Republic of Namibia

FISCAL STRATEGY

FOR THE

MEDIUM TERM EXPENDITURE FRAMEWORK

FY2023/24 TO FY2025/26

FEBRUARY 2023

Foreword

The economy rebounded with a growth of 2.7 percent in 2021. This growth came after five years of slack economic performance and deep contraction of 8.0 percent recorded in 2020. We expect the growth trajectory to continue in 2022, with economic activities further estimated to grow by about 4.0 percent and remain in the positive territory over the MTEF. However, there is still uncertainty stemming from a dragging-on Russia-Ukraine war and persistent global inflation driven by high food and fuel prices. At a global level, economic activity is expected to slow down relative to 2021 due to the aforesaid risks.

The 2023/2024 -2025/26 fiscal strategy retains the policy stance aimed at growing the economy as well as strategies for improving revenue prospects. In this, regards the authority will continue with efforts to maintaining macroeconomic stability through public expenditure management, to reduce deficit and ensure debt sustainability. At the same time the authority is cognizant of the socio-economic challenges facing the population and will put more effort to ensure that resources are allocated to the areas that require our attention especially the health and education sectors, as well as employment creation aspects.

Overall, fiscal policy objective for the MTEF period focusses on maintaining economic growth prospects, while at the same time addresses structural issues in the economy to unlock growth opportunities. Moreover, the government retain its policy of fiscal consolidation aimed at putting public expenditure in check, ensure macroeconomic and fiscal stability that will enable government to stabilize government debt. However, the Government can only do this with the support and partnership with the private sector and all other stakeholders in and outside the country. I therefore call on the private sector to play its role and support government's objectives of ensuring an inclusive growth and prosperity for all citizens.

REPUBLIC OF NAMIBIA
Ministry of Finance & Public Enterprises
OFFICE OF THE MINISTER

IPUMBU SHIIMI, MP
MINISTER

Contents

LIST OF FIGURES

LIST OF TABLES

ANNEXURES

1. OVERVIEW OF GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

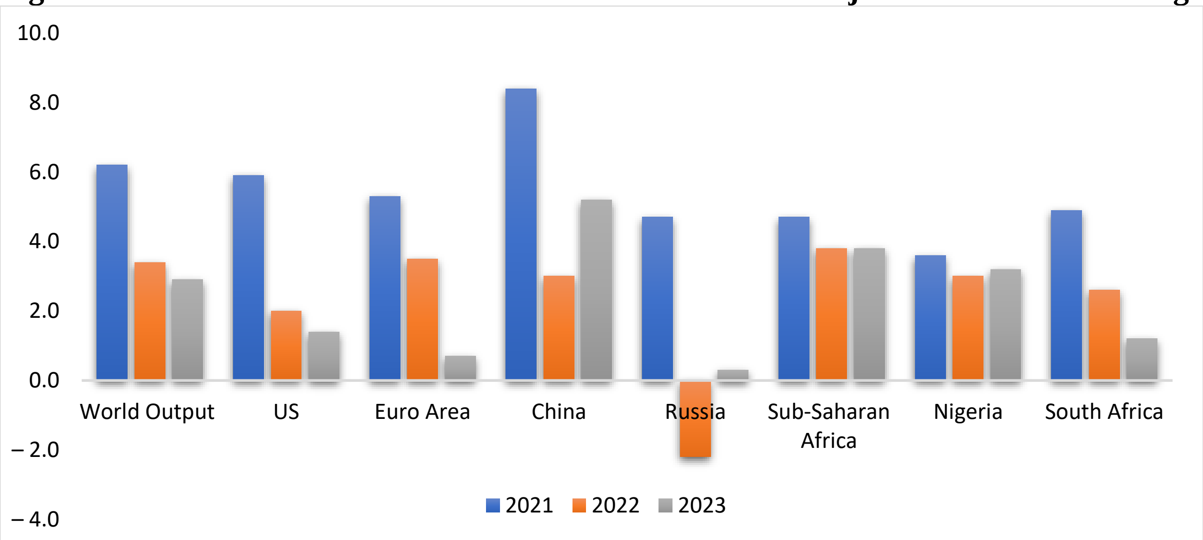
1.1 GLOBAL AND REGIONAL ECONOMIES

The World Economic Outlook (WEO) Update released by the International Monetary Fund (IMF) in January 2023 projected the global economy to grow by 3.4 percent and slow to 2.9 percent in 2022 and 2023, respectively. This represents a 0.2 percentage point upward revision for both 2022 and 2023, compared to the October 2022 WEO. The upward revision for 2022 and 2023 reflects the positive economic revelations and better-than-expected resilience in numerous economies.

The slower growth in 2023 reflects the impact of the rise in central bank interest rate especially in the advanced economies as well as the prolonged conflict in Ukraine. Nevertheless, the 2.9 percent growth is expected be driven by advanced economies supported mainly by the US, while growth in emerging market and developing economies is estimated to be driven by developments in China as the removal of zero COVID-19 policy takes effect.

The growth is based on number of assumptions including on fuel and non-fuel commodity prices and interest rate. In this regard, fuel and non-fuel commodity prices have been revised downward, while interest rate has been revised upward since October 2022.

Figure 1: Overview of OMF Economic Outlook Real GDP Projections-annual % change



Source: IMF, Jan 2023

1.2 RISKS TO THE GLOBAL ECONOMIC OUTLOOK

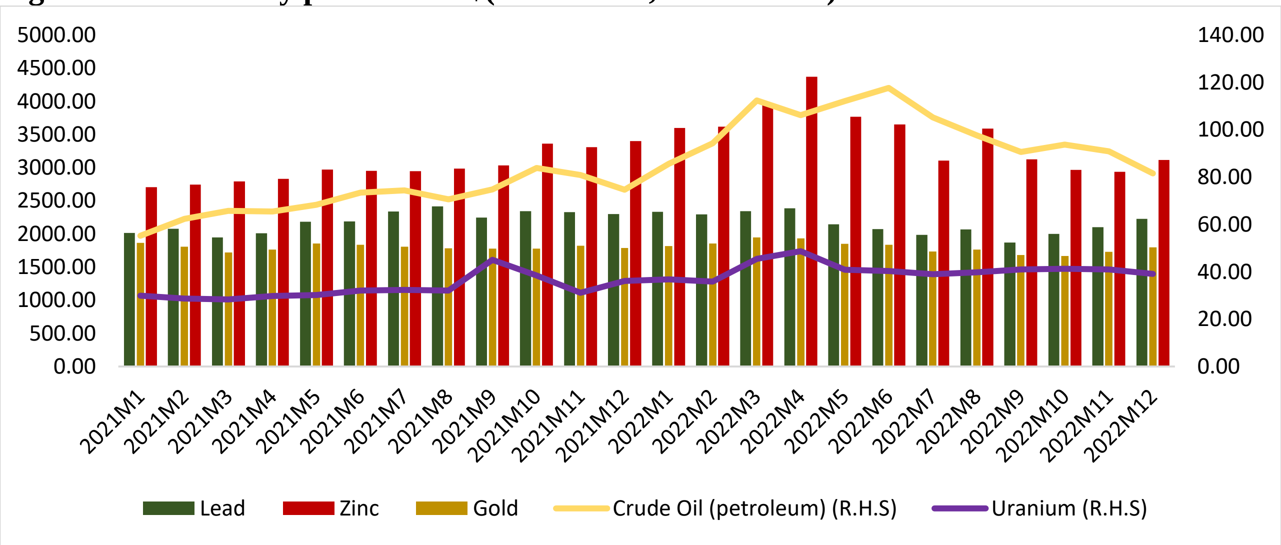
Risks to the global baseline are tilted to the downside and include:

i. *Geopolitical tensions remain high, due to the prolonged conflict in Ukraine*
ii. *Volatility in commodity prices*
iii. *Expected continuation of tight financial conditions, putting pressure on emerging market and developing economies, and*
iv. *The impact of climate change*

1.3 COMMODITY PRICES

The IMF All Commodity Price Index recorded an increase of 4.2 percent, year-on- year. The increase is attributed mainly to the rise in crude oil prices, which rose by 12.6 percent annually. Meanwhile, the **all-metal price index** contracted by 1.5 percent year-on- year. The decrease is premised on lower zinc, copper, tin, cobalt, and lead prices that suffered from reduced demand based on the unstable Chinese real estate market.

Figure 2: Commodity prices in US$(metric tons, Pound & oz)



Source: IMF, January 2023

Lithium prices reached an all-time high in 2022, growing by 128.8 percent, supported by continued strong demand from the manufacturing of electronics and electric cars. **Uranium** spot prices registered a growth of 8.4 percent on an annual basis, while **gold prices** saw a marginal growth of 0.6 percent over the same period, prompted by global interest rates hikes and economic uncertainty as individuals resort to gold as a safe haven.

In the meantime, **Copper prices** declined by 12.4 percent on an annual basis. The decrease was due to the disruption in the real estate sector in China as well as the uncertainty around the new variants of the COVID-19 at the end of 2022. **Zinc prices** also recorded a decline of 8.3 percent in 2022 based on low demand. The index contracted by 6.4 percent on an annual basis, supported by lower demand in line with higher interest rate imposed by central banks in the fight against inflation. With the global increase in demand for technology and electric, whose main components are made from **cobalt** and **rare earth minerals** and as such prices for these minerals have increased due to higher in demand.

1.4 DEVELOPMENTS IN THE DOMESTIC ECONOMY

1.4.1 Developments in the real sector

The Namibian economy recorded a growth of 2.7 percent in 2021, following a deep contraction of 8.0 percent in 2020. The recovery follows the lifting of major travel restrictions, limited travel requirements, lifted lockdowns and a slow return to normal as COVID-19 turned endemic. Although the impact of COVID-19 is only expected to have completely dissipated in 2022, the effects would take a while to dwindle.

The 2021 recovery is anchored on improvements in overall economic activities with significant growth from the primary and tertiary industries, while the secondary industries recorded an improvement despite remaining in contraction. Primary industries recorded an expansion of 6.2 percent compared to a contraction 6.0 percent recorded in 2020 and the first growth since 2018. Tertiary industries recovered by 1.9 percent compared to a contraction of 5.3 percent in 2020, while the secondary industries recorded a contraction of 3.3 percent, from a deeper contraction of 11.7 percent in 2020 (Table 1).

