2013/14

Budget Statement

Growing the Economy, Optimizing Development Outcomes

Jointly Doing More with Less

Presented by

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Minister of Finance

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I INTRODUCTION

1. ***Honourable Speaker,***
   Honourable Members
   In fulfilment of Article 126(1) of the Namibian Constitution, it is my honour to present for the consideration of the National Assembly the 2013/14 Budget and the Medium-term Expenditure Framework 2013/14 to 2015/16.

2. Over the past decade, we have witnessed peaks and troughs of the global economy, booms and busts in commodity prices and prosperity and collapse in international financial markets. However, throughout these turbulent times, the Namibian economy has stood its ground. During the last decade, real economic activity grew on average by 5.0 percent, real investment grew by 6.7 percent, inflation advanced at a manageable 6.1 per cent, the budget deficit averaged 0.9 per cent of GDP and Namibia's foreign reserves grew by about N$10 billion. However, unemployment and poverty remained high.

3. In this budget, our Government is looking ahead not only over the next few years, but also over the next generation. We are taking major steps forward to build on the strong foundation we have laid since independence. We are avoiding foreseeable problems while seizing new opportunities in the global economy. The reforms we present today are substantial, responsible, and necessary. They will ensure that we are focused on enabling and sustaining Namibia's long-term economic growth.

4. For that reason, Namibians have every reason to be confident about the future. Our confidence is based on the distinctive values and principles that the Government and our people have espoused. These include, amongst others, safeguarding political, social and economic stability, growing an inclusive and innovative economy, stimulating entrepreneurship and organisational efficiency, and promoting competitiveness, openness and job growth.

II WHAT THIS BUDGET OFFERS

5. This Budget is about investing in our future. It is about enhancing our competitiveness as a nation. And, it is about improving the living standards of our people. The theme for this budget is *"Growing the Economy, Optimizing Development Outcomes",* and it reflects the people-centred and development oriented budget policy, which our Government has consistently and persistently pursued over the years.

6. We have retained a relatively strong fiscal position, although not as strong as four years ago. This is a considerable achievement given the difficulties the global and domestic economy has faced over the past three years.

7. We have been able to achieve and maintain this position because of the resilience of our economy, the effectiveness of the policy instruments we have deployed and because of good fiscal management. This fiscal outcome is significant because it helps us to pursue two main strategic priorities of Government in this budget.

8. The first objective is **growing the economy** through strategic infrastructure development, improving its competitiveness and creating jobs. The Budget as the key instrument of fiscal policy should increasingly be seen contributing to this national objective.

9. Secondly, the Government is committed to **efficient delivery of services** to all Namibians. The Budget is especially specific in its resource allocation to critical sectors of the economy, especially economic and social sectors in which the country continues to face structural and competitiveness challenges.

10. Collectively, these objectives are about building a brighter future for Namibians from all backgrounds and walks of life.

11. ***Honourable Speaker***, four years after the onset of the global financial crisis and consequent economic downturn, there has been considerable debate on how to resuscitate economic growth, both globally and at the individual country level. The approach involves a policy choice between two alternative cases: a growth stimulus or consolidation. It is my view that the choice depends on the country's individual circumstances, its fiscal condition, the strength of its macroeconomic fundamentals and any socio-economic challenges it may face.

12. The policy choice for Namibia is clear. Although our fiscal position is not as robust as it was four years ago, it nonetheless remains relatively strong. We, therefore, have limited room to pursue moderate fiscal expansion to stimulate growth and expand service delivery in a targeted manner. Concurrently, however, we have to ensure that public spending is kept in check and public debt stabilizes within sustainable levels.

13. Namibia is a relatively small open economy, with a high trade-to-GDP ratio, given our export orientation and high import bill. Developments in the global and regional economy therefore have a significant impact on the domestic economy via trade, investment and financial linkages for which timely and targeted domestic policy response is warranted.

14. In this context, ***Honourable Speaker***, allow me to give a snapshot of developments in the global and domestic economic environment under which this Budget has been prepared.

III ASSESSMENT OF PERFORMANCE IN 2012/13

Developments in the Global Economy

15. Four years after the start of the global financial crisis and consequent economic slowdown, economic recovery has now taken hold, and it is projected to strengthen gradually in 2013 and

going forward. However, the risks to fledgling growth have neither disappeared nor subsided.

16. The global economic recovery is thus projected to proceed slowly, improving from 3.2 percent in 2012 to 3.5 percent in 2013 and 4.1 percent in 2014. This projected gradual recovery is expected to be led by developing and emerging economies. However, improved economic recovery is largely premised on the efficacy, credibility and timeliness of supportive policies in the Euro zone, the United States of America and Japan, as well as policies to shore up domestic demand in China.

17. This subdued global economic environment has negative implications for the Namibian economy through the external trade transmission channel, particularly in the export-driven sectors, such as agriculture, fishing, mining and tourism.

18. **Honourable Speaker**, following a significant fiscal expansion, our Government took a conscious decision to commence with gradual fiscal consolidation.

19. The MTEF that I lay before this august House retain the direction of fiscal consolidation. But it provides for measured and targeted fiscal expansion, ensuring that expenditure allocations are maintained in real terms, and giving a boost to growth-impacting infrastructure development and job creation.

Developments in the Regional Economy

20. The economic outlook for the Sub-Saharan Africa is positive. Indeed, Sub-Saharan Africa is projected to grow at its pre-crisis average rate of around 5 percent over the 2013-15 period.

