

REPUBLIC OF NAMIBIA

BUDGET STATEMENT FOR 1999/2000

I. OPENING REMARKS

1. Mr. Speaker and Honourable Members of the National Assembly, it is once again an honour and a privilege to present the Budget proposals for the financial year 1999/2000 to this august House. This is the tenth Budget since independence and my third opportunity as Minister of Finance to table the Budget in the National Assembly in accordance with Article 126 of the Namibian Constitution.

2. Mr. Speaker, let me right at the outset remind each Honourable Member of this august House that the 1999/2000 Budget was prepared and is presented today under the shadow of a global crisis. The crisis, Mr. Speaker, is not just one of those contemporary buzz-words; it is a reality which has plummeted millions of people into poverty, brought severe despair across the globe and slowed the process of globalisation. In debating the Budget, we should therefore refrain from conveying personal or party political criticism; we should acknowledge instead that we are gathered here in a united endeavour to protect the common welfare of all Namibians, to listen to opinions from all quarters, to reach out to friends and critics alike in a sincere effort to find new solutions.

3. Mr. Speaker, in preparing to enter the next millennium and when looking back at the decade that is drawing to a close, I am struck by the stark contrast between the tranquility and progressiveness that prevailed during the greater part of the 'nineties, on the one hand, and, on the other, the numerous setbacks, uncertainties and even inconsistencies that characterised the global situation during late 'nineties. This uncertain and erratic environment is carried forward to the next millennium and, naturally, will continue to require the attention of the national, regional and global economic leaders and policy-makers.

4. During the 'nineties the energies of most developed and developing countries were devoted to shaping and refining democracies and reforming political and economic systems, within a generally booming and increasingly globalised world economic environment. Part of this process was the transformation of most central command economies into market related economies - an exercise that is still not completed as yet. Within the Sub-saharan African region, the process of reforming fiscal, trade, monetary and exchange policies was even more pronounced and, after the new political dispensation in South Africa, the Southern African sub-region in particular, started converging into a meaningful block, preparing to meet the challenges of the global economy.

5. After a prolonged phase of strong global economic growth, the last year of the decade introduced major turmoil and travail across the globe. The set-back originating in the financial systems of a few South East Asian countries quickly spread to include most Asian economies and eventually also took its toll on almost all emerging markets worldwide. Today we realise that, while there are distinct benefits associated with globalisation, there is also potential for destabilisation and even risks for those countries not able to withstand the stress of the

dynamic forces of globalisation. Indeed, the financial crisis in Asia and a number of other emerging markets has become a global problem, affecting in particular most African economies.

6. The experience of Namibia is not very different from that of the Sub-saharan African region as a whole. At independence, we devoted our efforts to institution and nation building and social upliftment in a very conducive political and economic regional and global environment. This approach paid off well, as it attracted investments to Namibia, accelerated economic growth, contributed to the reduction of poverty and raised the living standards of our people in the initial part of the decade. However, towards the end of the decade there was an abrupt turnaround in many economic facets where good progress had been made in Namibia: *per capita* income, employment and real fixed investment began to fall and the trade and fiscal deficits started to widen.

7. It is within this rather adverse external economic environment that we have formulated the Budget for the fiscal year 1999/2000. The external environment is further complicated by certain domestic structural problems which seem to weaken the Government's ability to make effective policy interventions to deal with the external environment.

8. Mr. Speaker, in my Statement today I will start by outlining, as customary, relevant economic developments that affect the Budget, followed by pertinent policies accompanying the Budget, before I will deal with revenue, expenditure and deficit financing proposals for the 1999/2000 Budget.

II. THE ECONOMIC ENVIRONMENT

(a) Global economic outlook

9. As a result of the crisis, which originated in Asia and through contagion spread to the rest of the world, global short- and medium-term economic growth forecasts had to be scaled down considerably. World output growth for 1998, which the International Monetary Fund in May 1998 then still projected at 3.5 per cent, is now expected to be in the region of 2 per cent. For 1999, the situation is not expected to improve and for 2000 a slight recovery is projected, but even this forecast is shrouded in uncertainty.

10. After the financial shocks of mid-1997, much of East Asia is now in a full-fledged depression. Japan has also slipped into a recession, which is unlikely to be resolved soon, given the less than decisive action to restructure its bad debt-ridden financial sector. Amongst the major industrial countries output growth is expected to fall on average from 2.1 per cent in 1998 to 1.5 per cent in 1999. Russia is facing a financial meltdown, and other emerging economies, such as Brazil, experienced the fallout in the form of weakening currencies and steeply rising risk premiums in interest rates. As a consequence, developing countries as a group have been much more substantially affected by the crisis than developed countries. Partly in response to these developments, monetary policies have been eased throughout the industrial countries and in some emerging market economies. Together with several other positive developments, the easing of monetary conditions has helped to restore calm in financial markets. But, while the danger of a global recession does seem to have diminished, the supply of funds to most emerging market economies is still sharply reduced, and conditions in financial markets remain fragile in several respects.

11. The events over the last few months have further clouded the outlook and raised uncertainty over the near-term performance of the **South African economy**. The South African economy has been hit by large and mostly unanticipated external shocks, which have forced immediate macro adjustments on the economy, such as exchange rate depreciation and interest rate hikes. This, in turn, has led to a contractionary impact on domestic demand, high net capital outflows, and high cost of forward market intervention, whose impact will spread through the economy for some time. The South African economy has entered into a recession in 1998, with real GDP growing by only 0.1 per cent as against a growth rate of 1.7 per cent in 1997. This contraction is, however, expected to be short-lived, and recovery, although modest, will start in 1999; growth is expected to rise only slowly, to 1 per cent in 1999 and 2 per cent in 2000.

12. There is general consensus that the recent crisis is attributable to deep-seated problems in many emerging markets, particularly weaknesses in the banking and financial systems, supervisory and regulatory systems, and lack of good corporate governance, bad debts, and large currency and maturity exposures - weaknesses that impeded the efficient deployment of foreign and domestic investments and led to massive capital outflows. In contrast to previous crises, such as the one in Mexico, the Asian crisis mainly stemmed from imprudence on the side of the private and financial sectors and not so much from deficient government policies.

13. Mr. Speaker, while most of countries that were earlier affected by the crisis appear generally to have regained currency stability, the challenge of returning their economies to pre-crisis levels still remains a daunting task for national governments all over the world and for the Bretton Woods institutions, that is the IMF and World Bank, in particular.

(b) The Namibian economy

14. The Asian crisis and its contagion on other emerging markets, as well as the consequential harsh monetary policy measures with high interest rates here at home have had repercussions on the Namibian economy: real GDP growth slowed down and export performance weakened. These factors, combined with the high interest rates, discouraged fixed investments and depreciated the purchasing power of both the public and private sectors.

15. Factors external to the economy of Namibia, as well as certain homegrown problems, have severely hampered a more pronounced economic growth achievement in 1998. Mr. Speaker, last year I had projected Namibia's economic growth for 1998 to be more than 4 per cent. Preliminary statistics for **real gross domestic product (GDP)** in 1998 now show that the economy has grown by 2.6 per cent.

