Republic of Namibia

"Shared Prosperity"

FISCAL STRATEGY FOR THE MEDIUM-TERM EXPENDITURE FRAMEWORK 2019/20 - 2021/22

Republic of Namibia

FISCAL STRATEGY

FY 2019/20-2021/2022 MTEF

MARCH 2019

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Foreword

The Fiscal strategy provides macroeconomic and fiscal policy analysis both for global and domestic economic development. It further provides for resource envelop consistent with economic outlook and fiscal policy stance and priorities for the MTEF period.

The 2019/20 fiscal strategy is delivered in the context of continuing fiscal consolidation stance and is consistent with the 2018/19 Mid-year budget review objectives of rebalancing the macro-fiscal framework. The balancing acts are aiming at realigning government expenditure to the levels of revenue while ensuring a balanced growth in GDP. It also come at the time our economy is bracing the recessionary pressure, while getting attention of global rating agencies and other developmental oriented organisations, putting pressure on constrained fiscal policy.

In the global context, economic activity is projected to slow down with about 3.5 percent in 2019 relative to 3.7 percent estimated for the previous year. This represent a downward revision from the initial estimate of 3.9 in April 2018. In the medium term, risks on the global outlook are tilted to the downside, with further escalation of trade war between the US and China set to have further global ramifications. Weaker global economy comes with depressed demand for commodities that have negative effect on our export-oriented sectors. Commodity prices, especially for uranium and industrial metals are already low, and with uncertainty in the global economic growth, other commodities may start declining.

The growth for Sub-Saharan African region is estimated at 2.9 percent in 2018 and is projected to expand at marginally higher growth rates of 3.5 percent and 3.6 percent in 2019 and 2020. The projections for 2019 and 2020 have been revised downward by about 0.3 percent relative to earlier projections of October 2018, mainly due to economic pressure in the larger economies in the region. This slow growth for key trading partners pose challenges for the Namibian economy, and may lead to prolonged economic recovery.

The domestic economy has been in recession for the past three years, recording contractions for the past 10 consecutive quarters. The weaker growth is mainly driven by contractions in both secondary and tertiary industries especially in the construction sector as well as wholesale and retail sector that have been affected by weaker investment and domestic demand. However projections points to a slower economic recovery in 2019/20, driven mainly by primary industries mainly mining and agricultural sectors.

The medium-term policy stance adopted by government in the 2018 Mid-Year Budget Review, recognizes the current state of the economy and fiscal position. The stance emphasizes the policy imperative to render support to the economy, while continuing to cautiously reduce the budget deficit as a measure to stabilize the growth of, and eventually reduce the Central Government debt over time.

The policy objective for the next three years is to continue with the fiscal consolidation that is graduated over the MTEF in order to give increasingly greater impetus on economic growth. The policy will further seek to streamline growth through economic partnership and harness domestic savings to invest on national development objectives and make sure developmental outcomes are optimised. In line with the policy objective, the budget deficit has been adjusted further downward to about 4.1 percent in 2019/2020 from about 4.4 percent estimated in the Mid-Year Budget Review. Over the MTEF, the deficit is estimated to moderate at about 3.5 percent, while debt is expected to moderate at an average of 51.2 percent over the MTEF.

REPUBLIC OF NAMIBIA
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1 OVERVIEW OF GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

Global growth in **2018** is estimated to be 3.7 percent and is projected to decline to 3.5 percent in **2019** before picking up slightly to 3.6 percent in **2020**, which is 0.2 percentage point and 0.1 percentage points lower, respectively, than in the October 2018 IMF World Economic Outlook (WEO). This growth pattern reflects a persistent decline in the growth rate of advanced economies from above-trend levels, in addition to the temporary decline in the growth rate for emerging market and developing economies in 2019. (Table 1)

Specifically, growth in **advanced economies** is projected to slow from an estimated 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020. This estimated growth rate for 2018 and the projection for 2019 are 0.1 percentage point lower than in the October 2018 WEO, mostly due to downward revisions for the euro area.

The growth forecast for the ***United States*** also remains unchanged. Growth is expected to decline to 2.5 percent in 2019 and soften further to 1.8 percent in 2020 with the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest. Strong domestic demand growth will support rising imports and contribute to a widening of the US current account deficit.

Growth in the ***euro area*** is set to moderate from 1.8 percent in 2018 to 1.6 percent in 2019 (0.3 percentage points lower than projected in October 2018) and 1.7 percent in 2020. Growth rates have been marked down for many economies, notably *Germany* (due to soft private consumption, weak industrial production following the introduction of revised auto emission standards, and subdued foreign demand); *Italy* (due to weak domestic demand and higher borrowing costs as sovereign yields remain elevated); and *France* (due to the negative impact of street protests and industrial action).

There is substantial uncertainty around the baseline projection of about 1.5 percent growth in the *UK* in 2019-20. The unchanged projection relative to the October 2018 WEO reflects the offsetting negative effect of prolonged uncertainty about the Brexit outcome and the positive impact from fiscal stimulus announced in the 2019 budget. This baseline projection assumes that a Brexit deal is reached in 2019 and that the UK transitions gradually to the new regime.

However, as of early 2019, the shape that Brexit will ultimately take remains highly uncertain.

Table 1: Overview of IMF World Economic Outlook Projections, percent growth rates

		January 2019 update			Difference from Oct 2018 projections	
	2017a	2018e	2019p	2020p	2019p	2020p
World Output	3.8	3.7	3.5	3.6	-0.2	-0.1
Advanced Economies	2.4	2.3	2.0	1.7	-0.1	0.0
US	2.2	2.9	2.5	1.8	0.0	0.0
Euro area	2.4	1.8	1.6	1.7	-0.3	0.0
Japan	1.9	0.9	1.1	0.5	0.2	0.2
UK	1.8	1.4	1.5	1.6	0.0	0.1
Canada	3.0	2.1	1.9	1.9	-0.1	0.1
Emerging Market & Developing Economies	4.7	4.6	4.5	4.9	-0.2	0.0
Emerging & Developing Asia	6.5	6.5	6.3	6.4	0.0	0.0
China	6.9	6.6	6.2	6.2	0.0	0.0
India	6.7	7.3	7.5	7.7	0.1	0.0
ASEAN[1]	5.3	5.2	5.1	5.2	-0.1	0.0
Sub-Saharan Africa	2.9	2.9	3.5	3.6	-0.3	-0.3
Nigeria	0.8	1.9	2.0	2.2	-0.3	-0.3
South Africa	1.3	1.1	1.4	1.7	-	-
Angola	-	-0.7	1.2	3.2	-	-

Source: January 2019 Update of October 2018 IMF WEO ***a=actuals, e=estimates, p=projections***

Japan's economy is set to grow by 1.1 percent in 2019 (0.2 percentage point higher than in the October WEO). This revision mainly reflects additional fiscal support to the economy this year, including measures to mitigate the effects of the planned consumption tax rate increase in October 2019. Growth is projected to moderate to 0.5 percent in 2020 (0.2 percentage point higher than in the October 2018 WEO) following the implementation of the mitigating measures.

For the emerging market and developing economy group, growth is expected to tick down to 4.5 percent in 2019 (from 4.6 percent in 2018), before improving to 4.9 percent in 2020. The projection for 2019 is 0.2 percentage point lower than in the October 2018 WEO.

Growth in **emerging and developing Asia** is estimated at 6.5 percent in 2018 and is projected to register marginally slower growth rates of 6.3 percent and 6.4 percent in 2019 and 2020, respectively. Despite fiscal stimulus that offsets some of the impact of higher US tariffs, *China*'s economy is projected to expand by a lower and constant growth rate of 6.2 percent in both 2019 and 2020, following a higher estimated rate of 6.6 percent in 2018.

1 The Association of South-East Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand to promote political and economic cooperation and regional stability.

India's economy is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

Risks to the Global Outlook

Key sources of risk to the global outlook are the outcome of trade negotiations and the direction financial conditions will take in the months ahead. If countries resolve their differences without raising distortive trade barriers further and market sentiment recovers, then improved confidence and easier financial conditions could reinforce each other to lift growth above the baseline forecast. However, the balance of risks remains skewed to the downside (October 2018 WEO).

Thus, global trade, investment, and output remain under threat from policy uncertainty, as well as from other ongoing trade tensions. Failure to resolve differences and a resulting increase in tariff barriers would lead to higher costs of imported intermediate and capital goods and higher final goods prices for consumers. Beyond these direct impacts, higher trade policy uncertainty and concerns over escalation and retaliation would lower business investment, disrupt supply chains, and slow productivity growth. The resulting depressed outlook for corporate profitability could dent financial market sentiment and further dampen growth (Scenario Box 1, October 2018 WEO).

1.2 SUB-SAHARAN AFRICA

The Sub-Saharan African region is estimated to record growth of 2.9 percent in **2018** and is projected to expand at marginally higher growth rates of 3.5 percent and 3.6 percent in **2019** and **2020**, respectively. For both years the projection is 0.3 percentage point lower than last October's projection, as softening oil prices caused downward revisions of growth for both *Angola* and *Nigeria*. The headline numbers for the region mask significant variation in performance, with over one-third of Sub-Saharan African economies expected to grow above 5.0 percent during 2019–20.

The recent commodity price rebound supported the recovery of commodity-exporting countries. The recovery in growth since 2016 among Africa's commodity exporters has been driven by the rebound in commodity prices. This has helped oil exporters (notably Algeria, Angola, Chad, Congo, Gabon, Libya, and Nigeria) to recover but also pushed up inflation in oil-importing countries.

The **Nigerian** economy is estimated to have expanded by 1.9 percent in **2018** (from 0.8 percent in 2017) and to register marginally higher growth rates of 2.0 percent and 2.2 percent in **2019** and **2020**, respectively, mainly as the implementation of the Economic Recovery and Growth Plan is anticipated to gain momentum. However, the slide in oil prices from late 2018 coupled with an output cut imposed by the Organization of the Petroleum Exporting Countries pose downside risks to the economic outlook.

The estimated real GDP growth of 1.9 percent in 2018 essentially reflects a recovery in services, mining, quarrying, and manufacturing mainly on the back of the greater availability of foreign exchange in Nigeria. The growing importance of services has bolstered growth in the economy as that sector accounts for about half of GDP, dwarfing the 10 percent from oil and 22 percent from agriculture. Growth in agriculture was lacklustre, due partly to clashes between farmers and herders coupled with flooding in key middle-belt regions and continued insurgency in the northeast.

Nigeria accounts for nearly 20 percent of continental GDP and about 75 percent of the West African economy. Nigeria has been affirmed by the IMF as the biggest economy in Africa, ahead of South Africa and Egypt. Its outlook depends on the pace of implementing the Economic Recovery and Growth Plan, which anchors Nigeria's industrialization by establishing industrial clusters and staple crop processing zones to give firms a competitive edge through access to raw materials, skilled labour, technology, and materials.

The **Angolan** economy is estimated to contract by 0.7 percent in **2018** and is projected to emerge from recession with real GDP growth of 1.2 percent in **2019** and 3.2 percent in **2020**. The recovery will be driven mainly by the production and export of diamonds (growing by 8.2 percent), agriculture (5 percent), and construction (2.1 percent). Angola's economic outlook is also linked to implementing two medium-term plans: the Macroeconomic Stability Program addressing macroeconomic imbalances and the National Development Plan fostering stronger governance, sustainable and inclusive growth, and competitiveness in the non-oil sector.

High dependence on oil remains the key risk to Angola's outlook. Oil production fell by 9 percent in the first half of 2018 compared with 2017 due to declining investments, mostly in offshore fields. Angola's oil revenues may also suffer from US–China trade tensions if stringent tariffs slow China's economic growth and thus hamper its demand for crude oil.

The **South African** economy is estimated to grow by a meagre 0.8 percent in **2018** and is expected to expand at marginally higher growth rates of 1.4 percent and 1.7 percent in **2019** and **2020**, respectively. It is expected that the marginally higher growth rates over the 2019-20 period would be driven by increased exports on the back of the anticipated weak exchange rate despite subdued domestic demand. Furthermore, it is anticipated that private consumption will expand as wages are expected to increase moderately and investment is set to recover, albeit only moderately, due to policy uncertainties around the land reform debate and the governance of state-owned enterprises.

Stronger investment growth could provide a positive stimulus if policy uncertainties ease and structural reforms progress. The ANC manifesto (to be launched before the elections) is under scrutiny from investors as they are concerned about uncertainties around private commercial land property rights as the ANC resolved to expropriate commercial land without compensation in an attempt to serve the interest of the majority of the population.

South Africa depends heavily on exports of mineral resources, and although some commodity prices remain firm, the outlook is on the downside, especially because of expected weakening of global growth due to ongoing trade tensions.

Implications of the Global Outlook for Southern Africa and Namibia

The world economic challenges including disorderly finance, trade wars, policy uncertainty and geo-political re-alignment continue to undermine growth and development in Southern Africa, with direct implication for Namibia. Overall, the current economic landscape poses challenges to Namibia as a resource-intensive country and the slow rise in commodities' demand and prices will put a cap on how fast the Namibian economy will recover.

Regarding Brexit, the UK's position is that it will only negotiate and enter into separate trade agreements with other countries in the event that it leaves the EU without an agreement.

1.3 COMMODITY PRICES

Growing global trade tensions are weighing on non-energy commodity prices and are leading to downward revisions to the 2019 commodity price forecasts. (World Bank Commodity Markets Outlook, October 29, 2018).

Crude oil prices are estimated to average $72 per barrel (bbl) in 2018 (up from $53/bbl in 2017) and are anticipated to average $74/bbl in 2019. This represents a sizable upward revision from the April 2018 forecast. Moreover, risks to the oil price forecast are to the upside in the short-term, given the recent decline in spare capacity.

Prices for **energy commodities** – which include oil, natural gas, and coal - are forecast to average 33.3 percent higher in 2018 than the previous year but to broadly stabilize at 1.3 percent in 2019. U.S. oil production growth is expected to be robust whereas oil production losses are expected in Iran and Venezuela. Global demand is expected to hold steady.

Prices for **agricultural** commodities - including food raw materials - are estimated to decline by 0.4 percent in 2018 amid ample supply and trade tensions before rising by 1.65 percent in 2019.

The **metals** index is estimated to rise by 5.4 in 2018 and is anticipated to decline moderately by 0.2 percent in 2019. However, prices could drop more than expected if global trade frictions intensify.

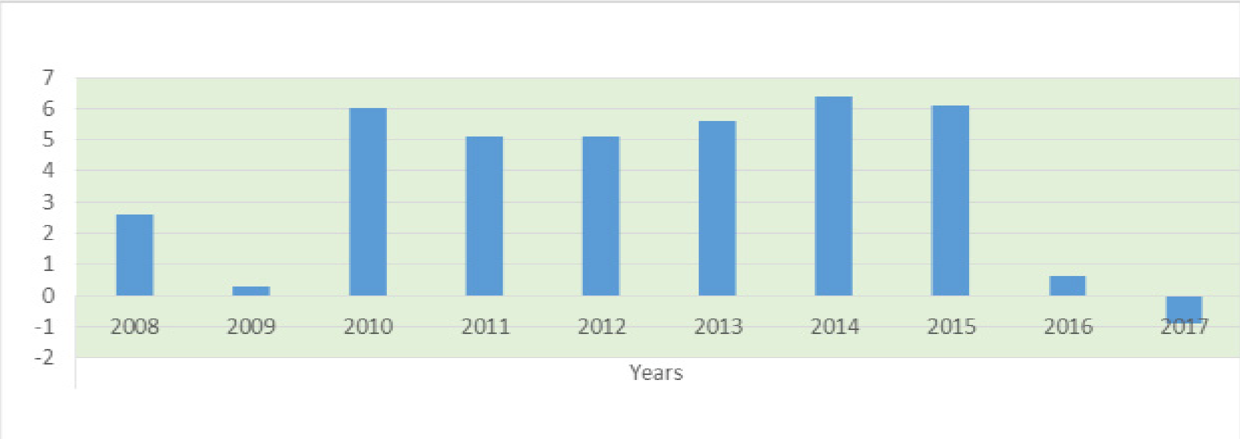
An assessment **energy and metal commodity markets** over the past twenty years shows that China has been the main driver of commodity demand growth, particularly for coal and metals, but that its demand is likely to slow while other emerging market economies are unlikely to emulate China.