21. Limited exposure to financial trouble in Europe and improvements in commodity prices, robust increase in foreign direct investment and supportive macroeconomic policies account for this robust growth in the regional economy.

22. That said; although the situation appears to be normalizing, risks to growth continue to loom large. Weak demand in China and the degree of fiscal consolidation in the Euro Area and the United States could potentially bite into the region's growth prospects.

23. In fact, recovery for Africa's largest economy and Namibia's main trading partner, South Africa, is proceeding at a slower pace than anticipated as a result of weak external demand and consequent low growth in industrial exports.

Developments in the Domestic Economy

Honourable Speaker,
Honourable Members,

24. In regard to the domestic economy;

- Recovery has taken hold, but it continues to be threatened by the adverse external environment. Gross Domestic Product (GDP) grew by 4.8 percent in real terms in 2011, which was better than anticipated. However, this pace of growth was lower than the 6.6 percent recorded in 2010. For 2012, growth is estimated to have slowed further to 4.0 percent.

- The **primary industries** contracted by about a percentage point in 2011, relative to a rebound of 14.3 percent recorded in 2010. This was mainly due to contractions in the mining sector which declined by about 8.5 percent. However, the sector is estimated to have expanded by 4.0 percent in 2012 and it is projected to grow by 3.0 percent on average over the MTEF period. Improvements in commodity prices and increased investment in the mining sector are expected to anchor growth in primary industries over the medium-term.

- In the **secondary industries**, growth in 2011 was positive though at a lower rate of 4.1 percent, compared to 9.4

percent in 2010. This came in spite of activity in the construction sector expanding substantially during 2011, buoyed by a supportive expansionary fiscal policy. The secondary sector as a whole is estimated to have rebounded strongly, with an annual growth rate of about 6.7 percent in 2012, and an average of about 6 percent for the MTEF period.

- **Tertiary industries** were the main driver of growth during 2011, with the sector surpassing the 4.1 percent achieved in 2010 to expand by 4.3 percent. A moderate growth of about 3 percent is estimated for 2012 and this is projected to improve to about 3.3 percent on average over the MTEF period.

- Moderate growth of 0.6 percent in **investment** was witnessed in 2011, which represented a slowdown from the 9.2 percent achieved in 2010. However, investment activity is estimated to have picked up, with a growth of 10.8 percent estimated for 2012 and an average of 8 percent projected for the MTEF period. Planned capital investment in the mining, energy and water sectors is expected to boost investment over the medium-term.

- **Exports** are projected to grow at an average rate of 5.6 percent during the MTEF period and to overshadow growth in imports. The projected increase in exports is on the back of increased outputs from primary and secondary industries.

- **Inflation** averaged 6.5 percent in 2012, progressively higher than 5.0 percent and 4.5 percent recorded in 2011 and 2010 respectively. High oil prices, which have ripple effects on the transport sector, have significantly contributed to the steady increase in inflationary pressures.

- The **Balance of Payments (BoP)** recorded a small surplus during 2011, owing to a surplus recorded on the capital and financial account. This was an improvement from the deficit recorded in 2010.

- A supportive **monetary policy regime** was maintained in 2012 and 2013, with the Bank of Namibia cutting the repo rate from 6.0 percent to 5.5 percent in August 2012. This policy environment has helped to support domestic demand.

- **Private sector credit** has increased steadily, reflecting private sector and investor confidence in the economy.

- **Foreign reserves** stood at N$14.9 billion at the end of 2012, which was equivalent to 3.4 months of import cover. While this level of reserves is sufficient to maintain the currency peg and complies with international benchmarks, measures to boost reserve levels should be pursued over the medium term.

- The **South African Rand**, to which the Namibia Dollar is pegged, has depreciated significantly against major trading currencies during the last year. While depreciation augurs well for the export sector, it nonetheless makes debt servicing and the import bill more expensive.

IV FISCAL PERFORMANCE IN 2012/13

Honourable Speaker,

25. On the fiscal front, Namibia maintained an expansionary fiscal policy stance during the last five years as a countercyclical measure to cushion the economy against global headwinds and to address structural challenges facing our country. This policy stance has served our country relatively well.

Overall Outcome

26. As a result, the domestic economy expanded, *albeit* moderately. We have been able to expand expenditure and increase service delivery at a time when spending austerity and structural adjustments have impaired the delivery of public services and exacerbated social conditions in some parts of the developed world.

Revenue Outturn

27. Total revenue and grants for 2012/13 is estimated at N$37.1 billion, which is an improvement over the N$35.4 billion originally estimated in the budget. The favourable outturn is on account of better-than-expected performance in domestic tax revenue streams, as well as in some categories of non-tax revenue.

28. The estimated revenue outturn represents about 24 percent improvement from N$29.9 billion collected during 2011/12. The rebound in revenue performance is ascribed to the favourable economic performance, effectiveness of the tax administration reforms as well as the recovery of the SACU Common Revenue Pool.

29. The SACU Common Revenue Pool recorded a surplus of N$9.07 billion in 2010/11, of which Namibia received N$2.5 billion during 2012/13.

Expenditure Outturn

30. Honourable Speaker, in line with the fiscal consolidation path adopted in the 2012/13 budget, the total expenditure allocation of N$40.1 billion for 2012/13 amounted to only a 4.2 percent increase over the N$38.5 billion allocated in 2011/12. This consisted of N$31.1 billion in operational expenditure and N$6.7 billion for development expenditure, with statutory expenditure including interest obligations amounting to N$2.4 billion.

