Republic of Namibia

Fiscal Policy Strategy for the 2016/17 to 2018/19 Medium-Term Expenditure Framework

February 2016

Foreword

I have the honour to present the Fiscal Policy Strategy for the FY2016/17 – 2018/19 MTEF. This framework followed on from the Mid-Year Budget Review and Policy Statement, which was introduced for the first time in Namibia in November 2015. The Fiscal Strategy provides an analysis of macroeconomic and fiscal developments, after taking into account the regional and international context.

This Fiscal Strategy comes into force at the time of significant developments in the global and regional economies, which can adversely impact on the domestic economy and public revenue. Interest rate normalization in the United States, internal fiscal rebalancing in China and improving economic growth prospects in advanced economies have increased capital outflows from the Developing and Emerging Markets Economies and triggered currency fluctuations.

As a consequence of the above developments, public revenues have come under pressure. In the case of Namibia, receipts from taxes on international trade under SACU face pressure due to subdued growth outlook in the region. However, the resilience in domestic revenue sources, supported by tax administrative reforms, is expected to anchor revenue growth over the medium-term. On the expenditure side, a key budget policy for the medium-term is the continuation of the fiscal consolidation program announced during the mid-year review, with the objective of aligning the medium-term fiscal policy to the revised macroeconomic outlook. The fiscal consolidation framework gives appropriate priority to the fiscal support needed to support future growth potential.

The fiscal consolidation mitigates against fiscal procyclicality by increasing spending on economic and social infrastructure and this is accompanied by a range of structural reforms in various sectors of the economy. Indeed, the fiscal framework allows Government to honour its contractual obligations and provide funding for priority national development initiatives to encourage growth; contribute to job creation; and, the eradication of poverty. In this sense, the Strategy devotes domestic resources to the achievement of shared prosperity for all Namibians over time.

We have taken due care to mitigate medium-term risks, without compromising future s growth prospects. Enhanced structural policy agenda and its timely implementation are an important undertaking to maximise the achievement of development results.

CARL H-G SCHLETTWEIN, MP
MINISTER

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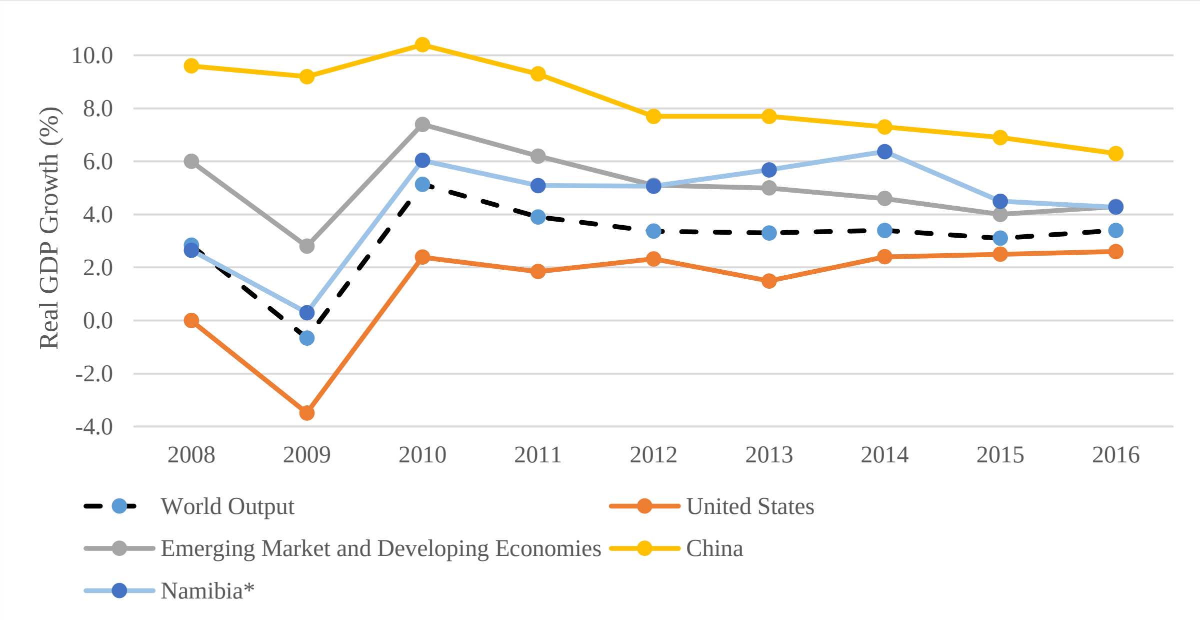
1 OVERVIEW OF ECONOMIC DEVELOPMENTS AND OUTLOOK

Global Economic Developments and Outlook

The world economic landscape remains weak and uncertain in 2015. The global economy, as assessed by the International Monetary Fund (IMF), is estimated to have slowed to grow by 3.1 percent in 2015, compared to 3.4 percent in 2014. Growth for 2016 is estimated to be 3.4 percent and a further 3.6 percent in 2017. The drag on growth in 2015 is mainly due to the slowdown in Emerging Market and Developing Economies, particularly the slowdown in China. Growth for 2016 and 2017 would be driven by a recovery in the Emerging Market and Developing Economies while the Advanced Economies are projected to grow at constant rates. (Figure 1)

Figure 1: World Economic Outlook for selected economies



*Source: IMF, World Economic Outlook, October/January 2015; *Bank of Namibia Economic Outlook, December 2015*

With the exception of India, the economies of the BRIC countries (Brazil, Russia, China and India) - which constitute a significant source of global demand for commodities - face severe strains on their growth outlook. The Chinese economy is projected to slow from growth of 7.3 percent in 2014, to 6.9 percent in 2015 and further downwards to 6.3 percent and 6.0 percent by 2016 and 2017, respectively. Growth for Brazil and Russia is projected to remain in negative territory in 2015 and 2016 due to country-specific and geopolitical conditions. For 2017, Russian and Brazilian economies are expected to rebound to positive grounds with the former growing at 1.0 percent and the latter at 0.0 percent. The policy agenda is to strengthen fiscal counter- cyclicality for countries that still have fiscal space, while implementing structural reforms to boost growth and efficiency for the others.

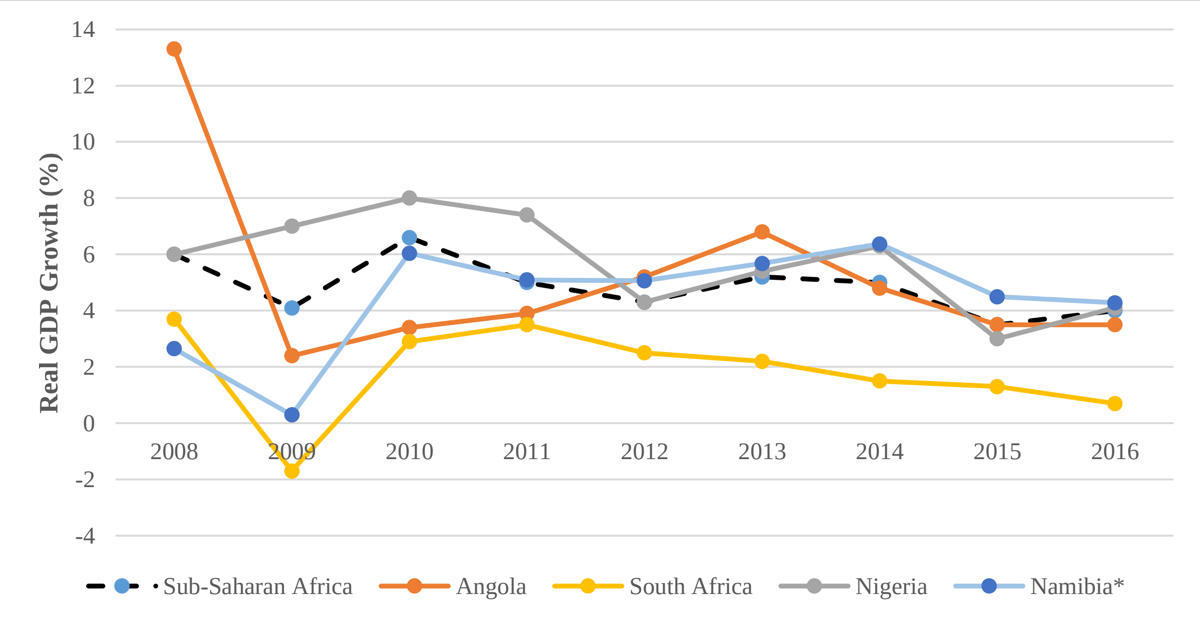
Growth for the Advanced Economies, led by the Unites States, United Kingdom and the Euro Area continued to advance in 2015. Growth for the United States is estimated to have improved to 2.5 percent in 2015 (from 2.4 percent in 2014) and the US economy is projected to grow by 2.6 percent in both 2016 and 2017. In the Euro Area, output growth is expected to reach 1.5 percent in 2015 (compared with 0.9 percent in 2014), with growth of 1.7 percent projected for both 2016 and 2017, aided by a broadly accommodative monetary policy, lower oil prices and improving consumer demand. The policy agenda for these economies is to boost real sector investment and strengthen financial sector regulation to address the aftermath of the financial crisis.

Sub-Saharan African Regional Economic Developments and Outlook

Growth prospects for the Sub-Saharan African (SSA) region have diminished significantly over the review period as a result of low commodity prices and tighter global financial conditions. Economic growth for the sub-region is estimated to have slowed significantly to 3.5 percent in 2015, from 5.0 percent in 2014, and is projected to improve marginally to 4.0 percent in 2016 and further to 4.7 percent in 2017. The driving factors accounting for this outlook, namely, the end of a commodity price super cycle and tighter financial market conditions, are expected to remain for a protracted spell in the medium-term.

The outlook is particularly severe for the region's oil exporters. **Nigeria's** growth is estimated to have slowed by over 3 percentage points to 3.0 percent in 2015, compared to 6.3 percent growth recorded in 2014, and the Nigerian economy is projected to grow by only 4.1 percent in 2016 and by 4.2 percent in 2017 (Figure 2).

Figure 2: Regional Economic Outlook for selected economies



*Source: IMF, World Economic Outlook, October/January 2015; *Bank of Namibia Economic Outlook, December 2015*

The **South African** economy continues to experience a subdued growth spell. Consequently, the growth estimate for 2015 has been marked down to only 1.3 percent, down from the earlier estimate of 2.0 percent, with the outlook for 2016 and 2017 projected at 0.7 percent and a slight rebound to 1.7 percent, respectively.

Growth forecasts for **Angola** have moderated to 3.5 percent over the 2015 and 2016, amid the prevailing low oil price shock.

Domestic Economic Developments

Namibia's economy grew by 6.4 percent in 2014, compared to the 5.7 percent recorded in 2013 (Table 1). This result compares well with the SSA regional economic performance and was supported by a conducive domestic policy environment and sustained private sector investment activity. For 2015, growth in the economy is estimated to have slowed to 4.5 percent, mainly on account of subdued commodity prices and the effects of the continued drought in the agricultural sector, especially for crop farming.

The main drivers behind the robust growth for **2014** were the secondary and tertiary industries that recorded growth rates of 9.4 percent and 7.4 percent, respectively, as a result of increased activity in the construction sub-sector due to expansionary fiscal policy and private sector investment activity, as well as strong growth in the retail and financial sub-sectors. On the other hand, primary industries contracted on the back of a significant contraction in mining and quarrying caused by low commodity prices.

