Republic of Namibia

FISCAL POLICY FRAMEWORK

2014/15 to 2016/17

" Fiscal Sustainability and Job - Creating Growth - Doing More with Less "

FOREWORD

The Government Fiscal Policy Framework remains grounded on fiscal countercyclicality with the objectives of providing support to the economy, safeguarding macroeconomic stability and social welfare and long-term fiscal sustainability. In this regard, the policy framework sets out fiscal priorities and interventions as well as the revenue envelope and aggregate expenditure constraint for the Medium-term Expenditure Framework (MTEF).

The 2014 Fiscal Policy Framework is coming into operation at the time when the global financial crisis and economic downturn appear to have petered out, with indications that an economic recovery has taken hold, thanks to coordinated policy actions across the globe. The strengthening of growth prospects in developed countries has the benefit of boosting international trade and demand for exports. However, notwithstanding the improvements in the global economic fundamentals, downside risks on growth outlook still remain, including the risks of sudden supportive policy withdrawal.

At home, fiscal policy action has served the economy relatively well. Sustained fiscal expansion since the onset of the global financial and economic crises, has shielded the domestic economy from the severe impacts of the crises. Equally, Government has been able to maintain, and even expand the provision of services to an increasing number of Namibians and implemented policy reforms to bolster the resilience and competitiveness of the economy, amidst a challenging external environment. We have also realized relative improvement in the fiscal position, having achieved a near balanced budget in 2012/13, a strong economic performance and a mix of revenue-raising measures.

As the country prepares to celebrate quarter-a-century of political independence, peace and stability at the end of the 2014/15 fiscal year, urgent and targeted actions are required to bring about economic expansion, and address structural and binding constraints in the economy with added impetus. Indeed, experience has taught us that what matters in regard to the budget is not the mere amounts allocated, but rather the outcome realized with the allocated resources.

The 2014/2015 Fiscal Policy Framework engenders a balance between safeguarding macroeconomic stability and supporting the national development agenda. In particular, the framework summons resources to the development of strategic infrastructure and redress of domestic supply-side constraints in concerted efforts to induce high inclusive economic growth and create jobs.

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MINISTER OF FINANCE

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Policy Context and Objectives

0.1 The Fiscal Policy Framework sets out the Government fiscal interventions for the budget and Medium-term Expenditure Framework (MTEF). In particular, the framework sets out the revenue envelope and stipulates fiscal priorities, strategies and recommendations for the MTEF as measured against national priorities and taking into regard macroeconomic developments and forecasts over the MTEF. In this context, the framework proposes the fiscal stance and sets out aggregate expenditure constraint consistent with fiscal benchmarks.

0.2 Namibia's fiscal policy remains premised on fiscal counter cyclicality, promotion of economic development, fiscal sustainability and optimization of social welfare.

0.3 The 2014 Fiscal Policy Framework is coming into operation at the time when the global economy is well on course of gradual recovery. Even the Euro zone, which has been at the centre of sovereign debt crisis, is projected to crawl out of the negative growth territory. However, economic recovery is projected to be weak and characterized by downside risks that could stymie its momentum.

0.4 Globally, the significant fiscal expansion which was extended to counter the effects of the financial crisis and Great Recession have rekindled economic recovery, but at the expense of high fiscal deficits and public debts. High public debt incidence implies a considerably narrow space for expansionary fiscal policy in the medium-term. For this reason, Governments across the globe have adopted fiscal consolidation since 2011 aimed at reducing fiscal deficits and stabilizing long-term growth in public debt.

0.5 Namibia is entering this environment from a vantage point of relatively low Central Government debt and a strengthened, but fragile fiscal position, having recorded a low budget deficit in 2012/13, mainly to due to improvements in revenue collection and tax administration effort.

Domestic Macroeconomic and Fiscal Developments

Economic Developments and Medium-term Outlook

0.6 The Macroeconomic Framework for the 2014/15 – 2016/17 MTEF projects relatively weak growth outlook on account of weak growth prospects for the global economy. Namibia's highly open economy is vulnerable to developments in the external environment. The domestic economy is projected to expand by 4.8 percent on average during the next MTEF, owing to global economic conditions and domestic factors. For 2014, economic growth is projected to strengthen to 5.0 percent, from 4.8 percent estimated for 2013, before easing to about 4.8 precent in the outer years of the MTEF.

0.7 The projected average growth rate of 4.8 percent for the MTEF is lower than the 6.4 percent aspired for in NDP4. In order to support inclusive growth and job creation in the spirit of NDP4, targeted fiscal policy interventions are needed to bring about structural change in the composition and pace of growth over time.

Achievements, Challenges and Risks

0.8 Notwithstanding the challenging external environment and domestic constraints, successive international assessments for Namibia recognize numerous achievements that the country has made on key fronts. The record of successes achieved to date demonstrates the resolve of Government to improve living standards and place Namibia on a development path towards Vision 2030 objectives.

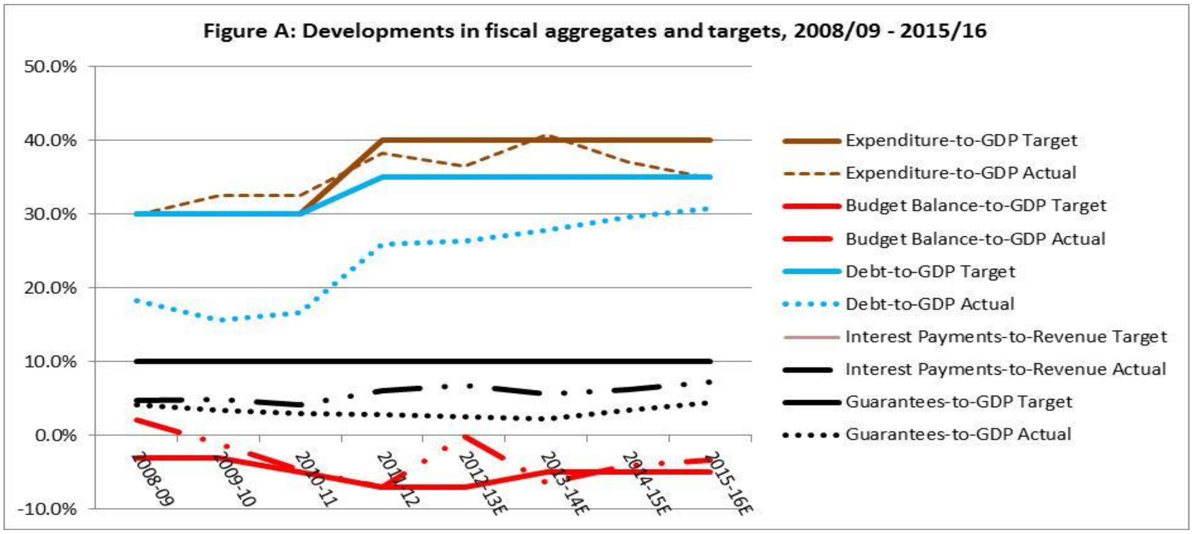
0.9 Some key achievements include, but not limited to peace and stability, macroeconomic stability, budgetary prioritization of education and health and environmental stewardship of international repute.

0.10 The medium-term fiscal outlook for the MTEF remains clouded by several risks, which may derail the good progress made. The eminent risk emanates from uncertainty on the direction for the on-going negotiations on institutional reforms for SACU, the external macroeconomic environment and trade arrangements.

Developments in Fiscal Aggregates

0.11 Since the onset of the global financial crisis five years ago and the fiscal expansion deployed to counter the impact of the crisis, Namibia made quick gains to reverse the significant budget deficit incurred as a result of fiscal countercyclicality, thanks to a mix of fiscal consolidation and measures to strengthen revenue collection and improve tax administration effort.

0.12 Fiscal operations remained well within the adopted benchmarks. Total expenditure stood below 40 percent of GDP, the budget deficit edged closer to a balanced budget by 2012/13 and Central Government Debt stood at an estimated 27.8 percent of GDP.



0.13 Total revenue for 2012/13 amounted to N$38.00 billion, representing a revenue growth rate of 27.2 percent from N$29.92 billion collected during the previous year and about 7.3 percent more than the N$35.42 billion projected in the 2012/13 budget. For 2013/14, total revenue is estimated to improve from N$40.14 billion to an estimated N$43.87 billion due to better-than-anticipated growth in GDP, improved year-to-date revenue collection and an increased tax administration effort.

0.14 SACU receipts continue to be a significant source of tax revenue for Namibia. Strong growth in domestic revenue streams, particularly diamond mining company tax owing to the recuperation in diamond prices and improved output; resilience in Personal Income Tax (PIT) as well as strong performance in some categories of no-tax revenue was also realized.

0.15 Total expenditure execution in 2012/13 stood at 95.5 percent, recording a total amount spent at N$38.04 billion, out of the total budget of N$39.92 billion. Operational budget expenditure stood at N$29.40 billion, out of N$30.79 billion allocated, with a corresponding execution rate of 95.5 percent. Development budget execution stood at 88.6 percent, with a total of N$5.57 billion spent out of N$6.30 billion allocated. This execution rate is relatively lower than 92.9 percent achieved during the previous year.

0.16 The budget deficit edged closer to a balance in 2012/13, with the budget deficit amounting to N$114.70 million (0.1 percent of GDP), compared to a deficit of N$2.96 billion or 2.8 percent of GDP estimated in the budget. Total debt stood at N$27.55 billion or some 24.9 percent of GDP. For 2013/14, total debt is estimated at 25.9 percent of GDP.

Policy Interventions

Public Finance Management and Fiscal Policy Initiatives

0.17 During the previous MTEF, Government continued to implement key policy initiatives aimed at increasing the impulse of fiscal policy in the economy and strengthening public finance management. Expansionary fiscal policy has been pursued to cushion the domestic economy from the severe impacts of the global economic downturn as well as to contribute to the achievement of the socio-economic development. Government has also implemented tax policy and administration reform agenda as a means to enhance the contribution of tax policy to socio-economic objectives, enhancing the competitiveness of the economy and deepening and broadening the tax base. In particular, Government has taken a principle decision to establish a semi-autonomous revenue agency for Namibia in next MTEF.

