

**BUDGET STATEMENT 2002/2003**

**and**

**MEDIUM TERM EXPENDITURE FRAMEWORK 2002/03 -  
2004/05**

**Presented By**

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## I. Opening Remarks

1. **Mr. Speaker and Honourable Members of the National Assembly**, it is once again a great honour for me to present before this Honourable House the budget for the financial year 2002/03 and the Medium Term Expenditure Framework for 2002/2003-2004/2005 financial years.
2. On twenty first March, Namibia - land of the brave and beloved land of savannahs - celebrated her twelfth Independence Anniversary. During the entire long week-end of the celebrations we all witnessed the following:
  - Regions and local authorities organized and took charge of those activities;
  - Our security forces - being the NDF, NAMPOL and NPS - professionally handled the big gatherings and ensured protection to all our people;
  - Many cultural groups performed and entertained us, thereby promoting our national culture in all its diverse beauty;
  - Our national leaders willingly respected and honoured the invitations from the regions to address rallies in all parts of the country;
  - Our citizens, irrespective of political affiliation or social status, attended these rallies in huge numbers.

We can therefore say with confidence that history will record that at age twelve the Republic of Namibia was stable and at peace with itself and with its neighbours and thus ready for accelerated economic development.

3. His Excellency the President, Dr Sam Nujoma, in his State of the Nation Address last year described the links between the Budget and the Performance and Effectiveness Management Programme as:

"a crucial component in the development of our Nation".

He further enjoined us to:

"shift the Budgetary Process away from a focus on input needs and towards allocations based on what we get for our money. To change the budgetary debate from how many millions of dollars each Ministry should get; and more towards

the benefits that will accrue to our citizens as a result of outcome focussed resource allocation decisions.”

The Performance and Effectiveness Management Programme is now being integrated into the budget process and the results of the second phase are set out in the Medium Term Expenditure Framework document.

4. Allow me to quote from the great economist John Maynard Keynes and I quote: “fiscal policy is the steering wheel for the aggregate economy”. I agree with this short phrase. My question, however, to this August House is: do **we all** agree with it? This statement was made a long time ago but it is still relevant today. Therefore, the Government at large, and the Ministry of Finance in particular, are faced with the demanding task to secure economic stability and, at the same time, to promote economic growth, even more so during this time of a global crisis. The present situation calls for prudent fiscal management and strategic prioritisation of public activities.
5. Mr. Speaker, the 2002/03 expenditure framework and the budget have been prepared and are presented today under the cloud of global economic crisis. The economic and financial situation requires a high degree of fiscal restraint and very strict fiscal discipline. This budget aims to strengthen economic growth and development and to address vigorously social challenges, such as poverty, unemployment and the HIV/AIDS pandemic.
6. Against this background, the major theme of this Budget is the need to stimulate and support economic development and employment creation in Namibia. I will come back to a number of specific policies and programs:
  - The building of new institutions, such as the Namibia Development Bank,
  - The development of new infrastructure, such as the northern Railway extension and the tarring of a number of new roads, and
  - The development of human resources through improved education and training programmes, such as the establishment of Science Education Centres and a centre for Innovation Entrepreneurship and Technology.

7. Last year, for the first time, the Budget was presented as a rolling budget, within a three-year time frame. As you are aware, this framework was adopted with the aim to strengthen fiscal policy management: one of the major tasks of the Ministry of Finance. The rolling budget facilitates the proper allocation of resources to achieve strategic policy objectives by linking policy-making, planning and budgeting. It also helps create better expenditure control and greater efficiency in the implementation of policies and programmes.
8. Mr. Speaker, these are my introductory remarks. As I shall explain in more detail, in order to avoid excessive borrowing we have had to make some hard decisions. In setting the agenda for the Budget discussions, Cabinet decided that there would have to be cuts. Last year, my Budget Statement consisted of 144 paragraphs adding up to some 10,668 words. Honourable Members will be relieved to hear that the first cut that I propose to make this year is in the length of the budget speech!

## **II. Economic Highlights over the last six years.**

9. Mr. Speaker, before looking into the future, allow me to present, as a background, a brief account of the economic and fiscal development over the last few years. During the period 1996-2000 the rate of growth for total production (real GDP) in Namibia was very stable with annual growth rates between 3.2 and 4.2 percent. Preliminary estimates indicate that, due to the international economic slowdown, the growth rate has slowed to below 2 percent in 2001. The average growth rate over the last six years has been 3,1 percent.
10. Stable GDP growth is of course a positive factor in our economy, but at the same time the growth rate has been too low to give room for any substantial increase in per capita income. We are also all aware that the income distribution is skewed and will need to be addressed. We need to invest in both physical capital assets and human resources in order to achieve higher growth in production and incomes, and also to be able to address effectively the poverty problem in Namibia.

11. The primary (raw materials producing) and the tertiary (services) sectors were the driving forces for economic growth in Namibia between 1995 and 2000. Primary industries have experienced a marked downturn in 2001, however. Average real growth in the Mining sector has been below 1.5 percent since the mid-1990es, but ongoing investment in new mining projects is expected to improve this pattern in the near future.
12. The least successful sector in terms of the contribution to the overall growth has regrettably been the Secondary Sector, which includes Manufacturing, Construction, Electricity and Water production. This is regrettable, because the secondary sector, in my view and in the views of many economists, is the potential engine for growth. However, both manufacturing and construction have shown a marked upswing in 2001.
13. The growth rate for private consumption expenditure has been averaging around 5 per cent, while public (government) consumption has grown by less than 3 percent per year. Gross fixed capital formation has recorded an impressive average growth of 7 per cent per year since 1995. Foreign direct investment in Namibia has averaged N\$ 566 million per year.
14. In the year 2000, Namibia's exports of goods and services (in volume terms) had shown no growth compared to five years earlier. The volume of imports grew by 23 per cent during the same period. Due to improvements in Namibia's terms of trade - that is for export prices compared to import prices - this has not led to a deterioration of the balance of trade. The negative development in volume terms is still a matter for concern, as we cannot rely on relative prices to continue to move in this favourable direction.
15. Mr. Speaker, Namibia's annual consumer price inflation rate has varied between 8 and 10 percent. The average for the past six years has been around 8.5 per cent. During the first three quarters of 2001 the inflation rate was declining, from 10.6 percent in January to 7.3 percent in September. Since then, however, it has been higher, standing at 8,5 percent in February 2002.

16. The Namibia Dollar exchange rate has depreciated continually over the last few years in relation to major currencies such as the US dollar and the Euro. The average yearly depreciation between the first quarters 1996 and 2001 was 13.5 percent against the US dollar and 8 percent against European currencies. Over the last year, however, the depreciation rate has been exceptionally high - more than 30 percent. Later in my speech I will comment on the consequences for our economy of this exchange rate development.

### **III. Medium Term Macro-Economic Development**

17. Mr. Speaker, the world has indeed become one global village, where events in one economy may and will have serious consequences for the economies in other parts of the world. With that understanding allow me to comment briefly on the economic environment of the Continent of Africa and of our major trading partners worldwide.

#### **1. Global Economic Outlook**

18. Global short and medium term forecasts have been revised downward dramatically as a result of the September 11 attacks in the United States, the slump in the information technology sector and the downturn in equity markets. World output growth for 2001 was projected at 2.3 percent in May 2001. It was revised downward to 1.6 percent in October, but is now expected to reach only 1.4 percent.
19. World economic growth for 2002 was projected at 3.5 percent in May 2001, but has now been revised to only 1.2 percent. For the later part of the 2002-2005 period, however, there are indications of a marked recovery, as the easing of monetary and fiscal policy in many countries will probably stimulate consumption and investment.
20. The US economy, which is one of Namibia's most important trading partners, is expected to have registered a growth rate of 1 percent in 2001, and only 0.7 percent for 2002. In the Japanese economy GDP is expected to decline during both 2001

and 2002. The September 11 attacks and their after-math have exacerbated what was already a difficult economic situation in Japan. In the Euro Area, the situation is a little better when compared to the USA and Japan. Output is expected to grow moderately by 1.3 percent in 2002.

## **2. Development on the African continent**

21. The African economies on aggregate are poised to grow at a rate of 3.5 percent in both 2001 and 2002. Growth rates were earlier projected at 3.8 and 4.4 percent respectively. This downward revision took into account the slowdown in world demand and in world commodity prices.
22. Mr. Speaker, prospects for economic growth in the SADC region are considered favourable, as the region should gain economically from continuing trade liberalization and macroeconomic stabilization. Increasing progress towards economic integration in the region has been realized through signed protocols, such as the protocol on trade. However, there is uncertainty about the impact of South Africa's free trade agreement with the EU on the other SACU member states. Despite positive growth prospects, macroeconomic instability continues to persist in some SADC states, which is a matter of concern for the region.
23. GDP growth for the South African Economy was 2.2 percent in 2001, and is projected to be slightly higher in 2002. Expectations are that the SA economy and its financial markets will stabilize given the strong macroeconomic fundamentals.
24. I am convinced that the exchange rate situation is a concern to all of us in this August House. We all have witnessed the sharp decline of the Rand/Namibia dollar against major currencies until December 2001 when it hit an all time low of around R13 to the US dollar. Since December the Rand has stabilized and gained some ground, and has traded for much of this year to date at around R11.4 to the US dollar.

### 3. Outlook for the Namibian Economy

25. Mr. Speaker, Namibia is an open small economy, largely influenced by developments in the world economy. The current global economic slowdown is estimated to have caused the growth rate for Namibia's real GDP to slow down significantly in 2001. The growth rate is expected to recover during 2002, and record an average of 3.7 per cent over the period 2002 -2005.
26. Weaker world demand has caused downward pressure on mineral prices. The USA, the biggest market for diamonds, has recently been experiencing recession; which will probably result in lower demand for diamonds and increased stockpiling by Namibian diamond producers. Most diamond companies plan to keep production constant, in order to safeguard jobs. Market recovery is expected in 2003, if the world economic recession bottoms out. New diamond producers are planning to commence operations by 2002.
27. Another source of expansion will be the exploitation of zinc deposits at the Scorpion mine, where production should start in January 2003. Improved copper production from the Ongopolo Mining Limited should also boost growth in this sector. However, value added in uranium mining is projected to decline. Overall, the mining sector is projected to record an average growth of more than 7 percent per year during 2002-2005.
28. The **agricultural sector** is expected to grow at a 4.2 percent on average during 2002-2005. Declining demand as a result of the spread of " Mad cow" and "Foot and Mouth-disease may have exerted downward pressure on meat prices. However, indications are that prices have now started to recover. Government's policy to diversify the national economy places particular focus on agricultural sector reform. Major growth areas in the agricultural sector are ostrich, grape and dates production. Initiatives have also been embarked upon to support the domestic production of fruit and vegetables, eggs and pork.
29. The **fishing industry** suffered a setback during 2001, which is expected to continue into the first part of 2002 due to unfavourable marine conditions. The government's effort to

keep the fishing stock at a sustainable level should result in moderate growth of the fishing sector. However, continued concerns about the declining pilchard industry could impact negatively on the sector in the medium term. The fishing sector as a whole is expected to grow at about 3 percent on average during the period 2002-2005. The growth pattern might be volatile, as fish landings depend on quota allocations, which in turn rely on oceanic conditions.

