



**Republic of Namibia**

**FISCAL STRATEGY  
FOR THE  
FY2021/22-2023/2024  
MEDIUM TERM EXPENDITURE FRAMEWORK**

**MARCH 2021**

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## **Foreword**

This Fiscal Strategy was formulated almost a year since the Covid-19 struck the world. Most domestic economic sectors have been negatively affected by COVID-19, more specifically the tourism and transport industries. Unemployment has increased as a result of retrenchments, as global trade was significantly impacted.

The economic policy shifted towards interventions necessary to revive economic growth and rebuilding fiscal buffers that have been eroded by consecutive years of recession and exacerbated by the COVID-19 pandemic. However, with the new development of COVID-19 vaccine and strong fiscal support in advanced economies, global economic activity is projected to recover in 2021. Global trade is also projected to recover, giving relief to depressed demand.

In line with the global development, domestic economic activities are projected to recover in 2021 and post moderate growth over the remaining years of MTEF. However, revenue is expected to decline significantly due to a sharp reduction in SACU receipt as economic activities in the region especially in South Africa take longer to recover. Although there is a reduction in expenditure, it remains high due to COVID-19 related spending resulting in high deficits and debt stocks.

The fiscal policy objective for the next three years as the impact of COVID-19 is gradually diminishing will be geared toward the revival of the economy and return to pre-2016 growth trajectory. This will pave the way to return to the fiscal consolidation path and restore macroeconomic stability, reduce the deficit and ensure debt sustainability. In this regard, government will continue to work closely with the private sector and other stakeholders to accelerate economic recovery.

**Ipumbu Shiimi, MP**

**MINISTER**

## 1. OVERVIEW OF GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

### 1.1 GLOBAL AND REGIONAL ECONOMIES

The IMF's January 2021 World Economic Outlook (WEO) -Update provides a revised global growth forecast for 2020 and 2021, departing from the October 2020 WEO, following the gathering of more data on 2020 as well as the successful development and initial rollout of COVID-19 vaccines. The output growth for 2020 was revised upwards to a contraction of 3.5 percent compared to a contraction of 4.4 percent published in October 2020. For 2021, the forecast was revised up by 0.3 percentage point to 5.5 percent, while growth for 2022 remained unchanged at 4.2 percent.

These upward revisions were attributed to the anticipated recovery based on the development of vaccines and strong fiscal support in advanced economies. However, despite these upward revisions, the recovery is expected to be uneven due to different levels of fiscal strengths and of resilience of the health sectors across the globe. Growth is being driven mostly by advanced economies while emerging market and developing economies are expected to record sluggish growth due to weaker fiscal positions and health system deficiencies.

The upward revision for 2020 reflects the net effect of the impetus from better-than anticipated second quarter GDP outturns, mostly in advanced economies, relative to the downdraft by persistent social distancing and delayed border re-openings, alongside the emerging of new virus variants. The projection for 2021 has also been adjusted reflecting gradual recovery with COVID-19 aftermaths.

Table 1: Overview of IMF World Economic Outlook Real GDP Projections - annual % changes

	WEO Jan update 2020				Difference from Oct 2020 projections	
	2019a	2020e	2021p	2022p	2021p	2022p
World Output	2.8	-3.5	5.5	4.2	0.3	0.0
Advanced Economies	1.6	-4.9	4.3	3.1	0.4	0.2
US	2.2	-3.4	5.1	2.5	2.0	-0.4
Euro area	1.3	-7.2	4.2	3.6	-1.0	0.5
Japan	0.3	-5.1	3.1	2.4	0.8	0.7
UK	1.4	-10.0	4.5	5.0	-1.4	1.8
Emerging Market & Developing Economies	3.6	-2.4	6.3	5.0	0.3	-0.1
China	6.0	2.3	8.1	5.6	-0.1	-0.2
India	4.2	-8.0	11.5	6.8	2.7	-1.2
ASEAN	4.9	-3.7	5.2	6.0	-1.0	0.3
Sub-Saharan Africa	3.2	-2.6	3.2	3.9	0.1	-0.1
Nigeria	2.2	-3.2	1.5	2.5	-0.2	0.0
South Africa	0.2	-7.5	2.8	1.4	-0.2	-0.1

Source: IMF, WEO Jan 2021 update      a=actuals, e=estimates, p=projections

## 1.2 RISKS TO THE GLOBAL ECONOMIC OUTLOOK

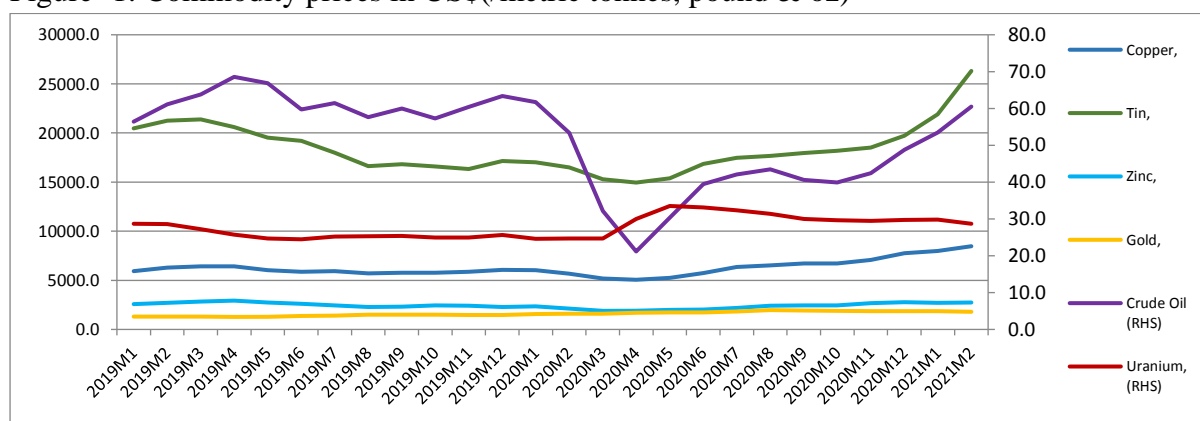
The risks to global output have intensified with fundamental uncertainty around the evolution of variants of the virus causing the pandemic as a key factor shaping the economic outlook.

It is possible that financial conditions may tighten again, exposing vulnerabilities among borrowers. This could tip some economies into debt crises and further slow economic activity. Beyond the pandemic-related downside risks, there was still uncertainty around the trade tension between USA and China although it appeared to have been eased. The impact of the tension will take a while to subside; new virus variants and subsequent travel restrictions as well as the delayed widespread availability of the vaccines may derail economic recovery. Widespread geopolitical and social unrest on governance issues poses additional challenges to the global economy.

## 1.3 COMMODITY PRICES

The IMF all commodity price index<sup>1</sup> recorded an increase both monthly and annually by 17.2 percent year-on-year and 2.4 percent month-on-month during February 2021. The annual increase was attributed mainly to the rising in the base metal price index, which rose by 47.5 percent on annual basis, and 2.0 percent m-o-m. The all-metal price index increased by 36.3 percent annually and 0.1 percent m-o-m, with the annual increase premised on most metal prices and stronger gold price that benefitted from the greater uncertainty due to the pandemic and ultra-low interest rates around the globe.

Figure -1: Commodity prices in US\$/(metric tonnes, pound & oz)



IMF primary commodity prices: Feb 2021

Generally, most commodity prices recorded an annual recovery. Uranium spot prices grew by 11.9 percent on an annual basis and recorded a monthly decline of close to 4.0 percent in February 2021. The gold price increased significantly by about 22.5 percent annually but declined by 3.1 percent monthly during the month under review.

<sup>1</sup> IMF commodity prices: <https://www.imf.org/en/Research/commodity-prices>

Copper prices increased by 39.4 percent y-o-y and 6.3 percent m-o-m, supported by the recovery from the global lockdown and the gradual recovery despite the uncertainty around the new variants of the virus. Zinc prices also recorded an increase of close to 20.8 percent y-o-y and 1.4 percent m-o-m for February 2021. The IDEX<sup>2</sup> rose by 2.4 percent on an annual basis but declined by 0.3 percent on a monthly basis; the decline is in line with lower diamond prices as demand for luxury goods has been declining globally.

With the development of vaccines and the stimulus of fiscal support in the advanced economies, the commodity markets are expected to recover and post strong growth recovery as economies adjust to a new normal. Most commodities are expected to pick up on the back of increased demand, – helped by the softening of trade tensions between the USA and China. It was observed that prices were better in the second half the year 2020 compared to the first half of the year which was hit hardest by the pandemic.

## 1.4 DEVELOPMENTS IN THE DOMESTIC ECONOMY

### 1.4.1 Developments in the real sector

According to the final National Accounts 2019, real GDP contracted by 1.6 percent in 2019, reflecting a downward adjustment from a contraction of 1.1 percent reported in the Preliminary National Accounts 2019. Although both public and private consumption posted positive growth rates, the overall investment has declined in 2019.

The weak economic performance was registered in 2019 as Namibia was -in the grip of a countrywide drought. Overall, economic activity declined by 1.6 percent in 2019 driven by contractions in primary and tertiary industries. The primary industries contracted by 8.9 percent, down from a growth rate of 10.5 percent in the previous year, while the tertiary industries contracted by 0.1 percent, an improved rate from a contraction of 1.2 percent in 2018. The secondary industries recorded growth of 1.7 percent, up from 1.0 percent growth in 2018 (Table 2).