Growth in **2015** is estimated to have decelerated to 4.5 percent, with the recovery in primary industries being offset by slower growth in secondary and tertiary industries. **Primary industries** are estimated to have grown by 0.5 percent (from -2.2 percent in 2014) due to the rebound in the fishing and fish processing and mining and quarrying sectors. **Secondary industries** are estimated to have grown by 5.5 percent in 2015 (lower than the 9.4 percent in 2014) as the manufacturing sector recovered from a contraction (to 2.0 percent growth in 2015, from -2.2 percent the previous year) to offset the effects of a contraction in the electricity and water sector (-2.2 percent, compared with 4.9 percent growth in 2014) and slower growth in construction (14.0 percent, as opposed to 40.5 percent in 2014). **Tertiary industries** grew by 4.7 percent, a slowdown compared to the 7.4 percent growth rate in 2014. This slower growth was prompted by slower growth in most of the major subsectors, with *wholesale and retail* growth down to 4.8 percent from 15.2 percent in 2014, *financial intermediation* down to 8.0 percent, from 9.9 percent in 2014 and *transport and communications* down to 5.5 percent, from 6.6 percent in 2014.

On the **demand side**, the high growth outturn was supported by robust growth in gross fixed capital formation on the back of a construction boom over the review period. As a result, gross domestic expenditure grew by 16.8 percent in 2014, which is higher than the 10.0 percent recorded in 2013. Final consumption demand, though remaining relatively strong, has moderated during the year in response to the moderation in fiscal and monetary policy stance. However, import volumes expanded during the year, growing by 22.6 percent as compared to a negligible 1.4 percent growth in exports over the same period, given increased construction activity and relatively strong private consumption. The exuberant growth in imports relative to exports over the past years has exacerbated the balance of payments position and reduced the level of international reserves held at the Bank of Namibia.

Table 1: Real GDP Growth (%): Domestic Economy, Supply Side

	2013	2014	2015*
Primary industries	-3.2	-2.2	0.5
Secondary industries	8.6	9.4	5.5
Tertiary industries	7.2	7.4	4.7
GDP at market prices	**5.7**	**6.4**	**4.5**

Source: Namibia Statistics Agency, 2014 National Accounts, Bank of Namibia Economic Outlook, December 2015

Gini Coefficient[1]

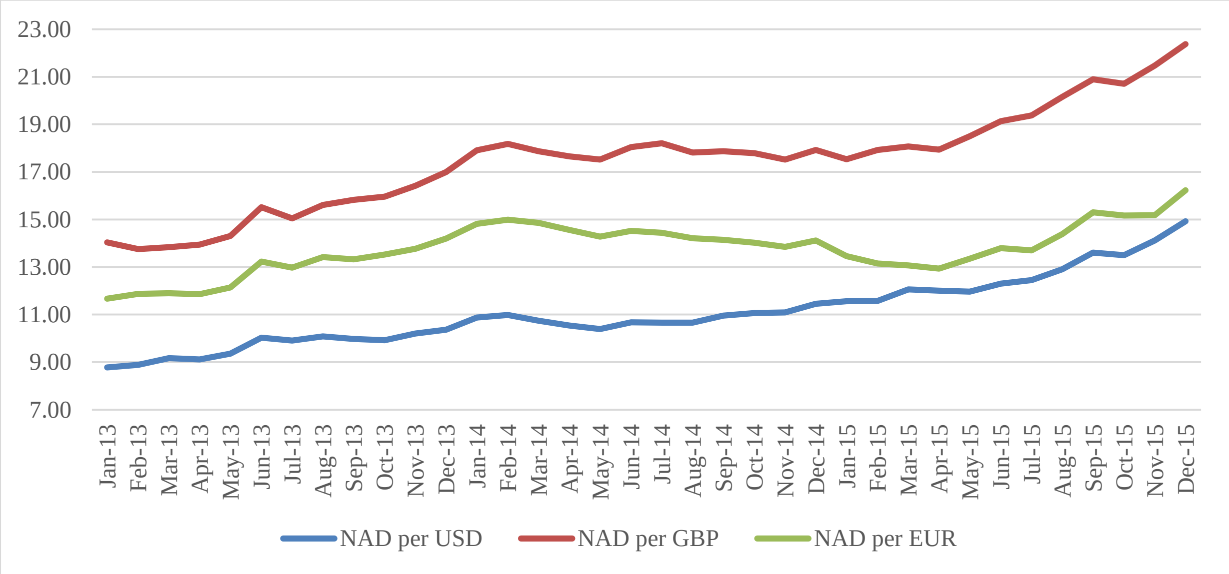
A high per capita GDP, relative to the Sub-Saharan African region, hides one of the world's most unequal income distributions, as shown by Namibia's Gini coefficient of 0.597[2]. However, Namibia's Gini coefficient has improved significantly over the years, that is, from 0.70 (out of 1) in 1993/1994 to 0.63 in 2003/2004, and further to 0.597 in the 2009/2010 National Household Income and Expenditure Survey. This implies that the distribution of income is becoming fairer over the years.

Exchange Rates and Competitiveness

During **2015**, the South African Rand and, hence, the Namibia Dollar, depreciated against the US Dollar and the British Pound on an annual basis, but appreciated slightly against the Euro currency over the same period (Figure 3). The annual average exchange rate of the Namibia Dollar weakened against the US Dollar by 17.5 percent, against the British Pound by 9.3 percent, but appreciated against the Euro by 1.6 percent. On the other hand, the Namibia Dollar depreciated significantly against all three of these major currencies during November and December 2015, to end the year at very low levels.

[1] *The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.*
[2] *Source: Namibia Household Income and Expenditure Survey, 2009/10*

Figure 3: Exchange Rates against major currencies, 2013-15

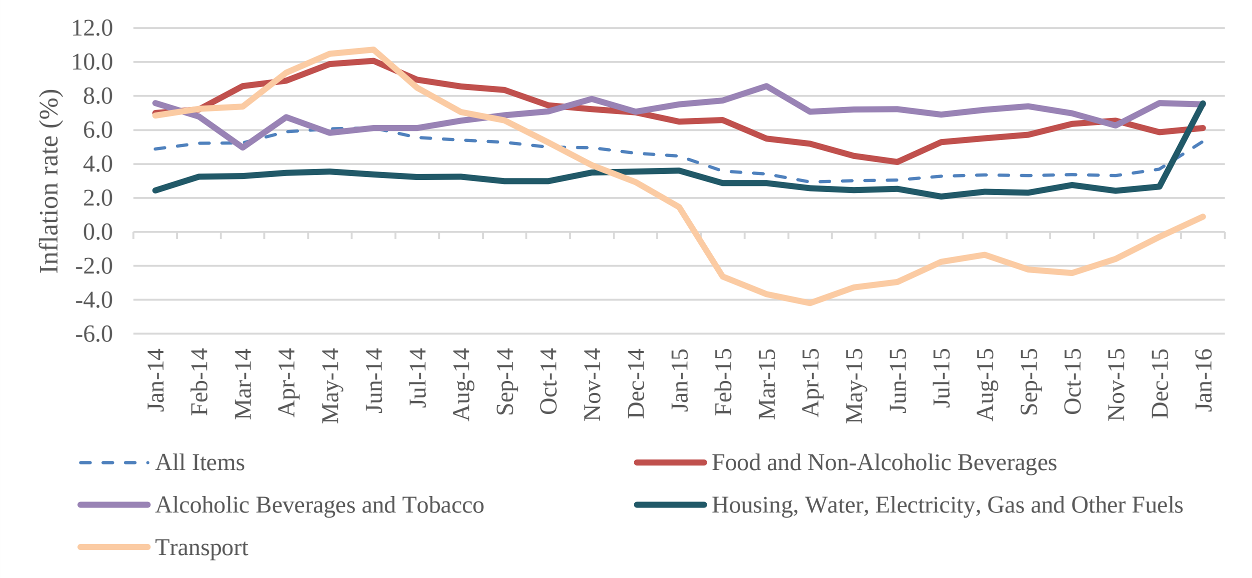


Source: Bank of Namibia, 2016

The depreciation of the Namibia Dollar is attributable to the weakening fundamentals in the South African economy, declining international commodity prices, volatility in the Chinese equity market and expectations about monetary tightening in the US that dominated sentiments during most of 2015. This was before the US Federal Reserve eventually raised its policy rate by 25 basis points in December 2015, which marked the first rate hike since 2006. The appreciation of the Namibia Dollar against the Euro was supported by monetary expansion by the European Central Bank and speculations of Greece exiting the Euro Zone during 2015, which weakened the Euro currency. Financial market instability and loss of investor confidence in South Africa saw the Namibia Dollar weaken considerably against the US Dollar, UK Pound and Euro during the final month of 2015.

Domestic inflation has, however, slowed considerably mainly due to the sharp fall in global oil prices (Figure 4). The starkest reflection of this trend has been in transport inflation, which peaked in June 2014 at 10.7 percent, before falling steadily due to petrol price decreases to reach a low of -4.2 percent in April 2015. The lower domestic inflation levels augur well for the competitiveness of domestic exporters, given the depreciating domestic currency. However, inflation levels for Namibia's main export markets in the Euro area remain even lower, which may serve to erode somewhat the export benefits of the currency depreciation.

Figure 4: Domestic Inflation, 2013-15



Source: Namibia Statistics Agency, 2016

Sovereign Credit Rating

Namibia's sovereign and investment credit rating is assessed by Fitch Ratings and Moody's Investors Service biannually. Both Fitch and Moody's have reaffirmed Namibia's credit rating at BBB- and Baa3, with a stable outlook. In fact, Fitch Ratings has upgraded Namibia's national rating, which serves as a benchmark for public and other private sector issuers wishing to raise capital in the South African market. The upgrade is on the back of the sovereign downgrade for South Africa, an anchor for CMA member economies and reflects Namibia's relative credit worthiness and stronger economic fundamentals.

Interest Rate Developments

The Bank of Namibia tightened its monetary policy stance during 2015, by raising its repurchase (repo) rate by a total of 50 basis points during the year. The repo rate was increased by 25 basis points in February 2015 and again by the same margin in June 2015, to end the year at 6.50 percent. In February 2016, the Bank of Namibia has raised the repo rate by 25 basis points, to leave it currently standing at 6.75 percent. The steady raising of the repo rate has been the central aspect of the Bank of Namibia's efforts to protect the levels of international reserves in the country. Progress was made in this regard by curbing the rapid growth of household credit, especially instalment credit and overdrafts, of which a significant portion is used to finance unproductive imports, including vehicles and other luxury goods.

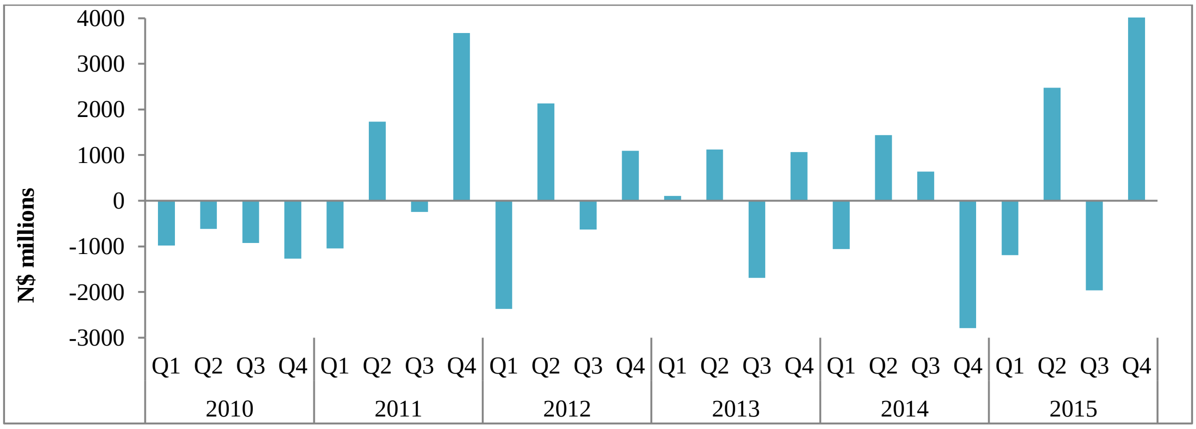
In line with increased repo rate, market interest rates rose during the period under review. In this regard, the average deposit rate of commercial banks rose by a total of 41 basis points, while the average lending rate rose by 12 basis points over the same period. Credit extended to households stabilised during the latter half of the year and as such, the policy rate was kept constant in order to support economic growth.

