

Tax Alert Confronting the challenges



Issue 5/2009

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“Namibia was blessed with close to two decades of peace, democracy and prosperity. We have utilised these good years to build a nation with the resolve and commitment to continuously confront the challenges facing it. We owe it to our future generations to build and grow a better Namibia for the future.”

Honourable Minister of Finance,
Saara Kuugongelwa-Amadhila,

Budget Speech, 19 March 2009

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IN THIS ISSUE

The Minister of Finance, Saara Kuugongelwa-Amadhila, presented the Budget for the 2009/2010 fiscal year on Thursday, 19 March 2009.

The Budget announcements included a number of tax concessions, estimated at N\$ 800 million over the 2009/2010 year, and are aimed at stimulating business, competitiveness and to provide relief to individuals.

Please note that none of the proposed tax amendments are gazetted as law yet and they should not be applied until they have been gazetted.

KEY TAX POINTS OF THE 2009/2010 BUDGET

Individuals

Tax rates

Changes to the individual tax brackets have been announced, with the tax free bracket increasing from N\$36 000 to N\$ 40 000 and the introduction of an additional top bracket with a marginal rate of 37%. No indication of the effective date was given in the budget speech, but we expect it to be effective from 1 March 2009. Final confirmation of the tax table and the effective date will be communicated as soon as the legislation has been published.

Taxable amounts	Tax on lower amount	Percentage tax on excess above lower amount
0 - 40 000	0	0%
40 001 - 80 000	0	27%
80 001 - 200 000	10 800	32%
200 001 - 750 000	49 200	34%
750 001 and over	236 200	37%

To illustrate the effect of the changes we include some comparative examples:

Taxable income – N\$	Tax payable under current tax rates – N\$	Effective tax rate	Tax payable under proposed tax rates – N\$	Effective tax rate
60 000	6 600	11%	5 400	9%
90 000	15 950	17.7%	14 000	15.6%
300 000	88 900	29.6%	83 200	27.7%
1 000 000	333 900	33.4%	328 700	32.9%
2 000 000	683 900	34.2%	698 700	34.9%
6 000 000	2 083 900	34.7%	2 178 700	36.3%

Retrenchment benefits

The Income Tax Act currently allows for an exemption of N\$ 100 000 on gratuity payments made to an employee at retirement, who is 55 years of age or older, or whose employment was terminated due to ill-health or who got retrenched due to his/her position becoming redundant. The Minister announced an increase to the tax exemption from N\$ 100 000 to N\$ 300 000. It was not clear from the announcement whether or not the increased exemption will apply to the categories other than retrenchment. An effective date

was once again not mentioned, but we expect this amendment to be retrospectively applicable from 1 March 2009. Until the legislation is promulgated, we would urge employers to consult the Revenue Authorities as to the applicable exemption amount.

Pension pay-out

Currently if a pension pay-out is less than N\$ 20 000 the whole amount will be paid as a tax-free lump sum. If in excess of N\$ 20 000 one third of the pay-out will be paid out as a tax free lump sum, while the remaining

portion will be paid out as an annuity. The proposed amendment announced by the Minister will increase this threshold to N\$ 50 000, i.e. if the pension pay-out is less than N\$ 50 000 the whole amount will be paid as a tax-free lump sum and if in excess of N\$ 50 000 one third of the pay-out will be paid out as a tax free lump sum while the remaining portion will be paid out as an annuity. No effective date was announced, but the amendment will most likely be effective from 1 March 2009. Once again, this will have to be confirmed with the necessary legislative changes.

Transfer duties

Natural persons

Significant transfer duty changes were introduced for natural persons acquiring immovable property. A comparison between the current and proposed rates is set out below:

Current			Proposed		
Value		Rate	Value		Rate
0	100 000	0%	0	400 000	0%
100 001	200 000	Nil +1%	400 001	800 000	Nil + 1%
200 001	400 000	N\$ 1 000 + 5%	800 001	1 500 000	N\$ 4 000 + 5%
400 001	and over	N\$ 11 000 + 8%	1 500 000		N\$ 39 000 + 8%

To illustrate the effect:

Value of the property N\$	Current duty N\$	Proposed duty N\$
400 000	11 000	Nil
960 000	55 800	12 000
1 200 000	75 000	24 000
1 600 000	107 000	47 000

Commercial agricultural land acquired under Affirmative Action Loan Scheme

The applicable rates for a natural person who acquires commercial agricultural land under the Affirmative Action Loan scheme are to be as follows:

Proposed		
Value		Rate
0	500 000	0%
500 001	1 000 000	Nil + 1%
1 000 001	and over	N\$ 5 000 + 3%

Persons other than natural persons

The rate will be increased from 8% to 12% on the value of the property.

Property owning companies and close corporations

We have not seen an amendment to the Transfer Duty Act making the transfer of shares and membership interest in property owning companies and close corporations subject to transfer duty, despite an announcement to this effect in the 2005 budget.

Withholding tax on services

A withholding tax on services rendered in Namibia by a foreign entity will be introduced. No further details have been given and we will provide more

information as it becomes available.

