2011

REPUBLIC OF NAMIBIA
MINISTRY OF FINANCE

Fiscal Policy Framework

2011/12 – 2013/14

"Accelerated Growth and Job Creation"

March 2011

FOREWORD

After a severe global recession precipitated by the global financial crisis, economic recovery, *albeit* fragile and uneven, is now under way, thanks to extraordinary fiscal stimuli at the global level and on the home front. The contagion from the global economic downturn did not only hit the real sector of the domestic economy, but also impacted negatively on revenue performance. However, Namibians have every reason to take pride in the fact that as a country, we emerged from the severity of the global recession relatively unscathed. A suite of countercyclical policy measures deployed by Government to cushion the economy and the population paid numerous dividends by buttressing domestic demand and shoring up consumer and market confidence. As such, overall public expenditure was expanded to optimize service delivery and socio-economic welfare gains.

This outcome was made possible by the Government's preparedness and forward-looking planning. A strong fiscal position was attained prior to the crisis, underpinned by three years of consecutive budget surpluses up to 2008/09. This allowed for greater fiscal manoeuvrability and boosted our ability to navigate through the vicissitudes of the global economic downturn. As a nation, we have also recorded numerous achievements on the socio-economic front and democratic governance.

Our investment in peace and security has ensured optimal maintenance of law and order and created an enabling environment for investors and businesses. Social safety nets and access to public health and education have been tremendously expanded as part of a broad-based human resources development and social protection agenda. However, this record of progress has been attained amidst persistent structural challenges. Stubbornly high unemployment has persisted, and high poverty levels and stark inequalities continue to prevail. The positive economic growth rates recorded in recent years have not been sufficiently robust and broad-based to address these structural challenges.

As the economy gradually recovers, there is broad consensus that accelerating growth and addressing unemployment and skills shortages has to be the central focus of resource prioritization and socio-economic development drive. In this connection, fiscal expansion will be maintained during the MTEF to ensure that countercyclical support is not abruptly withdrawn and greater attention is given to addressing socio-economic challenges. The focus of incremental budgetary expansion will be on key labour intensive and growth enhancing sectors, including public education and health.

To give effect to robust growth and employment creation strategy, increasingly more resources will be allocated to the identified priority sectors. In essence, this extraordinary resource commitment calls for seamless and timely execution of programmes and monitoring and evaluation of the results of intervention measures.

I call on all implementing agencies to maintain the course of accelerated policy implementation in order to realize optimum development results.
The Government also expects the private sector to seize the development opportunities presented by the stable macroeconomic environment and supportive fiscal policy.

Saara Kuugongelwa-Amadhila, MP
MINISTER OF FINANCE

TABLE OF CONTENTS

Contents

EXECUTIVE SUMMARY

"Recovery in the global and domestic economy is better than expected"

The 2011/12 – 2013/14 Fiscal Policy Framework comes into operation at a time when the global and domestic economic recovery is proceeding better than expected, thanks to coordinated and extraordinary fiscal stimuli deployed around the globe to spur growth. Improved domestic macroeconomic conditions bode well for domestic revenue outlook. However, the post-crisis fiscal environment is characterized by downside risks which could weaken growth and revenue prospects. At the same time, the global fiscal landscape is characterized by high fiscal deficits and unprecedented debt levels. Sovereign debt stress in certain parts of the World has threatened to further destabilize the financial sector. This development underpins the imperative of fiscal prudence, even in the presence of severe challenges. The overall fiscal policy direction at the global level is the gradual withdrawal of countercyclical fiscal expansion as economic recovery assumes sustainable momentum.

"Namibia's pre-crisis fiscal position was stronger, but it has now deteriorated"

Namibia entered the global economic crisis from a vantage point of strong macroeconomic fundamentals and fiscal position. Three years of consecutive budget surpluses up to 2008/09 provided fiscal space to counter the effects of contagion. In particular, the development budget allocation increased from N$2.1 billion in 2007/08 to N$2.6 billion in 2008/09 and reached N$5.2 billion during 2010/11.

However, expenditure expansion in recent years has not been matched by equivalent increases in revenue growth. The pace of revenue growth has decelerated since 2008/09. Revenue outturn for 2009/10 amounted to N$24.0 billion, which is only 2.5 percent higher than N$23.4 billion achieved during 2008/09. The outturn of N$22.7 billion estimated for 2010/11 represents a decline of about 6 percent. Nonetheless, Government utilized built up fiscal space to accelerate debt repayment so that the proportion of debt to GDP significantly slowed to 14.8 percent by 2009/10 and, consequently, to an estimated 20.1 percent in 2010/11 as a result of countercyclical fiscal expansion.

Namibia has entered the second decade of the 21st Century having recorded key successes on several fronts. Peace, political and overall macroeconomic stability have created a conducive climate for businesses. The economy has posted positive growth rates over an extended period, although the average growth rate of 4.6 percent achieved in the last ten years falls below the 7 percent aspired for in Vision 2030.

In the social sector, access to general public education and health has been tremendously expanded. Enrolment rates for basic educations ranks above 90 percent, public health and education facilities have been expanded, social safety nets have been strengthened and more people living with HIV and AIDS are provided with Anti-Retro Viral Drugs.

The myriad of recent achievements at the macro level is mired with structural challenges which, if not overcome, stand to stifle future growth prospects and even roll back some of the progress recorded. These challenges include less-than robust economic growth, skills shortages, sub-optimal educational outcomes, high unemployment, poverty and income inequalities and limited access to affordable finance.

"A focused growth and job creation strategy is needed to overcome the challenges"

To secure sustained macroeconomic stability, factors enhancing efficiency of the economy need focused attention. Thus, a focused growth and job creation strategy is needed to make a dent in the above challenges. During the next MTEF, more resources will be allocated to the sectors of agriculture, transport, tourism, energy, sanitation, education and health in accordance with the conclusions of the 2010 National Employment Creation Summit.

Thus, the budget priorities correspond to job creation and poverty reduction through accelerated growth, improved quality of life and skills development, implementation of policy reforms to further improve the business environment and competitiveness and continued investment in peace and security. In this connection, the Government will implement multifaceted intervention measures to optimize development outcomes. In particular, tax policy reforms aimed at broadening the tax base, improving efficiency of tax administration and compliance as well as competitiveness of tax rates will also be implemented during the MTEF.

The funding provided for programs is constrained by the available resource envelope. The total revenue envelop for the MTEF is projected at N$97 billion with N$ 28 billion projected for 2011/12, N$ 31.9 billion for 2012/13 and N$37.1 billion for 2013/14. SACU revenues are also anticipated to recover during 2011/12 onwards, after a deficit of N$9.8 billion was incurred in the SACU Common Revenue Pool during 2009/10. Namibia's share of the deficit amounts to N$2.4 billion and it will be netted off from the 2011/12 remittances. SACU revenues are estimated to constitute an average of 33 percent of the total tax revenue during the MTEF.

The revenue outlook is, however, characterized by downside risks. The most poignant risk to revenue outlook is the likely fall in taxes on international trade under the ambit of SACU, as a result of trade liberalisation and economic partnership agreement to which Namibia is party. Further, Namibia's share of SACU revenues is likely to slow down significantly in the event of a possible revision to the SACU Revenue Sharing Formula. Macroeconomic risks also abound. If global and, thus, domestic economic growth slows, this would impact negatively on revenue outlook.

In order to fund the identified priority areas, Government has adjusted the budget deficit target from 5 to 7 percent of GDP in 2010/11for the 2010/11 – 2012/13 MTEF. During the 2011/12 – 2013/14 MTEF, the expenditure ratio will be adjusted to 40 percent and budget deficit ratio will remain at 7 percent of GDP.

In this context, maximum aggregate expenditure consistent with this target amounts to N$120 billion over the MTEF.

In the context of possible revenue and macroeconomic risks, and for purposes of maintaining long-term fiscal sustainability, budget allocation ceilings should be well below this level during the MTEF.

"Fiscal expansion during the MTEF should also aim to build weakened fiscal space"

Domestic revenue streams have historically displayed resilience. On the whole, there is optimism as the economy recovers and concerted efforts are being made to address socio-economic challenges with renewed impetus.

