



Economic Update

The Mid-Year Budget Review 2025/26



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The Mid-Year Budget Review was Minister Shafudah’s first real opportunity to show her economic and fiscal thinking. Given lower than expected revenues, she chose to reallocate money from development to operational spending to meet important goals in education and health. This inevitably led to a larger deficit and higher debt and meant that already at this early stage in her tenure she has not succeeded in maintaining the primary budget surplus she inherited.

Minister of Finance Ericah Shafudah presented her first Mid-Year Budget Review (“MYBR”) on 21 October 2025 having tabled her first full budget as Minister on 27 March 2025 shortly after being appointed in President Nandi-Ndaitwah’s new Cabinet. Minister Shafudah was Permanent Secretary (Executive Director) at the Ministry of Finance from 2010 to her resignation in 2021 so she is well acquainted with the work of the Ministry. The MYBR was introduced by Minister Calle Schlettwein in FY2015/16 and provides a useful opportunity to take stock of the fiscal situation at the six-month mark, especially in times of global economic change. Minister Shafudah’s statement to Parliament was businesslike and to the point.

Growth Revised Down

The Minister has revised her growth forecast for 2025 and 2026 down from 4.5% and 4.7% respectively in the main budget in March to 3.3% and 3.6%. The 3.3% is nearer to IJG’s growth forecast for the year of 3% made in January. The Minister’s view is converging on our view that livestock marketing, fishing and diamond mining and diamond processing will act as significant drags on growth this year, only partially compensated by strong performances in crop production, uranium and gold mining.

Revenue Revised Down

Revenue Item	Actual FY24/25	Budget FY25/26	MYBR FY25/26
Income Tax on Individuals	19,287	21,830	20,374
Diamond Mining Companies	239	200	115
Other Mining Companies	2,887	2,561	3,538
Non-Mining Companies	9,473	10,693	10,884
Other Taxes on Income and Profits	803	1,047	911
Withholding Tax on Interest	1,605	1,778	1,450
Taxes on Property	356	375	283
VAT	19,708	23,161	21,865
Other Domestic Taxes on Goods and Services	1,364	2,103	1,964
SACU	23,639	21,843	21,843
Revenue Formula Adjustments	4,407	-716	716
Export Levy	560	605	668
Stamp Duties	465	520	212
Non-Tax Revenue	4,266	6,632	6,027
Total Revenue and Grants	89,071	92,631	89,390

Source: Ministry of Finance MTBR

Slowing growth has meant that most revenue items have been revised down although it is worth noting that corporate income tax receipts from non-diamond mining and non-mining companies has remained strong as have receipts from the export levy, the latter a reflection of strong export performance in gold and uranium. The Minister explained that VAT receipts have declined due to an increase in VAT refunds. SACU revenues are generally fixed at the beginning of the financial year at the time of the main budget. Total revenue and grants has declined by 3.4% from N\$92.6 billion to N\$89.4 billion, highlighted by the Minister as “a shortfall of N\$3.2 billion”. In nominal terms total revenue is almost the same as in FY24/25.



On the revenue side, the Minister made the following new commitment:

“The Ministry is developing a comprehensive Medium-Term Revenue Strategy (MTRS) aimed at guiding the tax reform process.”

This has the potential to bring greater effectiveness to the tax system and avoid the seemingly endless and ad hoc tampering that has been evident over the decades since the last proper comprehensive tax review conducted by the Namibian Tax Consortium in 2002. Yet the Minister seems to hint that she wants to see the tax-to-GDP ratio increase. This ratio is already high for a lower middle-income country (SACU revenues rather distort the ratio) and it is not clear what the potential is for increasing the ratio without seriously disincentivising economic activity.