Corporate tax rate

Non-mining companies

The Minister announced a reduction in the corporate tax rate, for companies other than mining companies, from 35% to 34%. The current 35% rate has been in place, without change, since January 1999.

There was no indication of the effective date of the rate decrease. However, in the spirit of the budget and the aim of proposed changes, we expect the rate to be effective for years commencing on or after 1 January 2009. We will confirm the effective date once the proposed change has been gazetted.

Mining and mining services companies

Despite the economic pressure on the mining sector, no rate reductions were

announced for this sector.

The tax rate for diamond mining and diamond mining services companies (companies rendering services in connection with mining on behalf of a person licensed to mine diamonds) will therefore remain at 55%.

Similarly, the tax rate for "hard rock mining" companies and mining services companies (companies rendering services in connection with mining on behalf of a person licensed to do "hard rock mining") will remain at 37.5%.

Manufacturing companies

Likewise, no changes were announced for manufacturing companies and the rate will remain at 18%, for the first ten years after manufacturing status was granted. For manufacturing companies that have been granted manufacturing status more than ten years ago, the tax rate will be 34%.

Oil and gas companies

The rate has also remained unchanged for oil and gas extraction companies, at 35%.

Royalties

Withholding tax on royalties is currently determined at 35% of 30% of the royalty payable, thus an effective withholding tax rate of 10.5%. With the change in the normal company tax rate, the rate of withholding tax on royalties will change to 10.2% (i.e. 34% of 30% of the royalty payable) once the new corporate rate has been gazetted. The rate may be reduced by the provisions of a double taxation agreement.

Value-Added Tax

This year's budget introduced the zero-rating of the following essential basic items:

- Milk;
- Sugar; and
- Medical Services

Basic Food Items

The Minister's proposal to zero-rate the sale of milk and sugar is an expansion of the zero-rating of other food items, such as fresh and dried beans (excluding canned and frozen beans), sunflower cooking oil, fried out or processed animal fat used for the preparation of food, bread and cake flour and bread, except if served as a meal, or as cooked or prepared food. These items were zero-rated as from 1 August 2008.

The Minister gave no further details to the type of milk (fresh, long life, curdled etc.) and sugar (white, brown, etc.) that will be zero-rated in future and also did not give an indication of the effective date of the proposed amendment. As VAT is a transactional tax, the amendment will only be effective from a future date, being a date after it has been gazetted.

Medical Services

An unexpected announcement was the proposed zero-rating of medical services. Currently, medical services are exempt from VAT and only doctors who have dispensaries at their practices are regis-

tered for VAT. This means that doctors are not entitled to an input VAT deduction in respect of VAT paid, except if relating directly to the dispensary. As a result the unrecovered VAT paid forms part of the cost of the business, which the doctors have to incorporate in their fees.

The amendment, once promulgated, will result in inter alia all doctors being required to register for VAT. However, the VAT registration is to their benefit and will enable them to claim an input VAT deduction in respect of VAT paid on business related expenses. Doctors who are currently registered for VAT and who have to make use of the apportionment ratio to determine their input VAT deduction will no longer need to make use of an apportionment ratio, once the amendment is gazetted.

On the other hand, VAT registration could result in an administrative burden, but the benefits of the additional input tax claims should exceed the burden.

The Minister gave no indication of the effective date for the zero-rating of medical services, but it will be a date in the future.

Excise Duties

Increases in the rates of excise duties or "sin taxes" payable on tobacco products and alcoholic beverages were announced, in line with annual trends and inflation.

The excise duty on malt beer increased by 9.5% from R42.38 to R46.41 per litre of absolute alcohol, which equates to an average tax of 79c per 340ml can.

For the third consecutive year, no changes have been announced to the excise duty on traditional African beer and traditional African beer powder, which remain at 7.82c per litre and 34.7c per kg respectively.

Increases have been announced in excise duties in relation to wine of 7.6% for unfortified, 9.4% for fortified and 9.4% for sparkling wine. This has resulted in the rates per litre on these products equalling R1.98 per litre for unfortified, R3.72 per litre for fortified and

R6.16 per litre for sparkling wine. Ciders and alcoholic fruit beverages received an increase in excise duty of 9.9% on unfortified and fortified. Spirits and liqueurs also increase by 14.7% from R21.84 to R 25.05 per 750ml bottle. Smokers will also face increased prices as a result of increases in the excise duties - 12.9% on cigarettes, 5.5% on cigarette tobacco, 8.6% on pipe tobacco and 13% on cigars.

The amendments to the specific excise duties noted above are effective from 11 February 2009.

Environmental Levy

As part of the augmentation and broadening of the tax base, the Minister announced that an environmental levy will be introduced. The proposed levy will be levied on disposable products which are harmful to the environment. The Minister gave no further information and indicated that details will be announced at a later stage.

Exchange Control

The Minister confirmed that no amendments will be effected in relation to exchange controls, as the Ministry feels that current controls are already fairly liberal and the current turmoil in the financial markets does not warrant any further liberalisation.