Table 1: GDP by activity constant 2015 prices-annual % changes (actuals)

	2018	2019	2020	2021
Primary industries	10.8	-6.4	-6.0	6.2
Secondary industries	-0.7	2.1	-11.7	-3.3
Tertiary industries	-1.1	1.0	-5.3	1.9
GDP at market prices	1.1	-0.8	-8.0	2.7

Source: NSA, Sept 2022

Growth in Primary Industries was due to stronger expansion in mining, which recorded a growth of 10.1 percent in 2021. The growth in the sector was driven mainly by the 15.3 percent growth in uranium production and 47.4 percent in *other mining and quarrying* (of which exploration activities were a large component). *Diamond mining* remained flat, while *metal ores* recorded a marginal decline of 0.6 percent compared to a contraction of 20.7 percent in 2020.

Uranium production increased by 15.3 percent in 2021 percent compared to a contraction of 8.7 percent in 2020, respectively. The growth was supported by low base effects, increased production from the Rossing mine, increased global demand and the temporary water challenge relief[1]. An expansion of 47.4 percent recorded in the other mining and quarrying sector supported by extensive petroleum (oil) exploration activities both off and onshore. The exploration activities led to commercial discovery of oil, offshore Namibian waters.

Secondary industries recorded a contraction of 3.3 percent, an improvement compared to a contraction of 11.7 percent in 2020. The contraction was attributed to declines across all sectors with the *construction* sector recorded a contraction of 11.1 percent. The *electricity and water* sector recorded a contraction of 6.1 percent, on the back of lower demand in the water subsector, while the *electricity* subsector also recorded lower output especially from the hydro-power plant.

The manufacturing sector recorded a contraction of 1.4 percent compared to a deeper decline of 17.1 percent in 2020. The contraction is attributed to continued decreases in the mineral manufacturing subsectors, namely *basic non-ferrous metals* (44.4 percent contraction on the back of closure of the zinc refinery, copper concentrate processing and reduced output from precious metals mines) and *diamond processing* (11.0 percent contraction due to lower global demand and impact of COVID-19 on financing for the processors). However, *beverages, grain mill products* and *meat processing* recorded growth of 17.7 percent, 8.7 percent, and 0.8 percent, respectively.

Tertiary industries recorded a growth of 1.9 percent during the period under review compared to a contraction of 5.3 percent in the previous year. The increase was supported by strong growth in wholesale and retail trade, hotels and restaurants, transport and, continued growth in information communication as well as an expansion in health. The *wholesale and retail trade*, *hotels and*

[1] The mining companies in the coast have increased their water storage facilities, this is considered temporary because the problem is with the suppliers as the water desalination technology used is currently outdated and can't keep up with some of the problems regarding water quality (sulphur outbreaks in the seawater).

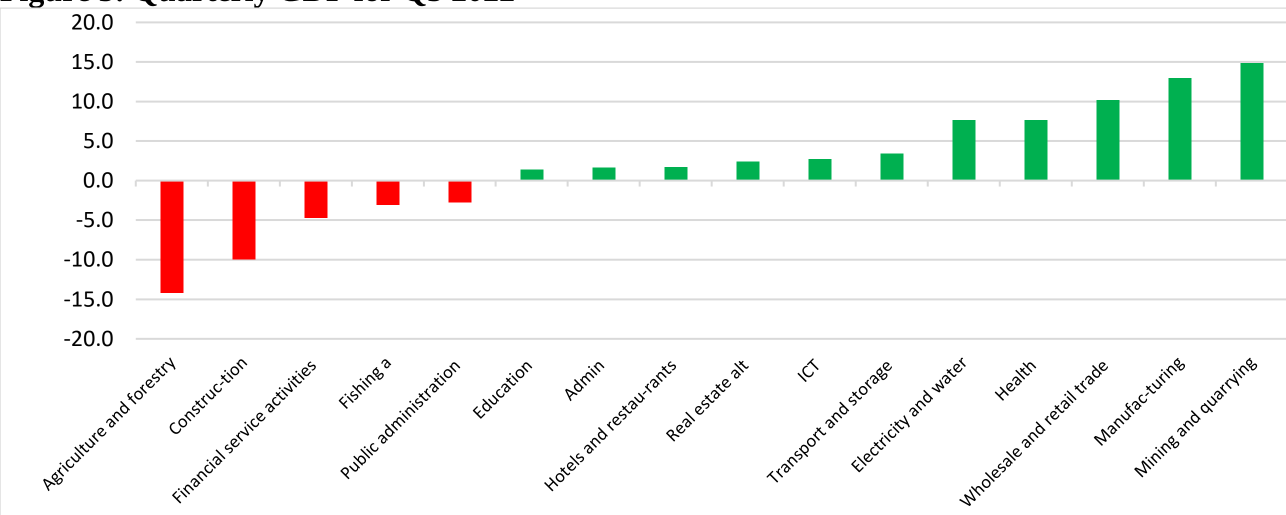
restaurants, *transport* sectors recorded a recovery of 6.1 percent, 8.8 percent and 2.2 percent, respectively, relative to contractions across all sectors in 2020. The recovery in these sectors were attributed to the lifting of travel restrictions, the gradual relaxation of lockdowns compared to the strict lockdowns during 2020.

1.4.2 Quarterly GDP for Q3 2022

The third quarter of 2022 recorded a growth of 4.3 percent in GDP compared to 5.6 percent recorded in the same period of 2021. On quarterly basis the economy recorded a 1.7 percentage point lower growth in Q3 compared to 6.1 percent recorded in Q2 of 2022. The economy maintained a positive trajectory for six consecutive quarters since the second quarter of 2021. The positive growths were primarily driven by sectors such as *manufacturing* and *wholesale and retail trade* that posted increases of 12.9 percent, and 10.2 percent compared to 6.9 percent, and 0.4 percent registered in the corresponding quarter of 2021, respectively.

Conversely, the slow growth is largely attributable to contraction in the sectors of *agriculture and forestry*, *financial services* activities and *public administration* and *defence*, which registered declines of 14.2 percent, 4.7 percent, and 2.7 percent, respectively. Furthermore, *mining and quarrying* and *hotels and restaurants* also slowed down in the period under review from a growth of 34.4 percent and 19.6 percent recorded in the third quarter of 2021 compared to the 14.9 percent and 1.7 percent, respectively, in the corresponding quarter of 2022.

Figure 3: Quarterly GDP for Q3 2022



Source: NSA, 2022

Positive performance observed in the *manufacturing* sector was mainly ascribed to robust growth in, *basic non-ferrous metals* and *beverages* subsectors that registered strong growth of 72.8 percent, 38.8 percent, and 36.8 percent during the period under review, compared to declines of 7.7 percent, 23.5 percent and positive growth of 30.1 percent in the corresponding quarter of 2021, respectively.

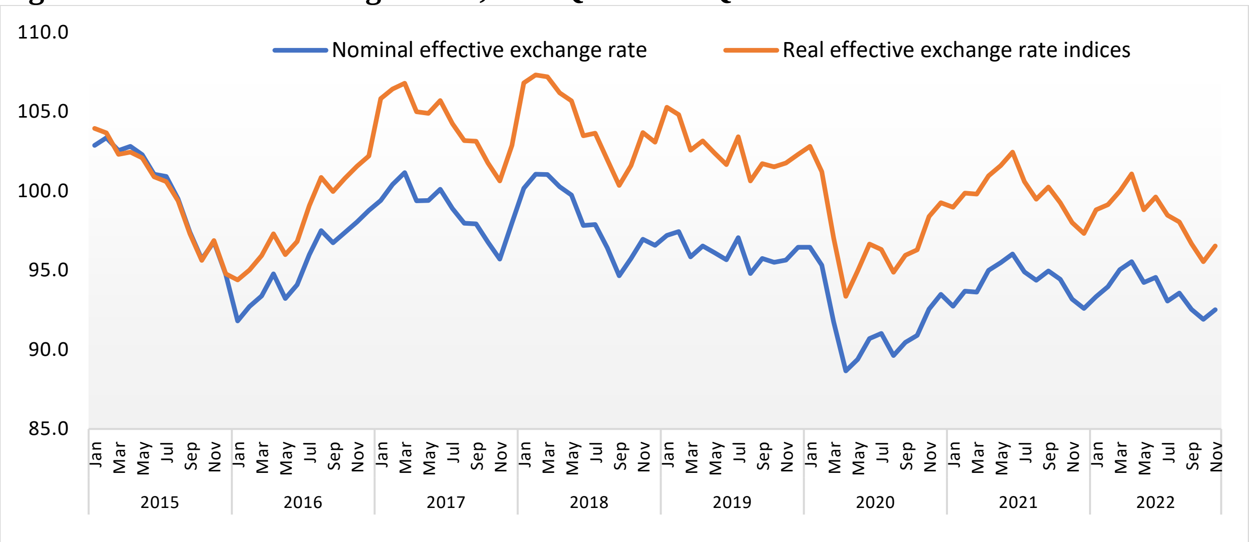
The slower growth of 14.9 percent registered by *mining and quarrying* was prompted by metal ores mining and uranium mining subsectors that contracted by 24.2 percent and 6.5 percent in the third quarter of 2022, respectively. The poor performance in metal ores subsector was due to a decline in the production of gold, zinc and lead that decreased by 27.1 percent, 10.1 percent, and 14.8 percent, respectively.

The average of 3 quarters stood at 5.6 percent, which is significantly higher, and should the quarterly performance continue in the same direction, a higher GDP outturn is expected for 2022. While the growth estimate by Macro Economic Working Group (MEWG) stood at 2.8 percent during the MYBR 2022/23 FY, this necessitated the revision of the MEWG outlook for 2022 as reflected under the outlook section.

1.4.3 Exchange Rates and Competitiveness

The Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) both depreciated on annual and quarterly basis following tightening financial conditions and fears of a global recession. On an annual and quarterly basis, the REER depreciated by 1.9 percent (Figure 4). An unfavourable global economic environment, characterised by tighter financial conditions, the evolving global downturn and weaker commodity prices associated with a deterioration in demand as well as the ongoing electricity blackouts in South Africa resulted in the quarterly NEER depreciation by 3.0 percent. The NEER however appreciated by 0.7 percent on annual basis.