**Table 2: GDP by activity constant 2015 prices – annual % changes (2016-2019 actuals)<sup>3</sup>**

	2016	2017a	2018a	2019a
Primary industries	-5.2	9.0	10.5	-8.9
Secondary industries	-4.0	-7.3	1.0	1.7
Tertiary industries	2.3	-0.9	-1.2	-0.1
GDP at market prices	0.0	-1.0	1.1	-1.6

Source: NSA, August 2020 (a=actual,)

<sup>2</sup> The International Diamond price Index (IDEX) from [idexonline.com/diamond\\_prices\\_index](http://idexonline.com/diamond_prices_index)

<sup>3</sup> Disaggregated table is attached as an annexure

The mining production has declined by about 11.1 percent in 2019, attributed mainly to *diamond mining, which contracted by 17.7 percent, while the uranium and metal ores* sub-sectors recorded declines of 4.4 percent and 0.1 percent, respectively.

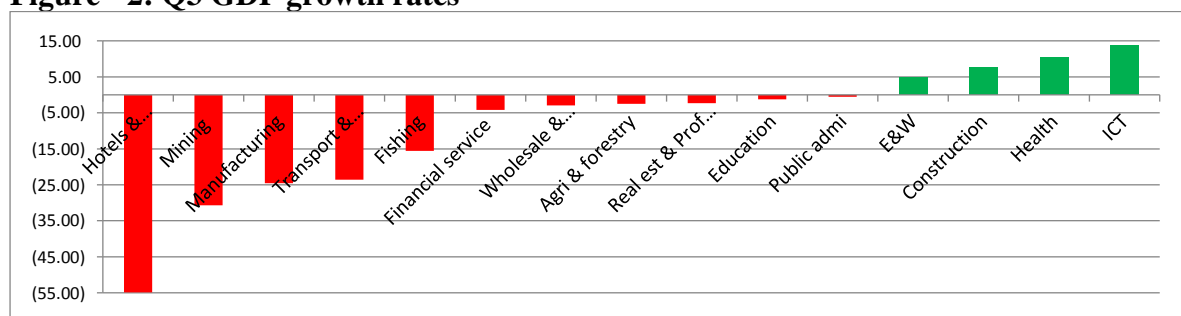
The decline in the *diamond* sub-sector was due to a lower volume of diamonds produced during the period under review, caused by vessel maintenance and almost depleted onshore resources. The contraction in uranium production was attributed to low demand, reduced output (as one of the mines was placed under care and maintenance) and operational challenges experienced by the sector.

*Construction* activity has recorded a growth of 1.2 percent in 2019, the first in 3 years. This follows the completion of major construction projects by both the private and public sectors. The recovery is induced by low base effects and continued activities in the residential housing market.

### 1.4.2 Quarterly GDP for 2020

For Q3 2020, GDP contracted by 10.5 percent compared to a decline of 2.1 percent recorded in the corresponding quarter of 2019. With a quarterly average of 7.3 percent and the highest contraction of 10.5 percent for Q3-2020- this represent the highest contraction recorded since the start of compilation of quarterly GDP. The contraction during the third quarter of 2020 was observed across all sectors except *electricity & water; construction; information and communication* as well as *health sectors*.

**Figure - 2: Q3 GDP growth rates**



Source: NSA quarterly GDP 2020

*Hotels and restaurants* sector recorded the deepest contraction of 54.9 percent compared to a contraction of 8.1 percent registered in the same quarter of 2019. The deep contraction was induced by prolonged lockdowns, emergence of a second wave of COVID-19 outbreak and international travel restrictions resulting in cancelations of domestic and international travel.

The *manufacturing* sector recorded a decline of 24.6 percent in the 3<sup>rd</sup> quarter of 2020 compared to a marginal contraction of 3.5 percent recorded during the same period in 2019. The decline in the sector was attributed to massive declines in the subsectors of beverages, basic metals, meat processing, and diamond processing.



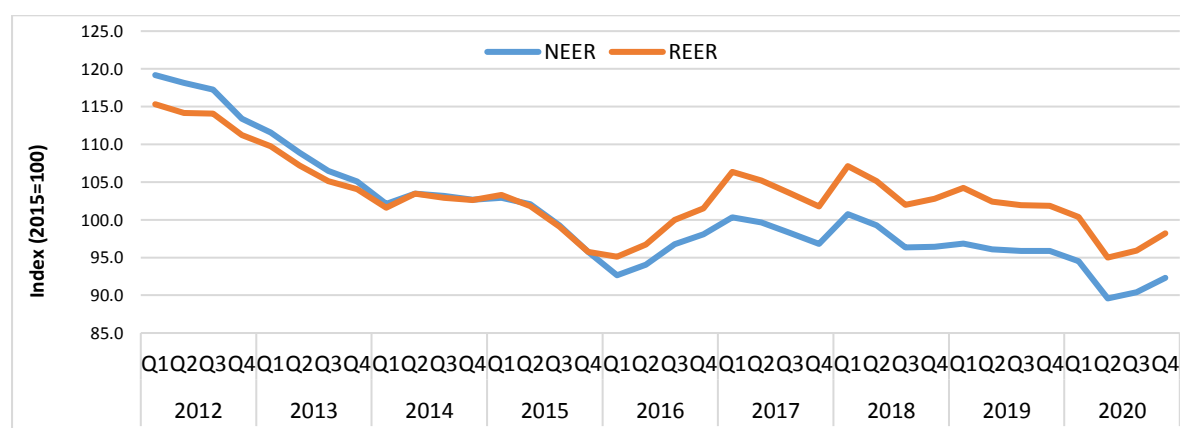
The *mining and quarrying* sector recorded a contraction of 30.7 percent compared to a smaller contraction of 5.5 percent recorded during the same quarter in 2019. The weakened performance was attributed to declines in all sub-sectors due to the impact of COVID-19, lockdown and subsequently weak demand.

The *Information and communication* sector recorded positive growth of 13.8 percent in real terms, compared to 10.6 percent growth registered in the same quarter of 2019. The positive performance in the sector is attributed to the increase in demand for ICT usage from all sectors, in conjunction with health regulations and travel restrictions. In the same vein the *Health sector* recorded growth of 10.3 percent compared to a contraction of 5.7 percent during the same period the previous year, backed by increased demand due to the on-going pandemic.

### 1.4.3 Exchange Rates and Competitiveness

***The Nominal Effective Exchange Rate (NEER) appreciated on a quarterly basis but depreciated on an annual basis during December 2020.*** The NEER appreciated by 2.1 percent on a quarterly basis but depreciated by 3.7 percent on an annual basis, (Figure 3). The quarterly appreciation of the NEER was due to the strengthening of the Rand/NAD pair against major trading currencies on the back of the demand for emerging market currencies aided by easing trade tensions between China and the United States. The REER stood at 98.2 index points during December 2020, which was about 2.4 percent stronger than the previous quarter and 3.6 percent weaker than the corresponding quarter of 2019. Hence the country is losing competitiveness

Figure 3: Effective Exchange Rates, 2012 to 2020



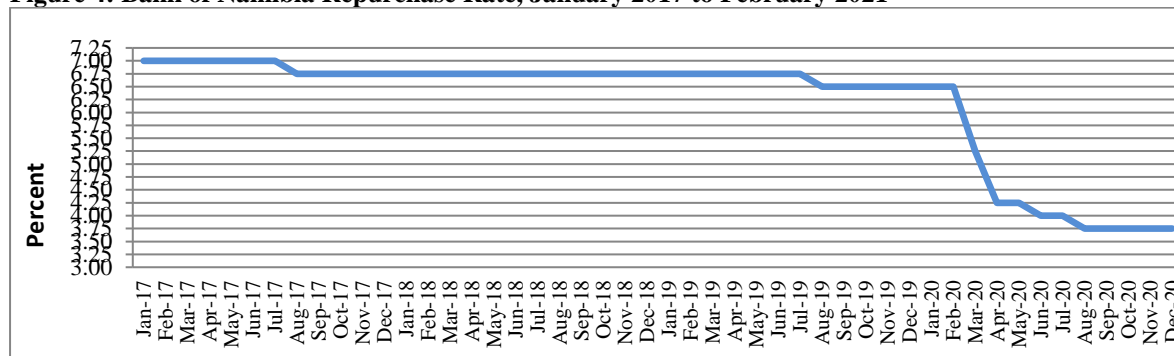
Source: Bank of Namibia, February 2021

### 1.4.4 Interest rate Developments

The Monetary Policy Committee (MPC) of the Bank of Namibia reduced the Repo rate at its various meetings in 2020 by a cumulative 275 basis points to 3.75 percent. These decisions to cut the Repo rate were deemed appropriate to support domestic economic growth, while maintaining the one-to-one peg between the Namibia Dollar and the South African Rand.

Recently on the 16<sup>th</sup> of February 2021, the MPC of the Bank of Namibia held its bi-monthly meeting and after considering developments in all key macro-economic variables as presented, decided to keep the Repo rate unchanged at 3.75 percent. The MPC was of the view that at 3.75 percent, the repo rate is appropriate to continue supporting domestic economic activity while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand.

