Statement For the 2004/05 Budget
and
2004/05-2006/07
Medium Term Expenditure Framework

Presented By

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Minister Of Finance

24 March 2004

I. Opening Remarks

1. **Honourable Speaker, Honourable Members of the National Assembly**.

2. It is an honour for me to present the Appropriation Bill for the financial year 2004/05 and the Medium Term Framework for 2004/05, 2005/06 and 2006/07 Financial Years before this August House.

3. This year's Budget has been prepared against the background of a recovering international economic outlook and a challenging domestic economic situation. This calls for more prudence in macroeconomic policy management.

4. **Honourable Speaker**, there are hard choices to be made. On the one hand, we need to channel resources to tackle poverty, address health and social issues (including the HIV/AIDS pandemic), improve educational standards, develop our country's infrastructure and guarantee peace and stability. On

the other hand we need to contain the increasing level of national debt.

5. This year's budget is therefore about tough compromises. We are directing resources towards our development priorities, but we are also making large savings on non-essential expenditures.

6. We should treat the next financial-year not only as a challenge, but also as an opportunity. Yes, it will be a challenge because finances are tight, but it is also an opportunity for us to learn to manage our scarce resources more effectively and efficiently.

7. **Honourable Speaker,** some of the most important announcements I am making in my speech today are not about appropriation of money. Instead, they are about fundamental reforms to the budget process. These reforms are aimed at improving results from public expenditure, measured in terms of social and economic outcomes.

8. I will also explain how we are implementing policies to manage risks on Government's revenue and expenditure, and improve debt management.

9. Before I go into the details of the Main Budget estimates, let me give a brief overview of the recent economic situation globally, in the region and domestically.

II. Development in Global Economic, Regional and Domestic Economies

10. The world economic outlook for 2004 is reasonably promising since the economic growth in the world's biggest economy, the US, which is Namibia's major market for diamonds, is expected to recover to 3.9 percent in 2004. This is mainly a result of a large fiscal stimulus including low interest rate, tax cuts and high public spending.

11. The rest of the world's economy is also showing signs of recovery. The economy for the Euro area is expected to expand by about 2 percent on average, while Japan

is resisting a slide into recession, with a growth rate projected at 1.4 percent for 2004. With the opening up of the Chinese and Indian economies, growth in the Asian-Pacific region has been significant, with real GDP projected to increase on average by over 6 percent in 2004.

12. However, the US current account and fiscal deficits, as well as the weakening of the US dollar, may be considered as risk factors for the 2004 world economic outlook. The current account and fiscal deficits may undermine the sustainability of the recovery in the US economy, while the weakening of the US dollar could hurt exporting countries including Namibia.

13. **Honourable Speaker**, the Namibian economy cannot divorce itself from events on the African continent. We are part of the SADC region and we are members of SACU and the Rand Monetary Area, with close links to the South African economy.

14. It is encouraging to note that improving macroeconomic policies and rising commodity prices for exports are

now positively affecting economic growth on the African continent. As a result, growth is estimated at 3.3 percent for 2003. However, overall growth on sub-Saharan Africa remains too low to meet the Millennium Development Goals.

15. In **SADC,** real GDP growth is estimated at 3.0 percent in 2003 and is projected to increase further to 6.8 percent for 2004. Again, improving macroeconomic policies and rising commodity prices will positively affect this growth. However, compared to the rest of Sub-Saharan Africa, SADC countries experienced slower growth for the period 2001 to 2003.

III. Domestic Economic Review and Prospects

16. **Honourable Speaker**, **Honourable Members,** the underdevelopment of our economic base, characterised by low levels of diversification and weak industrial development, continues to exert adverse pressure on economic growth. This status quo makes our economy sensitive to exogenous shocks, such as commodity prices and exchange rate fluctuations.

17. The Namibian macro-economy was able to partly resist these external shocks, and a growth rate of 3.1 percent is estimated for 2003, which is slightly higher than projected in the Revised Budget. For 2004 a growth rate of 3.8 percent is projected.

IV. Industrial Development

18. **Primary industries** remain the backbone of our economy in terms of both employment creation and contribution to economic growth. Furthermore, these industries produce the bulk of the country's exports.

19. The **Agricultural sector** was negatively affected by drought and falling beef prices in 2003, while the effect of exchange rate fluctuations impacted negatively on our meat exports.

20. **The Fishing sector** showed signs of improvement in 2003 and is expected to improve further in 2004, mainly due to anticipated favourable oceanic conditions and the resultant recovery of stocks.

21. **Earnings from the mining sector** have been negatively affected by the strengthening of the Namibia dollar against the US dollar and the closure of NAMCO Diamond Mining Company. However, a new diamond mining company was formed out of the liquidated company and is expected to start operation early this year. A recovery is expected in the “other mining sub-sector” due to increased zinc output as well as higher international prices for zinc.

22. **Secondary Industries,** which are supposed to drive our economic expansion, are still underdeveloped. As a result, value addition in Namibia is still low and the consequence is that our exports are mainly primary goods. This is limiting the potential of creating much needed employment opportunities within Namibia. Such a situation can and should be reversed by the continuous promotion of manufacturing and diversification of markets and products.

23. **Tertiary industries** have experienced mixed fortunes as a consequence of the strengthening of the Namibia Dollar against the US dollar during 2003. While there

has been a negative effect on the tourism sector, other sectors such as wholesale and retail trade and transport and communication have benefited from the resultant lower interest and inflation rates in both Namibia and South Africa. This picture is expected to remain the same in 2004.

V. Sectoral Development and Prospects

24. In the **external sector**, the trade deficit is expected to deteriorate to 3.8 percent of GDP in 2003. Again, the strength of the domestic currency with the corresponding deterioration in Namibia's terms of trade was largely responsible for this development.

25. On the other hand, the current account balance remains healthy with an expected surplus of 6.2 percent in 2003. The cause is increased SACU revenue, returns on overseas investment, and development assistance.

26. The strengthening of the Namibia dollar is not all bad news. This is because interest rates and inflation have fallen drastically during the previous year.

27. The Bank of Namibia did cut lending rates by 5 percentage points during 2003. This was in line with interest rate trends in South Africa. Inflation rates were among the lowest since independence, averaging 7.3 percent in 2003. The inflationary outlook for 2004 remains benign. Low inflation and interest rates should help businesses to invest with confidence.

28. But, the fact that some players in the private sector, especially importers of consumables, have not translated low inflation rates and the strong Namibia dollar into lower commodity prices remains a concern.

VI. Financial Sector Development

29. The financial sector plays a crucial role in the process of economic growth and development in Namibia; hence the efficient operation of this sector is pivotal to Namibia's future economic prospects.

