Republic of Namibia

"Shared Prosperity"

FISCAL STRATEGY FOR THE MEDIUM-TERM EXPENDITURE FRAMEWORK 2018/19 – 2020/21

Republic of Namibia

FISCAL STRATEGY

FY 2018/19-2020/2021 MTEF

7 March 2018

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Foreword

The Fiscal Strategy provides macroeconomic and fiscal policy developments covering global, regional and domestic analysis. In this context, the document provides resource envelop consistent with economic outlook, fiscal policy stance as well as policy priorities and intervention over the MTEF period.

The FY2017/18 Mid-Year Budget Review and the Medium-Term Budget Policy Statement that I presented in October 2017 made provision for an additional expenditure and sets out the budget priorities and fiscal policy stance for the next MTEF. The additional expenditure of N$4.0 billion, was mainly targeted at settling outstanding invoices/spending arrears emanated from the FY2016/17.

The emergence and settlement of a large stock of outstanding spending arrears represented a temporary setback for the fiscal consolidation program and adversely impacted on the fiscal indicators, with the budget deficit as a ratio of GDP rising from the initial budget estimate of 3.6 percent to the current 5.4 percent, while debt to GDP ratio rose to 43.0 percent.

It is against the above background that the 2018/2019 Fiscal Strategy emphasizes the policy imperative for a gradual fiscal consolidation program, with the objective to reduce the budget deficit as a lever for stabilizing growth in, and eventual reduction of, public debt over time. The proposed policy path is for the fiscal consolidation to be paced over the MTEF to mitigate against the unintended consequences of a sudden expenditure correction, support growth and resource allocation to priority sectors and to the delivery of critical public services.

The 2018/2019 Fiscal Strategy and the 2018/2019-2020/2021 Medium Term Expenditure Framework come into effect at a time when our economy is going through the most difficult time, with the lowest growth rate in seven years. Following the 1.1 percent growth recorded in 2016, the economy is estimated to have declined by about 0.5 percent in 2017, after contraction in three consecutive quarters of the year. During the MTEF, the economy is projected to grow by 1.2 percent in 2018, with recovery of 2.1 percent in 2019 and 3.0 in 2020.

While domestic economy faces tough time, developments in the global economy is encouraging. Economic activity is improving, with global output estimated at 3.7 percent in 2017, up from 3.2 percent recorded in previous year and expected to increase to 3.9 percent over the medium-term. The improvement in global activity remains broad based, with notable better performance in Advanced Economies (Euro Zone, United States), Asia and some of the Emerging Markets Economies, most of which are Namibia’s major trading partners.

The outlook for commodity prices are positive, with commodities such as gold, copper and zinc started the year 2018 on a higher note. The increase in commodity prices is mainly driven by demands from emerging markets especially China and India, where electric motor vehicles and renewable energy storage solutions are emerging. This development is positive for Namibia and it is expected to drive mining activities in the country over the MTEF period.

Regionally, the outlook for Sub-Saharan African appears positive with growth estimated at 2.7 percent in 2017, and improves further to 3.3 percent in 2018 and 3.5 percent in 2019. The improvement is premised mainly on the recovery in commodity prices and external demand conditions.

As we embrace the current economic status and move forward, the 2018/2019 Fiscal Strategy reaffirm the need for fiscal policy that is grounded on fiscal counter-cyclicality, long-term sustainability of fiscal outcomes and the promotion of inclusive economic growth and social welfare.

The fiscal policy stance adopted for the 2018/2019-2020/2021 MTEF estimates the Budget deficit to hover around an average of 3.6 percent, with reduction from a revised estimate of 5.4 percent of GDP in 2017/2018 to about 4.5 percent in 2018/2019. This level is estimated to reduce further to 4.0 percent in 2019/2020 and reaches about 2.3 percent in the last year of MTEF.

However, the successful implementation of pro-growth fiscal consolidation needs to be supported by revenue mobilization, expenditure policy interventions and structural policy reforms. I therefore, call once again, on all stakeholders being public or private sectors to support this noble course the Government is pursuing.

Calle G. Schlettwein, MP
MINISTER

1 OVERVIEW OF THE GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

Global economic activity continues to firm up. It is estimated to have grown by 3.7 percent in 2017, compared to 3.2 percent in 2016. The pickup in growth has been broad-based, with notable upside surprises in Europe and Asia. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage points to 3.9 percent for both. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. (Figure 1

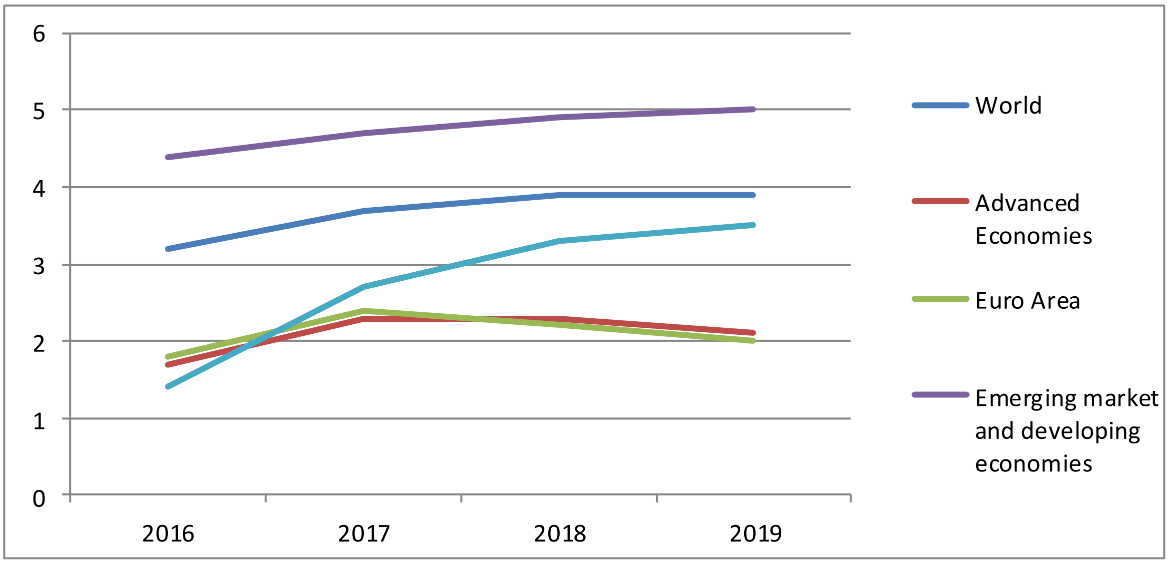
The growth of the global outlook is mainly pillared on marginal expansion in the Advanced Economies, where growth is now expected to exceed 2 percent in 2018 and 2019. This forecast reflects the expectation that favourable global financial conditions and strong sentiment will sustain the recent acceleration in demand, especially in investment, with a noticeable impact on growth in economies with large exports. In addition, the United States (US) tax reform and associated fiscal stimulus are expected to temporarily raise US growth, with favourable demand spill-overs for the US trading partners.

Growth rates for many of the Euro Area economies have also been marked up, especially for Germany, Italy, and the Netherlands - reflecting the stronger momentum in domestic demand and higher external demand. Growth in Spain, which has been well above potential, has been marked down slightly for 2018, reflecting the effects of increased political uncertainty on confidence and demand.

Following a growth rate of 1.7 percent in 2016, output in the Advanced Economies is expected to have grown by 2.3 percent in 2017 and is projected to grow by 2.3 percent in 2018 and 2.2 percent in 2019. The growth rates are pillared on the back of stronger growth in the advanced Asian economies, which are especially sensitive to the outlook for global trade and investment. The growth forecast for Japan has been revised upwards to 1.2 percent for 2018 and 0.9 percent for 2019, reflecting upward revisions to external demand, the supplementary budget for 2018, and carry-over from stronger-than-expected recent activity.

The Euro Area is expected to record growth rates of 2.4 percent, 2.2 percent and 2.0 percent in 2017, 2018 and 2019, respectively. Growth rates for many of the Euro Area economies have been marked upward, especially for Germany with growth rates of 2.5 percent, 2.3 percent and 2.0 percent in 2017, 2018 and 2019 respectively, Italy with growth rates of 1.6 percent, 1.4 percent and 1.1 percent in 2017, 2018 and 2019 respectively, reflecting the stronger momentum in domestic demand and higher external demand.

Figure 1: Global Real GDP Growth %



Source: IMF World Economic Outlook January 2018 update

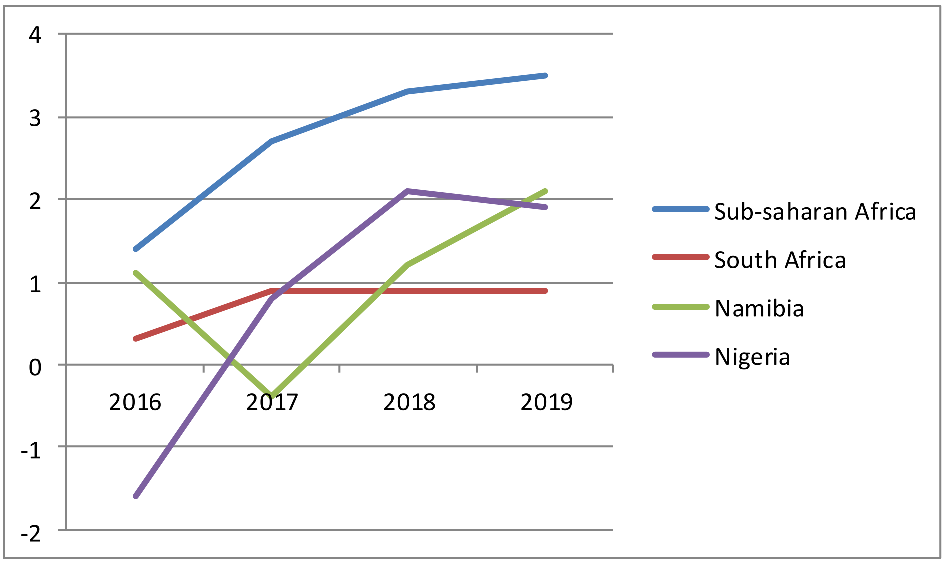
Growth in the US is estimated at 2.3 percent, 2.7 percent and 2.5 percent in 2017, 2018 and 2019, respectively. The growth forecast for the US has been revised upward, given the stronger-than-expected activity in 2017, higher projected external demand and the expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment.

The forecast for the US assumes that the decline in tax revenues will not be offset by spending cuts in the near term. The tax reform is, therefore, anticipated to stimulate near-term activity in the United States. As a result, stronger domestic demand is expected to increase imports and, consequently, widen the current account deficit.

The Emerging Markets and Developing Economies are expected to grow by 4.7 percent, 4.9 percent and 5.0 percent in 2017, 2018 and 2019 respectively, following the 4.4 percent recorded in 2016. The Chinese economy drives growth in this group, with growth rates of 6.7 percent, 7.4 percent and 7.8 percent respectively over the same period, mainly due to stronger external demand.

Sub-Saharan Africa's (SSA) output growth is expected to recover and expand by 2.7 percent in 2017 and record growth rates of 3.3 percent in 2018 and 3.5 percent in 2019, following a lower growth rate of 1.4 percent in 2016. (Figure 1)

Figure 2: Sub-saharan real GDP Growth 2016-2019



Source: IMF World Economic Outlook January 2018 update

Looking at the Economic Commission for West African States (ECOWAS), Nigeria's is expected to recover from a contraction of 1.6 percent recorded in 2016 to the estimated growth rate of 0.8 percent in 2017 and further to 2.1 percent and 1.9 percent in 2018 and 2019, respectively. The contraction of 1.6 percent in 2016 was the worst annual slump in 25 years. The estimated recovery and projected rise in growth are premised on the assumption of increased output of oil, Nigeria's biggest export commodity, and more foreign currency becomes available for factory imports.

In the southern African region, the sharp and long-lasting decline in oil prices has derailed **Angola**'s economic performance. GDP growth contracted to 0.7 percent in 2016, driven by a slowdown in non-oil activity as the industrial, construction, and services sectors adjusted to cuts in private consumption and public investment amid more limited availability of foreign exchange. Growth is estimated to have recorded a rate of 1.5 percent in 2017 and is projected to expand marginally to 1.6 percent in 2018, mainly due to planned increases in public spending and improved terms of trade.

Following a contraction of 1.7 percent in 2015, economic growth in **Botswana** is estimated to have recovered gradually to register a growth rate of about 4.5 percent in 2017. The growth was supported by a recovery in the diamond market and moderate fiscal stimulus. Growth is projected at about 4.8 percent in 2018, on the back of the rising demand for diamonds, investments in the water and power sector and several reform programmes aimed at attracting investment.

Economic growth in South Africa is estimated to have remained weak at 0.9 percent in 2017 and the same level of growth is expected in both 2018 and 2019. The growth has been impacted by policy uncertainty and its impact on confidence and investment.

1.2 COMMODITY PRICES

The IMF commodity price index outlook is expected to reach record high prices based on the high levels the year 2018 has started with, where zinc and gold prices were amongst the biggest recorders. The high commodity prices are attributed to the evolution of Electric motor vehicles and renewable energy storage solutions, hence increasing market demand and the price.

In January 2018, **oil prices** briefly hit $70 per barrel, compared to the average price US$64 per barrel in December 2017, the highest monthly average since 2014. This surge in oil price is attributed to the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain the cuts in oil production throughout the first quarter of 2018. Expectations are that the commodity price would reach levels as high as US$85 per barrel by December 2018.

According to the IMF, the **metal price index** would record high prices, with gold price reaching US$1,300/oz, copper breaching US$7,000/mt and zinc above US$3,400/mt during the third quarter of 2018. This trajectory in metal prices is attributed to improved global conditions and improved demand in bigger economies such as the US and China.

Prices of **zinc** and **lead** opened the year 2018 at an average price of more than US$ 3 400/mt compared to less than half of this price as the average for 2017. Electric motor vehicles and renewable energy storage solutions are driving demand for commodities such as cobalt, lithium, graphite, rare earths, zinc, lead and nickel. In 2018, the prices for these commodities are expected to remain prices on the back of improved global economic growth and high demand from China.

Uranium prices recorded a depressed average of US$20/lb in 2017, a trend that is expected to continue in 2018, with the latest price at US$22.5/lb. However, uranium prices are expected to stabilise and increase over the medium term, prompted by the recent closure of major uranium mines. It is anticipated that demand will outstrip supply by 2022/23 and average prices reaching levels of U$75/lb.

In 2017 prices for rough **diamonds** increased by 2.7 per cent, while the price for polished diamonds decreased by 3.5 per cent, according to the diamond price index, the reason diamond prices are on the rise is because of expectations of a strong global economy in 2018 and diamond demand is highly correlated to economic growth.

2. DOMESTIC ECONOMICS DEVELOPMENTS

2.1 GDP GROWTH

Real GDP registered a slower growth of 1.1 percent in 2016 compared to a robust growth of 6.0 percent recorded in 2015, mainly due to the contractions of 2.0 percent (from a deeper contraction of 5.2 percent) and 7.8 percent (from growth of 7.2 percent) in the primary and secondary industries, respectively. The tertiary industries recorded slower growth of 3.9 percent (from 7.6 percent).

The contraction in **primary industries** were attributed to the contraction of 5.7 percent in the output from *mining and quarrying* sub-sectors, while both *diamond mining* and *other mining and quarrying* registered contractions.

The contraction of the **secondary industries** was mainly attributable to the construction sector which recorded a shrinkage of 26.5 percent in 2016 compared to a robust performance of 26.0 percent in 2015. The poor performance in the construction sector stemmed from the completion of major construction projects by the *mining and quarrying* sector, following the completion of the Husab Uranium and Tschudi mines. Since then, there were no new projects construction projects in the mining sector.

