



REPUBLIC OF NAMIBIA

**FISCAL POLICY FRAMEWORK  
FOR 2010/11-2012/13 MTEF**

***“Recovery and Sustainable Growth”***

**March 2010**

## **FOREWORD**

The 2010/11 – 2012/13 Fiscal Policy Framework comes into operation at a time when the global and domestic economic landscape is showing signs of recovery. However, revenue risks remain. The fiscal effects of the crisis are especially pronounced on taxes on international trade under the ambit of the Southern African Customs Union (SACU). On the domestic front, the adverse effects on revenue remain especially poignant on the diamond mining sector for which export demand is yet to recuperate to pre-crisis level.

As a consequence of this impact, total revenue as a proportion of GDP is expected to fall from 31.4 percent in 2008/9 to a low of 21.2 percent in 2011/12, before it recuperates to about 23.8 percent in 2012/13. Associated money market risk premia also abound owing to currency, interest rate and exchange rate volatility in relation to public debt servicing costs.

In this environment of subdued pace of economic activity and revenue outlook, high unemployment, poverty, and social vulnerability, the operation of automatic stabilizers alone is not sufficient to anchor recovery and spur growth. Government would therefore undertake fiscal expansion during the MTEF, ensuring that the withdrawal of pro-growth fiscal stimuli is not sudden and the provision of critical social services is maintained. This course of policy direction is possible owing to the financing options presented by the fiscal space created during previous years.

As the budget execution shows a rate of 97.8 percent, I am gratified that the 2007/8 – 2009/10 MTEF period has witnessed the highest budget expenditure execution rate in recent times. This development does not only reaffirm the timeliness of fiscal activity, but also ensures that the impulse of fiscal expansion is expeditiously optimised in the economy. In this connection, Government would further accelerate efforts to enhance public finance management systems aimed at, among others, improving the quality of fiscal infrastructure and spending efficiency. On the revenue side, growth-enhancing tax policy and administrative reform are important domains of the reform agenda during the MTEF.

The balance sheets of our financial institutions remained strong and largely unscathed from the fall-out of the global financial crisis, thanks to better regulations and limited exposure. This is supported by the ensuing growth-enhancing financial regulatory reform, ranging from the coming into operation of the Transformational Financial Charter in 2009 to advances in the modernisation of financial market legislation. There is thus optimism as the economy recovers and assumes a firm position on the growth trajectory. The policy prescriptions and strategies encapsulated in this framework constitute an added toolkit to propel implementation of public programmes during the MTEF.

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## EXECUTIVE SUMMARY

The fiscal outlook for the 2010/11 – 2012/13 calls for cautious optimism. Firstly, the domestic economy is projected to recover by 3.8 percent in 2010, after a contraction of 1.1 percent during 2009. Secondly, revenue risks abound. The recessionary pressure posed by the contagion from the global economic downturn has dissipated, but it has not disappeared. Revenue risks for Namibia are particularly pronounced during the 2010/11 – 2012/13 MTEF due to reduced revenue stream from taxes on international trade under the ambit of SACU, as a result of severe impacts of the global economic crisis on the SACU Common Revenue Pool.

Consequently, reduced revenue prospects would constrain the scope of fiscal policy operation during the MTEF. It is to be noted, however, that fiscal consolidation undertaken by Government since 2005/06 has strategically positioned Namibia to counter the effects of the global economic crisis and avoid a fall-out in the provision of services through expenditure cuts. The last three years have witnessed record achievement of fiscal targets. During 2008/9, a third consecutive budget surplus amounting to 2 percent of the GDP (N\$1.5 billion) was achieved. At the same time, public debt level amounted to about 17.9 percent during 2008/09, which is 8 percentage points below the 25 percent official benchmark, while total expenditure outturn averaged 28 percent of GDP in the last three years in relation to the 30 percent target. Consistent achievement of fiscal targets bespeaks a tradition of entrenched macroeconomic and fiscal stability.

While overall revenue performance exhibited significant buoyancy in the last three years, considerable reduction is expected during 2010/11 and 2011/12, as tax revenue is, on average, expected to fall by about 10.7 percent relative to the 2008/9 level mainly due to reduced SACU receipts. In 2008/9, due the impact of the global economic crisis, the SACU Common Revenue Pool (CRP) recorded a deficit of N\$ 9.1 billion, of which Namibia's share amounted to some N\$2.0 billion. Of this deficit a remaining N\$ 472 million is to be forfeited in 2010/11. An estimated N\$3.1 billion share of the 2009/10 deficit is to be forfeited in 2011/12, with revenue flows into the SACU CRP projected to significantly fall in 2010/11 and 2011/12. This is in addition to short-term adverse effects on revenue due to tariff liberalization in accordance with free trade agreements. Such risks are unprecedented in recent times, and raise the need to constrain expenditure expansion so as to rein in budget deficits and avoid incurrence of excessive public debt.

Total revenue and grants are expected to fall from N\$23.4 billion in 2008/9 to an estimated N\$20.9 billion in 2011/12, corresponding to respectively 31.4 percent and 21.2 percent of GDP. Domestic revenue, especially Taxes on Individuals and Value Added Tax are expected to retain buoyancy going forward.

In this precarious fiscal environment, the fiscal policy framework encapsulates policy strategies to enhance overall competitiveness in the domestic economy and future revenue growth and efficiency in public finance management. In particular, the framework provides for the easing of non-mining company tax rate, tax policy and revenue administration reform, and the roll-out of program-budgeting during the

MTEF. This is in addition to on-going pro-growth policy and legislation reform for the financial markets. Thus, only moderate additional expansion is harnessed during the MTEF, given that the MTEF already entails significant expansion to maintain and strengthen support to the economy and the provision of critical social services on a pro-poor basis.

The magnitude of fiscal expansion during the MTEF is hinged on the fiscal target benchmarks. Constraining substantial public expenditure expansion is an important policy consideration to avoid pro-cyclicality and ensure long-term fiscal sustainability, and maintain capacity to assume pro-cyclicality whenever warranted. It has the added value of retaining entrenched macroeconomic stability.

Thus, this policy framework provides for a targeted and time-bound fiscal expansion, geared towards priority sectors and programmes with high growth, job creation and poverty reduction potential. This expansion is on the back of the fiscal space created in previous years of consecutive budget surpluses. The main focus of the expansion is on infrastructure development and maintaining critical social services to support domestic demand conditions, mitigate vulnerability, and safeguard citizens' welfare conditions.

Government has achieved a sound budget implementation rate in the last three years, with the budget execution averaging about 98 percent. To further optimize and achieve timely transmission of fiscal multipliers in the economy, project implementation lags are to be avoided. Going forward, expenditure prioritization and streamlining administrative processes are required to accelerate service delivery and implementation of development programmes in priority sectors of the economy.

