WHAT IS THE MID-YEAR BUDGET REVIEW?

The mid-year budget review entails the assessment of the half-yearly assessment of the implementation of the annual national budget. The purpose is to improve effectiveness of resource allocations during the financial year, enhance the growth responsiveness of the fiscal policy and reaffirm the medium-term policy stance that is grounded on fiscal sustainability. The mid-year budget review seeks to enhance the allocative efficiency of the budget by reallocating underutilized resources to alternative priorities within the appropriated global ceiling.

WHY IS THE MID-YEAR BUDGET REVIEW IMPORTANT?

The mid-year budget review reallocates resources to priority programmes where shortfalls are experienced without taking the route of additional budget on the global ceilings. This mid-year budget review retains the 2019/20 objective of pro-growth fiscal consolidation with a focus on the following aspects:

(i) Firstly, it frees up the resources envelope for re-allocation to alternative priority programmes within the appropriated expenditure ceiling, to enable optimal provision of services in areas where shortfalls are anticipated and to achieve enhanced development outcomes,

(ii) Secondly, it ring-fences expenditure allocations to capital and development programmes as a way of enhancing growth consistent with sustainable fiscal policy, and

(iii) Thirdly, it unveils an integrated economic recovery and growth stimulus intervention measures to support short-run economic recovery and sustainable economic growth in the medium and the long-term.

The Government mobilizes financial resources in different ways in order to attain the above-mentioned national development aspirations. The majority of the Government's income (over 95%) comes from taxes on items such as the incomes of individuals, profits of companies, goods and services bought by consumers (Value Added Tax), property, and transfers from the Southern African Customs Union (SACU) – as receipts for international trade – of which Namibia is a Member State.

The Government also collects revenue from sources such as dividends from State-Owned Enterprises (SOEs), diamond and other mining royalties as well as various levies, administrative fees, fines and charges.

Furthermore, Government raises funds by borrowing money, either from domestic or international financial markets, to fill the gap between revenue and expenditure. Borrowed money is paid back to the lenders with interest.

UNITY LIBERTY JUSTICE

Republic of Namibia

Ministry of Finance
(Economic Policy Advisory Services)
Moltke Street
Windhoek
Phone (061) 2099111
www.mof.gov.na

MINISTRY OF FINANCE

(Economic Policy Advisory Services)

CITIZEN'S GUIDE TO THE MID-YEAR BUDGET REVIEW 2019/20

October 2019

SIZE OF THE NATIONAL BUDGET

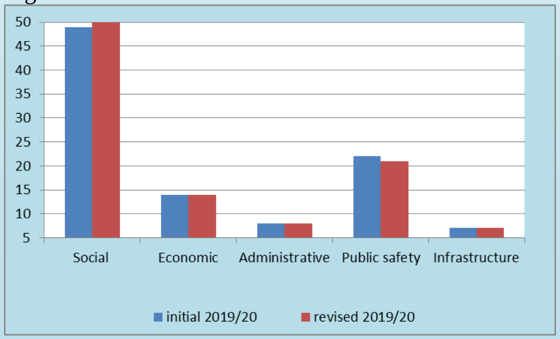
The total size of the budget for 2019/20 fiscal year remains N$66.2bn (inclusive of statutory payments – loans repayments). The re-allocation resulted in a 1.9% increase in operational expenditure and a 12.6% decline in developmental expenditure. With operational expenditure now standing at N$53.2bn, from N$ 52.2bn, while the development budget now stands at N$ 6.9bn, down from N$7.9bn

State revenue for 2019/20 is projected to reach N$58.4billion, an increase of 0.34% from the N$58.2 billion of revenue initially projected in the 2019/20 budget. This improvement in revenue is expected to result from stronger-than-anticipated SACU receipts.

A **budget deficit** equivalent to 4.1% of GDP is maintained for 2019/20, representing an improvement from deficits of 4.8% of GDP in 2018/19. The public debt stock is expected to grow to 49.6% of GDP in 2019/20, an increase from its 2018/19 level of 46.3% of GDP. Debt is projected to grow marginally relative to GDP in subsequent years.

RE-DISTRIBUTION OF THE BUDGET

Figure 1: Initial vs revised sector allocation of 2019/20



The internal re-allocation to funding needs and priorities, including internal reallocations are allocated as follows:

1. An amount of N$ 67.33 million is allocated the Drought Relief Programme under the Office of the Prime Minister;

2. An amount of N$96.65 million is allocated to the Ministry of Agriculture Water and Forestry for personnel expenditure, utilities and dry-land crop production,

3. A total of N$88 million is allocated to the Orphans and Vulnerable Children programme under the Ministry of Gender Equality and Child Welfare to cater for expanded coverage,

4. N$36 million is allocated to the Ministry of Home Affairs and Immigration for the Visa Stickers project

5. N$184.1 million is allocated to the Ministry of Education, Arts & Culture for the recruitment of Teachers, Text book and School feeding Programme

6. Health and Social Services received N$210.72 million for pharmaceuticals and clinical suppliers as well as recruitment of Health Professionals.

7. A total of N$88.02 is allocated to the Ministry of Poverty Eradication and Social Welfare for Social Grants.

The details of the reallocation are contained in the Appropriation Amendment Bill and the Adjusted Estimate of Revenue and Expenditure provided for in the Policy Statement.

TAX PROPOSALS

- Phasing out the current manufacturing tax incentive scheme and the Export Processing Zones and graduating this to the Special Economic Zone regime
- Introduce a 10 percent dividend tax for dividends paid to residents
- Introduction of tax payments charitable, religious, educational and other types of institutions on their **commercial activities**
- Expansion of the tax base through deepening the current hybrid tax system by taxing all income earned from foreign sources.
- Introduce Value Added Tax on income of listed asset managers,
- remove VAT zero-rating on sugar
- establishing the Namibia Revenue Agency through a phased transitional arrangement with Day one earmarked for 01 April 2020

GROWTH STIMULATION

1. Public expenditure and growth stimulus package consisting of increased development expenditure of about N$8 billion, including the roll-out of the N$4 billion AfDB funded project financing for agricultural mechanization, rail and road infrastructure and educational facilities rehabilitation programme.

2. Water infrastructure rehabilitation and expansion programme, to the value of N$2.5 billion in the initial roll-out phase.

3. Roll-out of the SME financing facilities at the Development Bank of Namibia, starting with the launch of the Credit Guarantee Scheme, Mentorship and Training Programme, and the Skills-based lending facility for the youth.

4. Targeted capitalization of the Development Bank of Namibia, AgriBank and the Equipment Aid Scheme at the Ministry of Industrialization, Trade and SME Development.

5. Leveraging and partial listing of state assets (telecommunications) and bringing PPP project proposals to the market to create investment space.
6. Implementation of priority structural policy reforms raised at the 2019 Economic Summit and related reforms to promote the ease of doing business and business confidence across various parameters.