was it feasible so soon after independence, especially not in a world and regional economic climate that was politically and economically not conducive to a full economic revival in Namibia. Overall it was a rather difficult year, a year that gives cause for a feeling of guarded optimism rather than satisfaction. Nonetheless, some of the set-backs can be viewed as blessings in disguise in the sense that they brought about a better understanding of the limitations and also induced concerted efforts to open up new prospects in the economy.

To give a proper assessment of current economic developments in Namibia it is essential to briefly revisit the economic circumstances that prevailed prior to independence, since these have to a large extent been instrumental in shaping the Government's economic policies after independence.

2.2.2 Pre-independence economy revisited

Namibia on the eve of independence could be described as having had a siege economy, which was isolated from the rest of the world and was characterized by extreme disparities I access to and distribution of income and public facilities. The former authorities leaned heavily on the country's natural resources for income generation, foreign trade and public revenue, while neglecting industrial development, food sufficiency and the cultivation of a money and capital market. Moreover, heavy military spending injected purchasing power into the northern areas, and this inflationary potential was further aggravated by a large and cumbersome government structure. Public expenditure was heavily subsidized by the South African Government and was further financed through loans raised mainly on the South African capital market, thus sustaining a highly artificial level of public spending. In the rest of the economy the economic activity had clearly gone into a recessionary phase towards independence resulting mainly from the poor performance of the primary sectors and the very low investment level in both the private and public sectors. In brief, this was the structure and shape of the economy at the time the country achieved its independence.

A substantial part of the country's resources were initially required for projects to effectively redress the worst structural deficiencies. Consequently, the Budget for 1990/91 had concentrated, amongst others, on agriculture and rural development, as well as social services such as education, training, health and housing. All of these tend to be costly projects with limited immediate returns and they are competing against projects for, say, employment creation, industrial development and export promotion. The pace of development and economic progress in the short term is therefore retarded, owing to the structural adjustment programmes currently being implemented. The ultimate goal of these programmes is, however, to lay the foundations for accelerated economic development in the long term and to do this in a more just and equitable society.

2.2.3 <u>The external environment</u>

The economy of Namibia is still randomly affected by major political and economic occurrences both locally and internationally. During the year 1990 the world economy was influenced by major political events, including the German unification and, more broadly, the opening up of Eastern Europe and the Middle East crisis. The turmoil caused by the restructuring of economic systems and the opening up of commodity markets in Eastern Europe not only drew the attention of donors, advisers, financiers and merchants to that part of the world, but also affected international commodity markets.

Closer to home, the restrictive monetary policy stance pursued by the South African monetary authorities in the Common Monetary Area has begun to seriously affect domestic demand in Namibia to a point where bank credit extension to the private sector started to fall in real terms. This was coupled with a drawing down of the money supply.

On South Africa's political front, the progress that has been made to eliminate apartheid and to create an environment conducive to further constitutional development is laudable, but has as yet failed to come to grips with violence. Consequently it has so far failed to have a major impact on the economic progress of that country and, naturally, also on that of the region as a whole. In fact, dark clouds have built up over the South African economic sky in the first quarter of 1991. The recession has deepened and this heightens the possibility of another year of stagnation in economic growth. The economic recovery in South Africa will probably be delayed until next year as there is little to pull the economy into any degree of recovery. A year of zero economic growth is widely predicted.

We can now take a brief look at Namibia's economic performance during the past calendar year and finally speculate a little on what we can expect for the current year and thereafter.

2.2.4 Domestic economic developments

During the course of 1990 the economy of Namibia as a whole moved through a difficult phase as evidenced by downward trends portrayed by various economic indicators. Particularly worrying were the adverse conditions that showed up in the mining sector, while notable deterioration was also recorded in the building industry and in the tourism industry. The very strong rise in the fishing Indus-
Try, which since independence comprises the full extent of Namibia's declared and internationally recognized Exclusive Economic Zone (EEZ), was however able to fend off a mild recession. On aggregate therefore, the real gross domestic product rose by 2,7 percent during 1990, after a decline of 0,6 percent in the slightly revised real gross domestic product of 1989. If we exclude fishing, Namibia's real gross domestic product fell by some 1 per cent during 1990.

Real value added by the joint primary sectors, which had fallen by 3,8 per cent in 1989, increased by 1,2 per cent in 1990, mainly reflecting the tremendous rise in real fishing production, thus overshadowing the deterioration in agriculture and mining. Total real value added by the secondary sectors also improved from a negative growth of 5,1 per cent in 1989 to a positive leap of 11 per cent in 1990. This followed from stronger manufacturing output, especially in meat and fish processing, and enhanced electricity generation, which offset the severe set-back experienced in the construction industry. Growth in real value added in the tertiary sectors strengthened mildly from 2,2 per cent in 1989 to 3,5 per cent in 1990, mainly on account of the sustained buoyancy in transport and communication, and of a small rise in the figures for general government.

During 1990 the real production in commercial agriculture fell by some 3 per cent, compared to a significant rise of 13 per cent during 1989. This deterioration came about mainly as a result of a sharp drop in cattle channelled to the South African markets, which in turn can be attributed to supply pressures on those markets from South African cattle farmers who had to reduce their livestock because of serious drought conditions. Meat prices consequently fell marginally thus further aggravating Namibian cattle farmers' cash flow position. Marketing of cattle on the domestic market only showed a mild decline during 1990. Small-stock marketing, on the other hand, continued to grow strongly, particularly during the first half of the year, following a firm effort to reduce stocks in the wake of the drought conditions that prevailed in some of the southern regions. The karakul pelt industry, however, experienced a further serious decline in sales during 1990, but its prospects have improved substantially after surprising y strong price increases were achieved at the May 1991 auction. In view of the fairly good, though late, rains in the main subsistence agricultural regions, coupled with the fact that peace and tranquility had returned to those areas, it is estimated that the real subsistence agricultural output grew by about 3 per cent during 1990.

