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The aim of these Updates is to inform the public of any recent economic developments, focusing on global, regional and domestic developments that are likely to impact on the Namibian economy. Every Update will contain a standard update on the global, regional and domestic economy.

Special features will also be included on specific analysis conducted in the Ministry.

In this issue, we analyse the Financial Year 2015/16 Budget.

Global Developments

Global growth remained subdued during 2014, with world output growing by 3.4%, the same pace at which it expanded in 2013. Led by robust US growth, economic recovery is expected to take hold in the coming months in the advanced economies, where the pass-through from low oil prices to consumers is generally higher. However, although they will still account for a large portion of global growth, emerging market and developing economies are forecast to slow once again in 2015. **The IMF has forecast global growth of 3.5% in 2015, unchanged from its forecast for the last quarter of 2014, while raising its forecast marginally for 2016, from 3.7% to 3.8%.**

For the group of **advanced economies**, growth is expected to accelerate relative to the 1.8% recorded in 2014, **with the IMF maintaining its forecasts for output to increase by 2.4% in each of 2015 and 2016.** This will be driven by improvements in the growth rates of the Euro area, Japan and the US, with the latter economy seeing the largest gains.

The **US** economy has shown a sustained recovery of late, growing at an average of 4% during the last three quarters of 2014. This has been driven by strong job creation, rising consumer confidence and rising incomes, with low oil prices dampening down inflation and consequently allowing a gradual withdrawal of monetary stimulus measures. The IMF expects US growth to pick up relative to 2014 in the near-term, with fewer fiscal obstacles to growth, stronger balance sheets than before and an improving housing market. On the other hand, as the advanced economy that is rebounding soonest, the US has seen its currency appreciate noticeably vis-à-vis those of other advanced markets, rendering exports less competitive. As such, **the IMF has revised its US growth forecasts downward from 3.6% to 3.1% in 2015 and from 3.3% to 3.1% for 2016, leaving its latest projections almost identical to those of six months ago.**

In the **Euro area**, economic activity has quickened somewhat following a weak period in mid-2014, as lower oil prices have boosted spending power. This recovery is set to continue in the coming months, as the pace of fiscal retrenchment slows and the Euro area sees the benefits of the European Central Bank's programme of quantitative easing, via lower interest rates and a depreciated euro. For these reasons, **the IMF has revised its growth forecasts for the Euro area upward, from 1.2% to 1.5% for 2015 and from 1.4% to 1.6% for 2016.**

After the country experienced no growth in its output in 2014, **Japan's** prospects are expected to improve in the coming months. Qualitative and quantitative easing from the Bank of Japan should keep exports competitive via a weak yen, while also supporting equity prices. Low price levels for oil and other commodities should prove a boon to

consumers and producers alike. **The IMF growth forecasts for Japan have been revised upward, from 0.6% to 1.0% for 2015 and from 0.8% to 1.2% for 2016.**

Conversely, output growth in the group of **emerging market and developing economies** is expected to fall for the fifth year in a row in 2015, **with the IMF maintaining its forecasts of 4.3% growth in 2015 and 4.7% in 2016.** This will result from a combination of factors, including lower growth in China, Latin America suffering from low commodity prices and serious fiscal, monetary and external issues for oil exporters with pre-existing structural deficiencies, such as Russia.

In **China**, policy has shifted away from the prioritization of high economic growth, towards the unwinding of bad loans and investments that have accumulated in the Chinese economy, especially in the property sector. Nonetheless, structural reforms are progressing and cheap commodity imports are expected to support growth. **The IMF has left its forecasts for Chinese growth unchanged, expecting growth rates of 6.8% in 2015 and 6.3% in 2016.**

For the first time in many years, the growth rate of the **Indian** economy is forecast to exceed that of the Chinese economy, with the rebasing of the national accounts in January showing a substantial upward revision in the Indian GDP growth rate. With the economy seeing the benefits of cheap oil and recent policy reforms encouraging investment growth, **the IMF has raised its growth forecasts for India significantly, from 6.3% to 7.5% for 2015 and from 6.5% to 7.5% for 2016.**

Although its output grew somewhat more than expected late in 2014, **Russia** is facing a turbulent economic forecast in the near-term. The effects of Western sanctions and low global oil prices have precipitated collapses both in business and consumer confidence and in the value of the rouble. **The IMF has downgraded its forecasts for Russian growth, from -3.0% to -3.8% for 2015 and from -1.0% to -1.1% for 2016.**

In **Brazil**, the economic outlook has once again worsened, with business confidence at a very low level as a result of competition issues, impending water and power shortages and the continuing high-profile corruption scandal at prominent semi-state company, Petrobras. With fiscal consolidation also progressing at a faster pace than anticipated, **the IMF has lowered its forecasted growth for Brazil, from 0.3% growth to a contraction of 1.0% for 2015, and from 1.5% to 1.0% growth for 2016.**

Sub-Saharan Africa

While the outlook for growth in **Sub-Saharan Africa** remains stronger than the equivalent forecasts for many other parts of the world, the coming months will prove challenging, especially for oil-exporting nations, some of



which do not have sufficiently extensive fiscal and external buffers with which to counter the effects of a prolonged spell of low oil prices. Chiefly as a result of the effects of the aforementioned phenomenon on large economies such as Nigeria and Angola, **the IMF has lowered its 2015 growth forecasts for Sub-Saharan Africa, from 4.9% to 4.5% for 2015 and from 5.2% to 5.1% for 2016.**

