



REPUBLIC OF NAMIBIA

Statement for the 2008/09 Budget

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5 March 2008



**MINISTRY OF FINANCE
FISCUS BUILDING**



1. OPENING REMARKS

Honourable Speaker, Honourable Members,

1. The current financial year is coming to a close, and I am honoured to table the budget for the 2008/09 financial year and the Medium Term Expenditure Framework covering the period 2008/09 to 2010/11.

2. For the past three years, we managed to significantly improve revenue streams, which resulted in surpluses. These gains in turn allowed us to reduce our debt stock. We are now in a position to expand the budget significantly, while at the same time remaining macro-economically sound.

3. During the period of positive budget balances, we have not only reduced debt, but we have also enhanced investment in pro-poor pro growth activities.

4. The fact that we managed to grow our economy in spite of externally induced negative factors such as high oil prices, high food prices and more recently, strong depreciation of our currency against major currencies is proof of robustness in our approach.

Honourable Speaker, Honourable Members,

5. H.E. President Hifikepunye Pohamba, said in his statement on the occasion of the first Cabinet Meeting for this year that: "In order to ensure sustainability and long term viability, implementing

agencies are required to sustain their involvement over a long term.” We have indeed accepted macro-economic sustainability as the overriding policy directive which by now is firmly in place.

6. It is, however, equally important to ensure that macro-economic sustainability is translated into programmes and activities which result into tangible benefits for our people.

7. The recent SWAPO Party Congress re-emphasized the ruling party’s commitment to remain a people centered movement. Its resolutions focus on improved qualitative and quantitative outcomes in the education sector, accelerated economic growth translated into improved and equitable wealth distribution, affordable and reliable health services, enhanced food security, value addition of and beneficiation to our natural resources, and last but not least improved welfare for Namibians.

8. The SWAPO Party Government has shown its steadfastness in fulfilling these expressed needs of our people. These needs and aspirations of our people are embodied in Vision 2030 and in our development plans and guided us in setting the priorities under this MTEF.

2. BUDGET PRIORITIES

Honourable Speaker, Honourable Members, let me now move to the priorities of the MTEF.

9. This MTEF is another bold attempt to move our country towards the realisation of Vision 2030. We will embark upon a major expenditure programme designed to protect the poor, to stimulate growth and create additional work opportunities. Our budget strategy is summed up by three focal areas:

- To improve the social safety net to relieve poverty, particularly in rural areas.
- To foster human resource development, through better health and education.
- To invest in improving competitiveness and promoting growth with new jobs.

10. To improve welfare of vulnerable groups, we have set aside substantial resources to increase social grants and improve coverage to all OVCs, pensioners and Veterans. We are also providing significant resources to mitigate the effects of natural disasters. The special programmes for vulnerable, marginalised communities is also strengthened and expanded to reach all marginalised communities.

11. To foster human resource development we continue to dedicate the major share of our resources to education and health to ensure that our people have access to quality and affordable education and health services.

12. We are also investing heavily in infrastructure development to secure existing service delivery and attract new investments.

13. We are providing resources to schemes in agriculture, aquaculture and tourism in order to optimise the potential for job creation and accelerated growth and we are supporting the development of entrepreneurship and private sector development by improving access to financing for SMEs and industrial programmes. Interventions which aim at improving our economic productivity and competitiveness are also improved.

14. Rural development is to be supported by broadening access to basic utilities and infrastructure, with its emphasis on labour-intensive solutions.

15. Governance and law enforcement agencies are also supported with additional resources to maintain law and order and to step up the fight against corruption.

16. I shall return to these priorities in greater detail later in my address when I discuss the expenditure outlook.

3. ECONOMIC DEVELOPMENTS AND OUTLOOK

Honourable Speaker, the MTEF is informed by the domestic and international economic developments to which I shall turn now.

Global economy

17. Namibia is a small open economy. Global economic developments therefore have a profound impact on our country's economy and fiscal policy. Equally, our fiscal policy influences the

performance of the economy and how it responds to external factors.

18. The world economy recorded a growth of 5 percent in 2006. Despite tight monetary conditions world-wide and the credit crunch caused by the US sub-prime market, the global economy continued to expand at the same rate of 5 percent during 2007. However, in most of the advanced economies, the spill over from the financial crisis in the US will continue in 2008; consequently, world output growth for 2008 is estimated to decrease to 4.1 percent. However, the potential impact of the crisis on Africa appears to be limited.

19. While there is no reason for gloom, these global developments may still affect Namibia. The possibility of slowing demand for commodities from advanced countries is posing some risk to our export industries.

Regional economy

20. Sub-Saharan Africa continued to improve its economic performance with overall growth projected to rise from 5.7 percent in 2006 to 6.8 percent in 2008. This accelerated growth is mainly driven by high oil prices and resulting high growth in oil producing countries and by high commodity prices. Further, structural reforms have eased the way for investors in doing business with many African countries boosting economic diversification and growth.

21. Closer to home, South Africa has recorded an average GDP growth of 5.0 percent since 2003, but growth is expected to slow somewhat to 4 percent for 2008 and 4.3 percent for the MTEF period.

22. The South African economy is affected adversely by electricity supply constraints. Secondly, high oil and food prices continue to exert inflationary pressures with inflation levels expected to settle at around 7 percent over the MTEF period. Spillover effects of this on our economy are already being felt.

4. Domestic Economic Developments and Outlook

Honourable Speaker, Honourable Members,

23. The global economic growth has had a positive impact on our economy, which could be optimised thanks to prudent macro-economic policies. GDP growth peaked at 6.6 percent in 2004. This positive growth performance continued in 2005 and 2006, albeit at more moderate levels of 4.8 and 4.1 percent respectively. For 2007, it is estimated to have settled at 4 percent.