30. An important development undertaken to promote transparency and efficient operations in the financial

sector is the drafting of an anti-money laundering bill. The work on this bill is at an advanced stage.

31. Another positive development for the financial services sector is the removal of tax on interest earned on Namibian pension fund savings invested in South Africa. This means that retirement funds will be able to earn an additional N$150 million to N$200 million per year, to the benefit of Namibian savers.

32. Unfortunately, there is a concern that our private services providers in the financial sector are among the most expensive in the world. This situation makes access to financial services difficult, especially for the middle and low income earners.

33. Another concern that needs to be addressed is the rigid risk policies of commercial banks. Their unwillingness to make credit available without 100 percent collateral presents difficulties for Namibian entrepreneurs and SMEs.

34. We hope that with the opening of the financial markets through free trade agreements with other economic regions, and the resultant competition, these concerns will be addressed.

35. For the past years, Namibia continued to experience significant capital outflows. Government is developing measures to address this issue in the attempt to direct a higher proportion of Namibian savings towards productive domestic investment opportunities.

36. We are further looking at amendments recently introduced by South Africa to certain exchange control regulations to determine their possible benefits to Namibia, which can be tapped by Namibia through their application here.

37. The development of an empowerment policy in the financial sector has also become an urgent priority. I therefore challenge our financial sector to develop during this financial year a financial charter that addresses issues such as ownership, participation in

management and access to financial services by previously disadvantaged persons.

VII. Budget Outturn for 2003/04

38. In view of the recent developments in our tax revenue, as enunciated in my speech for the 2003/04 Revised Budget, it is important to shed some light on the current position of Government revenue and the challenges facing us in this regard.

39. As I indicated in my speech, there was a gross reduction of N$1.2 billion on the 2003/04 tax revenue. The main contributing factor - the strengthening of the Namibia dollar against other major currencies, particularly the US dollar has not yet abated. Our currency continues its strong performance and this is likely to depress Government tax revenue from our exporting industries.

40. **Honourable Speaker, Honourable Members,** despite this disappointing revenue picture for the past year, tax revenue still continues to be the major contributor to

total Government revenue, contributing more than 90 percent of total revenue during 2003/04. This trend is unlikely to change for the foreseeable future. Hence, efforts are underway to tighten and sharpen tax collection and tax administration in order to improve revenue collection.

41. Total revised expenditure for 2003/04 is expected to reach about 35 percent of GDP, as compared to about 34 percent for 2002/03. Although Government set itself an expenditure target of 30 percent of GDP in the MTEF, this target has not been met. This is attributed to personnel expenditure that has increased by more than 10 percent in 2003/04 as compared to 8 percent in 2002/03. This trend of overall expenditure should be reversed if Government expenditure is to remain sustainable.

42. **Honourable Speaker, Honourable Members**, let me now briefly look at the Government's debt situation.

43. Initially a debt ratio of 28.5 percent was estimated for the 2002/03 Revised Budget. The actual debt for that

year came to 25.2 percent of GDP, which is within range of the target. It is also reassuring that the bulk (85 percent) of total Government debt is domestic debt in the form of Treasury Bills and Government Bonds, and that the issue of crowding out the private sector has not arisen as yet.

44. The appreciation of the Namibia dollar will lessen the impact of interest payment on loans denominated in foreign currency, and the fall in domestic interest rates will also minimise the impact on domestic loans repayment.

VIII. Progress on policies implementation since the 2003/04 budget

45. **Honourable Speaker**, we have made significant progress on key policy initiatives that were announced in last year's budget speech. In terms of budgetary reform, we have now implemented **Medium Term Plans – or MTPs** – for all Line Ministries. I will explain more as to how we are changing the budgeting system.

The focus is on outcomes and benefits of expenditure, rather than financial inputs.

46. The reform of the **1991 State Finance Act** is at an advanced stage. The draft bill provides clarity on roles and responsibilities, as well as a clear legal and administrative framework for fiscal management. There are also procedures for the execution and monitoring of approved expenditure through a standardised commitment register to all line ministries.

47. In the past, Government's accounting and financial management systems were not adequately integrated. This resulted in delays in the production of financial data, caused by the need to reconcile the separate systems manually. The Ministry of Finance is now developing an **Integrated Financial Management System (IFMS**) that will significantly improve the availability of accurate and timeous Government financial reports, and curb overspending.

48. So far, over three hundred accounting personnel from various line ministries have been trained on the IFMS and we are confident that we can go live in April 2004.

49. The Ministry of Finance has noted with concern the proliferation of Ministerial accounts. This is contrary to the State Finance Act, and efforts are underway to limit such activities and to re-align such funding programmes to the Medium Term Expenditure Framework.

50. **Unemployment** remains one of the major challenges that face the Government and the entire country. According to the latest Namibia Labour Force Survey 2000, the rate of unemployment in Namibia is 34 percent using the broad definition and 20 percent when a strict definition is used.

51. Allocations were made in the past years' budgets to national development programmes and projects aimed at achieving the national development objective of employment creation. These projects are being successfully implemented and contributing to this key national objective.

52. The **Development Bank of Namibia (DBN)** was established to provide capital to entrepreneurs and to stimulate industrial and economic development. A Chief Executive Officer was appointed in November 2003, while his top Management team was appointed earlier this year. The DBN has benchmarked itself against the best development finance institutions in the world, and has established partnerships in terms of technical and other forms of cooperation with regional and international development finance institutions.

53. I am happy to announce that the Bank will be launched on 29 April 2004. In the months ahead the Namibia Development Corporation (NDC) and Development Fund of Namibia will be dissolved and their assets subsequently transferred to the Development Bank of Namibia, which will significantly improve the capital base of the Bank.

54. The **Central Governance Agency** was established in 2003 and is expected to come into full operation during the course of this year. The Chief Executive Officer was

appointed in 2003, and some of his senior management earlier this year. This has added momentum to the reforms of our parastatals.

55. **Air Namibia** will undergo a comprehensive restructuring and realignment process this year. This will include the introduction of a more economical and better-configured aircraft, as well as a possible expansion of the international route network to include London, UK. More importantly, an increase in the frequency of flights to Europe is envisaged.

56. Air Namibia's management is pursuing options to sell or lease the existing Boeing-747 aircraft. Any proceeds from the disposal of the aircraft will be used to reduce Government's financial commitments to the company.

57. The Government is making significant progress towards the establishment of the **SACU Secretariat**. I am happy to announce that the SACU Secretariat opened its doors in Windhoek in January 2004. The office will be fully staffed and equipped during the course of this year. I wish to take this opportunity, to extend a special

welcome to the first Executive Secretary of SACU, Ms Connie Moremi to her new home city, Windhoek.

58. As to SACU itself, I am pleased to inform that ratification by all member States is about finalised. The new SACU Agreement will thus come into force in April or May this year.