In **Nigeria**, there has been some praise for the recent efforts of policymakers to address the challenges of the low oil price level: fiscal policy has moved in the right direction with some tightening, while there has also been an appropriate move to allow the naira to depreciate, which, combined with some use of reserve buffers, has stabilized the country's external balances somewhat. The jump in inflation resulting from currency depreciation has also been offset to a degree by lower food prices attributable to a relative increase in domestic food production. However, more fiscal consolidation will be needed as revenue from the oil sector remains low, which will inhibit the non-oil sector via cuts in investment. **The IMF has maintained its 2015 growth forecast for Nigeria at 4.8% (which represents a 2.5 percentage point cut on its forecast six months ago), while the forecast for 2016 has been cut from 5.2% to 5.0%.**

The economy of **Angola** is facing similar upheaval as a result of low oil prices, with the share of oil in Government revenue expected to fall from 70.0% in 2014 to around 36.5% in 2015. This collapse in Government revenue will be accompanied by large cuts in Government expenditure, with parliament approving a 25% cut in the Budget in February 2015, which will hurt potential growth in the medium run by stifling investment. Current efforts by the Angolan Government to fund infrastructure projects through foreign borrowing have not been helped by recent downgrades to Angola's credit ratings. Exports, of which 95% came from the oil sector in 2014, have also fallen sharply, causing the kwanza to depreciate at an annual rate of just under 10%, which will in turn stoke inflation. In light of these issues, **the IMF has lowered its growth forecasts for Angola significantly, from 5.9% to 4.5% for 2015 and from 6.2% to 3.9% for 2016.**

South Africa, Sub-Saharan Africa's second largest economy, continues to grow well below potential as it struggles to shake off its structural bottlenecks, including problematic labour relations and electricity supply constraints. Although world oil price movements have offered some much-needed relief from high inflation, allowing monetary policy to remain accommodative, business and consumer confidence remains subdued. Additionally, external and domestic demand has been weak. As a consequence, **the IMF has lowered its growth forecasts for South Africa, from 2.1% to 2.0% for 2015 and from 2.5% to 2.1% for 2016.**

Namibian Economy

During the fourth quarter of 2014, Namibian GDP is estimated to have grown by 8.9% y-o-y, supported by strong y-o-y growth in the *public administration, manufacturing, agriculture and construction* sectors. This is a strong growth rate when compared with the 5.6% growth observed in Q413, and especially compared with the GDP growth of just 1.7% recorded for Q314. The latter number was revised down from the previous estimate of 2.3% growth in Q314, due to large downward revisions to growth in the *health, construction, and wholesale and retail trade* sectors in that quarter.

The *manufacturing* sector made the greatest contribution to GDP growth in Q414, having posted y-o-y contractions in the preceding four quarters, growing at a rate of 13.8% y-o-y and contributing 1.4 percentage points to the aforementioned 8.9% overall growth rate. The *public administration* sector, which grew by 14.7% y-o-y in Q414, made a contribution to the growth rate of 1.3 percentage points. However, in addition to these large sectors of the economy recording strong growth, some smaller industries made a significant contribution to annual growth in Q414. Output from *construction* expanded strongly in Q414, recording y-o-y growth of 19.0%, and *construction*

contributed 0.9 percentage points to growth, as did the *health* sector, which is estimated to have grown by 26.4% y-o-y in Q414. *Agricultural* output grew by 22.3% y-o-y in Q414, contributing 0.8 percentage points to overall growth. On the other hand, the *fishing* sector performed poorly, with output falling by 26.0% y-o-y and sliding 41.7% compared to Q314. The *fishing* sector dragged GDP growth down by 0.6 percentage points y-o-y in Q414.

The publication of GDP growth figures for Q414 by the Namibia Statistics Agency (NSA) accompanied the publication of the **Preliminary National Accounts for 2014**. These accounts estimated that **real GDP grew by 4.5% in 2014**, representing a deceleration of the economy from its previous rates of growth of just over 5.0%, seen from 2011 to 2013.

This relatively low overall growth rate was influenced by subdued growth in *manufacturing*, which is estimated to have expanded by just 0.5% in 2014, and in *mining and quarrying*, which is estimated to have contracted by 4.6% in 2014. The recorded growth rate of 4.8% in *public administration and defence* was also surprisingly low, given the notable expansion in government budgetary expenditure in the FY2014/15 budget. Furthermore, *construction* was estimated to have grown by 14.6% in 2014, a marked slowdown compared with the 30.2% growth seen in 2013, in spite of large amounts of construction work being completed during 2014 on the Husab Uranium and Otjikoto Gold mining projects. Given that previous preliminary growth estimates have been conservative (for example, the preliminary growth rate estimate for 2013, 4.4%, was revised upwards to 5.1% in the final accounts), it would not be surprising to see a higher growth estimate for 2014 in the NSA's Final National Accounts, once further relevant data become available to be incorporated into the estimates.

