The Namibian Budget

Presented by Klaus Schade
At the NANGOF – IPPR
Pre-budget hearing

2 March 2010
The bigger picture

- Vision 2030 – A prosperous and industrialised Namibia, developed by her human resources, enjoying peace, harmony and political stability
- NDPs – Medium Term Plans implementing VISION 2030
- MTEF – Three-year rolling budget financing NDPs
Budget documents

- **Budget Statement** – Speech delivered by the Finance Minister when tabling the budget (contains main fiscal highlights and policy announcements)
- **Estimates of Revenue and Expenditure** – responsible MoF: lists all expenditure by vote and main division
- **Medium-Term Expenditure Framework** – three-year rolling budget containing the Medium Term Plan of each Vote:
  - Objectives, NDP target, ministerial targets
  - Result of programme budgeting (since 2005)
- **Macroeconomic Framework** – prepared by MoF and NPCS outlining the underlying economic conditions of the budget
- **Fiscal Policy Framework** – prepared by MoF: Overlapping with macro-economic framework, but focus on fiscal policy stance, fiscal risks etc.
- **Accountability Reports** – prepared by ministries: compares targets to actual output
- **Budget at a glance** – two-page summary
- **Development Budget** – responsible NPCS: describes development projects and fund allocation

Documents available on-line – www.mof.gov.na
Budget cycle

- Budget preparations start in June / July with preparation of the Macroeconomic Framework
- up to Dec. / Jan. budget hearings – expenditure proposals (based on MoF ceilings) of O/M/A discussed in detail with MoF; completion of macro-economic framework
- Jan. / Feb. submission of draft budget to Cabinet Treasury Committee and afterwards to Cabinet
- Feb. / Mar. – Budget presentation to Parliament (Budget Speech)
- March to May – Budget debate in Parliament
- May – Signing of Appropriation Act by President
- Since April – Budget implementation
- August following year – submission of accounts to OAG
- Presentation of Auditor General’s report to Parliament at the end of the following Financial Year
Main expenditure items

- Personnel
- Goods and other services
- Subsidies and other current transfers
- Capital expenditure
- Statutory expenditure
Budget allocation to selected votes

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Budget allocation to selected votes

Budget allocation to votes depend on vote’s responsibilities:

• Basic and Higher Education merged, while Sport and Culture moved to ‘Youth, National Service, Sport and Culture’

• Responsibility for social grants moved from Health to Labour

• Allocation to Finance strongly influenced by Statutory Expenditure
Major divisions

![Graph showing major divisions over time]

- Primary education
- Secondary education
- Higher education
- Regional health services
- Medical aid scheme (Public sector empl.)
- Air Namibia

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Social grants

<table>
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<th>Year</th>
<th>Maintenance Grant and Foster Parent Allowance</th>
<th>Social Pension</th>
<th>Veterans Grant</th>
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Disaggregation of statutory expenditure

- Interest payment - domestic
- Interest payment - foreign
- Guarantees


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Expenditure

Shift from focus on inputs to outputs / outcomes

- Introduction of Performance and Effectiveness Programme (PEMP)
- Medium-Term Plans
  - Identification and monitoring of output indicators (often too many indicators)
Main revenue categories

- Income tax on individuals
- Company tax
- Value-Added Tax (VAT)
- SACU transfers (tax on international trade)
- Non-tax revenue
  - Mineral royalties
  - Dividends
- External Grants (< 1% of total revenue)
Main tax categories

- Income Tax on individuals
- Company taxes
- VAT
- Taxes on international trade and transactions

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Mineral royalties

- Diamond royalties
- Other mineral royalties

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Budget surplus / deficit

- Budget surpluses in 2006/07 and 2007/08 due to:
  - Improved revenue collection
  - Increased transfers from SACU CRP
- Increased deficit since then due to economic crisis, financed through:
  - Domestic borrowing (Treasury-Bills, Bonds)
  - Foreign borrowing (lower interest rates but exchange rate risk)
Debt stock

Total amount of government debt dropped:

- as a ratio over GDP since 2004/05 (economy grew faster than debts)
- in absolute terms in 2007/08 (from 13.6 bn to 11.9 bn), but foreign debts constantly rising

Increase in absolute terms as well as a ratio over GDP since then
Budget deficit and debts - trends

- Budget Balance to GDP ratio
- Budget Deficit Target
- Debt to GDP ratio
- Debt Stock Target

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Pros and cons of budget deficits

Pro:
• Stimulate economy in times of depressed private demand
• Address country’s development needs such as infrastructure, schools, clinics
• Address social issues such as unemployment, poverty and income inequality

Contra:
• Reduces fiscal space in following years since statutory expenditure have to be honoured first
• Increases burden on future generation (repayment of debts including interests)
• Can creates macro-economic instability (inflation, currency depreciation)
• Can result in lack of fiscal discipline
• Crowd out private investment
Expectations - 2010/11 budget

- Corporate taxes from diamond mining companies drop to zero, but royalties recover
- Increased revenue (tax and royalties) from other mining companies (uranium)
- Decline of SACU transfers by some NAD3.1 billion
- Excise duty increase in line with RSA / SACU
- Introduction of Environmental Tax (as announced in last year’s speech, but revenue impact unknown)
- Implementation of lower company taxes
- Expenditure increase most likely lower than economic situation would require
- No increase in social grants
- Deficit widening but within manageable ranges
Policy challenge

How to balance fiscal prudence with stimulating economic growth and addressing social challenges

- Achieve fiscal targets (budget deficit, debt to GDP ratio, expenditure to GDP ratio)
- Achieve higher economic growth (result in increased tax revenue and perhaps job creation)
- Address unemployment (>52%), poverty and income inequality
  ▶ Set clear policy priorities
  ▶ Identify programmes / projects with high economic returns (crowd in / attract private investment, improve competitiveness and business climate)
  ▶ Assess programmes’ impact on job creation and poverty (beneficiaries)
Thank you for your attention

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2 March 2010