30. As I mentioned earlier, slow growth in the secondary sector of our economy has been a matter for concern. However, due to new projects over the next few years, the growth rates for the manufacturing and construction sectors are expected to increase substantially, to 3.6 and 3.1 percent respectively.
31. The growth rate for private consumption is expected to remain high. At the same time, investment is projected to show very high growth over the four-year period, due to new projects in especially the manufacturing and transport sectors.
32. With projected improvements in the world economy, exports are expected to grow by about 5 percent on average for the 2002-2005 period. Import growth is projected at 4 percent per year over the same period. The trade balance is expected to improve, but the projected decline in SACU revenue could put negative pressure on the current account balance.
33. The weaker Rand and Namibia dollar will certainly raise prices of some imported consumer goods. Inflation is expected to peak in 2002, reaching levels in excess of 10 percent, but levelling out and coming down to lower levels in the following years. High inflation during 2002 is expected to negatively affect demand for goods and services.

#### **IV. Recent fiscal and monetary developments**

34. During the three financial years 1998/99 - 2000/01 we managed to achieve a high degree of fiscal stability. Total government expenditure was kept virtually constant as a share of GDP. Tax collections improved, and the budget deficit was brought down, from 3.9 to 1.5 percent of GDP. As an average over the three

fiscal years, the deficit was somewhat below the 3 percent target.

35. This positive and encouraging picture can be attributed to improved tax collection and tighter tax administration. It can be seen as a result of the continued expansion of the Inland Revenue Directorate to cover all parts of the country and hence close up many of the loopholes.
36. Government revenue and grants recorded an increase of 17 percent between financial years 1998/99 and 1999/00, mainly due to an increase in all tax categories. The outturn for the financial year 2000/01 is 15 percent. Tax revenue still accounts for the major part of the increase over the two-year period. Government revenue for 2001/02 financial year is estimated to have grown at a considerably lower rate, 8 percent, due mainly to the decrease in SACU revenue.
37. Government expenditure recorded an increase of 14.7 percent between the financial years 1998/99 and 1999/00. The outturn for the financial year 2000/01 in terms of expenditure growth is 9.5 percent.
38. However, as I indicated at the tabling of the Revised budget, expenditure for 2001/02 increased substantially as a result of the extra-ordinary Government decision to give financial assistance to Air Namibia and the expenditure related to operational allowances and transport of the Namibian forces that were serving as SADC allied forces in the DRC. Additional to these expenditures were the negotiated civil servant salary increases.
39. According to current estimates, the budget deficit for fiscal year 2001/02 will be close to 5 percent of GDP. At the same time, the depreciation of the Namibia dollar has caused a significant increase in the amount of foreign debt. Therefore, total Government debt at the end of financial year 2001/02 is now projected to exceed 27 percent of GDP.
40. The high budget deficit has serious consequences for government debt and future interest payments. There is an obvious risk that current fiscal developments undermine the

intention to strengthen fiscal policy. They also send unfavourable signals to investors and strengthen incentives to drive up interest premiums. It is essential, therefore, that the deficit is reduced to a sustainable level. My Cabinet colleagues view it in the same way and would do everything to help arrest the situation and prevent the country's debt deteriorating.

41. Mr. Speaker, the interest rate level in December 2001 was the lowest in the last two decades. During the course of 2001, the Bank rate was reduced on three occasions and in response the average prime-lending rate of commercial banks fell by 190 basis points from 15.9 per cent to 14.0 per cent at the end of the year. This could have been responsible for the growth in private sector credit, which displayed a buoyant trend throughout 2001, with an annual growth rate of 17.3 per cent compared to 10.8 percent witnessed in the previous year.
42. However, a recorded increase in the inflation rate has already prompted monetary authorities in South Africa and Namibia to increase interest rates. In January their lead lending rates were revised upwards by 100 and 75 basis points, respectively. A further increase by 100 basis points was effected in March. The Bank of Namibia has been closely monitoring the emerging global scenario with a view to fine tune its policies so as to minimize the adverse impact of possible disturbances in financial markets.

## **V. Policy and Initiatives for Fiscal Years 2002/03 - 2004/05**

### **1. Policy Implementation**

43. Mr. Speaker and Honourable Members, you may recall that during the tabling of the 2001/2002 Main Budget, I pronounced myself on a number of policies and initiatives that the Government is undertaking to bring about improvements in the economic management of our country. Allow me briefly to reflect on their implementation status.
44. Last year, we introduced our first Medium Term Expenditure Framework, incorporating measures of achievement through the Performance and Effectiveness Management Programme. This

year we have gone further. During this year's Budget Hearings, Ministries were expected, for the first time, to motivate their bids for additional funding in terms of what they would achieve - not solely how they would spend the money. But, in many cases, we still lack the necessary data to measure achievements and to hold Ministries accountable. A major task for the coming year will be to ensure that data is produced and used effectively in the decision-making process.

45. Budgeting is about priorities; and, priorities expressed in terms of outcomes. Making those priorities a reality entails an understanding that one does not improve poor services by throwing money at them; and that direct spending is not the only policy option - education, regulation and taxation, all have their places. It is also essential that, before spending scarce resources, we do serious, scientific analysis to ensure that resources are deployed to best effect, concentrating particularly on the marginalized and economically excluded sectors of our population.
46. One of the purposes of introducing the MTEF approach was to provide greater certainty: certainty for Ministries in planning how to deploy their resources; and, greater certainty that our overall expenditure plans are sustainable. We have realised that planning in constant price terms does not provide that certainty. We have, therefore, moved to setting our expenditure plans in current/nominal prices.
47. Ministries can now budget with greater confidence that ceilings will be rolled forward without changes. It also means that they will have to budget for the effects of wage and price increases. In the future, neither the Ministry of Finance nor Cabinet intend to bail out Ministries or Parastatals who fail to live within their ceilings. They will have to fund any changes in pay, personnel or prices from the resources they have been allocated. Public Service salary increases will have to be financed through increased productivity. And, Ministries will need to be scrupulous in rooting out inefficiency, laziness, not to mention fraud and corruption - wherever they may occur.

48. As I indicated during the presentation of the 2001/2002 Main Budget, the purpose of reviewing the State Finance Act, 1991 is basically to strengthen the legal framework for expenditure management. The process of finalising the Act is now at an advanced stage.
49. We intend to develop a new system of Medium Term Planning for Ministries. These plans will have as their starting point the 3-year expenditure ceilings and the performance targets set out in the MTEF. They will use evidence of the effectiveness of programmes and organisations in delivering outcomes for determining priorities. And they will form the basis of future Budget discussions, enabling us to focus resource allocation more clearly on achieving our developmental objectives.
50. The Ministry of Finance has worked vigorously to amend its organizational structure. The new structure has now been approved by the Public Service Commission, and I will outline some major changes:
- In line with the proposed State Finance Act, the former Directorate Treasury is now named the Department of State Accounts and is to be headed by an Under secretary.
  - The Office of the Accountant General has been elevated to a Directorate.
  - The new Department of Revenue Management incorporates both Inland Revenue and the Directorate Customs and Excise.
  - The Internal Audit Division, which was under the supervision of Treasury, now reports directly to the Permanent Secretary
51. However, outstanding is the area of information technology, which needs serious beefing up. The Ministry of Finance is aware of the potential of e-governance to improve its services to the public: Tax payers, companies, international organizations can have easy access to information, download forms, send data about salaries and income tax and fill in tax refund claims. Processes can be speeded up, transparency and productivity be enhanced, services can be improved. Having this vision does not mean that we have it implemented already. The current IT systems for financial management do not allow a proper integration with modern e-governance procedures. We first have to implement a state-of-the-art financial

management system, which will then form a stable platform for activities towards e-governance.

## **2. Tax and customs policy**

- 52 Mr. Speaker, the Value Added Tax (VAT) was successfully implemented in Namibia towards the end of 2000. At the time of my last budget speech it was not yet possible to comment on the revenue performance of the VAT, compared to the Sales Tax and Additional Sales Levy, which it replaced. It is with satisfaction and confidence that I can now mention that VAT generated about 25 percent more revenue, mainly due to its inherently greater fairness and efficiency.
- 53 I am also confident that the Value Added Tax will continue to perform well, especially since the Audit functions of the Revenue Management Department in the Ministry of Finance are being intensified. The Auditors under the supervision of the Commissioner for Revenue Management have been doing their work professionally, a fact that was applauded recently by the Audit fraternity.
- 54 I will be tabling amendments to the Value Added Tax Act this year. These amendments will address issues such as the Building and Construction Industry, the abolishing of the 30 % tax category, zero rating of telephone services to residential addresses and other matters that have caused administrative difficulties during the past fifteen months since the introduction of VAT. Leather manufacturers and Jewellers, your complaints have been heard and a solution is in the offing.
- 55 A comprehensive Tax Review Project with financial and technical assistance from the Swedish Government was launched towards the end of 2001. A first consultative workshop was held in February 2002. The project is due to be completed by the end of September 2002; where after a comprehensive and final report with recommendations will be submitted to the Ministry of Finance and thereafter to Cabinet.
- 56 The tax review is likely to result in substantial changes to taxation in Namibia. This does not mean, however, that there will be no ongoing amendments to tax laws in the future. The

ongoing amendments result from changes to the economy and business practices. They aim to improve the administration of the tax laws and, human nature being what it is, to counter possible tax evasion.

