Statement for the 2006/07 Budget

Presented by

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Minister of Finance

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Opening Remarks

Honourable Speaker, Honourable Members

1. The last Budget focussed on prudent fiscal management and the need to contain public debt within sustainable and affordable levels. This emphasis had to be made as a result of significant shortfalls in revenue which in turn were brought about by the significant strengthening of the Namibia Dollar. We had to focus on policies aimed at bringing down budget deficits and the total debt stock.

2. These policy interventions yielded the desired results. We managed to bring down the deficit from an all time high of 7.2 percent to 3.6 percent and the total debt stock stabilised. At the same time, we significantly improved revenue collections and experienced increased earnings from the SACU Revenue Pool. On the expenditure side, we managed a slowdown, albeit not significant. The demands for resources did not diminish and pressure on public resources remains high. The current situation, therefore, determines that we have to continue with fiscal prudence, but that we must at the same time engage in activities that grow the economy.

3. Last year, I also introduced a programme budget. This was the first time that we made use of such a format, which focused on programmes, the specific activities within programmes and their outcomes. We had some teething problems with it. I, however, remain confident that this approach is more transparent as it shows how public resources are allocated to priorities and how much expenditures impact on outcomes. This year, the programme budget has been consolidated further, but the process must be further refined.

Honourable Speaker

4. In the SWAPO-Party Election Manifesto we have committed ourselves to poverty reduction and job creation through accelerated economic growth and a more equitable distribution of income. To achieve this we maintained education, health, social welfare, infrastructure and productive sectors as priorities.

5. The choices and trade-offs that had to be made again showed that Namibia is still in a position where the needs for resources are much higher than what becomes available from own sources. This forces us to reach a consensus about priorities and I am satisfied that we have indeed achieved such a consensus.

6. Firstly, this budget places emphasis on economic growth which is pro poor. High priority is given to the development of the rural areas where most of the poor reside. Growth is promoted through improved resource allocations for the development of infrastructure such as roads and rails, schools, health facilities, water and electricity. This will improve the living standards of communities in these rural areas through the creation of jobs during construction and access to markets and services needed for economic advancement. We are also allocating more resources to welfare programmes that target the most vulnerable.

7. Secondly, this budget is set within macro economic benchmarks which ensure stability. The SWAPO-Party Election Manifesto pledges our commitment to low debt levels, both domestic and foreign, without reducing investment. This is to be achieved by promoting investment in the productive sector and supporting interventions that would create wealth and employment.

8. This Medium Term Expenditure Framework and the proposed budget for the coming financial year, therefore, strikes the balance between two priorities which is improved fiscal consolidation on the one hand and increased investment for economic growth on the other.

9. My introduction will, as is customary, set out the fiscal and economic background and will explain the resource allocations using programme budgeting and medium term plans. I shall also highlight the main drivers for the pro growth, pro poor approach.

Fiscal Policy

10. The National Budget is the main fiscal policy tool for Government to accomplish its development goals. In doing so, Government needs to address urgent needs and at the same time exercise care in drawing resources from the economy through the tax system.

11. Our efforts to address imbalances and at the same time keep public debt at low levels are paying off. Our good track record on fiscal consolidation to which I shall refer again in a moment, is a confirmation of our balanced fiscal policy. The investment undertaken by the private sector, both from Namibia and from abroad are also evidence that Government's macro economic policies have been successful.

Economic Growth and Poverty Reduction

12. The National Budget is more than just a system of numbers and graphs. Behind the figures that I will be presenting today is a strong fiscal statement. This Budget is a pro poor, pro growth budget. National consensus reached at the Cabinet Retreat in Swakopmund in November 2005 is well entrenched in this budget.

13. Through transfer systems and safety nets, we shall ensure that the vulnerable in our society, such as orphaned children and the elderly have a secured income. Through the provision of services in the areas of health and education, we provide Namibians with the necessary services to develop their human capital to full potential. Through investments in infrastructure and productive sectors, we create opportunities for economic growth and new jobs. Through the tax system we raise resources for financing public programmes and set the incentives to encourage economic activity in the country that will lead to job creation and economic growth.

Prioritization and sustainability

14. Optimal utilisation of the nation's finances requires the setting of priorities. Prioritization means tough decisions. We do not have access to unlimited resources. The main determination of the resource envelope in which Government operates is the revenue collection, which draws from a narrow revenue base. While Government may consider borrowing additional funds to invest in projects that will yield returns in the future, one should remain cautious about falling in a debt trap and bear in mind the burden that debt puts on future generations. Our daughters, sons and grandchildren will feel the effects of the increasing debt burden that we are placing upon them. Responsibility must, therefore, guide our design of fiscal policy.

Fiscal consolidation, outturn 04/05 and projection 05/06

15. The fiscal outturn for the current and the previous two financial years is a path of fiscal consolidation.

16. The financial year 2003/04 will go down as the year of a great shock to public revenue. That year recorded the highest-ever budget deficit of 7.2 percent of GDP. The Ministry of Finance did not watch this development

quietly. Expenditure cuts across the board were implemented in that year, and strict limits on expenditure growth were imposed in the following financial years of 2004/05 and 2005/06. A set of measures to improve revenue collection was also agreed upon and implemented. Together, these efforts have paved the way for fiscal consolidation.

17. The financial year 2004/05 recorded a budget deficit of 3.6 percent of GDP. This is a reduction by half from the 7.2 percent recorded in the year before. Still, this figure is above the outcome that we envisaged in the Main Budget. While expenditure was within the limits of the Appropriation, the revenue collection did not fully recover as the currency further appreciated.

18. The financial year 2005/06 will, according to current projections, mark a further step on the path of fiscal consolidation. Pending the closure of the financial year, it is currently estimated that the budget deficit is on target in absolute terms as foreseen in last year's Budget, and will reach 1.1 percent of GDP. This is the result of strict expenditure control, a real improvement in revenue collection and an upward revision in GDP projections.

Revenue, expenditure, debt at a glance

19. In 2004/05, we projected a strong recovery from the previous year's drop in revenue, and had foreseen to increase in total revenue collection by a staggering 23 percent (or N$ 2.3 billion). This was an ambitious goal. The actual outturn for 2004/05 was an additional N$ 1.7 billion. Two revenue components were mainly responsible for this shortfall: Value Added Tax and non tax revenue. Although this outturn was a shortfall from the budget projection, it was still a significant improvement of 17 % over the outturn of 2003/04.

20. The revenue projection for 2005/06 foresees a total increase in collection by 8.1 percent. This is mainly driven by an increase in domestic tax collection, which is set to increase by 22 percent, or N$ 1.4 billion. This was achieved without any major adjustment to tax rates, but mainly through revenue collection improvement and through broadening the tax base.

21. Among the most effective measures in increasing domestic tax collection is the clamping down on tax evaders. So far, a large scale Tax audit was conducted in the northern regions. This exercise not only had the effect that a few 'big fish' were discovered who had not been paying taxes, but the audits also sent a strong signal to companies about the obligation to pay taxes and the consequences of not complying with tax laws. Border round tripping has also been discovered to be a major source of tax fraud. The investigations have revealed that some public officials have participated in fraudulent activities, and both disciplinary and criminal proceedings are underway.

22. These measures have boosted the collection of income tax and Value Added Tax. The VAT collection, for example, has increased by nearly N$ 600 million until the end of January 2006, as compared to the same period in the previous financial year.

23. Expenditure increases from 2003/04 to 2005/06 were strictly limited to the most pressing issues. In fact, total expenditure has only increased by 4.6 percent over that three year period.

24. In summary, the last two financial years have seen a remarkable consolidation of public finances. The Budget deficit has been reduced sharply, and this has caused public debt to stabilize at its current levels. Fiscal consolidation is the first step towards a lower debt stock. By simple

arithmetic, the debt stock can only be reduced if revenue exceeds expenditure. As we are approaching balanced budgets, the level of public debt has stabilized at about 33 percent of GDP.

25. Our sound fiscal policy stance has received international recognition. One example is the independent evaluation of Namibia's creditworthiness through the first sovereign credit rating we have obtained last year. Fitch Ratings has assigned Namibia an investment grade, thereby putting Namibia in the small circle of countries in the region that have not been considered of speculative but of investment grade quality. The rating outcome is driven by the sound macroeconomic policies prevalent in the country.

26. The recent Article IV consultations by the International Monetary Fund also commended Namibia for its fiscal prudence. The temptation to, for short-term gains, borrow at levels where the ability to service and redeem such debt is wanting must be resisted.