31. The total budget execution rate for 2011/12 stood at 95 percent. Operational budget execution rate stood at 95.5 percent, while the development budget utilisation rate stood at 92.9 percent, marginally higher than the rate of 92.1 achieved in 2010/11.

32. During my 2012/13 Budget Statement, I emphasized the maxim that "*Under-utilization of budgetary allocations, especially those of a development nature should be seen from the perspective of lost development opportunities, the cost of borrowing and how they could have found alternative uses in the economy*". This principle cannot be overemphasized.

33. The preliminary revenue outturn for up to early February 2012/13 amounts to N$31.1 billion, equivalent to 87.8 percent of the N$35.4 billion estimated in the budget.

34. The preliminary expenditure outturn including expenditure commitments for 2012/13, amounts to N$32.6 billion, representing 86.4 percent of the N$37.8 billion appropriated expenditure.

35. Operational expenditure execution rate is estimated at 88.4 percent, while the development budget utilisation rate, including TIPEEG allocations, is estimated at 76.6 percent by February 2013.

Provisional Budget Deficit

36. The provisional budget deficit is estimated at 2.8 percent of GDP in 2012/13 or some N$3.0 billion, which is better than the 4.6 percent projected in the budget. This is due to anticipated better revenue outturn.

37. ***Honourable Speaker***, needless to state, a prolonged episode of high budget deficits has adverse implications for debt dynamics and the sustainability of growth in expenditure.

Debt stock and contingent liabilities

38. While the estimated debt stock for 2012/13 of N$27.5 billion, or 26.3 percent of GDP falls well within the 35 percent benchmark, stabilization of growth in public debt is an important medium-term policy for Namibia. Contingent liabilities stood at an estimated N$2.1 billion, or 2.6 percent of GDP.

39. The imperative to maintain the direction of fiscal consolidation and, at the same time, fund critical national priority needs, calls on Government to strengthen revenue mobilization strategies and increasingly harness measures to improve internal efficiency, reduce waste and realise internal savings as important facets for public finance management in the medium-term.

V STRATEGIC POLICY INITIATIVES

Honourable Speaker,
Honourable Members,

40. The record of achievements we have made as a country and the successes we have scored to date are a result of concerted policy actions in various fields of human endeavour.

41. In public finance and the financial sector, Government undertook several policy initiatives and reforms.

Public Finance Management Reforms

42. Government has initiated reforms in core areas of Public Finance Management (PFM) with the objective of strengthening public finance management systems, increasing transparency and accountability and enhancing value for money.

43. In recognition for our endeavour, we have been rated as the second best country in Africa by the globally recognised Open Budget Survey. This standard of excellence should be retained, and further improved.

44. The roll-out of programme-budgeting under this budget seeks to promote results-based management and accountability. To further strengthen public finance management, the Ministry of Finance will spearhead the roll-out of public expenditure reviews to key budget votes.

Public Finance Management Law Reforms

45. The Public Finance Management Bill that is soon to be introduced is aimed at promoting good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

46. The Bill adopts an approach to financial management which focuses on outputs and responsibilities, rather than the traditional rule-driven approach.

Public Procurement Reforms

47. The public procurement law has been revised to give effect to local economic development and empowerment. Many of the new rules are already being applied under the existing Tender Board Act. The new bill is being subjected to legal review and I am optimistic that it will be finalized for tabling this year.

Public-Private Partnership (PPP)

48. With the comprehensive Public-Private Partnership policy now finalised and approved by Cabinet, Government will formulate PPP Guidelines that will eventually guide and regulate PPPs in the public sector.

Cash, Asset and Liability Management reforms

We have also initiated activities to review the national Debt Management Strategy, alongside measures to strengthen the cash management system to closely monitor and better manage associated risks.

SOE Governance

49. State-owned enterprises have been in the news for many reasons – both positive and negative. I do not believe in the notion mooted recently that SOEs are out of control. In fact, the SOE Governance Council has made rapid strides to fulfil its mandate by developing common policy guidelines for operations at these SOEs. This will eventually lead to an improvement in SOE performance and in the critical services that they are mandated to provide.

50. Now we need to implement these guidelines and put measures in place to monitor compliance in order to address poor performance that unfortunately prevail in some of these SOEs.

Financial Sector Policies

51. In the financial sector, we have initiated key reforms.

The Namibia Financial Sector Strategy

52. ***Honourable Speaker***, in order to drive the financial inclusion agenda for Namibia and bringing about a conducive environment for the development of an inclusive financial sector, I have launched the 10-year Namibia Financial Sector Strategy and Action Plan mid-last year, whose implementation has already commenced.

53. Alongside the Strategy, I also launched the Financial Literacy Initiative, which serves as a national platform for financial education to the population. We have rolled-out the literacy campaign to various regions of the country and intend to expand the campaign in various dimensions of financial discipline. I wish to extend the Government's appreciation to all platform partners for their collaborative efforts in this respect.

54. ***Honourable Speaker***, it is gratifying to note that the efforts to spearhead reform and innovation in the financial sector have paid dividends. Latest assessments have indicated that the level of financial inclusion has generally risen. In addition, innovative and pro-poor product offerings tailored to the needs of low-income and previously unbanked individuals are entering the market. Since last year, all commercial banks have introduced the Basic Bank Account which offers low or no bank charges for certain services.