24. This sustained growth was mainly due to favourable conditions for primary sector output, especially mining.

25. Performance of growth in the secondary sector was generally weak with the construction subsector being a positive exception growing on average by 12 percent.

26. The sub-sectors in the tertiary industries performed well overall, driven by the subsectors of transport and communication, financial intermediation, and wholesale and retail trade, and repairs.

27. For 2008, growth is projected to accelerate to 4.7 percent, driven by an expected increase in primary output, especially mining, as well as the sectors of construction, transport and communication, tourism and financial services.

28. On average, GDP growth is expected to be around 5.2 percent over the MTEF period. It will reach a peak of 6.2 percent in 2010. The trend is mainly driven by the primary sector and by the positive economic impact of the World Cup and the African Cup of Nations to be held in South Africa and Angola respectively.

29. Despite the positive growth performance, unemployment continues to pose a serious challenge. Government is addressing the issue in numerous ways. On the supply side, education is to receive a boost from the budget, including a strong component of vocational training that will help graduates to augment their employability. On the demand side, Government is investing heavily in those sectors with potential for employment creation, such as agriculture, tourism, fisheries, SME promotion and infrastructure development.

Honourable Speaker, Honourable Members,

Balance of Payments

30. The balance of payments is estimated to have a positive balance of N\$3.5 billion in 2007. This is a notable improvement compared to N\$1.1 billion in the previous year. The continued positive balance improved our foreign reserves.

31. However, high capital outflows persist contributing to the negative capital account. To reduce the outflow, a combination of measures has been introduced aimed at promoting investment opportunities and strengthening the regulatory framework.

Exchange Rate Developments

32. Following a period of relatively stable exchange rates, the Namibia Dollar experienced a significant depreciation at the beginning of 2008. This followed depreciation of the Rand as a result of a slowdown in foreign portfolio investments in South Africa.

Inflation

33. During 2007, inflation increased mainly as a result of high and volatile international oil prices and rising food prices. The annual average inflation for 2007 is estimated at 6.8 percent.

34. In an effort to contain inflationary pressures, the Bank of Namibia increased the Bank rate by a total of 150 basis points over the second half of 2007, to 10.50 percent. Consequently, inflation

slowed down towards the end of 2007, but indications from the beginning of this year suggest that the upward pressure on prices is still imminent.

5. POLICY UPDATE

Honourable Speaker, Honourable Members,

35. Government is consistently developing its agenda of policy reforms to adapt to changing circumstances and optimise outcomes. These reforms include in particular the areas of public expenditure, taxation and the financial sector.

5.1 Fiscal Reforms

36. Regarding public expenditure, Accountability Reports outlining budget implementation and performance of every Vote will be published for the first time this year. This is a milestone in Government efforts towards more accountability and transparency.

Public Expenditure Audits

37. On the side of budget management, public expenditure audits will be conducted that are aimed at ensuring value for money and that line ministries spend their money as appropriated. To that end, Ministry of Finance will step up enforcement of compliance with procedures and treasury instructions.

38. To provide more accountability for public spending, SOEs will be asked to publish information on their expenditures. This will provide a more complete overview of the scale and scope of public investment.

Honourable Speaker, Honourable Members,

Performance of State-Owned-Enterprises

39. As announced last year, subsidies to parastatals are targeted to achieve specific outcomes. In the wake of programme budgeting and its accompanied obligation on accountability and transparency, these entities are to be held responsible for non-performance.

40. Further, state owned entities are encouraged to raise funds from the domestic capital market. Progress was achieved by bringing Nampower to the market last year, following the Road Fund Administration. More debt issuances are expected from Nampower as the corporation seeks to raise funds for its extensive programme. Apart from facilitating access to the financial markets, this will also promote good governance in SOEs. We thus want to encourage SOEs to obtain a credit rating. Nampower was the first to receive a rating of 'BBB-', mirroring the good sovereign rating for Namibia.

Honourable Speaker, Honourable Members,

5.2 Taxation

41. Taxation continues to be the main source of public revenue. Government is intent to diversify and optimise its revenue sources from existing tax and non-tax sources.

Need to broaden tax base

42. For the financial year 2008 / 09 it is expected that 41 percent of total revenue will come from our share of the SACU customs pool. Therefore, reforms at SACU, the creation of a SADC Customs Union and the free trade arrangements with other economic blocs such as the Economic Partnership Agreement between SADC and the EU, pose serious risks on revenue.

43. To compensate for these anticipated revenue losses, new income streams are investigated. The broadening of the domestic tax base and improved tax administration are envisaged to at least in part mitigate these losses. In addition, it is foreseen that increased trade volumes resultant from trade liberalisation could improve revenue through consumer based taxes and with that offset losses.

44. The introduction of taxes on interest earning from Unit Trusts is an example of broadening the tax base. Apart from generating additional income, this measure also improves the equitability of our tax laws.

45. To further shore up compliance with the law, forensic tax audits were extended to Windhoek Region in October 2006 and will continue throughout 2008/09. The effect of these audits can be observed in the improved tax collections, especially on Income Tax and Value Added Tax. This exercise will be rolled out to other regions until it covers the whole country. In parallel, the Ministry of Finance will launch awareness campaigns to inform taxpayers about their rights and obligations under the various tax laws.

46. The amendments to VAT and Income Tax Act also strengthen collections by closing loop holes used to avoid taxes and by reducing the cost of compliance.