27. The classification of Namibia as a middle income country creates serious challenges in accessing concessional funding. The fact that this classification relies exclusively on income per capita, it ignores one of the most important yardsticks for development and that is income disparity. Further, the policy to limit Official Development Assistance (ODA) to low middle income countries appears to punish countries which have implemented sound economic policies. In addition, it cannot be right to give low middle income countries such as Namibia the same terms for borrowing as are available to large developed countries. A compromised set of terms and conditions for this group of countries could bring us closer to an agreeable solution.

Achievements through expenditure

28. While the 2005/06 Budget is on target in terms of numbers, in terms of outcomes, the following achievements have been reached, amongst others, in recent years:

- 273 classrooms were built and renovated in schools under the Basic Education Upgrading and Renovation of Education Facilities Programme
- Over 315 locations in rural areas have been supplied with electricity through the Rural Electrification Programme,
- 20 clinics have been built in rural areas in different regions
- Several water pipeline projects have been completed, namely the Ombalantu, Oshivelo-Okankolo, Endola East, Katima Mulilo – Linyanti and Waterberg – Okakarara
- 123 kilometres of roads were built through labour intensive methods
- Phase I of the Northern Railway Extension has been completed
- A new Transmitter Network for the National Broadcaster was established in Tsumkwe
- Awareness campaigns on HIV/Aids are showing effect. An encouraging trend is that the rate of infection among pregnant women decreased from 22 percent in 2002 to 19.7 percent in 2004.
- Industrial parks at Opuwo, Omuthiya, Khorixas and Ovitoto were completed and successfully launched.

29. This list shows that we are also making progress towards achieving our development targets in terms outcomes. These outcomes not only improved living conditions, they also contributed to the expansion of economic activity in our country.

Economic Review and Outlook

Macroeconomic review and outlook

30. The Namibian economy recorded a robust growth in 2004. Real GDP expanded by about 6 percent. On average, the economy grew by 4.6 percent during the period from 2001 – 2004, which is slightly above the target of 4.3 percent set in NDP2. The prospect for the domestic economy is positive; real GDP is expected to grow by 3.2 percent in 2005 and by 3.9 percent in 2006. The forecasted growth rate for 2007 and 2008 is 4.0 and 3.3 percent, respectively.

31. However, the base of the Namibian economy remains narrow and the dependence on exports of raw products continues to persist. Efforts to diversify the economy must therefore be pursued with renewed vigour in order to achieve the targets of Vision 2030.

Monetary environment

32. Following the launch of the Namibia Consumer Price Index by the Central Bureau of Statistics last year, inflation figures for Namibia now cover the whole country. In 2005, inflation was estimated to be 2.2 percent. While increasing fuel prices are expected to exert upwards pressure on the inflation rate, these effects will be mitigated by a strong currency.

Export Sector and Current Account

33. Namibia's Current Account has recorded a solid surplus in the past years. In 2004 the Current Account was backed by a surplus in the trade and services balance, which followed a contraction of imports. The high SACU receipts also supported the current account balance. This development is however mirrored by the capital and financial account, which has recorded

sustained deficits in the past. Capital outflows remain high, thus depriving the country of much needed resources and hindering the built-up of foreign reserves. Banks, pension funds and insurance companies continue to invest heavily in foreign markets, mainly in South Africa. The agreed amendments to Regulation 28 are aimed at slowing down capital outflows and improving the reserve situation.

Global Economy: Growth prospects and risks

34. The positive domestic economic performance in 2004 was partly driven by a globally favourable economic performance. The major trading partners of Namibia, namely Europe, Japan, the United States of America, and member states of SADC performed well on average. Global output has expanded by 5.1 percent in 2004, up from 3.9 percent in the previous year. The SADC economies have recorded an average growth rate of about 4 percent. South Africa, which is the biggest economy in the region, achieved a growth rate of 3.7 percent.

35. Notwithstanding these positive growth projections for the region and the world economy, there are downside risks. Global imbalances in trade and capital flows, suggest serious risk that major adjustments of exchange rates will occur. A sharp fall in the US Dollar against major currencies would not only affect trade flows with the US, it would also affect the prices of commodities traded in this currency, oil and minerals being among them. Rising interest rates in the industrialized countries may affect global capital markets and negatively affect the currently favourable liquidity situation in emerging markets. Rising oil prices pose a threat to inflation and consumer demand in the world.

SADC, SACU, the FTAs and CMA

36. The commitment of Namibia to regional integration through the Common Monetary Area (CMA), the Southern Africa Customs Union (SACU) and the Southern African Development Cooperation (SADC) is an important aspect of pro growth development and risk mitigation.

37. Namibia, as a member of SACU, is involved in a number of free trade negotiations and there is progress to report. A Preferential Trade Agreement between SACU and MERCUSUR has been reach and signed. We are now continuing negotiations to improve market access.

38. The SACU/European Free Trade Area (EFTA) negotiations have been concluded and the proposed agreement is to be considered by the SACU Council. Thereafter it can be presented for signature.

39. SACU and India have agreed in principle to engage in negotiations for a free trade agreement. The first steps, namely to agree on the terms of reference and the negotiation agenda have been taken.

40. SACU has also agreed to pursue negotiations for a free trade agreement with China. Both, China and India are economies which will play an increasingly important role in the world economy, and that are huge markets that could be accessed profitably by our industries. Once the ongoing negotiations with USA and EU have been concluded, negotiations with China and India will proceed.

41. The SACU/USA free trade negotiations are ongoing. The USA as the biggest economy in the world would be a trade partner of great significance and therefore we are hopeful that such an agreement would soon be concluded and implemented. The AGOA agreement we have with the USA, which grants free access for a number of products to the US market,

is also an important factor for our export industry. This concessional arrangement has been extended to 2008 and Namibia is currently benefiting mainly by exporting textiles.

42. Namibia, as a member of SACU and SADC is part of the important negotiations with the European Union (EU) aimed at reaching a free trade agreement between SADC and the EU. These negotiations are ongoing and it is envisaged that they will be concluded by the end of next year.

43. Namibia's membership in the CMA has helped in maintaining macroeconomic stability. The promotion of trade, financial development and free flows of capital with CMA members has boosted our local economy. At the same time, as a consequence of the arrangement, the Bank of Namibia's monetary policy follows closely the inflation-targeting framework of the South African Reserve Bank. We are committed to the further deepening of the monetary integration, so as to shape the CMA into an arrangement from which Namibia not only benefits, but which it can actually influence through meaningful participation.

44. The CMA has relaxed exchange control regulations. In line with the long standing policy of promoting foreign investment by Namibian residents, the foreign capital allowance per emigrating family unit will be increased from the current N$ 1.5 million to N$ 4 million. Similarly, the foreign capital allowance available to a single person is increased form N$ 750,000 to N$ 2 million, while offshore investments by private individuals will equally be increased from N$ 750,000 to N$ 2 million per person. Institutional investors such as long term insurers, pension funds and unit trusts through unit trust management companies will allowed to invest offshore up to a maximum of 20 percent of their total assets.

45. I have in my previous budget speeches referred to the progress made in establishing the SACU Secretariat. I am pleased to inform that all professional positions have now been taken up, business plans and financial statements have been approved by the SACU Council of Ministers, and the Draft Headquarters Agreement has been agreed to. Some institutions such as the SACU Tariff Board, National Bodies and the ad-hoc Tribunal, however, still need to be established.

46. The future management of the SACU Common Revenue Pool requires further negotiation. Last year I have referred to the agreement whereby South Africa's International Trade Administration Commission (ITAC) will, for a transition period, continue to administer the Common External Tariff of SACU. This is to be done in consultation with the other Member States. The arrangement relates mainly to customs duties, whilst common excise duties are being set jointly by SACU Ministers of Finance.

47. The regional integration is an important aspect of our policies, and a crucial factor in promoting macroeconomic stability and growth. Trade and financial integration are driving factors of economic growth.

The Budget 06/07

Expenditure Priorities in the 06/07 Budget

48. We should resist the temptation to be complacent because of the overall satisfactory performance of our economy. While economic growth is essential for the development of our country, on its own it is not sufficient to ensure poverty reduction. Poverty, persisting disparities and high unemployment, continue to be pressing challenges that need to be addressed.

Honourable Speaker

49. Let me present to this House how the proposed resource allocation will help to improve the living conditions of all Namibians.