55. Progress has also been made on standards for cash deposit fees for individuals and Micro, Small and Medium-sized Enterprises. Another important development was the licensing of the SME Bank in December 2012, an institution that is expected to enhance the financial inclusion and development agenda of the SME sector in Namibia.

Capital Markets Development

56. With respect to capital markets development, the Government borrowing strategy has historically been geared towards the development of the domestic capital market. About 70 percent of Government borrowing needs is sourced from the domestic market through the issuance of bonds and treasury bills.

57. I am also pleased to share with you that in November last year the Government listed and issued the first non-South African sovereign bond on the JSE to the value of N$850 million. This initiative has diversified the pool of investors of Government securities and also increased the level of interest of foreign investors in Namibia.

Legislative Reforms in the Financial Sector

58. Legislative reforms have also been initiated to strengthen the supervisory regime and enhance competition and compliance. However, financial innovation and technology-driven product offerings come with added oversight responsibilities.

59. In this regard, Government has gazetted regulations governing electronic payments to ensure that technology-driven product innovation adheres to best standards and practices. The new Financial Intelligence Act was passed by this august House last year, alongside the Prevention and Combatting of Terrorist Activities Act. Both pieces of legislation have the complimentary effects of aligning our regulatory environment to best international practices and enhancing the potency of the law to deter and eliminate money laundering opportunities and the funding of terrorist activities.

FIM Bill and NAMFISA Bill

60. Together with Namfisa, we have gone through an arduous but rewarding exercise to overhaul and modernize the regulatory apparatus governing the non-bank financial sector.

61. Because of the voluminous nature of these Bills and their relative significance, we have decided to undertake consultative workshops with Members of Parliament to familiarise the Honourable Members with the principles and content of the Bills prior to their tabling.

62. We have also finalized amendments to regulations relating to domestic asset requirements. Regulation 28, Regulation 15 and a new Regulation 29 are with the legal drafters for clearance before gazetting. The amended rules will serve as important instruments for mobilizing domestic savings to finance development through minimum local investment thresholds and help stem excessive capital flight.

The Banking Institutions Bill

63. In addition, recent events in the regulatory and supervisory environment warranted us to embark on an intensive review process, which resulted in a Banking Institutions Amendment Bill.

64. This bill will aim to introduce limits on shareholding and regulate foreign ownership in domestic banks to ensure greater certainty in the application of ownership matters relating to banks, which is fundamental in safeguarding financial stability in the domestic banking system.

65. The Bill is at an advanced stage and will be released for public and stakeholder consultation during the year.

Public Accountants' and Auditors' Board legal reform

66. We are also reviewing the Public Accountants and Auditors' Act to align it to international accounting and auditing practices. We are making good progress with the necessary amendments to the Act.

VI BUDGET ACHIEVEMENTS AND CHALLENGES

Honourable Speaker,
Honourable Members,

67. These developments I have so far highlighted bear testimony to the fact that Government has allocated considerable resources and undertaken a broad range of reforms to bring about improved delivery of services, promote economic growth, job creation and social welfare.

68. I now would like to highlight some of the key budgetary achievements to date.

Economic Sectors

69. In the ***agricultural sector***,

- crop farming output improved during 2011/12 due to expansion of activities, completion of several projects under the Green Scheme and better rainfall. However, poor rain conditions being experienced this year are expected to adversely impact on production,
- increased export of beef from Northern Communal Areas was recorded due to improvements in animal health and compliance with international standards.
- Construction of several storage facilities and the Fresh Produce Hubs at Rundu and Ongwediva were also completed

70. In the ***tourism sector***;

- the number of tourist arrivals exceeded 1 million in 2011, with over 160 new accommodation facilities opened in 2012, creating close to 1,000 jobs, and
- several infrastructure development and rehabilitation of tourism facilities are underway, with some projects expected to be completed this year. However, economic developments in Europe and North America are set to impact negatively on the sector.

Port infrastructure and Expansion

71. Modern port infrastructure is critical to enhance the flow of goods and making our national ports preferred hubs for increased regional and trans-Atlantic trade. During the year under review, good progress was made with regard to:-

- Walvis Bay port expansion,
- development and expansion of the Walvis Bay Container Terminal and rehabilitation of the tanker berth, and
- Luderitz Boatyard extension

Water

72. Provision of clean water supply has been expanded to an increasing number of Namibians. In particular;-

- The expected construction of Neckartal Dam in Karas Region and Walvis Bay Desalination Plant are expected to increase bulk water supply for industrial use, households and irrigation,
- Several projects for rehabilitation of bulk water supply infrastructure in urban and rural areas were completed , and
- flood hazard mapping activities now underway will enhance national preparedness and adaptation to climate change

Energy

73. Secure energy supply is an important utility for households, businesses and capital investment alike, especially in the mining sector.

In this sector:-

- Over 150 schools and Government facilities in rural areas have been electrified since 2011/12
- Technical assessment for the Baynes Hydro Power Project has been completed, and consultation with affected communities will pave the way forward for this important project.
- Increased investments have been made in respect to ensuring a secure power supply to the mining sector and the port of Walvis Bay.
- The preparatory phase for the Kudu Gas Project is now underway and commercial arrangements with upstream partners are being pursued.

Transport Infrastructure

74. Development and maintenance of the rail and surface road networks is an important facet in the process of our economic development and social transformation as well as with respect to national competitiveness and trade facilitation.