The *electricity and water* sector slowed to 6.8 percent in in 2016, compared to a robust rate of 4.2 percent recorded in 2015. This was mainly due to the lower performance of the electricity sub-sector due to the higher imports costs as a result of the renegotiated power purchase agreement with the Electricity Supply Commission (Eskom) of South Africa.

The *manufacturing sector* recorded growth of 3.4 percent in 2016 compared to a contraction of 4.6 percent recorded in 2015. This performance was mainly attributed to *diamond processing* and *other food products* sub-sectors that recorded phenomenal growth rates of 65.9 percent and 4.0 percent in 2016 (compared to declines of 24.1 percent and 12.3 percent in 2015), respectively.

The recovery in *diamond processing* is attributable to the implementation of the agreement between the Government and De Beers to increase the number of rough diamonds to local processors[1] as well as the processing of diamonds that were held in inventory during the previous year due to the low international market absorption capacity.

The **tertiary industries** registered slower growth of 3.9 percent in **2016,** compared to 7.6 percent in 2015. Despite that, the tertiary industries remains the biggest contributor to GDP, with a contribution of more than 50 percent to GDP in 2016. Year-on-year, all the sectors within the tertiary industries slowed down, indicating slower economic activities across the services sector except for the *financial intermediation* which remained flat.

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[1] *The agreement between the Government and De Beers entails the supply of rough diamonds worth of USD 430 million for local processing*

Growth of the *wholesale, retail trade and repair sector* has been driven highly by increase in demand for consumption over the last few years. The sector recorded slower growth of 3.4 percent in 2016, compared to 7.4 percent in 2015. The slower growth in 2016 is due to the massive contraction of the construction sector (resulting in job losses) and the impact of the subdued performance of the Angolan economy as a result of low oil prices. Furthermore, the fiscal policy stance pursuit by the Government impacted the sector adversely.

The *hotels and restaurants* sector slowed down marginally to 5.1 percent in 2016 compared to 5.6 percent in 2015. The slower performance of the sector was attributed to the sluggish growth of the sub-sector *hotels*[2]. On the other hand, the sub-sector *restaurants* recorded robust growth due to the prevailing stable macroeconomic environment as inflation eased during the year, while the exchange rate appreciated against some of the major foreign currencies.

2.1.1 INFLATION

The average annual inflation rate for 2017 was recorded at 6.2 percent compared to 6.7 percent year-on-year in 2016. The annual inflation rate for January 2018 stood at 3.6 percent compared to 8.2 percent recorded in January 2017.However, on a monthly basis, the inflation rate increased from 0.2 to 1.6 percent.

The slowdown in the inflation rate characterized the annual price levels of all the categories constituting the NCPI with the exception of *education, transport and health*, which expanded by 10.0 percent, 6.3 percent and 6.2 percent, compared to 8.2 percent, 5.2 percent and 5.6 percent registered during the previous year, respectively.

2.1.2 Exchange Rates and Competitiveness

Namibia's nominal effective exchange rate (NEER) depreciated by 0.7 percent year-on-year between the fourth quarter of 2016 and the fourth quarter of 2017. On the contrary, the real effective exchange rate (REER) appreciated by 0.3 percent over the same period. Quarter-on-quarter, the NEER depreciated by 1.1 percent between the third quarter of 2017 and the fourth quarter of 2017, reflecting weaknesses in some trading partner currencies such as the US Dollar, together with the strengthening of the Rand. Over the same period, the REER depreciated by 1.3 percent, indicating that Namibia has gained some competitiveness versus its key trading partners (Figure 4).

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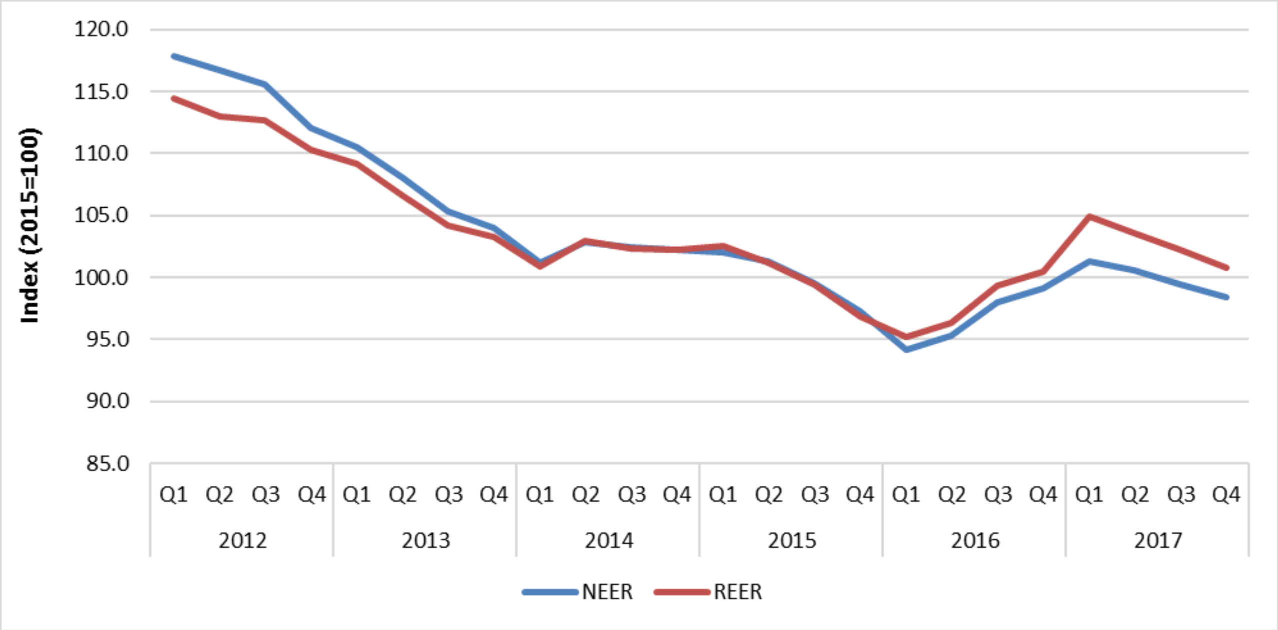
[2] Suppressed growth in South Africa continues to weigh heavily on the tourism sector given the links between the two economies. Furthermore, the government's fiscal stance is likely to exert pressure on this sector as public conferencing constitutes a significant portion of its revenue streams.

Figure 3: Effective Exchange rates 2012-2017

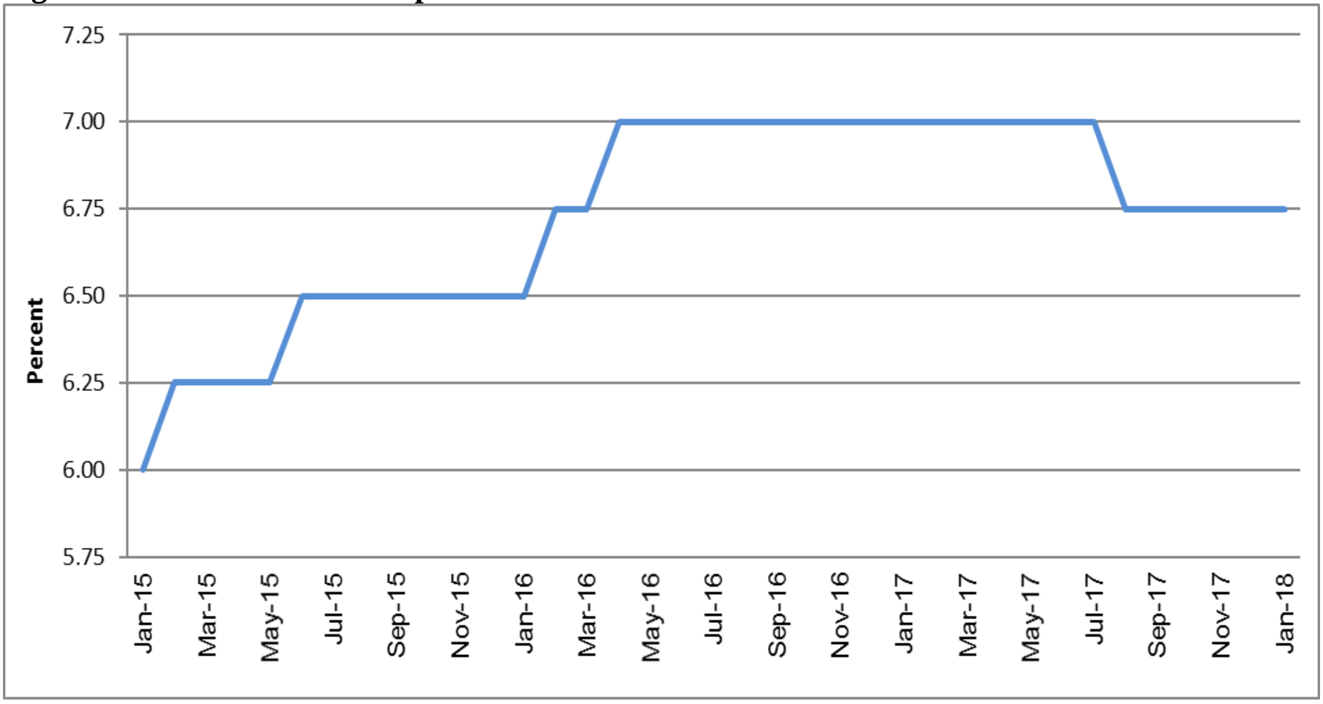


Source: Bank of Namibia, February 2018

2.1.3 Interest Rate Developments

The Monetary Policy Committee (MPC) of Bank of Namibia left its key policy rate unchanged at 6.75 percent at its December 2017 meeting (Figure 5). 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. Furthermore, economic activities in key sectors remained weak during 2017 compared to 2016, while inflation moderated during the same period. These developments prompted the MPC to leave the repo rate unchanged as there were no signs of any upward pressure on prices, hence the need to boost economic growth.

Figure 4: Bank of Namibia Repurchase rate 2012-2018



Source: Bank of Namibia, February 2018

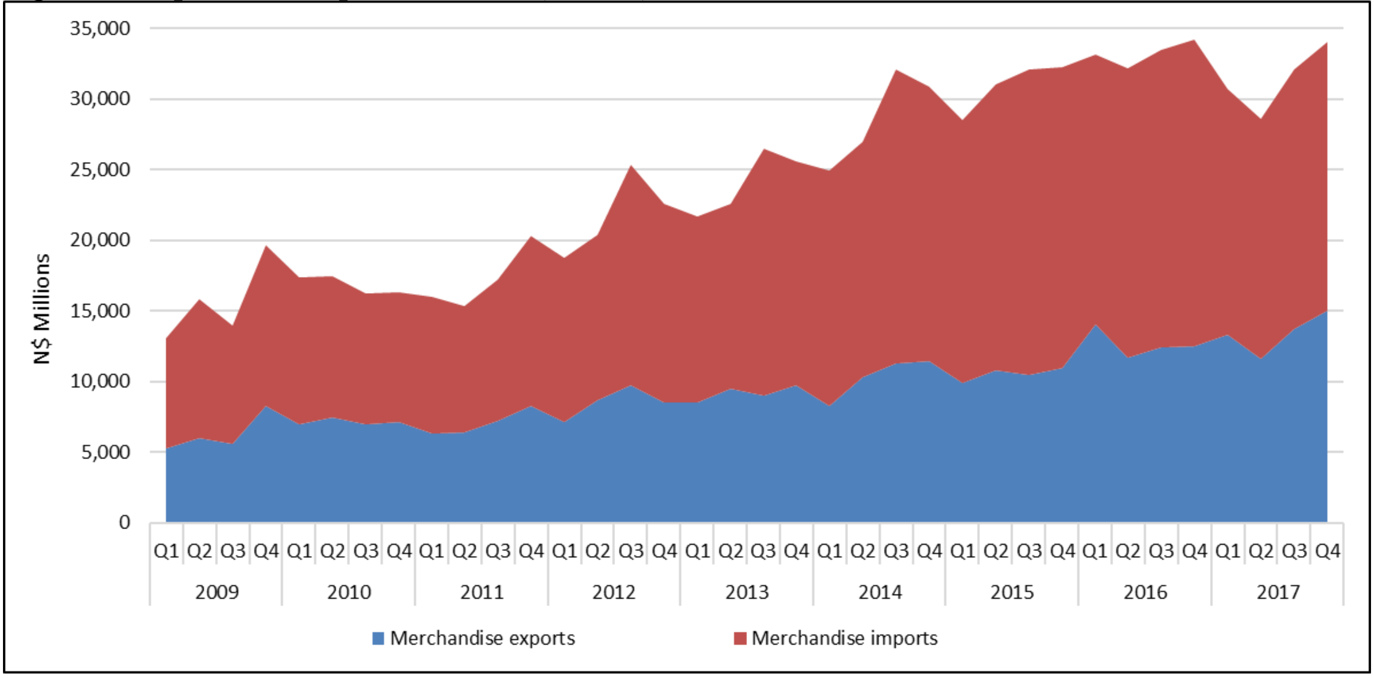
2.1.4 Trade and Balance of Payments

Merchandise exports from Namibia increased by 15.2 percent during the second half of 2017, when compared to the corresponding period of 2016 (Figure 6). In detail, noted increases in merchandise exports came mainly from food and live animals, other mineral products, manufactured products and re-exports. In the meantime, exports for other commodities as well as non-monetary gold products recorded decreases over the same period.

Merchandise imports reduced by 12.5 percent between the second half of 2016 and the second half of 2017 (Figure 6). The reductions in merchandise imports were noticeable amongst *vehicles, aircraft and vessels; precious or semi-precious stones;* base metals and articles of *base metal; as well as machinery, mechanical and electrical appliances.* . There was, however, an increase in imports for electricity and products of chemical industries during the same period.

On the net basis, the above developments in in merchandise trade led to the easing of Namibia's merchandise trade deficit (covering goods only), which reduced by 51.6 percent from N$17.6 billion during the second half of 2016 to N$8.5 billion during the second half of 2017.

Figure 5: Export and Import of Goods (N$ Mil) 2009-2017



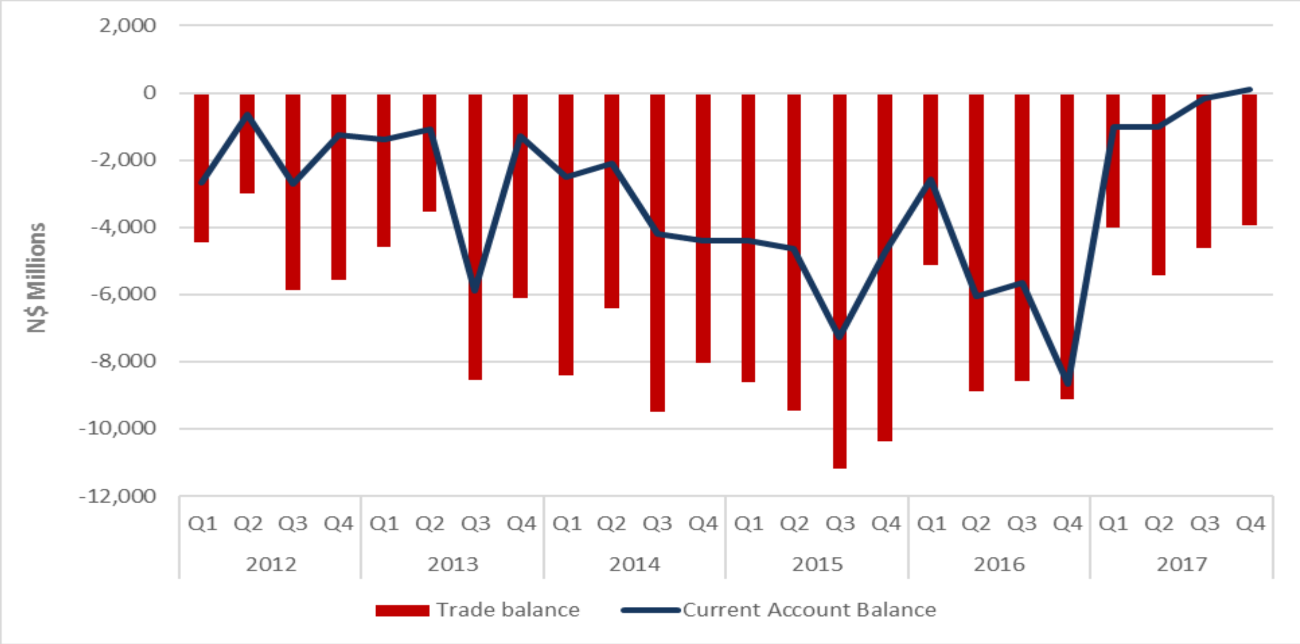
Source: Bank of Namibia, February 2018

2.1.5 Current Account Balance

Namibia recorded high trade deficits since the year 2012, and this was due to factors such as increased investments in the mining sector, which required the importation of construction materials and equipment, expansionary fiscal policy, as well as expansionary monetary policy. With many construction projects at mines and in government having come to an end, exports increased slightly while imports started to decrease faster during 2017, leading to a reduction in merchandise trade deficit. Besides the merchandise trade component, Namibia's revenue share from SACU increased to N$18.2 billion in 2017, from N$14.8 billion in 2016.