- We are increasing the grant for elderly people from the current N$ 300 to N$ 370 per month. This will result in an additional allocation of N$ 395 million over the MTEF period, of which N$ 124 million are foreseen for 2006/07.
- An allocation is made to the registration of Orphans and Vulnerable Children. This amount will enable the Government to properly identify OVCs, and ensure that assistance is extended to all the needy children.
- To address the urgent need to improve the quality of education, we are increasing the allocation to this sector over the MTEF period by N$ 1.3 billion, of which N$ 388 million will be allocated in 2006/07. Part of this additional allocation is to provide funding for the Education Training Sector Improvement Programme, ETSIP.
- Antiretroviral treatment coverage will be expanded and the quality and reach of regional and district health services will be improved. In addition, to address the urgent needs in patients' care we have provided funding for 105 expatriate nurses who will be working in Namibia for the next two years. For all this, the allocation to Health and Social Services has been increased by N$ 190 million over the MTEF period, of which N$ 61 million will be for 2006/07. In addition to this an external loan subsidized by the Finish Government has been sourced to finance the procurement of medical equipment for our various health centres. With this funding, our cardiac unit could, I am told, become operational.

50. In summary, social sectors will be receiving the bulk of expenditure over the MTEF period, with 47 percent of Government expenditure directed to this area.

51. Increasing social grants and expanding the safety net and improving the quality of Education and Health Services will surely improve living conditions. However, this is not enough and we need to address the causes of income poverty and inequities by tackling unemployment. Therefore, improvements of infrastructure and job creation are priority areas of this MTEF.

- Essential infrastructure development projects, namely the extension of the northern railway and the Aus-Luderitz railway will receive additional funds. This will not only speed up the completion of these important transport links, but it will also create employment through the use of labour intensive methods. Upon completion, market access through Namibia for other SACU and SADC member states will also be improved, and Namibia is to become a regional transport hub, as the transport corridors develop their full potential. To this end, the Ministry of Works, Transport and Communication received an additional allocation of N$ 387 million over the MTEF period.
- We shall also provide resources for the capitalisation of the Development Bank of Namibia. In total, over the MTEF period we will provide N$ 120.5 million. This will enable entrepreneurs to access finances for the establishment of businesses. The transfer of NDC assets will further strengthen the capital base of the Bank.

- We are committing a total of N$ 750 million over the MTEF period for the development of the Kudu gas field. Ensuring a reliable electricity supply is not only an obligation towards our citizens; it is also essential for maintaining Namibia's favourable investment climate.
- The productive sectors of Mining, Fishing and Agriculture are receiving substantial financial resources under the current MTEF. Together they receive N$ 2.6 billion over the MTEF period. The Greenscheme and aquaculture activities will be stimulating for the economy. The Agribank Act has been amended to broaden the Bank's mandate to include aquaculture.
- The MTEF is committing N$ 475 million towards developing Namibia as a popular tourist destination, which will help to develop new job opportunities in the tourism sector and related industries. Within this allocation, some resources have been made available towards improving the National Parks' infrastructure. For the Namibia Wildlife Resorts (NWR) a turnaround strategy is being implemented for which financing has been secured from the private sector.

52. In summary, 20 percent of Government's expenditure of the MTEF period will be directed to productive and infrastructure sectors.

53. Equally important for addressing the immediate needs of the poor is the creation of an environment that is conducive for private investment, an environment where Namibian entrepreneurship can flourish, an environment where jobs are created.

    - An allocation of N$ 13.5 million for the Anti Corruption Commission for this MTEF period is considered. The Understanding is that the

Commission is still developing their institutional framework. Once this is improved and completed, further funding could be considered.

- To strengthen public accountability, an additional allocation of N$ 5.8 million to the Auditor General's Office is proposed .
- The Office of the President, will receive an additional N$ 44 million for the completion of the State House. A quick completion of this project will prevent further cost escalation and will free up resources for other development projects.
- For the economy to grow, we need to provide the basis for peace and stability. Crime, be it physical abuse or white-collar offences, needs to be fought and the sovereignty of our country defended. The rule of law must be up held and protected. Therefore, an additional allocation of N$ 383 million over the MTEF period for combating crime and the safe custody of prisoners is made.
- Additional allocations of N$ 75 million for the MTEF period will enable the Ministry of Justice to complete the Oshakati High Court and to recruit new magistrates.

54. In summary, we will spend 33 percent of total Government expenditure in the areas of Public Safety and Administration.

Honourable Speaker

55. These are the spending priorities of the 2006/07 Budget and the remaining MTEF period.

Fiscal Sustainability maintained

56. Our commitment to prudent fiscal policies remains steadfast. We are not striving to achieve our fiscal targets for the sake of fulfilling targets and reporting numbers. It is, in fact, essential to adhere to fiscal discipline if we want to remain independent in the design of our policies and retain fiscal sovereignty.

57. That is why I am pleased to announce that, despite the additional expenditure mentioned earlier, we shall, as projected in the previous year's budget, have a budget surplus in 2006/07. The additional expenditure is offset by favourable developments on the revenue side, as a result of improved collections and higher earnings from the SACU pool. For 2007/08 and 2008/09 however revenue is projected to lag behind expenditure, generating budget deficits. This is mainly a result of a reduction in SACU receipts compared to the high levels for 2006/07.

The 06/07 Budget in numbers

58. I would now like to present the 2006/07 –2008/09 Budget in numbers:

Revenue

59. Starting from the revenue, over the MTEF period, total revenue and grants are estimated to total N$ 43.7 billion which is broken down as follows:

- 2006/07: N$ 15.3 billion
- 2007/08: N$ 14.0 billion
- 2008/09: N$ 14.4 billion

60. The proportions between tax and non-tax revenue for the MTEF period is projected to be as follows:

- 2006/07: tax revenue N$ 14.3 billion, non-tax revenue N$ 935 million
- 2007/08: tax revenue N$ 13.0 billion, non-tax revenue N$ 953 million
- 2008/09: tax revenue N$ 13.3 billion, non-tax revenue N$ 1.0 billion

61. The total revenue is influenced by the outturn of the revenue from the SACU pool which depends on the performance of the pool. This is likely to cause revisions for 2007/08 and 2008/09.

62. Total revenue as proportion to GDP will average 31.8 percent. Our efforts to increase revenue through improved compliance shall persist and additional revenues from domestic tax hold the best prospects.

Expenditure

63. Total expenditure over the MTEF period is estimated to reach N$ 45.4 billion. Of this, the operational expenditure will make up N$ 35.8 billion, or 79 percent. Expenditure through the development budget will total N$ 5 billion, or 11 percent, while statutory expenditure, mostly interest payment are estimated to total N$ 4.6 billion, or 10 percent. The total expenditure for the MTEF is broken down as follows:

- 2006/07: N$ 15.2 billion
- 2007/08: N$ 14.7 billion
- 2008/09: N$ 15.5 billion

64. As a percentage of GDP, total expenditure during MTEF is expected to be around 33 percent.

Budget Deficit and Debt

65. Despite the increase in expenditure, a budget surplus of N$ 114 million, or 0.3 percent of GDP, is still envisaged for 2006/07. For 2007/08 a budget

deficit of N$ 758 million, or 1.7 percent of GDP and for 2008/09 a deficit of N$ 1.2 billion, or 2.3 percent of GDP is projected. The average budget deficit over the MTEF period will, therefore, amount to 1.2 percent, well within our fiscal target of not exceeding 3 percent of GDP.

66. This situation will help to stem the increase of public debt. In effect, we estimate a debt stock of 33.7 percent of GDP for the end of 2006/07, 33.3 percent at the end of 2007/08 and a reduction to 32.4 percent in 2008/09.

Policies underlying the budget: review and outlook

Revenue

67. 2005/06 has seen significant improvements in revenue collection. As I mentioned earlier, the clampdown on tax evaders has resulted in increased collection and we shall continue doing so. The upcoming financial year will see forensic tax audits move into other regions of the country, starting with Windhoek in the next month. The close monitoring of border activities will continue so as to put an end to the illegal tax evasion practices.

68. I had announced last year a series of proposed amendments to the existing tax legislation. The areas under consideration are ring-fencing of assessed losses, collection of outstanding debt, implementation of withholding tax on interest, deemed VAT input, luxury VAT rate, environmental tax, tax on unit trusts, transfer duty amendments and reduction of tax deductible allowances.

69. The initial consultations with the private sector partners have been conducted and we were informed that there would be some practical issues, such as the adjustment of the financial IT systems of the banks, which have to be implemented to effect this tax amendment. These matters are now under consideration and will hopefully be concluded during this year.