The fishing industry, as was pointed out previously, has undergone a transformation, in the sense that all officially recorded catches in all of Namibia's EEZ have since independence been accounted for in the country's national accounts, and more particularly in the gross domestic product. Under this new dispensation the fishing industry expanded its contribution to the gross domestic product from 1,2 per cent in 1989 to 5,6 per cent in 1990.

The approaching mineral exhaustion of some Namibian mines, particularly at the Tsumeb base metal mine and at the main diamond operation in Oranjemund, as well as the decommissioning of the Uis tin mine, caused the mineral output as a whole to contract at a rate of almost 10 per cent during 1990, which follows a decline of some 6 per cent in the previous year. Particularly hard hit was the diamond mining industry, where output levels fell by no less than 18 per cent in 1990, compared to a decrease of 4 per cent in 1989. In the non-diamond mining industry a mild output decline of 2,3 per cent was recorded in 1990, which was positively supported by the fairly stable output level in uranium mining. The dwindling output levels of Namibia's principal base metals, such as copper, lead and zinc, give reason for serious concern. Not only are there physical output constraints due to falling ore grades, but the mining industry's future prospects are further depressed by weakening prices on international commodity markets.

In the secondary sectors real output performance was mixed. The manufacturing sector improved its real output by 5 per cent during 1990, compared to a growth of 4,1 per cent in 1989. This improvement was brought about mainly by better business operations in the meat processing industry. The fish processing industry in Walvis Bay is now for the convenience of national accounts estimations, included in Namibia's domestic production. This industry experienced a much improved real output on account of the good pelagic fish landings in Walvis Bay. Consequently, the real value added by fish processing in Walvis Bay. Consequently, the real value added by fish processing in Walvis Bay almost doubled during 1990, thus contributing some 2 per cent to the country's gross domestic product.

The construction sector experienced a continued decline in real value added, which was associated with lower levels of real fixed investment in building and construction works. Although the building programme of the public sector during the 1990/91 financial year was firmly above that of the previous years, the commencement of actual construction activity was only concentrated towards the end of that particular financial year. In the private sector the curtailment of building activity was quite evident, particularly after completion of the brisk building boom in Windhoek's CBD during the latter half of 1990. The overall real value added in the construction sector consequently declined by about 10 per cent during 1990, which follows a decrease of some 6 per cent in the preceding year.

The trends in the tertiary sectors were divergent. The only sub-sector whose growth in real value added improved from 1989 to 1990 was the general government, mainly reflecting a moderate increase in the rate of employment expansion. The position in transport and communication remains buoyant, yet the rate of expansion leveled off, due chiefly to lower railage volumes. Other service industries were clearly influenced by the weaker level of domestic demand, which was particularly evident in the motor and wholesale trade, and in the accommodation sub-sector as well as in financial services. These sectors in particular were severely affected by the withdrawal of the purchasing power of the UNTAG operations in Namibia, which was subsequently only partially offset by the establishment of foreign missions and embassies.

2.2.5 Inflation

The relatively restrictive monetary policy from early 1988 onwards, the increased stability of the exchange rate of the rand from mid-September 1989, as well as the subdued state of local consumer demand, contributed to a significant decline in the inflation rated, as expressed by increases in the consumer price index for Windhoek. On a year-to-year basis the rise in the annual average consumer price index advanced from 12,9 per cent in 1988 to 15,1 per cent in 1989. It then retreated sharply to 12,2 per cent in 1990.

2.2.6 Financial markets

During the curse of 1990 the financial markets clearly began to experience a squeeze on both deposits and advances. The slow-down in credit extension by banking institutions in particular over the past year was primarily a reflection of the cyclical cooling-down of the economy, on the one hand, and the relatively restrictive monetary measures from early 1988 onwards, on the other. The trend in money supply, which is normally approximated by the trend of credit extension by monetary institutions, would therefore also have shown a similar smoothing-down effect, which together with the evidence of reduced inflationary pressures would in turn have signaled to the monetary authorities the need for a progressive relaxation of its monetary policy measures. This sequence of events and trends has, however, not shown up in the South African situation with the same force as in Namibia, and has led the South African monetary authorities to move very cautiously towards relaxing the monetary policy of the Common Monetary Area.

2.2.7 Interest rates

Money market interest rates softened through most of 1990 from their highs at the end of 1989 on the basis of market expectations created by the cooling-down of the economy, slackening monetary expansion and credit growth and declining inflation rates. The market rate for liquid bank acceptances with a term of three months thus fluctuated downwards from a high of 18,8 per cent on 18 November 1989 to 17,4 per cent at the end of February 1991. In a similar fashion deposit rates also displayed a descending trend during the latter half of 1990. The predominant prime overdraft rate of clearing banks remained rigidly on 21 per cent from the end of 1989 to the end of March 1991, despite the lowering of the bank rate from 18 to 17 per cent with effect from 11 March 1991. Capital market rates also showed a slightly downward longer-term trend, with local building society mortgage rates being reduced by one percentage point to 20 per cent on 1 April 1991.