- 57 Given the tax review process, I do not propose any amendments to the Income Tax Act, other than those that I foreshadowed in an earlier budget speech. The tabling of these amendments was unfortunately not realised in last year's parliamentary session, they will thus be tabled this year. They do not include any amendments to Transfer Duty or the Income Tax threshold, as these will be dealt with after completion of the comprehensive Tax Review.
- 58 The Department of Revenue Management has opened satellite offices in Keetmanshoop and Otjiwarongo during the 2001/2002 financial year and a Customer Care Center in Oshakati. In the future these offices will be developed into fully-fledged revenue offices to expand and improve revenue services.
- 59 Mr. Speaker, let me also make a few remarks as regards the envisaged new SACU Agreement. I have recently informed Cabinet that the initialling on 19 October 2001 of the new Draft agreement has for all intents and purposes concluded the SACU re-negotiation process. There are, however, some technicalities relating to transitional measures and the Management of the SACU Common Revenue Pool that still have to be resolved. The new Revenue Sharing Formula (RSF) will only be applied once all member States have ratified the new Agreement. Therefore, the new formula will not affect our share from the SACU Revenue Pool for 2002/2003 financial year.
- 60 As can be seen from the budget estimates, we expect a decrease in our SACU Revenue share, attributable to adjustments made to the provisional trade figures of the previous two years, as regulated by the formula. Strong growth in SACU imports would normally have resulted in an increase in collection of customs duties. Tariff liberalization programmes, implemented under the SADC Trade Protocol and the EU/SA Trade and Development Agreement; have curbed the growth in customs duties that would otherwise have been collected.

### 3. Stimulating Economic Activity

61 Mr. Speaker, we have identified our national development priorities as growth, employment creation and the reduction of poverty and inequality. To achieve that we need vibrant, competitive and growing businesses; in short, expanding economic activities.

62 The first requirement for sustainable economic growth is a stable social, political and economic environment. This year we have taken the hard decisions necessary to maintain fiscal discipline and, hence, promote stability. Growth also requires a functioning financial sector in which business can have confidence. That is why we have created the Namibian Financial Institutions Supervisory Authority. As the banking sector is not always well placed to provide the funds necessary for longer-term project funding, we have also made provision, in the Budget, for the initial capital requirements for the Namibia Development Bank. The Government has played its part; I now call upon our partners to play theirs and to help make the Development Bank a success.

63 The Government is also playing its part to directly help stimulate employment and growth by increased investment in training, where there are known skill shortages, and by launching a feasibility study to determine the viability of a waterfront development at Katima Mulilo.

64 But, more important than direct stimulation of individual industries, is the Government's role in ensuring that infrastructure exists in which businesses can flourish. That is why we extend our railway to the north, deepen our ports and improve the road network. It is also why we are looking afresh at the role of those parastatals that supply our utilities - water, electricity, and telecommunications - to ensure both reliability of supply and minimise the cost burdens on their customers.

65 Cabinet has appointed a State-Owned Enterprise Council to oversee the implementation of Government's policy on parastatals and monitor their performance. The Council will report to Cabinet through the Cabinet Committee on Economic

Development and Parastatals (CCEDP). Cabinet also created a Divestiture Sub-Committee and the Central Governance Agency that will serve as the Secretariat of the Council and the Divestiture Sub-Committee.

- 66 Mr. Speaker, the Budget allocations will only deliver the benefits we seek, if the public services (including parastatals) are able to deliver. Through decentralisation and the review of State-Owned Enterprises, we are making a start. Those changes come with initial costs, before the benefits become apparent. But, we also need to change the way in which the Government does business. During the year, we will be examining ways of empowering our public services to be more efficient and responsive, without risking losing control of the public finances. The Ministry of Finance, will work closely with other economic ministries to make these reforms a reality.

#### **4. Exchange Control Issues**

- 67 We would be failing in our duties, not to commend the South African authorities for the swift actions taken to stabilise the exchange rate of the Rand. Many of us have asked ourselves how long would Namibia continue aligning the external value of its currency to the fairly fragile and volatile exchange rate of the Rand, and much has been said about the subject in recent times. May I state therefore, that Namibia's position is that, despite the hardship caused, there are no compelling reasons to consider de-linking from the Rand, nor any convincing arguments that the exchange rate of the Namibia dollar against other currencies will be more stable and stronger than that of the Rand.
- 68 In keeping with Namibia's tradition as regards the gradual liberalisation of exchange control, I have, on recommendation of the Bank of Namibia, decided to allow authorized dealers to release all Emigrant Blocked Funds held back in Namibia up to and including 28 February 2002. The amount of funds so blocked is about N\$ 3.1 million. These funds have arisen as a result of individuals emigrating from Namibia, where such persons were only accorded a limited amount of funds upon emigration. Any

amount remaining has been placed under the physical control of a local authorised dealer who may only release such funds for approved purposes within the Common Monetary Area. Given the small amount involved, the release of these funds does not represent a major foreign currency outflow and will have an insignificant impact on the Namibian and CMA-wide foreign reserves.

## **5. Social issues**

69 As I have explained, this Budget has been formulated against a background of tight fiscal constraints. As much I would like to move more quickly towards correcting social injustice, sadly Mr. Speaker, none of those beautiful trees in front of The Ministry of Finance Building is a magic money-bearing tree. We have, therefore, been limited by inadequate resources in what we can do this year.

70 Nonetheless, Mr. Speaker, every nation has a duty to its vulnerable citizens, in particular the elderly, the sick and the children. The Minister for Health and Social Services, Honourable Libertina Amathila, has already announced that, as part of this Budget, Cabinet has been able to increase the social pension by 25 percent to N\$ 250 per month. We are also providing grants and other allowances for the safeguarding of children who are in acute need by parents and foster parents.

71 The level of health care provision will also be protected. But, the greatest scourge is HIV/AIDS, and its impact, which cuts across the areas of responsibility of us all. It cannot be tackled by the Ministry of Health and Social Services alone. All Ministries are urged to take account of their responsibilities in this area and allocate the resources within their votes accordingly.

72 Crime and violence are a further, serious menace. They harm not only the victims, but also undermine confidence in the country and, thus, its ability to develop. We are, therefore, increasing our efforts to combat crime and to make Namibia a safer and more orderly society. The ability of the Office of the Attorney General to advise and support Government policies, programmes and actions has been enhanced. We are also

strengthening the Prosecutor General's functions to enable Government to deal with criminals more speedily and effectively.

## VI. The Budget Framework for 2002/03 - 2004/05.

### 1. Revenue Projections

- 73 Mr. Speaker, total revenue and grants are estimated at **N\$ 9.4 billion** for the financial year 2002/03. In current prices, this represents an increase of 4.4 percent compared to the revised budget 2001/02. This increase is very much lower than in the previous three years, when government revenue increased by more than 13 percent per year on average, due mainly to improved tax collections.
- 74 A major factor for the overall limited revenue growth is a decrease of Namibia's share from the SACU revenue pool. Only **N\$ 2.49 billion** in revenue will be received in the fiscal year 2002/2003, compared to **N\$ 2.64 billion** received in the fiscal year 2001/02. Taxes on Income and Profits are the most important source of revenue, estimated to contribute a share of almost **37 percent** to total revenue and grants. Domestic Taxes on Goods and Services, which include the value added tax, contribute almost **25 percent**.
- 75 Total revenue and grants for the fiscal years 2003/04 and 2004/05 are projected at **N\$ 10.0 billion** and **N\$ 10.5 billion**, respectively. It is, therefore, projected that total revenue increases by about **6 percent** from 2002/03 to 2003/04 and **5.5 per cent** from 2003/04 to 2004/05. The reasons for these cautious revenue projections relate to uncertainties, mainly with respect to diamond tax and SACU revenue.
- 76 Taxes on income and profits are estimated to retain a share of around **36.5 percent** of total revenue and grants over the medium term period. Domestic taxes on goods and services will contribute a slightly increasing share to total revenue, amounting to **25.5 percent** by 2004/05.
- 77 After two consecutive fiscal years of nominal decline, revenue from taxes on international trade (SACU revenue) is projected

to increase somewhat in the fiscal years 2003/04 and 2004/05. However, SACU revenue as a share of total revenue and grants continues to decline. It is projected to contribute only little more than **26 percent** to the total resource envelope by 2004/05, compared to an average of **31.5 percent** for fiscal years 1999/00 - 2001/02.

- 78 Non-tax revenue is estimated to increase from **N\$ 0.9** billion in 2002/03 to **N\$ 1.0** billion in 2004/05, which represents a share somewhat below 10 percent of total revenue and grants.
- 79 Our Government has received commitments for financial assistance from several of our development partners, but these commitments are yet to be translated into disbursements. Also, many of our partners do not channel their support through the State Revenue Fund, while others provide support in non-financial forms. In view of this, I have not included donor grants commitments in my revenue projections. The estimated total commitments (both inside and outside the State Revenue Fund) amount to **N\$ 295 million** for financial year 2002/03. The five donors contributing the highest amounts are the European Union, Sweden, Germany, Finland and the United Kingdom.

## 2. Expenditure Allocations for the Fiscal Year 2002/03

- 80 Mr. Speaker, this year's budget shows a clear effort to reverse the current upward trend for government expenditure and bring down the level of expenditure as a share of GDP. For the fiscal year 2002/03, total expenditure is estimated to decrease to **34.5 percent** of GDP as compared to **38 percent** in this year's Revised Budget.
- 81 Total estimated expenditure for the 2002/03 Budget accumulates to **N\$ 10.8 billion**. This represents an increase by 10 percent in current prices compared to the Main Budget 2001/02. If, on the other hand, we compare to the revised budget, the increase is less than 3 percent. This figure clearly illustrates the high degree of expenditure restraint that has been necessary in order to keep the budget deficit within manageable proportions.

- 82 Drastic measures have been instituted to keep total expenditure and the budget deficit within manageable limits: Offices/ministries/agencies were allocated not more than 90 percent of the previous year's (2001/02) budget for goods and other services, with the exception of the Ministries of Health and Social Services, Basic Education Sport and Culture, Defence and the Ministry of Home Affairs Department of Police. No budget allocation was given to the purchase of vehicles. Cabinet has approved the distribution to line ministries of vehicles donated or bought for the Population Census 2001.
- 83 The scope for increased allocations to operational expenditure has been extremely limited in this budget. However, we have managed to give room for improvement in some highly prioritised areas:
- The allocation to the Ministry of Health and Social Services for the provision of social pensions has been increased to allow for an increase in pensions to N\$ 250 dollars per person per month. The allocations for the two following years have also been set high enough to give room for adjustment of the pensions for inflation.
  - Increased resources have been allocated to the Ministry of Regional, Local Government and Housing for the decentralisation of government services to the Regions.
  - Resources have been allocated for strengthening the Office of the Attorney General and de-linking its functions from the Ministry of Justice in order to enhance its ability to advise and support the execution of Government policies, programmes and decisions.
- 84 Possibilities to reduce Government expenditure in the short term are restricted by the fact that further support will probably be needed for some State-Owned Enterprises. In the budget for 2002/03 N\$ 250 million has been allocated to Air Namibia. It is essential that such needs, if they arise in the future, should be catered for by improved revenues from those State-Owned enterprises that are able to generate profits. This could be achieved through increased collection of taxes and dividends. It is also possible to generate revenue through equity participation by the private sector in some of these enterprises.