2 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 GDP GROWTH

The domestic economy registered a contraction in real value added of 0.9 percent in 2017[2] compared to growth of 0.6 percent recorded in 2016. This is the lowest rate recorded over the last ten years. The decline resulted from weak performances in the secondary and tertiary industries that recorded declines of 6.7 percent and 1.4 percent respectively, owing to significant contractions in construction sector, as well as wholesale and retail trade. However, on the backdrop of good rainfall and increase in production of major export commodities, the primary industries in 2017 registered strong growth of 10.6 percent in real value added. (Figure 1)

Figure 1: GDP by activity constant 2010 prices – annual percent changes

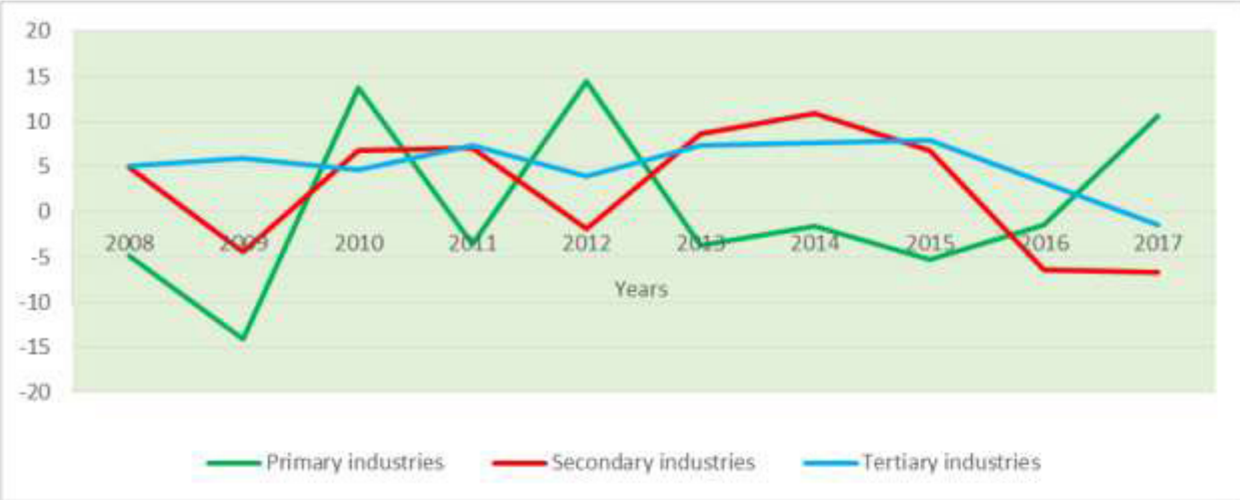


Source: Macroeconomic Working Group, January 2019

In real terms, the **primary industries** in 2017 performed relatively well, recording a double digit growth of 10.6 percent compared to a decline of 1.5 percent in 2016. However, the **tertiary** and **secondary industries** both recorded contractions in the same period. In particular, the tertiary industries recorded a decline of 1.4 percent compared to a growth of 3.2 percent in 2016. This marks the first time over the reporting period that the tertiary industries recorded a decline. The secondary industries continue to record declines of 6.7 percent compared to 6.4 percent in the preceding year. (Figure 2)

[2] *Annual National Accounts 2017*

Figure 2: Industry growth rates, constant 2010 prices – annual percent changes



Source: Macroeconomic Working Group, September 2018

(a) Primary industries

The ***agriculture and forestry*** sector is estimated to have recorded a strong growth of 12.6 percent in real value added compared to a growth of 1.5 percent recorded in 2016. The strong performance is attributed to livestock and crop farming subsectors that recorded growths in real value added of 13.7 percent and 11.0 percent, respectively.

On the other hand, **fishing and fish processing on board** for 2017 is estimated to have recorded a slow growth of 1.3 percent in real value added compared to 9.1 percent recorded in 2016. The slow performance can be mainly attributed to demersal landings that declined with 10.9 percent compared to a growth of 27.2 percent recorded in 2016.

The **mining and quarrying** sector is estimated to register a strong growth of 12.8 percent in real value added during 2017 compared to a decline of 5.8 percent recorded in 2016. The performance in the sector is attributed to all mining and quarrying subsectors that registered stronger growth rates in 2017 when compared to 2016.

(b) Secondary Industries

The **manufacturing** sector is estimated to have recorded a slow growth of 1.3 percent in real value added for 2017 compared to a strong growth of 5.6 percent recorded in 2016. The sluggish performance of the sector is due to most subsectors that did not perform well for the period under review.

In particular, the slow performance in this sector is mainly attributed to *meat processing* that registered a decline in real value added of 14.4 percent, other food products declining by 4.6

percent and textile & wearing apparel recording decline of 3.2 percent during the period under review.

The **utility sector (electricity and water)** slowed to 1.8 percent in real value added for 2017 from a strong growth of 6.8 percent in 2016. The performance is attributed to the water sub-sector that recorded a negative growth in real value added of 7.4 percent in 2017 compared to a growth of 2.6 percent recorded in previous year. The poor performance in the subsector is due to less demand for drinking water for livestock and humans.

Electricity supply subsector real value added growth rate in 2017 slowed down to 4.2 percent from 8.0 percent registered in 2016. This is owed to an increase in intermediate consumption due to large importation of power.

The **construction** sector is estimated to have recorded a negative growth in real value added of 25.6 percent during the period of 2017, compared to a negative growth of 26.3 percent recorded in the preceding year. The poor performance in the sector was mainly due to the construction works done by the mining and quarrying sector and government sector that declined in 2017 by 64.4 percent and 29.0 percent in real terms compared to declines of 65.2 percent and 13.9 percent recorded in 2016, respectively.

(c) Tertiary Industries

The ***wholesale and retail trade*** sector is estimated to have registered a contraction of 7.5 percent in real value added during 2017 compared to growth of 3.1 percent recorded in 2016. The performance of the sector is reflected in the sales of vehicle and furniture subsectors that recorded negative growths of 24.5 percent and 3.0 percent, while clothing, wholesalers and supermarkets sales recorded slower growth rates.

Hotels and restaurants is estimated to have recorded a decline in real value added of 1.1 percent in 2017 compared to a growth of 3.5 percent recorded in 2016. The performance in the sector is attributed to both subsector hotels' and restaurants' that registered declines in real value added of 1.2 percent and 1.0 percent in 2017 compared to strong growths of 1.9 percent and 7.1 percent recorded in 2016, respectively.

The **transport and communication** sector is estimated to have recorded a slow growth of 0.8 percent in real value added in 2017 compared to a strong growth of 7.0 percent recorded in 2016. The slow performance in the sector is mainly attributed to subsectors such as freight transport by road (1.7 percent), telecommunications (1.9 percent) and post & courier services (2.7 percent) that recorded slower growth rates in real value added during the period under review.

Year-on-year, the **financial intermediation** sector growth remained constant, recording 2.8 percent in real value added during the period under review. Mixed results are observed in the subsectors of financial intermediation, with insurance subsector recording an increase of 4.1 percent in real value added in 2017 compared to 1.7 percent registered in 2016.

The growth in real value added for the **real estate and business services** sector slowed to 0.9 percent in 2017 compared to the growth of 1.0 percent registered in 2016. The performance is due to other business services subsector that declined further to 4.6 percent in 2017, from a contraction of 3.8 percent in 2016. *Real estate* activities is estimated to have recorded a growth of 2.7 percent in real value added during 2017 compared to 2.6 percent registered in 2016.

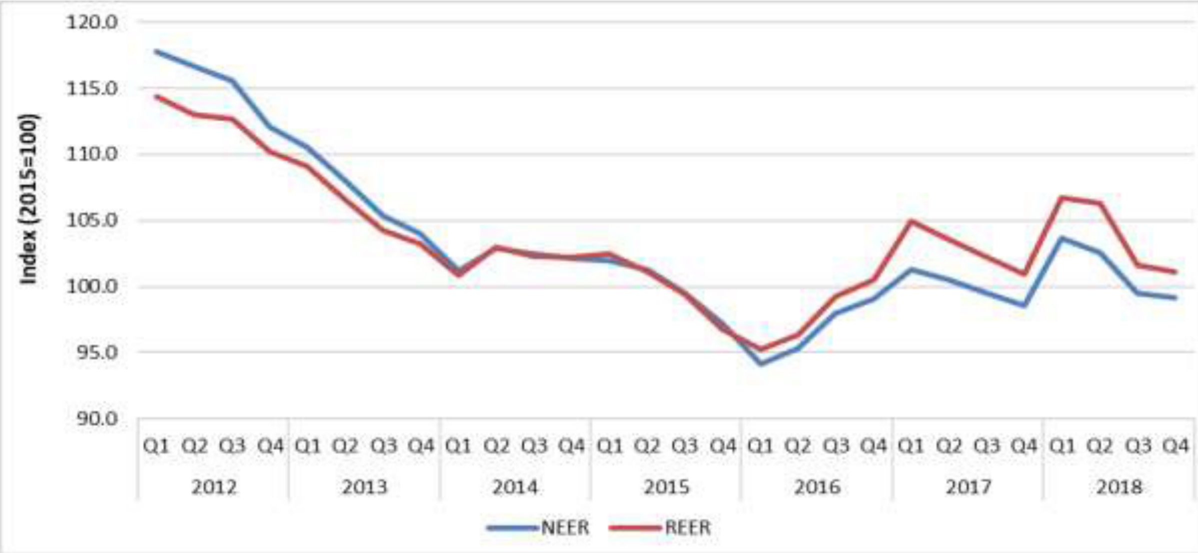
Public administration and defence which include central government administrative activities, statutory bodies and local government activities, is estimated to have recorded a slow growth in real value added of 0.3 percent in 2017 compared to a growth of 3.3 percent recorded in 2016.

The sub-sector *central government administration* recorded a contraction of 0.9 percent in real value added in 2017 compared to a growth of 3.0 percent in 2016. The contraction is mainly driven by government's fiscal consolidation.

2.1.1 Exchange Rates and Competitiveness

Namibia's nominal effective exchange rate (NEER) appreciated by 0.6 percent year-on-year between the fourth quarter of 2017 and the fourth quarter of 2018. Similarly, the real effective exchange rate (REER) appreciated by 0.2 percent over the same period, indicating that Namibian products became less competitive on international markets. Quarter-on-quarter, the NEER and REER depreciated by 0.4 percent and 0.5 percent between the third and fourth quarter of 2018, respectively. (Figure 3)

Figure 3: Effective Exchange Rates, 2012 to 2018

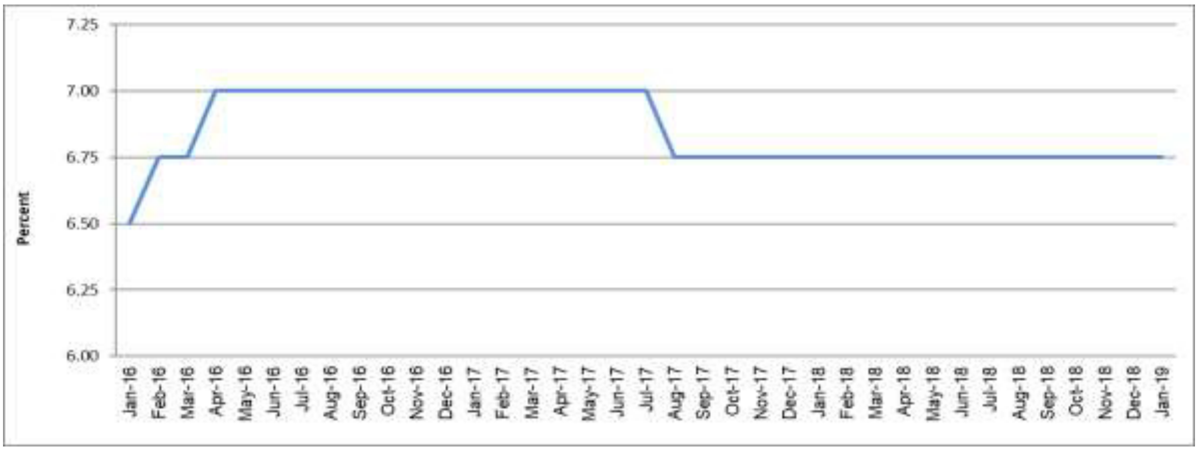


Source: Bank of Namibia, February 2019

2.1.2 Interest Rate Developments

The Monetary Policy Committee of Bank of Namibia left its key policy rate unchanged at 6.75 percent since its August 2018 meeting throughout to its latest meeting in February 2019. This level is deemed appropriate to continue supporting domestic economic growth, while maintaining the one-to-one link between the Namibia Dollar and South African Rand. Moreover, annual average inflation for 2018 was lower at 4.3 percent compared to 6.2 percent for 2017, mainly on account of lower housing and food inflation. Consequently, encouraging the MPC to leave the repo rate unchanged as there was no upward pressure on prices (Figure 4). In the recent months, however, inflation increased, recording 5.1 percent in December 2018 and 47 percent in January 2019.

Figure 4: Bank of Namibia Repurchase Rate, 2016 to 2019



Source: Bank of Namibia, February 2019

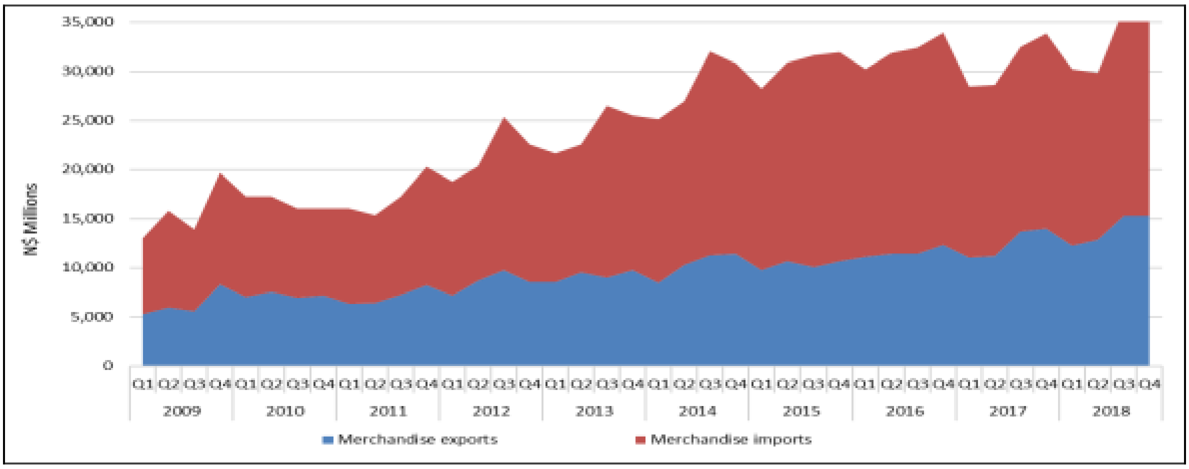
2.1.3 Trade and Balance of Payments

Merchandise exports from Namibia increased on an annual basis by 9.1 percent to N$15.3 billion during the fourth quarter of 2018, when compared to the corresponding quarter of 2017 (Figure 5). The increases in merchandise exports came from *other mineral products* (mainly uranium) and *food and live animals*.

Similarly, merchandise imports increased by 1.1 percent annually, to N$20.0 billion in the fourth quarter of 2018 (Figure 5). The rise in merchandise imports was due to an increase in expenditure on some of the major import categories, especially *mineral fuels and oils and products of their distillation, products of chemical industries* together with *base metals and article of base metals*.

On the net basis, the merchandise trade deficit (covering goods only) narrowed to N$4.7 billion in the fourth quarter of 2018, from N$5.8 billion in the fourth quarter of 2017. This amounts to an 18.3 percent annual improvement in the merchandise trade deficit, which is attributable an increase in exports.

Figure 5: Exports and Imports of goods (N$ millions), 2009 to 2018



Source: Bank of Namibia, February 2019

2.1.4 Current Account Balance

Namibia's current account deficit narrowed on an annual basis to N$2.4 billion in the fourth quarter of 2018, compared to a much higher deficit of N$4.2 billion in the fourth quarter of 2017 (Figure 6). This was mainly attributed to the improvement in the merchandise trade deficit. On the contrary, the current account balance worsened by N$1.0 billion on a quarterly basis, from N$1.4 billion recorded in the third quarter of 2018.

Figure 6: Current Account Balance (N$ millions)

Source: Bank of Namibia, February 2018

2.1.5 Capital Account

The capital account balance increased on an annual basis to N$458 million, mainly due to a notable rise in capital transfers received from the rest of the world during the fourth quarter of 2018. Similarly, inflows on the capital account improved from N$438 million recorded in the fourth quarter of 2018, reflecting a quarter-on-quarter rise in capital transfers in the form of donations to local non-governmental organizations.

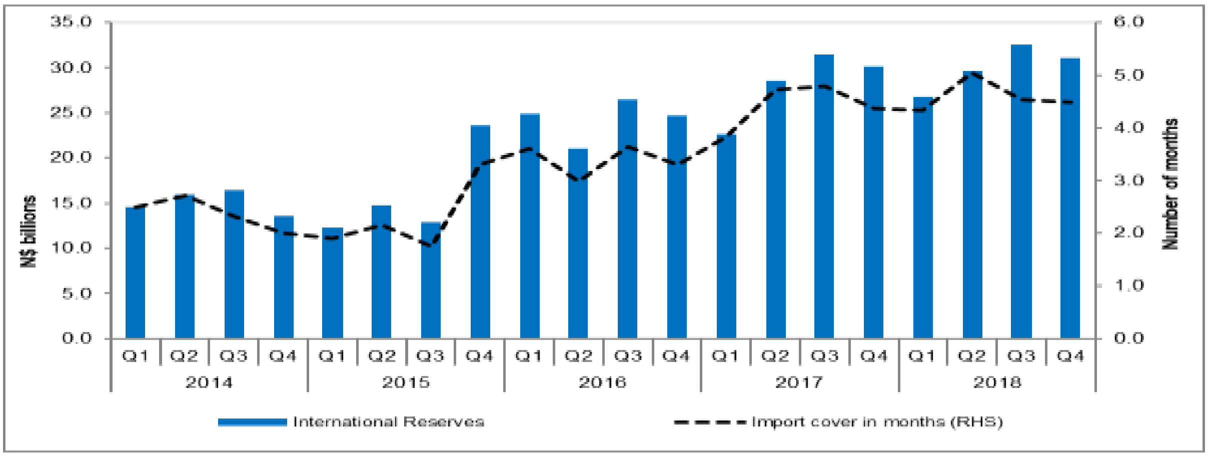
2.1.6 Financial Account

The financial account balance reduced on an annual basis by N$402.7 million to N$1.7 billion during the fourth quarter of 2018. The annual developments can be attributed to reduced inflows in the form of portfolio investment and other investments, coupled with increased direct investment outflows. Likewise, the financial account balance declined on a quarterly basis during the fourth quarter of 2018 due to decreased reserve assets and outflows in other investments.

2.1.7 International Reserves

At the end of 2018, the stock of international reserves held by the Bank of Namibia increased due to capital inflows. The stock of foreign reserves rose by 2.8 percent over the year to stand at N$31.0 billion at the end of December 2018 (Figure 4). The annual rise in reserves was primarily due to the second tranche of the African Development Bank (AfDB) loan to the Namibian Government and inflows from SACU receipts. The estimated import cover of 4.5 months was a slight improvement when compared to 4.4 months recorded in 2017.