59. Final agreement is still to be reached with regard to the management of the SACU Common Revenue Pool and as to how the costs for the revenue pool management are to be shared. It is, however, expected that the new Revenue Sharing formula will already govern receipts from the Pool as from 2005/06.

60. **Honourable Speaker**, the democratised nature of the new Agreement brings tremendous opportunities, not only with regard to Government policies, but also especially for investors, other entrepreneurs and eventually all consumers.

61. The democratic nature of the new Agreement is already evidenced in the joint common Negotiating Team

currently engaged in negotiating Free Trade Agreements, with the United States of America, the European Free Trade Association (EFTA) and MERCOSUR (the Common Market of the South America's).

62. As these negotiations proceed, we must encourage all Namibians who have an interest to engage with the respective line ministries and responsible functionaries to ensure that their best interests are served.

63. Honourable Speaker, an essential characteristic of a customs union is a Common External Tariff of the customs duties that are applied to imports from outside of the Common Customs Area. The SACU Agreement goes further and also requires member States to apply the same excise duty regimes. It is as a consequence of this that I am also now announcing certain excise duty amendments.

64. The following percentage increase in excise duty now apply:

- Cigarettes 16.6 percent

- Cigarette tobacco 11.7 percent
- Cigars 15.7 percent
- Pipe tobacco 17.3 percent
- Natural unfortified wine 30.7 percent
- Sparkling wine 28.00 percent
- Fortified wine 16.0 percent
- Spirits 13.5 percent
- Clear / malt beer 9.0 percent
- Alcoholic fruit beverages 7.1 percent

65. In pursuance of our commitments under the SACU Agreement, these amendments will be deemed to have taken effect on 18 February 2004.

IX. Recommendations of the tax review

65. In last year's budget statement we announced significant reforms to be applied to our tax system.

These included:

- an increase in the income tax threshold for individuals from N$ 20, 000 to N$ 24, 000; and a reduction in tax rates across all income groups, and

- the reduction and simplification of Transfer Duty rates.

67. The aforesaid changes have already been implemented.

68. For 2004/05 we plan to implement the following tax reforms:
    - the introduction of anti-avoidance rules, inter alia, to address transfer pricing and thin capitalization; and
    - the introduction of a tax tribunal to handle “lower value” tax cases to expedite cases and relieve the burden on the Ministry of Justice.

69. The legislation is underway to Parliament.

70. The lack of adequate audit capacity in Government to combat tax evasion is a serious concern. We recently conducted an assessment on the audit capacity of the revenue management department with the assistance of our Swedish partners. This will enable us to respond to the identified audit capacity building needs in the Ministry.

71. In addition much more emphasis will be put on:

- Efficiency at operational levels such as the collection of outstanding tax debts;
- Ongoing rectification of errors on the tax system in order to use it as an enforcement tool;
- Improving the interface in terms of the computerized systems with the Revenue Management Department;
- Taxpayer education; and
- Ongoing training to tax officials.

X. Land tax

72. My Ministry, in cooperation with the Ministry of Lands, Resettlement and Rehabilitation is finalising the ground work for the operationalisation of land tax. We are developing the required legislative amendments to the tax laws and I am confident that during the second half of this year we should start billing landowners.

XI. Fiscal prospects and policies

73. The strength of the Namibia Dollar is expected to continue for the medium-term, putting pressure on exporters and subsequently on public revenue. In

particular, our diamond and other mining companies would be negatively affected by the strong currency.

74. On the positive side, SACU revenue for 2004/05 will be higher than originally forecasted. However, in subsequent years customs revenue is expected to decline as the new revenue sharing formula – which has the effect of reducing Namibia's share of the overall SACU customs pool and the impact of the RSA/EU trade agreement come into effect.

The total revenue estimate for the MTEF is N$36.3 billion which is broken down as follow:

2004/05 N$12.1 billion (an increase of 12 percent)
2005/06 N$11.7 billion (a decrease of 3.3 percent)
2006/07 N$12.5 billion (an increase of 6.8 percent).

I propose to utilise the increase in revenue for the 2004/05 financial to firstly, reduce the budget deficit, secondly, reduce the domestic debt stock and thirdly, to improve allocations to the development expenditure. The latter was improved from N$1.3 billion in the 2003/04 budget to N$1.6 billion in 2004/05.

75. The parastatal sector is another potential source of revenue for the Government. Therefore, we need to turnaround our loss-making parastatals to become profitable so that they can contribute to Government revenue.

76. Let me now turn to **debt management.** The Government debt stock is estimated to reach a 30.3 percent of GDP at the end of 2003/04, which represents a significant increase compared to the previous financial year.

77. The main contributor to higher debt levels is the persistent domestic budget deficit. Foreign loans for development projects, which fall outside the main budget, also add to the debt stock.

78. For 2004/05 we are forecasting a further increase in debt to 32.0 percent of GDP. Again, the increase is the result of the budget deficit and additional foreign loans outside the main budget. These foreign loans include those to major projects in the areas of agriculture and infrastructure development.

79. There is a need to reduce the debt to GDP ratio in order to bring down debt-servicing costs and ensure long-term fiscal sustainability. For this reason, I am proposing to limit the budget deficit over the MTEF period to 1.3 percent of GDP on average. The budget deficit for 2004/05 is projected at 1.6 percent of GDP. As a result, the debt ratio will decline to below 30 percent of GDP by the end of 2006/07.

80. I am hopeful that Government can reduce the budget deficit still further with increased efficiency in expenditure and improved revenue collection.

81. Secondly, Government is introducing a Sovereign Debt Management Strategy. The overall objective of the strategy is to ensure that the national debt remains

affordable and low risk. Amongst other policies, the strategy proposes the following:

- Strengthening the institutional and legal debt management framework;
- Establishing a modern and effective debt management office;
- Introducing strategic debt management benchmarks; and
- Developing the domestic financial market.

82. In terms of addressing the issue of contingent liabilities, the strategy sets out guidelines for issuing government loan guarantees and borrowing by parastatals. To reduce the cost of loan guarantee defaults, Government will introduce a system of levies on future loan guarantees.

83. Further, Government authorisation will be required for borrowings by parastatals.

84. The strategy further includes guidelines for external borrowings by offices/ agencies/ line Ministries to ensure that;

- Projects to be funded by foreign loans are considered priorities within the National Development Plan;
- Projects are economically viable and properly budgeted for;
- Interest rate terms and conditions on the loans are favourable; and
- Government is not exposed to exchange rate risks.

86. It is also expected that total issues of Government loan guarantees will decline when the Development Bank of Namibia becomes operational.

