Republic of Namibia

"Peace, Stability and Prosperity"

25 YEARS OF INDEPENDENCE 1990-2015

FISCAL STRATEGY

2015/16 - 2017/18

" No Namibian must feel left out. "

ABBREVIATIONS

BoN	Bank of Namibia
CIT	Corporate Income Tax
GBP	Great British Pound
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IMF	International Monetary Fund
MEF	Macroeconomic Framework
MEWG	Macroeconomic Working Group
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NAD	Namibia Dollar
NCPI	Namibia Consumer Price Index
NHIES	National Household Income and Expenditure Survey
NPC	National Planning Commission
NSA	National Statistics Agency
OPEC	Organisation of Petroleum Exporting Countries
PPP	Public Private Partnership
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
Repo rate	Repurchase rate
SDMS	Sovereign Debt management Strategy
SME	Small and Medium-sized Enterprises
SSA	Sub-Saharan Africa
MSME	Micro, Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SACU	Southern Africa Customs Union
US	United States of America
UK	United Kingdom
USD	US Dollar
WEO	World Economic Outlook
TIPEEG	Targeted Intervention Programme for Employment and Economic Growth
ZAR	South African Rand
VAT	Value-Added Tax

GLOSSARY

Balance of Payments: a measure of all economic transactions between a country and the rest of the world during a year; these transactions are divided into the current account and the capital and financial account.

Bottleneck: improper functioning of a system whereby the output required at a given time outstrips the capacity of production.

Brent crude: a type of oil, sourced from the North Sea, used as a benchmark for European, African and Middle Eastern oil prices.

Capital and financial account: the net figure arising from inward and outward flows of money to and from a country for both direct investment and lending purposes.

Current account: the value of a country's exports minus the value of its imports, plus the net factor income earned from abroad, plus net unilateral transfers (e.g. donations and aid).

Exchange rate: the nominal exchange rate states the amount of one currency you must exchange for one unit of another currency; the real exchange rate expresses the number of units of a certain good you must exchange to get one unit of that good in another country.

Fiscal policy: the budgetary stance of central government, as expressed through taxation and public expenditure, as opposed to monetary policy, which is enacted by the central bank.

Gross Domestic Product (GDP): a measure of the total flow of goods and services produced by the economy over a specified time period.

Gross Fixed Capital Formation: addition to the stock of real capital (including machinery, plant and buildings used in production), adjusted for depreciation of previous capital.

Import cover: a prudential measure; the number of months' worth of the current year's imports that could be purchased using the value of international currency reserves held by the central bank.

Inflation: the rate of change in the general level of prices over a certain period, reflecting the change in the purchasing power of money.

Net exports: the money value of exports minus imports.

Nominal GDP: the money value of GDP at current prices; this value reflects both the price level and real GDP.

Real GDP: an inflation-adjusted value of GDP that can more easily be compared between years and countries.

Recession: a sharp slowdown in the rate of economic growth, often defined as two successive quarters of negative real GDP growth.

Repurchase rate: the interest rate at which the central bank lends to commercial banks, forming the basis for all other interest rates in the economy; a major tool of monetary policy.

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Foreword

The Government Fiscal Strategy provides the macroeconomic and fiscal context as well as policy objectives for the Budget and Medium-Term Expenditure Framework. It is a consolidated document, which combines macroeconomic and fiscal analyses and projections which have traditionally been published separately in the Macroeconomic Framework and the Fiscal Policy Framework. Apart from the ease of access and reference, the consolidation augurs well for the integrated and evidence-based planning approach pursued by Government.

This Strategy is coming into operation as the new Government takes office. It brings with it economic and fiscal policy alignment, which is an affirmation of the Government's commitment to maintenance of policy predictability, macroeconomic and financial stability as well as the sustainability of fiscal outcomes. These are the fundamental policy principles that continue to be entrenched. In this regard, the Strategy emphasizes the Government's renewed commitment to continue addressing the four key priority areas critical to Namibia's socio-economic development agenda. Which are achieving broad-based economic growth, pushing back the frontiers of poverty, achieving greater prosperity for all Namibians and efficiency gains in service delivery.

On the macroeconomic front, the Strategy is coming into operation at a time when the global economy is continuing to enjoy moderately positive growth spells. As a small open economy, our economic growth outlook depends on global demand for our exports as well as the export price of our goods. While the lower oil price offers a boost for our economy, the overall global impact appears to be neutral or even tilted to the negative due to sharp effects on oil-producing economies. The downside risks are further aggravated by weak recovery in commodity prices as well as subdued activity in some of the major regional economies.

Our fiscal balances remain relatively strong and public revenue outturn has kept the pace. This achievement gives scope for Government to continue improving services to our citizenry and investing in critical public infrastructure.

Going forward, Government will continue to reinforce efforts for domestic resource mobilization, resource allocation and spending efficiency, as well as strengthening fiscal buffers as a mechanism for managing fiscal risks. The Strategy will benefit from the maiden introduction of the Mid-Year Budget Review, which will serve as a basis for assessing half-yearly outcomes and advance announcement of the policy priorities and strategies for the prospective MTEF, thereby enhancing the openness and transparency of the Budget process.

The Strategy provides key policies that underpin budgetary interventions. I thus invite policy- and law-makers as well as the public to make optimal use of this policy document and its subsequent publications for evidence-based policy formulation and review.

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CALLE SCHLETTWEIN, MP
MINISTER OF FINANCE

EXECUTIVE SUMMARY

A. MACROECONOMIC FRAMEWORK

0.1 World output growth slowed once again in 2013, for the third year in a row, to 3.2 percent, with recession in the Euro Area and lower growth in some major emerging markets creating a drag on the global recovery. Output growth in Namibia remained relatively strong at 5.1 percent in 2013, falling only marginally from growth of 5.2 percent in 2012, and equalling the growth rate for 2011.

0.2 The robust growth rate recorded in 2013 was supported by strong expansion in tertiary industries, which grew by 8.1 percent, up from 3.9 percent in 2012, with wholesale and retail trade, financial intermediation and public administration all experiencing strong growth. Similarly, secondary industries recovered from the previous year's 1.3 percent contraction to grow by 7.6 percent in 2013, as construction grew strongly and manufacturing returned to positive growth. These positive outcomes offset the 6.6 percent contraction in primary industries in 2013, marking a sharp fall from the 14.4 percent growth seen in 2012, as a result of severe drought and weak growth in mining and quarrying.

0.3 On the demand side of the economy, gross domestic expenditure accelerated to grow by 7.0 percent in 2013, compared with 5.2 percent growth in 2012. This development was attributable to relatively strong growth outturns for general government expenditure, which grew by 8.9 percent in line with expansionary fiscal policy, and gross fixed capital formation, which grew by 20.1 percent on the back of strong private and public investment in the construction sector. Meanwhile, private consumption posted growth of 6.2 percent, the same rate as in 2012. Namibia's trade deficit continued to widen swiftly, albeit at a slower pace of 25.1 percent in 2013, compared with the deterioration of 33.2 percent the previous year. Although exports of goods and services accelerated from 10.4 percent growth in 2012 to an expansion of 12.0 percent in 2013, growth in imports of goods and services remained almost unchanged at 15.5 percent in 2013.

0.4 Global economic activity is expected to recover in 2014 and 2015, to record forecast growth rates of 3.3 and 3.8 percent, respectively, boosted by stronger performance in advanced economies, which are expected to register growth of 1.8 and 2.3 percent in 2014 and 2015, respectively. Global growth is then predicted to converge to a growth rate of 4.0 percent over the remainder of the 2015/16-2017/18 MTEF period. While the Namibian economy is expected to see relatively strong growth in the near-term, domestic growth is forecast to slow somewhat over the MTEF period.

0.5 Growth in primary industries is expected to prove weak in 2014, at 1.7 percent, due to the combined effects of low uranium prices, industrial action in the diamond mining sector and South Africa's erstwhile imposition of stringent veterinary restrictions on its imports of livestock. However, primary industries are forecast to see robust growth from 2015-2017, with crop and livestock farming expected to perform well in 2015, and with production from the Swakop Uranium Mine forecast to drive growth of 7.0 percent in 2016 and 7.2 percent in 2017.

0.6 Secondary industries are forecast to post strong growth both in 2014, with continued heightened activity in construction contributing to a growth rate of 10.5 percent, and in 2015, with growth of 7.5 percent supported by output from the SAB Miller brewery, Tchudi Copper Mine and the Dundee Sulphuric Acid Plant. Growth in secondary industries is expected to remain more subdued over the remainder of the MTEF period, until it is boosted once again in 2018 when the Kudu Gas-to-Power Plant comes into operation.

0.7 Robust growth is expected in tertiary industries in the near-term, with the growth rate in 2014 forecast to hit 6.3 percent, on the back of an expansionary 2014/15 budget and positive performance in retail and wholesale trade, transport and communications and financial intermediation. Nonetheless, growth in tertiary industries is forecast to slow steadily throughout the MTEF period to 4.1 percent by 2018, in the wake of fiscal consolidation and private service sub-sectors converging to lower long-run growth paths.

0.8 The growth rate of the trade deficit, estimated at a high 54.3 percent in 2014, is expected to moderate over the course of the 2015/16-2017/18 MTEF period, as imports slow with the deceleration of the construction sector, and exports experience strong growth with the opening of new projects in extractive and related industries.

0.9

0.10 In light of these developments, domestic GDP growth is expected to accelerate, to high respective rates of 6.2 and 5.7 percent in 2014 and 2015, before slowing steadily to 4.4 percent by the end of the MTEF period in 2018. However, the gradual nature of this deceleration means that the average growth rate expected for 2014-2018 is still relatively high at 5.3 percent.

0.11 Downside risks persist, which could affect the ultimate accuracy of these growth forecasts. Global downside risks include the possibility of deflation in advanced economies; delays to structural reforms in the Euro Area; a sharp tightening of US monetary policy, and the likely subsequent fall in investment in emerging economies; lower growth in China; geopolitical issues in Ukraine and the Middle East. Domestic risks include a prolonged period of depressed mineral prices; structural bottlenecks; delays to mining and energy mega-projects; continued underperformance in the South African economy.

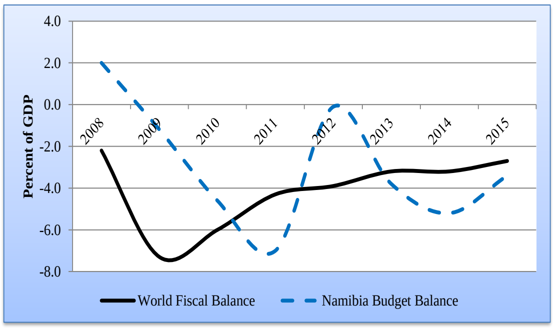
B. FISCAL TRENDS AND POLICY FRAMEWORK

(i) Global fiscal policy context

0.12 At the global level, the fiscal policy course of action is to stabilize and subsequently reduce growth in public debt through gradual fiscal consolidation aimed at reducing fiscal deficits. High fiscal deficits and public debts are the aftermath of significant fiscal stimulus packages extended to counter the effects of the global financial crisis and economic downturn which started in FY2007/08. The world-wide crisis started to recede in 2010, allowing for a generalized commencement of phased fiscal consolidation to reduce high fiscal deficits and debts.

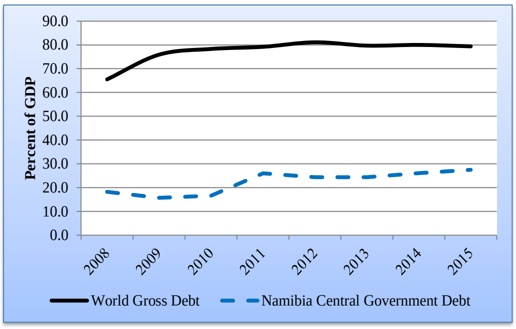
0.13 As a result of the fiscal consolidation action, the overall global fiscal deficit, as assessed by the International Monetary Fund, has stabilized at 3.2 percent of the world GDP in 2013 and 2014, a notable improvement from a deficit of 3.9 percent recorded in 2012 and 4.3 percent in 2011. World public debt as a proportion of GDP is also projected to start decelerating to an estimated 80.0 percent in 2014, from 81.1 percent in 2012, although levels still remain high and varied across different countries and major economies.

Figure 1: Global and domestic fiscal balance



Source: Ministry of Finance

Figure 2: Global and domestic public debt



Source: Ministry of Finance

0.14 The key fiscal policy challenge remains how best Governments can strike the fine balance required between phased fiscal consolidations, and continuing with supportive fiscal policy, without aggravating the deficit and debt outlook.

0.15 Seen against this global turn of events, Namibia's fiscal policy action varied from a near balanced budget in FY 2012/13 and increased budget deficits thereafter in response to global economic environment and the need for domestic policy interventions to address socio-economic challenges.

(ii) Domestic Fiscal Developments

0.16 Fiscal policy during the 2012/13 - 2014/15 MTEF remained expansionary, with the objective of providing countercyclical support to the fragile domestic economic recovery and addressing domestic socio-economic challenges.

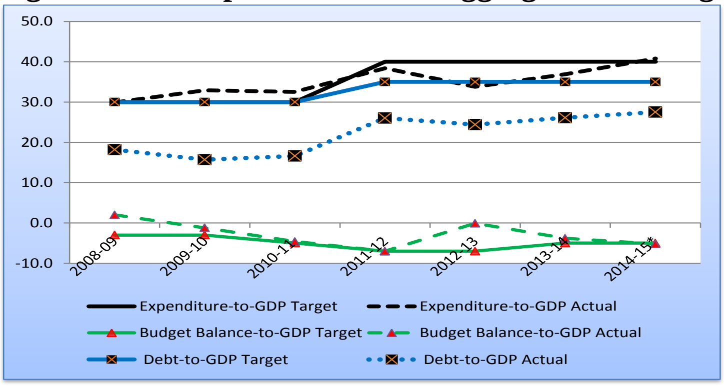
0.17 As a result of the supportive fiscal policy action, and in the context of improving global economic activity, the domestic economy maintained a steady growth trajectory, improving from 5.1 percent in 2011 to an estimated 6.2 percent in 2014.

0.18 Expansionary fiscal policy allowed for increased investment in growth enhancing infrastructure and human resources development through the scaling-up of allocations to the development budget, targeted transfers to the capital budgets of State-owned Enterprises and increased funding in the social sectors.

0.19 Increased Government spending has been complimented by changes in tax policy to strengthen the policy redistributive objective, in addition to tax administration reforms aimed at enhancing revenue collection and improving operational efficiency.

0.20 In terms of adopted fiscal benchmarks set out in the Sovereign Debt Management Strategy for Namibia, total expenditure should remain with 40 percent of GDP, the budget deficit should be within 5 percent of GDP and total debt should not exceed 35 percent of GDP. The fiscal operations have been within the set targets, thanks to better GDP growth, revenue outturn and an relatively weaker budget execution, especially the development budget. The total expenditure, budget deficit and Central Government debt outturns are given in Figure 3 below.

Figure 3: Developments in fiscal aggregates and targets



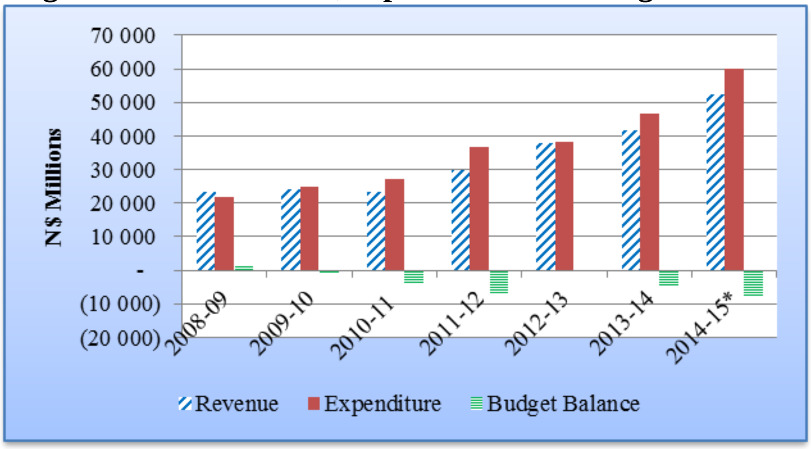
Source: Ministry of Finance

0.21 The SDMS also caps interest rate payments at 10 percent of revenue and Government guarantees at 10 percent of GDP annually over the MTEF. As at FY2013/14, interest rate payments stood at 4.3 percent of revenue, while government guarantees amounted to 4.1 percent of GDP, which was well within the set target.

(iii) Revenue Outturn and expenditure outturn

0.22 Total revenue and grants has maintained a steady increase over the past three years and increased by 10.3 percent in FY2013/14 to N$41.9 billion, from N$38.0 billion collected in FY2012/13. This outturn represented a 4.4 percent better than the budgeted N$40.1 billion. As a proportion of GDP, total revenue slowed to 32.0 percent in FY2013/14, from 33.7 percent achieved in FY2012/13, owing to the slowdown in company taxes, given the subdued commodity prices and economic environment in 2013.

Figure 4: Total revenue, expenditure and budget outturn



Source: Ministry of Finance

0.23 The expenditure outturn for FY2013/14 amounted to N$46.6 billion, out of N$47.7 billion budgeted expenditure, representing a budget execution rate of 98.2 percent. At 40.8 percent of the revised GDP, this level of expenditure is moderately in excess of 40 percent benchmark.

0.24 Operational expenditure stood at N$39.4 billion in FY2013/14, representing an execution rate of 99.5 percent of the N$39.6 billion allocated, an improvement over the 96.8 percent execution rate achieved in FY2012/13. For development expenditure, a total of N$545.4 million was left unspent in FY2013/14, out of a total budget of N$7.9 billion, resulting in an execution rate of 93.1 percent, compared to 88.6 percent in FY2012/13.

0.25 The budget deficit for FY2013/14 stood at N$4.8 billion, or some 3.8 percent of GDP and an increase from the deficit of 0.1 percent recorded in FY2012/13. The deficit outturn was, however, better than the budgeted deficit of 6.4 percent, due to better revenue outturn, higher nominal GDP, and relatively weaker expenditure execution, especially the development budget expenditure.

(iv) Public Debt

0.26 Central Government debt has remained within the 35 percent of GDP benchmark, with debt as proportion of GDP moderating to 24.4 percent in FY2013/14, from 26.3 percent in FY2012/13, thanks to GDP growth. However, the public debt stock has increased in nominal terms, increasing by 30.3 percent over the last three years, from N$27.6 billion in FY2012/13 to N$38.5 billion in FY2014/15.

C. DOMESTIC FISCAL OUTLOOK

(v) Revenue Outlook

0.27 On account of projected economic growth and the revenue outturn for the year-to-date, revenue for FY2014/15 is estimated to have improved any 2.7 percent to N$53.9 billion projected in the. Over the MTEF, revenue is projected to increase by 8.4 percent to N$58.44 billion in FY2015/16, by 7.9 percent to N$63.05 billion in FY2016/17, and by 9.7 percent to reach N$69.18 billion by FY2017/18. As a proportion of GDP, revenue is projected to average 35.2 percent over the MTEF.

Table 1: Projected revenue outlook, 2015/16 – 2017/18 MTEF (N$ millions)

	2012/13	2013/14		2014/15		2015/16		2016/17		2017/18
Revenue Head	Actual	Budgeted	*Actual*	Budgeted	*Estimate*	Budgeted	*Revised*	Budgeted	*Revised*	Projection
GDP at market prices, nominal	**112 871**	**116 444**	***131 034***	**141 305**	***149 993***	**160 165**	***164 643***	**182 039**	***179 844***	**197 643**
Revenue and grants as % of GDP	*33.7%*	*34.5%*	*32.0%*	*37.1%*	*35.9%*	*36.6%*	*35.5%*	*36.3%*	*35.1%*	*35.0%*
Total Revenue and Grants	**37 997**	**40 141**	***41 910***	**52 473**	***53 914***	**58 698**	***58 442***	**66 074**	***63 050***	**69 181**
Tax Revenue	35 319	37 544	*38 907*	49 213	*50 886*	54 794	*56 032*	61 510	*60 744*	66 962
Non-Tax Revenue	2 505	2 375	*2 705*	3 246	*3 014*	3 717	*2 354*	4 371	*2 113*	2 052
Lending and Equity Participation	4	20	*21*	6	*6*	7	*11*	8	*30*	4
External Grants	168	193	*278*	7	*7*	180	*45*	184	*163*	163

Source: Ministry of Finance

0.28 Taxes on International Trade under SACU are forecast to decelerate in FY2015/16 and remain subdued throughout the FY2015/16-2017/18 MTEF period, averaging 29.6 percent of total revenue as compared to the post-crisis average of 35.5 percent. Revenue from own sources is therefore projected to account for 69.4 percent of total revenue on average over the MTEF.

0.29 However, risks to the revenue outlook remain unabated. The most significant risk is in regard to SACU revenues, due to the uncertainties surrounding on-going negotiations on SACU institutional arrangements and revisions of the SACU revenue sharing formula as well as the projected low economic growth for South Africa, which accounts for over 90 percent of SACU revenues.

(vi) Aggregate Expenditure Outlook

0.30 Based on the projected revenue envelop for the FY2015/16-2017/18 MTEF period, and the existing expenditure ceilings announced in the FY2014/15-2016/17 MTEF, the potential maximum expenditure ceiling consistent with a deficit threshold of 5.0 percent of GDP amounts to N$63.71 billion in FY2015/16, NS70.12 billion in FY2016/17, and to, at least potentially, N$77.41 billion in FY2017/18..

0.31 By considering this expenditure outlook, total central Government debt is projected to increase from N$44.00 billion in FY2015/16 and reach N$62.96 billion by FY2017/18. As a proportion of GDP, however, total debt is projected to increase to 26.9 percent in FY2015/16, from 24.2 percent in FY2014/15, and reach 32.1 percent by FY2017/18, thanks to robust improvements in GDP growth over the period.

0.32 For budget allocation purposes, it is important for expenditure and public debt to remain well within the benchmark levels to reinforce macroeconomic stability while sequencing the funding of strategic priorities over the MTEF.