**Figure 4: Bank of Namibia Repurchase Rate, January 2017 to February 2021**

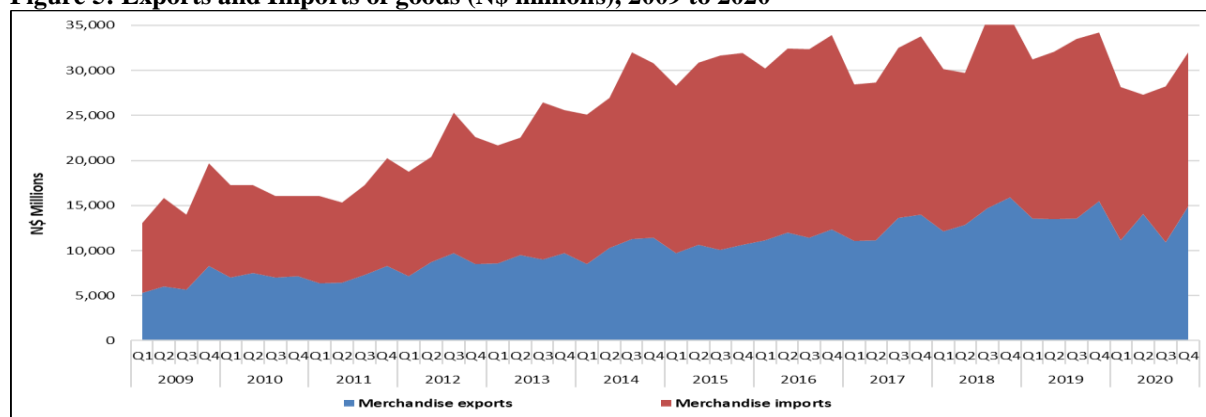


Source: Bank of Namibia, February 2021

### 1.4.5 Current Account Balance

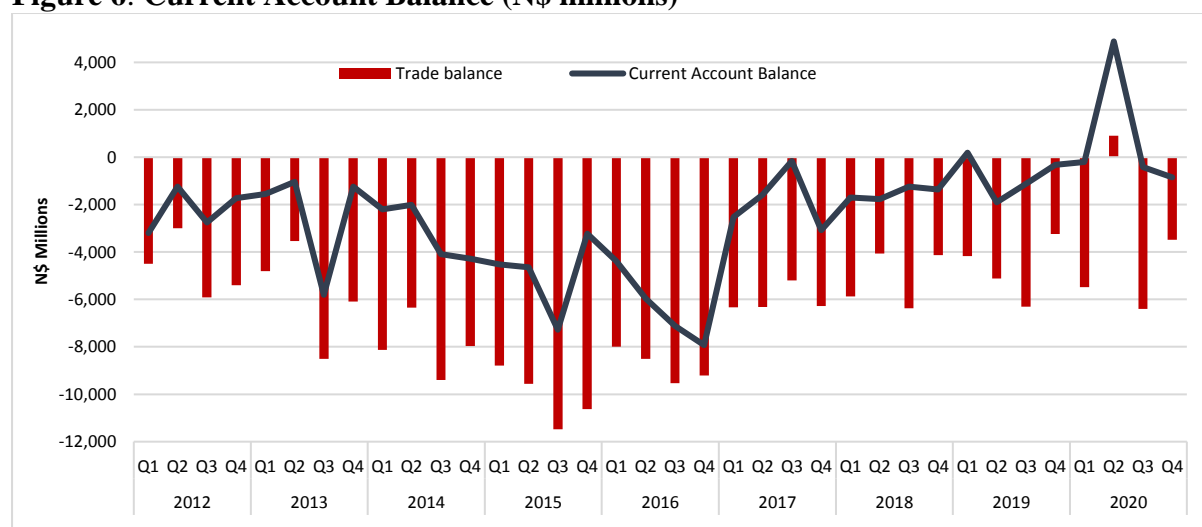
*Namibia’s preliminary current account recorded a deficit during the fourth quarter of 2020 primarily due to deterioration in the services and primary income balances.* The deficit was an amount of N\$855 million during the fourth quarter of 2020, compared to a deficit of N\$317 million during the corresponding quarter of 2019. The worsening current account deficit is due to the deterioration in the services and primary income balances, (Figure 5). For the full year, the current account recorded a surplus of N\$3.4 billion and as a percentage of GDP, the current account surplus stood at 2.0 percent in 2020, compared to a deficit of 1.7 percent of GDP in the previous year. The surplus in 2020 was supported by shrinking trade deficit and higher secondary inflows.

**Figure 5: Exports and Imports of goods (N\$ millions), 2009 to 2020**



Source: Bank of Namibia, February 2021

**Figure 6: Current Account Balance (N\$ millions)**



Source: Bank of Namibia, February 2021

### 1.4.6 Capital Account

The capital account balance increased on an annual basis to N\$382 million, mainly due to a notable rise in capital transfers received from the rest of the world during the fourth quarter of 2020, relative to N\$328 million recorded in 2019.

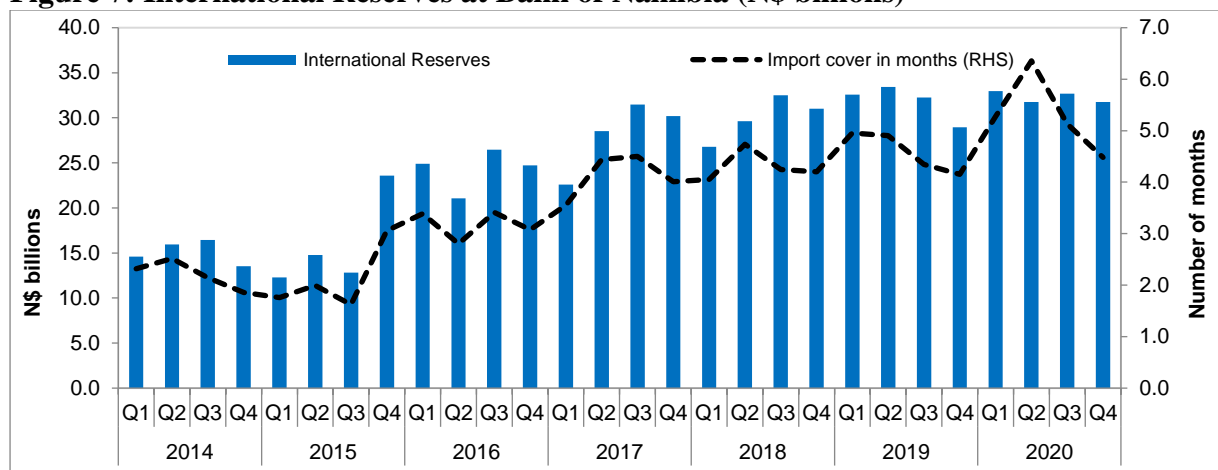
### 1.4.7 Financial Account

The financial account balance recorded net lending to the rest of the world on an annual basis of N\$1.6 billion during 2020 from net borrowing of N\$218.0 million in the preceding year. The net lending to the rest of world was due to net outflows in direct and other investment. On the contrary, the financial account balance recorded a higher net borrowing of N\$2.8 billion on a quarterly basis during the fourth quarter of 2020 from a net borrowing position of N\$849 million during the fourth quarter of 2019. The higher net borrowing was mainly driven by net inflows in portfolio investment.

### 1.4.8 International Reserves

The stock of foreign reserves increased by 9.7 percent annually to reach N\$31.8 billion at the end of the fourth quarter of 2020, relative a lower reserve position of N\$28.9 billion at the end of the fourth quarter of 2019 (Figure 7). The increase in reserves was primarily supported by inflows of the AFDB loan, higher SACU receipts, lower imports of goods and services and the depreciation of the local currency against major trading currencies. The import cover of goods and services is estimated at 5.1 months during 2020, which is slightly more than 4.2 months recorded in the preceding year, due to an 11.4 percent annual decline in the import bill.

**Figure 7: International Reserves at Bank of Namibia (N\$ billions)**



Source: Bank of Namibia, February 2021

### 1.4.9 Inflation

During 2020, Namibia’s annual average inflation declined to 2.2 percent compared to 3.7 percent recorded during 2019. The lower average annual inflation was driven mainly by declined inflation for clothing, housing, and transport, while education, hotels, cafes and restaurants and health recorded lower inflation throughout the year. The decline in housing was mainly on account of weak domestic economic activity and deflationary pressure in the rental market. The decline in transport was attributed to the COVID-19 outbreak (subsequent lockdown) alongside oil prices reductions during the first half of the year.

Generally, low inflation is an indication of low demand and weak domestic activity. Given Namibia’s high import dependency, a big portion of the domestic inflation is imported inflation. The low inflationary environment reflects the slowing imports due to weak demand as disposable income is trending downward. Inflation was lowest during April 2020 at a rate of 1.6 percent and this was during the first lockdown and there was minimal economic activity, since then things have improved albeit marginally.

## 2. OUTLOOK FOR THE DOMESTIC ECONOMY

### 2.1 Economic Impact of COVID-19

It has been over a year since the discovery of the COVID-19 in China and slightly under a year since it was declared a global pandemic by the WHO. The Namibian Government took preventative measures to curb the spread of the virus, save lives while ensuring that the supplies of essential goods were maintained. The prevalence of the pandemic has had a negative effect on the economy as some businesses had closed down; others had scaled down on production due to lower demand and reduced disposable income. Most sectors continue to struggle with operations, especially since the emergence of the second wave of COVID-19, initially in Europe and later globally. Although the development of the vaccine has been fast tracked, a lot of uncertainty still remains as there are issues with some vaccines, while the supply of others might take a while to reach everyone on the planet.

The COVID-19 outbreak, its financial and economic consequences is expected to continue causing major increase in fiscal deficits and public debt ratios, therefore necessitating the need to revise previous projections. As output drops, revenue is correspondingly expected to fall, to an even larger extent than economic activity. The Fiscal Strategy provides an assessment of the impact of COVID-19 on both economic activities and government finances.

### 2.2 BASELINE GROWTH SCENARIO FOR THE DOMESTIC ECONOMY

Amidst the COVID-19 outbreak and subsequent prolonged lockdown of many countries as well as travel bans across the globe, GDP growth for 2020 has been revised marginally upwards to a contraction of 7.3 percent. Despite the adjustment, GDP remains below the contraction of 6.6 percent that was expected a year ago and it is projected to grow at an average of 3.1 percent over the medium term period.