0.18 Other policy initiatives include, but not limited to the roll-out of the results-based programme budgeting, public procurement reforms, strengthening of social safety nets, scaling-up of resource allocations to the development budget and private sector support through increased resource allocations to Development Financial Institutions. These interventions are in addition to a myriad of reforms undertaken in the financial sector.

The Targeted Intervention Programme for Employment and Economic Growth (TIPEEG: Programme Execution and Outcomes

0.19 Since its introduction in 2011/12, TIPEEG entered its third and final year of implementation during 2013/14. Out of the N$14.5 billion budgeted and released under this programme for the three-year period, a total amount of N$11.0 billion was spent by the end of the Fourth Quarter of 2013/14, resulting in an estimated total budget execution rate of 76.6 percent for the programme. A significant amount of the remainder budget is expected to be spent by the end of the 2013/14 fiscal year.

0.20 By the Fourth Quarter of 2013/14, an estimated 83,315 jobs have been created (15,829 permanent, 67,485 temporary). This represents 80.1 per cent of the 104,000 jobs estimated to be created under TIPEEG.

Medium-term Fiscal Outlook

0.21 On account of projected macroeconomic outlook and planned policy interventions, total revenue and grants are projected to improve from 34.3 percent of GDP in 2012/13 and average 36.7 percent over the MTEF. In nominal terms, revenue is expected to grow at a decelerating rate and average around 14.7 percent annually over the MTEF, from an upward revised estimate of N$43.87 billion in 2013/14 and reach N$52.47 billion landmark in 2014/15, N$58.70 billion in 2015/16 and N$66.07 billion in 2016/17. However, the revenue outlook is underpinned by downside risks, which have the potential to reduce the projected outlook in the medium-term.

0.22 The 2013/2014-2015/2016 MTEF provide for an expenditure ceiling of N$47.58 billion in 2013/14, N$48.22 billion in 2014/15 and N$50.49 billion in 2015/16, with a corresponding projected increase in the budget deficit to an average of 4.6 percent of GDP in over the MTEF.

0.23 Under the current projected revenue in relation to the above expenditure ceilings in the previous MTEF, the total potential maximum expenditure ceiling consistent with the fiscal targets for the MTEF amounts to about N$194.58 billion, with potential maximum spending ceiling of N$59.54 billion for 2014/15, N$63.50 billion for 2015/16 and, increasing to; at least potentially, N$71.54 billion by 2016/17. Within this potential aggregate expenditure framework, the total debt stock may increase to N$37.61 billion in 2014/15 and reach N$49.32 billion by 2016/17 or about 27.1 percent of GDP. These spending ceilings are potential maximum amounts equivalent to a budget line and subject to downside risks. Therefore, for budget allocation purposes, total annual expenditure allocation for the MTEF needs to be well within these maximum ceilings to ensure that Government does not exhaust all the available fiscal space, given the revenue risks ahead.

Fiscal Policy Stance for the MTEF

0.24 The fiscal policy priority for the MTEF is to address socio-economic challenges for Namibia, while managing fiscal risks. Government fiscal policy remains premised on fiscal counter-cyclicality, promoting economic growth and development, macroeconomic stability and optimization of social welfare.

0.25 Given the uncertainties on the revenue outlook during the latter years of the MTEF and the need for Government to continue supporting domestic economic activity, the fiscal policy stance for the MTEF is to:-

- *strike a balance between rebuilding fiscal buffers, maintain current expenditure commitments and provide increased budgetary allocation to strategic priorities*

- *follow the fiscal consolidation path announced in the 2013 budget by maintaining the budget deficit at 5 percent during 2014/15 and further narrow this to 3 percent of GDP during the latter years of the MTEF as a mechanism to mitigate against potential impacts of revenue risks,* and

- *continue with measures to strengthen efficiency in tax administration and revenue collection*

Fiscal Priorities, Strategies and Conclusions

0.26 Fiscal policy interventions during the MTEF will be aimed at addressing identified priorities and mitigating fiscal risks. Fiscal operations will be further complemented by policy interventions in all sectors of the economy. Given the socio-economic challenges facing Namibia and the projected medium-term outlook, fiscal interventions for the MTEF will be directed at the following priority areas MTEF:-

- *investment in sustainable economic growth and job creation, through implementation of NDP4 strategic initiatives and scaled-up allocation to priority sectors of the economy and strategic infrastructure development.*
- *strengthening fiscal buffers to safeguard macroeconomic stability and mitigate fiscal risks by maintaining fiscal operations within adopted benchmarks*
- *prioritization of expenditure and providing increased support for education, health, housing and rural development and a means of inculcating the culture of doing more with less and enhancing human resources development and increased provision of social services*

- *implementing supportive policies and undertaking policy reforms to improve national competitiveness, local economic development and further strengthen public finance management, and*

- *monitoring and evaluation of strategic interventions and development outcomes*

GLOBAL, REGIONAL AND DOMESTIC FISCAL LANDSCAPE

1. ***Globally***, marked progress has been made to reduce fiscal deficits which came about as a result of significant stimulus packages extended to counter the effects of the global financial crisis and economic downturn. However, the general reduction in fiscal deficits since 2011, supported by economic recovery and gradual fiscal consolidation, is just the beginning of an obviously long journey towards stabilization of public debt levels. Public debt stocks still remain significantly high, especially in advanced economies and in the Euro zone in particular.

"global fiscal deficits have fallen to 3.0 percent, but public debts remain high"

2. At the same time, the medium-term global economic growth prospects are frail. Initial fiscal expansion has rekindled economic recovery, but fragility still remains. Economic recovery is projected to proceed in the medium-term, but at a slow and uneven speed and with attendant downside risks. The balance of growth dynamics has also changed, at least in the transitory period. Recovery in advanced economies has gained strength, while in emerging and developing economies which have been the anchor of global recovery since the Great Recession, momentum is projected to loosen. Even the Euro zone which remains at the epicentre of sovereign debt crisis is projected to crawl out of the recession in 2014.

" projected economic recovery is slow and uneven"

Table 1: Global fiscal balances and budget deficits for selected economies

Region/Country	2008	2009	2010	2011	2012	2013	2014
			Actual			Projection	
World Overall Fiscal Balance	**-2.2**	**-7.4**	**-5.9**	**-4.5**	**-4.3**	**-3.7**	**-3.0**
Advanced Economies	-3.5	-8.9	-7.7	-6.5	-5.9	-4.5	-3.6
United States	-6.5	-12.9	-10.8	-9.7	-8.3	-5.8	-4.6
Euro area	-2.1	-6.4	-6.2	-4.2	-3.7	-3.1	-2.5
Japan	-4.1	-10.4	-9.3	-9.9	-10.1	-9.5	-6.8
United Kingdom	-5.0	-11.3	-10	-7.8	-7.9	-6.1	-5.8
Canada	-0.3	-4.5	-4.9	-3.7	-3.4	-3.4	-2.9
Other advanced economies	2.9	-0.9	-0.2	0.4	0.4	0.4	0.7
Emerging markets and developing economies	-0.1	-4.6	-3.1	-1.7	-2.1	-2.7	-2.5
Namibia*	**2**	**-1.2**	**-4.6**	**-7**	**0**	**-6.4**	**-4.1**
South Africa*	1.7	-1.2	-4.2	-3.6	-4.2	-4.2	-4.1
Europe: Other	0.5	-6.1	-4.1	0	-0.7	-1.5	-1.2
Russia	4.9	-6.3	-3.4	1.5	0.4	-0.7	-0.3
China	-0.7	-3.1	-1.5	-1.3	-2.2	-2.5	-2.1
India	-10.0	-9.8	-8.4	-8.5	-8.0	-8.5	-8.5
Latin America and Caribbean	-0.7	-3.6	-2.8	-2.4	-2.5	-2.8	-3.0
Brazil	-1.3	-3.1	-2.7	-2.5	-2.7	-3.0	-3.2

"Namibia made quick gains from expenditure moderation"

*Source: IMF Fiscal Monitor, October 2013.*Notes: Data for Namibia and South Africa are sourced from the Ministry of Finance and National Treasury respectively and refer to budget balances instead of fiscal balances. The data for Namibia and South Africa refer to fiscal years. Data for 2008 pertain to 2008/9 FY.*

3. As a result of the generalized fiscal consolidation policy course of action, the global fiscal deficit in relation to GDP has narrowed significantly, from 7.4 percent in 2009 to 4.3 percent in 2012, with a further improvement to 3.7 percent and 3.0 percent estimated for 2013 and 2014 respectively. These projections are, however, characterised by downside macroeconomic risks of, *inter alia*, low growth environment and the efficacy of structural reforms in the banking sector in advanced economies.

4. Improvements in fiscal deficits are a result of continued commitment to fiscal consolidation anchored on expenditure restraint. The fiscal consolidation is undertaken with a view to achieve long-term reduction in public debt. However, the prospect of subdued growth in the medium-term, concurrent with prevalent high public debt episode, presents particularly taxing times for fiscal policy. This outlook is exacerbated by the gradual upward progression in interest rates, especially long-term interest rates on sovereign debts as signals for the unwinding of expansionary monetary policy gains strength and market sentiments change.

"fiscal tightening has paid-off, but low growth and high debt presents taxing times for medium-term fiscal policy"

5. In this environment of subdued prospects, policymakers face a difficult task of balancing measures to reinforce the speed of economic recovery and protecting fiscal accounts from worsening. For countries that have achieved some measure of fiscal space, the policy advice is to strike a balance between supporting the fledgling growth and continue strengthening fiscal buffers to avoid austerity and long-term procyclicality. In many advanced economies, fiscal consolidation would need to persist over an extended period in order to bring public debts to sustainable levels.

6. ***Regionally***, countercyclical fiscal policy on the back of strong macroeconomic management and supported by accommodative monetary policy has paid-off. The Sub-Saharan Africa region was able to weather the effects of the global financial crisis and its contagion, amidst a poor medium-term outlook. Renewed risks of lower projected growth in the emerging markets, particularly China, are expected to cause a drag on medium-term growth prospects for the Sub-continent. Closer at home, South Africa _Africa's largest economy and Namibia's neighbour and single most trade partner _ faces equally subdued growth prospects.