70. Tax incentives could be a meaningful tool of industrial policy. It must however be ensured that the returns of such an incentive policy generate net gains for the country. The existing incentive schemes are currently under review. A good tax incentive scheme is one where socio-economic benefits outweigh its financial costs. The outcome of our incentives review will determine which way we shall proceed in this regard.

71. Excise duties within SACU are being jointly determined by SACU Finance Ministers. Amendments were announced by the South African Minister of Finance, Honourable Trevor Manuel, in his Budget Proposals on the 15th February 2005. These increases are for the benefit of the SACU Common Revenue Pool. In pursuance of our commitments under the SACU Agreement, the following nominal percentage increases in excise duties have been implemented as from the 16th February 2006:

-	Malt beer	9.5 %
-	Traditional African beer	0 %
-	Unfortified wine	12.5 %
-	Fortified wine	10 %
-	Sparkling wine	20 %
-	Ciders & alcoholic fruit beverages	9 %
-	Spirits	9.5 %
-	Cigarettes	10 %
-	Cigarette tobacco	5 %
-	Pipe tobacco	8 %
-	Cigars	5 %

Donor Support

72. Donor support is declining. The only budget support in this MTEF period amounts to N$ 146 million and is pledged by EU and SIDA for the education sector, the rural development and the public finance management reforms. Additional support is, however, received off budget mainly for development projects in the form of soft loans and grants.

73. While donor support is continuing its declining trend, there are new opportunities with the Millennium Challenge Account of the USA Government and Innovative Financing for Development initiatives as proposed by France, Brazil and Chile. The modalities for accessing important new resources are still being worked out.

Expenditure Control

74. The implementation of an Integrated Financial Management System (IFMS) has made progress. The required hardware components have been successfully deployed in all the Offices, Ministries and Agencies and the required software has been developed. This enabled us to go live with the IFMS with four votes, namely the Ministries of Finance, Defence, Agriculture and Forestry and the Auditor General's Office. After some minor corrections, further testing and adjustments, we are envisaging to role out the system to the remaining votes by the beginning of April 2006. This new integrated system will provide us with the required modern technology through which public expenditure could be managed more efficiently. Unauthorised expenditure could be curbed and with that our scarce resources would be deployed more effectively.

75. Personnel expenditure continues to be the major item of Government expenditure. Previous attempts to contain the growth in the civil service

have only had limited success. The number of civil servants has increased by almost 6 percent per year in the last three years. In Namibia about 4.3 percent of the population is employed in the civil service, compared to an average of 2.1 percent in Africa and 1.6 percent in Southern Africa. This has financial implications. In 2004/05, Namibia has spent 14.8 percent of GDP on personnel, compared to an average of 7.2 percent in Africa and just 6.1 percent in Southern Africa. These figures indicate that our situation is unsustainable. It must also be noted that growth of the recurrent budget precludes any significant growth of the development budget. For the MTEF period under consideration we are projecting to spend 41.2 percent of the total budget on personnel expenditure, while the development budget equals only 14 percent of total expenditure. It has, therefore, become urgent that Government addresses increasing personnel expenditure. This does not have to involve any laying off of civil servants, but it could be achieved through controlling the filling of vacancies by limiting it to only very essential ones. If we set ourselves a target to reduce the wage bill by, say, 10 percent during this MTEF, we could free up significant resources that should then be utilised for pro growth interventions.

76. With respect to Public Procurement, our emphasis on local companies and especially SMEs will remain. This will ensure that resources generated by the Namibian economy do not leave the country but are re-invested in Namibia and this will give rise to new business opportunities for Namibian companies. Further, this policy could improve local consumption, our own tax revenue and with that our ability to fund pro poor growth.

77. In the past year, the Office of the Auditor General has successfully managed to eliminate the accumulated backlog in audited accounts of the central Government. An integrated audit report for central government was

recently re-introduced. The additional resource allocation to this office has rendered the required return and sufficient resources will be availed to the Auditor General to eliminate the remaining backlog of other public entities.

Debt Management

78. The improved fiscal position has, no doubt, had an effect on the borrowing requirement of Government. Already this financial year has seen a marked slowdown in the net issuance of Government's debt compared to previous years. The Ministry of Finance has been active in refinancing maturing short term debt with longer term maturities; this will continue in the next years. The future will also see the issuance of debt instruments from parastatals, thus offering investors new investment opportunities amid decreasing borrowing needs of the Government.

79. The borrowing requirement for the upcoming financial year will also cater for the redemption of the Government bond GC07 in July 2007. Additional borrowing will have to be undertaken to set aside funds that will be used to redeem this debt.

80. Our debt levels and the management of the public debt stock are an important determinant of the creditworthiness of Namibia, and they were important in determining the outcome of the credit rating. We have to direct all our efforts towards maintaining and improving the rating. Our country as a whole – not only the financial sector – can reap the benefits from it. The rating has already caused a decrease in borrowing rates for government. Increased interest in Namibian investment opportunities from abroad and improved funding possibilities for government and Namibian companies are other channels through which the rating outcome will be felt.

81. As one concrete example, the European Investment Bank has decided to issue a bond denominated in Namibia Dollars. This first step signals the increased attention that Namibia is receiving on international capital markets. This will also create possibilities for Namibia Dollar denominated loans and for further development of the domestic financial markets.

82. The European Investment Bank has also extended a loan to the MIDINA development fund, under the Old-Mutual company. This loan – which is not covered by any government guarantee but an initiative originating from the private sector alone – will further support efforts to improve access to financing for Namibian companies

Institutional Reform/Governance

State Owned Enterprises

83. This year has seen important developments in the area of the governance of State Owned Enterprises. The State Owned Enterprises Bill was recently approved by both Houses of Parliament and I look forward to the final version of the Bill. It is my strong belief that Government as the sole shareholder in most of the SOEs has not only the right but also the obligation to exercise tighter control and better supervision. If government deems that an SOE is failing to perform, it must urgently intervene to ensure the return to prudent management. As part of the improved supervision, the Ministry of Finance, in conjunction with the SOE Governance Council will push for the adoption of investment, procurement and dividend policies to ensure that the State's interests are secured in all the SOEs.

84. In the event that equity participation of the private sector in some of the parastatals is considered, Government should not lose its ability to determine policy and obtain a market related price for its assets, or even a premium in exceptional cases. Any proceeds from the sale of government assets – be it shares or infrastructure – may not be used to balance the operational budgets, but must be earmarked for strategic purposes like the redemption of public debt

85. In this year we have introduced the policy of targeted subsidies. In the future, SOEs will no longer receive a general support from the Government; the subsidies will be targeted and conditional on specific outcomes to be presented by the respective SOE.

86. The specialized institutions such as Agribank and Development Bank of Namibia and the National Housing Enterprise are fulfilling an important role in our economy. We need to ensure that they operate on commercial business principles and increase their efficiency. For example, the ratio between their annual budget and the outcome produced – for example the number of houses completed by the NHE with their annual budget – needs to be improved. Another example is the Development Bank of Namibia, which needs to lend substantially more per year to remain profitable. This requires further capitalization of the Bank and an increased volume of loans extended. One way of achieving this may be through Public Private Partnerships.

Air Namibia

87. Air Namibia remains a concern, as its financial situation continues to deteriorate. As a small operatorm, Air Namibia needs to enter into strategic alliances to benefit from economies of scale. I believe that Air Namibia has

an important role to play, especially in the tourism market. But to realise that, the company needs to transform itself to be better able to face the challenges of the highly competitive industry in which it operates.

Agribank

88. The Agribank is an important vehicle for promoting Agriculture and land reform in Namibia. The Affirmative Action Loan Scheme, under which currently 512 individuals are benefiting makes available to disadvantaged Namibians affordable loans to acquire farm land. The current financial year has been a difficult year for Agribank, but fortunately the situation is improving steadily. The institution's main challenge is to raise adequate resources to fulfil its mandate, and I am confident that with the new management and Board of Agribank we shall be able to realise our objectives of sustainable land acquisition.

Development Bank

89. Government is currently the only shareholder in the Development Bank of Namibia. To date, Government's paid up capital to the Bank amounts to N$ 388 million. With further funding envisaged under the MTEF and the transfer of assets from the National Development Corporation to the Bank, the bank's capitalization will further be increased.

90. Through its extensive partnership arrangements that resulted in dedicated co-financing agreements, the Bank was able to generate N$ 3 for every N$ 1 it invested in projects, thus expanding the resources availed to it by Government considerably.

