FISCAL POLICY FRAMEWORK FOR 2009/10-2011/12 MTEF

"Weathering the Storm"

March 2009

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Executive Summary

The Fiscal Policy Framework provides policy guidelines and resource estimates for the Budget over the Medium Term Expenditure Framework (MTEF) as measured against national priorities. While the policy addresses fiscal targets during the MTEF, its objectives and policy stance are time consistent and go beyond a three-year MTEF period. The policy is premised on advances made in Public Finance Management and macroeconomic environment; embodying domestic, regional and global economic developments and prospects. The policy entrenches macroeconomic stability and fiscal sustainability as underlying principles in the conduct of the fiscal activity. It emphasizes allocation efficiency of expenditure outlays for which oversight and accountability are imperative over budget cycles. The fiscal policy is countercyclical and allows for the strengthening of the fiscal space during periods of economic upturns.

Developments in the international economic arena and the domestic economy in particular, convey important messages for fiscal policy. The looming recession in major world economies has precipitated into the domestic, real sector economy and affects domestic economic and revenue growth. In addition, trade liberalisation agreements to which Namibia is party such as the SADC-EU Economic Partnership Agreement (EPA), the SADC Free Trade Agreement as well as the envisaged agreement between SACU and other parties, portend a fiscal adjustment process that may hold advantages but also significant risks and costs.

Namibia has made advances in fiscal consolidation. The three key fiscal targets that guided government fiscal operations in relation to macroeconomic stability relate to maintaining public expenditure on average 30 percent of the GDP, budget deficit not exceeding 3 percent of GDP and public debt not exceeding 25 percent of GDP.

The above fiscal targets have been achieved. The expenditure to GDP ratio has been within the target for the last four years and stands at 28.5 percent in 2007/8. The budget deficit target has improved from -2.5 percent recorded in 2004/5 to a surplus 4.7 percent in 2007/8 and public debt has fallen from 26.4 percent in 2005/6 to 18.7 percent in 2007/8.

Total revenue has maintained a buoyant growth since 2004/5. During 2007/8, revenue outturn and grants amounted to N$ 20.7 billion, about N$2.3 billion more than revenue projected for that year. Tax revenue constitutes about 30 percent of GDP and remains the mainstay of government revenue, reaching an all-time high of 93 percent of total revenue in 2007/8. This increase is largely driven by **taxes on international trade** which represented 42.4 percent of total tax revenue in 2007/8. In prospect, external shocks due to economic downturn and trade liberalisation will affect future revenue outturn, given the predominance of tax from international trade.

Strong revenue performance in recent years and prudent expenditure control resulted in the budget balance outturn of about N$ 2.9 billion during 2007/8, corresponding to 4.7 percent of GDP, a second consecutive surplus after a budget surplus of 4.1 percent was recorded in 2006/7. This result represents a significant improvement from the last deficit of N$82 million recorded in 2005/6, corresponding to -0.2 percent of GDP. This fiscal consolidation has created the necessary fiscal space to help weather the effects of global economic slowdown going forward.

On the macro-economy, domestic economic growth rate averaged 4.6 percent during 2005 – 2007 and it is projected to slow to 2.4 percent during 2008 and average around 2.2 percent over the 2009/10 – 2011/12 MTEF. This growth rate prospect falls below the 7.0 percent required to achieve the Millennium Development Goals (MDG).

While the Namibian economy is expected to weather the effects of the global financial crisis relatively well, there are downside risks for the real sector and revenue in the short to medium-term. The slackening of demand for commodities among Namibia's major trading partners and the consequent fall of commodity prices, have put pressure on enterprise returns with negative production and employment effects. The available fiscal space allows for government to undertake timely, targeted and time-bound countercyclical fiscal policy to stimulate and put the economy on a higher growth trajectory, thanks to the outcome of fiscal consolidation in recent years.

The 2009/10 – 2011/12 MTEF targets sector programmes with high growth and employment potential, provision of growth enhancing infrastructure, efficiency enhancers and strengthening of social safety nets.

In addition, relief will be provided to individual taxpayers and non-mining corporations by adjusting tax brackets for personal income earned and duties payable on property transferred by natural persons as well as lowering tax rates in specific tax categories. At the same time, high personal income earnings will face higher taxation levels; and an environmental levy will be introduced on specific disposable, non-recyclable materials.

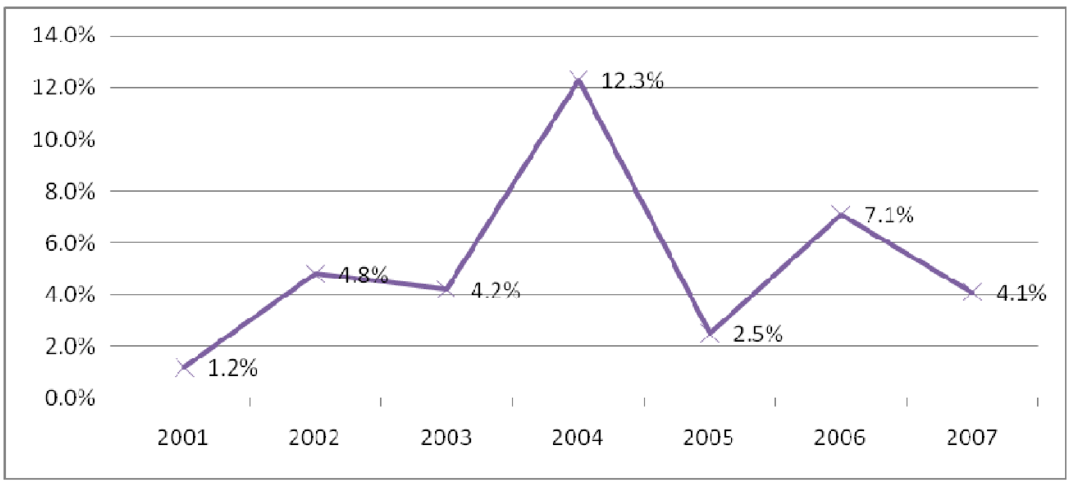
Macroeconomic Developments and Outlook

Gross Domestic Product (GDP) has maintained an upward trend since 2000/1, but economic growth did not translate into significant employment creation.

Real GDP growth rates averaged 3.5 percent during NDP1 and accelerated to 4.7 percent during NDP2. The GDP growth rate of 4.1 percent for 2007 was sluggish, compared to 7.3 percent average growth recorded during 2004-2006 against a countervailing background of global economic slowdown and commodity price boom which preceded the global downturn[1].

The year-on-year volatility in GDP growth rates reveals the dependence of the economy on primary industries and associated vulnerability to exogenous shocks (Figure 1).

Figure 1: GDP at constant prices, growth (2001 – 2007)



GDP growth continues to be led by the tertiary sector

Tertiary industry, mainly comprising producers of government services, Wholesale, Retail Trade and Repairs and Real Estate and Business Services, is the main contributor to GDP, accounting for 54.8 percent during 2000 – 2007. **Secondary industry** lags behind the primary industry and averaged 17.8 percent for the period 2000 – 2007. The share of manufacturing as a proportion of GDP has hovered around 13 percent of the GDP during 2000 – 2007. The contribution of the **primary industry** to GDP averaged 20.8 percent over the same period. Annual growth rates over the period 2001-2007 averaged 5.8, 6.1 and 4.9 percent for the primary, secondary and tertiary industries respectively. This means that the secondary industry recorded the highest growth rates on average, which saw its relative GDP share increasing, but growth in tertiary industry is still the most important because of its greater weight in total GDP.

[1] *National Accounts data have been revised for the period 2000 - 2007, due to rebasing from 1995 to 2004 prices, and are significantly different from the previous series. All references to GDP refer to the revised GPD data.*

Expenditure priorities over the 2009/10 – 2011/12 are to be prudent for the economy to weather severe external shocks without damaging services.