Current Account, Balance of Payments and Foreign Reserves Position

Namibia's **current account** deficit widened during 2015, mainly as a result of increased trade deficit. The current account recorded a deficit of N$17.6 billion, which is higher than N$12.2 billion for the preceding year. The current account deficit as a percentage of GDP rose to 10.1 percent in 2015, from 8.6 percent in 2014. This movement largely reflected an increase in the merchandise trade deficit, as merchandise exports only grew by 3.8 percent during the year, compared to a 12.7 percent growth in merchandise imports. The rise in the import bill was mainly supported by expenditure on major categories such as machinery, mineral fuels, consumer goods, and base metals. Likewise, selected major categories for exports, namely, diamonds, other mineral products and food and live animals, increased during 2015 when compared to 2014. Improved balances were recorded for net current transfers, net trade in services and net investment income flows, which together generated a surplus of N$18.4 billion during 2015.

During 2015, the surplus in the **capital and financial account** increased significantly when compared to the preceding year, mainly due to the issuance of the Eurobond. The capital and financial account surplus rose to N$26.2 billion during 2015 from N$14.8 billion in the previous year. The net inflows in foreign direct investment, other long and short-term investment, however, declined when compared to the previous year. The decline was attributed to lower inflows in other capital due to lower borrowings by local entities from related entities abroad and reduced liabilities of other sectors.

Figure 5: Overall Balance of Payments

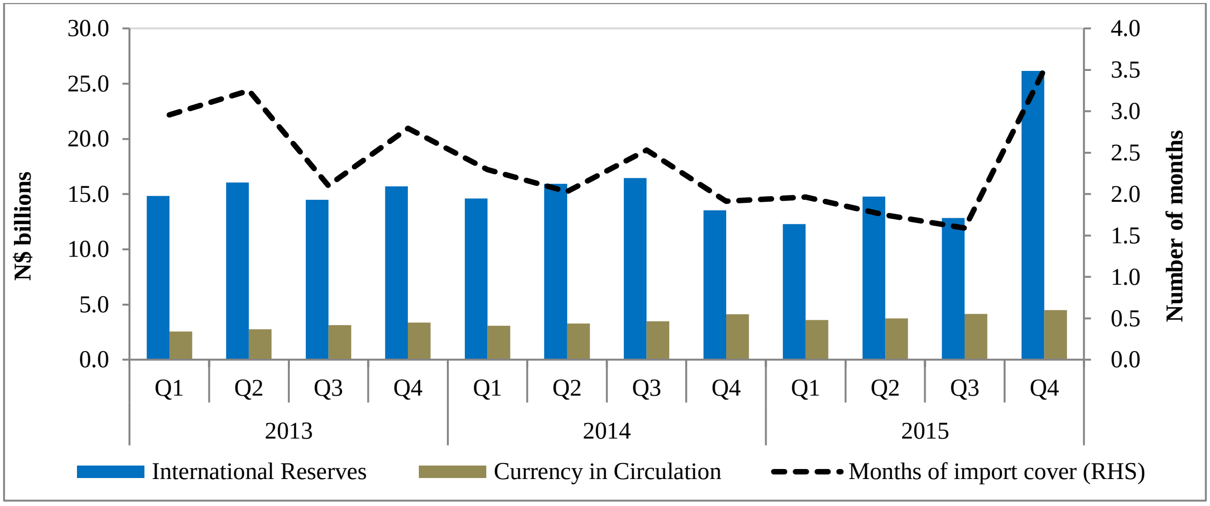


Source: Bank of Namibia

Namibia's external balance **(Balance of Payments)** recorded a surplus during 2015, compared to a deficit in 2014, mainly on account of significant inflows in the capital and financial account, despite the widening current account deficit. The overall balance recorded a surplus of N$12.6 billion during 2015, compared to the deficit of N$1.8 billion during 2014 (Figure

5). This was primarily due to the capital and financial account surplus, as a result of the Eurobond issuance. Conversely, the current account deficit rose, due to the persistent weakening in the trade balance. Namibia's International Investment Position (IIP) recorded a reduced surplus in 2015, compared to the previous year, owing to a faster growth in foreign liabilities relative to foreign assets.

Figure 6: Foreign Reserves (N$ billions)



Source: Bank of Namibia

The level of **international reserves** at the Bank of Namibia rose by 93.3 percent in 2015, from N$13.5 billion at the end of 2014 to N$26.2 billion at the end of 2015 (Figure 6). The increase in the stock of international reserves during 2015 was primarily due to the issuance of the Eurobond worth N$10.4 billion, the GIPF foreign exchange asset swap which amounted to N$2.9 billion for the period under review, and valuation adjustments. The significant rise in reserves resulted in a higher import coverage ratio, which increased from 1.8 months in 2014 to 3.5 months in 2015. This improved import cover was also higher than the required international benchmark ratio of 3.0 months of imports. At the current level of N$26.2 billion, the international reserves were 5.8 times higher than the currency in circulation, supporting the adequacy of reserves required for maintaining the currency peg to the Rand. (Figure 5)

Namibia's Trading Partners

During 2015, Botswana remained the top destination for Namibia's **exports**, followed by South Africa and the Euro Area. Botswana absorbed about 22.7 percent of total exports, consisting predominantly of diamonds. South Africa tracked closely, accounting for 21.7 percent, which constituted mainly diamonds, live animals, and fish. The Euro Area was third, absorbing 14.5 percent of exports, comprising mainly uranium ores and fish products. The remaining export products were mostly destined for Switzerland, China, and Zambia, taking up 12.8 percent, 6.1 percent, and 5.1 percent of total exported commodities, respectively.

South Africa remained Namibia's leading source of **imports** during 2015 in that it accounted for about 58.7 percent of total imported goods, followed by China, which accounted for 5.6 percent. The imports from South Africa comprised mainly of vehicles, distillate fuel, and consumer goods, while those from China consisted of vessels and stainless steel. The Euro

Area was third with 3.9 percent of total imports, mainly in the form of machinery and fuel. The residual portion of imports originated from other countries, which included the Democratic Republic of Congo (3.1 percent), Zambia (2.7 percent), and Mozambique (2.5 percent).

DOMESTIC ECONOMIC OUTLOOK

Preliminary real GDP estimates for Namibia project growth of 4.5 percent for 2015 and 4.3 percent for 2016, before an expected acceleration to 5.9 percent growth in 2017. (Table 2). Sustained strong performance in secondary and tertiary industries, coupled with the projected recovery in primary industries, is expected to drive growth in 2015.

Primary industries are projected to grow by a higher 7.0 percent in **2016** (from 0.5 percent in 2015) as *agriculture* recovers slightly from the impact of the drought and *mining and quarrying* expands significantly. However, **secondary industries** are projected to contract by 0.8 percent in 2016 (from 5.5 percent growth the previous year) on the back of a contraction in *construction* sector due to completion of mega projects, although both the *manufacturing* and *electricity and water* sectors are projected to register marginally higher growth rates compared with 2015. **Tertiary industries** are expected to grow marginally slower by 4.4 percent (from 4.7 percent growth in 2015), as most of the subsectors register slower growth except for *hotels and restaurants*, which is forecast to expand after having contracted the previous year.

Growth in **2017** is projected at a robust 5.9 percent, supported by stronger growth in each sector of the economy, namely, 7.6 percent for primary industries, 5.1 percent for secondary industries and 5.0 percent for tertiary industries.

Table 2: Real GDP Growth (%): Domestic Economy, Supply Side

	2015	**2016**	**2017**	**2018**	**2019**
Primary industries	0.5	7.0	7.6	13.2	6.4
Secondary industries	5.5	-0.8	5.1	-4.7	0.6
Tertiary industries	4.7	4.4	5.0	4.7	4.2
GDP at market prices	**4.5**	**4.3**	**5.9**	**4.9**	**4.5**

Sources: BoN Economic Outlook, December 2015

Over the **medium-term**, growth will be supported by increased mining output from new mines, steady growth in most tertiary sub-sectors and (in some years) construction activity in the private and public sectors Thereafter, growth is projected to slow gradually towards long-run average rates during the outer years of the MTEF period, as growth in agriculture, mining and construction is projected to decelerate from high bases towards long-term trend growth.

Downside risks to domestic growth include the slow recovery in the economies of the country's trading partners, low international prices for some minerals and adverse weather conditions. Recovery in agriculture may be delayed if the weather conditions do not improve during the 2015/16 rainy season, while the prospect of water shortages in Windhoek could potentially hurt growth in many industries, including construction and manufacturing. Furthermore, the volatile macroeconomic environment in South Africa could deteriorate and spill over to the Namibian economy, via weaker demand for Namibian exports. Additionally, the situation could be aggravated by the weakening of the South African Rand against other major currencies. Finally, the negative impact of the decline in oil prices on the Angolan economy is likely to have a dent on Namibia’s growth, mainly through wholesale and retail trade.

2 FISCAL POLICY REVIEW

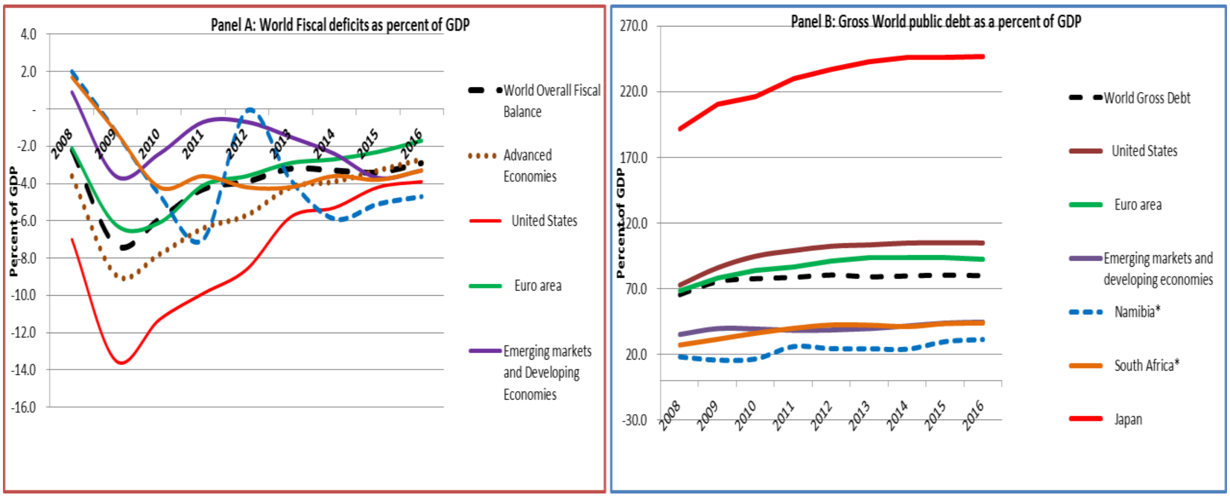
Global Fiscal Developments

Fragility continues to characterize the global fiscal environment. This is against the backdrop of elevated public debt levels and a narrowed fiscal space stemming from prolonged expansionary fiscal action aimed at lifting the hitherto weak global economic growth momentum.

Global fiscal deficits as forecast by the International Monetary Fund in October 2014 have been revised upward in October 2015, reflecting spending pressures to support the pace of economic activity. The deterioration in the fiscal balance sheets represents increased fiscal expansion especially in the **Developing and Emerging Economies**, amidst deteriorating medium-term growth prospects. As such, the total global fiscal deficit is estimated to have deteriorated to 3.4 percent of GDP in 2015, a moderate progression from the deficit of 3.3 in 2014.

In regard to **Advanced Economies**, fiscal consolidation activity continued to hold sway as the slow, but self-sustaining growth trajectory emerge. This policy action is aimed at stabilizing growth in global public debts, which remains unprecedented for these economies.