16. Although a growth rate of 2.6 per cent is inadequate compared to our population growth rate of 3.1 per cent per annum, it is still a respectable accomplishment under the prevailing adverse external circumstances, especially when compared with growth rates of 2.1 and 2.4 per cent in 1996 and 1997 respectively. The main developments that have brought about the slightly increased growth rate of 2.6 per cent in 1998, were the sharp output increases in fishing and fish processing, the continued expansion of the tourism industry and the slightly raised employment in the public sector towards the end of last year. These positive developments were, however, partially neutralised by the poor subsistence agricultural output,

due to inadequate rains in the 1997/98 season, suppressed activity in the building and construction sector, the closure of the TCL mines and smelter, and other commodity exporters affected by both weak demand and low prices.

17. Because of severe uncertainties about Namibia's medium-term economic outlook for 1999 and 2000, the **macro-economic projections** rest on a set of rather unsteady assumptions. Mr. Speaker, on the downside, the following developments are assumed:

(a) Commodity markets will remain depressed under the influence of the financial crisis, precluding any significant increase in mineral production.

(b) Following the drought in 1997/98, which led to increased livestock marketing and a consequent output growth in commercial agriculture last year, commercial farmers will reduce marketing, because of better grazing, resulting in lower output growth in 1999.

(c) Major investments in new base metal ventures, such as Scorpion Zinc and Haib Copper, are not likely to materialise before 2000, due to depressed mineral prices. These new ventures will only be able to boost mineral output by 2001.

(d) Output growth in fishing and fish processing will, after the strong increases recorded in 1997 and 1998, begin to level off, as the recently announced total allowable catches for 1999/2000 have not increased at the same rate as in the previous seasons.

18. Mr. Speaker, there are, however, also positive effects that are likely to raise real GDP growth, including the following:

(a) Reasonably improved yields from subsistence farming activities are expected on the grounds of a better rainy season in 1998/99.

(b) We assume that the TCL operations would be reactivated late this year, but it is not expected that base metal production will be influenced either way by this. Uranium mining is still hampered by depressed prices and ecological resistance to nuclear power, but production will remain stable with a slight output growth in 1999.

(c) Activity in the construction sector should generally improve, because of the boost in Government development expenditure, and the substantial investment in the 400kV powerline from South Africa.

(d) The recent commercialisation of the Government's wildlife resorts, the restructuring of Air Namibia and the burgeoning private lodge development are all likely to lead to a moderate increase in tourist arrivals with a positive impact on the catering and accommodation sub-sector.

(e) The approved employment of about 9000 ex-combatants in the civil service, will boost real value added by general Government considerably and will, therefore, impact positively on the growth projection for 1999.

19. Based on these positive and negative assumptions, Namibia's **GDP growth** is, on balance, likely to come down slightly from 2.6 per cent last year to 2.4 per cent this year. In view of the uncertainties about the medium-term economic global outlook, we continue to assume a conservative approach and project real GDP growth in 2000 to remain below 3 per cent. The consequence of actual and anticipated economic growth performance is that *real per capita GDP* will be negative throughout this period, as it has been since 1996.

20. There will be a noticeable increase in **real gross domestic fixed investment** in 1999 by about 6 per cent, following an expansion of 4 per cent in 1998, which is basically the result of the massive electricity investment programme over the next two years and the strong increase in Government's Development Budget, which I will discuss later on. Other sectors will, however, show a rather disappointing investment performance.

21. The sharp interest rate increases during the middle of last year have negatively affected **domestic demand** by the private sector and households. In response to the rising cost of borrowing, the growth in credit extension by banks to the private sector has slowed down considerably and repossession of fixed property and durable goods funded by bank credit have increased, as were bad debts. The slightly eased monetary policy stance more recently and increased public employment are expected to improve the outlook for a marginal increase in real private consumption in 1999. Real rates of interest, that is commercial bank lending rates minus inflation, are still far too high and have to be brought down to stimulate economic activity. Government consumption expenditure in 1999 is also set to expand in real terms because of expenditure measures, which I will disclose later on.

22. The current account surplus of Namibia's **balance of payments**, widened impressively from N\$419 million, or 2.8 per cent of GDP, to a record level of almost N\$1 billion, or 5.8 per cent of GDP. The narrowing trade deficit and rather strong transfers from SACU have been instrumental for Namibia's improved balance of payments position.

23. The **trade deficit** narrowed quite remarkably from about N\$1.3 billion in 1997 to N\$1 billion in 1998. This is attributable to a 14 per cent increase in the value of export earnings, as against an increase of close to 8 per cent in the value of imports. Neither exports nor imports have increased in volume terms, but were mainly influenced by price and exchange rate factors.

24. The rather subdued expansion of the **value of imports** in 1998 was basically influenced by the weakening domestic demand, caused, in turn, by high interest rate costs and price-raising effects arising from the depreciating Namibia Dollar, through its links to the South African Rand.

25. The strong increase in the **value of merchandise exports** in 1998 was bolstered by robust growth in exports of food and live animals, as well as manufactured products. These latter categories have for the first time exceeded the value of mineral exports and have contributed some 35 per cent to total merchandise export earnings.

26. I do not expect the strong export growth of 1998 to be carried forward to 1999, because of supply and market constraints. Should the TCL operations become operative in 1999, Namibia's real exports will be able to recover towards the end of the year, and this is a major challenge which the new Minister of Mines and Energy will address urgently. However,

because of the slightly strengthened domestic demand expected in 1999, imports should rise again in real terms. In anticipation of these foreign trade developments, Namibia's **trade deficit** should widen again in 1999. Strong increases in transfers from the Customs Union in 1999/2000 will, however, cause the overall **current account surplus** of the balance of payments to continue to widen. A new SACU agreement, which will see Namibia regaining sovereignty over excise duties, will lead to smaller transfers from SACU and, hence, reduce the current account surplus by 2000.

27. Mr. Speaker, the relatively large **current account surpluses**, which Namibia has been posting over the last five years, have brought about similarly sized **deficits on the capital account** of the balance of payments, because of domestic savings that are not invested in Namibia naturally lead to capital outflows to other foreign investment destinations. This is symptomatic of sluggish investments in relation to the large savings generated in Namibia.

28. **Consumer price inflation** in Namibia has decelerated consistently from about 10 per cent in May 1997 to reach a very encouraging low level of around 4.3 per cent in March, April and May 1998. Thereafter, inflation accelerated again and by December 1998 the rate increase stood at 8.7 per cent, reflecting the Namibian currency depreciation being passed through from our principal source of imports, South Africa. Still, Mr. Speaker, the inflation rate for 1998 stood at an average of 6.2 per cent, which compares favourably with the 8.8 per cent in 1997 and even better with a high rate of almost 18 per cent six years ago.

29. Mr. Speaker, although there was a gradual increase in the inflation rate in response to the currency depreciation towards the middle of last year, the slack in the South African and Namibian economies and deflation in parts of the world, would cause inflation to rise at a slow pace and not too excessively. I expect, therefore, that consumer price inflation would stabilise around an average of between 6¹/₂ and 7 per cent for this year. I sincerely hope, Mr. Speaker, my dear comrades in the trade unions will take this fully into consideration when making wage demands. Any unrealistically high wage increases will certainly fuel inflation, which is something we **cannot** afford at a stage when so much progress has been made, at least, to lower and stabilise inflation under difficult external conditions.

