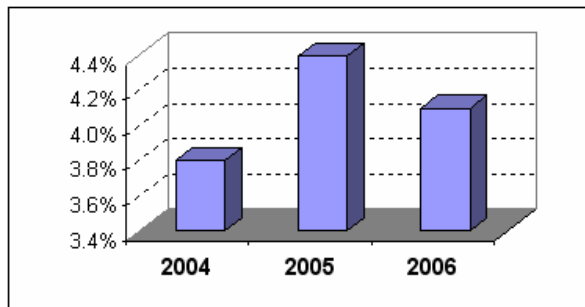


## NAMIBIAN ECONOMY

### Macro Economy

- **GDP growth** estimated at 3.1% in 2003 and projected to increase to 3.8% in 2004, 4.4% in 2005 and 4.1% in 2006, driven by mining activities and tourism

### Real GDP Forecast 2004 – 2006



- **Inflation** averaged 7.3% in 2003 and is expected to average 6.5% in 2004
- The Bank of Namibia reduced **interest rates** to below 8% in 2003, in line with interest rate cuts in South Africa
- The **Namibia Dollar** strengthened by about 30% against the US Dollar in 2003 (following a 40% appreciation in 2002). The Nam Dollar is expected to depreciate by about 6% in 2004
- Namibia's **trade deficit** worsened in 2003 to reach 3.8% of GDP, largely due to the uncompetitive exchange rate
- The **current account** remained in healthy surplus in 2003 (6.8%) due to SACU receipts, development aid, and returns on overseas investments

### Fiscal Position

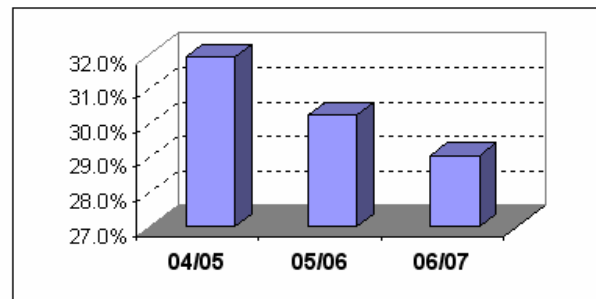
- **Government's revenue** position deteriorated in 2003/04 due to lower tax receipts from mining and other export companies, caused by the continuing strength of the domestic currency
- As a result, the **budget deficit** for 2003/04 is expected to exceed the Revised Budget estimate of 4% of GDP
- Efficiency **savings** on operational expenditure of 7% in 2004/05 and 13% in 2005/06, when compared to ceilings in last year's Budget

- SACU revenue windfall of additional N\$1.1bn in 2004/05, but N\$1.0bn reduction on other tax items
- Projected **budget deficits** for the MTEF period are 1.6% for 2004/05; 1.4% for 2005/06; and 1.0% for 2006/07
- Future budget deficits may be lower if the domestic tax revenue situation improves

### DEBT TARGETING

- The **debt to GDP** ratio is expected to decline from 2004/05 onwards, to below 30% of GDP by the end of the MTEF period
- Introduction of a **Sovereign Debt Management Strategy** for Namibia, to minimise cost of Government borrowing consistent with a prudent degree of risk
- Introduction of an **annual levy** on Government guarantees from April 2004

### Debt to GDP Ratio 2004/05 – 2006/07



### BUDGET PRIORITIES – MTEF PERIOD

#### Social Priorities

- N\$8.9bn for basic and higher education ministries
- N\$5.4bn for health and social services
- N\$337m for an increase in the national pension from N\$250 to N\$300 per month
- N\$24m for 5,000 new registrations for the Maintenance and Foster Parents grant
- N\$96m for upgrading of schools and health clinics in rural areas
- At least N\$200m from Global Fund for HIV, Malaria and Tuberculosis
- N\$13m for new cardiac unit in Windhoek Central hospital

### *Infrastructure and Economic Growth*

- N\$593m for northern railway extension
- N\$141m to upgrade Outapi-Tsandi-Okahao and Opuwo-Omakange roads
- N\$335m for Oranjemund link tarred road
- N\$366m to promote tourism and business activities by supporting restructuring of Air Namibia
- N\$182m for rural electrification and water supply programmes
- N\$20m to kick-start Green Scheme to stimulate horticultural production
- N\$54m for the Namibia Tourism board, to promote Namibia as a world-class tourism destination
- N\$19m to support Namibia's ostrich industry

### *Peace and Security*

- N\$54m for new police vehicles
- N\$160m for Namibia participation in UN peacekeeping force in Liberia

### **TAX PROPOSALS**

- No changes to income tax, VAT, or corporate tax
- Introduction of anti-avoidance rules (transfer pricing and thin-capitalisation) this year
- Introduction of land tax this year
- Increase in excise duties. A packet of cigarettes will increase by 64c, a 340ml can of beer by 4c, a bottle of wine by 21c, and spirits by 176c per 750ml

### **INSTITUTIONAL CHANGES**

#### *Budgetary Reform*

- Introduction of Medium Term Plans for each Line Ministry, as part of move towards programme budgeting
- Donor funding to be channelled through State Revenue Fund

#### *Institutional Reform*

- Launch of Development Bank of Namibia
- Full operation of Central Governance Agency (N\$27m allocated in MTEF)
- Introduction of Integrated Financial Management System
- Strengthening of debt management office
- Anti-Corruption Commission to be launched

#### *Legal Issues*

- New State Finance Bill and Anti-Money Laundering Bill to be submitted to Parliament

### **FINANCING**

- Budget deficit to be financed through domestic borrowing
- Planned reduction of Treasury Bills and increase in Government Bond issues over MTEF period
- Additional borrowing in 2004/05 to prepare for maturity of GC05 bond in April 2005
- Planned introduction of a new 20 year Government bond

### **Total Government Expenditure, by Main Vote, 2004/05**

