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Namibia's 2006/07 budget

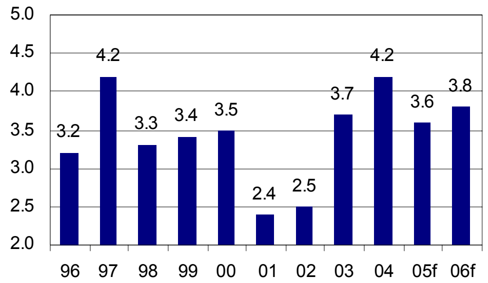
Background

The Minister of Finance, Saara Kuugongelwa-Amadhila, delivered Namibia's 2006/07 budget to the National Assembly on 16 March. Last year's budget was delayed until May due to the national and regional elections.

Economic overview of 2005

According to the minister, real GDP growth was 5.9% in 2004, which is significantly higher than the IMF's World Economic Outlook of September 2005 figure of 4.2%, as shown in the graph below. The minister projected that growth will average 3.2% in 2005 (IMF: 3.6%); 3.9% in 2006 (IMF: 3.8%) and 4% in 2007. Inflation averaged 2.2% in 2005.

REAL GDP GROWTH (%)



Source: IMF

Namibia's fiscal situation underwent a major improvement in 2005/06 from the previous fiscal years. In 2003/04 the budget deficit reached an unprecedented 7.2% of GDP. Namibia's stated fiscal target is for the deficit not to exceed 3% of GDP. In 2003/04 government revenue declined, which was mainly due to the strong Namibian dollar's negative impact on the export sector. Thus tax receipts were severely curtailed by the impact of the weak US dollar on export receipts.

In 2004/05 the fiscal deficit improved to 3.6% of GDP, halving the previous year's deficit, as revenue collection improved and expenditure was better managed. The strong currency continued to erode government receipts, but increased deficit financing costs and extra medical aid expenses also affected receipts.

In 2005/06 the fiscal deficit is projected to amount to 1.05% of GDP. Domestic taxes are expected to increase by 22% through better revenue collection and a broader tax base. There was also a clampdown on tax evasion such as border round tripping. Expenditure increases were limited to necessary expenditure.

The reduction in the fiscal deficit over the past few years has caused the public debt to stabilise at about 33% of GDP. At the end of 2005/06 the debt stock was 32.3% of GDP. Between 2003/04 and 2005/06 revenues improved largely because of higher SACU receipts and more effective revenue collection. Over this period revenues were 26% higher, but expenditure rose by only 5%.

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Budget proposals for 2006/07

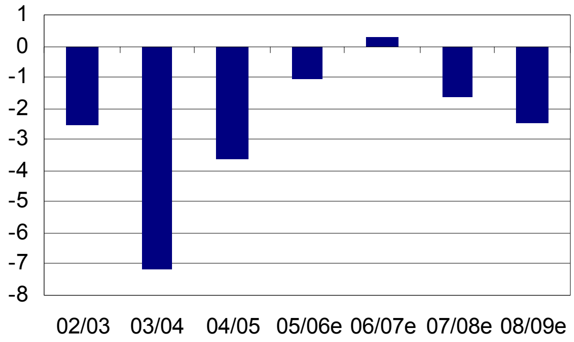
The minister is committed to prudent fiscal policies. The Integrated Financial Management System, which will improve the management of public expenditure, is expected to be fully implemented this year. Revenue collection will continue to be strengthened and tax evasion reduced. Although the grant component is small, donor support is declining.

Expenditure on civil service personnel continues to grow at an unacceptable and unsustainable pace, as the minister acknowledged. Personnel expenditure is equivalent to 40% of total expenditure. Namibia's growing number of civil servants makes up 4.3% of the population and salaries account for 14.8% of GDP. These figures are much higher compared to benchmark countries.

The minister proposed revenue and grants totalling N$15.3 billion and expenditure of N$15.2 billion, with a budget surplus of N$114 million, or 0.3% of GDP.

The budget also contained projections for the next two years in terms of the Medium Term Expenditure Framework.

BUDGET DEFICIT, INCLUDING GRANTS (% OF GDP)



Source: Ministry of Finance

Comments and conclusion

Generally, the government has improved its fiscal management in difficult circumstances. The Namibian dollar has remained strong (which is pegged at par to the South African rand), but despite this, revenue is expected to increase, whereas expenditure is to be contained. Many development targets have been met, according to the minister.

SACU revenue is budgeted to contribute about 43% to total revenue and grants in 2006/07. Yet in 1997/98 SACU revenue contributed only about 30% to the total. The contribution of this source of revenue has gradually increased since 1997/98. It is necessary for the government to diversify its sources of revenue as taxes on international trade are inconsistent with global trade liberalisation. Significantly, the 2008/09 budget estimates show that SACU revenue is projected to fall back to about 31% of total revenue, indicating some diversification of income.

Fitch Ratings awarded Namibia investment grade rating in December 2005. (Domestic long-term debt was rated BBB and long-term foreign debt BBB–.) The rating has already lowered government borrowing rates, but other benefits could also be forthcoming. This is expected to help alert investors to the investment possibilities in the country. The rating may also help slow the outflow of Namibia's contractual savings to neighbouring South Africa, of which 65% are exported.

The rating is testimony to the prudent fiscal management adhered to despite unexpected setbacks from factors beyond government's control.

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