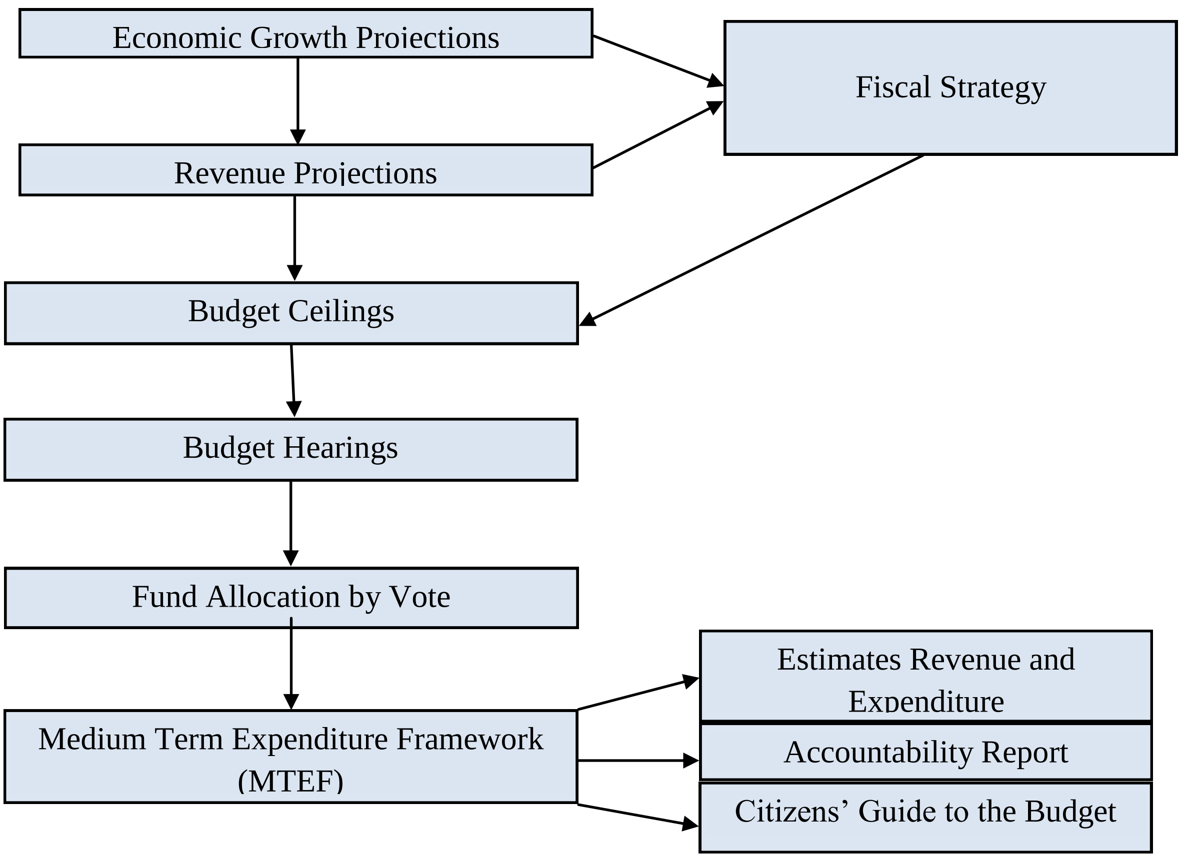
1. INTRODUCTION

The Macroeconomic Framework (MEF) and Fiscal Policy Framework (FPF) are both vital documents within Namibia's Budget cycle. Indeed, the MEF and the FPF can be considered to be the first and second steps in the Budget formulation process.

The MEF presents a review of past and present macroeconomic developments, and most significantly, the estimates and projections for domestic, regional and world economic growth. These growth forecasts subsequently provide a key input for the FPF, which sets out the Government's planned fiscal interventions for the Medium-Term Expenditure Framework (MTEF). Most importantly, the FPF establishes the revenue envelope or budget ceiling for the MTEF period. Diagram 1 highlights the MEF's and FPF's role in the budget cycle.

Once this ceiling has been established, O/M/As submit their funding requests and present these at Budget Hearings. Once Budget Hearings have taken place, Budget allocations are finalised, which allows for the production of the MTEF. This is tabled in Parliament alongside the Estimates of Revenue and Expenditure, the Accountability Report and the Citizens' Guide to the Budget.

Diagram 1: Budget Process Flowchart



In previous years, the MEF and the FPF have been published separately. However, to avoid overlap, encourage greater synergy, and to more generally streamline the budgeting process, the MEF and FPF are this year being published in a single document, entitled the *Fiscal Strategy for the MTEF*.

The MEF is compiled by the Macroeconomic Working Group (MEWG), whose membership comprises of the Ministry of Finance, National Planning Commission, Bank of Namibia and Namibia Statistics Agency. However, the FPF is the sole domain of the Ministry of Finance. As such, the two documents are still published under their individual titles within the *Fiscal Strategy for the MTEF*.

2. OVERVIEW OF RECENT ECONOMIC DEVELOPMENTS

D. GLOBAL ECONOMIC DEVELOPMENTS

(vii) Global Growth

1. **Global growth** slowed for the third consecutive year in 2013, to 3.2 percent, as the global economy continues to recover from the financial crisis of 2007. The growth rate of 3.2 percent in 2013 was lower than the 3.5 percent registered in 2012, and is best explained by the following three factors. *Firstly*, it was brought on by continued weak activity in major emerging market economies, reflecting – to varying degrees – infrastructure bottlenecks and other capacity constraints, slower external demand growth, and lower commodity prices. *Secondly*, the recession in the Euro Area was deeper than expected in 2013, as low demand, depressed confidence, weak balance sheets, and tight fiscal and financial conditions interacted to weigh on growth. *Thirdly*, the US economy expanded at a slightly weaker pace in 2013 as compared to 2012, as stronger fiscal consolidation weighed on improving private demand. (Table 1)

Table 1: Real GDP Growth (%) – Global economy

	2011	2012	2013	2014
World Output	3.9	3.5	3.2	3.3
Advanced Economies	1.7	1.2	1.4	1.8
Euro Area	1.6	-0.7	-0.4	0.8
United States	1.6	2.3	2.2	2.2
Japan	-0.5	1.5	1.5	0.9
Emerging Market and Developing Economies	6.2	5.1	4.7	4.4
China	9.3	7.7	7.7	7.4
Brazil	2.7	1.0	2.5	0.3
Russia	4.3	3.4	1.3	0.2
India	6.6	4.7	5.0	5.6

Source: IMF WEO October 2014

2. Growth in **advanced economies** marginally improved to 1.4 percent in 2013, from 1.2 percent in 2012, in spite of moderate growth in the US and a recession in the Euro Area. Nonetheless, the small acceleration in 2013 marked a third consecutive year of slow growth in advanced economies. The moderate growth in advanced economies was due to marginally weaker growth in the US, which has registered a slowdown to 2.2 percent in 2013 from 2.3 percent in 2012, which was compounded by the Euro Area which remained in recession for a second consecutive year. The **Japanese** economy, on the other hand, matched the outturn posted in 2012, with growth constant at 1.5 percent in each year.

3. **Emerging market and developing economies** also witnessed a slowdown in growth, to 4.7 percent in 2013 from 5.1 percent in 2012, despite accelerations in the growth of the Indian and Brazilian economies, as growth in China remained relatively moderate and economic activity

weakened in Russia. Growth in **India** accelerated from 4.7 percent in 2012 to 5.0 percent, while economic activity in **Brazil** expanded by 2.5 percent, up from 1.0 percent in the previous year. However, growth in **Russia** slowed sharply from 3.4 percent in 2012 to 1.3 percent in 2013 as a result of geopolitical upheaval in Ukraine, while growth in **China** remained unchanged at 7.7 percent in 2013, suggesting that the Chinese economy has shifted onto a new, lower growth path, in line with as efforts to rebalance the economy. This will likely have wider implications for global growth, and for the growth of emerging markets and developing economies – especially commodity exporters – in particular.

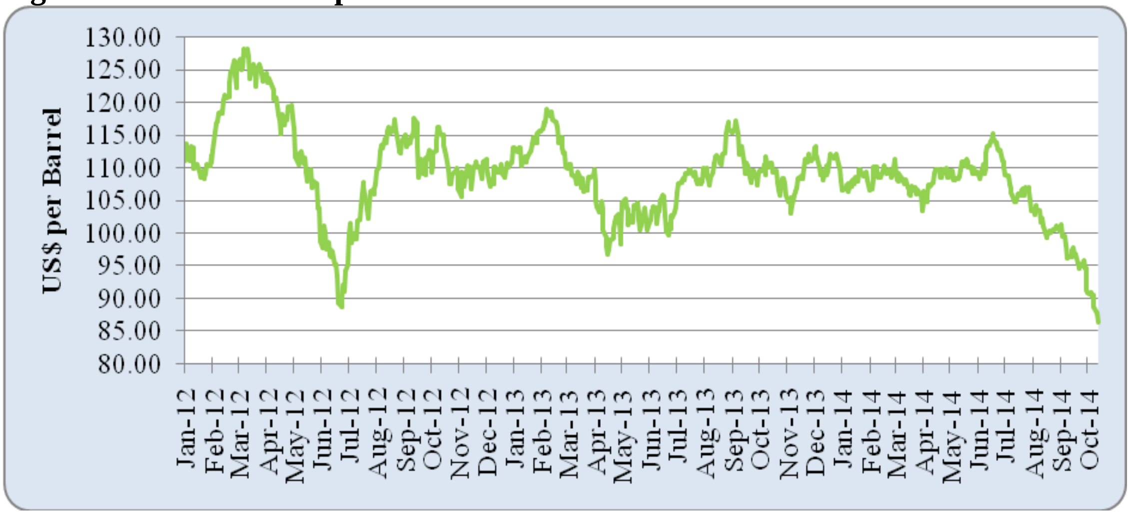
(viii) Commodity Price Developments

Oil prices

4. The average price of Brent crude oil fell to US$108.23 per barrel in 2013, from US$111.58 per barrel in 2012, as increased output from non-OPEC members – notably the US – helped to compensate for supply disruptions across the Middle East and Africa, thus exerting downward pressure on oil prices. These developments similarly helped to facilitate a fall in oil price volatility. Having fluctuated between a high of US$128.14 per barrel and a low of US$88.69 per barrel in 2012, Brent crude traded in the range of US$96.84 to US$117.15 per barrel in 2013.

5. The first five months of 2014 saw the price of Brent crude remain fairly stable, trading between a low of US$103.37 per barrel and US$111.32 per barrel, but rose to a nine-month high of US$115.19 per barrel in June on the back of concerns over supply constraints in Iraq, Libya and Russia. However, with these fears now having subsided, the price of Brent crude has begun to trend significantly lower, even breaking below US$87 per barrel for the first time in almost four years in October. (Figure 1)

Figure 1: Brent Crude Spot Price



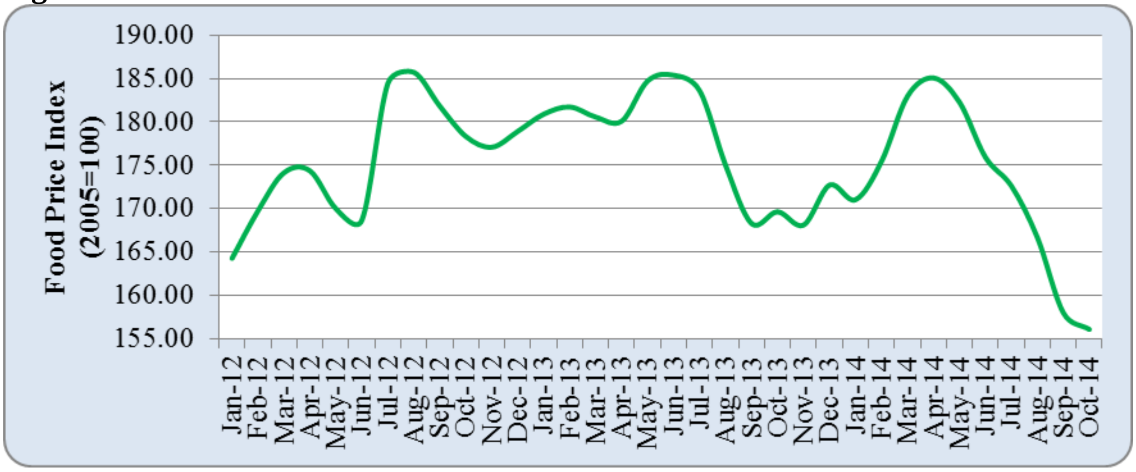
Source: US Energy Information Administration

Food prices

6. Fluctuating supply prospects - because of adverse weather conditions - saw great volatility in international food prices in 2013. Driven by supply concerns, food prices trended higher throughout the first half of 2013, with the IMF's Food Price Index reaching a 10-month high of

185.37 in June, before heading in the opposite direction as production prospects improved, with the index falling to a 22-month nadir of 168.12 in November. The IMF's Food Price index ended the year at 172.72, marking a 3.5 percent decline over the corresponding period for 2012. These dynamics have continued to play out over the first eight months of 2014, with prices rising steeply during the course of the first four months of the year to return to the previous high levels witnessed in June 2013, before dropping even more sharply during the second and third quarters of the year on the back of an improving outlook for supply. In October 2014, food prices fell to their lowest level in four years, on the back of strong global grain production and high expected levels of cereal stock for the end of 2014. (Figure 2)

Figure 2: Food Price Index



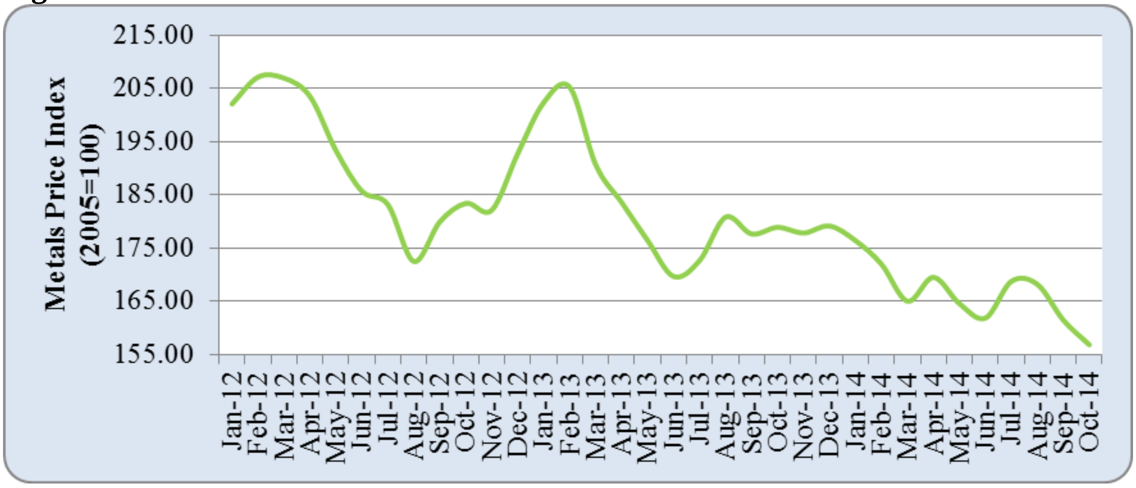
Source: IMF Primary Commodity Prices

Metals prices

7. Metals prices witnessed a sharp decline over the first half of 2013, with the IMF's Metals Price Index declining by 16.2 percent, from 202.34 in January to 169.66 in June – the index's lowest level since November 2009. This came as a result of rising production in the wake of a number of large mining investments that have taken place in recent years, as well as slower growth in China. Moreover, despite witnessing a slight recovery in the third quarter of the year, with the IMF's Metals Price Index rebounding to 180.81 in August, metals prices continued to trend lower in the second half of 2013 to end the year at 179.74, a decline of 7.1 percent compared to the equivalent 2012 period. Only the price of *iron ore* increased in 2013, by 5.4 percent, while all other key metals prices witnessed declines, the largest of which were for *uranium*, which plummeted by 20.7 percent, *nickel*, which dropped by 20.2 percent, and *aluminium*, which fell by 16.6 percent.

8. Despite recoveries in the prices of *aluminium*, *lead*, *nickel* and *zinc*, metals prices have continued to trend downwards over the first six months of 2014, with the IMF's Metals Price Index falling by 9.7 percent to a level of 161.85 in June. This has been driven by notable declines in the price of *iron ore* and *uranium*, as demand continues to wane in key export markets. Although they seemed to stabilise in the third quarter of 2014, metals prices slid once more in October to a five-year low of 156.83, due to further concerns over the slowing of the Chinese economy. (Figure 3)

Figure 3: Metals Price Index



Source: IMF Primary Commodity Prices

E. REGIONAL ECONOMIC DEVELOPMENTS

9. Despite weaker economic activity in South Africa, real output growth in Sub-Saharan Africa accelerated from 4.4 percent in 2012 to 5.1 percent in 2013, driven largely by stronger growth in Nigeria.

10. Due to the rebasing of its national accounts, **Nigeria** recently overtook South Africa as sub-Saharan Africa's largest economy. Nigeria continued to grow at a robust pace, expanding by 5.4 percent in 2013 compared to 4.3 percent in 2012, as economic activity was buoyed by a strong performance in the non-oil sector, in particular agriculture, construction, and hotels and restaurants. Growth of the oil sector was inhibited during 2013 by security-related supply disruptions, as well as by subdued upstream investment.

11. The strong performance of the Nigerian economy helped to compensate for a further weakening of growth in **South Africa**, where tense industrial relations in the mining sector, tight electricity supply, anaemic private investment, and weak consumer and investor confidence resulted in moderate growth in the country. South Africa continued to grow below capacity at 1.9 percent in 2013, compared to 2.5 percent in 2012. Meanwhile, growth in **Angola**, the region's third largest economy, accelerated in 2013, to 6.8 percent from 5.2 percent in 2012, on the back of increased oil production volumes and strong growth in agricultural output. (Table 2)

Table 2: Real GDP Growth (%) – Sub-Saharan Africa

	2011	2012	2013
Sub-Saharan Africa	5.1	4.4	5.1
Nigeria	4.9	4.3	5.4
South Africa	3.6	2.5	1.9
Angola	3.9	5.2	6.8

Source: IMF WEO October 2014

F. DOMESTIC ECONOMIC DEVELOPMENTS

12. Final national accounts data saw real GDP growth revised up from 4.4 percent to 5.1 percent for 2013, despite a downward revision in the growth rate of secondary industries, as both primary and tertiary industries performed better than preliminary data had initially suggested. This, however, still represented a slight deceleration in growth from 2012, when real GDP expanded by 5.2 percent. (Table 3)

Table 3: Real GDP Growth (%) – Domestic, Supply Side

	2011	2012	2013
Primary industries	-3.6	14.4	-6.6
Secondary industries	7.3	-1.3	7.6
Tertiary industries	7.4	3.9	8.1
GDP at market prices	**5.1**	**5.2**	**5.1**

Source: NSA - National Accounts 2013

(i) Supply-Side Developments

13. **Primary industries** contracted by 6.6 percent in 2013, from an expansion of 14.4 percent in 2012, due to the impact of the severe drought. Overall output in *agriculture and forestry* contracted by 27.5 percent in 2013, compared to an expansion of 8.1 percent in 2012, as output in *livestock farming* contracted by 39.2 percent, marking a substantial deterioration compared to a 6.0 percent expansion posted in 2012, while output in *crop farming and forestry* also contracted, by 9.6 percent in 2013, a significant reversal from a growth rate of 11.0 percent in 2012. In contrast, growth in *fishing and fish processing on board* was revised[1] upwards, from a contraction of 2.6 percent to an expansion of 2.5 percent, marking a reversal from the 7.6 percent contraction posted in 2012.

14. The growth rate for *mining and quarrying* was also revised up, from a contraction of 1.2 percent to growth of 0.6 percent, although this nonetheless represented a sharp deceleration from the 25.1 percent growth recorded in 2012. The upward revision of *mining and quarrying* came on the back of stronger growth in *diamond mining* than initially suggested in the preliminary National Accounts 2013 data, with *diamond mining* growth revised upwards from 6.6 percent to 7.3 percent, although this still represented a deceleration from the 13.0 percent expansion registered in 2012.

15. Growth in **secondary industries** was revised down from 8.7 percent to 7.6 percent, but remained robust overall, supported by the construction and manufacturing sectors. Growth in *manufacturing* was revised down from 2.2 percent to 1.9 percent, but this still marked a significant improvement over the 6.8 percent contraction witnessed in 2012. *Construction* growth, too, was lowered from 35.2 percent to 31.5 percent, a rate that represented a slight acceleration, from 29.8 percent, in 2012.

16. Growth in **tertiary industries** was robust at 8.1 percent in 2013, revised upwards in the final National Accounts 2013 data from 6.4 percent, marking acceleration from the 3.9 percent expansion posted in 2012. This came on the back of a stronger-than-originally estimated performance in *wholesale and retail trade*, growth of which was revised up from 4.3 percent to 14.5 percent, representing a sharp acceleration from the 4.0 percent growth recorded in 2012.

[1] *From the preliminary National Accounts 2013 data to the final National Accounts 2013 data*

(ii) Demand Side Developments

17. **Gross domestic expenditure** expanded by 10.0 percent in 2013, down from 13.2 percent growth in 2012, as growth in **gross fixed capital formation** slowed from an expansion of 31.8 percent to growth of 13.5 percent, with growth in private sector investment slowing considerably to 17.3 percent, compared to its exceptionally high growth rate of 49.7 percent in 2012. Nonetheless, **final consumption expenditure** grew by 11.8 percent in 2013, compared to 6.7 percent in 2012, buoyed by expansionary fiscal policy, as **government consumption expenditure** expanded by 8.6 percent in 2013, up from 3.3 percent in 2012. Moreover, growth in **private consumption expenditure** accelerated notably to 13.0 percent during 2013, from 8.0 percent in 2012, partly due to public sector pay increases as a consequence of salary regrading. On the external front, growth in **net exports** (i.e. the rate by which the trade deficit widened, as imports have tended to exceed exports) slowed to 32.5 percent in 2013, down from 75.1 percent in 2012 as growth of **exports of goods and services** accelerated to 9.6 percent, from 1.0 percent in 2012, while growth of **imports of goods and services** decelerated marginally to 17.5 percent, from 18.2 percent in 2012. (Table 4)

Table 4: Real GDP Growth (%) – Domestic, Demand Side

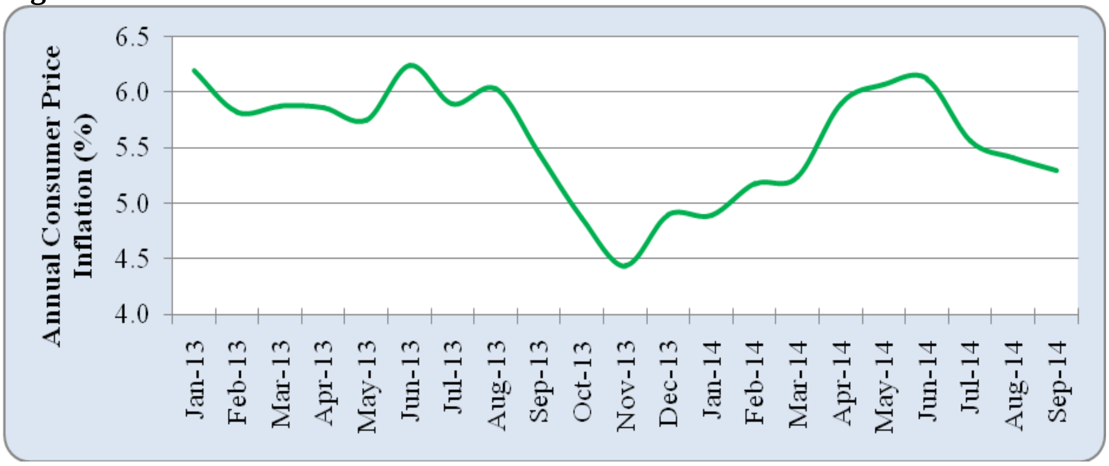
	2011	**2012**	**2013**
Final consumption expenditure	8.3	6.7	11.8
Private	8.9	8.0	13.0
General government	6.7	3.3	8.6
Gross fixed capital formation	-4.4	31.8	13.5
Gross domestic expenditure	**5.5**	**13.2**	**10.0**
Exports of goods and services	-3.3	1.0	9.6
Imports of goods and services	-0.8	18.2	17.5
Net Exports	**8.2**	**75.1**	**32.5**
GDP at market prices	**5.1**	**5.2**	**5.1**

Source: Namibia Statistics Agency, National Accounts 2013

(iii) Price Developments

18. The Namibia Consumer Price Index (NCPI) was rebased in October 2013 to provide a better representation of national spending patterns. Having hovered around the 6.0 percent mark throughout the first eight months of 2013, consumer price inflation slowed sharply over the course of the following three months, to a 27-month low of 4.4 percent in November 2013. The deceleration was driven by a slowdown in price growth across a number of key sub-categories, most notably *food and non-alcoholic beverages*, *alcoholic beverages and tobacco*, and *housing, water electricity, gas and other fuels*. Despite an uptick in consumer price inflation in December 2013, the sharp slowdown witnessed in the second half of the year helped to limit full-year average consumer price inflation to 5.6 percent in 2013, which marks a significant improvement over the average of 6.7 percent recorded in 2012. (Figure 4)

Figure 4: Consumer Price Inflation



Source: NSA - NCPI September 2014

19. However, consumer price inflation accelerated steadily during the first half of 2014, with price growth reaching an 11-month high of 6.1 percent in June, driven mainly by food price pressures and transport prices. Nonetheless, prices have since moderated and trended downwards.