The Minister also believes that the controls which are in place have limited Namibia's exposure to the risks from the global market.

Strengthening Revenue Administration

Due to projected downturn in revenue, the Minister once again said revenue collection will be optimised. Government intends to strengthen the collection through capacity building, compliance enforcement and general revenue administration. The Minister also indicated that Government will continue with optimising its "Public-Private-Partnerships" with regard to revenue collection.

FINANCIAL OVERVIEW OF THE 2009/2010 BUDGET

Introduction

Source: *Macroeconomic Framework for 2009/20-2011/12 MTEF, Windhoek 2009*

The Minister indicated in her Macroeconomic Framework that she regard Namibia's fiscal policy to be "counter-cyclical" and mentioned that total public debt in relation to GDP has declined to below 20% of GDP, far below the benchmark of 25% of GDP, which puts Namibia in a better position to withstand the impact of the global economic crisis.

It will be important to continue with the prudent fiscal policy stance, as there are a number of delivery challenges for fiscal policy coming from the revenue side.

Revenue reductions are likely to come as a result of moderate economic growth, but also increased trade liberalisation in the context of Economic Partnership Agreement (EPA) and SADC trade regime.

Supported by prudent fiscal and monetary policy, the Namibian economy continued to enjoy macroeconomic stability during the period 2005 to 2008. Namibian economic growth increased from 2.5% in 2005 to 7.1% in 2006 before it moderated at 4.1% in 2007. And despite the current global economic turmoil, it is estimated

that the Namibian economy will have expanded by 2.4% in 2008. It is further estimated that the Namibian economy has expanded on average by 4.0% annually during the period 2005-2008. In addition, the external balance of payments recorded healthy surpluses, while the fiscal balance moved from a deficit of 0.2% of GDP in 2005/2006 to a fiscal surplus of 4.7% of GDP in 2007/2008. **Real growth in investment** however declined to 4.2% in 2007 from 32.8% in 2006.

Overall consumption growth is projected at around 9.6% with **government consumption** expected to grow above 26% for the period 2008/2009 until 2010/2011.

For the period 2005 until 2007 the **inflation rate** averaged at 4.7%, underpinned by fiscal and monetary policies and a favourable external environment. However, the inflation rate accelerated progressively in 2006 and 2007 as a result of increases in international crude oil, food prices and a weaker domestic currency resulting in annual average rates of 5.1% and 6.7%, respectively.

The Bank of Namibia significantly tightened monetary conditions by increasing its bank rate by 350 basis points during 2006

and 2007. Inflation hit a high of 12.0% in August 2008 and an annual average rate of 10.3% in 2008. In 2008, there was no further monetary tightening and during December 2008 and February 2009, the Bank of Namibia reduced its repo rate by 50 and 100 basis points respectively.

The economy is expected to slow down to 1.1% in 2009, but it is expected to pick up, growing by 2.5% during the period 2010 until 2012.

The Minister indicated that the key focus areas of the next Medium Term Expenditure Framework ("MTEF") would continue to be aimed at addressing high unemployment, supply side constraints to take full advantage of the opportunities of trade liberalisation, challenges emanating from the HIV/AIDS pandemic, further diversification of the Namibian economy and possible reductions in revenue arising from, among others, increased trade liberalisation.

It is recommended that Government should continue prioritising expenditure, including capping unnecessary expenditure, and strengthening revenue collection, for example through widening and deepening the tax base and strengthened revenue collection measures.

Review of Economic Developments

Global Economic Developments

Real GDP Growth in Selected Economies

REGION / COUNTRIES	2006	2007	2008	2009	2010
	Actual		Projections		
World output	5.1	5.2	3.4	0.5	3
Developing Asia	9.8	10.6	7.8	5.5	6.9
Sub-Saharan Africa	6.6	6.9	5.4	3.5	5
United States	2.8	2	1.1	-1.6	1.6
Euro Area	2.8	2.6	1	-2	0.2
UK	2.8	3	0.7	-2.8	0.2
Japan	2.4	2.4	-0.3	-2.6	0.6
Angola	18.6	21.1	16	12.8	n/a
Brazil	3.8	5.7	5.8	1.8	3.5
China	11.6	13	9	6.7	8
India	9.8	9.3	7.3	5.1	6.5
Russia	7.4	8.1	6.2	-0.7	1.3
South Africa	5.4	5.1	3.1	1.2	n/a

Source: *IMP World Economic Outlook (WEO), January 2009 and November 2008 Update*

Domestic Economic Review

Real Sector Developments

The Namibian economic growth slow downed from 7.1% in 2006 to 4.1% in 2007, mainly due to the global slow-down that had a major negative impact on export oriented industries, and weak output in the primary industry.

Better-than-expected revenue has resulted in budget surpluses for the last two fiscal years resulting in public debt falling below the target of 25% of GDP.

Investment and export growth have decelerated, while the Balance of Payments (BOP) recorded the highest surplus of more than N\$4 billion in 2007, compared to N\$ 1.1 billion in 2006.