As a result of above developments, Namibia's current account deficit narrowed to N$69 million during the second half of 2017, compared to N$14.3 billion during the same period of 2016 (Figure 7). The improvement in the current account deficit was primarily attributed to the narrowing of the trade deficit, a reduction in net investment income payments and increased inflows in the primary income account. Although SACU revenues are expected to decrease after 2017, the combination of a moderation in import growth and increased exports are expected to sustain an improved external position for Namibia going forward.

Figure 6: Current Account Balance (N$ Mill)



Source: Bank of Namibia, February 2018

2.1.6 Capital Account

Namibia's capital account balance improved to N$835 million during the second half of 2017, which is 1.5 percent higher than N$823 million for the same period of 2016. The improvement was buoyed by inflows on the capital account. The increased inflows were mainly attributed to a rise in capital transfer receipts from foreign governments and private institutions during the second half of 2017.

Given the developments on both the current and capital accounts during 2017, Namibia's net borrowing from the rest of the world declined significantly to N$1.3 billion, from N$21.2 billion registered in 2016.

2.1.7 Financial Account

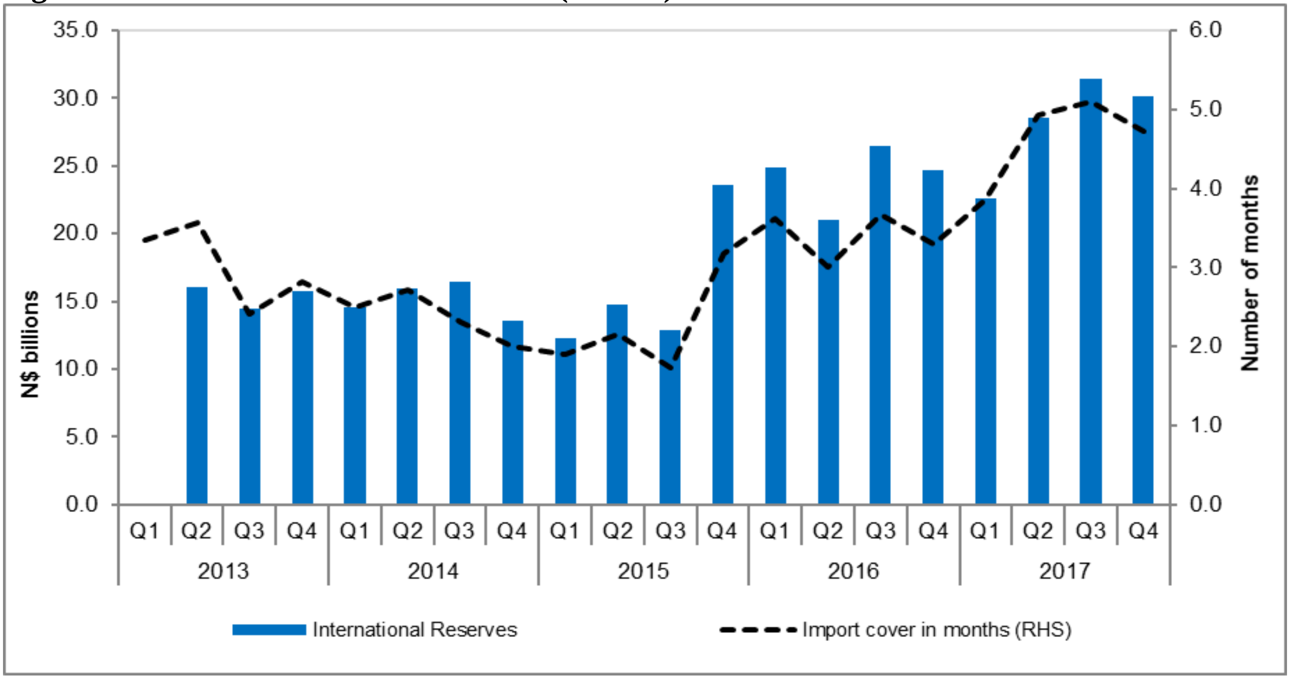
The financial account remained in deficit during the second half of 2017, but recorded a substantially reduced net borrowing when compared to a year ago. This was mainly due to a significant increase in reserve assets. In this connection, Namibia's net borrowing from the rest of the world reduced to N$7.7 billion during the second half of 2017, which is much lower than N$14.8 billion for the second half of 2016. The decline in net borrowing was attributed to the noted improvements in the current account deficit, thereby requiring less financing.

2.1.8 International Reserves

The stock of international reserves held by the Bank of Namibia increased notably in 2017. The international reserves raised by 22.1 percent over the year to the end of 2017 to a level of N$30.2 billion, primarily due to increased SACU receipts, an inflow from the AfDB loan granted to the Namibian Government and repayment of the debt by Banco Nacional de

Angola. At the latest level of N$30.2 billion, the international reserves were estimated to be 6.5 times higher than currency in circulation, which is more than sufficient to maintain the currency peg to the Rand. Similarly, the estimated import coverage also rose to 4.7 months at the end of the fourth quarter in 2017, from 3.3 months at the end of 2016. It is worth noting that the estimated current import cover is well above the international minimum benchmark of 3.0 months.

Figure 7: International Reserves at BoN (N$ Bill)



Source: Bank of Namibia, February 2018

2.1.9 Other recent developments

During August and November 2017, Moody's Investors Services and Fitch Ratings both downgraded Namibia’s sovereign to non-investment grade. The downgrade came due to small factors such as limited fiscal strength due to fiscal imbalances, insufficient institutional capacity to curb external shocks and temporarily rising in public debts. Much improvements are expected as fiscal deficit has started to narrow due to an increase in government revenue generated from expected improved economic activities and commodity prices.

2.2 OUTLOOK FOR THE DOMESTIC ECONOMY

2.2.1 SUPPLY-SIDE PROJECTIONS

Real GDD is expected to register a contraction of 0.5 percent for 2017, on the back of the contractions in both the secondary industries[3] and tertiary industries[4], despite the robust growth of the primary industries.

The **primary industries** are estimated to record a robust growth of 10.7 percent on the back good performance in the *agriculture and forestry* and *mining and quarrying* sectors. Table 1

Table 1: Macroeconomic Outlook

	2016a	2017e	2018p	2019p	2020p	2021p
Primary industries	-2.0	10.7	2.0	4.0	3.3	4.6
Secondary industries	-7.8	-3.4	1.3	2.6	2.7	2.3
Tertiary industries	3.9	-1.6	1.0	1.5	3.0	3.0
GDP at market prices	**1.1**	**-0.5**	**1.2**	**2.1**	**3.0**	**3.2**

Source: Macroeconomic Working Group projections 2018

For **2017,** growth in the *agriculture and forestry sector* is expected to record a rate of 10.0 percent due to the good rainfalls received. The livestock sub-sector is expected to grow by 8.1 percent as farmers were expected to continue restocking, while output from crop farming is expected to expand by 12.6 percent on the account of above average harvest due to a very good rainy season.

For **2018 and beyond**, it is expected that growth in the sector will be moderate as restocking is expected to subside and selling-off activities resume. In addition, subdued activity is expected in crop farming as the rainfall levels are anticipated to slow down to below average levels. The growth trajectory of the sector over the medium to long term period is highly dependent on the rainfall conditions which are generally erratic.

The *fishing and fish processing sector* is expected to post slower growth of 2.3 percent in **2017** compared to the high growth of 7.7 in 2016, due to slower growth in fish landings and increased input costs in the sector.

In **2019** and beyond, growth of the sector is expected to post an average growth of 2.4 percent on the back of the implementation of the Namibianisation policy[5] and the attainment of the Marine Stewardship Certification (MSC) accreditation that is an international requirement for eco-labelling. However, growth of the sector will be impacted adversely by the zero TAC moratorium that was imposed on pilchards over the MTEF period due to the depletion of the pilchard biomass.

The *mining and quarrying* sector is expected recover with a growth of 13.7 percent in **2017** compared to a contraction of 5.7 percent in 2016. This improved growth is mainly due to developments in the diamond mining sector that is expected to expand by 14.0 percent on the back of improved mining infrastructure and increased production capacity. Furthermore, the

[3] *Due to the shrinkage of the construction sector.*

4 Due the shrinkage of wholesale and retail trade and real estate and business services.

[5] *The Namibianisation policy is expected to justify the case for increased TACs whereas the MSC accreditation will diversify, broaden and deepen the export market, enhance value and bring about better pricing.*

expansion of the sub-sector is attributed to the conversion of an exploration vessel into a mining vessel, the re-commissioning of the Mafuta mining vessel (following a period of extensive maintenance in 2016) as well as increased production efficiency and capacity as the new exploration vessel (Sam Shafiishuna Nujoma) becomes operational.

Growth of the sector is also spurred by positive developments in the *metal ores sector* which is expected to register a growth rate of 15.3 percent in 2017, mainly on the back of the expansion[6] of the Scorpion Zinc's mining area.

The secondary industries are expected to post a contraction of 3.4 percent in 2017, which contraction is better than the deeper contraction of 7.8 percent in 2016. The improvement is attributed to the marginal recover of the construction sector and the minimal improvement in the growth rate of 3.9 percent (from 3.4 percent) in the manufacturing sector.

The *construction sector,* which carries the biggest weight in the secondary industries, is expected to post a contraction of 20.7 percent in **2017**, which is better than the deeper contraction of 26.5 percent recorded in 2016. The sector is expected to bottom out in **2018** and get back to positive growth territory with an average growth rate of 2.8 percent over the remainder of the MTEF. This is due to the assumption that the government's capital expenditure programme will regain its growth momentum as a result of targeted infrastructure spending to complete the on-going capital projects, mainly through the implementation of the African Development Bank supported infrastructure development programme[7]. In addition, it is expected that the implementation of several private sector construction projects[8] will be implemented over the medium term, with different stages of commencement and completion.

The *manufacturing* sector is expected to post growth of 3.9 percent for **2017** on the back of an estimated growth of 7.0 percent in the *diamond processing sub-sector.* However, the growth rate in *diamond processing* is much slower than the robust rate of 65.9 percent that was recorded in 2016. From 2018 and beyond, the sub-sector is expected to further post a lesser growth of 4.9 percent due to lower diamond production[9] and high base effects.

In **2018** and beyond, the secondary industries are expected to record average growth of 2.0 percent backed by the processing of *basic non-ferrous metals* due to an increase in the production of zinc and lead spurred by the increased commodity prices. In addition, growth of the *manufacturing* sector will be supported by activities in the *other food product sub-sector* on the back of the establishment of a new fish processing factory (for the canning of horse mackerel), a venture that is attributed to the effect of the Namibianisation policy[10].

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[6] *Scorpion Zinc started in July 2017 to expand the existing mining area in order to enhance the sustainability of the mine. That project is called "Pit 112". Beyond 2019, the company intends to go underground to produce zinc oxide and refurbish the refinery plant in order to process zinc sulphide that would be used for the processing of zinc oxide*

[7] *An Infrastructure Fund will be established at the Development Bank of Namibia mainly for road capital projects*

[8] *Expansion of Wernhill Park (N$500 mil), Gobabis mall (N$90 mil), Oshana Mall (N$100mill), Walvis Bay dune mall (N$200 mil), MTC network infrastructure investment (N$1 bil), several Independent Power Producer investment projects (N$200 mil), Fishcor fish factory (N$100 mil), Standard bank head office (N$0.5 bil)*

[9] *The Elizabeth Bay and Senderling Drift diamond mines will be closed in 2018 due to the depletion of resources*

[10] *The MFMR introduced policy guidelines in 2017 regarding the allocation of fishing rights in order to promote and increase ownership of Namibians in the fish sector*

With the water crisis having subsided and given better rainfall in 2017, it is expected that the *beverages sub-sector* will record growth[11] and contribute towards an improved performance in the manufacturing sector due to increased production of beer volumes[12] over the latter years of the MTEF.

The *water and electricity sector's* growth is expected to slow marginally to 5.8 percent in **2017** compared to 6.8 percent in 2016, mainly due to increased costs resulting from the electricity supply contract that was re-negotiated with Eskom, which is expected to cause a rise in input costs and a reduction in value addition for the electricity sub-sector.

The good rainfall of 2017 is expected to the demand for water by farmers, which is likely to be offset by increased demand by manufacturing companies following the water restrictions imposed in 2016. The cost of water purification reduced significantly in 2017 as the water levels of catchment dams improved. In **2018** and beyond, the sector is expected to grow on average at 2.8 percent for the remainder of the MTEF because growth in *electricity* sub-sector is expected to slow down due to the reduced output from the domestic hydro-power plant as a result of the looming drought. However, higher growth is expected for the *water* sub-sector, due to increased demand (attributable to the imminent drought) and is expected to offset the slow growth in electricity which has a higher weight.

The tertiary industries are estimated to record a contraction of 1.6 percent for 2017 compared to moderate growth of 3.9 percent in 2016. This is attributed to the contraction of 6.9 percent and 8.0 percent in the *wholesale and retail trade and repairs* and the *real estate and business activities* sectors, respectively.

The *wholesale, retail trade and repairs sector* is expected to record a contraction of 6.9 percent in **2017** compared to growth of 3.4 percent in 2016, primarily due to the weaker spending power of consumers and Government. The deterioration of consumer spending is demonstrated by the increase in household debt levels, together with weaker growth in private sector credit extension (PSCE), which have led to reduced overall demand as manifested in declining vehicle sales and reduced government consumption expenditure.

For **2018** and beyond, *wholesale, retail trade and repairs sector* is expected to post a slightly better contraction of 0.7 percent on the back of the positive impact of lagged effects from reduced interest rates in 2017, improved liquidity in the market, the expectation of recovery of the Angolan economy, lower inflation rate and improvement in consumer confidence due to the appreciation of the exchange rate.

The *hotels and restaurants* sector (a proxy for the tourism sector) is expected to grow by 3.1 percent in **2017** compared to growth of 5.1 percent in 2016. The slower growth is attributed to government's fiscal consolidation stance, weaker domestic consumer confidence and the appreciation of the exchange rate.

Over the remainder of the MTEF, *hotels and restaurants* are anticipated to register an average growth of 4.3 percent on the back of improved global economic conditions in addition to initiatives aimed at improving industry data collection, such as the reintroduction of the Tourism Satellite Accounts that would allow for the broadening and deepening of data

[11] *The sub-sector will grow on the back of bottoming out from low a base and the stabilization of production capacity as water restrictions subside*

[12] *NBL expects the production of Tafel Lager for the domestic market in 2017 to increase despite the establishment of the brewing factory in South Africa to produce Windhoek Lager for that market. (Refer to the NBL Annual Report 2016)*

and activity assessment. This will translate into growth rates of 4.3 percent, 5.7 percent and 5.0 percent over the 2019-2021 period, respectively.