**Table 3: Supply-side GDP growth projections - annual % changes**

	2018a	2019a	February 2021 Update			Fiscal Strategy 2020/21		
			2020e	2021p	2022p	2020e	2021p	2022p
<b>Primary Industries</b>	10.5	-8.9	-8.8	2.6	5.9	-12.1	-1.9	7.6
<b>Secondary Industries</b>	1.0	1.7	-12.7	1.5	3.6	-2.6	-1.9	2.7
<b>Tertiary Industries</b>	-1.2	-0.1	-5.5	2.2	1.9	-5.7	-1.4	2.7
<b>GDP at market prices</b>	1.1	-1.6	-7.3	2.1	2.8	-6.6	-1,1	3,6

Source: MEWG, Feb2020 (a=actuals e=estimates pl= preliminary p=projections)

**Table 3**, depicts the changes in projections and shows how the impact of COVID-19 has affected the assumptions for the medium term growth. The emergence of COVID-19, has brought about a lot of uncertainty with it, thus as information emerges, we need to make adjustments to the assumptions for growth prospects. The growth for 2021 was adjusted upwards from a contraction of 1.1 percent to a growth of 2.1 percent, while 2022 is revised down by 0.8 percentage point to 2.8 percent.

**Primary industries** are estimated to contract by 8.8 percent in 2020. The contraction is attributed to lower output from all sectors, the worst being *mining*. For 2021, the industries are expected to record a moderate growth of 2.6 percent on the back of recovery, as both agriculture and mining sectors return to positive growth. Beyond 2021, the industries are estimated to grow by 6.4 percent on average.

**Secondary industries** are estimated to contract by 12.7 percent in 2020. The contraction emanates from declines in *manufacturing and construction* sectors. For 2021, the industry is estimated to recover with marginal growth of 1.5 percent, supported by the recovery in *manufacturing and construction*. For 2022 and going forward, the industry is estimated to grow on average by moderate 3.4 percent.

The **Tertiary industries** are estimated to contract by 5.5 percent in 2020, driven mainly by declines in *wholesale and retail trade, Hotels and restaurant, transport as well as Arts, Entertainment and other service activities*. Tertiary industries are estimated to recover by 2.2 percent in 2021 on the back of the recovery in *transport, wholesale and retail trade* as well as *financial & insurance* subsectors. The tertiary industry is projected to grow, on average by 2.6 percent during the period 2022-2024.

### **3. FISCAL POLICY REVIEW**

#### **3.1 Global Fiscal developments and outlooks**

*The COVID-19 pandemic has posed a severe challenge to public finances. The effect of the pandemic led to further contraction in output and ensuing fall in revenues, along with emergency lifelines. This has ultimately resulted in large budget deficits and debts, beyond levels recorded during the global financial crisis.* While the world economy was rebalancing, it was further hit by the second wave of COVID-19 at the end of 2020, which is expected to exert additional pressure on the ailing economies. Many countries are providing additional fiscal support to households and firms, amid the resurgence of infections and imposition of restrictions in some regions. However, some countries, especially the emerging market and developing economies will be constrained by the absence of policy buffers due to high debt levels and tight financing conditions.

The pandemic continues to cause disruptions to the global supply value chains, a situation that weakens global and regional demand and lowers business confidence. The outbreak of the second wave of COVID-19 led several countries that were reopening to reintroduce lockdowns and border closures while continuing with other health related measures such as social distancing to contain the further spread of the virus. These actions will further exacerbate supply and demand constraints on sectors such as tourism, travel and hospitality industries and will prolong economic recoveries.

The ideal situation is for countries not to withdraw fiscal stimulus to safeguard the gains that have been achieved so far. However, the emphasis should still be in saving lives, preserve employment and prevent economies from collapsing. The promise posted by the increase coverage of vaccine will result into fading social distancing and lead to economic recovery toward 2022.

Fiscal measures put in place to support the economy come at a cost of deteriorating fiscal indices in all countries, which erodes fiscal space and long term fiscal sustainability. Countries will therefore need to reprioritize expenditure towards the health and education sector and safeguard key public services (transport, energy, and communication) and social protection. (IMF-Fiscal Monitor, January, 2021).

#### **3.2 Domestic Fiscal Policy Developments and outlook**

*The Namibian GDP started to slow in 2015, when it recorded a growth of 4.5 percent compared to a strong growth of 6.1 percent in 2014 and declined by 1.0 percent in 2017.* Although GDP growth recovered slightly by 1.1 percent in 2018, economic activity contracted again by 1.6 percent in 2019. At the back of increasing deficit and sharp rise in debt, the government introduced a policy of fiscal consolidation in 2015/2016. The expenditure was reduced from 42.8 percent of GDP in 2015/16 to 37.6 percent of GDP in 2019/20. Despite this effort, revenue continues to decline resulting in high deficit levels and debt stock. The debt stock increased from N\$59.8 billion in 2015/16 to N\$100.4 billion in 2019/20.

The outbreak of COVID-19 pandemic at the beginning of FY2020/21 reversed the gains realised by the policy of fiscal consolidation and threw the economy into a deep recession ever in history. Although it has been declining steadily, revenue fell from N\$58.4 billion in FY2019/20 to N\$51.4 billion in FY2020/21 estimated in the Budget, which has since been revised to about N\$55.2 billion in the FY2020/21 Mid-Year Budget Review Policy Statement. The expenditure was estimated to increase from N\$67.3 billion in FY2019/20 to N\$72.8 billion in FY2020/21 Budget, causing a deep deficit of about 12.5 percent of GDP, which has now been revised to about 9.5 percent.

To mitigate the impact of COVID-19 pandemic on the economy and livelihood, the government availed a stimulus package aimed at providing relief to both affected businesses and individuals during the first 21-days lockdown. The package, which was originally set at about N\$8.1 billion was later increased to N\$8.35 billion and it included economic stimulus, wage subsidy, emergency income grant, guaranteed facilities as well as education, health and security cluster responses.

With the advent of COVID-19 vaccine, the economy is projected to return to a positive growth trajectory in FY2021/22. However the impact that COVID-19 inflicted in the economy will not fade away quickly. The impact would mainly be observed on revenue, with the SACU receipts for 2021/22 estimated to decline by about N\$7.5 billion from N\$22.6 billion in the FY2020/21 to about N\$14.8 billion estimated for FY2021/22. Going forward, revenue is estimated to remain volatile with anticipated slow recovery.

At the back of the declining revenue and weak economic performance, the government will revert to the policy of fiscal consolidation and implement reforms aimed at reviving the economy, reducing expenditure, explore alternative source of revenue, capture increase in budget deficit and stabilise debt stock.

### **3.2.1 Analysis of Actual Fiscal Outturns for 2019/2020**

*The total revenue and grants for FY2019/20 is recorded at N\$58.5 billion, representing an increase of 4.7% in comparison to N\$55.9 billion realised in FY2018/19.* The increase was recorded in the main tax categories of income tax on individuals that grew by 4.1 percent, VAT increased by 3.6 percent and SACU receipts rose by 8.9 percent. Strong increase was also recorded on small tax categories such as withholding tax on interest with a growth rate of 31.3 percent, while other taxes on income and profits increased by 22.2 percent.



**Table 4: Trend of fiscal aggregates FY 2017/18 to FY2019/20 and estimates for 2020/21**

ITEM	2016-17	2017-18	2018-19	2019-20	2020-21
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>REV Estimates</i>
<b>GDP</b>	<b>160,028</b>	<b>171,660</b>	<b>178,208</b>	<b>178,940</b>	<b>174,979</b>
<b>Revenue</b>	<b>50,865</b>	<b>58,659</b>	<b>55,882</b>	<b>58,425</b>	<b>55,457</b>
<i>% of GDP</i>	31.8%	34.2%	31.4%	31.5%	31.7%
<b>Expenditure</b>	<b>62,228</b>	<b>67,523</b>	<b>65,108</b>	<b>67,343</b>	<b>72,105</b>
<i>% of GDP</i>	38.9%	39.3%	36.5%	37.6%	41.2%
<b>Budget Balance</b>	<b>-11,363</b>	<b>-8,864</b>	<b>-9,226</b>	<b>-8,919</b>	<b>-16,649</b>
<i>% of GDP</i>	-7.1%	-5.2%	-5.2%	-5.0%	-9.5%
<b>Debt</b>	<b>69,896</b>	<b>74,468</b>	<b>87,533</b>	<b>100,400</b>	<b>109,476</b>
<i>% of GDP</i>	43.7%	43.4%	49.1%	56.1%	62.6%
<b>Interest payments</b>	<b>4,310</b>	<b>5,430</b>	<b>6,308</b>	<b>6,951</b>	<b>7,651</b>
<i>% of Revenue</i>	8.5%	9.3%	11.3%	11.9%	13.8%
<b>Guarantees</b>	<b>6,351</b>	<b>11,036</b>	<b>10,889</b>	<b>11,107</b>	<b>12,700</b>
<i>% of GDP</i>	4.0%	6.4%	6.1%	6.2%	7.3%

**Total expenditure for FY2019/20 stood at N\$ 67.3 billion.** This is about 1.2 percent higher than the revised expenditure, and 3.4 percent higher compared to the FY2018/19.

The marginal increase in expenditure stemmed mainly from increases in categories of expenditure such as goods and other services that went up by about 6.1 percent, between FY2018/19 and FY2019/20, while development expenditure expanded by about 19.9 percent.

**The budget deficit outturn stood at about N\$8.9 billion or 5.0 percent of GDP, just slightly above 4.5 percent of GDP revised estimate in FY2020/2021 Fiscal Strategy.** The debt stock for FY2019/20 increased in nominal terms from a revised estimate of N\$96.7 billion to N\$100.4 billion. As a ratio of GDP, it reflects an increase from 54.8 percent revised estimate in the Fiscal Strategy to 56.1 percent.