47. In accordance with requirements of the Southern African Customs Union, SACU Ministers of Finance agree on excise and equivalent customs duties on imported goods. The following percentage increases were implemented with effect from 20 February 2008:

Description	Percentage (%)
Clear Beer	7.0%
Unfortified wine	7.3%
Fortified wine	7.4%
Sparkling wine	9.9%
Spirits	11.0%
Alcoholic Fruit Beverages	7.0%
Cigarettes	10.8%
Cigarette tobacco	5.2%

Pipe tobacco	5.3%
Cigars	5.3%

48. Furthermore, *ad valorem* excises on some outdated sound recording and reproducing equipment and video games will be abolished, with effect from 1 April 2008.

Tax policy as a tool for equitable wealth distribution

49. The recent amendment to the Income Tax Act contained provisions aimed at tax relief for the lower income groups. The most significant is the increase of the threshold of taxable income from N\$ 24.000 to N\$ 36.000 per annum. The provision for withholding tax on interest earnings includes a reduction of the tax rate from 35 percent in 2008 to 10 percent effective from 1st of April 2009.

50. **Fiscal policy is also a means to promote private sector growth.** Government is therefore finalising a report on the impact of the Taxation Incentive Scheme. This report will provide a basis for informed decisions on how best to use incentives to promote economic growth and employment creation.

5.3 Financial Sector Reforms

Honourable Speaker, Honourable Members,

51. We shall propose amendments to the Banking Institutions Act of 1998 in order to align it with developments in the markets,

including addressing the issue of limited competition in the banking sector and to strengthen supervision.

52. We also hope to finalise work on the Namfisa Amendment Bill during the course of the next fiscal year. The amendments seek to improve the supervision of the non-banking financial sector, enhance consumer protection through the creation of a Financial Ombuds' Office and generally modernise the legal framework to reflect the rapid developments and market needs in our financial services industry.

53. Following the passing of the Financial Intelligence Act and establishment of the Financial Intelligence Centre, an Advisory Council was created. Draft Regulations that will complement the provisions of the Financial Intelligence Act are being finalised.

54. As announced last year, the amendments to Regulations 15 and 28 have been gazetted.

55. I understand that these amendments have caused concern amongst some industry members. However, I have full confidence that the retained savings will find an appropriate investment home in our country. In addition, the phased approach adopted in implementing these amendments should minimise any negative effects.

Honourable Speaker, Honourable Members,

Broadening access to financial services

56. Following a successful pilot of a micro-finance scheme, a Micro-Finance Bank will soon be launched with the support of development partners in order to extend the coverage of affordable micro-lending.

57. These efforts to broaden access to financial services will be supported by the launching of the Namibia Financial Sector Charter (NFSC) which is anticipated during 2008/09. By implementing the Charter, the financial sector demonstrates its willingness to adopt a broad-based approach to economic equality and transformation of the financial sector.

Capital market developments

58. We will support the development and diversification of our capital market through fiscal policy. Besides issuing sovereign debt instruments, Government will continue to encourage state owned entities to enter the capital market to raise funds.

Foreign exchange liberalisation

59. As a continuation of the liberalisation measures announced last year, the Bank of Namibia will announce a number of exchange control reforms. These reforms are aimed at relaxing foreign diversification limits by institutional investors, and also at streamlining administrative procedures.

6. BUDGET REVIEW

6.1 Budget Outturn 2006/07

60. Let me now turn to the outturn of the budget of the Financial Year 2006/07.

Government revenue outturn

61. On the revenue side, Government exceeded the estimates in the budget. Total actual revenue collected in 2006/07 was N\$17.6 billion, compared to projections of N\$16.2 billion. This strong performance was mainly due to buoyant corporate tax collections, but other domestic tax categories also performed well, while non-tax revenue collected by the Ministries showed mixed results. Tax collection continues to be the backbone of government revenue, of which it made up more than 90 percent during 2006/07.

62. Taxes on International Trade also performed stronger than expected, making up close to 40 percent of all revenue.

Public expenditure outturn for 2006/07

63. The budget expenditure outturn for 2006/07 reflects an encouraging fiscal discipline, with expenditures exceeding budget estimates by less than 1 percent. However, there is some variance at the Vote level, with some ministries registering over-expenditures while others noted marginal under-spending.

Implementation rate of development budget improved

64. The development budget experienced significant improvements in execution rate with expenditure reaching 97 percent of the allocation.

65. We shall introduce new measures in order to further improve the budget implementation. Firstly, regular reports on the implementation of projects will be required from O/M/A. This should allow to identify bottlenecks in a timely manner and to correct the problems as early as possible. Secondly, Ministries are urged to prepare their tender documents well before the new Financial Year. This will enable them to start with early implementation of projects after the budget has been approved.

66. A more expanded public expenditure programme has enabled us to reach more Namibians with public services and consolidate further the success of the previous years. For example:

- ARV treatment was extended to 37,000 HIV patients, much higher than the target of 30,000. It is forecasted to reach 65,000 by 2008/09
- An additional 383 classrooms have been provided since 2004. The number of enrolled pupils has continued to increase year-on-year.

- 3000 ha of crop production land were under irrigation up from 2000 ha in 2005/06.
- 356 kilometres of railway tracks and 486 kilometres of roads were built or rehabilitated
- Government constructed and renovated business facilities in nine (9) locations, which led to the creation of new businesses.

67. This list is not exhaustive but is an example of how our programmes gradually improving the socio-economic situation in our country.

Budget balance and public debt

68. I am happy to announce that we could realise those achievements without compromising fiscal sustainability. In a turnaround from a N\$85 million deficit in 2005/06, the budget balance last year reached a surplus of N\$2.3 billion on the back of the improved revenue performance. This represents a significant increase on the surplus of N\$921 million estimated in the revised budget.