The *transport and communication* sector is anticipated to grow by 2.9 percent in **2017**, which is lower than the 6.1 percent recorded in 2016, due to slowdown of the general economic activity as well subdued economic growth in the trading partner countries. However, in **2018** and beyond, growth is expected to recover because of the completion of several infrastructure projects - the completion of the cold storage facility and the port expansion project - as well recovery in the production levels in the mining sector which would increase the cargo volumes and, hence, boost growth to an average of 3.1 percent over the remainder of the MTEF.

In addition, the expansion of the *post and telecommunication* infrastructure for mobile telecommunication is expected to improve user coverage and increased subscription and, therefore, boost growth of the sub-sector over the medium term.

The *financial intermediation* sector is expected to record a marginally lower growth of 3.1 percent in **2017** compared to 3.7 percent in 2016, due to a slowdown in private sector consumption as illustrated by increased non-performing loans and slower growth in private sector credit extension and weaker consumer demand[13]

In **2018** and beyond, the sector is expected to register an average growth of 4.0 percent due to the impact of lagged effects of the expansionary monetary policy (reduced interest rates), increased consumer confidence, improved liquidity in the market and lower inflation environment.

The *real estate and business activity* sector is expected to contract by 8.0 percent in **2017** compared to growth of 2.5 percent in 2016. The contraction is attributed to the decrease in the volumes property transactions due to the general lacklustre consumption expenditure brought about by the subdued economic conditions. In addition, the impact of the introduction of the loan-to-value ratio in the housing market as well as the negative impact of the Angolan effect (slowdown in the speculative demand for properties), are expected to have adverse effects on the growth of the sector.

For **2018** and going forward, the sector is expected to contract by 0.5 percent with the continued impact of the above mentioned factors, whilst in the later year of 2021 the contraction will bottom out and the sector is projected to post minimal growth of 0.5 percent on the back of improvements in private consumption expenditure.

Growth for *public administration and defence* is expected to remain subdued in 2017 and over the remainder of the MTEF, mainly due to the government’s fiscal stance of reigning in expenditure over the medium term.

[13] The so called swipe index in shopping malls/retail withdrawals slowed down considerably in 2017

2.2.2 DEMAND SIDE PROJECTIONS

Final consumption expenditure is expected to contract by 3.3 percent in **2017,** compared to the growth of 5.0 percent in 2016, mainly due to a significant contraction of 14.3 percent in *general government* expenditure, despite marginal growth of 0.3 percent in *private expenditure*.

Private consumption expenditure is expected to grow by a marginal 0.3 percent in **2017** compared to growth of 6.8 percent in 2016. The lower growth is attributed to the high levels of indebtedness and weaker disposable income of households, in addition to the weak consumer spending and confidence levels. However, it is projected that private consumption will bottom out of recession and remain positive throughout the medium term period with an average of 2.8 percent, as consumer and market confidence improves because of the positive impact of lagged effects of lower interest rates filtering through, the exchange rate appreciates and stronger consumer confidence prevails as well as anticipated recovery in economic conditions

General government expenditure is estimated to decline by 14.3 percent, compared to a lower contraction of 0.2 percent in 2016, on the back of the government's fiscal stance.

Growth of *final consumption expenditure* in **2018** is projected at 2.1 percent, attributed to the restoration of the general consumer confidence and increased total expenditure levels. Over the later years of the medium term, growth in *final consumption expenditure* is expected to average around 2.5 percent as *government expenditure* is expected to recover to sustainable levels with an average of 2.0 percent growth and *private consumption* expected to average around 2.6 percent - as economic activity stabilizes and consumer confidence is restored.

Gross fixed capital formation is expected to decline by a lower 10.2 percent in 2017 compared to a contraction of 25.3 percent in 2016, as a result of the slowdown in economic activities that led to lower investment levels caused by the weaker investor confidence. Furthermore, the completion of major capital projects such as the Husab mine, the suspension of some projects (mass housing) and the absence of new capital projects, aggravated the situation. In addition, the fact that the levels of investment were scaled down on some projects (Namport) while others are nearing completion (Neckartal dam), also contributed to the contraction in investment.

In **2018 and beyond,** *gross fixed capital formation* is expected to record on average a lower contraction of 1.5 percent based by marginal growth in private sector investment programmes[14] and normalisation of government expenditure on infrastructure development.

Total **exports** are estimated to record a stable 5.7 percent growth in **2017** compared to the 6.1 percent in 2016**,** based on the anticipated increases in the production of most minerals due to the prospects of improved commodity prices (zinc, lead, and gold prices) as well as improved infrastructure[15] in diamond mining. In **2018**, growth is expected to slow down to 3.0 percent as diamond production reached full capacity the previous year and, consequently, diamond

[14] *Expansion of Wernhill Mall (N$500 mil), Gobabis mall (N$90mill), Oshana Mall (N$100mill), Walvis Bay dunemall (N$200 mil), MTC network infrastructure investment (N$1 Billion), IPP investment project (N$200 mil), Fishcor fish factory (N$100 mil), Standard head office (N$650mill*

15 New exploration vessel SS Nujoma, additional mining vessel and Mafuta vessel back on stream after maintenance in 2016 exports start to slow down. In **2019** and beyond, exports are envisaged to grow by an average of 4.2 percent riding on increased uranium production and processed zinc.

Imports are estimated to contract by 5.2 percent in **2017** on the back of reduced spending by government, the completion of major investment projects that normally require high importation of capital goods and equipment as well as subdued final consumption expenditure because of high household indebtedness. In **2018** and beyond, imports are expected to grow marginally by 1.9 percent average on the prospects of improved private consumption.

Table 2: GDP by Activity: Demand Side

	2016a	**2017e**	**2018p**	**2019p**	**2020p**	**2021p**
Final consumption expenditure	5.0	-3.3	2.1	2.1	2.8	2.6
Private	*6.8*	*0.3*	*3.2*	*2.5*	*2.7*	*2.7*
General government	*-0.2*	*-14.3*	*-1.9*	*0.2*	*2.9*	*1.9*
Gross fixed capital formation	-25.3	-10.2	-9.8	-0.4	1.6	2.4
Gross domestic expenditure	-1.4	-2.4	0.6	2.2	3.1	3.0
Exports of goods and services	*6.1*	*5.7*	*3.0*	*3.7*	*4.6*	*4.4*
Imports of goods and services	*-4.7*	*-5.2*	*-0.3*	*2.3*	*3.1*	*2.7*
Gross domestic product at market prices	**1.1**	**-0.5**	**1.2**	**2.1**	**3.0**	**3.2**

Source: Macroeconomic Working Group projections 2018

3. FISCAL POLICY REVIEW

3.1 Fiscal Trends and policy Framework

3.1.1 Global Fiscal developments and outlooks

The global economy is experiencing a broad-based cyclical upturn which is expected to be sustained over the next couples of years, although with downside risks. Global output is estimated to have grown by 3.7 percent in 2017. The pickup is broad based across countries, driven by investment and trade. Nevertheless, the recovery is not complete, with medium-term global growth remaining modest, especially in advanced economies and fuel exporters. In most advanced economies, inflation remains subdued amid weak wage growth, while slow productivity growth and worsening demographic profiles weigh on medium-term prospects.

Global force that drive the economic upturn which will impact on fiscal positions and Public debt levels includes the followings:

- **Global growth**, According to Word Bank, the Global GDP growth is estimated to have picked up from 2.4 percent in 2016 to 3 percent in 2017, above June forecast of 2.7 percent. The upturn is broad based, with growth increasing in more than half of the world's economies. In particular, the rebound in global investment growth-which accounted for three quarters of the acceleration in global GDP growth from 2016 to 2017-was supported by favorable financing costs, rising profits, and improved business sentiment across both Advanced Economies and emerging Market and Developing Economies (EMDEs).

- **Global trade**, global goods trade volumes have gathered significant momentum since mid-2016, following two years of pronounced weakness. A cyclical rebound in investment contributed to strong growth of trade in machinery, electronics and, semiconductors. The Momentum was sustained throughout 2017, and global trade growth is estimated to have reached a stronger-than-expected 4.3 percent, triggered by synchronous recovery in import demand from both advanced economies and EMDEs.

- **Commodity price**, energy and metal prices recovered in 2017, while agricultural prices remained broadly stable. Oil prices averaged $35 per barrel (bbl) in 2017, up 24 percent from 2016, but were volatile throughout the year. Metals prices gained 22 percent in 2017 partly due to robust demand in China. Low stocks for some metals, notably aluminum and zinc, and China's efforts to reduce surplus production capacity and limit industrial pollution, also helped lift prices in the second half of 2017.

- **Financial markets**, Global financing conditions remain benign, benefiting from an improved global growth outlook and historically low interest rates, despite prospects of further monetary policy normalization in major advanced economies. Despite prospects of tighter monetary policy, U.S. and Euro Area bond yields remained at historically low levels throughout 2017, reflecting subdued inflation trends and expectations of structurally low real interest rates.

As illustrated in Table 5 below the global fiscal developments reflect recovery with total aggregate fiscal deficit decelerating from 3.6 in 2016 to estimated 3.4 in 2017. (IMF-2017). Monetary policy is gradually normalizing but still faces important challenges, including stubbornly low inflation. Fiscal policy has become generally more supportive to growth, but fiscal space remains limited in many advanced economies. Amid rising demographic pressures, productivity-enhancing reforms are urgently needed. In China, further reforms could help reallocate factors of production toward more productive sectors.

Fiscal policy in commodity exporters is becoming less pro-cyclical, with negative output gaps no longer accompanied by fiscal consolidation. Steps are being taken, or are contemplated, to place their fiscal position on a more sustainable footing.

Table 3: World Fiscal deficit for selected economies 2010-2018

Region/Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Estimate	projection
World Overall Fiscal Balance	**-5.7**	**-4.3**	**-3.7**	**-2.8**	**-2.9**	**-3.3**	**-3.6**	**-3.4**	**-3.1**
Advanced Economies	-7.6	-6.2	-5.4	-3.6	-3.1	-2.6	-2.8	-2.8	-2.3
United States	-10.9	-9.6	-7.9	-4.4	-4.0	-3.5	-4.4	-4.3	-3.7
Euro area	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.5	-1.3	-1.0
Japan	-9.1	-9.1	-8.3	-7.6	-5.4	-3.5	-4.2	-4.1	-3.3
United Kingdom	-9.4	-7.5	-7.7	-5.5	-5.6	-4.3	-2.9	-2.9	-2.3
Canada	-4.7	-3.3	-2.5	-1.5	0.0	-1.1	-1.9	-2.2	-1.8
Other advanced economies	-0.2	0.4	0.4	0.2	0.2	-0.1	0.0	-0.2	0.2
Emerging market and developing economies	-2.3	-1.0	-1.0	-1.7	-2.5	-4.5	-4.8	-4.4	-3.9
Namibia*	**-5.2**	**-7.0**	**-0.1**	**-3.8**	**-6.2**	**-8.3**	**-6.7**	**-5.2**	**-3.9**
South Africa*	-4.9	-3.9	-4.4	-4.3	-4.2	-4.6	-4.0	-4.5	-4.3
Europe: Other	-3.7	-0.2	-0.7	-1.5	-1.4	-2.7	-2.9	-2.8	-2.2
Russia	-3.2	1.4	0.4	-1.2	-1.1	-3.4	-3.7	-2.1	-1.5
China	-0.4	-0.1	-0.3	-0.8	-0.9	-2.8	-3.7	-3.7	-3.7
India	-8.6	-8.3	-7.5	-7.0	-7.2	-7.1	-6.6	-6.4	-6.2
Latin America and the Caribbean	-3.1	-2.8	-3.1	-3.2	-4.7	-7.0	-6.4	-6.1	-5.6
Brazil	-2.7	-2.5	-2.5	-3.0	-5.4	-10.3	-9.0	-9.2	-9.3

Source: IMF, Fiscal monitor, October 2017. Data for Namibia refer to budget balance and fiscal years and adopted from national budget.

United States, the U.S. tax policy changes are expected to stimulate activity, with the short-term impact in the United States mostly driven by the investment response to the corporate income tax cuts. The effect on U.S. growth is estimated to be positive through 2020, cumulating to 1.2 percent through that year, with a range of uncertainty around this central scenario.

Euro Area, Growth gained substantial momentum in 2017, reaching an estimated 2.4 percent-0.7 percentage point higher than previously expected-with broad-based improvements across member countries spurred by policy stimulus and strengthening global demand.

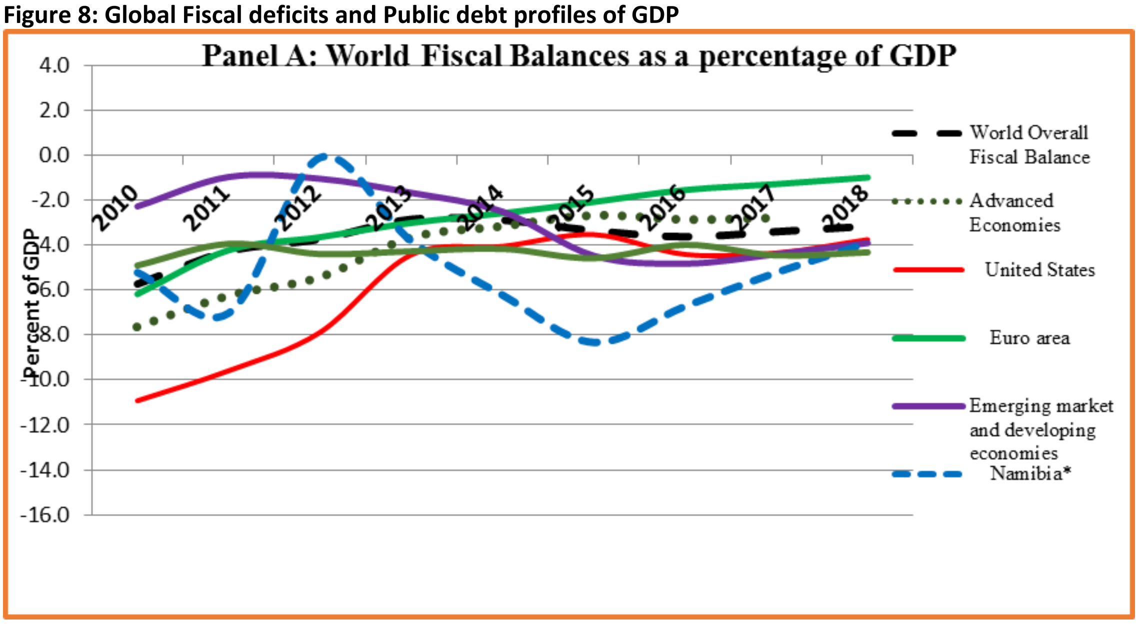
Sub-Saharan Africa, the fiscal position is expected to improve due to a modest recovery underway in Sub-Saharan Africa, supported by improvement in commodity price. Growth rebounded but remained low in Angola, Nigeria and South Africa-the region largest economies. Fiscal deficits narrowed slightly and large spending cuts reduced the overall deficit in Central African Economic and Monetary community (CEMAC) countries. However in some oil exporter (e.g. Angola, Nigeria), fiscal policy was loosened in response to high oil revenues.

Fiscal deficits declined in non-resource-intensive countries, but remained at high levels, partly reflecting infrastructure investment. Deficits also narrowed moderately in metals exporters as they continue to struggle to mobilize domestic revenue.

In **South Africa**, national government revenue increased at a slower-than-expected pace, as real economic activity remained weak, making it difficult to attain the budget deficit target.