- 85 Interest payments are expected to increase to **N\$ 760 million** in the fiscal year 2002/03, compared to **N\$ 650 million** in the 2001/02 Budget. This 17 percent increase in current prices is mainly due to the depreciation of the Namibia dollar, which increases interest payments on foreign debt in the domestic currency, and to the high budget deficit in 2001/02. To some extent the higher interest payments can also be attributed to repo rate increases in both South Africa and Namibia, as a measure to curb inflation.
- 86 Mr. Speaker, an amount of **N\$ 1,153 million** has been allocated to the Development Budget 2002/03, which constitutes an increase of almost 14 percent. Government's contribution to the Development Budget is estimated to slightly increase from **10.4 per cent** of total expenditure in the Main Budget 2001/02 to **10.7 per cent** in the 2002/03 budget.
- 87 Honourable members should also remember that the budget allocation is only one of the sources of funds for the overall Development Budget. A substantial amount of grants and loans are still received outside the State Revenue Fund. The total Development Budget 2002/03, comprising resources from within and outside of the State Revenue Fund, is allocating **N\$ 1,595 million** towards the funding of development projects.
- 88 The sectoral allocation of the 2002/03 Budget indicates that **44.2 percent** of the operational budget has been allocated to **social services and education**. Within this sector, the allocation to the Ministry of Health and Social Services and the Ministry of Women affairs and Child Welfare together amounts to **N\$ 1.4 billion**. Ministries Basic Education, Sport and Culture and Higher Education, Training and Employment Creation together have been allocated **N\$ 2.5 billion** for operational expenditure.
- 89 The second largest allocation pertains to the sector **government administration** to which **25.0 per cent** has been allocated from the operational budget. **18.3 per cent** of the operational budget is allocated towards **public safety**. Lastly, **8.4 per cent** and **4.0 percent** have been allocated to the sectors **economic services** and **infrastructure**, respectively. Compared to sectoral allocations in the Main Budget 2001/02

relatively more funds have been allocated to **social services and education** and **public safety**, at the expense of decreasing shares for the sectors government administration, economic services and infrastructure.

### 3. Expenditure Ceilings for Fiscal Years 2003/04 and 2004/05

- 90 Cabinet has decided that total government expenditure as a share of GDP should be reduced gradually from its present level of 38 percent to around 30 percent. The need to restore financial stability makes this a high priority target, which in turn makes it necessary to restrict expenditure growth to very modest levels over the MTEF period.
- 91 Total expenditure ceilings for the fiscal years 2003/04 and 2004/05 have been set at **N\$ 11.0 billion** and **N\$ 11.5 billion**, respectively. These ceilings show a continued decline of expenditure as a share of GDP to **31 percent** in 2003/04 and to **29 percent** in 2004/05. The ceilings allow total expenditure in current prices to grow only by around **2 percent** in fiscal 2003/04 and by around **5 percent** in fiscal year 2003/04 - at rates below projected inflation.
- 92 Total operational expenditure ceilings have been set at **N\$ 9.0 billion** and **N\$ 9.2 billion** for the fiscal years 2003/04 and 2004/05, respectively. As a percentage of total estimated expenditure these amounts represent about **81 percent** and **80 per cent**, respectively, and reflect the targeted downward trend in operational expenditure growth.
- 93 Interest payments are expected to absorb an increasing share of total estimated expenditure, projected to amount to around **N\$ 901 million** and **N\$ 1,017 million** for the fiscal years 2003/04 and 2004/05, respectively. Their share of total expenditure is expected to increase gradually to **8.9 percent** in 2004/05 compared to **6.6 percent** in the Main Budget 2001/02. This projection is based on the assumption of unchanged interest rates over the medium term period.
- 94 Development Budget ceilings for the fiscal years 2003/04 and 2004/05 have been set at **N\$ 1,145 million** and **N\$ 1,261**

**million**, respectively. These amounts represent **10.4 percent** and **10.9 percent** of total expenditure.

- 95 Sectoral allocations for the medium term period show increasing budget allocations to **social services and education**, which are allocated **46.7 percent** of total operational expenditure for 2004/05. This reflects Government's understanding that investing in human capital is one of the most important factors to improve the country's socio-economic development. **Government administration** is expected to continue to decrease as a share of total expenditure, compelling Government offices, ministries and agencies (O/M/As) to improve efficiency and to re-prioritise operational expenditure. The remaining three sectors, **public safety**, **economic services** and **infrastructure**, show slight increases in their shares of total operational expenditure for the fiscal years 2003/04 and 2004/05.

#### **4. Budget Deficits, Financing Proposal and Debt Developments**

- 96 Mr. Speaker; for the fiscal year 2002/03, it is estimated that total expenditure exceeds total revenue and grants by **N\$ 1,380 million**. Based on a GDP estimate of **N\$ 31.3 billion**, this reflects a budget deficit of **4.4 percent**. This estimated deficit exceeds considerably our budget deficit target. Honourable Members are to remember, however, that it is a very difficult undertaking to curb Government expenditure to such an extent that a budget deficit could be brought down to a much lower level within one fiscal year. Particularly this is the case during a global economic recession, which results in slow growth for incomes and government revenue.
- 97 The proposed budget deficit for 2002/03 will be financed with issuance of treasury bills and bonds on the domestic financial market. Government has decided to aim at a shift in the composition of the domestic debt stock, favouring a larger share of medium and long-term securities.
- 98 Budget deficits for the fiscal years 2003/04 and 2004/05 are estimated at **N\$ 1,044 million** and **N\$ 1,007 million**, respectively, reflecting curbed expenditure growth. These

nominally decreasing deficits correspond to **2.9 percent** and **2.5 percent** of estimated GDP. They are in line with medium term targets for the budget deficit and reflect Government's commitment to decrease the high deficit level that culminated in the Revised Budget 2001/02.

- 99 It is of crucial importance that line Ministries, as well as State-Owned Enterprises under their supervision and control, manage to live within their budget ceilings by improving efficiency. Additional expenditure will lead to a growth in the budget deficit with serious consequences for government debt, future interest payments and debt servicing in general.
- 100 Mr. Speaker, it has unfortunately not been possible to stabilise Government's debt stock at 25 percent of GDP. During the fiscal year 2001/02 this level has been exceeded. The high budget deficit has certainly contributed to this, but a further increase in the debt stock resulted from the revaluation of foreign debt, due to the substantial exchange rate depreciation. Based on the budget deficit estimates for the medium-term, and also taking into account foreign borrowing for the Development Budget, the debt level is projected to stabilise at around **28-29 percent** of GDP over the three-year period.
- 101 The effects of the exchange rate movements extend beyond our debt levels. They also affect public expenditure where that is denominated in other currencies. Where appropriate, we have made provision to compensate for that. For the future, we need to consider mechanisms to ameliorate the effects of such shocks.

## VII. Conclusion

- 102 Mr. Speaker, the budget for fiscal year 2002/03 and the Medium Term Expenditure Framework for fiscal years 2002/03 to 2004/05 have been presented against the background of uncertain prospects for the international economy. Revenue growth over the medium term has had to be estimated very cautiously and expenditure growth has been reversed with the

aim to gradually bring total government expenditure down to a level of 30 per cent of GDP.

- 103 Admittedly, the high budget deficit approved in the Revised Budget 2001/02 resulted in a constrained introduction of the first Medium Term Expenditure Framework. Cabinet is aware of the fact that in order to do better the second time round, continuous efforts have to be made to improve the prioritisation of resource allocation in the budget and formulation process, that coordination between planning, policy formulation and budgeting requires further strengthening and that efficiency and effectiveness in the provision of public services are nurtured.
- 104 Allow me to illustrate our present situation with yet another quote, from economists W. Easterly and K. Schmitt-Hebbel: "Public Budgets are very sensitive to foreign and domestic macroeconomic shocks in the short run. But the empirical findings show that shocks explain only a minor part of the medium-term variations of public deficits. The major factor explaining change is fiscal policy. Policymakers are to be blamed for fiscal crises and praised for fiscal improvements."
- 105 Mr. Speaker, allow me to conclude with a few words of gratitude. First of all, I am highly indebted to His Excellency the President, the Right Honourable Prime Minister, and the Deputy Prime Minister for their concern with and support for the policy approach embodied in this Budget. Secondly, I would like to thank my Honourable Cabinet Colleagues for their consideration of our difficult fiscal situation and the need to consolidate the stability of our finances. Thirdly, I would like to express the Government's gratitude to our foreign development partners for their assistance in different sectors of our country. The assistance we receive from our foreign partners has contributed immensely to the reduction of poverty and to improvement of education, health and infrastructure. Finally, I would like to thank the hard-working team in the Ministry of Finance, the National Planning Commission and the Bank of Namibia who have worked diligently to enable me to table this Budget.
- 106 This budget recognises the economic realities, while seeking to protect the vulnerable. It lays the foundations for sustainable

growth. And, points the way forward to better decision-making and improved services for our citizens. Mr. Speaker and Honourable Members of Parliament. I believe in Namibia and I believe in the ability of Namibians to develop our country and our economy. I commend the 2002/03 Budget to this Honourable National Assembly and to our Nation.