## I. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

**Government fiscal activity is aimed at addressing priority national constraints within the ambit of macroeconomic stability.**

The macroeconomic outlook for 2009/10 – 2012/13 posts a cautionary message for fiscal policy. GDP projections for the coming MTEF as indicated in Table 1 below show a gradual recovery for Namibia, mirroring an expected global recovery. The economy is estimated to contract by 1.1 percent in 2009 and grow by a projected 3.8 percent in 2010 under the “most likely scenario” of the macroeconomic outlook.

However, the recessionary pressure posed by the contagion from the global economic meltdown has not disappeared. In addition, the projected recovery will not be accompanied by corresponding revenue growth, as revenue will, in the medium term, be subject to shocks to the SACU revenue pool.

**Table 1. GDP projections, expenditure approach under the most likely scenario**

Constant, 2004 prices- percentage change	2008	2009	2010	2011	2012	2013
	<b>Actual</b>	<b>Estimate</b>	<b>Projections</b>			
<b>1. Consumption</b>	<b>9.7</b>	<b>2.3</b>	<b>3.2</b>	<b>4.0</b>	<b>3.8</b>	<b>3.7</b>
Private consumption	10.7	1.8	3.0	5.0	5.0	4.3
Government consumption	6.8	4.0	3.9	1.0	0.2	1.7
<b>2. Investment</b>	<b>3.2</b>	<b>13.2</b>	<b>8.9</b>	<b>11.5</b>	<b>7.5</b>	<b>6.9</b>
Private enterprises,	-4.0	9.8	12.0	17.0	11.0	9.0
Government investment	18.4	19.0	4.0	2.0	0.5	2.2
<b>3. Exports of goods and services</b>	<b>16.5</b>	<b>-15.1</b>	<b>12.0</b>	<b>7.0</b>	<b>13.5</b>	<b>10.3</b>
<b>4. Imports of goods and services</b>	<b>21.1</b>	<b>1.5</b>	<b>6.5</b>	<b>7.8</b>	<b>8.4</b>	<b>8.1</b>
<b>GDP, growth rate</b>	<b>3.3</b>	<b>-1.1</b>	<b>3.8</b>	<b>4.2</b>	<b>4.8</b>	<b>4.2</b>

Source: 2008 National Accounts; Macroeconomic Working Group Estimates and Projections

On the supply-side, the primary industry is expected to rebound during 2010. Economic recovery in the medium-term is projected to be anchored by growth in the secondary sector and recovery in the primary sector. In particular, the primary sector is projected to record an average yearly growth of 4.4 percent over 2010-2013 which is significant relative to a contraction of 25.4 recorded in 2009. The secondary industry is projected to grow at an average yearly rate of 5 percent over this period, and the tertiary industry at an average rate of 4.2 percent.

**Table 2. GDP Growth Rates by Industry under the Most Likely Scenario**

GDP by Industry, 2004 prices	2008	2009	2010	2011	2012	2013	2010- 2013
	<b>Actual</b>	<b>Estimate</b>	<b>Projection</b>				<b>Average</b>
Primary Industries	-1.4	-25.4	6.6	2.5	5.8	2.5	4.4
Secondary Industries	3.3	4.6	4.4	5.1	5.3	5.5	5.0
Tertiary industries	5.4	4.0	3.6	4.3	4.5	4.3	4.2
<b>GDP at constant prices</b>	<b>3.3</b>	<b>-1.1</b>	<b>3.8</b>	<b>4.2</b>	<b>4.8</b>	<b>4.2</b>	<b>4.4</b>

Source: 2008 National Accounts; Macroeconomic Working Group Estimates and Projections

## II. FISCAL DEVELOPMENTS

***In recent years, Government pursued a fiscal strategy anchored on fiscal sustainability and economic growth.***

Three consecutive budget surpluses were attained in 2006/7, 2007/8 and 2008/9. In keeping with this mandate, Government has adopted the following key fiscal targets over the 2009/10 – 2011/12 MTEF:

- i. Maintain average debt as a ratio of GDP within the limits of 25 to 30 percent;
- ii. Maintain the average budget deficit within 5 percent of GDP over the MTEF;
- iii. Maintain average public expenditure levels below 30 percent of GDP; and
- iv. Maintain contingent liability below 10 percent of GDP on average.

### 1. Revenue Outturn

***Revenue outturn continues to outperform estimates, but the pace of revenue growth fell significantly between 2006/07 and 2008/09.***

Average revenue outturn for 2006/7 – 2008/9 amounted to N\$20.6 billion. Average revenue growth for this period was 20.8 percent, with a high of 34 percent year-on-year growth recorded in 2006/7. For 2007/08, revenue outturn was N\$20.7 billion, up by 17.6 percent year on year. In 2008/09, total revenue and grants increased to N\$23.4 billion, but the pace of growth decelerated to 13.3 percent. This slowdown was driven by slower growth in almost all tax categories except personal income tax, as shown in Table 3. The slowing trend continued in 2009/10, with total revenue outturn currently estimated at N\$23.6 billion, a 0.5 percent increase compared to 2008/09.

***Tax revenue constituted 90.5 percent of total revenue in 2008/9***, down from 92.7 percent in 2007/08. This decrease in the share of tax revenue is mainly due to a decrease in the share of taxes on international trade which, as a ratio of total tax revenue outturn, fell from 39.1 percent in 2007/08 to 36.3 percent in 2008/09. Current estimates place tax revenue at 92.2 percent of total revenue in 2009/10.

***Overall performance of main tax revenue streams was better than expected during the review period.***

The ratio of tax revenue to GDP averaged 31.5 percent over the 2006/7 – 2008/9 MTEF. Overall tax revenue amounted to N\$21.2 billion in 2008/09, exceeding budget estimates by 5 percent. This performance can be explained by outturn of value added tax being 16.2 percent higher than projected and better than expected performance of taxes on income and profits. Tax on individuals also exceeded budget estimates by 9 percent. Despite mining company tax returns falling short of budget estimates, company tax in general exceeded budget estimates by 11 percent, owing to improvements in non-mining company tax returns, which were 21.9 percent higher than expected. Returns from diamond mining company tax and non-diamond mining company tax fell short of budget estimates by N\$4 million and N\$25 million

respectively due to the fall in commodity prices and demand. Estimates for 2009/10 also place total revenue above budget estimates by 8.2 percent.