2.2.8 Economic prospects for 1991 and 1992

With the current calendar year already in full swing, it is appropriate to look ahead to the probable outcome for 1991 as well as to a tentative view for 1992.

At the outset we many assume that 1991 will most probably become another year of consolidation, while the groundwork is being laid for a more decisive cyclical recovery in 1992. Factors seen as holding back a more lively growth performance of the domestic economy in 1991 include the following:

* The likelihood of a further slowing-down of real growth in world trade, with attendant effects on the international demand for Namibian export commodities;

* the curtailment of uranium production and exports resulting from the glut in the international uranium market caused by dumping from from Eastern European quarters, which will affect the growth prospects for the next two years;

* the weakening of base metal production on account of deteriorating ore grades and commodity market disturbances;

* the poor outlook for a substantial and progressive easing of the restrictive stance on monetary policy led by the monetary authorities in South Africa and followed throughout the Common Monetary Area;

* the conservation orientated and therefore fairly conservative marine resource exploitation policy pursued with a view to re-establishing stocks to their optimum capacity; as well as

* the low level of consumer spending following from the relatively long exposure to restrictive monetary policy measures and from less favourable prospects for inflation-matching or inflation-beating salary and wage adjustments, as well as from the heightened burden of household debt.

Next to these constraining factors in the economy, there are however, also marked improvements and prospects on various fronts that permit a more positive, yet sober, approach toward future developments in the Namibian economy. Some of these prospects are the following:

* The idling construction industry should certainly be provided with the necessary boost, in view of the solid capital programme introduced in this Budget and in view of the massive construction requirements for, inter alia, the petroleum refinery to be erected at Usakos.

* Prospects for the Namibian agricultural sector have improved due to good rains in several areas and due to their opening up of Namibian beef exports to the European Community through the Lomé Convention. Moreover, a record harvest of Maize is expected during the 1990/1991 season, while the prospects for a substantially improved Karakul marketing effort seem good.

* The indications are good that Namibia's diamond production will gradually increase to reach at least one million carats during 1992, in in view of the heavy investments in new diamond prospects at Auchas, Elizabeth Bay and Deberas as well as through exploitation coming on stream soon.

* On the international front, it appears that the rapid and generally satisfactory end of the war in the Persian Gulf may have improved for the United States economy; the recessionary contraction of that economy could accordingly now prove of reduced depth and shorter duration, thereby brightening the outlook for most of the industrial nations.

On balance, it is expected that the negative forces will slightly outweigh the positive trends, and that the real growth in the gross domestic product of 2,7 per cent in 1990 will be reduced to about 2 per cent in 1991. As from 1992 when some of the constraining forces are expected to lose their impact, it is anticipated that the pace of real economic activity will accelerate to a growth rate well in excess of 3 per cent.

A fuller account of economic trend in the Namibian economy over the past calendar year is given in our Economic Review, which is also available here today.

3. **LOOKING BACKWARD: BUDGET OUT-TURN 1990/91**

The 1990/91 financial year was the first since independence and although Government did not have much time to do proper planning before the Budget was tabled in Parliament last year, I am glad to say that we have achieved a number of things of which we can be proud. The best example is perhaps the fact that we got through this financial year without borrowing one cent despite all the periodic speculations and rumors that we are in financial difficulties.

3.1 REVENUE

In the Revised Estimate for 1990/91 the total revenue, including donors' contributions and the balance brought forward from the previous year, was estimated at R2 518 million. Although the books have not been fully closed and audited, it now appears that total receipts will amount to R2 450 million, which means a shortfall of R68 million. Tax on Companies was R4 million below the estimate, Non-resident Shareholders Tax R10 million, Diamond Export Duty R10 million and Levy on Fuel R37 million. All this is of course a reflection of the somewhat depressed phase through which our economy is passing.

3.2 EXPENDITURE

Expenditure for 1990/91 had been estimated at R2 730 million. Preliminary figures show that the final amount will be considerably less. Saving of R55 million originated from the capital budget, which should not have happened. Cabinet has already set the wheels in motion to avoid such an underspending on capital in the new financial year. An amount of R205 million was underspent on current expenditure on a number of votes. These considerable savings o current expenditure are largely the result of my appeal to my colleagues to effect savings wherever they can. I am deeply indebted to my colleagues who heeded this call.

3.3 SURPLUS

I mentioned that a surplus of R200 million was achieved. This surplus will be available for financing the 1991/92 Budget. Honourable Members will remember that we projected a deficit of R210 million in the Main Budget and R212 million in the Revised Budget for 1990/91. Closing with a surplus of R200 million is therefore beyond all expectations and we can all feel gratified at being able to close the first financial year on such a positive note, especially that we did not have to borrow any funds at all.

4. **LOOKING FORWARD: THE BUDGET FOR 1991/92**

4.1 THE FORMAT OF THE NEW BUDGET

When I took over the Ministry of Finance it became very obvious that the budget system and the budget format did not conform to their requirements of an independent country. My Ministry has therefore taken a close look at it in the meantime and we have also had a team of experts from the IMF who investigated the present system and made certain recommendations. Then, during February and March this year, another expert from the IMF assisted us in implementing some of the recommendations of the first team. In that process my Ministry received the full co-operation of all the other Ministries, for which we are very thankful. The result is that I am presenting today a much more informative document which is in accordance with the internationally accepted functional and economic classification of expenditure.