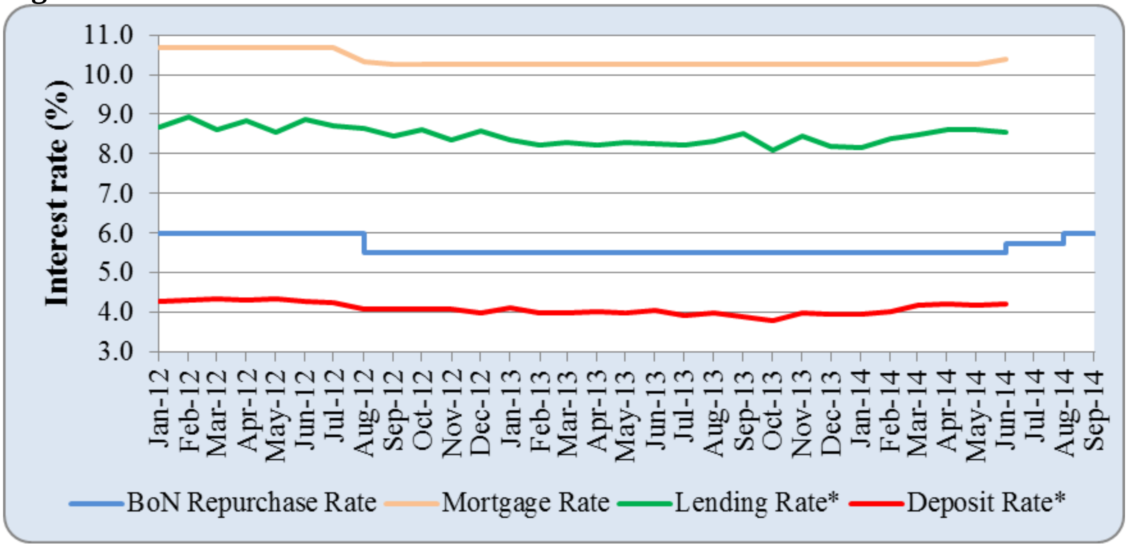
(iv) Interest Rate Developments

20. The key policy rate of the Bank of Namibia – the repurchase, or repo rate – was increased by 25 basis points from 5.50 percent to 5.75 percent in June of 2014, and by a further 25 basis points to 6.00 percent two months later, after it had remained unchanged at 5.50 percent throughout 2013. The repo rate was increased to contain the strong growth in household credit, which is largely used to finance unproductive imported luxury goods and is, therefore, putting additional pressure on the country's trade deficit and international reserves.

21. Although the average mortgage, lending, and deposit rates declined slightly for 2013, compared with 2012, each fell by less than the 50 basis point cut in the repo rate implemented in August 2012. The average mortgage rate fell to 10.25 percent in 2013, from 10.51 percent in 2012, while the average lending rate fell to 8.29 percent, from 8.65 percent. The average deposit rate fell to 3.98 percent, from 4.21 percent.

22. Each of the average mortgage, lending and deposit rates, once again moved higher during the first half of 2014, in line with the tightening of monetary policy by the Bank of Namibia. The average mortgage rate has risen to 10.27 percent during the first six months of the year, while the average lending rate increased to 8.47 percent and the average deposit rate increased to 4.13 percent. (Figure 5)

Figure 5: Selected Interest Rates



Source: Bank of Namibia   * Monthly weighted average

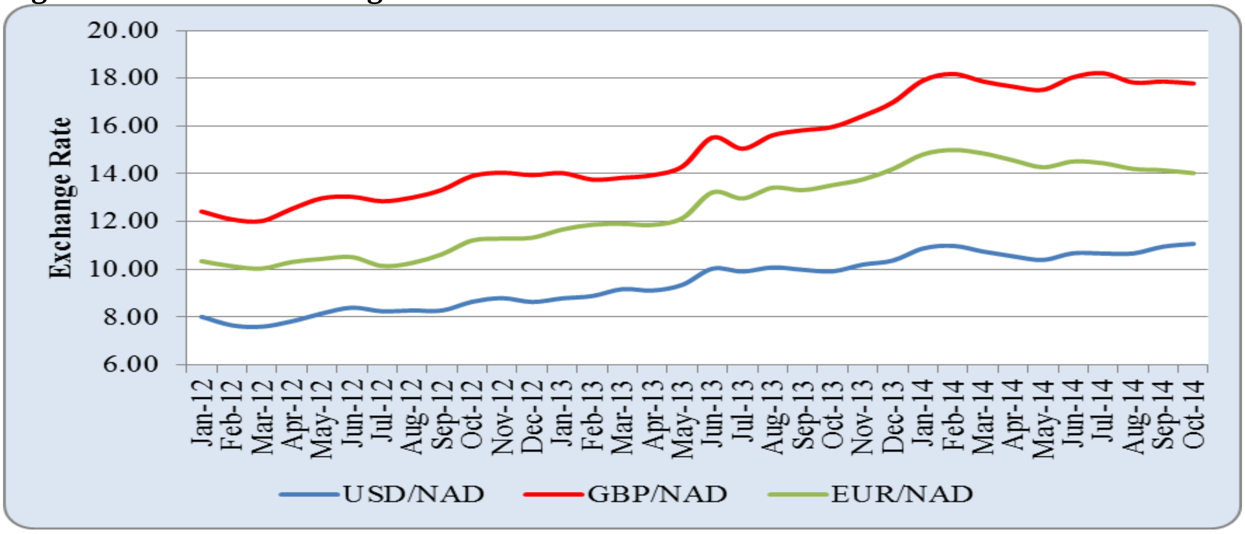
(v) Exchange Rate Developments

23. The Namibian Dollar (NAD) weakened against all major currencies in 2013, depreciating by 16.0 percent against the US Dollar (USD), by 14.6 percent against the British Pound (GBP), and by 18.5 percent against the Euro (EUR). The weakness of the domestic currency reflected the external and domestic imbalances confronting South Africa as a result of weak growth prospects, unresolved industrial disputes, and capital outflows in the context of the US Federal Reserve’s tapering of its monetary stimulus.

24. Furthermore, the NAD has continued to weaken – aside from a brief reversal during the first quarter of 2014 – as the key factors driving South African Rand weakness have persisted. Although the weak NAD should provide a slight fillip to exports, making them relatively cheaper to Namibia’s trading partners; it also makes imports relatively more expensive, and thus will raise the import bill, since demand for imports to Namibia is inelastic. As of August, the NAD had depreciated by 1.4 percent against the USD since the start of the year, by 4.5 percent against the GBP and by 0.4 percent against the EUR. (Figure 6)

25. Namibia’s external competitiveness was sustained following a further depreciation of the trade weighted effective exchange rate during 2013 compared to 2012. The nominal effective exchange rate (NEER) index declined by 13.3 percent in 2013. Similarly, the real effective exchange rate (REER) index fell by 4.5 percent during 2013. Both the NEER and REER have continued to depreciate in 2014. The depreciation of the REER implies that Namibian products became more competitive on the international market during the review period.

Figure 6: Bilateral Exchange Rates



Source: Bank of Namibia

(vi) Balance of Payments

26. Despite deterioration in the trade deficit, Namibia's *current account* deficit narrowed in 2013, from N$9.4 billion in 2012 to N$7.5 billion, as net investment income and current transfers more than compensated for the weaker trade performance. The merchandise trade deficit widened from N$17.8 billion in 2012 to N$19.3 billion in 2013 as, despite exports growing by 24.8 percent to N$44.7 billion, imports rose to N$64.0 billion after posting strong growth of 19.4 percent. Meanwhile, net trade in services also deteriorated in 2013, with net services registering a deficit of N$2.4 billion in 2013 compared to a deficit of just N$166 million in 2012. However, net investment income – although remaining in negative territory – improved in 2013, from a deficit of N$4.4 billion in 2012 to a deficit of N$1.0 billion, as portfolio inflows increased by 33.0 percent to N$2.3 billion, while direct investment outflows fell by 39.2 percent to N$4.0 billion. Further bolstering Namibia's current account position was a 19.5 percent increase in SACU transfers, from N$12.1 billion to N$14.5 billion.

27. Namibia posted a surplus of N$7.7 billion on its *capital and financial account* in 2013, but this nonetheless marked a 27.3 percent decline from the N$10.6 billion recorded in 2012. Other long-term investments registered a massive 462.3 percent increase, from a net inflow of N$859 million in 2012 to a net inflow of N$4.8 billion, but even this was not sufficient to offset the declines witnessed in direct investment and other short-term investments. Net direct investment fell by 13.6 percent in 2013, from an inflow of N$9.5 billion in 2012 to an inflow of N$8.2 billion. Other short-term investments registered a net outflow of N$2.0 billion in 2013, after posting a net inflow of N$3.8 billion in 2012.

(vii) Namibia's Major Trading Partners

28. South Africa, Botswana, the Euro Area and Switzerland were the top four destinations for Namibian **exports** in 2013. Exports to South Africa accounted for 21.9 percent of total exports, which included beverages, beef, live animals and fish. Botswana absorbed most of Namibia's

exported rough diamonds, which represented 15.4 percent of total exports, as De Beers' diamond trade counter moved from London to Gaborone , while the Euro Area imported mostly beef and fish products.

29. With regard to **imports**, South Africa was Namibia's major trading partner, followed by the Marshall Islands, the Euro Area and China. These countries contributed 57.0 percent, 13.4 percent, 9.9 percent and 4.2 percent, respectively, to Namibia's total imports. Namibia imported mostly household items, machinery and vehicles and parts thereof from South Africa, whereas imports from the Marshall Islands comprised of drilling rigs. Machinery, furniture, and other products were imported from the Euro Area and China.

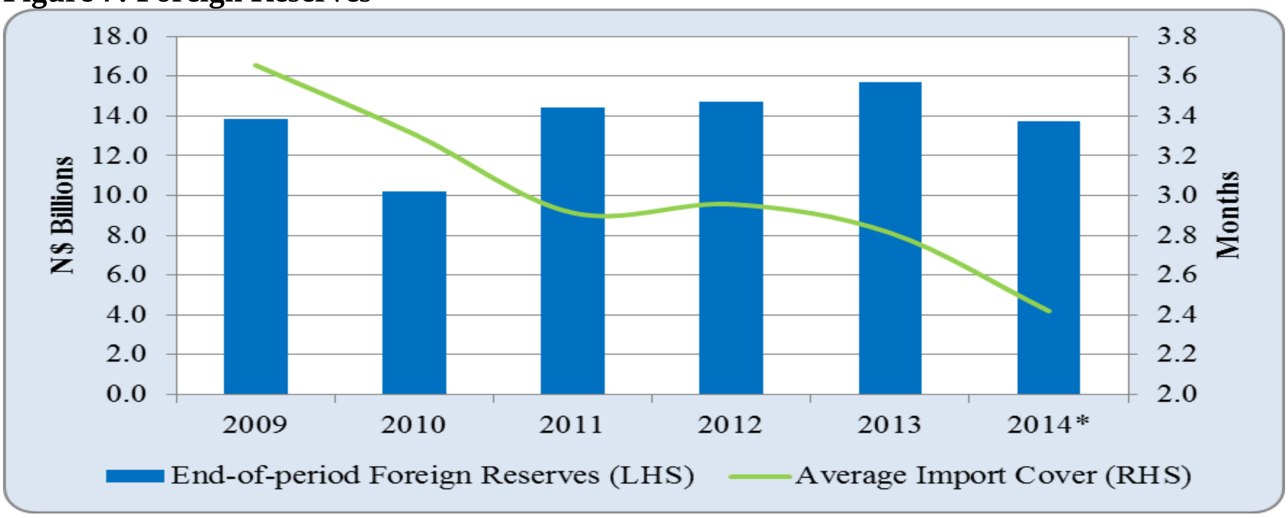
30. South Africa remained Namibia's leading import source during the first eight months of 2014, in that it accounted for 65.8 percent of total imports (mainly vehicles, fuel, maize and consumer goods), followed by the Euro Area, at 7.6 percent (machinery and fuel), US, China and Democratic Republic of Congo, in that order.

(viii) Foreign Reserves

31. During 2013, the stock of foreign reserves held by the Bank of Namibia increased by 6.7 percent, to N$15.7 billion, due to a combination of higher net inflows of funds and valuation adjustments. However, over the same period, imports rose faster than the accumulation of reserves, causing the import cover to decrease from 3.0 months in 2012 to 2.6 months in 2013, which is lower than the international benchmark of 3.0 months' import cover. (Figure 7)

32. Foreign reserves fell considerably during the first quarter of 2014, repeating a pattern observed in the first three months of each of the previous four years. At the end of the second quarter of 2014, however, the stock of foreign reserves had increased by 9.2 percent from the end of the first quarter, to N$15.9 billion. The increase was mainly attributable to the rise in SACU inflows, which contributed 28.4 percent to the total stock of reserves. However, on a year-to-year basis, the stock of foreign reserves declined slightly by 0.8 percent, from N$16.1 billion at the end of June 2013, mainly due to net commercial bank outflows and government payments abroad. The slight increase in the stock of foreign reserves, however, led to virtually no increase in import cover. Import cover, moreover, remains below the international benchmark level of 3.0 months.

Figure 7: Foreign Reserves



Source: Bank of Namibia and NSA * Data until August 2014

(ix) Namibian Stock Exchange

33. The Namibian Stock Exchange (NSX) had a mixed year in 2013, with few substantive gains for the Overall Index, but strong growth for the Local Index. Whereas the Overall Index only saw a net increase of 1.3 percent, the Local Index (comprised of a handful of Namibian companies) saw growth of 21.3 percent, a similarly high rate of expansion to that seen in 2012.

34. The NSX Overall Index reached a high of 1,025.78 in early January 2013, only to fall steadily until late April; a small recovery during the month of May was followed by a steep fall until the end of June, when the index stood at 851.62. At this stage, the Overall Index had declined by 17.0 percent on the back of falling prices in several sectors, including industrials, basic materials, and – to some extent – financials. From this nadir, the Overall Index recovered to its January level over the following four months, rising by 22.5 percent to a level of 1,043.43 by early November.

35. After a subdued performance at the beginning of 2014, the NSX Overall Index climbed steadily to a peak of 1,171.61 by the end of July, stalling only briefly in March, to post a 17.6 percent increase from the end of December 2013, with financials in particular performing well. However, a gradual fall from this peak became a precipitous slide by September 2014, erasing all of the gains recorded since early February and leaving the Overall Index hovering around the 1,030 mark once again.

36. The NSX Local Index has continued to grow strongly in 2014 on the back of strong outturns for companies including Namibia Breweries, FNB Holdings and Bank Windhoek Holdings Ltd, although its rate of growth has moderated somewhat compared with the previous two years. The Local Index increased steadily from the beginning of 2014 to mid-October, recording growth of 9.6 percent until that date; were this rate of growth to continue, the annual growth figure in the index would be around 11 percent.

3. MEDIUM-TERM ECONOMIC OUTLOOK

GLOBAL ECONOMY

I. ECONOMIC OUTLOOK

37. Following three straight years of sluggish growth, global economic growth is expected to rebound gradually in 2014 and 2015, boosted by stronger growth in advanced economies. The global economy is projected to expand by 3.3 percent in 2014, a rate of growth unchanged from 2013, and subsequently to strengthen to 3.8 percent growth in 2015. In the medium term, global growth is expected to accelerate slightly, to remain around 4.0 percent for the remainder of the MTEF period. (Table 5)

38. The recovery in 2014 will be driven by stronger growth in advanced economies, led by the on-going recovery in the Euro Area. Growth in the Euro Area is forecast to return to positive territory in 2014, with real output in the bloc forecast to expand by 0.8 percent, having

contracted by 0.4 percent in 2013. Growth is, however, expected to remain uneven across the region, reflecting continued financial fragmentation, impaired private and public sector balance sheets, and high unemployment in some countries.

39. Steady growth performance in the US is expected to support the positive effects of the Euro Area recovery. The US experienced a surprising economic contraction in the first quarter of 2014, which was attributed to a particularly harsh winter and a correction after inventory build-up (whereby inventories from previous periods were sold, at the expense of new goods' production). However, US growth is expected to rebound quite strongly over the rest of 2014, due to a recovery in the housing market, improved levels of job creation, and increased non-residential investment, together with monetary and fiscal conditions conducive to stronger growth. Growth in the US in 2014 is therefore predicted to remain at 2.2 percent, the same rate as witnessed in 2013.

40. These positive developments in the Euro Area and the US are expected to somewhat help offset the impact of weaker growth in Japan. Although consumption in Japan saw a more pronounced increase than expected in first quarter of 2014, in anticipation of a rise in consumption tax, the corresponding fall in consumption in the following quarter, after the tax hike, was also larger than expected. As such, real output growth is forecast to slow from the 1.5 percent recorded in 2013 to 0.9 percent in 2014.

41. Growth in advanced economies is forecast to strengthen further in 2015, to 2.3 percent, as the Euro Area recovery continues to gather pace, and economic activity in the US improves, driven by more moderate fiscal consolidation and accommodative monetary policy conditions. Growth in the former is forecast to accelerate to 1.3 percent in 2015, while growth in the latter is projected to rise to 3.1 percent. Euro Area growth of around 1.7 percent is forecast for the remainder of the MTEF period, whereas US growth is expected to remain around 3.0 percent until 2018. In contrast, growth in Japan is expected to slow in 2015, to 0.8 percent, as fiscal stimulus is unwound. Growth in Japan is, however, expected to recover marginally to 0.9 percent for the final two years of the MTEF period.

Table 5: Real GDP Growth Forecasts (%) – Global economy

	2014 e	**2015 p**	**2016 p**	**2017 p**	**2018 p**
World Output	3.3	3.8	4.0	4.1	4.0
Advanced Economies	1.8	2.3	2.4	2.4	2.3
Euro Area	0.8	1.3	1.7	1.7	1.6
United States	2.2	3.1	3.0	3.0	2.7
Japan	0.9	0.8	0.8	0.9	0.9
Emerging Market and Developing Economies	4.4	5.0	5.2	5.2	5.2
China	7.4	7.1	6.8	6.6	6.4
Brazil	0.3	1.4	2.2	2.7	2.9
Russia	0.2	0.5	1.5	1.8	2.0
India	5.6	6.4	6.5	6.6	6.7

Source: IMF WEO October 2014. e=estimate, p=projection

42. The improved outlook in advanced economies is expected to compensate for relatively weak activity in emerging market and developing economies, where growth is expected to slow to 4.4 percent in 2014, from 4.7 percent in 2013. Growth in China is forecast to moderate to 7.4 percent in 2014, from 7.7 percent in 2013, as the economy continues to transition towards a more sustainable growth path, while growth in Brazil is expected to plummet to 0.3 percent, from 2.5 percent in 2013, as a result of tighter financial conditions and continued weakness in business and consumer confidence, which are holding back investment and dampening consumption growth. Meanwhile, growth in Russia is forecast to slow to just 0.2 percent in 2014 due to on-going geopolitical strife. The one positive among the BRICS[2] nations is provided by India, where growth is forecast to accelerate to 5.6 percent in 2014, from 5.0 percent in 2013, on the back of a post-election recovery in business sentiment.

43. Growth in emerging market and developing economies is, however, forecast to rebound in 2015, to 5.0 percent, and recover further in 2016, to 5.2 percent, at which level it is projected to remain throughout the remainder of the MTEF period. This comes despite an anticipated further weakening of growth in China, towards 6.4 percent by the end of the MTEF period, as economic activity gathers pace in the other major emerging market and developing economies. Growth in Brazil is forecast to accelerate to 2.9 percent by the end of the MTEF period, while growth in Russia and India is projected to trend towards 2.0 percent and 6.7 percent, respectively, over the same time horizon.