91. Thus far the DBN had received a total of 94 loan applications with total project costs of N$ 2.6 billion, of which N$ 1.7 billion was funding required from the Bank. DBN aims to advance a further N$ 120 million

during 2006, of which N$ 60 to N$ 70 million is to be committed during the first part of the year.

92. The Bank has approved loans with a combined total value of N$ 111 million in 2005. The loans were extended to a local authority (N$ 20 million); public entities (N$ 30 million); and private sector companies (N$ 60 million). These projects cover electricity distribution; information technology; manufacturing; mining; and poultry production. They include both start-up projects and expansion of existing activities.

93. Taken as a whole, the projects supported by the DBN will potentially create 909 jobs and retain 952 direct jobs, and 1,000 indirect jobs. The projects also stand to boost export earnings, support operational efficiency in key productive economic sector, and contribute to efficient delivery of electricity to consumers.

94. The Bank's small and medium enterprise window, the Special Development Fund, commenced activity on 23 August 2005 with the signing of a partnership agreement with Bank Windhoek to administer the disbursement of SME loans. Loans amounting to almost N$ 4 million were extended through the partnership until 28 February 2006. These projects are being implemented in three regions and have led to the creation of 121 jobs. The partnership makes provision for SMEs development through the extension of mentoring programmes aimed at enhancing their chance of success.

Energy Policy

95. The rising oil prices and the increasing electricity demand in the SADC region are two challenges that Namibia will face in the near future, and we have to be prepared to manage the risks. The recent power supply interruptions in South Africa will necessitate Namibia to increase its own power generation capacity. In the short term, I can only underscore the calls for responsible energy consumption. Let us save electricity wherever possible and explore the possibilities of alternative power generation. In the medium and long term we have to ensure that the energy needs of our country are met through stable and reliable supplies. While alternative energy generation possibilities have a future in Namibia, we will continue to rely on traditional power generation.

96. At this point I wish to share with this house that NAMPOWER, in consultation with Government is developing a comprehensive financing plan for the Kudu Gas Power Plant. Such a plan entails not only the costing and financing of the project, but also projected revenue streams and profitability models for the life span of the project.

97. The financing requirements for the development of the Kudu gas field are immense. This project is set to be profitable, especially in the context of the SADC power pool. As indicated, in this budget, Government is making a budgetary provision of N$ 750 million during this MTEF, with N$ 250 million allocated under the 2006/07 financial year. These large investments towards the development of the Kudu gas power project are required to avert the imminent power crisis, which is induced due to the over all power shortage in our region. This commitment, even though it covers only a fraction of the total financing needs, shows government's commitment to the Kudu project. Further, the favourable sovereign credit

rating for the country as well as the credit rating of NAMPOWER puts the project in a position to obtain large funds from the local capital market and international investors. Although modalities are still to be worked out, this will no doubt offer attractive domestic investment opportunities.

98. Global oil and fuel prices continued to rise over the past year. For Namibia, most of the effects of the international oil price hike were cushioned by the Slate Account at the National Energy Fund. This resulted in accumulated deficits in the National Energy Fund. The current Budget, therefore, makes a budgetary provision in order to offset the Fund's accumulated losses of N$ 206 million. Our hope is however that the National Energy Fund will revert back to the operational mode as envisaged in the governing legislation which requires the fund to be self sustainable.

Public Finance Reforms

99. In 2005/06 we have made progress in the implementation of the Public Finance Reforms. 2005/06 has been the first year of full programme budgeting. While there were almost inevitably teething problems, these have largely been solved and the Ministry of Finance has undertaken a programme of familiarisation in line Ministries. The quality of the Medium Term Plans contained in the MTEF, that underpin the move to programme budgeting has improved.

100. I encourage the members of this House to familiarize themselves with the programmes outlined in the MTEF book. I wish that the discussions will centre on activities and outcomes achieved by each vote and not on line items. I further wish that in the future, all motivations for expenditure be presented to the Ministry of Finance following this route, as we have moved towards a perspective in which we see what we get for our money.

Financial Intelligence Centre Bill and other Bills

101. Laundering of proceeds from crime have spread internationally and has become a worldwide threat to stability and the security of financial resources. In its commitment to fight such activities, Namibia has joined efforts with other Governments to strengthen the capacity to prevent, control and investigate serious crimes related to money laundering by enacting respective legislation.

102. I had introduced the Financial Intelligence Centre Bill very recently, but the discussion had to be postponed due to several issues which needed to be further clarified. Once these clarifications have been made the bill will be re-introduced.

103. This bill, once enacted, will enable the Bank of Namibia to create a Financial Intelligence Centre, and provision totalling N$ 4.7 million has been made to this end in the current MTEF.

104. The work on the amendment of the State Finance Act has reached an advanced stage. The Amendment Bill was presented to the Cabinet Committee on Legislation. However, further adjustments to the bill are deemed appropriate. For one, the State Finance Bill and the Audit Bill have been separated to enhance the autonomy of the Office of the Auditor General and bring it in line with international best practices. A workshop is also planned for this month to scrutinise the State Finance Bill and finalise the two bills.

Financial Markets

105. We have good reasons to be satisfied with our financial system. An assessment of the financial sector through international financial institutions has confirmed that Namibia's financial sector is among the most developed on the continent. It has however pointed to the need for strengthening of the financial supervision, especially of the non-banking institutions by Namfisa, and for improving access to finance for the population. These issues will receive our attention in the coming year.

Domestic Asset Requirements and Investment Opportunities

106. Namibia is in a very fortunate situation for a developing country to have significant domestic savings. It is, however, uncharacteristic for a country with large developmental needs to export some 65 percent of such savings. By and large these domestic savings constitute contractual savings from pension schemes and the like. The challenge that we face is to safeguard the interests of the pensioners and at the same time direct national savings towards national investments.

107. If pensions do not satisfy the needs of pensioners, obliviously the State, through direct budget interventions, is obliged to exclusively fund the social safety net directly, which is very expensive and unaffordable. On the other hand, if we are failing to redirect domestic savings into our own economy, the very safety net could be threatened by perpetual poverty. A balanced approach, which does not introduce undue risk to pensioners on the one hand, but which stimulates economic growth on the other is required

Financial Charter

108. In responding to the call I made in my last Budget Speech for a Financial Charter, the financial sector has agreed to formulate such a document that will address national and socio-economic concerns. Progress in this regard is, however, slow. In order to speed up the process, Government has formed an Inter Agency Committee comprising the Ministry of Finance, Bank of Namibia and NAMFISA to work out guidelines for the formulation of the Charter by the financial sector. The salient features of the guidelines are:

- principles pertaining to increased access to financial services and affordability thereof;
- shareholding activism aimed at increasing the participation of the formerly disadvantaged groups in terms of management and ownership of financial institution;
- a commitment to the reduction of capital outflow through increased investment in the domestic economy with the purpose of diversifying and expanding economic activities in Namibia;
- Human Resource development aimed at developing skills in scarce and specialized areas within the financial sector, as this would enable the previously disadvantaged employees to increase their participation in management in the financial sector and for the sector to handle locally complex financing schemes for which capacity is currently lacking.
- Provisions for consumer protection;

109. The Charter will also include an assessment mechanism that provides targets (benchmarks), monitoring and evaluation strategies and clear definitions of concepts. A proposal in this regard is currently being discussed with the industry and we expect an initial report by the end of June 2006, and the charter by the end of the year.

Closing Remarks

Honourable Speaker, Honourable Members

110. In my concluding remarks I wish to focus our attention again to the need to prioritise our activities and our resource allocations towards interventions that bring about a better life for less privileged members of our society. Politically, as well as financially, we cannot afford perpetual inefficiencies, be they within the civil service or within SOEs. May I appeal to you Honourable Members, to support our efforts to promote optimal utilisation of scarce resources so as to achieve desired outcomes. We owe it to our people.

111. May I also take this opportunity to thank His Excellency, President Pohamba and the Right Honourable Prime Minister for their support. Equally, my Cabinet colleagues have shown much understanding for the difficult choices we had to make. My thanks must also go to all the officials who assisted me in preparing and compiling the MTEF.

112. I am very alert to the fact that our needs surpass available resources and the pains that such a situation brings with it, but irresponsible short term generosity will only bring more intense pain for everybody. I am confident that the policy of SWAPO-Party, that is to focus on pro poor growth while maintaining a prudent fiscal policy, is the only way to prosperity as envisaged in VISION 2030

Honourable Speaker

113. It is now my pleasure to table the Appropriation Bill for 2006/07 and the Medium Expenditure Framework for the financial years 2006/07 to 2008/09 before this August House for consideration and approval.

