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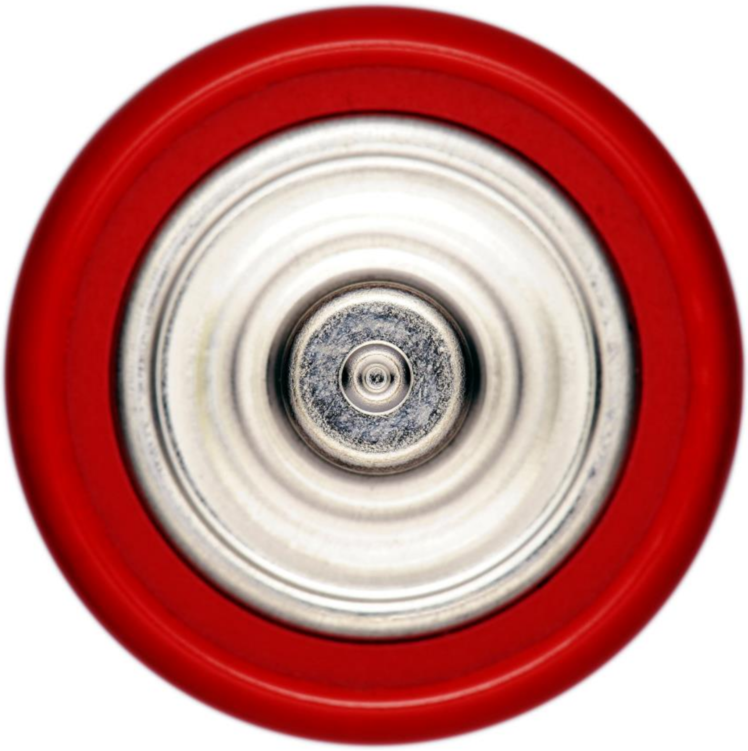

Namibian Mid-Year Budget Review – 2016/2017

Analysis of the Namibian Mid-Year Budget Review that was tabled in the National Assembly on 27 October 2016

Industry eagerly anticipated the tabling of the mid-term budget review by the Finance Minister, Calle Schlettwein, within the setting of the global, regional and local economy challenges that have continued to be experienced over the past year.

"I would rather have people laugh at my economies than weep for my extravagances."

King Oscar II of Sweden
Quoted by Hon. Minister of Finance

The region is facing rather uncertain times. South Africa is on a negative ratings watch by agencies. Angola, Botswana and Zambia continue to be negatively impacted by low commodity prices and the economic and political situation in Zimbabwe is not showing signs of improvement.

The rating agency Fitch recently downgraded Namibia's economic outlook from stable to negative due to the deteriorated budget deficit which reached a record high of 8.3% in the 2015/2016 fiscal year, against the target of 5%. A collection of negative factors such as sustained low commodity prices for the mining sector, prolonged drought conditions, constrained water supply for the construction and beverages industries and exchange rate shocks have led to reduced growth prospects. The Namibian economy growth is currently estimated to have slowed down to around 2.5 % in 2016 from the previous estimate of 4.3%. Government revenue is expected to be lower than forecasted by about 9% or N$6.2 billion for the current year.

With lower than expected revenue and limitations on the borrowing capacity of government, the Minister was expected to announce wide ranging spending cuts although it was also expected that this had to be well balanced in order to contain the impact on economic growth. As a result, a key challenge for the Minister was to bring the medium-term expenditure in line with the significant reduction in revenue. The Minister identified N$5.5 billion expenses to be cut for the 2016/2017 fiscal year of which N$1 billion will be re-allocated for urgent funding needs and priorities. We believe that this was a step in the right direction which shows the government commitment to fiscal consolidation especially since the cuts will come from non-essential expenses and non-productive assets.

"This is the second presentation of the Mid-Year Budget Review and it happens at a time when the global, regional and our domestic economy experiencing stiff headwinds."

(Min. of Finance, FY2016/17 Mid-Year Budget Review Policy Statement)

Furthermore, a number of measures to solidify the consolidation adjustment path were tabled. These include effective expenditure control, research to identify bankable investment opportunities, credible reforms for the public sector wage bill and utilising Public-Private Partnership arrangements.

We believe that given government budget constraints, private sector participation, through Public Private Partnerships (PPPs) is now critical to addressing existing infrastructure and service needs.

PPPs will achieve greater delivery in a shorter period than simply relying on the fiscus. PPPs can help the government shorten delivery times, share risks, achieve better value for money and increase innovation in the infrastructure rollout and provision of services. Such partnerships allow private sector organizations to apply their skills and experience to infrastructure development and operation and mobilize finances for long-term infrastructure investments.

However, fiscal consolidation is not only about cutting expenditure and improving liquidity, but is also about improving domestic revenue sources supported by tax policy and tax administration measures.

> "We were not rich but my parents had adjusted their lifestyle to their incomes –and in the end that is a big part of the battle."
>
> (Min. of Finance, FY2016/17 Mid-Year Budget Review Policy Statement, quoting Joseph E. Stiglitz)

As such, the Minister already implemented environmental levies, export levies (although not effective yet), increased fuel levies and extended the Namibian tax jurisdiction. The Ministry also scaled up on targeted recoveries of arrear taxes. To what extent these amendments and activities have contributed to increased revenue remains to be seen.

As indicated earlier in the year, the Revenue Authority will be transformed into a Revenue Agency and the Minister announced that the Revenue Agency Bill will be tabled by February 2017. This is a welcomed initiative as we do expect improved tax administration and efficiency as a result of the transformation.

It is expected that the Minister will introduce the following taxes and amendments during the next budget presentation –

- Introduction of presumptive tax on small units
- Abolishment of various income tax and VAT exemptions
- Abolishment of tax deductibility of costs not relating to production

The Minister did not elaborate on these announcements and we would have to determine the contribution of these changes to revenue collection once more details are known.

The initial proposal for the solidarity wealth tax will be redesigned into a high income-based wealth tax. A wealth tax is generally a levy on the total value of personal assets, including residential housing, cash, insurance and pension savings, investment in immovable property and the like. In some jurisdictions liabilities are allowed as deductions and only the net wealth is taxed. 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.

Together with the wealth tax, capital gains tax will be considered. It was not clear from the Minister's speech to what extent capital gains tax will be introduced and whether any consultations and research are still on-going. Because it was mentioned together with the proposed wealth tax one could assume that the capital gains tax may be introduced on high-income earners.

Overall, the mid-term budget contains welcomed evidence of commitment to fiscal prudence and a return to more sustainable levels of spending. It is however expected that the success of this course of economic approach will very much depend on the discipline displayed at the implementation phase.

"We must make choices between 'must have' and 'nice to have'."

(Min. of Finance, FY2016/17 Mid-Year Budget Review Policy Statement)

Julius Nghikevali
Associate Director| Audit
Tel: +264 61 285 5005
Mobile: +264 811283794
Email: jnghikevali@deloitte.co.za

Gerda Brand
Director| Taxations Services
Tel: + 264 285 5062
Mobile: + 264 811278987
Email: gbrand@deloitte.co.za

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