1. REVIEW OF FISCAL DEVELOPMENTS

1.1 GLOBAL FISCAL GLIMPSE

1. The **global fiscal environment** is characterized by large deficits and high sovereign debt episodes since 2009. This aftermath is a result of massive fiscal stimuli unleashed to salvage the financial sector in advanced economies as well as fiscal expansion in developing and emerging economies to cushion the impact of the crisis. However, fiscal deficit for the world as a percent of GDP is estimated to have fallen from 6.8 percent in 2009 to 6.0 percent in 2010, with expectations for a further improvement to 4.9 percent in 2011. Adjustments in fiscal deficits are due to improving economic recovery as countries implement phased withdrawal of substantial fiscal stimuli packages.

2. Public debt ratios are expected to remain high in the medium-term and more pronounced in advanced economies, but debt levels are already falling in emerging and developing economies where economic recovery has assumed a firm upswing.

3. The overall global policy course is that countercyclical fiscal expansion is gradually withdrawn to resume strengthening of fiscal fundamentals and avoid procyclicality as economic recovery and growth gathers pace.

"As economic recovery gathers pace, countercyclical fiscal expansion is gradually withdrawn"

Table 1: Global fiscal balances and budget deficits for selected economies

Region/Country	2008	2009	2010	2011
	Actual		Projection	
World Overall Fiscal Balance	**-2.0**	**-6.8**	**-6.0**	**-4.9**
Advanced Economies	-3.7	-8.9	-8.1	-6.8
United States	-6.7	-12.6	-11.1	-9.7
Euro area	-2	-6.3	-6.7	-5.1
Japan	-4.8	-10.2	-9.6	-8.9
United Kingdom	4.9	-10.3	-10.2	-8.1
Canada	0.1	-5.5	-4.9	-2.9
Other advanced economies	1.9	-0.9	-0.7	0
Emerging markets and developing economies	-0.6	-4.8	-4.2	-3.3
Namibia*	**2.5**	**-1.7**	**-6.5**	**-8.6**
South Africa*	1.7	-1.2	-6.7	-5.3
Europe: Other	0.3	-6.1	-5.1	-4
Russia	4.3	-6.2	-4.8	-3.6
China	-0.4	-3	-2.9	-1.9
India	-7.6	-10.1	-9.6	-8.8
Latin America and Caribbean	-0.6	-3.7	-2.6	-2.2
Brazil	-1.3	-3.2	-1.7	-1.2

*Source: IMF – November 2010: Fiscal Monitor. , ** Data for Namibia and SA are sourced from Ministry of Finance and National Treasury respectively. Data for 2008 pertain to 2008/09 period. Other years are treated similarly.*

4. Namibia entered the global economic crisis from a vantage point of strong macroeconomic fundamentals and fiscal position. A third consecutive budget surplus was attained in 2008/09 which enabled the country to judiciously utilize the widened fiscal space and launch countercyclical fiscal policy against the unpredictable contagion effects of the global downturn. As such, the 2010/11 development budget allocation increased from N$2.1 billion in 2007/08 to N$2.6 billion in 2008/09 and reached N$5.2 billion during 2010/11.

"Namibia's pre-crisis fiscal position was stronger, but has now significantly weakened"

5. Three years after the onset of the global financial crisis, the global and domestic macroeconomic conditions are estimated to have rebounded in 2010 and the recovery is projected to strengthen in the medium-term. However, the recovery is still fragile and accompanied by enormous downside risks.

6. High sovereign debt episode affecting some Euro Zone member states has adverse implications for Namibia. Spain and Portugal are Namibia's important market for fish and fishery products. Subdued demand conditions in these markets will affect Namibia's export earnings.

2. DOMESTIC MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Overall Economic Performance and outlook

"The economy is projected to grow by 5.2% or even 6.3% on average during the MTEF"

7. The macroeconomic outlook for 2010/11 – 2013/14 projects an average growth rate of 5.2 percent under the most likely scenario, or even a higher rate of 6.3 under the "optimistic scenario", supported by targeted policy interventions. However, this optimistic scenario is still below the 7 percent aspired for under Vision 2030. The rebound followed a contraction of 0.7 percent recorded during 2009, as the impact of the contagion from the global recession hit the domestic real sector economy. Countercyclical fiscal and monetary policy aided the recovery. As such, growth in **government consumption** expenditure is recorded to have increased from 8.2 percent in 2008 to 9.8 percent in 2009, with positive spillovers on final consumption expenditure.

Table 1.2: GDP projections, expenditure approach – A Most Likely Scenario

Constant 2004 prices – % change	2009	2010	2011	2012	2,013	2014	2011-2014
Expenditure Classification	*Actual*	*Estimate*		*Projections*			*Average*
1. Final Consumption Expenditure	6.9	3.8	4.0	4.8	5.5	5.4	4.9
Private consumption	5.8	3.6	3.5	3.8	4.9	4.9	4.3
Government consumption	9.8	4.5	5.5	7.5	7.1	6.7	6.7
2. Investment	-1.6	5.1	4.4	4.4	4.5	4.3	4.4
Public investment	-1.2	4.0	4.1	3.6	3.3	3.1	3.5
Private investments	-1.8	6.1	4.7	4.9	5.4	5.3	5.1
3. Exports of goods and services	-14.9	11.9	9.6	10.6	11.2	10.7	10.5
4. Imports of goods and services	4.1	5.6	6.8	7.3	7.8	7.3	7.3
GDP in constant prices 2004	**-0.7**	**4.8**	**4.3**	**5.1**	**5.9**	**6.0**	**5.3**

Source: National Accounts 2009 and Macroeconomic Working Group 2010

8. On the supply-side, recovery is projected to be led by the rebound in the mining industry due to better commodity price prospects and expanded production. Growth in the secondary and tertiary industries is also projected to accelerate as a result of improved demand conditions.

Table 1.3: GDP Growth Rates by Industry, 2004 Prices – A Most Likely Scenario

Constant 2004 prices – % change	2009	2010	2011	2012	2013	2014	2011-2014
Industrial Sectors	*Actual*	*Estimate*	*Projections*				*Average*
Primary Industries	-26.9	19.0	0.8	-5.6	0.9	5.8	0.5
Secondary Industries	3.5	3.9	5.5	6.3	7.2	7.3	6.6
Tertiary industries	4.4	3.5	4.9	5.5	6.0	6.1	5.7
GDP at market prices	**-0.7**	**4.8**	**4.3**	**5.1**	**5.9**	**6.0**	**5.3**

Source: 2009 National Accounts; Macroeconomic Working Group 2010

9. The improved economic outlook enhances revenue growth opportunities, which further allows Government to strengthen fiscal fundamentals, while supporting the emerging growth and socio-economic development.

"A favourable economic outlook portends better revenue outturn"

3. FISCAL POLICY AND FINANCIAL MARKETS DEVELOPMENTS

3.1 Fiscal Policy Developments

10. The overall objective of the government's fiscal policy is geared at promoting economic growth, efficient service delivery and socio-economic welfare within the ambit of macroeconomic stability and sustainability of fiscal outcomes. The fiscal policy is countercyclical, allowing for fiscal expansion during economic downturns and strengthening of fiscal space during improvements in economic activity. The policy recognizes that Namibia is a developmental state with inherent structural socio-economic challenges for which fiscal policy has a prominent role to play.

"Fiscal policy is countercyclical and aims to promote growth and social welfare"

11. Tax policy is the main lever for fiscal policy to stimulate growth and contribute to equitable distribution of income, while maintaining incentives for economic agents to produce and invest.

"A suite of fiscal measures were implemented to spur growth and cushion the economy"

12. In recent years, the following mix of targeted measures were undertaken to promote growth and social welfare as well as cushioning economic hardships emanating from external shocks:-

- Since 2005/06, the Government implemented a fiscal consolidation program aimed at strengthening fiscal fundamentals. Fiscal consolidation was on the back of improved economic growth prospects and a boom in commodity prices. As a result, three consecutive budget surpluses were achieved during 2006/07, 2007/08 and 2008/09. In addition, the Government also adopted a debt management strategy which emphasized domestic capital market development and caps on foreign debt. Foreign debt levels have been minimal and caped at no more than 5 percent of GDP. The debt management strategy encourages domestic capital market development. Parastatals were encouraged to develop debt instruments in order to reduce the cost of Central Government borrowing, while contributing to local capital market development.