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



Source: Bank of Namibia, February 2019

2.2 OUTLOOK FOR THE DOMESTIC ECONOMY

2.2.1 SUPPLY-SIDE PROJECTIONS

Three scenarios of economic growth were developed in order to reflect the different likely outcomes that depend on the intensity of the impact of different factors (mostly external) on the global and domestic economies. To that effect, the optimistic growth scenario, central growth scenario, and pessimistic growth scenarios were developed (Table 2).

Table 2: Different scenarios of GDP growth - annual percent changes

	2017	2018	2019	2020	2021	2022
Optimistic growth scenario	-0.9	1.0	1.2	2.2	2.3	2.4
Central growth scenario	-0.9	-0.5	0.2	0.8	1.1	1.5
Pessimistic growth scenario	-0.9	-0.8	-0.4	-0.3	0.1	0.5

Source: MEWG, January 2019

The **optimistic growth scenario** is expected to prevail if all economic fundamentals play out perfectly, such that the economy grows on the back of good commodity prices (diamond, uranium, gold, copper and zinc), the construction, agriculture (good rainfall patterns) and utility sector post good growth rates, the labour market dynamics improve, demand is restored due to increased private sector credit extension and disposable income levels rise. This scenario is likely to transpire when the downside risks (below) do not materialize.

The **pessimistic growth scenario** would depict the opposite of the optimistic scenario and is likely to transpire when the downside risks materialise. In this scenario, the economic fundamentals fail to play out well and the recession is anticipated to continue and deepen due to low commodity prices, contractions in the key sectors, depressed utility sector, labour market rigidity, low demand is restored due to decreased private sector credit extension and low disposable income levels.

On the other hand, the **central growth scenario** is based on the assumption that only some of the downside risks would materialise and that there would still be room for moderate growth. The outlook for economic growth over the medium term period is based on this growth scenario.

Downside risks to economic growth

The following are some of the most likely downside risks to economic growth over the medium term period:

- The intensity of the trade wars[3] (mostly between China and the US);
- US sanctions on Iran (effect oil prices);
- Depreciation of the Namibia Dollar (increased cost as almost all inputs)
- Geopolitical tensions in the middle-east;
- Low commodity prices;
- Erratic rainfall patterns;
- Tightening financial conditions in emerging market economies;
- High sovereign debt built up;
- Negative perceptions over land issues in Namibia and South Africa;
- Brexit remains a risks due to uncertainties given their current predicament[4]

CENTRAL GROWTH SCENARIO FOR THE DOMESTIC ECONOMY[5]

Namibia's economic growth over the medium term period is premised on the central growth scenario. To that end, the GDP is estimated to contract by 0.5 percent in **2018** (revised downwards by 1.7 percentage points[6]), which is higher than the decline of 0.9 percent

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[3] *While the current uneven pace of global economic recovery remains a worldwide concern, the outlook is clouded by ongoing trade tensions between the US and China, EU, Canada, and others. An escalation of trade tensions could undermine business and financial market sentiment, hitting investment and trade through supply chain disruption, non-linarites (job multipliers, confidence effects) and cross-country spill-over effects, slow the spread of new technologies and potentially lowering world productivity.*

[4] *Regarding Brexit, the UK's position is that it will only negotiate and enter into separate trade agreements with other countries in the event that it leaves the EU without an agreement; etc.*

[5] *The aggregated growth rates are contained Annex 1*

[6] *From the growth projections in the Fiscal Strategy for the 2018/19-2020/21 MTEF*

recorded in 2017. The contraction in 2018 is attributed to the contraction of the secondary and tertiary industries despite the strong growth of the primary industries. (Table 3)

Table 3: GDP Projections, Supply Side - annual percent changes

	Actual	Jan 2019 Projections			Difference: Jan 2019 projections and those in the Fiscal Strategy FY2018/19-2020/21		
	2017a	**2018e**	**2019p**	**2020p**	**2018e**	**2019p**	**2020p**
Primary industries	10.6	4.0	3.1	1.2	2.0	-0.9	**-2.1**
Secondary industries	-6.7	-5.9	-1.8	0.0	-7.2	-4.4	-2.7
Tertiary industries	-1.4	-1.1	-0.1	0.9	-2.1	-1.6	-2.1
GDP at market prices	**-0.9**	**-0.5**	**0.2**	**0.8**	**-1.7**	**-1.9**	**-2.2**

Source: MEWG, January 2019 ***a=actuals, e=estimates, p=projections***

GDP growth is expected to bottom out of contraction in **2019** with the rate of 0.2 percent (revised downwards by 1.9 percentage points) on the back of sustained growth in the primary industries and moderate recoveries in both the tertiary and secondary industries. For **2020** and the remainder of the medium term period, the economy is expected to record a modest average growth rate of 1.1 percent as all the industries are expected to sustain stable but moderate growth rates.

2.2.1.1. Primary industries

The primary industries are estimated to record strong growth of 4.0 percent in **2018** (revised upwards by 2.0 percentage points), compared to the robust growth rate of 10.6 percent in 2017. The strong growth is attributed to solid expansion in *mining and quarrying* (9.7 percent) despite the meagre growth in *agriculture and forestry* (0.4 percent) and the contraction in *fishing and fish processing on board* (10.5 percent). (Table 4, disaggregated growth rates).

Growth in **2019** is expected to record 3.1 percent (revised downwards by 0.9 percent) on the back of good growth in *mining and quarrying* (8.6 percent) despite the contractions in both *agriculture and forestry* (5.2 percent) and *fishing and fish processing on board* (5.1 percent). For **2020**, the primary industries are projected to expand by a moderate 1.2 percent (revised downwards by 2.1 percent) and is anticipated to stablilise around the average growth rate of 2.3 percent over the remainder of the medium term period as all the sectors are anticipated to expand moderately, safe for *agriculture and forestry* that is subjected to the upside risks of fluctuating weather patterns.

Mining and quarrying

Mining and quarrying is estimated to expand by 9.7 percent in **2018** due the phenomenal increase in both *uranium production* (24.0 percent) and *diamond production* (12.0 percent). *Metal ores* are estimated to contract by 6.5 percent due to the declining output of *zinc* and *gold*. For **2019**, the sector is expected to expand by 8.6 percent, driven by sustained robust growth in *uranium* and the strong recovery of *metal ores* due to the completion of the pushback[7] process to access additional higher grade zinc ore.

Growth for **2020** and the remainder of the medium period is expected to stabilise around the average rate of 2.1 percent in line with the long term growth trajectory of the sub-sectors.

Agriculture and forestry

Growth of *agriculture and forestry* is estimated at a meagre 0.4 percent in **2018**, mainly due to substantially slower growth in both *livestock farming* and *crop farming and forestry* sub-sectors. The contraction in the *livestock farming* sub-sector (to 0.4 percent from 12.6 percent in 2017) is indicated in the reduced volumes of livestock export to South Africa due to high sell off during 2017, while growth in 2019 is expected to contract due to the delayed rainfall during the 2018/19 rainfall season (drought conditions) whereas the *crop farming and forestry* sub-sector slowed down (to 1.0 percent from 11.0 percent) as a result of the impact of the erratic rainfall patterns.

The sector is expected to contract by 5.2 percent in **2019**, mainly due to the impact of the expected adverse weather conditions[8], as well as the FMD outbreak in South Africa. For **2020** and the remainder of the medium term period, the sector is expected to post a marginally higher average growth rate of 1.9 percent on the back of the anticipated implementation of the selective import substitution strategy[9] for the *crop farming* sub-sector, the revised livestock export strategy[10] for small stock and expected better weather conditions.

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[7] *Push-back is the deepening of the open pits to remove waste material in order to access the ore by (Skorpion Zinc Mine). The basic objective is to create a pushback shape which attempts to meet defined primary targets, such as ore tonnage, stripping ratios or better ore grade.*

[8] *The El Nino weather forecast for Sub-Saharan Africa which caused low rainfall last season and affected crop harvests in the SADC region negatively. The drought is expected to worsen this rainy season. (SADC Directorate for Food, Agriculture and Natural Resources, August 2018)*

[9] *If the production of a specific crop is deemed sufficient for local consumption, then the importation of that particular crop would be banned, until such time that the total production is fully consumed and there is need for more.*

[10] *The live export-local slaughter ratio for small stock of 1:6 has been revised to 1:1 as it impacted adversely on the profitability of the primary producers because the prices in SA (for on-the-hoof exports) were higher than the prices offered by the local abattoir prices for both small and large stock.*

Fishing and fishing processing on-board

The sector is estimated to contract by a massive 10.5 percent in **2018** due to adverse factors such increased input costs (purchase of additional quotas, high oil prices), lower TACs (total allowable catches, for some species), uncertainties with regard to the allocation of new fishing rights and quotas, exchange rate fluctuations, declining landings, adverse oceanic/environmental conditions, declining investment in the sector, the moratorium on pilchards, etc.

However, the sector is expected to improve gradually by recording a relatively lower contractions of 5.9 percent and 1.9 percent in **2019** and **2020**, respectively, and eventually bottom out of recession with the moderate average growth rate of 2.3 percent over the remainder of the medium term period.

2.2.1.2. Secondary industries

The secondary industries are estimated to contract by 5.9 percent (revised downwards by 7.2 percentage points) in **2018**, compared to the deeper decline of 6.7 percent in 2017. The contraction is due to the deep decline of the *manufacturing* and *construction* sectors by 5.8 percent and 10.3 percent, respectively. The contraction in *manufacturing* is due to contractions in invariably all of its sub-sectors, except for *diamond processing.*

Growth is expected to improve marginally by registering a lesser contraction of 1.8 percent in **2019** (revised downwards by 4.4 percentage points and is anticipated to record a dismally low average growth rate of 0.9 percent over the remainder of the medium term period despite the expected stable yet moderate average growth rate of 3.5 percent in *construction.*

Manufacturing

The *manufacturing* sector is estimated to contract by 5.8 percent in **2018** mainly due to the decline in the major sub-sectors like *meat processing* (7.6 percent)*, beverages* (6.7 percent)*, other food products* (2.4 percent) and *basic non-ferrous metals declined* (15.4 percent), with the exception of *diamond processing* that is estimated to grow by 4.8 percent.

Meat processing contracted by 7.9% in 2018 due to limited stock that was made available for processing, which resulted in the closure of several abattoirs[11]. However, it is anticipated that

[11] *This was due to the fact that the primary producers were attracted by the superior prices offered by the feedlots in SA. This took a severe toll on the growth of the sub-sector. This scenario is likely to change over the medium term period based one of the resolutions taken at the Second Land Conference that directs the line Ministry to open several abattoirs to cater for the communal cattle farmers north of the veterinary cordon fence*

meat processing would be boosted over the medium period by the national drive to resuscitate/open dormant abattoirs in the northern regions to enable the communal cattle farmers north of the veterinary cordon fence to optimise the supply of beef to the public institutions. The contraction of *beverages* (-6.7%) was mainly affected by the slow economic downturn, optimal production in SA plant and water restrictions that were imposed due to the prevailing drought situation.

Other food products was impacted adversely by lower fish landings, decreased diary production, high input costs and lower demand due to subdued economic situations. Growth of *basic non-ferrous metals* declined significantly due to the decrease in refined zinc production. On the other hand, *diamond processing* is estimated to register strong growth due to higher production that resulted in the increase in the carats of diamonds processed.

Growth of *manufacturing* is anticipated to contract by a lesser 3.1 percent in **2019** and, thereafter, decline by an average rate of 2.7 percent remain over the remainder of the medium term period.

Electricity and water

The sector is estimated to grow by 3.2 percent in **2018** on the back of increased electricity output due to higher electricity output as cheaper imports contribute to higher value addition and increased local generation (renewable energy sources). In addition, increased water output as a result of increased demand for human and livestock consumption as well as the relaxation of the imposition of water restrictions.

Growth in **2019** is expected to moderate to 4.3 percent and attain the average growth rate of 0.2 percent for the remainder of the medium term period due to the impact of the anticipated negative impact if the ElNino weather phenomenon that is forecasted for Sub-Saharan Africa as it may affect hydro power generation but offset increased water output.

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to optimize their supply of beef to the public/state institutions in those regions. This creates a vital market niche because the beef from those regions do not meet the strict import requirements of the international markets.

Construction

Construction is estimated to decline by 10.3 percent in **2018** (following a very deep decline of 26.5 percent in 2017), mainly due to absence of significant new capital projects, except for the implementation of the on-going public infrastructure projects[12].

Growth is expected to register a marginally lesser contraction of 1.9 percent in **2019** and is anticipated to bottom out of recession with 5.6 percent in **2020.** Thereafter, it is expected to maintain a moderate but stable average growth rate of 2.4 percent over the outer years of the medium term period on the back of the anticipated implementation of the government's capital expenditure programme that will be sustained through the AfDB-supported infrastructure development programme.

2.2.1.3. Tertiary industries

The tertiary industries are estimated to contract by 1.1 percent in **2018** (revised downwards by 2.1 percent), due to the decline in the main sub-sectors of *wholesale and retail trade, repairs (6.5 percent), hotels and restaurants (3.2 percent), transport and communication (1.0 percent) and real estate and business services 0.7 percent).* Growth is expected to decline by 0.1 percent (revised downwards by 1.6 percentage point) and 0.9 percent (revised downwards by 2.1 percentage point) in **2019** and **2020**, respectively.

Wholesale and retail trade, repairs

Wholesale and retail trade, repairs is estimated to contract by 6.5 percent **2018** due to lower consumer demand as a result of the depressed economic situation. The decline in consumer demand is primarily attributed to reduced disposable income as a result of high oil prices, exchange rate volatility, and depressed labour market absorption that translates into job losses.

Growth is expected to register lesser contractions of 3.1 percent and 0.1 percent in **2019** and **2020,** respectively, and is anticipated to gradually bottom out of recession during the outer years of the medium term period. The gradual recovery is assumed on the back of anticipated increase in domestic consumer demand in line with the expected recovery in domestic economic growth, expected easing of the government's fiscal consolidation, recovery of the

[12] *The Windhoek-Okahandja dual carriage road; Windhoek-Hosea Kutako International Airport road; the construction of the office buildings for the Ministry of Home Affairs and Immigration; Nedbank head office as well as several residential housing projects in Windhoek (Otjomuise, Khomasdal, Rocky Crest, etc). However, it should be noted that the contraction in 2018 also stems from the low execution of capital projects, which to date stands at 67.1 %(February 2019).*

Angolan economy on the back of improved commodity prices (mostly oil) and the diversification of that economy.

Hotels and restaurants

Growth of *hotels and restaurants* is estimated to contract by 3.2 percent and 3.6percent in **2018** and **2019**, respectively, mainly due to the continued impact of the government's fiscal consolidation stance on public conferencing as well as the decrease in the number of bed/room occupancy rates despite the increase in tourist arrivals[13] and appreciating of the exchange rate.

For **2020** and beyond, the sector is expected to bottom out of recession and record moderate average growth rate of 1.3 percent over the remainder of the medium term period, mainly on the back of the anticipated easing of the government's fiscal consolidation stance and continued improvement in the global economy.

Transport and communication

The sector is estimated to contract by1.0 percent in **2018** as the *storage* and *transport* sub-sectors are expected to post contractions while strong growth in the *post and telecommunications* is expected to boost performance in the sector, just not enough to offset the impact of the contractions in the other two subsectors. The strong growth in *post and telecommunications* is estimated to be boosted by increased sector innovations and investments[14], while *transport* and *storage* are estimated to contract mainly as a result of decreased economic activities from the mining sector due to the completion of major projects and railway bottlenecks.

For **2019** and over the remainder of the medium term period, growth of the sector is expected to post moderate average rate of 0.2 percent, mainly on the back of anticipated increased exports from the mining sector.

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[13] *Growth of the sector is adversely affected by the decrease in the bed/room occupancy rates due shorter periods spent in Namibia because of low disposable income and the increasing SSA-regional spread of the tourist destinations. Another contributing factor is the preference for all-inclusive camping with fully-equipped all-terrain vehicles at the expense of bed/room occupancy that is the indicator for growth. Government conferencing and corporate occupancy dropped by 34 percent and 26 percent during the 2017-2018 financial year.*

[14] *Based on the construction of mobile telecommunications towers by MTC (523) and maintenance and audit of towers by Powercom (around 300).*

Financial intermediation

The sector is estimated to register a low growth rates of 1.4 percent in **2018** (compared to 2.8 percent in 2017) due to the slower expansion in private sector credit extension (PSCE), lower disposable income levels, increased non-performing loans, impact of fiscal consolidation and the implementation of stringent regulations in the sector (for example the loan-to-value conditions).

It is anticipated to grow by a higher growth rate of 2.4 percent in **2019** and, thereafter, expand by a moderate average growth rate of 3.2 percent over the remainder of the medium term period, mainly on the back of the expected improvement in the economic growth dynamics that are anticipated to steer it back to its long term growth trajectory.

Real estate and business activities

The sector is estimated to contract by 0.7 percent in **2018** due to declines in both *real estate activities* and *other business services* sub-sectors.

For **2019** and over the remainder of the medium term period, growth is expected to be subdued by contracting at the average rate of 0.7 percent, dragged down by the contraction in *real estate activities despite* the marginal recovery in *other business services* on the back of the anticipated improved delivery of serviced land by local authorities. The latter is expected to be complemented by property developers that are increasingly inclined to target lower-end customers in smaller towns due to lower cost considerations and implications.

Public administration and defence

Growth of the sector is estimated at 0.5 percent in **2018** and is expected to expand to 1.2 percent in **2019** and, thereafter, maintain a meagre average growth rate of 1.6 percent over the remainder of the medium term period, mainly on the back of the impact of the anticipated easing of the government's fiscal consolidation strategy as well as the expected recovery of the subdued domestic economy.