Figure 4: Effective Exchange Rates, 2015Q1 to 2022Q3

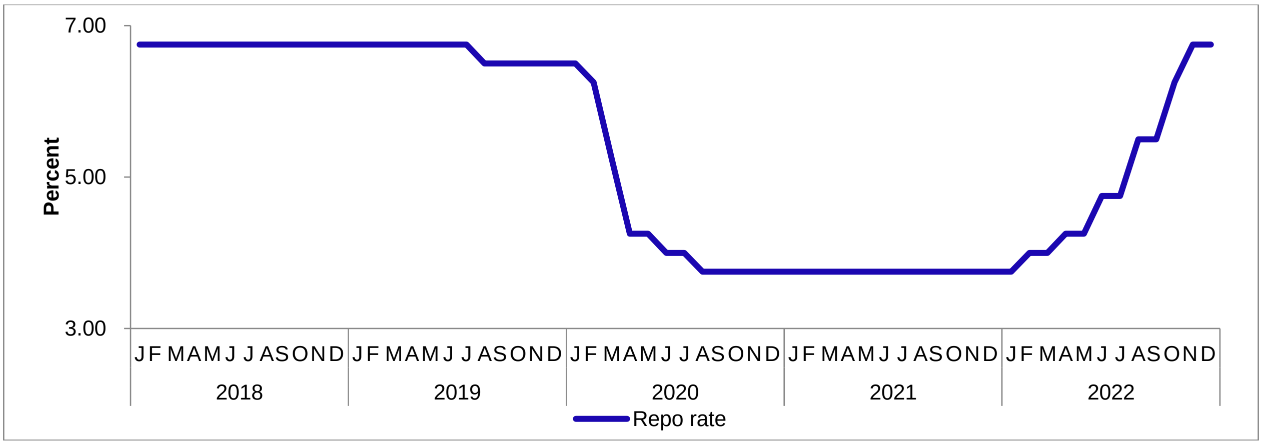


Source: Bank of Namibia, Feb 2023

1.4.4 Interest Rate Developments

***The Bank of Namibia increased its policy rate during 2022, and as a result, money market rates in general also trended higher over the course of the year*.** At each of the six MPC meetings held during 2022, the Bank's Monetary Policy Committee (MPC) increased the Repo rate by a cumulative 300 basis points from 3.75 percent to 6.75 percent (Figure 5). The increase in the Repo rate was deemed appropriate to continue anchoring inflation expectations in line with South African Reserve Bank (SARB), safeguarding the peg arrangement, and meeting the country's international financial obligations. As a result, the prime lending rate stood at 10.50 percent at the end of 2022, up from 7.50 percent a year earlier. Similarly, the average deposit rate rose to 4.22 percent at the end of 2022 from 2.86 percent at the end of 2021.

Figure 5: Bank of Namibia Repurchase Rate, 2018 to 2022



Source: Bank of Namibia, Feb 2023

1.4.5 Merchandise Trade Balance

During the third quarter of 2022, Namibia's merchandise trade deficit widened due to high import payments for mineral fuels, consumer goods as well as machinery and electrical appliances. On the annual basis, the trade deficit widened by 40.1 percent to N$12.1 billion. The value of imports rose by 29.0 percent, year-on-year, to N$28.2 billion, primarily reflected in the mineral fuels category which rose by N$3.8 billion to N$7.4 billion, contributing to the rise in the trade deficit. Similarly, the merchandise trade balance worsened on a quarterly basis by 30.0 percent mainly on the back of higher import payments for consumer goods (mainly in the form of products of the milling industry, cereals, beverages and sugars), which rose by N$1.0 billion to N$7.3 billion. Merchandise export receipts rose on an annual basis, however, declined marginally quarter-on-quarter. In this regard, exports rose by 21.8 percent to N$16.2 billion. The annual rise in export receipts was chiefly ascribed to higher earnings from rough diamonds, gold as well as manufactured products. The fall in quarterly export receipts was mainly attributable to lower export receipts from rough diamonds and re-exports.

1.4.6 Current Account Balance

During the third quarter of 2022, Namibia's current account deteriorated both on an annual and quarterly basis. The current account balance worsened to a deficit of N$8.6 billion compared to a lower deficit of N$7.0 billion in the corresponding quarter of last year and N$7.5 billion a quarter ago (Figure 6). The annual and quarterly deterioration in the current account balance was mainly due by a larger deficit recorded in merchandise trade balance, as imports rose at a faster pace relative to exports. As a percentage of GDP, the current account deficit increased to 17.1 percent from 15.9 percent in the corresponding quarter of 2021 and the previous quarter.

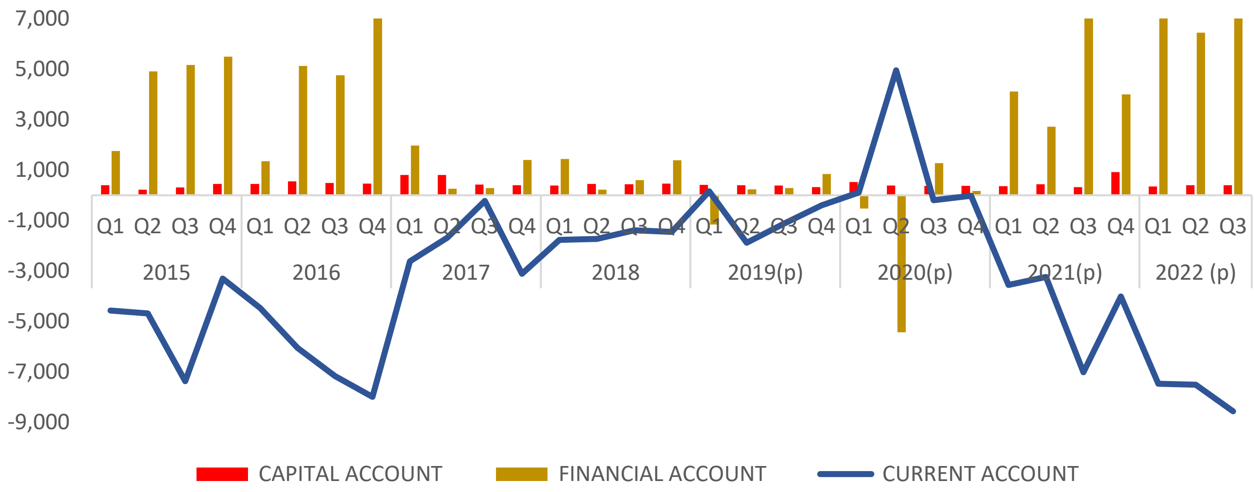
1.4.7 Capital Account

The surplus on the capital account rose both on an annual and quarterly basis, during the third quarter of 2022. Inflows on the capital account increased by 24.2 percent year-on-year, and by 1.0 percent, quarter-on-quarter, to N$400 million, as a result of a rise in capital transfer receipts.

1.4.8 Financial Account

The financial account balance recorded a higher net borrowing from the rest of the world due to higher inflows observed in foreign direct investment. During the third quarter of 2022, the financial account balance recorded a higher inflow to the tune of N$7.4 billion compared to N$7.0 billion and N$6.4 billion recorded in the corresponding quarter of last year and the previous quarter, respectively (Figure:6). The net borrowing from the rest of the world was supported by higher inflows observed in direct investment. As a percentage of GDP, Namibia's financial account inflows was 14.9 percent during the quarter under review compared to 15.4 percent and 13.2 percent recorded a year earlier and previous quarter.

Figure 6: Balance of Payments (N$ millions)

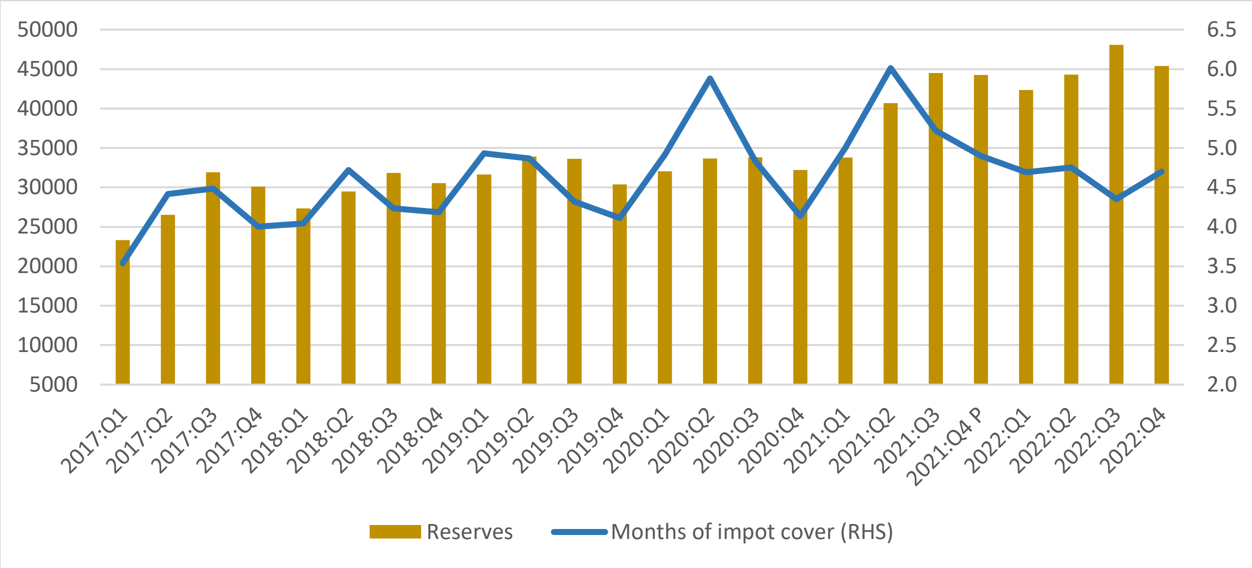


Source: Bank of Namibia, Feb 2022

1.4.9 International Reserves

The stock of foreign reserves held by the Bank of Namibia increased over the year to the end of September 2022, partly due to capital inflows and revaluation gains. The stock of international reserves increased by 4.6 percent and 4.4 percent on an annual and quarterly basis to N$ 48.0 billion (Figure 7). The increase was partly due to foreign asset swap arrangements between the Bank of Namibia and local institutional investors as well as revaluation gains as the Namibia Dollar depreciated against the US Dollar during the review period. At the current level, the stock of foreign reserves was estimated to be 10.2 times higher than the currency in circulation, remaining adequate to sustain the currency peg. The foreign reserves translated into an import cover of 4.5 months; much lower compared to 5.3 months reported in the corresponding quarter of 2021. Moreover, the latest foreign reserves as of the 31st of December stood at N$48.0 billion, which increased compared to the end of November 2022, partly due to the AfDB loan and Customer Foreign Currency placements resulted from higher diamond sale proceeds.