(c) **Recent fiscal developments**

30. It is appropriate also to review recent fiscal developments before dealing with the Budget policies and proposals for 1999/2000.

31. The outturn for the fiscal year 1997/98 reflects a noticeable turnaround from the rather precarious fiscal situation that prevailed in 1996/97 on which the Auditor-General has reported extensively in his report tabled in Parliament recently. Whereas the overall deficit stood at 6.4 per cent of GDP in 1996/97, the ratio fell drastically to 2.8 per cent in 1997/98. This vast improvement can mainly be attributed to a windfall tax gain originating from large quantities of diamonds sold from existing stockpiles. Excluding the tax windfall, the deficit as percentage of GDP would have been 4.5 per cent, which is still an appreciated improvement compared to the previous year. Our efforts to instill fiscal discipline through stepped up expenditure control and enhanced cash flow management have, of course, also contributed towards curbing an unbridled expenditure surge.

32. In relation to GDP, most tax categories have increased between 1996/97 and 1997/98.

This is ascribed to improved collections, tighter tax administration and, of course, the diamond tax windfall. Total tax revenue collected in 1997/98 escalated to an unprecedented level of 33 per cent of GDP, compared to 29.6 per cent in 1996/97. However, non-tax revenue and grants contributed only some 3.7 per cent in relation to GDP, compared to 4.1 per cent in 1996/97.

33. Total expenditure decreased mildly from 40.1 per cent of GDP to 39.6 per cent of GDP between 1996/97 and 1998/99. While current expenditure fell slightly from 34.8 per cent to 34 per cent of GDP between the same period, capital expenditure and lending rose from 5.2 per cent to 5.6 per cent.

34. The characteristic problem in previous years of overspending the Budget seems to have abated in 1997/98, with total expenditure exceeding the revised budgetary ceiling by N\$41 million or less than 1 per cent. This statistic, however, conceals over and underspending in individual votes.

35. The modest overall overspending also hides the disturbing fact that overspending occurred in current expenditure items, while capital expenditure was once again underspent: Current expenditure exceeded the Revised Budget limit by N\$175 million or 3.5 per cent and total capital expenditure and lending was N\$134 million or 13.1 per cent less than what was provided in the Revised Budget.

36. The off-target outturn for 1997/98 and that of previous years have once again raised the awareness of and need for considerably enhanced fiscal and financial management capacity in Namibia. The current efforts to achieve this through technical assistance from Finland, and soon also from Sweden, will be supported and fully utilised.

37. You will recall, Honourable Speaker and Honourable Members, that the additional net expenditure allocations together with revised revenue estimates have increased the Budget deficit for 1998/99 from 3.9 per cent to 4.3 per cent of GDP when the Additional Budget was passed at the end of last year. At this stage, both revenue collections and expenditure trends still remain on target and within the revisions done during the Additional Budget for 1998/99, mainly as a result of the continued monitoring of spending and cash flow trends by the Ministry of Finance and the Bank of Namibia.

38. In concluding my brief sketch of past and anticipated economic events and developments, I would like to re-emphasize the rather unsteady basis on which we had to formulate the economic scenario for the 1999/2000 Budget. This, Mr. Speaker, is the rationale for not adopting a too optimistic outlook for the Namibian economy and, hence, for the revenue side of the Budget. We cannot afford to become complacent because of the recent currency stability and slightly eased monetary policy, considering the volatility in global developments and especially in the way these influence emerging markets. For this reason, I must urge all my Honourable Cabinet Colleagues to seriously and sincerely honour their commitments towards prudent and responsible management of the resources allocated to their votes and to be voted by this august House. If this commitment is not honoured, the consequences for our fragile economy will be destabilising indeed and prospects for future budgets impaired.

III. PERTINENT POLICY ISSUES, OBJECTIVES AND RECOMMENDATIONS

39. Mr. Speaker, the Budget of any country is not simply an act of mobilising resources and

dishing these out to different functions and causes. Budgets are accompanied by supporting policies that will enhance the effectiveness of resource mobilisation and allocation. In view of the harsh external economic environment and the numerous domestic policy challenges, we have carefully formulated the policy framework for the 1999/2000 Budget. To stimulate the debate on the budgetary policies with some key stakeholders, the Right Honourable Prime Minister has spearheaded a consultative process with some members of the President's Economic Advisory Council and with the leadership of major trade unions, illustrating the Government's willingness to share the responsibility of policy making with a wider section of the community. Of course, I cannot claim to have complied with or accommodated all suggestions made during our consultations on the policy framework of the Budget, but we have certainly succeeded in reaching a good understanding about the economic circumstances under which the Budget was being formulated. I also believe that these consultations have laid a solid foundation for more regular policy discussions between Government and the wider business and labour fraternities.

40. Mr. Speaker, let me therefore briefly deal with some of the vital elements of the accompanying policies that had been the subject of our consultations with key stakeholders and which were subsequently approved by Cabinet.

(a) Revisiting policies on public employment and wages

41. Mr. Speaker, the size of the civil service and size of the wage bill as envisaged by the Wages and Salaries Commission and later by the High-Level Committee are quite different from the actual situation now and these discrepancies are continuing to widen year after year. I will not try to justify this divergence between the agreed policy and its implementation, except to say that numerous wage and staffing adjustments have made it difficult for the Treasury to enforce the original WASCOM recommendations. Against this background, Cabinet has decided to revisit its initial intentions, to examine the progress (or lack of it), to reassess existing policies and measures to achieve the desired down-sizing of the civil service, and to make fresh policy recommendations in this regard.

(b) Continuing to outsource non-core functions of Government

42. In October 1997 the High Level Committee has put particular emphasis on identifying **non-core and core functions** of Government and on the **outsourcing** of non-core functions. The Committee also recommended the elimination of overlaps and duplications, the establishment of a **redundancy and retrenchment fund** and policies to make parastatals commercially more efficient and accountable or to prepare for their transformation into private enterprises.

43. The Efficiency and Charter Unit in the Office of the Prime Minister has formulated the outsourcing policy of Government, and has also identified numerous activities that may be regarded as non-core functions of Government, where outsourcing should be considered. These guidelines would ensure a smooth and swift transition for the commercialisation or outsourcing of the identified functions.

44. To further enhance the speed of outsourcing activities, Cabinet has decided to standardise the procedures preceding and following outsourcing. It is essential to ensure uniformity not only for the pre-outsourcing studies and investigations into the feasibility and

policy framework for activities/functions to be outsourced, but also for the enabling legislation, operational practices and corporate policies, as well as the nature of their relationship with the State. This is to prevent the glaring inconsistencies with regard to most of these aspects prevalent amongst existing parastatals. These inconsistencies refer especially to the style of empowering legislation, the size, composition, powers and remuneration of board members, the taxability, the funding of the operations and capital investment, dividend declaration policy, powers to set tariffs, borrowing powers, monitoring of line and financial operations, responsibility for external audits, etc. Against this background, it was resolved that the Government's outsourcing policies and procedures will be standardised to ensure uniformity of pre-outsourcing studies, legislation, operational practices and corporate policies. I believe that this approach will considerably enhance the tempo of our outsourcing initiatives.