In this MYBR, the Minister confirmed that tax reforms are contained in the new Income Tax Amendment Bill 2025 which has already been presented to Parliament including:

1. enhancements to the lump sum retirement benefit;
2. the introduction of caps on housing benefits tax structures;
3. adjustments to the taxation of dividend income from preference shares;
4. the introduction of a 20% corporate tax rate for small and medium-sized enterprises;
5. a rate reduction to 28% for non-mining businesses;
6. the establishment of a 20% rate for Special Economic Zone enterprises;
7. reform of taxation of long-term insurers;
8. the introduction of a local dividend withholding tax; and
9. deductibility of environmental rehabilitation costs.

Spending Has Shifted from Development to Operational Expenditure and Interest Payments

Vote	Operational Expenditure			Development Expenditure			Total Expenditure		
	Budget 2025/26	MYBR 2025/26	Change	Budget 2025/26	MYBR 2025/26	Change	Budget 2025/26	MYBR 2025/26	Change
1 President	1,213	1,263	50	245	200	(45)	1,458	1,463	5
2 Prime Minister	586	629	43	50	37	(13)	636	666	30
3 National Assembly	393	408	15	5	35	30	398	443	45
4 Auditor General	132	132	-	-	-	-	132	132	-
7 International Relations and Trade	1,077	1,073	(4)	100	90	(10)	1,177	1,163	(14)
8 Defence	6,895	6,895	-	600	589	(11)	7,495	7,484	(11)
9 Finance	14,514	14,382	(131)	88	27	(61)	14,601	14,409	(192)
10 Education, Arts and Culture	-	-	-	-	-	-	-	-	-
11 National Council	139	139	-	1	1	-	140	140	-
13 Health and Social Services	11,488	11,673	185	780	622	(158)	12,268	12,296	27
14 Labour Relations	248	237	(12)	2	2	-	250	239	(12)
15 Mines, Energy and Industry	523	502	(21)	417	361	(56)	939	862	(77)
16 Justice	398	398	-	96	95	(1)	494	493	(1)
17 Urban and Rural Development	1,443	1,441	(2)	1,255	1,234	(21)	2,698	2,675	(23)
18 Environment and Tourism	728	723	(5)	70	70	-	798	793	(5)
19 Industrialisation and Trade	-	-	-	-	-	-	-	-	-
21 Judiciary	535	457	(78)	66	51	(15)	601	508	(93)
22 Fisheries and Marine Resources	-	-	-	-	-	-	-	-	-
23 Works	672	656	(16)	133	131	(2)	805	787	(18)
24 Transport	422	419	(2)	2,285	2,273	(12)	2,707	2,693	(14)
26 National Planning Commission	312	307	(4)	60	60	-	372	367	(4)
27 Sport, Youth and National Services	757	754	(3)	510	265	(245)	1,267	1,019	(248)
28 Electoral Commission	648	678	30	-	-	-	648	678	30
29 Information and Communication Technology	639	639	-	259	203	(56)	898	842	(56)
30 Anti-Corruption Commission	104	97	(7)	13	6	(7)	117	103	(14)
31 Defence and Veteran Affairs	1,529	1,529	-	7	7	-	1,535	1,535	-
32 Higher Education, Technology and Innovation	-	-	-	-	-	-	-	-	-
35 Office of the Attorney-General	266	266	-	4	4	-	269	269	-
36 Gender Equality and Child Welfare	455	442	(13)	18	18	-	474	461	(13)
37 Agriculture and Land Reform	2,054	2,044	(10)	516	478	(37)	2,569	2,522	(47)
38 Water and Marine Resources	358	356	(3)	598	579	(20)	956	934	(22)
39 Home Affairs, Immigration, Safety and Security	7,449	7,449	-	435	435	-	7,884	7,884	-
40 Education	23,802	24,616	814	1,025	939	(86)	24,827	25,555	728
Total	79,777	80,603	826	9,638	8,812	(826)	89,415	89,415	-