Education

The education sector is estimated to grow 1.5 percent in **2018** and is expected to expand to 1.8 percent in **2019** and, thereafter, maintain a paltry moderate average growth rate of 1.8 percent over the remainder of the medium term period. The medium term growth trajectory is premised on the back of the likely impact of the anticipated increase[15] in the personnel intake due to the implementation of the new school curriculum.

Health

The health sector is estimated to grow by 2.4 percent in **2018** and is expected record to record no growth in **2019** and, thereafter, a relatively strong average growth rate of 3.1 percent over the remainder of the medium term period, mainly on the back of the anticipated increase in personnel intake. Health facilities are understaffed since the government ceased the recruitment of new personnel over the past two years.

2.2.2 DEMAND SIDE PROJECTIONS

Final consumption expenditure (FCE) is estimated to grow by a meagre 0.3 percent in **2018** (revised downwards by 1.8 percent), compared to the contraction of 3.3 percent in 2017. The negligible growth is attributed to marginal growth in *private consumption* despite the contraction *general government consumption.* It is expected to grow slightly better in **2019** by recording growth of 2.1 percent, driven by the anticipated strong recovery in *general government consumption.* However, it is expected to record a negligible average growth of 1.9 percent over the remainder of the medium term period in line with its long term growth trajectory. (Table 3)

Private consumption expenditure is estimated to improve substantially with growth of 1.6 percent in **2018 (**compared to a contraction of 5.0 percent in 2017), attributed to growth in private sector credit extension, despite high levels of indebtedness and weak disposable income of households which resulted in weaker consumer demand. However, it is expected to recover marginally in **2019** with the growth rate of 1.9 percent and maintain an insignificant average growth rate of 1.7 percent over the medium term period as private sector demand is anticipated to improve gradually in line with the expected improvement in the lacklustre economic situation.

General government consumption is estimated to decline by 3.4 percent in **2018** (compared to growth of 1.9 percent in 2017). The decline is due to the impact of the government's

[15] *It is expected that the vacancies for teachers that were advised in September 2018 will filled during 2019 as the learner-teacher ratio in public schools increased due to, among other factors, the introduction of the new curriculum.*

continued fiscal consolidation stance, as non-interest payment expenditure in real terms contracted. However, it is expected to recover significantly in **2019** by recording a good growth rate of 2.7 percent and, thereafter, maintain a moderate average of 1.6 percent over the remainder of the medium term period.

Table 4: GDP by activity, Demand-side - annual percent changes

	2017	2018	2019	2020	2021	2022
Final consumption expenditure	-3.3	0.3	2.1	-0.3	1.5	2.7
Private	-5.0	1.6	1.9	-0.7	1.3	2.9
General government	1.9	-3.4	2.7	0.9	1.9	2.1
Gross fixed capital formation	-24.4	-4.1	-8.7	4.4	2.1	1.0
Gross domestic expenditure	-8.2	0.1	0.9	0.7	2.8	2.9
Exports of goods and services	-12.1	2.2	2.8	1.7	7.1	4.5
Imports of goods and services	-18.0	1.2	2.1	0.6	5.5	5.0
GDP at market prices	**-0.9**	**-0.5**	**0.2**	**0.8**	**1.2**	**1.6**

Source: MEWG, January 2019

Gross fixed capital formation (GFCF) is estimated to decline by a lesser 4.5 percent in **2018** (revised downwards by 570 percentage points), compared to a massive contraction of 24.4 percent in 2017. The lesser contraction is attributed to the slowdown in private investments as a result of the slowdown in private sector credit extension as well as the slow/delayed implementation of public infrastructure projects, with the exception of the ongoing capital projects.

GFCF is expected to record a deeper contraction of 8.7 percent in **2019** and, thereafter, improve over the remainder of the medium term period with the average growth rate of 2.5 percent due to anticipated improvement of economic fundamentals and growth dynamics as well as the anticipated increase in the number of new of capital projects[16]. Furthermore, it is anticipated that the government's clear policy pronouncements and resolutions taken at the Second Land Conference[17] would boost investor confidence and, thus, translate into an increase in GFCF over the medium and long term timeframe.

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[16] *This is based on the assumption that the government's capital expenditure programme will be sustained through the implementation of the AfDB-supported public infrastructure development programme.*

[17] *The resolutions taken at the Conference that took place during 08-12 October 2018 covered critical positions with regard to, inter alia, absentee and foreign land ownership, guarantee and protection of property rights, suspension of the willing-buyer willing-seller concept, ancestral land claims, veterinary cordon fence, etc.*

Exports are estimated to grow by 2.2 percent in due **2018** (revised downwards from 0.8 percent), compared to a deep contraction of 12.1 percent in 2017. The strong recovery is attributed to the anticipated increase in the exports by *mining and quarrying*, especially diamond and uranium mining, despite the decrease in the production of *metal ores* (copper, zinc and gold). For **2019** and over the medium term period, exports are projected to register a strong average growth rate of 4.1 percent on the back of the anticipated stable production levels in all the sub-sectors of *mining and quarrying*.

Imports are estimated to record a moderate growth of 1.2 percent in **2018** (revised upwards from a contraction of 1.9 percent), compared to massive contraction of 18.0 percent in 2017. The moderate growth is attributed to increase in consumer goods by the private sector supported by the marginal growth in private sector credit extension despite the subdued economic environment, and high household indebtedness. For **2019** and beyond, imports are expected to record a good average growth of 3.3 percent on the back of the anticipated normalisation of the lacklustre economic situation.

3 FISCAL POLICY REVIEW

3.1 Fiscal Trends and Policy Framework

3.1.1 Global Fiscal developments and outlooks

The global fiscal environment remains weak, amidst lusterless global economic performance and slow recovery in commodity prices. The public debt build up remains a major concern across the globe, despite the narrowing deficit across many countries. In this regards, countries are now turning to Public Sector Balance sheet as a way of managing public wealth and curbing fiscal deficits. Broadening the focus to public wealth sheds light on the assets that governments control, as well as on non-debt liabilities that receive scant attention in standard analysis, (IMF Global Fiscal Monitor, October 2018).

Global Debt

The high public debt in many countries is being driven by large fiscal deficits, which have been high across almost all economies since 2014. However, normalization of fiscal deficit has been observed in the advanced economies, and starts narrowing in the emerging and developing economies. The table below provides highlights of public debt level across the world's economic regions.

Table 5: World Public Debt as percentage of GDP

Region/Country	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Actual	Actual	*Estimate*	*Projection*
World Gross Debt	**79.8**	**78.5**	**78.8**	**80.0**	**83.1**	**83.1**	**82.1**	**81.9**
Advanced Economies	106.6	105.2	104.6	104.2	106.7	104.5	103.8	103.6
United States	103.3	104.9	104.6	104.8	106.8	105.2	106.1	107.8
Euro area	89.6	91.5	91.7	89.8	88.8	86.6	84.4	82.0
Japan	229.0	232.5	236.1	231.3	235.6	237.6	238.2	236.6
United Kingdom	84.1	85.2	87.0	87.9	87.9	87.5	87.4	87.2
Canada	84.8	85.8	85.0	90.5	91.1	89.7	87.3	84.7
Emerging markets and developing economies	37.4	38.7	40.7	44.0	46.9	48.7	50.7	52.2
Namibia*	**24.4**	**23.5**	**25.4**	**24.6**	**42.6**	**40.6**	**46.3**	**48.9**
South Africa*	41.1	43.7	46.5	48.9	50.6	52.7	55.6	56.2
Europe: Other	72.2	74.6	75.0	73.9	73.2	32.3	68.9	66.9
Russia	11.9	13.1	16.0	16.3	16.1	15.5	15.3	15.4
China	34.3	37.0	39.9	41.1	44.2	47.0	50.1	53.9
India	69.1	68.5	67.8	70.0	69.5	71.2	69.6	68.1
Latin America and Caribbean	48.0	48.6	50.6	54.4	57.8	61.1	65.0	65.1
Brazil	62.2	60.2	62.3	72.6	78.4	84.0	88.4	90.5
Sub-Saharan Africa	23.1	24.5	26.2	31.6	36.6	39.2	41.7	42.0

Source: IMF, Fiscal Monitor, (October 2018), Namibian data adopted from National Budget, Ministry of Finance. SA figures adopted from SA Budget.

In Emerging Markets and Middle-income economies and Low Income Developing countries, debt accumulation continue to accelerate due to prolonged fiscal deficits arising from counter cyclical policies needed to counteract the effect of the global crisis, and subsequent setback and the effect of the upsurge in oil price experienced toward the second half of 2018 as well as financial market and currency volatility. Also the ongoing war on price between the US and China poses a threat of turning the global player towards trade protectionism and reverse the gain achieved over the past years, which has the potential to ward down the potential growth that can be achieved via accelerated trade.

Public debt dynamics and capital flows in these groups of countries are now aggravated by monetary policy normalization in Advanced Economies as growth momentum strengthens owing to the cyclical upswing in economic activity.

The prevalence of high public debt remains a serious concern, notwithstanding various country circumstances and taking into account the following reasons:

- high public debt levels causes a drag on growth, mostly because elevated debt levels make it difficult to conduct countercyclical fiscal policy, owing to erosion of fiscal space and the resultant narrow room for policy options.
- high government debt has associated debt servicing obligations, crowding out social and public sector investments and increasing exposure to debt rollover risks due to large gross financing needs and short-term maturities.
- high debt levels expose countries to large unexpected shocks to public debt-to-GDP levels, thus eroding market confidence and exacerbating rollover risks;

Global Fiscal Balances

Fiscal deficits at global level increased significantly during the period 2014-2015, but narrowed marginally from 2016 due to general fiscal consolidation. The overall aggregate fiscal deficit remained high due to the ensuing fiscal stimulus in the United States and elevated deficit levels for the Emerging Markets and Developing Economies due to subdued growth outlook with constrained fiscal space.

Fiscal policy strives to become more supportive to growth; however, fiscal space is limited across all economies. As results the need has arose for reforms leading to reduction of deficits and bring about fiscal paths that are sustainable. The reforms should focus on public investment to boost potential output, while ensuring that public debt dynamics are sustainable and excessive external imbalances are reduced. The table below provides highlights of world fiscal deficit level across the world's economic regions.

Table 6: World Fiscal deficits for selected economies 2012-2019

`	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	Projection
World Overall Fiscal Balance	**-3.7**	**-2.8**	**-2.9**	**-3.3**	**-3.5**	**-3.3**	**-3.2**	**-3.3**
Advanced Economies	**-5.3**	**-3.5**	**-2.9**	**-2.4**	**-2.5**	**-2.2**	**-2.5**	**-2.5**
United States	-7.6	-4.1	-3.7	-3.2	-3.9	-3.8	-4.7	-5.0
Euro area	-3.7	-3.0	-2.5	-2.0	-1.5	-0.9	-0.6	-0.6
Japan	-8.6	-7.9	-5.6	-3.8	-3.7	-4.3	-3.7	-2.8
United Kingdom	-7.6	-5.3	-5.4	-4.2	-2.9	-1.8	-2.0	-1.7
Canada	-2.5	-1.5	0.2	-0.1	-1.1	-1.1	-1.2	-1.1
Other advanced economies	0.3	0.1	0.1	0.0	0.5	1.0	0.7	0.5
Emerging market and developing economies	-1.0	-1.7	-2.5	-4.5	-4.8	-4.3	-3.8	-3.8
Namibia*	**-0.1**	**-3.8**	**-6.2**	**-8.3**	**-6.9**	**-5.0**	**-4.4**	**-4.1**
South Africa*	-4.1	-3.7	-3.6	-3.7	-3.6	-4.0	-4.2	-4.5
Europe: Other	-0.7	-1.5	-1.4	-2.7	-3.0	-2.0	-1.4	-1.4
Russia	0.4	-1.2	-1.1	-3.4	-3.6	-1.5	1.6	1.8
China	-0.3	-0.8	-0.9	-2.8	-3.7	-3.9	-4.1	-4.4
India	-7.5	-7.0	-7.1	-7.2	-7.2	-7.2	-6.6	-6.5
Latin America and the Caribbean	-3.1	-3.2	-4.7	-7.0	-6.4	-6.0	-5.5	-4.9
Brazil	-2.5	-3.0	-5.4	-10.3	-9.0	-7.8	-8.6	-8.0
Sub-Sahara Africa	-1.3	-3.2	-3.4	-4.1	-4.5	-4.9	-4.6	-4.2

Source: IMF, Fiscal monitor, (April 2018). Data for Namibia refer to budget balance and fiscal years and were adopted from the national budget. SA figures adopted from SA Budget.

In **Sub-Saharan Africa** and low-income countries, the fiscal position of several countries which was expected to improve to steady recovery, supported by commodity prices improvement has not paid much dividend. Fiscal policy should focus on supporting near-term activity; diversifying their economies and lifting potential output to maintain progress toward attainment of Sustainable development goals, building the buffers to enhance resilience, especially in commodity-dependent economies grappling with a subdued outlook for commodity prices and tackling high and rising debt levels.

In line with the current global trend, Namibia's public debt accelerated upward following an extended period of fiscal expansion and adjustments to shocks on income. Government debt as percentage of GDP reached about 46.3 percent in FY2018/19, rising due to declining revenue and the need to fund infrastructure development projects. This is an increase by 4.6 percent from 41.7 percent of GDP in 2017/18. The upward trend is also expected for the next three years, and debt is estimated to reach about 52.6 percent of GDP, amidst elevated refinancing requirements and the subdued economic growth outlook. However, tangible progress has been made with fiscal consolidation program, reducing the budget deficit by 1.9 percentage point, from 6.9 percent in 2016/17 to 5.0 percent in 2017/18.

This movement will continue, with the outlook geared towards a downward trend. Despite this, fiscal consolidation is weighing on growth and recessionary pressures continue to linger, necessitating a more directed and frontloaded growth-friendly policy.

3.1.2 Domestic Fiscal Policy Developments

In the domestic economy, fiscal policy is directed toward fiscal consolidation with moderated growth, supported by balancing between revenue and expenditure and reduce public debt through modest deficit reduction. Since the introduction of gradual pro-growth fiscal consolidation in 2016/17, progress has been achieved in the frond of deficit reduction. While revenue has improved on nominal term at the back of better tax collection efforts, expenditure has also increased due to raising need to revive the economy and protection of social spending.

As percentage of GDP, total revenue collection has decreased by 0.7 percent from 33.6 percent in FY2016/17 to 32.9 percent in FY2017/18. Total Expenditure as percentage of GDP on the other hand slowed from 42.8 percent in FY2015/16 to 37.9 percent in FY2017/18. This resulted into budget deficit as a percentage of GDP also slowing from 6.7 percent in 2016/17 to 5.0 percent in 2017/18. However slower GDP growth in the same year has weighted negatively on fiscal consolidation and debt accumulation. The economic growth in 2017/18 contracted by 0.9 percent and is projected to be on negative territory in FY2018/19.

Total Central government Debt continue its upwards trend, fueled by persistent budget deficit and remain above the primary balance. Central government debt although growing at a slower pace, it is projected to increase to 49.7 percent in 2019/20 and reach 52.6 percent in 2021/22.

3.1.3 DEVELOPMENTS IN FISCAL AGGREGATES

The fiscal outcomes for the first roll-out of the consolidation program in 2016/17, saw a budget deficit relatively higher than anticipated and a build-up of the stock of spending arrears, causing a further drag on economic activity and eroding the effectiveness of the fiscal consolidation effort in the medium term horizon. The steep expenditure correction proved difficult to implement in the first roll out of fiscal consolidation programme and required recalibration to balance between the intended consolidation drive, and its impact on growth and the provision of basic services. However during the FY2017/8, fiscal consolidation started to beer fruits, with deficit decreasing to 5.0 percentage of GDP from 6.9 in the previous period.

3.1.3.1 Revenue Outturn

The actual total revenue for 2017/18 stood at N$58.66 billion. This represent an increase of 3.0 percent if compared to the revised estimated of N$56.95 percent in March 2018. Relative to the budget estimate, the revenue collection reflects 96.4 percent tax collection. The tax revenue contributed about 93 percent towards the total revenue collected during the period and the remaining 7 percent is accounted for by non-tax revenue from various Ministries/Offices/Agencies.

The actual revenue collection for FY2017/18 reflected an improvement in Value Added Tax (VAT), which increased by 1.6 percent compared to a revised estimate of N$11.86 billion, amidst the weak domestic demand condition that characterizes several sectors in the economy.

Another good prospect arises from improved collection of Personal Income Tax (PIT), which increased by 7 percent from N$12.4 billion revised estimate in 2016/17 to an actual figure of N$13.3 billion in 2017/18. Despite the prolonged recession that the economy is currently undergoing, revenue increased by 15.3 percent from N$50.87 billion in 2016/17 to N$58.66 billion in 2017/18. The increase in revenue was a results of better revenue collection as well as the execution of tax arrears collection and incentive program that was introduced in the same year.