(c) **Reforming public enterprises**

45. Mr. Speaker, recent experience of financial distress among certain parastatals has evidenced the need for a critical inquiry into the financial performance of public enterprises. Such an inquiry should not only focus on reexamining their *raison d'être*, and their adherence to the principles of good governance, but it will inevitably also lead to a closer scrutiny of their financial management and fiscal relationship with the State. Fresh policy approaches are also needed for the funding and capitalisation of public entities, their tariff policies, how they are audited, taxed and supervised, and the procedures they should follow when borrowing locally and/or internationally.

46. Most of the problems surrounding the financial performance of parastatals are caused by the poorly defined and executed supervisory system. The function of surveillance floats around amongst various institutions, none of them fully accountable and responsible for the sound management of parastatals. The idea of creating a State Enterprise Management Board is also being considered, while the State Finance Act is being reformulated to vest the necessary supervisory powers in financial matters in the Ministry of Finance. In view of the institutional diffusion, the Ministry of Trade and Industry has initiated a study to establish a framework for the proper governance of public enterprises in Namibia. The study is both timely and meaningful, considering the diverse types of relationships between the State and public enterprises, involving ownership, operational, fiscal and financial matters.

47. The function of overseeing the financial operations and accountability of public enterprises, periodic surveillance and their funding policies is the most poorly defined and executed in Namibia. In view of the poor supervisory setup, Cabinet has decided that an acceptable institutional and supervisory framework should be established for all existing parastatals, that the institutional and financial relationships should be defined and articulated, and that suitable offices/ministries/ agencies should be entrusted with each of these responsibilities.

48. Having established the supervisory framework, Government is committed to initiate a fully-fledged parastatal reform in Namibia. This reform will also deal with the long-overdue subject of different forms of privatisation, or joint-ventures between private and public operators. Mr. Speaker, it is important for Government to consider the circumstances under which privatisation can take place. We would not like to see a situation where we are forced to privatise certain public entities because of financial or technical distress, rather we should

prepare ourselves to meet the challenge out of a position of strength and with enough time by laying down the conditions under which privatisation in Namibia could be regarded as a feasible and agreeable option. In fact, some powerful and financially sound parastatals, such as NamPower and Telecom, have indicated their readiness to be listed on the Namibia Stock Exchange. If such listing proves to be successful, this may be a good indication that these parastatals can attract shareholder interest and thus diminish their dependence on public funds.

(d) Further improving public debt management

49. Mr. Speaker, two developments during the year will have a considerable bearing on the management of public debt in Namibia. One is the successful consolidation of Government bonds. The other is the approval by Cabinet for the creation of an Inter-Agency Committee on Development Cooperation and Debt Management, as well as broad policy guidelines in this regard. The Inter-Agency Committee will bring specialists from the Ministry of Finance, the National Planning Commission and the Bank of Namibia together to deal with all aspects of debt and aid management in a coordinated and professional manner.

50. Bond consolidation, completed on 13 May 1998, had two basic objectives: to provide a first step to increase the liquidity of bonds, and to lengthen the maturity structure of Government securities. Eleven bonds existed during the pre-consolidation period with an average maturity of $2\frac{1}{4}$ years and an average nominal volume of less than N\$100 million each. These were replaced by three types of bonds with maturities of 4-, 7- and 12-years - an average maturity of $7\frac{1}{2}$ years - and an average nominal volume of nearly N\$520 million each.

51. Although the bond consolidation was successfully completed, the Government bond market remains rather illiquid with very thin trading on the Namibia Stock Exchange. As a result, Namibia can only rely on local banks, and institutional and individual investors, and is attracting too few South African or foreign investors to the local bond market. The lack of competitive bidding causes quite suboptimal pricing of primary bond issues at rates higher than those for similar instruments in South Africa. There are, therefore, still certain aspects in the Government bond market that need to be resolved. For example, the Ministry of Finance will improve the transparency of public debt management to raise investor confidence in fiscal policies and Government's debt instruments. The Ministry of Finance is set to provide information and enter into discussion with market participants about Government's funding policy, its progress in funding the deficit to date, and plans for future bond and Treasury bill issues. In this respect, Honourable Members will note that the Budget document for the 1999/2000 Budget gives a break-down of the type of credit facility that will be tapped to finance the overall budget deficit. This is a welcome improvement compared to previous years when only the total amount to be funded through loans was actually disclosed. Such a disclosure policy will permit better investment planning by the capital market and might lead to better bond pricing.

52. The liquidity of Government bond trade should be enhanced through the participation of market-maker(s) or in some other ways to stimulate secondary bond trade. The Ministry of Finance and the Bank of Namibia will further investigate and consider various options in this regard.

(e) Deepening financial markets

53. Mr. Speaker, I will approach this august House soon on a number of amendments to existing financial legislation. Some amendments are to the Stock Exchanges Control Act and others to the Usuary Act. The amendments to the Stock Exchanges Control Act will bring about a major change in the bond and equity trading arrangement in Namibia. Existing legislation only allows brokers to single capacity trading, meaning that they could only trade bonds and equity on behalf of clients and not in their own name. The introduction of dual capacity trading will allow brokers to trade securities on behalf of clients and on their own book. This step is aimed at creating intermediation between issuer, broker and investor and may stimulate some secondary market activity, which may be seen as the forerunner to broader market-making.

54. Mr. Speaker, allow me also to address the subject of micro-lending schemes, which is quite a heated topic lately because of the unregulated nature of their activities, the violation of the provisions of the Usuary Act, and the consequential financial distress caused to innocent clients. It is also a sorry state of affairs that Government has to spend scarce resources to control the activities of these schemes. Anyhow, the amendments to the Usuary Act are aimed at giving Government, through the Ministry of Finance, the necessary powers to register and control these particular schemes.

55. The statutory domestic investment requirement compelling institutional investors to invest at least 35 per cent in the Namibian market, has contributed significantly towards the deepening and broadening of the Namibian financial system. Although there are voices calling for the abolition of this requirement, particularly from the side of the IMF, many capital market participants press for an increased local investment ratio. Since I am not convinced of the effectiveness of either wisdom, I have recommended the retention of the requirement at its current level of 35 per cent.

(e) Assessing trade policy and its impact on the fiscal situation

56. In accordance with our commitments towards liberalised trade regimes across the globe under the auspices of World Trade Organisation, SACU has begun reducing tariffs on a broad scale. Naturally, this policy change has opened the region to international competition, and the more industrialised members of the SACU have improved their access to international markets. However, despite the positive changes in SACU's trade relations towards the rest of the world, the relations amongst SACU members remain based on an outdated trade cooperation arrangement, including entry restrictions on less-developed SACU member states in various production activities.

57. Under the existing SACU arrangement, South Africa remains the sole determinant of import tariffs and excise duties, while other members share in the common customs revenue pool in a fixed proportion to their respective import values. This implies that BLNS' revenue shares are currently not affected by the SACU tariff reduction. The new revenue sharing arrangements currently under consideration will be restricted only to the import duty component, and the autonomy for collecting excise duties would be returned to the individual SACU member countries. While SACU members will gain in terms of their collections of excise duties, their revenue shares from import duties could gradually decline as further tariff reductions are introduced.