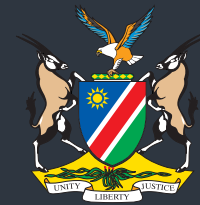
Balance of Payments

The fourth quarter of 2014 saw an improvement in Namibia's current account deficit, which shrank by 14.9% q-o-q, from N\$1.1 billion in Q314 to N\$975 million. This improvement could mainly be attributed to a smaller merchandise trade deficit during Q414 than in Q314. On the other hand, there was cause for concern regarding the annual evolution of the current account; **the nation's current account deficit for 2014 as a whole was N\$9.6 billion, representing a large increase of 91.6% over the N\$5.0 billion current account deficit recorded in 2013.** This development came on the back of significant annual growth in the merchandise and service trade deficits, as well as greater outflows of investment income.

As mentioned above, the merchandise trade balance improved in Q414, with the deficit recorded in this category shrinking by 13.5% q-o-q, from N\$5.9 billion in Q314 to N\$5.1 billion. This resulted from an increase in exports of 3.9% q-o-q, from N\$11.5 billion in Q312 to N\$11.9 billion in Q414, combined with a 2.0% decrease (q-o-q) in the value of goods imported, from N\$17.3 billion to N\$17.0 billion. The strong export performance in Q414 was supported by growth of mineral exports other than diamonds, which increased by 66.9% relative to Q314, and 26.3% q-o-q growth of exports of food and live animals. Conversely, the merchandise trade deficit for 2014, at N\$26.0 billion, was 34.8% larger than the deficit recorded in 2013, which was recorded as N\$19.3 billion. Although the value of goods exported saw annual growth of 7.2% during 2014, primarily driven by export growth in diamonds and manufactured goods, imports grew at a faster annual pace, rising by 15.5% in 2014 relative to 2013.

Among the smaller categories of the current account, the trade balance of net services improved marginally in Q414, with the deficit shrinking by 2.7% q-o-q, from N\$137 million in Q314 to N\$133 million, thanks to improvements in the respective balances in the trade of insurance and travel services. Net investment income fell considerably q-o-q in Q414, from a net inflow of N\$109 million in Q314 to a net outflow of N\$564 million, mainly due to increases in income paid out from direct investments and other investments in Namibia.





Net current transfers in cash and in kind, a category from which net inflows have typically helped to offset somewhat the deficits in goods and service trade and income flows, grew by 0.7% q-o-q in Q414, from N\$4.75 billion to N\$4.79 billion, as the largest constituent of this category, SACU transfers, remained at the annual level set in Q214. The aforementioned small increase came mainly from higher takings from withholding taxes. In 2014, inflows from current transfers in cash and in kind increased by 19.4%, from N\$15.2 billion during 2013 to N\$18.2 billion, due to both a 19.1% increase in SACU inflows and a 77.8% increase in withholding tax revenue. Nonetheless, as demonstrated by the deterioration of the annual current account balance, the increase in current transfers in cash and in kind did not keep pace with the growth of the goods, services and income deficit, which was recorded at 37.3% during 2014.

Namibia's capital and financial account balance, however, showed a marked improvement in Q414, with its surplus rising by 122.7%, from N\$2.2 billion in Q314 to N\$4.8 billion. The main driver of this development was the improvement of portfolio investment, from an outflow of N\$1.6 billion in Q314 to an inflow of N\$71 million in the fourth quarter of the year. The improvement in the capital and financial account balance was also supported by direct investment in Namibia, inflows from which rose by 24.2%, from N\$1.5 billion in Q314 to N\$1.9 billion in Q414, and by other long-term investments, which represented an inflow of N\$2.7 billion in Q414, marking a 14.5% improvement from the N\$2.3 billion inflow posted in Q314. Other short term investments also influenced the overall balance in Q414, recording an outflow of N\$206 million, compared with an outflow of N\$490 million in the previous quarter.

It is worth noting that the net errors and omissions reported for Q414 are very large, totalling a negative N\$6.7 billion. This figure, eclipsing the capital and financial account as it does, means that although the capital and financial account surplus mentioned above for Q414 is far larger than the corresponding current account deficit, the Bank of Namibia's foreign exchange reserves still declined by N\$2.8 billion during Q414.

During the whole of 2014, the capital and financial account surplus was N\$10.5 billion, representing an improvement of 54.4% over the 2013 surplus of N\$6.8 billion. Nevertheless, net errors and omissions for 2014 were negative and more than twice as large as the corresponding figure was in 2013, so that **the Bank of Namibia's foreign exchange reserves declined by N\$1.8 billion during 2014.** This represented the first annual decline in reserves since 2010, and shows the justification for the interest rate hikes implemented by the Bank of Namibia in recent months.

Consumer Prices

Annual consumer price inflation declined for the fourth month in a row in March 2015, reaching a rate of 3.4% y-o-y, whereas prices increased by 0.4% m-o-m. Annual inflation fell from its February level of 3.6%, continuing the trend of steadily slowing prices that has been observed since June 2014. The low annual inflation rate in March was influenced both by the y-o-y price deflation observed in the *transport* category and by relatively low, positive rates of inflation in *housing, water, electricity, gas and other fuels* (the most heavily weighted category of the consumption basket); *food and non-alcoholic beverages*; and *clothing and footwear*.