4.1.1 Contents of the main divisions

In the past the budgetary main divisions contained expenditure items (subdivisions) only. In this document, in additions to expenditures, the objectives and main operations for which the funds are allocated, are recorded in each main division, as well as staffing patterns (numbers of personnel by the area of their speciality and tasks, showing details of the establishments, positions filled as at the end of February 1991 and funded positions in fiscal year 1991/92). The object of giving all these data is to facilitate the analysis of Government operations and their costs by the National Assembly, as well as communicating the scope and coverage of Government activities to the public, the media, donor countries and international organizations. Furthermore, in consultations with the relevant ministries, some new main divisions have been introduced, some old main divisions have been accommodated under the new main divisions and, finally, in a few cases the titles of main divisions have been revised. In all these cases, attempts have been made to rearrange the 1990/91 expenditures in accordance with the new main divisions for purposes of comparison.

4.1.2 Functional classification of expenditure

The 1991/92 Budget is presented in the framework of a standard functional classification. This is an entirely new approach which entails that the emphasis of budget presentation and analysis is shifted from the traditionally featured organizational classification (i.e. ministries, votes, main divisions) to the operational areas. The functional classification groups the expenditures according to the Government's functions rather than its administrative units. For political, administrative and technical reasons some functions may be implemented jointly by two or more ministries. The old organizational grouping of expenditure did not allow the expenditure allocated to any one function to be properly observed and analysed. For example, aspects of social security and welfare affairs and services are administered by no less than three ministries, namely (i) Finance, (ii) Health and Social Services, and (iii) Lands, Resettlement and Rehabilitation. Similarly, the Ministry of Works, Transport and Communication contributes to almost all sectoral operations. These allocations, however, have in the past not been recorded under the relevant functions, but under the operating agency. The functional classification permits trends in government outlays on particular functions to be examined over time and is thus an aid in estimating future expenditures. The classification serves both decision makers and officials in the resource allocation exercise, including sectoral policy analysis, which cannot be expected from the traditional organizational classification of government expenditure. The functional classification introduced in this document is in accordance with the manual: Classification of the Functions of Government

(COFOG) published by the International Monetary Fund and the statistical office of the United Nations.

Although for purposes of analysis the functional classification now forms the basis of the Government's budget presentation, for accounting purposes the organizational classification of the 1991/92 expenditure is also presented in Part II of the Budget document. This part contains the amounts available for each Ministry and each Accounting Officer under the Ministry regardless of the functional categories of their operations.

4.1.3 Economic classification of expenditure

The classification of government expenditure and lending by their economic characteristics shows the kinds of transactions through which the Government performs its functions, and their impact outside Government in the market for goods and services, in financial markets, and in the distribution of income. The economic impact of Government outlays can differ widely depending on whether they are allocated to wages and salaries, purchases of goods and services from others, interest on the debt, subsidies to enterprises, transfers to households or other levels of government, or lending. The economic classification groups government expenditure into at least three categories: **Current Expenditure, Capital Expenditure and Lending.** The classification is also used for budget preparation (costing of inputs required for operations), as well as for accounting and auditing purposes (recording and controlling financial transactions). In the preparation of the 1991/92 Budget the existing expenditure items (subdivisions) have basically been retained, but rearranged to provide a more comprehensive economic picture of Government expenditure. However, to meet the requirements of some advanced budgeting and accounting methods and techniques, further changes and refinements in the expenditure items are necessary. These improvements will be introduced in a phased manner. The computer systems and accounting forms will also have to be redesigned and/or modified and wide-ranging training programmes will have to be conducted. The Ministry of

Finance has taken the necessary steps in this regard, and will introduce further improvements in the 1992/93 budget document.

4.2 REVENUE

Total estimated revenue for the 1991/92 financial year, including the effect of the tax proposals to which I will come later, amounts to R2 423 million, which is R431 million more than the revised estimate of R1 991 million for the Additional Budget in 1990/91, i.e. an increase of 21,6 per cent. It is expected that Taxes and Duties will be R18 million more; Loan Recoveries R15 million; Other Government Revenue R57 million; Customs and Excise R266 million, and w expect to receive from a new source, namely Compensation for the use of the Rand, an additional R75 million n this financial year.

To some of these items, such as customs and excise receipts, I will refer again in a different context. At this stage I only want to make a few more remarks on the new item: Compensation for the Rand as our currency. For the government of any country it is quite a profitable business to issue its own currency because the cost of production of all but the smallest currency units is normally much less than its face value, which is the value at which it is issued by the central bank. The difference is therefore a clear gain.

In our case, however, because we do not yet have our own currency and make use of the South African Rand, this gain goes to South Africa and an agreement has been reached with South Africa that we will be compensated for this. The same procedure was in the past followed by South Africa with regard to Lesotho and Swaziland. In a normal financial year this compensation should in our case amount to R35-40 million and it is paid over in February of each year for the period stretching from 1 July the previous year to 30 June of the year in which the payment is made.

The Namibian Government has reached an agreement with South Africa that Namibia will be entitled to payment as from the date of independence, but that the actual payments will only start once Namibia has formally become a member of the Common Monetary Area, which should be within the next few weeks. This means that in this fiscal year Namibia will receive Compensation payments for the periods 21 March 1990 to 30 June 1990, 1 July 1990 to 30 June 1991 (which was due in February 1991), and 1 July 1991 to 30 June 1992 (due in February 1992). We have estimated the total amount of these payments, which will all be received in the present fiscal year, at R75 million, as I have indicated. As from next year, however, the figure will of course be much lower.