Figure 7: Fiscal deficits and debts of selected economies



Source: IMF, Fiscal Monitor, October 2015. Data for Namibia and South Africa refer to budget balances and fiscal years and adopted from national budgets

The gross **world debt** for 2015 is estimated at 80.4 percent of GDP, representing a moderate upward adjustment of about ½ percent from 2014. This reflects gains in debt stabilization in advanced economies, albeit still at historical highs, with excesses in the case of Greek sovereign debt and high domestic debt for Japan whose debt is excessively high in relation to the global averages, but predominantly domestically sourced.

Table 3: Global public debts as a percentage of GDP

Region/Country	2008	2009	2010	2011	2012	2013	2014	2015
	Actual						Estimate	*Projection*
World Gross Debt	**65.5**	**75.9**	**78.3**	**79.2**	**81.1**	**79.7**	**80.0**	**79.4**
Advanced Economies	79.4	92.8	99.3	103.3	107.6	106.2	106.5	106.0
United States	72.8	86.1	94.8	99.0	102.5	104.2	105.6	105.1
Euro area	70.3	80.2	85.9	88.3	92.9	95.2	96.4	96.1
Japan	191.8	210.2	216.0	229.8	237.3	243.2	245.1	245.5
United Kingdom	51.9	67.1	78.5	84.3	89.1	90.6	92	93.1
Canada	70.8	83.0	84.6	85.9	88.1	88.8	88.1	86.8
Emerging markets and developing eco	35.5	40.1	39.7	38.7	39.0	39.7	40.5	41.2
Namibia*	**18.2**	**15.7**	**16.6**	**26.0**	**24.4**	**24.2**	**24.4**	**36.1**
South Africa*	27.2	31.6	36.2	39.9	42.5	44.8	46.0	47.3
Europe: Other	23.8	29.5	29.4	28.0	27.2	28.3	28.9	29.6
Russia	8.0	10.6	11.3	11.6	12.7	13.9	15.7	16.5
China	31.7	35.8	36.6	36.5	37.4	39.4	40.7	41.8
India	74.5	72.5	67.5	66.8	66.6	61.5	60.5	59.5
Latin America and Caribbean	47.0	49.8	49.1	49.2	49.7	50.4	51.3	51.8
Brazil	63.5	66.8	65.0	64.7	68.2	66.2	65.8	65.6

Source: IMF, Fiscal Monitor, October 2015. Data for Namibia and South Africa refer to budget balances and fiscal years and adopted from national budgets

Seen against these global averages, Namibia continues to enjoy an environment of relatively low historical debt levels, but the growth in debt in recent years has progressed closer to the target cap of 35 percent of GDP. However, the fiscal deficit as the driver of debt growth, has risen faster above global averages, suggesting the need to reign in large expenditure expansion in the medium-term.

Developments in Fiscal Aggregates

Namibia's fiscal policy has remained expansionary over the past years with the objective of providing support to economic growth and addressing socio-economic development challenges. Expansionary fiscal policy has allowed the Government to provide increasing services to more Namibians and investing in social and economic infrastructure to enhance long-term growth. However, strong growth in expenditure over the years led to a faster growth in public debt and the weakening of macroeconomic accounts for which medium-term policy response is necessary.

Revenue Outturn

The total revenue for FY2014/15 was estimated at N$52.47 billion, which represented 25.2 percent year-on-year growth from the N$41.91 billion collected in FY2013/14. Due to lower than anticipated economic activity, the revenue outturn amounted to N$49. 97 billion, equivalent to 95.2 percent. The shortfall in the collections implies that collection targets in the subsequent periods of the MTEF have to be adjusted downwards and be aligned to the revised macroeconomic outlook.

The total budget revenue for FY2015/16 was estimated at N$58.44 billion, which represented 11.4 percent year-on-year growth from the N$52.47 billion budgeted for in FY2014/15. The collection by the Mid-February 2016 amounted to N$45.18 billion, about 81.1 percent of the revised revenue estimates for the year. This preliminary outturn suggests that total collection would approximate the revised collection targets, based on the estimated outturn for the last two months of the financial year.

Table 4: Main revenue categories and mid-year outturn, FY 2015/16

Financial Year	Income Tax on Individuals	Company Taxes	Witholding Tax on Interest	Other Taxes on Income and Profits	Taxes on Property	Domestic Taxes on Goods and Services	Taxes on International Trade and Transactions	Other Taxes	Collection of outstanding Tax Arrears	Total
2006/7	3 374	2 161	-	141	142	3 197	6 698	130		15 843
2007/8	3 714	2 834	-	181	149	4 082	8 085	138		19 183
2008/9	4 606	3 269	-	194	171	4 339	8 502	142		21 223
2009/10	5 084	2 852	53	148	222	5 162	8 585	167		22 273
2010/11	5 945	3 585	156	225	139	5 303	5 976	208		21 537
2011/12	7 326	3 916	98	257	194	8 009	7 137	211		27 148
2012/13	8 880	5 045	346	281	289	6 516	13 796	260		35 413
2013/14	9 537	3 434	212	844	261	9 650	14 727	241		38 906
2014/15	10 197	7 019	264	300	285	10 406	18 117	251		46 838
2015/16	13 052	7 639	350	210	343	13 267	17 123	318	700	53 002
	Percentage of Total									
2006/7	21.3	13.6	0.0	0.9	0.9	20.2	42.3	0.8		100.0
2007/8	19.4	14.8	-	0.9	0.8	21.3	42.1	0.7		100.0
2008/9	21.7	15.4	0.0	0.9	0.8	20.4	40.1	0.7		100.0
2009/10	22.8	12.8	0.2	0.7	1.0	23.2	38.5	0.7		100.0
2010/11	27.6	16.6	0.7	1.0	0.6	24.6	27.7	1.0		100.0
2011/12	27.0	14.4	0.4	0.9	0.7	29.5	26.3	0.8		100.0
2012/13	25.1	14.2	1.0	0.8	0.8	18.4	39.0	0.7		100.0
2013/14	24.5	8.8	0.5	2.2	0.7	24.8	37.9	0.6		100.0
2014/15	21.8	15.0	0.6	0.6	0.6	22.2	38.7	0.5		100.0
2015/16*	27.9	16.3	0.7	0.4	0.7	28.3	36.6	0.7		100.0
	Year-on-Year Change									
2007/8	10.1	31.1		28.4	4.9	27.7	20.7	6.2		21.1
2008/9	24.0	15.3		7.2	14.8	6.3	5.2	2.9		10.6
2009/10	10.4	-12.8	---	-23.7	29.8	19.0	1.0	17.6		4.9
2010/11	16.9	25.7	196.7	52.1	-37.6	2.7	-30.4	24.8		-3.3
2011/12	23.2	9.2	-37.3	14.2	40.1	51.0	19.4	1.3		26.1
2012/13	21.2	28.8	253.1	9.3	49.0	-18.6	93.3	23.2		30.4
2013/14	7.4	-31.9	-38.6	200.3	-9.5	48.1	6.7	-7.3		9.9
2014/15	6.9	104.4	24.5	-64.5	9.0	7.8	23.0	4.2		20.4
2015/16*	28.0	8.8	32.5	-29.9	20.2	27.5	-5.5	26.6		13.2

Source: Ministry of Finance

Expenditure Outturn

The total expenditure outturn for FY2014/15 amounted to N$58.71 billion, out of N$60.20 billion budgeted expenditure, representing a budget execution rate of 97.5 percent and 36.6 percent of GDP. For FY2015/16, the budgeted expenditure amounts to N$67.08 billion, equivalent to 40.7 percent of GDP. These levels of expenditure are generally high in relation to the threshold of no more 40 percent of GDP. Expenditure outlook will also be adjusted through the fiscal consolidation programme, given other shocks to revenue such as those associated with revenue under SACU.

In respect of the total expenditure for FY2014/15**, Operational expenditure** stood at N$50.60 billion out of the budgeted N$ 50.63 billion, with the execution rate standing at 98.9 percent. **Development expenditure** amounted to N$8.71 billion, out of N$9.58 billion development budget for the year. The total development budget execution rate stood at 90.9 percent, compared to 93.3 percent in FY2013/14.

Budget Deficit and Public Debt

The budget deficit for FY2014/15 stood at N$8.77 billion, equivalent to 6.0 percent of GDP, but a marked an increase from the deficit of 3.8 percent in FY2013/14. This was however higher than the budgeted deficit of 5.6 percent or some N$7.73 billion due to lower revenue outturn than projected.

Table 5: Outturn on fiscal aggregates FY2013/14 – 2015/16

ITEM	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	*Actual*	*Actual*	*Actual*	*Estimate*	*Current MTEF Projections*	
GDP	**95 313**	**112 871**	**127 621**	**146 033**	**165 672**	**179 444**	**197 642**
Revenue	**29 922**	**37 997**	**41 910**	**49 931**	**56 765**	**63 050**	**69 180**
% of GDP	31.4%	33.7%	33%	34.2%	34.3%	35.1%	35.0%
Expenditure	**36 611**	**38 112**	**46 751**	**58 705**	**67 083**	**71 234**	**72062**
% of GDP	38.4%	33.8%	36.6%	40.2%	40.5%	39.7%	36.5%
Budget Balance	**-6 689**	**-114**	**-4 841**	**-8 774**	**-10 318**	**-8 184**	**-2881**
% of GDP	-7.0%	-0.1%	-3.8%	-6.0%	-6.2%	-4.6%	-1.5%
Debt	**24 734**	**27 489**	**30 852**	**35 950**	**59 789**	**63 523**	**68009**
% of GDP	26.0%	24.4%	24.2%	24.6%	36.1%	35.4%	34.4%
Interest payments	**1 841**	**2 617**	**1 788**	**2 515**	**3 867**	**4 587**	**5246**
% of Revenue	6.2%	6.9%	4.3%	5.0%	6.8%	7.3%	7.6%
Guarantees	**2 771**	**2 610**	**5 340**	**6 390**	**10 688**	**15 157**	**22306**
% of GDP	2.9%	2.3%	4.2%	4.4%	6.5%	8.4%	11.3%

Source: Ministry of Finance

The current Sovereign Debt Management Strategy caps the debt-to-GDP ratio at 35 percent. Central Government debt has remained within this benchmark. Total Central Government debt stood at N$35.95 billion or some 24.4 percent of GDP, representing a marginal increase from the ratio of 24.6 percent over the previous year.

The total debt stock for FY2015/16 is estimated at N$59.79 billion, an increase of about 66.3 percent from N$35.95 billion in FY2014/15. The total financing requirements for FY2015/16 amounted to N$15.83 billion, for which N$8.13 billion is earmarked for sourcing from the domestic market to finance the budget deficit, with the remainder earmarked for sourcing from the regional and international bond market.

The Government has successfully issued a US$750 million or N$10.2 billion 10-year sovereign bond in October 2015 at a coupon rate of 5.25 percent, which was better than the 5.62 coupon rate for the first sovereign issuance in 201. The bond issuance forms part of the deficit funding requirements, supporting the stock of international reserves, financing infrastructure development as well as initiatives in the education sector.

3 MEDIUM-TERM FISCAL POLICY AND BUDGETARY FRAMEWORK

Revenue Outlook

The medium-term outlook on revenue is clouded with risks, especially the risk premia stemming from Taxes on International Trade under SACU and subdued commodity prices. On the domestic front, the macroeconomic outlook for FY2016/17-2018/19 projects a steady growth in real GDP, estimated at 4.3 percent for 2016, and averaging 4.9 percent over the MTEF period. In nominal terms and in the Most Likely Scenario, GDP will expand from an estimated N$165.7 billion in FY2015/16 to N$189.2 billion in FY2016/17 and reach about N$254.3 billion by the end of the MTEF in FY2018/19. The growth outlook is mainly driven by the recovery in the mining sector, owing to the volume effects of new mining projects that will commence with production stage.

However, domestic revenue estimates for FY2015/16 are adjusted downwards from N$58.4 billion budgeted for, to N$56.77 billion to correct for optimistic forecasts in Non-mining company taxes and Individual Income Tax previously estimated.