Recent macroeconomic assessment indicates that while the Namibian economy is expected to weather shocks exerted by the global economic turmoil relatively well, there are significant downside risks to the macroeconomic outlook. The prevailing recession in the major economies could result in further deterioration of trading conditions and high food prices which peaked during 2008. Growth is estimated at 2.4 percent for 2008 and even lower at 1.1 percent for 2009 under the **"most likely scenario"** of macroeconomic outlook. The macroeconomic growth scenarios are given in Table 1 and 2.

Table 1: GDP Growth Rates by Industry: A Most Likely Scenario

GDP by Industry, 2004 prices	2007	2008	2009	2010	2011	2012	2009-2012
	Actual	Estimate	Projections				Average
Primary Industries	-0.9	-3	-13.3	1.6	2.1	1.6	-2.0
Secondary Industries	5	5.3	5.9	3	3.3	3.8	4.0
Tertiary industries	5.4	3.4	2.6	2.8	2.7	3.1	2.8
GDP at constant prices	**4.1**	**2.4**	**1.1**	**2.3**	**2.5**	**2.8**	**2.2**

Source: 2007 National Accounts; Macroeconomic Working Group

On the supply-side, growth is expected to be driven by the secondary industry for which growth is projected to average at 4.0 percent over the 2009 -2012 period, followed by the tertiary industry with an average growth of 2.8 percent, while the primary industry is expected to decline by - 2.0 percent.

Table 2: GDP projection, expenditure approach (most likely scenario)

Constant, 2004 prices-percentage change	2007	2008	2009	2010	2011	2012
	Actual	Estimate	Projections			
1. Consumptions	**12.7**	**9.6**	**1.3**	**1.9**	**3.2**	**3.4**
Private consumption	13.5	4.7	1.1	1.9	3.6	3.9
Government consumption	9.9	26.4	1.9	1.9	1.9	1.9
2. Investment	**-4.2**	**21.3**	**3.9**	**9.1**	**5.2**	**6.2**
Private enterprises,	**-15.2**	**44.5**	**10**	**19**	**12.6**	**13.6**
Government investment	24.9	16	12.7	8.7	7.9	7.9
3. Exports of goods and services	**0.9**	**-3.9**	**-2.5**	**0.9**	**1.1**	**0.7**
4. Imports of goods and services	**23.8**	**3.9**	**0.2**	**4.1**	**4**	**4.2**
GDP, growth rate	*4.1*	*2.4*	*1.1*	*2.3*	*2.5*	*2.8*

Source: 2007 National Accounts; Macroeconomic Working Group

GDP projections for the coming MTEF as indicated in the tables above show an episode of extended low growth for Namibia, which mirrors expected revenue outturn growth over the same period. As the effects of the contagion get translated into the domestic real economy, this low pace of activity may even aggravate as the peak of its severity may not have been reached as yet.

Fiscal Developments

I. Revenue outturn

Average revenue outturn for 2005/6 – 2007/8 MTEF period amounted to N$ 17.1 billion. An average revenue growth of 22.2 percent was achieved during the MTEF Period under review. Total revenue outturn recorded during 2007/8 amounted to N$20.7 billion, over twice as much as the revenue recorded in 2003/4 and about 18 percent more than revenue collected during 2006/7, thus significantly outperforming the budget estimate. This strong performance was driven by the boom in commodity prices, improvement in revenue collection and better SACU receipts.

Table 3: Total Revenue by source (N$ million), 2003/04 - 2007/08

ITEM	2003/04	2004/05	2005/06	2006/07	2007/08
TOTAL REVENUE	**9,767**	**11,424**	**13,108**	**17,593**	**20,689**
TAX REVENUE	**8,763**	**10,467**	**11,963**	**15,843**	**19,183**
Taxes on Income & Profits	**3,618**	**4,024**	**4,576**	**5,676**	**6,730**
Income Tax on Individuals	2,334	2,662	2,905	3,374	3,714
Company Taxes	1,198	1,222	1,573	2,161	2,834
Other Taxes on Income and Profits	86	140	97	141	181
Taxes on Property	75	86	110	142	149
Domestic Taxes on Goods and Services	1,951	2,056	3,272	3,197	4,081
Taxes on International Trade and Transactions	3,036	4,207	3,892	6,698	8,085
Other Taxes	83	94	113	130	138
NON - TAX REVENUE	**957**	**849**	**1,073**	**1,683**	**1,411**
Return on Capital from Lending and Equity Participation	13	37	32	17	16
External Grants	**34**	**70**	**39**	**50**	**78**

Source: Ministry of Finance

The percentage change in year-on-year revenue has increased steadily from 14.7 percent in 2005/6 to 17.6 percent in 2007/8; but this pace is significantly below the 34.2 percent revenue growth rate recorded in 2006/7 owing to that year's exceptional revenue outturn. Part of the deceleration between 2006/7 and 2007/8 can be explained by an estimated N$320 million tax relief extended to low income earners and retirement fund contribution deductibles during 2007/8. The revenue-reducing effect of zero-rating of selected basic consumer goods implemented during 2008/9 may be offset by efforts to strengthen revenue collection initiatives through extension of forensic audits, collection of outstanding tax debts and introduction of Withholding Tax on Interest earnings during the 2008/9 fiscal year.

Tax revenue remains the mainstay of government revenue and achieved an all-time high of 93 percent of total revenue in 2007/8, producing an excess of about 12.6 percent over the budget estimate. This increase is largely driven by **taxes on international trade** which, after softening to 32.5 percent of the total tax revenue in

2005/6, outperformed **taxes on income and profits** since 2006/7 and increased to 42.4 percent by 2007/8.

Taxes on income and profits remain the second most important tax revenue source and increased the most from N$4,576 million in 2005/6 to N$6,730 million in 2007/8 owing to increases in non-resident shareholders tax, underpinned by commodity price gains. **Domestic taxes on goods and services** also recorded a healthy increase from N$3,272 million in 2006/7 to N$4,081 million during 2007/8. However, the anticipated downturn in economic activity globally and the impending tariff reductions under the various free trade agreements within and between SADC and SACU and other parties pose medium-term and future risks to the sustainability of revenue growth.

Company tax outperformed budget estimates by 36 percent. The above-expectation performance of company tax is mainly due to improvements in **non-mining company and non-diamond mining company tax** outturn, which increased from N$1,451 million and N$351 million in 2006/7 to N$1,834 million and N$780 million in 2007/8, respectively.

II. Expenditure Outturn

As part of the fiscal targets set by Government, public expenditure should not exceed the 30 percent-to-GDP benchmark. Government has succeeded to keep non-statutory Vote expenditure-to-GDP ratio under 30 percent since 2004/5. The total non-statutory expenditure outturn for 2005/6 – 2007/8 averaged N$15.4 billion, which amounted to about 27.6 percent of GDP. The same expenditure outlay for 2007/8 totalled N$17.7 billion, virtually matching the budget estimate and producing a non-statutory vote expenditure-to-GDP ratio in the order of 28.5 percent in 2007/8 as compared to 27.3 percent recorded during 2006/7.