- The government judiciously utilized part of the strengthened fiscal space and accumulated cash balances to launch countercyclical fiscal expansion as the global economic meltdown loomed. Alongside this development, the government strengthened the debt redemption fund and accelerated debt repayment, thus lowering the debt burden on future generations and boosting market confidence. As a result, central government debt, which hovered around 34 percent of GDP in 2004/05, was significantly reduced to 15 percent by 2009/10.

- Program budgeting was introduced to public finance management and when fully deployed, will allow for tracking of expenditure impact on outcomes.

- Due to the Government's pro-poor, pro-growth focus as well as the significant role of the private sector, Namibia was able to make a dent in poverty and inequality, with a reduction in the Gini Coefficient ratio from 0.701 in 1993/94 to 0.604 by 2003/04 and a reduction in the proportion of households which are poor or severely poor over the same period, although current levels are still high.

- Government also pursued an SOE support strategy which emphasized value for money and provision of critical services in accordance with the respective SOE mandates. As such, subsidies to SOEs have only been provided to targeted program activities. Government has also concluded subsidy agreements with SOEs which call for accountability over state support on the basis of which further budgetary support will be hinged.

- Capitalisation of Development Financial Institutions was strengthened through budgetary transfers to the Development Bank, AgriBank and National Housing Enterprises for SME and business support, land reform and Affirmative Action programs as well as accelerated provision of affordable housing.

- Budgetary allocation to education, health and social welfare has been prioritized. Additional funding to education allowed for the promotion of greater access to education, funding for Grade 10 learners to repeat their course and expanded financial assistance for tertiary education. In

"Expenditure on social sectors was prioritized"

the health sector, expanded funding provided for the addition and refurbishment of health facilities, including establishment of a Cardiac Unit, a School of Medicine and an expanded roll out of Anti Retroviral Drugs.

- The allocation policy for the development budget has emphasized key economic sectors and infrastructure development. Funding has been provided to rehabilitate roads and construct railway infrastructure as well as capital injections in the energy sector for enhanced power generation and rural electrification. These interventions will have significant multiplier effects on the economy.

- Namibia is among only three countries in Sub-Saharan Africa which provides pensions to the elderly. In recent years, increasing emphasis has been given to mitigating vulnerability by improving Old age grants and Vulnerable Children (OVCs), school feeding program and combating HIV and AIDS and its effects. Due to these efforts, the Old Age Pension was increased. More children are benefiting from OVC support, while 2000 veterans of the liberation struggle are covered under the Veterans Grant Scheme, with a substantial boost planned under the next MTEF.

"Social Safety Nets were significantly expanded"

- During 2009/10 generous tax concessions have been granted with added impetus to provide relief to consumers and low-income earners, but also to provide incentives to businesses. In particular, to promote equitable income levels, tax relief has been provided to low-income earners with a systematic increase in the tax threshold. Since 2007/08, the threshold has been increased from N$24,000 to N$40,000.

3.2 Developments in Fiscal Aggregates

13. In order to sustain macroeconomic stability, fiscal policy operations are based on fiscal benchmarks measured as average outturns during the MTEF. In conducting fiscal policy activity, the Government emphasizes public resource allocation and expenditure efficiency, strengthening of revenue collection and administration and maintaining sustainable public finances.

"Fiscal benchmarks aim to safeguard macroeconomic stability and fiscal sustainability"

14. To maintain macroeconomic stability the following fiscal rules are adopted as parameters within which fiscal policy is conducted:-

    i. Maintain average debt as a ratio of GDP within the limits of 30 percent over the MTEF;

    ii. Maintain the average budget deficit within 7 percent of GDP over the MTEF.

iii. Maintain public expenditure levels below 30 percent of GDP annually. This ratio will be adjusted to 40 percent during the next MTEF.

iv. Maintain interest rate payments as a ratio of revenue within the limit of 10 percent annually; and

v. Maintain contingent liability below the target of 10 percent of GDP annually.

"Expenditure and budget deficit targets will be maintained at 40% and 7%of GDP over next MTEF"

15. Adjustments in expenditure and deficit benchmarks were in recognition of the pressing socio-economic developmental needs of the country as well as to boost the magnitude of fiscal expansion to weather the effects of the global downturn.

16. The domestic fiscal developments during the 2008/09 – 2010/11 MTEF were characterized by relatively strong fiscal fundamentals with relatively low Central Government debt, and an average budget deficit of around N$1.5 billion or 2 percent of GDP over the MTEF. Fundamentals were projected to weaken during the 2009/10 – 2011/12 MTEF due to the Governments countercyclical fiscal measures in the face of the global downturn. This countercyclical policy had the desired effect of aiding the country to navigate through the vicissitudes of the global crisis. As the global recovery rebounds and domestic economic growth gains momentum, it is advisable that expansionary fiscal support be undertaken at a slower pace so that fiscal space is not completely exhausted in the event of future shocks to the economy.

3.2.1 Revenue

17. Revenue collection is an important fiscal policy lever. In recent years, the Government has pursued a revenue-enhancing policy, driven by strengthening revenue collection and administration through forensic tax audits, strengthening internal audit functions and tax assessment. As a result, domestic revenue outturn performed relatively well amidst a subdued global environment.

"Revenue collection is an important lever for fiscal policy"

18. Due to the effect of the global downturn on trade, total revenue and grants for 2009/10 only marginally exceeded budget estimates by 2 percent. The second-round effects of the global financial crisis halted the commodity price boom and dissipated the pace of revenue growth witnessed during the pre-crisis period. Revenue outturn for 2009/10 amounted to N$24.0 billion, which is only 2.5 percent higher than N$23.4 billion achieved during 2008/09. An outturn of N$22.7 billion is estimated for 2010/11, which is about 0.7 percent better-than-expected, but represents a reduction in revenue relative to the preceding year (mainly due to falling SACU receipts incurred in 2008/09).

According to prevailing SACU rules, surpluses and deficits in the Common Revenue Pool are accounted for with a two-year lag.

"The effects of the global financial crisis dissipated year-on-year revenue growth"

19. The year-on-year growth in revenue performance is significantly below the average revenue growth of 20.8 percent recorded during the last three years (2005/06 – 2008/09), as the global economic downturn took a toll on the real sector economy. Contagion from the downturn affected almost all tax categories, save personal income tax and value-added tax (VAT). The severity was especially pronounced on taxes on international trade under the ambit of the Southern African Customs Union (SACU) as well as company tax, for which diamond mining sector was hard-hit.

20. For 2007/08, total revenue and grants outturn was N$20.9 billion, up by 16.8 percent year-on-year. In 2008/09, total revenue and grants increased by 12.7 percent to N$23.4 billion. The pace of growth further slowed to 2.5 percent by 2009/10 and in 2010/11 revenue declined by an estimated 6 percent, resulting in a fall from N$24.0 billion in 2009/10 to an estimated N$22.7 billion in 2010/11. This decline was mainly due to falling SACU receipts. As a proportion of GDP, total revenue and grants slowed from 31.5 percent achieved during 2006/07 – 2008/09 to 25.5 percent in 2009/10.

21. ***Tax revenue*** constituted the mainstay of total revenue and grants, standing at 92.6 percent of total revenue in 2009/10, up from 90.5 percent in 2008/09. Current estimates place tax revenue at 92.8 percent of total revenue in 2010/11.

"Personal Income Tax and Value-Added Tax showed resilience during the crisis"

22. ***Domestic tax performance,*** particularly Personal Income Tax (PIT) and Value-added Tax (VAT), anchored resilience in overall tax performance during 2009/10. Overall tax revenue amounted to N$22.3 billion in 2009/10, exceeding budget estimates by 2.5 percent. This performance can be explained by individual income tax and value added tax exceeding projected levels by 5.5 percent and 5.1 percent respectively. In spite of a significant fall in Other Mining Company Tax from N$731 million in 2008/09 to N$61 million in 2009/10, improvements in non-mining company tax outturn helped to offset subdued performance in taxes from mining operations.