Prices in the category of *transport* fell by 3.7% y-o-y in March, down from a decrease of 2.6% the previous month, driven lower by petrol and diesel price cuts in effect since the beginning of February, which were related to prevailing low international oil prices. Price inflation in *housing, water, electricity, gas and other fuels* was recorded at 2.9% y-o-y in March, unchanged from a month earlier, with price growth for rental payments, electricity, gas and other fuels remaining relatively subdued. In *food and non-alcoholic beverages*, the second most heavily weighted category in the consumption basket, y-o-y inflation fell from 6.6% in February to 5.5% in March, on the back of fruit, meat, fish,

milk, cheese, eggs, and especially in bread and cereals. Among the less important categories, price growth in *education* fell marginally, from 4.4% y-o-y in February to 4.3% in March, well below the rate of 8.0% that prevailed throughout 2014, with prices at each level of education growing significantly more slowly than in 2014. Inflation in *clothing and footwear* also fell, from 1.6% y-o-y in February to 1.3% in March, due to a combination of low inflation in clothing and 0.3% y-o-y deflation in footwear.

Meanwhile, inflation in *alcoholic beverages and tobacco* picked up in March 2015, rising from 7.7% y-o-y in February to 8.6%, as both alcohol and tobacco recorded relatively high m-o-m inflation rates in March (1.6% and 1.4%, respectively). Inflation in *furnishings, household equipment and routine maintenance of the house* also accelerated somewhat, from 3.6% y-o-y in February to 4.2% in March, thanks to faster price growth in household textiles and household appliances.

Commodity Prices

Continuing a trend observed in the previous two quarters, commodity prices fell sharply in the first quarter of 2015, **with the IMF overall commodity price index sliding by 35.8% y-o-y and 10.2% q-o-q in March 2015.** This phenomenon pervaded all major categories of commodity, with prices for food, metals and crude oil falling in the same period.

Metals prices fell further in the first quarter of 2015 than previously, **with the IMF metals price index falling by 9.5% q-o-q (compared with a 7.9% q-o-q drop in Q414) and by 18.4% y-o-y.** In general, these price drops stemmed from weak international demand, particularly in light of the slowdown in construction in China. Cheaper energy and freight inputs to metals production and relatively depreciated producer currencies have also helped to keep supply at high levels in spite of falling prices.

Despite remaining at low levels, uranium prices appear to have bottomed out, rising by 12.8% y-o-y in spite of poor performance in mid-2014, with Japan recently approving the re-opening of two nuclear reactors and China announcing the construction of two new reactors of its own. Among Namibia's other key metals exports, zinc prices increased by only 1.0% y-o-y in March after a poor first quarter of 2015, in which prices fell by 6.8% q-o-q. This came as a consequence of weak demand and robust supply. Copper prices fell by 10.7% y-o-y in March, having fallen by 7.9% in Q115, on the back of weak demand, ample supply and high inventories.

Crude oil prices continued to fall, albeit at a slower pace than that observed in late 2014, as prices for the commodity appeared to bottom out in January and recovered slightly thereafter. **The IMF crude oil price index, and average of the prices for Brent Crude, West Texas Intermediate and Dubai Crude, was down 49.1% y-o-y in March 2015, having fallen by 12.6% q-o-q in Q115.** Global oil supply has remained strong: US production in March 2015 was 9.33 million barrels per day (b/d), representing an increase of 1.09 million b/d y-o-y. Although US crude oil output is projected by the Energy Information Administration to stop growing m-o-m in May 2015, US inventories of the commodity are expected to remain above normal until early 2017. Recent international negotiations on sanctions against Iran have raised the prospect of sizeable Iranian oil exports entering the world market by late 2015, which would help to keep oil prices low.

Having fallen by 8.9% q-o-q in Q115, the IMF food price index was down 21.3% y-o-y in March 2015, with the falling **food prices** coming as a consequence of plentiful supply levels for most products, as well as a favourable outlook for future production. Prices for wheat and soybean meal fell by 14.4% and 12.7% q-o-q, respectively, in March thanks to record harvests expected in these sectors. Large supply volumes in meat and fish production also precipitated significant decreases in the prices of pork, beef, lamb, salmon and fishmeal during the first quarter of 2015.



SPECIAL FEATURE

Spotlight on: Analysis of the FY2015/16 Budget

Overall budget

Overall expenditure from the FY2015/16 Budget is projected to amount to N\$67.08 billion, marking an increase of 11.4% from the N\$60.20 billion listed in the FY2014/15 budget. This represents more gradual expenditure growth than the 28.8% increase seen in FY2014/15. The current budget is divided among operational expenditure (77.7%), development expenditure (16.5%) and interest payments on outstanding Government debt (5.8%). As a portion of the total budget, operational expenditure has decreased slightly, from 79.9% of the total budget in FY2014/15, while the development budget has increased (from 15.9% to 16.5%). Interest payments have also increased as a proportion of the overall Budget, from 4.2% last year to 5.8%.