**Government Guarantees** are estimated to have increased from 6.1 percent of GDP in FY2018/19 to about 6.2 percent of GDP in FY2019/20. Interest payment as a percentage of revenue, on the other hand increased from 11.3 percent to 11.9 percent in the same period. The current level of interest payments is equivalent to the statutory benchmark of 3.9 percent of GDP and 1.7 percent above the target of 10.0 percent of the revenue set out in the Debt Management Strategy 2018-2025. The increase in interest payments is due to significant increase in borrowing to fund the budget deficit and large capital projects that are co-funded with external funding.

### 3.2.2 Revenue, Expenditure, Deficit and Total Debt Estimates for 2020/21

Total revenue for FY2020/21 is estimated to fall by 6.5 percent to N\$55.5 billion in comparison to the FY2019/20 due to COVID-19 impact. Total expenditure on the other hand is estimated to remain high at N\$72.1 billion. With the reduction in revenue and expenditure being elevated,

budget deficit is estimated at N\$16.6 billion or 9.5 percent of GDP. Total debt stock is estimated to increase from N\$100.4 billion in FY2019/20 to N\$109.5 billion in FY2020/21, driven mainly by growing needs to finance the increasing budget deficit owing to increase in funding need to fight the spread of COVID-19.

#### **4. THE FISCAL STRATEGY FOR THE FINANCIAL YEAR 2021/2022 BUDGET**

##### **4.1 Macroeconomic context**

*The FY2021/22 Fiscal Strategy is prepared against the context of a volatile economic environment and amid COVID-19 pandemic.* These events impacted revenue negatively and constrained access to financial markets. At the same time government spending needs increased drastically due to increasing commitments to fight the pandemic and restore macroeconomic stability.

The COVID-19 incidence put government priorities under pressure and temporarily derailed the government policy on fiscal consolidation in 2020/2021 as substantial resources were diverted to the fight against the virus. The increased spending led to increase in the budget deficit and further rise in debt stock in the environment of low revenue collection due to subdued economic activity.

The 2021/2022 Fiscal Strategy continues with measures and partnerships proposed in the Mid-Year Budget Review Policy Statement to support the fragile economy and mainstream economic activity towards long term recovery. The policy is aimed at counteracting the impact of COVID-19, maintain prudent expenditure management and provides for economic recovery plan.

Despite the anticipated availability of the vaccine in 2021, there is still uncertainty about the duration the COVID-19 will continue to prevail. Furthermore, it is likely that the vaccine will not be available to everybody immediately, while the effects of pandemic are expected to be around for a foreseeable future. Therefore, strategies to revive the economy and work towards debt stabilisation are paramount during the next MTEF period. This will entail implementation of structural reforms, expenditure reforms as well as tax policy reforms and administration.

Given the above background, the post COVID-19 era and the rest of MTEF will focus on developing various measures to support the economy and return to long-term sustainability path. These measures include but not limited to a blend of PPPs and private sector investments to promote growth, generate job opportunities, and promote domestic demand. The successful implementation of these measures will enhance revenue generation over the medium-term and provide support to the economy.

## 4.2 Revenue outlook

***Total revenue is expected to remain weak over the MTEF period, mainly due to reduction in SACU revenue.*** Government revenue is estimated to decline by about 6.1 percent or N\$3.4 billion in 2021/22 relative to the previous financial year. The decline is mainly induced by the reduction in SACU receipts and company taxes. SACU receipt declined by about 36.0 percent or N\$7.5 billion from N\$22.2 billion in 2020/21 to N\$14.7 billion in 2021/22 due to adjustments the SACU Revenue Pool, while corporate tax is estimated to decline by around 0.6 percent compared to FY2020/21 estimates.

The revenue outlook over the MTEF is projected to moderate owing to economic activity that remains weak, with low domestic demand, prevailing low commodity prices as well as moderate levels of imports and exports, amid Covid-19 pandemic and subdued global economy. The weak economic climate, coupled with reduction in imports is expected to affect SACU receipts significantly in the medium term. Domestic revenue is projected to start recovering from FY2022/23 as Covid-19 impact diminishes, global economy recovers and commodity prices pick up, but the decline of economic activity in South Africa may prolong recovery in SACU receipts.

## 4.3 The aggregate Expenditure and Debt outlook

These anticipated developments in the revenue necessitated the need to adjust expenditure and align it to the levels of available resource envelop. It is expected that Government will resume fiscal consolidation programme starting from FY2021/22 to gradually narrow the deficit and place the debt on a sustainable path.

To maintain the levels of the budget deficit consistent with the trend in the Mid-Year Budget Review Policy Statement, moderate levels expenditure is estimated for the MTEF. Accordingly, in 2021/22, expenditure is estimated at N\$67.9 billion, increased to N\$68.3 billion in 2022/23 and N\$68.5 billion in the last year of MTEF.

The debt stock is expected to remain high, estimated to increase from about N\$100.4 billion in FY2019/20 to about N\$158.8 billion in FY2023/24. As a proportion of GDP, debt stock is estimated to increase from 56.1 percent in 2019/20 to about 77.0 percent at the end of the MTEF. However, the rate at which the debt increases is expected to slow down from 15.6 percent in 2021/22 to about 9.1 percent in the last year of MTEF.

## 4.4 Budget Deficit Financing and Debt servicing

***The projected budget deficit for the FY2021/22 accounts for approximately 8.6 percent of GDP or N\$15.9 billion.*** The budget deficit is projected to stabilise at an average of 6.8 percent of GDP over the remaining two years of MTEF. Similar to previous years, the large portion of

about 70.0 percent is projected to be sourced from the domestic market, while about 30.0 percent is expected to come from development partners, through the Governance and Economic Recovery Support Program (GERSP) offered by the Africa Development Bank (AfDB), and the IMF's Rapid Financing Instrument (RFI) currently under discussion.

In more detail, the Government planned to source funding from special COVID-19 credit facilities of the AfDB and IMF, aimed at supporting countries to respond to the COVID-19 pandemic. The AfDB offered to provide N\$5.0 billion loan to Namibia under a two-year program, the Namibia Governance and Economic Recovery Support Program (GERSP), to fund the economic recovery. The IMF intends to offer about N\$4.13 billion through the Rapid Financing Instrument (RFI). Both lenders intended to submit the economic appraisal report to their respective Boards by end of February 2021 for approval.

On the other hand, the Government/AfDB Co-funded projects will continue to be implemented during 2021/22 financial year. These projects include the following:

- *Water Security related projects:*
  - *Upgrading of Rundu's water treatment plant*
  - *Oshakati water Treatment plant*
  - *Ohangwena aquifer*
- *Education and Training Quality Improvement Project, (ETQIP),*
- *Namibia Agriculture Mechanization and Seed Improvement Project (NAMSIP),*
- *Rail Infrastructure Improvement Project, that include the supply of rails and turnouts for Walvis Bay– Kranzberg railway upgrading, the Railway upgrading works for Walvis Bay– Kranzberg, and*
- *The upgrading of section 2A (23.8 km) of the Windhoek–Hosea Kutako International Airport highway.*

The Ministry of Public Enterprise and Mobile Telecommunication Corporation (MTC) officially announced the plans to list MTC on the Namibian Stock Exchange (NSX). As per the timeline provided by the transaction advisor, the listing is anticipated around October 2021. The valuation of MTC is in the range of N\$6.0 billion – N\$7.2 billion and the divestment strategy will inject approximately N\$3.0 billion into Government coffers from the 49 percent of the company proposed for listing. The expected proceeds from the proposed divestment will be used to partly (50 percent) fund the budget deficit, while 50 percent will be ring-fenced for productive activities and be utilized in a manner that reaps long term benefits for the country.

Against the above background, proposals are focusing on activities that would improve the balance sheet of the Government and maximize economic benefit over the long term. In this regard, the following options are proposed for utilisation of the proceeds:

- a) Seeding the Sovereign Wealth Fund (SWF). The objective is to improve the balance sheet of the country by shoring up the international reserve position of the country, while simultaneously allocating resources for the benefit future generations.*
- b) Funding developmental projects and provide much-needed relief on the national budget and lessen the pace of debt accumulation. As such, it is advised that an analysis of priority national projects be undertaken, and projects be identified for funding.*
- c) Retirement of the most expensive debt and those exposed to significant exchange rate risk in the public debt portfolio for redemption which will result in a reduction in the Government debt stock, while also reducing the rising debt servicing costs.*

### ***Debt Redemption Strategy***

Over the years since 2005, the Government introduced a sinking fund approach to accumulate savings to ensure successful redemption for upcoming bond maturities. These deposit accounts are held at Bank of Namibia and comprises of two sub-accounts, namely the USD and ZAR sinking funds. In March 2020, the Government sinking fund balances amounted to US\$412.0 million and R2.3 billion, while the maturing bonds balances stood at US\$500.0 million and N\$461.7 million for the Eurobond and the GC21 respectively. Nonetheless, following the outbreak of the COVID19 pandemic in March 2020, the Government instituted containment measures to lessen the negative impact of the pandemic on Namibians and their livelihoods, resulting on part of these funds used for this purpose.

For that reason three redemption approaches were proposed. The three instituted approaches were: a) to fully rollover the Eurobond, b) to seek support from the local institutional investors to underwrite the redemption of the Eurobond in exchange of NAD denominated bonds, as local institutional investors are also in need of local assets to meet the regulatory domestic asset requirement, and c) to switch N\$1.4 billion worth of the GC21 bond to other longer debt instruments. It is worth stating that, to date the outstanding balance on the GC21 has been reduced from N\$1.4 billion to only N\$168 million, reducing the rollover risk to a minimum.

Going forward, costs for debt servicing are projected to further increase from 13.8 percent of total revenue in 2020/21 to about 16.3 percent in 2021/22 financial year. Given the increase in borrowing, the debt service is expected to be elevated to 17.1 percent by end of the MTEF.