"SACU revenues were hard hit and downside risks remain"

23. ***SACU receipts*** remain the largest single contributor to revenue, but significant reductions have been incurred in 2009/10. Downstream risks remain for 2010/11 and 2011/12. SACU receipts averaged 40.2 percent of total tax revenue during the 2007/08 to 2009/10 review period. However, during 2009/10, the Common Revenue Pool (CRP) recorded an estimated deficit of N$9.8 billion as a result of the global economic crisis, of which Namibia's share is estimated at N$2.4 billion. The estimated deficit will be netted off from

Namibia's share of SACU revenues for 2011/12 set at N$ 9.57 billion. This will result in a net share for Namibia of N$7.13 billion for 2011/12, which is a significant reduction from the recent historical levels. This is the second consecutive deficit liability for Namibia, after the first CRP deficit was incurred during 2008/09 for which Namibia fully settled her deficit share amounting to N$2.0 billion.

Table 1.4: Trends and year-on-year changes in tax revenue, 2006/7 – 2010/11

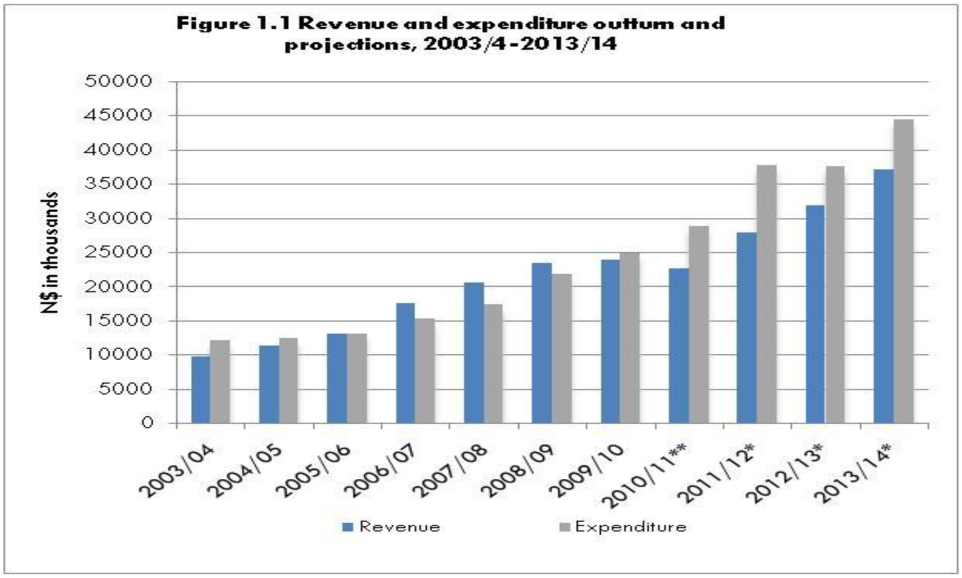
Financial Year	Income Tax on Individuals	Company Taxes	Other Taxes on Income and Profits	Taxes on Property	Domestic Taxes on Goods and Services	Taxes on International Trade and Transactions	Other Taxes	Total
2006/7	3,374	2,161	141	142	3,197	6,698	130	15,843
2007/8	3,714	2,834	181	149	4,082	8,085	138	19,183
2008/9	4,606	3,269	194	171	4,339	8,502	142	21,223
2009/10	5,084	2,852	148	222	5,162	8,585	167	22,220
2010/11*	5,891	3,088	236	238	5,286	5,975	199	20,913
				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	22.9	12.8	0.7	1.0	23.2	38.6	0.8	100.0
2010/11*	28.2	14.8	1.1	1.1	25.3	28.6	0.9	100.0
				Year-on-Year Change				
2007/8	10.1	31.1	28.4	4.9	27.7	20.7	6.2	21.1
2008/9	24.0	15.3	7.2	14.8	6.3	5.2	2.9	10.6
2009/10	10.4	-12.8	-23.7	29.8	19.0	1.0	17.6	4.7
2010/11*	15.9	8.3	59.3	7.2	2.4	-30.4	18.9	-5.9

**Excludes Withholding Tax on interest. Data for 2010/11 are estimates.*
Source: Ministry of Finance, 2010

3.2.2 Expenditure

24. **Expenditure outturn** for 2007/8 – 2009/10 averaged N$21.4 billion, or 29.2 percent of GDP, which was within the public expenditure limit of 30 percent of GDP over the MTEF. Expenditure outlay for 2009/10 amounted to N$24.9 billion. The expenditure-to-GDP ratio increased from 29.5 percent in 2008/9 to 31.1 percent in 2009/10. The Government adopted the expansionary fiscal policy since 2008/09 in response to the economic crisis.

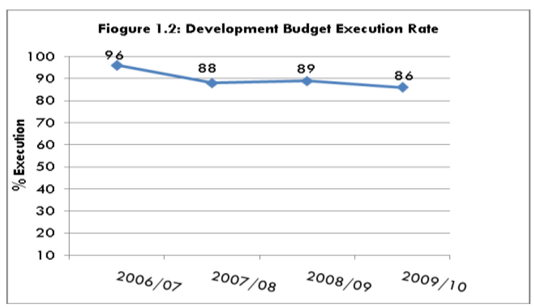
"The pace of expenditure expansion significantly outstripped revenue growth"



Source: Ministry of Finance, 2010

25. The significant fiscal expansion helped to maintain domestic demand during 2009 and 2010. As the duration and intensity of the crisis were unknown, average expenditure expansion was planned to rise to 29.7 billion during the 2010/11 – 2012/13 MTEF with average budget deficit amounting to during the MTEF which was within the revised 7 percent benchmark.

26. The **Development budget** amounted to N$4.5 billion in 2009/10, corresponding to 17.6 percent of the budget and 5.6 percent of GDP. This was a substantial increase from the N$ 3.8 billion budgeted for in 2008/9, representing an 18.5 percent annual increase. Of the N$4.5 billion allocated, N$3.8 billion was spent, indicating an execution rate of 85.9 percent, which is lower than the 89.2 percent achieved in 2008/09. The execution rate has not improved with increased budgetary allocation.



27. Government has initiated measures to re-engineer the capital project implementation process as well as removing bottlenecks in project assessment and tendering processes. Legislative amendments to the procurement rules have been undertaken to encourage local participation, especially for SMEs. Further

measures entail capacity building and data management as nodes for fast-tracking the implementation and evaluation processes.

28. Operational expenditure, including expenditure of capital nature has been fully spent in recent years. This outcome is a result of better Public Finance Management.

3.2.3 Budget Balance

29. The global economic crisis has brought buoyant revenue growth to a halt as well as consecutive budget surpluses achieved in recent years. Due to a combination of fiscal expansion and only moderate increases in revenue a **budget deficit** amounting to N$ 867.7 million, or 1.1 percent of GDP, was incurred in 2009/10. This outturn is slightly better than the deficit of 5.2 percent projected in the budget due to better-than-expected revenue performance for individual income tax and value-added tax.

"Budget fell into deficit 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	2009/10	2010/11
	Actual				*Estimate*
GDP	*56,040,659*	*65,060,086*	*74,953,292*	*80,065,127*	*89,059,464*
Revenue	**17,593,374**	**20,688,683**	**23,446,820**	**24,046,562**	**22,698,774**
% of GDP	*31.4*	*31.8*	*31.3*	*30.0*	*25.5*
Expenditure	**15,279,183**	**17,382,385**	**21,944,848**	**24,914,219**	**27,744,198**
% of GDP	*27.3*	*26.7*	*29.3*	*31.1*	*31.2*
Budget Balance	***2,314,191***	***3,306,298***	***1,501,972***	***-867,657***	***-5,045,424***
% of GDP	*4.1*	*5.1*	*2.0*	*-1.1*	*-5.7*
Total Debt	**13,635,991**	**11,693,340**	**13,389,143**	**11,875,000**	**17,937,141**
% of GDP	*24.3*	*18.0*	*17.9*	*14.8*	*20.1*
Total Guarantees	**3,767,600**	**3,413,340**	**3,028,779**	**2,634,912**	**2,427,564**
% of GDP	*6.7*	*5.2*	*4.0*	*3.3*	*2.7*

Source: Ministry of Finance, 2010

3.3 ASSETS AND LIABILITIES

3.3.1 Public Debt Outturn

"Government Debt was significantly reduced in 2009/10"

30. **Central Government debt stock** remained significantly below the 30 percent target band, despite the expansionary fiscal policy. The debt-to-GDP ratio remained flat at 18 percent in 2007/8 and 2008/9 and decreased further to 14.9 percent in 2009/10, with a rise to 20.1 percent estimated for 2010/11. In absolute terms, total debt increased from N$11.7 billion in 2007/8 to N$13.4 billion in 2008/9. In 2009/10 total Central Government debt slowed to N$11.9 billion, but further rose to N$17.9 billion in 2010/11. However, if debt for Local Authorities is considered, total public debt levels would increase slightly.