Table 4: Total expenditure by functional classifications (N$ '000 and % shares), 2004/05 - 2008/09

Functional Classifications	2004/05	2005/06	2006/07	2007/08*	2008/09*
			(N$ 000)		
General Public Services	1 684 331	1 523 532	2 079 708	3 182 407	3 518 676
Defence Affairs and Services	1 106 850	1 259 545	1 375 260	1 682 842	2 371 780
Public Order and Safety Affairs	1 201 074	1 191 343	1 325 990	1 565 057	1 920 715
Education Affairs and Services	2 736 944	2 911 128	3 225 511	3 418 380	4 472 965
Health Affairs and Services	1 278 394	1 320 834	1 347 023	1 668 852	2 111 555
Social Security and Welfare Affairs and Service	1 058 513	1 224 589	1 467 417	1 641 965	2 310 723
Housing and Community Amenity Affairs and Services	884 587	1 036 558	1 070 740	1 151 266	1 344 408
Recreational and Culture Affairs and Services	290 504	348 461	317 303	360 073	534 203
Fuel and Energy Affairs and Services	33 835	36 517	76 114	27 225	65 967
Agriculture, Forestry, Fishing and Hunting Affairs and Servi	591 521	672 640	642 012	800 312	1 066 857
Mining and Mineral Resources Affairs and Services	48 919	53 708	53 134	69 214	86 363
Transportation and Communication Affairs and Services	241 745	115 646	223 225	487 033	858 767
Other Economic Affairs and Services	369 455	308 486	600 566	571 015	470 689
Expenditure not Classified by Functions	1 040 156	1 186 266	1 475 182	1 201 694	1 330 785
Total	**12 566 830**	**13 189 254**	**15 279 184**	**17 827 335**	**22 464 453**
			(% share)		
General Public Services	13.4%	11.6%	13.6%	17.9%	15.7%
Defence Affairs and Services	8.8%	9.5%	9.0%	9.4%	10.6%
Public Order and Safety Affairs	9.6%	9.0%	8.7%	8.8%	8.6%
Education Affairs and Services	21.8%	22.1%	21.1%	19.2%	19.9%
Health Affairs and Services	10.2%	10.0%	8.8%	9.4%	9.4%
Social Security and Welfare Affairs and Service	8.4%	9.3%	9.6%	9.2%	10.3%
Housing and Community Amenity Affairs and Services	7.0%	7.9%	7.0%	6.5%	6.0%
Recreational and Culture Affairs and Services	2.3%	2.6%	2.1%	2.0%	2.4%
Fuel and Energy Affairs and Services	0.3%	0.3%	0.5%	0.2%	0.3%
Agriculture, Forestry, Fishing and Hunting Affairs and Servi	4.7%	5.1%	4.2%	4.5%	4.7%
Mining and Mineral Resources Affairs and Services	0.4%	0.4%	0.3%	0.4%	0.4%
Transportation and Communication Affairs and Services	1.9%	0.9%	1.5%	2.7%	3.8%
Other Economic Affairs and Services	2.9%	2.3%	3.9%	3.2%	2.1%
Expenditure not Classified by Functions	8.3%	9.0%	9.7%	6.7%	5.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

**Estimate; Source: Ministry of Finance*

Development expenditure hovered around 11 percent of total non-statutory expenditure during the last three financial years. However, its execution rate fell from an all-time high of 96.3 percent achieved during 2006/7 to 88.5 percent in 2007/8. Out of a total allocation of N$ 2,073.9 million during 2007/8, N$ 238.9 million was not spent, representing 11.5 percent. This contrasts with the outcome realised during 2006/7, when the highest implementation rate was achieved with a variance of only 3.7 percent.

III. Budget Balance

Since the inception of the fiscal consolidation programme, the budget deficit target has improved from -2.5 percent recorded in 2004/5 to a surplus of 4.7 percent realised during 2007/8 and at the same time, the public debt-GDP ratio has fallen from 29.0 percent in 2004/5 to 18.7 percent in 2007/8.

Table 5: Total Revenue, Expenditure and Budget Balance (in N$ million), 2003/04 - 2007/08

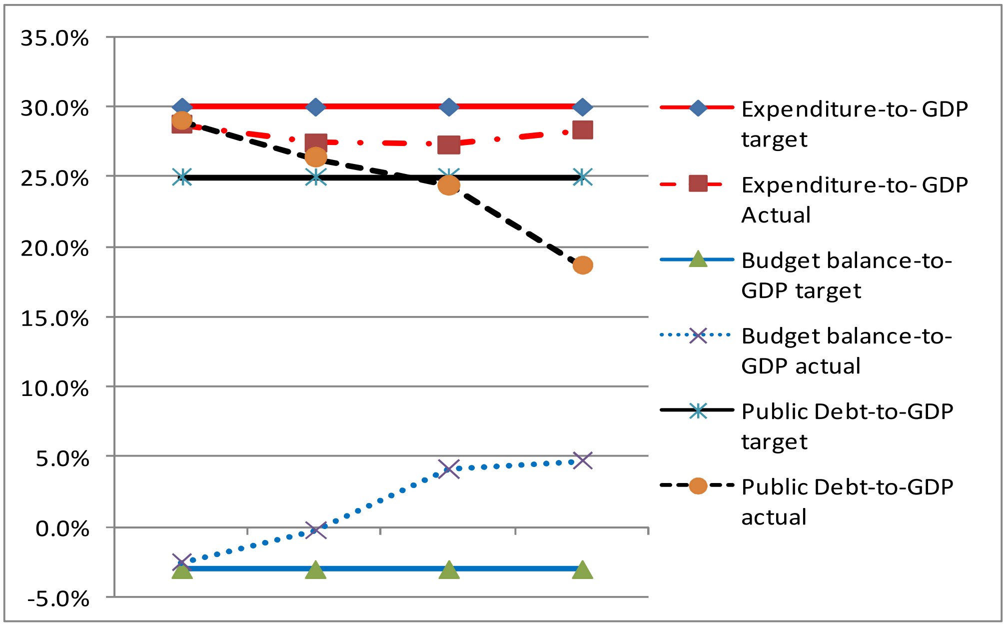
ITEM	2003-04	2004 - 05	2005-06	2006-07	2007-08
Revenue	**9,767**	**11,424**	**13,108**	**17,593**	**20,689**
% of GDP	*25.3*	*26.2*	*27.2*	*31.5*	*33.0*
Expenditure	**12,241**	**12,493**	**13,189**	**15,279**	**17,717**
% of GDP	*31.7*	*28.7*	*27.4*	*27.3*	*28.3*
Budget Balance	**-2,474**	**-1,069**	**-82**	**2,314**	**2,936**
% of GDP	*-6.4*	*-2.5*	*-0.2*	*4.1*	*4.7*
Total Debt	**10,201**	**12,642**	**12,710**	**13,636**	**11,693**
% of GDP	*26.4*	*29.0*	*26.4*	*24.4*	*18.7*
GDP	***38,648***	***43,554***	***48,137***	***55,877***	***62,663***
GDP Growth in %	*6.2*	*9.9*	*3.7*	*6.4*	*3.7*

Source: Ministry of Finance; GDP and GDP growth rates are adopted from 2007 National Accounts and converted from calendar to financial year period.

A Strong revenue performance and prudent expenditure control resulted in the budget balance outturn of about N$ 2,936 million during 2007/8, corresponding to 4.7 percent of GDP and significantly higher than the budget estimate of 1.1 percent. After a budget surplus of 4.1 percent was recorded in 2006/7, it is the second budget surplus in independent Namibia. This result represents a significant improvement from the last deficit of N$82 million, amounting to -0.2 percent of GDP recorded in 2005/6. The resultant fiscal space provided scope to strengthen policy strategies aimed at addressing Namibia's persistent developmental challenges. *A fortiori*, the 2008/9 – 2010/11 MTEF was tremendously expansionary to provide needed and timely stimulus to the economy.

In summary, the under mentioned Figure presents an overview of fiscal performance over the 2004/05 – 2007/08 period.