Over the MTEF, further downward adjustments are made on account of the weak outlook on SACU Revenue and ex-post repayments to the SACU Common Revenue Pool, due to subdued economic performance for South Africa and overpayments made on the basis of earlier optimistic projections by SACU.

In this context, revenue is projected to increase by about 2 percent to N$57.85 billion in FY2016/17, from the revised estimate of N$56.77 billion in FY2015/16, before rebounding by about 10.5 percent to N$63.92 billion in FY2017/18 and reach about N$69.82 billion by FY2018/19. Over the MTEF, revenue is projected to grow by an average of 7.2 percent due to subdued SACU receipts closely associated with the growth outlook in South Africa.

Recovery on outstanding tax arrears is expected to proceed in the medium-term, with N$700 million expected to be recovered in FY2015/16 and about N$950 million expected to be collected in FY2016/17 and about N$900 million annually thereafter.

As a proportion of GDP, revenue is projected to amount to 30.4 percent in FY2016/17 and hover around 27.5 percent over the MTEF, owing to abrupt cuts in SACU receipts and weak recovery in company taxes.

In particular SACU receipts are forecast to decline by 17.8 percent to N$14.07 billion in FY2016/17, from N$17.12 billion received in the previous year, due to the combined effect of repayment of N$2.96 billion to the Pool and the headwinds emanating from the weak growth outlook in the Sacu economies in the medium-term.

The risks to the revenue outlook, therefore, remain elevated over the MTEF. The most significant risk is in regard to SACU revenues, due to the uncertainties the low growth prospects for the South African Economy, which is projected to grow by about 0.9 percent in FY2015/16 and average 2.2 percent over the MTEF with significant downside risks.

Globally, commodity prices continue to soften, on account of weakening global demand, particularly for the Chinese economy. On the domestic front, Namibia needs to implement growth-friendly policy interventions to address the risks to growth owing to envisaged fiscal and monetary policy normalization and tightening credit conditions.

To the extent that these risks continue to materialize over the MTEF, the impact on revenue will be significant.

Table 6: Revenue outturn and projected outlook, 2015/16 – 2018/19 MTEF (N$ millions)

Revenue Head	2014/15			2015/16				2016/17				2017/18			2017/19
	Budgeted	*Actual*	*Difference[1]*	*MTEF Estimate*	*Budget*	*Estimate*	*Difference[1]*	*MTEF Estimate*	*Budget*	*Revised*	*Difference[1]*	*Projection*	*Revised*	*Difference[1]*	*Projection*
GDP at market prices, nominal	141 305	146 033	*4 728*	160 165	164 643	165 671	*1 028*	182 039	179 844	189 157	*9 313*	197 643	219 533	*21 890*	254 319
Revenue and grants as % of GDP	*37.1*	*36.6*	*-0*	*36.6*	*35.5*	*34.3*	*-1*	*36.3*	*35.1*	*30.6*	*-4*	*34.5*	*29.1*	*-5*	*27.5*
TOTAL REVENUE AND GRANTS	52 473	49 931	*-2 541*	58 698	58 442	56 765	*-1 677*	66 074	63 050	57 845	*-5 205*	68 156	63 915	*-4 241*	69 816
TAX REVENUE	49 213	46 838	*-2 375*	54 794	56 032	54 328	*-1 704*	61 510	60 744	55 543	*-5 201*	65 937	61 586	*-4 351*	67 304
Tax on income and Profits	21 182	17 780	*-3 402*	23 876	24 981	23 465	*-1 516*	27 370	28 409	24 771	*-3 638*	31 940	27 739	*-4 201*	30 711
Income Tax on Individuals	13 570	10 197	*-3 373*	15 461	15 222	12 956	*-2 266*	17 573	17 050	15 481	*-1 569*	19 092	17 422	*-1 670*	19 355
Company Taxes	6 844	7 019	*175*	7 573	9 198	9 949	*750*	8 872	10 742	8 672	*-2 070*	12 166	9 634	*-2 532*	10 363
Diamond Mining Companies	1 533	1 980	*447*	1 720	2 167	2 167	*0*	1 927	2 341	2 341	*-0*	2 482	2 482	*0*	2 379
Other Mining Companies	28	94	*67*	41	58	373	*315*	61	61	491	*430*	66	493	*428*	710
Non-Mining Companies	5 284	4 945	*-339*	5 812	6 974	7 410	*435*	6 884	8 340	5 840	*-2 499*	9 619	6 659	*-2 960*	7 274
Other Taxes on Income and Profits	321	300	*-22*	336	210	210	*0*	349	230	230	*0*	253	253	*1*	541
Non-Resident Shareholders Tax	209	77	*-132*	237	96	96	*0*	269	107	107	*0*	118	119	*1*	126
Tax on Royalty	94	202	*108*	79	94	94	*-0*	58	104	104	*0*	115	115	*-0*	392
Annual Levy on Gambling Income	18	21	*3*	20	19	19	*-0*	22	19	19	*0*	19	19	*0*	23
Withholding Tax on Interest	447	264	*-183*	507	350	350	*-0*	576	387	387	*0*	429	429	*-0*	453
Withholding tax on companies & individuals	84	102	*19*	95	85	85	*-0*	108	94	94	*0*	104	104	*-0*	110
Withholding tax on unit trusts	49	151	*102*	56	78	78	*0*	63	86	86	*-0*	95	95	*0*	101
Withholding tax on Services	314	11	*-303*	356	187	187	*-0*	405	207	207	*0*	229	229	*0*	242
Taxes on Property	274	285	*11*	303	343	381	*38*	335	381	381	*-*	423	423	*-*	440
Domestic Taxes on Goods and Services	9 367	10 406	*1 039*	9 953	13 267	13 061	*-206*	10 898	15 014	15 014	*-0*	17 343	17 343	*-*	18 331
VAT + Additional Sales Tax + General Sales	8 599	10 208	*1 609*	9 112	12 903	12 697	*-206*	9 959	14 597	14 597	*0*	16 350	16 350	*-*	17 282
Levy on Fuel	118	44	*-74*	128	171	171	*0*	127	189	189	*-0*	209	209	*-*	221
Fishing Quota Levies	127	133	*6*	111	178	178	*-*	123	212	212	*-*	249	249	*-*	263
Gambling Licence (Business)	2	1	*-1*	2	2	2	*-*	2	2	2	*-*	3	3	*-*	3
Environmental levies & Carbon Emission Ta	518		*-518*	595	-	-	*-*	684	-	-	*-*	518	518	*-*	547
Other taxes on goods and services	3	19	*16*	4	13	13	*-*	3	14	14	*-*	14	14	*-*	15
Taxes on International Trade and Transactions	18 117	18 117	*-*	20 336	17 123	17 123	*-*	22 564	16 589	14 071	*-2 518*	15 842	14 742	*-1 100*	16 532
SACU Revenue Pool Share	17 305	17 305	*-*	19 661	15 771	15 771	*-*	22 564	16 589	17 028	*439*	16 867	16 867	*-*	17 420
Revenue Formula Adjustments	812	812	*-*	676	1 352	1 352	*-*	-	-	-2 957	*-2 957*	-1 025	-2 125	*-1 100*	-888
Other Taxes	274	251	*-22*	326	318	297	*-21*	343	351	351	*-*	389	389	*-*	389
NON - TAX REVENUE	3 246	2 970	*-276*	3 717	2 354	2 263	*-91*	4 275	2 113	2 122	*9*	2 052	2 141	*90*	2 341
Entrepreneurial and Property	2 456	2 189	*-267*	2 900	1 653	1 653	*-*	3 486	1 454	1 411	*-43*	1 515	1 515	*-*	1 441
Interest Receipts for Loans Extended to SOEs	20	7	*-13*	22	15	10	*-5*	25	6	6	*0*	6	6	*0*	6
Interest on Investments	63	-	*-63*	72	0	-	*-0*	82	0	-	*-0*	0	-	*-0*	-
Dividends and Profit Share from SOEs & othe	790	920	*129*	896	680	792	*112*	1 021	619	445	*-173*	678	1 247	*569*	655
Interest on State Account Balances with BoN	38	18	*-20*	42	28	27	*-1*	47	30	30	*0*	31	31	*0*	31
Diamond Royalties	1 159	1 043	*-116*	1 302	620	640	*20*	1 459	600	620	*20*	600	881	*281*	400
Other Mineral Royalties	385	201	*-184*	565	310	221	*-89*	853	200	310	*110*	200	581	*381*	349
Fines and Forfeitures	75	47	*-28*	85	77	58	*-19*	97	85	85	*-*	94	94	*-*	94
Administrative Fees, Charges and Incidental S	658	734	*76*	675	624	552	*-72*	693	574	626	*52*	443	532	*90*	806
Lending and Equity Participation	6	13	*7*	7	11	1	*-10*	8	30	21	*-9*	4	25	*20*	4
External Grants	7	110	*103*	180	45	174	*128*	184	163	159	*-3*	163	163	*-*	167
Collection of outstanding tax arrears										*955*			*950*		*900*

Source: Ministry of Finance; The difference reflects change from budget and previous MTEF projections.

Aggregate Expenditure and Debt Outlook

The fiscal stance adopted in the existing MTEF capped the deficit threshold at 5.0 percent of GDP, as a measure to maintain Government operations within the fiscal benchmarks. However, high budget deficits experienced over the past two years suggests the need for fiscal consolidation in order to stabilize the growth in public debt. To achieve this objective, the long-term policy option is to move towards a budget deficit of about 3 percent of GDP. In order to moderate the adverse effects of a sudden reduction in the expenditure levels, a gradual reduction of the budget deficit is recommended over the MTEF. The implications for these alternative policy scenarios are discussed below.

The implications for a faster fiscal consolidation trajectory to a deficit ratio of 3 percent of GDP are set out in Table 6.1.

Table6.1: Scenario I: Aggregate expenditure and public debt consistent with 3% budget deficit targets, 2016/17 - 2018/19 MTEF

Item	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2017/19
	Actual	Actual	*Actual*	*Revised*	*Revised*	*Revised*	*Projections*
GDP	**112 871**	**127 621**	**146 033**	**165 671**	**187 247**	**217 315**	**251 751**
Total Revenue and Grants	**37 997**	**41 910**	**49 931**	**56 765**	**56 866**	**62 788**	**69 111**
As % of GDP	33.7%	32.8%	34.2%	34.3%	30.4%	28.9%	27.5%
Total Expenditure	**38 112**	**46 734**	**58 705**	**67 082**	**71 235**	**72 054**	**74 839**
Aggregate Expenditure consistent with 3% deficit target	**38 112**	**46 734**	**58 705**	**67 082**	**62 483**	**69 308**	**76 664**
As % of GDP	*33.8%*	*36.6%*	*40.2%*	*40.5%*	*33.4%*	*31.9%*	*30.5%*
Potential Additional Expenditure	-	-	-	-	**(8 752)**	**(2 746)**	**1 825**
Potential Budget Balance	**(115)**	**(4 824)**	**(8 774)**	**(10 317)**	**(5 617)**	**(6 519)**	**(7 553)**
As % of GDP	*-0.1%*	*-3.8%*	*-6.0%*	*-6.2%*	*-3.0%*	*-3.0%*	*-3.0%*
Potential Average Budget Balance for MTEF						***-3.0%***	
Domestic Debt Stock	17 513	19 679	23 897	31 457	34 190	37 359	40 063
Foreign Debt Stock (est.)	9 976	11 173	12 053	28 332	29 332	30 650	32 176
Total Debt	**27 489**	**30 852**	**35 950**	**59 789**	**63 523**	**68 009**	**72 238**
Domestic Debt Stock	*15.5%*	*15.4%*	*16.4%*	*19.0%*	*18.3%*	*17.2%*	*15.9%*
Foreign Debt Stock	*8.8%*	*8.8%*	*8.3%*	*17.1%*	*15.7%*	*14.1%*	*12.8%*
Total Debt	***24.4%***	***24.2%***	***24.6%***	***36.1%***	***33.9%***	***31.3%***	***28.7%***
Growth in GDP	***18.4%***	***13.1%***	***14.4%***	***13.4%***	***13.0%***	***16.1%***	***15.8%***
Growth in Debt	***11.1%***	***12.2%***	***16.5%***	***66.3%***	***6.2%***	***7.1%***	***6.2%***

Source: Ministry of Finance

The previous MTEF allocated indicative total expenditure of N$71.24 billion for FY2016/17, increasing to N$72.05 billion in FY2017/18 and to, at least potentially, N$74.84 billion by FY2018/19. If the budget deficit is to be capped at 3 percent of GDP, the total expenditure ceiling would need to be reduced by about 12.3 percent or some N$8.75 billion in FY2016/17 and by about N$2.75 billion in FY2017/18.