**Table 3. Trends and year-on-year changes in tax revenue categories over past MTEF period 2006/07 to 2008/09**

Financial Year	Tax category							Total
	Income Tax on Individuals	Company Taxes	Other Taxes on Income and Profits	Taxes on Property	Domestic Taxes on Goods and Services	Taxes on International Trade and Transactions	Other Taxes	
2006/7	3 374	2 161	141	142	3 197	6 698	130	15 843
2007/8	3 714	2 834	181	149	4 082	8 085	138	19 183
2008/9	4 606	3 269	194	171	4 339	8 502	142	21 224
2009/10	4 818	2 763	162	195	4 981	8 585	175	21 732
	Percentage of Total							
2006/7	21.3%	13.6%	0.9%	0.9%	20.2%	42.3%	0.8%	100.0%
2007/8	19.4%	14.8%	0.9%	0.8%	21.3%	42.1%	0.7%	100.0%
2008/9	21.7%	15.4%	0.9%	0.8%	20.4%	40.1%	0.7%	100.0%
2009/10	22.2%	12.7%	0.8%	0.9%	22.9%	39.5%	0.8%	99.8%*
	Year-on-Year Change							Average
2006/7	16.1%	37.4%	45.0%	29.1%	-2.3%	72.1%	15.1%	32.4%
2007/8	10.1%	31.1%	28.7%	4.8%	27.7%	20.7%	5.7%	21.1%
2008/9	24.0%	15.3%	7.1%	14.9%	6.3%	5.2%	3.1%	10.6%
2009/10	4.5%	-15.5%	-16.5%	14.0%	14.8%	1.0%	23.0%	2.4%

\*The remaining 0.2 percent falls within the category of withholding tax on interest introduced in 2009/10  
Source: Ministry of Finance

**SACU receipts remain the largest single contributor to revenue, but significant reductions will be incurred in 2010/11 and 2011/12, and the medium-term risks are considerable.**

SACU receipts averaged 41.5 percent of total tax revenue over the 2006/7 to 2008/9 review period. However, in 2008/9, due the impact of the global economic crisis, the Common Revenue Pool (CRP) recorded a deficit of N\$ 9.1 billion, of which Namibia's share amounts to N\$2.0 billion. To off-set part of this share in deficit, the Government agreed to forfeit Namibia's share in outstanding excess collections amounting to some N\$757 million. In addition, N\$826 million will be received from South Africa in 2010/11 as the result of revenue adjustments. Thus, of the initial deficit of N\$2 billion, a remaining deficit of N\$474 million is to be forfeited from Namibia's share of SACU revenues for 2010/11, estimated at N\$6.446 billion. This will result in a net share for Namibia of N\$6 billion for 2010/11, which is a significant reduction from the N\$7.9 billion originally budgeted for in the 2009/10 – 2011/12 MTEF. The downward revision of SACU CRP in 2009/10 projects a further deficit for 2009/10 fiscal year, to be forfeited in 2011/12.

**Taxes on income and profits are the second most important tax revenue source** and increased by 19.9 percent from N\$6.7 billion in 2007/08 to N\$8.1 billion in 2008/9. The fastest growing categories in this period were personal income tax, non mining company tax and royalties.



Better performance in **Personal Income Tax (PIT)** anchored growth in taxes on income and profits during 2008/09. Growth in PIT increased from 10.1 percent in 2007/8 to 24.0 percent in 2008/9, and is estimated at 4.5 percent for 2009/10.

**Corporate/Company income tax** growth slowed to 15.3 percent in 2008/9, mainly due to a decline in non diamond mining company tax. While non diamond mining company tax revenue grew by 122.4 percent from 2006/7 to 2007/8, boosted by the commodity price boom, it subsequently declined by 6.3 percent in 2008/9 after commodity prices tumbled, and further contracted by an estimated 91.6 percent in 2009/10. Diamond mining company tax receipts recorded an improved growth during 2008/09, but still fell short of projections; revenue growth in this category is expected to dissipate in the upcoming years. Non-mining company tax grew by 26.4 percent in 2007/08 but slowed to 11.2 percent in 2008/09. In 2009/10, company income tax is estimated to decline by 15.5 percent, due to the sharp fall in the non diamond mining company tax receipts.

**Other taxes on income and profits**, comprising mainly non-resident shareholders tax and taxes on royalty, also recorded a slow growth. This is due to subdued performance in non-resident shareholders tax, which mirrors the performance in non-mining company tax.

**Domestic taxes on goods and services** averaged N\$3,872 million during 2006/7 – 2008/9 period and recorded an increase from N\$4,089 million in 2007/08 to N\$4,339 million during 2008/9, to a large extent driven by increases in value added tax

## 2. Expenditure Outturn

**Expenditure outturn for 2006/7 – 2008/9 averaged N\$18.2 billion, or 27.3 percent of GDP**, which falls well within the public expenditure limit of 30 percent of GDP. Expenditure outlay for 2008/9 amounted to N\$21.9 billion. The expenditure-to-GDP ratio increased to 29.3 percent in 2008/9 as compared to 26.8 percent recorded during 2007/8. The fiscal expansion witnessed in 2008/09 constituted a counter-cyclical response to weather the second round effects of a looming global economic crisis on Namibia. Estimates place 2009/10 total expenditure at N\$24.9 billion, or 30.8 percent of GDP.

**Development expenditure** increased from 11.6 percent of budgeted expenditure in 2007/8 to 15.6 percent in 2008/9. This period also witnessed an improvement in capital projects implementation with a record high execution rate of 96.3 percent achieved during 2006/7. The rate fell to 88.9 percent in 2007/8, and rose marginally to 89.2 percent in 2008/9.

**The implementation rate for recurrent expenditure** was 98.7 percent in 2008/09, and the overall implementation rate was 97.8 percent, up from 97.5 percent in 2007/08.

**During the 2008/9 – 2010/11 MTEF, Government implemented a fiscal expansion to weather the effects of the global financial crisis.** Countercyclical expenditure acts as stimulus to growth. However, in view of impending revenue losses, careful management of public expenditure growth is important.

### 3. Budget Balance

**Government achieved three consecutive budget surpluses in 2006/7, 2007/8 and 2008/9.** In 2008/9, stronger-than-expected revenue performance and prudent expenditure control resulted in a budget surplus of about N\$ 1.5 billion, corresponding to some 2 percent of GDP, which is an improvement over the original forecast deficit of 2.7 percent of GDP. It is the third budget surplus, after two consecutive surpluses, of 5.2 percent in 2007/8 and 4.1 percent in 2006/7. The resultant fiscal space provided scope for fiscal policy to weather the impacts of the global economic downturn on Namibia during the current MTEF. Current estimates point towards a budget deficit of N\$1.3 billion, or 1.6 percent of GDP, in 2009/10.

**Table 4. Total Revenue, Expenditure and Budget Balance (N\$ million), 2004/05 to 2008/9**

ITEM	2006/07	2007/08	2008/09	Average over MTEF Period
<b>REVENUE</b>	<b>17 593</b>	<b>20 689</b>	<b>23 447</b>	<b>20 576</b>
%of GDP	31.5%	32.3%	31.4%	31.7%
<b>Expenditure</b>	<b>15 279</b>	<b>17 382</b>	<b>21 945</b>	<b>18 202</b>
%of GDP	27.4%	27.1%	29.4%	27.9%
<b>Budget Balance</b>	<b>2 314</b>	<b>3306</b>	<b>1 501</b>	<b>2 374</b>
%of GDP	4.1%	5.2%	2.0%	3.8%
<b>Total Debt</b>	<b>13 636</b>	<b>11 693</b>	<b>13 389</b>	<b>12 906</b>
%of GDP	24.4%	18.2%	18.0%	20.2%
<b>GDP</b>	<b>55 788</b>	<b>64 132</b>	<b>74 569</b>	<b>64 833</b>

Source: Ministry of Finance

### III. ASSETS AND LIABILITIES

#### 4. Public Debt Outturn

***Debt levels remained significantly below the 30 percent target, but downside risks are equally significant.*** Total debt stood at N\$13.4 billion during 2008/09, amounting to 17.9 percent of GDP. In previous years fiscal space was judiciously utilised to accelerate debt repayment. The debt-to-GDP ratio fell steadily, from 24.4 percent in 2006/7 to 18 percent in 2007/08 and 17.9 percent in 2008/09. Thus, the proportion of total debt to GDP for the 2006/07 – 2008/09 MTEF remains well below the set target of 30 percent. Total debt at the end of 2009/10 is estimated to fall further to N\$12.5 billion, or 15.5 percent of GDP.