Figure 2: Targets and Performance of Fiscal Indicators, 2004/5 – 2007/8



Source: Ministry of Finance

IV. Fiscal Balance

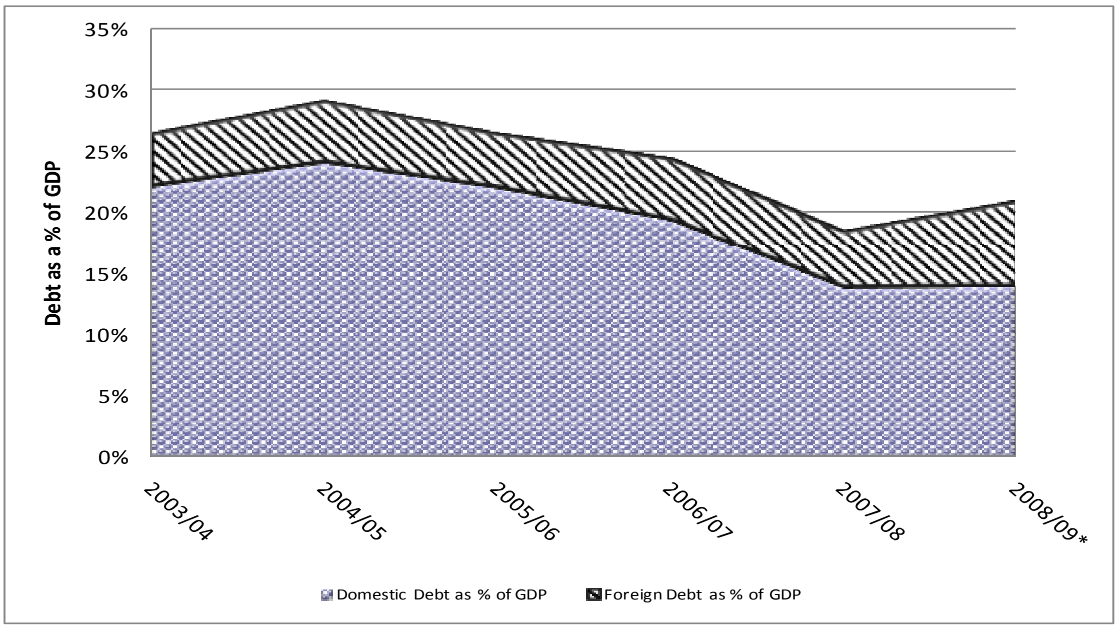
The overall fiscal balance is the indicator of the government fiscal position. This indicator has strengthened in the last three years, from N$54 million recorded in 2005/6 to N$5.1 billion realised by 2007/8 and it is expected to strengthen to about N$6.7 billion by 2008/9. This outcome emanates from improvements in revenue performance, a fall in public debt and expenditure control measures implemented during the MTEF.

Assets and Liabilities

V. Public Debt Outturn

Total debt portfolio stood at N$11,693 million during 2007/8 and, as a proportion of GDP, has fallen by about 11 percentage points since 2004/5. Available fiscal space has been judiciously utilised to accelerate debt repayments so that the proportion of total debt to GDP for 2007/8 has declined sharply from 26.4 percent in 2005/6 to 18.7 percent and is well below the target of 25 percent in 2008/09. The decline in total debt stock is mainly due to redemption of the GC07 bond during 2007/8 and gradual reduction in T-365 treasury bills.

Figure 3: Debt stock as percent of GDP, 2003/4 – 2008/9.



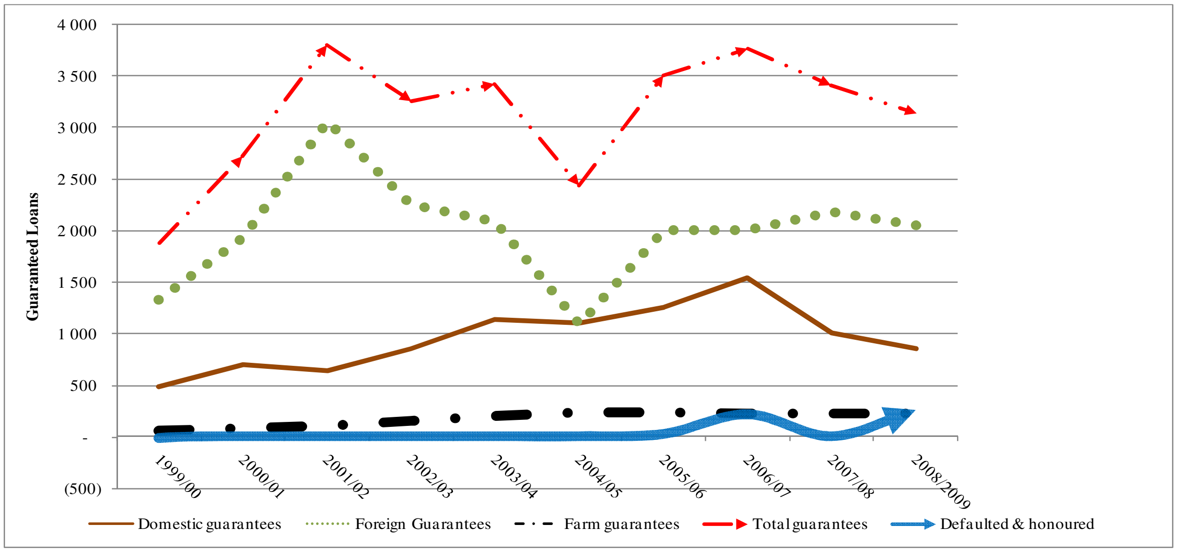
**Estimate, Source: Ministry of Finance*

The gradual reduction in public debt is paramount for fiscal policy going forward. This allowed for government to widen the fiscal space, allowing for the government to continue addressing development challenges even amidst the prevailing difficult circumstances. However, the widespread impact of the financial crisis which started in 2007 and recent swings in exchange rate volatility in the direction of currency weakening call for restraint in additional borrowing.

VI. Public Guarantees

Total loan guarantees issued have increased by 7.5 percent between 2005/6 and 2006/7 from N$3,504.8 million in 2005/6 to N$3,767.6 million in 2006/7, before declining by 9.4 percent from the 2006/7 level to N$3,413.3 million in 2007/8. The proportion of foreign debt portfolio to domestic debt may be low as shown above, but government guarantees are predominantly extended to foreign loans sourced by SOEs, in part due to loan conditionalities. During 2005/6 -2008/9, about 60 percent of guaranteed loans were foreign. Payments due to default on guaranteed loans increased from N$21.6 million during 2005/6 to N$212.5 million in 2006/7, bringing the total payments of this nature to N$489.2 million since 1999/00.

Figure 4: Government guaranteed loans and loans defaulted (N$ millions) since 1999/2000



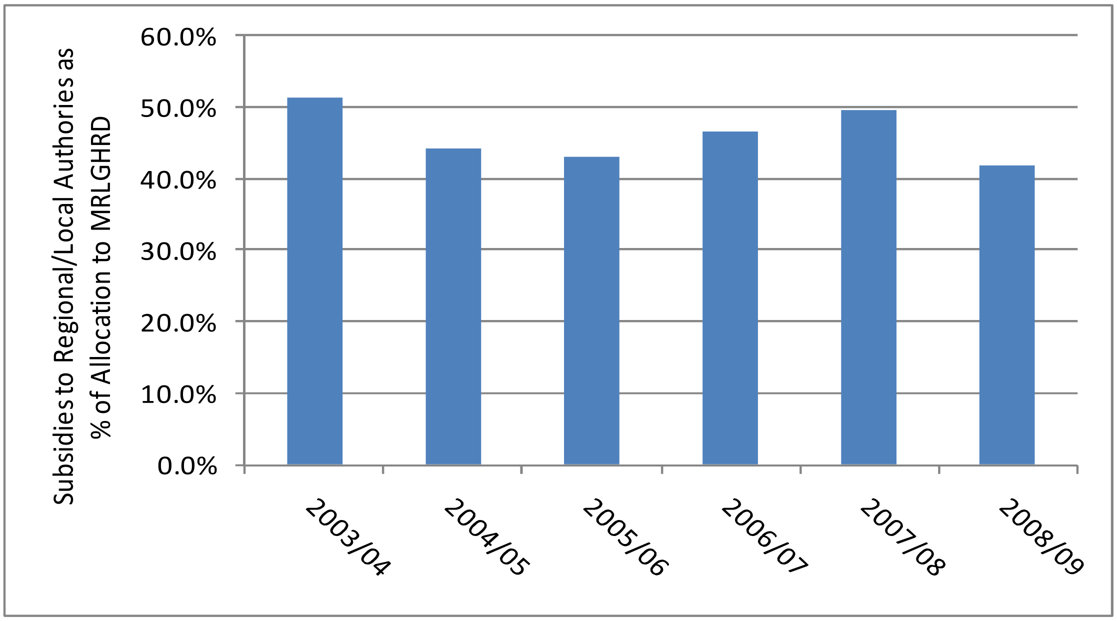
Source: Ministry of Finance

While there were no payments due to default during 2007/8 fiscal year, an increase was witnessed in 2008/9 when about 52 percent of total defaults occurred, largely from an entity in the mining sector. This is the sector in which the second round effects of the global financial crises are most pronounced.