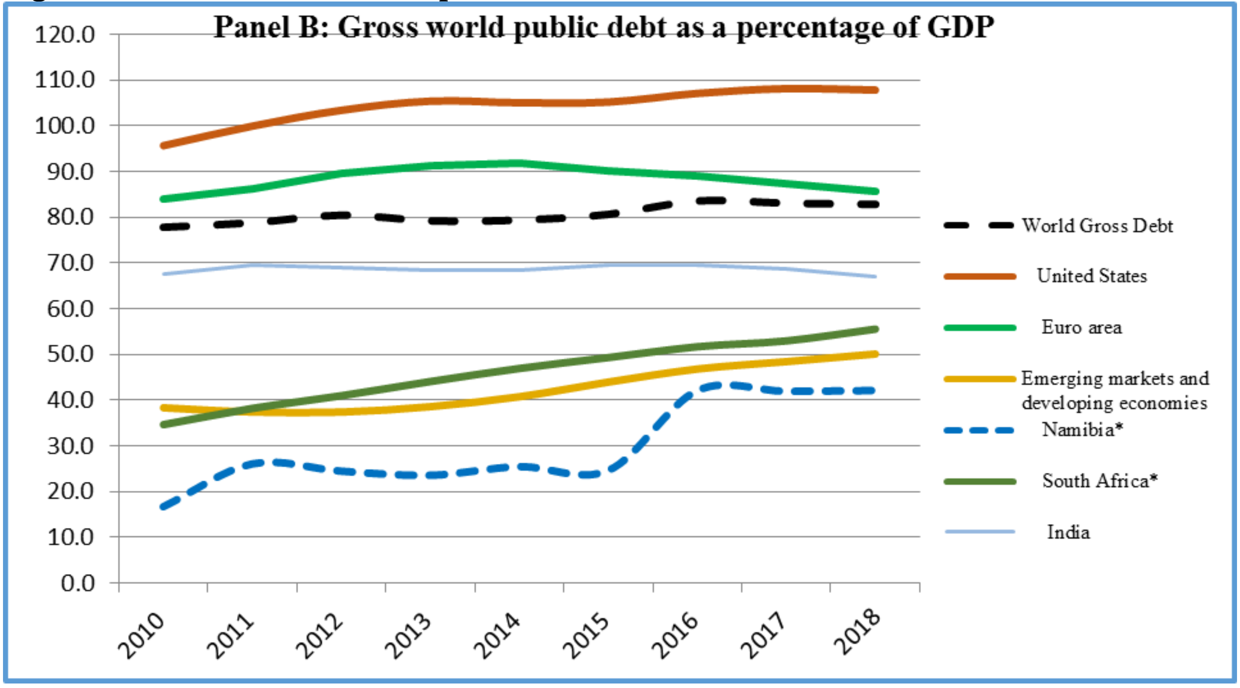
Namibia fiscal deficit is estimated to improve from negative 5.2 percent in 2017 to negative of 3.9 Percentage in 2018. This in line with government fiscal consolidation stance employed in 2016 to 2017, which is earmarked to continue until debt level is improved.

Figure 8: Global Fiscal deficits and Public debt profiles of GDP



Source: IMF, Fiscal Monitor, October 2017

Figure 9: World Public Debt as percent of GDP



Source: IMF, Fiscal Monitor, October 2017

As illustrated in table 6, below and Panel B of figure above, the world gross domestic debt for 2017 was estimated at 83.1 percent of GDP a downward version of 0.5 percentage points from levels estimated in 2016. For 2018, the world total debt is forecasted to decelerate further to 82.8 percentage of GDP. This trend is observed for most of the advanced economies, while average debt for Emerging markets and developing economies has increased sharply from 48.8 to 50.1 percentage of GDP. For Sub-Saharan African countries total debts as percentage of GDP is estimated to remain the same over two year's periods.

Table 4: Global Debt as percent of GDP 2010-2018

Region/Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Estimate	*Estimate*
World Gross Debt	**77.7**	**78.7**	**80.4**	**79.1**	**79.3**	**80.6**	**83.6**	**83.1**	**82.8**
Advanced Economies	99.3	103.5	107.7	106.2	105.5	105.1	107.4	106.3	105.2
United States	95.7	100.0	103.4	105.4	105.1	105.2	107.1	108.1	107.8
Euro area	83.8	86.1	89.5	91.4	91.9	90.0	89.0	87.4	85.6
Japan	215.9	230.6	236.6	240.5	242.1	238.1	239.3	240.3	240.0
United Kingdom	76.0	81.6	85.1	86.2	88.1	89.0	89.3	89.5	89.7
Canada	81.1	81.5	84.8	85.8	85.4	91.6	92.4	89.6	87.7
Emerging markets and developing economies	38.3	37.4	37.4	38.6	40.8	44.0	46.8	48.4	50.1
Namibia*	**16.6**	**26.0**	**24.4**	**23.5**	**25.4**	**24.6**	**42.1**	**41.9**	**43.8**
South Africa*	34.7	38.2	41.0	44.1	47.0	49.3	51.7	53.0	55.6
Europe: Other	28.2	26.8	25.5	26.4	28.5	30.9	32.1	32.3	32.6
Russia	10.6	10.8	11.5	12.7	15.6	15.9	15.6	17.4	17.7
China	33.7	33.6	34.3	37.0	39.9	41.1	44.3	47.6	50.8
India	67.5	69.6	69.1	68.5	68.5	69.5	69.6	68.7	67.1
Latin America and Caribbean	48.0	48.0	48.2	48.8	50.7	54.6	58.1	59.8	60.7
Brazil	63.0	61.2	62.2	60.2	62.3	72.5	78.3	83.4	87.7
Sub-Saharan Africa	22.2	23.1	22.7	24.1	25.9	30.6	36.0	38.6	38.6

Source: IMF, Fiscal monitor, October 2017. Data for Namibia refer to budget balance and fiscal years and adopted from national budget.

Government debt indicators in South Africa continued to deteriorate from 53 percentage of GDP in 2017 to projected 55.6 percentage of GDP in 2018. Government debt rose further in **South Africa**, owing to fiscal slippages. Concerns about the debt outlook prompted Standard & Poor’s to downgrade South Africa’s local currency debt to sub-investment grade, bringing it in line with its foreign currency rating.

In Namibia Government total debt as percentage of GDP is estimated to marginal increase by 0.2 points from 41.9 percent in 2017 to 42.1 percent of GDP. This constrained fiscal space call for alternative policy intervention to reduce public debt to a benchmark levels set over the medium-term, alternative means of financing and structural reforms and improvement in tax collection and tax administration.

3.1.2 DOMESTIC FISCAL POLICY DEVELOPMENTS

The domestic fiscal developments experienced a weakening in fiscal indices since FY 2015/16, revenue declines, expenditure increases, fiscal deficit widen and public debt rises due to combination of macro-fiscal factors that has dampen growth and drive imbalances in the local economy.

Given this landscape, ***Government commenced the phased fiscal consolidation in FY 2016/17*** aimed at placing public finances on a sustainable path, while maintaining fiscal support to the economy by retaining spending on items with high growth potential. This countercyclical course of policy action was undertaken amidst the challenging domestic economic circumstances.

The provision for phased fiscal consolidation was engendered in the following policy actions:-

- *stabilizing growth in public debt at about 42 percent of GDP, through a combination of the budget deficit reduction, leveraging alternative forms of financing and implementing structural policy reforms,*

- *gradually reducing the budget deficit from the excess of 8.3 percent in FY2015/16 to 6.3 percent FY2016/17 and further achieve a steep reduction of this ratio to 3.6 percent in FY2017/18 with the expressed objective reaching budget balance by FY2019/20. Average budget deficit was projected to 2.3 percent over the FY2017/18 – 2019/20 MTEF,*
- *targeting expenditure reduction on non-core operational expenditure items such as overtime allocation, furniture, office equipment and vehicles, material supplies and subsistence travel for reallocation and postponement of non-productive capital expenditure, especially the expenditure allocations for office buildings for which no contractual obligations have been set,*

- *leveraging on alternative forms of financing to support infrastructure development and capital formation through sovereign guarantee to Public Enterprises, Development Finance Institutions (DFIs), and through Public, Private Partnerships, and*

- *promoting private sector development through structural policy reforms and financing by DFIs.*

3.1.3 DEVELOPMENTS IN FISCAL AGGREGATES

The fiscal outcomes for the first roll-out of the consolidation program, reflected mixed results, with the 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. The steep expenditure correction proved difficult to implement in the first roll out of fiscal consolidation programme and requires recalibration to balance between the intended consolidation, impact on growth and the provision of basic services.

3.1.3.1 Revenue Outturn

The revenue outturn for FY2016/17 stood at N$50.86 billion, reflecting 1.2 percent lower than the revised revenue estimate of N$51.51 billion. This level of revenue represent a collection rate of 98.7 percent relative to revised budget forecast. Of the total revenue of

N$50.86 billion, 93.7 percent comes from tax revenue, while non-tax revenue contributed 6.3 percent of total revenue collected. The outturn further reflects shortfalls in Value Added Tax (VAT) resulting from slackness in domestic demand conditions associated with contractions in the construction and wholesale and retail trade sectors. Better performance in Personal Income Tax and various categories on non-tax revenue helped to counteract the impact of slow outturn on VAT. Revenue on international trade and transaction has also contracted by 18.9 percent from N$17.4 billion in 2015/16 to N$14.1 billion in 2016/17. The contraction is due to lower SACU receipt.

Table 5: Main revenue categories performance and preliminary outturn 2006/07-2017/18

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	12 015	17 355	216	48 903
2016/17	12 002	7 708	522	374	284	12 497	14 071	183	47 641
2017/18P*	11 373	7 301	461	287	230	11 860	19 597	130	51 240
				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	24.6	35.5	0.4	100.0
2016/17	25.2	16.2	1.1	0.8	0.6	26.2	29.5	0.4	100.0
2017/18P*	22.2	14.2	0.9	0.6	0.4	23.1	38.2	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	-30.4	9.6	15.5	-4.2	-13.9	4.4
2016/17	11.2	-0.2	87.0	79.3	-9.2	4.0	-18.9	-15.3	-2.6
2017/18P*	-5.2	-5.3	-11.6	-23.3	-19.0	-5.1	39.3	-29.0	7.6

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

Tax revenue outturn for FY 2017/18 is estimated to have increased by 14.1 percent from N$47.6 billion recorded in FY2016/17 to N$51.2 billion. The increase in tax revenue is attributed to increase in tax on international trade and transaction (SACU) receipt and Tax Arrears Recovery programme undertaken during the period under review.

The Tax Arrear Recovery programme was introduced in 2017 for a period of six (6) months started February to July and it 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 has not performed as expected. The total amount collected up to February 2018 stood at N$972 million, of which N$512 was collected between February 2017 to June 2017, while, N$460 million was collected between September 2017 and March 2018.

The revenue estimates for FY2017/18 has been slightly adjusted upward to N$56.8 billion from the Mid-Year Review revised estimate of N$56.7 billion. This improvement in revenue collection is attributed to better SACU receipts contributing 36.0 percent. SACU revenue pool increased to N$19.6 billion in FY2017/18, from N$14.8 billion in 2016/17.

Table 6: Trend of fiscal aggregates FY 2009/10 and preliminary outrun for 2017/18

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Revised*
GDP	**83,780**	**95,313**	**110,835**	**126,937**	**140,981**	**150,984**	**164,156**	**171,852**
Revenue	**23,375**	**29,922**	**37,997**	**41,910**	**49,931**	**52,215**	**50,865**	**56,811**
% of GDP	27.9%	31.4%	34.3%	33.0%	35.4%	34.6%	31.0%	33.1%
Expenditure	**27,253**	**36,611**	**38,112**	**46,734**	**58,704**	**64,638**	**62,269**	**66,053**
% of GDP	32.5%	38.4%	34.4%	36.8%	41.6%	42.8%	37.9%	38.4%
Budget Balance	**-3,879**	**-6,689**	**-114**	**-4,824**	**-8,773**	**-12,423**	**-11,404**	**-9,242**
% of GDP	-4.6%	-7.0%	-0.1%	-3.8%	-6.2%	-8.2%	-6.9%	-5.4%
Debt	**13,893**	**24,734**	**27,550**	**30,852**	**35,949**	**59,789**	**69,896**	**74,468**
% of GDP	16.6%	26.0%	24.9%	24.3%	25.5%	39.6%	42.6%	43.3%
Interest payments	**965**	**1,841**	**2,617**	**1,788**	**2,065**	**2,630**	**4,312**	**5,001**
% of Revenue	4.1%	6.2%	6.9%	4.3%	4.1%	5.0%	8.5%	8.8%
Guarantees	**2,450**	**2,771**	**2,610**	**7,371**	**6,389**	**6,457**	**6,351**	**12,812**
% of GDP	2.9%	2.9%	2.4%	5.8%	4.5%	4.3%	3.9%	7.5%

Source: Ministry of Finance

3.1.3.2 Expenditure Outturn

Total expenditure outturn for FY2016/17 stood at N$62.27 billion, this is about 101.2 percent relative to the revised appropriation of N$61.50 billion. Of the N$62.27 billion in 2016/17 about 82.2 percent is current expenditure and the remaining 17.8 percent constitutes Capital and development expenditure. This however reflects expenditure overrun on personnel spending relative to the budget, a result of a combination of revenue shortfall and expenditure overrun due to a build-up of the stock of spending arrears.

In respect of the FY 2017/18, total expenditure is estimated at N$66.00 billion reflecting a slight adjustment from the revised estimate expenditure of N$66.5 billion in the Mid-Year

Budget Review Policy Statement. The operational expenditure constitutes about 83.9 percent with the rest made up of capital and development budget.

3.1.3.3 Budget Deficit

The combination of revenue shortfall and expenditure overrun led to increase in ***the budget deficit to 6.9 percent in FY2016/17***, compared to the budget estimate of 6.3 percent.

The Budget deficit for FY2017/18 was revised upward from the estimated 3.6 percent of GDP to 5.4 percent of GDP, the increase was due to incurrence of unforeseen spending arrears amounting to N$2.1 billion, carried forward from the previous financial year.

3.1.3.4 Public Debt

The total debt stock in 2016/17 recorded at N$69.90 billion, representing an increase of about 16.9 percent or N$10.12 from 2015/16 financial year. As a percentage of GDP the total debt remains at 43.0 percent of GDP in 2017/18, the same level as recorded in the previous year. Foreign debt stock decreased from 18.8 percent of GDP in 2015/16 to 16.0 percent of GDP in 2016/17 and is estimated to remain at 16.0 percent in 2017/18. The domestic debt stock on the other hand increased from 20.8 percent of GDP in 2015/16 to 25.0 percentage of GDP in 2016/17 due to increase issuance of extra treasury bills to cover for outstanding invoices of about N$3 billion.

The total debt stock is estimated at N$74.5 billion in FY2017/18 and it is projected to reach an estimated N$99.14 billion in the last year of MTEF. As a proportion of GDP, debt is estimated at 43.0 percent in 2017/18 and it is projected to reach a peak of about 46.0 percent in FY2019/20 before slowing to 45.2 percent in 2020/21.

3.1.3.5 Government Guarantees

The Government guarantee as percent of GDP declined to 3.9 percent in 2016/17 from 4.2 percent recorded the previous year. But, it is estimated to have increased to 7.5 percent of GDP in 2017/18. The increase is attributable to the guarantees extended to various SOEs in 2017/18. This ratio is estimated to hover, on average, at about 8.0 percent over the MTEF, still below the threshold of 10.0 percent.

3.1.3.6 Interest payments

Interest payments as a proportion of total revenue stood at 8.5 percent in FY2016/17, a gradual increase from 5.0 percent in 2015/2016. Due to the relatively high debt level, debt servicing cost has risen to about 9.2 percent of interest by FY2017/18 and it is expected to hover around 11.5 percent over the MTEF. The current level is above the statutory benchmark of 3.0 percent of GDP or 10.0 percent of revenue set out in the Debt Management Strategy. The costs are especially elevated owing to the need to repay short-term loans under taken by State Owned Enterprises (SOEs) to settle invoices on ongoing projects that were under budgeted during 2017/18 financial year.