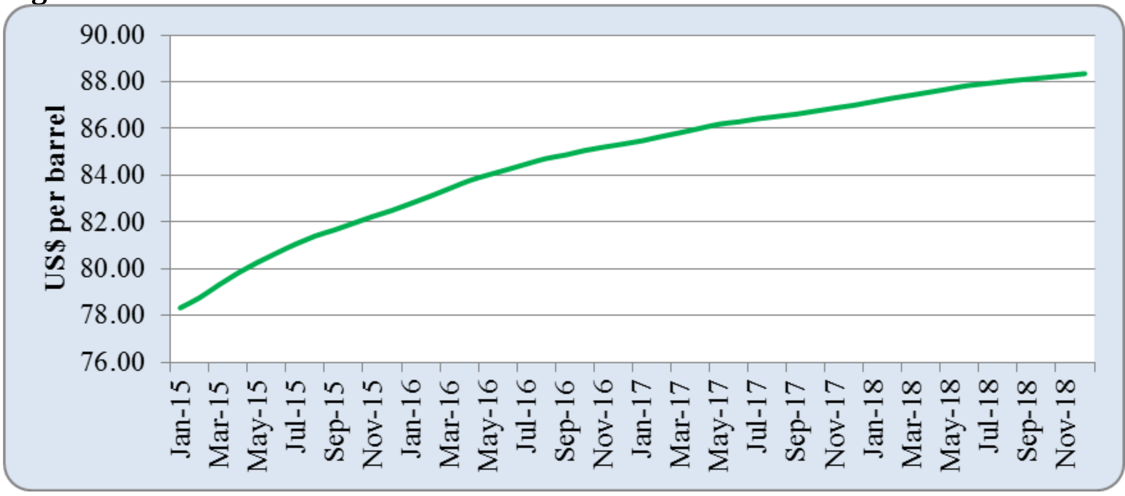
II. COMMODITY PRICE OUTLOOK

Oil Prices

44. Oil price futures suggest that Brent crude is set to reach US$78.33 per barrel by January 2015, which would represent a 27.6 percent decline from the average price of US$108.12 per barrel recorded in January 2014. However, Brent crude futures suggest that oil prices will head higher over the course of 2015 as global economic activity – and thus demand for oil – rebounds, with futures contracts suggesting that Brent crude is set to rise to around US$82.50 per barrel towards the end of the year. Beyond this, the price of a barrel of Brent crude is likely to continue to rise, albeit more slowly, heading towards US$89.00 by the end of the MTEF period, as global oil demand recovers further. (Figure 8)

[2] *Brazil, Russia, India, China and South Africa*

Figure 8: Brent Crude Oil Price Futures

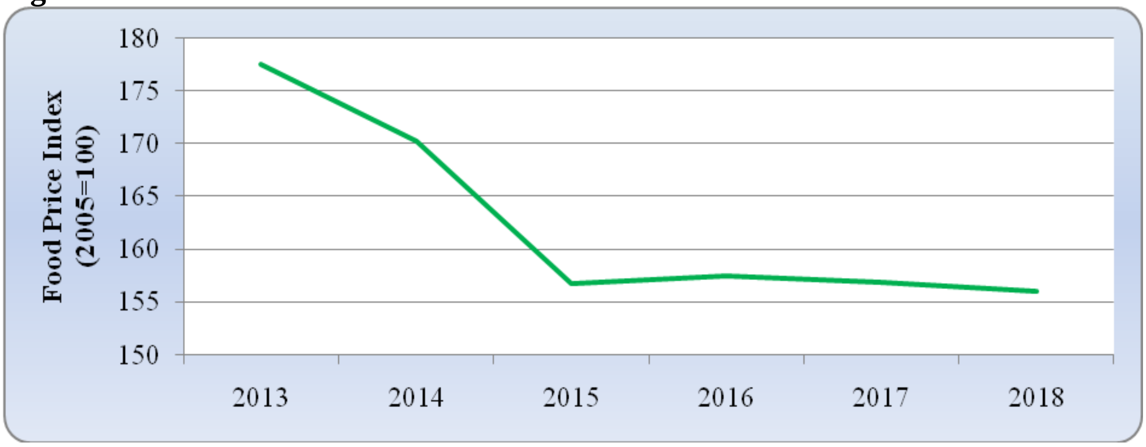


Source: CME Group, 25 November 2014

Food Prices

45. Food prices are expected to trend lower over the course of 2014 and 2015 before levelling out over the final three years of the MTEF period. Both seafood and meat prices are forecast to increase in 2014, by 5.2 percent and 18.3 percent, respectively, but not by enough to offset a projected decline of 19.8 percent in cereals and an 8.0 percent fall in vegetable oils and protein meals. Both of these are expected to witness further declines in 2015, with cereals prices forecast to fall by 12.8 percent, and vegetable oils and protein meals by 12.5 percent. Seafood prices are also expected to fall in 2015, by 17.1 percent, although a 7.5 percent increase in meat prices will help to support overall food prices somewhat. Beyond this, food prices are generally expected to remain around levels witnessed in 2015. (Figure 9)

Figure 9: Food Price Index Forecasts



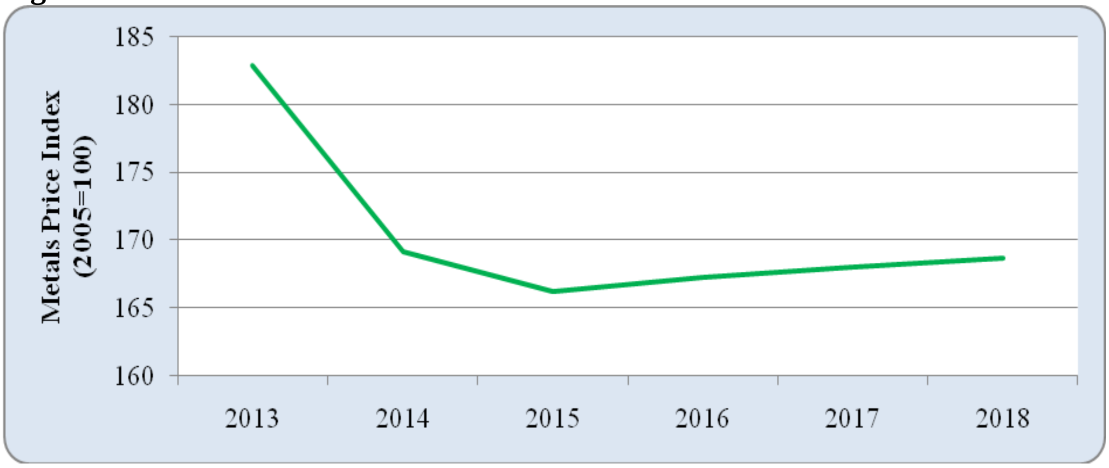
Source: IMF Primary Commodity Prices

Metals Prices

46. Metals prices are forecast to maintain their recent downward trend over the course of 2014 and 2015 driven by significant falls in iron ore and uranium. The price of iron ore is projected to decline by 23.5 percent in 2014 and by 18.5 percent in 2015, while uranium prices are forecast to fall by 20.9 percent and 17.3 percent, respectively, over the same period. Beyond 2015, however, metals prices are expected, once again, to head gradually higher, driven primarily by higher aluminium prices resulting from expected excess demand. (Figure 10)

47.

Figure 10: Metals Price Index Forecasts



Source: IMF Primary Commodity Prices

III. REGIONAL ECONOMIC OUTLOOK

48. Growth in sub-Saharan Africa is forecast to remain unchanged at 5.1 percent in 2014 as robust growth in Nigeria offsets a deceleration in economic activity in South Africa. Growth in South Africa is expected to remain sluggish in 2014, with growth expected to decelerate to 1.4 percent, from 1.9 percent the previous year, as energy shortages and poor industrial relations continue to constrain output. Meanwhile, strong expansion is forecast for Nigeria, where non-oil sectors including agriculture, trade and services are forecast to thrive, with growth accelerating to 7.0 percent from 5.4 percent in 2013. Growth in Angola, which has been hit by falling oil prices amid stagnant oil output volumes, is projected to slow somewhat in 2014, to 3.9 percent from 6.8 percent in 2013.

49. Regional growth is subsequently expected to accelerate to 5.8 percent in 2015, in line with a further strengthening of global economic activity, spurred by the improved outlook for the advanced economies. Growth in South Africa and Angola is forecast to trend higher in 2015, to 2.3 percent and 5.9 percent, respectively, while economic growth in Nigeria is also expected to gather further pace, to 7.3 percent. Similar dynamics are projected for 2016, with growth in South Africa and Angola continuing to head higher, to 2.8 percent and 6.2 percent, respectively, while growth in Nigeria slows marginally to 7.2 percent. This is expected to produce real growth of 6.0 percent for the region as a whole. Beyond 2016, regional growth is expected to moderate, as Nigerian growth persists on its gradual downward trend path, and growth in South Africa plateaus. (Table 6). A decline in crude oil prices remains a risk to Nigerian growth prospects.

Table 6: Real GDP Growth Forecasts (%) - Regional

	2014e	2015p	2016p	2017p	2018p
Sub-Saharan Africa	5.1	5.8	6.0	5.9	5.7
Nigeria	7.0	7.3	7.2	7.1	6.9
South Africa	1.4	2.3	2.8	2.7	2.7
Angola	3.9	5.9	6.2	6.5	6.7

Source: IMF WEO Update July 2014. e=estimate, p=projection

IV. DOMESTIC ECONOMIC OUTLOOK[3]

Supply Side

(i) Mid-Year Review4 of Growth Estimates and Projections for the 2014/15-2016/17 period

50. Recent economic developments have prompted some notable revisions to the growth forecasts published in the Mid-Year Review of the Macroeconomic Framework for 2014. The forecast for **primary industries** has been revised down by 2.6 percentage points following stringent veterinary restrictions on exports of livestock imposed by South Africa, which have had a significant negative effect on livestock farming, and an extended period of depressed prices and industrial action, respectively, which have weighed on *uranium mining and diamond mining*.

51. The growth projections for primary industries for the period 2015-2017, meanwhile, have been revised upwards, primarily on the back of an improved outlook for for *mining and quarrying*.

52. In contrast, however, the forecast for **secondary industries** for 2014 has been revised upwards, by 2.6 percentage points, largely on the back of a significant upward revision to *construction* growth projections. This came about after less construction activity took place in 2013 than initially anticipated, which implies that the outstanding building work is now expected to be completed in 2014.

53. The growth forecast for secondary industries has been revised notably upwards for 2015, by 1.6 percentage points, but has been lowered by 0.2 percentage points in 2016 and raised by the same magnitude for 2017. This has been driven by a more positive outlook for *manufacturing* in 2015, a weaker outlook for *construction* in 2016 and an improved forecast for *electricity and water* in 2017, all of which have been adjusted following the release of final National Accounts 2013 data, which revealed deviations in activity in these sub-sectors from that suggested in the preliminary National Accounts 2013 data.

54. The growth forecast for **tertiary industries** has also been revised upwards, by 2.0 percentage points, as growth projections for *wholesale and retail trade*, *transport and communication*, *financial intermediation*, and *public administration and defence* and *education* have all been raised. Growth forecasts for the first three of these sub-sectors have all been revised upwards after the release of final National Accounts 2013 data revealed that activities in the three industries had actually varied quite markedly in 2013 from what had been suggested in the preliminary National Accounts 2013 data. Meanwhile, growth forecasts for *public administration and defence* and *education* have been adjusted upwards to reflect a more expansionary budget for FY2014/15 than had originally been anticipated.

55. The growth forecasts for tertiary industries for 2015 and 2016 have been revised upward by 1.0 percentage points and 0.7 percentage points, respectively, whilst the growth rate for 2017 has been revised downward, by 1.8 percentage points. The upward revisions for 2015 and 2016 were prompted by a brighter outlook for *wholesale and retail trade* and for *transport,* following revisions to output in these sub-sectors in the final National Accounts 2013 data. In addition, an

[3] *The estimates and projections for the outlook are based on various assumptions that are attached as Annex A.*
[4] *The Mid-Year Review of the MEF for the 2014/15-2016/17 MTEF period was published in June 2014 and revised in September 2014.*

increased allocation to defence announced in the FY2014/15-2016/17 MTEF has prompted an upward revision in the growth projections for *public administration and defence.* The downward revision for 2017 has been prompted by a lowering of growth forecasts for *financial intermediation* in anticipation of changes in the regulatory framework in the financial sector.

56. The overall effect of these revisions has been to increase the headline real **GDP growth** forecast for 2014 by 1.0 percentage points, to 6.2 percent from 5.2 percent. (Table 7)

Table 7: Revision of the Mid-Year Review Growth Forecasts – Supply Side

	2014			**2015**			**2016**			**2017**		
	Mid-Year Review	Revised Estimates	Difference	Mid-Year Review	Revised Projections	Difference	Mid-Year Review	Revised Projections	Difference	Mid-Year Review	Revised Projections	Difference
Primary industries	4.3	1.7	-2.6	4.4	5.8	1.3	4.8	7.0	2.2	4.5	7.2	2.7
Secondary industries	7.9	10.5	2.6	5.8	7.5	1.6	5.4	5.2	-0.2	3.7	3.9	0.2
Tertiary industries	4.3	6.3	2.0	4.3	5.3	1.0	4.3	5.0	0.7	6.4	4.6	-1.8
GDP at market prices	5.2	6.2	1.0	4.7	5.7	1.0	4.5	5.4	0.9	3.9	5.0	1.1

Source: MEWG - September 2014

(ii) Growth Projections for the 2015/16-2017/18 MTEF period

57. Namibia's **economic growth**[5] is forecast to accelerate to 6.2 percent in 2014**,** driven by a rebound in *agriculture and forestry* following severe drought in 2013, and the on-going boom in *construction*, before slowing to 5.7 percent in 2015 as *construction* activity softens and growth in tertiary industries slows. Beyond 2015, growth is projected to continue to slow, towards 4.4 percent by the end of the MTEF period, as growth in *agriculture and forestry*, *manufacturing*, and *construction* all decelerate from high bases towards long-term trend growth. (Table 8)

[5] *The disaggregated growth figures are attached as Annex B*

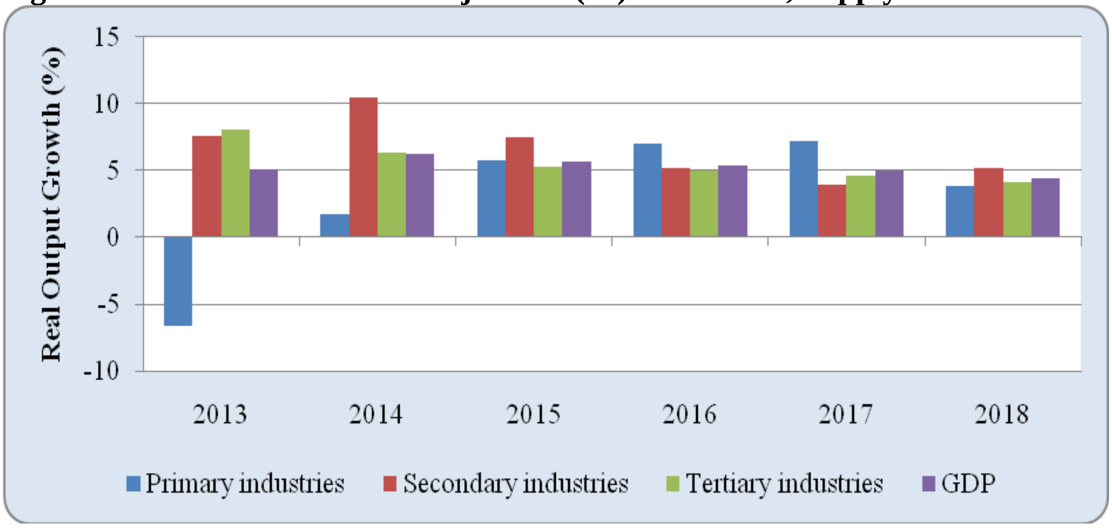
Table 8: Real GDP Growth Projections (%) – Domestic, Supply Side

	Actuals	Estimates	Projections			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Primary industries	-6.6	1.7	5.8	7.0	7.2	3.8
Secondary industries	7.6	10.5	7.5	5.2	3.9	5.2
Tertiary industries	8.1	6.3	5.3	5.0	4.6	4.1
GDP at market prices	**5.1**	**6.2**	**5.7**	**5.4**	**5.0**	**4.4**

Source: NSA - National Accounts 2013, MEWG - September 2014

58. Over the medium term, Namibia's economic growth is projected to fall in sync with lower growth outcomes for tertiary industries, which represent almost 60 percent of real output. Secondary industries are also projected to register lower growth over the final years of the MTEF period, following sustained growth during the initial years, while primary industries are expected to offset somewhat the slowdown in GDP growth, with strong growth expected until 2017. (Figure 11).

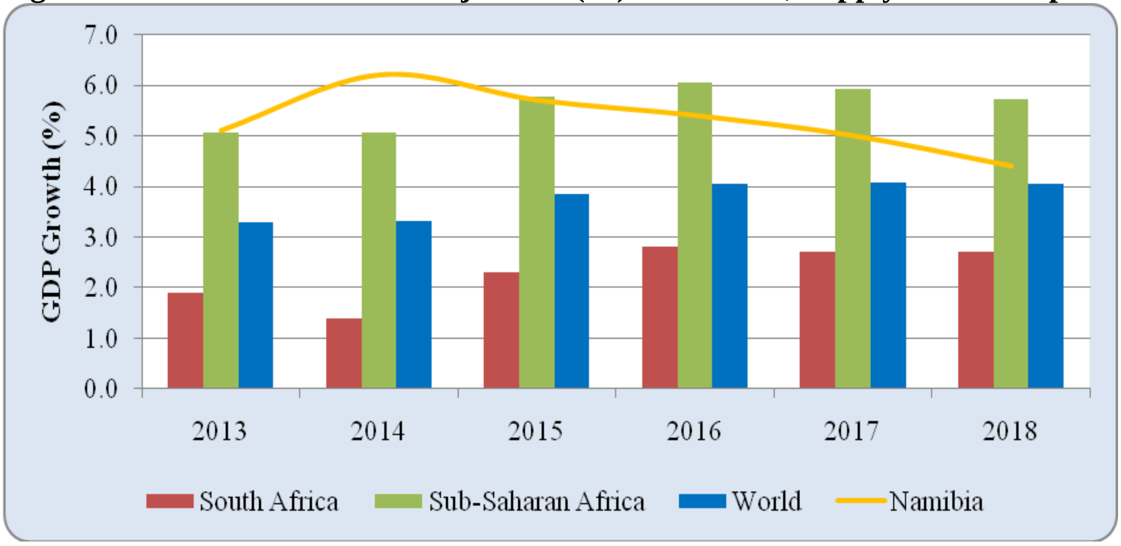
Figure 11: Real GDP Growth Projections (%) – Domestic, Supply Side



Source: MEWG - September 2014

59. Overall, Namibia's economic growth rate is projected to rise initially and then to trend lower over the final two years of the MTEF period. The growth rates are forecast to be higher than that of world output (which is projected to be relatively flat) but lower than that of the Sub-Saharan African region. (Figure 12)

Figure 12: Real GDP Growth Projections (%) – Domestic, Supply Side: Comparative



Source: MEWG and IMF - September 2014

60. **Primary industries** are forecast to expand by 1.7 percent in 2014 as *agriculture and forestry* recovers from the effects of drought in 2013. *Crop farming and forestry* is projected to expand by 8.8 percent in 2014, reversing the 9.0 percent contraction posted in 2013, and while *livestock farming* is expected to contract for a second consecutive year, by 4.2 percent following stringent veterinary restrictions on exports to South Africa in the first half of the year, this will nonetheless mark a significant improvement over the 39.3 percent decline recorded in 2013. Against this backdrop, therefore, *agriculture and forestry* is forecast to grow by 2.1 percent in 2014, up significantly from the 27.5 percent contraction witnessed in 2013.

61. Growth in *mining and quarrying* is also forecast to accelerate in 2014, from the 0.6 percent registered in 2013 to 1.6 percent, despite a projected slowdown in *diamond mining*, from 7.3 percent to 0.6 percent, as a result of industrial action, and a further deterioration in *uranium mining*, from -6.9 percent to -9.8 percent, as price weakness persists. This is due to an anticipated strengthening of activity in *metal ores* and *other mining and quarrying*, with growth in the former sub-sector improving from -30.8 percent to -0.8 percent, and growth in the latter accelerating from 10.7 percent to 13.4 percent.

62. Looking ahead to 2015, primary industries are projected to grow by 5.8 percent, as growth in *agriculture and forestry* accelerates to 9.2 percent, as *livestock farming* recovers to grow by 11.5 percent, while growth in *crop farming and forestry*, despite slowing, remains robust at 7.0 percent. Growth in *mining and quarrying*, meanwhile, is expected to accelerate further, to 5.6 percent, as activity in *diamond mining*, *uranium mining* and *metal ores* continues to improve, with the sub-sectors projected to grow by 4.2 percent, 1.3 percent and 3.8 percent, respectively. Beyond 2015, growth in primary industries is expected to receive a boost as the Swakop Uranium Mine comes on line in 2016, boosting growth in *mining and quarrying* to 20.8 percent in 2016, and to 31.8 percent in 2017, and consequently helping to achieve overall growth in primary industries of 7.0 percent in 2016 and 7.2 percent in 2017. However, growth in primary industries is projected to slow to 3.8 percent in 2018 as the growth effects from the Swakop Uranium Mine dissipate.

63. Growth in **secondary industries** is forecast to accelerate to 10.5 percent in 2014 as *manufacturing* activity picks up, *electricity and water* rebounds as output from the Ruacana hydroelectric plant recovers following drought in 2013 and recent renovations to the Van Eck coal-powered plant are completed, and *construction* growth remains strong amid the on-going

construction boom. Growth in *manufacturing* is projected to accelerate from 1.9 percent in 2013 to 2.8 percent in 2014, driven by an acceleration of growth in *beverages* and recoveries in *basic non-ferrous metals* and *diamond processing*. Growth in *beverages* is forecast to accelerate from 6.6 percent in 2013 to 7.3 percent in 2014 as the new SAB Miller brewery in Okahandja continues to increase its output, while growth in *basic non-ferrous metals* is projected to improve from the 5.8 percent contraction posted in 2013 to grow by 0.1 percent in 2014, in line with an improved performance of metal ores. *Diamond processing* is similarly projected to improve, from the -7.3 percent growth recorded in 2013, to -0.7 percent in 2014.

64. *Manufacturing* activity is projected to receive a significant boost in 2015 as Tchudi Copper Mine and the Dundee Sulphuric Acid Plant come on line, boosting growth in *basic non-ferrous metals* and *chemical and related products* from 3.7 percent to 10.4 percent, and from 0.1 percent to 16.9 percent, respectively. This, along with a further acceleration in growth in *beverages* to 9.4 percent, driven once again by the SAB Miller brewery, is expected to see *manufacturing* growth rise to 8.0 percent in 2015. This will help to offset the impact of a slowdown in *construction* growth as the construction boom comes to an end, but will not be sufficient to prevent growth in secondary industries from decelerating to 7.5 percent in 2015. Beyond 2015, growth in secondary industries is forecast to slow to 5.2 percent in 2016 and to 3.9 percent in 2017, as the growth impacts of Tchudi Copper Mine and the Dundee Sulphuric Acid Plant dissipate, but it is projected to increase to 5.2 percent in 2018 as the Kudu Gas-to-Power Plant comes on stream.

65. Growth in **tertiary industries** is expected to slow to 6.3 percent in 2014 as growth in *wholesale and retail trade* and in *financial intermediation* slows, with the former decelerating from 14.5 percent to 5.9 percent, and the latter from 11.5 percent to 6.2 percent. Growth in *wholesale and retail trade* is expected to slow as the boost the sub-sector received from income tax cuts in 2013 dissipates, while *financial intermediation* growth is projected to decelerate in line with higher interest rates.

66. Growth in tertiary industries is forecast to slow further in 2015 and 2016 to 5.3 percent and 5.0 percent, respectively, as growth in *wholesale and retail trade* and *financial intermediation* slow towards long-term trend growth, and fiscal consolidation weighs on *public administration and defence*, *education* and *health*. Moreover, with growth in the larger public service sectors of *public administration and defence* and *education* set to tail off considerably over the MTEF period, and growth rates anticipated to moderate in *financial intermediation* and *wholesale and retail trade*, growth in tertiary industries is expected to continue to slow in 2017 and 2018, to 4.6 percent and 4.1 percent, respectively.

Demand Side

(i) Mid-Year Review of Growth Estimates and Projections for the 2014/15-2016/17 MTEF period

67. Growth forecasts for **gross domestic expenditure** have been revised down in each of the four years covering the FY2014/15-2016/17 MTEF period. Although growth projections for **gross fixed capital formation** have been raised for 2014, from 20.3 percent to 22.3 percent in line with an improved outlook for construction, the growth forecast for overall gross domestic expenditure has been lowered, from 15.0 percent to 13.6 percent. This has been prompted by a downward revision to growth in **general government expenditure** from 13.7 percent to 12.5 percent, following revisions to Preliminary National Accounts 2013 data. The latter development

has resulted in the estimated growth rate for **final consumption expenditure** in 2014 being lowered by 0.3 percentage points, to 10.2 percent.

68. The growth forecast for **final consumption expenditure** has similarly been lowered for 2015, this time driven by downward revisions to both **private** and **general government expenditure**, with the former being lowered from 8.5 percent to 3.9 percent, and the latter from 5.3 percent to 4.1 percent. These revisions have been prompted, once again, by revisions made to the Preliminary National Accounts 2013 data, on which the previous forecasts were based. With the growth projection for **gross fixed capital formation** also having been lowered for 2015, from 9.8 percent to 6.3 percent, in line with revised forecasts for construction activity, the projection for overall **gross domestic expenditure** growth has been revised down by 5.1 percentage points, from 8.3 percent to 3.2 percent.