7. ***On the domestic front***, Namibia made quick gains to reverse the significant budget deficit incurred as a result of fiscal countercylicality and the added impetus due to the introduction of the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) in 2011/12, thanks to a mix of policy actions to rein in expenditure expansion, strengthen revenue collection and improve tax administration. However, the pace of domestic economic growth has moderated since the rebound in 2010 and it is projected to remain moderate in the medium-term, given prevalent global and regional economic and trade conditions.

" Namibia made quick fiscal gains from expenditure moderation"

8. As a result of sustained efforts to cushion the economy from the effects of the external environment, Namibia's debt stock has increased steadily, from a low base of 15.6 percent of GDP in 2009/10, to an estimated 25.9 percent in 2013/14. However, debt level remains

within the adopted ceiling of 35 percent and SADC benchmark of 60 percent of GDP.

9. In this uneven economic landscape, the message for policymakers is to find a balance between containing rising debt trajectories through spending discipline on the one hand and, on the other, extending a measure of fiscal support to the economy within the degree of available fiscal space and country circumstances.

10. Namibia is entering this environment from a vantage point of strengthened, but fragile fiscal position, having recorded a low budget deficit in 2012/13, mainly to due to improvements in revenue collection. The feedback effects from this outcome further reinvigorate the fiscal position in 2013/14, with upward revision of estimated revenue for that year. In the context of increasing uncertainty on growth and revenue outlook, this fiscal outcome provides scope for Government to support economic activity and further reinforce the fiscal position so as to mitigate future vulnerabilities.

"the fiscal gains need to be cushioned and replicated over the MTEF"

Domestic Macroeconomic Developments and Outlook

11. The domestic economy is projected to expand during the next MTEF, but at no more than an average of 4.8 percent mainly due to global economic conditions. Growth is projected to strengthen to 5.0 percent in 2014, from a deceleration of 4.8 estimated for 2013. However, the projected average growth rate of 4.8 percent is lower than 6.4 percent aspired for in NDP4. In order to support inclusive growth and job creation in the spirit of NDP4, targeted policy interventions are needed to bring about structural change in the composition and pace of growth over time.

" the domestic economy is expected to expand by 4.8 percent over the MTEF"

12. On the demand side, better-than-anticipated improvement in domestic demand conditions, supported by export growth led to 5.0 percent growth rate in 2012, as compared to 4.8 percent projected in the 2013 Macroeconomic Framework. Expansionary fiscal policy contributed to this outcome. However, the economy is estimated to have slowed to 4.8 percent in 2013, before a projected rebound of 5.0 percent in 2014. Factors accounting for improved pace of activity in 2014 include stronger investment activity, the coming on stream of some of the investment projects in the mineral and manufacturing sectors and emerging growth in key trade partners for Namibia. In the outer years of the MTEF, activity is projected to taper off, on account of moderation in private investment and government consumption of goods and serves as the magnitude of fiscal expansion moderates.

" projected growth is below NDP4 aspiration"

Table 2.1: GDP projections, expenditure approach constant prices – A Most Likely Scenario

Constant 2004 prices – % change	2012	2 013	2014	2015	2016	2017	2014-2017
Expenditure Classification	*Actual*	*Estimate*	*Projections*				*Average*
1. Final Consumption Expenditure	7.9	9.3	8.8	7.4	6.5	4.4	6.8
Private consumption	8	9.5	9.4	8.4	7.6	5.2	7.7
Government consumption	7.9	9.0	6.8	4.4	2.7	1.7	3.9
2. Investment	19.7	17.3	25.3	7.2	7.9	8.5	12.2
3. Exports of goods and services	4.7	4.4	5.5	9.2	12.7	13.9	10.3
4. Imports of goods and services	15.7	11.7	13.2	12.3	11.2	10.0	11.7
GDP in constant prices 2004	**5.0**	**4.8**	**5.0**	**4.8**	**4.6**	**4.6**	**4.8**

Source: 2012 National Accounts; Macroeconomic Working Group 2013

13. On the supply side, growth in the secondary industries is projected to anchor the pace of activity in the medium-term owing to, mainly,

increased activity in the construction sub-sector and increased output in manufacturing and related sub-sectors. Slow recuperation in mineral commodity prices and the devastating effects of the 2013 drought country-wide are expected to cause a drag on the volatile primary sector. The tertiary sector, which accounts for over 50 percent of GDP, is projected to remain flat during the latter years of the MTEF as the boom in some industry sub-sectors stabilizes.

Table 2.2: GDP Growth projections, production approach; 2004 Prices– A Most Likely Scenario

Constant 2004 prices – % change	2012	2013	2014	2015	2016	2017	2014-2017
Industrial Sectors	*Actual*	*Estimate*	*Projections*				*Average*
Primary Industries	12.8	1.6	2.5	4.5	5.2	4.9	4.3
Secondary Industries	3.9	6.2	8.4	5.3	4.8	4.5	5.8
Tertiary industries	6.4	5	4.6	4.4	4.4	4.3	4.4
GDP at market prices	**5.0**	**4.8**	5	**4.8**	**4.6**	**4.6**	**4.8**

Source: 2012 National Accounts; Macroeconomic Working Group 2013

14. In the world of interconnectedness, the slowdown in domestic economic growth reflects global economic and trade environment. While the external environment and international trade remain important, Namibia cannot solely rely on external factors to bring about expansion and diversification of the economy. Concerted implementation of targeted interventions will need to be pursued in the priority sectors of agriculture, logistics, manufacturing and tourism to advance economic diversification and accelerated growth.

"implementation of NDP4 programmes is important"

15. Namibia's fiscal position has improved significantly following the first year of fiscal consolidation, coupled with improved growth in economic activity in 2012. However, Namibia faces macro-fiscal challenges encompassing uncertainties regarding the direction of the on-going negotiations on institutional reforms in SACU and downside risks to global economic recovery. In this environment, a key fiscal policy strategy for Government is to continue rebuilding fiscal space to mitigate future risks and targeted public investments in key economic and social sectors in line with national priorities.

"the fiscal outlook is predicated on the risks on SACU revenue"

FISCAL POLICY DEVELOPMENTS

Fiscal Policy Initiatives

16. Government fiscal policy is premised on fiscal countercyclicality, promotion of sustainable growth and social welfare and achievement of long-term fiscal sustainability. During the 2009/10 – 2011/12 MTEF, significant fiscal expansion was undertaken to support the fledgling economic recovery and promote job creation through implementation of the TIPEEG programme. This policy course of action helped to contribute to the recovery of the economy, although at the cost of increased budget deficit and public debt levels.

"Namibia's fiscal policy is premised on fiscal countercyclicality and promotion of social welfare"

17. After four years of extended countercyclical fiscal expansion, Government commenced with phased fiscal consolidation programme in 2012/13, matched with measures to improve tax administration and strengthening revenue collection effort. However, fiscal consolidation retained expenditure commitments, including commitments that came about as a result of the introduction of TIPEEG since committed projects would need to reach completion stage. The consolidation has yielded immediate outcomes. Government fiscal position has started to strengthen which creates more room for fiscal manoeuvre.

"expenditure restraint and revenue-raising policy mix have paid-off"

18. The budget balance in 2012/13 edged to a balanced budgeted, with the deficit of some N$114.70 million or some 0.1 percent of GDP realized, compared to a deficit of N$2.96 billion or 2.8 percent of GDP estimated in the budget. However, total debt has increased to 24.9 percent (N$27.55 billion) in 2012/13 from 15.6 percent (N$11.92 billion) in 2009/10.

" debt stabilization requires strong fiscal position over a longer calendar"

19. Stabilizing growth in public debt requires consistent efforts to rein in expenditure growth, improve investment outcomes and increase revenue collection.

20. The following policy initiatives were undertaken during the previous MTEF:-
    - **Tax policy:** Wholesale restructuring of Individual Income Tax was undertaken, comprising of the raising of the tax threshold for low-income taxpayers and adjustment in the tax brackets and rates, thereby lowering the effective tax rate and providing a relief to all individuals, especially low-income earners. Similarly, a reduction in corporate income tax rate was awarded over a two-year calendar as well as raising the thresholds for transfer duty and stamp duty rates. In effect, these concessions allowed for a reduction of domestic tax rates towards regional

"several policy initiatives were taken to optimize the effectiveness of tax policy"

averages, encourage economic agents to invest and produce and realize the objective of tax policy's contribution to development objectives and reduction in income inequalities. For the next MTEF, tax policy and administration reforms will continue, alongside introduction of other alternative forms of revenue in untapped areas of domestic revenue generation.

- **Tax administration reform:** A Project Management Office was established under which all tax reform initiatives are coordinated. A Large Taxpayers Office and Small Taxpayers Unit were also established. The modernisation of the tax system and the reforms undertaken are geared towards provision of improved taxpayer services. Following a study to appraise the operational model of the Revenue Management, Government has taken a principle decision to establish a semi-autonomous revenue agency and a National Task Team has been set up to work out implementation modalities.

- **Programme budgeting:** Programme-budgeting constitutes allocation and execution of expenditure at programme and activity level. Following successful piloting, the national budget was presented on programme basis for the first-time in 2013/14. This innovation allowed Government to track expenditure outcomes at programme level, which reinforces value for money and results-based management.

- **Scaling-up resources to education and health sectors:** National priority continued to be given to education and health sectors in order to strengthen human capital formation and enhance long-term growth. Together, the combined allocation to education and health sectors is projected to amount to an average 33 percent of the total budget during the 2013/14 – 2015/16 MTEF. It is in these areas that Namibia continues to experience competitiveness challenges. While the resources expended to date have resulted in increased access to education and health, internal reforms to enhance efficiency and quality of outcomes are urgently required.

"combined allocations to education and health are in excess of 33 percent of the total budget"

- **Public procurement:** Public procurement rules have been revised to strengthen support to local economic development and empowerment. The Public Procurement Bill was laid before Parliament in September 2013 and further review is being undertaken following initial engagement with Parliament before it is subjected to the approval process.