4.3 EXPENDITURE

4.3.1 Recurrent Expenditure

For the 1991/92 financial year total recurrent expenditure is estimated at R2 333 million. That is R203 million, or 9,5 per cent, more than the revised figure of R2 130 for 1990/91. In the discussions on the individual votes my colleagues will make more details available concerning the current expenditure budgeted for their Ministries. As far as I am concerned, I would now like to turn to capital expenditure, which forms the pivot of our budget approach this year.

4.3.2 Capital Expenditure

In the printed budget document R554 million is provided as capital expenditure and lending, of which R100 million is in respect of equipment, which was formerly regarded as recurrent expenditure and is now reclassified in terms of the new classifications. R49 million of the remaining R454 million is in respect of loans and equity participation, which leaves an amount of R405 million as development capital. However, I have to point out that part of the R49 million for loans and equity participation will also be spent by local authorities and parastatals on development projects. The figure of R454 million must be compared and indeed compares very favourably with the R261 million which was provided as capital in the Main Budget for 1990/91. As a matter of fact, it amounts to an increase of no less than 66 per cent. This gives a clear indication of our main objective to have a lean but expansionist budget. Our primary objective is to stimulate growth and to create employment opportunities.

4.3.2.1 Agriculture and Rural Development

If we look in more detail at development capital it becomes evident that the capital expenditure is now to a larger extent directed towards the less developed areas and also to functions of Government which, to some extent, were neglected in the past. For example, Agriculture and Rural Development, which only received some R4 million last year, now receives R61 million, of which by far the greater part will be spent o development projects up north. The Buffalo/Omega Cropping Project will receive R14 million and the Honourable Minister of Agriculture has given me the assurance that some 8 000 people will be permanently employed on this project before the end of the financial year. Employment creation of this nature is very commendable and fits in precisely with our main Budget objectives for this year.

Some of the other larger projects of the Ministry of Agriculture are:

Sustainable Agriculture Development For Northern Namibia	R4 million
Translocation of the Veterinary Cordon Fence -	R1 million
Angola/Namibia International Fence -	R3 million
Construction of Earth Dams -	R7 million
Construction and Equipping of Boreholes -	R3 million
Agricultural Development Centres -	R6,6 million
Improvements at Ogongo and Mashare Colleges -	R2,5 million

If any other Ministry should feel envious or aggrieved because of the relatively large amount of development capital allocated to agriculture, I must point out again that this is simply done in order to create the maximum number of employment opportunities and to do that in the places where the need is greatest, namely in the rural areas. Once the most pressing needs there have been alleviated, we will again give more attention to all the other priorities which must now to some extent take a back seat. I must add that this has been agreed on in Cabinet and that it is in line with our priorities previously set out.

4.3.2.2 Transport

It has become of the utmost importance to improve Namibia's road links with our neighbouring countries to the east and north-east. For that reason it has been decided to speed up the construction on the Trans Caprivi Highway, which will be built in phases. A total of R17,9 million has been included for that purpose. Similarly, an amount of R11,4 million is included for the construction of the Trans Kalahari Highway from Gobabis to the Botswana border. The road between Keetmanshoop and Luderitz was started many years ago and from both ends part of the road was completed but the section in the middle, between Goageb and Aus, was not tarred for some reason or other. It has now been decided to start with the completion of that section as well and R7,7 million has been included for that purpose. Apart from that the Outjo- Khorixas road will be completed during this financial year and several roads in Ovamboland will also be improved. One of these will be a special labour-based construction project of which the Ministry of Works, Transport and Communication will make more details available.

4.3.2.3 Communication

Provision has been made in the Budget for R26,8 million for communication projects. That amount includes R5,8 million for the

Automation of the Oshakati Exchange, R2,4 million for Carrier Systems in various parts of Namibia, R4 million for an Exchange System in Wanaheda, R1,1 million for Line Digital Concentrators in Khomasdal, R2 million for Automation of the telephone system in Kavango, R1,2 million for Rural Telecommunications in Ovambo, R2,4 million for Farm, Trunk and Cable Projects, R1 million for the Namibia-Botswana Microwave System, and R900 000 for New Post Office Buildings at Oshikango, Omblantu and Unkwaludhi. Finally, R1,8 million has been provided for a Master Plan for Posts and Telecommunications, of which that Ministry will have more details. I would also like to point out that this financial year may be the last during which we make provision for communication projects as it has been decided to commercialise the Post Office. As from next financial year it might therefore stand on its own feet and not require any further funding from the Central Government Budget.

4.3.2.4 Local Government and Housing

The housing shortage in the country for people in the lower income categories has become such a problem that something drastic must be done. It has therefore been decided to make R24 million available to the Ministry of Local Government and Housing and another R6 million to the National Building and Investment Corporation for low-income housing. Other measures to relieve the housing shortage are also in the pipeline. I will refer to these later on. An amount of R4 million will be made available for the supply of SWAWEK power to Opuwa. R2 million will be set aside for various projects of the Peri-Urban Development Board and R8 million for loans to municipalities.

4.3.2.5 Health

Turning to Health, an amount of R4,7 million has been included in the Budget for the continuation of work on the Otjiwarongo State Hospital and seven other smaller projects. An additional amount of R15,7 million has been provided for 38 new projects of which the majority will be in the northern areas.