3.3.2 Loan Guarantees

31. Between 2007/08 and 2008/09 total **loan guarantees** fell by 11.3 percent from N$3.4 billion to N$3 billion. In 2009/10 loan guarantees decreased by a further 13 percent to N$2.6 billion.

3.4 Capital and Financial Markets Developments

"Financial inclusion and access to affordable finance is an important policy going forward"

32. The Fiscal Policy Framework recognizes that finance is a key catalyst for economic development and social transformation. While the Fiscal Policy Framework notes that Namibia has relatively well-developed financial systems, financial inclusion and access to affordable financial products and services remain a persistent concern for SMEs and about 51 percent of the population that is estimated to be financially excluded.

33. During the review period, the following interventions were undertaken to elevate the role of the financial sector in the economy and enhance the business environment, while facilitating innovation for financial capital and financial market development:-

- In the banking sector, regulatory reforms have been undertaken through amendments to the Payments Systems Management Act (Act. No. 18 of 2003) and Banking Institutions Act (Act No. 2 of 1998). The reforms are aimed at modernising supervision and regulation, taking into consideration Namibia's circumstances of limited access to financial services, as well as to promote ownership and local participation in the sector.

- In the non-bank financial sector, the Financial Institutions and Markets Amendment Bill (FIMBILL) has been finalized and is being streamlined to strengthen effectiveness of implementation. The reforms seek to modernise and streamline regulatory functions and provide for, among other things, the enforcement of compliance with financial service laws and the establishment of a Financial Service Ombuds office to advance consumer protection and recourse mechanisms. Regulatory amendments were also made to Regulations 28 and 15 as well as the respective Acts to provide for a conducive legal platform for institutional investors to invest locally.

"Amendments to Regulations 28 and 15 would optimize investment from domestic savings"

- A voluntary Financial Sector Services Charter was operationalised during 2009. In terms of the Charter scorecard, the sector commits to, among other things, breaking the prevailing feature of limited access to services, financial exclusion and skewed ownership. A sector-wide Charter Council oversees progress in the Charter implementation process. A number of players in the sector have seized this opportunity to start balanced restructuring of their shareholding portfolios, promote BEE schemes and invest in more focused corporate social responsibility and consumer education.

"Implementation of the Charter will be monitored and evaluated"

- While access and distribution of affordable financial products and services remains an Achilles heel, the emerging product innovation path in recent years as well as investment in business innovation and technology in the financial sector is encouraging. Banking institutions have introduced financial products which attract lower service charges, aimed at accommodating the needs of low-income earners. It is important that these efforts are strengthened to cater for more low-income earners who are currently unbanked due to prohibitively high cost of financial services. In terms of the requirements to localize core banking systems, banking institutions were set to achieve localization of IT operations and requisite skills by 2010.

"Fees and charges in the financial sector rocket out of affordability range for low-income earners"

- Research undertaken in the sector in relation to the cost of financial products and services concluded that a partnership approach, accompanied by a visible supervisory regime to address product and service affordability is an important policy priority. As a consequence, formulation of a Financial Sector Strategy has been initiated, alongside a national financial literacy forum to spearhead sector development in the context of National Development Plans.
- Liberalisation of exchange rate controls has been undertaken in tandem with the gradual process of exchange rate control liberalisation within the SADC Finance and Investment Protocol and regional integration agenda.

4. SOCIO-ECONOMIC ACHIEVEMENTS, CHALLENGES AND FISCAL RISKS

4.1 Achievements

34. Since independence, Namibia has recorded various successes on key fronts. From the perspective of socio-economic development, the achievements are mainly in the fields of public administration, economic and social sectors.

"Namibia has recorded socio-economic successes in key areas"

- **Public sector administration**: Namibia has achieved peace and political stability, anchored on democratic governance and rule of law. Establishment of functioning institutions has ensured building of a capable state and increased state capacity to deliver services. Public finance management has been strengthened; inflation is generally low and under control and public debt has remained within the sustainable benchmark levels. Investment in peace and security has created a *conditio sine quanon* for economic and social progress.

- **Economic sector:** In the economic sector, macroeconomic stability has been entrenched, supported by sound fiscal and monetary policies. Successive independent international assessments commended Namibia for sound macroeconomic policy and fiscal prudence. The country has recorded positive economic growth rates for extended periods, although the average rate of 4.6 percent achieved in the last ten years falls below the 7 percent growth rate aspired for in Vision 2030. Per capita income has steadily increased with the exception of 2009 and, according to the World Bank classifications, Namibia attained an upper-middle income status in 2010. The current account of the balance of payments has recorded healthy surpluses over time.

"Macroeconomic stability is entrenched, but growth rates have not been sufficiently broad-based and robust"

- **Social Sectors:** In the realm of social capital formation, access to general public education and health has been tremendously expanded. Basic amenities, including access to potable water, rural electrification and road infrastructure have also been provided to an increasing number of citizens. By 2009, basic education was accessible to 92 percent of the school-going population and over 90 percent of Namibians had access to clean water. Access to anti-retroviral treatment has been expanded. Namibia ranks among one of the three countries in Sub-Saharan Africa which provides social safety nets to its citizens.

"Access to public services ranks among the best in Sub-Saharan Africa"

4.2 Challenges

35. The record of socio-economic achievements realized to date is nonetheless mired by severe challenges. The challenges are structural in nature and have the potential to stifle future economic growth, even rolling back some of the successes recorded to date. One of the most critical challenges is the level of economic growth, which is not sufficiently broad-based and robust to make a significant dent in poverty,

"… but severe, structural challenges linger on"

unemployment and income inequality. Other challenges relate to the poor quality of educational outcomes, shortage of technical and management skills, limited production base, the relatively high cost of doing business and rigidities in the labour market as elucidated below:-

"A focused growth strategy is needed to address persistent challenges"

- **Relatively low economic growth rates:** Namibia's economic growth rates have not been sufficiently robust and fell below an annual target rate of 7 percent required to achieve Vision 2030 targets. The growth rates have largely been driven by investment in the minerals sector and have not generated commensurate growth in employment and significant reduction in poverty and income inequalities. In order to realise broad-based growth, a focused growth strategy which prioritizes sectors commanding high growth and employment creation is needed.

"Addressing unemployment requires a multi-facetted strategy"

- **Unemployment**: Labour Force Surveys have highlighted the persistence of high unemployment. Unemployment is concentrated among the youth (persons aged 15 -34 years), the unskilled labour force as well as persons with low educational attainment. Other causal factors contributing to high unemployment include shortage of skills and skills mismatch, low investment and binding constraints on private sector development. Addressing unemployment will require a multi-facetted strategy in these areas.

"Substantial improvement in internal efficiency in education is needed without which more money does not buy success"

- **Quality of educational outcomes and skills shortage:** Record success in improving access to education and educational facilities has not been matched with corresponding improvements in educational outcomes and technical skills formation. Persistent leaner underachievement has been the glaring challenge in general education and the capacity of institutions for higher learning, among others, constrains expanded in-take. A myriad of factors, ranging from school management to the quality of imparting knowledge, dents progress towards significant improvement in outcomes. Namibia aspires to transform itself into a knowledge economy, with knowledge and its application as the engine for economic growth and social development. A recent expenditure review of the education sector emphasized the need for substantial improvement in internal efficiency, without which additional budgetary allocation cannot generally translate into better results.

- **Financial exclusion and limited access to affordable finance**. Assessments in the financial sector, both bank and non-bank financial sub-sectors, have pointed to limited financial inclusion and access. About 51 percent of Namibians are financially excluded and the cost of financial products and services, including the cost for medical aid services, generally rocket out of affordability range for low-income earners and SMEs. The industry has committed itself to specific targets aimed at transforming the sector. In addition, the amendments introduced to the Banking Institutions legislation as well as those relating to Non-Bank Financial Institutions will promote transformation of the sector.