58. As the new revenue sharing arrangement is an extremely contentious issue, the negotiations continue to drag on. In fact, Namibia's revenue from the common revenue pool for 1999/2000 was already fixed in November 1998 according to the existing formula. Should no understanding and agreement on a new SACU regime be reached by November 1999, which is not out of the question, Namibia's revenue share for 2000/1 will still be determined according to the existing arrangement.

59. Thereafter, numerous variables may start affecting Namibia's intra and extra-SACU trade relations and its customs and excise revenue share. Some of these factors include the following:

(a) The speed of tariff reduction will determine the extent to which this will lower costs, stimulate imports and/or divert trade to non-SACU sources.

(b) Namibia's excise duties will depend on whether excise duties will be collected at uniform rates and distributed to members, or whether member countries will be allowed to determine rates and collect excise as domestic taxes.

(c) Namibia will, by then, have established to what extent the free-trade agreement between South Africa and the European Union will affect the revenue share, the pace of local industrial development and further polarisation or convergence amongst SACU members.

(d) South Africa continues to grant major imports duty rebates to certain of its vital industries so as to remain competitive, which is an unfair practice against which Namibia had objected right at the outset of the negotiations. As import duty rebates are actually forfeited revenues which are due to all SACU members, the granting of such rebates has to be strictly controlled by the SACU controlling body to be created.

(e) Namibia's future SACU revenue will also depend on whether the new revenue sharing arrangement will be introduced immediately or in phases.

60. Mr. Speaker, in view of the many uncertainties and factors beyond Namibia's control which could lead to revenue losses, the Ministry of Finance, in consultation with all relevant institutions involved in the SACU negotiations, will research these variables and advise Government about appropriate anticipated actions with respect to a negotiation strategy and possible fiscal adjustments. There has been some progress, of late, in the SACU negotiations, and I hope to brief this august House on this in near future.

(f) **Refining policies to address the growing poverty situation**

61. Insufficient economic growth over a rather prolonged period, reducing the average standard of living of the Namibian people, will undoubtedly weaken the position of the poor more noticeably than that of more advantaged groups. **Government will therefore have to address the plight of the poor through selected intervention programmes during the 1999/2000 Budget year.** In addition to the employment programme for ex-combatants, the Government has put in place the Poverty Reduction Strategy and is also continuing with its Labour Based Work Policy. Moreover, the Drought Fund currently being designed aims at neutralising food insecurity caused by droughts, which should help to prevent the further

spreading the effect of drought on the poor.

62. To reinforce the programmes aimed at reducing poverty that will be accommodated on the expenditure side of the Budget, it is proposed that further relief be given to low-income earners by raising the income tax threshold. I will propose relevant measures in this respect when addressing the issues related to the Namibian tax regime.

(g) Extending exchange control liberalisation

63. Mr. Speaker, in line with our expressed policy of gradual liberalisation of exchange control in Namibia, the Government, in consultation with the Bank of Namibia, has decided to effect the following changes.

64. The existing **foreign investment limit** of N\$350 000 by private Namibian individuals over 18 years of age and who are taxpayers in good standing is increased to N\$500 000 with immediate effect.

65. **Emigrants' Blocked Funds** have arisen as a result of individuals emigrating from Namibia where such persons were only accorded an authorised amount of funds upon emigration. In terms of the Exchange Control Rulings, any balances remaining is placed under the physical control of a local Authorised Dealer who may only release such funds for approved purposes within the Common Monetary Area (CMA).

66. In an effort to allow for gradual liberalisation of these accounts it has been decided to release all funds blocked in Namibia prior to 31 March 1999 with immediate effect.

67. This concession is, however, only applicable to existing emigrants' blocked accounts, that is all blocked accounts in Namibia as at **31 March 1999**. All residents emigrating from Namibia after 31 March 1999, will be subject to the normal emigration procedures.

68. Other minor adjustments relating to exchange controls relaxation will be announced by the Bank of Namibia at a later stage.

IV. THE BUDGET AND FINANCING FRAMEWORK FOR 1999/2000

(a) Budget formulation

69. Mr. Speaker, in preparing for the 1999/2000 and previous budgets, it was duly recognised that Namibia's budget procedure and process need to be modified. Firstly, the evaluation, implementation and monitoring of the budget could be more effective, hence the aim is to change the system into a **programme budget**, in which monies are provided to carry out certain specific programmes/projects with predetermined objectives and goals. The current budget is presented in a purely functional and institutional format, and does not make it possible to examine what the objectives or goals are for each expenditure programmes and eventually whether they are met or not. Secondly, the need for a medium-term financing framework or a multi-year rolling budget is now clearly established. The current one-year budget framework lacks foresight with respect to the medium-term macro-economic outlook, multi-year expenditure programmes and funding strategies, and prevents consistent

implementation of fiscal, monetary and sectoral policies and strategies. Mr. Speaker, we will therefore have to modify the Budget procedures and processes to strengthen the capacity of the Budget to accurately address regional, sectoral and macro-economic policies and priorities and to ensure compliance with longer term goals and strategies.

70. In preparing the 1999/2000 Budget, the National Planning Commission has ensured that the Development Budget, which is also tabled here today, does not include unjustified recurrent expenditure items. It was observed over the last number of years that many offices/ministries/agencies have started diluting the Development Budget with expenditures of a purely recurrent nature.

71. There are two other modifications in the way the Budget is presented. First, Honourable Members will note that under certain votes the spending on functions that are to be decentralised are shown under a separate main division of the affected votes. This will make it easy to strip-off components from the Budget when a function is to be decentralised to the regions during the financial year. Second, the Budget now also gives the relevant gender information per vote and per main and sub-division. This presentation reveals fascinating information on the Government's gender sensitivity in as far as Government employment is concerned. For example, on page 41 of the Budget document it is shown that of the number of positions filled at present, 42 per cent are filled with female staff and 58 per cent are filled by males. Of course, Mr. Speaker, much remains to be done to assess the gender impact and sensitivity of the Budget in areas other than just employment. The continued support by *Sida* to carry out such an assessment is indeed appreciated.

(b) Expenditure proposals for 1999/2000

72. The expenditure side of the 1999/2000 Budget is riddled with numerous uncertainties and exceptional additional demands, some of them being unmet from the previous years. Most extraordinary expenditure requests have a social character, which manifests the unusual demographic and political circumstances of our society. In this regard, it is this Government's firm decision to address the ex-combatant dilemma once and for all by directly offering public employment for close to 9000 able-bodied ex-combatants. In addition, all registered unemployed war veterans over 55 years of age will receive social pensions of N\$500 per month from the War Veteran Trust Fund to be paid in terms of War Veteran Subvention Bill. Naturally, some members of the opposite benches may try to make an issue out of the way the Government had decided to resolutely tackle the long festering and burning situation of the ex-combatants. But, Mr. Speaker, whatever anyone may say, it is the desire and decision of this Government to effectively reintegrate the ex-combatants in the Namibian society. This desire stems from our conviction that these fighters deserve to be offered an opportunity to recommence a decent and humane livelihood in recognition of the priceless contribution they have made towards bringing to and maintaining peace and freedom in Namibia. The measures thus taken by Government deserves the support of this august House, as well as that of the entire Namibian Nation. Cabinet considers the full integration of ex-combatants into the social, political and economic tapestry of our country as an investment in stability, democracy and above all peace. We propose to the Namibian Nation to honor the integration of ex-combatants into the working life as a "**Peace Project**".