114. I Thank You.

Namibia Budget in Brief
MTEF 2006/07 – 2008/09

NAMIBIAN ECONOMY

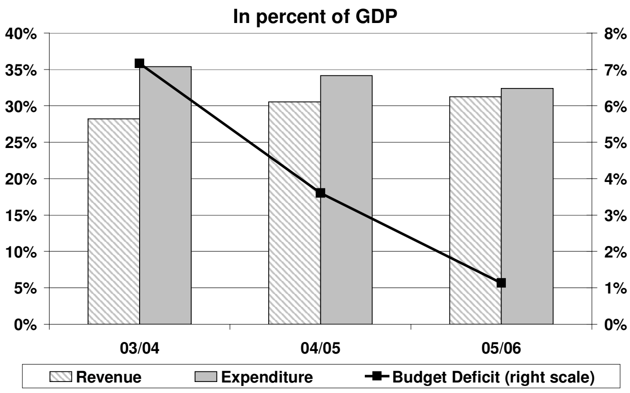
- Real GDP expanded by 5.9% in 2004, and the growth rate is projected to be 3.2% in 2005, 3.9% in 2006 and 4.0% in 2007
- Inflation for 2005 estimated 2.2%
- Poverty and high unemployment remain challenges

REGIONAL INTEGRATION / TRADE AGREEMENTS

- SADC/EU/EPA negotiations ongoing
- SACU/USA Free Trade Agreements negotiations to be concluded
- SACU/China and SACU/India Free Trade Agreements negotiations to commence
- SACU Secretariat established in Windhoek
- CMA deepened monetary integration proposed

FISCAL DEVELOPMENTS

- The past years have seen substantial progress in fiscal consolidation, bringing down deficit levels (in percentage of GDP) from 7.2% in 03/04 to 3.6% in 04/05, to an estimated 1.1% in 05/06



Revenue

- Revenue collection as a percentage of GDP has improved from 28.2% in 03/04 to an estimated 31.2% in 05/06
- In absolute terms, total revenue has increased by an estimated N$ 2.6 billion from 03/04 to 05/06, an increase of 26%
- In 04/05 the growth in revenue collection was driven by SACU receipts
- In 05/06 the growth in revenue is driven by improved collection, including the effects from tax audits in the northern region

Expenditure

- Expenditure increase from 03/04 to 05/06 by only 5%; as percentage of GDP expenditure reduced by 3 percentage points from 03/04 to 05/06
- Personnel expenditure high at 42% of total expenditure

Debt

- Driven by budget deficits in the past, the debt stock at the end of 05/06 is estimated to be 32.3% of GDP

Credit Rating

- Namibia assigned a ‘BBB’ rating for domestic long-term debt, and a ‘BBB-’ rating for long-term foreign debt by Fitch Ratings in December 2005

THE 2006/07 – 2008/09 MTEF

- Pro-poor, pro-growth Budget
- Budget balance to record a surplus of N$ 114 million in 2006/07, equivalent to 0.3% of GDP
- For 06/07 and 08/09, deficits of 1.7% and 2.3% are projected

Expenditure

- Total expenditure in 06/07 N$ 15.2 billion, an increase of 18% compared to 05/06
- Development budget to increase by 31% and operational budget to increase by 16% in 06/07 from 05/06
- Personnel expenditure remains high at 41% of total expenditure over the MTEF period

Revenue

- Total revenue in 06/07 N$ 15.3 billion
- Substantial increase in receipts from SACU and increases expected in tax collection in 06/07

- Clampdown on tax evaders through forensic tax audits delivering results

Debt

- Reduced borrowing requirement due to improved Fiscal Position
- Reduced share of short term debt
- Additional borrowing in 2006/07 for redemption of Government Bond GC07
- Public debt estimated to reach 33.7% at the end of 06/07 and 32.4% at the end of MTEF period

EXPENDITURE PRIORITIES

Social Spending

- Social grant for elderly increased by N$ 70 per month
- Additional allocation to accelerate registration of OVCs
- Financing of the Education Training Sector Improvement Programme (ETSIP)
- Provision for 105 expatriate nurses to assist in hospitals and clinics throughout the country

Infrastructure

- Additional allocations to railways and roads construction
- Equity participation in NamPower for Kudu gas field exploration

Public Administration

- Allocation for the establishment of the Anti-Corruption Commission
- Increased allocations for Safety and Security to combat crime
- Increased allocations to Ministry of Justice for hiring of new magistrates and completion of court buildings.

TAX POLICIES

- Tax audits to commence in Windhoek and other revenue offices in 2006
- Announced legislative changes in consultative phase

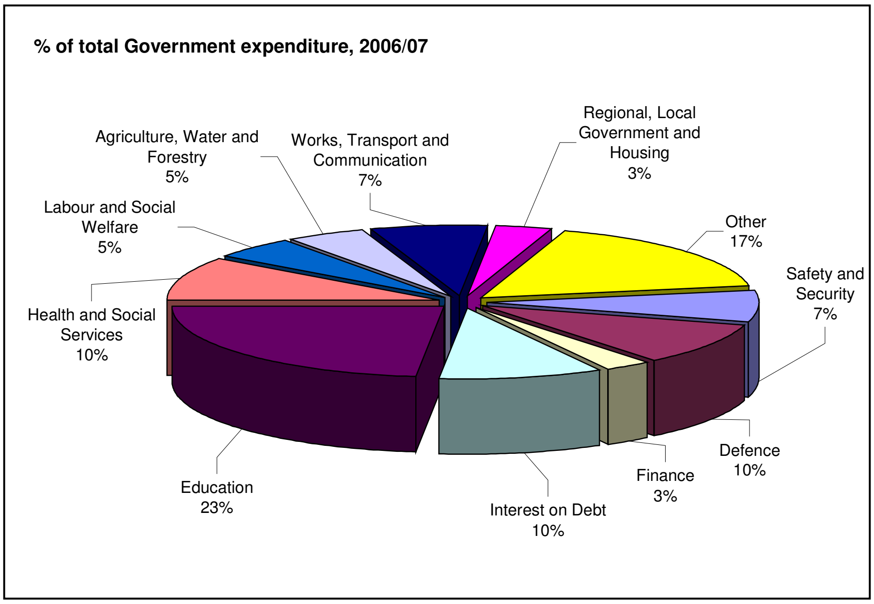
INSTITUTIONAL ISSUES

Public Finance Reforms

- Medium Term Plans (including Performance and Effectiveness Management Programme data) improved
- Consolidated programme budgeting in 05/06, familiarization programme by MoF
- Integrated Financial Management System (IFMS) to 'go live' in 2006/07

Institutional Reforms

- State Owned Enterprises and Government to agree on investment, procurement and dividend payout policies to better reflect shareholder's interest
- Provision for the establishment of the Financial Intelligence Centre



Financial Markets

- Government determined to stem high capital outflows
- New investment vehicles needed to pro-mote domestic investment opportunities
- Progress on Financial Sector Charter formulation
- Access to and affordability of financial services remain a challenge