Figure 1: Expenditure Growth Rate (%)

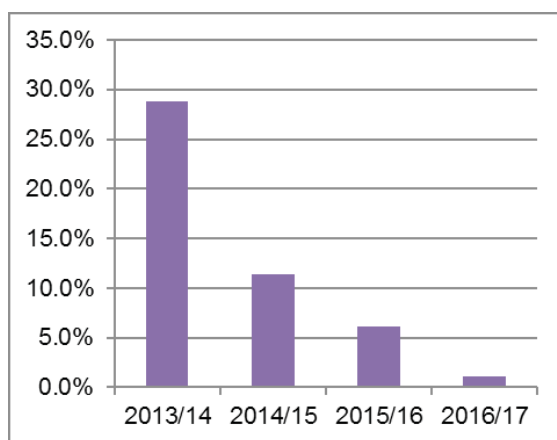
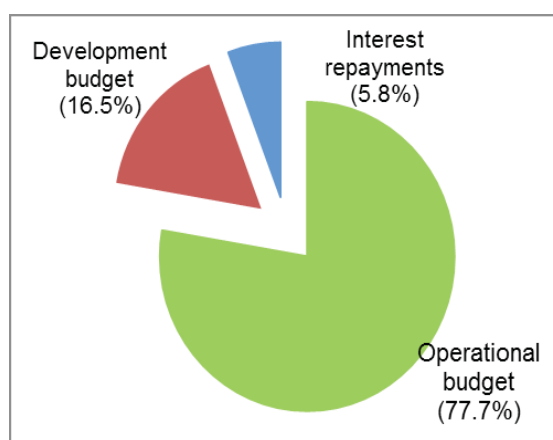


Figure 2: Budget Expenditure Categories (FY2015/16)



Expenditure distribution

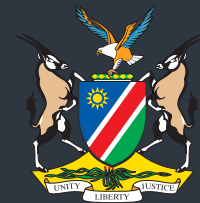
The **Social sector** – which comprises of the Ministries of Education, Arts and Culture; Higher Education, Training and Innovation; Gender Equality and Child Welfare; Health and Social Services; Sport, Youth and National Service; Veterans Affairs; and Poverty Eradication and Social Welfare – will be allocated the largest share of the budget in the 2015/16 financial year, receiving N\$26.72 billion, or 42.3% of total planned expenditure. This is due to the significant allocations to **Education (N\$15.35 billion)** and **Health and Social Welfare (N\$6.49 billion)**. The high allocation of resources to the social sector is aimed at the direct reduction of poverty and improved welfare, examples of which in this budget include the increase of the old age pension from N\$600 to N\$1,000 per month, as well as the announcement to provide secondary education free of charge in order to lead the way in providing every youth in the country with an equal opportunity to education.

The **Public Safety sector** – which comprises of the Ministries of Home Affairs and Immigration; Police; Defence; Justice; the Namibian Correctional Services; and the Anti-Corruption Commission – will receive the second largest allocation, at N\$14.16 billion, or 22.4% of total planned expenditure. Of this, **Defence (N\$7.23 billion)** and **Police (N\$4.77 billion)** will receive the largest shares. Allocation in this sector is essential to ensure our hard earned independence and freedom are characterised by the peace, public safety, security and rule of law that are prerequisites for national development and economic growth.

Following closely behind is the **Economic sector** – which comprises of the Ministries of Finance; Mines and Energy; Environment and Tourism; Industrialisation, Trade and SME Development; Agriculture, Water and Forestry; Fisheries and Marine Resources; Land Reform; and Economic Development and National Planning – which will receive N\$9.94 billion, or 15.7% of total planned expenditure. Of this, **Finance (N\$7.77 billion, of which N\$3.88 billion has been allocated or interest payments)** and **Agriculture, Water and Forestry (N\$2.42 billion)** will receive the biggest shares. Resources in this sector are directed towards ensuring stable macroeconomic growth, leading to prosperity and wealth creation, as well as the implementation of projects aimed at driving the national industrialisation agenda, and boosting national food security and self-sufficiency.

The **Administrative sector** – which comprises the Office of the President; the Office of the Prime Minister; the National Assembly; the Auditor General; the National Council; the Electoral Commission; and the Ministries of International Relations and Cooperation; Labour, Industrial Relations and Employment Creation; and Urban and Rural Development – will receive N\$6.60 billion, or 10.4% of total planned expenditure. Of this, **Urban and Rural Development (N\$3.12**