4 FISCAL POLICY AND BUDGETARY FRAMEWORK

4.1 Revenue Outlook

The FY2018/19 macroeconomic framework projects resurgent economic activity to positive growth territory as the generalized slowdown, which started in 2016 and aggravated in 2017, is easing out. However, the growth trajectory over the medium-term remains weak and gradual. On the aggregate, the domestic economy is projected to ease out of a contraction of about 0.4 percent in 2017 to post 1.2 percent growth in 2018, with the medium-term growth rates averaging 2.4 percent. This pace of activity, which is barely on par with population growth and retention of per capita incomes, warrants a package of timely supportive policy interventions and structural reforms amidst a tight fiscal consolidation programme.

The medium-term risks on revenue are tilted to the downside, amidst a low growth environment and the expected decline in taxes on international trade under SACU. The outturn for FY2017/18 is estimated at N$56.81 billion, an 11.7 percent growth from N$51.86 billion collected during FY2016/17 and marginally better than the revised estimate in the Mid-Year Budget Review.

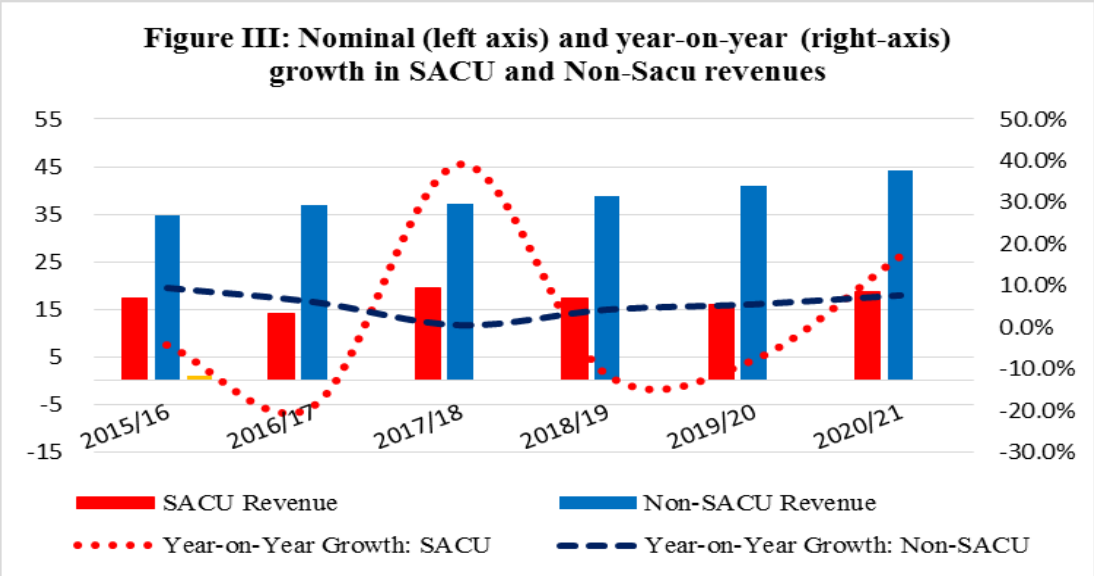
SACU receipts are however projected to decline by 11.3 percent or about N$2.2 billion in FY2018/19 relative to FY2017/18, and by a further 7.9 percent (N$1.37 billion) in FY2019/20 as a result of slow recovery of the South African economy and related slackness in trade due to low internal demand conditions. The uptick in some of key commodity prices, resurgent prospects for new mining activities and an improving global economy provide some tailwinds to spur growth over the medium-term.

Domestic revenue would anchor revenue growth over the medium-term, but the planned large capital investment in diamond mining is expected to bite into profit tax and related incomes from diamond mining activity. Domestic revenue is projected to grow by about 5.4 percent on average over the MTEF, driven by improvements in taxes on individuals and improvement in VAT collections as domestic consumption demand gathers pace.

Total revenue and grants are expected to decline by about 0.43 percent in FY2018/19 from a growth rate of 11.3 percent estimated for FY2017/18. Total revenue is estimated at N$56.70 billion, about 1.3 percent decline from the estimated outturn for 2017/18. The expected slowdown in revenue is mainly due to the projected declined in SACU revenue and the repayments for negative adjustments emanating from FY2016/17. SACU revenue for Namibia is projected decline by 11.3 percent to N$17.38 billion in FY2018/19; from N$19.60 billion received in FY2017/18 and further decline by 7.9 percent to about N$16.01 billion in

FY2019/20. This projected decline is on account of the prolonged low growth outturn in the SACU economies, particularly for the South African economy which accounts for over 95 percent of SACU revenues.

Figure 10: Nominal Growth in SACU and non- SACU Revenue



Source: Ministry of Finance

Over the MTEF, revenue growth is projected to average 3.4 percent, increasing from N$56.70 billion in FY2018/19 to N$57.84 billion in FY2019/20 and reach about N$61.31 billion by FY2020/21. As a proportion of GDP, revenue is estimated to slow to 30.7 percent in FY2018/19, from 33.1 percent estimated for FY2017/18 and hover around 28.1 percent over the next MTEF as pressure on SACU revenue eases out.

The moderate growth outlook for revenue over the MTEF reflects the overall outlook on economic activity, risks on SACU receipts which accounts for about 32 percent of tax revenue for Namibia and emerging pressures on corporate income tax in the diamond industry. The most significant risk to the revenue outlook is the continued weak domestic and regional economic growth trajectory, the related decline in SACU revenues and the expected slowdown on diamond mining corporate taxes. Globally, uranium commodity prices are projected to remain weak for longer, threatening continuation of some of the uranium mining operations, while short-term currency appreciation on account of a weaker US Dollar impacts negatively on the competitiveness of the export sector.

The Mid-Year Budget Review Policy Statement proposed timely implementation of tax policy and tax administration reforms, alongside targeted efforts to recover outstanding Tax Arrear as a consolidated package to enhance revenue buoyancy over the MTEF. The tax policy proposals over the MTEF would primarily aim to protect the tax base from erosion, stem illicit financial flows and generate additional revenue to support the implementation of the fiscal consolidation programme and with due regard to encouraging economic agents to produce and invest.

Table 7: Revenue outturn and projected outlook 2015/16- 2020/21 MTEF (N$ Mill)

Revenue Head	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	*Actual*	Estimate	*Projection*	*Projection*	*Projection*
GDP at market prices, nominal	**150,984**	**162,996**	**171,852**	**184,748**	**200,759**	**219,314**
Revenue and grants as % of GDP	34.58	31.21	34.22	30.69	28.81	27.95
TOTAL REVENUE AND GRANTS	**52,215**	**50,865**	**56,811**	**56,696**	**57,843**	**61,308**
TAX REVENUE	**48,903**	**47,575**	**54,517**	**53,461**	**54,751**	**57,847**
Tax on income and Profits	**19,004**	**20,607**	**20,178**	**22,216**	**23,724**	**25,150**
Income Tax on Individuals	10,794	12,002	10,715	12,957	13,725	14,541
Company Taxes	**7,723**	**7,708**	**7,833**	**8,459**	**9,152**	**9,700**
Diamond Mining Companies	2,199	1,611	2,056	1,488	1,569	1,737
Other Mining Companies	99	92	122	284	325	332
Non-Mining Companies	5,425	6,006	5,655	6,688	7,258	7,632
Other Taxes on Income and Profits	**209**	**374**	**260**	**307**	**328**	**346**
Non-Resident Shareholders Tax	147	266	173	191	205	217
Tax on Royalty	41	87	63	92	99	105
Annual Levy on Gambling Income	21	21	24	23	24	24
Withholding Tax on Interest	**279**	**522**	**352**	**493**	**519**	**563**
Withholding tax on companies & individuals	61	290	115	107	116	128
Withholding tax on unit trusts	85	84	100	148	155	171
Withholding tax on Services	134	148	137	238	248	264
Taxes on Property	**313**	**284**	**292**	260	283	313
Domestic Taxes on Goods and Services	**12,015**	**12,430**	**14,150**	**13,463**	**14,374**	**15,172**
VAT + Additional Sales Tax + General Sales Tax	11,678	11,978	13,741	12,941	13,813	14,572
Levy on Fuel	209	315	109	339	369	408
Fishing Quota Levies	113	108	123	93	97	97
Gambling Licence (Business)	1	2	2	2	2	2
Environmental levies & Carbon Emission Taxes	-	-	158	70	71	73
Other taxes on goods and services	14	27	18	18	22	20
Taxes on International Trade and Transactions	**17,355**	**14,071**	**19,597**	**17,375**	**16,219**	**17,046**
SACU Revenue Pool Share	15,771	17,028	19,778	17,773	18,185	18,222
Revenue Formula Adjustments	1,584	-2,957	-180	-398	-2,179	-1,176
Other Taxes	**216**	**183**	**299**	**147**	**150**	**166**
NON - TAX REVENUE	**3,146**	**3,290**	**2,840**	**3,219**	**3,075**	**3,445**
Entrepreneurial and Property	**2,440**	**2,305**	**1,845**	**2,179**	**1,852**	**2,534**
Interest Receipts for Loans Extended to SOEs	16	5	6	6	6	6
Interest on Investments	-	-	-	-	-	-
Dividends and Profit Share from SOEs & other comp	1,036	927	768	661	322	696
Interest on State Account Balances with BoN	19	5	5	7	10	11
Diamond Royalties	1,060	978	997	1,103	1,103	1,403
Other Mineral Royalties	309	391	399	403	411	419
Fines and Forfeitures	**78**	**67**	**98**	**68**	**68**	**68**
Administrative Fees, Charges and Incidental Sales	**628**	**902**	**726**	**772**	**955**	**643**
Lending and Equity Participation	**15**	**16**	**8**	**16**	**16**	**16**
External Grants	**152**	**-**	**163**	0	-	-

Source: Ministry of Finance - ***estimates and projections include collection of outstanding tax arrears***

4.1.1 Assumptions underlying revenue forecast

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

The revenue outlook for the FY2018/19 – 2020/21 MTEF is based on the following assumptions:-

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

- estimates for FY2017/18 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 (FY2018/19) is *a priori* decided by the SACU Council in accordance with the SACU Agreement. The outlook on SACU receipts is based on the projections for the SACU Common Revenue Pool and adjustments thereof presented by the National Treasury, South Africa in the latest Medium-Term Budget Policy Statement, and

- Non-tax revenue estimates are based on projections made by O/M/As any 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 Medium-Term Budget Policy Statement for FY2017/18;*
- *Other Tax revenues follow the base year outturn and the projected growth in disposable profit income.*

4.2 Aggregate Expenditure and Debt Outlook

The medium-term fiscal policy stance set forth a gradual fiscal consolidation trajectory and adopted the reduction of the budget deficit threshold from 5 percent of GDP to 3 percent of GDP with the objective of stabilizing growth in public debt over time. The fiscal stance adopted in the 2017/18 Mid-Year Review Budget Statement proposed to reduce the budget deficit from a revised estimate of 5.4 percent of GDP in FY2017/18 to 4.5 percent in FY2018/19 and further reduce this to 4.0 percent in FY2019/20 to reach a 2.3 percent by FY2020/21.

Following a once-off settlement of large spending arrears in FY2017/18, the Government will maintain a paced fiscal consolidation policy framework over the MTEF which avoids sudden expenditure correction and gives greater impetus to targeted allocations to support economic growth objectives and the provision of social services, while keeping the growth in public debt in check. In this context, the Fiscal Strategy for the FY2018/19 – 2020/21 MTEF proposes to reduce total expenditure as a proportion of GDP reduces from 38.7 percent in FY2017/18 to 35.2 percent in FY2018/19 and averages of about 32.2 percent of GDP along the fiscal consolidation path over the MTEF.

Table 8: Policy scenario: Fiscal stance, aggregate expenditure and public debt consistent with the medium-term policy stance 2017/18- 2019/20 MTEF

Component	2015/16 Actual	2016/17 Actual	2017/18 Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
GDP	**150,984**	**162,996**	**171,852**	**184,748**	**200,759**	**219,314**
Total Revenue and Grants	**52,215**	**50,865**	**56,811**	**56,696**	**57,843**	**61,308**
As % of GDP	*34.6%*	*31.2%*	*33.1%*	*30.7%*	*31.5%*	*28.0%*
Potential Additional Expenditure	-			-		-
Expenditure (Budget/MTEF)	64,638	65,996	62,541	61,861	62,720	66,312
Expenditure Adjustments		-4,500	4,002	3,142	2,962	-
Total Expenditure (Actual/Revised)	**64,638**	**62,267**	**66,053**	**65,003**	**65,682**	**66,312**
% of GDP	42.8%	38.2%	38.4%	35.2%	32.7%	30.2%
Own financing (cash reserves)						
Potential Budget Balance	**-12,423**	**-11,402**	**-9,242**	**-8,306**	**-7,839**	**-5,004**
% of GDP	-8.2%	-7.0%	-5.4%	-4.5%	-3.9%	-2.3%
Domestic Debt Stock	32,183	41,648	48,609	53,915	60,267	64,270
Foreign Debt Stock (est.)	12,404	28,249	25,859	29,806	32,462	34,871
Total Debt	**44,587**	**69,897**	**74,468**	**83,721**	**92,729**	**99,141**
% of GDP						
Domestic Debt	*21.3%*	*25.6%*	*28.3%*	*29.2%*	*30.0%*	*29.3%*
Foreign Debt	*8.2%*	*17.3%*	*15.0%*	*16.1%*	*16.2%*	*15.9%*
Total Debt	***29.5%***	***42.9%***	***43.3%***	***45.3%***	***46.2%***	***45.2%***
Growth in GDP	*6.9%*	*8.0%*	*5.4%*	*7.5%*	*8.7%*	*9.2%*
Growth in Debt	*24.0%*	*56.8%*	*6.5%*	*12.4%*	*2.0%*	*6.9%*
Interest payments	**2,623**	**4,310**	**5,232**	**6,514**	**6,699**	**6,754**
% of Revenue	*5.0%*	*8.5%*	*9.2%*	*11.5%*	*11.6%*	*11.0%*
Total Guarantees	**6,390**	**6,351**	**12,812**	**14,812**	**15,812**	**17,362**
% of GDP	*4.2%*	*3.9%*	*7.5%*	*8.0%*	*7.9%*	*7.9%*

Source: Ministry of Finance

To support the macroeconomic stability and debt stabilization objectives, the policy stance over the MTEF is to maintain the phased fiscal consolidation which balances between debt stabilization and inclusive growth objectives. In this regard and on account of revenue mobilization efforts, the total indicative expenditure ceilings for FY2018/19 reduces to N$65, 0 billion from N$66.1 billion in FY2017/18, reflecting the rebalancing from once-off settlement of large outstanding spending arrears. For FY2019/20, aggregate expenditure increases slightly by 1.4 percent to N$65.7 billion and reach N$66.3 billion by FY2020/21. This level of expenditure allows for maintaining current priority spending in real terms as some of the on-going large capital projects gets completed, while new projects and project phases not yet committed remain deferred.

4.3 Financing Requirements and Public Debt Sustainability over the MTEF

4.3.1 Budget deficit Financing

The prudent approach in terms of management of the debt accumulation expressed in the medium term fiscal framework will result in net debt stabilising at 43.4 percent of GDP over the MTEF period. The net borrowing requirement of N$8.2 billion in 2018/19 is N$1.1 billion lower than 2017/18 fiscal year, and it is expected to decrease further by N$1.6 billion and N$2.1 billion in 2019/20 and 2020/21 respectively.

The domestic capital markets will remain the main source of financing, with a complement of borrowing from Africa Development Bank (AfDB), through the Economic Governance and Competitiveness Support Program (EGCSP). To continue smoothening the maturity profile of government debt and ensuring that the repayments of the capital/principal amounts are not subjected to roll over risk, Government will continue to invest money in the sinking fund account. This account will be used to redeem the local bonds and international bonds as they mature.