#### 5. Loan Guarantees

Total loan guarantees decreased by 11.3 percent from N\$3.4 billion in 2007/08 to N\$3.0 billion in 2008/09, and an estimated N\$2.7 billion in 2009/10. The yearly net issue of guarantees for the 2010/11 – 2012/13 MTEF is expected to average N\$100 million. As a percentage of GDP, expected guarantees range from 3.1 percent during 2010/11 to 2.7 percent by the end of the MTEF. Loss from guarantees has been minimal since 2000/01 amounting to less than 0.04 percent of GDP in 2008/9. Nonetheless, despite minimal defaults experienced in the past, risks could become more pronounced in the context of a weaker pace of economic activity.

The recent strengthening of the Namibian Dollar reduced the cost of debt servicing. However, this development is temporary, and may be reversed as the global economic recovery takes hold, and rising interest rate risk premia and exchange rate depreciation threaten to raise debt servicing cost.

#### 6. Subsidies to State Owned Enterprises (SOEs) and Local Authorities

Due to limitations to self-sustainability of these entities, public finances are required to support their operations, which continue to bite into the public purse. Henceforth, transfers to SOEs and Local Authorities shall be extended to specific programmes and are to be underwritten by clear performance agreements, premised on business plans with clear goals in line with SOE legislation. SOE remuneration structures shall be aligned to SOE performance in accordance with the provisions of a business plan.

## **IV. TRANSPARENCY AND ACCOUNTABILITY**

### **7. Public Finance Management Methodology**

Namibia has made advances in enhancing transparency and accountability through the introduction of programme budgeting in 2004. Government intends to manage the budget entirely on a programme basis, including appropriation, execution and reporting. The purpose is to strengthen the quality of expenditure and adopt results-based management.

### **8. GDDS/SDDS and GFS**

Namibia has subscribed to the General Data Dissemination System (GDDS) of the International Monetary Fund. Through this participation, the country has made progress in its data production and management methodology. Namibia has also been participating in the Special Data Dissemination Standard (SDDS) module of the GDDS which aims at producing key national data to the best international standards for coverage, periodicity, timeliness and accessibility to the public. A key condition for graduating to the SDDS is the online dissemination of a National Summary Data Page in strict compliance with SDDS requirements.

In the realm of Government Finance Statistics (GFS), a sub-section of GDDS and SDDS, data coverage, compilation and reporting will be improved during the MTEF.

### **9. External Grants**

In line with the 2005 Paris Declaration on Aid Effectiveness; Ownership, Harmonisation, Alignment, Results and Mutual Accountability and the United Nation's Report of the International Conference on Financing for Development, known as the "Monterrey Consensus", government is committed to deliver external grants to development projects in an aligned, harmonised, accountable, and transparent manner.

Consequently, government has put mechanisms in place for aid to be channelled through the public finance system. However, to date, only a few development programmes receive supplementary funding from donors through the mechanism of budget support, as only few development partners choose budget support as their preferred mechanism of aid delivery. The majority of development partners prefer project funding, which continues to pose challenges in terms of domestic ownership, alignment and public finance management.

## **V. RISKS AND CHALLENGES**

### **10. Macroeconomic risks**

The global economic slowdown has dissipated but not disappeared. Downside macroeconomic risks emanating from the global financial crisis and recession in major developed economies will continue to exert pressure on domestic economic recovery and on the revenue outlook for 2010/11, with the recovery taking hold only in 2011/12.

### **11. Revenue Risks**

Recovery and price improvements in sectors hard-hit by the global recession, particularly the diamond-mining sector, will take longer to materialise with negative implications on revenue. The most poignant risk on revenue regards taxes on international trade, with income from SACU set to decrease by 30.4 percent in 2010/11 and a further 52.7 percent in 2011/12. Other medium-term risks that may exert pressure on the revenue growth include impending tariff liberalisation under various free trade agreements.

### **12. Interest rate, Currency and Exchange rate Risks**

As the global economic recovery and demand conditions improve, an interest rate rise is expected. As of 2010, the Namibian dollar is projected to depreciate, which will spur improvements in the export sector, but exacerbate debt serving cost and raise caution to ensure that increases in public debt do not jeopardise long term fiscal sustainability. Exchange rate volatility will reduce the accuracy of costing foreign debt servicing.

### **13. Fitch Credit Rating of 2009**

In 2009, Fitch Credit Ratings reconfirmed Namibia's rating status as BBB-. The BBB-grade corresponds to the BBB grading band, which is the fourth best grade category on a scale of 1 to 10. It reflects the country's capacity and commitment to honour obligations currently, but is somewhat susceptible to changes in economic climate. This international credit rating is of particular significance to Namibia. It reaffirms Namibia's relatively high credit rating and elevates Namibia's international credit worthiness, boosts investor confidence, and situates Namibia at an advantageous position to participate in international financial market operations. However, the 2009 rating assessment identified falling SACU revenues as the main downside risk to the rating and emphasised the importance of reining in deficits in the medium-term so as to restore fiscal flexibility. Other persistent challenges are those pertaining to social sector development as well as overall reform needed to improve competitiveness.

### **14. Outcome of Article IV Consultations 2008/09**

The Namibian authorities were commended for having pursued persistently sound macroeconomic policies and prudential financial regulation and supervision.

## VI. FISCAL POLICY STANCE

***The fiscal policy stance of government is based on promoting economic growth and the welfare of all Namibians, while maintaining the overall fiscal balance.***

The domestic economy was able to weather economic hardship in 2008 and 2009, not least owing to the expansionary budget pursued since 2006/7.

Some of the fiscal measures which Government committed to mitigate the impact of the crisis include the improvement in the remuneration of public servants, reduction of corporate and personal income tax rates, increase in the exemption threshold for individual income tax payments and retrenchment packages, as well as the tax free amount on pension payout that can be taken as a lump sum. In addition, certain basic food items were VAT zero rated to improve their affordability to the poor.

### **15. Fiscal Strategies for the 2010/11 – 2012/13 MTEF period**

The fiscal strategy of Government is to plan and execute public expenditure efficiently, improve revenue collection and maintain sustainable public finances. It further aims at promoting wealth creation, optimal income distribution, social welfare, private sector growth and regional integration for sustainable economic growth and development.

On the back of second round effects of the global economic downturn, revenue outturn will remain subdued throughout the MTEF period, with consequential effect on expenditure expectations.