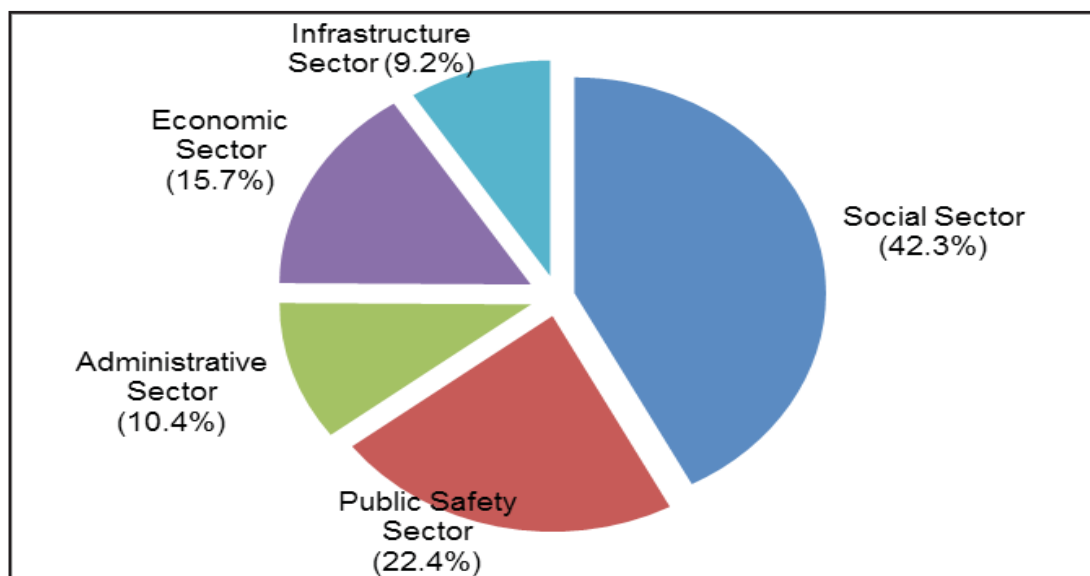




billion) and **International Relations & Cooperation (N\$936.2 million)** will receive the largest shares. Funding is directed towards the improvement of internal efficiency and accelerated service delivery to all Namibians, and also to ensure accountability and maximum value for money.

Finally, the **Infrastructure sector** – which comprises of the Ministries of Works; Transport; and Information and Communication Technology – will receive N\$5.80 billion, or 9.2% of total planned expenditure. The majority of the infrastructure sector's allocation will be given to **Transport (N\$4.47 billion)**. This allocation will cater for growth-enhancing infrastructure in the logistics and energy sectors to ensure Namibia becomes a regional logistics hub as per NDP aspirations.

Figure 3: Breakdown of Budget Expenditure by Sector (FY2015/16)



Objective and focus of the budget

Despite the tremendous efforts that Government has made throughout the past 25 years and the economic growth that was achieved, Namibia still faces significant challenges, such as an unemployment rate of 28.1%, high levels of poverty and high inequality. Therefore, the current budget aims to address these challenges in a customized and effective manner, keeping in mind the following focal points:

- An inclusive growth agenda for our country where “no Namibian will feel left out”, led by the following Ministries: Industrialization, Trade and SME Development; Higher Education, Training and Innovation (via skills development and promotion of innovation); Public Enterprises; and Finance (via the establishment of the PPP unit). This growth agenda aims to address these issues at hand:
 - *Diversifying and industrializing the economy;*
 - *Continuous development of functional and technical skills through increased access to tertiary education and vocational training;*
 - *Developing and supporting domestic and regional value chains in the areas of comparative and competitive advantage;*
 - *Crowding in much needed investment through private-sector and SME support programmes, as well as by harnessing PPPs;*
 - *Leveraging PPPs for infrastructure development and public service delivery.*
- Reduction of poverty and improvements to social welfare. This is the aim behind the creation of the Ministry of Poverty Eradication and Social Welfare, whereas the Ministries of Gender and Child Welfare; Labour, Industrial Relations and Job Creation; Land Reform; and Finance all have components designed to address the following issues:
 - *Strengthening social safety nets both in quantity and coverage, as the first line of defence against poverty for the vulnerable members of our society;*
 - *Supporting the creation of decent jobs and self-employment opportunities in the private sector;*
 - *Implementing policies that promote local access to, and enhance ownership of, resources and nurturing the capacity to exploit these resources profitably;*
 - *Designing and implementing redistributive tax policies that are simultaneously pro-poor and pro-growth.*
- Achievement of prosperity and wealth creation. The achievement of this objective will be promoted through



the Ministry of Industrialization Trade and SME Development (local industry development); the Ministry of Finance (tax policies); and the Development Bank of Namibia (access to finance) by:

- Empowering Namibians in a manner that creates sustainable and broad-based wealth creation;
 - Promoting affordable and sustainable access to finance and means of production, while maintaining responsible lending;
 - Developing facilities to support SME access to finance and mentorship programmes;
 - Increasing the share of local ownership and share in the value chains across various industrial and service-oriented activities;
 - Encouraging wealth accumulation and prudent management;
 - Expanding the provision of basic amenities to all Namibians.
- A performance-oriented and results-based work culture in the public service to ensure accelerated service delivery, accountability and value for money. This will be promoted through the Ministry of Public Enterprise, the newly adopted performance management system (PMS) and the Ministry of Higher Education, Training and Innovation. The following actions will allow for the achievement of this objective:
 - Improving service delivery by strengthening the internal efficiency of the public service sector, through performance measures and accountability;
 - Continuous skills development;
 - Reform of public enterprises to ensure affordable, competitive, reliable and sustainable service delivery.