69. For the final two years of the FY2014/15-2016/17 MTEF period, **private consumption** growth figures have been lowered, by 4.9 and 2.8 percentage points for 2016 and 2017, respectively, while growth projections for **general government spending** have been revised in the opposite direction, by 1.2 percentage points for 2016 and by 0.8 percentage points for 2017. These changes resulted in the lowering of the growth forecasts for **final consumption expenditure** for both 2016 and 2017, from 6.5 percent to 3.3 percent in the case of the former, and from 4.7 percent to 2.9 percent in the case of the latter. Growth forecasts for **gross fixed capital formation** have also been revised down for 2016 and 2017, by 6.3 and 1.2 percentage points, respectively, meaning that forecast growth of **gross domestic expenditure** for the final two years of the FY2014/15-2016/17 MTEF period has fallen, from 6.9 percent to 4.1 percent in 2016, and from 4.5 percent to 3.0 percent in the case of 2017. (Table 9)

Table 9: Revision of the Mid-Year Review growth projections – Demand Side

	2014			2015			2016			2017		
	Mid-Year Review	Revised Estimates	Difference	Mid-Year Review	Revised: Projections	Difference	Mid-Year Review	Revised Projections	Difference	Mid-Year Review	Revised Projections	Difference
Final consumption expenditure	10.5	10.2	-0.3	7.6	4.0	-3.7	6.5	3.3	-3.2	4.7	2.9	-1.8
Private	9.2	9.3	0.1	8.5	3.9	-4.6	8.1	3.2	-4.9	5.6	2.9	-2.8
General govt.	13.7	12.5	-1.2	5.3	4.1	-1.2	2.2	3.5	1.2	2.0	2.8	0.8
Gross fixed capital formation	20.3	22.3	2.0	9.8	6.3	-3.6	8.2	1.8	-6.3	3.9	2.7	-1.2
Gross domestic expenditure	15.0	13.6	-1.4	8.3	3.2	-5.1	6.9	4.1	-2.9	4.5	3.0	-1.5
Exports of goods and services	13.0	-1.3	-14.4	13.8	4.0	-9.9	14.5	4.4	-10.1	14.8	5.0	-9.7

Imports of goods and services	17.5	20.2	2.7	13.4	0.2	-13.2	12.9	2.8	-10.0	9.8	2.7	-7.1
Net exports	28.7	54.3	25.6	12.4	-3.7	-16.1	9.4	1.2	-8.2	-1.8	0.1	1.8
GDP at market prices	5.6	6.2	0.6	5.0	5.7	0.7	4.6	5.4	0.8	3.9	5.0	1.1

Source: MEWG - September 2014

70. **Exports** of goods and services are expected to contract in 2014 due to weaker-than-anticipated activity in diamond and uranium mining, and the negative impact on livestock exports of veterinary restrictions imposed by South Africa in the first half of 2014. Initially expected to grow by 13.0 percent, exports of goods and services are now forecast to shrink by 1.3 percent in 2014. Growth projections for **imports** of goods and services, meanwhile, have been adjusted in the opposite direction, from 17.5 percent to 20.2 percent, reflecting stronger-than-anticipated construction activity. This has resulted in a significant upward revision for growth in **net exports**, from 28.7 percent to 54.3 percent.

71. In each of the remaining years of the FY2014/15-2016/17 MTEF period, growth forecasts for both **exports** of goods and services and **imports** of goods and services have been revised down to reflect changes in National Accounts 2013 data. These revisions have had a positive impact on growth forecasts for **net exports** for 2015 and 2016, lowering projected growth rates by 16.1 and 8.2 percentage points, respectively, which correspond to a narrowing of the trade deficit. However, the revisions conversely had a negative impact in the final year of the FY2014/15-2016/17 MTEF period, pushing the growth forecast from a 1.8 percent contraction of the trade deficit to a 0.1 percent expansion.

Growth Projections for the 2015/16-2017/18 MTEF period

72. Growth in **gross domestic expenditure** is forecast to accelerate from 10.0 percent in 2013 to 13.6 percent in 2014, driven by acceleration in **gross fixed capital formation**, growth of which is forecast to accelerate from 13.5 percent in 2013 to 22.3 percent in 2014, in line with acceleration in construction growth. Meanwhile, **final consumption expenditure** growth is forecast to decelerate in 2014, from 11.8 percent in 2013 to 10.2 percent, in spite of acceleration in the growth of **government spending**, from 8.6 percent to 12.5 percent, as a result of the expansionary budget announced for FY2014/15. Meanwhile, overall growth in final consumption expenditure will be further tempered by a deceleration in **private consumption expenditure** growth from 13.0 percent to 9.3 percent, as the impact of income tax cuts in 2013 dissipates.

73. Growth in **net exports** is expected to accelerate sharply to 54.3 percent in 2014, up from 32.5 percent in 2013, as growth in exports of goods and services declines while growth in imports of goods and services accelerates, widening the trade deficit. An anticipated weakening of diamond and uranium mining, combined with the negative impact on livestock exports of the veterinary restrictions imposed by South Africa, is expected to see **exports** of goods and services contract by 1.3 percent in 2014. Growth in **imports** of goods and services, meanwhile, is projected to accelerate from 17.5 percent to 20.2 percent, boosted by strong construction growth and government spending. (Table 10)

Table 10: Real GDP Growth Forecasts (%) – Domestic, Demand Side

	Actuals	Estimates	Projections			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Final consumption expenditure	11.8	10.2	4.0	3.3	2.9	2.0
Private	13.0	9.3	3.9	3.2	2.9	2.1
General government	8.6	12.5	4.1	3.5	2.8	1.9
Gross fixed capital formation	13.5	22.3	6.3	1.8	2.7	3.6
Gross domestic expenditure	**10.0**	**13.6**	**3.2**	**4.1**	**3.0**	**2.3**
Exports of goods and services	9.6	-1.3	4.0	4.4	5.0	7.0
Imports of goods and services	17.5	20.2	0.2	2.8	2.7	2.9
Net exports	**32.5**	**54.3**	**-3.7**	**1.2**	**0.1**	**-2.0**
GDP at market prices	**5.1**	**6.2**	**5.7**	**5.4**	**5.0**	**4.4**

Source: NSA - National Accounts 2013, MEWG - September 2014

74. Looking ahead to 2015, **general government expenditure** growth is forecast to slow to 4.1 percent, and indeed to continue to decelerate over the remainder of the MTEF period, in line with Government's fiscal consolidation strategy. Growth in **gross fixed capital formation** is forecast to slow sharply to 6.3 percent as the construction boom draws to a close, while **private consumption expenditure** growth also continues to slow, to 3.9 percent, as the effects of fiscal stimulus measures continue to dissipate. These developments are expected to precipitate a slowdown in overall **gross domestic expenditure** growth to 3.5 percent.

75. Growth in **gross fixed capital formation** is expected to decelerate further in 2016, to 1.8 percent, as the last phase of the construction boom comes to an end, while growth in **private consumption expenditure** is forecast to slow to 3.2 percent as growth steadily returns towards long-term trend growth. **Gross fixed capital formation** is expected to pick up somewhat in the final two years of the MTEF period, but not by enough to offset the predicted slowdown in **final consumption expenditure** growth, and thus, growth in **gross domestic expenditure** is projected to continue its downward trend, towards 2.3 percent, by the end of the MTEF period.

76. **Net exports** are, however, forecast to compensate for this slowdown in growth of **gross domestic expenditure** out to 2018, as new extractive and related industries (e.g. Swakop Uranium Mine, Tchudi Copper Mine, Dundee Sulphuric Acid Plant, etc.) come on line to boost exports, while import growth moves in the opposite direction as the construction boom comes to an end, in spite of the continued implementation of the Mass Housing Scheme. Following an anticipated contraction in 2014, **exports** of goods and services are expected to rebound in 2015 to grow by 4.0 percent, after which growth is expected to continue to accelerate, to 7.0 percent by the end of the MTEF period. Meanwhile, growth in **imports** of goods and services is forecast to slow drastically in 2015, after which period it is projected to recover to hover around long-term trend growth of 2.8 percent over the remaining years of the MTEF period.

V. RISKS TO MACROECONOMIC OUTLOOK

77. The balance of risks to global economic activity has improved in recent months, largely reflecting improving growth prospects in advanced economies. That said, important **downside risks** persist, especially for emerging market and developing economies. These downside risks include:

- With inflation levels across advanced economies generally lower than anticipated, there is a risk of these economies sliding into deflation, which would pose a threat to both economic activity and the efficacy of monetary policy, given already low interest rates;
- As a result of improved growth prospects and reduced market pressures in the Euro zone, there is an increased risk of reduced momentum or appetite for both national and region-wide reforms which may threaten longer term growth prospects;
- Although risks related to the normalisation of monetary policy in the US have diminished, they nonetheless still linger given that achieving such a major shift in monetary policy in a smooth fashion will likely still prove challenging, and may even involve renewed bouts of financial market volatility;
- Further underperformance in emerging market and developing economies as a result of increased sensitivity on the part of foreign investors and tighter financial conditions;
- Lower growth in China if credit growth and policy stimulus cannot be unwound in an orderly fashion;
- Geopolitical risks related to Russia/Ukraine and/or on-going conflicts in the Middle East.

78. On the other hand, **upside risks** still exist. These, however, mainly revolve around the prospect of stronger-than-expected growth in advanced economies, particularly in the US, Germany and the UK.

79. In addition, there are also a number of **domestic risks** and opportunities:

- Although mineral prices are forecast to head higher over the near term, should they remain depressed, this could prove to have a significant negative impact on economic growth in Namibia, not only since such a development would directly weaken mining activity, but it may also weigh on future investments in the sector;
- Bottlenecks relating to structural inadequacies are increasingly becoming a barrier to achieving higher growth. Should these be addressed in a timely fashion, real GDP growth could be expected to receive a boost. On the other hand, if they worsen, economic activity could be stifled;
- The baseline scenario assumes that all of the planned construction projects are completed in a timely manner. However, should some of these projects – particularly mega-projects such as Swakop Uranium mine, Kudu Gas, etc. – be delayed or fail to materialise, that would significantly weaken growth;

- Given Namibia's strong trade and financial linkages with South Africa, adverse developments – such as labour unrest, electricity supply constraints, etc. – in that country could significantly dent growth prospects at home. On the other hand, should South Africa perform better than forecast, Namibia would likely be set to benefit.

VI. ALTERNATIVE GROWTH SCENARIOS (UPPER, CENTRAL AND LOWER GROWTH ESTIMATES)

80. In light of the above-mentioned risks to global growth – both to the downside and to the upside – the following alternative growth scenarios have been calculated:

Table 11: Real GDP Growth Forecasts (%) – Lower, Central and Upper Estimates

	2014	**2015**	**2016**	**2017**	**2018**
Lower Estimate	5.7	5.1	4.9	4.5	3.9
Central Estimate	6.2	5.7	5.4	5.0	4.4
Upper Estimate	6.7	6.1	5.9	5.5	4.9

Source: MEWG - September 2014

81. In the context of the above table, the growth figures in the **central estimate** scenario (baseline) are based on the assumption that the current challenges and downside risks to global economy will persist unabated over the medium term. Figures in the **upper estimate** band are based on the assumption that economic developments will be positive and upside opportunities will prevail over the medium term, whereas growth figures in the **lower estimate** band are derived based on the assumptions that downside risks will prevail over the medium term.

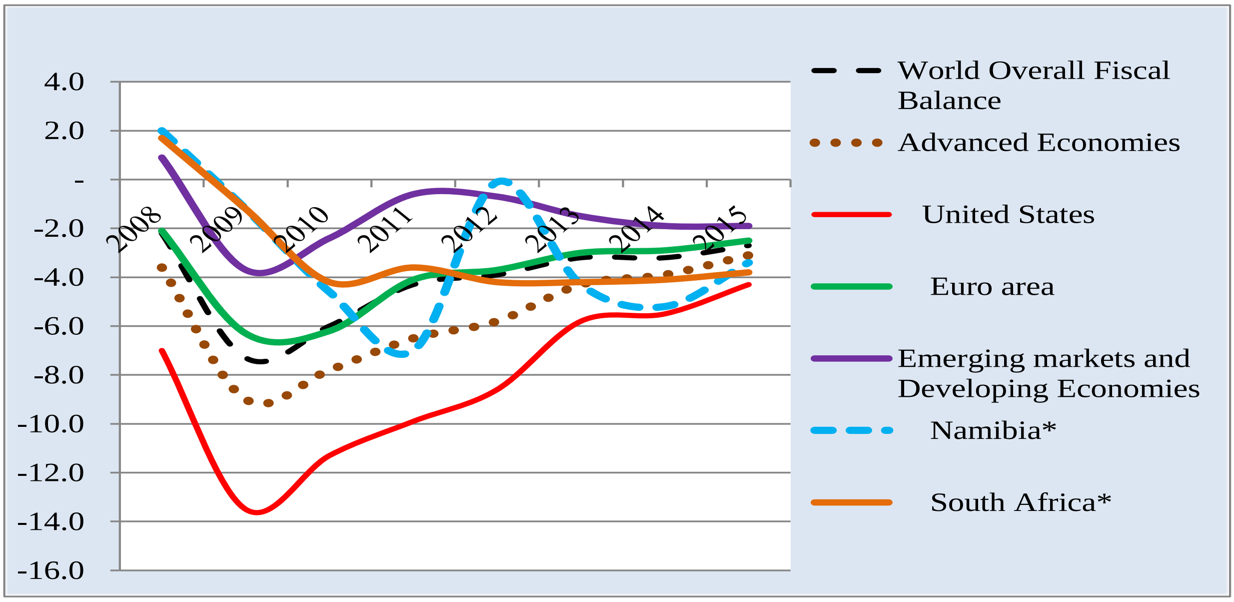
4. FISCAL TRENDS AND POLICY FRAMEWORK

4.1 Global Fiscal Developments and Outlook

82. Phased fiscal consolidation continues to characterise the global fiscal policy agenda in response to the aftermath of the FY2007/08global financial crisis. The post-crisis effects on public accounts have manifested themselves in high public debt levels. Since the gradual commencement of a generalized fiscal consolidation programme in 2011, remarkable progress has been recorded in the reduction of overall fiscal deficits across a number of different economies and regions. This generalized global fiscal course of action is targeted at stabilizing growth in public debt through curtailing large expenditure rises, and a systematic reduction in fiscal deficits over time.

83. As a result of this concerted policy action, the overall global fiscal deficit, as assessed by the International Monetary Fund, has remained stable at 3.2 percent of world GDP in 2013 and 2014, as some countries opted to slowdown the fiscal consolidation activity in order to offer increased support to economic recovery. This declining level of fiscal deficit reflects a notable improvement from a deficit of 3.9 percent recorded in 2012. The extent and speed of fiscal consolidation action has varied widely across different economies and regions. The key fiscal policy challenge remains how best Governments can strike the fine balance required between phased fiscal consolidation, and continuing with supportive fiscal policy in a fragile economic environment, without aggravating deficit and debt outlooks.

Figure 13: Global Fiscal Deficits as a percentage of GDP



Source: IMF Fiscal Monitor, October 2014; Data for Namibia and South Africa reflect latest budget figures

84. In advanced economies, fiscal deficits averaged 4.7 percent of GDP over the past three years (2012-2014), compared to 1.4 percent for Emerging Markets and Developing Economies, and 2.8 percent for Low-Income Countries. These averages, however, disguise varying circumstances across different countries and regions. A faster and more consistent pace of fiscal consolidation in some countries, on the back of improving economic growth prospects, has helped to stabilize growth in public debts, while in other countries, fiscal consolidation has been far slower and much more uneven, as economic activity has remained subdued or compounded

by the need to address structural challenges through funding for pro-employment and pro-poor programmes.

Table 12: Global fiscal balances and budget deficits for selected economies

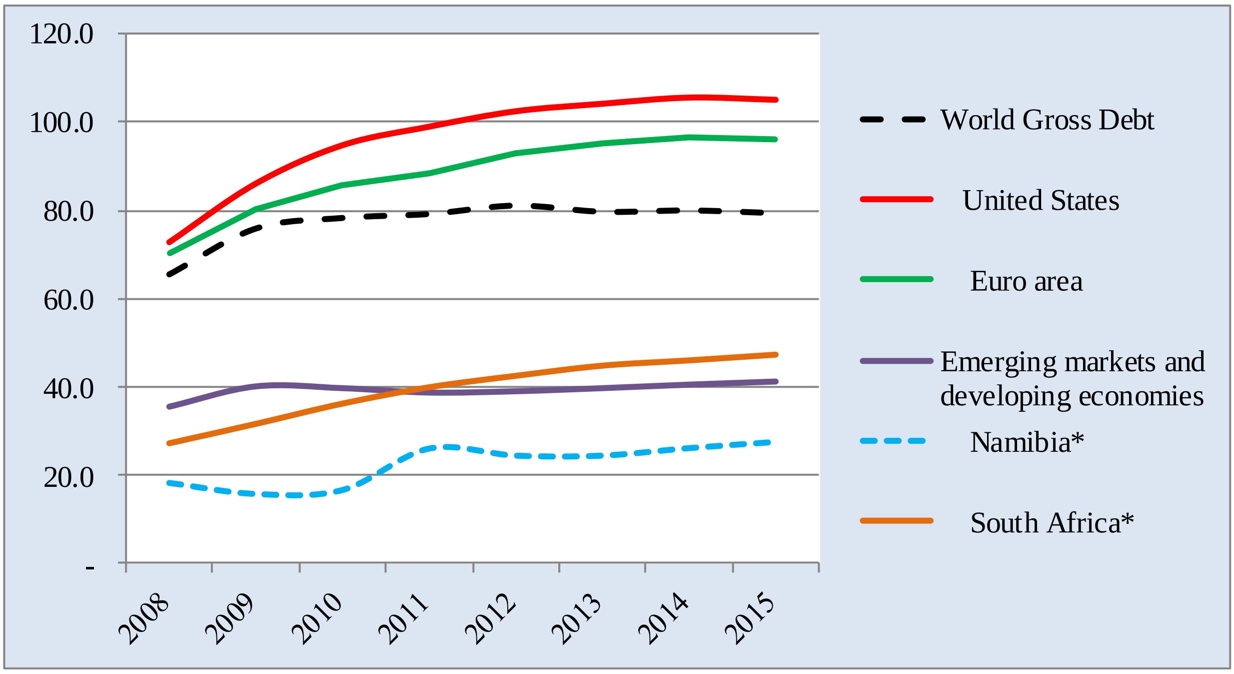
Region/Country	2008	2009	2010	2011	2012	2013	2014	2015
	Actual						Estimate	Projection
World Overall Fiscal Balance	**-2.2**	**-7.3**	**-6.0**	**-4.3**	**-3.9**	**-3.2**	**-3.2**	**-2.7**
Advanced Economies	-3.6	-9.0	-7.8	-6.5	-5.8	-4.3	-3.9	-3.1
United States	-7.0	-13.5	-11.3	-9.9	-8.6	-5.8	-5.5	-4.3
Euro area	-2.1	-6.3	-6.2	-4.1	-3.7	-3.0	-2.9	-2.5
Japan	-4.1	-10.4	-9.3	-9.8	-8.7	-8.2	-7.1	-5.8
United Kingdom	-5.0	-11.3	-10.0	-7.8	-8.0	-5.8	-5.3	-4.1
Canada	-0.3	-4.5	-4.9	-3.7	-3.4	-3.0	-2.6	-2.1
Other advanced economies	2.5	-0.9	-0.2	0.4	0.4	0.1	0.1	0.4
Emerging markets and Developing Economies	0.9	-3.7	-2.4	-0.6	-0.7	-1.5	-1.9	-1.9
Namibia*	**2.0**	**-1.2**	**-4.6**	**-7.0**	**-0.1**	**-3.7**	**-4.2**	**-5.3**
South Africa*	1.7	-1.2	-4.2	-3.6	-4.1	-3.8	-3.9	-3.9
Europe: Other	0.8	-5.9	-3.8	0.3	-0.6	-1.6	-1.5	-1.4
Russia	4.9	-6.3	-3.4	1.5	0.4	-1.3	-0.9	-1.1
China	-0.9	-3.4	-2.7	-1.2	-1.3	-1.9	-2.1	-1.8
India	-10.0	-9.8	-8.4	-8.0	-7.4	-7.2	-7.2	-6.7
Latin America and Caribbean	-1.0	-3.9	-3.2	-2.9	-3.2	-3.4	-4.0	-3.7
Brazil	-1.6	-3.3	-2.8	-2.6	-2.8	-3.3	-3.9	-3.1

Source: IMF Fiscal Monitor, October 2014; Data for Namibia and South Africa reflect latest budget figures

85. Seen against this global turn of events, Namibia's fiscal policy action exhibits cyclicality as a result of targeted interventions to support economic activity and address domestic socio-economic challenges. Namibia tightened expansionary fiscal policy a year after the introduction of the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) programme in FY2011/12, which resulted in the budget deficit moving closer to balance in FY2012/13. However, this outcome was transitory, with further expansionary budgets undertaken for FY2013/14 and FY2014/15, leading to upward progression in the country's budget deficit to 3.8 and an estimated 5.2 percent of GDP in FY2013/14 and FY2014/15, respectively.

86. The observed general reduction in global fiscal deficits has allowed for a stabilization of the recent upsurge in public debt. As a result of this generally consistent global fiscal consolidation policy drive, the gross world public debt as a proportion of GDP is projected to decelerate to an estimated 80.0 percent in 2014, from a peak of 81.1 percent in 2012, as reflected in Table 13. High public debt ratios in advanced economies, particularly Japan, the United States of America, and some of the Euro zone economies, account for the hitherto high public debt levels.

Figure 14: Global Public Debt Profile as a Percent of GDP



Source: IMF Fiscal Monitor, October 2014

87. Seen in this global context, Namibia's public debt as a proportion of GDP remains relatively low, with debt as proportion of GDP remaining unchanged 24.4 percent in FY2013/14 and FY2012/13, thanks to GDP growth annually. In terms of domestic fiscal benchmarks, as set out in the Sovereign Debt Management Strategy (SDMS), debt as a percentage of GDP is limited to 35 percent. Given the long-term dynamics of debt commitments, medium-term expenditure commitments, and limited revenue increases, further fiscal expansion for Namibia is dependent on the extent to which Government can sustain growth in public debt and debt servicing costs without breaching benchmarks established in the SDMS, as well as the rate of GDP growth.

Table 13: Global public debt profile by country and major economies (percent of GDP)

Region/Country	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	Actual						Estimate	*Projection*
World Gross Debt	**65.5**	**75.9**	**78.3**	**79.2**	**81.1**	**79.7**	**80.0**	**79.4**
Advanced Economies	79.4	92.8	99.3	103.3	107.6	106.2	106.5	106.0
United States	72.8	86.1	94.8	99.0	102.5	104.2	105.6	105.1
Euro area	70.3	80.2	85.9	88.3	92.9	95.2	96.4	96.1
Japan	191.8	210.2	216.0	229.8	237.3	243.2	245.1	245.5
United Kingdom	51.9	67.1	78.5	84.3	89.1	90.6	92	93.1
Canada	70.8	83.0	84.6	85.9	88.1	88.8	88.1	86.8
Emerging markets and developing eco	35.5	40.1	39.7	38.7	39.0	39.7	40.5	41.2
Namibia*	**18.2**	**15.7**	**16.6**	**26.0**	**24.4**	**23.5**	**23.7**	**29.3**
South Africa*	27.2	31.6	36.2	39.9	42.5	44.8	46.0	47.3
Europe: Other	23.8	29.5	29.4	28.0	27.2	28.3	28.9	29.6
Russia	8.0	10.6	11.3	11.6	12.7	13.9	15.7	16.5
China	31.7	35.8	36.6	36.5	37.4	39.4	40.7	41.8
India	74.5	72.5	67.5	66.8	66.6	61.5	60.5	59.5
Latin America and Caribbean	47.0	49.8	49.1	49.2	49.7	50.4	51.3	51.8
Brazil	63.5	66.8	65.0	64.7	68.2	66.2	65.8	65.6

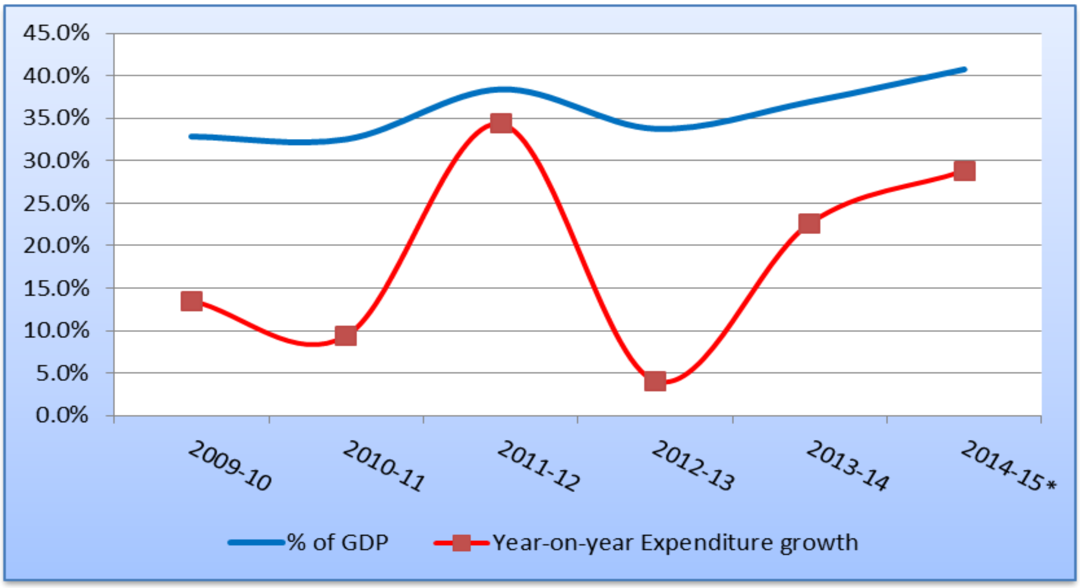
Source: IMF Fiscal Monitor, October 2014

4.2 Domestic Fiscal Developments

88. Namibia's fiscal policy has generally been expansionary since the advent of the global financial and economic crises six years ago. Measures to contain public expenditure increases as the economy rebounded were most prominent in FY2010/11 and FY2012/13, with intermittent expansion resumed thereafter, mainly to address infrastructure gaps.