107 Mr. Speaker, this concludes my Budget Statement. I thus move that the Appropriation Bill be read for a second time.

I thank you

## ATTACHMENTS

<b>TABLE 1: EXPENDITURE CEILINGS FOR THE MTEF 2002/03 - 2004/05</b>						
in Thousand N\$, current/nominal prices	<b>2002/03 Ceilings</b>	<b>% of Total</b>	<b>2003/04 Ceilings</b>	<b>% of Total</b>	<b>2004/05 Ceilings</b>	<b>% of Total</b>
01 Office of the President	64,531	0.60%	71,761	0.65%	75,018	0.65%
02 Office of the Prime Minister	56,247	0.52%	59,777	0.54%	61,771	0.54%
03 National Assembly	38,940	0.36%	41,853	0.38%	43,527	0.38%
04 Auditor General	13,955	0.13%	14,720	0.13%	15,427	0.13%
05 Civic Affairs (MHA)	45,929	0.43%	51,248	0.47%	51,502	0.45%
06 Police (MHA)	604,378	5.60%	634,433	5.77%	668,706	5.81%
07 Foreign Affairs, Broadcasting & Information	271,627	2.52%	256,750	2.33%	265,513	2.31%
08 Defence	770,341	7.14%	791,761	7.20%	846,773	7.35%
09 Finance	1,213,450	11.25%	1,001,205	9.10%	926,724	8.05%
10 Basic Education, Culture & Sport	2,065,538	19.15%	2,151,178	19.55%	2,229,792	19.36%
11 National Council	24,956	0.23%	22,123	0.20%	21,027	0.18%
12 Women Affairs & Child Welfare	96,234	0.89%	98,025	0.89%	99,372	0.86%
13 Health & Social Services	1,371,737	12.72%	1,450,153	13.18%	1,509,848	13.11%
14 Labour & Human Development	45,014	0.42%	46,984	0.43%	50,071	0.43%
15 Mines & Energy	41,016	0.38%	41,920	0.38%	43,241	0.38%
16 Justice, Office of the Ombudsman	93,344	0.87%	86,764	0.79%	92,067	0.80%
17 Regional, Local Government & Housing	380,813	3.53%	381,917	3.47%	376,247	3.27%
18 Environment & Tourism	114,388	1.06%	111,277	1.01%	117,624	1.02%
19 Trade & Industry	70,362	0.65%	69,585	0.63%	72,423	0.63%
20 Agriculture, Water & Rural Development	383,597	3.56%	403,711	3.67%	426,454	3.70%
21 Prisons and Correctional Services	105,252	0.98%	114,130	1.04%	120,282	1.04%
22 Fisheries & Marine Resources	89,875	0.83%	91,828	0.83%	94,723	0.82%
23 Department of Works (MWTC)	264,466	2.45%	281,825	2.56%	299,399	2.60%
24 Department of Transport (MWTC)	93,561	0.87%	97,619	0.89%	104,220	0.91%
25 Lands, Resettlement & Rehabilitation	50,056	0.46%	53,136	0.48%	55,917	0.49%
26 National Planning Commission	33,403	0.31%	35,449	0.32%	36,991	0.32%
27 Higher Education, Training & Employment	385,582	3.57%	433,256	3.94%	470,964	4.09%
28 Electoral Commission	32,969	0.31%	5,978	0.05%	5,978	0.05%
29 Attorney General	51,696	0.48%	54,003	0.49%	54,506	0.47%
<b>TOTAL OPERATIONAL EXPENDITURE</b>	<b>8,873,257</b>	<b>82.26%</b>	<b>8,954,368</b>	<b>81.39%</b>	<b>9,236,110</b>	<b>80.21%</b>
Development Budget	1,153,000	10.69%	1,145,706	10.41%	1,261,083	10.95%
Statutory Interest Payments	760,082	7.05%	901,441	8.19%	1,017,837	8.84%
<b>TOTAL GOVERNMENT EXPENDITURE</b>	<b>10,786,339</b>	<b>100.00%</b>	<b>11,001,515</b>	<b>100.00%</b>	<b>11,515,030</b>	<b>100.00%</b>

<b>TABLE 2: REVENUE PROJECTIONS FOR THE MTEF 2002/03 - 2004/05</b>						
in Million N\$, current/nominal prices	2002/03	% of	2003/04	% of	2004/05	% of
	Estimates	Total	Projections	Total	Projections	Total
Taxes on Income and Profits	3,433	36.5%	3,629	36.4%	3,834	36.5%
Taxes on Property	65	0.7%	75	0.8%	85	0.8%
Domestic Taxes on Goods and Services	2,327	24.7%	2,488	25.0%	2,678	25.5%
Taxes on International Trade and Transactions	2,488	26.5%	2,613	26.2%	2,743	26.1%
Other Taxes	65	0.7%	70	0.7%	80	0.8%
<b>TAX REVENUE</b>	<b>8,378</b>	<b>89.1%</b>	<b>8,875</b>	<b>89.1%</b>	<b>9,421</b>	<b>89.7%</b>
Entrepreneurial and Property Income	639	6.8%	702	7.1%	710	6.8%
Fines and Forfeitures	15	0.2%	15	0.2%	15	0.1%
Admin. Fees & Charges, Incidental Sales	231	2.5%	244	2.5%	260	2.5%
<b>NON-TAX REVENUE</b>	<b>886</b>	<b>9.4%</b>	<b>961</b>	<b>9.7%</b>	<b>985</b>	<b>9.4%</b>
RETURN ON CAPITAL (LENDING AND EQUITY)	26	0.3%	31	0.3%	32	0.3%
<b>TOTAL REVENUE FROM OWN SOURCES</b>	<b>9,290</b>	<b>98.8%</b>	<b>9,867</b>	<b>99.1%</b>	<b>10,438</b>	<b>99.3%</b>
EXTERNAL GRANTS*	-	0.0%	-	0.0%	-	0.0%
LOANS PROCEEDS FOR ON-LENDING	116	1.2%	90	0.9%	70	0.7%
<b>TOTAL REVENUE (SRF)</b>	<b>9,406</b>	<b>100.0%</b>	<b>9,957</b>	<b>100.0%</b>	<b>10,508</b>	<b>100.0%</b>

\*Not all grants are channelled through the State Revenue Fund (SRF). External loans for development projects are neither channelled through the SRF.

<b>TABLE 3: PROJECTIONS FOR THE BUDGET DEFICIT SITUATION FOR THE MTEF 2002/03 - 2004/05</b>			
in Million N\$, current/nominal prices	2002/03	2003/04	2004/05
	Estimates	Projections	Projections
<b>TOTAL REVENUE AND GRANTS</b>	<b>9,406</b>	<b>9,957</b>	<b>10,508</b>
Total Operational Expenditure	8,873	8,954	9,236
Development Expenditure	1,153	1,146	1,261
Statutory Expenditure	760	901	1,018
<b>TOTAL EXPENDITURE</b>	<b>10,786</b>	<b>11,002</b>	<b>11,515</b>
<b>BUDGET DEFICIT</b>	<b>1,380</b>	<b>1,044</b>	<b>1,007</b>
in % of GDP			
<b>TOTAL REVENUE AND GRANTS</b>	<b>30.1%</b>	<b>28.1%</b>	<b>26.5%</b>
Total Operational Expenditure	28.3%	25.3%	23.3%
Development Expenditure	3.7%	3.2%	3.2%
Statutory Expenditure	2.4%	2.5%	2.6%
<b>TOTAL EXPENDITURE</b>	<b>34.5%</b>	<b>31.1%</b>	<b>29.0%</b>
<b>BUDGET DEFICIT</b>	<b>4.4%</b>	<b>2.9%</b>	<b>2.5%</b>
<b>GDP in current/nominal prices</b>	<b>31,300</b>	<b>35,400</b>	<b>39,700</b>

<b>TABLE 4: SECTORAL ALLOCATION OF OPERATIONAL EXPENDITURE FOR THE MTEF 2002/03 - 2004/05</b>						
in Million N\$, in current/nominal prices	2002/03	% of Total	2003/04	% of Total	2004/05	% of Total
	Estimates		Projections		Projections	
<b>ADMINISTRATION</b>	<b>2,222</b>	<b>25.04%</b>	<b>1,990</b>	<b>22.22%</b>	<b>1,930</b>	<b>20.89%</b>
Office of the President; Office of the Prime Minister; National Assembly; Civic Affairs; Foreign Affairs; Finance; National Council; Labour; Regional, Local Government and Housing, NPC, Electoral Commission						
<b>PUBLIC SAFETY</b>	<b>1,625</b>	<b>18.31%</b>	<b>1,681</b>	<b>18.77%</b>	<b>1,782</b>	<b>19.30%</b>
Police, Defence, Justice, Prisons and Correctional Services, Attorney General						
<b>SOCIAL SERVICES</b>	<b>3,919</b>	<b>44.17%</b>	<b>4,133</b>	<b>46.15%</b>	<b>4,310</b>	<b>46.66%</b>
Basic Education, Culture and Sport; Women Affairs and Child Welfare; Health and Social Services; Higher Education, Training and Employment Creation;						
<b>ECONOMIC SERVICES</b>	<b>749</b>	<b>8.44%</b>	<b>771</b>	<b>8.62%</b>	<b>810</b>	<b>8.77%</b>
Mines and Energy; Environment and Tourism; Trade and Industry; Agriculture, Water and Rural Development; Fisheries and Marine Resources; Lands, Resettlement and Rehabilitation						
<b>INFRASTRUCTURE</b>	<b>358</b>	<b>4.03%</b>	<b>379</b>	<b>4.24%</b>	<b>404</b>	<b>4.37%</b>
Works, Transport and Communication						
<b>TOTAL OPERATIONAL EXPENDITURE</b>	<b>8,873</b>	<b>100.00%</b>	<b>8,954</b>	<b>100.00%</b>	<b>9,236</b>	<b>100.00%</b>

**Table 5: Macroeconomic indicators and projections**

	Unit	1996	1997	1998	1999	2000	Project. 2001	Project. 2002
<b>National accounts</b>								
GDP at current market prices	N\$ Mill.	15,011	16,754	18,790	20,693	23,264	26,689	30,239
<u>At constant 1995 prices:</u>								
GDP	N\$ Mill.	13,111	13,665	14,115	14,598	15,022	15,269	15,727
Real economic growth	% p.a.	3.2%	4.2%	3.3%	3.4%	2.9%	1.6%	3.0%
Real GDP per capita	N\$	8,160	8,289	8,345	8,412	8,437	8,358	8,391
Change in real GDP per capita	% p.a.	0.6%	1.6%	0.7%	0.8%	0.3%	-0.9%	0.4%
Gross fixed capital formation	N\$ Mill.	3,306	2,866	3,564	3,713	3,383	4,197	n.i.
Change in gross fixed capital formation	% p.a.	17.4%	-13.3%	24.4%	4.2%	-8.9%	24.1%	n.i.
<b>Inflation, interest and exchange rates</b>								
Inflation % (GDP deflator, 1995 = 100)	% p.a.	14.5%	7.1%	8.6%	6.5%	9.3%	12.9%	10.0%
Prime overdraft rate (year-end)	% p.a.	20.70	20.00	23.55	16.70	15.90	14.00	15.50
Average N\$/US\$ Exchange rate	N\$/US\$	4.27	4.60	5.49	6.11	7.00	8.60	11.50
<b>Balance of Payments</b>								
Trade Balance (current prices)	N\$ Mill.	-1,203	-1,677	-2,263	-2,225	-1,674	-2,514	n.i.
Trade Balance in % of GDP	%	-8.0%	-10.0%	-12.0%	-10.8%	-7.2%	-9.4%	n.i.
Current external balance	N\$ Mill.	856	557	463	212	2,482	n.i.	n.i.
Current external balance in % of GDP	%	5.7%	3.3%	2.5%	1.0%	10.7%	n.i.	n.i.