VII. Subsidies to State-Owned Enterprises and other General Government Operations

Subsidies extended to Regional Councils/Local Authorities constitute the primary source of financing for basic amenities in local authorities. Subsidies as a proportion of budgetary allocation to the line ministry remains virtually unchanged in the last six years, averaging about 45.8 percent. This is indicative of significant progress that still remains to be made in the development of administrative capacity for local authorities and decentralisation of powers and functions.

Figure 5: State subsidies extended to Regional Councils and Local Authorities, 2003/4 – 2008/9



Source: Ministry of Finance

State-Owned Enterprises have a key role to play in, among others, the provision of infrastructure, service delivery and revenue generation. While some SOEs perform to the extent of complementing state revenue in the form of dividend pay-outs, others continue to over rely on public budget support. During 2007/8, total central government budgetary transfers to SOEs amounted to N$1,06 billion, while dividend pay-out for that year was N$109.1 million, corresponding to 10.2 percent of total transfers. Implementation of strategies aimed at improving the performance of SOEs and strengthening their economic role and governance is therefore an important priority during the 2009/10 – 2011/12 MTEF.

Transparency and Accountability

Sovereign assessment for Namibia's fiscal transparency commends significant progress in meeting the basic international standards of fiscal transparency code of the International Monetary Fund (IMF), but the reform momentum needs acceleration.

A suite of fiscal transparency imperatives underpinning Namibia's fiscal system to date include advances in Public Finance Management (PFM), budget reform and accountability reporting. The roll-out of the fiscal policy is an added element to this tradition. The fiscal policy commits government to the reform process, hand in hand with capacity-building to manage for results.

VIII. Fiscal Governance

Fiscal policy recognises advances that Namibia has made in the realm of fiscal transparency, accountability and public finance management (PFM).

The fiscal policy framework recognises progress made in PFM to date. The PFM focuses on seven core result areas, namely:-

- A budget process that combines social and developmental outcomes with fiscal sustainability
- Public expenditure that delivers results and value for money
- Revenue fully and fairly collected from a widening base
- Assets and liabilities identified and deployed to optimal effect
- Risk that is identified and properly managed
- Transparency and accountability maintained to Parliament and the public; and
- Infrastructure (including human resources) needed to make PFM work efficiently and effectively.

To complement government's PFM efforts, government benefits from Namibia's membership in regional and international financial and monetary institutions or associations. These institutions assess government's performance in public finance management and assist to further strengthen Namibia's fiscal policies. For example, through Namibia's membership in the International Monetary Fund (IMF), government is committed to a number of IMF's articles of association, notably the annual Article IV consultations which concentrate on monitoring macroeconomic stability, economic performance and fiscal and monetary governance. These consultations have on an annual basis assisted government to improve public finance management. Government's efforts of pursuing persistent sound macroeconomic policies and prudent financial regulation and supervision, which have contributed to a long period of solid economic growth, sound fiscal and external positions, as well as a healthy and profitable banking sector, have especially been commended in the 2008 Article IV consultations.

IMF membership also requires reporting on fiscal observations, standards and codes (f-ROSC), financial sector evaluation through the financial sector assessment programme (FSAP) and financial system stability assessment (FSSA) and, financial statistics reporting through continued compliance to the government finance statistics manual of 2001 (GFSM2001).

Membership in IMF and compliance to fiscal standards and codes secures Namibia a continued positive rating and credit worthiness among global lenders. To build on this success, annual, independent credit ratings, this in Namibia's case, are carried out by FITCH Credit Ratings. FITCH affirmed Namibia's credit rating at BBB- for long-term foreign currency and BBB for long-term domestic currency since 2005.

Such ratings can also be carried out on SOE's and Government continues to encourage SOEs and Public Corporations to seek credit rating and raise funds in the money market for especially infrastructure development.

Risks and Challenges

Fiscal policy framework strategies and budget priorities are growth enhancing and geared towards addressing development constraints in sectors with high employment and income generation.

Notwithstanding the relatively favourable performance of the Namibian economy and stable public finances situation, there are a number of challenges that merit special attention during the 2009/10 – 2011/12 MTEF period. These challenges are mainly structural in nature and have been identified in government plans, including Vision 2030.

IX. Structural Constraints

Education has been accorded the highest budgetary priority since independence with expenditure on education averaging about 22.2 percent of recurrent expenditure for the period 2001/02 – 2007/08. This expenditure ratio is one of the highest in the SADC region. Notwithstanding these expenditure outlays, substantial improvement still needs to be realised in the quality of educational outcomes. The policy focus is to support improvement of the quality of educational outcomes so as to develop an inclusive knowledge-based society and reach a critical mass of skilled labour. Skills deficiency, ranging from inadequate to skills mismatch, remains a fundamental shortcoming in the labour market. In addition, the policy supports provision of personnel and efficient infrastructure for public health delivery.

About 70% percent of the population depends on **agriculture** for their livelihood. The sector exhibits low productivity owing to, among others, skills shortage and access to productive land. In addition, due to the disease status north of the Veterinary Cordon Fence (VCF), communal areas in the region have to bear with a virtual prime market access barrier.

The share of **manufacturing sub-sector** has remained static and hovers around 13 percent of GDP during 2000 – 2007. While a review of tax incentives for investors has been undertaken, its outcome will be the subject of stakeholder consultation and it will form an important consideration in determining necessary reforms in this area.

The financial performance of **State-Owned Enterprises and Local and Regional Authorities** remains a persistent challenge with many of them relying on public budget transfers. Government has put measures in place aimed at ensuring that the financial management of SOEs is improved and returns on investments are maximised. Such measures include strengthening oversight through SOE Governance Council and targeting budget transfers to specific outcomes.

X. Risks

Namibia is a small open economy, with the trade-to-GDP ratio close to 100 percent. That implies that Namibia's economy is highly exposed to events taking place in the global economy such as the current financial crisis, which has already led the main world economies into recession. If the **financial crisis and the subsequent recession** in major world economies deepen or prolong, Namibia's economy will be adversely affected, i.e. an increase in unemployment, reduced demand for Namibia's commodities; reduced public revenue and negative impact on national reserves.

Namibia has benefitted from a positive external environment. However, the commodity price boom experienced over the past three years has come to a halt. It is therefore urgent that mechanisms aimed at fast-tracking structural reforms are developed.

Receipts from the **SACU Revenue** Pool have been and remain a significant contributor to Government revenue. SACU revenues are expected to reduce due to trade liberalisation, including the envisaged formation of the SADC Customs Union by 2010. Namibia, together with other six countries which includes all SACU member states, are at the final stages of trade negotiations in the context of Economic Partnership Agreements with the EU that are expected to culminate into a signed and ratified agreement in the foreseeable future. This is an indication that SACU revenues are likely to reduce over the 2009/10 – 2011/12 MTEF period. Thus, optimising opportunities offered by trade liberalisation and market expansion, and instituting a more cost-effective tax regime to broaden economic and revenue base remain an important response challenge for Namibia going forward.

The Fiscal Policy Stance

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

Since the inception of the fiscal consolidation programme, fiscal surpluses were achieved in 2006/7 and 2007/8. That provided fiscal space for the 2008/9 to 2010/11 expansionary budget. However, under current revenue projections, expansionary budget should be pursued with caution and properly targeted to augment the resilience of the domestic economy against the global economic slowdown, without compromising fiscal sustainability.

XI. Fiscal Strategies for the 2009/10 – 2011/12 MTEF period

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

Namibia has maintained rather low debt stock by international standards, therefore it can now be allowed to rise to fund countercyclical spending; but sustainability and credit worthiness must be maintained. For that reason it is proposed to raise the deficit target to an average not exceeding 5 percent over the MTEF period. As a result of adopting this target, Government will create headroom to extend what is already an expansionary budget.