89. Public expenditure has recorded strong growth in recent years, growing on average by 18.8 percent annually since FY2008/9. Expansionary fiscal policy has been aimed at supporting domestic economic recovery through increased infrastructure spending and by lifting domestic demand. The magnitude of fiscal expansion has varied over the past four years, with significant expansion undertaken in FY2011/12 with the introduction of TIPEEG and, most recently, in FY2013/14 and FY2014/15 to fund, respectively, public sector salary re-grading and increased infrastructure investment programmes.

Figure 15: Year-on-year growth and public expenditure as a percent of GDP, FY2009/10 – FY2014/15



Source: Ministry of Finance

90. Increased Government spending has been complimented by changes in tax policy to strengthen its redistributive objective, in addition to tax administration reforms aimed at enhancing revenue collection and improving operational efficiency. Direct income tax rate reductions implemented in FY2013/14 helped to raise disposable incomes and consequently consumption demand. These involved the lifting of the income tax threshold from N$40,000 to N$50,000, tax bracket changes and an overall reduction in the effective tax rate for individuals. Similarly, corporate income tax was also lowered in FY2014/15 to 32 percent, having already been reduced to 33 percent in FY2013/14.

4.3 Developments in Fiscal Aggregates

91. While fiscal operations remained within the official benchmarks set out in the SDMS, the budget deficit has fluctuated over time in response to fiscal policy action. In terms of adopted benchmarks, total Government expenditure outlay should not exceed 40 percent of GDP, the budget deficit should be within 5 percent of GDP, the debt-to-GDP ratio is capped at 35 percent, while interest rate payments should not exceed 10 percent of revenue and Government guarantee offerings should be within 10 percent of GDP.

Table 14: Consolidated fiscal developments and estimates for current MTEF, 2011/12 – 2016/17

ITEM	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15*		2015-16	2016-17
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Current Budgeted*	*Estimates*	*Current MTEF Projections*	
GDP	**73 477**	**75 836**	**83 780**	**95 313**	**112 871**	**131 034**	**141 304**	**149 993**	**160 165**	**182 039**
Revenue	**23 447**	**24 017**	**23 375**	**29 922**	**37 997**	**41 910**	**52 253**	**53 914**	**58 698**	**66 074**
% of GDP	31.9%	31.7%	27.9%	31.4%	33.7%	32.0%	37.0%	35.9%	36.6%	36.3%
Expenditure	**21 946**	**24 914**	**27 253**	**36 611**	**38 112**	**46 734**	**60 204**	**60 204**	**64 092**	**69 482**
% of GDP	29.9%	32.9%	32.5%	38.4%	33.8%	35.7%	42.6%	40.1%	40.0%	38.2%
Budget Balance	**1 501**	**-897**	**-3 879**	**-6 689**	**-114**	**-4 824**	**-7 951**	**-6 290**	**-5 394**	**-3 408**
% of GDP	2.0%	-1.2%	-4.6%	-7.0%	-0.1%	-3.7%	-5.6%	-4.2%	-3.4%	-1.9%
Debt	**13 389**	**11 923**	**13 893**	**24 734**	**27 550**	**30 852**	**35 496**	**38 483**	**44 007**	**46 572**
% of GDP	18.2%	15.7%	16.6%	26.0%	24.4%	23.5%	25.1%	25.7%	27.5%	25.6%
Interest payments	**1 110**	**1 196**	**965**	**1 841**	**2 617**	**1 788**	**2 515**	**2 515**	**3 130**	**3 615**
% of Revenue	4.7%	5.0%	4.1%	6.2%	6.9%	4.3%	4.8%	4.7%	5.3%	5.5%
Guarantees	**3 029**	**2 635**	**2 450**	**2 771**	**2 610**	**7 371**	**7 033**	**7 033**	**7 033**	**7 033**
% of GDP	4.1%	3.5%	2.9%	2.9%	2.3%	5.6%	5.0%	4.7%	4.4%	3.9%

*

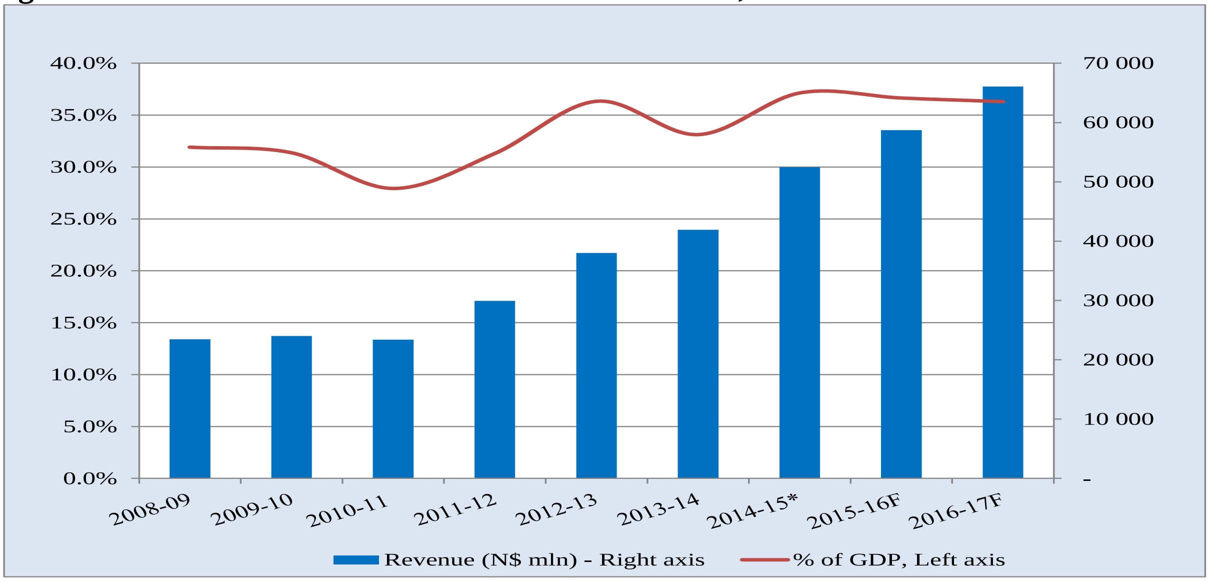
Preliminary estimates; Source: Ministry of Finance

4.4 Revenue Outturn

92. Government revenue has grown progressively over time since FY2011/12, in line with economic growth and tax administration reform measures. Total revenue and grants increased by 10.3 percent in FY2013/14 to N$41.9 billion, from N$38.0 billion collected in FY2012/13. This outturn represented a 4.4 percent better turnout than the N$40.1 billion budgeted for. The revenue outturn for FY2014/15 is estimated at N$543.9 billion, which would represent a 28.6 percent increase over the previous year, driven by improved economic growth projected for FY2014/15, better SACU receipts and an increased collection effort, especially collections on outstanding tax arrears.

93. As a proportion of GDP, total revenue slowed to 33.1 percent in FY2013/14, from 33.7 percent achieved in FY2012/13 owing to the marked slowdown in company tax outturn, given the subdued commodity prices and adverse economic impacts on the primary industries in 2013. Revenue outturn is estimated to rebound to 35.2 percent of GDP in FY2014/15 on the back of improved economic activity.

Figure 16: Nominal revenue and revenue-to-GDP ratio, FY2008/9 – 2015/16



Source: Ministry of Finance

94. Growth in revenue in FY2013/14 was mainly driven by a combination of growth of the economy and increased tax collection and compliance efforts. The nominal GDP level for FY2013/14 is estimated at N$126.5 billion, about N$10.1 billion (8.7 percent) better than N$116.4 billion projected in the FY2013/14 budget. This upward revision in GDP projection also reflects changes in the rebased National Accounts from 2004 to 2010 prices.

95. In addition, measures taken to improve tax administration during FY2013/14 contributed to the better-than-projected revenue outturn. In particular, the high outturn on revenue came mainly on account of measures taken to address arrears in Value-Added Tax (VAT) import account settlements, as well as a better-than-forecast outturn on individual income tax. However, lower economic growth in 2013 and the tax rate cuts implemented during the year accounted for the deceleration in year-on-year growth in revenue.

4.5 Tax Revenue

96. Tax revenue continues to be the main source of central Government revenue, averaging 92.3 percent of total revenue during the last five years (FY2009/10-FY2013/14). For FY2013/14, tax revenue amounted to N$38.9 billion, an increase of 10.2 percent from N$35.3 billion collected in FY2012/13. For FY2014/15, tax revenue is estimated at N$50.9 billion. A significant share of the tax revenue, averaging 34.5 percent during the last three years, flows from Taxes on International Trade under the Southern Africa Customs Union (SACU).

97. **Taxes on income and profits**, comprising Personal Income Tax, Corporate Income Tax, and Withholding Taxes on Income, accounted for a total of N$14.0 billion in FY2013/14, or some 36.1 percent of total tax revenue. Personal Income Tax remains an elastic source of revenue in this category, increasing by 7.4 percent, from N$8.9 billion in FY 2012/13 to N$9.5 billion in FY2013/14, despite substantial tax rate cuts and bracket adjustments during the year.

98. Since coming on stream in 2001, VAT has emerged as a productive source of revenue. The share of VAT as a proportion of total tax revenue averaged 26.8 percent over the last three years (FY2011/12-FY2013/14). In nominal terms, VAT outturn rebounded by 48.1 percent, from

N$6.3 billion in FY2012/13 to N$9.7 billion in FY2013/14, thanks to measures to address timeliness in VAT import account settlement and refunds management. The buoyancy in VAT outturn is also due to the consumptive nature of VAT. The major tax rate changes and remuneration improvements undertaken during the last two years (FY2013/14-FY2014/15) have increased disposable income, and by extension, consumption levels and related VAT collections.

Table 15: Trends and year-on-year changes in tax revenue, 2006/7 – 14/15

Financial Year	Income Tax on Individuals	Company Taxes	Witholding Tax on Interest	Other Taxes on Income and Profits	Taxes on Property	Domestic Taxes on Goods and Services	Taxes on International Trade and Transactions	Other Taxes	Total
2006/7	3 374	2 161	-	141	142	3 197	6 698	130	15 843
2007/8	3 714	2 834	-	181	149	4 082	8 085	138	19 183
2008/9	4 606	3 269	-	194	171	4 339	8 502	142	21 223
2009/10	5 084	2 852	53	148	222	5 162	8 585	167	22 273
2010/11	5 945	3 585	156	225	139	5 303	5 976	208	21 537
2011/12	7 326	3 916	98	257	194	8 009	7 137	211	27 148
2012/13	8 880	5 045	346	281	289	6 516	13 796	260	35 413
2013/14	9 537	3 434	212	844	261	9 650	14 727	241	38 906
2014/15*	13 369	7 013	339	213	274	11 318	18 117	244	50 886
					Percentage of Total				
2006/7	21.3	13.6	0.0	0.9	0.9	20.2	42.3	0.8	100.0
2007/8	19.4	14.8	-	0.9	0.8	21.3	42.1	0.7	100.0
2008/9	21.7	15.4	0.0	0.9	0.8	20.4	40.1	0.7	100.0
2009/10	22.8	12.8	0.2	0.7	1.0	23.2	38.5	0.7	100.0
2010/11	27.6	16.6	0.7	1.0	0.6	24.6	27.7	1.0	100.0
2011/12	27.0	14.4	0.4	0.9	0.7	29.5	26.3	0.8	100.0
2012/13	25.1	14.2	1.0	0.8	0.8	18.4	39.0	0.7	100.0
2013/14	24.5	8.8	0.5	2.2	0.7	24.8	37.9	0.6	100.0
2014/15*	26.3	13.8	0.7	0.4	0.5	22.2	35.6	0.5	100.0
					Year-on-Year Change				
2007/8	10.1	31.1		28.4	4.9	27.7	20.7	6.2	21.1
2008/9	24.0	15.3		7.2	14.8	6.3	5.2	2.9	10.6
2009/10	10.4	-12.8	---	-23.7	29.8	19.0	1.0	17.6	4.9
2010/11	16.9	25.7	196.7	52.1	-37.6	2.7	-30.4	24.8	-3.3
2011/12	23.2	9.2	-37.3	14.2	40.1	51.0	19.4	1.3	26.1
2012/13	21.2	28.8	253.1	9.3	49.0	-18.6	93.3	23.2	30.4
2013/14	7.4	-31.9	-38.6	200.3	-9.5	48.1	6.7	-7.3	9.9
2014/15*	40.2	104.2	59.6	-74.8	4.8	17.3	23.0	1.2	30.8

*Source: Ministry of Finance; *the data are preliminary and subject to further revisions as information becomes available;*

4.6 Non-tax Revenue

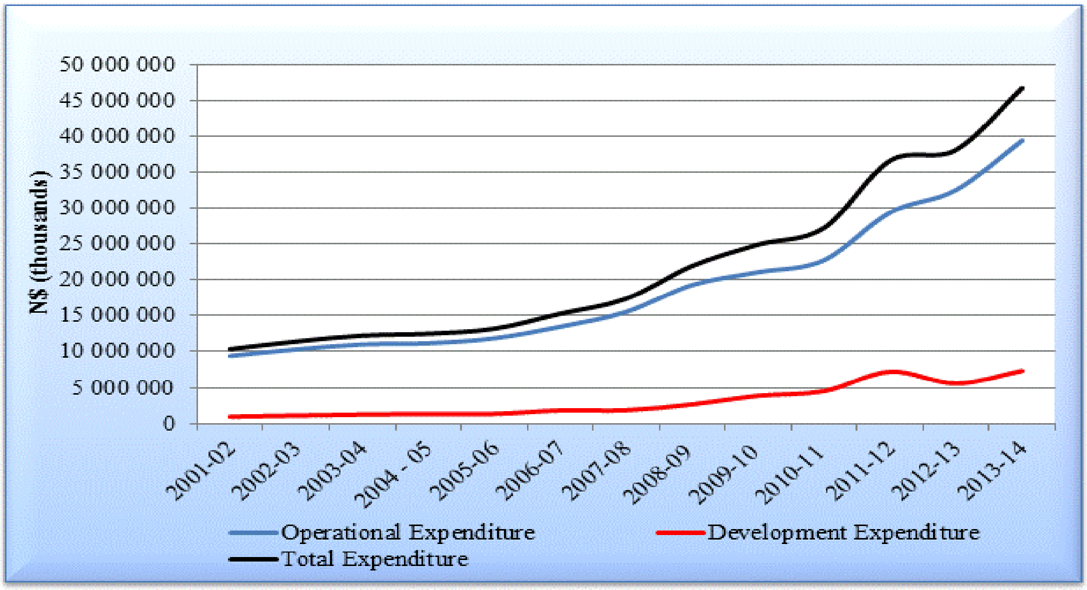
99. **Non-tax revenue** has accounted for an average of 7.2 percent of total revenue annually over the last five years, and as at FY2013/14, comprises mainly of dividends from State-Owned Enterprises (48.0%), administrative fees and charges for the treasury collected by the various O/M/As (37.2%), statutory fines and forfeitures (2.1%) and returns from on-lending arrangements with sub-national governments (0.5%). The outturn for FY2013/14 was N$2.7 billion, a 7.9 percent increase from the N$2.5 billion collected during FY2012/13, and 10.7 percent better than the budget forecast. For FY2014/15, the outturn is estimated at N$3.0 billion.

4.7 Expenditure Outturn

100. Total expenditure outturn for FY2013/14 amounted to N$46.7 billion, out of N$47.6 billion budgeted expenditure, representing a budget execution rate of 98.2 percent. At 37.4 percent of the revised GDP, this level of expenditure is below, but near to the 40 percent benchmark. This expenditure outturn is 22.7 percent higher than N$38.1 billion spent in the previous fiscal year,

marking a significant fiscal expansion in relation to a corresponding increase in revenue of 10.3 percent over the same period.

Figure 17: Total expenditure outlay



Source: Ministry of Finance

101. **Operational expenditure** stood at N$39.4 billion in FY2013/14, representing an execution rate of 99.5 percent of the N$39.6 billion allocated, an improvement over the 96.8 percent execution rate achieved in FY2012/13. For **Development expenditure**, a total of N$545.4 million was left unspent in FY2013/14, out of a total budget of N$7.9 billion, resulting in an execution rate of 93.1 percent, compared to 88.6 percent in FY2012/13.

102. The budgeted expenditure of N$60.2 billion for FY2014/15 marks a further fiscal expansion of 26.5 percent, following an expansion of 22.7 percent in the previous fiscal year. The strong fiscal expansion over the past two consecutive years have overshadowed revenue growth over the same period, and put upward pressure on the budget deficit and public debt. Seen in a wider macroeconomic context, high public spending associated with public wage and capital budget increases has given rise to an increased import bill, with consequent short-term deterioration of the current account and international reserves held by the Bank of Namibia.

103. Going forward, there is a need to moderate the pace of expenditure increases by gradually phasing in new expenditure commitments over the medium-term to prevent excess pro-cyclicality, and to bring expenditure growth more in line with projected revenue increases. Given that Namibia's debt to GDP ratio remains at relatively low level (24.2 percent), it is important that fiscal expansion during the next MTEF be directed at investment in productive infrastructure to boost economic growth and revenue.

4.8 Budget Deficit and Public Debt

104. The budget deficit for FY2013/14 stood at N$4.8 billion, or some 3.8 percent of GDP, an increase from the deficit of 0.1 percent recorded in FY2012/13. The deficit outturn was, however, better than the budgeted deficit of 6.4 percent, due to better revenue outturn, higher nominal GDP, and relatively weaker expenditure execution, especially the development budget expenditure.

105. The current SDMS caps the debt-to-GDP ratio at 35 percent. Central Government debt has remained within this benchmark, with debt as proportion of GDP stood at 24.4 percent in FY2013/14.

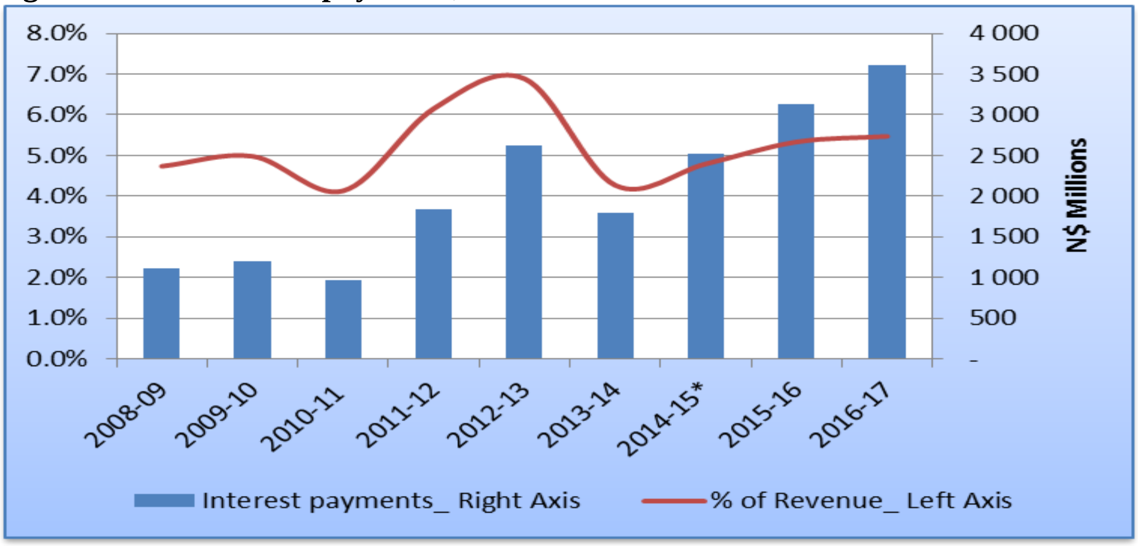
106. However, the public debt stock has increased in nominal terms, rising by an average of 16.0 percent (N$4.5 billion) annually over the last three years (FY2012/13 – FY2014/15).

107.

108. The composition of public debt has also become increasingly diversified as a result of the US$500 million accessed from the international bond market in FY2011/12, and a total of ZAR850 million raised on the Johannesburg Stock Exchange. As a result of these offerings, the ratio of foreign debt to total debt has increased from 23.4 percent in FY2010/11 to 36.2 percent in FY2013/14. By the same token, the ratio of domestic debt has fallen to 63.8 percent as of FY2013/14.

109. The increase in non-Rand denominated foreign debt comes with the associated risk of exchange rate volatility, which, on account of depreciation of the South African Rand, puts upward pressure on the cost of debt servicing. As a result of the increase in total debt, total financing costs, in terms of interest rate payments, have increased moderately to N$1.8 billion in FY2013/14, from N$1.7 billion in FY2012/13, although the low interest rate environment during 2013 militated against a sharper increase. As a proportion of revenue, interest rate payments stood at 4.3 percent in FY2013/14, which was well within the threshold of 10 percent established by the SDMS.

Figure 18: Interest rate payments, FY2008/09 – 2016/17



Source: Ministry of Finance

5. MEDIUM-TERM FISCAL OUTLOOK

5.1 Assumptions underlying revenue forecast

110. Revenue forecasts are endogenously determined by developments in the underlying revenue base. Revenue growth generally follows aggregate macroeconomic growth projections. The revenue outlook for the FY2015/16 – 2017/18 MTEF is based on the following assumptions:-

- Tax revenue growth follow the tax base and the effective tax rates, which are assumed to remain constant in the baseline scenario, and take into account discretionary tax administration reforms;

- Estimates for FY2014/15 are based on year-to-date monthly outturn receipts data, provided by the Receiver of Revenue; and

- Non-tax revenue estimates are based on projections made by O/M/As, adjusted 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 given in the South African Medium-Term Budget Policy Statement for FY2015/16.*

- *Other Tax revenues follow the base year outturn and the projected growth in disposable profit income.*

5.2 Revenue Outlook

111. The Macroeconomic outlook for FY2015/16-2017/18 projects decelerating growth in real GDP, estimated at 6.2 percent for FY2014/15, and averaging 5.3 over the MTEF period. In nominal terms, GDP is projected to grow to N$ 163.4 billion in FY2015/16, from an estimated N$148.8 billion in FY2014/15, and reaching N$196.0 billion in FY2017/18.