#### **a. Measures to achieve the fiscal strategy include the following:**

- The thrust of public expenditure interventions shall continue to be geared towards priority sectors, in order to optimise the impact on the economy, poverty and unemployment.
- Public procurement policies offer potential for local enterprise development and economic empowerment. The focus will be on obtaining value for money while upholding Namibian enterprise promotion and empowerment of the previously disadvantaged.
- Increased support to the MSME sector and BEEs, and expanded credit financing to the MSME through Public Finance Institutions and Financial Sector reform.
- Namibia's fragile fiscal structure and high dependence on taxes from trade and commodities call for diversification/ structural transformation of the economy. Apart from diversifying sources of Government revenue, efficiency in domestic revenue collection will be enhanced through compliance enforcement and capacity building in tax laws administration.

- Government will continue with efforts to reform SOEs to improve their productivity and accountability. SOEs will be obliged to have performance agreements in order to hold them to spending targets. SOEs will also be encouraged to raise their own funds in the capital market.
- Government's borrowing strategy will continue to aim at both mobilising additional public resources and promoting the development of the domestic capital market.
- Reforms of the financial sector will continue.

**b. Changes to the Specific Excise Duties ('sin taxes') in accordance with the 2002 SACU Agreement and newly introduced excise duties**

In accordance with requirements of the Southern African Customs Union Agreement, the following percentage increases for implementation with effect from 17 February 2010 have been decided on:

- Natural unfortified wine - increased by 16 cents to N\$ 2.14 per litre.
- Sparkling wine- increased by 51 cents to N\$ 6.67 per litre.
- Fortified wine - increased by 31cents to N\$4.03 per litre.
- Spirits - increased by N\$6.90 to N\$84.57 per litre of absolute alcohol.
- Clear (Malt) beer - increased by N\$ 3.79 to N\$ 50.2 per litre of absolute alcohol.
- Ciders and alcoholic fruit beverages- increased by 42 cents to N\$2.52 per litre.
- Cigarettes - increased by N\$1.24 to N\$8.94 per packet of 20.
- Cigarettes tobacco- increased by 58 cents to N\$ 9.73 per 50g or by N\$11.60 to N\$ 194.6 per kg.
- Pipe tobacco- increased by 20 cents to N\$ 2.70 per 25g or by N\$ 8.01 to N\$ 108.08 per kg.
- Cigars- increased by N\$2.78 to N\$ 47.66 per 23g or by N\$ 120.80 to N\$ 2072.31per kg.

## **c. Improved Fiscal Infrastructure and Financial Markets Development**

### **Changes to the Chart of Accounts**

Government will modify the Expenditure Management and Accounting System so that each Office/Ministry/Agency will account for its budget expenditure on a programme basis, in line with the programme approach to budgeting. Four votes have been identified for piloting the project.

### **Legislative Reforms**

The new Tender Board Bill has been finalised and will be tabled in Parliament in 2010 after public consultations.

The new FIM Bill has also been finalised and approved by Cabinet. The Bill makes provision to strengthen the role of the Namibia Financial Institutions Supervisory Authority (Namfisa) and to enforce compliance with financial service laws. The Bill further provides for a financial service Ombuds in order to protect consumers. The Bill will be tabled in Parliament once the legal review is finalised.

### **Electronic Funds Transfer (EFT)**

The Government will establish an electronic payments infrastructure to improve efficiency in the payments system, reduce costs, and curb fraudulent activities associated with the cheque payment system.

### **Financial Sector Development**

As part of the strategic plan to develop the domestic bond market, a Primary Dealer system will be implemented. Bids have been received from the market and evaluation of the offers will be completed in 2010/11.

### **Financial Sector Charter**

The Financial Sector Charter became effective on 1<sup>st</sup> June 2009. A Financial Sector Charter Council, consisting of four private sector and two public sector representatives respectively, has been established to oversee, monitor, and report on the financial sector's compliance to the Charter. The Charter will be reviewed in 2014.

The charter provides for, among others:

- A sector that is characterised by widely distributed and affordable products and services.



- A sector that contributes meaningfully to poverty reduction and rural development and serves as a catalyst for broad-based economic growth.
- An inclusive, diversified and equitable financial sector in which the previously disadvantaged and SMEs can fully participate.

## 16. Budget priorities

For the 2010/11 – 2012/13 MTEF period, Government will continue to allocate fiscal resources in line with the pro-poor, pro-growth approach. The focus will be on sustainable economic growth through investment in human resources and physical infrastructure, while increased attention will be given to improved and efficient public service delivery, especially in crucial social services. This prioritization calls for corresponding re-alignment in resource allocation.

- **Improving the accessibility of education and strengthening the quality of educational outcomes, teacher training and innovation.** Among other initiatives, efforts will be expended to further the provision of technical and entrepreneurial skills development for Grade 10 and Grade 12 school leavers. Programme coordination will be strengthened to realise beneficial outcomes of targeted funding, ensuring that targeted allocations are aligned to specific programmes for specific ends.
- **National economy, industrialisation and competitiveness.** The development budget is expansionary as a node for infrastructure development including provision and maintenance of roads, wealth creation and growth stimulus. This includes increasing investment in public utilities to spur economic activities, especially in rural areas. This development drive shall be accompanied by measures for improving overall business environment, including providing access to finance, in order to position the economy on a higher growth and industrialisation trajectory.
- **Addressing Challenges in the Health and Social Sector and Strengthening Social Safety Nets:** Funding for the provision of health, housing, and water infrastructure, service delivery and strengthening safety nets, including funding for the newly established School of Medicine. Efforts will be made to roll out coverage of social safety nets to those uncovered in order to cushion the impact of poverty on the vulnerable.

## VII. FISCAL OUTLOOK FOR THE 2011/12 – 2012/13 MTEF PERIOD

### 17. Assumptions underlying revenue forecast

Revenue forecasts for the MTEF period are based mainly on macroeconomic aggregates as contained in the Most Likely Scenario of the Macroeconomic Framework for 2010/11 – 2012/13. Revenue growth patterns generally follow GDP growth, albeit with varying time lags.

In 2009/10, the tax to GDP ratio is expected to decline to 26.9 percent. This decreasing trend is expected to continue over the 2010/11 to 2012-13 MTEF, with projected tax to GDP ratios reaching 22.8 percent in 2010/11 and 19.4 percent in 2011/12 before recovering to 22.1 percent in 2012/13. This sharp decline is due to the SACU revenue shocks, with income from SACU set to decrease by 30.4 percent in 2010/11 and a further 52.7 percent in 2011/12. Other medium-term risks may exert pressure on revenue growth, including impending tariff reductions under various free trade agreements.

The revenue outlook for 2010/11 – 2012/13 MTEF is based on the following assumptions:

- Downside macroeconomic risks emanating from the global financial crisis and recession in major developed economies will continue to exert pressure on the revenue outlook for 2009/10 and 2010/11, with the recovery taking hold only in 2012/13.
- Trade liberalisation efforts exert pressure on revenue collection due to possible fall out of taxes on international trade.
- The change in tax brackets and rates is estimated to dampen growth in income tax on individuals in 2009/10. Growth in this tax category is assumed to be 4.5 percent in 2009/10 as compared to 24 percent in 2008/9.