Primary Industries recorded an average growth rate of 3% during the last three years. The highest growth during this period was recorded in 2006 at 12.8 percent. But growth declined to -0.9% in 2007. This decline was mainly due to contraction in diamond output which shrank to -3.1% in 2007 and a deterioration in fishing and at-sea fish processing from -8.8% in 2006 to -17.5% in 2007.

The decline in diamond output is attributed to depletion of the onshore diamonds reserves. This contraction could unfortunately not be offset by improvements in the other mining output, strong world demand and better prices for minerals including uranium, gold, silver, lead and zinc. Unfavourable oceanic conditions, high oil prices and fish stock concerns impacted negatively on fishing and fish processing onboard.

The agriculture industry increased to from 3.8% in 2006 to 6.5% in 2007 due to a mix of improvements in crop production and livestock restocking which reduced livestock marketing.

Secondary industries' annual growth rate was 7.6% over the last three years with the all-time highest annual growth rate of 9.1% recorded in 2006 and 8.8% recorded in 2005. This was mainly due to the construction sector

Annual percentage change (at constant, 2004 prices) in Gross Domestic Product by activity

INDUSTRY	2005	2006	2007	2005-2007
Primary Industries	-3.1	12.8	-0.9	3.0
Secondary Industries	8.8	9.1	5.0	7.6
Tertiary industries	2.1	5.4	5.4	4.3
GDP Growth	2.5	7.1	4.1	4.6

Source: 2007 National Accounts

which grew on average by 14.7% in the period from 2005 until 2007 and by 43% in 2006. The growth in the construction sector was attributed to high investment in large projects for transport and communication network expansion and improvements, mining infrastructure and the construction of the New State House.

The manufacturing sector also contributed positively to the growth, averaging at 5.8% during the three year period with the highest growth of 7.5 and 7.2% recorded in 2005 and 2007, respectively.

Tertiary industries' average growth rate was 4.3% during 2005 until 2007. The output growth of this sector increased from 2.1% in 2005 to 5.4% in 2007. The main reason for the increase was the improved performances in transport and storage, wholesale and retail trade, repairs, hotels and restaurants, financial intermediation as well as other business services.

Demand Indicators

Total consumption expenditure recorded an average growth of 6.4% between 2005 and 2007. This expenditure recorded an increase of about 7.6% in 2006 from -0.9% in 2005, to 12.7% in 2007.

Total consumption expenditure comprised 80.4% of GDP in 2007 compared to 74.4% in 2006. The adverse effect of inflation is also reflected by domestic credit development which grew from 7.6% in 2006 to 12.7% in 2007. Another effect on consumption for 2007 was the tightened monetary policy which attempted to contain inflation by discouraging consumption.

Private sector consumption expenditure increased significantly from 8.3% in 2006 to 13.5% in 2007 as a result of rising inflation. Government consumption expenditure recorded a growth rate of 9.9% in 2007, higher than 5.3% recorded during 2006

Expenditure on GDP, Percentage Change

EXPENDITURE CATEGORY	2005	2006	2007	Average 2005-2007
Final Consumption	-0.9	7.6	12.7	6.4
Private	0.8	8.3	13.5	7.5
General Government	-5.9	5.3	9.9	3.1
Gross fixed capital forma-	3.6	32.8	-4.2	10.7
Exports of goods and serv-	-0.8	15.3	0.9	5.1
Imports of goods and serv-	0.9	16.3	23.8	13.7

Source: 2007 National Accounts

Gross fixed capital development (**investment**) in 2007 contracted to -4.2% compared to the robust expansion 32.8% recorded in 2006 and the 10.7% average for 2005 until 2007, which could be attributed to completion of some major Government projects.

Between 2005 and 2007, the growth of total **exports** of goods and services averaged at 5.1%, and the growth in imports stood at 13.7%

During 2007, the growth in exports was recorded at 0.9 % whereas imports grew at 23.8%. This represents a respective deceleration from 15.3% (exports) and an increase from 16.3% (imports) in 2006. The slowdown is mainly attributed to a decline in exports of minerals and deceleration of export of live animals, animal products and crops as well as fish and other fishing products. The increase on the import side mainly resulted from an increase in imports of services.

External Sector Developments

The external sector showed positive results during 2007 and the balance of payments achieved a surplus of N\$ 4.1 billion in 2007 and N\$ 1.1 billion in 2006. The continuous surplus mainly stems from significant current account surpluses following sizeable inflows of income from the Southern African Customs Union (SACU).

The deficit on the capital and financial account narrowed from N\$7 billion in 2006 to N\$4.9 billion in 2007. The improvement was due to an increase in foreign direct investment from N\$2.7 billion, representing 5.8% of GDP in 2006 to N\$4.9

billion, representing 8.3% of GDP in 2007. These investments were mainly as a result of equity capital in the mining sector and reinvested earnings.

The net inflows of capital to commercial banks in Namibia also contributed to the high balance of payments surplus.