73. I would also like to use this opportunity to urge all public enterprises, chambers, associations and the private sector in general to support the programme for the employment of

ex-combatants through the creation of similar employment commitments. After all they as property and business owners are the biggest beneficiaries of the Peace Project.

74. The expenditure proposals for 1999/2000 differ from those of the previous Budget in many respects. While a general salary increase for sub-management cadres was accommodated in 1998/99, no salary adjustments are provided in 1999/2000. In fact, because the performance appraisal system was suspended in April 1998, no provision is made in this year's Budget for normal annual notch increases. This, Mr. Speaker, boils down to a temporary wage freeze, but I have to add that the wage negotiations with the unions have not been concluded. I do, however, expect the relevant unions and the civil servants they represent to exercise restraint in their demands, considering the special employment programme for ex-combatants being carried out under tight fiscal conditions and within a generally uncertain external environment. In 1999/2000, therefore, the wage bill will mainly be influenced upwards by the **Peace Project**, that is the ex-combatant employment programme.

75. The number of positions in the public service filled at present is given in the Budget as 70 895. This figure already includes a large number of ex-combatants that took up employment in certain Ministries during the previous financial year. 78 249 positions are expected to be filled by the end of the 1999/2000 fiscal year, which is a net increase of 7 354. Of this employment increase, the bulk would be earmarked for the employment of the remaining registered ex-combatants.

76. Because of revenue constraints, total expenditure in 1999/2000 will expand at a much slower rate in nominal and real terms than in the 1998/99 Budget. The tabled Budget provides for expenditure of N\$7751 million for 1999/2000, which is 14.3 per cent more than what was allocated in the previous Budget. In comparison, the expenditure increase allowed in the 1998/99 Budget was 17.9 per cent. In relation to GDP, however, the total Budget is expected to increase marginally from 39.1 per cent in 1998/99 to 40.7 per cent in 1999/2000, reflecting the moderately expansionary fiscal policy of Government. An amount of N\$255 million was accommodated under various votes to finance the ex-combatant employment programme, which is equal to 3.5 per cent of total expenditure to be voted by the National Assembly.

77. To minimise the negative impact of the current economic environment, capital expenditure, lending and equity participation was allowed to increase by a remarkable 22 per cent, which will raise the total capital expenditure from N\$883 million in 1998/99 to N\$1078 million in 1999/2000. This compares well with the decrease of 12 per cent in capital spending recorded during the previous fiscal year. The increase in capital expenditure is even more encouraging given the fact that the National Planning Commission has made a special effort to eliminate concealed recurrent expenditure components from the Development Budget.

78. Of the total capital budget, the Development Budget would increase by almost 21 per cent to N\$815 million, which would certainly be welcomed by the ailing building and construction industry. The capital budget also provides for a large increase in lending and equity participation of more than N\$100 million, which is capital invested in private and public enterprises and in local Governments for developmental purposes. Included in this allocation, is an amount of N\$75 million to be on-lent from foreign development finance institutions to the City of Windhoek for various infrastructural and development projects.

79. Mr. Speaker, I trust that some credit will be due to Government to raise capital

spending in the way it did - in fact, its share in the total Budget will increase from 13 to 14 per cent from the previous Budget to the one under review.

80. An amount of N\$495 million, or 6.4 per cent of total expenditure, is set aside for statutory expenditure, which is mainly used for interest payments on domestic and foreign debt. We trust that the gradual easing of monetary policy and the accompanying fall in the current high interest rates will continue, lessening the pressure on the budget through more reasonable debt servicing obligations.

81. Treasury has made a special effort to rigorously scrutinise all recurrent expenditure requests. All expansions in expenditure programmes and service delivery by individual offices/ministries/agencies have been separated from the normal, ongoing operations, and this has enabled the Treasury to decide upon the necessity, desirability and affordability of each of the expansions.

82. Total recurrent expenditure in 1999/2000 to be voted for by this august House amounts to N\$6178 million, which is 13.2 per cent more than the allocation in 1998/99. Also this rate of increase is much lower than the recurrent expenditure increase in 1998/99 of 20 per cent. Of total recurrent expenditure to be voted, 58 per cent is allocated to the wage bill, 23 per cent to expenditure on goods and services, and 19 per cent for subsidies and other current transfers.

(c) Resource mobilisation

83. The revenue estimates for 1999/2000 are exposed to a number of economic and policy influences, some of which I would like to explain in detail.

84. The proceeds of **taxes on income and profits** will decline from 10.4 to 9.6 per cent of GDP between 1998/99 and 1999/2000 reflecting the broad-based slowdown in economic activity. **Domestic taxes on goods and services** are expected to remain at a stable ratio of about 10 per cent of GDP. This implies that income taxes are more susceptible to movements in the business cycle than are indirect sales taxes, which is a strong argument for the introduction of value added tax as an instrument for stabilisation.

85. Namibia's share of the SACU revenue, as approved by all SACU members in November 1998, will increase by 24 per cent - from N\$1805 million in 1998/99 to N\$2241 million in 1999/2000. In relation to total revenue and grants, its share will increase from 29.6 per cent in 1998/99 to 32.2 per cent in 1999/2000. Although this is a welcome increase during the tight budget conditions, the SACU payment for 1999/2000 has been boosted by revisions in the excise on beer, having resolved the long dispute with South Africa on this subject, and the increased excise duty rates for a number excisable goods introduced by South Africa in 1997/98 which now impacts on our revenue share for 1999/2000.

86. Mr. Speaker, given these statistical factors boosting our SACU revenue share for 1999/2000, which will probably not be repeated in future years, and given the numerous factors that may influence Namibia's revenue from SACU, the SACU source of revenue has to be utilised with caution and with the required preparedness for major changes in the future.

87. I have to draw the attention of the Honourable Members to the fact that the revenue estimates for 1999/2000 now also include those foreign loans channelled through the Budget and earmarked for on-lending to third-parties. An amount of N\$75 million is provided under revenue being the proceeds of loans to be on-lent to the City of Windhoek, as explained earlier. For classification purposes, this resource is provided under a new heading "**Loan proceeds earmarked for on-lending**", which needs to be included in the revenue estimates to counter-balance the provision for the same amount on the expenditure side of the budget, as these transactions are not supposed to influence the size of the overall Budget deficit.

88. Foreign grants to be utilised to finance development programmes specified in the Budget have come down dramatically from close to N\$46 million in 1998/99 to just N\$7 million in the 1999/2000 Budget. Since I am convinced that this decrease is not due to "donor fatigue", I would like to urge the Honourable Director General of the National Planning Commission to investigate the causes for this trend and to make recommendations on how to reverse it.

89. Taking into account these factors influencing the Government revenue mobilisation effort and specific revenue measures, which I will reveal in due course, the total revenue and grants are estimated at N\$6952 million which is 13.8 per cent above the 1998/99 estimates. In relation to GDP, total revenue and grants will rise marginally from 35.2 per cent in 1998/99 to 36.5 per cent in 1999/2000.