87. **Honourable Speaker, in terms of expenditure,** there is a need to make tough decisions this year, but national development priorities will not be neglected. To ensure fiscal sustainability, there has been a downward revision of budget ceilings for some votes. This is based on the following:

- A lower allowance for inflation because of improved inflation environment.
- The stronger Namibia Dollar will allow savings on foreign travel payments from the Subsistence and Travel.
- Lower domestic interest rates are expected to deliver savings on debt servicing costs.
- Reducing expenditure on overtime, goods and services, and furniture makes additional savings.
- All vacancies in the civil service, with exception of essential posts, will be frozen.
- Finally, reducing waste and increasing productivity will reduce total expenditure to reflect the ongoing improvements in efficiency that each Ministry should be able to make.

88. These amendments reflect the need for caution – not spending the gains we have made through efficiency savings and reduced inflation, but using these resources to bring the deficit to a more sustainable level.

89. Strict fiscal discipline will be required to deliver sustainable levels of debt and expenditure. We are reinforcing that by:

- Requiring Ministries to accept responsibility for meeting all their foreseeable costs (including pay) from within the ceilings set;
- Not accommodating additional requests for resources for any reasonably foreseeable expenditure for which no adequate provisions have been made in the main budget;
- Cabinet not authorising any new projects until they have been thoroughly examined by the Cabinet Treasury Committee;
- Introducing changes to ensure that we have early notice of possible over and under-spends, so that we can require the Ministry concerned to take the necessary corrective action; and
- Strictly adhering to the borrowing target as stipulated in the draft Sovereign Debt Management Strategy

90. **Honourable Speaker, Honourable Members,** the total resource envelope for the next three years excluding

Statutory obligations is **N$34.4 billion,** which is broken down as follows:

- Total expenditure of **N$11.5 billion** has been budgeted for the Financial Year 2004/05 of which **N$9.9 billion** is allocated for operational expenditure and **N$1.6 billion** allocated to the Development budget;

- A total expenditure of **N$11.1** billion has been budgeted for the Financial Year 2005/06 of which **N$9.8 billion** is allocated for operational expenditure and **N$1.3 billion** allocated to the Development budget;

- A total expenditure of **N$11.8 billion** has been budgeted for the Financial Year 2006/07 of which **N$10.4 billion** is allocated for operational expenditure and **N$1.4 billion** allocated to the Development budget.

91. For **Statutory obligations**, an amount of **N$3.6 billion** is estimated for the MTEF period.

92. The sectoral allocations for MTEF period are as follow:

- Administrative Sectors **N$7.1 billion (20.5%)**;
- Public Safety sectors **N$7.1 billion (20.5%)**;
- Social Sectors **N$14.7 billion (42.7%)**;
- Economic Sectors **N$3.6 billion (10.5%)**;
- Infrastructure Sector **N$2.0 billion (5.8%)**;

XII. Budgetary & Financial Reform

93. The financial constraints I have described mean that it is even more important that our budgeting processes and financial management practices are kept under review and are subject to continuing improvement. Those changes need not involve substantial additional expenditure. Managing smarter potentially enables us to improve social outcomes, without spending substantially higher sums.

94. Honourable Speaker, the Budget process is changing – from a focus on Namibian dollars spent to a focus on outcomes and the benefits that the people of Namibia experience as a result of the decisions taken. My Honourable predecessor laid a solid foundation for that change. He introduced the first 3-year rolling budget set

in the context of a Medium Term Expenditure Framework (MTEF).

95. This year, we have taken another significant step in the MTEF process with the introduction of Medium Term Plans. Those plans are designed to enable policy makers and their advisers to take a holistic view of the activities of each Ministry and of any expenditure proposals it may make.

96. Ministries will now record in one place all the expenditure of a Ministry (not just operational budget or Voted monies) and link that expenditure, through the priorities and activities it finances, with the outcomes and achievements it produces. We intend to move to a fully-fledged “programme budget during the budget cycle.

97. The Medium Term Plans in front of you are not yet perfect and will need to improve over time. Nonetheless, I am publishing them today, in the spirit of openness and accountability that characterises our approach. I hope Honourable Members of this August

House and the Namibian public will take the opportunity to study them and to provide us with feedback to assist in that process of continuing improvement.

98. Honourable Members will find full details of expenditure plans, and what Ministries intend to achieve as a result, in the Estimates of Expenditure and Revenues and the Medium Term Plans.

99. Government is always grateful to the Development Partners who provide us with valuable financial and technical assistance. Government needs to ensure that those resources are also used efficiently and in line with our priorities. The Votes of the two Education Ministries have been increased to reflect additional funds, through State Revenue Fund, being made available by the European Union and the Swedish International Development Agency.

100. In the coming year, we will be working with all our Development Partners to ensure that an increasing element of the funds they provide pass through the State Revenue Fund and, where that is not possible,

other funding mechanisms are put in place that maximise the benefit to Namibia from their assistance.

101. Cabinet directed the Ministry of Finance to undertake a review of the public procurement process, which is currently underway. The preliminary findings suggest that there is much that can be done to improve value for money and thus free up more resources for development.

XIII. Policy Priorities for the Medium Term Expenditure Framework (MTEF) Period

102. **Honourable Speaker,** I have described how it is crucial for Government to control levels of expenditure in order to get its finances into shape. When resources are squeezed, it is even more important that expenditure is focused on priority policy areas where lasting and meaningful results are expected.

103. The four main priority areas over the next MTEF period are:

- Debt management

- Economic growth
- Social development; and
- Poverty reduction;

104. I have already alluded to the required measures to be taken to improve efficiency in debt management.

105. On the **Economic growth: Honourable Speaker, Honourable Members,** the Government is committed to creating a conducive environment for economic growth and to stimulate employment opportunities. An amount of about N$3.7 billion is allocated to the economic and infrastructure sectors over the MTEF period.

106. We need to stimulate economic growth by means of attracting more inward investment to Namibia. To achieve this objectives we are implementing major infrastructure and human capital development projects across the country.

107. These include the **northern railway extension project and the Outapi-Tsandi-Okahao, the Opuwo-**

Omakange, the Kamanjab-Omakange and Rosh Pinah-Aus roads.

108. Other important infrastructure projects include the **rural electrification programme** and the **rural water supply programme**, which aim to provide electricity and water supply services to rural communities. Approximately N$182 million is allocated to these programmes in the MTEF.

109. An amount of N$366 million is allocated in this year's budget to help Air Namibia meet its financial obligations and to support the new business plan.

110. We further allocate N$20 million in order to kick-start the Green Scheme that seeks to stimulate the expansion of the agricultural sector and create job opportunities.

111. Furthermore, the fight against **HIV/AIDS, tuberculosis and malaria** in Namibia will receive a financial boost of N$200 million over the next three years from the Global Fund. The Global Fund was set up in January 2002 as

a financial instrument to attract, manage and disburse additional resources through a new public-private partnership by the international community.

