2022/23 Mid-Year Budget Review aims to cushion economy from cost-of-living headwinds

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The Mid-Term Budget was tabled in the context of global and domestic cost-of-living pressures. The Russia-Ukraine war which ensued in February has led to unprecedented increases in inflation and consequently a rise in interest rates across the world. Namibia is no exception to this, with inflation rates at their highest level since 2017 and interest rates increasing at an unprecedented pace. The Minister in his speech noted that this is a key risk to both the domestic economy and the fiscal policy path.

Against this background the Minister emphasised the need to utilise the government budget to offer some relief from these headwinds, in addition to the reduction in the fuel levies currently in place. The most notable measures announced in this regard were:

- An upward revision of expenditure ceilings to account for the 3% salary adjustment which will cost the government N$1.3 billion
- An increase in the monthly Conditional Income Grant (CIG) for former food bank recipients from N$500 to N$600
- An increase the Disability Grant for beneficiaries under the age of 18 from N$250 to N$1,300
- Increase the monthly Old Age Grant, the Disability Grant and the Orphan and Vulnerable Children Grant by N$100

These measures were made possible by improved revenue collection which stood at N$30.4 billion at the end of September 2022, 51% of revenue projections tabled in February and 3% higher than the historical mid-year collection rate. Consequently, the revenue projections for 2022/23 were revised higher by 7.9% year-on-year from N$59.7 billion to N$64.1 billion. The improved revenue collection was driven by better-than-expected individual income taxes, corporate income tax, value added tax and dividends from DebMarine Namibia. Additionally, tax administration reforms are paying off through improved efficiency in tax collection.

The measures implemented are not expected to threaten fiscal sustainability efforts as the consequent expenditure increases will occur at a slower pace than the revenue increases, with expenditure expected to grow by 2.4% y/y. The budget deficit is therefore still expected to narrow, from 7.4% of GDP in 2021/22 to 5.3% of GDP in 2022/23 and to average 2.4% of GDP over the forecast horizon. Debt levels are, however, still expected to remain high at 69.6% of GDP in 2022/23 with debt servicing costs surpassing the 10% sustainability threshold.

The use of better-than-expected revenues to cushion the economy in the face of the cost-of-living crisis is a welcome policy development. It is, however, important to note that fiscal challenges remain daunting in the face of high debt levels. The relief measures announced will be beneficial in the short term, but it remains a priority to improve the growth potential of the economy over the medium to longer term. This will put Namibia in a better position to withstand economic shocks.

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