69. Expressed as a percentage of GDP, the trend of fiscal consolidation over the past three years showcases systematic fiscal consolidation, with a deficit of 3.6 percent in 2004/05 reduced to 0.2 percent one year later, and finally turned into a surplus of 4.8 percent in 2006/07. This surplus is being used to reduce debt,

including the pre-payment of expensive foreign loans. Despite the positive fiscal outturn, total public debt continued to increase from N\$12.7 billion at 31 March 2006 to N\$13.6 billion at the end of 2006/07. The explanation for this is that additional debt was issued in order to build up the redemption account for the maturing bonds.

70. More importantly, debt grew more slowly than the economy. As a result, the public debt stock as a percentage to GDP declined from 30.6 percent at the beginning of the 2006/07 financial year to 28.3 percent in March 2007.

Contingent liabilities

71. Government's Contingent Liabilities increased from N\$3.5 billion in 2005/06 to N\$3.8 billion in 2006/07, but as a percentage to GDP, they registered a reduction from 8.9 to 8.6 percent, well below the set benchmark of 10 percent.

Revenue

72. For the current financial year 2007/08, preliminary indications see a further strengthening of Government's fiscal position.

73. Total revenue for 2007/08 is estimated to surpass budget projections. As of December 2007, virtually all tax categories were exceeding estimates. The lion share of the increase in terms of value was attributed to income tax on individuals and non-mining companies, as well as VAT. Total revenue is projected to reach

N\$19.5 billion by year end compared to N\$18.4 billion estimated under the budget.

Expenditure

74. Expenditure is projected to be on track. However, some savings are expected due to lower-than-expected interest payments following accelerated debt redemption.

75. As a consequence of the upward revision of tax revenue, the estimated budget surplus of 1.1 percent of GDP is expected to turn out significantly higher at 3.3 percent.

Public debt

76. At the beginning of 2007/08, domestic debt stood at N\$ 13.4 billion, which was reduced to N\$ 11.7 billion by July 2007. This reduction is mainly due to redemption of the Government bond GC07 in July last year and a gradual reduction in Treasury Bills. This means the fiscal target of total debt to stay below 25 percent of GDP had been achieved as of July 2007 for the first time in six years.

77. The benefits of low public debts come in form of reduced debt servicing cost. It frees up resources to be spent for priorities.

78. Some recognition of Government's fiscal achievements came in September 2007, when Fitch credit rating assigned

Namibia an investment grade rating of 'BBB-' for the third year running.

7. FISCAL OUTLOOK

7.1 Revenue Outlook

79. On the back of considerable growth in SACU receipts in 2008/09 and upward revisions in various domestic tax categories, revenue is projected to increase by 14 percent compared to the 2007/08 budget. It is expected to stand at N\$20.9 billion in 2008/09, followed by N\$21.8 billion in 2009/10 and N\$22.6 billion in 2010/11. As a percentage of GDP, revenues are expected to decrease steadily from 35.1 percent in 2008/09 to 32.3 percent in 2010/11.

80. International tax revenues from the SACU pool are forecasted to increase to N\$8.5 billion in 2008/09, after which there is some stagnation projected. This forecast is cautious, but given the uncertainty surrounding the outlook on the SACU pool, it is also fiscally prudent. The risks to Namibia's revenue from international trade comprise trade liberalisation, both within the region and globally through free trade arrangement with third parties.

81. The potential decline in revenues from the pool is being addressed not only by broadening the domestic tax base through alternative revenue streams, but also by improving customs takings. To that end, an in-depth analysis on border control and

customs and excise collections will be conducted. In addition, modern customs scanners are being procured that will be deployed at strategic border posts.

7.2 Expenditure Outlook

82. This Budget foresees one of the largest expansions since Independence, accelerating Namibia's efforts to fight poverty, create employment and generate sustained economic growth.

83. The main thrust of the budget remains on combating persisting poverty and inequality in our country. The Government's approach is a concerted effort to improve the social safety net to the most vulnerable and to enhance the standards of basic services.

84. To this end, the old-age grants are increased by 21.6 percent to N\$450 per month, and coverage increased from around 150,000 last year to more than 180,000 by the end of 2010/11. These improvements translate into total spending of N\$2.3 billion over the MTEF. The coverage of grants to Orphans and Vulnerable Children is expected to encompass all OVCs by 2009/10, amounting to total allocations of N\$785 million. This will go a long way in enabling these children to obtain decent food, clothing and education, thereby helping them fulfilling their potential in our society. Our Veterans will receive an increased monthly allowance of N\$2,000. This is not only to secure them against poverty, but it also constitutes a recognition of their sacrifices for Namibia. Allocations over the MTEF come N\$512 million.

85. The budget is also addressing the hardship caused by the recent natural disasters: Government has set aside N\$280 million for the upcoming financial year to provide large-scale relief for those affected by the droughts and floods.

Improving national health

86. Health will receive N\$6.4 billion over the MTEF. 2008/09 alone will see an increase in health spending of 26 percent to N\$2.1 billion. On top of upgrading health infrastructure and equipments, Government is making additional resources available to ensure that adequate ambulances as well as outreach services are available. We are also increasing resources allocation to strengthen the fight against HIV / AIDS.

Education

87. Allocations to education will be increased to N\$4.8 billion, or 23 percent of the total budget. These funds are designed to address the persistent challenges in the sector. Over the MTEF, the sector is allocated a total of N\$14.0 billion.

88. This includes an extension of the Student Financial Assistance Fund and providing resources to expand the operations of the country's higher education institutions.

89. Government has further dedicated resources to give students who failed Grade 10 the opportunity to repeat, thereby

reducing youth unemployment and ensuring employability into the labour market.

90. The National Youth Service is being expanded to provide training to an additional 1000 recruits per year which is further enhanced by investment schemes for trained youth. Similarly, provision has been made for a significant expansion of vocational education and training

Rural development

91. Allocations to rural electrification have been beefed up to N\$178 million for the MTEF period to accelerate rural on and off-grid electrification. In addition, the already substantial programme of rural road building, with its emphasis on labour-intensive solutions, is being expanded.