112. Currently, the Ministry of Health and Social Services, is working on the internal arrangements with regard to work plans and disbursements based on budgets received from all local stakeholders involved in combating these diseases.

113. In order to address the plight of **Orphans and Vulnerable Children,** Government allocated N$10 million in the previous Budget. I am informed that there have been logistical delays in setting up the fund. I am further assured that this money will be utilised in the coming financial year.

114. On **Poverty reduction,** elderly people head many low-income households in Namibia with limited access to income generating opportunities. At the same time, society is increasingly relying upon our senior citizens to raise and care for orphans and other vulnerable children. In recognition of this, an increase in the State

pension from N$250 per month to N$300 per month is provided for.

XIV. Economic Challenges

115. **Honourable Speaker**, within a favourable macroeconomic framework, Namibia must continue to encourage investment and address key policy issues to promote growth, employment creation and poverty reduction. In addressing these key challenges, the following key issues must be considered:

- The **poor**, especially in the rural areas often lack easy access to basic services. The Government is implementing economic and social projects to address this issue. The Development Budget provides for more detail.

- Capacity building in the public sector especially with regard to trade policy analysis and negotiation, and statistical and data analysis, would be addressed. This is critical for social and economic development of our country.

116. Efforts aimed at further exploring the corporate and income tax system will continue in order to make the system as progressive as possible.

XV. Conclusion

117. **In conclusion, Honourable Speaker,** I am very thankful to the Hon. Members of Cabinet for their understanding of the need to restrain the expenditures during this time of economic challenges, and I look forward to their continued support.

118. I also look forward to the same support from Honourable Members of this August House.

119. With these remarks, it is now my honour to table the Appropriation Bill for 2004/05 and the MTEF for the Financial Years 2004/05 to 2006/07 before this Honourable House for its consideration and approval.

I thank you.

SUMMARY OF OPERATIONAL EXPENDITURE (N$' 000)

No	Title	Actual Operational 2002-03	Revised Operational 2003-04	Estimate Operational 2004-05	Estimate Operational 2005-06	Estimate Operational 2006-07
01	President	69,761	77,497	70,485	74,635	85,068
02	Prime Minister	106,095	109,066	78,868	74,612	80,907
03	National Assembly	44,498	52,248	51,453	53,925	58,593
04	Auditor General	13,249	15,310	16,647	17,048	18,105
05	Civic Affairs	61,743	87,990	70,085	59,560	68,095
06	Police	673,295	722,813	717,350	694,168	664,170
07	Foreign Affairs	380,877	201,563	184,455	179,709	205,318
08	Defence	869,179	907,061	986,738	1,052,775	1,084,813
09	Finance	2,229,643	1,245,784	1,172,683	1,010,818	980,808
10	Basic Education, Sport and Culture	2,138,193	2,318,341	2,292,410	2,256,750	2,298,337
11	National Council	24,903	26,083	24,053	25,794	27,730
12	Women Affairs and Child Welfare	92,278	98,041	93,596	98,728	105,225
13	Health and Social Services	1,424,061	1,590,244	1,614,303	1,671,751	1,853,269
14	Labour	46,030	39,787	37,802	40,898	46,456
15	Mines and Energy	31,413	43,445	41,595	43,039	44,438
16	Justice	86,127	100,872	99,471	103,616	97,343
17	Regional and Local Government and Housing	389,924	371,030	341,951	347,996	397,397
18	Environment and Tourism	133,976	147,030	131,891	140,507	160,641
19	Trade and Industry	66,915	70,791	67,511	69,734	75,314
20	Agriculture, Water and Rural Development	401,391	405,062	407,574	437,186	484,731
21	Prisons and Correctional Services	121,140	130,465	130,417	140,704	144,383
22	Fisheries and Marine Resources	80,884	94,486	91,473	96,142	109,352
23	Works	233,964	272,488	261,282	268,412	300,559
24	Transport and Communication	80,980	94,894	92,744	96,846	106,043
25	Lands, Resettlement and Rehabilitation	52,136	58,880	51,613	53,148	59,165
26	National Planning Commission	32,005	35,396	35,064	36,162	41,369
27	Higher Education, Training and Employment Creation	369,074	510,040	515,538	528,205	583,456
28	Electoral Commission	16,717	51,192	54,206	6,684	7,604
29	Attorney General	38,483	53,216	51,751	52,256	56,198
30	Information and Broadcasting	0	150,460	132,090	99,999	114,277
	TOTAL	**10,308,934**	**10,081,575**	**9,917,099**	**9,831,807**	**10,359,164**

SUMMARY OF DEVELOPMENT EXPENDITURE (N$' 000)

No	Title	Actual Development 2002-03	Revised Development 2003-04	Estimate Development 2004-05	Estimate Development 2005-06	Estimate Development 2006-07
01	President	83,946	79,449	120,409	40,000	99,215
02	Prime Minister	0	0	0	0	0
03	National Assembly	646	515	590	635	367
04	Auditor General	0	0	0	0	0
05	Civic Affairs	550	5,341	5,178	3,000	17,466
06	Police	33,404	26,750	34,858	37,516	28,467
07	Foreign Affairs	48,902	23,675	36,643	37,380	36,746
08	Defence	86,458	86,696	101,150	167,700	259,922
09	Finance	19,987	13,490	20,000	31,881	39,333
10	Basic Education, Sport and Culture	123,524	116,514	106,945	115,930	95,541
11	National Council	0	0	0	0	0
12	Women Affairs and Child Welfare	3,155	11,638	13,200	11,000	7,239
13	Health and Social Services	84,379	86,218	94,276	95,381	95,541
14	Labour	9,301	6,401	4,000	8,000	13,663
15	Mines and Energy	47,491	50,783	58,500	55,000	46,363
16	Justice	12,152	16,246	21,390	38,000	22,048
17	Regional and Local Government and Housing	48,023	65,571	60,000	75,903	69,340
18	Environment and Tourism	6,341	6,697	3,450	3,435	7,371
19	Trade and Industry	32,355	38,837	54,820	54,581	32,000
20	Agriculture, Water and Rural Development	107,652	104,933	144,886	144,254	95,673
21	Prisons and Correctional Services	16,887	9,416	15,875	16,000	18,256
22	Fisheries and Marine Resources	21,480	24,754	27,000	22,000	22,562
23	Works	39,820	29,339	24,511	10,060	18,592
24	Transport and Communication	161,751	293,136	461,000	157,000	187,560
25	Lands, Resettlement and Rehabilitation	42,697	94,143	105,448	92,700	72,997
26	National Planning Commission	6,854	22,958	20,516	17,000	11,873
27	Higher Education, Training and Employment Creation	51,641	37,505	44,000	35,102	55,312
28	Electoral Commission	0	0	0	0	0
29	Attorney General	0	0	1,000	1,000	1,978
30	Information and Broadcasting	0	33,382	20,355	36,699	43,231
	TOTAL	**1,089,396**	**1,284,387**	**1,600,000**	**1,307,157**	**1,398,656**