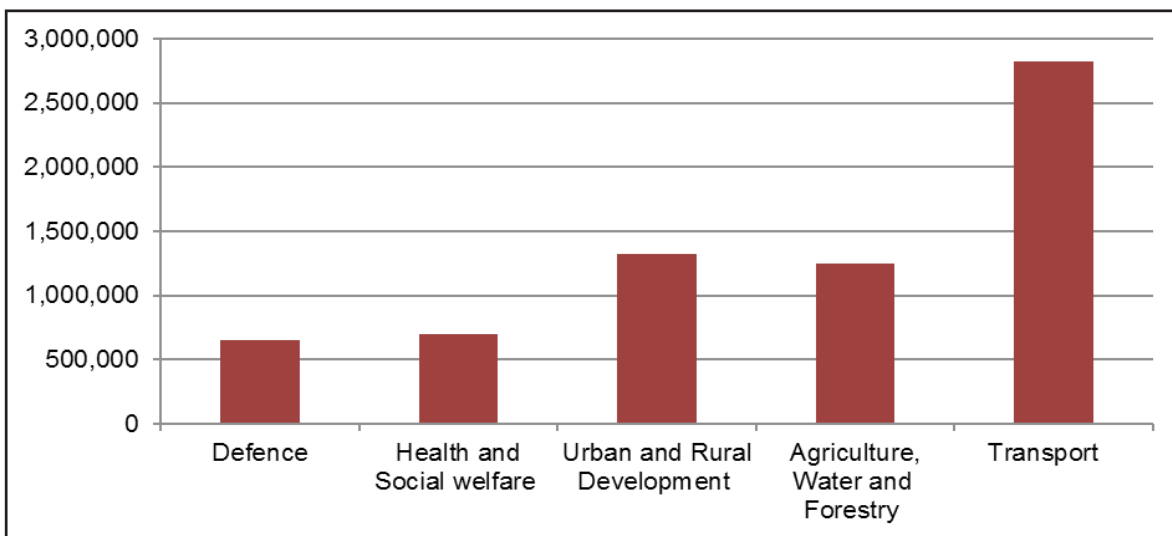
Infrastructure and development

The development budget has increased by 15.8%, from N\$9.58 billion to N\$11.10 billion, to finance planned infrastructural investments, while additional funds required will be sourced from the financial markets, with parastatals borrowing funds under a Government guarantee. Planned infrastructure projects include the construction of a dual carriageway between Windhoek and Okahandja by the Road Fund Administration, the construction of the national fuel storage facility, fuel pipeline and the fuel offloading jetty at Walvis Bay by the National Energy Fund, and planned guarantees for NAMCOR and NamPower for the Kudu Gas-to-Power Project and to NHE for the Mass Housing Programme.

Development budget top 5 shares

The top five recipients for the Development budget in FY2015/16 are the Department of Transport (N\$2.83 billion), the Ministry of Urban and Rural Development (N\$1.33 billion), the Ministry of Agriculture, Water and Forestry (N\$1.25 billion), the Ministry of Health and Social welfare (N\$698.8 million) and the Ministry of Defence (N\$654.0 million). These funds will be used towards the aforementioned planned infrastructure development programs in different sectors.

Figure 4: Development budget - major recipients (N\$000s)

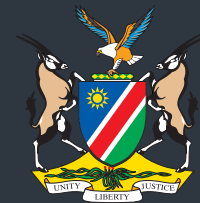


2015/16 budget link to NDP4 priority sectors

Although there have been improvements in terms of policy and budgeting alignment to NDP4 priority sectors, more still needs to be done. The priority sectors in NDP4 are: Agriculture, Tourism, Logistics and Manufacturing. The following are some of the projects, initiated by Government through Budget financing, that are directed and linked with NDP4 priority sectors (all expenditure figures are for the FY2015/16-2017/18 MTEF period):

Logistics

- Construction and Upgrading of Roads (various projects) – N\$4.67 billion
- Maintenance of Roads (Paved and Non-Paved) and Flood-Damaged Infrastructure Repair – N\$478.0 million
- Railway Network Upgrading – N\$3.26 billion
- Northern Railway Line Extension – N\$313.7 million
- Development of Cape Fria - Katima Mulilo Railway Line – N\$242.8 million
- Air Transport Infrastructure (various projects) – N\$744.1 million
- Rural Electrification – N\$208.3 million



Manufacturing

- Construction of Sites and Premises Industrial Estates – N\$480.0 million
- Special Industrialization Program – N\$340.0 million
- Export Processing Zone Infrastructure Development – N\$115.9 million
- External Trade Infrastructure Development – N\$67.8 million
- Agro Processing Development – N\$60.0 million
- Socio-Economic Development in Hardap and //Karas Regions – N\$58.0 million

Agriculture

- Improving Livestock Productivity (various projects) – N\$823.5 million
- Construction of Large Dams, Desalination and Provision of Water to larger Settlements – N\$769.1 million
- Green Scheme (mainly development of farm infrastructure and irrigation systems) – N\$630.4 million
- Rural Water Supply Coverage – N\$288.8 million
- National Horticulture Development Initiative (Horticulture Production, Processing and Marketing) – N\$286.6 million
- Integrated Forest Resource Management (including training and capacity development in related industries) – N\$235.5 million
- Development of Communal Areas (including registration of communal land rights and development of farm infrastructure on that land) – N\$153.6 million (76.8% of this is funded via development loans from the German government)

Tourism

- Upgrading of Tourist Roads – N\$136.0 million
- Wildlife Management (various projects) – N\$95.0 million
- Subsidy to Namibia Wildlife Resorts for development of tourist facilities – N\$62.5 million
- Subsidy to Namibia Tourism Board for development and marketing of Namibia's tourism sector – N\$62.5 million

The basic enablers that are addressed in the budget include Education and Skills; Health; Reducing Extreme Poverty; and Public Infrastructure (all expenditure figures are for the FY2015/16-2017/18 MTEF period):