92. Additional funds have also been provided to improve the management and distribution of rural water supplies and to assist the poorest in meeting the cost of water. In the same vein, the inhumane bucket system is being phased out and replaced with more hygienic sanitation facilities.

93. Agriculture receives N\$3.0 billion over the MTEF. The amount includes resources to put in place schemes to increase the knowledge and skills of small farmers. It also covers N\$360 million for irrigation infrastructure projects and technology improvements under the Green Scheme.

94. Alongside Government's activities, the balance sheet of Agricultural Bank of Namibia is being strengthened with N\$100 million next financial year to enable it to continue support to private investment in agriculture projects. This brings the total capitalisation to N\$250 million over this current MTEF. Additional funds of N\$250 million have been raised from AfDB.

Productive sectors

95. Future economic and social development depends to a large extent on the private sector flourishing to produce the jobs and revenues that the country needs. Government's role in this regard is to ensure a conducive business environment. This includes direct interventions where private sector investment is not forthcoming.

96. To help improve productivity in our country, we are allocating resources for the establishment of a Productivity Unit to accelerate the process of moving to smarter working. These measures go along with setting up of a Competition Commission, a Bureau of Standards and promoting export.

97. The Development Bank of Namibia (DBN) has succeeded in building an investment portfolio of some N\$300 million, creating or retaining some 4,500 jobs. To build on that success, Government is injecting a further N\$300 million into DBN's balance sheet of which a part is for small scale projects and industrialisation.

98. The aviation industry is essential for tourism. Government is investing in the infrastructure by upgrading airport facilities and by enhancing the ability of the Civil Aviation Authority to ensure air safety. In line with that commitment to investing in growth in the industry, Government is providing further funds to the new business plan of Air Namibia.

Provision of infrastructure

99. The challenge of providing adequate infrastructure to our vast, sparsely populated country remains formidable. A pressing issue that has taken prominence in our entire region is the security of electricity supply. NamPower will receive an additional N\$610 million to support infrastructural development for power generation and for back-up energy supply. The additional funds are aimed at tackling the energy crisis both in the short and long term.

100. Government is also investing in transport infrastructure. Vote 24, Transport and Communication, is to receive a total N\$3.5 billion over the MTEF, mainly for road and railway construction. Government is further strengthening the financial position of the Road Fund Administration with N\$300 million and assisting the recovery of RCC with a capital injection of N\$70 million in 2008/09.

101. To finance this ambitious programme, total development expenditure over the MTEF will rise to almost N\$10.0 billion! That is more than double the amount spent for the three-year period 2004/05 to 2006/07.

102. This is supplemented by concessional loans from international lenders, amounting to N\$ 5.5 billion over the MTEF. Projects to benefit from these funds include road and railway construction, the extension of the port of Walvis Bay, rural electrification, agriculture, education and upgrading of health infrastructure.

Improving public service delivery

103. Providing Public Servants with the right toolkit for the job is part of improving service delivery. The establishment of the Namibian Institute of Public Administration and Management (NIPAM) will help develop the analytical and management skills that are needed, while improvements in the functionality, availability and reliability of Government's IT systems will enable Public Servants to work more efficiently and productively.

104. Office of the Auditor General is making strides to address the audit backlog. Resources are being made available to help speed that process up and to enable the Office to expand the coverage of its performance audits.

105. Namibia's public service broadcaster NBC has been provided with additional funds to purchase new equipment.

106. To further enhance democratic principles, we are strengthening funding to Political Parties to enable them to communicate more effectively with the electorate. The work of the

standing committees will also be enhanced to provide better participation and scrutiny of issues raised.

Law and order

107. Government is committed to maintain law and order in the country and to protect our citizens. Resources have been made available to fast-track progress achieved in improving clearance rates for court cases.

108. Further, provision of N\$3.7 billion over the MTEF has been made available to increase the effectiveness of the fight against crime by improving police recruitment and specialised training and increasing mobility.

109. Following the request from the Parliamentary Committee on Defence and Security, Defence also receives a substantial additional allocation, mostly to cater for infrastructure maintenance upgrading, operations and equipment.

110. The Anti-Corruption Commission receives increased funding of N\$60 million over the MTEF for an expansion of the Commission's investigative activities to further curb corrupt practices.

111. Ministry of Home Affairs and Immigration is provided with N\$443 million over the MTEF to further invest in the success of improving its service delivery by updating the infrastructure that supports it.

Pubic assets

112. Resources are allocated to ensure that government assets, including buildings, are properly maintained. The development of asset registers and changes in accounting for capital should help ensure that Government physical assets are properly managed.

113. Increased resources are also availed to support sports administration and improved sporting facilities as part of the country's preparations for the 2010 World Cup and Africa Cup of Nations.

7.3 Expenditure Summary

Honourable Speaker, Honourable Members

114. Total expenditure will rise to N\$22.5 billion, N\$21.7 billion and N\$21.9 billion for the three MTEF years respectively. The slight decrease in 2009/10 is due to one-off payments for capitalisation to Nampower and RFA next year. As a share of GDP, expenditure is projected to peak at 37.7 percent in 2008/09 before moderating to 31.2 percent in 2010/11.

115. The amount of additional funds allocated in this year's budget is unprecedented. More than N\$9 billion have been added to the ceilings of the financial years 2008/09 and 2009/10. This was made possible by strong revenue growth and fiscal consolidation over the preceding two years.