- **Social safety nets:** Government social development policy entails a strong social safety net programme to ensure protection to vulnerable members of the society. Provision for Old-age pension stood at N$3.9 billion during the current MTEF and reflects increases made during the last two years to assist senior citizens afford the basic amenities of life. Social safety nets have been expanded to cater for the veterans of the liberation struggle. Coverage for the Orphans and the elderly is continuously extended to reach qualifying beneficiaries. Government intends to review the social safety nets as regards their quality and targeting.

" social safety nets are expanded in quality and quantity"

- **Services provided by SOEs and Development Financial Institutions (DFIs):** SOEs have the mandate to provide critical services to the public and develop infrastructure, while DFIs provide development finance for private sector undertakings, especially for SMEs. Financing by DFIs has reached an increasing number of beneficiaries and contributed to business growth and creation of durable jobs in the private sector.

- **Infrastructure development:** Progress is also made in the delivery of key road, rail, energy and port infrastructure. Government is providing support to Nampower and Namcor to implement Kudu Gas to Power Project which will address national energy needs for the next decade and a half. Beyond the Kudu Gas Project, investment in secure energy supply remains a priory area for Government.

" key results have been achieved in the infrastructure project pipeline"

Developments in Fiscal Aggregates

21. Fiscal trends during the 2010/11 - 2012/13 MTEF were underpinned by three main developments; a deceleration in revenue growth during 2010/11 owing to a slowdown in the domestic economy, strong fiscal expansion undertaken in 2011/12 with the introduction of the TIPEEG intervention and the subsequent fiscal consolidation undertaken since 2012/13 to rein in the rise in budget deficit. Since then, revenue growth has regained buoyancy, increasing from N$23.38 billion in 2010/11 to N$38.00 billion in 2012/13, with a year-on-year increase of over 27 percent during the last two years.

"fiscal rules have been adjusted upward to allow for targeted expansion"

22. As a result of the significant countercyclical fiscal expansion in response to the external shocks and to support TIPEEG implementation, an upward adjustment was made in expenditure, deficit and debt benchmarks. The following fiscal rules govern fiscal operations:-

   i. Maintaining public expenditure levels below 40 percent of GDP annually, as revised upward from 30 percent,

   ii. Maintaining the average budget deficit below 7 percent of GDP over the MTEF as revised from 5 percent;

   iii. Maintaining debt as a ratio of GDP within the limit of 35 percent over the MTEF, as revised from the 25 – 30 percent band;

   iv. Maintaining interest rate payments as a ratio of revenue within the limit of 10 percent annually; and

   v. Maintaining contingent liabilities below the target of 10 percent of GDP annually.

"fiscal operations are within targets"

23. Government recognizes that fiscal sustainability is key to macroeconomic stability and socio-economic development. With the gradual unwinding of TIPEEG intervention, sustained projected economic recovery and keeping account of downside fiscal and revenue risks, it is necessary that Government reverts back to the pre-crisis national benchmark levels in order to strengthen the fiscal position in the next MTEF and beyond.

" to reinforce fiscal prudence and mitigate risks, it is necessary to revert the deficit target to its pre-crisis level of 3 percent of GDP"

Table 1.2: Consolidated fiscal developments and estimates for current MTEF, 2008/09 – 2014/15

ITEM	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14*		2014-15	2015-16
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Budged*	*Revised*	*Previous MTEF Projections*	
GDP	73 477	76 556	83 677	95 574	110 791	116 444	125 088	129 863	144 870
Revenue	23 447	24 017	23 375	29 922	37 997	40 141	43 872	42 950	45 630
% of GDP	31.9%	31.4%	27.9%	31.3%	34.3%	34.5%	35.1%	33.1%	31.5%
Expenditure	21 946	24 914	27 253	36 611	38 112	47 576	47 576	48 215	50 488
% of GDP	29.9%	32.5%	32.6%	38.3%	34.4%	40.9%	38.0%	37.1%	34.9%
Budget Balance	1 501	-897	-3 879	-6 689	-115	-7 435	-3 704	-5 265	-4 858
% of GDP	2.0%	-1.2%	-4.6%	-7.0%	-0.1%	-6.4%	-3.0%	-4.1%	-3.4%
Debt	13 389	11 923	13 893	24 734	27 550	32 386	32 386	38 413	44 532
% of GDP	18.2%	15.6%	16.6%	25.9%	24.9%	27.8%	25.9%	29.6%	30.7%
Interest payments	1 110	1 196	965	1 841	2 194	2 244	2 244	2 705	3 287
% of Revenue	4.7%	5.0%	4.1%	6.2%	5.8%	5.6%	5.1%	6.3%	7.2%
Guarantees	3 029	2 635	2 450	2 771	2 610	2 636	2 663	3 247	3 622
% of GDP	4.1%	3.4%	2.9%	2.9%	2.4%	2.3%	2.1%	2.5%	2.5%

Source: Ministry of Finance

24. As such, a phased fiscal consolidation programme was commenced in 2012/13 MTEF, on account of emerging growth prospects. The consolidation contemplated moderation in expenditure growth and a reduction of the budget deficit to an average of 4.6 percent over the MTEF. The deficit level for 2013/14 is expected to reduce from 6.4 percent projected in the budget, given better-than-projected growth in economic activity, better revenue collections and stepped-up tax administration effort.

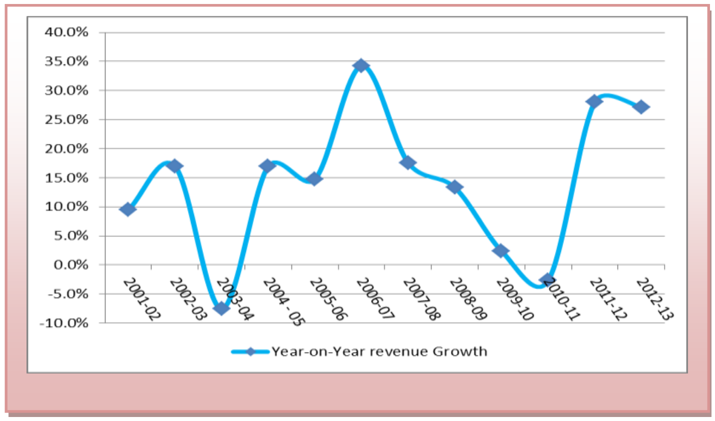
" the 2012 MTEF aspired to reduce the deficit to an average of 4.6 percent"

Revenue outturn

25. A total revenue of N$38.00 billion was realized in 2012/13, representing a revenue growth rate of 27.0 percent from N$29.92 billion collected during the previous year and about 7.3 percent more than the N$35.42 billion projected in the 2012/13 budget. The increase in revenue was driven by a number of factors, including strong buoyancy in domestic revenue streams, particularly diamond mining company tax owing to the recuperation in diamond prices and improved output; resilience in Personal Income Tax (PIT) as well as strong performance in some categories of non-tax revenue. As a proportion of GDP, revenue outturn has surpassed its pre-crisis level to record a historic high of 36.3 percent of GDP, compared to 32.0 percent last recorded in 2007/08.

"revenue outturn for 2012/13 was 7.3 percent better-than-expected"

26. Since the onset of the global financial crisis and consequent economic downturn, revenue growth has fluctuated in tandem with the pace of GDP growth rates. The pace of revenue growth decelerated significantly as the domestic economic activity slowed. After a decline in 2010/11, revenue growth regained momentum as economic activity picked up during 2012. The estimated slowdown in GDP growth rate in 2013 and mild prospects over the MTEF is expected to weigh on revenue performance in the medium-term.



27. The Macroeconomic Framework for the 2014/15- 2016/17 revised nominal GDP for 2013/14 from N$116.44 billion estimated in the budget, to N$125.09 billion. The estimated revenue for 2013/14 is expected to improve from N$40.14 billion estimated in the budget to as a result of the responsiveness of revenue to growth dynamics and a considerably improved tax administration reform agenda. However, revenue is projected to increase and a decelerating rate going forward as a result of projected flat growth in the economy

28. The outlook on revenue growth prospects is of special significance to the medium-term fiscal policy for Namibia. Government will have to constrain fiscal expansion in such a manner that expenditure expansion does not outstrip revenue growth.

" … as economic growth slows, so does year-on-year revenue growth"

29. **Tax revenue** contributes the bulk of Government revenue, accounting for over 93 percent of total revenue in 2012/13. Total tax revenue for 2012/13 amounted to N$35.32 billion, which was an increase of 30.4 percent from N$27.15 billion collected in 2011/12. This outturn was 5.1 percent better-than-projected, on account of, among others, better performance for Individual Income Tax and Diamond mining company tax. Year-on-year, the strong growth in tax revenue is mainly due to improvements in Taxes on international trade under the SACU domain, which almost doubled from N$7.14 billion in 2011/12 to N$13.8 billion in 2012/13. This strong rise is attributed to the strong recovery in the SACU Common Revenue Pool and the overall recoveries in SACU economies, while arrear payments of close to N$2.5 billion arising from excess collection of previous years have also contributed to the large improvement.

"tax revenue remains the main lever for fiscal policy"

30. Reduced dividends from State-owned Enterprises led to slowdown in **Non-tax revenue** by 1.8 percent, from N$2.55 billion recorded the previous year to N$2.51 billion in 2012/13. However this outturn was better than the N$1.74 billion projected in the budget.

31. Overall **taxes on income and profits** increased by over 20 percentage points to reach N$14.54 billion, which was over one-quarter better than forecast. This increase was propelled by strong growth in Individual Income Tax/PAYE as well as strong performance of Diamond mining company tax which nearly doubled from N$573 million recorded in 2011/12 to over N$1 billion in 2012/13 on the back of better diamond export prices and improved production and sales during the year. Major tax concessions were introduced for individual income tax during 2013/14 by raising the tax threshold for low-income earners and adjusting the tax brackets and tax rates to enhance equity and progressivity objectives of tax policy.

"growth in domestic taxes anchored in-year revenue growth"

32. **Domestic taxes on goods and services**, principally, the Value-Added Tax reduced by about 19.6 percent from N$8.01 billion recorded in 2011/12 to N$6.44 billion in 2012/13. This decline is in line with the budget projections, due to settlement of VAT refund invoices from the previous year.