75. Important transport infrastructure projects that have been completed include:-

- Phase 2 of the Rundu-Elundu road upgrading, covering the last 116 kilometres,
- The Okahandja-Karibib road rehabilitation,
- The upgrading of the Gobabis-Otjinene road
- Okahao-Omakange road, and
- Phase II of the Northern railway extension project

76. Budgetary allocations to economic sectors have been complemented with investment funds from our Development Financial Institutions.

- The Development Bank of Namibia (DBN) has disbursed loans amounting to N$383 million during 2012 bringing the DBN’s total loan book to N$1.4 billion. In 2012 alone, DBN financing activities supported over 341 projects, creating over 1,980 new jobs, 2,988 temporary jobs and retaining 2,717 jobs.

- Since its inception in 2004, DBN funding has supported the provision of over 41,175 direct and indirect jobs, especially in the SME sector.
- N$ 235 million of the bank's loan went towards SME funding. The funding supported tenders to SMEs worth N$972 million.
- The opening of a dedicated SME Bank in 2012 is expected to usher in a new era of expanded provision of accessible finance, especially to the SME sector.

- AgriBank has expanded its loan offerings to the aquaculture subsector. Loan disbursements increased by 8 percent to amount to N$276 million in 2012, benefiting over 640 commercial and small-scale farmers and enabling previously disadvantaged Namibians to acquire land. Over 5,000 jobs were created and maintained during 2012.

- The provision of affordable housing for the majority of our population remains a challenging priority for Government, given run-away property prices and the scarcity of serviced land. The National Housing Enterprise (NHE) has built a total of 970 affordable houses during the last two years, worth about N$300 million with close to 3,000 jobs created.

Social Sectors

77. Education is a key growth and productivity enhancer. In this sector;

- the year 2013 commenced with the phasing-out of the mandatory Development Funds contribution to facilitate for universal primary education,
- additional educational facilities were developed and upgraded to cater for increasing number of learners,and
- enrolment to, and completion rates for basic, tertiary and vocational institutions also increased annually

78. ***Honourable Speaker***, let me acknowledge the enormous contribution that the Late Dr Abraham Iyambo has made to spearhead educational reform to greater heights and articulate development needs for the sector. His sudden passing on has left an indelible mark, but his indefatigable spirit lives on as a fountain of inspiration to deliver the results.

79. In the **health sector**,

- We achieved progress in the fight against malaria and tuberculosis and in rolling-out of Anti-retroviral drugs, with coverage rate in excess of 85 percent,
- construction and renovation of health facilities in various parts of the country, and
- increased local ownership for programmes previously catered for by the donor community.

Honourable Speaker,
Honourable Members,

Targeted Intervention Programme for Employment and Economic Growth (TIPEEG)

80. TIPEEG intervention entered its second-year of implementation during 2012/13

81. The development budget execution rate up to February 2013 stood at 76.6 percent, with about 13,885 additional jobs created. This number of jobs is an underestimate due to irregular reporting, and should be seen against 27,235 jobs created during the first year of implementation.

82. The need for timely reporting, monitoring and evaluation in regard to the implementation of TIPEEG cannot be overemphasised.

VII MEDIUM-TERMECONOMIC OUTLOOK

Honourable members,

83. While our economy is projected to grow above the global average, growth rates are expected to be moderate, given the difficult global economic environment. GDP is projected to grow by an estimated 4.3 percent in 2013 and remain relatively flat at 4.4 percent over the MTEF. This relatively low growth trajectory has corresponding effects on revenue outlook over the medium-term.

84. Domestic economic policy interventions should of necessity be directed at lifting economic recovery and bringing about inclusive growth.

VIII FISCAL OUTLOOK FOR THE MTEF

85. The medium-term fiscal outlook is premised on the projected economic performance. Government fiscal policy remains grounded in fiscal counter-cyclicality, promotion of economic growth, and social welfare, as well as long-term sustainability. During the next MTEF, fiscal policy will be hinged on three fundamental pillars:-

- *maintaining the direction of fiscal consolidation, with moderate but targeted expenditure expansion aimed at consolidating economic recovery, safe-guarding macroeconomic stability and the sustainability of fiscal outcomes. The focus is to give substance to national development priorities and retain sound latitude of fiscal buffers as a contingency measure in the event that the global and domestic economic environment deteriorates.*

- *stabilizing growth in public debt by utilizing a policy mix of expenditure management, revenue mobilisation and enhancing internal efficiency, and*

- *strengthening efficiency in tax administration and revenue collection to support revenue growth in the medium-term and beyond.*

Revenue Outlook and Medium-Term Initiatives

86. Total revenue collection for 2012/13 is estimated at N$37.1 billion, equating to about a 4.8 percent upward revision from the N$35.4 billion originally budgeted revenue. The upward revision reflects better performance in domestic revenue streams during the year, particularly Individual Income Tax and some categories on non-tax revenue.

87. For 2013/14, revenue is projected at N$40.1 billion, about 8.2 percent growth from the estimated revenue for 2012/13. During the MTEF, revenue is projected to grow by an average of 7.3 percent annually to reach N$45.6 billion by 2015/16.

88. The projected improvements in revenue is on account of initiatives to improve the tax administration regime, the introduction of alternative sources of revenue, recovery in the SACU Common Revenue Pool and projected higher collections as the domestic economic recovery gathers steam.