(d) Tax reform policies

90. Considerable progress has been made to streamline and revise the Namibian tax system. Major landmarks in the evolution of Namibia's tax system, include making taxation gender neutral, reducing income tax bands, gradually reducing income tax rates, enacting major tax concessions for manufacturers and exporters, and, lately, formulating VAT legislation for implementation early next year. Also the administration and information systems have been modified to ease the pressure on the Receiver of Revenue and to reduce delays in processing returns.

91. Still, despite these procedural and strategic improvements, the Namibian tax system may be challenged as being unsuitable for macroeconomic management and insensitive to address the country's social and socio-economic dilemmas. Instead of making further piecemeal modifications and refinements, it has become necessary to review the tax system in its totality and to introduce an overall reform programme. The review of the tax system should also evaluate the costs of all incentives currently accommodated under the tax system. Such an exercise will require the expertise and inputs of impartial experts and the candid judgments of both taxpayers, advisers, administrators and collectors. To this end, I will appoint a Tax Advisory Committee to review the tax system in its totality, so as to improve its suitability for macro-economic management and to make it sensitive to meet Namibia's social and socio-economic problems. Terms of reference for the committee have been drafted and I will make an appropriate public announcement in due course.

(e) Implementation of value added tax

92. Mr. Speaker and Honourable Members, I am pleased to say that at long last good progress has been made to introduce the long-awaited value added tax, or VAT, in Namibia. A

draft Value Added Tax Bill was prepared over the last year and was circulated among Government and private sector institutions for comments in November 1998. In the design of the Namibian VAT system, various international models have been considered, while also taking fully into account the unique socio-economic circumstances of the Namibian society. Although it will enhance the administrative burden in managing the VAT, provision has been made to achieve some redistributory effect and to address the position of the poor, through a dual-rate system and by zero-rating certain basic consumer goods. At the proposed rates, the VAT is designed to raise the same revenue, which the current Sales Tax/Additional Sales Levy system does. When tabling the VAT legislation later during the year, I will present a more comprehensive report on all the specifications and on the considerations that went into the design of the Namibian VAT system.

93. The due date for comments has closed at the end of 15 December 1998 and all comments received are now being evaluated to decide whether they should be accommodated or not. I hope to be able to table the revised Bill next month. Should the Bill be passed by June 1999 we will be able to effect value added tax in Namibia as from January 2000. The six month period will be used to inform, enlighten and educate the tax paying public and to train tax assessors and auditors.

94. At this stage, I would like to remind all Honourable Members that the VAT Bill is a complex piece of legislation, but this time around it has become urgent to pass this Bill as speedily as possible. I would, therefore, urge this august House to give its full support and commitment to pass the legislation speedily, so as to prevent any undue delays.

(f) Tax proposals

95. Mr. Speaker, I am planning to table two Income Tax Amendment Bills hopefully during this session of Parliament. The first will deal with changes in the income tax rates and the second with other amendments.

96. The Parliamentary Standing Committee on Economic Matters has held intensive consultations on the Income Tax Amendment Act of 1997, and has made a number of recommendations related to the income tax system. While some of these recommendations had been accommodated in the Income Tax Amendment Act of 1997, others will be enacted in the Second Income Tax Amendment Bill of 1999, referred to above. The remainder of the recommendations will be addressed in my Second Reading speech.

97. Already last year during the budget debate, I have undertaken to reverse the income tax increases. In my public statement in September 1998, I reiterated the Government's intention and added the following: "*the Government will seek to replenish this revenue thus surrendered by determined actions to broaden the tax base and to close unwarranted tax loopholes and evasion.*" Although the revenue situation in 1999/2000 is extremely tight, Cabinet is committed to lower the income tax rates with effect from 1 March 1999, thus reconfirming Government's earlier commitment of restoring the incentive to both households and producers to save and invest in the Namibian economy.

(i) Income tax

98. Against this background, I now propose that the rates be lowered as follows: for

companies, other than mining companies, the income tax rate will decrease from 40 per cent to 35 per cent and for mining companies, other than diamond mining companies, the rate will be decreased by 5 per cent to the level it had been before the increase of last year. For income tax on individuals, I propose the following amendments.

99. Firstly, I propose to raise the income tax threshold from the current N\$15 000 to N\$20 000. Secondly, the number of income tax bands have been reduced from the current eight bands to only five. Thirdly, I propose to bring the current maximum marginal rate down from 40 per cent to 35 per cent for individuals earning between N\$100 000 and N\$200 000 per annum, and to create a new income tax bracket for individuals earning more than N\$200 000 per annum on which a maximum marginal rate of 36 per cent will apply. Details of the proposed income tax bands and rates are contained in an annexure to the copy of my Budget Statement to be handed to Honourable Members after my address.

100. The effect of the increase in the threshold and the simplified rates, compared to the current income tax rates, is that taxpayers earning a taxable income of less than N\$20 000 per annum will not pay income tax. Taxpayers earning between N\$50 000 and N\$100 000 will pay a small amount more per month, while all taxpayers with taxable incomes of more than N\$100 000 per annum will all gain reasonable relief.

101. In bringing about the lowering of the maximum marginal rate from 40 to 36 per cent, it was necessary also to look at the other side of the income tax spectrum, so as to reinforce the programmes aimed at reducing poverty that will be accommodated on the expenditure side of the budget. The introduction of a higher "super-income" category which will attract a maximum marginal income tax rate of 36 per cent, will facilitate the increase in the income tax threshold to N\$20 000 to alleviate the economic circumstances of a larger group of low-income earners than before.

102. I assure all Namibians that our income tax rates are reviewed on a regular basis, particularly to grant tax relief and to introduce fresh incentives when our economic circumstances would allow us to do so.

103. In the Second Amendment Bill, I will propose further relief measures regarding contributions to retirement funds and in respect of situations involving retrenchments. I will also propose a relaxation in the measures governing transfers between retirement funds and the introduction of retirement preservation funds. These proposals will alleviate some of the hardships experienced when taxpayers are retrenched and when they resign from their positions and accept new employment.

(ii) **Other tax measures**

104. In view of the extra-ordinary expenditure to be accommodated, such as employment of some 9000 ex-combatants and other commitments that could not be met in 1998/99, it was not possible to make any further cuts to the recommended expenditure guidelines for 1999/2000 to replace the loss of income tax revenue owing to rate reductions.

105. After careful consideration of various options to make the required revenue adjustments and to cater for the ongoing tax reforms, Cabinet was compelled to seek additional revenue elsewhere to accommodate part of the extra-ordinary expenditure

commitments for 1999/2000. Cabinet has therefore decided to raise the required amount through **increased fuel levies** currently exacted in Namibia.

106. To replace the revenue loss as a result of the income tax rate reductions and the raise in the income tax threshold, an increase from 62.0c to 80.0c per litre in the levy on petrol, an increase from 55.0c to 70.0c per litre in the levy on diesel and a levy of 70.0c per litre on paraffins will be effected from 1 May 1999. The levy on paraffin is introduced to inhibit the mixing of paraffin with diesel by some diesel users in order to avoid the fuel levy on diesel. This may put an additional burden on those communities still using paraffin for heating and cooking, but it is further recommended that the retail price of paraffin should be controlled by the Ministry of Mines and Energy by laying down and controlling the retail margin on paraffin, as the retailers are exploiting paraffin users through exorbitant profit margins. Both the proposed levies on petrol and diesel in Namibia are still marginally lower than those applying in South Africa, thus providing a small competitive edge.