" SACU revenues remain significant amidst on-going negotiations on institutional reforms within the Union"

33. **SACU receipts** continue to be a significant source of tax revenue for Namibia; despite volatility displayed and high exposure to global economic developments and growing uncertainty regarding the direction in which the on-going negotiations on institutional reforms for SACU. Revenue management strategies are needed to mitigate potential shocks which could emanate from a revised SACU Revenue Sharing Formula. The on-going tax reform measures are aimed to contribute to the mitigation of such vulnerability.

Table 1.4: Trends and year-on-year changes in tax revenue, 2006/7 – 2013/14

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	8 865	5 045	346	281	289	6 438	13 796	260	35 320
2013/14*	11 199	5 798	394	290	248	7 954	14 727	241	40 852
				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	34.0	18.2	0.5	1.2	0.9	37.2	33.1	1.0	100.0
2012/13	41.2	23.4	1.6	1.3	1.3	29.9	64.1	1.2	100.0
2013/14*	52.0	26.9	1.8	1.3	1.2	36.9	68.4	1.1	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	21.0	28.8	253.2	9.2	48.7	-19.6	93.3	23.2	30.1
2013/14*	26.3	14.9	13.7	3.4	-13.9	23.5	6.7	-7.4	15.7

Preliminary data; Source: Ministry of Finance

Expenditure

34. Total expenditure execution in 2012/13 stood at 95.5 percent, recording a total amount spent at N$38.14 billion, out of the total budget of N$39.92 billion. The expenditure outturn for 2012/13 amounted to 36.5 percent of GDP which was within the 40 percent benchmark limit. Operational budget expenditure stood at N$32.57 billion, out of N$33.63 billion allocated, with a corresponding execution rate of 96.9 percent.

“ total expenditure execution for 2012/13 stood at 95.5 percent”

35. Development budget execution stood at 88.6 percent, with a total of N$5.57 billion spent out of N$6.30 billion allocated. Thus, a total of 11.5 percent (N$720.70 million) of development budget was unspent during 2012/13. The development budget execution rate of 88.6 percent is relatively lower than 92.9 percent achieved during the previous year.

36. Under achievement in expenditure execution calls for realisation of savings within Offices/Ministries and Agencies (O/M/As) and realignment of expenditure allocations within and across O/M/As budget needs. This measure will further strengthen the policy stance for building sufficient fiscal space and inculcating a culture of doing more with less.

"to inculcate the culture of doing more with less, O/M/As should identify internal savings"

37. The TIPEEG dispensation entered the third and final year of implementation during 2013/14. Out of the N$14.5 billion allocated under this programme for the three-year period, a total amount of N$11.0 billion was spent by the end of the Fourth Quarter of 2013/14, resulting in an estimated total budget execution rate of 76.6 percent for the programme. TIPEEG set out to create about 104,000 jobs, both permanent and temporary.

38. By the Fourth Quarter of 2013/14, an estimated 83,315 jobs have been created (15,829 permanent, 67,485 temporary). This represents 80.1 per cent of the 104,000 jobs estimated to be created under TIPEEG.

Budget deficit

" the budget balance edged closer to a balanced budget in 2012/13"

39. In line with the fiscal consolidation programme commenced in 2012/13, the budget deficit reduced significantly and edged closer to a balanced budget in 2012/13, from 7.1 percent of GDP recorded in 2011/12 to about 0.1 percent of GDP in 2012/13. This result is mainly due to a combination of better revenue collections surpassing budget estimates by over 7 percent and improved tax administration effort. However, there was also under-spending of 4.5 percent, mostly from the development budget. A lower deficit in relation to GDP is estimated for 2013/14, compared to a deficit of 6.4 percent of the GDP in the original budget.

Debt and contingent liabilities

40. As a result of consecutive countercyclical fiscal expansion since 2008/9, total debt has increased considerably and more than doubled in nominal terms, from a low base of 16.6 percent of GDP (N$13.90 billion) in 2010/11 to 25.9 percent (N$32.39 billion) by 2013/14. As a result of the issuance of the US Dollar denominated Eurobond in 2011/12, the level of foreign-currency denominated debt rose from 3.7 percent of GDP (N$3.0 billion) to an estimated 9.2 percent of GDP (N$10.70 billion) by 2013/14. The apparent increase in sovereign bond yields due to prospects of the unwinding of accommodative monetary policy put additional pressure on sovereign debt servicing costs. At this level of total debt, significantly less space is available to incur large additional debts. Given the medium-term risks on revenue, Government will maintain a low budget deficit to avert the need for high borrowing. On the positive side, however, Namibia's participation in the Eurobond and JSE market has reaffirmed its creditworthiness, while the proceeds of the foreign debt also considerably boosted the country's international reserves.

"exchange rate volatility and upsurge in bond yields raise the cost of sovereign debt servicing"

SOCIO-ECONOMIC ACHIEVEMENTS, CHALLENGES AND RISKS

Achievements

41. Successive international assessments for Namibia recognize numerous achievements that the country has made on key fronts, amidst persistent challenges. The record of successes achieved to date demonstrates the resolve of Government to improve living standards and place Namibia on a development path towards Vision 2030 objectives. Some key achievements include, but not limited to:-

" Namibia has recorded numerous achievements on several fronts"

- **Public sector administration:** Namibia remains competitive on the international arena in regard to effectiveness of national institutions and democratic governance. Peace, political stability, rule of law and security of private property are entrenched and rank among the competitive strength for Namibia. These facets are important foundations for a capable and effective state. The successes lay a strong foundation for accelerated policy action in core areas of national development.

- **Economic sector:** Namibia has enjoyed sound macroeconomic stability which has been reaffirmed by successive international credit worthiness ratings. Both Fitch Credit Rating and Moody's Investor Services, Namibia's two international crediting rating agencies, have reaffirmed the country's macroeconomic soundness and long-term credit worthiness. Moody has awarded Namibia a Baa3 long-term currency credit worthiness rating since 2011 and Fitch Credit Ratings has reaffirmed a stable BBB- rating alongside rating peers such as India, Indonesia, Croatia, Iceland and Morocco. The positive ratings reflect the government's track record of responsible public finance management and an investor-friendly policy and legislative framework.

"economic expansion is sustained, incomes have grown and poverty has declined"

- Namibia has recorded moderate economic growth rates for extended periods and has been able to weather the severe impacts of external shocks to the economy relatively well. Nonetheless, the average rate of 5 percent achieved in the last ten years has not been broad-based and falls below the 7 percent growth rate aspired for in Vision 2030. Namibia enjoys general price stability with inflation generally low and public debt has remained within the sustainable benchmark levels.

- **Social Sectors:** Education and health have been accorded topmost priority in terms of budgetary allocation as strategic investment in social capital formation to enhance growth and productivity over time. Together, budgetary allocation to these sectors amounted to over 33 percent of the total budget in the 2013/14 – 2015/16 MTEF. Access to general public education and health has been tremendously expanded. Social safety nets have been strengthened over time, covering the senior citizens, orphans and vulnerable groups as well as veterans of the liberation struggle. Basic amenities, including access to potable water and rural electrification have also been provided to an increasing number of citizens.

"funding for education and health enjoys highest priority and stands at over 33 percent of budget"

- **Environmental sustainability:** Government has demonstrated active stewardship for environmental concerns and it has rallied stakeholder collaboration in this regard. Environmental sustainability is entrenched in the Constitution and national policy strategy has emphasized integrated environmental management across the broad spectrum of national development agenda.

"Namibia has demonstrated environmental stewardship of international repute"

Challenges

42. Namibia's the socio-economic challenges are articulated in the national development plans. The Macroeconomic Policy Framework for the MTF further articulates these challenges and makes recommendations for tackling these challenges over time. The most critical challenges comprise the vulnerability of the economy to external event shocks, the pace and composition of economic growth, high unemployment, poverty, and income inequalities.

"…, but several structural challenges linger"

" … and the country's international competitiveness has fallen"

- **Composition of economic growth:** The Macroeconomic Framework projects an average growth rate of 4.8 percent over the MTEF period, given the difficult global economic environment. To achieve inclusive growth, implementation of targeted policies is needed. The needed action goes beyond the realm of fiscal policy to include speedy policy reforms, especially in regard to investment climate and ease of doing business as well as measures to address domestic supply-side constraints.

"inclusive growth requires diversification of sources of growth and policies to that effect"

- **Narrow production base.** High and sustainable economic growth is further constrained by limited diversification of the production base, given the dependence of the economy on primary commodities and traditional export markets, shortages of technical and managerial skills, and the high cost of doing business. These structural constraints weigh on Namibia's ability to make a quantum leap on economic progress and social transformation. Various policy interventions have been designed with emphasis on local value addition, development of local industries and value chains. Implementation of these interventions during the MTEF is important.

"addressing unemployment is a national priority of the highest order"

- **Unemployment**: Unemployment remains a persistent socio-economic challenge for Namibia. Rapid expansion of employment requires a fast-growing economy capable of absorbing more labour. Unemployment is concentrated among the youth (persons aged 15 - 34 years), unskilled labour as well as persons with low educational attainment. Efforts are therefore needed to raise the share of tertiary and vocational training in the total education sector budget. Addressing unemployment is a high priority for Namibia. Deliberate interventions to support the private sector and implement pro-employment public investment programmes will be ne accorded the highest priority during the MTEF.

"deliberate funding and implementation of pro-growth, pro-employment interventions are at the core of the MTEF.

- **Quality of educational outcomes:** Low educational outcomes are a persistent competitiveness challenge for Namibia. The expenditure review undertaken in the education sector emphasized the need for substantial improvement in internal efficiency without which high budgetary allocations do not guarantee success. While access to general education in Namibia is among the highest in Sub-Saharan Africa, record access has not translated into similar outcome indicators. Access to high education and vocational training is limited which fuels unemployment and causes a drag on technical skills formation. In fact, unemployment in Namibia is almost exclusively prevalent among people without tertiary education. Improved internal efficiency in education and implementation of a Human Resources Development Plan are needed to underpin education reform and strategic skills formation for the economy.

"educational outcomes remain low and, unlike primary education, access to tertiary education is limited"

Risks

43. The fiscal outlook for the MTEF remains clouded by several risks. The poignant risk emanates from the external macroeconomic environment and regional trade arrangements.