Expenditure Outlook

89. Total expenditure for 2013/14 amounts to N$47.6 billion,equivalent to a 19 percent increase from the N$40.1 billion allocated in 2012/13 or about 41 percent of GDP. Over the MTEF, total expenditure is projected to average N$48.7 billion and hover around 37.3 percent of GDP.

90. Operational expenditure is set at N$37.2 billion, equivalent to a 19.8 percent increase from N$31.0 billion allocated during the previous year. This increase is mainly due to adjustments in the public civil servants wage bill, **including job evaluation and re-grading**.

91. The development budget will increase by 21.3 percent to N$8.1 billion, from the N$ 6.7 billion allocated in 2012/13 to give impetus to growth-enhancing infrastructure development and create jobs.

Budget Balance and Financing Options

92. ***Honourable Speaker***, a budget outlay of N$47.6 billion, comprising N$6.6 billion total additional expenditure above the ceiling contemplated in the 2012/13 MTEF is significant and calls for the effective implementation of programmes to realize intended outcomes and ripple effects in the economy.

93. The budget deficit is projected to increase to 6.4 percent of GDP, from 2.8 percent estimated in the 2012/13 MTEF and average 4.6 percent of GDP during the MTEF. In nominal terms, the deficit will increase from N$3.0 billion in 2012/13 to an estimated N$7.4 billion in 2013/14 and average around N$5.8 billion during the MTEF.

94. Government intends to finance the deficit through a combination of drawdown on accumulated cash reserves and borrowing mainly from domestic sources.

Debt Outlook and Management

95. As a result, total debt will increase from N$27.5 billion in 2012/13 to N$32.4 billion in 2013/14 and reach an estimated N$44.5 billion by 2015/16. As a proportion of GDP, debt will increase moderately to 27.8 percent in 2013/14 to reach an estimated 30.7 percent by 2015/16.

POLICY INTERVENTIONS FOR THE MTEF

Safe-guarding macroeconomic stability and fiscal sustainability

Honourable Speaker,
Honourable Members,

96. A people-centred Government should address the bread and butter issues confronting the citizens. The budget and budget policy should impact on daily lives of Namibians through the increased service delivery, the promotion of economic activities and the optimization of social welfare.

97. In this budget, the following tax policy changes are proposed:-

Corporate Income Tax

98. Reduction of the non-mining company tax from the current rate of 34 percent to 33 percent in 2013/14 and further to 32 percent in 2014/15. The rate reduction has an objective of encouraging economic agents to invest and produce.

Individual Income Tax

99. Increase of the tax threshold and reduction of Individual Income Tax rates and income tax brackets changes to relieve the general tax burden on individuals and to assist our citizens in affording the basic amenities of life. In this regard, the following tax brackets and rates are proposed:-

o Below		N$50,000,	0%
o N$50 001	-- to --	N$100 000	18%
o N$100, 001	-- to --	N$300, 000	25%
o N$300, 001	-- to --	N$500, 000	28%
o N$500, 001	-- to --	N$799, 999	30%
o N$800, 000	-- to --	N$1, 500, 000	32%
o over N$1,500,001			37%

Transfer Duty and Stamp Duties

100. Reduction in transfer duty brackets and rates are proposed as follows:-

- N$0 -- to -- N$600,000; 0%
- N$600,000 -- to -- N$1000,000; 1% of the amount exceeding 600,000
- N$1000,001 -- to -- N$2000,000; N$4,000 plus 5% of the amount exceeding N$1,000,000
- Exceeds N$2,000,000 N$54,000 plus 8% of the amount exceeding N$2,000,000

101. Reduction in Stamp Duty brackets and rates are proposed as follows:-

- N$0 – N$600, 000; ***Exempt***
- Where the value or consideration exceeds N$600,000 for every N$1,000 or part thereof of the value or consideration that exceeds N$600, 000; ***N$10***

102. The reduction in duty rates is aimed at encouraging our citizens to acquire property – especially houses – in an environment of run-away prices for properties.

103. Total aggregate cost for the tax adjustments is estimated at about N$1.2 billion and this is built into the revenue forecast for the MTEF.

104. As part of our on-going tax reforms, Government will undertake a series of measures to improve tax administration and to strengthen revenue performance going forward.

105. During this session of Parliament, I will table the Export Levy Bill and announce export levy rates on the export of raw materials. I will also table an environmental levy tax proposal to be levied on certain environmentally harmful items, including the *Carbon Dioxide Emission Tax on motor vehicles*

Excise Tax/Sin Taxes

106. In accordance with Article 21 of the SACU Agreement of 2002, new excise duty rates will be announced by the South African Minister of Finance tomorrow on the 27th February 2013, and will come into effect in Namibia on the same day through a notice in the Government Gazette issued in accordance with the provisions of section 54(1) of the Customs and Excise Act of 1998.

Strengthening the competitiveness of the economy

107. Namibia's sound economic policies continue to enjoy favourable international recognition. Both Moody's and Fitch ratings have reaffirmed Namibia's credit ratings with stable outlookBaa3 and BBB-, respectively. These ratings denote expectations of low default risk and continue to contribute towards achieving competitive borrowing terms both domestically and internationally.

108. In the area of the overall competitiveness of our country, we should remain cognisant of the remaining challenges to economic competitiveness and persist to address them. The Global Competitiveness Index of 2012/13 ranked Namibia 92 out of 144, lower than the 83rd rank achieved in 2011/12. We need to work harder in areas of policy and institutional reforms, streamlining Government administrative procedures and reducing red tape in order to improve our attractiveness.

