



# Namibia's Budget at a Glance

## MTEF 2008/09 – 2010/11



### NAMIBIAN ECONOMY

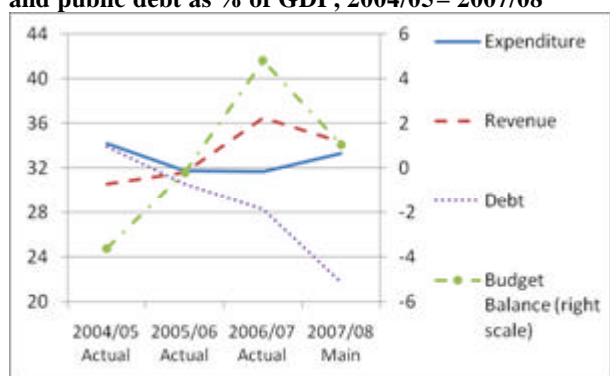
- The economy grew by 4.1% in 2006 and preliminary analyses project growth to have slightly declined to around 4.0% in 2007. Growth is anticipated to rise to 4.7% in 2008 on the back of expected favourable commodity prices and increased uranium production. Over the entire MTEF period, growth is projected to average 5.2%.
- The economic outlook is, however, exposed to risks from uncertain power supply, possible reductions in demand for Namibian exports and continuing inflationary pressures: Inflation increased from 5.1% in 2006 to 6.8% in 2007, and is expected to increase further to 7.0% in 2008, driven by rising transport and food prices.
- On the socio-economic front, persistent high levels of poverty, unemployment and HIV/Aids continue to be the most immediate developmental challenges.

#### Credit Rating

- In October 2007, Fitch Ratings awarded Namibia an investment grade rating for the third year running. Both long-term and short-term foreign currency risk remained at 'BBB-' and 'F3' respectively. Equally, as in the previous rating of 2006, the long-term domestic currency risk stayed at 'BBB', the outlook at 'stable' and the country ceiling at 'A'.

### FISCAL DEVELOPMENTS

**Figure 1: Total revenue, expenditure, budget balance and public debt as % of GDP, 2004/05 – 2007/08**



Source: Ministry of Finance

#### Revenue

- Between 2004/05 and 2006/07, total revenue increased steadily in terms of value and as a percentage of GDP, mainly because of significant

expansions in transfers from the SACU Pool and buoyant corporate taxes.

- Total revenue is estimated to stand at N\$19.5 billion for 2007/08, an increase of 6.6% from the budget estimates of N\$18.3 billion.

#### Expenditure

- Expenditure increased at a moderate pace in absolute terms between 2004/05 and 2006/07, but as a share of GDP it decreased slightly from 34.2% to 31.7%.
- In 2006/07, actual total expenditure exceeded the Budget by less than 1%. Similarly, the Development Budget execution rate of 96.3% was the highest recorded since independence.
- For 2007/08, preliminary analyses of expenditure up to January 2008 indicated slight under-expenditure for the financial year.

#### Budget Balance

- Due to stronger-than-expected revenue collections and further fiscal consolidation, a budget surplus of 4.8% of GDP was recorded in 2006/07. This is estimated to be followed by a second significant surplus of 3.3% in 2007/08.

#### Public Debt

- Measured against GDP, the debt stock declined from 30.6% in 2005/06 to 28.3% in 2006/07, and is expected to drop to 21.8% in 2007/08 following the redemption of the GC07 Government bond in July 2007; this is well below the fiscal target of 25%.

### THE 2008/09 – 2010/11 MTEF

- Thanks to improved revenue collection measures, expenditure on social and economic programmes can will be vastly expanded.
- Development budget receives unprecedented boost for infrastructure provision.
- Public debt to remain around the fiscal target of 25% of GDP over the MTEF.