SUMMARY OF OPERATIONAL AND DEVELOPMENT EXPENDITURE (N$' 000)

No	Title	Actual Total 2002-03	Revised Total 2003-04	Estimate Total 2004-05	Estimate Total 2005-06	Estimate Total 2006-07
01	President	153,708	156,946	190,894	114,635	184,283
02	Prime Minister	106,095	109,066	78,868	74,612	80,907
03	National Assembly	45,144	52,763	52,043	54,560	58,960
04	Auditor General	13,249	15,310	16,647	17,048	18,105
05	Civic Affairs	62,293	93,331	75,263	62,560	85,561
06	Police	706,698	749,563	752,208	731,684	692,637
07	Foreign Affairs	429,779	225,238	221,098	217,089	242,064
08	Defence	955,637	993,757	1,087,888	1,220,475	1,344,735
09	Finance	2,249,631	1,259,274	1,192,683	1,042,699	1,020,141
10	Basic Education, Sport and Culture	2,261,717	2,434,855	2,399,355	2,372,680	2,393,878
11	National Council	24,903	26,083	24,053	25,794	27,730
12	Women Affairs and Child Welfare	95,433	109,679	106,796	109,728	112,464
13	Health and Social Services	1,508,440	1,676,462	1,708,579	1,767,132	1,948,810
14	Labour	55,331	46,188	41,802	48,898	60,119
15	Mines and Energy	78,904	94,228	100,095	98,039	90,801
16	Justice	98,279	117,118	120,861	141,616	119,391
17	Regional and Local Government and Housing	437,948	436,601	401,951	423,899	466,737
18	Environment and Tourism	140,317	153,727	135,341	143,942	168,012
19	Trade and Industry	99,270	109,628	122,331	124,315	107,314
20	Agriculture, Water and Rural Development	509,044	509,995	552,460	581,440	580,404
21	Prisons and Correctional Services	138,027	139,881	146,292	156,704	162,639
22	Fisheries and Marine Resources	102,364	119,240	118,473	118,142	131,914
23	Works	273,783	301,827	285,793	278,472	319,151
24	Transport and Communication	242,731	388,030	553,744	253,846	293,603
25	Lands, Resettlement and Rehabilitation	94,833	153,023	157,061	145,848	132,162
26	National Planning Commission	38,860	58,354	55,580	53,162	53,242
27	Higher Education, Training and Employment Creation	420,715	547,545	559,538	563,307	638,768
28	Electoral Commission	16,717	51,192	54,206	6,684	7,604
29	Attorney General	38,483	53,216	52,751	53,256	58,176
30	Information and Broadcasting	0	183,842	152,445	136,698	157,508
	TOTAL	**11,398,331**	**11,365,962**	**11,517,099**	**11,138,964**	**11,757,820**

SUMMARY OF STATUTORY EXPENDITURE (N$' 000)

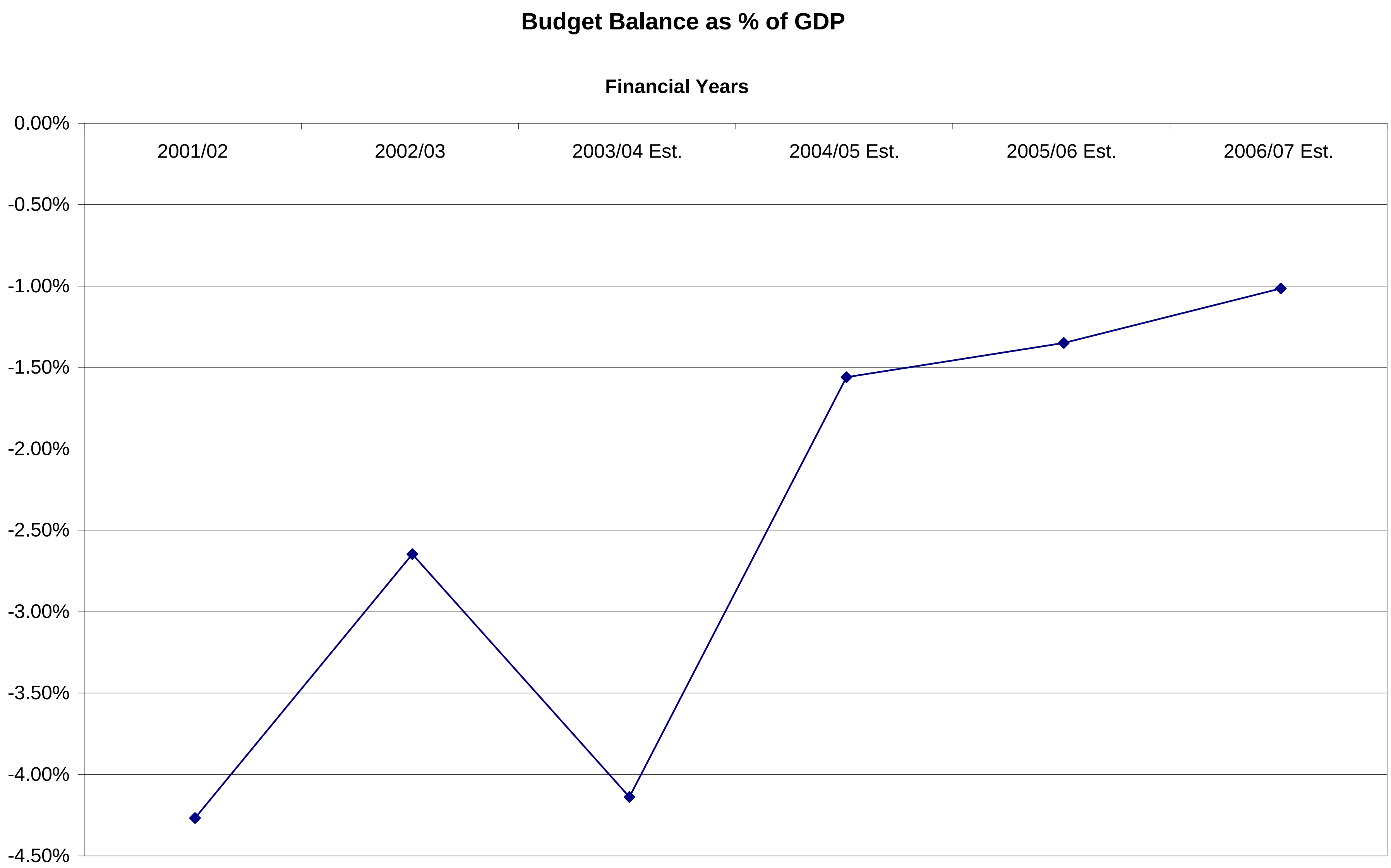
Title	Actual Statutory 2002-03	Revised Statutory 2003-04	Estimate Statutory 2004-05	Estimate Statutory 2005-06	Estimate Statutory 2005-06
Statutory	907,637	877,416	1,175,955	1,155,743	1,225,540
TOTAL	**907,637**	**877,416**	**1,175,955**	**1,155,743**	**1,225,540**