Government also intends to gradually reduce the weight of Eurobond bonds in its portfolio in line with strategic benchmarks underpinning its borrowing programme. This imply that Government will commence with a buying back strategy for the Eurobond, when the currency or exchange rates permit.

4.3.2 Government Debt Maturity Profile

The average year to maturity for the entire government debt portfolio stands at 6 years, above the benchmark of 5 years. Furthermore, debt falling due within 12 months constituted 33.0 percent of the total portfolio, slightly above the threshold of 30.0 percent of total debt. The increase of this level could pose a roll-over risk to Government in the ground of lower liquidity in the market. Given the above the borrowing plan for the MTEF period will be designed to address these challenges.

Table 9: Policy Scenario: Fiscal stance, statutory expenditure/interest payment consistent with the medium-term policy stance, 2017/18 - 2019/20 MTEF

All amounts are expressed in N$'000	Actual 2014/15	Actual 2015/16	Actual 2016/17	Estimates 2017/18	Estimates 2018/19	Estimates 2019/20	Estimates 2020/21
GDP	**141,280**	**150,984**	**162,996**	**171,852**	**184,748**	**200,759**	**219,314**
Total Revenue	**49,931**	**51,512**	**51,065**	**56,761**	**56,129**	**56,924**	**60,915**
Interest Payments							
Domestic Interest Payments	1,600	2,031	2,831	3,458	3,795	4,105	4,365
Foreign Interest Payments	460	593	1,479	1,774	1,987	2,078	2,124
Total Interest Payments	**2,060**	**2,623**	**4,310**	**5,232**	**5,783**	**6,184**	**6,489**
Other Statutory Commitments							
RFA					250	250	
NAMWATER					140	140	140
DBN					125	125	125
UNAM					216		
Total Statutory Commitments	**2,060**	**2,623**	**4,310**	**5,232**	**6,514**	**6,699**	**6,754**
As % of GDP (The Benchmark<3%)	**1.5**	**1.7**	**2.6**	**3.0**	**3.5**	**3.3**	**3.1**
As % of Revenue (The Benchmark<10%)	**4.1**	**5.1**	**8.4**	**9.2**	**11.6**	**11.8**	**11.1**

Source: Ministry of Finance

4.3.3 Statutory/Interest payment

Interest payment stood at N$5.2 billion for 2017/18 fiscal year. This level is expected to increase to N$6.5 billion during 2018/19 financial year, and thereafter it is projected at N$6.18 and N$6.49 billion for the last two years of MTEF respectively. As per the benchmarks set out in the Debt Management Strategy, the statutory should not exceed 3.0 percent of GDP or 10.0 percent of revenue. However, these benchmark are projected to be exceeded over the MTEF period, owing to the need to repay short-term loans under taken by State Owned Enterprises (SOEs) to settle invoices on ongoing projects that were under budgeted during 2017/18 financial year. It is worth stating that, capital budget contains a number of sizable projects, particularly the Neckartal dam and the roads construction across the Country.

4.3.4 Contingent liability:

In addition to incurring outright debt, the Government avails loan guarantees in terms of Section 36 of State Finance Act, Act No. 31, 1991. These guarantees are mainly offered to SOEs in support of critical development projects. The total guarantees issued amounted to N$1.5 billion during 2017/18. This increased the level of guarantee from 7.5 percent of GDP to 8.0 percent, coming slightly closer to the set benchmark of 10.0 percent of GDP. The increases were driven by the need for Government to meet its contractual obligations on national important projects, mostly those that where underfunded in the 2017/18 budget.

The contingent liabilities are anticipated to average 8.0 percent of GDP over the MTEF period. In order to avoid fiscal risk, complemented by the need to achieve the fiscal consolidation policy stance, Government does not plan to issue guarantee to SOE's. However, issuance of guarantee to PPP projects arrangement could be considered, provided that fiscal risk is minimised.

4.4 Fiscal Policy Stance for the MTEF

Government's fiscal policy remains grounded on fiscal counter-cyclicality, long-term sustainability of fiscal outcomes and the promotion of inclusive economic growth and social welfare. The fiscal stance for the next MTEF takes into account the expressed policy objective to entrench fiscal sustainability, providing fiscal policy support to the fledgling economic growth outlook and the achievement of socio-economic objectives set out in the *Harambee Prosperity Plan, NDP V* and Vision 2030.

During the next MTEF and consistent with the Medium-Term Budget Policy Statement:-

- *Government will maintain a balanced fiscal consolidation policy with the objective of stabilizing the growth in public debt over the medium to long-term, while maintaining the growth-friendliness and social development objectives of fiscal policy,*
- *reduce the budget deficit from 5.6 percent of GDP in FY2017/18 to 4.8 percent in FY2018/19 and reach an average of 3.3 percent of GDP over the MTEF,*
- *reduce the growth of total public debt after a peak of about 43.4 percent of GDP through gradual reduction in the growth of public expenditure and the budget deficit, and*
- *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.*

4.5 Fiscal Policy and Budget Priorities for the 2018/2019-2020/2021 MTEF

In line with the policy priorities set out in the 2017 Medium-Term Budget Policy Statement, Government will pursue the following fiscal priorities over the next MTEF:-

- **Maintain and implement the gradual fiscal consolidation policy stance to safeguard macroeconomic stability and long-term fiscal sustainability.** The fiscal consolidation policy stance has aligned the macro-fiscal framework, with gradual reduction in the expenditure-to-GDP ratio as well as alignment of expenditure to revenue. Securing long-term sustainability of fiscal outcomes requires that Government consistently implements a well targeted and paced fiscal adjustment to stabilize growth in public debt, while supporting economic growth and the provision of basic services to all Namibians. The FY2018/19 Budget and MTEF prioritizes allocation to the completion of ongoing committed activities. New expenditure commitments are limited to growth-supporting programmes and meeting the basic needs in the social sectors. This stance will allow the Government to reduce the budget deficit to 4.8 percent in FY2018/19 and further to 3.3 percent in FY2019/20 as a lever for debt stabilization over the MTEF.

- ***Provide targeted support to fledgling economic growth over the MTEF.*** To further support economic growth objectives in an increasingly constrained fiscal space, the FY2018/19 Budget and MTEF proposes to make targeted budgetary allocations to specific programmes with growth and job creation potential. Specific allocations are made to the Development Bank of Namibia for promoting access to finance for SMEs following the placing of the SME Bank on provisional liquidation. SME support is further boosted with the envisaged roll-out of the Venture Capital Fund, Credit Guarantee Facility and the Mentoring and Coaching Scheme. The envisaged investment in motor vehicle assembly plant in Walvis Bay will create jobs, foreign earnings and trade creation. In the agricultural sphere, project financing under the collaboration with the African Development Bank will support commencement of the agricultural mechanisation programme to boost agricultural productivity for commercial and subsistence agriculture. On the public infrastructure front, the N$7.x Development Budget is complemented by infrastructure financing through PPPs, while options for a more long-term infrastructure fund are being explored.

- ***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. A combination of additional resource allocation and measures to optimize internal efficiencies in spending allocations to the social sectors will aim to deter reversals in gains achieved. This entails scaled-up allocations to the Ministries responsible for education, vocation training and the Namibia Student Financial Assistance Fund.

- ***Mobilizing domestic resources for development*** through tax policy and tax administration reforms, implementing the amendments to domestic asset requirements for institutional investors alongside measures to improve investment climate, establishment and operationalization of the Revenue Agency for Namibia, introduction of measures to protect the revenue base from base erosion, while addressing concerns raised by the European Union Commission on the exchange of information for tax purposes, and

- ***implementing supportive policies and structural reforms*** to bolster the competitiveness of the national economy, crowd-in private sector in project financing and investment. The key structural reforms regards the finalization of the New Equitable Economic Empowerment Framework, Namibia Investment Promotion Act and enhancing the ease of paying tax through the roll-out of the Integrated Tax System (ITAS) as well as the envisaged establishment of the Revenue Agency by April 2019.

4.6 Fiscal Policy Intervention Strategies for the 2018/19-2020/21MTEF

To realise the Budget and medium-term priority objectives of a growth-friendly fiscal consolidation, Government will implement the following measures annually over the MTEF:-

4.6.1 Maintaining pro-growth fiscal consolidation policy stance

The Government will maintain the fiscal consolidation framework that is moderately paced to avoid sudden withdrawal of fiscal support to the economy and the provision of basic services. Realizing successful fiscal consolidation requires effective measures to contain the growth of the civil service personnel, reducing the wage bill as a ratio of revenue and GDP and containing growth in transfers to Public Enterprises.

Over the next MTEF:-

- *the speed of fiscal consolidation will be evenly paced, with a systematic reduction in expenditure a proportion of GDP by about 2.5 percentage points annually, from 37.8 percent of GDP in FY2017/18 to about 31.7 percent by FY2020/21.*
- *the budget deficit is reduced from 5.4 percent in FY2017/18 to 4.5 percent in FY2018/19 and hover around 3.3 percent over the next MTEF and taking into account the domestic market liquidity conditions,*
- *reduce the wage bill as a proportion of GDP from 16 percent in 2017/18 to 13 percent over the next five years through a combination of natural attrition, lower than CPI indexing and capping personnel growth to below 6 percent*
- *the pacing of the magnitude of consolidation will allow for systematic allocation of resources to priority and growth enhancing programme interventions,*
- *reprogramming capital projects implementation by prioritizing on-going projects with contractual commitment, curbing non-targeted perpetual bail-outs to Public Enterprises in in commercial and economic sectors and implementing Public Enterprises reforms,*
- *expenditure allocation to non-core activities will be kept at the bare minimum for the purpose of rendering basic services and administration of priority programmes.*
- *public debt is expected tapper off around 44 percent of GDP over the MTEF, and*
- *the consolidation stance will be supported by timely implementation of other structural reforms and alternative forms of financing to aid the implementation of the fiscal consolidation process*

Promote effective Public Finance Management and fiscal discipline by accelerating the drafting and finalization of the Public Finance Management Bill. In this regard:-

- *Treasury will tighten expenditure commitment procedures through system enhancement and implementing measures to promote timely monitoring and reporting of occurrence of spending arrears.*
- *instil fiscal discipline by containing all new contractual obligations and service contracts within the allocated budget, system-based expenditure commitments as well as regular management accounts appraisal, and*

- *holding accounting officers accountable for expenditure excesses and over-commitments, while promoting fiscal transparency and responsible management of State resources*

4.6.2 Promoting inclusive economic growth and job creation

Sustainable inclusive economic growth is a necessary condition for the eradication of poverty, job creation, and growing public revenue, which eventually facilitates the reduction of income inequalities. To contribute to the achievement of the inclusive growth agenda, Government will:-

- *promote diversification of the economy by prioritizing development interventions in the sectors of transport and logistics, agriculture and manufacturing in line with the objectives of the Harambee Prosperity Plan and sectoral priorities contemplated in NDP5,*

- *invest in priority public infrastructure programme through Development Budget, implementation of AfDB funded capital projects estimated at N$4 billion over the MTEF and targeted infrastructure development through PPPs. These infrastructure investment programme will provide additional impetus to the Development Budget envelope over the next MTEF*

- *enhance greater access to development finance through implementation of SME Financing Strategy and private sector development through targeted program funding by the Development Financial Institutions,*

- *promote private sector investment in the fields of manufacturing, energy, housing, water and port infrastructure in line with the infrastructure development pillar of the Harambee Prosperity Plan*

- *diversify sources of financing through leveraging Public Private Partnerships (PPPs) and encouraging the partial listing of some of the Public Enterprises on the Namibian Stock Exchange (NSX), and*

- *continuous 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. Among others, Public Enterprises reforms will aim to achieve financial sustainability of the Enterprises and enhance the role of the Public Enterprises in the economy. In particular:-

- *all targeted subsidies for infrastructure and service delivery will be accounted for in the framework of the performance agreements and subsidy agreements,*

- *partial listing of categories of some of the economic Public Enterprises will be assessed as an empowerment tool and a means to raise capital,*

- *promote utilization of public sector asset base to raise capital for funding development interventions,*

4.6.3 Implementing targeted measures to reduce poverty and vulnerability

Creating opportunities for employment and economic empowerment is the most effective mechanism to sustainably eradicate poverty and create wealth, while shielding the vulnerable members of society from the effects poverty. This requires a developmental approach for state interventions and nurturing a conducive environment for private investment and job creation. During the next MTEF, Government will implement the following measures to reduce poverty and vulnerability:-

- *Promote job creation, empowerment 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,*

4.6.4 Implementing industrial development pilot projects

Since the adoption of the "Growth at home" Strategy a key investment project is the expected investment in car assembly plant in Walvis Bay which will contribute to the diversification of economic activities. During the next MTEF, the Government, in consultation with the private sector and other stakeholders will identify potential industrial development projects in the strategic areas of value-addition as well as securing market access, taking advantage of domestic and regional value chains.

4.6.5 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.

- *In the education sector, the focus will be on improving the quality of outcomes, improvement of teacher upgrading programmes and educational facilities to enhance access to especially tertiary education and vocational training for expanded skills formation,*

- *Maintain funding allocation to the health sector in real terms to address gaps in health facilities, address public health outbreaks and improving service delivery in areas of high intervention priorities.*

- *Specific budgetary allocations will be made for land servicing and mass housing programme over the MTEF to address backlogs in the housing and sanitation sectors, thus creating further activities for the construction sector, and*
- *Further improve coverage and targeting for social safety nets to beneficiary groups.*

4.6.6 Tax policy and tax administration reform agenda

Tax policy contribution to development objects relates to the growth-friendliness of tax system, its redistributive property and the revenue generation capacity. These essential features of the tax system are reinforced by the modernization and efficiency of tax administration systems. In the next MTEF, Government will further implement reforms in both tax policy and administration, thus the following tax policy changes are proposed fro introduction in the FY208/2019 Budget:

- *The current manufacturing tax incentive scheme and its associated benefits will be discontinued through a phased approach. No new manufacturing status will be granted and companies which were granted the manufacturing status will migrate to the corporate tax rate over time through a sunset provision,*
- *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. This will 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 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 trust itself. Trusts will be subject to company tax rate and not individual tax rates as it is currently provided for.*
- *We will maintain the current tax incentive for charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act by exempting the income generated through normal sources such as members 'contributions, donations and grants. 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 changes to individual income tax brackets by keeping the brackets and rates for low-income earners unchanged and graduate the upper income earners to upper brackets and introduce new tax rates (from 37% to 40%) in furtherance of the redistributive objectives of fiscal policy. This will generate about 250 million annually.*
- *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.*

4.6.7 Tax Administration Reforms

- *establish the Namibia Revenue Agency through a phased transitional arrangement to bring about greater efficiency in the collection, assessment and administration of the tax laws;*
- *continue the recovery of outstanding tax arrears,*
- *Finalize the review and phasing out of the Export Processing Zones Act,*
- *leverage regional and international tax cooperation as a mechanism to enhance national technical capacity in various areas of tax administration, specifically transfer pricing*

- *develop guidelines and the necessary regulations to give effect to voluntary or forced registration of all small businesses that are currently not registered on the tax system and to determine the rates payable by such businesses.*

4.6.8 Tax Administration Reforms

- *implement transitional arrangements for the establishment of the Namibia Revenue Agency (NAMRA) by 1 March 2019,*
- *commence with the roll-out of the Integrated Tax System (ITAS) by October 2018,*
- *persist with the recovery of outstanding tax liabilities, following the coming to an end of the Tax Arrear Recovery Program in March 2018,*
- *leverage regional and international tax cooperation as a mechanism to enhance national technical capacity in various areas of tax administration and exchange of information for tax purposes,*

- *commence with renegotiation of Double Taxation Agreements in the context of Namibia's Double Taxation Policy aimed at achieving mutually-beneficial outcomes for Namibia, and*

4.6.9 Excise levies and duties

- *Increase the fuel levy by 25 cents per litre for all levied fuel products*
- *expand coverage of export levy to include agricultural, forestry and game products and on mining products currently not covered,*
- *explore a profit tax of 37 percent on betting and gaming entities,*

4.6.10 Structural reforms

The execution of the above strategies would require a supportive policy environment and structural reforms to optimise outcomes. Over the next MTEF, the Government will, among others, implement the following structural reform policies to diversify economic base, local economic development and advance national industrialization and economic diversification agenda:

- *improving the productive capacity of the economy for domestic industrial and consumption demand by addressing supply-side constraints and implementing preference provisions of new Public Procurement Act and strengthening the Procurement Policy Unit at the Ministry of Finance,*

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

- *assessing infrastructure and service options for PPP and implementing such undertakings if and when they are found feasible,*

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

- *further undertake Public Finance Reforms (PFM) reforms through amendments and modernization of the State Finance Act and conducting Public Expenditure Reviews in for specific Budget Votes, and*

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

4.7 Policy Conclusions for the MTEF

The key policy priorities for the FY2018/19 Budget is to implement the fiscal consolidation policy stance with greater impetus on supporting inclusive economic growth and the uninterrupted delivery of essential services to the public. The elevated public debt, high budget deficits and concerns raised by credit ratings agencies require a consistent policy response package to address these vulnerabilities.