Price Developments

During 2005 until 2007, the inflation rate averaged 4.7%. The annual average rates were 5.1% and 6.7% for 2006 and 2007, respectively.

The total **Private Sector Credit (PSC)** growth increased to 16.6 % at the end of March 2007 from 13.0% recorded during the previous year and retracted to 12.2% at the end of March 2008. The slowdown as particularly observed in both mortgage credit and instalment sales and this displayed the responsiveness of asset backed credit to interest rate changes.

Mortgage loans growth decelerated to 27.1% at the end of March 2007 from 32.7% at the end of March 2006, and a further decelerated to 12.0% at the end of March 2008.

Similarly, growth in instalment credit decelerated from 36.9% at the end of March 2006 to 9.8% and subsequently to 3.7% at the end of March 2007 and 2008, respectively.

Fiscal Developments

The **average revenue outturn** for 2005/2006 – 2007/2008 amounted to N\$ 17.1 billion, an average revenue growth level of 22.2% over the MTEF period.

Total revenue outturn recorded

during 2007/2008 amounted to N\$20.7 billion, more than double what was recorded in 2005/2006 and about 18% more than revenue collected during 2006/2007. This was primarily driven by a better-than-expected boom in commodity prices, improvements in revenue collection and better receipts from international trade, notably SACU receipts.

The **revenue growth** has increased from 14.7% in 2005/2006 to 17.6% in 2007/2008. This is however below the 34.2% revenue growth rate recorded in 2006/2007 as a result of the exceptional revenue outturn in 2006/2007.

The deceleration between 2006/7 and 2007/8 can be explained by an estimated N\$320 million tax relief extended to low income earners and retirement fund contribution deductibles during 2007/2008. The revenue-reducing effect of zero-rating of selected basic consumer goods implemented on 1 August 2008 may ultimately be offset by efforts to strengthen revenue collection initiatives through extension of forensic audits and introduction of tax on Unit Trusts interest earnings with effect 1 March 2008.

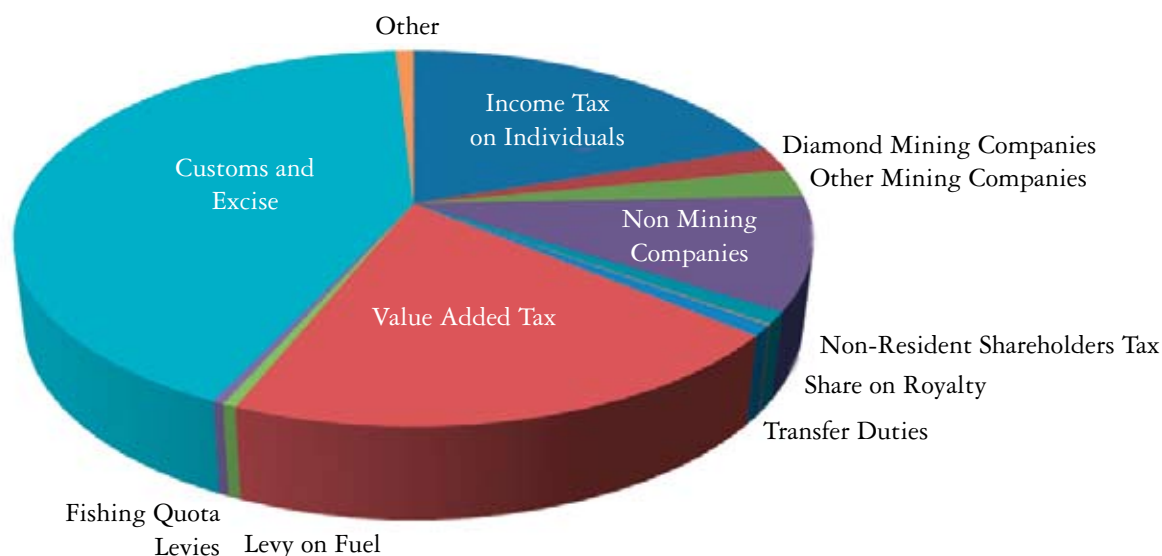
Tax revenue achieved an all-time high of 93% of total revenue in 2007/2008, producing an excess of about 12.6% over the budget estimate. This increase is largely driven by **taxes on international trade**, due to a steady increase in SACU receipts owing to an import boom in South Africa as well as the new SACU revenue sharing formula effective since 2006/2007.