Projections of GDP and sector growth rates are assumed from results given by the MacroABC model at NPC. Revenue estimates for 2009/10 are based on preliminary monthly outturn data for 2009/10 and on Macroeconomic projections. Non tax revenue estimates and forecasts are based on projections by line Ministries and SOEs projections.

**Box 1: Assumptions for Tax Revenue Projections 2009/10 – 2012/13 - Most likely Scenario**

**Tax Revenue Assumptions**

- Income Tax on Individuals follows actual and projected nominal GDP levels. The change in tax brackets and rates is estimated to dampen growth in this category in 2009/10.
- Diamond Mining Company Tax follows actual and projected diamond mining.
- Other Mining Company Tax follows actual and projected other mining output.
- Non-Mining Company Tax is based on a weighted sum of sectoral contributions, with each contribution tracking the performance of the corresponding sector with a one year lag. CIT adjustment is taken into account as well as the reduced tax rate for manufacturers benefiting from tax incentives. Non Mining CIT moderately increases during the MTEF due to the recovery in economic activity and low exposure of financial sector to the global financial crisis.
- Non-Resident Shareholders Tax follows actual and projected developments in CIT.
- Withholding tax on interest is based for 2009/10 on preliminary data on collections extrapolated over the 12 month period. In subsequent years the performance tracks GDP.
- Tax on Royalty follows actual and projected nominal GDP levels.
- Domestic Taxes on goods and services follow consumption. As this category has had very variable performance over the last five years, the shares have been averaged to smooth out shocks from outliers.
- Expected shocks from SACU are as follows:
  - In 2010/11, forfeiture of the remaining N\$ 472 million share of the 2008/09 common revenue pool deficit. In 2011/12 forfeiture of the N\$3.1 billion share in the 2009/10 common revenue pool deficit.
  - The size of the common revenue pool is based on estimates from the South African Budget. A projection of the shock to customs collections is introduced in 2011/12 and 2012/13 to account for the potential impact of the SACU-EU Economic Partnership Agreements.

**Table 5. Revenue projection, Most Likely Scenario (in N\$ millions)**

Revenue Head	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Estimate	Projections		
<b>GDP at market prices, nominal</b>	<b>55 788</b>	<b>64 132</b>	<b>74 579</b>	<b>80 808</b>	<b>89 470</b>	<b>98 986</b>	<b>110 354</b>
<b>Revenue and grants as % of GDP</b>	<b>31.5</b>	<b>32.3</b>	<b>31.4</b>	<b>29.2</b>	<b>25.2</b>	<b>21.2</b>	<b>23.8</b>
<b>Total Revenue and grants</b>	<b>17 593</b>	<b>20 688</b>	<b>23 447</b>	<b>23 568</b>	<b>22 536</b>	<b>20 940</b>	<b>26 214</b>
<b>TAX REVENUE</b>	<b>15 843</b>	<b>19 183</b>	<b>21 224</b>	<b>21 732</b>	<b>20 390</b>	<b>19 172</b>	<b>24 370</b>
<b>Tax on income and Profits</b>	<b>5 676</b>	<b>6 730</b>	<b>8 070</b>	<b>7 797</b>	<b>8 707</b>	<b>9 945</b>	<b>11 337</b>
<b>Income Tax on Individuals</b>	<b>3 374</b>	<b>3 714</b>	<b>4 606</b>	<b>4 818</b>	<b>5 334</b>	<b>5 902</b>	<b>6 580</b>
<b>Company Taxes</b>	<b>2 161</b>	<b>2 834</b>	<b>3 269</b>	<b>2 763</b>	<b>3 062</b>	<b>3 701</b>	<b>4 389</b>
Diamond Mining Companies	360	221	499	511	184	232	215
Other Mining Companies	351	780	731	61	462	790	1 218
Non-Mining Companies	1 451	1 834	2 039	2 191	2 415	2 679	2 956
<b>Other Taxes on Income and Profits</b>	<b>141</b>	<b>181</b>	<b>194</b>	<b>162</b>	<b>251</b>	<b>276</b>	<b>295</b>
<b>Withholding Tax on Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54</b>	<b>59</b>	<b>66</b>	<b>73</b>
<b>Taxes on Property</b>	<b>142</b>	<b>149</b>	<b>171</b>	<b>195</b>	<b>210</b>	<b>229</b>	<b>253</b>
<b>Domestic Taxes on Goods and Services</b>	<b>3 197</b>	<b>4 081</b>	<b>4 339</b>	<b>4 981</b>	<b>5 310</b>	<b>5 965</b>	<b>6 615</b>
VAT + Additional Sales Tax + General Sales Tax	3 002	3 854	4 096	4 733	5 036	5 658	6 289
Levy on Fuel	86	71	106	110	116	134	147
Fishing Quota Levies	98	147	118	126	145	160	165
Other taxes on goods and services	11	9	20	12	13	13	14
<b>Taxes on International Trade and Transactions</b>	<b>6 698</b>	<b>8 085</b>	<b>8 502</b>	<b>8 585</b>	<b>5 975</b>	<b>2 828</b>	<b>5 939</b>
SACU Revenue Pool Share	5 399	6 174	8 502	8 585	6 447	5 930	5 939
Revenue Formula Adjustments	1 299	1 911	0	0	-472	-3 102	0
<b>Other Taxes</b>	<b>130</b>	<b>138</b>	<b>142</b>	<b>175</b>	<b>188</b>	<b>205</b>	<b>226</b>
<b>NON - TAX REVENUE</b>	<b>1 683</b>	<b>1 411</b>	<b>2 123</b>	<b>1 533</b>	<b>1 854</b>	<b>1 513</b>	<b>1 588</b>
<b>Entrepreneurial and Property</b>	<b>1 264</b>	<b>917</b>	<b>1 584</b>	<b>941</b>	<b>1 114</b>	<b>737</b>	<b>797</b>
Interest Receipts for Loans Extended to SOEs	21	6	8	16	12	15	18
Interest on Investments	0	0	524	0	0	0	0
Dividends and Profit Share from SOEs and other companies	692	113	173	306	445	83	83
Interest on State Account Balances with Bank of Namibia	39	154	334	182	120	60	30
Diamond Royalties	482	600	452	251	252	252	300
Other Mineral Royalties	0	43	93	150	250	300	350
<b>Fines and Forfeitures</b>	<b>19</b>	<b>25</b>	<b>36</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Administrative Fees, Charges and Incidental Sales</b>	<b>400</b>	<b>469</b>	<b>503</b>	<b>567</b>	<b>717</b>	<b>751</b>	<b>767</b>
<b>Lending and Equity Participation</b>	<b>17</b>	<b>16</b>	<b>17</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>26</b>
<b>External Grants</b>	<b>50</b>	<b>78</b>	<b>83</b>	<b>276</b>	<b>265</b>	<b>230</b>	<b>230</b>

Source: Ministry of Finance

## **18. The impact of the crisis on revenue**

Total revenue and grants for 2009/10 are estimated at N\$23.57 billion, which constitutes a 0.5 percent increase compared to 2008/09. This is the lowest growth rate in revenue since the decline witnessed in 2003/04, and can be explained by lagged transmission of the impact of the global financial crises to the domestic economy.