Figure 7: International Reserves at Bank of Namibia (N$ billions)



Source: Bank of Namibia, Feb 2023

2. OUTLOOK FOR THE DOMESTIC ECONOMY

2.1 BASELINE GROWTH SCENARIO FOR THE DOMESTIC ECONOMY

REVISED GDP GROWTH PROJECTIONS

The Namibian economy is expected to expand by 4.0 percent in 2022 from a growth of 2.7 percent in 2021 and slow down to 3.2 percent in 2023. This represents an upward revision from the initial forecast of 2.8 percent for 2022 and a downward revision for 2023 from 3.4 percent to 3.2 percent. The revision follows the new year-to-date information for 2022 and revised production estimates for 2023. Growth for 2022, is expected to be driven by increased growth from the mining sector and tertiary industries as well as recovery in secondary industries.

PRIMARY INDUSTRIES

Growth in the **primary industries** is estimated to expand to 11.6 percent (revised upwards from the 9.9 percent estimate in the 2022/23 MYBR) in 2022, compared to 6.2 percent growth recorded in 2021. In 2022, growth is expected to have garnered on strong growth in mining sector and marginally higher growth in agriculture, forestry and fishing. Growth in 2023 is expected to continue supported by mining (uranium, diamond, and gold) and agriculture (livestock) as crop farming record a moderate growth.

Table 2: GDP by activities

			Fiscal strategy 2023/24			Mid-Year Budget Review 2022/23		
	2020a	**2021a**	**2022e**	**2023p**	**2024p**	**2022p**	**2023p**	**2024p**
Primary industries	-6.0	6.2	11.6	5.7	1.0	9.9	7.1	2.8
Secondary industries	-11.7	-3.3	2.7	2.9	3.2	-1.8	2.6	2.7
Tertiary industries	-5.3	1.9	2.1	2.5	2.3	1.7	2.8	3.0
GDP at market prices	-8.0	2.7	4.0	3.2	2.2	2.8	3.4	2.9

Source: NSA and MEWG projections, (e=estimate, p=projection, a=actual

SECONDARY INDUSTRIES

The Secondary industries are expected to recover with a growth of 2.7 percent in 2022 compared to a contraction of 3.3 percent in 2021. The recovery in **Secondary industries** is mainly driven by expected growth of 4.4 percent in electricity and water production as well as 2.8 percent in manufacturing. The secondary industries are expected to grow moderately by 2.9 percent and 3.2 percent in 2023 and 2024, respectively, on the back of anticipated increase in construction, electricity and water production, while manufacturing is expected to record stable growth.

TERTIARY INDUSTRIES

The Tertiary industries are expected to grow by 2.1 percent in 2022, a marginal increase from the 1.9 percent in 2021, mainly due to expected continuous recovery in wholesale, hotel and restaurants and transport sectors. The recovery, however, may not be as fast as initially expected due to increasing inflation, higher interest rates and declining real income. Meanwhile, the industry is expected to grow moderately by 2.5 percent in 2023 supported by growth in the financial sector, wholesaler and retailer as well as anticipated increase in the demand of professional services, and is expected to average 2.6 percent over the outer years of the MTEF period.

RISKS TO THE ECONOMIC OUTLOOK

There is risk to the global economy due to a number of factors including the **geopolitical tensions** that have created uncertainty especially the Russian/Ukraine conflict, and tension brewing in the South Sea. **Inflation** has been rising since the start of the conflict due both **high fuel costs** as well as **food scarcity** caused by low production and high demand. **Volatile commodity prices** pose a threat to both total output and tax revenues in the country. The depreciating **real income** for households, exacerbated by high **inflation** and rising interest rates is a risk to **consumption** as long as real income remain muted in the short to medium term. The depreciation of the **NAD/Rand** against major currencies is a cause for concern, especially with **tightening financial** situations in the advanced economies, may lead to **financial outflows** as well as **increasing cost of foreign** borrowing in emerging economies.

3. FISCAL POLICY REVIEW

3.1 Global Fiscal developments and outlooks

Following the tightening of monetary policy in 2022, global inflation is expected to fall from 8.8 percent to 6.6 percent in 2023. Beyond this, inflation is projected to decelerate further to 4.3 percent in 2024, but remains above the pre-pandemic level of 3.5 percent. The continuous rise in interest rates by central banks to fight inflation and the impact of Russia-Ukraine conflict continue to weigh on economic activity. Financial markets are expected to re-price in response to adverse inflation news, and further geopolitical fragmentation that could hamper economic progress.

As the cost of living continues to rise, the priority of most economies remain focused on achieving sustained deflation. The tighter monetary conditions and lower growth are expected to affect financial stability and debt sustainability. Therefore, it is necessary to deploy macroprudential tools and strengthen debt restructuring frameworks. Accelerating COVID-19 vaccinations in China would safeguard the recovery, with positive cross-border spillovers. According to *IMF's World Economic Outlook, January 2023,* fiscal support should be better targeted at those most affected by elevated food and energy prices, while broad-based fiscal relief measures should be withdrawn. Stronger multilateral cooperation is essential to preserve the gains from the rules-based multilateral system and to mitigate climate change by limiting emissions and raising green investment.

3.2 Domestic Fiscal Policy Developments and outlook

Fiscal policy development over the past five years has been clouded by the after effects of recent droughts, low commodity prices, financial constraints, outbreak of COVID-19 and geopolitical tensions. As a result, revenue has been volatile and trending downwards while expenditure continued being elevated especially in 2020/21 to counteract the impact of the COVID-19 pandemic. High expenditure and declining revenue, led to increase in budget deficit, souring government debt and halting the fiscal consolidation policy stance. This situation saw government debt increasing to from 43.7 percent of GDP 2016/17 to 62.7 percent of GDP in 2020/21.

In 2021, the economy recorded a growth of 2.7 percent. This recovery provided some relief to the fiscus, with revenue rebounding in 2023/24, supported mainly by diamond production and SACU receipts. This trend is projected to continue over the MTEF period. Although, there has been improvement in revenue collection, there still remain a need to address socio-economic development challenges and high inflation. With the development in revenue and expenditure, the policy stance is aimed at maintaining a positive primary balance over the MTEF. This will enable government to narrow the deficit and stabilise the growth in government debt.

3.3 Actual Outturns for 2021/2022

Total revenue and grants for FY2021/22 stood at N$55.4 billion, representing a decline of 4.3 percent compared to N$57.8 billion collected in FY2020/21. The reduction in total revenue collection was mainly due to the decline in SACU receipts which decreased by 34.7 percent. On the positive side, revenue collection for income tax on individuals grew by 6.3 percent; non-mining company tax and VAT rose by 8.7 percent and 37.3 percent, respectively.

Table 3: Trend of fiscal aggregates 2016/17 to 2022/23

ITEM	2016-17 *Actual*	2017-18 *Actual*	2018-19 *Actual*	2019-20 *Actual*	2020-21 *Actual*	2021-22 *Actual*	2022-23 *Revised estimates*
GDP	**161,173**	**173,944**	**181,103**	**179,460**	**176,140**	**187,251**	**204,429**
Revenue	**50,865**	**58,659**	**55,882**	**58,425**	**57,838**	**55,369**	**64,161**
% of GDP	31.6%	33.7%	30.9%	29.7%	32.8%	29.6%	31.4%
Expenditure	**62,228**	**67,523**	**64,273**	**66,584**	**72,035**	**70,302**	**74,880**
% of GDP	38.6%	38.8%	35.5%	37.1%	40.9%	37.5%	36.6%
Budget Balance	**-11,363**	**-8,864**	**-8,391**	**-8,160**	**(14,196)**	**(14,933)**	**(10,719)**
% of GDP	-7.1%	-5.1%	-4.6%	-4.1%	-8.1%	-8.0%	-5.2%
Debt	**69,897**	**74,468**	**87,533**	**101,392**	**110,514**	**125,784**	**140,794**
% of GDP	43.4%	42.8%	48.3%	56.5%	62.7%	67.2%	68.9%
Total Interest Payments	**4,310**	**5,430**	**6,308**	**6,951**	**7,420**	**7,672**	**9,268**
% of Revenue	8.5%	9.3%	11.3%	11.9%	12.8%	13.9%	14.4%
Guarantees	**6,351**	**11,036**	**10,889**	**11,107**	**10,138**	**10,338**	**9,999**
% of GDP	3.9%	6.3%	6.0%	6.2%	5.8%	5.5%	4.9%

Source: Ministry of Finance

Total expenditure for FY2021/22 stood at N$70.2 billion, a decrease of 2.5 percent compared to N$72.0 billion in FY2020/21. The decrease in expenditure was due to a decline of 22.8 percent in development expenditure. While expenditure on goods and service and subsidies and current transfers fell by 6.7 percent and 5.4 percent respectively. On the other hand, personnel expenditure increased marginally by 2.1 percent.

The decrease in expenditure translated into a lower budget deficit, down by 1.1 percentage points from 8.1 percent in 2020/21 to 8.0 percent in FY2021/22. As a result, debt stock increased from

N$110.5 billion in FY2020/21 to N$125.8 billion in FY2021/22 and as a percentage of GDP, total debt stock rose from 62.7 percent to 67.2 percent.

The period under review saw government guarantees as a percent of GDP declining from 5.8 percent in FY2020/21 to 5.5 percent of GDP in FY2021/22. Whereas interest payments as a percentage of revenue increased from 12.8 percent to 13.9 percent and as a percent of GDP, interest payment stood at 4.1 percent. This level exceeded the statutory benchmark of 3.0 percent of GDP, and 10.0 percent of the revenue set out in the Debt Management Strategy FY2020-2025. The increase in interest payments was prompted by the increase in borrowing to fund a wider budget deficit resulting from reduced revenue and increased expenditure due to the outbreak of COVID-19.

3.4 Fiscal Policy outlook (2023/24 - 2025/26)

3.4.1 Revenue outlook

Fiscal policy outlook is characterised by rebounding revenue, resulting from the high prospects of diamond mining due to high commodity price prevailing in the global economy. Revenue will further be boosted by strong SACU revenue and other revenue categories such as VAT and income tax on individuals due to economic recovery in the region as well as improved demand at local level. However, there is risk to revenue outlook, potential slowdown in commodity prices, weak global demand and slower domestic demand due to rising inflation, which would have some effects on tax of domestic goods and services.

Thus, total revenue and grants is estimated to increase from N$64.2 billion in FY2022/23 to N$74.7 billion in FY2023/24. Total revenue and grants is expected to remain on the growth trajectory for the reminder of MTEF period projected at N$77.3 billion in FY2024/25 and N$79.8 billion in FY2025/26.