Box I: The nexus between education, economic growth and job creation

Development economics literature points to a link between education, economic growth and employment. Recent labour market information for Namibia shows that unemployment among persons with university training is only 9.3 percent, for those with only Grade 12 it is 41.5 percent and those with less than Grade 12, the figure escalates to 56.7 percent. In essence, the substantial majority of primary and secondary school leavers do not find jobs or other income generating activities. Underachievement in higher education and technical training is thus a constraint to employability.

The outcome of business surveys indicates shortage of skilled workers as a constraint for Namibia. The shortage of skills presents a significant binding constraint to higher and sustainable growth. It limits the capacity to apply knowledge and technology in production, constrains productivity growth, reduces profitability and investment returns and hampers competitiveness. If it persists, the skills shortage will make it difficult for Namibia to attain its goal of accelerated economic growth and reduction of poverty and inequality. The skills bottleneck is further exacerbated by strict requirements for importation of required skills which, in turn, limit Namibia from optimally benefitting from "brain gain".

Decent job openings in the economy and opportunities for self-employment come about as a result of broad-based economic growth and wider access to finance and productive resources, but technical and management skills have to be developed to enhance self-employment. Growth is broad-based and pro-employment when it is diverse and prevalent in sectors with high-employment potential. Namibia has historically experienced positive economic growth rates in the order of 4.6 percent during the last ten years. However, it has been a decade of jobless growth. The growth episodes experienced have been propelled by investment in the capital intensive minerals sector. According to the 2008 Labour Force Survey, a staggering 91.8 percent of the Labour force has not gone beyond Grade 12. This substantial percentage will find it difficult to secure work given the limited number of unskilled job openings and the difficulty in securing jobs for which technical skills or technological readiness is a pre-requisite. .

In a developmental state like Namibia, fiscal policy could, as it has, play a critical role to spur economic growth and crowd-in private investment. However, Government is not the engine of growth, that role corresponds to the private sector, given the right conditions. The 2010 Global Competitiveness Report, among others, cites the cost of doing business and underachievement in educational outcomes, especially higher education and training as some of the areas of weakness for Namibia. Thus, the skills shortage thinly spread-out public investment and weak competitivess in core areas pose a first-order threat to higher, sustainable economic growth, job creation and poverty reduction.

Namibia needs to pursue a new coherent growth and skills development strategy which is shepherded by a suite of potentially difficult legislative reforms and policy changes to address competitiveness. Furthermore, significant resources should be devoted to investment in growth-enhancing infrastructure and labour intensive sectors, expanded tertiary

- **Limited production base.** A narrow production base hinders opportunities for Namibia to tap into new sources of growth, improve food security and local value addition and substantially increase output of manufactured goods. Exports of raw materials and primary products continue to account for a significant share of total merchandize exports for Namibia, with some exceptions in meat and fish processing and limited mineral beneficiation. Agricultural output growth has been falling in recent years, in spite of the sector supporting the livelihood of about 65 percent of the population. Application of Research and Development (R&D) in agriculture and in the Namibian economy in general is limited. About 80 percent of foodstuff is imported. A national industrial development policy will provide the necessary strategic guidance on the course of future industrialisation within the context of an increasingly integrated and globalized market. Implementation of a PPP policy is also paramount to provide for increased investments in critical infrastructure and services. A related challenge relates to attracting Foreign Direct Investment (FDIs) as well as domestic investment in diverse sectors of the economy. Furthermore there is a need for expanded investment in transport and energy infrastructure and legislative reforms to improve business climate and competitiveness.

"A national industrialization policy is needed to spearhead industrial development"

4.3 Risks

36. **Macroeconomic risks:** The global and domestic macroeconomic environment is underpinned by slow and fragile economic recovery. Weak recovery of global and domestic demand poses risk to accelerated revenue growth. As such, revenue outturn will remain subdued at the onset of the MTEF. If recovery further slows, this would exert further downward pressure on revenue.

"If growth slows, revenue performance will slacken"

37. **Revenue risks:** Slow recovery in revenue during the medium-term is further exacerbated by the short-term revenue impact of regional integration and trade liberalization measures. The revenue outturn from taxes on international trade under the ambit of SACU is expected to remain relatively low for 2011/12 due to repayment of the deficit in the SACU Common Revenue Pool incurred in 2009/10 before a full recovery is realized. Review of the SACU Revenue Sharing Formula, and tariff reduction under trade liberalization arrangements to which Namibia is party also pose further risks going forward. If these risks materialize, revenue projections will have to be adjusted during the MTEF, with adverse impacts on budget deficit and public debt benchmarks.

"Tariff reduction under trade liberalization and possible review of SACU Revenue Sharing Formula pose severe risk to revenue"

38. **Currency risks:** Increased inflow of capital into emerging and developing economies has resulted in exchange rate appreciation. In particular the South

African Rand, to which the Namibian Dollar is pegged, has appreciated against the US Dollar and Euro during 2010. While a stronger currency augers well for domestic importers and debt servicing, it reduces export earnings. The expected depreciation in the medium and long-term will exacerbate debt servicing costs and further jeopardize rebuilding of fiscal space.

5. FISCAL POLICY PRIORITIES FOR THE MTEF

- **Job creation and poverty reduction through an accelerated growth strategy.** In order to create jobs through accelerated economic growth, expanded public investment in agriculture, tourism, transport and education sectors will be prioritized during the MTEF. Significant incremental fiscal expansion would be targeted to these sectors in accordance with the conclusions of the **2010 National Employment Creation Summit**. Expanded budgetary support to agriculture will help boost food security through expansion of the Green Scheme projects, agricultural extension services and application of R&D.

- **Skills development.** The Government will continue to accord greater priority to education and training as well as investment in health. Additional expenditure in education will be targeted at the implementation of the ETSIP program and the development and implementation of the National Human Resources Plan, increased support to National Student Financial Assistance Fund for expanded in-take at institutions of higher learning and increased provision of educational facilities. In the health sector, additional funding will be provided to support provision and maintenance of infrastructure, budgetary support for the provision of anti-retroviral drugs as well as continued support to the School of Medicine.

- **Improving business climate.** Priority will be given to accelerating reforms to improve the general business climate, including a review of the Foreign Investment Act, streamlining procedures for registration of businesses and labour law reforms.

"Reforms to improve the business climate will reinforce fiscal interventions"

- **Investing in safety, peace and security:** Expenditure towards investment in political stability, public safety, good governance and building a capable state will be maintained during the MTEF.

6. FISCAL POLICY STRATEGIES AND INTERVENTIONS

"The thrust of fiscal interventions aims at wider economic objectives, while strengthening the fiscal position."

39. Namibia has inherited a lopsided economy, with significant socio-economic deficits and unequal distribution of wealth. These historical shortfalls adversely affect the social fabric of society and threaten to roll back some of the gains recorded to date. Addressing these challenges requires concerted effort from all stakeholders. Government will deploy a targeted fiscal expansion and reforms during the MTEF to address these challenges.

40. The magnitude of fiscal expansion gives due regard to long-term fiscal sustainability so that fiscal space is not entirely eroded.

41. Government will pursue the following fiscal policy interventions to optimize development outcomes during the MTEF. The fiscal policy measures are further complemented by policy interventions in all sectors of the economy as envisaged in the national development plans.

- In order to place the economy on an accelerated growth path and reduce unemployment and poverty incidence, the Government will further deploy targeted expansionary fiscal policy. The composition of incremental fiscal expansion will be targeted towards priority sectors with high poverty reduction and job creation and growth-enhancing potential, that is, in agriculture, transport, tourism, sanitation, education and health. As a result of this focused measure, the budget deficit target will be maintained at 8 percent of GDP on average over the next MTEF.

- The magnitude of fiscal expansion gives due regard to fiscal sustainability and the long-term debt burden. While expanded programmes in education and health sectors are expected to yield positive returns in the long-run, targeted investment in growth-enhancing initiatives promises to render positive returns in the medium term so as to assuage escalation of public debt.

- Government will implement measures to optimize revenue collection and broaden the revenue base by tapping alternative sources of revenue and strengthening revenue collection and administration without placing excessive burden on tax payers.