Projections show revenue declining by 4.4 percent in 2010/11 and 7.1 percent in 2011/12, before it starts to pick up again in 2012/13, growing by 25.2 percent in nominal terms.

Given the declining trend in revenue, coupled with the fiscal expansion undertaken in the 2009/10 – 2011/12 MTEF period, the target of keeping the average budget balance within 5 percent of GDP becomes the most binding expenditure constraint over the 2010/11 – 2012/13 MTEF.

It should also be noted that nominal GDP growth over the 2009/10– 2012/13 period is set to far outstrip nominal revenue growth. Hence, debt as a ratio of revenue will increase even more rapidly than debt as a ratio of GDP.

As a result of nominal GDP growing at a much faster pace than revenue, the current fiscal targets, which all depend on GDP ratios, are insufficient to guarantee fiscal sustainability. It therefore appears necessary to introduce a fiscal target that depends on revenue. This new target would limit the extent to which debt servicing absorbs public funds, in order not to crowd out expenditure in the context of national development.

The most likely revenue scenario is the one recommended for purposes of fiscal planning. However, on a cautionary note, if the pessimistic scenario for revenue is realised (Table 7), revenue would decline by an estimated additional N\$2.4 billion over the 2010/11 – 2012/13 MTEF.

## **19. Expenditure outlook**

Total expenditure is projected to increase from N\$24.9 billion in 2009/10 to a projected N\$31.1 billion by 2012/13. As a proportion of GDP, expenditure ratio peaks at 32.3 percent in 2010/11, before easing below 30 percent bench mark in the subsequent years. For the MTEF, expenditure ratio averages 30 percent of the GDP, consistent with the set fiscal benchmark.

Expenditure levels are set taking into account projections contained in the previous MTEF and accommodating feasible additional expenditure requests advanced by O/M/As. Projections for the third year of the MTEF are based on forecast inflationary outlook of the Macroeconomic framework. For the 2012/13 fiscal year, an annualized inflation rate of 7 percent was assumed.

On account of the above expenditure levels, the budget deficit is estimated to reach 8.2 percent during 2011/12 and average 6.6 percent during the MTEF. Consequently, the debt stock rises steadily from 20.1 percent of the GDP in 2010/11 to an estimated 29.0 percent at the end of the MTEF. Total debt is forecast to average 25.3 percent of GDP, well within the set ratio of 25 – 30 percent target band. Aggregate expenditure, debt and borrowing requirements are set out in Table 6.

**Table 6: Aggregate expenditure, debt and borrowing requirements, 2010/11 - 2012/13**

	2009/10	2010/11	2011/12	2012/13
(N\$ millions)	Estimate	Projections		
GDP at market prices, nominal	80 808	89 470	98 986	110 354
Total Revenue and Grants	23 568	22 536	20 940	26 214
<b>As % of GDP</b>	<b>29.2%</b>	<b>25.2%</b>	<b>21.2%</b>	<b>23.8%</b>
Total Expenditure Excluding Interests	23 591	27 602	27 230	28 573
<b>of which Total Additional</b>	-	2 652	2 652	-
Primary Budget Balance	-23	-5 066	-6 289	-2 359
<b>As % of GDP</b>	<b>-0.03%</b>	<b>-5.7%</b>	<b>-6.4%</b>	<b>-2.1%</b>
<b>Domestic Interest Payments</b>	<b>1 107</b>	<b>1 147</b>	<b>1 676</b>	<b>2 392</b>
<b>Foreign Interest Payments</b>	<b>176</b>	<b>143</b>	<b>151</b>	<b>152</b>
Interest Payments	1 283	1 290	1 826	2 544
<b>As % of GDP</b>	<b>1.6%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>2.3%</b>
<b>As % of Revenue</b>	<b>5.4%</b>	<b>5.7%</b>	<b>8.7%</b>	<b>9.7%</b>
Total Expenditure	24 875	28 892	29 056	31 116
<b>As % of GDP</b>	<b>30.8%</b>	<b>32.3%</b>	<b>29.4%</b>	<b>28.2%</b>
Budget Balance	-1 307	-6 356	-8 116	-4 902
<b>As % of GDP</b>	<b>-1.6%</b>	<b>-7.1%</b>	<b>-8.2%</b>	<b>-4.4%</b>
<b>Average budget balance for MTEF period (2010/11-2012/13)</b>			<b>-6.6%</b>	
Fiscal Balance/ Net Borrowing Requirements	-1 406	-5 789	-8 555	-7 069
<b>As % of GDP</b>	<b>-1.7%</b>	<b>-6.5%</b>	<b>-8.6%</b>	<b>-6.4%</b>
<b>Domestic Debt Stock</b>	<b>8 786</b>	<b>13 315</b>	<b>21 124</b>	<b>26 230</b>
<b>Foreign Debt Stock</b>	<b>3 387</b>	<b>4 622</b>	<b>5 397</b>	<b>5 744</b>
Total Debt	12 173	17 937	26 521	31 974
<b>Debt as % of GDP</b>				
<b>Domestic Debt Stock</b>	<b>10.9%</b>	<b>14.9%</b>	<b>21.3%</b>	<b>23.8%</b>
<b>Foreign Debt Stock</b>	<b>4.2%</b>	<b>5.2%</b>	<b>5.5%</b>	<b>5.2%</b>
<b>Total Debt</b>	<b>15.1%</b>	<b>20.0%</b>	<b>26.8%</b>	<b>29.0%</b>

Source: Ministry of Finance

## VIII. POLICY STRATEGIES AND CONCLUSIONS

- To retain fiscal sustainability and solvency but allow for the necessary expansion to fund socio-economic development, the debt ratio should be capped at 30 percent of GDP on average during the MTEF period. Government will closely monitor developments in interest rates, spreads and debt maturity. To the extent possible early debt settlement will be undertaken.
- To maintain a sound macro-economy and enhance fiscal consolidation efforts, a new fiscal target will be introduced, namely, the interest rate payment ratio is to be capped at 10 percent of total revenues annually. The fiscal targets will thus be:
  - i. Maintain average debt as a ratio of GDP within the limits of 25 to 30 percent annually;
  - ii. Maintain the average budget deficit within 5 percent of GDP over the 2009/10 to 2011/12 MTEF;
  - iii. Achieve and maintain public expenditure levels below 30 percent of GDP annually; and
  - iv. Maintain interest rate payments as a ratio of revenue within the limit of 10 percent annually;
  - v. Maintain contingent liability below 10 percent of GDP, annually.
- Fiscal expansion is to be directed at priority development programmes with high growth and job creation potential. Fiscal expansion should not increase deficits over a prolonged period.
- Debt and budget deficit would remain capped at adopted targets in favour of macroeconomic stability. Government will ensure that the increases in public debt do not compromise long term fiscal sustainability.
- Government will pursue revenue-raising and growth enhancing administrative and policy reform agenda. These entail measures to broaden the tax base, simplifying administration and compliance, and enhancing the transparency of the tax code.
- Enhancing efficiency of productive spending programmes through timely implementation, monitoring and overall strengthening of public financial management through programme-oriented budgeting.
- Further countercyclical budget expansion will be approached with utmost caution. The aim should be to achieve efficiency gains and effective public finance management, with the emphasis on avoiding unaffordable and non-priority expenditure and ending untargeted subsidies to public institutions.