7.4 Fiscal Targets

116. Following the upward revision in both revenue and expenditure, the deficit of 1.1 percent of GDP projected in the last MTEF for 2008/09 is now expected to increase to 2.7 percent. The 2009/10 deficit, on the other hand, is reduced to a balanced budget. For 2010/11, a surplus of 1.1 percent (N\$768.8 million) has been programmed. This means that despite the expansionary budget, the fiscal target of keeping the deficit below 3 percent of GDP on average over the MTEF has been fully adhered to.

117. Public Debt, which is currently lower than targeted, is projected to rise towards the target and remain around there throughout the MTEF period, with 24.8, 25.6 and 25.1 percent of GDP expected for the three years respectively. In terms of composition, domestic debt is expected to reduce from 16.7 percent in 2008/09 to 13.4 percent in 2010/11 as a share of GDP, while foreign debt is anticipated to increase from 8.3 to 11.9 percent.

118. While there is a strong expansion of foreign borrowing expected during the MTEF period, Government is pursuing a strategy of pre-paying already contracted foreign loans with less favourable conditions. Existing cash reserves are committed to this strategy, which will result in a more cost-effective foreign loan portfolio.

8. CONCLUSIONS

119. In concluding I want to quote the Founding Father and Former President of Namibia, H.E. Dr. Sam Nujoma from the foreword of “Namibia, A Decade of Peace Democracy and Prosperity, 1990 – 2000”. He said: “We believe that the success of our democracy, and continued peace and tranquility depend on our having a vibrant economy.” He goes on to say; “Over the past 10 years we have made significant gains in improving the quality of the life of Namibians and look forward to the future with confidence.”

120. The MTEF before the house will take us to our 20th birthday as a nation and it enables us to build on and consolidate the achievements of the past 17 years of independence. We have built a solid foundation for a prosperous future. This MTEF underpins the SWAPO Government’s resolve to make Namibia a better place for all its citizens.

121. It carries a strong message of hope, because it ensures a vibrant economy that is anchored on sound macro-economic fundamentals. It is indeed confirmation that we are on the right path and that we have good reason to be confident and optimistic about our future.

122. Let me now close by expressing my appreciations to His Excellency, President Pohamba and the Right Honourable Prime Minister for their guidance and support during the Budget formulation. I am also grateful to my colleagues in Cabinet for their

cooperation. And naturally my thanks also go out to all the officials who provided the groundwork for preparing and compiling the MTEF.

Honourable Speaker, Honourable Members,

123. Last but not least, I want to thank the citizens of our beautiful country. You have shown great patience in the past when the belts had to be tightened to consolidate our public finances. We can now reap the fruits of our prudent fiscal management.

124. I herewith table the Appropriation Bill for 2008/09 and the Medium Term Expenditure Framework for the financial years 2008/09 to 2010/11 before this August House for consideration and approval.



Namibia's Budget at a Glance

MTEF 2008/09 – 2010/11



NAMIBIAN ECONOMY

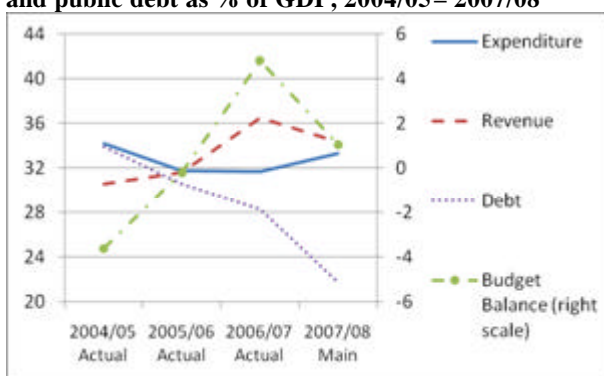
- The economy grew by 4.1% in 2006 and preliminary analyses project growth to have slightly declined to around 4.0% in 2007. Growth is anticipated to rise to 4.7% in 2008 on the back of expected favourable commodity prices and increased uranium production. Over the entire MTEF period, growth is projected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