At the macroeconomic level, the reduction in total expenditure by this amount has a reducing effects on the level of GDP and positive gains on especially the current account and foreign reserves, at least qualitatively. The potential budget deficit would amount to N$5.61 billion in FY2016/17, increasing to N$7.55 billion by FY2018/19. This is a relatively lower budget deficit due to significant expenditure reduction contemplated under this scenario.

As a consequence of the lower potential budget deficit, total debt as a proportion of GDP is projected to slow to 33.9 percent of GDP in FY2016/17, from 36.1 percent in FY2015/16 and further improve to 28.7 percent by FY2018/19, thanks the steep consolidation path and relatively strong economic activity. In nominal terms, total debt is projected to increase to 63.52 billion in FY2016/17 to grow on average by 6.5 percent to reach N$72.24 billion by the end of the MTEF.

In the alternative case of a budget deficit equivalent to 5 percent of GDP, the total expenditure ceiling would need to be reduced by about 5.1 percent or some N$3.63 billion in FY2016/17 and create room for more fiscal expansion of at least up to N$3.14 billion in FY2017/18. The effects of this scenario are set out in Table 6.2 below.

Table 6.2 Scenario II: Aggregate expenditure and public debt consistent with 5% budget deficit target, 2016/17 - 2018/19 MTEF

Item	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual, Prelim	*Estimate*	*Revised*	*Revised*	*Projections*
GDP	**127 621**	**146 033**	**165 671**	**191 653**	**222 649**	**258 616**
Total Revenue and Grants	**41 910**	**49 931**	**56 765**	**58 021**	**64 063**	**70 514**
As % of GDP	32.8%	34.2%	34.3%	30.3%	28.8%	27.3%
Total Expenditure (Current MTE	**46 751**	**58 705**	**67 082**	**71 235**	**72 054**	**74 839**
Aggregate Expenditure consistent with 5% deficit target	**46 751**	**58 705**	**67 082**	**67 603**	**75 195**	**83 445**
As % of GDP	*36.6%*	*40.2%*	*40.5%*	*35.3%*	*33.8%*	*32.3%*
Potential Additional Expenditure	**-**	**-**	**-**	**(3 632)**	**3 141**	**8 606**
Potential Budget Balance	**(4 841)**	**(8 774)**	**(10 317)**	**(9 583)**	**(11 132)**	**(12 931)**
As % of GDP	*-3.8%*	*-6.0%*	*-6.2%*	***-5.0%***	***-5.0%***	***-5.0%***
Potential Average Budget Balance for MTEF					***-5.0%***	
Domestic Debt Stock	19 679	23 897	31 457	36 473	41 155	45 928
Foreign Debt Stock (est.)	11 173	12 053	28 332	29 832	34 028	38 571
Total Debt	**30 852**	**35 950**	**59 789**	**66 306**	**75 183**	**84 499**
Domestic Debt Stock	*15.4%*	*16.4%*	*19.0%*	*19.0%*	*18.5%*	*17.8%*
Foreign Debt Stock	*8.8%*	*8.3%*	*17.1%*	*15.6%*	*15.3%*	*14.9%*
Total Debt	***24.2%***	***24.6%***	***36.1%***	***34.6%***	***33.8%***	***32.7%***
Growth in GDP	***13.1%***	***14.4%***	***13.4%***	***15.7%***	***16.2%***	***16.2%***
Growth in Debt	***12.2%***	***16.5%***	***66.3%***	***10.9%***	***13.4%***	***12.4%***

Source: Ministry of Finance

At the macroeconomic level, a more expansionary expenditure level by this amount has a positive effect on the level of GDP and public revenue, especially in regard to consumption taxes. Additionally, a relatively high expenditure level has adverse effects on especially the current account, foreign reserves and public debt, at least qualitatively. The potential budget deficit would amount to N$9.58 billion in FY2016/17, increasing to N$12.93 billion by FY2018/19. This is a relatively high budget deficit due to large expenditure expansion contemplated under this scenario.

As a consequence of the higher potential budget deficit, total debt as a proportion of GDP is projected to slow to 34.6 percent of GDP in FY2016/17, from 36.1 percent in FY2015/16 and further improve to 32.7 percent by FY2018/19, thanks the expansionary expenditure path and relatively strong economic activity. In nominal terms, total debt is projected to increase to N$66.31 billion in FY2016/17 to grow on average by 12.2 percent to reach N$84.50 billion by the end of the MTEF. Due to significant downside risks on revenue and growth, a large fiscal expansion will result in high growth in public debt and debt financing concerns.

Thus, the fiscal policy stance for the MTEF would need to balance between excessive consolidation and supporting economic growth and addressing developmental needs. The recommended policy scenario is set out in Table6.3 below.

Table 6.3: Policy Scenario: Fiscal stance, aggregate expenditure and public debt consistent with recommended policy stance, 2016/17 - 2018/19 MTEF

Item	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual, Prelim	*Estimate*	*Revised*	*Revised*	*Projections*
GDP	**127 621**	**146 033**	**165 671**	**189 157**	**219 533**	**254 319**
Total Revenue and Grants	**41 910**	**49 931**	**56 765**	**57 845**	**63 915**	**69 816**
As % of GDP	32.8%	34.2%	34.3%	30.6%	29.1%	27.5%
Total Expenditure (Current MTE	**46 751**	**58 705**	**67 082**	**71 235**	**72 054**	**74 839**
Aggregate Expenditure consistent with 4% deficit target	**46 751**	**58 705**	**67 082**	**66 357**	**71 160**	**75 157**
As % of GDP	*36.6%*	*40.2%*	*40.5%*	*35.1%*	*32.4%*	*29.6%*
Potential Additional Expenditure	-	-	-	**(4 878)**	**(894)**	**318**
Potential Budget Balance	**(4 841)**	**(8 774)**	**(10 317)**	**(8 512)**	**(7 245)**	**(5 341)**
As % of GDP	*-3.8%*	*-6.0%*	*-6.2%*	***-4.5%***	***-3.3%***	***-2.1%***
Potential Average Budget Balance for MTEF					***-3.3%***	
Domestic Debt Stock	19 679	23 897	31 457	35 356	39 052	39 925
Foreign Debt Stock (est.)	11 173	12 053	28 332	30 003	31 452	32 521
Total Debt	**30 852**	**35 950**	**59 789**	**65 360**	**70 505**	**72 445**
Domestic Debt Stock	*15.4%*	*16.4%*	*19.0%*	*18.7%*	*17.8%*	*15.7%*
Foreign Debt Stock	*8.8%*	*8.3%*	*17.1%*	*15.9%*	*14.3%*	*12.8%*
Total Debt	***24.2%***	***24.6%***	***36.1%***	***34.6%***	***32.1%***	***28.5%***
Growth in GDP	***13.1%***	***14.4%***	***13.4%***	***14.2%***	***16.1%***	***15.8%***
Growth in Debt	***12.2%***	***16.5%***	***66.3%***	***9.3%***	***7.9%***	***2.8%***

Source: Ministry of Finance

Within this framework, the policy stance proposes to reduce the budget deficit from the estimated 6.8 percent of GDP, to about 4.5 percent in FY2016/17 and falling further to 2.8 percent of GDP by FY2018/19. In nominal terms, the budget deficit is projected at N$8.51 billion in FY2016/17 and further reduce to N$5.34 billion by FY2018/19.

The total debt as a proportion of GDP is projected to slow to 34.6 percent of GDP in FY2016/17, from 36.1 percent in FY2015/16 and further improve to 28.5 percent by FY2018/19. In nominal terms, total debt is projected to increase to N$65.36 billion in FY2016/17 and grow on average by 6.6 percent to reach N$72.45 billion by the end of the MTEF.

The amounts indicated in Table 7.3 above are indicative maximum levels consistent with the proposed policy framework. These maximum expenditure amounts indicate that scope for large fiscal expansion has diminished, with limited room for additional budgetary allocation above the existing expenditure ceilings.

Thus, for budget allocation purposes during the FY2016/17-2018/19 MTEF period, non-critical recurrent expenditure will have to be cut and least productive capital expenditure postposed to later date, in line with the country's development priorities. Expenditure rationalization will realize Vote savings and create room for reallocation within existing spending ceilings.

Fiscal Policy Stance for the MTEF

Government's fiscal policy remains grounded in fiscal counter-cyclicality, promotion of economic growth and social welfare as well as long-term sustainability of fiscal outcomes. The fiscal stance for the next MTEF takes into account the Government's fiscal position, prevalent developmental challenges that Namibia needs to overcome to achieve Vision 2030 objectives, and medium-term fiscal risks.

During the next MTEF:-

- *Government will implement a growth-friendly, consolidated fiscal policy anchored on the recalibration of the composition of expenditure, from recurrent operational spending and least productive capital expenditure to increased productive capital undertakings, while protecting budgetary allocations to social sectors.*

- *mitigate macro-fiscal risks on international reserves, domestic market liquidity constraints and leverage alternative sources of financing to reduce over-reliance on the state budget. The policy stance is to maintain the budget deficit well within 5 percent of GDP annually over the MTEF, instead of an average deficit cap over the MTEF* to reinforce policy consistency and predictability.

- *accelerate measures to improve the quality of spending, tax administration reforms, curbing the erosion of revenue base and introduction of alternative forms of revenue and an increased tax collection effort.*

Priorities for the MTEF

For the FY2016/17 – 2018/19 MTEF, Government will pursue the following fiscal priorities:-

- **Safeguard macroeconomic stability by ensuring policy coordination between fiscal, monetary and financial policies and implementing a course of fiscal adjustment path,** anchored on reduction of non-priority recurrent spending, protecting the foreign reserves position and enhancing liquidity and development in the domestic capital market.
- ***Promote inclusive economic growth and job creation by scaling-up investment in public infrastructure in the priority sectors of the economy***, through adjustments in the composition of expenditure by reducing recurrent expenditure allocations on goods and services, overtime allocations, subsistence and travel allowance and non-productive capital budget to free up resources for allocation to productive development projects and urgent national priorities.
- ***Implement targeted measures to reduce poverty and vulnerability*** through strengthening social safety nets, especially for Orphans and Vulnerable Children (OVCs), honouring commitments to increase Old Age Pension grants, and providing for greater access to finance for SMEs and individuals, skills development and promoting self-employment opportunities,
- ***Promote industrial development and value-addition to natural resources*** through implementation of pilot projects under the National Industrial Policy and industrial development initiatives.
- ***Providing the resource envelope for sustainable servicing of urban land and the provision of decent housing*** to close the housing gap over the next decade through targeted allocations to, and effective collaboration with the National Housing Enterprises (NHE) and Local Authorities.
- ***Protecting expenditure in the social sectors of education, health and skills development*** as critical enablers for human resources development, enhancing the quality of life, labour force productivity and medium to long-term prospects for job creation and economic growth, and
- ***Mobilize domestic resources for development*** through tax policy and tax administration reforms, introduction of alternative forms of revenue and harnessing regional, international tax cooperation, and

- ***implementing supportive policies and structural reforms*** to bolster the competitiveness of the national economy and its productive and revenue generation capacity.