A. Measures to achieve the fiscal strategy include the following:

- The composition of countercyclical expenditure intervention will be geared towards priority sectors. Non-priority sectors have to do with scarce resources within set ceilings in order to improve the degree of fiscal manoeuvre and fiscal policy response during a growth slowdown.
- Government will promote economic growth through investing in growth enhancing infrastructure, skills development and developing and supporting Small, Micro and Medium-Sized Enterprises (SMMEs).
- Public procurement policies offer potential for local enterprise development and economic empowerment. The focus will be on obtaining value for money while upholding Namibian enterprise promotion.
- Namibia’s fragile fiscal structure and high dependence on taxes from trade and commodities call for diversification and structural transformation of the economy. For the purposes of diversifying sources of Government revenue, efforts will be strengthened to bring more economic agents from the informal to the formal sector.

- Government will continue with efforts to reform SOEs to further improve their productivity, transparency and accountability. SOEs will also be encouraged to raise their own debt in the market.

- Efforts will continue to promote regional integration to ensure market access for the country's products and to enhance its participation in the globalisation process, considering both benefits and costs and choose an optimal mix that best suits the interests of Namibia.

- Government's borrowing strategy will continue to aim at both mobilising additional public resources and to promote the development of the domestic capital market.

- Reforms of the financial sector will continue. In this regard, finalisation of amendments to the financial legislations that are currently under consideration will receive priority attention.

- Efficiency in domestic revenue collection will be enhanced through compliance enforcement and capacity building in tax laws administration.

B. Specific Taxation Policies to lessen the burden of poverty and unequal distribution of wealth, without adversely affecting revenue, are proposed:

- To avoid tax bracket creep, brackets on personal income tax and level of tax of specific brackets will be adjusted; and a new tax bracket will be introduced to capture additional tax from high income earners.

- To offer a more competitive business environment, corporate tax for non-mining operations will be lowered.

- The tax exemption applicable on any amount, including a voluntary award, that is paid to an employee on the relinquishment, termination, loss, repudiation, etc. of any office or employment will be increased to offer relief especially to people who will become redundant as a consequence of retrenchments.

- The amount that may be commuted as a single payment at retirement under a pension fund, preservation fund and a retirement annuity fund will also be increased.

- A withholding tax on services rendered in Namibia by a foreign entity to a Namibian entity will be introduced.

- The transfer duty flat rate on properties which is applicable to Close Corporations, Companies and Trusts will be increased to curb abuse.

- The transfer duty rates applicable to natural persons who buy properties registered in the name of natural persons and the transfer duty rates applicable to farms purchased under the affirmative action loan schemes (AALS) of AgriBank will be reviewed.

- An environmental levy on certain disposable consumer goods, like plastic bags; plastic bottles and containers; non-refundable glass bottles will be introduced; this levy will be treated similar to a specific excise duty payable at source.

C. Changes to the Specific Excise Duties (‘sin taxes’) in accordance with the 2002 SACU Agreement

In accordance with requirements of the 2002 Southern African Customs Union Agreement, the following percentage increases for implementation with effect from midday, 11 February 2009 have been decided on:

- Malt beer - increased by 7cents to 79 cents per 340ml can.
- Unfortified wine - increased by 14 cents to N$1.98 per litre.
- Fortified wine - increased by 32 cents to N$3.72 per litre.
- Spirits - increased by N$3.21 to N$25.05 per 750ml.
- Cigarettes - increased by 88 cents to N$7.70 per packet of 20.

D. Optimised utilisation of State Account Balances (SABs)

The Government has accumulated a positive balance in the state account. Government will utilise the following strategies aimed at making the best use of the current and similar future SABs, taking into consideration exchange rate risks and other prevailing circumstances:

- **Using part of the SAB to prepay foreign debt:** This option could be applied to redeem expensive foreign financing. Such financing could be expensive due to high rates of interest, where procurement of materials is tied to specific markets or due to foreign exchange risks and other conditionalities. A cost-benefit analysis will however be undertaken for each loan earmarked for early redemption as there may be extra charges and fines, depending on the provisions of the contract.

- **Apportioning part of the SAB to augment the balances in the debt redemption fund:** This account is used to redeem internal registered stocks such as bonds and treasury bills.

- **Using part of SAB to finance the deficit:** This option could be used to partly off-set the impact of the budget deficit on the debt stock.

XII. Budget priorities

In order to attain an industrialised country status by the year 2030 as set in Vision 2030 and in National Development Plans, Namibia needs to reduce poverty and vulnerability and, at the same time, accelerate economic development and industrialisation. For the 2009/10 – 2011/12 MTEF period, Government will continue to allocate fiscal resources in line with the pro-poor, pro-growth approach. The key focus areas will be on sustainable economic growth through investment in human resources and physical infrastructure, while increased attention will be given to improved and efficient public service delivery, especially in crucial social services.

Key spending priorities include the following:

- **National economy, industrialisation and competitiveness.** The development budget is expansionary over the MTEF as a node for infrastructure development, wealth creation and growth stimulus. This includes increasing investment in public utilities to spur economic activities especially in rural areas. This development drive shall be accompanied by measures for improving overall business environment in order to halt slippages and position the economy on a higher growth and industrialisation trajectory.

- **Improving access and quality of educational outcomes:** Increased funding will continue to be provided to the education sector in support of the school feeding programmes, establishment of pre-primary education and expansion of the availability of student loans. This policy intervention accords the highest priority to programs geared toward improvement in the quality of educational outcomes and increased access for both junior and secondary school phases, and tertiary education bursary scheme.

- **Addressing Challenges in the Health and Social Sector and Strengthening Social Safety Nets:** Funding for the provision of health infrastructure, service delivery and strengthening safety nets. Efforts will be made to roll out coverage of social safety nets to those uncovered in order to cushion off the impact of poverty on the vulnerable, create employment and lay the foundation for income-generating opportunities.

- **National Food Security:** Budgetary support to expanding and improving productivity both in the commercial and subsistence subsectors through increased allocation to labour-intensive Green Scheme irrigation projects, expansion of agricultural extension services in communal areas, agricultural research, application of science and technology and training programmes. Given that the majority of the population is dependent on agriculture, this is a key sector for employment creation, poverty reduction and food-self sufficiency. In the same vein, budgetary support will also be given to expanding aquaculture activities, particularly outreach extension services for communal fish farmers.

- **Safety and National Security:** Investment in political stability, public safety, good governance and building a capable state. This does not only serve the poor who are disproportionately affected by crime, but it also serves as a precondition for maintaining high levels of foreign direct investment.

Fiscal Outlook for 2009/10 – 2011/12 MTEF Period

Macroeconomic assumptions and projections underlying revenue forecasts are given in the Most Likely Scenario of the Macroeconomic Framework for 2009/10 – 2011/12. Revenue and expenditure forecasts for this period are first and foremost based on these macroeconomic aggregates.

The outlook on the macroeconomy posts a cautionary message for fiscal policy going forward. The slowdown in the global and regional economy has spill-over effects on domestic economic developments as a result of slackening world demand for commodities, rising inflation and a consequent fall in domestic consumption. This slowdown in economic activity, coupled with trade liberalisation developments pose downside risks for revenue. The conduct of fiscal policy over the MTEF rests on maintaining the course of fiscal consolidation path in this varying macroeconomic environment, while laying the foundation for accelerated economic growth and development.

XIII. Revenue

Revenue growth patterns generally follow GDP growth *albeit* with varying with timelags. Various tax base components such as company tax outturn display sensitivity to exchange rate volatility due to currency appreciation or depreciation effect on company profits. The ratio of tax revenue to-GDP ranged between 22.7 percent percent in 2003/4 to 30.8 percent in 2007/08, and averaged 30.2 percent over the 2006/07 – 2008/9 MTEF. At this relatively high ratio, external demand shocks due to global economic downturn have a significant effect on revenue. Actual revenue outturn has been higher than estimated revenue in recent years. This strong revenue performance was largely driven by commodity price boom. For 2007/8, this variance amounted to about 12.5 percent of estimated revenue.