**Table 6: Fiscal indicators, current prices**

	Unit	Actual 1996/97	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	Rev. Budget 2001/02	Estimates 2002/03
<b>Total revenue and grants</b>								
Total revenue and grants	N\$ Mill.	4,676	5,690	6,186	7,272	8,343	9,012	9,406
Total tax revenue	N\$ Mill.	4,114	5,106	5,501	6,598	7,550	7,938	8,378
Total non-tax revenue	N\$ Mill.	512	530	648	605	736	870	912
Grants and loans	N\$ Mill.	50	54	37	69	57	204	116
<b>Total expenditure</b>								
Total current expenditure (excl. interest)	N\$ Mill.	4,587	4,912	5,614	6,371	7,113	8,048	8,264
Total interest payments	N\$ Mill.	251	350	489	513	512	650	678
Total capital expenditure	N\$ Mill.	729	867	833	1,069	1,084	1,786	1,844
<b>Overall deficit</b>								
Overall deficit	N\$ Mill.	891	439	749	681	365	1,472	1,380
Overall deficit in % of GDP	%	5.8%	2.5%	3.9%	3.2%	1.5%	5.3%	4.4%
<b>Total central government debt (End of FY)</b>								
Total central government debt	N\$ Mill.	3,259	3,290	3,927	4,768	5,416	7,477	9,099
Foreign debt stock	N\$ Mill.	491	311	431	587	970	1,559	1,801
Domestic debt stock	N\$ Mill.	2,768	2,979	3,496	4,181	4,446	5,918	7,298
Total central government debt in % of GDP	%	21.1%	19.1%	20.4%	22.3%	22.5%	27.1%	29.1%

**Sources:**

Central Bureau of Statistics, National Accounts 1993-2000 and preliminary 2001, preliminary Census 2001 results  
Bank of Namibia, Quarterly Bulletin, unpublished internal estimates  
Ministry of Finance, unpublished information  
Auditor General's Reports 1992/93 - 1998/99

**Table 7: Government's financial operations**

in Million N\$, current/ cash prices	Actual	Actual	Actual	Actual	Actual	Main	Revised	Estimates
	1996/97	1997/98	1998/99	1999/00	2000/01	Estimates 2001/02	Estimates 2001/02	2002/03
<b>REVENUE AND GRANTS</b>								
Taxes on income and profits	1,354	1,979	2,031	2,315	2,610	2,953	3,143	3,433
Taxes on property	33	36	40	47	63	45	60	65
Domestic taxes on goods and services	1,342	1,491	1,582	1,944	1,945	2,148	2,039	2,327
Taxes on international trade	1,349	1,560	1,805	2,241	2,877	2,641	2,641	2,488
Other taxes	36	40	43	51	55	50	55	65
<b>Total Tax Revenue</b>	<b>4,114</b>	<b>5,106</b>	<b>5,501</b>	<b>6,598</b>	<b>7,550</b>	<b>7,837</b>	<b>7,938</b>	<b>8,378</b>
Entrepreneurial and property income	304	301	379	403	462	510	623	639
Fines and forfeitures	11	14	9	11	21	10	10	15
Administration fees and charges	183	171	205	172	232	220	219	231
Return on capital from lending and equity	14	44	54	20	21	18	18	26
<b>Total Non-Tax Revenue</b>	<b>512</b>	<b>530</b>	<b>648</b>	<b>605</b>	<b>736</b>	<b>758</b>	<b>870</b>	<b>912</b>
<b>Total revenue (own sources)</b>	<b>4,626</b>	<b>5,636</b>	<b>6,149</b>	<b>7,203</b>	<b>8,286</b>	<b>8,595</b>	<b>8,808</b>	<b>9,290</b>
<b>Grants &amp; loans earmarked for on-lending</b>	<b>50</b>	<b>54</b>	<b>37</b>	<b>69</b>	<b>57</b>	<b>180</b>	<b>204</b>	<b>116</b>
<b>TOTAL REVENUE AND GRANTS</b>	<b>4,676</b>	<b>5,690</b>	<b>6,186</b>	<b>7,272</b>	<b>8,343</b>	<b>8,775</b>	<b>9,012</b>	<b>9,406</b>
<b>EXPENDITURE</b>								
<b>Current Expenditure</b>								
Personnel expenditure	2,650	2,831	3,162	3,619	3,965	4,281	4,535	4,717
Expenditure on goods and other services	1,151	1,241	1,350	1,583	1,637	1,759	1,817	1,753
Statutory payments	251	350	489	513	512	650	678	760
Subsidies and other current transfers	786	841	1,102	1,169	1,511	1,664	1,667	1,712
<b>Total Current Expenditure</b>	<b>4,838</b>	<b>5,262</b>	<b>6,103</b>	<b>6,884</b>	<b>7,625</b>	<b>8,354</b>	<b>8,698</b>	<b>8,942</b>
<b>Capital Expenditure</b>								
Capital Expenditure	624	779	737	918	929	1,207	1,267	1,224
Capital Transfers				30	32	44	44	87
Total lending and equity participation	105	88	96	121	122	177	475	534
<b>Total Capital Expenditure</b>	<b>729</b>	<b>867</b>	<b>833</b>	<b>1,069</b>	<b>1,084</b>	<b>1,429</b>	<b>1,786</b>	<b>1,844</b>
<b>TOTAL EXPENDITURE</b>	<b>5,567</b>	<b>6,129</b>	<b>6,936</b>	<b>7,953</b>	<b>8,708</b>	<b>9,782</b>	<b>10,484</b>	<b>10,786</b>
<b>OVERALL DEFICIT</b>	<b>891</b>	<b>439</b>	<b>749</b>	<b>681</b>	<b>365</b>	<b>1,007</b>	<b>1,472</b>	<b>1,380</b>
<b>TOTAL FINANCING</b>								
Net borrowing (State Revenue Fund)	521	1,065	429	829	280	n.i.	n.i.	n.i.
Decrease (+) Increase (-) in cash balances	370	(626)	320	(148)	85	n.i.	n.i.	n.i.
<b>TOTAL FINANCING</b>	<b>891</b>	<b>439</b>	<b>749</b>	<b>681</b>	<b>365</b>	<b>1,007</b>	<b>1,472</b>	<b>1,380</b>

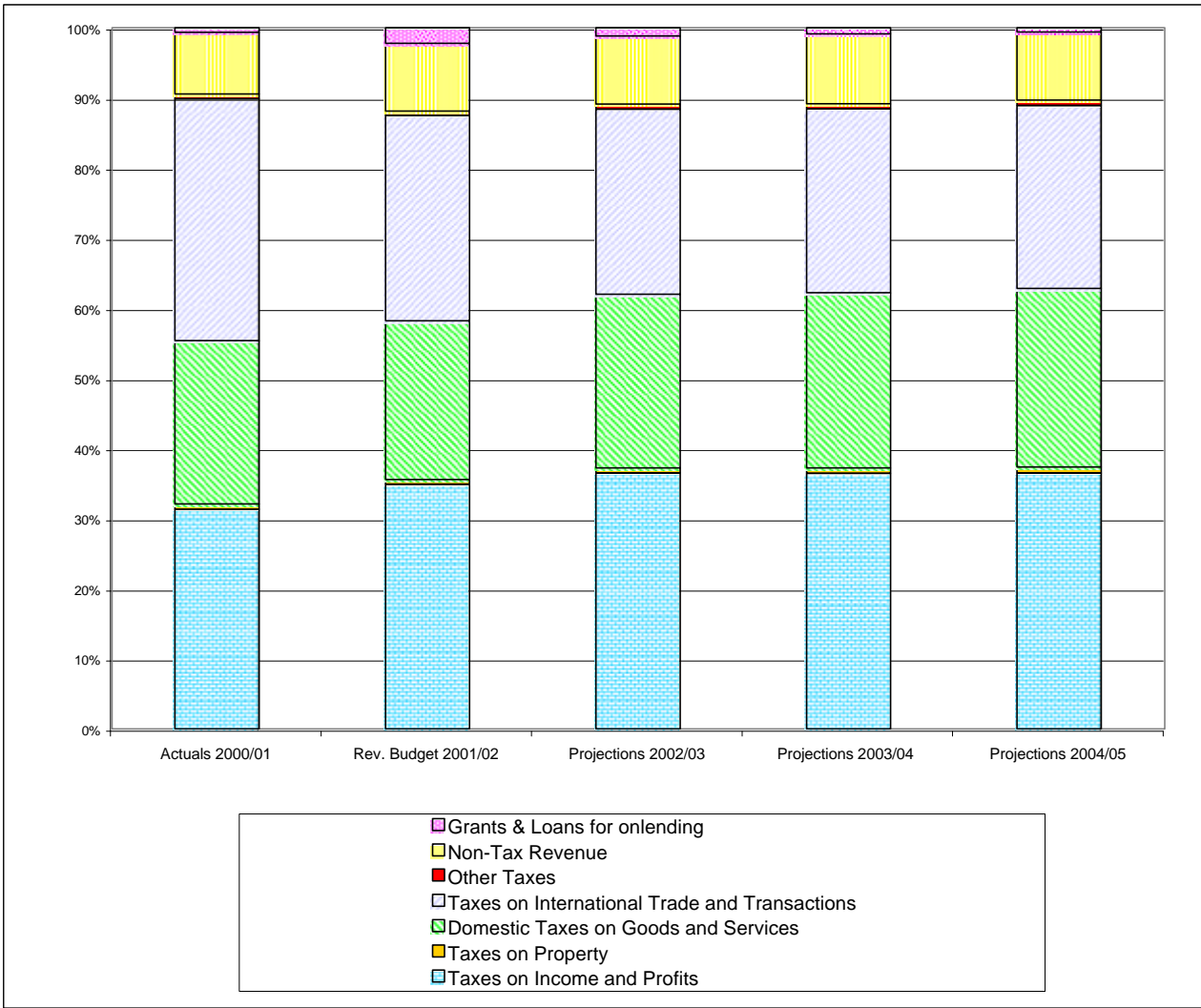
**Government's financial operations in % of GDP at current market prices**