"medium-term fiscal action is clouded by several risks"

- **Macroeconomic risks:** The global economy is projected to recover over a slow trajectory. Domestic economic recovery is projected to follow suit, with the leveling off in direct private investment in key sectors of the economy expected to lead to mild economic outlook. As such, GDP growth is projected to eaverage at around 4.8 percent in the medium-term, somewhat below the average of 5 percent achieved in the last ten years.

- **Revenue risks:** The projected low economic growth will exert corresponding effects on revenue growth in the medium-term. Commodity export prices, which supported buoyant revenue growth over the past decade, have retreated from their high levels, with lower prices projected in the medium-term, especially for base metals. Risks on revenue are further underpinned by uncertainties surrounding the review of the SACU Revenue Sharing Formula which has now entered the fifth year of negotiations. Lack of a breakthrough for a negotiated solution obsecures optimal outcomes and creates elevated risks on revenue shares. SACU revenues account for about 40 percent of Namibia's total revenue envelop. Other risks that may exert pressure on the revenue growth include tariff reductions under various free trade agreements for which domestic replacement revenue is important. The implementation of the Economic Partnership Agreement (EPA) with the

"elevated uncertainties surround institutional review of SACU regime"

European Union is set to materialize as early as 2014, while the Free Trade Area (FTA) amongst COMESA, EAC and SADC is planned to come into force over the same time horizon. If any or some of these risks materialize, domestic revenue would be adversely affected.

- **Currency risks:** The South African Rand, to which the Namibia dollar is pegged, is highly volatile and it has been depreciating against the US dollar in recent months. While depreciation augurs well for the export sector and revenue outturn, it raises the cost of debt servicing and import bill.

FISCAL PRIORITIES FOR THE MTEF

44. ***The fiscal policy priority for the MTEF is to address socio-economic challenges for Namibia, while managing fiscal risks***. Government fiscal policy remains premised on countercylicality, promotion of sustainable economic growth, macroeconomic stability and optimization of social welfare. The projected mild economic growth prospects on the one hand and, on the other, the prevalence of persistent structural challenges of unemployment, poverty and diverse supply-side constraints, require Government to maintain targeted support to the economy and providing social services. The fiscal consolidation programme commenced by the 2012/13 budget has yielded the beneficial outcome of a relatively stronger fiscal position. For this outcome to have lasting effects, Government needs to nurse a strong fiscal position over an extended period to reverse growth in public debt. To achieve these twin objectives, fiscal interventions for the MTEF will be directed at the following priority areas MTEF:-

" fiscal consolidation has started to pay off'

" .. this outcome needs to be sustained over an extended period to have lasting effects on public debt"

- ***Investment in sustainable economic growth and job creation.*** High and inclusive economic growth is a prerequisite for poverty reduction, job creation and growing public revenue. To achieve this priority objective, a significant portion of fiscal expansion will have to be accorded to infrastructure development, skills development and targeted programmes to address supply-side constraints.

"implementation of strategic programmes and related policy interventions are important during the MTEF"

"the budget deficit target will be reverted back to 3 percent of GDP"

- ***Strengthen fiscal buffers to safeguard macroeconomic stability and mitigate fiscal risks.*** The medium-term outlook is beset with elevated risks on revenue which, to the extent they materialize, would impact on long-term expenditure commitment. While the risks stemming from the projected mild economic outlook are benign, the potential impacts emanating from revenue under international trade arrangements have immediate revenue-reducing effects. As a contingency measure, Government will limit fiscal expansion, target additional revenues to strategic investments in order to achieve a low budget deficit in the outer years of the MTEF. This requires keeping expenditure and debt commitments well within the fiscal sustainability levels and further reducing the budget deficit target to 3 percent of GDP in the latter years of the MTEF as measure to mitigate against risks on revenue. This will reinforce fiscal countercylicality and position the country to be able to respond to future potential external shocks to the economy and public revenue.

- **Increased support for education, health, housing and rural development.** Lack of technical skills is the most binding constraints for business growth and employment creation in Namibia. Skills formation encompasses the provision of formal, vocational and on-the-job training. Priority will need to be accorded to expanding access to tertiary education and vocational training in order to develop a critical mass of technical skills that are needed in the strategic sectors of the economy. In the health sector, the Presidential Commission into the affairs of the sector has identified areas requiring reforms and offered important recommendations for reforming the sector. These reforms call for urgent implementation going forward. In the housing sector, Government has taken a bold initiative to address the housing backlog. It is important that innovative housing delivery models are adopted to crowd in private sector investment in order to accelerate the provision of housing and to address escalation in housing prices to ensure that affordability does not rocket out of range for the low-income earners.

"addressing skills deficit and social capital formation are critical"

"the MTEF also maintains scaled-up funding to address housing backlog"

- **Supportive policies to improve national competitiveness.** More needs to be done to accelerate implementation of growth-friendly policy reforms to place the economy on a high, inclusive growth path and improve overall competitiveness. Priority will be given to address domestic supply-side constraints and accelerating reforms to improve the general business climate. This is in reference to the finalization of the investment law review, the establishment of the single window for business registration processes and targeted incentives to develop local industry. In addition, reforms to improve tax policy, efficiency of tax administration and revenue-base broadening will continue to be apriority during the MTEF, given increasing business complexity and regional integration agenda. In this regard, a semi-autonomous revenue office will be established.

" A targeted reform agenda is needed to improve core areas of national competitiveness"

" monitoring and evaluation of development targets is warranted"

- **Monitoring and evaluation of development outcomes**. Lessons learnt underscore the need for a formalized Monitoring and Evaluation scheme for the Government policies and programmes. Monitoring evaluation and reporting on progress on the development targets is primordial.

FISCAL POLICY STRATEGIES AND INTERVENTIONS

Interventions for fiscal policy during the MTEF will be aimed at addressing identified priorities and mitigating fiscal risks. Fiscal operations will be further complemented by policy interventions in all sectors of the economy. In particular, Government will:

" achieving accelerated and inclusive growth is a prerequisite to tackle socio-economic challenges"

- ***Provide scaled-up allocation to the growth-enhancing infrastructure in order to optimize development outcomes and reinforce the impact of fiscal countercyclicality.*** A substantial element of fiscal support to the economy lies with the provision of infrastructure that promote private investment and trade. In keeping with fiscal countercyclicality, Government will aim to devote increasing shares of incremental fiscal expansion to the development of infrastructre and the provision of critical social services in education and health sectors. Energy, port, transport and logistics have been identified as key infrastructure for Namibia to broaden the capacity of the economy and reduce infrastructure bottlenecks. Increased support for private sector and SMEs through expanded access to development finance and targeted incentives.

" Government has set for itself the twin goals of supporting the economy and strengthening the fiscal position"

- ***Maintain expenditure growth well within fiscal rules and rein in expansion of operational budget to reduce opportunity costs and free up resources for productive investment.*** In terms of adopted fiscal rules, total expenditure shall not exceed 40 of GDP annually. Achieving and maintaining a balanced budget in the latter years of the MTEF require restraint on expenditure expansion at the beginning of the MTEF. To realize this objective, it is necessary that the budget deficit be reverted back to 3 percent of GDP by 2015/16. Government will have to strike a balance between committing part of revenue growth to strengthen the fiscal position and providing additional resources to priority development needs.

"identification of internal savings and rationalizing non-essential expenditure becomes mandatory across O/M/As"

- ***Identify internal savings and rationalize nonessential expenditure within Vote ceilings to reinforce allocations to expenditure needs of priority nature.*** To further inculcate the culture of doing more with less, O/M/As will be required to realize internal savings and reduce non-essential expenditure for internal reallocation within their respective Vote ceilings as a mandatory requirement for additional budget allocations over and above the current MTEF ceilings.

- ***Maintain expenditure commitments to education in real terms and address urgent funding needs in the health sector.*** Particular attention will be given to address capacity needs for Vocational Training programme, improved spending efficiency, quality of educational outcomes and increased support to the National Student Financial Assistance Fund to encourage increased access to tertiary education. Government will further provide scaled-up allocation to the health sector to address infrastructure and resource gaps identified by the 2013 Presidential Commission in a phased manner.

- ***Harnessing diversified funding sources to mitigate the impact on public debt and implementing the PPP policy.*** SOEs with strong balance sheets will continue to be encouraged to raise capital in the market through commitment of sovereign guarantees. In this regard, an SOE financing framework will be developed to alleviate reliance on the national budget and to provide for diversified state funding model for SOEs. Budgetary transfers to SOEs shall be targeted to specific interventions to promote SOE accountability for state funding. In this regard, Government will implement expenditure tracking mechanism to enhance transparency, accountability and value for money. Alongside these measures, Government will finalize the PPP legal framework during 2014/15 to pave way for full implementation of PPPs going forward.

- ***Implement tax policy and tax administration reform imperatives.*** Government will continue with tax policy and tax administration reform measures with the objective of enhancing efficiency and strengthening the contribution of tax policy to social welfare, broadening and deepening the revenue base and increasing the competitiveness of the national tax regime. The following tax changes will be introduced:-

  - *introduction of the first phase of environmental taxes, encompassing the Carbon Dioxide emission tax on motor vehicles, incandescent light bulbs and motor vehicle tires,*

  - *further reduction of non-mining corporate income tax 32% as announced in the 2013/14 budget,*

"new taxes are for revenue-base broadening and take into account ability to pay, invest and produce"

- *introduction of taxes to promote domestic value-addition in the primary commodity and natural resources sectors, and*
- *reviewing excise duty rates (sin taxes) as provided for under the SACU Agreement*

- ***Further strengthen public finance management, improve the quality of expenditure and strive for value for money.*** In this regard, public expenditure review and tracking will be rolled-out to key budget votes during the MTEF, based on the lessons drawn from the public expenditure review in the education sector.
- ***Accelerate policy and legislative reforms***, aimed at further reinforcing the impact of fiscal expansion on economic activity and improving the general business environment and investment climate.
    - ***Continue to implement Public Finance Management (PFM)*** reforms to improve accounting and financial reporting, enhance expenditure control and further improve transparency and accountability.