Table 7: Main revenue categories performance and preliminary outturn 2006/07-2018/19

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	10,197	7,019	264	300	286	10,403	18,117	251	46,836
2015/16	10,794	7,723	279	209	313	11,901	17,355	216	48,790
2016/17	12,002	7,708	522	374	284	12,497	14,071	183	47,642
2017/18	13,267	7,860	511	309	270	12,604	19,597	171	54,590
2018/19E*	13,195	8,402	538	307	260	13,332	17,375	147	53,556
				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	21.8	15.0	0.6	0.6	0.6	22.2	38.7	0.5	100.0
2015/16	22.1	15.8	0.6	0.4	0.6	24.4	35.6	0.4	100.0
2016/17	25.2	16.2	1.1	0.8	0.6	26.2	29.5	0.4	100.0
2017/18	24.3	14.4	0.9	0.6	0.5	23.1	35.9	0.3	100.0
2018/19E*	24.6	15.7	1.0	0.6	0.5	24.9	32.4	0.3	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	6.9	104.4	24.5	-64.5	9.2	7.8	23.0	4.2	20.4
2015/16	5.9	10.0	5.6	-30.3	9.6	14.4	-4.2	-13.9	4.2
2016/17	11.2	-0.2	87.1	78.9	-9.2	5.0	-18.9	-15.3	-2.4
2017/18	10.5	2.0	-2.1	-17.4	-5.1	0.9	39.3	-6.4	14.6
2018/19E*	-0.5	6.9	5.3	-0.6	-3.5	5.8	-11.3	-14.2	-1.9

Source: Ministry of Finance.* 2018/19 data are preliminary and subject to further reconciliation and verification, pending closure of the Government books

Reviewing the outturn for FY 2017/18, tax revenue is estimated to have increased by 14.7 percent from N$47.6 billion recorded in FY2016/17 to N$54.6 billion. The increase in tax revenue is attributed to an increase in tax on international trade and transaction (SACU) receipts and the Tax Arrears Recovery programme undertaken during the period under review.

The Tax Arrears Recovery programme was introduced in 2017 for a period of six months, from February to July and was further extended for a period September 2017 to March 2018. The purpose of the programme was to recover tax arrears estimated at about N$4 billion, and improve tax enforcement. However the performance of the incentive programme fell short of expectations, collecting an amount of N$574 million by February 2018.

The revenue estimates for FY2018/19 remain the same as on the Mid-Term Budget review but revised slightly downward to N$56.7 billion from N$58.7 billion in the previous financial year. This is done in the anticipation of low tax collection from non-mining Companies, VAT and Taxes on property.

Table 8: Trend of fiscal aggregates FY 2016/17 to FY2017/18 and estimates for FY2018/19

ITEM	2016-17	2017-18	2017-18	2018-19	2018-19	2018-19
	Actual	*Revised*	*Actual*	*Budget*	*Mid-Year Estimates*	*Revised-Estimates*
GDP	**168,562**	**171,852**	**183,488**	**184,748**	**187,896**	**187,896**
Revenue	**50,865**	**56,811**	**58,659**	**56,696**	**56,704**	**56,704**
% of GDP	30.2%	33.1%	32.0%	30.7%	30.2%	30.2%
Expenditure	**62,228**	**66,053**	**67,523**	**65,003**	**65,003**	**64,272**
% of GDP	36.9%	38.4%	36.8%	35.2%	34.6%	34.2%
Budget Balance	**-11,363**	**-9,242**	**-8,864**	**-8,306**	**-8,299**	**-7,568**
% of GDP	-6.7%	-5.4%	-4.8%	-4.5%	-4.4%	-4.0%
Debt	**69,897**	**74,468**	**74,468**	**83,722**	**82,549**	**87,050**
% of GDP	41.5%	43.3%	40.6%	45.3%	43.9%	46.3%
Interest payments	**4,310**	**5,001**	**5,430**	**5,783**	**5,783**	**5,783**
% of Revenue	8.5%	8.8%	9.3%	10.2%	10.2%	10.2%
Guarantees	**6,351**	**12,812**	**11,036**	**14,812**	**14,812**	**14,812**
% of GDP	3.8%	7.5%	6.0%	8.0%	7.9%	7.9%

Source: Ministry of Finance.

3.1.3.2 Expenditure outturn, Budget deficit, Government debt, Government guarantees and interest payments

The total expenditure outturn for FY2017/18 stood at N$66.05 billion, which is the same as the revised appropriated budget. Personnel expenditure constitutes 43.1 percent of total expenditure and 52.0 percent of non-interest operational expenditure. Development expenditure accounts for 8.5 percent of overall expenditure, while operational spending, including statutory expenditure amounts to 91.5 percent of total expenditure.

The debt stock increased to N$ 74.5 billion in 2017/18 from about N$69.9 billion in 2016/17 but remained squire compared to the revised estimates of FY2017/18. As a percentage of GDP, total debt stood at 40.6 percent.

The budget deficit is recorded at 4.8 percent of GDP, reflecting a 0.5 percentage point improvement relative to the initial estimate of 5.3 percent. With the current level of expenditure set in the Mid-Year Budget Review and a downward revision on both revenue and expenditure, the deficit will improve further to 4.0 percent in 2018/2019, these changes are due to a mixture of fiscal consolidation and slower revenue growth in the period.

Government Guarantees, on the other hand, slowed by 1.5 percentage point from a revised estimate of 7.5 percent of GDP in 2016/17 to 6.0 percent in FY2017/18. However year-on-year Government Guarantees as percentage of GDP increased by about 2.2 percentage point, from 3.8 percent in 2016/17 to 6.0 percent in 2017/18. The increase is attributed to guarantees extended to various SOEs during the period.

Interest payments as a ratio of revenue stood at 9.3 percent of total revenue in FY2017/18, an increase of 0.5 percentage point relative to the revised estimate for the same year and an increase of 0.8 percentage point increase compared to the previous period. The current level of interest payments are below the statutory benchmark of 3.0 percent of GDP or 10.0 percent of revenue set out in the Debt Management Strategy, but the later ratio is projected to go over this limit to an average of 11 percent of revenue in three year period.

4 MEDIUM-TERM FISCAL POLICY AND BUDGETARY FRAMEWORK

4.1 Macroeconomic Context

The macroeconomic framework for the 2019/20 MTEF projects a soft recovery for the domestic economy. Following two consecutive years of recession, the baseline growth scenario projects modest recovery of 0.2 percent for 2019/20 and averaging about 1 percent over the MTEF. Several downside risks weigh on this outlook. Absent timely implementation of mutually reinforcing policy measures, this growth outlook will not materially change over the MTEF, nor is it sufficient to bring about a meaningful improvement in the living conditions, per capita incomes and jobs.

The 2019 Fiscal Strategy attaches a high premium to intervention measures and partnerships to support economic growth as a necessary condition for improved quality of life and revenue generation. The sources of growth define the medium-term revenue trajectory. Public policy interventions, PPPs and private sector investments to promote growth, job creation and domestic demand condition are key to enhancing revenue generation over the medium-term. This is to be complemented by tax capacity and tax administration reforms. The Fiscal Strategy proposes a public sector infrastructure investment package in several sectors, notably agriculture, logistics, energy and water as well as general structural policy reforms to enhance potential growth.

4.2 Revenue Outlook

On account of the projected pace of economic activity over the MTEF, total revenue is projected to only post modest growth over the MTEF. The revenue outlook is underpinned by better SACU receipts relative to the Mid-Year estimates on account of an improving economic growth outlook, especially for the South African economy which accounts for a large share of the SACU Common Revenue Pool. Domestic revenue is projected to post modest growth, driven by improvements in taxes on individuals, other mining company taxes and some categories of domestic taxes on goods and services.

For FY2019/20, total revenue is projected to grow by 3.0 percent, in line with the modest economic recovery. The main drag on the revenue outlook stems from the expected weak domestic economic activity, impacting on the revenue base and potential outturn. Over the MTEF, revenue growth is projected to average 3.0 percent, increasing from N$58.4 billion in FY2019/20 to N$59.9 billion in FY2020/21 and reaching N$61.8 billion by FY2021/22. As a proportion of GDP, revenue is estimated to slow to 29.7 percent in FY2019/20, from 30.2 percent estimated for FY2018/19 and hover around 29.2 percent over the MTEF.

Table 9: Revenue outturn and projected outlook 2016/17- 2022/22 MTEF (N$ Mil.)

Revenue Head	2017/18	2018/19	2018/19	2019/20	2020/21	2021/22
	Actual	Budget	Rev. Budget (E)	Projection	Projection	Projection
GDP at market prices, nominal	**183,488**	**184,748**	**187,896**	**196,775**	**205,437**	**214,739**
Revenue and grants as % of GDP	32.0%	30.7%	30.2%	29.7%	29.2%	28.8%
TOTAL REVENUE AND GRANTS	**58,659**	**56,696**	**56,704**	**58,397**	**59,938**	**61,796**
TAX REVENUE	**54,591**	**53,461**	**53,556**	**54,124**	**55,605**	**57,164**
Tax on income and Profits	**21,947**	**22,216**	**22,442**	**21,813**	**22,461**	**23,172**
Income Tax on Individuals	13,267	12,957	13,195	13,573	14,019	14,477
Company Taxes	**7,860**	**8,459**	**8,402**	**7,335**	**7,505**	**7,718**
Diamond Mining Companies	1,654	1,488	1,623	1,230	1,325	1,438
Other Mining Companies	256	284	405	501	533	559
Non-Mining Companies	5,950	6,688	6,374	5,603	5,646	5,722
Other Taxes on Income and Profits	**309**	**307**	**307**	**392**	**403**	**419**
Non-Resident Shareholders Tax	183	191	191	219	229	241
Tax on Royalty	96	92	92	143	145	147
Annual Levy on Gambling Income	30	23	23	30	30	30
Withholding Tax on Interest	**511**	**493**	**538**	**513**	**534**	**558**
Withholding tax on companies & individuals	331	107	352	320	333	348
Withholding tax on unit trusts	83	148	83	80	83	85
Withholding tax on Services	96	238	103	113	118	124
Taxes on Property	**270**	**260**	**260**	**216**	**226**	**234**
Domestic Taxes on Goods and Services	**12,604**	**13,463**	**13,332**	**12,976**	**13,413**	**13,860**
VAT + Additional Sales Tax + General Sales Tax	12,049	12,941	12,711	12,464	12,875	13,303
Levy on Fuel	342	339	350	387	404	420
Fishing Quota Levies	145	93	195			
Gambling License (Business)	4	2	6	4	4	5
Environmental levies & Carbon Emission Taxes		70	70	120	131	132
Other taxes on goods and services	**63**	**18**				
Taxes on International Trade and Transactions	**19,597**	**17,375**	**17,375**	**18,917**	**19,295**	**19,681**
SACU Revenue Pool Share	19,778	17,773	17,773	21,426	21,382	22,572
Revenue Formula Adjustments	-180	-398	-398	-2,509	-2,087	-2,891
Other Taxes	**171**	**147**	**147**	**202**	**210**	**217**
NON - TAX REVENUE	**4,005**	**3,219**	**3,132**	**4,106**	**4,333**	**4,632**
Entrepreneurial and Property	**2,818**	**2,179**	**2,180**	**3,028**	**3,251**	**3,578**
Interest Receipts for Loans Extended to SOEs	11	6	6	-	-	-
Interest on Investments	1	-	-	-	-	1
Dividends and Profit Share from SOEs & other companies	1,236	661	661	1,411	1,552	1,707
Interest on State Account Balances with BoN	24	7	7	35	38	42
Diamond Royalties	1,203	1,103	1,103	1,268	1,332	1,465
Other Mineral Royalties	343	403	403	315	330	363
Fines and Forfeitures	**95**	**68**	**68**	**70**	**71**	**72**
Administrative Fees, Charges and Incidental Sales	**1,092**	**772**	**884**	**1,008**	**1,010**	**982**
Lending and Equity Participation	**63**	**16**	**16**			
External Grants	**1**	**-**	**-**	**167**	**-**	**-**

Estimates and projections include collection of outstanding tax arrears

Source: Ministry of Finance.

Taxes on income and profits are projected to decline by about 2.8 percentage point in FY2019/20 but rebound moderately over the MTEF. The expected reduction in FY2019/20 is mainly due to reduced output for the diamond mining sector due to expected changes on onshore production economies arising from depletion of deposits, as well as subdued corporate income tax collection for non-mining companies, given the generally weak demand conditions. Collections are expected to gather some positive momentum in the outer years of the MTEF as both internal and external demand conditions recuperate. In this subdued environment, a supportive fiscal policy, particularly tax policy and structural reform agenda to improve the business climate are necessary, while protecting revenue generation from base erosion. Individual Income Tax is projected to grow at a decelerating rate during FY2019/20 and FY2020/21 as a result of sticky wages and limited job growth in the economy.

Domestic taxes on goods and services as a consumption-based tax is expected to decline by 2.7 percentage point in 2019/20 and only improve in the outer years as consumption demand picks up. The total VAT outturn for FY2018/19 is estimated at N$12.5 billion and it is expected to grow by 1.6 percent annually over the MTEF. The outturn on VAT is supported by fuel levy collections and other categories of consumption-based taxes on goods and services. Administrative measures to enhance the management and productivity of VAT would support an improved outturn over the MTEF.

Taxes on International Trade under the ambit of SACU have rebounded and are projected to increase moderately over the MTEF, on the back of an improving outlook for the Common Revenue Pool. The SACU revenue share for Namibia for FY2019/20 is at a net amount of N$18.9 billion, 16.6 percent better than the previous budget estimate and about 8.9 percent increase from the previous year. The net share for Namibia reflects the negative adjustments due to earlier overpayment to be made totalling N$9.31 billion for the Common Revenue Pool of which Namibia has to repay N$2.51 billion over FY2019/20, against the nominal share of N$21.43 billion for Namibia. Over the MTEF, SACU revenue is projected to post an average growth rate of about 3.5 percent, largely reflecting the differentiated economic outlook in the region. However, volatility and downside risks on SACU revenues remain.

Growth for the Non-tax revenue is projected to pick up moderately, anchored by mineral royalty collections on the back of continued growth in the mining sector. Overall non-tax revenue collected by various sectoral Ministries and dividends paid by profit making Public Enterprises account for about 7 percent of total revenue and grants. This category of revenue is projected to grow by about 14.5 percent on average over the MTEF, on the back of projected mineral royalties from other mining activities, particularly for uranium and recent mining activities in the lithium and tin mining subsectors.

The outlook for revenue is underpinned by a plethora of risks, which are still tilted on the downside. The main risks to the revenue outlook are the domestic macroeconomic risks, potential shocks on SACU revenue and external risks arising from the global economic, trade and financial environment. Domestically, the subdued economic activity has adverse effects on the yield of various revenue streams through multiplier effects. A growth miss in the near term has revenue reducing effects. Similarly if growth risks for the regional economy and global trade continue to materialize, these will reinforce the volatility and size of the SACU receipts.

On account of the subdued revenue outlook and associated downside risks, timely implementation of the tax policy and tax administration reforms announced in the 2018 Medium-Term Policy Statement is critical over the next MTEF. The consultations held with stakeholders and the business community have resulted in the revision of some of the proposals, while others are deferred in balanced approach in order to foster business confidence and certainty. The tax policy reforms over the MTEF primarily aim to protect the tax base from erosion, stem illicit financial flows and enhance the productivity and equity of the tax system. The Government will proceed with the implementation of the Namibia Revenue Agency reform in line with the revised target date of 1 October 2019.

4.3 Assumptions underlying revenue forecast

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

The revenue outlook for the FY2019/20 – 2021/22 MTEF is based on the following assumptions:-

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

- estimates for FY2019/20 are based on year-to-date monthly outturn receipts data, provided by the Receiver of Revenue and Customs and Excise,

- SACU revenue for the budget year (FY2019/20) is *a priori* decided by the SACU Council in accordance with the SACU Agreement. The outlook for SACU receipts is largely based on the projections for the SACU Common Revenue Pool presented by the National Treasury, South Africa over the MTEF, and

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

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

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

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

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

4.4 Aggregate Expenditure and Debt Outlook

The medium-term fiscal policy stance set forth in the 2018 Mid-Year Budget Review recognizes the effects of the recessionary pressures on the economy and frontloads the implementation of growth-enhancing public spending stimulus to support economic recovery and job creation within the fiscal consolidation program. The public sector priority spending stimulus is in infrastructure investment in sectors with high growth and job creation potential, including development project financing under the AfDB financing arrangement under the Economic Governance and Competitiveness Support Program, PPP arrangements and SME financing strategy program.

The FY2019/20 budget and MTEF gives effect to a targeted growth enhancing public expenditure programme and gives regard to priority spending needs to safeguard the provision of frontline services, within a general stance of fiscal consolidation and restraint. Within this framework, aggregate expenditure for FY2019/20 amounts to N$66.6 billion, a 3.5 percent year-on-year increase from the FY2018/19 budget and will increasing to N$67.1 billion and N$67.8 billion in FY2020/21 and FY2021/22 respectively. As a proportion of GDP, total expenditure is projected to average around 32.7 percent.

Within this framework, the budget deficit is projected to reduce by 0.3 percent to 4.1 percent in FY2019/20 and 3.5 percent in FY2020/21 and average around 3.5 percent over the MTEF. A portion of the budget deficit is earmarked to be financed by own cash reserves through the sale of the Government stake in MTC. A combination of financing sources will be utilized to finance the remainder of the budget deficit over the MTEF.

Total debt is projected to increase to N$96.3 billion by the end of FY2019/20 and reach N$112.3 billion by FY2021/22. As a proportion of GDP, Central Government debt is projected to increase to 48.9 percent in FY2019/20 and stabilize at 51.0 percent by 2020/21 and increase again to 52.3 percent of GDP by the year FY2021/22.