4.3.2.6 Education and Culture

At this point in time there are 35 projects of the Ministry of Education and Culture under construction and R23,8 million has been provided to continue with these projects In addition, an amount of R28,1 million has been provided for new projects. In total an amount of R51,9 million will be spent on projects of the Ministry of Education and Culture.

4.3.2.7 Other Projects

The other major development projects include R31 million for water development and R22 million for electrification of the Ovambo and Kavango regions. An amount of R14 million has been provided to establish border control posts, while R3,5 million has been provided to establish new magistrates courts in Oshakati, Katatura, Ombalantu and Bagani. You will also notice that provision of R500 000 has been made for a detailed study of an additional harbour north of Walvis Bay.

A further R15 million has been made available for the Development Brigade, which will in its final stage employ up to 16 000 people.

From what I have said, it must be clear that the capital budget was designed with major goals in mind: - To reactivate the economy, to try and achieve maximum employment creation, to give a major boost to the construction industry and to concentrate the major development effort in the communal areas, which were neglected in the past.

4.4 DEFICIT

Total expenditure for the 1991/92 financial year is estimated at R3 120 million and total revenue at R2 423 million, which leaves a deficit of R697 million, and we now have to look at what measures can be taken to finance this deficit. First, however, a brief look at the taxation measures proposed for this year, the effect of which has already been incorporated in the total revenue projection of R2 423 million.

5. TAX PROPOSALS

5.1 INTRODUCTORY REMARKS

The new Government after independence took over the system of taxation it inherited. The main issue is, first of all, whether this system is adequate to meet the needs of the new state, and second, if changes are needed, what form these should take.

Independence implies a higher degree of fiscal responsibility than does a situation in which a dominating country exercises its dominance by representing a last resort for financing. The current budget deficit makes revenue enhancement imperative. No single tax policy can, however, create the additional revenue we require. A combination of measures, both in tax policy and tax administration, is necessary to achieve the objective at least to some extent.

The immediate question that arises is: - Should the tax rates be higher or the base broader? International advisers, and I share their view fully, take a dim view of increasing the tax rates to use the existing tax base to a greater extent. An increase would send the wrong signal to the international community and make it even more difficult for Namibia to compete for investment capital. Broadening the tax base has the double purpose of increasing revenue and improving the equity of the system. Measures in this regard will therefore be proposed and implemented as soon as possible.

Having said that, I must also point out that the administrative resources at present invested in making our tax system work, are extremely small. The administrative cost of our present tax administration amounts to only about one half of one percent of tax revenue and it is extremely unlikely that under these circumstances the system will even approach its full revenue potential. When one is yourself the Minister of Finance you know that money does not come easily to the Treasury. Money will do anything in its power to stay away from the Treasury and has to be brought in by coercion.

Given this, we feel strongly that our tax "policy force" has to be strengthened. The precise nature of the measures to be taken can, for obvious reasons, not be made known, but basically it will comprise the tightening-up of tax deductible expenditures, such as fringe benefits, and closing the loopholes in the sales tax system. The new customs and excise structures will also soon be fully operational. The "broadening of the tax base" is not a magic concept, but there are always changes or innovations at hand to throw the net a little wider and to shut the escape hatches. I will come back to this during the discussion of the various tax proposals.

I now turn to the specific tax proposals:

Firstly,

5.2 ADMINISTRATIVE MEASURES

As I have already indicated, our administrative effort can be improved to ensure that taxes are properly charged and collected. This involves three aspects, namely good communication with the tax-paying community, adequate staff structures and the procurement of well-trained personnel.

I indicated earlier on that R14 million is being made available in this budget for the establishment of further border posts. Both the sales tax and the customs systems will benefit from the expanding network of border posts. Immense efforts have over the last year been made to put the necessary customs infrastructure into place, both as regards physical facilities and as regards personnel. Appointments in the top structure of the newly created Directorate of Customs and Excise are finalized and the remaining vacancies in the lower ranks will also soon be filled.

A few weeks ago I also announced the opening up of a new Revenue Office in Ondangwa. Over the next few years it is our intention to open up further offices both in the North and in the South.

I have earlier during this Session of the National Assembly made a proposal for the easing of tax on housing fringe benefits. This is part of our strategy to relieve the housing shortage by reducing the cost of home ownership. Hand in hand with that measure, however, goes the comprehensive tightening-up of all fringe benefit taxation. As a further step in that direction and because and because it is justified by the expanding effect of inflation, the values Laid down administratively for all benefits will be upwardly adjusted. Employers will soon hear from the Revenue Office in this regard.

5.3 STATUTORY MEASURES

5.3.1 Income tax

I can announce here today tat some very important aspects of the personal income taxation system are now to be addressed.

The first is the countering of fiscal drag while at he same time simplifying the tax scales, that is the marginal rates and brackets as well as income abatements, by the introduction of new scales. The new, lower marginal rate will be 15 per cent for taxable amounts of up to R10 000 per annum, and will progress to a highest rate of 42 per cent for taxable amounts exceeding R60 000 per annum. For the sake of clarity, the taxable amount is arrived at after deducting personal abatements, which are now being adjusted as follows:

(a) Unmarried or divorced: R4 000 to R6 000.
(b) Married or widowed: R6 000 to R8 000.
(c) Children: unchanged (1 child – R1 500, two children – R2 500, three and more children – R3 000).
(d) Over 65 years: R500 to R1 000.