	Actual	Actual	Actual	Actual	Actual	Main	Revised	Estimates
	1996/97	1997/98	1998/99	1999/00	2000/01	Estimates 2001/02	Estimates 2001/02	2002/03
<b>REVENUE AND GRANTS</b>								
Taxes on income and profits	8.8%	11.5%	10.5%	10.9%	10.8%	10.5%	11.4%	11.0%
Taxes on property	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%
Domestic taxes on goods and services	8.7%	8.6%	8.2%	9.1%	8.1%	7.7%	7.4%	7.4%
Taxes on international trade	8.7%	9.0%	9.4%	10.5%	11.9%	9.4%	9.6%	7.9%
Other taxes	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
<b>Tax Revenue</b>	<b>26.6%</b>	<b>29.6%</b>	<b>28.5%</b>	<b>30.9%</b>	<b>31.3%</b>	<b>28.0%</b>	<b>28.8%</b>	<b>26.8%</b>
<b>Non-Tax Revenue</b>	<b>3.3%</b>	<b>3.1%</b>	<b>3.4%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>2.7%</b>	<b>3.2%</b>	<b>2.9%</b>
<b>Total Revenue</b>	<b>29.9%</b>	<b>32.7%</b>	<b>31.9%</b>	<b>33.8%</b>	<b>34.4%</b>	<b>30.7%</b>	<b>31.9%</b>	<b>29.7%</b>
<b>Grants and Loans</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>0.4%</b>
<b>Total Revenue and Grants</b>	<b>30.3%</b>	<b>33.0%</b>	<b>32.1%</b>	<b>34.1%</b>	<b>34.6%</b>	<b>31.3%</b>	<b>32.7%</b>	<b>30.1%</b>
<b>EXPENDITURE</b>								
Total current expenditure	31.3%	30.5%	31.7%	32.3%	31.6%	29.8%	31.5%	28.6%
Total capital expenditure	4.7%	5.0%	4.3%	5.0%	4.5%	5.1%	6.5%	5.9%
<b>Total Current &amp; Capital Expenditure</b>	<b>36.0%</b>	<b>35.5%</b>	<b>36.0%</b>	<b>37.3%</b>	<b>36.1%</b>	<b>34.9%</b>	<b>38.0%</b>	<b>34.5%</b>
<b>Overall deficit</b>	<b>5.8%</b>	<b>2.5%</b>	<b>3.9%</b>	<b>3.2%</b>	<b>1.5%</b>	<b>3.6%</b>	<b>5.3%</b>	<b>4.4%</b>
<b>Net borrowing (SRF)</b>	<b>3.4%</b>	<b>6.2%</b>	<b>2.2%</b>	<b>3.9%</b>	<b>1.2%</b>	n.i.	n.i.	n.i.
<i>GDP at market prices (in Million N\$, rounded)</i>	15,450	17,260	19,270	21,340	24,100	28,000	27,600	31,300

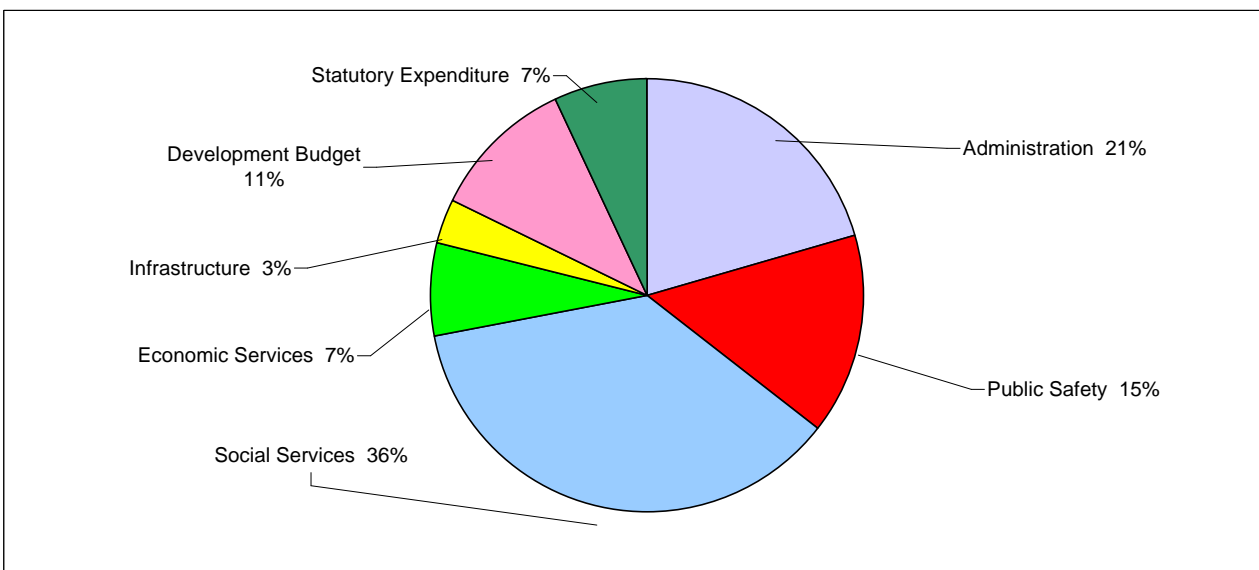
**Table 8: Main Budget Framework - Comparing 2001/02 and 2002/03**

	N\$ Million		Deviation		In % of GDP		% Composition	
	M. Budget 2001/02	Budget 2002/03	N\$ Million	Per cent	Budget 2001/02	Budget 2002/03	Budget 2001/02	Budget 2002/03
<b>REVENUE, GRANTS AND LOAN PROCEEDS</b>								
Taxes on income and profits	2,952.5	3,433.0	480.5	16.3%	10.5%	11.0%	33.6%	36.5%
Taxes on property	45.0	65.0	20.0	44.4%	0.2%	0.2%	0.5%	0.7%
Domestic taxes on goods and services	2,148.1	2,327.0	178.9	8.3%	7.7%	7.4%	24.5%	24.7%
Taxes on international trade	2,641.2	2,488.2	-153.0	-5.8%	9.4%	7.9%	30.1%	26.5%
Other taxes	50.0	65.0	15.0	30.0%	0.2%	0.2%	0.6%	0.7%
<b>Total tax revenue</b>	<b>7,836.8</b>	<b>8,378.2</b>	<b>541.4</b>	<b>6.9%</b>	<b>28.0%</b>	<b>26.8%</b>	<b>89.3%</b>	<b>89.1%</b>
Entrepreneurial and property income	510.4	639.4	129.0	25.3%	1.8%	2.0%	5.8%	6.8%
Fines and forfeitures	10.0	15.0	5.0	50.0%	0.0%	0.0%	0.1%	0.2%
Administrative fees and charges	220.4	231.4	11.0	5.0%	0.8%	0.7%	2.5%	2.5%
Repayment of loans extended by government	17.5	25.9	8.4	48.2%	0.1%	0.1%	0.2%	0.3%
<b>Non-tax revenue</b>	<b>758.3</b>	<b>911.7</b>	<b>153.4</b>	<b>20.2%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>8.6%</b>	<b>9.7%</b>
<b>Total Revenue from own sources</b>	<b>8,595.1</b>	<b>9,289.9</b>	<b>694.8</b>	<b>8.1%</b>	<b>30.7%</b>	<b>29.7%</b>	<b>98.0%</b>	<b>98.8%</b>
<b>Grants</b>	<b>65.6</b>	<b>0.0</b>	<b>-65.6</b>	<b>-100.0%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.0%</b>
<b>Loan proceeds earmarked for on-lending</b>	<b>114.1</b>	<b>116.0</b>	<b>1.9</b>	<b>1.7%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>1.2%</b>
<b>TOTAL REVENUE, GRANTS AND LOAN PROCEEDS</b>	<b>8,774.8</b>	<b>9,405.9</b>	<b>631.1</b>	<b>7.2%</b>	<b>31.3%</b>	<b>30.1%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>EXPENDITURE</b>								
Personnel expenditure	4,280.9	4,716.7	435.8	10.2%	15.3%	15.1%	43.8%	43.7%
Expenditure on goods and services	1,759.0	1,753.3	-5.7	-0.3%	6.3%	5.6%	18.0%	16.3%
Subsidies and other current transfers	1,663.6	1,712.1	48.5	2.9%	5.9%	5.5%	17.0%	15.9%
<b>Total current expenditure to be voted</b>	<b>7,703.5</b>	<b>8,182.2</b>	<b>478.7</b>	<b>6.2%</b>	<b>27.5%</b>	<b>26.1%</b>	<b>78.8%</b>	<b>75.9%</b>
Recurrent capital	202.5	121.7	-80.8	-39.9%	0.7%	0.4%	2.1%	1.1%
Development capital	945.2	1,023.5	78.3	8.3%	3.4%	3.3%	9.7%	9.5%
Other operational capital expenditure	59.4	78.3	18.9	31.8%	0.2%	0.3%	0.6%	0.7%
Capital transfers	44.3	86.6	42.3	95.5%	0.2%	0.3%	0.5%	0.8%
Lending and equity participation	177.1	534.0	356.9	201.5%	0.6%	1.7%	1.8%	5.0%
<b>Total capital expenditure to be voted</b>	<b>1,428.5</b>	<b>1,844.1</b>	<b>415.6</b>	<b>29.1%</b>	<b>5.1%</b>	<b>5.9%</b>	<b>14.6%</b>	<b>17.1%</b>
<b>Total expenditure to be voted</b>	<b>9,132.0</b>	<b>10,026.3</b>	<b>894.3</b>	<b>9.8%</b>	<b>32.6%</b>	<b>32.0%</b>	<b>93.4%</b>	<b>93.0%</b>
<b>Total statutory expenditure</b>	<b>650.0</b>	<b>760.0</b>	<b>110.0</b>	<b>16.9%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>6.6%</b>	<b>7.0%</b>
<b>TOTAL EXPENDITURE</b>	<b>9,782.0</b>	<b>10,786.2</b>	<b>1,004.2</b>	<b>10.3%</b>	<b>34.9%</b>	<b>34.5%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>OVERALL DEFICIT</b>	<b>-1,007.2</b>	<b>-1,380.4</b>	<b>-373.2</b>	<b>37.0%</b>	<b>-3.6%</b>	<b>-4.4%</b>	<b>-10.3%</b>	<b>-12.8%</b>
<b>GDP at market prices</b>	<b>28,000.0</b>	<b>31,300.0</b>	<b>3,300.0</b>	<b>11.8%</b>				