Table 10: Policy scenario: Fiscal stance, Aggregate expenditure, and public debt consistent with the medium-term policy stance 2019/20- 2021/22 MTEF

Component	2017/18 Actual	2018/19 Revised Budget	2019/20 Projection	2020/21 Projection	2021/22 Projection
GDP	**183,488**	**187,896**	**196,775**	**205,437**	**214,739**
Total Revenue and Grants	**58,659**	**56,704**	**58,397**	**59,937**	**61,796**
As % of GDP	32.0%	30.2%	31.5%	29.2%	28.8%
Expenditure (Budget/MTEF)	**62,541**	**61,861**	**66,230**	**66,977**	**67,672**
Expenditure Adjustments	5,165	3,142	320	152	155
Potential Expenditure	**67,523**	**64,272**	**66,550**	**67,128**	**67,827**
% of GDP	36.8%	34.2%	33.8%	32.7%	31.6%
Own financing (cash reserves)					
Potential Budget Balance	**-8,864**	**-7,568**	**-8,153**	**-7,191**	**-6,032**
% of GDP	-4.8%	-4.0%	-4.1%	-3.5%	-2.8%
Domestic Debt Stock	48,609	54,894	61,417	67,170	71994.764
NEW PROJECTS LOANS		-			
ADB Loan Mechanization program for Agric		-	225	170	171
ADB Loan Transport (Rail ZAR1,350)		-	386	514	514
ADB Loan Transport (Road)		-	259	330	330
ADB Loan Basic Education (School Renov)		-	198	395	396
Foreign Debt Stock (est.)	25,859	32,156	34,854	37,700	40,317
Total Debt	**74,468**	**87,050**	**96,271**	**104,870**	**112,312**
% of GDP	40.6%	46.3%	48.9%	51.0%	52.3%
Domestic Debt	26.5%	29.2%	31.2%	32.7%	33.5%
Foreign Debt	14.1%	17.1%	17.7%	18.4%	18.8%
Total Debt	**40.6%**	**46.3%**	**48.9%**	**51.0%**	**52.3%**
Growth in Debt	6.5%	16.9%	10.6%	8.9%	7.1%
Domestic Interest Payments	3,638	3,796	4,105	4,365	4,625
Foreign Interest Payments	1,785	1,987	2,299	2,350	2,395
Interest payments	**5,430**	**5,783**	**6,404**	**6,715**	**7,021**
% of Revenue	9.3%	10.2%	11.0%	11.2%	11.4%
Domestic Guarantee	1,970	1,737	1,772	1,807	1,843
Foreign Guarantee	9,066	9,152	9,335	9,522	9,712
Total Guarantees	**11,036**	**14,812**	**11,107**	**11,329**	**11,556**
% of GDP	6.0%	7.9%	5.6%	5.5%	5.4%

Source: Ministry of Finance.

4.5 BUDGET BALANCE AND DEBT OUTLOOK

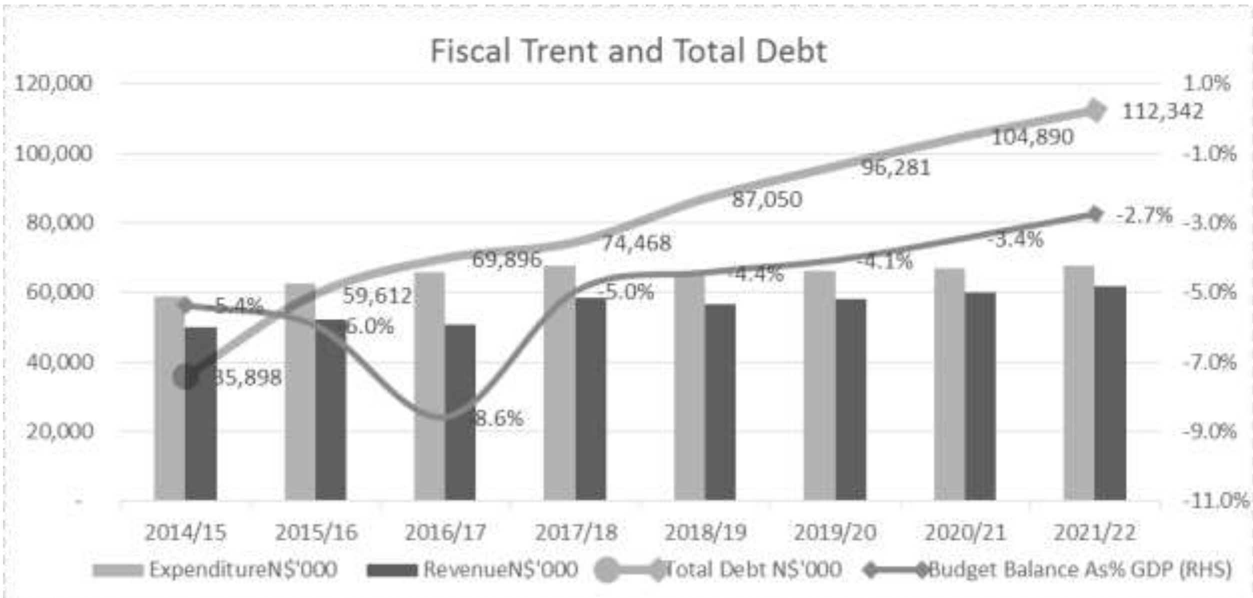
Fiscal Stance: The fiscal policy stance of the Government for the current MTEF period continues along the path of fiscal consolidation. In this regard, the budget deficit is estimated to narrow to 4.1 percent of GDP in FY2019/20, which is lower than the projected deficit of 4.4 percent projected during the 2018/19 Midterm budget review. This is due to a combination of improved revenue projections, better tax administration efforts planned for FY2019/20, and the stabilisation in Government spending. The budget deficits for the 2020/21 and 2021/22 fiscal years are projected at 3.5 percent and 2.8 percent of GDP, respectively. In nominal terms, the budget deficits are estimated at N$8.2 billion, N$7.2 billion and N$6.0 billion for the fiscal years 2019/20, 2020/21 and 2021/22 financial years, respectively.

Budget Deficit Financing: As per the customary, the above stated budget deficit will be funded through a combination of domestic and foreign borrowing. As part of its strategic objective set out in the financial sector strategy aimed at promoting the domestic market, about 75 percent or N$6.2 billion will be sourced from the domestic market. To continue improving the domestic liquidity and the inability of the domestic market to fully fund the budget deficit as tested, 25 percent or N$2 billion will be sourced through foreign borrowing. In this regards the Government approached the African Development Bank (AfDB) to provide additional funding through the Programme Based Operations (PBOs) or Economic Governance and Competitive Support Programme (EGCSP III) in 2019/20. The additional funding through the PBOs is necessary in order for Government to successfully achieve the ongoing EGCSP and further support the Governments reform efforts.

To continue with its infrastructure development with less negative impact to the country international reserves, large infrastructure development will be funded through a combination of budget and outside budget (foreign borrowing). In this case concessional loans with reasonable terms and conditions from external lenders will be utilised. In this regard, an amounts of N$1.1 billion, N$1.4 billion and N$1.4 billion are earmarked for such projects during the 2019/20, 2020/2021 and 2021/22 financial years, respectively. This funding is earmarked to benefit the Education and Training Quality Improvement Project, (ETQIP), the Namibia Agriculture Mechanization and Seed Improvement Project (NAMSIP), transport Infrastructure Improvement Project, that include the supply of rails and turnouts for Walvis Bay – Kranzberg Railway upgrading, the Railway upgrading Works for Walvis Bay – Kranzberg, and the upgrading of section 2A (23.8 km) of the Windhoek – Hosea Kutako International Airport highway.

Development in Debt- and Debt to-GDP ratio: **The ratio of debt to GDP increased since FY2015/16**. In this context, the debt stock grew from 41 percent of GDP in FY2006/07 to 46 percent at the end FY2018/19. This level is projected to increase to 52 percent of GDP by FY2021/22 significantly above the prudential limit of 35 percent of GDP. As explained previously, the increase in debt stemmed from significant financing needs, particularly over the past three financial years. In light of this, there is a need to reign in the growth of Government debt, going forward, and return it to sustainable levels. Hence the projected lower budget deficit, despite large debt maturity.

Figure 8: Namibia's Debt Stock, 2015/16 – 2021/22



Source: Ministry of Finance

Table 11: Growth in debt from FY2017/18 – 2021/22

FY	2017/18	2018/19	2019/20	2020/21	2021/22
Total Debt as a % of GDP	41%	46%	49%	51%	52%
Growth in GDP	4%	2%	5%	4%	5%
Growth in Debt	7%	17%	11%	9%	7%

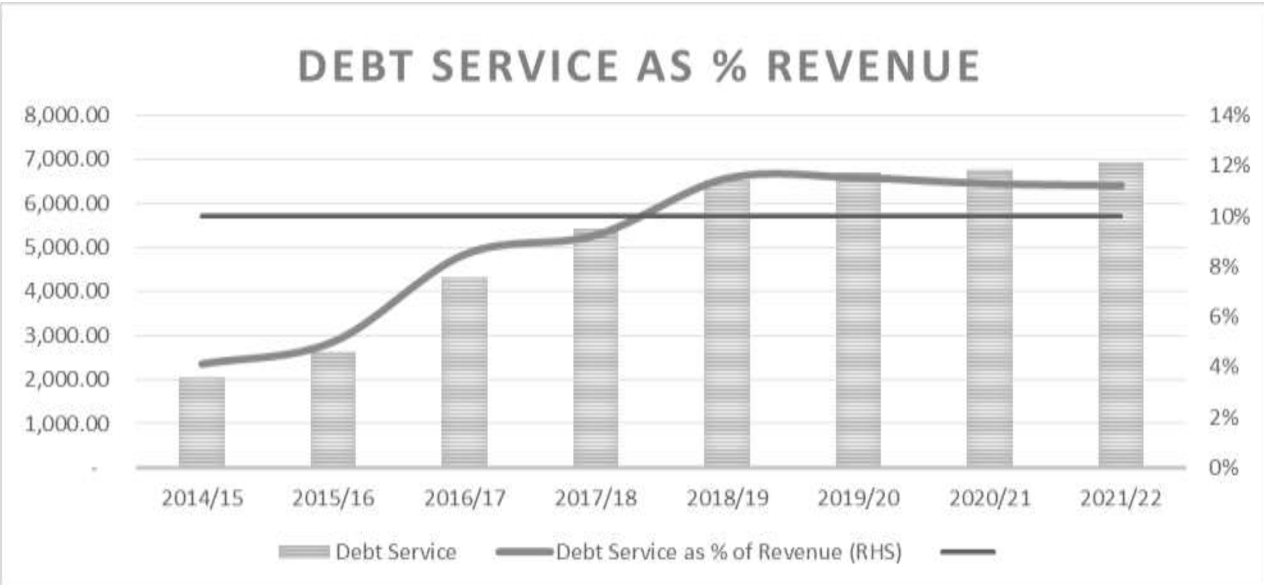
Source: Ministry of Finance

Nominal GDP growth will averaged about 4 percent over the MTEF period, while the average growth rate in Government debt is projected to average 8.7 percent. **To achieve fiscal sustainability, the growth in central Government debt should be kept below growth in nominal GDP**. The underlying logic is that expenditure, for which debt has been incurred, should positively contribute toward GDP growth and thereby induce a concomitant increase in Government revenue to service the debt. To achieve the above measure and to ensure debt sustainability, Government spending will be directed toward growth enhancing program and that, the budget balance will be maintained at a lower level in order to contain steep growth in indebtedness.

DEBT SERVICING

Commensurate with the growth in the debt stock, the debt servicing indicators have spiked. In this regard, the ratio of debt servicing to revenue will average 11.1 percent or 3.3 of GDP as opposed to the threshold of 10 percent of revenue and 3 percent of GDP, respectively. This mean that about 11 percent of Government revenue will be spend in debt servicing. Growing this level could result in debt servicing crowding out other important social services. Going forward, the implemented fiscal consolidation measures is expected to gradually bring this ratio back in line with the benchmark over the medium period.

Figure 9: Debt service indicators



Source: Ministry of Finance

CONTINGENT LIABILITIES

In nominal terms, guarantees rose from N$7.4 billion in FY2015/16 to N$ 12.4 billion. The increase is largely driven by the issuance of guarantees to the Africa Development Bank against the funding for the Expansion of Walvis Bay Port, by Namport, and the funding for fuel storage facilities as well as Development Bank of Namibia line of credit at N$2.9 billion and N$2.8 billion and N$1.7 billion for DBN own portfolio, respectively. In exception of PPP related project, Government, does not plan to issue new guarantee over the MTEF period.

Henceforward, the guarantee level is anticipated to be maintain at 5.4 percent of GDP, well within the ratio of 10 percent prescribed in the 2018-2022 Sovereign Debt Management Strategy (SDM).

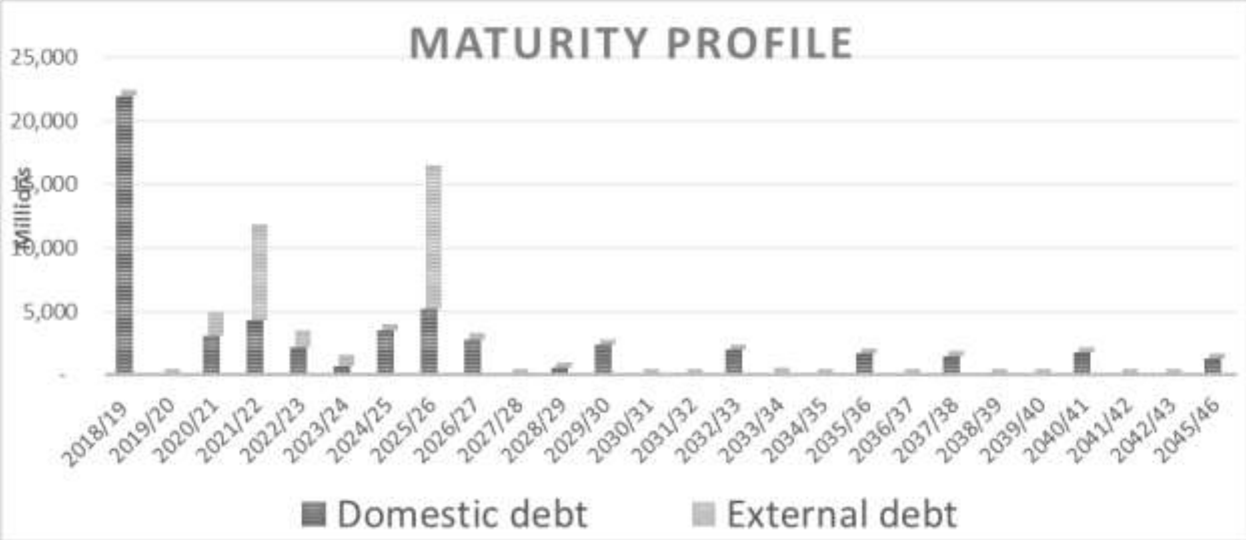
Figure 10 : Government debt, inclusive of guarantees

Source: Ministry of Finance

MATURITY PROFILE

Debt falling due within 12 month continues to dominate the debt portfolio. About N$25 billion worth of treasury bills will mature during 2019/20 financial year, while bonds worth of N$11.5 billion is due over the MTFE period. Though a large issuance of longer dated bonds, the domestic demand remains highly concentrated in short term securities, which remains a key concern for Government.

Figure 11: Government debt maturity profile, as at 2018/19



Source: Ministry of Finance

During the current MTEF period, two domestic bonds will mature, namely the GC20 and GC21, due on 15 April 2020 and 15 October 2021. Furthermore, the JSE listed bond known NAN02 and the Eurobond will also mature in 29 June 2020, and 03 November 20121, respectively. To avoid rollover risk and possible default, Government has develop a robust redemption strategy.

4.6 Fiscal Risk and mitigating measures

Fiscal risks refer to a range of factors that have an unanticipated effect on government finances. These risks can originate from inside government or from outside government (e.g. global economy). Risks can also materialize because of a discrete events (e.g. a financial crisis) or the gradual accumulation of pressure (long term social protection schemes).
The Ministry of Finance (MoF) recognizes the importance of better understanding the exposure to the Fiscus and developing a more comprehensive framework to manage fiscal pressures and risks. To ensure prudent public financial management, the MoF has identified various fiscal risks and their accompanying mitigation measures as part of the medium-term expenditure framework. Among the risks identified includes Macroeconomic risks associated with volatility on GDP and Macroeconomics Shocks, Risks originating form Public Entities that arises when transfers are high than expected or revenues shortfalls occurs and risks associated with expenditure rigidity and high wage bill.

As measures to mitigate and reduce these risks the Ministry will strengthen macro-fiscal forecasting tools and capacity and prepare alternative scenarios to inform the preparation of the medium-term and annual budget, implement approved debt management strategy and stabilize the wage bill and other recurrent expenditures. Public entities will be required to develop integrated strategic Business Plans, while the Government will implement the strategy to strengthen public investment management through multi-stakeholder engagement.

4.7 Fiscal Policy Stance for the MTEF

The Government's fiscal policy over the next MTEF remains grounded on fiscal counter-cyclicality, long-term sustainability of fiscal outcomes and the promotion of inclusive economic growth and social welfare. With economic growth remaining weak, the fiscal stance for the MTEF would balance between achieving economic growth objectives and stabilizing growth in public debt through continued implementation of a more pro-growth fiscal consolidation program.

During the next MTEF and consistent with the 2018/19 Medium-term Budget Policy Statement:-

- *Government will frontload implementation of growth enhancing public investment stimulus within a balanced fiscal consolidation policy with the objective of supporting domestic economic activity and job creation, while maintaining debt stabilization and social development objectives of fiscal policy,*

- *maintain the budget deficit at 4.1 percent of GDP in FY2019/20 and 3.5 percent in FY2020/21 with about 2.5 percent of the deficit self-funded to implement economic growth investment and service delivery enhancement program through targeted allocation of development finance to support domestic economic activity. The budget deficit would be reduced to 2.8 percent in FY2021/22 and average around 3.5 percent of GDP over the MTEF,*

- *adopt the public debt and primary balance as the anchors for stabilizing growth and consequent reduction of public debt. In this regard, the Government aims to achieve positive primary balance by FY2021/22 and stabilize Central Government debt at 52.3 percent of GDP over the same calendar.*

- *implement revenue raising and alternative forms of financing, particularly PPPs and structural policy reforms to aid the fiscal consolidation path, while keeping fiscal risks in check.*

- *Manage fiscal risks form various factors and environments impact on government finances.*

4.8 Fiscal Policy and Budget Priorities for the 2019/2020-2021/2022 MTEF

The budgetary priorities for FY2019/20 and over the MTEF were set out in the 2018/19 Medium-Term Budget Policy Statement. The key budgetary priorities emphasize fiscal sustainability, reinvigorating the hitherto weak economic growth and job creation, revenue mobilization and implementing structural policy reforms to accelerate the pace of implementation, address concerns raised by the business sector and amplify the impact of policy interventions. Growth, which is a necessary condition for per capita income increases and debt stabilization, has disappointed since the Second Quarter of 2016. Reviving broad-based inclusive growth requires effective partnerships between the private sector and the government as well as timely implementation of supportive intervention programmes.