V. THE BUDGET DEFICIT AND FINANCING PROPOSALS

107. Mr. Speaker, in formulating the 1999/2000 Budget we were faced with an adverse revenue impact due to the unfavourable economic outlook and mounting demand for recurrent and social spending, which has made it difficult to force the deficit downward towards our NDP1 goal of 3 per cent of GDP. The overall deficit to be funded in 1999/2000 amounts to N\$799 million, which is equivalent to 4.2 per cent of the projected GDP of N\$19 billion, compared to a deficit to GDP ratio of 3.9 per cent envisaged in the Main Budget last year.

108. Mr. Speaker, in examining whether the proposed Budget deficit is sustainable or not, we need to relate the size of the deficit to the amount of capital the Government is about to invest in the economy. In the tabled Budget, capital expenditure amounts to more than N\$1 billion, whereas the deficit is close to N\$800 million. This implies that total capital spending exceeds the Government's net borrowing requirement, or, put differently, the Government does not need to borrow to finance recurrent expenditure, since the latter is fully covered from revenues and grants. This is commonly referred to as the "golden rule".

109. The tabled Budget does comply with the "golden rule", as total revenue and grants fully cover recurrent expenditures. Against this background, a **deficit to GDP ratio of 4.2 per cent** should be regarded as acceptable, especially if the following circumstances are taken into account:

(a) The unstable economic circumstances in which the budget is being formulated justifies some measure of expansionary fiscal policy.

(b) The desirability of bringing about a gradual, instead of drastic, reduction in public spending.

(c) The extraordinary programme earmarked for ex-combatants has been accommodated in accordance with decisions by Cabinet. Should the programme not have been introduced, the overall deficit would have come down to 3 per cent of GDP in 1999/2000 and would have brought us to our stated NDP1 target. The fact that the Government has allowed an upward deviation from this target, clearly demonstrates

the priority given to accomplish the Government's **Peace Project**.

110. Mr. Speaker, we all hope and pray for an early and peaceful resolution of armed conflicts in various locations all over the world. Closer at home, we are dedicated to continue promoting a peaceful settlement to the problems in the Democratic Republic of Congo. Should our presence in the peace-promoting operations in the DRC be further required, the Contingency Provision under the Finance Vote will have to be tapped, since no specific provision has been made under the Defense Vote for this particular assignment.

111. There are two other critical issues that were not specifically dealt with in this year's Budget. The first is an assessment of the repercussions resulting from the Year 2000 Problem, or Y2K, and the Government's preparedness to timeously and competently deal with its consequences. The Right Honourable Prime Minister will during the Committee Stage of the Budget debate make a pertinent statement in this regard. The other is the alarming spread of HIV infection in Namibia, which must be addressed now through reinforced policies and programmes. We have received highly positive pledges for technical and financial assistance from bilateral and multilateral donors to confront both these potentially catastrophic dilemmas.

112. Mr. Speaker, the proposed Budget deficit of N\$799 million for 1999/2000 will be financed as follows:

(a) N\$200 million, or 25 per cent of the deficit, will be funded by drawing down the excess balance on the State Account at the Bank of Namibia, which had been maintained at exceptionally high levels throughout the previous financial year.

(b) N\$350 million, or 44 per cent of the deficit, will be sourced through the net issue of Government bonds during the year, while N\$160 million, or 20 per cent, will be funded from the net issue of Treasury Bills.

(c) The remainder of N\$89 million, or 11 per cent of the deficit, will be the net amount to be drawn from foreign loan facilities, which are all project related and specified in the Development Budget.

113. This deficit funding proposition will increase the public debt from N\$ 3.9 billion at the end of March 1999 to about N\$4.5 billion at the end of March 2000. In relation to GDP, the Government's debt position is expected to increase from 22.6 to 23.5 per cent over the same period. By international standards this debt ratio can be regarded as highly favourable and still counts in Namibia's favour when negotiating and entering into foreign loan agreements. The capital to be tapped from the local financial markets is also within manageable proportions and will certainly not crowd-out private investment or put undue pressure on interest rates.

VI. CONCLUSION

114. Mr. Speaker, viewed within the context of the volatile and uncertain global economic environment, Government should play the role of stabiliser rather than causing instability through its fiscal policies. The 1999/2000 Budget has been designed to achieve exactly this: it will generally stabilise overall economic activity, stimulate the idle construction sector, provide supplementary purchasing power in the hands of private households, bring relief to the poor and will hopefully also encourage fixed capital investment in the productive sectors.

115. Although this is generally true from a macro-economic perspective, I remain concerned about the sectoral budget allocations expanding year-by-year into the social and general government programmes at the cost of economic sector programmes. Changing the Government's spending patterns and priorities, is, however, not something that can be effected in a matter of one or two years - for that a longer term vision is needed of what the role of Government should be, where it should intervene and where not, how the spending priorities should develop, and what outcomes should be expected from the resources spent. In this regard, the **Vision 2030**, the formulation of a medium-term expenditure framework by the Ministry of Finance and the NDP2 by the National Planning Commission, as well as the initiation of a Performance and Efficiency Management Programme by the Office of the Prime Minister are all valuable initiatives to enhance the development impact and the efficiency of the National Budget.

116. Nonetheless, for the time being the resource mobilisation and expenditure allocation proposals for the 1999/2000 Budget represent, in my view, a fair way of meeting the State's financing needs and requirements and a pragmatic approach towards the country's development aspirations. In addition, the policy measures which accompany the Budget for 1999/2000 are meant to reinforce other economic policies and would certainly assist the Government and the country to make pertinent changes and to bring about a more permanent solution to some of our economic, institutional and structural problems.

117. Mr. Speaker and Honourable Members, this Budget will cover the last nine months of the first millennium, as well as the first three months of the second millennium. This is indeed a bridging budget - bridging the first and second millennia. This Budget also covers the last year of the first decade of Namibia's independence. The first decade in the history of our country and nation has forced Namibians to become true masters of their own destiny and they have devoted one decade to lay solid foundations for unity, democracy, reconciliation, freedom and socio-economic development. Whatever difficulties we as a nation may be encountering at this moment, I have no doubt that our country's second and future decades of independence will reap the benefits from the foundations laid and even be able to amplify the advancements already made. Our destiny is in our own hands and, with God's blessings, hard work, cool heads and calm hearts, we shall overcome.

118. Finally, Mr. Speaker and Honourable Members of the National Assembly, I would like to express my deepest appreciation to His Excellency the President of the Republic of Namibia for entrusting me to manage the National Budget and the country's fiscal policies for three successive years. My gratitude also goes to the Right Honourable Prime Minister for initiating and moderating consultations on this year's Budget with key labour and business experts, which has helped both sides to gain a better perception of each other's beliefs and objectives. To my dedicated team in the Ministry of Finance I wish to express my appreciation for the hard work to formulate the Budget and the framework in which it is presented today.