112. On account of projected economic growth and the revenue outturn for the year-to-date, revenue for FY2014/15 is estimated to remain more or less unchanged from the N$53.9 billion projected in the 2014 Fiscal Policy Framework. However, estimates for Individual Income Tax for FY2014/15 have been revised downward in line with the outlook on public and private sector wages. SACU revenues for subsequent years have also been adjusted downwards, mainly due to the effects of low growth for the South African economy. Gains in collections on Individual Income Tax, Corporate Income Tax and VAT are, however, projected to almost entirely compensate for the adjustments in Individual Income Tax and Withholding taxes projected outturns for FY2014/15.

113. In this context, revenue is projected to increase by 8.4 percent to N$58.70 billion in FY2015/16, by 7.9 percent to N$63.05 billion in FY2016/17, and by 9.7 percent to reach N$69.18 billion by FY2017/18. As a proportion of GDP, revenue is projected to average 35.2 percent over the MTEF.

114. Taxes on International Trade under SACU are forecast to remain significant in FY2015/16, at about 29.3 percent of total revenue, but lower than the post-crisis average of 35.5 percent. In fact, the expected SACU receipts of N$17.13 billion projected for 2015/16 are lower than N$18.12 billion received in 2013/14 and N$21.86 billion earlier projected in the MTEF. SACU receipts are projected to slow down significantly during the MTEF, mainly on account of lower growth of the SACU Common Revenue Pool, compounded by a subdued growth outlook for the South African economy and proposed exclusion of fuel levy by South Africa. Revenue from own sources is therefore projected to account for 73.3 percent of total revenue on average over the MTEF.

115. The risks to the revenue outlook,therefore, remain unabated. The most significant risk is in regard to SACU revenues, due to the uncertainties the low growth prospects for the South African Economy. The South African economy, which accounts for over 90 percent of SACU revenues, is only projected to grow at a moderate pace during the MTEF period, suggesting a narrowing of the SACU Common Revenue Pool. In addition, risks to domestic economic growth have a direct and immediate bearing on the revenue outlook. If economic growth falters due to either domestic or exogenous factors, the revenue outturn over the MTEF period will be negatively impacted.

Table 16: Projected revenue outlook, 2015/16 – 2017/18 MTEF (N$ millions)

Revenue Head	2013/14			2014/15			2015/16			2016/17			2017/18
	Budgeted	*Actual*	*Difference*[1]	*Budgeted*	*Estimate*	*Difference*[1]	*MTEF Estimate*	*Revised*	*Difference*[1]	*MTEF Estimate*	*Revised*	*Difference*[1]	*Projection*
GDP at market prices, nominal	**116 444**	**131 034**	**14 589**	**141 305**	**149 993**	***8 689***	**160 165**	**164 643**	***4 478***	**182 039**	**179 844**	***-2 195***	**197 643**
Revenue and grants as % of GDP	***34.5***	***32.0***	***-2.5***	***37.1***	***35.9***	***-1.2***	***36.6***	***35.5***	***-1.2***	***36.3***	***35.1***	***-1.2***	***35.0***
TOTAL REVENUE AND GRANTS	**40 138**	**41 910**	**1 771**	52 473	**53 914**	***1 441***	**58 698**	**58 442**	***-257***	**66 074**	**63 050**	***-3 024***	**69 181**
TAX REVENUE	**37 554**	**38 907**	**1 353**	**49 213**	**50 886**	***1 673***	**54 794**	**56 032**	***1 238***	**61 510**	**60 744**	***-765***	**66 962**
Tax on income and Profits	13 924	14 027	103	21 182	20 934	*-249*	23 876	24 981	*1 105*	27 370	28 409	*1 039*	31 940
Income Tax on Individuals	**7 929**	**9 537**	**1 608**	**13 570**	13 369	*-201*	15 461	15 222	*-239*	17 573	17 050	*-523*	19 092
Company Taxes	**5 550**	**3 434**	**-2 116**	**6 844**	**7 013**	***169***	**7 573**	**9 198**	***1 626***	**8 872**	**10 742**	***1 870***	**12 166**
Diamond Mining Companies	1 049	655	-394	1 533	1 014	*-518*	1 720	2 167	*446*	1 927	2 341	*414*	2 482
Other Mining Companies	59	7	-52	28	47	*19*	41	58	*17*	61	61	*0*	66
Non-Mining Companies	4 442	2 771	-1 671	5 284	5 952	*668*	5 812	6 974	*1 163*	6 884	8 340	*1 455*	9 619
Other Taxes on Income and Profits	**323**	**844**	**521**	**321**	**213**	***-109***	**336**	**210**	***-126***	**349**	**230**	***-119***	**253**
Non-Resident Shareholders Tax	262	131	-131	209	100	*-109*	237	96	*-140*	269	107	*-163*	118
Tax on Royalty	232 491	692	-231 798	94	94	*-0*	79	94	*15*	58	104	*46*	115
Annual Levy on Gambling Income	38	21	-17	18	18	*0*	20	19	*-1*	22	19	*-3*	19
Withholding Tax on Interest	**122**	**212**	**91**	**447**	**339**	***-108***	**507**	**350**	***-156***	**576**	**387**	***-189***	**429**
Withholding tax on companies & individuals	37	76	38	84	84	*0*	95	85	*-9*	108	94	*-13*	104
Withholding tax on unit trusts	84	52	-32	49	81	*32*	56	78	*22*	63	86	*23*	95
Withholding tax on Services	-	84	84	314	175	*-140*	356	187	*-169*	405	207	*-198*	229
Taxes on Property	**244**	**261**	**18**	**274**	**274**	**-**	**303**	**343**	***40***	**335**	**381**	***46***	**423**
Domestic Taxes on Goods and Services	**8 437**	**9 650**	**1 213**	**9 367**	**11 318**	***1 952***	**9 953**	**13 267**	***3 315***	**10 898**	**15 014**	***4 115***	**17 343**
VAT + Additional Sales Tax + General Sales T	7 975	9 327	1 352	8 599	11 056	*2 457*	9 112	12 903	*3 791*	9 959	14 597	*4 638*	16 350
Levy on Fuel	136	131	-5	118	118	*0*	128	171	*43*	127	189	*62*	209
Fishing Quota Levies	90	178	88	127	127	-	111	178	*67*	123	212	*89*	249
Gambling Licence (Business)		2	2	2	2	-	2	2	*0*	2	2	*0*	3
Environmental levies & Carbon Emission Tax	224	-	-224	518	-	*-518*	595	-	*-595*	684	-	*-684*	518
Other taxes on goods and services	12	13	1	3	15	*12*	4	13	*10*	3	14	*11*	14
Taxes on International Trade and Transaction	**14 727**	**14 727**	**-**	**18 117**	**18 117**	**-**	**20 336**	**17 123**	***-3 213***	**22 564**	**16 589**	***-5 975***	**16 867**
SACU Revenue Pool Share	13 160	13 160	-	17 305	17 305	-	19 661	15 771	*-3 890*	22 564	16 589	*-5 975*	16 867
Revenue Formula Adjustments	1 567	1 567	-	812	812	-	676	1 352	*676*	-	-	-	-
Other Taxes	**222**	**241**	**19**	**274**	**244**	***-30***	**326**	**318**	***-8***	**343**	**351**	***9***	**389**
NON - TAX REVENUE	**2 375**	**2 705**	**330**	**3 246**	**3 014**	***-232***	**3 717**	**2 354**	***-1 363***	**4 371**	**2 113**	***-2 258***	**2 052**
Entrepreneurial and Property	**1 754**	**1 621**	**-134**	**2 456**	**2 031**	***-424***	**2 900**	**1 653**	***-1 246***	**3 486**	**1 454**	***-2 031***	**1 515**
Interest Receipts for Loans Extended to SOEs	20	8	-12	20	20	-	22	15	*-7*	25	6	*-19*	6
Interest on Investments	0	-	-0	63	63	-	72	0	*-72*	82	0	*-82*	0
Dividends and Profit Share from SOEs & other co	738	1 285	547	790	790	-	896	680	*-216*	1 021	619	*-402*	678
Interest on State Account Balances with BoN	60	35	-26	38	38	-	42	28	*-14*	47	30	*-17*	31
Diamond Royalties	631	108	-524	1 159	735	*-424*	1 302	620	*-682*	1 459	600	*-859*	600
Other Mineral Royalties	305	185	-120	385	385	-	565	310	*-255*	853	200	*-653*	200
Fines and Forfeitures	**81**	**55**	**-25**	**75**	**75**	**-**	**85**	**77**	***-8***	**97**	**85**	***-12***	**94**
Administrative Fees, Charges and Incidental S	**540**	**1 029**	**489**	**658**	**908**	***250***	**675**	**624**	***-52***	**693**	**574**	***-119***	**443**
Lending and Equity Participation	**20**	**21**	**0**	**6**	**6**	**-**	**7**	**11**	***4***	**8**	**30**	***22***	**4**
External Grants	**190**	**278**	**88**	**7**	**7**	**-**	**180**	**45**	***-135***	**184**	**163**	***-22***	**163**

Source: Ministry of Finance; Projections include recovery of outstanding tax arrears and forensic audit collections. The difference reflects change from budget and previous MTEF projections.

5.3 Aggregate Expenditure and Debt Outlook

116. The fiscal stance adopted in the existing MTEF capped the deficit threshold at 3.0 percent of GDP, as a measure to guard against significant expenditure rises, and to stabilize growth in public debt. Based on the projected revenue envelop for the FY2015/16-2017/18 MTEF period, and the existing expenditure ceilings announced in the existing FY2014/15-2016/17 MTEF, the potential maximum expenditure ceiling consistent with a deficit threshold of 3.0 percent of GDP amounts to N$63.38 billion in FY2015/16, NS68.45 billion in FY2016/17, and to N$75.11 billion in FY2017/18.

117. In terms of the this aggregate expenditure outlook, downward expenditure adjustments would be needed in order for the deficit threshold of 3 percent of GDP to be observed.

118. Within this framework, total central Government debt is projected to increase to N$40.72 billion in FY2015/16, from N$35.82 billion in FY2014/15 and reach N$52.10 billion by FY2017/18. As a proportion of GDP, total debt is projected to rise only moderately to 24.7 percent in FY2015/16, from 25.6 percent in FY2014/15, and reaching 26.4 percent by FY2017/18, thanks to improvements in GDP growth over the period.

119. The year-on-year growth in total debt is projected at 13.3 percent on average over the MTEF, overshadowing annual GDP growth that is estimated at the average of 9.8 percent.

Table 17: Scenario I: Maximum available additional expenditure consistent with 3 percent of GDP deficit threshold, 2015/16 - 2017/18 MTEF

Item	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	*Estimate*	*Revised*	*Revised*	*Projections*
GDP	**112 871**	**131 034**	**149 993**	**164 643**	**179 844**	**197 643**
Total Revenue and Grants	**37 997**	**41 910**	**53 914**	**58 442**	**63 050**	**69 181**
As % of GDP	33.7%	32.0%	35.9%	35.5%	35.1%	35.0%
Total Expenditure	**38 112**	**46 734**	**60 204**	**64 092**	**69 482**	**73 651**
Aggregate Expenditure consistent with 3% deficit target	**38 112**	**46 734**	**60 204**	**63 381**	**68 445**	**75 110**
As % of GDP	*33.8%*	*35.7%*	*40.1%*	*38.5%*	*38.1%*	*38.0%*
Potential Additional Expenditure	**-**	**-**	**-**	**(711)**	**(1 037)**	**1 459**
Potential Budget Balance	**(115)**	**(4 824)**	**(6 290)**	**(4 939)**	**(5 395)**	**(5 929)**
As % of GDP	*-0.1%*	*-3.7%*	*-4.2%*	*-3.0%*	*-3.0%*	*-3.0%*
Potential Average Budget Balance for MTEF					***-3.0%***	
Domestic Debt Stock	17 513	20 053	22 468	26 394	30 717	35 497
Foreign Debt Stock (est.)	9 976	9 463	13 348	14 330	15 410	16 605
Total Debt	**27 489**	**29 516**	**35 816**	**40 724**	**46 127**	**52 103**
Domestic Debt Stock	*15.5%*	*15.3%*	*15.0%*	*16.0%*	*17.1%*	*18.0%*
Foreign Debt Stock	*8.8%*	*7.2%*	*8.9%*	*8.7%*	*8.6%*	*8.4%*
Total Debt	***24.4%***	***22.5%***	***23.9%***	***24.7%***	***25.6%***	***26.4%***
Growth in GDP	***18.4%***	***16.1%***	***14.5%***	***9.8%***	***9.2%***	***9.9%***
Growth in Debt	***11.1%***	***7.4%***	***21.3%***	***13.7%***	***13.3%***	***13.0%***

Source: Ministry of Finance

120. In an alternative case, if the a budget deficit threshold of 5 percent annually over the MTEF is considered, the potential maximum expenditure amounts to N$66.67 billion in FY2015/16, NS72.04billion in FY2016/17, and to, at least potentially, N$79.06 billion in FY2017/18.

121. In this context, total potential additional expenditure to the existing MTEF expenditure ceilings amounts to about N$3.51 billion on average over the MTEF, with about N$2.58 billion available for FY2015/16, N$2.56 billion for FY2016/17 and about N$5.41 billion, at least potentially, for FY2017/17.

Table 18: Scenario II: Maximum available additional expenditure consistent with 5 percent of GDP deficit threshold, 2015/16 - 2017/18 MTEF

Item	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	*Estimate*	*Revised*	*Revised*	*Projections*
GDP	**112 871**	**131 034**	**149 993**	**164 643**	**179 844**	**197 643**
Total Revenue and Grants	**37 997**	**41 910**	**53 914**	**58 442**	**63 050**	**69 181**
As % of GDP	33.7%	32.0%	35.9%	35.5%	35.1%	35.0%
Total Expenditure	**38 112**	**46 734**	**60 204**	**64 092**	**69 482**	**73 651**
As % of GDP	*33.8%*	*35.7%*	*40.1%*	*38.9%*	*38.6%*	*37.3%*
Aggregate Expenditure consistent with 5 % target	**38 112**	**46 734**	**60 204**	**66 674**	**72 042**	**79 063**
As % of GDP	*33.8%*	*35.7%*	*40.1%*	*40.5%*	*40.1%*	*40.0%*
Potential Additional Expenditure	**-**	**-**	**-**	**2 582**	**2 560**	**5 412**
Potential Budget Balance	**(115)**	**(4 824)**	**(6 290)**	**(8 232)**	**(8 992)**	**(9 882)**
As % of GDP	*-0.1%*	*-3.7%*	*-4.2%*	*-5.0%*	*-5.0%*	*-5.0%*
Potential Average Budget Balance for MTEF					***-5.0%***	
Domestic Debt Stock	17 513	20 053	22 649	31 559	39 938	43 846
Foreign Debt Stock (est.)	9 976	9 463	12 848	16 740	19 036	19 302
Total Debt	**27 489**	**29 516**	**35 497**	**43 996**	**53 001**	**62 960**
Domestic Debt Stock	*15.5%*	*15.3%*	*15.1%*	*19.2%*	*22.2%*	*22.2%*
Foreign Debt Stock	*8.8%*	*7.2%*	*8.6%*	*10.2%*	*10.6%*	*9.8%*
Total Debt	***24.4%***	***22.5%***	***23.7%***	***26.7%***	***29.5%***	***31.9%***
Growth in GDP	***18.4%***	***16.1%***	***14.5%***	***9.8%***	***9.2%***	***9.9%***
Growth in Debt	***11.1%***	***7.4%***	***20.3%***	***23.9%***	***20.5%***	***18.8%***

Source: Ministry of Finance

122. Within this framework, total central Government debt is projected to increase to N$44.0 billion in FY2015/16, from N$35.8 billion in FY2014/15 and reach N$63.69 billion by FY2017/18. As a proportion of GDP, however, total debt is projected to rise to 26.9 percent in FY2015/16, from 24.2 percent in FY2014/15, and reach 32.1 percent by FY2017/18.

123. The year-on-year growth in total debt is projected at 21.1 percent on average over the MTEF, significantly higher than annual GDP growth that is estimated at an average of 9.6 percent. For fiscal sustainability purposes, it is important that public debt does not grow at a faster pace than income and that the debt incurrence is increasingly utilised for investment in productive undertakings.

124. The amounts indicated in Table 17 and Table 18 are indicative maximum levels consistent with established deficit and expenditure targets. These maximum expenditure amounts indicate that fiscal space to accommodate large additional expenditure to the ceiling in the current MTEF is becoming increasingly narrow. Thus, for budget allocation purposes during the FY2015/16-2017/18 MTEF period, additional expenditure needs to be maintained within these spending constraints. Utilizing all the projected potential additional expenditure levels narrows the space for fiscal manoeuvring, and diminishes the magnitude of the fiscal buffer in the event of negative shocks to the revenue outlook, as well as increases the debt burden.

5.4 Fiscal Policy Stance for the MTEF

125. Government's fiscal policy remains grounded in fiscal counter-cyclicality, promotion of economic growth and social welfare as well as long-term sustainability of fiscal outcomes. The fiscal stance takes into account the Government's fiscal position, prevalent developmental challenges that Namibia needs to overcome to achieve Vision 2030 objectives, and medium-term fiscal risks.

During the next MTEF:-

- *Government will continue to maintain the direction of fiscal consolidation adopted for the FY2014/15-2016/17 MTEF, with the budget deficit cap maintained at 5.0 percent of GDP annually, instead of an average deficit cap over the MTEF*, to reinforce policy consistency and predictability. This stance will allow Government to smoothen its fiscal policy path, while stabilizing growth in public spending and debt, maintaining current expenditure commitments, and addressing urgent priorities.

- *provide support to strategic infrastructure projects and skills development, adopt contingency risk monitoring measures, and systematically reinforce scaled-up allocations to priority sectors in the last two years of the MTEF through revenue-funded development expenditure allocations as well as utilizing the potential for PPPs*. For this purpose, the ratio of Government guarantees-to-GDP target will be adjusted upward from 10.0 percent to 15.0 percent of GDP.

- *continue with measures to strengthen efficiency in tax administration and revenue collection to support domestic revenue growth in the medium-term and beyond*. In this regard, measures to address outstanding tax arrears, implementation of the Business Process Re-engineering of the Receiver of Revenue, as well as the transitional arrangements for the establishment of the Semi-autonomous Revenue Agency, will continue.

5.5 Priorities for the MTEF

126. The FY2015/16-2017/18 Fiscal Strategy projects the nominal GDP growth rate to moderately improve each year over the MTEF period. As a result, revenue is projected to also increase moderately during the MTEF period. However, the projected revenue outlook does not constitute a significant upward revision from the projections contained in the FY2014/15 Fiscal Policy Framework and FY2015/16-2016/17 MTEF.

127. On the basis of the projected economic growth, a moderate upward revision of revenue, and given expenditure commitments contained in existing ceilings of the FY2014/15-2016/17 MTEF, Government will pursue the following fiscal priorities for the FY2015/16-2017/18 MTEF:-

- reinforce macroeconomic fundamentals by maintaining existing expenditure ceilings in real terms. Large expenditure exerts pressure on macroeconomic accounts through an increased import bill, reduced foreign exchange reserves, higher public debt, and associated financing requirements. In this regard, additional expenditure allocations for FY2015/16 will be minimal, and will mainly be aimed at maintain current expenditure commitments in real terms. This fiscal policy stance will stabilize growth in public expenditure, prevent excessive pro-cyclicality in fiscal action, and allow revenue growth to regain momentum in relation to expenditure increases, as well as to rebuild fiscal buffers.

- boost investment in the energy and transport sectors, mainly the Kudu Gas-to-Power Project and rail, port and road infrastructure.

- continue supporting fiscal priorities identified in the FY2014/15 Fiscal Policy Framework to reinforce policy consistency and realize outcomes in the existing priority areas. The following priorities, as set out for the FY2014/15 MTEF, will continue to be supported:-

    - ***enhancing inclusive growth and job creation***. High and inclusive economic growth is a prerequisite for poverty reduction, job creation, and growing public revenue, which eventually facilitate equality in income distribution. To achieve these priority objectives, budgetary allocations to infrastructure development projects and other targeted programmes in the priority sectors of the economy will be maintained. Particular attention will be given to investment in energy and transport infrastructure to boost investment, address national energy needs, and upgrade the logistics sector as well as efforts to diversify and industrialize the economy;

    - ***priority will continue to be accorded to the economic and social sectors of education, vocational skills development, health, housing and rural development*** to address social and economic deficits and competitiveness challenges. In this regard, Government will prioritise education and training, and increased support to the Namibia Students Financial Assistance Fund for expanded in-take at institutions of higher learning, in line with the aspirations of the National Human Resources Plan adopted in 2012. Government will also seek to strengthen the provision of social safety nets as a mechanism to shield the vulnerable members of the society against poverty. In the health sector, funding efforts will be maintained in real terms for existing health facilities, and will seek to address severe service delivery gaps. Expenditure commitments in regard to the provision of affordable housing and improved sanitation will be maintained, as Government continues to fund the Housing Development Programme and address the backlog in the low-cost housing sector;

- ***accelerating implementation of supportive policies to improve national competitiveness and wealth creation***. Government will continue with reform of the Investment regime and implementation industrialisation programme to promote investment and develop industrial capacity. This entails measures to increase the share of local ownership in the value chains across industrial sectors. In addition, tax policy reforms will continue during the next MTEF; and

- ***improving the quality of service delivery, accountability and timeliness of monitoring and evaluation of development outcomes.*** Annual and sectoral monitoring frameworks have been instituted to track the implementation of MTEF through accountability reports and mid-year review of MTEF**.**

5.6 Fiscal Policy Strategies and Interventions for the MTEF

128. In order to realize the outcomes in the identified priority areas, Government will undertake the following strategic initiatives:-

- **Adopt a long-term fiscal adjustment path that is commensurate with the desired fiscal policy stance and benchmarks**, to enhance policy consistency and provide for funding for development priorities. The key elements for this strategy are to adhere to pre-announced fiscal targets consistent with fiscal countercylicality, moderating the pace of fiscal consolidation in the medium term, and increasingly funding expenditure programmes through improved revenue collection over time. This fiscal strategy is in furtherance of the objective of systematically restoring fiscal buffers partially lost in recent years, while providing for scaled-up funding for identified priorities and keeping public debt at sustainable levels.

- **Implement quasi-fiscal stimuli for investment in strategic infrastructure development** through issuance of sovereign guarantees, and managing related fiscal risks. Government has provided scaled-up budgetary transfers to State-owned Enterprises (SOEs) in the FY2014/15 budget for the development and rehabilitation of infrastructure. The main strategic infrastructure projects earmarked over the MTEF period are those pertaining to the development of the Kudu Gas-to-Power project, expansion of the Walvis Bay Port facilities, and rail, airport and road rehabilitation undertakings. In support of the fiscal stance to guard against significant rises in public expenditure, Government will promote SOE investment in strategic infrastructure through the provision of guarantees for SOE asset-backed loans, in order to minimize direct reliance on the Government budget. In addition, Government will accelerate the operationalization of the Public Private Partnership (PPP) legislative framework during the MTEF period to facilitate the sprouting of PPP arrangements in various sectors of the economy.