- The execution and implementation of policy interventions will be monitored, evaluated and reported on a regular basis.

- In order to strengthen public finance management, improve the quality of expenditure and ensure value for money, expenditure review and tracking will be undertaken during MTEF. Program budgeting will also be rolled out to all votes.

- To further reinforce the impact of fiscal expansion on economic activity, the Government will undertake a suite of legislative reforms aimed at improving the general business environment in the areas of labour, investment climate and communal property rights.

- Upon finalising and implementing a PPP policy, the Government will encourage SOE participation and increased investment in critical infrastructure and services within the PPP Policy framework.

- Tax policy reforms will be undertaken during the MTEF to strengthen revenue administration and enhance the progressivity and neutrality of tax policy across all sectors. Tax policy will be subjected to continuous review to ensure that it supports overall development policy objectives.

- To support local economic and enterprise development and create a conducive environment for mobilizing domestic savings to support local investment, amendments to the national procurement and institutional investors legal framework will come into operation.

- Increased budgetary support will be given to investment in R&D and strengthening the capacity of the Scientific Research Council. Government will streamline the design and implementation of R&D Program to provide increased support to R&D and innovation activities in all sectors. Going forward, the Government will explore measures to incentivize business innovation, value-addition, employee training and investment in R&D.

- The Government will implement measures aimed at promoting financial inclusion, financial deepening, wider access to products and services, capital market development and financial literacy and consumer protection through regular monitoring of the implementation of the Financial Sector Charter and Financial Sector Strategy, sound regulation and regular stakeholder consultation.

7. MEDIUM TERM OUTLOOK

Fiscal Outlook for the 2011/12 – 2013/14 MTEF

7.1.1 Assumptions underlying revenue forecast

42. Revenue growth patterns generally follow GDP growth, albeit with varying time lags. The macroeconomic assumptions and projections underlying revenue forecasts are given in the Most Likely Scenario of the Macroeconomic Framework for 2011/12 – 2013/14. Revenue forecasts are based on these macroeconomic aggregates.

43. In 2010/11, the tax revenue to GDP ratio is estimated to fall to 23.6 percent, from 27.8 percent achieved during 2009/10, mainly on account of lower SACU revenue. However, tax revenue is expected to improve moderately over the MTEF due to improvements in commodity prices, recovery in the SACU Common Revenue Pool and improvement in the activity rate. Total revenue and grants is thus expected to improve from 28.5 percent in 2011/12 and reach 30.4 percent in 2013/14. As a result of the deficit in the SACU Common Revenue Pool for 2009/10, Namibia has incurred a deficit share of N$2.4 billion, to be accounted for during 2011/12. Other medium-term risks that may exert pressure on the revenue growth include lower returns on exports due to currency appreciation and impending tariff reductions under various free trade agreements.

44. The revenue outlook for 2011/12 – 2013/14 MTEF is based on the following assumptions:

- Global and regional economic recovery will proceed slowly with implications for the domestic economy. Revenue growth will generally follow GDP growth under the Most Likely Scenario of the Macroeconomic Framework.
- Estimates for 2010/11 are based on preliminary monthly outturn data.
- Non tax revenue estimates are based on projections from line Ministries and SOEs.

Box II: Assumptions for Tax Revenue Projections 2011/12 – 2013/14, Most Likely Scenario

<u>Tax Revenue Assumptions</u>

- Income Tax on Individuals follows actual and projected nominal GDP levels
- Diamond Mining Company Tax follows actual and projected diamond mining output.
- 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 about half- year lag. Reduced tax rate for manufacturers benefiting from tax incentives is taken into account.
- Non-Resident Shareholders Tax follows actual and projected nominal GDP levels.
- Withholding tax on interest tracks projected nominal GDP levels.
- 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 2011/12, there will be a repayment of N$ 2.4 billion as Namibia's share of the 2009/10 common revenue pool deficit.
  - The size of the common revenue pool is based on projections made in the South African budget for 2011/12.

45. Total revenue and grants for 2011/12 are projected at N$28.0 billion, which constitutes 23.4 percent increase from N$22.7 billion estimated for 2010/11. The increase is mainly due to better-than-anticipated SACU receipts and improved domestic revenue outlook on account of positive economic outlook.

46. The impact of possible tariff reductions due to the possible coming into force of new trade agreements as well as a possible review of the SACU Revenue Sharing Formula are not considered in the projections as the time-frames are yet to be decided on. To the extent that these risks are realised during the MTEF, revenue would decrease considerably.

"If revenue risks on taxes on international trade are considered, revenue outturn will reduce considerably"

T able 5: Revenue projections, "Most Likely Scenario" (In N$ Millions)

Revenue Head	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	*Actual*	*Estimate*		*Projections*	
GDP at market prices, nominal	**74 953**	**80 065**	**89 059**	**98 385**	**109 348**	**122 111**
Revenue and grants as % of GDP	***31.3***	***30.0***	***25.5***	***28.5***	***29.1***	***30.4***
TOTAL REVENUE AND GRANTS	**23 447**	**24 047**	**22 699**	**28 012**	**31 875**	**37 154**
TAX REVENUE	**21 224**	**22 273**	**21 056**	**26 336**	**30 030**	**35 317**
Tax on income and Profits	8 070	8 137	9 358	**12 219**	**12 934**	**15 643**
Income Tax on Individuals	**4 606**	**5 084**	**5 891**	**6 832**	**7 413**	**8 462**
Company Taxes	**3 269**	**2 852**	**3 088**	**4 944**	**5 029**	**6 631**
Diamond Mining Companies	499	511	370	746	659	683
Other Mining Companies	731	61	215	704	744	1 564
Non-Mining Companies	2 039	2 279	2 503	3 493	3 626	4 384
Other Taxes on Income and Profits	**194**	**148**	**236**	**286**	**317**	**354**
Non-Resident Shareholders Tax	155	106	188	235	261	291
Tax on Royalty	26	28	29	31	35	39
Annual Levy on Gambling Income	13	14	19	20	22	24
Withholding Tax on Interest	**-**	**53**	**143**	**158**	**175**	**196**
Withholding tax on companies & individuals	-	51	49	55	61	68
Withholding tax on unit trusts	-	2	93	103	114	128
Taxes on Property	**171**	**222**	**238**	**255**	**275**	**297**
Domestic Taxes on Goods and Services	**4 339**	**5 162**	**5 286**	**6 509**	**6 968**	**8 043**
VAT + Additional Sales Tax + General Sales Tax	4 096	4 976	5 026	5 941	6 394	7 233
Levy on Fuel	106	82	105	118	124	143
Fishing Quota Levies	**118**	**93**	**142**	**151**	**147**	**151**
Environmental levies & Carbon Emission Taxes	**-**	**-**	**-**	**286**	**290**	**502**
Other taxes on goods and services	**20**	**12**	**13**	**13**	**13**	**14**
Taxes on International Trade and Transactions	**8 502**	**8 585**	**5 975**	**7 137**	**9 618**	**11 076**
SACU Revenue Pool Share	8 502	8 585	6 447	9 567	9 618	11 076
Revenue Formula Adjustments	-	-	-472	-2 430	-	-
Other Taxes	**142**	**167**	**199**	**216**	**236**	**258**
NON - TAX REVENUE	**2 123**	**1 568**	**1 367**	**1 430**	**1 598**	**1 716**
Entrepreneurial and Property	**1 584**	**1 112**	**896**	**946**	**1 099**	**1 174**
Interest Receipts for Loans Extended to SOEs	8	16	17	12	15	18
Interest on Investments	524	0	0	0	0	0
Dividends and Profit Share from SOEs & other companie	173	424	445	153	162	173
Interest on State Account Balances with BoN	334	189	38	60	72	80
Diamond Royalties	452	231	251	350	495	500
Other Mineral Royalties	93	261	150	360	355	400
Fines and Forfeitures	**36**	**35**	**40**	**61**	**70**	**81**
Administrative Fees, Charges and Incidental Sales	**503**	**421**	**431**	**423**	**430**	**461**
Lending and Equity Participation	**17**	**5**	**11**	**16**	**16**	**20**
External Grants	**83**	**201**	**265**	**230**	**230**	**102**

Source: Ministry of Finance, 2010

7.2 AGGREGATE EXPENDITURE OUTLOOK

47. The 2010/11 – 2012/13 MTEF contemplated total expenditure of N$89.1 billion (N$ 28.9 for 2010/11, N$ 29.1 for 2011/12 and N$31.1 for 2012/13) with corresponding average budget deficit of 6.6 percent over the MTEF.