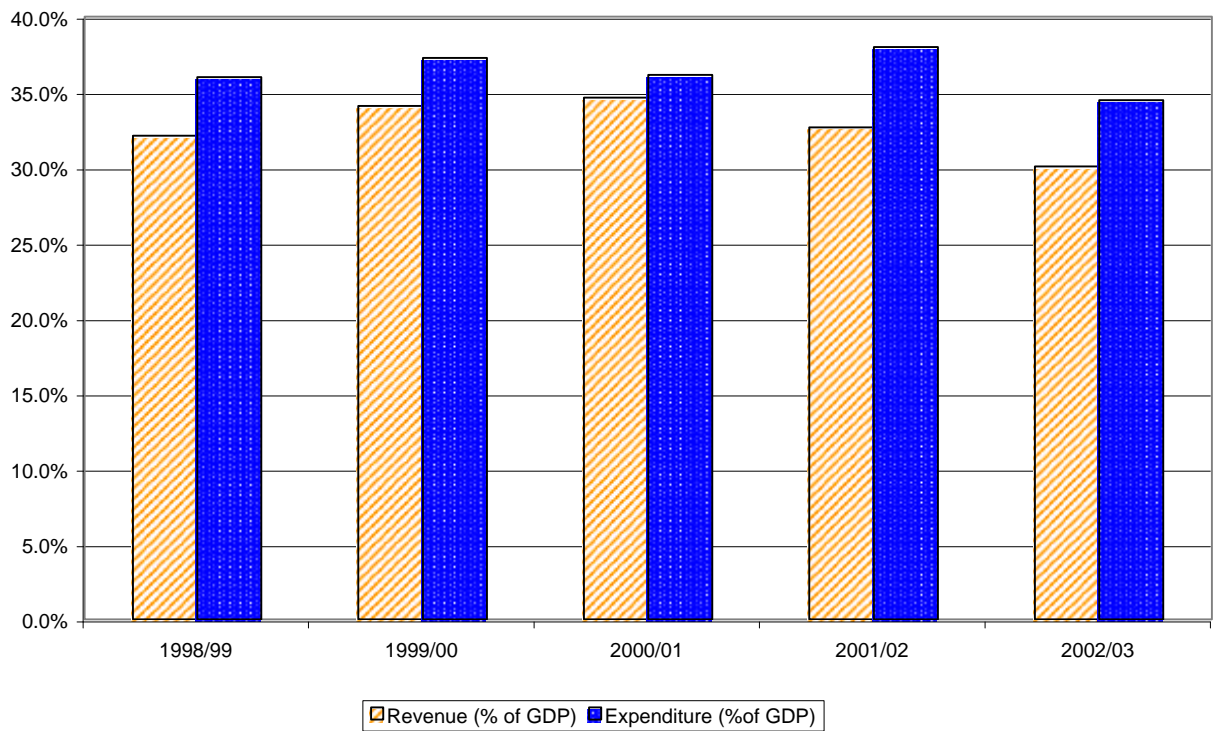
**Chart 1: Revenue by Source Fiscal Years 2000/01 - 2004/05**



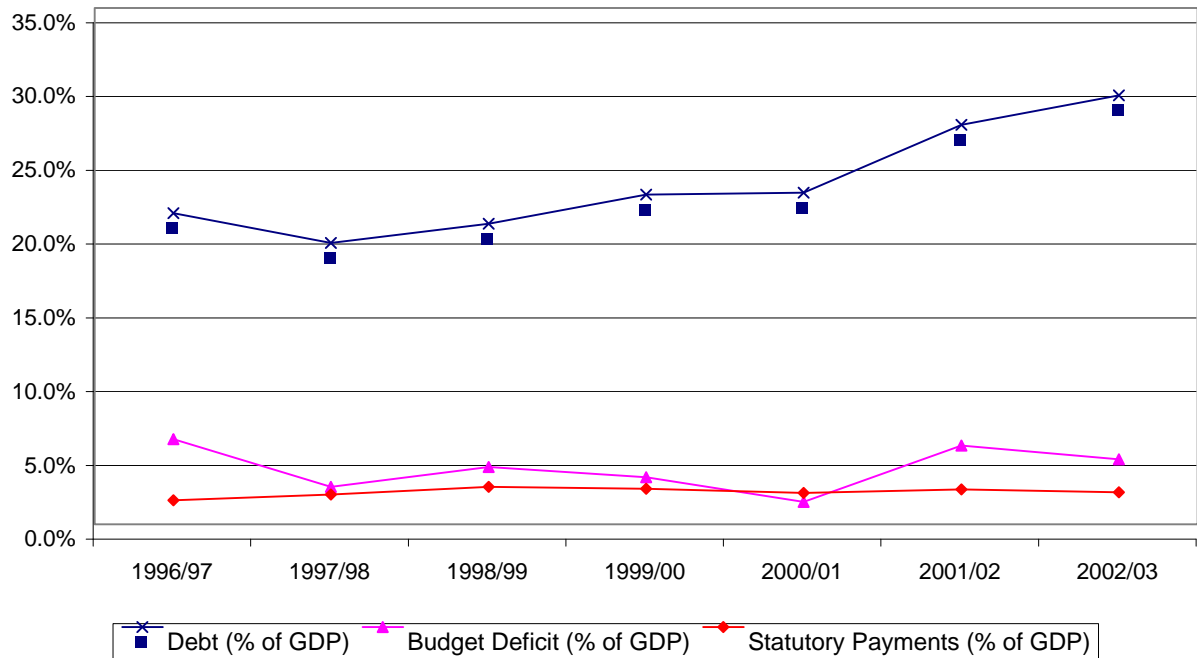
**Chart 2: Total Government Expenditure by Sectors, Development Budget and Statutory Expenditure for 2002/03**



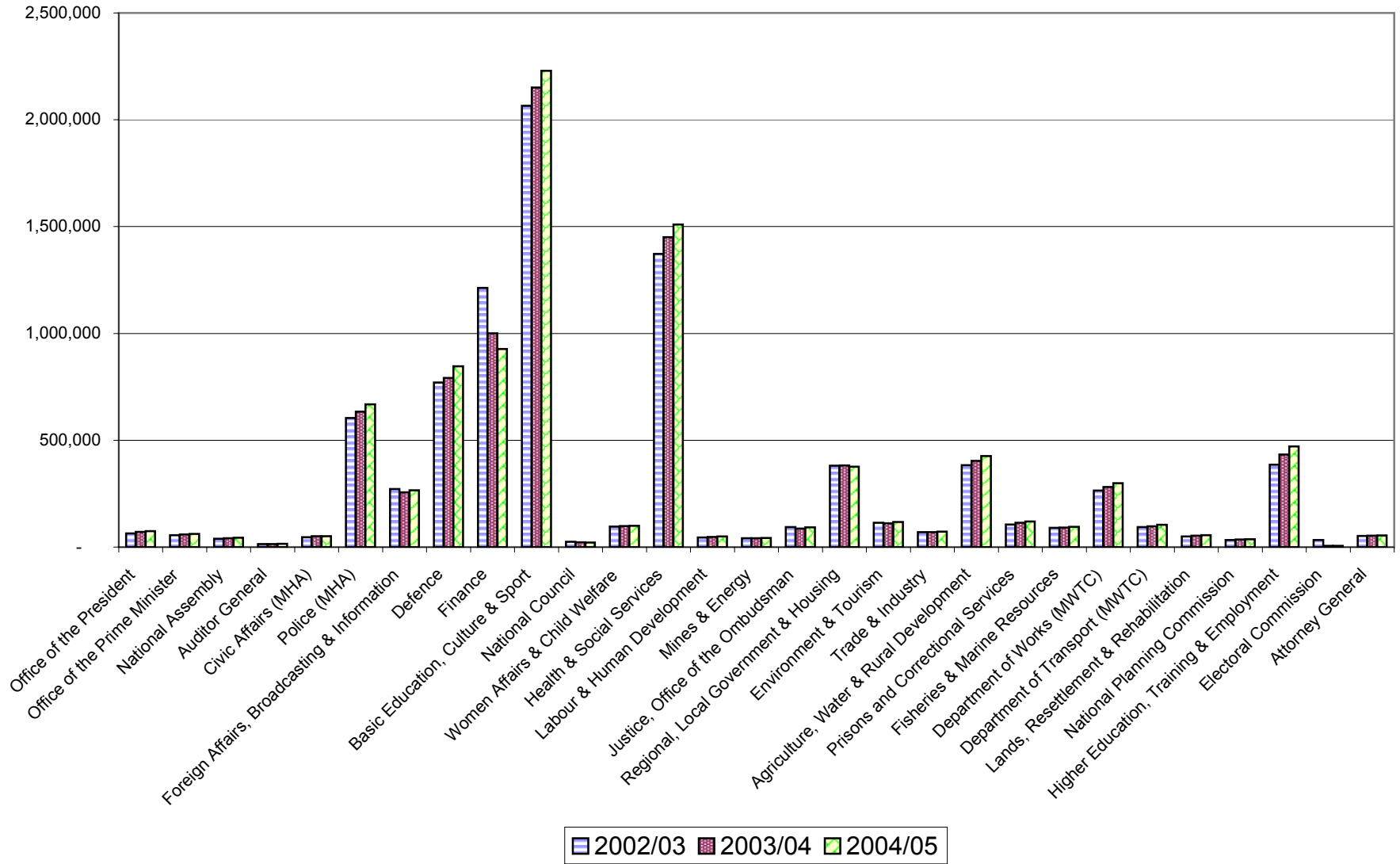
**Chart 3: Revenue and Expenditure as a percentage of GDP for Fiscal Years 1998/99 - 2002/03**



**Chart 4: Deficit, Interest payments and Debt Development**



**Chart 5: Expenditure Ceilings by vote in Thousand N\$/ current prices**



**Chart 6: New Structure of the Ministry of Finance**