Over the MTEF, Government is expected to issue guarantees to Public Enterprises, enabling them to function and provide necessary service to citizens. At current level, contingent liabilities are projected to average 7.0 percent over the MTEF, relative to the benchmark of 10.0 percent of GDP.

#### **4.5 Fiscal Policy and Budget Priorities for the 2021/22-2023/2024 MTEF**

Covid-19 pandemic impacted economic activity and presents challenging circumstances for the fiscal policy. With growth for 2020 estimated at a contraction of 7.3 percent, government faces a challenge for public debt stabilization and the improvements in per capita income.

The fiscal policy stance for the MTEF is laid down in the 2020/21 Mid-Year Budget Review Policy Statement taking into account the current economic situation. The fiscal policy stance would primarily aim to strengthen fiscal sustainability, while contributing to the achievement of inclusive economic growth objectives through a pro-growth fiscal consolidation, promotion of private sector-led growth and implementation of enabling structural policy reforms.

The fiscal consolidation will remain at the centre of the fiscal policy stance, with the aim to reduce the budget deficit and reverse increase in the debt stock. The key reforms that would support fiscal consolidation programme include tax reforms, tax administration through the operationalisation of NAMRA; reduction of public sector wage bill, restructuring and consolidation of Public Enterprise, review of PSEMAS governance and benefit structure, among others.

Against this backdrop, the Government priorities will be based on the following interventions over the next MTEF:-

- i. Fast-tracking the implementation of the economic growth and recovery interventions to anchor macroeconomic stability, fiscal sustainability and support socio-economic objectives of job creation and the reduction of poverty and inequalities;*
- ii. Implementation of fiscal consolidation programme, crowd-in the private sector investment and finance the high budget deficit in a manner which does not raise additional public debt through among others, the following:*
  - a. reforms of the wage bill to be done by the end of MTEF,*
  - b. review of PSEMAS, to improve its governance model, benefit structure and administrative efficiency – to be finalised by December 2021;*
  - c. Public Enterprises restructuring and implementation of the Public Asset Ownership Policy to be finalised by December 2021,*

- iii. *Optimise the use of the proceeds from the sale of MTC shares to reduce debt;*
- iv. *Put on hold recruitment of mass personnel in the government OMAs;*
- v. *Consider closing down the Southern Times and consolidate NAMPA and New Era into one entity;*
- vi. *Withhold payments to the Government garage until assessment of the Ministry of Works and Transport is finalised, to be done before October 2021;*
- vii. *Implementing recommendations arising from public expenditure reviews in the health and education and extend such targeted reviews to other sectors;*
- viii. *Mobilization of alternative forms of financing, including PPPs in areas of infrastructure development and service delivery; and*
- ix. *Acceleration of reforms in the public procurement function as regards decongestion of the process and amendment of the law.*

#### **4.6 Tax Policy Reforms**

The 2021/22 Budget proposes tax policy and administrative reforms, including those previously approved Cabinet; new tax policy and tax administration proposals for consideration. The proposals include the following:

- i. *Introduction of a withholding tax at a rate of 10% on dividends paid to Namibians and consider reducing the corporate income tax in the next MTEF.*
- ii. *Increase the deductibility on pension fund contributions, educational policy deductions to a maximum of N\$150 000.00, in FY2021/22;*
- iii. *An announcement will be made to review the introduction of zero rating the supply of sanitary pads;*
- iv. *Introduction of 15 % VAT on the fees of all asset managers to ensure fairness of the VAT System, in FY2021/22;*
- v. *Enforce the administration of withholding tax on services, by requiring tax payers to provide proof of actual tax withheld from payments, in FY2021/22; and*
- vi. *Strengthen the administration of freight tax provision in the law.*
- vii. *review withholding tax on interest in unit trust fund as it relates to Namibian companies for implementation in the next MTEF.*

## ANNEXURE 1

Table 5: Revenue outturn and projected outlook FY2019/12-2023/24 (N\$ Mil)

Revenue Head	2019/20	2020/21	2020/21	2021/22	2022/23	2023/24
	Actual	Mid-Year Estimates	Rev. Estimates	Projection	Projection	Projection
<b>GDP at market prices, nominal</b>	<b>178,940</b>	<b>174,063</b>	<b>174,979</b>	<b>184,778</b>	<b>195,126</b>	<b>206,053</b>
Revenue and grants as % of GDP	32.7%	31.4%	31.7%	28.2%	26.9%	27.7%
<b>TOTAL REVENUE AND GRANTS</b>	<b>58,425</b>	<b>54,659</b>	<b>55,457</b>	<b>52,065</b>	<b>52,483</b>	<b>57,109</b>
<b>TAX REVENUE</b>	<b>54,816</b>	<b>51,648</b>	<b>52,427</b>	<b>48,821</b>	<b>49,051</b>	<b>53,389</b>
<b>Tax on income and Profits</b>	<b>22,611</b>	<b>18,839</b>	<b>20,906</b>	<b>21,980</b>	<b>23,073</b>	<b>24,550</b>
Income Tax on Individuals	14,147	12,261	12,694	13,875	14,441	14,944
<b>Company Taxes</b>	<b>7,257</b>	<b>5,710</b>	<b>7,231</b>	<b>7,187</b>	<b>7,622</b>	<b>8,535</b>
Diamond Mining Companies	1,143	979	1,367	1,370	1,394	1,423
Other Mining Companies	187	438	874	944	996	1,096
Non-Mining Companies	5,927	4,294	4,989	4,873	5,231	6,016
<b>Other Taxes on Income and Profits</b>	<b>410</b>	<b>315</b>	<b>305</b>	<b>335</b>	<b>386</b>	<b>412</b>
Non-Resident Shareholders Tax	307	203	180	214	254	268
Tax on Royalty	103	93	106	102	112	119
Annual Levy on Gambling Income	-	19	19	20	20	25
<b>Withholding Tax on Interest</b>	<b>797</b>	<b>553</b>	<b>675</b>	<b>582</b>	<b>624</b>	<b>660</b>
Withholding tax on companies & individuals	420	317	424	330	354	377
Withholding tax on unit trusts	148	125	125	123	136	143
Withholding tax on Services	229	110	126	130	135	140
<b>Taxes on Property</b>	<b>174</b>	<b>141</b>	<b>141</b>	<b>155</b>	<b>167</b>	<b>201</b>
<b>Domestic Taxes on Goods and Services</b>	<b>12,999</b>	<b>10,236</b>	<b>9,037</b>	<b>11,825</b>	<b>13,363</b>	<b>14,308</b>
VAT + Additional Sales Tax + General Sales Tax	11,516	9,284	8,088	10,511	11,868	12,622
Levy on Fuel	1,107	650	650	1,025	1,170	1,346
Fishing Quota Levies	267	225	225	220	243	256
Gambling Licence (Business)	-	2	2	2	3	3
Environmental levies & Carbon Emission Taxes	94	60	60	52	61	62
Other taxes on goods and services	15	14	12	15	18	20
<b>Taxes on International Trade and Transactions</b>	<b>18,922</b>	<b>22,252</b>	<b>22,252</b>	<b>14,750</b>	<b>12,328</b>	<b>14,202</b>
SACU Revenue Pool Share	21,426	20,670	20,670	15,608	14,828	15,569
Revenue Formula Adjustments	-2,504	1,582	1,582	-858	-2,500	-1,367
<b>Other Taxes</b>	<b>109</b>	<b>181</b>	<b>91</b>	<b>111</b>	<b>120</b>	<b>127</b>
<b>NON - TAX REVENUE</b>	<b>3,511</b>	<b>2,745</b>	<b>2,764</b>	<b>3,171</b>	<b>3,359</b>	<b>3,647</b>
<b>Entrepreneurial and Property</b>	<b>2,385</b>	<b>1,737</b>	<b>1,756</b>	<b>2,093</b>	<b>2,172</b>	<b>2,344</b>
Interest Receipts for Loans Extended to SOEs	5	9	4	4	5	5
Interest on Investments	-	2	3	3	3	4
Dividends and Profit Share from SOEs & other companies	1,140	756	756	773	732	821
Interest on State Account Balances with BoN	-12	33	5	5	6	7
Diamond Royalties	707	738	738	988	1,066	1,127
Other Mineral Royalties	546	199	250	320	360	380
<b>Fines and Forfeitures</b>	<b>99</b>	<b>86</b>	<b>86</b>	<b>90</b>	<b>96</b>	<b>103</b>
<b>Administrative Fees, Charges and Incidental Sales</b>	<b>1,027</b>	<b>922</b>	<b>922</b>	<b>987</b>	<b>1,090</b>	<b>1,200</b>
<b>Lending and Equity Participation</b>		-	-	-	-	-
External Grants	98	266	266	73	73	73

Source: Ministry of finance



**ANNEXURE 2:**
**Table 6: Policy Scenario: Fiscal Stance, Aggregate expenditure, and Public debt consistent with policy stance for FY2019/20-2023/24 (N\$ Mil)**