In line with these expressed national objectives, the Government will continue pursuing the following fiscal priorities over the next MTEF, with the interventions to support increased economic activity:-

- ***Frontloading implementation of targeted public sector investment programs and the promotion of private sector-led investments to support domestic economic activity***. Public sector investment infrastructure projects will be accorded high priority in the national procurement system with the objective of realizing timely award and implementation of high-value project tenders. At the same time, the growth and job creation interventions, SME financing programs and regulatory reforms aimed at improving the business climate, programmes to promote domestic productive capacity will be accorded the highest priority for implementation over the next two years.

- ***Adopt a fast-track implementation process within the framework of the law and identify sectoral programmes and interventions to be implemented through this dispensation over the FY2019/20.*** As a means of providing for the timeliness and effectiveness of fast implementation process, high-growth and job-rich programmes will be identified and prioritized for implementation purposes. This encompasses special consideration of high-value development projects, regulatory amendments to improve the business climate, certainty and competitiveness, financial products to promote access to finance for SMEs and the youth and identification and finalization of projects which could be rendered through Public, Private, and Partnerships.

- ***Maintain implementation of a more balanced fiscal consolidation policy stance to safeguard macroeconomic stability, long-term fiscal sustainability and economic growth objectives.*** Entrenching macroeconomic stability and fiscal sustainability is central to economic policy and social development objectives. In this regard, the budgetary policy interventions conform to the adopted fiscal consolidation policy stance. This policy stance continues to align the macro-fiscal framework, with gradual reduction in the expenditure-to-GDP ratio and close alignment of expenditure to revenue as a lever for stabilizing growth in public debt. In support of socio-economic development objectives, public infrastructure and social service delivery projects which are attractive to PPP delivery will be assessed and delivered through PPP modalities. New expenditure commitments over the next MTEF will be limited to growth-supporting programmes, maintaining operational expenditure in real terms and meeting the basic needs in the social sectors.

- ***Scale-up resource budgetary allocations for the land reform program to give effect to the implementation of the resolutions emanating from the 2nd National Land Conference.*** The main funding allocations are to support accelerated acquisition of farmland and technical capacity development to improve productivity under the land resettlement program.

- ***Continue protecting expenditure in the social sectors of education, health and skills development*** as critical enablers for human resources development, enhancing the quality of life, labour force productivity and medium to long-term prospects for job creation and economic growth. Funding allocations will support implementation of the new curriculum in general education, expanded access to tertiary and vocational educations and keeping service provision in line with population growth.

- ***Mobilizing domestic resources for development*** through tax policy and tax administration reforms, and avoid taxes which place excess burden on growth, alongside measures to improve investment climate, establishment and operationalization of the Revenue Agency for Namibia, introduction of tax policy measures to protect the revenue base from base erosion and enhance equity of the tax system, taking into consideration the consultation with the stakeholders.

- ***Implementing supportive policies and structural reforms*** to bolster the competitiveness of the national economy, crowd-in private sector in project financing and investment. The reform implementation programme entails enabling local economic development through the public procurement legislation, enabling PPPs in the real and services sectors and accelerate key legislative reforms.

4.9 Fiscal Policy Intervention Strategies for the 2019/20-2021/22MTEF

The key priority objectives for the FY2019/20 budget and MTEF are to reinvigorate economic recovery, job creation and the continued provision of essential public services within a credible fiscal consolidation framework. To date, a close alignment between revenue and expenditure as well as the steady reduction of the budget deficit was meaningfully realized since the commencement of the fiscal consolidation program in mid-2016. The budget deficit reduction of about 3.5 percentage was realized between 2015/16 and 2018/19 from 8.1 percent in 2015/16 to about 4.0 percent by 2018/19. Spending as a proportion of GDP has also proportionately reduced to 33.8 percentage of GDP by 2018/19, from 42.0 percentage of GDP in 2015/16.

Towards these objectives, the Government will implement the following support mechanisms and targeted intervention strategies to support economic growth objectives over the MTEF:-

4.9.1 Promoting inclusive economic growth and job creation

- ***Adopt an accelerated mechanism for the finalization of project preparation and procurement of key projects and programmes geared towards the upliftment of domestic economic growth potential. T***he Government will undertake a process audit to identify critical milestones, constraint points and critical paths needed for speedy project preparation and tendering within the ambit of the procurement law and institutional arrangements. Priority attention should be accorded to economic recovery support programmes already provided for in FY2018/19 Budget.

In addition, and to promote the achievement of the inclusive growth and providing the means of implementing the identified priority programs, the Government will:-

- *scale-up the development budget allocation by 43.6 percent, to implement public sector investment program funded by the AfDB project financing arrangement as well as the targeted finding compact for SMEs,*
- *leverage Public Private Partnerships (PPPs) as a means funding capital and service delivery projects. Specific development projects are identified from the Development Budget to be developed within the PPP realm, thus alleviating fiscal obligations on the budget,*

- *encouraging the partial listing of some of the Public Enterprises on the Namibian Stock Exchange (NSX) as a means to raise capital for funding development interventions, and*

- *supporting the development of functional and technical skills through continued targeted allocations to the Students Financial Assistance Fund, vocational training and targeted utilization of the skills levy funds.*

- *Implementing Public Enterprises Reforms to promote profitability and efficiency in affordable service delivery. Increasingly target subsidies to Public Enterprises for ring-fenced to infrastructure and service delivery programs within the framework of the performance agreements and subsidy agreements,*

4.9.2 Maintaining pro-growth fiscal consolidation policy stance

The Government will continue implementing the fiscal consolidation framework that is moderately paced to avoid sudden a withdrawal of fiscal support to the economy and the provision of basic services. In this regard, the Government will continue implementing a combination of measures encompassing income, expenditure, financing and structural reforms.

- income-based measures include economic growth initiatives, expanding the revenue base and guarding against base erosion and leaving the tax rates unchanged to encourage economic activity,
- expenditure will remain closely aligned to revenue, with the developed budget scaled up to support economic activity. Key spending containment measures will aim to implement the wage bill reforms to reduce the wage bill as a ratio of revenue and GDP and keeping the growth of noncore expenditure in check
- the Government will harness diverse sources of financing, including PPP arrangements to fund assessed projects with underlying cash flows,
- alongside, these measures a suite of structural reforms will be implemented over the MTEF to amplify the impact of fiscal policy interventions in the economy and promote private sector investment..

4.9.3 Implement priority needs identified by the 2018 National Land Conference

The 2nd National land Conference held in October 2018 made 124 Resolutions, embodying the national commitment for visible and equitable land reforms going forward. As the economic impact assessment on some of the measures are underway, the expenditure framework makes provision for scaled up funding allocations on the land reforms areas with immediate beneficial impact. In this regard. the Government, amongst, others, will:-

- *provide scaled-up funding for urban land servicing, improved sanitation and housing delivery in urban and peri-urban centres,*
- *establish meat processing infrastructure and animal health quality facilities in communal areas, and*
- *develop and review enabling policy and institutional frameworks for accelerated implementation of the Land Conference resolutions.*

4.9.4 Implementing targeted measures to reduce poverty and inequality

Namibia has made strides in driving back the frontiers of poverty, with absolute poverty falling to 17.2 percent by 2015/16, but inequality remains the second highest globally at 0.56 Gini Coefficient. The Government recognizes that an effective means of eroding poverty, inequality and vulnerability lies creation of decent job opportunities and economic empowerment, while shielding the vulnerable members of society from the effects poverty. The growth and job creation agenda is the fundamental basis through which the State provides for economic opportunities for Namibians to realize their potential. In addition, Government will implement the following measures for continued reduction of poverty and vulnerability:-

- *Promote job creation, access to finance for SMEs and drawing the poor into economic activities as a means of empowerment and the generation of incomes,*

- *Assess the options for consolidating the management of social safety nets with the view to establish the central registry system to improve internal efficiency*

- *Strengthen the coverage of Old Age Pension, OVCs, Veterans of the liberation struggle and disability grants as a first line of defence against poverty for the vulnerable members of society,*

4.9.5 Implementing industrial development pilot projects

Since the adoption of the *Growth at Home Strategy,* the Peugeot Car Assembly Plant was launched in Walvis Bay which will contribute to economic diversification of economic activity and the creation of jobs. During the next MTEF, the Government will, in consultation with the private sector and other stakeholders provide for funding allocations to develop domestic productive capacity through addressing supply side constraints, securing market access through public procurement and the promotion of participation in regional value chains.

4.9.6 Protecting expenditure in the social sectors

Government will continue according the highest budgetary priority to education, health and social sectors for human resources development, plugging social deficits and addressing competitiveness challenges in these sectors.

The Public Expenditure Review in the basic education sector was completed in collaboration with UNICEF, while a similar exercise is underway in the health sector in collaboration with the World Bank. These assessments will allow the Government to implement measures for strengthening internal efficiency, quality of spending and outcomes.

- *in the education sector, the focus will be on improving the quality of outcomes, limiting new hiring through internal realignment and improvement of teacher upgrading programmes and educational facilities to enhance the quality of outcomes.*

The allocation to NSFAF is strengthened to maintain the provision of financial assistance in real terms.

- *allocations in the health sector will aim to maintain optimal funding in real terms, while PPP considerations will be made to provide for critical health facilities and specialized services,*

- *Further improve coverage and targeting for social safety nets to beneficiary groups through better coordination and establishment of a Central Social Registry.*

4.9.7 Tax policy and tax administration reform agenda

Since the announcement of the tax policy proposals din the FY2018/19 Medium Term Budget Policy Statement, broad-based consultations were held with the private sector. As an outcome of the consultations the forms were refined for implementation in the FY2020/21. Tax rate increases will remain unchanged. The thrust of the reforms will focus on achieving equity principles of the tax policy by taxing all potential taxpayers with similar taxable income equally, and eliminating tax base erosion and transfer pricing opportunities. The following tax policy amendments will be tabled during the FY2019/2020:-

- *Increase the tax deductibility of retirement fund contributions from the current N$40,000 per annum to 27.5 percent of income with a maximum of N$100,000 to encourage savings and provisions for retirement,*
- *Phasing out the current manufacturing tax incentive scheme based on economic efficiency grounds and graduating this to the Special Economic Zone regime approved in 2018,*
- *Implement measures to protect the tax base from base erosion, prevent profit shifting, tax leakage and illicit flows,*
- *Introduce a 10 percent dividend tax for dividends paid to residents to enhance the fairness of the tax system as dividend income will be taxed the same as other streams of passive income such as interest income,*
- *Harmonise the taxation of trading trusts in line with regional economies through elimination of current loopholes that allow for a conduit (flow through) principle. The conduit principle is the scheme often used to avoid or minimise the payment of tax through taxing income in the hand of a beneficiary instead of the trading trust itself. Trading Trusts will be subject to company tax rate and not individual tax rates as it is currently provided for.*

- *Tightening the current tax incentive for charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act. Exempting the income generated through normal sources such as members' 'contributions, donations and grants will continue. However income derived from commercial activities by these institutions will be subject to normal corporate tax. These institutions will be required to register as taxpayers and file annual income tax returns.*
- *Expansion of the tax base through deepening the current hybrid tax system by taxing all income earned from foreign sources. Namibian residents will have to declare such income in their annual tax returns. This measure will not only generate additional revenue but will also enhance neutrality in the tax system by discouraging distortionary tax effect on investment decision.*
- *Introduce Value Added Tax on income of listed asset managers,*
- *Introduce VAT on proceeds on sale of shares or membership in a company largely owning commercial immovable property.*
- *Remove VAT zero-rating on sugar.*
- *Remove non-tax deductibility of mining royalty paid by non-diamond mining companies.*

4.9.8 Tax Administration Reforms

On the tax administration front:-

- *Government will proceed with the establishment of the Namibia Revenue Agency through a phased transitional arrangement to bring about greater efficiency in the collection, assessment and administration of the tax laws is under way, with Day One earmarked for 1 October 2019;*
- *promoting e-filling with the new Integrated Tax Administration System, expanding the tax compliance register and the recovery of outstanding tax arrears,*
- *leveraging regional and international tax cooperation as a mechanism to enhance national technical capacity in various areas of tax administration, specifically transfer pricing,*

4.9.9 Excise levies and duties

For excise levies, the following amendments will be tabled during the FY2019/20:-

- *expand coverage of export levy to include agricultural, forestry and game products and mining products currently not covered,*
- *introduce additional 5 percent national "sin" tax on alcohol and tobacco products for national revenue purpose, and*

- *explore a profit tax of 37 percent on betting and gaming entities,*

4.9.10 Structural reforms to support fiscal consolidation and economic growth objectives

A successful pro-growth fiscal consolidation program will be accompanied by the implementation of structural policy reforms to optimise outcomes. Over the next MTEF, the Government will continue implementing the following structural reform policies to diversify the economic base, boosting local economic development and advance the national industrialization and economic diversification agenda.

- *improving the productive capacity of the economy by addressing supply-side constraints and implementing preference provisions and developing industrial capacity,,*

- *establishing the National Single Window facility to facilitate the ease of doing business and shore up national competitiveness,*

- *realigning capital projects with revenue flow potential to PPP platforms to enable private sector co-investment,*

- *addressing urgent land reform constraints which pose binding constraints on productive capacity and productivity to enable increased land servicing and market access for communal farmers,*

- *finalisation of the review of the provisions of the Namibia Investment Promotion Act to provide for a modern investment framework for both foreign and domestic investors, and*

- *further undertake Public Finance Reforms Management (PFM) reforms through amendments and modernization of the State Finance Act and conducting a Public Expenditure Review in the health sector, and*

- *Finalizing and implementing the National Equitable Economic Empowerment Framework, taking into consideration stakeholder input.*

4.10 Policy Conclusions for the MTEF

The key policy priorities for the FY2019/120 MTEF is to reinvigorate growth and continue implementing the gradual fiscal consolidation policy stance with greater impetus on supporting inclusive economic growth and the delivery of essential services to the public. Economic growth has fallen short of expectation over the past two years, underpinning the need to frontload implementation of identified intervention measures to support the pace of economic activity. At the same time, the elevated public debt and financing requirements add a drag to potential growth prospects.

In this environment of a constrained fiscal space, the Government will implement a four-pronged set of actions comprising of frontloaded implementation of targeted investments in high-growth projects and private sector development initiatives; maintaining consolidation of non-core expenditure, revenue raising interventions and implementing supportive structural reforms.

On the macro-fiscal front, the Namibian economy is projected to post positive but moderate economic growth rates over the MTEF, thanks to the coming on production stream of recent investments in the mining sector and only moderate improvements in tertiary services sector and a steady tourism sector. This growth outlook is gradual and fragile, warranting a package of supportive policy interventions within a narrow fiscal space, but against the backdrop of an improving global economy. The agricultural sector faces an uncertain outlook with a potential drought lingering due to the prevailing *El Nino* conditions. Fiscal consolidation and increasing financing needs arising from elevated public debt continue to weigh on growth. The main risk to revenue stems from a weak growth outlook and downside risks on SACU revenues over the medium term.

Globally, the uptick in the world economy offers a window of opportunity for increasing trade due to demand improvements in Advanced Economies. The growth upswing in the Euro Area is especially important for Namibia as the EU is one of the main export destination for Namibian products. Risks to global growth should not, however, be discounted. A monetary policy rate hike in the United States has impacted on capital flows and currency volatilities across the globe, while the trade war between USA and China are likely to stifle the gains from trade liberalisation and drag on global growth and commodity price demand. Regionally, the South African and Angolan economies, which are closely linked to the

Namibian economy are still contenting with low growth spells, while the generally high oil prices has already negatively impacted on industries and fuel inflation.

In this context, the priorities for Government over the next MTEF is to support resurgent growth, continue implementing a more balanced fiscal consolidation framework that is supportive of medium to long-term growth and public debt stabilization path and implement structural reforms to fortify future prospects and enhance macro-fiscal fundamentals. The following key policy actions for the MTEF are important:-

- ***Implement a growth-friendly fiscal policy by providing scaled up allocation to high-growth infrastructure development and the promotion of job creation.*** The growth friendly dimensions of fiscal policy are anchored on increased spending on carefully selected and phased infrastructure projects, multilateral and bilateral project financing debt uptake and targeted support to SME sector through the implementation of the SME Financing Strategy and Skills-based Lending. The magnitude of fiscal support to the economy takes into consideration the constrained fiscal space and the policy imperative of avoiding pro-cylicality. As such, the Government will utilize other alternative means of financing centered on Public, Private Partnerships, and promotion of private sector investment and investigate better options for leveraging of selected state assets.

- ***Maintain the fiscal consolidation framework, giving more fiscal impetus to economic growth and increasingly align expenditure to priorities, while consolidating non-core expenditure allocation and keeping public sector wage correction at abeyance.*** This requires the recalibration of the composition of expenditure in order to maintain spending commitments on basic services in real terms. Targeted debt uptake for project financing will be undertaken to counterbalance the adverse effect of fiscal consolidation of growth, while retaining entrenching fiscal sustainability and macroeconomic stability. Projects with underlying revenue base will be considered for PPP arrangements than the public sector budgetary funding.