3.4.2 Aggregate Expenditure, Budget Balance, and Debt Outlook

Total Expenditure for FY2022/23 is estimated to have increased mainly due to the three percent increase in the public employees' remuneration and an adjustment to cater for a shortfall in personal expenditure, rising cost of utilities as well as general inflationary pressures. In FY2022/23 expenditure is estimated at N$74.9 billion and is projected to grow steadily to N$84.5 billion in FY2023/24 and reach N$88.9 billion in FY2025/56. Over the MTEF, growth in expenditure is expected to be gradual, signifying commitment to fiscal consolidation programme, narrowing deficit and stabilising debt stock. The budget deficit is estimated to decrease from 5.2 percent of GDP in FY2022/23 to about 4.2 percent of GDP in FY2023/24, and average about 3.9 percent of GDP over the remainder of MTEF period. Central government debt, is estimated to increase from N$140.8 billion in FY2022/23 to N$150.9 billion in FY2023/24 and is projected to reach N$166.2 billion by the end of the MTEF. As percentage of GDP central government debt is estimated to increase from 68.9 percent in FY2022/23, to 70.1 percent in FY2023/24, and is expected to stabilise and decrease to 69.0 percent by the last year of the MTEF.

3.5 Budget Deficit Financing and Debt servicing

3.5.1 Funding Requirement for 2023/24FY

The budget balance for FY2023/24 is estimated at N$9.1 billion. Taking into consideration the amortisation of maturing debt, the funding requirement will increase to N$10.1 billion for the period under review. This increase account for other borrowing related financing activities as well as disbursement from loans that fund expenditures outside the budget. The overall budget deficit for FY2024/25 and FY2025/26 amount to N$9.2 billion and N$6.1 billion respectively.

As indicated during the FY2022/23 Midterm budget, expenditure outside budget will be incorporated in the budget deficit calculations above the line. Accordingly, expenditures of N$2.0 billion in FY2023/24 have been included in total expenditure. The corresponding amounts for the two outer years of the MTEF are N$1.3 billion and N$1.5 billion.

The funding requirements for FY2023/24 will be funded predominantly from the domestic market, constituting 73 percent from domestic markets and 27 percent from external lenders.

3.5.2 Domestic Debt

During 2023/24, an amount of N$7.4 billion will be raised from the domestic market, through different debt instruments covering short, medium and long term. These funding will increase domestic debt stock to N$113.0 billion from N$105.6 billion recorded during the previous financial year. This translates to an increase of 6.9 percent, lower than the increase of 11 percent recorded during the 2022/23 financial year.

Over the MTEF period, domestic debt for the FY2024/25 and FY2025/26, is expected to rise to N$119.6 billion and N$129.0 billion, respectively. As a percentage of GDP, domestic debt is expected to average 52.9 percent of GDP over the MTEF period.

3.5.3 Foreign Debt

External borrowing will account for 27 percent or N$2.7 billion, of the total funding requirement for the FY2023/24, and will be sourced from the Development Financial Institutions (DFIs). On bilateral arrangement, the government of Namibia has negotiated for funding arrangement with the Government of Federal Republic of German, through Kreditanstalt für Wiederaufbau (KfW). To this effect, an amount of N$2.9 billion has been secured to partly fund the budget deficit for the FY2023/24 and FY2024/25 financial year, and has been equally apportioned.

Nevertheless, the projected funding for infrastructure projects constitute of N$1.25 billion from African Development Bank (AfDB) and N$110 million from KFW for infrastructure projects. The Government co-funded projects with KFW and AfDB will continue to be implemented during FY2023/24 and beyond. These projects are as listed below:

1. ***Water Sector***
   - *Construction of a new second Direct Potable Reclamation (DPR2) Water treatment Plan in Windhoek.*
   - *Rehabilitation and upgrading the Gammas and Otjomuise Wastewater Treatment Plant (GOWWTP), respectively;*
   - *Water Security related projects country wide- urban and rural access to safe drinking water and sanitation*
   - *Upgrading of Rundu's water treatment plant*
   - *Oshakati water Treatment plant*
   - *Ohangwena aquifer*
   - *Upgrading and expansion rural water supply network*
2. ***Education Sector***
   - *Education and Training Quality Improvement Project, (ETQIP) in various Regions;*
3. ***Agricultural Sector***
   - *Namibia Agriculture Mechanization and Seed Improvement Project (NAMSIP).*

Transport Sector

- *Rail Infrastructure Improvement Project, that include the upgrading of Walvis Bay–Kranzberg railway line and Kranzberg, Tsumeb and Otavi Grootfontein*

- *The upgrading of section 2A (23.8 km) of the Windhoek–Hosea Kutako International Airport highway;*
- *Upgrading and expansion of Karibib –Usakos Road.*

As a result of new disbursement, foreign debt is projected to increase to N$37.86 billion in FY2023/34, from N$35.15 billion recorded in FY2022/23 or 17.2 percent of GDP. Similarly, external debt is projected to further increase to N$40.4 billion in FY2024/25, before declining to N$37.24 billion in FY2025/26 on account of an anticipated partial redemption of the Eurobond in 2025.

At the same time, a total of N$698.4 million is expected to be utilised in grant-funded development projects, including the last phase of the Windhoek-Hosea Kutako Airport road upgrade as well as the construction of various rural access roads to schools and hospitals in the regions. The corresponding amounts for the two outer years of the MTEF are N$239.8 million and N$131.7 million.

3.5.4 Overall Debt Stock

The increase in the financing requirement, is expected to moderately increase the overall Central Government debt stock to N$150.9 billion for the FY2023/24 from N$140.8 billion recorded at end of FY2022/23. The total debt stock is estimated to grow by 7 percent for the year under review, a slight improvement compared to 12 percent growth recorded in the prior year. For the remainder of the MTEF, overall debt stock is projected to rise to N$160.0 billion and N$161.8 billion for the FY2024/25 and FY2025/26, respectively. To this effect, overall debt stock is anticipated to peak at 70.5 percent in FY2024/25, before moderating to 69.0 percent in the last year of MTEF.

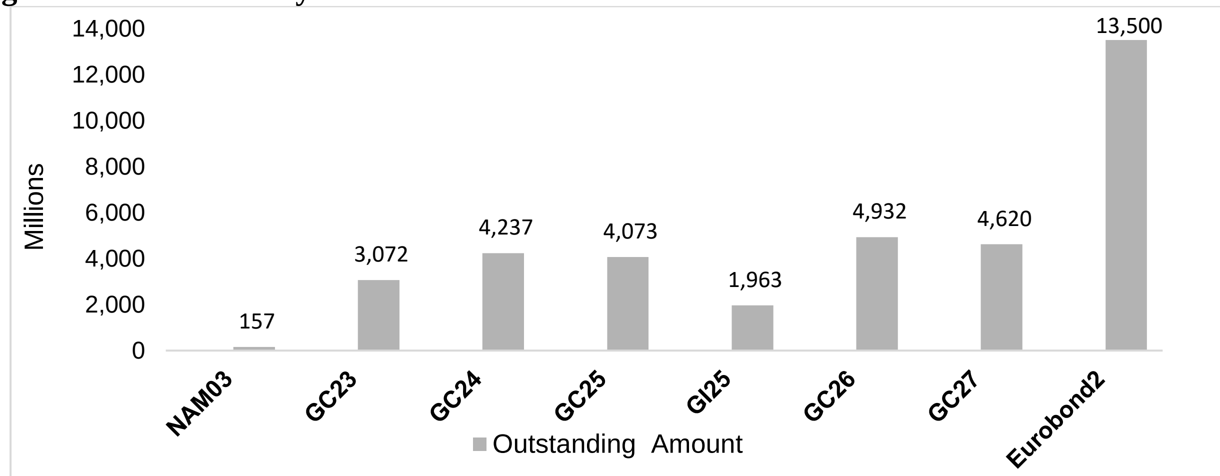
3.5.5 Interest Payments

The interest payment for the FY2023/24 is estimated at N$10.0 billion as compared to N$9.3 billion recorded in FY2022/23. Of this amount, N$8.1 billion is earmarked for domestic investors while N$1.9 billion is for foreign debt servicing. Moving forward, an amount of N$10.6 billion and N$11.3 billion worth of interest payment is projected for the FY2024/25 and FY2025/26, respectively. As a ratio of revenue, interest payment is projected to account for 13.4 percent and 13.8 percent of revenue for the FY2023/24 and FY2024/25, while for FY2025/26 is projected at 14.2 percent. Although stabilizing at this level, the ratio of interest payment is above the benchmark of 10 percent of revenue set out in the debt strategy.

3.5.6 Maturity Profile

Total Government debt maturing over the MTEF amounts to N$35 billion. This constitutes inter alia, NAM03, GC23, GC24, GC25, GI25 and Eurobond 2025. The Eurobond 2025 accounts for 37 percent of the total maturing instruments during the MTEF. Figure 8 highlights maturing bonds with corresponding balances and period in which they are due.

Figure 8: Bond Maturity Profile



Source: Ministry of Finance

The Government will deploy various strategies to ensure smooth redemption. This strategy will include the sinking fund, switch and rollover auctions, as well as issuance of new securities. The strategies will be maintained throughout the MTEF period and will be detailed in the borrowing plan as well as in the Debt Redemption Strategy, which will be announced to the market early this year.

3.5.7 Contingent Liabilities

The stock of Government guarantees is expected to increase to N$12.7 billion in 2023/34 from N$10.0 billion recorded in 2022/23 financial year. The anticipated increase is on account of guaranteed loan to public Enterprises, which includes TransNamib for the funding of rolling stock and acquisition of new locomotives, Agribank for on-lending loans to farmers and eligible SMEs engaging in farming activities, and Nampower for the power line connections. For the remainder of the MTEF, the portfolio is expected to further increase to N$12.9 billion and N$13.2 billion for FY2024/25 and FY2025/26, respectively. Nevertheless, contingent liabilities are projected to average 5.5 percent of GDP over the MTEF, relatively lower against the benchmark of 10.0 percent.

3.6 Fiscal Policy and Budget Priorities (FY2023/24-2025/26)

The fiscal policy priority for the FY2023/24-2025/26 MTEF is to implement policy measures aimed at growing the economy and improving macroeconomic stability through gradual reduction of budget deficit and to stabilise debt. This will include the implementation of structural reforms and projects which generate growth and balance expenditure; to protect the most vulnerable by strengthening the social safety nets; while ensuring private sector-led and inclusive growth; reducing unemployment and inequality. The fiscal policy stance of the current MTEF period as outlined in the FY2022/23 Fiscal Strategy will further fast-track measures and strategies to support economic recovery and achieve macroeconomic stability. Furthermore, the government will also finalise the draft sixth National Development Plan (NDP6) which will chart the policy pathways once the second Harambee Prosperity Plan (HPP II) comes to an end.