Component	2019/20	2020/21	2020/21	2021/22	2022/23	2023/24
	Actual	Mid-Year Estimates	Rev. Estimates	Projection	Projection	Projection
GDP	178,940	174,063	174,979	184,778	195,126	206,053
<b>Total Revenue and Grants</b>	<b>58,425</b>	<b>54,659</b>	<b>55,457</b>	<b>52,065</b>	<b>52,483</b>	<b>57,109</b>
As % of GDP	31.5%	31.4%	31.7%	28.2%	26.9%	27.7%
Expenditure (Budget/MTEF)	66,230	67,128	72,772	68,480	69,849	71,246
Expenditure Adjustments	1,114	5,644	(667)	(530)	(1,511)	(2,764)
<b>Actual/Potential Expenditure</b>	<b>67,343</b>	<b>72,772</b>	<b>72,105</b>	<b>67,950</b>	<b>68,338</b>	<b>68,482</b>
% of GDP	37.6%	41.8%	41.2%	36.8%	35.0%	33.2%
<b>Actual/Potential Budget Balance</b>	<b>(8,919)</b>	<b>(18,113)</b>	<b>(16,649)</b>	<b>(15,885)</b>	<b>(15,855)</b>	<b>(11,373)</b>
% of GDP	-5.0%	-10.4%	-9.5%	-8.6%	-8.1%	-5.5%
Cash Requirement		(2,890)	(2,890)	(2,100)		-
Project Financing		(1,526)	(1,526)	(1,299)	(980)	(1,010)
Provision for Bond Redemption		(1,615)	(1,615)	(7,918)	(3,922)	(3,391)
Foreign Debt Repayment		(330)	(330)	(830)	(996)	(1,195)
Air Namibia Lease Settlement				(2,015)		
<b>Total Funding Requirement</b>		<b>(24,474)</b>	<b>(23,010)</b>	<b>(30,047)</b>	<b>(21,753)</b>	<b>(16,969)</b>
Sinking Fund: Air Namibia		8,380	8,380	2,015	1,600	1,600
GC21 (Sinking Fund)				169		
MTC Diversiture				1,500		
Eurobond (Sinking Fund)				1,550		
<b>Net Domestic Borrowing</b>		<b>(16,094)</b>	<b>(14,630)</b>	<b>(17,889)</b>	<b>(20,153)</b>	<b>(15,369)</b>
<b>Domestic Debt Stock</b>	<b>63,715</b>	<b>75,832</b>	<b>75,832</b>	<b>93,722</b>	<b>109,722</b>	<b>121,952</b>
<b>Foreign Funding and Project funded by loans</b>		<b>(3,041)</b>	<b>(3,041)</b>	<b>6,924</b>		
ADB Loan Mechanisation program for Agric		25	25	489	170	200
ADB Loan Transport (Rail ZAR1,350)		136	136	350	350	350
ADB Loan Transport (Road)		112	112	140	140	140
ADB Loan Basic Education (School Renov)		110	110	320	320	320
AfDB Loan (EGCP-SP)		2,000	2,000			
AfDB Loan (COVID-19)				1,500	2,000	
IMF (RFI)				4,125		
Gain and Losses from currency fluctuations		(5,424)	(5,424)			
<b>Foreign Debt Stock (est.)</b>	<b>36,684</b>	<b>33,644</b>	<b>33,644</b>	<b>32,818</b>	<b>35,798</b>	<b>36,808</b>
<b>Total Debt</b>	<b>100,400</b>	<b>109,476</b>	<b>109,476</b>	<b>126,540</b>	<b>145,520</b>	<b>158,760</b>
% of GDP	56.1%	62.9%	62.6%	68.5%	74.6%	77.0%
Domestic Debt	35.6%	43.6%	43.3%	50.7%	56.2%	59.2%
Foreign Debt	20.5%	19.3%	19.2%	17.8%	18.3%	17.9%
Total Debt	56.1%	62.9%	62.6%	68.5%	74.6%	77.0%
Growth in Debt	14.7%	5.8%	9.0%	15.6%	15.0%	9.1%
Domestic Interest Payments	4,376	4,801	5,426	6,049	6,561	6,946
Foreign Interest Payments	2,575	2,937	2,225	2,450	2,658	2,815
<b>Total Interest payments</b>	<b>6,951</b>	<b>7,737</b>	<b>7,651</b>	<b>8,500</b>	<b>9,219</b>	<b>9,761</b>

<b>% of Revenue</b>	<b>11.9%</b>	<b>14.2%</b>	<b>13.8%</b>	<b>16.3%</b>	<b>17.6%</b>	<b>17.1%</b>
Other statutory payments	-	265	265	-	-	-
Total Statutory Commitments	6,951	8,002	7,916	8,500	9,219	9,761
Domestic Guarantee	1,772	3,242	3,242	3,495	3,659	3,831
Foreign Guarantee	9,335	9,458	9,458	9,458	9,907	10,377
<b>Total Guarantees</b>	<b>11,107</b>	<b>12,700</b>	<b>12,700</b>	<b>12,952</b>	<b>13,566</b>	<b>14,208</b>
% of GDP	6.2%	7.3%	7.3%	7.0%	7.0%	6.9%

*Source: Ministry of Finance*

## ANNEXURE 3

**Table 7: Supply-side GDP growth projections - annual % changes**

Industries	2018	2019	2020	2021	2022	2023	2024
Agriculture, forestry and fishing	3.3	-5.7	-3.9	2.4	2.6	4.3	2.8
Livestock farming	-1.5	-5.1	-14.8	4.0	7.1	6.1	4.7
Crop farming and forestry	16.0	-25.3	23.6	3.0	-4.4	3.1	4.8
Fishing and fish processing on board	0.1	6.1	-8.4	1.0	3.8	3.6	0.3
Mining and quarrying	16.1	-11.1	-12.4	2.7	8.6	8.6	9.5
Diamond mining	15.1	-17.7	-14.2	5.4	11.9	12.0	15.2
Uranium	33.4	-4.4	-12.4	7.6	5.2	9.3	-2.7
Metal Ores	0.8	-0.1	-7.7	-17.4	6.5	0.9	7.0
Other mining and quarrying	13.6	2.4	-8.8	1.2	2.1	-1.2	2.8
Primary industries	10.5	-8.9	-8.8	2.6	5.9	6.7	6.7
Manufacturing	1.2	3.0	-16.3	1.2	3.8	2.8	4.2
Meat processing	2.9	12.0	-11.8	2.3	7.6	2.9	6.4
Grain Mill products	1.9	-2.8	4.8	6.0	4.3	2.5	7.9
Other food products	1.1	2.0	-1.7	1.2	3.3	3.0	4.6
Beverages	5.0	12.5	-24.9	7.4	6.8	5.9	4.4
Textile and wearing apparel	0.9	-2.3	-3.0	1.1	3.3	1.5	3.9
Leather and related products	4.5	-2.0	-4.1	0.9	3.2	2.4	5.8
Wood and wood products	-12.5	1.3	-3.1	-1.0	1.2	0.4	3.8
Publishing and Printing	-1.6	-6.7	-12.8	0.0	1.6	1.4	4.9
Chemical and related products	-3.1	-3.1	8.8	4.2	4.5	3.7	6.1
Rubber and Plastics products	7.0	-2.3	-5.3	-3.3	-1.2	-1.9	1.5
Non-metallic minerals products	2.3	-3.6	-16.8	-0.9	3.2	2.3	5.8
Basic non-ferrous metals	-4.0	12.3	-42.8	-13.2	1.4	3.5	-2.1
Fabricated Metals	5.5	1.0	-13.7	-1.9	0.3	-0.5	2.9
Diamond processing	6.4	-7.1	-39.4	2.6	2.9	-1.0	2.5
Other manufacturing	-3.1	7.1	-18.8	1.4	3.1	2.7	-1.6
Electricity and water	13.2	-5.4	5.9	2.4	2.2	2.4	1.2
Construction	-8.7	1.2	-8.0	2.1	4.2	1.7	5.4
Secondary industries	1.0	1.7	-12.7	1.5	3.6	2.6	4.0
Wholesale and retail trade, repairs	-5.0	-9.1	-10.9	1.9	3.6	2.5	3.3
Hotels and restaurants	4.7	2.8	-70.2	-3.2	3.5	4.9	4.2
Transport	-3.1	0.8	-13.8	-0.3	4.1	5.1	2.5
Transport	-5.0	-5.1	-17.1	-1.0	4.0	5.1	3.3
Storage	2.6	4.3	-1.9	1.9	4.4	4.9	0.0
Information Communication	-2.2	8.6	11.9	3.4	4.4	3.9	0.0
Financial and insurance service...	-0.2	6.0	-3.0	3.9	-2.3	5.7	6.4
Real estate activities	2.7	2.8	-6.9	2.3	3.0	2.6	-3.2
Professional, scientific and technical ...	-1.1	-7.2	-10.5	3.5	1.7	1.0	2.4
Administrative and support services	0.9	-6.2	-11.3	1.7	2.9	2.2	-1.3
Arts, Entertainment & Other Service ...	0.4	-1.9	-14.7	4.9	5.6	6.3	-2.9
Public administration and defence	0.7	2.2	1.1	0.8	0.6	2.1	2.0
Education	0.5	2.7	2.8	2.5	2.3	3.9	3.7
Health	-8.9	-4.8	5.9	3.1	1.9	3.4	3.2
Private household with employed ...	-2.5	-2.5	-12.1	3.3	10.0	1.5	2.4
Tertiary industries	-1.2	-0.1	-5.5	2.2	1.9	3.4	2.5
All industries	1.2	-1.5	-7.4	2.1	2.9	3.9	3.5
Taxes less subsidies on products	-0.7	-4.0	-5.7	2.2	1.2	4.2	4.1
GDP at market prices	1.1	-1.6	-7.3	2.1	2.8	3.9	3.6

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## 5. ASSUMPTIONS

### 5.1.1 Assumptions underlying revenue forecast

Revenue forecasts are endogenously estimated on the basis of the underlying revenue base. In the baseline scenario, the outlook for various tax streams follows the related aggregate macroeconomic growth projections and takes into account the impact of discretionary policy and administrative intervention measures in the reform scenario.