The abatement in respect of own housing falls away because, being such a small amount, it did not serve its purpose. The introduction of the new tables not only means that the top marginal rate is now only reached at a higher income bracket, but also brings about some relief of tax throughout all income levels. The effects, in comparison with current rates, will be made available to the media. Further good news is that Government could afford to make these new tables effective retroactively from 1 March 1991. The practical and administrative aspects, such as new Pay-As-You-Earn tables, will soon be finalized.

The second important aspect is that an alternative arrangement in respect of the tax unit as it pertains to married couples is now to be introduced to achieve the aim of equal taxation of men and women.

The historical development of the married couple as one tax unit, its linkage with the matrimonial property law and aspects of marital power, and the question of equity in relation to unmarrieds have been analysed in depth and I believe that we have come up with a practical solution that will be consonant with the current legal background. The husband will for the time being remain the accountable taxpayer, but all abatements will in future be equally divided between working spouses. To alleviate potential hardship for single-earning families, without unduly favouring them above unmarrieds, the full amounts of children's abatements and half the amount in respect of the non-earning spouse's primary abatement will be fully transferable to the sole earning spouse.

The third important aspect was to extend the scope of the deeming provisions regarding the source of certain interests and dividends. This was done n order to counter the flow of capital from Namibia, as well as to promote the denization or Namibianization of financial institutions. Namibia's income tax is based on the territoriality principle. In other words, to be taxable in Namibia income must have it source here. This sourcing rule, however, leads to a major flow of capital from Namibia to South Africa, where it is under present laws in certain circumstances tax free. The present proposal plugs this loophole and is furthermore part of the broadening of the tax base approach.

And fourthly it was decided that amendments to income tax legislation should eliminate any doubt as to the taxability of employer or employee contributions paid over to such employees from any pension fund on resignation or the winding-up of such funds. As a further step in making the Namibianization of such institutions practicable, the capital element of certain purchased annuities will also be exempt from tax.

As a savings incentive coupled to the provision of low interest housing, another measure is being contemplated. The maximum amount which can be invested free of tax in Special Tax-Free Indefinite Period shares in building societies in Namibia, are now being raised from the current R20 000 to R100 000. Provision is also being made requiring the building societies to apply all such tax-free investments towards low-interest housing loans for people in the lower income-brackets. These measures will become effective as soon as the Income Tax Amendment Bill has been passed by the National Assembly.

A final measure is the abolition of Undistributed Profits Tax, which is perceived as misdirected and unproductive of revenue.

It is estimated that the net effect of all these proposed changes in the Income Tax Act will be a loss of revenue in the present financial year of about R20 million.

5.3.2 Company and mining taxation

Ordinary companies contribute 12 per cent of the total revenue from taxation, which seems too low. An increase in the current rate of 42 per cent will, however, not be conducive to the economic development and the investment climate that Government is trying to create and would in any case be counter-productive. This was spelt out in my 1990 Budget Speech, and still holds. At the same time, however, I must also repeat that we see business as having a clear social responsibility.

The current hardships of the mining sector are well-known. With this in mind, no changes in the rates of ordinary and mining companies are now proposed.

5.3.3 <u>Sales tax</u>

Namibia has a retail sales tax on goods and services. Broadening the sales tax base means that ideally all goods and services should be included without exemptions. The sales tax base will therefore now be broadened by extending the scope for taxable services, inter alia, to include repair and maintenance services as well as most professional services. Doctors' and hospital fees, local authority rates, financial services, as well a rail, bus and commuter transport will, however, not be affected. These measures, apart from broadening the tax base, will simultaneously close some of the previous loopholes that existed n the sales tax system. It is expected that additional revenue of R30 million p.a. can be obtained from this source.

In addition to the broadening of the tax base an increase of 1 per cent in the rate of sales tax is proposed as from 1 July 1991 to help meet the budget needs. At 11 per cent the rate will still compare favourably with neighbouring countries, while bringing in a welcome additional R30 million. To offset the negative effect that an increase in sales tax has on the les well-off, I further propose that the increase in the tax rate should be balanced out by exempting maize-meal and mahangu from the said tax. In future these basic foodstuffs will be free of sales tax.

A comprehensive Bill consolidating all sales tax legislation will soon be introduced to the National Assembly.

In South Africa GST or sales tax will as from 1 October 1991 be replaced by value added tax or VAT. This implies a radical tax reform. VAT is a "modern" tax on goods and services and is widely used the world over. In some countries, like the United States, VAT is, however, met with decisive resistance. In Namibia, our lower level of sophistication coupled with the enormous administrative burden, militates against the implementation of VAT. For the time being, no consideration is therefore given to the introduction of VAT.

5.3.4 Additional fuel tax

In most industrial countries the tax on fuel accounts for about 55 per cent of the pump price, while that in Namibia hovers around 27 per cent. Fuel is also world wide a very important tax source.

Too low a price of fuel will furthermore lead to inefficient use of that particular energy source, as is only too well documented I the American environment.

It is both important to make better use of the taxation of fuel, as ell as to ensure that the price of petrol and diesel does not come down drastically when the petroleum price level comes down, the margin being used for tax purposes.

A bill will therefore soon be submitted to Parliament to allow for the introduction of an additional tax on fuel.

Recently a tax increase of 5 cents per litre for petrol and 2 cents per litre for diesel was introduced without any effect on the price of these commodities.