Government will further implement reforms to support fiscal consolidation programme; these will include continued *tax administration reforms*, *reduction of the public sector wage bill*, *public enterprises reforms*, and *review of the PSEMAS governance and benefit structure*. The Government fiscal policy priorities for the next MTEF includes the followings: -

i. *Completion of the research work on the Economic Diversification Strategy, aimed at supporting economic growth, promoting macroeconomic stability, fiscal sustainability and support socio-economic objectives of job creation and the reduction of poverty and inequalities*

ii. *revenue mobilisation and administration, through improved tax compliance as well as collections on tax arrears*

iii. *continue with natural attrition, early retirements, and associated severance costs to reduce the wage bill*

iv. *Prioritise ongoing projects and projects contained in the Harambee Prosperity Plan II (HPPII) in the development budget*

v. *execute large capital projects, through long term funding from Development Finance Institutions (DFIs) to minimise the pressure on the budget*

vi. *realise and maintain a primary budget surplus over the MTEF to stabilise debt and commence on a gradual reduction of debt*

vii. *Executing recommendations from public expenditure reviews in the health and education and extend such targeted reviews to other sectors*

viii. *Use PPPs as alternative source of financing, for infrastructure development and service delivery*

ix. *Assess the reforms to the benefit structure of PSEMAS for implementation*

x. *Undertake National Census in FY2023/24*

xi. *Undertake the National Household Income and Expenditure Survey (NHIES) in FY2024/25*

xii. *increase in the disability grant for beneficiaries under the age of 18 as pronounced in the State of Nation Address in 2022*

xiii. *adjust all social safety nets in FY2023/24*

3.7 Tax Policy Reforms

The FY2022/23 Fiscal Strategy suggested various tax policy proposals and administrative reforms which were announced in the FY2021/22 Fiscal Strategy. These reforms were further reinforced in the FY2022/23 Mid-Year Budget Review. In this regard, government committed to to fast track the implementation of measures that could potentially provide some relief to taxpayers. These include the following proposals that were approved by CCT and Cabinet and include the following:

i. *reduction in corporate income tax for non-mining companies from 32 percent to 30 percent over two years 2024/25 and 2025/26*

ii. *tax relief to individuals in the N$50,000 to N$100,000 tax bracket as from FY2024/25*

iii. *increased tax deductibility on pension fund contributions and educational policy deductions to a maximum of N$150,000. This was introduced effective on 01 January 2023.*

iv. *roll out of a modified Electronic Filing Tax Relief Programme to offer relief to taxpayers by writing off a percentage of the interest and penalties owed as a tax arrears, which was announced in the budget speech in April 2022. A final window of tax relief has been announced extending until 31 October 2024*

3.8 ANNEXURES

Annexure 1: Revenue outturn and outlook for FY2018/19-2025/26

N$ millions	2020/21 Actual	2021/22 Actual	2022/23 Mid-Year Estimates	2022/23 Revised Mid-Year Estimates	2023/24 Projection	2024/25 Projection	2025/26 Projection
GDP at market prices, nominal	**176,140**	**187,251**	**198,965**	**204,429**	**215,280**	**226,915**	**240,732**
Revenue and grants as % of GDP	32.8%	29.6%	32.2%	32.2%	34.7%	34.1%	33.2%
TOTAL REVENUE AND GRANTS	**57,838**	**55,369**	**64,064**	**64,161**	**74,743**	**77,277**	**79,812**
TAX REVENUE	**54,575**	**51,249**	**53,439**	**55,727**	**68,046**	**70,843**	**73,232**
Tax on income and Profits	**22,294**	**22,949**	**24,737**	**25,344**	**26,589**	**28,671**	**31,539**
Income Tax on Individuals	13,768	14,629	15,302	16,239	16,726	17,808	18,717
Company Taxes	**7,559**	**7,485**	**8,416**	**8,140**	**8,837**	**9,795**	**11,706**
Diamond Mining Companies	1,367	933	1,546	1,579	1,687	2,505	4,265
Other Mining Companies	849	743	886	576	807	847	851
Non-Mining Companies	5,342	5,810	5,984	5,984	6,343	6,443	6,590
Other Taxes on Income and Profits	**315**	**325**	**395**	**395**	**403**	**414**	**430**
Non-Resident Shareholders Tax	207	227	284	284	289	298	307
Tax on Royalty	102	97	106	106	108	110	116
Annual Levy on Gambling Income	6	1	5	5	6	6	7
Withholding Tax on Interest	**653**	**509**	**624**	**571**	**622**	**653**	**686**
Withholding tax on companies & individuals	322	232	354	300	339	356	374
Withholding tax on unit trusts	165	100	136	136	143	150	157
Withholding tax on Services	166	178	135	135	140	147	154
Taxes on Property	173	242	205	205	258	271	284
Transfer Duties	173	237	200	241	253	266	279
Land Tax		**5**	**5**	**5**	**5**	**5**	**5**
Domestic Taxes on Goods and Services	**9,760**	**13,174**	**14,174**	**15,855**	**16,721**	**17,993**	**19,285**
VAT + Additional Sales Tax + General Sales Tax	8,326	11,431	12,575	14,287	14,859	16,047	17,251
Levy on Fuel	1,152	1,324	1,170	1,170	1,456	1,529	1,605
Fishing Quota Levies	213	238	244	244	250	256	262
Gambling Licence (Business)	3	2	2	2	2	2	3
Environmental levies & Carbon Emission Taxes	55	153	155	124	125	129	133
Other taxes on goods and services	11	27	28	28	30	30	31
Taxes on International Trade and Transactions	**22,252**	**14,751**	**14,190**	**14,190**	**24,348**	**23,772**	**21,980**
SACU Revenue Pool Share	20,670	15,608	19,195	19,195	21,583	23,772	21,980
Revenue Formula Adjustments	1,582	-858	-5,005	-5,005	2,765	-	-
Other Taxes (Stamp Duties)	**97**	**133**	**133**	**133**	**130**	**137**	**144**
NON - TAX REVENUE	**2,997**	**4,102**	**10,625**	**8,434**	**6,697**	**6,434**	**6,581**
Entrepreneurial and Property	**2,118**	**2,833**	**9,111**	**7,288**	**5,344**	**5,041**	**5,154**
Interest Receipts for Loans Extended to SOEs	**5**	**4**	5	5	5	5	5
Interest on Investments			-	-	-	-	-
Dividends and Profit Share from SOEs & other companies	638	672	6,907	5,033	2,660	2,054	1,884
Interest on State Account Balances with BoN	-25	200	-	-	-	-	-
Diamond Royalties	881	679	1,231	1,482	1,649	1,883	2,129
Other Mineral Royalties	619	711	618	618	680	748	785
Fishing Quota auction		567	350	150	350	350	350
Fines and Forfeitures	**99**	**97**	**96**	**96**	**103**	**104**	**104**
Administrative Fees, charges and incidental sales	**780**	**1,172**	**1,418**	**1,050**	**1,250**	**1,289**	**1,323**
Lending and Equity Participation		**18**	**0**	**0**	**0**	**0**	**0**
External Grants	**266**		**0**	**0**	**0**	**0**	**0**