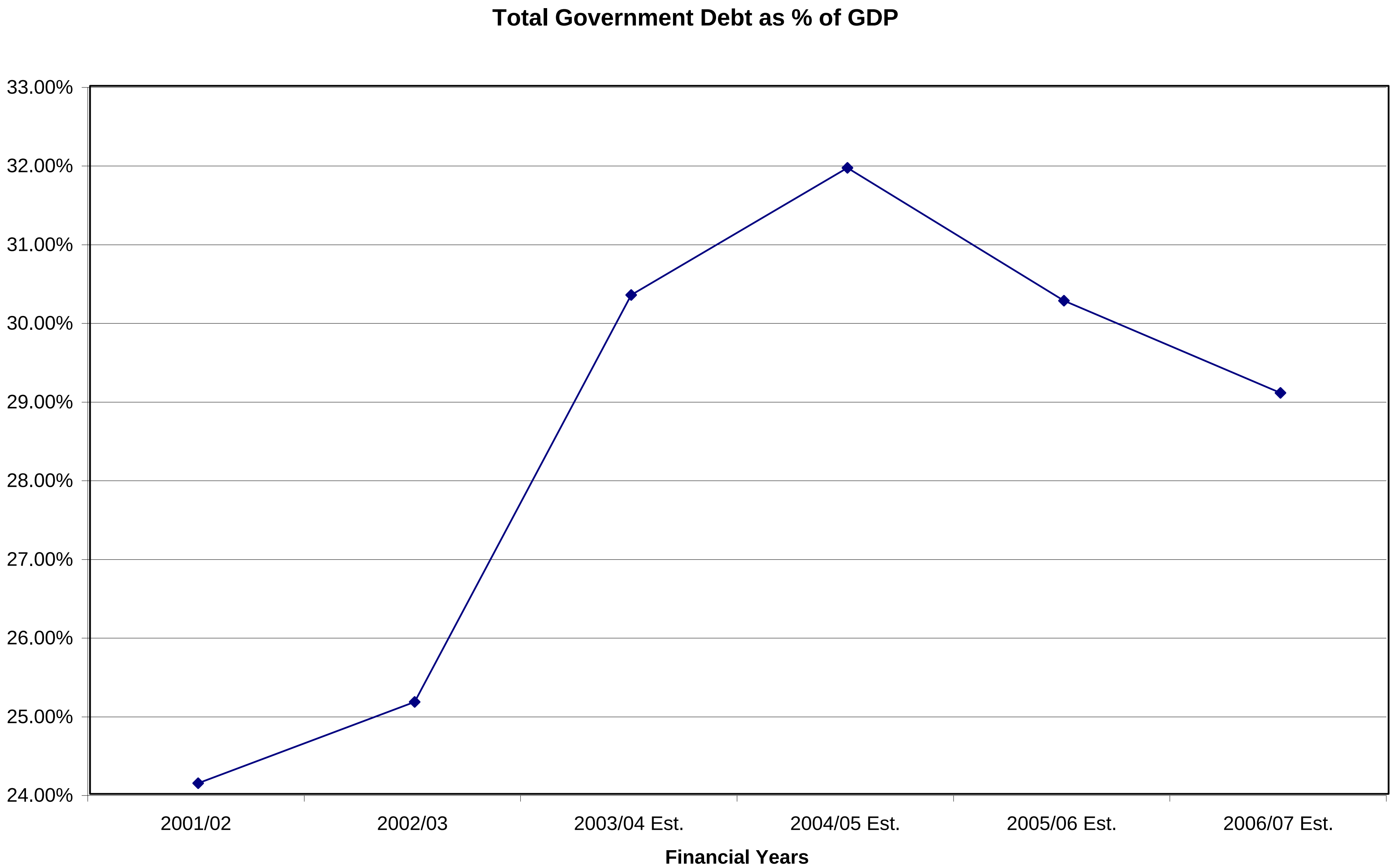
Government's financial operations

In N$ Million	Actual 2001/02	Actual 2002/03	Estimates Revised 2003/04	Estimates Main 2004/05	Estimates Main 2005/06	Estimates Main 2006/07
GDP	**28,158.4**	**31,485.0**	**33,940.8**	**37,514.0**	**41,470.8**	**45,888.1**
REVENUE AND GRANTS						
Taxes on income and profits	3285.6	4442.3	3758.0	3566.6	3947.7	4433.9
Taxes on property	64.1	79.3	90.0	92.8	97.8	107.6
Domestic taxes on goods and services	2107.4	2135.7	2821.0	2945.8	3175.3	3418.7
Taxes on international trade	2641.2	2596.9	3035.7	4206.8	3251.8	3284.3
Other taxes	67.6	75.6	80.0	90.0	101.3	113.9
Total Tax Revenue	**8165.9**	**9329.8**	**9784.6**	**10902.0**	**10573.8**	**11358.4**
Entrepreneurial and property income	463.4	703.2	663.4	691.6	699.9	711.7
Fines and forfeitures	18.2	19.6	20.0	21.0	22.0	23.5
Administration fees and charges	254.0	382.3	275.7	372.3	323.1	324.1
Return on capital from lending and equity	21.4	15.9	35.8	36.4	35.5	36.3
Total Non-Tax Revenue	**757.1**	**1121.1**	**995.0**	**1121.3**	**1080.5**	**1095.6**
Total revenue (own sources)	**8923.0**	**10450.9**	**10779.7**	**12023.3**	**11654.4**	**12454.0**
Grants	**58.1**	**34.4**	**55.9**	**80.8**	**76.5**	**59.5**
Loans earmarked for on-lending	**116.8**	**76.8**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL REVENUE AND GRANTS	**9097.9**	**10562.1**	**10835.6**	**12104.1**	**11730.9**	**12513.5**
EXPENDITURE						
Current Expenditure						
Personnel expenditure	4325.5	4708.9	5199.2	5303.6	5417.3	5598.6
Expenditure on goods and other services	1977.3	1993.6	2029.2	1774.8	1775.4	2013.1
Statutory	602.7	907.6	877.4	1176.0	1155.7	1225.5
Subsidies and other current transfers	1769.2	1892.8	2261.5	2269.8	2294.4	2513.6
Total Current Expenditure	**8674.7**	**9503.0**	**10367.3**	**10524.1**	**10642.8**	**11350.8**
Capital Expenditure						
Capital expenditure	1098.7	1158.7	1363.4	1594.6	1336.8	1424.2
Capital transfers	51.1	87.2	112.7	208.3	140.1	138.4
Total lending and equity participation	477.8	649.7	400.0	366.0	175.0	70.0
Total Capital Expenditure	**1627.7**	**1895.7**	**1876.1**	**2168.9**	**1651.9**	**1632.6**
TOTAL EXPENDITURE	**10302.4**	**11398.7**	**12243.4**	**12693.1**	**12294.7**	**12983.4**
OVERALL DEFICIT (-)/ SURPLUS (+)	**-1204.5**	**-836.6**	**-1407.8**	**-589.0**	**-563.8**	**-469.8**
Current Balance	**423.1**	**1059.1**	**468.3**	**1579.9**	**1088.1**	**1162.8**
Primary Balance	**-601.8**	**71.0**	**-530.4**	**587.0**	**591.9**	**755.7**
TOTAL FINANCING						
Net borrowing for budget deficit	1206.5	699.3	1407.8	589.0	563.8	469.8
Decrease (+)/ Increase (-) in cash balance	-2.0	137.3	0.0	0.0	0.0	0.0
TOTAL FINANCING	**1204.5**	**836.6**	**1407.8**	**589.0**	**563.8**	**469.8**
TOTAL CENTRAL GOVERNMENT DEPT	**6796.5**	**7924.3**	**10298.6**	**11988.6**	**12552.7**	**13352.0**
Domestic Debt	5946.9	6712.0	8606.2	9855.2	9893.6	10464.0
Foreign Debt	1555.5	1212.3	1692.4	2133.4	2659.1	2888.0