MEDIUM-TERM OUTLOOK

Fiscal Outlook for the 2014/15 – 2016/17 MTEF

Assumptions underlying revenue forecast

45. Revenue forecasts follow a GDP-based approach, given the close link between various tax revenue streams and the corresponding tax bases. Revenue growth patterns generally follow GDP growth, although with varying time lags. While company tax generally tracks output per sector, adjustments are made with respect to price elasticities and their effects on profitability which weighs on potential taxable income. Moreover, the estimates also take into account the impact of improved tax administration, collection effort and discretionary policy changes.

" revenue forecasting is based on GDP-based approach"

46. The Macroeconomic Framework for the 2014/15 -2016/17 projects gradual growth in nominal GDP, while real GDP growth is projected to remain more or less constant in the medium term. Nominal GDP is projected to increase from the revised estimate of N$125.09 billion in 2013/14 to N$141.31 billion in 2014/15 and reach N$182.04 billion by 2016/17. In real terms, GDP is projected to post a marginal growth rate

during the MTEF, increasing from an estimated 4.8 percent in 2013 to 5.0 percent in 2014 and, thereafter, remain relatively constant at an average of 4.8 during the MTEF. This projection is based on a cautious assumption of slow and fragile global economic recovery, which hinges on the success of sustained recovery and financial sector reforms in advanced economies, most notably the Euro zone and addressing fiscal and monetary policy challenges in the US. Growth in the domestic economy is a necessary condition for revenue growth. If the global growth assumptions do not hold and global economic recovery falters, as it did in 2013, the macroeconomic outlook for Namibia will be impacted negatively and so will be the revenue outlook.

"relapse in global and domestic economic growth hold risks on medium-term revenue outlook"

47. On account of projected economic growth outlook and efforts to introduce alternative sources of revenue and improve tax administration, total revenue and grants is projected to improve from 34.3 percent of GDP in 2012/13 and average 36.7 percent over the MTEF. In nominal terms, revenue is expected to grow by an average of 14.7 percent annually over the MTEF, from a revised estimate of N$43.87 billion in 2013/14 to reach over N$52.47 billion landmark in 2014/15, N$58.70 billion in 2015/16 and N$66.07 billion in 2016/17, corresponding to an average of N$59.08 billion during the MTEF.

"revenue is projected to grow by about 14.7 percent annually over the MTEF"

" revenue is projected to reach the historic N$50 billion mark in 2014/15"

Table 5: Projected revenue outlook, 2014/15 – 2016/17 MTEF (N$ millions)

Revenue Head	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome	*Outcome*	*Estimate*	*Projections*		
GDP at market prices, nominal	**95 574**	**110 791**	**125 088**	**141 305**	**160 165**	**182 039**
Revenue and grants as % of GDP	***31.3***	***34.3***	***35.1***	***37.1***	***36.6***	***36.3***
TOTAL REVENUE AND GRANTS	**29 922**	**37 997**	**43 872**	**52 473**	**58 698**	**66 074**
TAX REVENUE	**27 188**	**35 319**	**40 851**	**49 213**	**54 794**	**61 510**
Tax on income and Profits	**11 597**	**14 537**	**17 681**	**21 182**	**23 876**	**27 370**
Income Tax on Individuals	**7 326**	**8 865**	**11 199**	13 570	15 461	17 573
Company Taxes	**3 916**	**5 045**	**5 798**	**6 844**	**7 573**	**8 872**
Diamond Mining Companies	573	1 004	1 360	1 533	1 720	1 927
Other Mining Companies	10	17	21	28	41	61
Non-Mining Companies	3 065	4 025	4 418	5 284	5 812	6 884
Other Taxes on Income and Profits	**257**	**281**	**290**	**321**	**336**	**349**
Non-Resident Shareholders Tax	210	153	185	209	237	269
Tax on Royalty	31	110	82	94	79	58
Annual Levy on Gambling Income	16	18	23	18	20	22
Withholding Tax on Interest	**98**	**346**	**394**	**447**	**507**	**576**
Withholding tax on companies & individuals	30	65	72	84	95	108
Withholding tax on unit trusts	68	35	44	49	56	63
Withholding tax on Services	-	245	278	314	356	405
Taxes on Property	**234**	**289**	**248**	**274**	**303**	**335**
Domestic Taxes on Goods and Services	**8 009**	**6 438**	**7 954**	**9 367**	**9 953**	**10 898**
VAT + Additional Sales Tax + General Sales Tax	7 774	6 185	7 703	8 599	9 112	9 959
Levy on Fuel	93	117	115	118	128	127
Fishing Quota Levies	123	123	125	127	111	123
Gambling Licence (Business)	-	2	2	2	2	2
Environmental levies & Carbon Emission Taxes	-	-	-	518	595	684
Other taxes on goods and services	20	12	10	3	4	3
Taxes on International Trade and Transactions	**7 137**	**13 796**	**14 727**	**18 117**	**20 336**	**22 564**
SACU Revenue Pool Share	9 567	11 339	13 160	17 305	19 661	22 564
Revenue Formula Adjustments	-2 430	2 456	1 567	812	676	-
Other Taxes	**211**	**260**	**241**	**274**	**326**	**343**
NON - TAX REVENUE	**2 551**	**2 505**	**2 823**	**3 246**	**3 717**	**4 371**
Entrepreneurial and Property	**2 020**	**1 723**	**2 138**	**2 456**	**2 900**	**3 486**
Interest Receipts for Loans Extended to SOEs	3	5	18	20	22	25
Interest on Investments	0	0	56	63	72	82
Dividends and Profit Share from SOEs & other compani	1 051	807	700	790	896	1 021
Interest on State Account Balances with BoN	29	49	31	38	42	47
Diamond Royalties	632	679	1 027	1 159	1 302	1 459
Other Mineral Royalties	305	183	307	385	565	853
Fines and Forfeitures	**59**	**59**	**66**	**75**	**85**	**97**
Administrative Fees, Charges and Incidental Sales	**472**	**723**	**618**	**658**	**675**	**693**
Lending and Equity Participation	**5**	**4**	**6**	**6**	**7**	**8**
External Grants	**179**	**168**	**193**	**7**	**180**	**184**

Source: Ministry of Finance

"domestic revenue mobilization is expected to anchor revenue growth in the medium term"

48. Revenue from Taxes on International Trade under the auspices of SACU will remain significant at about 33 percent of total revenues on account of projected growth in the SACU Common Revenue Pool. Beyond the MTEF, future developments regarding the SACU Revenue Sharing Arrangements and other institutional reforms obscure the outlook with significant upside risks.

49. Domestic tax revenue, particularly Personal Income Tax and Value Added Tax supported by tax administration reform programme are expected to support revenue growth in the medium.

50. However, the revenue outlook is underpinned by downside macroeconomic risks, which have the potential to reduce the projected growth in the medium-term. Other risks to revenue outlook stems from developments in trade arrangements, particularly those pertaining to the EU-SADC EPA trade negotiations. Already, depressed commodity prices in 2012 and 2013 exerted pressure on domestic mining and fisheries sectors, with consequent reduced industry returns and corporate income taxes.

51. The revenue outlook for 2014/15 – 2016/17 MTEF is based on the following assumptions:

    - Global and regional economic recovery will proceed slowly with implications for the domestic economy. Revenue growth will generally follow aggregate macroeconomic growth projections of the Macroeconomic Framework.
    - Estimates for 2013/14 are based on monthly receipts outturn data.
    - Tax revenue is based on projected outlook of underlying tax bases making provision for a degree of progression resulting from improved tax administration, collection effort and discretionary policy changes.
    - Non-tax revenue estimates are based on projections made by O/M/As, adjusted to historical trends and outlook of underlying revenue bases.

Box II: Assumptions for Tax Revenue Projections 2013/14 – 2016/17, Most Likely Scenario

<u>Tax Revenue Assumptions</u>

- Income Tax on Individuals follows actual and projected nominal GDP levels
- Diamond Mining Company Tax follows actual and projected diamond mining output, adjusted to price changes
- Other Mining Company Tax follows actual and projected other mining output, adjusted to price changes
- Non-Mining Company Tax is based on a weighted sum of sectoral contributions, with each contribution tracking the performance of the corresponding sector with about half-year lag. Reduced tax rate for manufacturers benefiting from tax incentives is taken into account.
- Non-Resident Shareholders Tax and withholding taxes follows actual and projected nominal GDP levels.
- Tax on Royalty follows actual and projected mining sales value.
- Domestic Taxes on goods and services follow consumption. As this category has had very variable performance over the last five years, the shares have been averaged to smooth out shocks from outliers.

- Revenues from Taxes on International Trade are based on extrapolations from the size of the SACU Common Revenue Pool given in the South African Medium-Term Budget Policy Statement for 2014/15.

52. If global economic growth falters and the domestic economy further slows compared to the forecast, the impact on growth and revenue will be significant. In addition, should on-going review of the institutional arrangements under the SACU regime materialize; this might have revenue reducing effects, especially in the near-term. Other risks that may exert pressure on the revenue growth include tariff reductions under various free trade agreements for which domestic replacement revenue is important. The implementation for the Economic Partnership Agreement (EPA) with the European Union is set to materialize as early as 2014, while the Free Trade Area (FTA) amongst COMESA, EAC and SADC is planned to come into force over the same time horizon. To the extent that these developments are realised during the MTEF, revenue would be adversely affected.

AGGREGATE EXPENDITURE AND DEBT OUTLOOK

53. The 2012 MTEF commenced the fiscal consolidation programme, grounded on fiscal countercyclicality and emerging growth prospects. In terms of the fiscal consolidation path embraced over the MTEF, the budget deficit was projected to follow a gradually declining trajectory, from 7.1 percent in 2011/12 to 4.6 percent in 2012/13 and reach a balanced budget by 2014/15. However, additional expenditure outlays were accommodated in 2013/14 – 2015/16 MTEF to make way for readjustments in operational budget to honour tripartite agreements on personnel expenditure as well as increases in the development budget.

"the 2012 MTEF adopted a phased fiscal consolidation programme for Namibia "

54. As such, the 2013 MTEF provided for expenditure increase from an estimated N$40.16 billion to N$47.58 billion, with a corresponding projected increase in the budget deficit to 6.4 percent of GDP in 2013/14 and 5.0 percent on average over the MTEF. To stabilise growth in debt and rein in expenditure expansion, the projected deficit was capped within 5 percent of GDP. Total debt stock was estimated to increase from N$32.36 billion in 2013/14 to N$44.53 billion by 2015/16, corresponding to an average of 25.9 percent of GDP over the MTEF.