Annexure 2: Policy Scenario- fiscal stance for FY2018/19-2025/26

N$ millions	2020/21 Actual	2021/22 Actual	2022/23 Mid-Year estimates	2022/23 Revised Mid-Year-Estimates	2023/24 Projection	2024/25 Projection	2025/26 Projection
GDP at market prices	**176,140**	**187,251**	**198,965**	**204,429**	**215,280**	**226,915**	**240,732**
Total Revenue and Grants	**57,838**	**55,369**	**64,064**	**64,161**	**74,743**	**77,277**	**79,812**
Total Expenditure (excl. Statutory Commitments)	**64,097**	**61,638**	**65,559**	**65,559**	**74,558**	**76,066**	**77,654**
Operational Expenditure	58,016	56,945	60,063	60,063	66,090	67,427	68,867
Development Expenditure	6,081	4,693	5,495	5,495	6,507	7,293	7,321
Development Expenditure Outside Budget[1]	1,704	1,007	1,007	977	1,962	1,345	1,466
Grant Funded	*191*	*158*	*158*	*165*	*698*	*240*	*132*
Loan Funded	*1,513*	*849*	*849*	*812*	*1,263*	*1,106*	*1,335*
Total Expenditure (incl. Statutory Commitments)	**72,035**	**70,302**	**74,692**	**74,880**	**84,580**	**86,699**	**88,957**
Domestic Interest Payments	5,196	5,853	7,542	7,584	8,088	8,533	9,099
Foreign Interest Payments	2,225	1,819	1,591	1,684	1,933	2,100	2,205
Total Interest Payments	**7,420**	**7,672**	**9,133**	**9,268**	**10,021**	**10,633**	**11,303**
Other Statutory Payments[2]	517	992		54			
Total Statutory Commitments	**7,937**	**8,664**	**9,133**	**9,322**	**10,021**	**10,633**	**11,303**
Primary Balance	**(6,259)**	**(6,269)**	**(1,495)**	**(1,398)**	**883**	**1,451**	**2,290**
Budget Balance	**(14,196)**	**(14,933)**	**(10,628)**	**(10,719)**	**(9,138)**	**(9,182)**	**(9,013)**
Total Financing Requirement	**(14,269)**	**(16,995)**	**(11,959)**	**(12,013)**	**(10,075)**	**(9,150)**	**(6,196)**
Cash Requirement	(2,890)	(1,454)	(1,900)	(1,900)	(1,000)		
Project Financing[3]	(1,513)	(849)	(849)	(812)	-	-	-
Foreign Loan Principal Repayment	(330)	(1,743)	(1,182)	(1,182)	(1,537)	(1,567)	(1,683)
Bond Redemption (Sinking Fund)	4,660	3,486	2,600	2,600	1,600	1,600	4,500
Contingent Liabilities[4]		(1,502)					
Foreign Financing	**2,289**	**(1,483)**	**(711)**	**1,552**	**2,706**	**2,549**	**(3,165)**
African Development Bank	*2,289*	*2,349*	*849*	*3,112*	*1,153*	*906*	*1,015*
International Monetary Fund		*3,917*					
Kreditanstalt für Wiederaufbau					*1,553*	*1,643*	*320*
JSE			*(1,560)*	*(1,560)*			
Eurobond		*(7,749)*					*(4,500)*
Domestic Financing	**11,980**	**18,478**	**12,670**	**10,461**	**7,369**	**6,601**	**9,362**
Total Debt	**110,514**	**125,784**	**137,742**	**140,794**	**150,869**	**160,019**	**166,215**
Domestic Debt	76,965	94,940	107,610	105,643	113,012	119,613	128,975
Foreign Debt	33,550	30,844	30,133	35,151	37,857	40,406	37,240
Total Guarantees	**10,138**	**10,338**	**10,196**	**9,999**	**12,658**	**12,912**	**13,170**
Domestic Guarantees	1,418	1,976	2,172	2,096	2,596	2,648	2,701
Foreign Guarantees	8,720	8,362	8,024	7,904	10,063	10,264	10,469
As ratio of GDP							
Total Revenue and Grants	***32.8%***	***29.6%***	***32.2%***	***31.4%***	***34.7%***	***34.1%***	***33.2%***
Total Expenditure (excl. Statutory Commitments)	***36.4%***	***32.9%***	***33.0%***	***32.1%***	***34.6%***	***33.5%***	***32.3%***
Operational Expenditure	*32.9%*	*30.4%*	*30.2%*	*29.4%*	*30.7%*	*29.7%*	*28.6%*
Development Expenditure	*4.4%*	*3.0%*	*3.3%*	*3.2%*	*3.9%*	*3.8%*	*3.7%*
Total Expenditure (incl. Statutory Commitments)	***40.9%***	***37.5%***	***37.5%***	***36.6%***	***39.3%***	***38.2%***	***37.0%***
Domestic Interest Payments	*2.9%*	*3.1%*	*3.8%*	*3.7%*	*3.8%*	*3.8%*	*3.8%*
Foreign Interest Payments	*1.3%*	*1.0%*	*0.8%*	*0.8%*	*0.9%*	*0.9%*	*0.9%*
Total Interest payments	***4.2%***	***4.1%***	***4.6%***	***4.5%***	***4.7%***	***4.7%***	***4.7%***
as % of Revenues	*12.8%*	*13.9%*	*14.3%*	*14.4%*	*13.4%*	*13.8%*	*14.2%*
Primary Balance	***-3.6%***	***-3.3%***	***-0.8%***	***-0.7%***	***0.4%***	***0.6%***	***1.0%***
Budget Balance	***-8.1%***	***-8.0%***	***-5.3%***	***-5.2%***	***-4.2%***	***-4.0%***	***-3.7%***
Domestic Debt	*43.7%*	*50.7%*	*54.1%*	*51.7%*	*52.5%*	*52.7%*	*53.6%*
Foreign Debt	*19.0%*	*16.5%*	*15.1%*	*17.2%*	*17.6%*	*17.8%*	*15.5%*
Total Debt	***62.7%***	***67.2%***	***69.2%***	***68.9%***	***70.1%***	***70.5%***	***69.0%***
Domestic Guarantees	*0.8%*	*1.1%*	*1.1%*	*1.0%*	*1.2%*	*1.2%*	*1.1%*
Foreign Guarantees	*5.0%*	*4.5%*	*4.0%*	*3.9%*	*4.7%*	*4.5%*	*4.3%*
Total Guarantees	***5.8%***	***5.5%***	***5.1%***	***4.9%***	***5.9%***	***5.7%***	***5.5%***

1 Starting in the FY2023/24 expeniture expenditures outside budget are incorporated in the budget deficit calculations above the line - net of the grant-funded component. The grant-funded component could not be recorded as part of revenues because they are not channelled through the state Revenue Fund, as per the statistical requirements. Accordingly, the corresponding project financing component below-the - line will be removed henceforth.

2 These figures primarily consists of the settlement of public enterprises guaranteed debt, including Air Namibia, Namibia Wildlife Resorts and Namibia Port Authority.

3 Starting in the FY2023/24 expeniture expenditures outside budget are incorporated in the budget deficit calculations above the line - net of the grant-funded component. The grant-funded component could not be recorded as part of revenues because they are not channelled through the state Revenue Fund, as per the statistical requirements. Accordingly, the corresponding project financing component below-the - line will be removed henceforth.

4 This figure consists of the settlement of the two Airbus A330 leases following the liquidation of Air Namibia.

Annexure 3: GDP by activity (production) supply side

	2020	2021	2022	2023	2024	2025	2026
Agriculture, forestry, and fishing	6,3	2,0	3,0	2,0	3,1	2,9	3,4
Livestock farming	-10,1	0,8	5,3	3,9	4,2	6,0	5,7
Crop farming and forestry	77,3	4,8	2,0	2,5	2,1	2,4	2,5
Fishing and fish processing on board	-9,0	0,8	1,9	0,1	2,9	0,6	2,1
Mining and quarrying	-15,0	10,1	18,9	8,5	-0,5	3,1	3,8
Diamond mining	-14,8	0,0	37,1	12,6	-2,3	1,6	4,4
Uranium	-8,7	15,3	-1,0	2,2	6,9	8,7	1,1
Metal Ores	-20,7	-0,6	2,7	3,7	-3,2	5,7	6,5
Other mining and quarrying	-18,4	47,4	0,6	3,1	0,7	1,6	3,2
Primary industries	**-6,0**	**6,2**	**11,6**	**5,7**	**1,0**	**3,0**	**3,6**
Manufacturing	-17,1	-1,4	2,8	2,3	2,8	2,8	3,4
Meat processing	-39,8	0,8	2,9	2,7	5,8	7,3	7,6
Grain Mill products	8,1	8,7	1,3	1,2	2,0	2,0	2,3
Other food products	-15,1	-5,9	2,9	2,7	4,3	4,4	4,7
Beverages	-32,5	17,7	5,5	3,0	2,6	2,2	3,6
Textile and wearing apparel	-3,1	21,6	2,8	2,1	1,7	1,8	2,0
Leather and related products	-12,0	22,7	3,2	2,3	1,9	2,0	2,2
Wood and wood products	19,2	8,3	2,4	1,8	1,5	1,5	1,7
Publishing and Printing	-14,1	-5,8	-5,0	1,5	1,2	1,3	1,4
Chemical and related products	-4,4	-8,1	-8,6	3,1	3,6	3,7	4,0
Rubber and Plastics products	4,2	-5,8	3,4	2,8	2,5	2,6	2,8
Non-metallic minerals products	-6,8	-4,8	3,9	3,3	2,9	3,0	3,3
Basic non-ferrous metals	-46,8	-44,4	6,6	1,2	1,0	1,0	1,1
Fabricated Metals	-10,8	4,4	3,2	3,0	3,0	3,1	3,3
Diamond processing	-12,6	-11,0	5,1	2,5	2,2	1,6	3,4
Other manufacturing	-15,0	0,7	5,9	2,7	3,1	2,4	3,1
Electricity and water	25,9	-6,1	4,4	4,6	3,2	3,5	3,6
Construction	-11,6	-11,1	0,0	4,4	5,9	7,3	5,6
Secondary industries	**-11,7**	**-3,3**	**2,7**	**2,9**	**3,2**	**3,4**	**3,7**
Wholesale and retail trade, repairs	-11,7	6,1	2,7	4,0	5,3	5,5	4,0
Hotels and restaurants	-25,4	8,8	7,4	5,8	3,7	3,4	3,9
Transport & Storage	-22,8	2,2	4,8	4,5	3,9	4,4	4,8
Transport	-26,3	3,7	5,1	4,7	4,1	4,3	4,7
Storage	-9,3	-2,4	3,9	3,8	3,4	4,7	5,0
Information Communication	17,4	6,9	2,5	2,5	2,0	2,3	2,5
Financial and insurance service activities	-12,8	-5,2	4,5	4,2	3,3	3,9	4,6
Real estate activities	2,8	2,4	2,1	1,9	1,5	3,0	3,3
Professional, scientific	-7,9	2,3	3,8	4,1	3,7	3,5	3,9
Administrative and support services	-10,4	-4,1	4,3	3,8	2,9	3,7	4,0
Arts, Entertainment & Other	-3,0	0,5	6,3	5,2	3,6	4,6	5,1
Public administration and defence	-1,2	0,5	-0,4	-0,4	-0,6	0,4	-2,1
Education	1,1	2,8	0,6	2,4	2,0	2,0	3,4
Health	2,4	4,3	1,8	1,7	1,4	1,4	3,7
Private household with employed pers	-7,6	5,0	-3,0	-2,2	-1,7	3,0	3,2
Tertiary industries	**-5,3**	**1,9**	**2,1**	**2,5**	**2,3**	**2,9**	**2,7**
All industries at basic prices	**-6,6**	**1,8**	**4,0**	**3,2**	**2,1**	**3,0**	**3,1**
Taxes less subsidies on products	-27,1	16,9	4,7	3,4	3,8	4,3	4,0
GDP at market prices	**-8,0**	**2,7**	**4,0**	**3,2**	**2,2**	**3,1**	**3,1**

4. ASSUMPTIONS

4.1 Assumptions underlying revenue forecast

Revenue forecasts are endogenously estimated based on the underlying revenue base. In the baseline scenario, the outlook for various tax streams follows the related aggregate macroeconomic growth projections and takes into account the impact of discretionary policy and administrative intervention measures in the reform scenario.

The revenue outlook for the FY2022/23 – 2025/26 MTEF is based on the following assumptions:-

- Tax revenue growth follows the relevant economic base and the effective tax rate. Tax rates are assumed to remain constant in the baseline scenario, and take into account tax administration measures whose implementation is decided in the budget.

- Estimates for FY2022/23 are based on year-to-date monthly outturn receipts data, provided by Namibia Revenue Authority and underlying assumptions on economic performance,

- SACU revenue for the budget year (FY2023/24) is *apriori* decided by the SACU Council in accordance with the SACU Agreement. The outlook for SACU receipts is largely based on the projections for the SACU Common Revenue Pool presented by the National Treasury, South Africa over the MTEF, and

- Non-tax revenue estimates are based on projections made by O/M/As and in line with adjustments to historical trends and outlook of underlying revenue bases.

