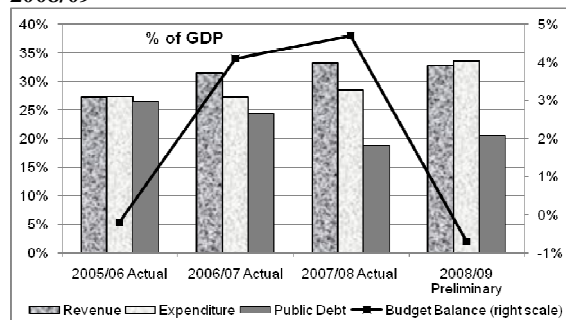


NAMIBIAN ECONOMY

- Real GDP grew by 4.1% in 2007, but preliminary analyses project economic growth to have declined to 2.4% in 2008, mainly due to the reduction in mining activity derived from the global economic crisis. This decline will continue in 2009 when the growth rate is expected to reduce to 1.1%. But after that, the economy is expected to start recovering partly in response to the increase in government expenditure. All in all, over the entire MTEF period, real GDP growth is projected to average 2.2 %.
- Inflation has been increasing steadily in the last years, reaching its peak in 2008 when it averaged 10.3%. But in line with the expected decrease in economic activity and the measures deployed by the Bank of Namibia, the annual average inflation is anticipated to be reduced to 7% in 2009 and then to 6% for the period 2010-12.
- On the socio-economic side, persistent high levels of poverty, inequality, unemployment and HIV/AIDS remain the most pressing developmental challenges.

FISCAL DEVELOPMENTS

Figure 1: Total Revenue, Expenditure, Public Debt and Budget Balance as % of GDP, 2005/06 – 2008/09



Source: Ministry of Finance

Revenue

- From 2005/06 to 2007/08, fiscal revenue increased year-on-year at an average of 22.2%. The main reasons are greater transfers from the SACU Pool, high commodity prices and improvements in the government's capacity for collecting taxes.
- Total revenue is estimated to stand at N\$21.9 billion for 2008/09, an increase of 5.3% from the budget estimates of N\$20.9 billion.

Expenditure

- Expenditure has accelerated since 2005/06, in line with increases in revenue (although at a slower pace) to expand the government's capacity to address Namibia's developmental needs. Thus, on average for the period 2005/06-2007/08, expenditure has increased year-on-year by 16.1%.
- In 2007/08, actual total expenditure was 3% lower than the budgeted allocation. Similarly, the Development Budget execution rate fell to 89% as compared to 96.3% the previous year. But in spite of that decrease, this execution rate is the second highest recorded since independence.
- For 2008/09, preliminary analyses of expenditure up to January 2009 also indicate a slight under-expenditure.

Budget Balance

- Due to stronger-than-expected revenue collections and further fiscal consolidation, a budget surplus of 5.2% of GDP was recorded in 2007/08. Similarly, preliminary indications for 2008/09 suggest that the budget balance will hover around -0.7% of GDP as opposed to the -2.7% estimated in the budget.

Public Debt

- The improvements in revenue have permitted a considerable reduction of the debt stock. Thus, in terms of GDP, total debt declined from 28.3% in 2006/07 to 18.9% in 2007/08. However, for 2008/09, total debt has increased slightly to 20.5%. In any case, this is well below the 25% fiscal target.

THE 2009/10 – 2011/12 MTEF

- Difficult years are ahead due to the global economic crisis but thanks to previous years' fiscal consolidation, we can now expand expenditure to weather the current crisis and continue the pro-poor, pro-growth stance of previous budgets.
- On average for the MTEF period, deficit will hover around 5.6% and public debt is expected to remain below the 30% target.

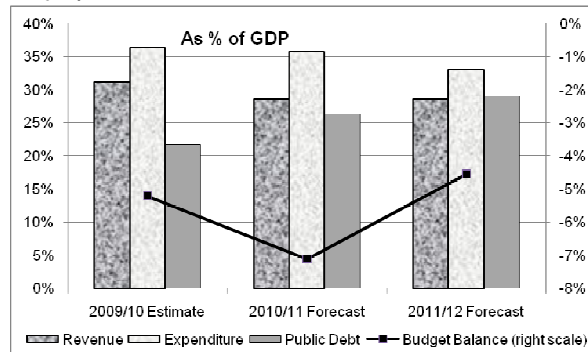
Revenue Outlook

- Revenue is expected to decrease in 2009/10 and 2010/11 as a result of the reduced economic activity induced by the world's current economic crisis. In 2011/12, however, revenue is expected to start picking up in view of economic recovery

partly as a result of the large increase in public expenditure.

- As a share of GDP revenue declines from 33% in 2008/09 to 31% in 2009/10 and to 29% in 2010/11. In 2011/12 the decline is halted in view of economic recovery (see figure 2).

Figure 2: Total revenue, expenditure, public debt and budget balance as % of GDP, MTEF 2009/10 – 2011/12



Source: Ministry of Finance

Expenditure Outlook

- Total expenditure in 2009/10 will be N\$25.4 billion a year-on-year increase of N\$2.9 billion or 13.1%. For the MTEF period, public expenditure is expected to average around N\$26 billion. Of this, Development expenditure will amount to more than N\$12.5 billion over the MTEF, the highest amount since independence.
- As a share of GDP, public expenditure is increased from 33.6% in 2008/09 to 36.4% in 2009/10. On average for the MTEF period, expenditure is anticipated to hover around 35.1% of GDP, illustrating the budget's countercyclical approach.

Budget Balance

- The Budget Balance is projected to be in deficit during the whole MTEF period. In 2009/10 the deficit is projected at 5.2% of GDP (N\$3.6 billion) and on average for the MTEF period, the deficit is anticipated to hover around 5.6% of GDP.

Government Debt

- A part of these deficits will be financed with the substantial cash reserves accumulated. Therefore, public debt is projected to be within the fiscal target of 30% of GDP on average for the MTEF period.
- Estimated ratios of debt to GDP: 2009/10: 21.7%; 2010/11: 26.3%; and 2011/12: 29.0%

The Nation's Priorities

- **Safety Nets and Poverty,**
 - Increase the coverage of the veteran pension;
 - Improving educational access and outcomes;
 - Emergency relief to victims of floods;
 - Upgrading and improvement of health facilities and greater provision of essential medicines;
 - To contribute to food security, funds are given, among others, to Agribank to enhance aquaculture and crop production programmes.
- **Investing for Growth, Infrastructure Provision and Rural Development**
 - Investment to increase labour productivity through improvement of youth skills and the Productivity Unit.
 - In particular productive sectors with high potential for employment creation, such as agriculture, tourism and fisheries, will receive support.
 - Increased investment in extension, upgrading and maintenance of rail and roads.
 - Additional amount for rural electrification and for rural water infrastructure development.
- **Safety and National Security,**
 - Additional funds for crime prevention, including recruitment of new police officers.
 - Increased allocation for Justice to strengthen the High and Lower Courts.

Tax Policy Update

- Change in personal income tax schedules and further relief for pensioners and retrenched workers.
- VAT zero rated for milk and sugar.
- Withholding tax on interest on unit trust and banks introduced from 1st March 2009.
- Appointment of debt collectors to ensure greater compliance with tax law.
- Excise duties increased in line with 2002 SACU agreement.

Public Finance Management

- Quarterly execution reports have been required from Votes to keep better track of achievement/execution.
- Publication of Accountability Reports 2007/08 to provide information on expenditure and target achievements by Office/Ministry/Agency.
- Efforts will continue to improve SOEs productivity, transparency and accountability.