Financial Overview of the 2009/2010 Budget (continued)

REVISED ESTIMATE OF REVENUE TO BE RECEIVED ON THE STATE REVENUE FUND					
HEAD OF REVENUE	TOTAL				
	Actual 2006-2007	Estimate 2007-2008	Estimate 2008-2009	Estimate 2009-2010	Estimate 2010-2011
TAX REVENUE	15 843 242 015	17 041 600 305	19 383 260 378	20 144 214 051	20 899 476 129
TAXES ON INCOME AND PROFITS	5 676 000 289	5 201 000 000	6 637 400 000	7 100 600 000	7 431 300 000
Income Tax on Individuals	3 373 643 387	2 983 000 000	3 727 900 000	3 989 000 000	4 185 000 000
Company Tax	2 161 330 153	2 070 000 000	2 673 500 000	2 866 600 000	2 992 200 000
- Diamond Mining Companies	359 920 170	250 000 000	355 000 000	433 000 000	437 000 000
- Other Mining Companies	350 656 156	350 000 000	460 500 000	482 600 000	506 200 000
- Non-Mining Companies	1 450 753 827	1 470 000 000	1 858 000 000	1 951 000 000	2 049 000 000
Other Taxes on Income and Profits	141 026 749	148 000 000	236 000 000	245 000 000	254 100 000
- Non-Resident Shareholders Tax	118 243 058	125 000 000	207 000 000	214 000 000	221 000 000
- Tax on Royalty	11 740 086	12 000 000	17 000 000	18 000 000	19 000 000
- Annual Levy on Gambling Income	11 043 605	11 000 000	12 000 000	13 000 000	14 100 000
TAXES ON PROPERTY	142 100 503	134 000 000	165 900 000	185 300 000	208 400 000
Transfer Duties	142 100 503	134 000 000	165 900 000	185 300 000	208 400 000
DOMESTIC TAXES ON GOODS AND SERVICES	3 196 814 769	3 487 600 305	3 932 632 490	4 208 514 051	4 505 176 129
Value-Added Tax	3 001 081 189	3 263 000 000	3 756 000 000	4 030 000 000	4 324 000 000
Levy on Fuel	86 425 328	92 538 364	92 908 518	93 280 152	95 010 302
Liquor Licences	5 205 716	7 505 855	6 680 972	7 382 899	8 084 827
Fishing Boats and Factory Licences	113 050	46 115 000	180 000	180 000	180 000
Hunting and Fishing Licences	964 039	500 000	1 200 000	1 300 000	1 300 000
Prospecting Licences and Claims	3 447 311	2 722 286	722 000	858 000	1 100 000
Fishing Quota Levies	97 553 026	73 117 800	73 340 000	73 912 000	73 900 000
Gambling Licence	1 539 858	2 100 000	1 600 000	1 600 000	1 600 000
General Sales Tax	485 252	1 000	1 000	1 000	1 000
TAXES ON INTERNATION TRADE AND TRANSACTIONS	6 697 893 593	8 085 000 000	8 501 827 888	8 500 000 000	8 600 000 000
Customs and Excise	6 697 893 593	8 085 000 000	8 501 827 888	8 500 000 000	8 600 000 000
OTHER TAXES	130 432 861	134 000 000	145 500 000	149 800 000	154 600 000
Stamp Duties and Fees	130 432 861	134 000 000	145 500 000	149 800 000	154 600 000
NON-TAX REVENUE	1 683 188 683	1 118 059 148	1 315 155 929	1 323 539 421	1 578 440 998
ENTREPRENEURIAL AND PROPERTY INCOME	1 264 003 735	662 827 048	815 619 329	896 607 603	991 887 623
FINES AND FORFEITURES	18 708 454	23 500 000	24 000 000	24 000 000	24 000 000
ADMINISTRATIVE FEES & CHARGES & INCIDENTAL SALES	400 476 494	431 732 100	475 536 600	402 931 818	562 553 375
RETURN OF CAPITAL FROM LENDING & EQUITY PARTICIPATION	17 359 701	23 673 887	33 512 843	29 753 281	28 757 329
TOTAL REVENUE FROM OWN SOURCES	17 543 790 399	18 183 333 339	20 731 929 150	21 497 506 754	22 506 674 456
EXTERNAL GRANTS	49 584 058	204 030 000	141 000 000	255 000 000	133 000 000
TOTAL REVENUE	17 593 374 456	18 387 363 339	20 872 929 150	21 752 506 754	22 639 674 456

Source: Ministry of Finance's website 2009/2010 – Estimates Revenue and Expenditure

Financial Overview of the 2009/2010 Budget (continued)



Total debt stood at N\$11,693 million during 2007/2008 and, as a proportion of GDP, had fallen by 12% since 2004/2005. The proportion of total debt to GDP for 2007/2008 has declined sharply from 24.4% in 2006/2007 and 26.4% in 2005/2006 to 18.7%, well below the set target of 25%.

The decline in **total debt stock** is mainly due to redemption of the GC07 bond and gradual reduction in T-365 treasury bills during 2007/2008.

The total loan guarantees issued increased by 7.5% from N\$3,504.8 million in 2005/2006, before declining by 9.4% from 2006/2007 level to N\$3,413.3 million in 2007/2008. Payments due to default on guaranteed loans have increased from N\$21.6 million during 2005/2006 to N\$212.5 million in 2006/2007, bringing the total payments of this nature to N\$517.1 million since 2000/2001. There were no payments due to default during 2007/2008 fiscal year.