Government's financial operations

In % of GDP	Actual 2001/02	Actual 2002/03	Estimates Revised 2003/04	Estimates Main 2004/05	Estimates Main 2005/06	Estimates Main 2006/07
GDP	**28,158.4**	**31,485.0**	**33,940.8**	**37,514.0**	**41,470.8**	**45,888.1**
REVENUE AND GRANTS						
Taxes on income and profits	11.67%	14.11%	11.07%	9.51%	9.52%	9.66%
Taxes on property	0.23%	0.25%	0.27%	0.25%	0.24%	0.23%
Domestic taxes on goods and services	7.48%	6.78%	8.31%	7.85%	7.66%	7.45%
Taxes on international trade	9.38%	8.25%	8.94%	11.21%	7.84%	7.16%
Other taxes	0.24%	0.24%	0.24%	0.24%	0.24%	0.25%
Total Tax Revenue	**29.00%**	**29.63%**	**28.83%**	**29.06%**	**25.50%**	**24.75%**
Entrepreneurial and property income	1.65%	2.23%	1.95%	1.84%	1.69%	1.55%
Fines and forfeitures	0.06%	0.06%	0.06%	0.06%	0.05%	0.05%
Administration fees and charges	0.90%	1.21%	0.81%	0.99%	0.78%	0.71%
Return on capital from lending and equity	0.08%	0.05%	0.11%	0.10%	0.09%	0.08%
Total Non-Tax Revenue	**2.69%**	**3.56%**	**2.93%**	**2.99%**	**2.61%**	**2.39%**
Total revenue (own sources)	**31.69%**	**33.19%**	**31.76%**	**32.05%**	**28.10%**	**27.14%**
Grants	**0.21%**	**0.11%**	**0.16%**	**0.22%**	**0.18%**	**0.13%**
Loans earmarked for on-lending	**0.41%**	**0.24%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
TOTAL REVENUE AND GRANTS	**32.31%**	**33.55%**	**31.92%**	**32.27%**	**28.29%**	**27.27%**
EXPENDITURE						
Current Expenditure						
Personnel expenditure	15.36%	14.96%	15.32%	14.14%	13.06%	12.20%
Expenditure on goods and other services	7.02%	6.33%	5.98%	4.73%	4.28%	4.39%
Statutory	2.14%	2.88%	2.59%	3.13%	2.79%	2.67%
Subsidies and other current transfers	6.28%	6.01%	6.66%	6.05%	5.53%	5.48%
Total Current Expenditure	**30.81%**	**30.18%**	**30.55%**	**28.05%**	**25.66%**	**24.74%**
Capital Expenditure						
Capital expenditure	3.90%	3.68%	4.02%	4.25%	3.22%	3.10%
Capital transfers	0.18%	0.28%	0.33%	0.56%	0.34%	0.30%
Total lending and equity participation	1.70%	2.06%	1.18%	0.98%	0.42%	0.15%
Total Capital Expenditure	**5.78%**	**6.02%**	**5.53%**	**5.78%**	**3.98%**	**3.56%**
TOTAL EXPENDITURE	**36.59%**	**36.20%**	**36.07%**	**33.84%**	**29.65%**	**28.29%**
OVERALL DEFICIT (-)/ SURPLUS (+)	**-4.28%**	**-2.66%**	**-4.15%**	**-1.57%**	**-1.36%**	**-1.02%**
Current Balance	1.50%	3.36%	1.38%	4.21%	2.62%	2.53%
Primary Balance	-2.14%	0.23%	-1.56%	1.56%	1.43%	1.65%
TOTAL FINANCING						
Net borrowing for budget deficit	4.28%	2.22%	4.15%	1.57%	1.36%	1.02%
Decrease (+)/ Increase (-) in cash balance	-0.01%	0.44%	0.00%	0.00%	0.00%	0.00%
TOTAL FINANCING	**4.28%**	**2.66%**	**4.15%**	**1.57%**	**1.36%**	**1.02%**
TOTAL CENTRAL GOVERNMENT DEPT	**24.14%**	**25.17%**	**30.34%**	**31.96%**	**30.27%**	**29.10%**
Domestic Debt	21.12%	21.32%	25.36%	26.27%	23.86%	22.80%
Foreign Debt	5.52%	3.85%	4.99%	5.69%	6.41%	6.29%


Budget Balance as % of GDP
Financial Years
0.00%
-0.50%
-1.00%
-1.50%
-2.00%
-2.50%
-3.00%
-3.50%
-4.00%
-4.50%
2001/02
2002/03
2003/04 Est.
2004/05 Est.
2005/06 Est.
2006/07 Est.


Total Government Debt as % of GDP
33.00%
32.00%
31.00%
30.00%
29.00%
28.00%
27.00%
26.00%
25.00%
24.00%
2001/02
2002/03
2003/04 Est.
2004/05 Est.
2005/06 Est.
2006/07 Est.
Financial Years