In respect of tax base components related to GDP trends, this variance largely tracks differentials between actual GDP outturn, projected GDP and exchange rate variations. Other real sector developments such as structural changes in specific industries are important factors accounting for variations in projected revenues.

XIV. Assumptions underlying revenue forecast

Revenue outlook for the 2009/10 – 2011/12 MTEF is projected under the Most Likely Scenario of this policy framework. The Most Likely Scenario projections are based on the premise that downside macroeconomic risks emanating from global financial crises and recession in major developed economies will exert concerted pressure on the revenue outlook. In addition, trade liberalisation efforts, in line with regional integration, exert pressure on revenue collection due to possible fall out of taxes on international trade. Further, it is estimated that tax rate and bracket measures provided for in the 2009/10 budget would result in the net-loss of Government revenue of between N$ 500 million to N$ 600 million in 2009/10 going forward.

Revenue projections assume GDP growth rates and projections given in the Most Likely Scenario of the Macroeconomic Framework.

Overall revenue projections during the MTEF are based on the following assumptions:-

Box 1: Assumptions for Revenue Projections 2009/10 – 2011/12

<u>Tax Revenue Assumptions</u>

- Income Tax on Individuals follows actual and projected nominal GDP levels and decelerates during 2009/10 due to tax relief and Government salary and allowance adjustments, growth in some economic sectors and possible job losses and wage rigidities in other sectors.
- Diamond Mining Company Tax follows actual and projected diamond mining output and declines sharply in 2009/10 due to deterioration in demand conditions, depressed prices and consequent contraction in output, , before it starts improving from 2010/11 to 2011/12 at an increasing rate.
- Other Mining Company Tax follows actual and projected other mining output. Revenue due to this stream increases moderately over the MTEF due to the resilience of non-diamond mineral prices, improvements in production, exchange rate gains and opening of new mines.
- Non-Mining Company Tax increases moderately during the MTEF due to decrease in corporate tax rate, moderate improvement in sales and the increased pace of activity towards the end of the MTEF.
- Non-Resident Shareholders Tax follows actual and projected developments in Company Tax and decelerates slightly in 2009/10 on account of slowdown in economic activity in the mining sector in particular before it starts improving in 2010/11 going forward.
- Tax on Royalty follows actual and projected nominal GDP levels and decelerates during 2009/10, before it starts improving in 2010/11 with the improving pace of activity going forward. Taxes on Property decreases during 2008/9 to 2009/10 due to reduced sales, credit crunch, monetary tightening and slack demand conditions as a result of the contagion from the global financial crisis.
- Withholding Tax on Interests follow estimated interest earnings provided by commercial banks and efficient collection efforts, taking into consideration units exempted from this tax category.
- Domestic Taxes on goods and services decreases slightly during 2009/10 due to slowdown in sales, zero-rating of additional basic consumer goods and slack domestic demand conditions for luxury goods and properties before in starts increasing from 2010/11 as the pace of activity and private consumption improve.
- Expected revenues from SACU Common Revenue Pool are maintained as projected in the South African budget statement and in accordance with the SACU Revenue Sharing Formula.

Source: Ministry of Finance

Under the Most Likely Scenario, taking into account downside risks for revenue, total revenue and grants are foreseen to decelerate by 3.4 percent on average during the MTEF, relative to the 2008/9 estimated outturn. The deceleration is mainly in Taxes on International Trade, diamond mining company tax and related royalties and non-tax revenue, although in varying degrees of severity. Tax on international trade, which habitually accounts for about 40 percent of revenue is expected to decline by about 6 percent over the MTEF on account of trade liberalisation emanating from the free trade agreements between SACU and other trade blocks as well as the coming into force of the SADC Free Trade Area and SADC-EU Economic Partnership Agreement. The deceleration in diamond mining company tax is due to deterioration in demand conditions in export markets, depressed prices and contraction in output owing to the global financial crises. The contraction in diamond company tax is, however, off-set by mild improvements in other company tax categories on account of relatively better prices, opening of new plants and exchange rate earnings windfall. The deceleration in non-tax revenue is on the back of falling diamond royalty payments, reduced interest earnings due to falling state account balances due to efforts to finance the burgeoning budget deficit and net equity participation over the MTEF. Total revenue and grants for 2008/9 is projected at about N$22.0 billion, this being about 6.2 percent increase from N$20.7 billion outturn recorded during 2007/8. The moderate increase is on the back of the time-lag with which the impact of the global financial crises is transmitted into the domestic economy, currency weakening for export-led sectors and above-average inflationary pressures. This increase is, however, significantly below the average of 22 percent year-on-year revenue increase recorded during 2004/5 – 2007/8 period as the global economic slowdown takes its toll on the domestic real sector. Grants are anticipated to increase moderately during the MTEF as a result of releases mainly from the Millennium Challenge Account.

Table 6: Revenue projection, Most Likely Scenario (in N$ millions)

Revenue Head	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
	Actual	Actual	Actual	Estimate	Projections		
GDP at market prices, nominal	**48 137**	**55 877**	**62 663**	**66 955**	**69 868**	**73 855**	**79428**
Revenue & Grants as % of GDP	*27.2%*	*31.5%*	*33.0%*	*32.8%*	*31.2%*	*28.6%*	*28.6%*
TOTAL REVENUE & GRANTS*	**13 108**	**17 593**	**20 689**	**21 972**	**21 778**	**21 147**	**22 688**
TAX REVENUE	**11 963**	**15 843**	**19 183**	**20 186**	**19 480**	**18 791**	**20 317**
Tax on Income and profits	**4 576**	**5 676**	**6 730**	**7 338**	**6 267**	**6 916**	**7 640**
Income tax on Individuals	**2 905**	**3 374**	**3 714**	**4 225**	**3 704**	**3 917**	**4 354**
Company taxes	**1 573**	**2 161**	**2 834**	**2 932**	**2 382**	**2 807**	**3 078**
Diamond Mining Companies	199	360	221	503	10	160	182
Other Mining Companies	1	351	780	756	555	732	772
Non-Mining Companies	1 373	1 451	1 834	1 673	1 818	1 916	2 124
Other Taxes on Income and profits	**97**	**141**	**181**	**181**	**182**	**192**	**208**
Non--Resident Shareholders Tax	76	118	153	154	153	166	179
Tax on Royalty	11	12	16	18	15	17	19
Annual levy on Gambling income	10	11	12	9	14	10	10
Taxes on Property	**110**	**142**	**149**	**133**	**133**	**141**	**152**
Withholding Tax on Interests	**0**	**0**	**0**	**0**	**150**	**162**	**175**
Withholding tax on Company & Individuals	0	0	0	0	76	83	89
Withholding tax on Unit Trusts	0	0	0	0	74	79	86
Domestic Taxes on Goods and Services	**3 272**	**3 197**	**4 081**	**3 686**	**3 441**	**3 545**	**3 822**
Value Added Tax	3 108	3 002	3 854	3 526	3 238	3 374	3 629
Levy on fuel	88	86	71	76	117	84	90
Fishing quota levies	70	98	147	73	73	74	90
Other taxes on goods and services	7	11	9	10	12	13	13
Taxes on International Trade and Transactions	**3 892**	**6 698**	**8 085**	**8 882**	**9 332**	**7 871**	**8 360**
SACU Revenue Pool Share	3 892	5 399	6 174	8 882	8 585	7 871	8 360
SACU Revenue Formula Adjustments	0	1 299	1 911	0	747	0	0
OTHER TAXES	**113**	**130**	**138**	**147**	**156**	**155**	**167**
NON-TAX REVENUE	**1 073**	**1 683**	**1 411**	**1 515**	**1 222**	**1 321**	**1 401**
Interest Receipts for Loans Extended to SOEs	15	21	6	59	52	47	42
Interest on investments	0	0	0	0	0	0	0
Dividends and profit share	45	692	113	64	234	141	172
Interest on SABs with BoN*	28	39	154	250	0	70	40
Compensation for the use or the Rand	50	29	0	0	0	0	0
Diamond Royalties	405	482	600	443	125	143	152
Other mineral Royalties	0	0	43	200	250	300	350
Fines and forfeitures	**18**	**19**	**25**	**24**	**24**	**24**	**24**
Admin fees, charges and incidental sales	**512**	**400**	**469**	**476**	**536**	**596**	**621**
Lending and equity participation	**32**	**17**	**16**	**34**	**27**	**27**	**26**
External grants	**39**	**50**	**78**	**238**	**350**	**308**	**244**

**** Total revenue and grants include an estimated $700 million from forensic audit and outstanding debt collection measures from 2009/10 going forward***

***Profit share from, and interest on SABs with BoN are together estimated to amount to N$217 million during 2009/10*

Source: Ministry of Finance

XV. The basis for expenditure projections

The expenditure cap is set at the limits afforded by the fiscal targets and the need to support growth. That is then compared to the expenditure already committed for the MTEF. Consideration has then been given to the means of meeting the resulting funding gap.