Credit Rating

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

FISCAL DEVELOPMENTS

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



Source: Ministry of Finance

Revenue

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

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

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

Expenditure

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

Budget Balance

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

Public Debt

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

THE 2008/09 – 2010/11 MTEF

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

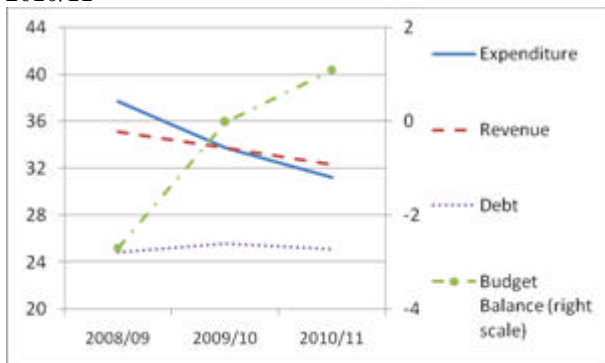
Revenue Outlook

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

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

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

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



Source: Ministry of Finance

Expenditure Outlook

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

Budget Balance

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

Government Debt

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

Expenditure Priorities

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

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

- **Growth and Employment**, such as

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

- **Infrastructure Provision**, such as

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

- **Rural Development**, such as

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

- **Peace and Stability**, such as

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

Tax Policy Update

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

Public Finance Management

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

Government's financial operations													
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
N\$ million, fiscal years	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Estimates	Estimates	Estimates	Estimates	
									Main	Main	Main	Main	
GDP	21,436	24,689	28,992	33,142	34,506	37,300	41,526	48,228	53,564	59,516	64,590	70,017.0	
REVENUE AND GRANTS													
Taxes on income and profits	2315.4	2610.2	3285.6	4442.3	3618.5	4024.2	4575.7	5676.0	5201.0	6637.4	7100.6	7431.3	
Taxes on property	46.7	62.8	64.1	79.3	75.2	85.9	110.1	142.1	134.0	165.9	185.3	208.4	
Domestic taxes on goods and services	1943.6	1945.0	2107.4	2135.7	1950.8	2057.3	3272.4	3196.8	3487.6	3932.6	4208.5	4505.2	
Taxes on international trade	2240.7	2877.3	2641.2	2596.9	3035.6	4206.8	3891.9	6697.9	8085.0	8501.8	8500.0	8600.0	
Other taxes	51.3	55.0	67.6	75.6	82.8	94.1	113.4	130.4	134.0	145.5	149.8	154.6	
Total Tax Revenue	6597.7	7550.3	8165.9	9329.8	8762.9	10468.2	11963.4	15843.2	17041.6	19383.3	20144.2	20899.5	
Entrepreneurial and property income	402.7	362.4	463.4	703.2	488.8	490.0	542.9	1264.0	662.8	815.6	896.6	991.9	
Fines and forfeitures	10.9	21.4	18.2	19.6	18.9	17.0	17.6	18.7	23.5	24.0	24.0	24.0	
Administration fees and charges	171.6	231.8	254.0	382.3	449.3	342.1	512.4	400.5	431.7	475.5	402.9	562.6	
Return on capital from lending and equity	20.1	20.9	21.4	15.9	13.5	36.8	32.4	17.4	23.7	33.5	29.8	28.8	
Total Non-Tax Revenue	605.3	636.5	757.1	1121.1	970.5	885.9	1105.3	1700.5	1141.7	1348.7	1353.3	1607.2	
Total revenue (own sources)	7203.0	8186.8	8923.0	10450.9	9733.4	11354.1	13068.7	17543.8	18183.3	20731.9	21497.5	22506.7	
Grants		13.2	58.1	34.4	34.2	70.4	39.0	49.6	204.0	141.0	255.0	133.0	
Loans earmarked for on-lending	68.5	0.0	116.8	76.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL REVENUE AND GRANTS	7271.5	8200.0	9097.9	10562.1	9767.6	11424.5	13107.7	17593.4	18387.4	20872.9	21752.5	22639.7	
EXPENDITURE													
Current Expenditure													
Personnel expenditure	3618.7	3964.9	4325.5	4708.9	5117.0	5527.1	5888.3	6213.7	6725.0	7708.6	7807.5	8116.0	
Expenditure on goods and other services	1583.3	1637.3	1977.3	1993.6	2079.4	1921.9	1922.4	2164.8	2995.3	3731.2	3561.4	3739.4	
Statutory	512.9	512.0	602.7	907.6	996.0	1040.2	1186.3	1475.2	1201.7	1330.8	1440.7	1289.5	
Subsidies and other current transfers	1168.8	1510.5	1769.2	1892.8	2255.9	2296.9	2544.7	2749.3	3067.0	4629.7	4303.7	4410.0	
Total Current Expenditure	6883.7	7624.7	8674.7	9503.0	10448.3	10786.0	11541.7	12602.9	13989.0	17400.4	17113.2	17554.9	
Capital Expenditure													
Capital expenditure	917.5	929.1	1098.7	1158.7	1293.4	1401.1	1337.4	1763.9	2277.4	3775.4	4042.0	3945.9	
Capital transfers	30.1	32.4	51.1	87.2	103.6	217.4	106.0	261.8	341.8	159.4	162.1	168.3	
Total lending and equity participation	121.4	122.1	477.8	649.7	400.0	365.9	207.5	650.6	1219.2	1129.3	431.3	201.7	
Total Capital Expenditure	1069.0	1083.6	1627.7	1895.7	1796.9	1984.5	1650.9	2676.3	3838.3	5064.1	4635.4	4316.0	
TOTAL EXPENDITURE	7952.7	8708.3	10302.4	11398.7	12245.2	12770.5	13192.6	15279.2	17827.3	22464.5	21748.6	21870.9	
BUDGET BALANCE	-681.2	-365.1	-1204.5	-836.6	-2477.6	-1346.0	-84.9	2314.2	560.0	-1591.5	3.9	768.8	
Current Balance	387.8	575.3	423.1	1059.1	-680.7	638.5	1566.0	4990.4	4398.4	3472.6	4639.3	5084.7	
Primary Balance	-168.3	3.7	-601.8	71.0	-1481.6	-305.8	1101.4	3789.4	1761.7	-260.7	1444.6	2058.3	
TOTAL FINANCING													
Net borrowing	829.1	280.0	1206.5	699.3	1788.3	2441.5	67.1	926.5	-1942.7	3091.7	1730.3	1083.4	
Decrease (+)/ Increase (-) in cash balance	-147.9	85.1	-2.0	137.3	689.3	-1095.5	17.8	-2381.3	-1486.5	3534.2	-3095.6	-2499.1	
TOTAL FINANCING	681.2	365.1	1204.5	836.6	2477.6	1346.0	84.9	-2314.2	-560.0	1591.5	-3.9	-768.8	
TOTAL CENTRAL GOVERNMENT DEPT													
Domestic Debt	4456.6	4731.3	5946.9	6712.0	8606.2	10543.0	10669.8	10927.8	8852.5	9955.2	10063.2	9402.5	
Foreign Debt (est.)	959.2	1141.4	1599.3	1700.6	1594.8	2099.4	2039.7	2708.1	2840.8	4829.9	6452.1	8196.2	

