“... this budget is being presented against the backdrop of a challenging fiscal and economic environment. A more encouraging medium-term outlook for public finances is because we took decisive and appropriate policy measures to return public finances onto a more sustainable path” Hon. Minister of Finance, Calle Schlettwein – Budget Speech 8 March 2017.
Our expectations were for consolidation efforts to be continued as the foundation of the Namibian budget that was tabled by Finance Minister Calle Schlettwein on 8 March 2017. However, excessive consolidation is challenging in the context of a difficult macroeconomic environment.

The Minister re-iterated the economic dilemma that Namibia faced in 2016, both from an international and domestic perspective. On the external front, Namibia faced headwinds from low international commodity prices, lacklustre global economic expansion, and sluggish real GDP growth in large neighbouring economies. Similarly, the domestic environment proved to also be less than ideal in 2016, with drought conditions leading to water shortages in the construction industry and adversely affecting the agricultural sector. Economic growth furthermore was constrained by tight liquidity conditions and weak market confidence. As a result, the Ministry estimates that real GDP growth slowed to only 1.3% in 2016, falling from the robust 5.3% recorded in 2015.

Nevertheless, the Minister expects Namibia to post a muted recovery over the medium-term, with real GDP growth forecast at 2.5% this year and increasing further to 3.7% in 2018. The improved economic expansion is set to be driven by a combination of factors, including higher production in the mining sector and a recovery in the agricultural sector as normal rainfall resumes. Real GDP growth over the medium term is set to provide additional momentum by ongoing robust growth in the services sector, with particular emphasis in the tourism sub-sector.

In the context of the Namibian economy still facing some pressure, the Minister noted the importance of holding true to the more sustainable fiscal trajectory that the government embarked on in the 2016-17 FY. As a result of consolidation efforts, Namibia’s fiscal deficit narrowed from 8.3% of GDP in the 2015/16 FY to an estimated 6.3% of GDP in the 2016/17 FY. As expected, further consolidation efforts were announced in the latest budget statement, with the fiscal deficit forecast to narrow to 3.6% of GDP in the 2017/18 FY.

Looking more closely at the government’s budgeted financial operations, total fiscal revenue and grants are forecast to increase from an estimated N$51.5bn in the 2016/17 fiscal year to N$56.4bn in the 2017/18 FY. The budgeted 9.5% increase stems in part from the expectation of higher Southern African Customs Union (SACU) receipts and improved domestic revenue streams.

On the other side of the equation, total fiscal expenditure is projected by the government to increase marginally from an estimated N$61.5bn in the 2016/17 FY to N$62.5bn in the 2017/18 FY, representing a mere 1.7% increase. As such, total fiscal expenditure is forecast to fall from an estimated 39% of GDP to 36.6% of GDP over the corresponding period.
In the run up to the budget statement, of particular concern, was the manner in which government intends to deal with Namibia’s debt dilemma. In line with the rapidly widening fiscal deficits over the last few years, the country’s financing requirements increased accordingly. As a result, total public debt reached an estimated 42.1% of GDP in the 2016/17 FY – above the self-imposed prudential limit of 40% of GDP. In nominal terms, the 2017/18 FY budget sees domestic debt held by the government increasing by 4.6% to N$43.2bn, with foreign debt held by the government increasing by 11.8% to N$28.4bn in the 2017/18 FY. Domestic public debt is forecast to account for 25.3% of GDP in the 2017/18 FY, while foreign public debt is projected to account for 16.6% of GDP in the same period. Consequently, total public debt is forecast to fall slightly to 41.9% of GDP in the 2017/18 FY. The concern therefore remains because the debt to GDP ratio still remains above the self-imposed prudential limit. Overall, the 2017/18 budget statement proved to hold no unexpected surprises. From an economic perspective, the Minister continues to do a commendable job by constraining fiscal expenditure, particularly in the context of a still-difficult macroeconomic environment. However, there remains some concern that not enough has been done to address the government’s debt levels. The rise in external debt (and subsequent servicing requirements) was part of the reasons cited by Fitch¹ and Moody’s² when the two agencies adjusted Namibia’s sovereign debt rating outlook to negative in 2016.

¹Fitch Ratings. Fitch Revises Namibia’s Outlook to Negative; Affirms at ‘BBB-‘. 2016.
²Moody’s Investors Service. Moody’s changes outlook on Namibia’s Baa3 rating to negative, affirms rating. 2016.
Tax policy proposals

As expected, the Minister did not announce any tax rate changes, nor did he introduce any new taxes. The Minister did however re-iterate the tax policies and administration reforms that he mentioned before. Those policies are aimed at deepening and broadening the existing tax base, curbing tax base erosion and profit shifting and improving overall tax administrative functions. In particular, the following were mentioned –

• Tax proposals for curbing base-eroding tax exemptions and deductions in the Income Tax and VAT Acts. The Minister commented that the current tax provisions reduce the effective corporate tax rate significantly because of exemption and deductions. We do not necessarily agree with this comment. However, based on the Minister’s views we expect changes to the deduction and exemption provisions in the Income Tax Act, especially with reference to corporate taxpayers. He further noted that the proposed changes will be made in conjunction with stakeholder consultation. This is a commendable approach by the Minister and very much welcomed.

• A Simplified Presumptive Tax on small and medium enterprises will be developed;

• Fuel levies on the importation of fuel will increase again. The previous increase was made in September 2016. The levy per the previous increase was 25c/l for petrol, distillate fuels and biodiesel, 55c/l for kerosene and hydro-carbon solvents.

• Capital gains tax on wealth based taxation for certain category of assets will be introduced. In line with this proposal, a wealth tax will be developed to take into account the principles of a solidarity wealth tax. One will have to see how the proposed wealth tax will be introduced in Namibia and whether the revenue so collected will be utilised for the same objectives as were initially intended when the solidarity tax was first announced.

Tax Administration

A phased roll-out of the new Integrated Tax System will commence during 2017 with a full deployment of the system expected by 2018.

Transitional modalities for the establishing of a Semi-Autonomous Revenue Agency will commence with the tabling of the enabling legislation in 2017. The expected commencement date for the Agency is 1 April 2018.

Both these initiatives are eagerly awaited by professionals and taxpayers alike.
The Minister referred to the tax incentive programme (tax amnesty) that was announced in January 2017 and that will continue until 31 July 2017.

The programme applies to income tax, Value-added tax, import VAT, employee’s tax, stamp duties, non-resident shareholder’s tax and withholding tax on royalties. The programme is available to all taxpayers, including companies, close corporations, businesses and individuals that have outstanding debts on any of the tax accounts mentioned above.

All tax debts and 20% of interest due on such debts must be settled before application can be made for the programme. Payments need to be made in a specified bank account. Once the capital amount and the 20% interest are paid, the full penalty and 80% of the interest on the debt will be written off on application to Inland Revenue.

Penalties and interest payments made prior to 1 February 2017 will not qualify for the programme.

The 2017/2018 excise duty rates were reviewed in line with the provision of the SACU Agreement. The South African Minister of Finance announced increased between 8% and 9.5% on 22 February 2017. The new excise duty rates translate to:

- Malt Beer 12c/340ml;
- Unfortified wine 23c/750ml;
- Fortified wine 26c/750ml;
- Sparkling wine 70c/750ml;
- Ciders 12c/340ml;
- Spirits 443c/750ml;
- Cigarettes 106c/packet of 20; and
- Cigars 658c/23g
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