Box 2: Assumptions for Expenditure and Budget Balance Projections 2009/10 – 2011/12

Expenditure Allocation Assumptions

- Social sectors, comprising of, among others; education, health, labour & social welfare, and employment creation in particular, are accorded the highest priority owing to their growth enhancing and poverty reduction potential as well as redress of social deficits. Employment creation is cross-cutting, but endemic to economic sectors.
- Economic sectors comprising of, among others, Agriculture, environment and tourism, transport and communication, trade, energy, mining and fisheries are accorded the second highest priority on account of the centrality of economic growth in redressing social deficits, attainment of national food security and competitiveness.
- Public administration sector, comprising of, among others, public administration, research & development, technology and innovation and regional and local government services is the third most important priority on account of efficient delivery of services and improving productivity and innovation.
- The share of the security sector, comprising of delivery of Public Order and Safety services is maintained in respect of investing in political stability and improving the standard of service delivery.
- Aggregate expenditure assumes revenue estimates of the Fiscal Policy Framework. Expenditure is set within 30 percent of GDP.
- The budget balance is kept within an average of 5 percent of the GDP over the MTEF. Debt is constrained to an average of 30 percent of GDP over the MTEF.

Source: Ministry of Finance

XVI. Expenditure Projection for the 2009/10 – 2011/12 MTEF

Reduction in expenditure cap is mainly due to revenue risks, especially the risks emanating from the global economic downturn and trade liberalisation, inducing domestic real sector slowdown and revenue losses.

In summary, given the considerable slowdown of economic activity over the upcoming MTEF period, public revenue collection is expected to slow significantly. Table 7 below provides an overview of expected public revenue collection over the MTEF period.

Table 7: Total Revenue, Expenditure and Budget Balance (N$ million), 2007/08 to 2011/12[2]

ITEM	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Estimate	Projections		
REVENUE & Grants	20,689	21,972	21,778	21,147	22,688
%of GDP	*33*	*32.8*	*31.2*	*28.6*	*28.6*
08/09 – 11/12 MTEF Ceiling plus committed wage & salary increments[3]	17,717	22,469	21,385	22,465	23,214
Proposed New Expenditure Ceilings			23,500	23,800	24,750
Available to Spend on identified priorities[4]*			2,543	2,175	2,800
Budget Balance[5]	3,306	-497	-3,104	-3,967	-3,836
%of GDP	*5.2*	*-0.7*	*-4.6*	*-5.5*	*-5.0*
Total Debt[6]	11,693	12,952	16,077	19,754	24,980
%of GDP	*18.5*	*19.3*	*23.6*	*27.5*	*32.7*
GDP	62,663	66,955	69,868	73,855	79,428

Source: Ministry of Finance

The above table furthermore highlights the differences in ceiling as presented to Parliament in 2008/09 as opposed to the current levels of expenditure proposed for the 2009/10 – 2011/12 MTEF period.

XVII. Funding the Expansion

The proposed new expenditure ceilings have been set to keep Government close to the fiscal target of 5 percent deficit. Table 7 assumes that part of the costs of funding additional requests will be met from a two percent expenditure saving (to be realised during the upcoming MTEF period (428; 840; 1,264). This will be achievable without any diminution of services to the public. It is therefore necessary that tight expenditure control measures be maintained and O/M/As have to do with the reduction in allocations on low priority and non-essential items.

XVIII. Debt Management and Forecast

If Government could constrain expenditure to the ceilings and proposed average budget deficit of 5 percent over the MTEF (Table 7), debt is forecast to remain within the proposed ceiling of 30 percent to GDP.

The balances in the State Account will be utilised to fund part of the deficit. By doing that, rather than fully funding it from increased borrowing, total debt within the MTEF period is reduced from an average of 34 percent to 27.9 percent of GDP.

[2] According to the revised GDP figures as published in the National Accounts 2007. National Accounts Data has been revised for 2000-2007, and are significantly different from the previous series. All references to GDP refer to the revised GDP data.
[3] According to settlement on wage and salary increases; incl. political office bearers
[4] Includes a 2 percent efficiency saving.
[5] Budget Balance = Gross Deficit, i.e. after incl. statutory expenditure
[6] Includes the use of SAB to fund the deficit.

Policy Strategies and Conclusions

XIX. Policy strategies

Noting the policy interventions as well as the fiscal and macroeconomic environment under which this fiscal policy framework is to be implemented, Government will pursue the following fiscal policy strategies:

- Fiscal policy interventions shall be primarily geared towards generation of higher, broad-based, pro-poor economic growth.
- While government fiscal policy shall be countercyclical, it shall allow for the strengthening of the fiscal space during periods of economic upturns.
- Going forward, it is important that public spending is targeted to key focus areas of the next MTEF. Public expenditure shall continue to be aimed at addressing health and education constraints, agricultural output in quantity and quality to guarantee food security and diversification of the economic sectors where a competitive advantage exists.
- Government shall continue to improve the enabling environment for doing business as well as improving tax collection efficiency through forensic tax audits while exploring alternative sources of revenue in order to meditate against revenue losses due to deeper regional integration and tariff liberalisation.
- Government shall accelerate measures aimed at efficiency enhancement especially with regard to public entities and Regional and Local Authorities. Such measures will reduce the need for subsidies, bail-outs and loan guarantees that Government would not afford given the expected risks on revenue.
- Given the impact of the global financial crisis, which is already being felt in the domestic economy, the government shall consider measures that will mitigate the effects of the economic turmoil. This may include measures that would improve system efficiencies and thereby cut non-essential expenditure from the operational budget.
- Over the past MTEF a number of commendable policy interventions have been formulated and adopted. Government shall now press for full implementation of these, especially as they have the ability to improve system efficiency thereby achieving national goals.

XX. Conclusions

Government launched an expansionary medium term expenditure outlay for 2008/09 and 2009/10. The beneficial effects of the expansion in off-setting gross reductions in growth and preventing greater unemployment are still to be felt in full.

During the 2005/6 – 2007/8, the domestic economy experienced moderate growth. The growth experienced was mainly in the extractive industries sector and it did not result in significant new jobs. Going forward, the macroeconomy faces severe external conditions due to the impact of the global financial crisis and economic slowdown. The impact of impending trade liberalisation and regional integration add to this risk. In particular, economic growth is projected to decelerate during the 2009/10 – 2011/12 MTEF.

Further, the economy remains beset with numerous structural, binding constraints especially on the supply-side. The agricultural sector on which about 70 percent of the population mainly depend has been contracting in output and contribution to growth. The high food and oil price episodes witnessed during 2008 highlight the need for accelerated intervention to unlock the potential for growth in this sector.

Skills constraints, limited access to improved services and low quality of educational outcomes still remain some of the binding constraints in the social sector which limit opportunities for gainful employment and accelerated poverty reduction. Strengthening the programmes to address constraints in these growth enhancing areas remains an important policy objective relative to national priorities going forward.

Notwithstanding the impact of the contagion flowing from the external hostile environment, an important message for fiscal policy is that government will stay the course of domestic economic development and poverty reduction, while taking advantage of opportunities presented by increasing regional integration and global trade liberalisation. This is not to discount the need for caution and strengthening macroeconomic fundamentals.