Source: Ministry of Finance MYBR

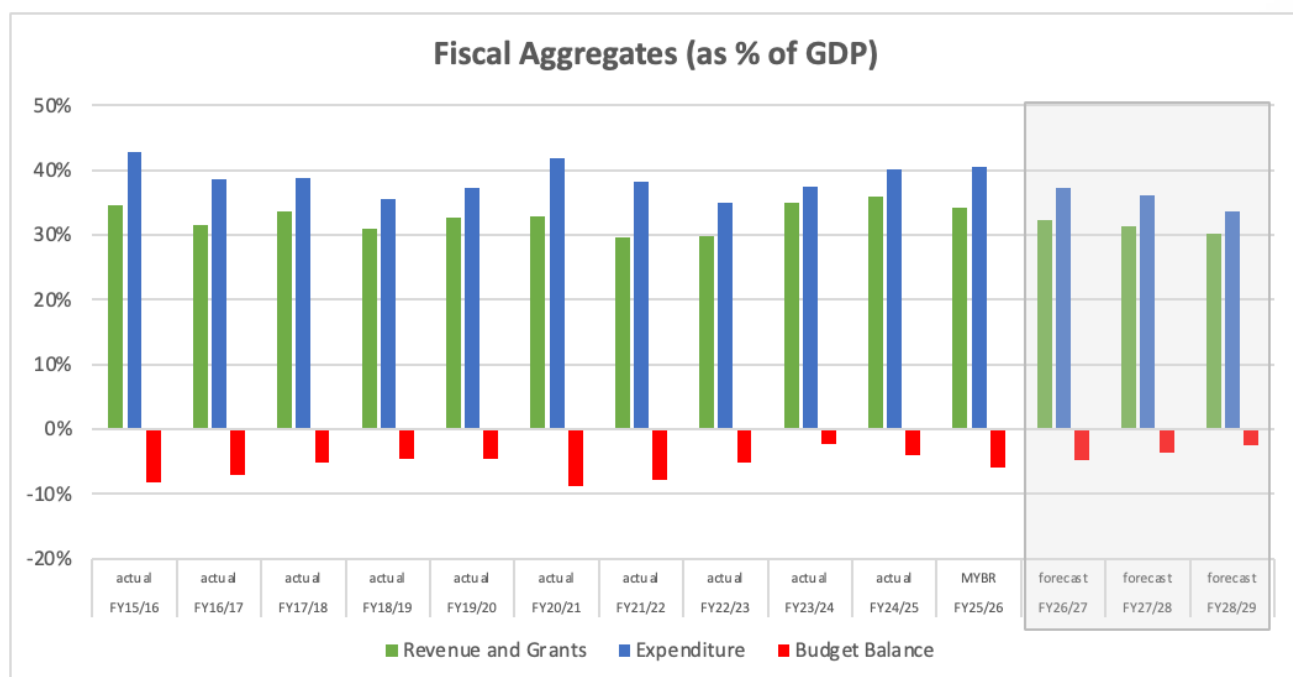


Given the weaker than expected revenue situation, the Minister aimed to ensure that total expenditure remained the same as in the main budget but, given new priorities and commitments (including those in NDP6), funds were reallocated from the development budget (mostly capital projects) where lower than expected execution rates would have led to underspending looked likely to the operational budget. Only one Vote (Vote 03 National Assembly) received an increase in its development budget allocation (for MPs’ office accommodation) while reductions totalling N\$826 million were made across the board on development expenditure. These savings were used to increase operational spending in six Votes: Vote 01 President (N\$50 million to establish the new Upstream Petroleum Unit), Vote 02 Prime Minister (N\$50 million for drought), Vote 03 National Assembly (N\$15 million for personnel), Vote 13 Health and Social Services (N\$185 million for 1,537 health personnel), Vote 28 Electoral Commission (N\$30 million to cover shortfalls in provisions for by elections in FY25/26), and Vote 40 Education (N\$663 million to fund the commitment to eliminate tertiary education fees in the first quarter of 2026 and N\$151 million to employ 665 teachers).