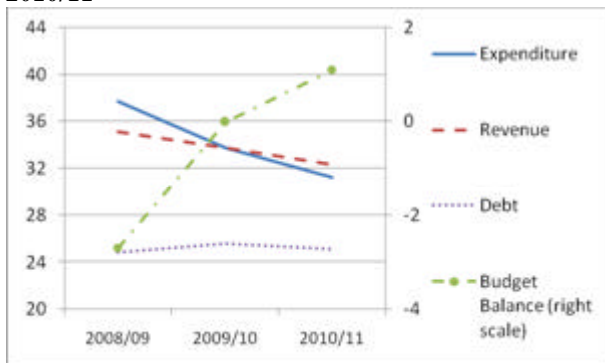
#### Revenue Outlook

- On the back of continued favourable forecasts for SACU Receipts and most domestic taxes- influenced by enhanced collection methods and the introduction of new taxes-, revenue projections for the MTEF sees considerable up-ward revisions to aggregate at

N\$21.8 billion from N\$17.3 billion in the last MTEF.

- This represents a growth rate of 26%. As a fraction of the GDP, revenue is projected to moderate to 32.3% in 2010/11 from 35.1% in 2008/09.

**Figure 2: Total revenue, expenditure, budget balance and public debt as % of GDP, MTEF 2008/09 – 2010/11**



Source: Ministry of Finance

#### **Expenditure Outlook**

- Total expenditure between 2007/08 and 2008/09 is projected to grow by N\$4.5 billion or 26% to settle at N\$22.4 billion. For the MTEF period, public expenditure is expected to average around N\$22 billion. Development expenditure will rise to almost N\$9.9 billion over the MTEF, more than double the amount spent during the three-year period 2004/05 to 2006/07.

#### **Budget Balance**

- The Budget Balance is projected to stand at a sustainable deficit of 2.7% of GDP (N\$1.6 billion) in 2008/09. This is followed by a balanced budget (surplus of N\$4 million) in 2009/10 and a surplus of 1.1% (N\$769 million) in 2010/11.

#### **Government Debt**

- Public debt is projected to approach the fiscal target of 25% of GDP in 2008/09 and remain approximately there throughout the MTEF period.
- Estimated ratios of debt to GDP: 2008/09: 24.8%, 2009/10: 25.6% and 2010/11: 25.1%

#### **Expenditure Priorities**

- **Poverty and Inequality**, such as
  - An expansion of grants to OVCs, pensioners and veterans, and a rise for the latter two;
  - Emergency relief to victims of drought and floods;

- Added resources for the fight against HIV/AIDS, TB, Malaria and upgrading and improvement of health facilities.
- Added resources for Grade 10 repeaters and scholarships for tertiary education.
- Additional funds for rural sanitation, water provision and improvements to sewage systems.

- **Growth and Employment**, such as

- Increased capitalization to Development Bank of Namibia (DBN) to expand loans for SME development and industrialization;
- In particular productive sectors with high potential for employment creation, such as agriculture, tourism and fisheries, will receive support.
- Air Namibia is to receive support for its turn-around strategy.

- **Infrastructure Provision**, such as

- Substantial additional funding to NamPower for power generation.
- Increased investment in extension, upgrading and maintenance of rail, roads, ports and airports, as well as the turn-around strategy of the Roads Contractor Company (RCC).

- **Rural Development**, such as

- Additional amount for rural electrification and the development of hydropower and for rural water infrastructure development.
- Funds to strengthen the loan book of Agribank and acceleration of land reform.
- Green Scheme and aquaculture projects receive boost.

- **Peace and Stability**, such as

- Additional funds for the crime prevention, including recruitment of new police officers.
- More support for operations and equipments of the Namibia Defence Force.

#### **Tax Policy Update**

- Tax on Unit Trust Schemes is introduced.
- To further shore up compliance with law, forensic audit tax will be extended to all the regions.
- The amendments of the VAT and Income Tax Acts to reduce tax avoidance and compliance cost.

#### **Public Finance Management**

- Publication of Accountability Reports 2006/07 to provide information on expenditure and achievement of ministerial targets by Office/Ministry/Agency.
- Public Expenditure Audits to ensure value for money and that line ministries spend their money as appropriated are to commence in 2008/09.
- SOEs financial management to improve by implementing dividend and investment policy.