This entails implementing a four-pronged set of actions comprising consolidation of non-core expenditure, targeted investment in infrastructure and high-growth projects, 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 related manufacturing activity, moderate recovery in tertiary services sector and a robust 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 main risk to revenue stems from SACU revenues which are expected to slow down mainly due to the low economic growth environment for especially the South African economy.

Globally, the uptick in the world economy offers a window of opportunity for increasing trade due to demand improvements in Advanced Economies. The projected gradual recovery 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 further monetary policy rate hike in the United States will likely impact on capital flows and currency volatilities across the globe, while the rebalancing in China continues to cause a drag on global growth and commodity price demand. Regionally, the South African and Angolan economies, which are closely linked to the Namibian economy are contenting with low growth spells in recent years. Improving policy certainty and better oil prices provide tailwinds for these economies going forward.

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

- ***Maintain the fiscal consolidation framework, giving more fiscal impetus to economic growth and increasingly align expenditure to priorities, while consolidating non-core expenditure allocation.*** This requires the reprogramming of the expected phases of the on-going and planned capital projects and limited expansion of spending programmes as a medium-term measure to continue entrenching fiscal sustainability and macroeconomic stability.

- ***Implement a growth-friendly fiscal policy***, anchored on increased spending on carefully selected and phased infrastructure projects and targeted support to SME sector through the implementation of the SME Financing Strategy. The magnitude of fiscal support to the economy takes into consideration the constrained fiscal space and the policy imperative of avoiding pro-cylicality as growth strengthens. As such, the Government will utilize other alternative means of financing centered on Public, Private Partnerships, and private sector investment and investigate better options for leveraging of selected state assets.

- ***Implementing targeted measures to reduce poverty and vulnerability*** through implementation of the ***of four pillars under the "Harambee" Prosperity Plan*** supporting job creation efforts, access to finance for especially the Micro, Small and Medium-sized Enterprises (MSME), vocational training skills, strengthening OVC and other social safety nets through improved coverage and administrative efficiency,

- ***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.

- ***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.

- ***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, introduce an integrated tax administration system and establish the autonomous Revenue Agency for Namibia.

- In order to reinforce the outcomes in the priority areas of intervention during the MTEF, ***Government should implement structural reforms in the various sectors of the economy***. This is especially in regard to the competitiveness of the national economy, ease of doing business, national investment framework, value-addition policy, fiscal incentives and public finance management.

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

INDUSTRY	2016	2017	2018	2019	2020	2021
Agriculture and forestry	0.8	10.0	-1.4	4.0	1.0	-1.1
Livestock farming	2.3	8.1	-1.0	3.9	0.0	-1.2
Crop farming and forestry	-1.2	12.6	-1.8	4.2	2.2	-0.9
Fishing and fish processing on board	7.7	2.3	0.4	1.2	3.1	3.0
Mining and quarrying	-5.7	13.6	3.9	4.7	4.3	7.2
Diamond mining	-9.6	14.0	1.8	2.4	3.4	8.7
Uranium	13.6	14.6	11.6	18.2	2.2	2.0
Metal Ores	0.2	15.3	5.5	2.5	8.5	8.3
Other mining and quarrying	-19.8	3.6	0.7	-2.9	6.1	5.9
Primary industries	**-2.0**	**10.7**	**2.0**	**4.0**	**3.3**	**4.6**
Manufacturing	3.4	3.9	2.3	2.4	1.9	1.1
Meat processing	-2.1	3.9	-1.1	1.1	2.0	1.5
Grain Mill products	0.7	9.3	2.8	3.7	4.5	4.1
Other food products	4.0	3.2	1.8	6.4	-0.4	-0.7
Beverages	-1.6	5.3	1.2	2.6	3.4	1.0
Textile and wearing apparel	3.7	1.3	0.3	0.4	1.3	0.9
Leather and related products	-3.4	3.0	2.6	2.5	3.3	2.9
Wood and wood products	3.5	1.7	0.3	-1.4	-0.5	-0.9
Publishing and Printing	-1.5	1.8	0.4	0.7	1.6	1.2
Chemical and related products	-2.6	3.6	1.2	1.6	2.4	2.0
Rubber and Plastics products	5.2	3.1	1.6	2.9	3.7	3.4
Non-metallic minerals products	-0.1	0.7	1.3	2.6	3.5	7.1
Basic non-ferrous metals	1.0	3.6	6.4	2.8	1.7	-0.7
Fabricated Metals	-1.1	-1.5	-3.7	0.5	1.4	1.0
Diamond processing	65.9	7.0	4.9	0.3	1.2	0.8
Other manufacturing	-13.9	1.1	-3.5	-2.9	-1.8	-2.2
Electricity and water	6.8	5.8	2.5	2.8	3.3	2.6
Construction	-26.5	-20.7	-1.8	3.3	4.5	5.1
Secondary industries	**-7.8**	**-3.4**	**1.3**	**2.6**	**2.7**	**2.3**
Wholesale and retail trade, repairs	3.4	-6.9	-0.7	3.5	3.8	3.6
Hotels and restaurants	5.1	3.0	2.1	4.3	5.7	5.0
Transport, and communication	6.1	2.9	2.3	3.0	3.8	3.2
Transport	4.7	1.7	2.8	3.7	4.5	3.8
Storage	1.2	0.6	1.9	2.3	3.7	3.0
Post and telecommunications	9.5	4.9	1.8	2.4	3.1	2.7
Financial intermediation	3.7	3.1	4.0	3.8	4.0	3.8
Real estate and business services	2.5	-8.0	-0.3	-1.3	0.1	-0.4
Real estate activities	2.6	-9.4	-1.1	-1.8	-0.9	-1.5
Other business services	2.1	-4.1	1.7	0.1	2.5	2.1
Community, social and personal service activities	1.9	5.3	-0.1	-0.7	1.2	0.7
Public administration and defence	3.3	-0.4	0.9	-0.3	3.2	2.8
Education	3.5	0.3	0.7	0.4	2.5	3.6
Health	10.5	1.7	2.1	1.3	3.6	4.9
Private household with employed persons	1.4	3.4	0.6	2.1	-1.3	0.6
Tertiary industries	**3.9**	**-1.6**	**1.0**	**1.5**	**3.0**	**3.0**
GDP at market prices	**1.1**	**-0.5**	**1.2**	**2.1**	**3.0**	**3.2**

Source: Macroeconomic Working Group

ANNEX 2: ASSUMPTIONS FOR THE ESTIAMTES AND PROJECTIONS

SUPPLY SIDE ASSUMPTIONS

1. PRIMARY INDUSTRIES

Agriculture and Forestry

The *agricultural and forestry* sector is expected to have expanded in **2017** on account of the good rainfall during the 2016/17 rainy season, which mitigated the adverse impact of the drought experienced during the previous three consecutive years. The expansion of the sector is due to the increase in both *livestock* and *crop farming* sub-sectors. Investment in the *livestock* sub-sector is expected to have grown as farmers were anticipated to continue restocking, while the output from crop farming is expected to expand significantly due to good rainfall resulting in an above-average harvest.

From **2018**, growth in the sector is estimated to taper off and return to the average growth trend over the medium term as restocking subsides and farmers engage in selling-off activities. *Crop farming* is also expected to level off due to the assumed average to below average rainfall conditions.

Fishing and Fish Processing on Board

Growth of *fishing and fish processing on board* is expected to have **s**lowed down in **2017** compared to growth in 2016, due to slower growth in fish landings and increased input costs, in spite of the increased total allowable catches (TAC) in the hake sub-sector.

In **2018** and beyond, the sector is projected to record its historical trend growth on the back of the implementation of the sector's Namibianisation policy and pro-growth strategies.

Mining and Quarrying

The *mining and quarrying* sector is expected have recovered in **2017** as a result of increased production volumes and improved commodity prices.

In *uranium mining*, the Husab mine - which commenced production in 2017 - is projected to reach full production potential by **2019** and, therefore, drive growth despite the low production performance in other mines in the industry due to low uranium prices.

Diamond mining is expected to have expanded in **2017** on the back of improved mining infrastructure and increased production capacity. The expansion of the sub-sector is attributed to the conversion of an exploration vessel into a mining vessel, the recommissioning of the Mafuta mining vessel following an extensive maintenance period in 2016 as well as increased production efficiency and enhanced capacity as the new exploration vessel (Sam Shafishuna Nujoma) became operational.

Growth in *metal ores* is expected due increased production in zinc mining on the back of the expansion of Scorpion Zinc's mining area as from **2018** to reach full capacity over the remainder of the medium term.

2. SECONDARY INDUSTRIES

Construction

Construction is expected to have recovered marginally in **2017**, relative to the deep contraction in 2016, on the back of improved prospects for the commencement of private sector projects, normalization of Governments capital expenditure programme as well as base effects. In **2018**, the sector is estimated to bottom out significantly and is expected to record positive growth in **2019** and over the remainder of the medium term, along its historical growth trajectory.

Manufacturing

The *manufacturing* sector is expected to have recorded slow growth in **2017**, mainly on the back of slower performance of the *diamond processing* sub-sector, relative to 2016. The sector is expected to continue benefiting from the beneficiation agreement between the Government and De Beers. In **2018** and beyond, growth in *diamond processing* is expected to moderate due to a combination of factors in the industry ranging from base effects to production constraints.

Improved performance is expected in the processing of *basic non-ferrous metals* due to an increase in the production of zinc and lead on the back of increased commodity prices. It is expected that the processing of *basic non-ferrous metals* will reach its maximum potential in **2019** and, thereafter, record slower growth rates over the latter years of the MTEF

Growth of the *manufacturing* sector will also be supported by activities in the *other food product* sub-sector on the back of the establishment of a new fish processing factory (for the canning of horsemackerel) which is expected to benefit from the implementation of new pro-growth policies in the fishing industry. However, in **2018** and beyond, the sub-sector is expected to be impacted affected adversely by the effects of resource depletion.

With the water crisis having subsided and given better rainfall in **2017**, it is expected that the *beverages* sub-sector will record growth and contribute towards an improved performance in the manufacturing sector due to increased production of beer volumes over the latter years of the MTEF. Nevertheless, in **2018**, water security is expected to be affected adversely by the looming drought due to the below-average rainfall patterns of the 2017/18 rainy season.

Water and Electricity

Growth of the *water and electricity* sector is estimated to have slowed marginally in **2017** due to increased costs resulting from the electricity supply contract that was re-negotiated with Eskom, which is expected to cause a rise in input costs and a reduction in value addition for the *electricity* sub-sector.

In **2018** and beyond, growth in *electricity* is expected to slow down due to the reduced output from the domestic hydro-power plant as a result of the looming drought. However, higher growth is expected for the *water* sub-sector, due to increased demand (due to the imminent drought) and is expected to offset the slow growth in *electricity* which has a higher weight.

3. TERTIARY INDUSTRIES

Wholesale and Retail Trade

Wholesale and retail is expected to have contracted in **2017** due to the weaker spending power of consumers and government. In addition, the contraction of the *construction* sector implies lesser disposable income due to loss of jobs - which resulted in severe job losses, complemented by job losses in *mining and quarrying* and *fishing and fish processing on board* - is expected to have an adverse impact on the growth of the sector. However, growth of the sector is expected to recover gradually from **2018** and beyond, effects of favorable monetary policy measure outturns

Hotels and Restaurants

Growth in *hotels and restaurants* is expected to have slowed down in **2017** due to the effects of the government's fiscal consolidation stance, weaker domestic consumer confidence and the appreciation of the exchange rate. In **2018** and beyond, growth of the sector is expected to improve on the back of the anticipated improved global economic conditions prevail over the latter years of the MTEF.

Transport and Communication

The growth in *transport and communication* is expected to have slowed down in **2017** due to slower economic activities in trading partner countries. However, growth is expected to increase from **2018** onwards due to the completion of infrastructure projects in the sector that will boost the expansion of the sector.

Financial Intermediation

Financial intermediation is expected to have recorded moderate growth in **2017** due to the high level of slowdown in the private sector consumption. In **2018** and beyond, the sector is expected to recover on the back of the lagged effects of the expansionary monetary policy

Real Estate and Business Activities

Growth of the real estate and business activities is expected to decelerate in **2017**, due to the implementation of macro-prudential policy to stabilize price increases in the sector as well as slow down general demand and volumes of property transactions. It is expected that the growth of the sector will bottom out from **2018** onwards, backed mainly by improvements in private consumption expenditure.

Public Administration and Defense

Growth for public administration and defense is expected to remain subdued in 2017 and over the remainder of the MTEF, mainly due to the government's fiscal stance of reigning in expenditure over the medium term.

2. DEMAND SIDE ASSUMPTIONS

Final Consumption Expenditure

Private consumption expenditure is expected to have contracted in **2017** as a result of a slowdown in private consumption and market confidence. However, it is projected to bottom out of recession and remain positive throughout the medium term period as consumer and market confidence improves as well as anticipated recovery in economic conditions.

In 2018 and beyond, *general government consumption expenditure* is expected to recover significantly from the deep contraction of 2017 and is projected to record positive but low growth rates over the remainder of the MTEF, mainly on the back of the government's fiscal consolidation stance.

Gross Fixed Capital Formation

G*ross fixed capital formation* (GFCF) is expected to have contracted marginally in **2017** (compared to a deeper contraction of 2016) as a result of the completion of large capital projects and the scaling down of investment in addition no new substantial projects were implemented and the general slowdown in economic growth lead to lower investments due to weaker investor confidence. In **2018** and beyond, growth in GFCF (albeit projected to be negative) would be based by marginal growth in private sector investment programmes[16].

Exports

Exports are expected to have expanded in **2017** following increased production for most minerals on the prospect of improved commodity prices and improved production infrastructure for diamond mining. In **2018** and beyond, growth in exports is projected to moderate due to the anticipated lower production of uranium and processed zinc as well as the impact of the appreciation of the exchange rate. In addition, the output of agriculture and forestry is projected to be low due to the effects of the looming drought.

Imports

Imports are expected to have contracted in **2017** due to reduced disposable income as a result of high household indebtedness, lower spending by government and the completion of major capital projects that require the importation of capital goods and equipment. In **2018** and beyond, growth in imports is projected to improve marginally on the back of improved prospects for increased final consumption expenditure, appreciation of the exchange rate and moderate increase in the magnitude of investment prospects.

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[16] *Expansion of the Wernhill Park mall (N$500 mil), Gobabis mall (N$90 mil), Oshana Mall (N$100 mil), Walvis Bay dune mall (N$200 mil), MTC network infrastructure investment(N$1 bil), several Independent Power Producer investment projects (N$200 mil), Fishcor fish processing and canning factory (N$100 mil), Standard bank head office (N$0.5 bn)*