Education and Skills

- Subsidy to UNAM, including for expansion of Oshakati facilities – N\$3.36 billion
- Construction, renovation and upgrading of primary school facilities – N\$2.15 billion
- Subsidy to Polytechnic of Namibia for operating costs and capital expenditure – N\$1.74 billion
- Construction, renovation and upgrading of secondary school facilities – N\$428.4 million
- Construction and upgrading of pre-primary education facilities – N\$136.1 million

Health

- Construction, Upgrading and Repair of Hospitals, Clinics and Facilities – N\$1.95 billion, including:
 - Construction and upgrading of Primary Health Care Clinics Nationwide – N\$200 million
 - Construction and upgrading of Primary Health Care Centers Nationwide – N\$150 million
 - Maintenance and Repair of Health Infrastructure – N\$130 million

Reducing Extreme Poverty

- Construction of Services Infrastructure, i.e. water, electricity, roads, sewerage – N\$2.47 billion
- Land Purchase Project – N\$1.65 billion
- Rural Electrification – N\$208.3 million
- Establishment of Rural Development Centres nationwide – N\$114.0 million
- Provision of Basic Sanitation (i.e. Toilet Facilities or Pit Latrines) in Rural Areas – N\$68.0 million

Public Infrastructure

- Construction, Upgrading, Maintenance and Repair of Roads, as outlined above
- Railway Network Upgrading and Development, as outlined above
- Development of Air Transport Infrastructure, as outlined above
- Subsidy to NamPower for construction of the Kudu Gas-to-Power Project – N\$4.93 billion
- Subsidies to National Housing Enterprise and the Mass Housing Initiative – N\$420.0 million
- Development of National Fundamental Spatial Data Sets – N\$83.1 million

Revenue sources

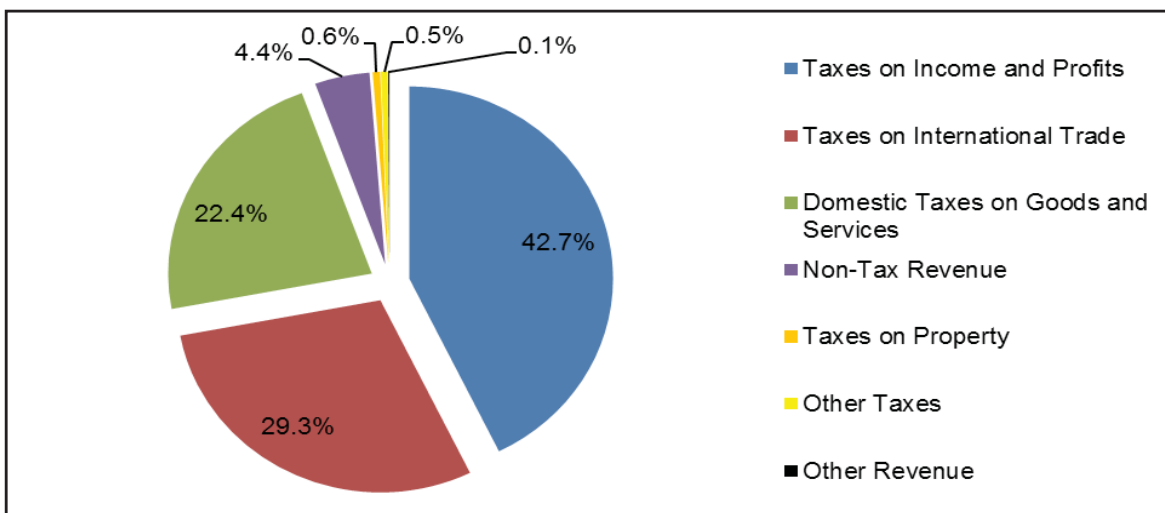
Government sources its funds from revenue collected through different avenues, i.e. tax revenue and non-tax revenue. Tax revenue includes the following categories: taxes on income and profits, taxes on property, domestic taxes on goods and services, and taxes on international trade (SACU receipts), while non-tax revenue consists of entrepreneurial and property income, fines and forfeitures, license fees and others contributions, and administrative fees (funds collected by line ministries). In addition to those, there are grants, loans and return on capital from lending and equity.

Total revenue is expected to increase by 11.4% from N\$52.47 billion to N\$58.44 billion for 2015/16. Taxes on income and profits are forecast to account for the largest part of this, contributing 42.7% of total revenue, followed by taxes on international trade (SACU receipts) at 29.3%. Domestic taxes on goods and services, to which VAT is the main contributor, are projected to account for 22.4%, while the remaining categories should contribute 5.6% to overall revenue.





Figure 5: Government Revenue by Source, FY2015/16 (projected)



Financing the budget deficit

Based on forecasts for revenue and expenditure for FY2015/16, the budget deficit is projected at 5.3% of GDP. Government intends to finance a substantial component of the deficit from domestic borrowings, with the remainder being made up from foreign borrowing and cash balances. Government's contingent liabilities are projected to increase to 6.5% of GDP in FY2015/16, as support is extended to project financing for SOEs, on the strength of their balance sheets.

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- *FY2015/16 Budget Statement*, Honourable Minister of Finance, Calle Schlettwein
- *Medium Term Expenditure Framework FY2015/16-2017/18*, Ministry of Finance
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Fiscus Building

P/Bag 13259, Windhoek,

Tel: 061 - 2099 111