Box I: Explanatory Note on behavioural relationships underpinning tax revenue projections

- *Income Tax on Individuals follows the base year outturn and the projected growth in public and private sector wages;*

- *Mining Company Tax follows the base year outturn and the projected growth in commodity exports.*
- *Non-Mining Company Tax follows the base year outturn and the projected growth in disposable profit income, taking into account the reduced tax rate for manufacturers benefiting from tax incentives;*

- *Value-Added Tax follows the base year outturn and the projected growth in private consumption;*
- *Revenues from Taxes on International Trade are based on extrapolations from the size of the SACU Common Revenue Pool projected in the South African Budget for the corresponding period;*
- *Other Tax revenues follow the base year outturn and the projected growth in disposable income.*

4.2 ASSUMPTIONS UNDERLYING MACRO-PROJECTIONS

DEMAND SIDE ASSUMPTIONS

The Namibian economy is expected to expand in 2022 on the back of growth in consumption and final consumption and continued recovery in gross fixed capital formation and expansion in exports. In 2023 growth is expected to be supported by increase in exports on the back of recovery in mineral production (diamond and Gold), continued recovery in GFGC as investment increase in the exploration, mining, and construction. Going forward, the economy is expected to grow at the back of increased investment supported by activities in the construction sector, exports of minerals while final consumption remain stable.

Final consumption is estimated to continue expanding albeit at a slower pace on the back of growth in private consumption in 2022. For 2023, final consumption is expected to moderate further on the back of slower consumption by both private and government. Going forward, sector is anticipated to remain moderate and stable.

Private consumption growth is expected to be driven by increased demand as the lifted travel restrictions (COVID-19 restrictions) take effect, coupled with development in the business sector in 2022. In 2023/24 private consumption is expected to grow on the back of increased demand in the business sector while the household sector remains muted due to the high inflation and interest rate environment.

Government consumption growth is expected to be muted over the medium term on the back of fiscal consolidation policy and high public debt. As government tries to create a balance, by adopting pro fiscal sustainability policies over the MTEF period.

Gross fixed capital formation is expected to grow marginally in 2022 as a result of the expected recovery in the private sector investment (mining sector) space. In 2023 and 2024 investment is expected to grow and rebound on the back of investments in the mining sector, green hydrogen pilot projects and oil exploration activities.

Exports of goods and services are estimated to increase further in 2022 supported by improved production of diamonds, other minerals as well the low exchange rates (Namibian dollar depreciated against major currencies). The sector is expected to moderate in 2023 and 2024, on the back of reduced global demand for diamonds while the demand for the other minerals is expected to increase as China abandons the “zero COVID-19 policy”.

Imports of goods and services are estimated to be driven by activities in private consumption as well as gross fixed capital formation-importation of machineries used for exploration activities for 2022 and 2023. As economic activities improve the demand for imports is anticipated to be boosted by both private consumption and investment in oil and mining.

Figure 9: GDP growth estimates – Expenditure approach

	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Final consumption expenditure	-8.2	9.4	5.5	4.9	3.3	3.4	3.9
Private	-11.3	12.6	7.1	5.9	3.8	4.0	4.6
General government	0.4	1.7	1.3	2.1	1.8	1.6	1.7
Gross fixed capital formation	-19.2	4.0	2.9	3.7	5.3	4.8	4.8
Changes in inventories 1)	44.3	-294.3	0.0	0.0	0.0	0.0	0.0
Gross domestic expenditure	**-11.6**	**7.0**	**6.2**	**4.7**	**3.2**	**3.6**	**3.5**
Exports of goods and services	-17.3	-2.3	9.1	4.3	2.1	3.7	2.0
Imports of goods and services	-18.0	15.6	10.1	7.2	4.8	4.3	4.1
Gross domestic product	**-8.0**	**2.7**	**4.0**	**3.2**	**2.2**	**3.1**	**3.1**

Source; NSA and MEWG projections (2022)

SUPPLY SIDE ASSUMPTIONS

The Namibian economy is expected to expand by 4.0 percent in 2022 from a growth of 2.7 in 2021 and slow down to 3.2 percent in 2023. Growth for 2022 and 2023, is expected to be driven by increased growth from the mining sector and tertiary industries as well as recovery in secondary industries.

PRIMARY INDUSTRIES

Agriculture, forestry, and fishing is estimated to grow by 3.0 percent in 2022, due to the expected growth in both livestock, forestry, crop farming and fishing. The sector is anticipated moderate further in 2023 by 2.0 percent mainly driven by moderate performance in livestock subsector – as growth in livestock marketing dampens and crop farming as the number of hectares of land under cultivation reaches its capacity. The fishing subsector is expected to remain muted albeit on the positive side, due to structural issues in the sector that remains.

Crop farming is estimated to grow by 2.0 percent in 2022 and 2023 due to increased land under irrigation. The Russia-Ukraine conflict has prompted domestic producers to increase and /or diversify their production to cater for reduced imports of grains. The sector is expected to moderate in 2024.

The livestock subsector is expected to expand by 5.3 percent in 2022 due to strong improvement in animal marketing and livestock exports. Growth in the sector is expected to slow down to 3.9 percent in 2023 resulting from base effects. The subsector is expected to grow by 4.2 percent in 2024 on the back of increased demand of animal marketed to feed the ongoing upgrade of local abattoirs (Eenhana, Outapi, Oshakati and Rundu). In the outer years of the MTEF period the subsector is projected to grow further on the back of better prospect and expectation from the sector.

The fishing subsector is growing marginally by 1.9 percent in 2022 due timely fish allocation quarters. The sector is expected to slow down in 2023. Moreover, the fishing is anticipated to accelerate in 2024 before slowing down and declining in 2025 and 2026 respectively.

Mining industry

The industry is estimated to expand by 18.9 percent in 2022 on the back of increased output from *diamond mining* and marginal recovery in *metal ores* (as the impact of the closures of two mines dissipates and *gold* output continues to expand. Some activities in the exploration space are also expected to boost the sector in the short-term.

Diamond mining is projected to record robust growths in 2022 and 2023, while contracting in 2024 and recover in 2025, before expanding moderately in 2026. The *diamond mining* sector is forecasted to grow by 37.1 percent and 12.6 percent in 2022 and 2023, respectively. The stronger expansion in 2022 and 2023 is attributed the new mining vessel the Benguela gem that came into production in 2022, the resumption of production at Elizabeth Bay mine and increasing production from onshore mining. Global demand for diamonds improved in 2022, however, beyond 2024 demand is expected to decline.

Uranium mining is estimated to have contracted by 1.0 percent in 2022 due to a shortage of water supply. In 2023 the subsector is expected to record a moderate growth of 2.2 percent before expanding in 2024 by 6.9 percent as all operational mines are planning to increase their production and the resumption of mines that were under care and maintenance and increased demand for uranium globally. Going forward, the sector is faced with water uncertainty which may hinder productions in the outer years.

The metal ores sub-sector is projected to make a recovery of 2.7 percent in 2022 and further increase by 3.7 percent in 2023 before contracting by 3.2 percent in 2024. The improved growth in this subsector will come from increased production from gold, which is anticipated to offset lost output from zinc and copper. Growth for 2025 going forward is expected to expand further on the back of anticipated increased gold production from new gold mine.

SECONDARY INDUSTRIES

The manufacturing sector is anticipated to recover by recording a growth of 2.8 percent, in 2022, from a decline of 1.4 recorded in 2021. The recovery is attributed to the expected increase in production of beverages, meat processing, grain mill production, due to expected increase in demand for export to the South African market. The recovery in that diamond processing and basic non-ferrous metals are also supporting growth in the manufacturing sector. Going forward, the sector is expected to register relatively moderate growths to an average of 2.6 percent.

Electricity and water sector is estimated to record a growth of 4.4 percent in 2022 at the back of higher electricity output from the Ruacana hydro-power station due to a good rainfall recorded in the Southern Angola. The electricity and water sector are projected to grow by 4.6 percent in 2023 supported by renewable energy project expected to come-on stream in 2023 with a combined power supply of 110MW. There are some developments around the Solar Powered Storage-battery System pilot project for the Namibian sun, as the current battery systems are not suitable to the Namibian climate/sun. In the outer years of the MTEF period the sector is to average 3.7 percent.

The construction sector is expected to record a zero growth in 2022, compared to a contraction of 11.1 percent recorded in 2021, as the sector reaches a turnaround point. In 2023 the sector is anticipated to expend by 4.4 percent attributed to the increase in government development budget, exploration activities in the mining and energy sector. Construction is expected average around 5.9 percent, for the remainder of the MTEF period. The expectation is that the sector will benefit from the construction of the oil rigs and the construction of new gold mine, as well as the green hydrogen pilot plant.

TERTIARY SECTOR

The **wholesale and retail trade sector** is estimated to register a slower growth of 2.7 percent in 2022, compared to 6.1 percent recorded in 2021 on the back of a reduction in consumer purchasing power, owing to high inflation and interest rate. The wholesale and retail trade sector is expected to further expand by 4.0 percent and 5.3 percent in 2023 and 2024 respectively, supported by the activities in the construction sector. Going forward the sector is expected to register an average growth of 4.9 for the remaining MTEF period.

The hotels and restaurants sector are projected to grow by 7.4 percent and 5.4 percent in 2022 and 2023 respectively, in relation to 8.8 percent in 2021. The growth is supported by the removal of COVID-19 restrictions and increased demand for tourism and increase bed occupancy capacity. The sector is expected to register a growth of 3.7 percent in 2024, before moderating to 3.4 percent in 2025. This slowdown in the sector is attributed to high base effect from the previous years and activities in the sector continue to normalize.

The transport and storage sector are estimated to register a growth of 4.8 percent and 4.5 percent respectively in 2022 and 2023, relative to a growth of 2.2 percent in 2021. The growth in the sector is attributed to lifting of travel restrictions and expected increase in the export of minerals and charcoal coupled with an expected high import for industrial and consumer goods however, muted by rising freight cost, higher fuel prices and inflation. The industry is expected to grow by 4.4 percent and 4.8 percent in 2025 and 2026 respectively, ascribed to the anticipated increase in cargo handling as the container terminal operator takes rein. For the outers the MTEF period, growth in the sector is expected to be driven by activities in the oil and gas industry as well the expected increase in construction.

Growth in **real estate** is expected to moderate by 2.1 percent and 1.9 percent in 2022 and 2023 on the back of low demand for high-end and weakened demand for middle segment properties. While supply remains muted for lower segment properties.

Administration, Defence and Health is estimated to remain subdued between 2022 and 2024 as government continues with wage bill reduction reforms. Although the government has been recruiting it is merely replacement of resignation and retirees. **Health service sector** is estimated to slow down to 1.8 percent and 1.7 percent in 2022 and 2023 respectively, due to high base effect of COVID-19 related expenditure.