Fiscal Policy Intervention Strategies for the MTEF

To realise optimal outcomes in the identified priority areas ***and the "Harambee" Prosperity Plan***, Government will implement the following measures annually over the MTEF:-

Promoting inclusive economic growth and job creation

Government believes that high and inclusive economic growth is a prerequisite for the eradication of poverty, job creation, and growing public revenue, which eventually facilitates the reduction of income inequalities. To achieve this priority objective, Government will:-

- *diversify the economy and scale up development budgetary allocations to the priority sectors of transport and logistics, agriculture, manufacturing and tourism, in line with the sectoral priorities of the NDP4 to accelerate growth and job creation,*

- *enhance greater access to development finance through the operations of domestic Development Finance Institutions and specific interventions for SME support,*

- *crowding-in private sector investment through implementation of a reviewed fiscal incentive regime and diversification of sources of financing through leveraging Public Private Partnerships (PPPs) and encouraging the partial listing of some of the SOEs on the Namibian Stock Exchange (NSX), and*

- *continuous development of functional and technical skills through extending free education to the secondary school phase and providing more funding to the Students Financial Assistance Fund and vocational training*

Development and investment in priority public infrastructure programme

To further enhance the efficiency of the economy, robust flow of private investment and facilitate trade, Government will:-

- *provide scaled-up budgetary allocation to the development of urgent and critical infrastructure in the fields of energy, housing, transport, water, port and airport based on the basis of feasible cost configurations,*

- *Harness diversified financing sources through SOE equity financing, targeted external budget support for infrastructure projects, leveraging PPPs and assessing the feasibility of listing an infrastructure bond on NSX, while managing quasi-fiscal risks associated with sovereign guarantees,*

- *Undertake PPP financing for projects in the fields of renewable energy and housing as well as consolidation of funded SOE infrastructure projects for integrated development planning, financing and monitoring.*

Ensuring macroeconomic stability and sustainable growth-friendly fiscal policy

Strong macroeconomic fundamentals are a prerequisite for continued expansion of the economy, stable investment climate and growth in public revenue. Government has hitherto maintained stable macroeconomic environment with relative price stability and strong external investment position, thanks to high institutional savings.

However, strong expansionary fiscal policy has contributed to increased pressure on international reserves and domestic liquidity crunches. To continue entrenching macroeconomic stability, while fortifying tomorrow's growth prospects, Government will:-

- *implement a growth-friendly and pro-poor fiscal policy, anchored on maintaining fiscal operations within currently adopted benchmarks and recalibrating the composition of expenditure by consolidating recurrent spending and scaling-up expenditure on strategic infrastructure development,*

- *undertake coordinated fiscal and monetary policy changes in line with economic fundamentals, through adoption of a consistent macroeconomic and monetary policy framework.*

- *Reduce and redirect non-priority operational expenditure and least productive capital budget to free up resources for productive development projects and addressing constraints in the social sector.*

- *Recalibrate the medium-term borrowing plan to support international reserve adequacy and complement domestic liquidity position within a sustainable debt management framework,*

- *implement tax policy and tax administration reforms to enhance the contribution of tax policy to the socio-economic objectives and improve the efficiency of tax administration, protect tax base erosion, broaden the tax base and leverage international tax cooperation*

Implementing targeted measures to reduce poverty and vulnerability

Government believes that creating opportunities for employment and economic empowerment is the most effective mechanism to sustainably eradicate poverty and create wealth, while shielding the vulnerable members of society from the effects poverty. This requires a developmental approach for state interventions and nurturing a conducive environment for private investment and job creation. During the next MTEF, Government will implement the following measures to reduce poverty and vulnerability:-

- *Promote inclusive growth through investment in the priority economic and social infrastructure sectors with high growth and high job creation potential in line with the aspirations of NDP4,*

- *implementing policies that promote local access to, and ownership of the resources, and nurturing the capacity to exploit the resources profitably,*

- *implementing tax policy reforms and designing and implementing redistributive tax policies that are pro-poor and pro-growth.*

- *Strengthen the quality and coverage of Old Age Pension, OVCs and disability grants as a first line of defence against poverty for the vulnerable members of society*

Implementing of industrial development pilot projects

The National Industrial Policy was adopted in 2012 and, to this effect, Government developed and adopted the "Growth at home" Strategy as an enduring implementation framework for the Industrial Policy. The Strategy seeks to steer Namibia's industrialization interventions in the strategic areas of value-addition and economic diversification as well as securing market access, taking advantange of domestic and regional value chains and improving the investment climate.

Protecting expenditure in the social sectors

Government will continue according the highest budgetary priority to education, health and social sectors to plug social deficits and address competitiveness challenges in these sectors.

- *In the education sector, Government is committed to extend the provision of free education to the secondary school phase, improvement of teacher upgrading programmes and educational facilities to enhance access to especially tertiary education and vocational training for expanded skills formation,*

- *Maintain funding for the health sector in real terms to address gaps in health facilities and improve service delivery.*

- *Specific budgetary allocations will be made for land servicing and mass housing programme over the MTEF to address backlogs in the housing and sanitation sectors, and*
- *Further increase the OVC grants with the objective of lifting this group of beneficiaries above the national poverty line and maintain other social safety nets and commitments to increase the Old Age Pension grants to N$1,200 over the next two years.*

Tax policy and tax administration reform agenda

Tax policy contribution to development objects relates to the growth-friendliness of tax system, its redistributive property and the revenue generation capacity. These essential features of the tax system are reinforced by the modernization and efficiency of tax administration systems. In the next MTEF, Government will further implement reforms in both tax policy and administration by:-

- *Investigate the feasibility of introducing taxation of the informal sector, based on the presumptive tax principles,*
- *Develop a White Paper and tax proposal on the Solidarity tax as a progressive tax and establish a fund for the administration of the proceeds to support targeted activities for poverty reduction*
- *implement a programme for targeted recovery of tax arrears for different categories of tax and non-tax revenues,*
- *leverage regional and international tax cooperation as a mechanism to enhance national technical capacity in various areas of tax administration and protecting*

revenue base erosion through tax avoidance, transfer pricing and illicit financial flows,

- *formulate Double Taxation Agreement (DTA) Policy and Model DTA aimed at promoting international trade for Namibia,*
- *align the Customs legislation to best regional and international practices, in line with the SACU-wide Customs regulatory reform, and*
- *reconstitute the Inland Revenue Department and Customs and Excise Directorate of the Ministry of Finance into an autonomous Revenue Agency as an institutional arrangement to bring about greater efficiency in the collection, assessment and administration of the tax laws*

Structural reforms

The execution of the above strategies would require a supportive policy environment and structural reforms to optimise outcomes. Over the next MTEF, the Government will, among others, spearhead the following structural reform policies to broaden economic base, local economic development and advance national industrialization and economic diversification agenda:

- *finalization and implementation of the Investment Bill to provide for a modern investment framework investment for both foreign and domestic investors,*
- *finalization and implementation of the reviewed tax incentives regime as key lever for industrialization and competitiveness of the domestic investment environment,*
- *improving the productive capacity of the economy for domestic industrial and consumption demand and export earnings by addressing supply-side constraints and implementation of empowerment and local sourcing provisions of the public procurement policy,*
- *Further undertake Public Finance Reforms (PFM) reforms through amendments and modernization of the State Finance Act and conducting Public Expenditure Reviews in the Whole Government and specific Budget Votes, and*
- *Implementing tax policy and tax administration reforms and related institutional arrangements, and*
- *Review of NDP4 and formulation of the Fifth National Plan.*

Policy Conclusions for the MTEF

The Mid-Year Budget Review assessment summons Government to redirect internal savings to address urgent and priority commitments within Vote ceilings. The Review also assessed economic and fiscal outlook as well as risks and medium-term prospects.

On the macro-fiscal front, the Namibian economy is projected to post relatively strong growth in 2015 and over the MTEF, thanks to recent investments entering production stage in the mining sector and strong public infrastructure spending in the priority sectors of the economy. However, the medium-term outlook is also clouded with risks. Weak international reserves, liquidity constraints in the domestic market, declining commodity prices and SACU revenues pose significant risks to the medium-term fiscal operations.

Globally, the World economy is facing resurgent challenges due to the exit of accommodating monetary policy in the United States and associated capital flows from other economies as well as the risks of low growth for China, the World's second largest economy. Regionally, the South African economy, which is closely linked to the Namibian economy, continues to face structural and growth challenges.

In this context, the priorities for Government over the next MTEF are to lift tomorrow growth prospects, mitigate current and medium-term risks and implement structural reforms to fortify future prospects and enhance macro-fiscal fundamentals. In this context, the following recommendations for the next six months and MTEF are made:-

- ***Recalibrate the composition of expenditure by reducing expenditure on non-priority recurrent spending*** on goods and services, subsistence and traveling allowance, overtime and postponing non-priority capital budgetary allocations with no contractual obligations to free up resources for urgent national priorities while suspending others given shocks to revenue,
- ***Implement a growth-friendly fiscal policy***, anchored on supporting macroeconomic stability, consolidation of operational budget and targeted investment in strategic development infrastructure to promote inclusive growth agenda.
- ***Implementing targeted measures to reduce poverty and vulnerability*** through implementation of the ***of four pillars under the "Harambee" Prosperity Plan*** supporting job creation efforts, access to finance for especially the Micro, Small and Medium-sized Enterprises (MSME), vocational training skills, strengthening OVC and other social safety nets and pro-poor tax policy reforms to enhance progressively,
- ***Recalibrate the composition of the Government Borrowing Plan to support the international reserve position, diversify markets and review the domestic asset requirement threshold*** with the objective of mobilizing more national savings for domestic investment and development needs,
- ***Provide targeted budgetary allocations to industrialization upgrading programme for development projects and private sector initiatives to give effect to industrialization policy and growth at home strategy***. In support of this policy drive, Namibia should make concerted efforts to streamline regional industrial development initiatives.
- ***Maintain budgetary priorities to education, health and social sectors*** to further advance human resources development, enhance long-term prospects for economic growth, job creation and improved quality of life.

- ***Implement tax policy and tax administration reforms*** to provide for alternative forms of revenue, improve the progressivity of the tax system, introduce an integrated tax administration system and establish the autonomous Revenue Agency for Namibia. To realize efficiency gains in the administration of state revenue, and

- In order to reinforce the outcomes in the priority areas of intervention during the MTEF, ***Government should implement structural reforms in the various sectors of the economy***. This is especially in regard to national investment framework, value-addition policy, fiscal incentives and public finance management.

APPENDIX A: ASSUMPTIONS

Primary Industries

Livestock

Livestock production is measured using the number of cattle marketed – that is, as per the National Accounts. The first three-quarters of the year has seen a large volume of cattle marketed. The increase in volumes is driven by sell-off due to the 2015 drought. The presence and persistence of the Foot and Mouth disease has a dampening effect on the performance of the subsector. This has resulted in the growth forecast for livestock to contract by 16.2 percent in 2015. The sector is expected to rebound to growth of 3.5 percent in 2016 from a low base and as rainfall is anticipated to return to normal levels; this recovery is expected to be weaker than the recovery of 2014, due to the long-term damage to the productive capacity of the sector arising from two droughts in three years. Growth in 2017 is forecast to expand further at 4.5 percent as restocking and recovery to pre-drought levels effects subsides.

Crop production

Green schemes production capacity is relatively low and there is a need to increase storage capacity. Hence, there has not been strong enough production to off-set the effects on drought and crop production is highly reliant on rain-feed crops. In 2015 crop production is expected to contract by 11.0 percent due to the recent drought while growth in 2016 is expected to expand by 3.2 percent on the back of low base effects, increased production from Green schemes and an expected normalization of rainfall season. Growth in 2017 is projected to expand at an average of 4.5 percent, with the anticipated production from green scheme to boost the performance of this subsector further.

Agriculture is estimated to record a contraction of 14.0 percent in 2015 on the back of contraction in both crop farming and livestock sector due to the recent drought and Foot & Mouth affecting livestock. 2016 will see growth of 3.4 percent, as the both crop and livestock farming recover from the drought; growth in crop farming is expected to be boosted by an expansion of Green Schemes production. Growth in livestock will result from the exploration of new markets (Chinese exports) in addition to existing export quotas (which are still expected to account for the bulk of beef exports). Growth in 2017 is expected to remain strong on the assumption of no drought and strong performance of the crop farming as the subsector fully recovers from the effects of the two consecutive droughts.