Macro-Fiscal Indicators Worsen and a Primary Surplus Turns into a Primary Deficit

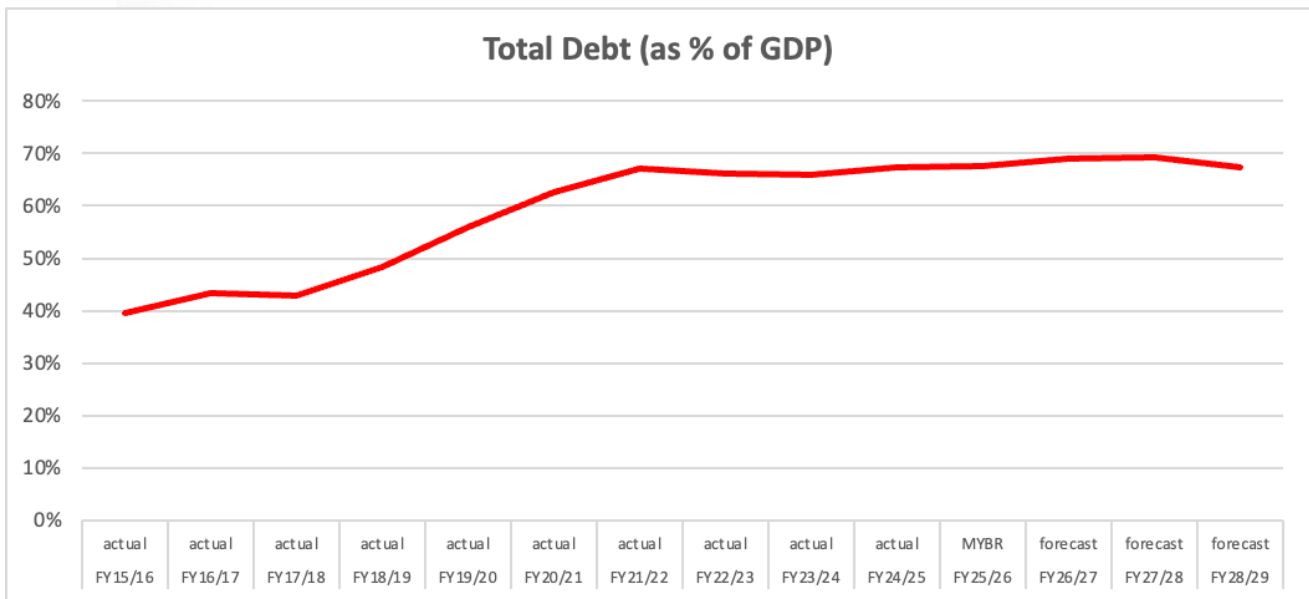
N\$ billion	Budget FY2025/26	MYBR FY2025/26
Total Revenue and Grants	92.6	89.4
Operational Expenditure	79.8	80.6
Development Expenditure	9.6	8.8
Interest Payments	13.7	14.3
Projects Outside SRF	3.2	3.2
Total Expenditure	106.1	106.9
% of GDP		
Total Revenue and Grants	33.30%	34.10%
Total Expenditure	38.20%	40.50%
Budget Balance	-4.60%	-6.00%
Debt	62.30%	67.50%
Interest Payments (% of revenue)	14.80%	16.10%
Loan Guarantees	3.40%	3.60%

Source: Ministry of Finance MYBR





Source: Ministry of Finance MYBR



Source: Ministry of Finance MYBR

Reduced revenue combined with unchanged appropriated expenditure and slightly higher interest payments have led to changes in macro fiscal metrics with expenditure expected to breach the 40% of GDP mark, the budget balance expected to reach 6.0% of GDP, total debt expected to rise to 67.5% of GDP, and interest payments expected to reach 16.1% of revenue. *The primary surplus (revenue minus non-interest expenditure) trumpeted as a key objective in the main budget earlier in the year has turned into a primary deficit.* This is downplayed in the Minister’s budget speech. It demonstrates once again that Government appears unable to reduce expenditure to sustainable levels and if any cutting is contemplated it is the development budget and not the operational budget. The Minister does however promise the following:

“The Ministry of Finance will conduct public expenditure reviews and digitise budget management to improve efficiency and service delivery.”

Public expenditure reviews (“PERs”) have the potential to identify unproductive areas of spending but the challenge will be taking action.