109. Namibia ranked satisfactory on four pillars namely, macroeconomic environment, institutions, financial market development and infrastructure.

Promoting financial inclusion and modern legislative environment

110. As part of promoting the financial inclusion agenda for Namibia, and implementing reforms in the financial sector, Government will develop a Monitoring and Evaluation Framework during 2013 to guide the implementation of the Financial Sector Strategy. Legislative reforms in the banking and non-bank financial sectors will also be undertaken.

IX EXPENDITURE PRIORITIES FOR THE MTEF: GROWING THE ECONOMY AND INVESTING IN OUR FUTURE

Honourable Speaker,
Honourable Members,

111. The funding priorities in this budget and next MTEF are, therefore, clear.

Economic growth, employment creation and poverty reduction

112. In order to reduce poverty, the economy needs to grow and to create jobs at an accelerated rate. Structural change is also needed in the composition of growth if policy intensions are to translate into tangible results. To this end, additional resources are provided for in this MTEF.

Agriculture

113. A total of N$7.1 billion is allocated to the Agricultural sector overthe MTEF. The resources are to fund:-

- expansion of the Green Scheme Project, to bring more land under irrigation
- strengthening animal health and productivity programmes, and
- horticulture development and construction of grain storage facilities and veterinary clinics

Environment and Tourism

114. A total of N$1.8 billion is allocated to the environment and tourism sector over the MTEF. The resources are to fund, among others:-

- Community-based tourism development,
- development of tourism facilities, and
- implementation of environmental management and adaptation activities

Infrastructure Development: Public Sector Investment Programme

115. In accordance with national development priorities, N$8.2 billion is provided to the transport sector over the MTEF for, among others:-

- expansion of the port of Walvis Bay.
- rehabilitation and railway infrastructure management, and
- development and maintenance of national roads infrastructure

116. The national airline receives additional support to maintain its operations. I must emphasize that the perpetual lifeline extended to Air Namibia is a cause of national concern. A lasting solution is warranted.

Energy

117. Energy is critical to fuelling national development and industrialisation. Additional budgetary allocations are made to promote provision of secure energy for industry and households.

Water

118. Provision of bulk and potable water remains a core priority to ensure adequate supplies for households and industry. In this regard;-

- An amount of N$1.1 billion is allocated during the MTEF for rural water supply and strategic water supply infrastructure development,
- The major projects envisaged are the construction of Neckartal Dam in Karas Region, Walvis Bay Desalination Plant, water extension pipelines and earth dams.

Private Sector Development and Initiatives for diversifying the economy

119. The adoption of the national Industrial Development Policy provides a national blue print for the diversification of the economy and to address domestic supply-side constraints. Government is currently seized with the review of Namibia's incentive regime whose conclusion will form part of the programmes of action for industrial development.

Human resources development and skills formation

120. As a nation, we have accorded top priority to education. Education receives the lion's share, amounting to N$10.7 billion in 2013/14. This amount corresponds to 23.7 percent of the total budget. Over the MTEF, the allocation to education amounts to N$35.2 billion.

121. The allocation to education will fund, among others:-

- provision of universal primary education,
- improvement of accommodation facilities for teachers,
- expansion of hostel accommodation, especially at institutions of higher learning, and
- increased funding for the Namibia Students Financial Assistance Fund and Vocational Training loans to cater for increased access.

Health

122. Increased funding is provided to the health sector to improve health facilities and to bring health services closer to the people. Over the MTEF, the allocation to health amounts to N$15.4 billion. The main activities funded comprise:-

- strengthening disease control and prevention as well as clinical health care services programmes
- improvement of health facilities and recruitment of personnel, and
- sustaining programme activities previously funded by donors

Social Safety Nets

123. In this budget, resources are made available to strengthen the social safety nets, both in quality and quantity.

- an amount of N$3.9 billion is allocated for old-age pension over the MTEF to cater for increased coverage of our senior citizens. Old-age social grants are further increased by N$50.00 to N$600.00 per month.
- allocations are made for emergency relief owing to impacts of natural disasters and climate change, and
- resources are also made available for the support programmes for the veterans of the liberation struggle.

Defense, Safety and Public Order

124. ***Honourable members***, since independence our nation has enjoyed peace, security and rule of law which are the defining hallmarks of our democracy and of our freedom. A combined amount of N$8.0 billion is allocated to the Public Safety and Security sector in 2013/14, comprising national defence, police, justice and correctional services. For the MTEF period, the combined allocation amounts to N$27.3 billion

- Allocations to the national defence are mainly to cater for upgrading the facilities and enhance Namibia's participation in peacekeeping missions as part of the United Nation's membership responsibilities
- Allocations to the police are to cater for construction of new police stations, accommodation facilities and recruiting and training new members of the force.
- N$546 million is allocated for the administration of justice, construction and renovation of court structures and reducing the backlog of cases in our courts, and
- N$587 million is allocated to prisons and correctional services

Youth Development

125. During this MTEF, allocations to youth development and empowerment programmes are strengthened to promote entrepreneurship and ensure that our youth develop their talents and that they always remain at the centre of development.

126. Last year, our nation shared in the joy and triumph of Namibia's golden girl, *Johanna Benson* for clinching the Paralympic gold medal. We should continue to discover and develop the talents of our sportsmen and women to their fullest potential.