Diamond mining

Diamond mining is expected to post a contraction of 2.8 percent in 2015 mainly due to structural bottleneck in the supply chain of the global market and high base effects as 2014 has seen high output levels. The contraction is projected to continue at 2.1 percent in 2016 but a rather better performance than 2.8 percent, as low production is prompted by low commodity prices. In 2017, growth is projected to rebound due to the acquisition of a new vessel for the off-shore operations that is expected to increase total output for the holding company. Growth in 2018 is projected to contract by 7.1 percent as operations at Elizabeth Bay come to an end and the mine closes.

Uranium mining
Uranium mining is projected to contract by 8.5 percent in 2015, as output production has slowed. As Swakop Uranium is expected to commence production, total uranium value added for 2016 is projected to increase by 62.9 percent and uranium prices are also expected to improve. 2017 will see growth trend higher at 89.5 percent as production for Swakop Uranium is expected to near full capacity and increase total uranium output for Namibia to unprecedented levels.

Metal ores - (Zinc, Copper, Gold and lead)
GDP in metal ores is expected to expand exceptionally by 81.7 percent in 2015 as gold output comes close to expected maximum output. Gold production will offset the negative impact of total zinc output that was affected by the industrial action earlier this year at Skorpion Zinc mine. Total output for Namibia more than triples, coming for low levels of output as production from B2Gold nears full capacity. In 2016, growth is expected to moderate to 11.2 percent, as B2Gold reaches full production capacity. 2017 GDP is projected to contract by 62.4 percent due to low output of zinc – as a result of low grade zinc ore at Skorpion as zinc from the current open-pit mine is depleted.

GDP in the *mining and quarrying* is expected to expand exceptionally by 6.3 percent in 2015, as gold output comes close to its expected maximum, although this will be offset by the contraction in the diamond sector. 2016 will see growth expand further to 9.7 percent, as the impact of gold sores despite the negative impact of the diamond sector which dominates overall growth. Growth in 2017 is expected to record an expansion of 10.3 percent on the back of expected recovery in the diamond sector and acceleration in the uranium sector, and in spite of a contraction in the metal ores sector. Growth in 2018 is expected to trend lower than 2017 but remain relatively strong as uranium and metal ores offset the diamond sector's contraction.

Fishing sector
This sector is estimated to expand by 1.6 percent in 2015, up from a contraction of 2.5 percent in 2014, on the basis of increased TAC for hake - from 140 000 in 2014 to 210 000 for 2015. Hake constitutes a large share of the fishing sector. Growth in 2016 will, however, slow down to 0.7 percent as the TACs for hake is returned to previous level of 140 000. This will constrain the sector and reduce total output. Growth in 2017 is expected to post a marginal contraction of 0.1 percent on the assumptions that some of these factors would remain unresolved.

Secondary Industries

Manufacturing
Meat processing is based on the performance of livestock farming; due to the effects of the recent drought, growth is expected to expand by 6.0percent on the back of farmers selling off stock to manageable stock levels. However this would be reversed in 2017 to post slower growth of 5.0 percent as the restocking takes effect on the total output of the sector.

Beverages: Growth in the subsector is expected to expand on the back of strong demand for Namibia breweries' output as their South African plant was not productive. This is expected to push growth up by 5.2 percent in 2015; while slower growth is projected for 2016 as Namibia Breweries' exports is projected to contract due to expected better performance from their South African plant. Although SAB Miller has reached full capacity, their production has rather replaced previously imported beverages and therefore reflects a rather marginal increase and promote the subsector average growth of 5.5 percent for the remainder of the MTEF period.

Diamond processing: Activities in diamond processing is highly dependent on the performance of the diamond mining sector, and has been affected by relatively low output volumes in diamond mining. Therefore a contraction is envisaged at 1.3 percent in 2015. Another factor that attributed to the contraction is that total number of diamond processor has declined due to the closure of one major sight-holder companies. However the subsector is expected to benefit from the new Namdeb beneficiation that has increased to 15% in 2015. Growth in 2016 would expand by 3.2 percent despite the diamond mining sector contracting as a result of low output and low prices. 2017 would see growth remain positive at 3.2 percent as output improves.

The *manufacturing* sector is expected to rebound to positive grounds and increase by 2.1 percent in 2015, given that most of these subsectors are dependent on the performance of primary industry subsectors and strong growth will be translated into the processing sectors. 2016 will see growth in this sector grow marginally to 3.2 percent in correlation with the primary industry and as major subsectors post low and negative growth. 2017 and going forward growth is expected to rebound strongly at an average of 5.2 percent, as major subsectors return to positive growth and the effects of drought dwindle from the primary industry.

Electricity and water

The sector is expected to contract for 2015 by 2.2 percent, due to effects of drought on both water and electricity supply (Hydro-power), and high input costs - as the impact of the depreciation of Namibia Dollar to the US dollar takes effect - in the absence of intermediate projects to complement and supplement the shortfalls of the sector. For 2016 and 2017 growth is expected to rebound to positive grounds, due to the low base, expectation that Xaris would come on stream and as the NAD-USD exchange rate stabilises.

Construction

GDP in the sector is expected to expand by 14.0 percent in 2015. Although it is slower than the previous year's growth, it is relatively high as some of the major construction projects Growth in 2016 is expected to contract by 8.1 percent due to the completion of most major projects, and as a result of high growth (creating an extremely high base) in 2014 and 2015. Growth in 2017 is expected to expand by 6.8 percent on the back of the commencement of the construction of the Xaris power plant. Growth is slower as certain massive construction projects (Swakop Uranium mine) reach completion and costs are expected to increase – due to the scarcity of water, which is huge component of the sector.

Tertiary Industries

Financial intermediation

Increase in repo rate has a negative impact on growth of the sector but has a lagged effect of up to 2 years. The increase in private credit extension has been slowing in the first half of 2015 and therefore, reflects a slowing growth as the looming credit crunch in the domestic market is expected to take effect, and therefore growth is expected at 8.0 percent in 2015. However, these would lead to lower growth but only because of high base effects from the previous year. 2016, growth is projected to expand by 7.6 percent as the increase in interest rates take effect while, growth in 2017 is expected to trend marginally higher at 7.8 percent on the back of winding down of the consumption boom and moving towards a long-term trend.

Wholesale and retail

This sector is estimated to post slower growth than the 2014 levels to grow by 4.8 percent, as total consumption is expected dwindle down due to the looming liquidity issues, which will feed through to lower growth in credit-based consumption. In 2016 growth is projected to slow down further to 4.6 percent as the liquidity issues persist, the effects of recent interest rate increase interrupts credit based consumption, and Government spends less of its budget on consumption of goods. Growth in 2017 and the outer MTEF years will continue on trending lower with Government spending expected to have a consolidating trend.

Hotels and restaurants

Hotel and restaurants is projected to post a contraction in growth of 4.6 percent in 2015, as the tourism industry recovers slightly from the travel restriction in South Africa and uncertainty in the global economy. In 2016, growth is expected to expand by 5.6 percent as the tourism industry take advantage of the depreciating ZAR-USD exchange rate. In 2017 and beyond, growth is projected to trend lower at an average of 5.2 percent.

Transport and communication

Transport and communication is expected to expand by 5.5 percent in 2015, as passenger and goods transportation have escalated in 2015 so far, which is promoting strong growth in the sub-sector. The increased economic activity has increased demand for transport services but due to constraints in the railway subsector, total input cost has risen, and going forward this would have negative implication. In 2016 growth is projected to slow to 5.3 percent, mainly due to high input costs – with the depreciating ZAR/USD exchange rate. In 2017 growth is projected to remain strong but trend slower at 5.2 percent on the back of anticipated improvements in the railway transportation subsector. Growth in 2018 is expected to be prompted by the completion of the Walvis Bay port terminal expansion, which will particularly boost the storage subsector.

Real estate and business services

The new Namdeb (15% beneficiation) negotiations are expected to have a positive impact on growth of this sector in 2016 to expand growth by 3.9 percent. Growth in real estate and business services is expected to be led by the development of - mass land servicing project in a few years down the line and a stable tourism sector - with a lower growth of 3.7 percent in 2017.

ANNEX B: REAL GDP GROWTH PROJECTIONS (%) - DOMESTIC, SUPPLY-SIDE

Industry	**2015e**	**2016p**	**2017p**	**2018p**	**2019p**
Agriculture and forestry	-14.0	3.4	4.5	3.9	3.8
Livestock farming	-16.2	3.5	4.5	4.0	4.3
Crop farming and forestry	-11.0	3.2	4.5	3.8	3.2
Fishing and fish processing on board	1.6	0.7	-0.1	0.7	0.5
Mining and quarrying	6.3	9.7	10.3	18.5	8.2
Diamond mining	-2.8	-2.1	7.1	2.0	2.0
Uranium	-8.5	62.9	89.5	13.3	1.0
Metal Ores	81.7	11.2	-62.4	201.3	38.9
Other mining and quarrying	6.0	8.0	9.6	7.9	8.5
Primary industries	**0.5**	**7.0**	**7.6**	**13.2**	**6.4**
Manufacturing	2.0	3.0	4.4	2.7	2.3
Meat processing	5.0	6.0	5.0	5.0	5.0
Grain Mill products	3.0	2.4	3.5	4.4	-0.8
Other food products	1.0	2.8	5.4	4.8	5.1
Beverages	3.5	3.9	4.2	1.4	-1.0
Textile and wearing apparel	-2.2	1.6	4.0	-4.4	-6.3
Leather and related products	4.5	4.5	3.4	1.3	3.1
Wood and wood products	-2.1	-0.5	3.6	1.2	0.8
Publishing and Printing	1.4	3.2	4.1	5.0	4.6
Chemical and related products	5.0	5.3	5.6	5.3	5.4
Rubber and Plastics products	3.5	2.6	5.2	4.8	4.7
Non-metallic minerals products	3.3	4.2	4.3	4.0	4.2
Basic non-ferrous metals	-0.3	2.0	3.3	-0.5	0.3
Fabricated Metals	3.7	2.6	4.6	4.1	3.8
Diamond processing	-0.1	-0.1	2.8	0.7	2.3
Other manufacturing	4.6	5.1	7.2	7.9	7.8
Electricity and water	-2.2	3.7	4.1	1.8	2.4
Construction	14.0	-8.1	6.8	-19.3	-3.7
Secondary industries	**5.5**	**-0.8**	**5.1**	**-4.7**	**0.6**
Wholesale and retail trade, repairs	4.8	4.6	4.7	4.7	4.7
Hotels and restaurants	-4.6	5.6	5.5	4.8	4.3
Transport, and communication	5.5	5.3	5.2	5.7	5.4
Transport	5.5	5.0	5.1	5.2	5.1
Storage	5.3	6.0	5.6	5.8	5.7
Post and telecommunications	5.5	5.3	5.0	6.1	5.5
Financial intermediation	8.0	7.6	7.8	7.7	7.8

Real estate and business services	3.9	3.9	3.7	3.8	3.8
Real estate activities	4.0	4.0	3.7	3.9	3.9
Other business services	3.7	3.6	3.7	3.7	3.7
Community, social and personal service activities	4.0	-1.0	0.7	1.2	0.3
Public administration and defence	3.4	2.7	4.5	3.6	2.4
Education	6.4	4.5	5.9	4.8	3.4
Health	4.9	4.4	4.2	3.2	2.4
Private household with employed persons	4.1	4.8	4.8	4.6	4.7
Tertiary industries	**4.7**	**4.4**	**5.0**	**4.7**	**4.2**
Less: FISIM	9.2	10.1	10.5	10.2	10.0
GDP at market prices	**4.5**	**4.3**	**5.9**	**4.9**	**4.5**