The revenue outlook for the FY2021/22 – 2023/24 MTEF is based on the following assumptions: -

- Tax revenue growth follows the relevant economic base and the effective tax rate. Tax rates are assumed to remain constant in the baseline scenario, and take into account tax administration measures whose implementation is decided in the budget.
- Estimates for FY2020/21 are based on year-to-date monthly outturn receipts data, provided by the Receiver of Revenue and Customs and Excise,
- SACU revenue for the budget year (FY2020/21) is *a priori* decided by the SACU Council in accordance with the SACU Agreement. The outlook for SACU receipts is largely based on the projections for the SACU Common Revenue Pool presented by the National Treasury, South Africa over the MTEF, and
- Non-tax revenue estimates are based on projections made by O/M/As and in line with adjustments to historical trends and outlook of underlying revenue bases.

#### *Box I: Explanatory Note on behavioural relationships underpinning tax revenue projections*

- *Income Tax on Individuals follows the base year outturn and the projected growth in public and private sector wages;*
- *Mining Company Tax follows the base year outturn and the projected growth in commodity exports.*
- *Non-Mining Company Tax follows the base year outturn and the projected growth in disposable profit income, taking into account the reduced tax rate for manufacturers benefiting from tax incentives;*
- *Value-Added Tax follows the base year outturn and the projected growth in private consumption;*
- *Revenues from Taxes on International Trade are based on extrapolations from the size of the SACU Common Revenue Pool projected in the South African Budget for the corresponding period;*
- *Other Tax revenues follow the base year outturn and the projected growth in disposable income.*

## 5.1.2 Assumptions underlying macro-projections

### PRIMARY INDUSTRY

**The Primary industry** is estimated to contract further in 2020 by 8.8 percent. The contraction is attributed to lower output from all sectors, the worst being *mining*. For 2021, the industry is expected to record moderate growth of 2.6 percent on the back of recovery mainly in the mining sector. For 2022 and going forward the industry is estimated to grow by an average of 6.4 percent.

The *Agriculture Forestry and fishing* sector is estimated to contract by 3.9 percent in 2020. The contraction in the sector is attributed to lower outputs in all subsectors except for crop farming. The *Livestock* subsector is projected to contract by 14.8 percent in 2020 on account of high level of restocking. The subsector is expected to rebound in 2021 by 3.0 percent due to low base effects and increased weaners outputs from the previous years. From 2022 going forward the subsector is estimated to grow by 6.0 percent on average on the assumption of no drought and improved marketing. The *Crop farming* subsector is expected to post a strong growth of 23.6 percent in 2020 based on a good rainfall season with expected bumper harvest (Maize, Mahangu, and horticulture). Growth for 2021 is projected to trend lower by 3.0 percent but still positive. The lower output is due to locust outbreak in Kavango and Zambezi regions, while for 2022 and going forward the subsector is expected to grow marginally on average of 4.1 percent, on assumption of normal rainfall in that year.

The *fishing* subsector is expected to contract severely in 2020 by 8.4 percent due to social distancing, the travel restriction in Erongo region and continued delays in quota allocation. For 2021 the subsector is estimated to post a small growth of 1.0 percent on assumption that quota allocation issues would have been resolved, coupled with a recovery in exports. For 2022 and going forward the subsector is expected to grow marginally on average by 2.6 percent.

The *Mining and quarrying* sector is estimated to post a contraction of 12.4 percent in 2020 which is attributable to declines in output from *uranium, diamond mining and metal ores*. The *Diamond* subsector is estimated to further decline by 14.2 percent for 2020. The decline is attributed to reduced output of *diamonds*, and travel restrictions due to COVID-19. For 2022, the sector is estimated to grow by 11.9 percent; the growth is attributed to the commissioning of the new vessel for *diamond* and increased output in *uranium*<sup>4</sup>.

The *Uranium* subsector is estimated to contract deeper by 12.4 percent for 2020. The deeper contraction is ascribed to impact of lockdown and water challenges. *Metal ores* are expected to contract by 7.7 percent for 2020 due to contraction in *Zinc and Copper*<sup>5</sup>. For 2021, the sector is expected to contract further by 17.4 percent due to no production from copper and reduced

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<sup>4</sup> In 2022 Langer Heinrich Uranium is expected to come on board.

<sup>5</sup> Scorpion Zinc, Namib Lead & Zinc and Tschudi mine are under care and maintenance.

Zinc production<sup>6</sup>, although gold production is expected to be stable. For 2022 and going forward, the sector is estimated to grow on average 4.8 percent.

*Other mining and quarrying* subsector is estimated to contract by 8.8 percent for 2020. The contraction is attributable to the lower output due to difficulties identifying product market (graphite), high radiation level discovered in some quarries, as well as a halt in production in protected areas. The subsector is expected to record marginal growth of 1.2 percent in 2021 attributable to new export destination. For 2022 and going forward the subsector is estimated to post marginal average growth of 1.2 percent emanating from low growth prospect.

## **SECONDARY INDUSTRY**

Secondary industry is estimated to contract by 12.7 percent in 2020. The contraction is emanating from declines in *manufacturing and construction* sectors. For 2021, the industry is estimated to recover with marginal growth of 1.5 percent supported by manufacturing and construction. For 2022 and going forward the industry is estimated to grow marginally by 3.4 percent on average.

The *Manufacturing sector* is estimated to contract by 16.3 percent in 2020. The contraction is attributed to contractions in *meat processing, beverages, basic non-ferrous metals, and diamond processing*. *Meat processing* is expected to contract by 11.8 percent in 2020 due to low stock marketing levels, restocking, and disturbance in the global market as a result of COVID-19. For 2021, the subsector is estimated to grow marginally by 2.3 percent as a result of low base effect, increased in marketing and the relaxation of travel restriction<sup>7</sup>. From 2022 going forward the subsector is estimated to post an average growth of 5.6 percent.

The *Beverages subsector* is estimated to contract by 24.9 percent for 2020. The huge contraction is attributed to the restrictions imposed on alcohol sales for both domestic and some export markets. For 2021 beverages are projected to post a growth of 7.4 percent due to low base effect and economic recovery. From 2022 going forward the subsector is estimated to grow by 5.7 percent on average.

*Diamond processing* is estimated to contract by 39.4 percent in 2020. The contraction is due to COVID-19 which resulted in travel restrictions thereby inducing a decline in demand for luxury goods. For 2021 and 2022, the subsector is estimated to grow by 2.6 and 2.9 percent. The recovery is supported by the expected improvement in activities of site holders and a marginal increase in global demand.

*Construction* is estimated to decline by 8.0 percent in 2020, mainly due to reduced economic activity, absent of significant new capital projects and muted private sector demand. During 2021, construction is estimated to grow by 2.1 percent reflecting low base effects coupled with

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<sup>6</sup> No zinc output from Skorpion Zinc

<sup>7</sup> With the expectation of a vaccine discovery

a recovery in the construction of residential dwellings given the low interest rate environment. For 2022 and beyond, the subsector is estimated to grow by an average of 3.8 percent.

## **TERTIARY INDUSTRY**

The *tertiary industry* is estimated to contract by 5.5 percent in 2020. The contraction emanates from decline in *wholesale and retail trade, Hotels and restaurant, transport and Arts & Entertainment*. The sector is estimated to recover by 2.2 percent in 2021 on the back of recovery in *transport and wholesale, and retail trade* subsectors. For 2022 and going forward, the sector is estimated to grow moderately by 2.6 percent on average.

*Wholesale and retail trade* is estimated to contract by 10.9 percent in 2020 due to decline in general consumption as a result of job losses and the impact of health regulations. However, the sector is expected to recover marginally in 2021 by 1.9 percent due to the lifting of travel restrictions and the lagged effects of monetary policy easing (reduced report rate). For 2022 and going forward, a marginal average growth of 3.2 percent is estimated as economic activities recover and stabilise.

The *Hotels and restaurants* sector is expected to register a deep contraction of 70.2 percent during 2020 due to travel restrictions and social distancing requirements. Furthermore, local tourism and restaurants operations were negatively affected by prolonged lockdowns and travel restrictions. The sector is expected to record mild contraction in 2021 due to the lingering effects of the pandemic on global economic activities. Going forward, the sector is estimated to post average growth of 4.2 percent from 2022 and beyond.

The *Transport sector* is expected to contract in 2020 by 13.8 percent due to a decline in cargo handling and minimal passenger movements owing to global travel restrictions. The sector is expected to post smaller contractions during 2021 as transport and freight activities normalise. As from 2022, the sector is estimated to post marginal average growth of 3.9 percent.

The *financial and insurance activities* sector is expected to contract by 3.0 percent on the back of high household indebtedness, low private sector credit extension, and increasing non-performing loans; insurance cancelation of premiums of short term insurance mainly as a result from job losses and salary cuts. For 2021 the subsector is estimated to post growth of 3.9 percent as the sector creates resilience and find alternative ways to do business despite low demand for insurance premiums. For 2022 and going forward, the sector is estimated to post marginal average growth of 3.3 percent.

For the *Information and communication* sector, output is expected to boom by 11.9 percent in 2020. The growth is attributed to increase in ICT usage such as internet and airtime demand. The sector is estimated to grow marginally by 3.4 percent in 2021 due to a continued usage of ICT. For 2022 and going forward the sector is estimated to post a 2.8 percent average growth.

The *Arts, Entertainment and other services* activities sector is expected to contract significantly by 14.7 percent in 2020. The decline in the entertainment events is due to social distancing and lockdown regulations. The sector is expected to recover by 4.9 percent for 2021 as the economy migrate to normal operations. For 2022 and going forward the sector is estimated to post an average 3.0 percent.

The *health sector* is expected to grow by 5.9 percent in 2020, driven by increased recruitment as the sector scaled up capacity in response to the pandemic. Going forward, a marginal growth of 3.1 percent is expected in 2021 as the sector adjusts to the new normal. In subsequent years, an average growth of 2.8 percent is projected.