- Introduction of a new fiscal target to limit interest payments as a proportion of revenue to a maximum of ten percent.
- Project implementation lags are to be avoided to give effect to timely fiscal policy impulse in the economy. In regard to new development project undertakings, priority will be given to capital expenditure with significant potential for stimulating economic growth. Special attention will be granted to financing of projects that are intensive in domestic goods and services, including intensive domestic labour input, so as to support domestic economic activity and optimise the size of fiscal multipliers in the economy. New public investment in infrastructure notwithstanding, regard should be given to infrastructure preservation and maintenance which are typically labour intensive during the MTEF.
- Protecting spending in sectors such as health, education, water and sanitation and social protection in order to cushion the extended impact of the economic crisis on vulnerable households and preserve momentum towards achieving the MDGs. In this connection, Government would expand social safety net programme during the 2010/11 – 2012/13 MTEF to help cushion the impact of the crisis on the poor and buttress domestic demand.
- Improving the organisational structure of revenue administration, and strengthening audit capacity and compliance enforcement as part of a national drive to expand the tax base.
- Funding the long-term reform of the education and health sectors in order to improve the quality of outcomes, and evaluation of SOE performance as a basis for further financial transfers from the national budget.
- Consolidation of revenue collection efforts to achieve efficiency and optimisation of collection.



## IX. ANNEX - PESSIMISTIC SCENARIO

**Table 7. Revenue projection, Pessimistic Scenario (in N\$ millions)**

Revenue Head	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Estimate	Projections		
<b>GDP at market prices, nominal</b>	<b>55 788</b>	<b>64 132</b>	<b>74 579</b>	<b>80 551</b>	<b>88 194</b>	<b>96 211</b>	<b>105 283</b>
<b>Revenue and grants as % of GDP</b>	<b>31.5</b>	<b>32.3</b>	<b>31.4</b>	<b>29.3</b>	<b>25.1</b>	<b>21.0</b>	<b>23.7</b>
<b>Total Revenue and grants</b>	<b>17 593</b>	<b>20 688</b>	<b>23447</b>	<b>23 568</b>	<b>22 165</b>	<b>20 162</b>	<b>24 951</b>
<b>TAX REVENUE</b>	<b>15 843</b>	<b>19 183</b>	<b>21224</b>	<b>21 732</b>	<b>20 070</b>	<b>18 444</b>	<b>23 157</b>
<b>Tax on income and Profits</b>	<b>5 676</b>	<b>6 730</b>	<b>8070</b>	<b>7 797</b>	<b>8 569</b>	<b>9 475</b>	<b>10 506</b>
<b>Income Tax on Individuals</b>	<b>3 374</b>	<b>3 714</b>	<b>4606</b>	<b>4 818</b>	<b>5 275</b>	<b>5 755</b>	<b>6 297</b>
<b>Company Taxes</b>	<b>2 161</b>	<b>2 834</b>	<b>3269</b>	<b>2 763</b>	<b>2 987</b>	<b>3 388</b>	<b>3 857</b>
Diamond Mining Companies	360	221	499	511	184	232	215
Other Mining Companies	351	780	731	61	404	490	755
Non-Mining Companies	1 451	1 834	2039	2 191	2 398	2666	2 886
<b>Other Taxes on Income and Profits</b>	<b>141</b>	<b>181</b>	<b>194</b>	<b>162</b>	<b>248</b>	<b>269</b>	<b>281</b>
<b>Withholding Tax on Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54</b>	<b>59</b>	<b>64</b>	<b>70</b>
<b>Taxes on Property</b>	<b>142</b>	<b>149</b>	<b>171</b>	<b>195</b>	<b>201</b>	<b>220</b>	<b>241</b>
<b>Domestic Taxes on Goods and Services</b>	<b>3 197</b>	<b>4 081</b>	<b>4339</b>	<b>4 981</b>	<b>5 145</b>	<b>5 723</b>	<b>6 255</b>
VAT + Additional Sales Tax + General Sales Tax	3 002	3 854	4096	4 733	4 873	5 420	5 935
Levy on Fuel	86	71	106	110	114	131	141
Fishing Quota Levies	98	147	118	126	145	160	165
Other taxes on goods and services	11	9	20	12	13	13	14
<b>Taxes on International Trade and Transactions</b>	<b>6 698</b>	<b>8 085</b>	<b>8 502</b>	<b>8 585</b>	<b>5 975</b>	<b>2 828</b>	<b>5 939</b>
SACU Revenue Pool Share	5 399	6 174	8 502	8 585	6 447	5 930	5 939
Revenue Formula Adjustments	1 299	1 911	0	0	-472	-3 102	0
<b>Other Taxes</b>	<b>130</b>	<b>138</b>	<b>142</b>	<b>175</b>	<b>180</b>	<b>198</b>	<b>216</b>
<b>NON - TAX REVENUE</b>	<b>1 683</b>	<b>1 411</b>	<b>2 123</b>	<b>1533</b>	<b>1 804</b>	<b>1 462</b>	<b>1 538</b>
<b>Entrepreneurial and Property</b>	<b>1 264</b>	<b>917</b>	<b>1584</b>	<b>941</b>	<b>1 064</b>	<b>687</b>	<b>747</b>
Interest Receipts for Loans Extended to SOEs	21	6	8	16	12	15	18
Interest on Investments	0	0	524	0	0	0	0
Dividends and Profit Share from SOEs and other companies	692	113	173	306	445	83	83
Interest on State Account Balances with Bank of Namibia	39	154	334	182	120	60	30
Diamond Royalties	482	600	452	251	252	252	300
Other Mineral Royalties	0	43	93	150	200	250	300
<b>Fines and Forfeitures</b>	<b>19</b>	<b>25</b>	<b>36</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Administrative Fees, Charges and Incidental Sales</b>	<b>400</b>	<b>469</b>	<b>503</b>	<b>567</b>	<b>717</b>	<b>751</b>	<b>767</b>
<b>Lending and Equity Participation</b>	<b>17</b>	<b>16</b>	<b>17</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>26</b>
<b>External Grants</b>	<b>50</b>	<b>78</b>	<b>83</b>	<b>276</b>	<b>265</b>	<b>230</b>	<b>230</b>

Source: Ministry of Finance