- **Improve efficiency in public spending and identify internal savings to reinforce allocation efficiency within Vote ceilings**. Spending efficiency calls for measures to do more with less. As part of the cost minimizing measures, close scrutiny will be paid to the costing of activities and competitive bidding in public procurement. As part of the expenditure allocation and prioritization over the MTEF period, O/M/As will be required to identify internal savings within their budget ceilings and programmes, for internal reallocation to defray funding needs for alternative programme activities within the respective Vote ceilings. Government has also been implementing Public Finance Management (PFM) reforms aimed at optimizing public expenditure outcomes and improving accounting systems and financial management infrastructure. In order to enhance the effectiveness of the PFM reform agenda and value for money, Government will undertake a Public Expenditure and Financial Accountability (PEFA) assessment, and further roll out Public Expenditure Reviews (PERs) to key budget Votes.

- **Maintain expenditure commitments to education in real terms and address urgent funding needs in the health and housing sectors**. Outcomes in education and health represent two of the key rating weaknesses, which negatively impact on Namibia's competitiveness regarding the quality of outcomes in the social sectors, with national output targets lagging behind global standards. Targeted strategies to raise competitiveness and internal efficiency in these sectors are articulated in the sector-specific policies. To support the realization of improved outputs from these sector programmes, particular attention will be given to address capacity needs for Vocational Training programmes, and increased support to the Namibia Students Financial Assistance Fund, to encourage increased access to vocational training and tertiary education, respectively. Government will further provide scaled-up allocations to the health sector to address identified infrastructure and resource gaps in a phased manner, as well as maintain support to address housing needs.

- **Enhance financial inclusion and access to finance through timely implementation and monitoring of interventions espoused in the Namibia Financial Sector Strategy**. Broad-based access to affordable finance, especially for Micro, Small and Medium-sized Enterprises (MSMEs) and the underserved segments of the population is a key catalyst for wealth creation and poverty reduction. Emphasis will continue to be given to the implementation of strategic interventions aimed at improving access to finance for MSMEs and the underserved segments of the population in a manner which reinforces financial stability.

- **Accelerate tax policy and administration reforms** to enhance revenue collections, operational efficiency in the provision of taxpayers' services, and to enhance the contribution of tax policy to socio-economic development objectives. During the next MTEF, the following tax policy and administration reforms will be introduced:-

    - *adopting transitional arrangements and legislation for the establishment of the Semi-autonomous Revenue Agency;*
    - *introducing the first phase of environmental taxes, encompassing the carbon dioxide emission tax on motor vehicles, incandescent light bulbs, and motor vehicle tires;,*
    - *introducing taxes to incentivise domestic value-addition in the primary commodity and natural resources sectors;*
    - *raising the VAT threshold from N$200,000 to N$500,000; and*
    - *reviewing excise duty rates (sin taxes) as provided for under the SACU Agreement*
    - *amendment of the Customs and Excise Act to bring it in line with regional and international developments*

Policy Conclusions

129. The Fourth National Development Plan (NDP4) calls for resource prioritization for the sectors of agriculture, manufacturing, logistics and tourism, in furtherance of Namibia's objectives of achieving faster and inclusive economic growth, more employment, and greater income equality. Alongside these priority sectors, structural challenges remain in the key growth enabling social sectors of education and health.

130. NDP4 also requires that fiscal policy should aim to rebuild policy buffers to maintain macroeconomic stability as a prerequisite for sustainable economic development and social transformation.

131. On 21st March 2015, Namibians will celebrate a quarter of a century of notable achievements on several fronts, but severe socio-economic challenges still linger. The country continues to face persistent challenges of functional skills shortages, high unemployment, poverty, inequality, and low quality of targets and outcomes in the social sectors, despite vast amounts of public resources accorded to these core areas over the years. The persistence of these challenges call for deeper structural reforms, without which more budgetary allocation alone does not guarantee success.

132. In the context of these national challenges and medium-term macroeconomic and fiscal risks, implementation of policy packages which stimulate inclusive economic growth, reduce poverty, and boost revenue generation is critical over the next MTEF period. The recommendations take into consideration on-going interventions and recommendations made in the previous budget policy frameworks. In this regard, the following policy conclusions and interventions will be pursued over the MTEF:-

- ***moderate growth in public expenditure and strengthen revenue mobilization strategies to achieve a sustainable balance between expenditure and revenue growth***. This expenditure containment intervention would allow Government to increasingly fund expenditure needs through revenue growth in the outer years of the MTEF period, cushion expenditure commitments, and strengthen fiscal buffers as a contingency measure in the event that some of the risks to revenue materialize. To enhance the realization of this objective, it is recommended that Government accelerates measures to mobilize domestic revenue, mainly through implementation of accelerated tax administration reforms, closing the tax gap[6], tax avoidance and evasion, as well as pursuing verifiable recovery of outstanding tax arrears.

- ***systematically scale-up expenditure allocation to the priority sectors identified in NDP4 in the latter years of the MTEF through greater alignment of the MTEF and NDP4***. Resource prioritization and alignment will reposition Namibia to better allocate resources in line with the adopted national priorities and development goals. However, the three-year MTEF budgeting methodology and the five-year NDP cycle have not lent themselves to seamless financial programming and alignment. To refine the alignment process, it is recommended that greater sectoral coordination be pursued in NDP planning phase and the feasibility for extending the plan cycle to six years, or the introduction of a five-year MTEF, be investigated, whichever is tenable.

[6] the amount of tax liability faced by taxpayers that is not paid on time

- ***catalyzing infrastructure development through issuance of sovereign guarantees for mega public investment projects*** in the sectors of energy and transport and logistics. Government is on course to develop the Kudu Gas-to-Power Plant over the MTEF period, and support on-going expansion of the Walvis Bay Port, railway rehabilitation, and airport and road infrastructure upgrading. A mix of targeted budgetary allocation and quasi-fiscal support through the issuance of Government guarantees for SOE debt capital should be extended as part of the strategic infrastructure development programme.

- ***make concerted efforts to drive industrialization and economic diversification through private sector development and addressing supply side constraints***. The national industrialization policy was adopted in 2012, against the backdrop of a hitherto narrow manufacturing base and limited value-addition in various sectors of the economy, not least the exclusion of commodity-based industries. It is recommended that Government identifies and funds potential industrial growth poles based on costed feasibility assessment outcomes, and harnesses a combination of seed capital, equity, and development finance capital, as well as targeted incentives, to catalyse initial off-take. It is further recommended that Government adopts a revamped incentive regime aligned to the priority sectors of the economy, and accelerates the enactment of a revamped investment legal framework and the public procurement bill to enhance national competitiveness and local economic development.

- ***implement targeted measures to improve productivity in the communal agricultural sector*** through outreach agricultural extension services, application of fertilizer, improved animal health programmes, and training for farmers. The 2011 Population and Housing Census established that about 58 percent of the population lives in rural areas, with subsistence farming as the main economic activity and source of livelihood. These measures will help boost income generation opportunities and food security for small-scale farmers, with attendant poverty reducing effects.

- ***improve access to finance for MSMEs and underserved individuals to support job creation, poverty reduction, and economic growth***. Government, working in close collaboration with the financial services industry, is implementing a series of initiatives to elevate the role of the financial sector in the economy, within the framework of the 10-year Financial Sector Strategy. Given the potential for MSMEs to create jobs and impact positively on growth, it is recommended that initiatives to broaden access to affordable finance, such as the development of the venture capital fund and expanded SME bank financing facilities, be frontloaded in the implementation plan of the Strategy.

- ***improve internal efficiency and quality of outcomes in education and health sectors to unleash market-based skills formation and human resources development***. Successive labour force surveys have indicated that high unemployment is correlated with low educational attainment and a dearth of vocational skills. This constraint is further compounded by low enrollment rates at tertiary and vocational training institutions, as well as low outcomes at the secondary school phase. It is recommended that measures to improve internal efficiency and raise output targets in general education, as well as expand the capacity of tertiary and vocational training institutions, be developed and implemented over the MTEF period and beyond.

- ***Accelerate implementation of tax administration reforms to realize operational efficiency and enhance the buoyancy of revenue performance***. A number of inter-related initiatives are being implemented to achieve these objectives. The key components of the reform agenda are the Business Process Re-engineering, development of the Integrated Tax System, and transitional arrangements towards establishment of a semi-autonomous Revenue Agency. A fundamental objective for establishing the Revenue Agency is to achieve operational efficiency through the attraction and retention of appropriate skills, and institute an effective performance-based work culture necessary to run modern tax administration functions. It is recommended that Government accelerates the establishment of the Agency as a catalyst for the various on-going tax administration reforms, alongside targeted measures to mobilize domestic revenue.

ANNEX A: DOMESTIC ASSUMPTIONS

Domestic assumptions are based on and informed by, amongst others, the following sources:

- Industry consultations that were aided by the industrial surveys conducted by the MEWG;
- Consultations with sector experts from the different MEWG institutions and the private sector;
- Information published in the IMF, World Bank, BoN and NSA reports, as well as MoF economic data;
- Secondary/desk research; and
- Publications of the members of the MEWG – MoF, NPC, BoN and the NSA.

Global and regional assumptions are based on economic reports published by the IMF, World Bank and other relevant global reporting institutions. Additional sources were also used to collect information on the global, regional and domestic economy.

1. SUPPLY-SIDE ASSUMPTIONS

Primary Industries

- **Livestock Farming**: Improved weather conditions, restocking and base effects will all contribute to an improved performance in livestock farming in 2014. However despite veterinary restrictions on exports to South Africa having been lifted in August, livestock farming is expected to contract by 4.2 percent in 2014 due to the sizeable negative impact the restrictions had in the first half of the year. With export restrictions having now been lifted, growth in livestock farming is expected to rebound in 2015, to 11.5 percent, before slowing towards long-term trend growth of 4.3 percent by the end of the MTEF period.

- **Crop Farming and Forestry**: A combination of improved weather conditions and base effects is expected to see crop farming and forestry post strong growth in both 2014 and 2015, of 8.8 percent and 7.0 percent, respectively. However, beyond 2015, growth is forecast to stabilise towards long-term trend growth of 1.6 percent.

- **Fishing and Fish Processing on Board**: Fishing output is dependent on Total Allowable Catches (TACs). TACs have steadily been increasing in recent years, but there appears to be growing concern surrounding the sustainability of existing stocks. Therefore, it seems unlikely that TACs will continue to rise much further going forward, and are instead projected to fluctuate around recent levels. Fishing and fish processing on board is forecast to slow slightly in 2014 to 1.8 percent but going forward, growth in the sub-sector will be supported over the MTEF period by a gradual recovery in key European export markets. With this in mind, therefore, growth in fishing is forecast to accelerate over the medium term – albeit at only a very gradual pace – to 2.4 percent by the end of the MTEF period

- **Diamond Mining**: The industrial action which took place in August is expected to have weighed heavily on diamond mining in 2014, with growth forecast to slow to just 0.6 percent. However, with Namdeb planning to commission another mine at Sendelingsdrif during the course of 2014, growth is anticipated to rebound to 4.2 percent in 2015 as this facility comes on line. After 2015, however, a gradual slowdown towards long-term trend growth of 2.1 percent is projected.

- **Uranium Mining**: Growth in uranium mining is forecast to weaken further in 2014, to -9.8 percent, as prices for the mineral have continued to weaken over the first half of the year. That said, prices have shown signs of stabilising in recent months, and have even started to head higher, suggesting that uranium prices have now bottomed out. Uranium prices are therefore expected to start to once again head higher, leading to positive growth of 1.3 percent in 2015. Beyond this, growth in uranium mining is expected to spike to 20.8 percent in 2016 as the Swakop Uranium Mine begins production, and accelerate further in 2017, to 31.8 percent, as the Husab facility approaches full capacity. Growth of uranium mining is forecast to remain strong in the final year of the MTEF, but moderate to 10.7 percent as the growth effects of the Swakop Uranium Mine begin to dissipate.

- **Metal Ores**: Zinc is the largest component of Metal Ores. Zinc concentrate production fell by 6.1 percent in the first half of 2014, dragging the overall growth of the sub-sector into negative territory. The outlook for the second half of the year is little brighter, however, although not quite bright enough to prevent the sub-sector contracting by 0.8 percent for in 2014. This will, however, still represent a significant improvement over the 30.7 percent contraction witnessed in 2013. With the Tschudi Copper and B2Gold Mines set to commence production in 2015, and with zinc prices forecast to head higher, the outlook for Metal Ores is more positive for 2015, with the sub-sector forecast to grow by 3.8 percent. However, with Skorpion Zinc operations set to come to a close some time in 2016-17, the sub-sector is forecast to contract in the outer years of the MTEF.

<u>Secondary Industries</u>

- **Meat Processing**: Restocking of livestock following drought is set to weigh on meat processing in 2014, resulting in a deceleration in growth from 15.8 percent in 2013 to 2.8 percent. However, a sharp rebound in livestock farming in 2015 is forecast to see growth in the meat processing sub-sector accelerate to 5.1 percent. However, as the production boost in livestock from the recovery from the 2013 drought begins to wane, growth of meat processing is projected to slow towards long-term trend growth of 2.6 percent by the end of the MTEF period.

- **Beverages**: Growth in beverages is forecast to accelerate to 7.3 percent in 2014, driven by the commencement of operations by SAB Miller in Namibia. Growth is forecast to continue to accelerate in 2015, to 9.4 percent, as SAB Miller moves towards full capacity, after which growth is forecast to slow, albeit remain strong at 7.1 percent in 2016 as the growth effects of the SAB Miller brewery begin to dissipate. Indeed, growth in beverages is forecast to continue to slow towards long-term trend growth of 2.6 percent by the end of the MTEF period.

- **Chemical and related products**: Growth in chemical and related products is forecast to accelerate slightly in 2014 to 3.7 percent, in line with a generally more favourable macroeconomic environment, but is projected to spike to 10.4 percent in 2015 as the Dundee Sulphuric Acid Plant comes on stream. Growth beyond 2015 will, however, trend towards long-term trend growth of 2.0 percent by the end of the MTEF period as the growth effects of the Dundee Sulphuric Acid Plant dissipate.

- **Basic Non-Ferrous Metals**: Growth in basic non-ferrous metals is projected to accelerate in 2014 in line with an improved performance of metal ores, although it is projected to remain weak at just 0.1 percent. However, with Tschudi Copper Mine coming on line in 2015, growth in basic non-ferrous metals is forecast to spike to 16.9 percent, after which it is expected to slow back towards long-term trend growth of 1.6 percent by the end of the MTEF period as the effects of capacity expansion within the sector as a result of Tschudi Copper Mine dissipate.

- **Diamond Processing**: Activity in the diamond processing sub-sector is projected to improve in 2014, but nonetheless is still forecast to contract, by 0.7 percent, in line with a weaker performance in diamond mining. However, following three consecutive years of contraction, diamond mining is expected to pick up in 2015, to 2.8 percent growth, in line with an anticipated recovery in diamond mining. Beyond 2015, however, growth in diamond processing is expected to gradually slow towards long-term trend growth of 2.1 percent by the end of the MTEF period.

- **Electricity and Water**: Growth in electricity and water is projected to rebound to 5.1 percent in 2014 as output from the Ruacana hydroelectric plant recovers following drought in 2013 and recent renovations to the Van Eck coal-powered plant are completed, before slowing to 2.6 percent in 2015. Growth in electricity and water is, however, forecast to once again accelerate in 2016 to 9.0 percent following a 50MW expansion of the Van Eck power plant and the completion of new 250 MW power plant to address anticipated electricity shortages. Growth is expected to remain buoyant in 2017 but nonetheless slow to 6.3 percent, before spiking to 29.0 percent in the final year of the MTEF period as the Kudu gas-powered plant comes on line.

- **Construction**: The recent construction boom is projected to continue in 2014, and indeed accelerate to 31.5 percent, as work on major projects such as Swakop Uranium Mine, B2Gold Mine, Dundee Sulphuric Acid Plant, etc. continues. Growth in construction is, however, forecast to slow drastically in 2015 to 8.1 percent as a number of projects are expected to be completed, after which growth in the sub-sector is anticipated to gradually decelerate over the remainder of the MTEF period to 2.9 percent by 2018. Growth in the sub-sector will, however, continue to be supported by other on-going construction projects such as Kudu Gas-to-Power and the SADC Gateway.

<u>**Tertiary Industries**</u>

- **Wholesale and Retail Trade**: Growth in wholesale and retail trade is expected to slow in 2014 as the boost the sub-sector received from income tax cuts in 2013 dissipates, but nonetheless remain buoyant at 6.9 percent in the face of sustained strong consumer demand, bolstered by a 10.0 percent wage increase for civil servants. Beyond 2014, however, growth in wholesale and retail trade is projected to slow towards long-term trend growth of 3.2 percent by the end of the MTEF period.

- **Hotels and Restaurants**: Both the number of bed and room nights sold contracted in the first half of 2014 compared to the equivalent 2013 period, suggesting that growth in hotels and restaurants is set to slow in 2014 to 1.2 percent, despite an anticipated pick-up in activity during the last two quarters of the year to coincide with peak tourism season. Growth in hotels and restaurants is, however, projected to accelerate in 2015 to 5.4 percent as the sub-sector rebounds following a lacklustre 2014, after which time growth is forecast to slow towards long-term trend growth of 2.8 percent by the end of the MTEF period.

- **Transport and Communications**: Growth in transport and communication is forecast to accelerate to 15.2 percent in 2014, in line with efforts to make Namibia a logistics hub and an anticipated expansion in the telecommunications industry on the back of growth in data services. Over the remainder of the MTEF period, these developments will continue to drive strong growth in transport and communication, with growth in the sub-sector projected to remain in double digits, fluctuating around the 13.0 percent mark.

- **Financial Intermediation**: Growth in financial intermediation is forecast to slow to 6.2 percent in 2014 in line with higher interest rates, and is projected to continue to slow beyond this towards long-term trend growth of 3.2 percent by the end of the MTEF period as new regulations (e.g. elimination of cash deposit charges) come into effect.

- **Real Estate and Business Services**: Growth in real estate and business services is forecast to accelerate in 2014 to 4.9 percent as the housing market bounces back after a somewhat sluggish 2013. Beyond this, growth is anticipated to experience a gradual acceleration as the housing market continues to steadily head north, buoyed by robust demand.

2. DEMAND-SIDE ASSUMPTIONS

- **Private Consumption**: Private consumption growth is forecast to slow in 2014 following interest hikes by the Bank of Namibia, but nonetheless remain buoyant at 14.3 percent supported by on-going strong consumer demand. Beyond 2014, private consumption is expected to remain robust, averaging 9.9 percent growth out to 2018, but is projected to slow towards long-term trend growth of 7.5 percent by the end of the MTEF period.

- **Government Expenditure**: Growth in Government spending is forecast to accelerate to 10.6 percent in 2014 in line with the expansionary budget announced for FY2014/15. However, beyond 2014, growth in Government expenditure is projected to slow as the Government embarks upon a period of fiscal consolidation.

- **Gross Fixed Capital Formation**: Growth in gross fixed capital formation is forecast to accelerate slightly in 2014 to 21.1 percent in line with projected faster growth in construction. As the construction boom comes to an end after 2014, however, growth in gross fixed capital formation is expected to slow, towards long-term trend growth of 5.0 percent by the end of the MTEF period.

- **Exports**: Export growth is forecast to slow slightly in 2014 in line with slower growth in diamond mining and a further weakening in uranium mining. However, with both of these sub-sectors projected to stage a recovery in 2015, export growth is forecast to accelerate to 16.0 percent, and is predicted to continue to gather pace over the course of 2016 and 2017 – to 17.7 percent and 19.2 percent, respectively – as new output in extractive and related industries (e.g. Tschudi Copper Mine, Dundee Sulphuric Acid Plant, Swakop Uranium Mine, etc.) come on line. Export growth is subsequently forecast to moderate in the final year of the MTEF to 18.2 percent, largely due to base effects.

- **Imports**: Import growth is forecast to accelerate slightly in 2014 to 21.6 percent in line with an uptick in construction activity and an expansionary budget. Beyond this, however, import growth is projected to slow over the rest of the MTEF period as the construction boom comes to an end, the government pursues a policy of fiscal consolidation, and private consumption growth weakens.

ANNEX B: REAL GDP GROWTH PROJECTIONS (%) - DOMESTIC, SUPPLY-SIDE

	Estimated	Projected			
Industries and sectors	**2014**	**2015**	**2016**	**2017**	**2018**
Agriculture and forestry	2.1	9.2	7.2	5.0	3.0
Livestock farming	-4.2	11.5	9.1	6.1	4.3
Crop farming and forestry	8.8	7.0	5.3	3.9	1.6
Fishing and fish processing on board	1.8	1.9	2.1	2.2	2.4
Mining and quarrying	1.6	5.6	8.1	9.1	4.3
Diamond mining	0.6	4.2	3.7	3.2	2.1
Uranium	-9.8	1.3	20.8	31.8	10.7
Metal ores	-0.8	3.8	2.7	-1.4	-2.6
Other mining and quarrying	13.4	12.0	12.7	11.2	6.0
Primary Industries	**1.7**	**5.8**	**7.0**	**7.2**	**3.8**
Manufacturing	2.8	8.0	5.6	3.8	2.0
Meat processing	2.8	5.1	4.3	3.4	2.6
Grain mill products	3.4	2.5	2.2	2.0	1.8
Other food products	3.2	2.4	2.2	2.0	1.8
Beverages	7.3	9.4	7.1	4.9	2.6
Textile and wearing apparel	5.0	5.3	4.2	3.1	2.0
Leather and related products	-1.3	-0.4	0.5	1.3	2.2
Wood and wood products	-0.3	-0.5	0.1	0.8	1.4
Publishing and Printing	1.1	-0.3	0.1	0.4	0.8
Chemical and related products	3.7	10.4	7.6	4.8	2.0
Rubber and Plastics products	-0.4	0.9	0.8	0.7	0.6
Non-metallic minerals products	3.3	2.5	2.2	2.0	1.8
Basic non-ferrous metals	0.1	16.9	9.4	5.3	1.6
Fabricated Metals	3.6	7.0	5.5	3.9	2.3
Diamond processing	-0.7	2.8	3.2	3.6	4.0
Other manufacturing	2.0	7.3	5.4	3.6	1.7
Electricity and water	5.1	2.6	9.0	6.3	29.0
Construction	31.5	8.1	3.2	3.1	2.9
Secondary Industries	**10.5**	**7.5**	**5.2**	**3.9**	**5.2**
Wholesale and retail trade, repairs	5.9	5.2	4.6	4.0	3.2
Hotels and restaurants	1.2	5.4	4.5	3.6	2.8
Transport, and communication	9.9	9.1	10.1	10.1	10.4
Transport	15.2	12.1	13.4	12.9	13.5
Storage	5.1	5.9	7.1	6.3	6.1
Post and telecommunications	5.9	6.6	7.2	7.9	7.7
Financial intermediation	6.2	5.6	5.0	4.4	3.8
Real estate and business services	4.9	5.1	5.4	5.5	5.5
Real estate activities	5.3	5.7	6.1	6.3	6.4
Other business services	3.8	3.1	3.5	2.9	2.4
Community, social and personal service activities	2.0	1.2	1.4	1.7	1.0
Public administration and defence	9.2	4.9	4.2	3.5	2.8
Education	5.1	4.4	3.9	3.3	2.8
Health	5.2	4.6	4.0	3.4	2.9
Private household with employed persons	6.0	4.7	3.8	3.0	2.7
Tertiary Industries	**6.3**	**5.7**	**5.0**	**5.4**	**5.9**
Less: FISIM	8.1	11.2	8.8	8.4	9.2
GDP at market prices	**6.2**	**5.7**	**5.4**	**5.0**	**4.4**

Source: MEWG