5.3.5 Customs and excise

Because of Namibia’s interlinkage within the Soutern African Customs Union and the agreements applicable with regard to customs and excise, no new measures can now be announced. Once the new Directorate of Customs and Excise has become fully operational, however, full renegotiations will be entered into or intensified and, where necessary and possible, legislative measures, agreements, etc. concluded.

In the meantime Namibia has reached a provisional agreement with the other members of the Southern African Customs Union that Namibia will receive 9,6 per cent of the revenue of the customs pool and for the current year this gives us an additional amount of R266 million. There is, however, no certainty about the correctness of this amount and at a later stage when we have better figures for Namibia’s foreign trade transactions, an upward or downward adjustment may have to be made.

5.3.6 Investment tax incentives

Tax incentives to promote new economic activity are common in many countries and one has to assume that in their investment planning potential investors take into consideration tax benefits offered elsewhere. I feel therefore that I should in passing touch on the subject. As a Government we are aware of the benefits of direct foreign investment as a catalyst for economic development. Tax incentives, though important, are, however, not the only inducement that the foreign investor has to invest in Namibia.

Investors' decisions depend to a larger extent on political stability, an investment protection agreement, an efficient infrastructure, flexible exchange control, rules and regulations regarding labour, the cost of labour, and the availability of skilled labour.

When it comes to tax incentives, the most important aspects are a stable fiscal regime and low overall tax rates. Fluctuating measures do not inspire confidence in foreign investors, who require consistency n the formulation and administration of tax legislation.

International experience indicates that built-in incentives, like overall lower tax rates, proper write-off provisions, and the extension of the double taxation treaty network, are preferable to discretionary tax incentives.

My Ministry, in the knowledge that we are not an island unto ourselves, has embarked on a detailed study of the tax incentives offered by our neighbours to help us to formulate our own policies in regard to the subject. In due course, we will submit to Cabinet a detailed report with recommendations.

In the meantime we are of the opinion that our current system of offering low tax rates, and the write-off provisions and favourable allowances for the erection of buildings, are extremely attractive. Apart from the stable fiscal regime we are practicing, the application of the financial rand and the use of the PIC debt funding provisions for foreign investments cannot easily be matched by other countries.

6. FINANCING THE DEFICIT

Having now looked in some detail at the total expenditure for which we make provision in this Budget, namely R3 120 million, and the total revenue, including the effect of proposed tax changes, namely R2 423 million, we see a deficit of R553,1 million before borrowing, and net of debt repayments, which amounts to 10 per cent of the GDP. Let me now return to the question of how to finance the deficit.

Firstly, I have already indicated that we concluded the financial year 1990/91 on a very positive not, i.e. with an unspent surplus of R200 million. This surplus is therefore available for the present financial year and will reduce the deficit by that amount to R353 million.

Thirdly, in the previous financial year we received R102 million, in round figures, by way of foreign aid which was reflected in the budget. I am sure that we can expect to receive considerably more this year because the procedures have now been streamlined and the machinery is running much more smoothly. Nevertheless, we have been very conservative in estimating the amount of R105,5 million, leaving a net budget deficit before borrowing of R170,0 million, which constitutes 2,7 per cent of GDP and is only a fraction of our capital spending, which represents some 8,2 per cent of GDP.

In the 1991/92 financial year loan redemptions will amount to some R144 million, which brings the net financing requirement to some R314 million. I recommend that Government borrow this amount to balance the Budget. Government has already come under considerable pressure from financial institutions active in Namibia to create secure local investment opportunities and to develop the local money and capital markets by issuing Treasury Bills and Government stock. All the preparatory work for this has in fact now been done, including an agreement with the Bank of Namibia to act as the Government's agent in handling such issues. The first issue of Treasury Bills will be announced by the bank within a matter of days and precise details will be made known at that stage. Government stock will only be issued at a later stage in the financial year.

Although our intentions with the creation of these issues is not so much to raise funds for the Treasury as to develop the local

Financial markets, I hope that local investors will support this effort wholeheartedly, that it will to some extent at least stem the outflow of investment funds from this country that has become a chronic feature of our economy, and that, as an added bonus, some funds will be raised to fund the remaining financing requirement on the Budget of R314,0 million.

May I in conclusion point out that the amount I propose to raise by means of loans, i.e. R314,0 million, is only about 5 per cent of the expected gross domestic product for 1991 and is considerably less than the total amount of R554 million provided for capital expenditure in this Budget. This is very sound finance by international standards. I ask you, however, to bar in mind the well-known words of George Washington: "As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible." And this is precisely what we intend to do.

7. THE BUDGET IN PERSPECTIVE

I have said in a previous budget debate that I am confident that Namibia has the potential to break away from the rather depressed Situation in which it found itself at independence. I am today, with the Budget before you, confident that we will break out of the vicious circle we find ourselves in due to our close economic links with the South African economy. Our chosen economic course will allow us to buck the South African economic trend to a large degree and will put Namibia on a solid growth path.

That is the purpose of this Budget. While revenue is expected to increase by 22 per cent, total current expenditure is kept at an increase of only 8,5 per cent. Capital expenditure, on the other hand is budgeted to increase by 66 per cent. What is more, it is our intention to increase capital expenditure even further next year.

In conclusion, let me say that my economists have projected what I believe to be conservative growth rates. While I do think that a 2 per cent growth is realistic for this year, I also believe that we should considerably outperform the projections for 1992 once the impact of our economic policies have had time to take effect.