- ***Commence with implementation of urgent needs identified by the 2nd National Land Conference.*** The key immediate intervention measures emphasize increased provision of serviced urban and peri-urban land, housing delivery and better sanitation. In the communal areas, the priority focus is the renovation of agro-processing processing infrastructure and improvement of animal health quality facilities. Over the medium-term the implementation of the Resolutions will benefit from the development and improvement of the policy frameworks, embedding the security of land tenure and investor certainty.

- ***Enforce fiscal discipline, accountability and oversight to deter reoccurrence of significant spending arrears.*** This requires Government-wide adherence to public finance management provisions, financial system enhancement and keeping contractual and spending obligations well within the budgeted ceilings.
- ***Provide targeted budgetary allocations to industrialization programmes to give effect to industrialization policy and Growth at Home strategy***. This is in recognition that Namibia potential inclusive growth lies in the structural transformation of the economy and improvement of productive capacity leveraging on the regional and global value-chains. Private sector development and partnerships will remain central to elevate the role of the private sector in the economy.
- ***Maintain budgetary priorities to education, health and social sectors*** to further advance human resources development, enhance long-term prospects for economic growth, job creation and improved quality of life. For the efficiency and better targeting of the Social Safety Nets, Government will establish a Central Social Registry.
- ***Implement tax policy and tax administration reforms*** to provide for alternative forms of revenue by strengthening provisions for protecting the revenue base from erosion and illicit flows, improve the progressivity of the tax system, implement an integrated tax administration system and establish the autonomous Revenue Agency for Namibia. The implementation of tax policy reform will take into consideration stakeholder consultation and aim to minimize adverse unintended consequences on business and the economy, and
- ***Government will implement structural reforms in the various sectors of the economy*** in order to reinforce the outcomes in the priority areas of intervention during the MTEF, This is especially in regard to the competitiveness of the national economy, institutional capacity for public procurement, ease of doing business, national investment framework, value-addition policy and public finance management.

ANNEX 1: Disaggregated GDP Growth Projections (%) - Domestic Supply Side

	2017	2018	2019	2020	2021	2022
Agriculture and forestry	12.6	0.4	-5.2	1.1	2.5	2.0
Livestock farming	13.7	-0.1	-5.3	0.1	2.4	1.9
Crop farming and forestry	11.0	1.0	-5.1	2.4	2.7	2.2
Fishing and fish processing on board	1.3	-10.5	-5.9	-1.9	2.3	2.2
Mining and quarrying	12.8	9.7	8.6	1.9	2.9	1.6
Diamond mining	12.0	12.0	3.1	1.5	0.8	-0.7
Uranium	23.4	24.0	24.5	2.0	4.4	4.2
Metal Ores	9.9	-6.5	11.3	3.3	7.7	5.6
Other mining and quarrying	4.3	-2.9	6.2	0.9	5.3	3.2
Primary industries	**10.6**	**4.0**	**3.1**	**1.2**	**2.8**	**1.8**
Manufacturing	1.3	-5.8	-3.1	-1.8	-1.2	0.3
Meat processing	-14.4	-7.6	2.1	-2.6	-1.2	0.7
Grain Mill products	15.5	-0.1	-3.0	0.4	1.4	3.2
Other food products	-4.6	-2.4	0.5	-4.8	-3.9	-1.5
Beverages	-0.8	-6.7	-4.1	-0.7	-1.7	0.1
Textile and wearing apparel	-3.2	-4.4	-6.1	-2.8	-1.8	0.0
Leather and related products	2.3	-2.3	-4.2	-0.8	0.2	2.0
Wood and wood products	1.6	-6.0	-7.9	-4.6	-3.6	-1.9
Publishing and Printing	-2.4	-8.5	-5.9	-2.5	-1.5	0.2
Chemical and related products	-5.7	-2.7	-5.0	-1.7	-0.7	1.1
Rubber and Plastics products	-9.1	-2.9	-3.7	-0.4	0.6	2.4
Non-metallic minerals products	0.8	-7.8	-4.0	-0.6	4.3	6.2
Basic non-ferrous metals	4.8	-15.4	-0.1	-0.4	-1.4	-0.6
Fabricated Metals	-6.5	-5.5	-6.0	-2.7	-1.7	0.1
Diamond processing	14.6	4.8	1.8	-2.5	-1.5	-1.8
Other manufacturing	-2.4	-13.1	-9.6	-5.7	-4.7	-3.2
Electricity and water	1.8	1.5	4.3	-1.2	-0.3	1.9
Construction	-25.6	-10.3	-1.9	5.6	2.2	2.7
Secondary industries	**-6.7**	**-5.9**	**-1.8**	**0.0**	**-0.2**	**1.1**
Wholesale and retail trade, repairs	-7.5	-6.5	-3.1	-0.1	0.5	0.7
Hotels and restaurants	-1.1	-3.2	-3.6	-1.0	2.8	2.2
Transport, and communication	0.8	-1.0	-1.7	-0.5	0.5	2.4
Transport	1.4	-3.5	-1.7	0.1	1.1	3.1
Storage	-4.7	-6.8	-2.4	-0.6	0.8	2.1
Post and telecommunications	2.1	3.7	-1.5	-1.0	-0.2	1.8
Financial intermediation	2.8	1.4	2.4	3.0	3.7	3.0
Real estate and business services	0.9	-0.7	0.0	0.1	-0.8	-2.1
Real estate activities	2.7	-0.6	0.3	0.0	-1.7	-3.1
Other business services	-4.6	-1.0	-0.9	0.1	2.3	1.1
Community, social and personal service activities	-0.1	-0.5	0.7	-0.2	-1.6	0.0
Public administration and defence	0.3	0.5	1.2	2.0	0.6	2.2
Education	-1.2	1.5	1.8	1.1	1.3	2.9
Health	-1.3	2.4	0.0	2.3	2.7	4.3
Private household with employed persons	1.0	-2.8	-1.3	-0.1	-2.2	0.0
Tertiary industries	**-1.4**	**-1.1**	**-0.1**	**0.9**	**0.9**	**1.6**
Less: Financial intermediation services indirectly measured	-0.2	1.4	2.4	3.0	3.7	3.0
All industries at basic prices	**-0.5**	**-1.1**	**0.1**	**0.8**	**1.0**	**1.5**
Taxes less subsidies on products	-5.5	-1.3	-7.3	-1.9	1.8	-0.2
GDP at market prices	-0.9	**-0.5**	**0.2**	**0.8**	**1.1**	**1.5**

Source: Macroeconomic Working Group February 2019.

ANNEX 2: ASSUMPTIONS FOR THE ESTIMATES AND PROJECTIONS

1 PRIMARY INDUSTRIES

Agriculture and forestry

Growth in the sector is estimated to slowdown in **2018 and** contract in **2019**, due to reduced activities in both the livestock and crop farming sub-sectors. The slow growth in the livestock sub-sector is attributable to reduced volumes due to high sell off during 2017, while growth in 2019 is expected to contract due to the delayed rainfall during the 2018/2019 rainfall season (drought conditions).

The crop farming sub-sector is estimated to slow down as a result of the erratic rainfall season (the rainfall season is said to be shifting due to climatic conditions). Growth for the sector is expected to contract during **2019** due to continued adverse weather conditions. For **2020** and beyond, the sector is expected to post moderate growth rates on the back of the implementation of a selective import substitution strategy for the crop farming sub-sector, the revised livestock export strategy (for small stock) as well as the anticipated better weather conditions.

Fishing and fishing processing on-board

The fishing sector is estimated to contract in **2018**, **2019** and **2020** due to several factors, such as increased input costs (buying of quotas and high oil prices), lower TAC, uncertainties with regard to the allocation of new fishing rights and quota, exchange rate fluctuations, declining landings, adverse oceanic/environmental conditions, declining investment in the sector as well as the moratorium on pilchards. The sector is expected to bottom out moderately over the outer years of the MTEF.

Mining and quarrying

Diamond mining

The growth in the sector is estimated to be high in **2018** on the back of increased carat production. For **2019** and beyond, it is expected to grow only marginally as full production capacity has been reached and the winding-up of land-based mining (Elizabeth Bay), with no new prospects in the near term and the servicing of the mining vessel will also adversely affect production. Diamond mining will mostly be sustained by off-shore mining over the medium term period.

Uranium mining

The sector is estimated to record a high growth rate in **2018** and **2019** on the back of increased production despite dire conditions, in the uranium markets. The sector faces challenges such as depressed uranium prices, exchange rate volatility and high input costs (increasing oil prices, high cost of sulphuric acid, and high cost of utilities). Over the remainder of the medium term period, the sector is expected to register moderate growth rates as it reaches its long term average growth trajectory.

Metal Ores

The sub-sector is estimated to contract in 2018 due declining output of zinc and gold (zinc has the highest weight of 60 percent and gold has a weight of 35 percent). Zinc production is expected to decrease due to higher production costs and decreased capacity as the pushback process continues, while gold production is affected negatively by the depleting resources and declining exploration possibilities. In 2019 and beyond, the sector is expected to be driven by higher zinc output on the back of anticipated increased capacity as the pushback process reaches finalization.

Other mining and quarrying

Growth in this sector is estimated to contract in **2018** and grow moderately over the medium term period. The contraction in 2018 is due to declining economic activities, mainly the construction sector. For **2019** and beyond, it is expected that the growth of the sector will mainly be driven by anticipated improved construction activities resulting from the implementation of several housing development projects (office and residential), coupled with increased production capacity from salt mining company over the medium term period.

2. SECONDARY INDUSTRIES

Manufacturing

Growth in the sector is estimated to contract in 2018 mainly due to the contraction in almost all the major sub-sectors with the exception of diamond processing. The contraction in the sector is attributed to the shrinkage in meat processing, beverages, other food products and basic non-ferrous metals. Meat processing contracted due to limited stock that was made available for processing which resulted in the closure of several abattoirs in the country.

Beverages were mainly affected adversely by the water restrictions that were imposed due to the prevailing water scarcity. Other food products was mainly negatively affected by lower fish landings, decreased diary production, higher input costs and lower demand due to subdued economic activities. Growth of basic non-ferrous metals declined significantly mainly due to decrease in refined zinc production. On the other hand, *diamond processing* is estimated to register strong growth due to the increase in the carats of diamonds processed.

Growth in **2019** is expected to remain subdued, - albeit an improvement - as the contraction in all the sub-sectors continue except meat processing, basic nonferrous metals and diamond processing. Meat processing is expected to post positive growth prompted by the importation ban from South Africa on cloven-hooved live animals and their products. Basic nonferrous metals are expected to post positive growth on the back of an anticipated increased in zinc production. While growth in diamond processing is expected to slow down but remain positive as production slows on the back of slower demand from the international markets. For **2020**, growth in manufacturing is expected to bottom out marginally and maintains relative horizontal growth rates over the remainder of the medium period.

Electricity and water

The sector is estimated to grow in **2018** on the back of higher electricity output as cheaper imports contribute to higher value addition and improved local generation as well as increased water output. The increased water output resulted from higher than expected consumption demand for human and livestock. The higher demand for water stems from the delayed rainfall in 2018/19 season (drought conditions).

Growth in **2019** is expected to moderate mainly due to the anticipated negative impact of the El Nino weather phenomenon that is forecasted for Sub-Saharan Africa as it may affect hydro-power generation but offset increased water output.

Construction

The growth of the sector is estimated to decline in 2018 and register a slightly lesser contraction in 2019. The marginal improvements in are mainly on the back of low base effects 2017, while the improvements in 2019 are due to the ongoing capital projects. In 2020 and beyond, growth is expected to recover moderately as the sector bottoms out of recession and maintains its long term growth trajectory over the medium term period mainly on the back of the anticipated implementation of the government's capital expenditure programme that will be sustained through the AfDB-supported infrastructure development programme. In addition, it is expected that there will be an increase in the construction of residential dwellings as the local authorities are anticipated to avail more serviced land for such purposes, with a focus more on the smaller towns as opposed to Windhoek.

3. TERTIARY INDUSTRIES

Wholesale and retail trade, repairs

The sector is estimated to contract in **2018** and record a slightly better decline in **2019** due to the decrease in, new vehicle sales, depressed construction activities, consumer demand as a result of depressed economic activities and weaker performance in the Angolan economy. The decline in consumer demand is primarily attributed to, lower private sector credit extension, reduced disposable income, and depressed labour market absorption that translates into no new jobs.

For **2020** and over the remainder of the medium term period, growth of the sector is expected to bottom out of recession and maintain its long-term growth path on the back of anticipated increase in domestic consumer demand in line with the expected recovery in economic growth, expected easing of fiscal consolidation, recovery of the Angolan economy due to improved commodity prices (mostly oil prices) and the diversification of that (Angolan) economy.

Hotels and restaurants

Growth of the sector is estimated to contract **2018** and **2019** due to, the impact of fiscal consolidation on public conferencing and the decrease in the number of bed/room occupancy rates despite the increase in the number of tourist arrivals, Although the origin of tourists has diversified over the years, the main influxes from Europe have been negatively affected by the low economic activity and appreciation of the exchange rate.

For **2020** and beyond, the sector is expected to bottom out of recession and record moderate growth rates on the back of the anticipated easing of fiscal consolidation and improvement in the global economy.

Transport and communication

The sector is estimated to grow moderately in **2018** on the back of strong growth in the post and telecommunications sub-sector, while the storage and transport sub-sectors are expected to post contractions. The strong growth in post and telecommunications is estimated to be boosted by increased sector innovations and investments, while transport and storage are estimated to contract mainly as a result of decreased economic activities from the mining sector due to the completion of major projects, railway bottlenecks and no new big projects in the pipeline.

Going forward, growth in the sector is expected to recover and post positive rates on the back of improved efficiency brought about by the completion of the port expansion and increased exports from the mining sector over the medium term period.

Financial intermediation

The sector is estimated to register slower growth rates in **2018** due to reduced margins as a result of slower economic activities and **2019 is expected to** pick up and gradually moderate over the remainder of the medium term period on the expectation of increased economic activities as result of the expected gradual easing of the fiscal consolidation stance.

The moderate growth rates are expected despite the slower expansion in private sector credit extension (PSCE), increased non-performing loans, impact of fiscal consolidation and stringent regulations in the sector.

Real estate and business activities

The sub-sector is estimated to register contract in **2018** before moderating no growth in **2019** on the back of positive growth in the real estate activities sub-sectors. The real estate activities sub-sector is expected to grow marginally on the back of the increase in the volume of houses completed as a result of the on-going improvement in delivery of serviced land. For **2020** growth in the sector is expected to be driven by the recovery in other business services and real estate activities on the back of the continued provision of serviced land by the local authorities that will be complemented by the property developers that are increasingly targeting lower-end customers in smaller towns due to lower cost implications.

Public administration and defense

Growth in the sectors is estimated to grow moderately in **2018** in line with the government's fiscal consolidation stance and the wage bill reduction strategy that are expected to bring about a reduction in government expenditure on personnel. Going forward, the sector is expected to grow moderately on the back of the anticipated easing of fiscal consolidation, recruitment in critical areas and recovery in economic activities.

Education

Growth of the sector is estimated to grow moderately in **2018** mainly due to the fiscal consolidation stance of the government but is expected to bottom out of recession and maintain its stable growth rate over the remainder of the medium term period. In **2019** and beyond, growth of the sector is expected to be pillared on the anticipated increase in personnel intake as the effects of the new education curriculum implementation takes force.

Health

The health sector is estimated to grow moderately in **2018** due to slower intake of nurses as a result of the government's policy stance. However, for 2019 the growth of the sector is expected to expand over the outer years of the MTEF. The better growth rates during the outer years of the MTEF are based on the expected increase in the recruitment of healthcare professionals.

DEMAND-SIDE ASSUMPTIONS

Final consumption expenditure (FCE) is estimated to post marginal recovery **2018** due to the contractions in the *general government consumption expenditure, while growth in private* is expected bottom out of contract the recovery is expected to continue through to **2019** on the back of the anticipated improvements in both private and general government consumption. The improvements are expected to be boosted by improvements construction and wholesale retail sectors as well as the Financial Intermediation sector.

Private consumption expenditure is estimated to post positive growth in **2018** due to low base effects of 2017 and post higher growth for **2019.** The sector is expected to maintain a moderate average growth rate over the medium term period as private sector demand improves in line with the anticipated improvement in the depressed economic situation.

General government consumption expenditure is estimated to decline in **2018** due to the continued fiscal consolidation but is expected to recover in **2019** and maintain a moderate average growth rate over the remainder of the MTEF. The improvement in performance is premised on the easing of the government's fiscal policy stance over the outer years of the medium term period.

Gross fixed capital formation (GFCF) is estimated to decline in **2018** on the back of the slowdown in private investments as a result of the drop in private credit extension as well as the slow execution rates with regard to the implementation of public sector capital projects, except for the ongoing public infrastructure projects.

GFCF is expected to continue in the negative territory in **2019** and, thereafter, improve over the remainder of the medium term period with the moderate average growth rate due to anticipated improvement of economic fundamentals and growth momentum as well as the anticipated increase in the number of new of capital projects. This is based on the assumption that the government's capital expenditure programme will be sustained through the implementation of the **AfDB**-supported public infrastructure development programme.

Exports are estimated to expand in **2018** on the back of increased exports by *mining and quarrying*, especially diamond and uranium mining, despite the decrease in the production of *metal ores* (copper, zinc and gold). For **2019** and over the medium term period, exports are projected to register growth on the back of the anticipated increased production levels in all the *diamond, uranium and zinc, other mining and quarrying* sub-sectors before stabilizing over the medium term.

Imports are estimated to grow moderately in **2018** in line with the private sector consumption which is expected to record moderate growth. For **2019** growth in import might be hindered by importation ban, however, the effects of drought (delayed rainfall season) might offset these gains. For 2020 and beyond, imports are expected to record average growth rates on the back of the anticipated normalisation of the depressed economic situation.

Republic of Namibia

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