Public expenditure should not exceed 30% of GDP. The total expenditure outturn for 2005/2006 until 2007/2008 averaged at N\$15.2 billion, which amounted to about 27.6% of GDP. The expenditure outlay for 2007/2008 amounted to N\$17.4 billion, which was less than the budget estimate. The expenditure / GDP ratio increased to 28.3% in 2007/2008 as compared to 27.3% recorded during 2006/2007

Total Revenue, Expenditure and Budget Balance (N\$ million), 2004/05 to 2007/08

ITEM	2003/04	2004/05	2005/06	2006/07	2007/08
REVENUE	9,767	11,424	13,108	17,593	20,689
%of GDP	25.3	26.2	27.2	31.5	33.0
Expenditure	12,241	12,493	13,189	15,279	17,717
%of GDP	31.7	28.7	27.4	27.3	28.3
Budget Balance	-2,474	-1,069	-82	2,314	2,972
%of GDP	-6.4	-2.5	-0.2	4.1	4.7
Total Debt	10,201	12,642	12,710	13,636	11,693
%of GDP	26.4	29.0	26.4	24.4	18.7
	38,648	43,554	48,137	55,877	62,663

Source: Ministry of Finance

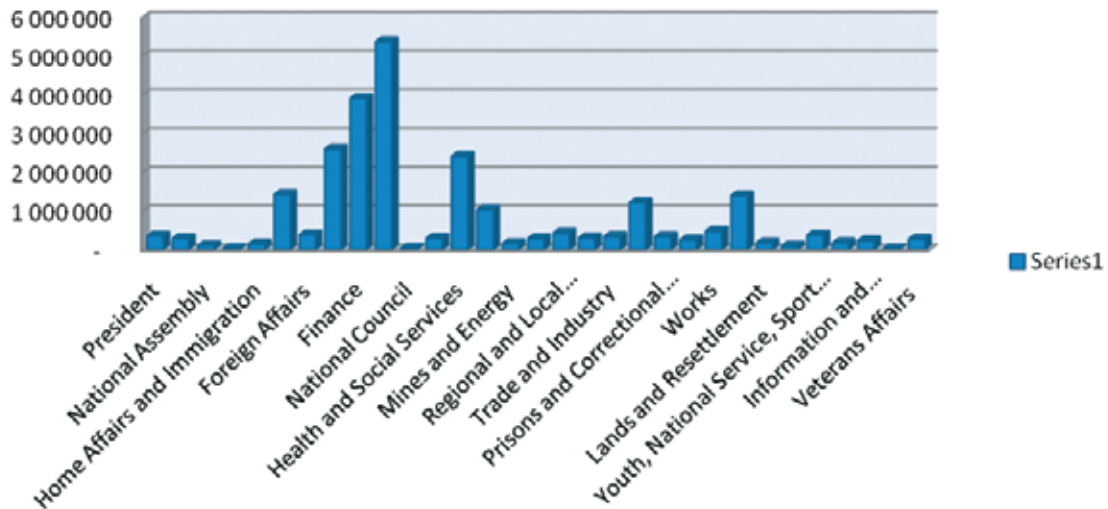
Financial Overview of the 2009/2010 Budget (continued)

Development expenditure hovered around 11% of total expenditure during the 2005/2006 until 2007/2008 financial years. There were significant increases in the development budget expenditure from N\$1,876.4 million in 2006/2007 to N\$2,073.9 million

SUMMARY OF EXPENDITURE BY VOTES			
TITLE	Total Estimated Expenditure		
	2009-2010	Total 2008-2009	Increase/ Decrease
President	356 280	253 428	102 852
Prime Minister	293 477	420 762	-127 285
National Assembly	107 197	62 139	45 058
Auditor General	35 749	24 506	11 243
Home Affairs and Immigration	152 783	123 186	29 597
Police	1 427 542	965 955	461 587
Foreign Affairs	388 610	289 020	99 590
Defence	2 598 412	1 635 353	963 059
Finance	3 904 133	4 149 250	-245 117
Education	5 374 871	3 835 450	1 539 421
National Council	45 005	29 721	15 284
Gender Equality and Child Welfare	298 251	186 908	111 343
Health and Social Services	2 414 587	1 667 440	747 147
Labour and Social Welfare	1 036 220	757 394	278 826
Mines and Energy	163 521	84 756	78 765
Justice	290 588	227 614	62 974
Regional and Local Government,	430 909	504 315	-73 406
Environment and Tourism	305 648	275 840	29 808
Trade and Industry	344 745	115 304	229 441
Agriculture, Water and Forestry	1 218 793	649 109	569 684
Prisons and Correctional Services	341 733	212 620	129 113
Fisheries and Marine Resources	257 694	138 547	119 147
Works	481 401	338 687	142 714
Transport	1 398 157	1 017 056	381 101
Lands and Resettlement	174 294	133 195	41 099
National Planning Commission	98 528	41 813	56 715
Youth, National Service, Sport and Culture	380 308	185 368	194 940
Electoral Commission	180 001	18 666	161 335
Information and Communication Technology	234 808	225 298	9 510
Anti-Corruption Commission	26 983	10 331	16 652
Veterans Affairs	273 431	20 101	253 330
TOTAL	25 034 659	18 599 132	6 435 527

Source: Ministry of Finance's website 2009/2010 – Estimates Revenue and Expenditure

EXPENDITURE



Medium Term Outlook

GDP Projections from the Demand Side

For 2009 growth is projected at 1.1% and thereafter, at an average of 2.5% for the period 2010 until 2012.