127. During this MTEF:-

- Allocations to the Youth, National Service, Sports and Culture for the MTEF amounts to N$1.9 billion
- As part of this allocation, funding is provided to the National Youth Credit Scheme to support young entrepreneurs who want to start income-generating activities.
- Further to these allocations, the increase in allocations to the Namibia Students Financial Assistance Fund and Vocational Training loan facility is aimed at encouraging more youths to access tertiary and vocational training institutions and thus enhance their employability.

Housing and improved sanitation

128. The provision of housing and basic sanitary amenities is an important priority to improve the living standards and quality of life for our people. It is on this premise that His Excellency President Hifikepunye Pohamba constituted a national Task Force on housing to propose a long-term model for addressing this national problem, focusing on core factors of land acquisition, servicing, property development and financing solutions.

129. A total amount of N$1.9 billion is allocated to the Ministry of Regional, Local Government, Housing and Rural Development for 2013/14 alone to cater for, among others, the servicing of land and improved sanitary standards in urban, peri-urban and rural areas.

Over the MTEF, the total allocation amounts to N$5.8 billion, reflecting the urgency for, and consistent action to arrest the situation.

130. In addition, a total of N$320 million is allocated to NHE over the MTEF to provide for the construction of low cost housing. Allocations are also made to support Build Together, Social Housing and related programmes.

131. Further, Pension Funds and regulatory authorities are investigating the viability of pension-backed home loans for their members. The amendments to the Transfer Duty Act, Stamp Duty Act and the reduction of Personal Income Tax proposed in this budget should also be seen from the perspective of assisting our people to afford the basic amenities of life, especially the acquisition of housing.

X EXPECTED RESULTS

***Honourable Speaker*,**
Honourable Members,

132. The 2012/13 budget and MTEF scaled-up resources and maintained expenditure commitments in real terms to bring about improved service delivery and optimise development outcomes.

133. The 2012 MTEF also contemplated the commencement of a fiscal consolidation programme to rein in the budget deficit and stabilize growth in public debt, amidst adverse and uncertain external global economic environment.

134. The fiscal and economic environment has not significantly changed and the risks underpinning economic recovery and the country's fiscal position have neither subsided nor disappeared.

135. We are, however, keenly aware of the persistent challenges of unemployment, poverty and inequality facing our country and our people's aspirations for a better life.

136. The budget that I am tabling today echoes these aspirations. We have tough decisions to make to ensure additional resources are available in order to accelerate service delivery, stimulate inclusive growth and contribute to the improvement of social welfare.

137. However, the intended outcomes go beyond budgetary allocations and lie in the timely execution and implementation of the funded programmes. There is no substitute for hard and smart work.

138. With respect to the outcomes of the year-to-date budget, the Accountability Report of Government gives an account of achievements realized with appropriated funds.

Use of Contingency Allocations for 2012/13

139. During the current financial year, an amount of N$171.3 million was allocated as a contingency provision. This amount was fully spent to meet the emergency needs as presented by Offices, Ministries and Agencies.

140. Government will mobilize resources from internal savings to cater for increased coverage of senior citizens this year. I have distributed the list of activities that have benefited from Contingency Provisions.

XI CONCLUSION

Honourable Speaker,

141. In formulating this Budget, we had to make crucial choices and trade-offs, and the outcome of this process clearly reflects our policies and priorities.

142. We are choosing to protect and foster employment.

143. We are choosing to invest in our children's education.

144. We are choosing to strengthen the health services and our social services.

145. Although we wish to do more, we are responsibly choosing not to burden our country with more than what it can bear. After all, our families would have to pay the price of our choices if we were irresponsible.

146. In this Budget, we have increased the incentives to create employment, we have chosen to decrease the burden of taxes, and we have given our families and our pensioners more support. While the approach in recent years was to stimulate economic activity by expanding public spending, we have now chosen to reassure people, to boost confidence, and to give the private sector some space to contribute towards economic expansion and job creation.

Honourable Speaker,
Honourable Members

147. The preparation of the Budget relied on the hard work of many people, both in the Ministry of Finance and in other Offices, Ministries and Agencies. It strongly depended on understanding, goodwill and support of my Cabinet colleagues. Members of the Treasury Cabinet Committee have shared in the difficult task of assessing spending proposals and reviewing policy options.

148. And, most important, I sincerely thank His Excellency, President Hifikepunye Pohamba for his sterling leadership and trust vested in me to serve our country and people as Minister of Finance. I thank the Right Honourable Prime Minister for his counsel and support. My unalloyed gratitude goes to our development partners and stakeholder communities for all-round support offered to Namibia in pursuit of our socio-economic objectives.

149. ***Honourable Speaker***, it would be remiss of me if I did not express my deepest gratitude to Honourable Calle Schlettwein, Minister of Trade and Industry, for his enduring support and outstanding contribution during his tenure as Permanent Secretary and as my Deputy Minister of Finance.

150. I most sincerely thank the Director General of the National Planning Commission, my officials, officials from the National Planning Commission Secretariat and staff of the Government Printers for their hard work and limitless energy dedicated to the preparation and publication of this budget. I sincerely thank Offices/Ministries and Agencies which provided valuable information for the preparation of this budget. In addition, Governor Ipumbu Shiimi and his staff at the Bank of Namibia have always availed themselves when macroeconomic policy coordination was of utmost importance.

151. ***Honourable Speaker, Honourable members,*** it now gives me pleasure to invite the Members of Parliament to consider, in terms of Article 126(2) of the Namibian Constitution, the appropriation bill tabled before this august House today.

I thank you.