Government's financial operations

N$ million, fiscal years	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Estimates	2006/07 Estimates Main	2007/08 Estimates Main	2008/09 Estimates Main
GDP	**17,262.8**	**19,262.0**	**21,509.5**	**24,804.0**	**28,158.4**	**33,140.5**	33940 **34,607.0**	**37,384.7**	**39,502.7**	**42,587.3**	**45,882.1**	**45,882.1**
REVENUE AND GRANTS												
Taxes on income and profits	1979.1	2031.3	2315.4	2610.2	3285.6	4442.3	3618.5	4024.2	4385.9	4688.0	4872.0	5382.0
Taxes on property	36.0	40.3	46.7	62.8	64.1	79.3	75.2	85.9	100.1	122.0	140.0	158.0
Domestic taxes on goods and services	1490.7	1581.8	1943.6	1945.0	2107.4	2135.7	1950.8	2057.3	3041.9	3187.8	3296.0	3432.5
Taxes on international trade	1560.4	1805.2	2240.7	2877.3	2641.2	2596.9	3035.6	4206.8	3728.8	6149.6	4538.1	4198.0
Other taxes	39.8	42.8	51.3	55.0	67.6	75.6	82.8	94.1	98.1	123.0	136.0	149.0
Total Tax Revenue	**5106.0**	**5501.4**	**6597.7**	**7550.3**	**8165.9**	**9329.8**	**8762.9**	**10468.2**	**11354.8**	**14270.4**	**12982.1**	**13319.6**
Entrepreneurial and property income	300.8	378.8	402.7	461.9	463.4	703.2	488.8	490.0	396.6	467.2	531.4	581.0
Fines and forfeitures	13.5	9.4	10.9	21.4	18.2	19.6	18.9	17.0	22.0	23.5	23.5	23.5
Administration fees and charges	171.4	205.1	171.6	231.8	254.0	382.3	449.3	342.1	397.9	410.7	364.1	377.6
Return on capital from lending and equity	43.9	54.3	20.1	20.9	21.4	15.9	13.5	36.8	29.9	33.9	34.0	29.9
Total Non-Tax Revenue	**529.6**	**647.6**	**605.3**	**736.0**	**757.1**	**1121.1**	**970.5**	**885.9**	**846.4**	**935.3**	**953.0**	**1012.0**
Total revenue (own sources)	**5635.6**	**6149.0**	**7203.0**	**8286.3**	**8923.0**	**10450.9**	**9733.4**	**11354.1**	**12201.1**	**15205.7**	**13935.1**	**14331.5**
Grants	**54.0**	**37.4**			**58.1**	**34.4**	34.2	**70.4**	**153.2**	**72.0**	**48.0**	**25.6**
Loans earmarked for on-lending			**68.5**	**56.9**	**116.8**	**76.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL REVENUE AND GRANTS	**5689.6**	**6186.4**	**7271.5**	**8343.2**	**9097.9**	**10562.1**	**9767.6**	**11424.5**	**12354.3**	**15277.7**	**13983.1**	**14357.1**
EXPENDITURE												
Current Expenditure												
Personnel expenditure	2830.5	3162.0	3618.7	3964.9	4325.5	4708.9	5117.0	5527.1	5534.1	6129.7	6183.2	6396.8
Expenditure on goods and other services	1240.6	1350.4	1583.3	1637.3	1977.3	1993.6	2079.4	1921.9	1833.0	2167.7	2208.0	2302.6
Statutory	350.1	488.7	512.9	512.0	602.7	907.6	996.0	1040.2	1146.8	1478.1	1477.7	1579.7
Subsidies and other current transfers	841.1	1101.5	1168.8	1510.5	1769.2	1892.8	2255.9	2296.9	2479.3	2629.8	2718.2	3052.4
Total Current Expenditure	**5262.3**	**6102.6**	**6883.7**	**7624.7**	**8674.7**	**9503.0**	**10448.3**	**10786.0**	**10993.2**	**12405.3**	**12587.1**	**13331.5**
Capital Expenditure												
Capital expenditure	779.2	737.1	917.5	929.1	1098.7	1158.7	1293.4	1401.1	1435.1	1849.1	1462.5	1494.9
Capital transfers			30.1	32.4	51.1	87.2	103.6	217.4	133.2	248.4	247.1	298.3
Total lending and equity participation	87.5	95.9	121.4	122.1	477.8	649.7	400.0	365.9	207.5	652.4	433.9	372.0
Total Capital Expenditure	**866.7**	**833.0**	**1069.0**	**1083.6**	**1627.7**	**1895.7**	**1796.9**	**1984.5**	**1775.8**	**2749.9**	**2143.5**	**2165.2**
TOTAL EXPENDITURE	**6129.0**	**6935.6**	**7952.7**	**8708.3**	**10302.4**	**11398.7**	**12245.2**	**12770.5**	**12769.0**	**15155.3**	**14730.6**	**15496.7**
BUDGET BALANCE	**-439.4**	**-749.2**	**-681.2**	**-365.1**	**-1204.5**	**-836.6**	**-2477.6**	**-1346.0**	**-414.6**	**122.5**	**-747.5**	**-1139.5**
Current Balance	**427.3**	**83.8**	**387.8**	**718.5**	**423.1**	**1059.1**	**-680.7**	**638.5**	**1361.1**	**2872.4**	**1396.0**	**1025.7**
Primary Balance	**-89.3**	**-260.5**	**-168.3**	**146.9**	**-601.8**	**71.0**	**-1481.6**	**-305.8**	**732.2**	**2752.3**	**730.3**	**440.2**
TOTAL FINANCING												
Net borrowing	1065.4	428.5	829.1	280.0	1206.5	699.3	1788.3	2441.5	1041.8	1024.2	779.5	661.1
Decrease (+)/ Increase (-) in cash balance	-626.0	320.7	-147.9	85.1	-2.0	137.3	689.3	-1095.5	-627.1	-1146.7	-32.0	478.4
TOTAL FINANCING	**439.4**	**749.2**	**681.2**	**365.1**	**1204.5**	**836.6**	**2477.6**	**1346.0**	**414.6**	**-122.5**	**747.5**	**1139.5**
TOTAL CENTRAL GOVERNMENT DEPT	**3290.4**	**3927.5**	**4768.1**	**5416.0**	**6796.5**	**8412.6**	**10200.9**	**12642.4**	**12772.5**	**14264.3**	**15161.6**	**15948.7**
Domestic Debt	3030.9	3753.7	4456.6	4731.3	5946.9	6712.0	8606.2	10543.0	10605.3	11567.4	12245.2	12910.1
Foreign Debt	566.7	660.4	959.2	1141.4	1599.3	1700.6	1594.8	2099.4	2167.2	2696.9	2916.4	3038.5