GDP projection, expenditure approach

CONSTANT, 2004 PRICES- PERCENTAGE CHANGE	2007	2008	2009	2010	2011	2012
	Actual	Estimate	Projections			
1. Consumptions	12.7	9.6	1.3	1.9	3.2	3.4
Private consumption	13.5	4.7	1.1	1.9	3.6	3.9
Government consumption	9.9	26.4	1.9	1.9	1.9	1.9
2. Investment	-4.2	21.3	3.9	9.1	5.2	6.2
Private enterprises,	-15.2	44.5	10	19	12.6	13.6
Government investment	24.9	16	12.7	8.7	7.9	7.9
3. Exports of goods and services	0.9	-3.9	-2.5	0.9	1.1	0.7
4. Imports of goods and services	23.8	3.9	0.2	4.1	4	4.2
GDP, growth rate	4.1	2.4	1.1	2.3	2.5	2.8

Source: 2007 National Accounts; Macroeconomic Working Group

GDP Projections from the Supply Side

Growth is likely to be driven by the secondary industry, which is projected to average at 4.0% over the 2009 until 2012 period, followed by the tertiary industry averaging at 2.8 % and primary industry at -2.0%.

GDP Growth Rates by Industry: A Most Likely Scenario

GDP BY INDUSTRY, 2004 PRICES	2007	2008	2009	2010	2011	2012	2009- 2012
	Actual	Estimate	Projections				Average
Primary Industries	-0.9	-3.0	-13.3	1.6	2.1	1.6	-2.0
Secondary Industries	5.0	5.3	5.9	3.0	3.3	3.8	4.0
Tertiary industries	5.4	3.4	2.6	2.8	2.7	3.1	2.8
GDP at constant prices	4.1	2.4	1.1	2.3	2.5	2.8	2.2

Source: 2007 National Accounts; Macroeconomic Working Group

Primary Industries

The primary industry is estimated to have declined by 3.0% in 2008 is projected to contract further by 13.3% in 2009, and is expected to contract on average by 2.0% for the period of 2009 until 2012. This is mainly attributed to the sharp contraction in mining output. The agriculture sector is expected to perform positively, particularly with the new developments in terms of expansion of horticulture, extension of silos and the declaration of the mahangu (pearl millet) as a controlled crop.

Secondary Industries

The secondary Industry is expected to grow at 5.3% and 5.9% for 2008 and 2009, respectively and to average at 3.3% for the period of 2010 until 2012. This will primarily be driven by the manufacturing and construction sectors.

Tertiary Industries

The tertiary Industry is expected to grow at 3.4 and 2.6% for 2008 and 2009, respectively and to average at 2.9% through the period of 2010 until 2012. This will mainly be driven by wholesale and retail trade, hotels and restaurants, transport and communication, real estate and business services and community, social and personal services.

Revenue and Expenditure Projections

Public revenue collection is expected to slow down as a result of the considerable slowdown of economic activities.

Total Revenue, Expenditure and Budget Balance (N\$ million), 2007/08 to 2011/12

ITEM	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Estimate	Projections		
REVENUE & Grants	20,689	21,972	21,778	21,147	22,688
%of GDP	33	32.8	31.2	28.6	28.6
Expenditure	17,717	22,469	25,385	22,465	23,214
%of GDP	28.3	33.5	36.3	30.47	29.2
Budget Balance	2,972	-497	-983	-2,655	-2,288
%of GDP	4.7	-0.7	-1.4	-3.7	-3.0
Total Debt	11,693	12,952	15,956	20,320	23,991
%of GDP	18.7	19.3	23.4	28.2	31.4
GDP	62,663	66,955	69,868	73,855	79,428

Source: Ministry of Finance

The 2009/10 Budget in Perspective

by Daniel Motinga, Senior Manager: Research and Development, First National Bank Namibia Holdings

The spontaneous reaction to the budget is that it is stimulatory. The allocation to the capital budget has increased significantly – from N\$2 billion to N\$4.2 billion. The challenge with past developmental spend is that of follow through and implementation.

Over the last 3 financial years government has under-spent on the capital by 15% to 34%. If this trend continues the budget would fail to create the platform for future growth beyond the current economic slow-down. Importantly, the level of capex spend is historically from a low base and therefore the additional resources may prove to be limited.

It was also interesting to note that the Minister is expecting limited growth in the current FY hence acknowledging the constrained growth impact of the current MTEF. Of course, the MoF is typically conservative and the reality may turn out better than expected.

Overall, the budget has something to please everyone. The allocation to the Ministry of Defence is a puzzle, but it is good that Health and Education got good allocations over this MTEF.

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