"A mix of revenue-raising and expenditure restraint strategies aim to reduce the budget deficit"

55. Restraining expenditure growth over the MTEF and improving revenue mobilization on account of emerging economic recovery will serve as the main lever for fiscal consolidation. In fact, improvements in revenue mobilization during 2012/13 resulted in a near balanced budget. This strong fiscal position augured well for the fiscal consolidation path going forward.

"estimated revenue for 2013/14 is revised upward from N$40.1 billion to N$43.87 billion"

56. Emanating from the vantage point of a strong fiscal position achieved in 2012/13 as well as upward revisions in nominal GDP for the next MTEF, revenue for 2013/14 is adjusted upward from N$40.14 billion to an estimated N$43.87 billion. This improvement in revenue is expected to result in a lower than budget deficit. Growth in domestic tax revenue streams, particularly in individual income tax, diamond mining company tax and VAT accounted for buoyancy in revised revenue estimates for 2013/14.

"to continue rebuilding fiscal space and mitigate risks, the deficit threshold is reverted back to 3 percent of GDP"

57. To maintain the fiscal consolidation path over the MTEF and rebuild fiscal space, the budget deficit target of 5 percent of GDP is kept in respect of 2014/15. For the outer years of the MTEF, the deficit cap is further tightened to 3 percent of GDP.

58. In this policy ***setting, the total potential maximum expenditure ceiling consistent with the fiscal targets for the MTEF amounts to about N$194.58 billion***, with maximum spending ceiling of N$59.54 billion for 2014/15, N$63.50 billion for 2015/16 and, increasing, at least potentially, to N$71.54 billion by 2016/17. These expenditure maxima include both non-interest and interest-related total expenditure and do not take into consideration revenue management contingencies. Within these ceilings, potential maximum additional expenditure for the MTEF is estimated at a total of N$41.52 billion, with a maximum additional expenditure of N$11.32 billion available for 2014/15, N$12.66 billion for 2015/16 and about N$17.54 billion available for 2016/17. However, these are indicative maximum levels. For fiscal prudence purposes, expenditure ceilings require to be set well within upper limits starting with the first year of the MTEF, given downside risks to economic and revenue growth.

"growth in revenue allows for up to N$13.84 billion additional expenditure annually over the MTEF"

59. For budget allocation policy purposes, potential additional expenditure amounts to about N$13.84 billion annually over the MTEF. Part of this amount may be utilized to establish further fiscal space. However, Government needs to maintain annual additional expenditure well within this amount consistent with the fiscal policy stance and as a contingency measure to limit spending growth so that public debt is well within 35 percent of GDP.

"budget allocations follow fiscal consolidation path and are within target caps"

60. These maxima expenditure levels correspond to a debt ratio of about 26.9 percent of GDP, given the level of nominal GDP projected for the MTEF.

Table 6: Aggregate expenditure, budget balance and debt levels, 2014/15 – 2016/17

Item	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Revised	Proposed	Proposed	Proposed
GDP	**95 574**	**110 791**	**125 088**	**141 305**	**160 165**	**182 039**
Total Revenue and Grants	**29 922**	**37 997**	**43 872**	**52 473**	**58 698**	**66 074**
As % of GDP	31.3%	34.3%	35.1%	37.1%	36.6%	36.3%
Total Expenditure	**36 611**	**38 112**	**47 576**	**48 215**	**50 848**	**53 993**
Aggregate Expenditure consistent with 5 - 3% target	**34 569**	**38 112**	**47 576**	**59 538**	**63 503**	**71 535**
As % of GDP	*36.2%*	*34.4%*	*38.0%*	*42.1%*	*39.6%*	*39.3%*
Potential Additional Expenditure		**-**	**-**	**11 323**	**12 655**	**17 542**
Potential Budget Balance	**(6 689)**	**(115)**	**(3 704)**	**(7 065)**	**(4 805)**	**(5 461)**
As % of GDP	*-7.0%*	*-0.1%*	*-3.0%*	*-5.0%*	*-3.0%*	*-3.0%*
Potential Average Budget Balance for MTEF					***-3.7%***	
Domestic Debt Stock	17 245	17 698	20 053	27 118	31 923	37 384
Foreign Debt Stock (est.)	7 489	9 042	9 723	10 487	11 364	11 932
Total Debt	**24 734**	**26 740**	**29 776**	**37 606**	**43 287**	**49 316**
Domestic Debt Stock	*18.0%*	*16.0%*	*16.0%*	*19.2%*	*19.9%*	*20.5%*
Foreign Debt Stock	*7.8%*	*8.2%*	*7.8%*	*7.4%*	*7.1%*	*6.6%*
Total Debt	***25.9%***	***24.1%***	***23.8%***	***26.6%***	***27.0%***	***27.1%***

- *Preliminary; Source: Ministry of Finance*

FISCAL POLICY STANCE

61. ***Government fiscal policy remains grounded on fiscal countercyclicality, promotion of sustainable growth, and social welfare and achievement of long-term fiscal sustainability***. Given uncertainty in the external economic environment and volatile fiscal outlook, the Government fiscal stance is to further strengthen the fiscal position and utilize a share of emerging fiscal space to support economic activity and fund critical social needs.

"the policy stance balances among growth, fiscal prudence and risk mitigation"

62. To reinforce this stance, during the next MTEF, Government will:-

"the fiscal stance is to strengthen the fiscal position through revenue-raising and expenditure moderation"

- *further strengthen the fiscal position and only utilize part of the available fiscal space for expenditure allocation purposes*. This will allow Government to provide additional funding for infrastructure development, meeting critical needs in economic and social sectors and building a fiscal cushion as a contingency measure in the event the external environment further deteriorates.

- *proceed along the fiscal consolidation path announced in the 2013 budget* to put a break on the need for significant borrowing and reinvigorate fiscal space, thanks to strong revenue performance and buoyancy of tax administration reforms realized in the last two years. To this end, the budget deficit target will be maintained at 5 percent during 2014/15 and further lowered to 3 percent during the latter years of the MTEF to mitigate against risks on revenue. Government will review this stance during 2014/15.

"policy flexibility is warranted should circumstances change"

- *continue with measures to strengthen efficiency in tax administration and revenue collection* to support domestic revenue growth in the medium-term and beyond. Given the downside risks, if projected growth does not match expectations, adjustments will be needed during the MTEF in order to remain within fiscal sustainability benchmarks.

CONCLUSIONS AND POLICY RECOMMENDATIONS

- ***Reinforcing targeted support to the economy.*** Growth is a necessary condition for addressing socio-economic challenges and sustainable revenue generation capacity for the economy. To reinforce support to the economy during the MTEF, Government will provide scaled-up allocation to priority economic sectors and infrastructure development. This scaled-up allocation will be complemented by expanded access to finance through DFIs to give way to private sector-led growth and job creation.

"achieving inclusive growth through NDP4 implementation is a prerequisite to addressing development challenges"

- ***Implementation of NDP4 and industrial policy interventions:*** Government accords high priority to addressing structural challenges facing the economy. During 2013/14, implementing agencies have gone at length to identify strategic interventions in the NDP4 priority areas. Priority will be given to implementation of the Plan programmes.

"interventions should address priorities and mitigate risks, especially risks on revenue"

- ***Mitigating fiscal risks and contingency planning.*** The medium to long-term risks to revenue, compounded by the projected relatively low economic growth spell, requires Government to institute measures for mitigating the risks. Government will retain and grow part of the available fiscal space to strengthen capacity to deal with potential future shocks to the economy and public revenue. In this regard, only limited and targeted fiscal expansion will be undertaken over and above the current MTEF ceilings. A combination of restraint on spending growth and revenue mobilization will allow Government to further reduce the budget deficit, reinforce fiscal space and stabilize public debt.

" prioritization and realizing internal efficiency starts at Vote level"

- **Improving the quality and execution of the development budget**: In order to optimize development outcomes, Government will actively implement an integrated development approach in project selection and implementation through sectoral coordination and implementation of inter-related projects. Budgetary priority will be accorded to key development projects on the basis of their contribution to the economy and social upliftment. O/M/As will be required to implement measures for addressing bottlenecks in the execution of capital projects, including acquisition of specialized skills in this regard and adherence to project costing and evaluation standards.

" an integrated development approach will inform the composition and implementation of the development budget"

- ***Expenditure prioritization:*** Balancing between growth and expenditure restraint calls for prioritizing expenditure needs and mobilizing internal savings to contribute to meeting the development priorities and realise internal efficiency. During the MTEF, Government will stabilize growth in current expenditure. For budget allocation purposes, O/M/As will be required to identify internal savings and rationalize nonessential expenditure within the ceilings to free up resources for allocation to productive uses.

"improvement in educational quality is critical to address skills constraints in the economy"

- ***Education and health.*** Allocation emphasis will continue to be given to the provision of education and health services. Allocations to the education sector should aim to promote educational reform, address increased access to education, especially vocational training in order to improve skills availability and youth employability. In the health sector, allocation will contribute to addressing infrastructure and resource gaps identified by 2013 Presidential Commission in a phased manner.

" policy effectiveness requires a conducive legislative and administrative environment"

- **Legislative Reforms:** Accelerated policy and legislative reform and coordination are needed to reinforce the impulse of strategic interventions during the MTEF.

- ***Policy Implementation, Monitoring and Evaluation*****:** Timely implementation and accountability for the execution and outcomes of these programmes require improved levels of coordination across all spheres of Government as well as simplified administrative procedures, especially in the areas of project implementation and ease of doing business. Measures to enhance project planning and monitoring need to be undertaken across all O/M/As in order to improve timely execution of programmes. In this regard, the Monitoring and Evaluation Framework for the implementation of the budget programmes is critical. It is also important that new projects seeking funding are supported by proper project plans and feasibility studies with cost estimates to ensure realistic cost projections to inform budgeting.

" what matters is policy implementation"

"… and timely monitoring & evaluation are part of the equation"

“Striving towards improving
Public Finance Management while addressing
socio-economic challenges”