Government's financial operations

N$ million, fiscal years	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Estimates	2006/07 Estimates Main	2007/08 Estimates Main	2008/09 Estimates Main
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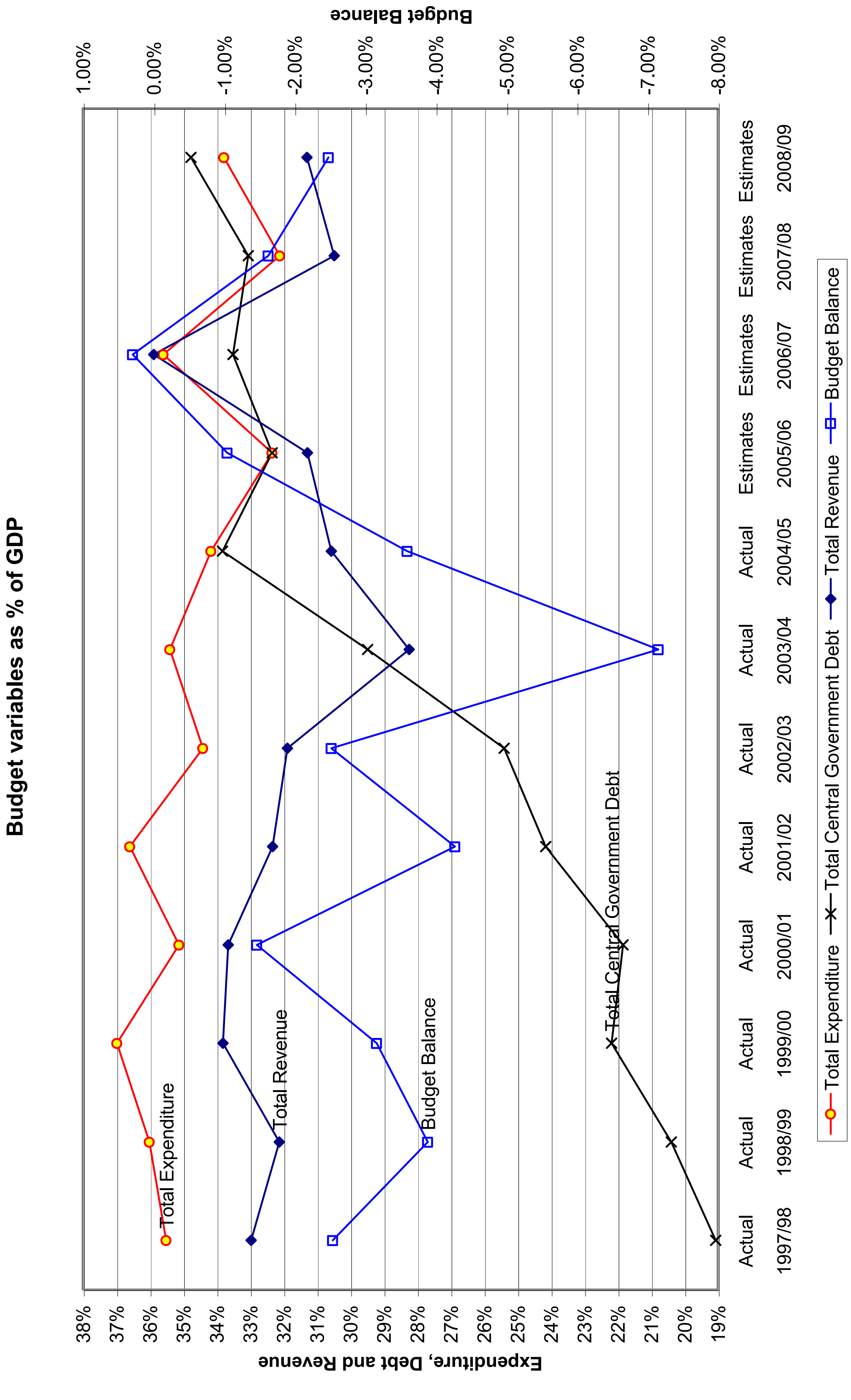
REVENUE AND GRANTS												
Taxes on income and profits	11.46%	10.55%	10.76%	10.52%	11.67%	13.40%	10.46%	10.76%	11.10%	11.01%	10.62%	11.73%
Taxes on property	0.21%	0.21%	0.22%	0.25%	0.23%	0.24%	0.22%	0.23%	0.25%	0.29%	0.31%	0.34%
Domestic taxes on goods and services	8.64%	8.21%	9.04%	7.84%	7.48%	6.44%	5.64%	5.50%	7.70%	7.49%	7.18%	7.48%
Taxes on international trade	9.04%	9.37%	10.42%	11.60%	9.38%	7.84%	8.77%	11.25%	9.44%	14.44%	9.89%	9.15%
Other taxes	0.23%	0.22%	0.24%	0.22%	0.24%	0.23%	0.24%	0.25%	0.25%	0.29%	0.30%	0.32%
Total Tax Revenue	**29.58%**	**28.56%**	**30.67%**	**30.44%**	**29.00%**	**28.15%**	**25.32%**	**28.00%**	**28.74%**	**33.51%**	**28.29%**	**29.03%**
Entrepreneurial and property income	1.74%	1.97%	1.87%	1.86%	1.65%	2.12%	1.41%	1.31%	1.00%	1.10%	1.16%	1.27%
Fines and forfeitures	0.08%	0.05%	0.05%	0.09%	0.06%	0.06%	0.05%	0.05%	0.06%	0.06%	0.05%	0.05%
Administration fees and charges	0.99%	1.06%	0.80%	0.93%	0.90%	1.15%	1.30%	0.92%	1.01%	0.96%	0.79%	0.82%
Return on capital from lending and equity	0.25%	0.28%	0.09%	0.08%	0.08%	0.05%	0.04%	0.10%	0.08%	0.08%	0.07%	0.07%
Total Non-Tax Revenue	**3.07%**	**3.36%**	**2.81%**	**2.97%**	**2.69%**	**3.38%**	**2.80%**	**2.37%**	**2.14%**	**2.20%**	**2.08%**	**2.21%**
Total revenue (own sources)	**32.65%**	**31.92%**	**33.49%**	**33.41%**	**31.69%**	**31.54%**	**28.13%**	**30.37%**	**30.89%**	**35.70%**	**30.37%**	**31.24%**
Grants	**0.31%**	**0.19%**	**0.00%**	**0.00%**	**0.21%**	**0.10%**	**0.10%**	**0.19%**	**0.39%**	**0.17%**	**0.10%**	**0.06%**
Loans earmarked for on-lending	**0.00%**	**0.00%**	**0.32%**	**0.23%**	**0.41%**	**0.23%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
TOTAL REVENUE AND GRANTS	**32.96%**	**32.12%**	**33.81%**	**33.64%**	**32.31%**	**31.87%**	**28.22%**	**30.56%**	**31.27%**	**35.87%**	**30.48%**	**31.29%**
EXPENDITURE												
Current Expenditure												
Personnel expenditure	16.40%	16.42%	16.82%	15.98%	15.36%	14.21%	14.79%	14.78%	14.01%	14.39%	13.48%	13.94%
Expenditure on goods and other services	7.19%	7.01%	7.36%	6.60%	7.02%	6.02%	6.01%	5.14%	4.64%	5.09%	4.81%	5.02%
Statutory	2.03%	2.54%	2.38%	2.06%	2.14%	2.74%	2.88%	2.78%	2.90%	3.47%	3.22%	3.44%
Subsidies and other current transfers	4.87%	5.72%	5.43%	6.09%	6.28%	5.71%	6.52%	6.14%	6.28%	6.18%	5.92%	6.65%
Total Current Expenditure	**30.48%**	**31.68%**	**32.00%**	**30.74%**	**30.81%**	**28.67%**	**30.19%**	**28.85%**	**27.83%**	**29.13%**	**27.43%**	**29.06%**
Capital Expenditure												
Capital expenditure	4.51%	3.83%	4.27%	3.75%	3.90%	3.50%	3.74%	3.75%	3.63%	4.34%	3.19%	3.26%
Capital transfers	0.00%	0.00%	0.14%	0.13%	0.18%	0.26%	0.30%	0.58%	0.34%	0.58%	0.54%	0.65%
Total lending and equity participation	0.51%	0.50%	0.56%	0.49%	1.70%	1.96%	1.16%	0.98%	0.53%	1.53%	0.95%	0.81%
Total Capital Expenditure	**5.02%**	**4.32%**	**4.97%**	**4.37%**	**5.78%**	**5.72%**	**5.19%**	**5.31%**	**4.50%**	**6.46%**	**4.67%**	**4.72%**
TOTAL EXPENDITURE	**35.50%**	**36.01%**	**36.97%**	**35.11%**	**36.59%**	**34.40%**	**35.38%**	**34.16%**	**32.32%**	**35.59%**	**32.11%**	**33.77%**
BUDGET BALANCE	**-2.55%**	**-3.89%**	**-3.17%**	**-1.47%**	**-4.28%**	**-2.52%**	**-7.16%**	**-3.60%**	**-1.05%**	**0.29%**	**-1.63%**	**-2.48%**
Current Balance	2.48%	0.44%	1.80%	2.90%	1.50%	3.20%	-1.97%	1.71%	3.45%	6.74%	3.04%	2.24%
Primary Balance	-0.52%	-1.35%	-0.78%	0.59%	-2.14%	0.21%	-4.28%	-0.82%	1.85%	6.46%	1.59%	0.96%
TOTAL FINANCING												
Net borrowing	6.17%	2.22%	3.85%	1.13%	4.28%	2.11%	5.17%	6.53%	2.64%	2.41%	1.70%	1.44%
Decrease (+)/ Increase (-) in cash balance	-3.63%	1.66%	-0.69%	0.34%	-0.01%	0.41%	1.99%	-2.93%	-1.59%	-2.69%	-0.07%	1.04%
TOTAL FINANCING	**2.55%**	**3.89%**	**3.17%**	**1.47%**	**4.28%**	**2.52%**	**7.16%**	**3.60%**	**1.05%**	**-0.29%**	**1.63%**	**2.48%**
TOTAL CENTRAL GOVERNMENT DEPT	**19.06%**	**20.39%**	**22.17%**	**21.84%**	**24.14%**	**25.38%**	**29.48%**	**33.82%**	**32.33%**	**33.49%**	**33.04%**	**34.76%**
Domestic Debt	17.56%	19.49%	20.72%	19.07%	21.12%	20.25%	24.87%	28.20%	26.85%	27.16%	26.69%	28.14%
Foreign Debt	3.28%	3.43%	4.46%	4.60%	5.68%	5.13%	4.61%	5.62%	5.49%	6.33%	6.36%	6.62%



Budget variables as % of GDP
Expenditure, Debt and Revenue
Budget Balance
38%
37%
36%
35%
34%
33%
32%
31%
30%
29%
28%
27%
26%
25%
24%
23%
22%
21%
20%
19%
1.00%
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
-5.00%
-6.00%
-7.00%
-8.00%
Actual 1997/98
Actual 1998/99
Actual 1999/00
Actual 2000/01
Actual 2001/02
Actual 2002/03
Actual 2003/04
Actual 2004/05
Estimates 2005/06
Estimates 2006/07
Estimates 2007/08
Estimates 2008/09
Total Expenditure
Total Revenue
Budget Balance
Total Central Government Debt
Total Expenditure
Total Central Government Debt
Total Revenue
Budget Balance