Government's financial operations												
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
N\$ million, fiscal years	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Estimates	Estimates	Estimates	Estimates
									Main	Main	Main	Main
GDP	21,436.0	24,689.0	28,992.0	33,142.0	34,506.0	37,300.0	41,526.0	48,228.0	53,564.0	59,516.0	64,590.0	70,017.0
REVENUE AND GRANTS												
Taxes on income and profits	10.80%	10.57%	11.33%	13.40%	10.49%	10.79%	11.02%	11.77%	9.71%	11.15%	10.99%	10.61%
Taxes on property	0.22%	0.25%	0.22%	0.24%	0.22%	0.23%	0.27%	0.29%	0.25%	0.28%	0.29%	0.30%
Domestic taxes on goods and services	9.07%	7.88%	7.27%	6.44%	5.65%	5.52%	7.88%	6.63%	6.51%	6.61%	6.52%	6.43%
Taxes on international trade	10.45%	11.65%	9.11%	7.84%	8.80%	11.28%	9.37%	13.89%	15.09%	14.28%	13.16%	12.28%
Other taxes	0.24%	0.22%	0.23%	0.23%	0.24%	0.25%	0.27%	0.27%	0.25%	0.24%	0.23%	0.22%
Total Tax Revenue	30.78%	30.58%	28.17%	28.15%	25.40%	28.06%	28.81%	32.85%	31.82%	32.57%	31.19%	29.85%
Entrepreneurial and property income	1.88%	1.47%	1.60%	2.12%	1.42%	1.31%	1.31%	2.62%	1.24%	1.37%	1.39%	1.42%
Fines and forfeitures	0.05%	0.09%	0.06%	0.06%	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%	0.04%	0.03%
Administration fees and charges	0.80%	0.94%	0.88%	1.15%	1.30%	0.92%	1.23%	0.83%	0.81%	0.80%	0.62%	0.80%
Return on capital from lending and equity	0.09%	0.08%	0.07%	0.05%	0.04%	0.10%	0.08%	0.04%	0.04%	0.06%	0.05%	0.04%
Total Non-Tax Revenue	2.82%	2.58%	2.61%	3.38%	2.81%	2.38%	2.66%	3.53%	2.13%	2.27%	2.10%	2.30%
Total revenue (own sources)	33.60%	33.16%	30.78%	31.53%	28.21%	30.44%	31.47%	36.38%	33.95%	34.83%	33.28%	32.14%
Grants	0.00%	0.05%	0.20%	0.10%	0.10%	0.19%	0.09%	0.10%	0.38%	0.24%	0.39%	0.19%
Loans earmarked for on-lending	0.32%	0.00%	0.40%	0.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL REVENUE AND GRANTS	33.92%	33.21%	31.38%	31.87%	28.31%	30.63%	31.57%	36.48%	34.33%	35.07%	33.68%	32.33%
EXPENDITURE												
Current Expenditure												
Personnel expenditure	16.88%	16.06%	14.92%	14.21%	14.83%	14.82%	14.18%	12.88%	12.56%	12.95%	12.09%	11.59%
Expenditure on goods and other services	7.39%	6.63%	6.82%	6.02%	6.03%	5.15%	4.63%	4.49%	5.59%	6.27%	5.51%	5.34%
Statutory	2.39%	2.07%	2.08%	2.74%	2.89%	2.79%	2.86%	3.06%	2.24%	2.24%	2.23%	1.84%
Subsidies and other current transfers	5.45%	6.12%	6.10%	5.71%	6.54%	6.16%	6.13%	5.70%	5.73%	7.78%	6.66%	6.30%
Total Current Expenditure	32.11%	30.88%	29.92%	28.67%	30.28%	28.92%	27.79%	26.13%	26.12%	29.24%	26.50%	25.07%
Capital Expenditure												
Capital expenditure	4.28%	3.76%	3.79%	3.50%	3.75%	3.76%	3.22%	3.66%	4.25%	6.34%	6.26%	5.64%
Capital transfers	0.14%	0.13%	0.18%	0.26%	0.30%	0.58%	0.26%	0.54%	0.64%	0.27%	0.25%	0.24%
Total lending and equity participation	0.57%	0.49%	1.65%	1.96%	1.16%	0.98%	0.50%	1.35%	2.28%	1.90%	0.67%	0.29%
Total Capital Expenditure	4.99%	4.39%	5.61%	5.72%	5.21%	5.32%	3.98%	5.55%	7.17%	8.51%	7.18%	6.16%
TOTAL EXPENDITURE	37.10%	35.27%	35.54%	34.39%	35.49%	34.24%	31.77%	31.68%	33.28%	37.75%	33.67%	31.24%
BUDGET BALANCE												
Current Balance	1.81%	2.33%	1.46%	3.20%	-1.97%	1.71%	3.77%	10.35%	8.21%	5.83%	7.18%	7.26%
Primary Balance	-0.79%	0.01%	-2.08%	0.21%	-4.29%	-0.82%	2.65%	7.86%	3.29%	-0.44%	2.24%	2.94%
TOTAL FINANCING												
Net borrowing	3.87%	1.13%	4.16%	2.11%	5.18%	6.55%	0.16%	1.92%	-3.63%	5.19%	2.68%	1.55%
Decrease (+)/ Increase (-) in cash balance	-0.69%	0.34%	-0.01%	0.41%	2.00%	-2.94%	0.04%	-4.94%	-2.78%	5.94%	-4.79%	-3.57%
TOTAL FINANCING	3.18%	1.48%	4.15%	2.52%	7.18%	3.61%	0.20%	-4.80%	-1.05%	2.67%	-0.01%	-1.10%
TOTAL CENTRAL GOVERNMENT DEPT												
Domestic Debt	20.79%	19.16%	20.51%	20.25%	24.94%	28.27%	25.69%	22.66%	16.53%	16.73%	15.58%	13.43%
Foreign Debt	4.47%	4.62%	5.52%	5.13%	4.62%	5.63%	4.91%	5.62%	5.30%	8.12%	9.99%	11.71%

Budget variables as % of GDP