The deterioration of macro fiscal metrics are likely to have an impact on the domestic debt market. Reduced economic growth and a growth strategy based on SOEs added to what looks to be a generational decline in the market for natural diamonds plus higher import tariffs into the US suggest the outlook for revenue growth over the next few years is likely to be limited. Where is future revenue growth to come from? Government has consistently displayed an unwillingness to cut or even trim operational expenditure preferring instead to curtail development expenditure. What spending does Government’s current plan for the next five years as set out in NDP6 entail? The current fiscal strategy appears to preclude foreign borrowing. Together these factors suggest bond premiums relative to South Africa will widen further and Namibia’s sovereign credit rating may deteriorate. And there is always the possibility that Government resorts to regulation to force investors to buy more local debt.

Other Points of Interest: SOEs, Economic Diversification and Foreign Borrowing

The Minister placed emphasis on State-Owned Enterprises (the terminology seems to have gone back to SOEs from the term public enterprise). She states:





0,0005	4,85%
0,0003	13,04%
0,0001	50,00%
0,0003	14,29%
0,0005	12,50%

“The Medium-Term Expenditure Framework (MTEF) for 2026/27 to 2028/29 prioritizes three pillars: economic growth through state-owned enterprises for job creation, a coordinated tax reform via the Medium-Term Revenue Strategy and maintaining a positive primary balance to manage debt.”

If the Minister seriously believes in “economic growth through state-owned enterprises for job creation” she has not been paying attention to SOE performance over the past decade. Nevertheless, she promises:

“The budget will focus on sectors like agriculture, youth employment, and creative industries, incorporating initiatives from SOEs. An economy diversification strategy will be introduced in February 2026 to promote growth in the non-resource sector.”

SOEs rather than central government will be expected to borrow more on the strength of their own balance sheets combined with central government loan guarantees:

“The government plans to transition from bond issuance to a diversified strategy that utilizes guarantees, aiming to enhance public investment through commercially viable SOEs.”

This only begs the question: how many SOEs are commercially viable. This is not straightforward to assess since most publish their Annual Financial Statements with significant lags.

Namibia is about to repay its second Eurobond after raising US\$750 million in 2015. The impression is given that such borrowing (not linked to particular projects) will not be repeated despite the fact that, on full repayment, Namibia will have maintained a good reputation in the market. The MYBR states:

“External financing remains modest but strategically for projects financing and primarily focusing on concessional and semi-concessional facilities from multilateral and bilateral lenders.”

Conclusions

This MYBR was the Minister’s first opportunity to stamp her views on the budget after the “business as usual” budget she inherited on 27 March 2025 soon after her appointment. Given slowing GDP growth and reduced revenues, she chose to maintain overall spending but shift resources from development to operational expenditure, mainly to meet important policy objectives in education and health outlined by President Nandi-Ndaitwah after the main budget had been tabled. This inevitably led to a higher budget deficit and higher overall debt and meant that she failed to achieve the objective of maintaining a primary budget surplus, an aim she had highlighted in the main budget and continues to highlight as a central objective.

Namibia’s experience with the Eurobond market is now over without any real assessment of its advantages and disadvantages and what the borrowed resources were used for. From now on it looks as if foreign borrowing will be limited to concessional project-related borrowing with SOEs having to take on greater debt on the strength of government guarantees. The situation may change completely once the first oil and gas Final Investment Decision is made.

With Government seemingly unable to reduce spending much below 40% of GDP and with growth slowing and global economic instability rising, the Minister appears to want to raise revenues as a share of GDP but at the same time reduce non-mining corporate tax and introduce lower corporate tax rates for certain classes of business. It is not clear what if anything is going to drive future growth in revenue. Certainly revenues from oil and gas are a long way off and revenues from green hydrogen elusive. At this stage it looks as if President Nandi-Ndaitwah’s term of office will be fiscally constrained throwing many of the spending plans contained in NDP6 into question. The Minister will have to reveal her hand more fully in her first real national budget next February.

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