Table 6: Aggregate expenditure and deficit outlook during the MTEF

Item	2010/11	2011/12	2012/13	2013/14	Total MTEF Average
	Estimate		*Projections*		
GDP at market prices, nominal	**89,059**	**98,385**	**109,348**	**122,111**	**109,948**
Total Revenue and grants	22,699	28,012	31,875	37,154	32,347
Revenue and grants as % of GDP	25.5%	28.5%	29.2%	30.4%	29.4%
Aggregate Expenditure: Current MTEF	28,891	29,055	31,113	44,666	34,945
Aggregate Expenditure Constraint	**28,933**	**34,899**	**39,529**	**45,702**	**40,043**
Potential Additional Expenditure	42	5,844	8,416	1,036	5,099
Budget Deficit Benchmark	**-6,234**	**-6,887**	**-7,654**	**-8,548**	**-7,696**
% of GDP	**-7.0%**	**-7.0%**	**-7.0%**	**-7.0%**	**-7.0%**

**Proposed levels. Source: Ministry of Finance, 2010*

48. For the 2011/12 – 2013/14 MTEF, an average budget deficit benchmark of 7 percent will be adopted. In this connection, total aggregate expenditure maxima for the 2011/12 – 2013/14 MTEF which is consistent with 7 percent budget deficit is estimated at N$120.1 billion, with potential additional expenditure for 2011/12 and 2012/13 estimated at N$5.8 billion and N$ 8.4 billion respectively.

"Budget ceilings have to fall within aggregate expenditure constraints"

49. The projected aggregate expenditure constraint takes into consideration revenue growth. For budget allocation policy purposes, total allocation is to remain well within the aggregate expenditure constraint to avoid excess procyclicality and create headroom for future fiscal manoeuvre should downside risks materialize or external shocks hit the economy.

7.3 FUNDING THE EXPANSION

50. The proposed expenditure ceilings for the MTEF are set out in Table 7. Aggregate expenditure ceilings are set to keep the Government operations close to the fiscal target of 7 percent deficit level. Total expenditure over the MTEF amounts to N$119.9 billion which, respectively, corresponds to average expenditure and budget deficit of 40 percent and 7 percent of GDP over MTEF. Total debt is projected at N$102 billion

"N$120 billion expenditure is proposed for the MTEF"

over the MTEF. As a proportion of GDP, total debt amounts to an average of 30.5 percent.

Table 7: Expenditure, debt and borrowing requirements for the MTEF, 2011/12 - 013/14

Item	2010/11	2011/12	2012/13	2013/14
	Estimate	Revised	Revised	Proposed
GDP	**89,059**	**98,385**	**109,348**	**122,111**
Total Revenue and Grants	**22,699**	**28,012**	**31,875**	**37,154**
As % of GDP	25.5%	28.5%	29.2%	30.4%
Operational Expenditure	22,353	22,418	24,225	33,048
Additional	-	*5,381*	*4,640*	-
Total Operational Expenditure	22,353	27,799	28,865	33,048
As % of GDP	*25.1%*	*28.3%*	*26.4%*	*27.1%*
Development Budget Expenditure	5,222	4,642	4,695	8,608
Additional	-	*3,428*	*1,453*	-
Total Development Budget Expenditure	5,222	8,070	6,148	8,608
As % of GDP	*5.9%*	*8.2%*	*5.6%*	*7.0%*
Interest Payments	145	1,817	2,528	3,007
As % of GDP	*0.2%*	*1.8%*	*2.3%*	*2.5%*
Aggregate Expenditure consistent with 7% target	**28,933**	**34,899**	**39,529**	**45,702**
As % of GDP	*32.5%*	*35.5%*	*36.2%*	*37.4%*
Total Expenditure for the MTEF	**27,744**	**37,686**	**37,543**	**44,666**
As % of GDP	*31.2%*	*38.3%*	*34.3%*	*36.6%*
Budget Balance	(5,045)	(9,674)	(5,668)	(7,512)
As % of GDP	*-5.7%*	*-9.8%*	*-5.2%*	*-6.2%*
Average budget balance for MTEF			***-7.1%***	
Fiscal Balance/ Net Borrowing Requirements	(4,479)	(10,092)	(7,880)	(8,391)
As % of GDP	*-5.0%*	*-10.3%*	*-7.2%*	*-6.9%*
Domestic Debt Stock	13,315	22,713	28,561	36,248
Foreign Debt Stock (est.)	4,622	4,268	4,522	5,198
Total Debt	17,937	26,981	33,083	41,446
Domestic Debt Stock	*15.0%*	*23.1%*	*26.1%*	*29.7%*
Foreign Debt Stock	*5.2%*	*4.3%*	*4.1%*	*4.3%*
Total Debt	*20.1%*	*27.4%*	*30.3%*	*33.9%*
			30.5%	

Source: Ministry of Finance, 2010

7.4 POLICY RECOMMENDATIONS AND CONCLUSIONS

- **Promoting accelerated growth and job creation:** In order to help place the economy on a higher growth trajectory, create jobs and further reduce poverty, the Government has adopted a new growth strategy with improved resource allocation and policy interventions towards the priority sectors of agriculture, transport, energy, sanitation, tourism, education and health which have high potential for growth, job creation and poverty reduction. To further provide funding for the growth strategy, the budget deficit and expenditure targets will be adjusted to 8 percent and 40 percent of GDP respectively.

- **Legislative Reforms:** Budgetary allocations to priority sectors will be accompanied by policy interventions aimed at improving the general business climate, labour market policies and accelerated programmes to improve educational quality and expanded in-take for tertiary education. Tax policy reforms to consolidate and achieve a competitive tax regime, improve tax administration and rationalize fiscal incentives will also be undertaken during the MTEF.

- **Fiscal Sustainability:** The budget deficit for the MTEF will be maintained at 7 percent of GDP and the debt cap at 30 percent of GDP as recently revised. A significant share of fiscal expansion during the next MTEF will be accorded to priority sectors to support the growth strategy and in accordance with the conclusions of the 2010 National Employment Creation Summit. Fiscal expansion during the MTEF is thus undertaken within the confines of set benchmarks in favour of long-term fiscal sustainability of government operations.

- **Revenue optimisation:** Government will undertake measures to optimize revenue collection during the MTEF by strengthening revenue administration and audit capacity, developing an integrated tax administration system, enhancing compliance and modernization of the revenue collection and management operations.

- **Improving Public Finance Management:** Government will implement measures to strengthen public finance management. These entail measures to improve revenue collection and administration including indentifying new sources of revenue, expenditure control, risk-based management of assets and liabilities and continuous investment in financial infrastructure. In order to optimize value for money and assess the impact of public expenditure on programmes, Government will undertake expenditure review and expenditure tracking during the MTEF, including a roll-out of programme-budgeting to all votes.

Public procurement will be accelerated with the envisaged coming into force of the reforms to the Tender Board Act during 2011/12.

- **Monitoring and Evaluation:** Emphasis will be put on regular monitoring and evaluation of the quality of program expenditure and the outcomes of policy interventions. In particular, the execution rate of the development budget has not improved to cope with increased budgetary allocations. To realize the timeliness of the growth strategy interventions, shortfalls in the implementation rate are being addressed by removing bottlenecks to accelerate the implementation rate.

- **Promoting transparency and accountability:** To further promote fiscal transparency and accountability, Government will continue to invest in Public Finance Management (PFM), strengthen accountability reporting and implement budget reform. The fiscal policy commits government to the reform process, hand in hand with capacity-building to manage for results and value for money.

- **Contingency Planning and Improving Internal Efficiency**: In order to prepare for unexpected future shocks to the economy, the budget allocation policy should ensure that available fiscal space is not completely exhausted during the MTEF. Thus, total expenditure allocation over the MTEF should be well within potential expenditure constraint. Emphasis should equally be placed on realising efficiency savings within set ceilings and O/M/As are encouraged to optimise the quality of expenditure and outputs within available resources.