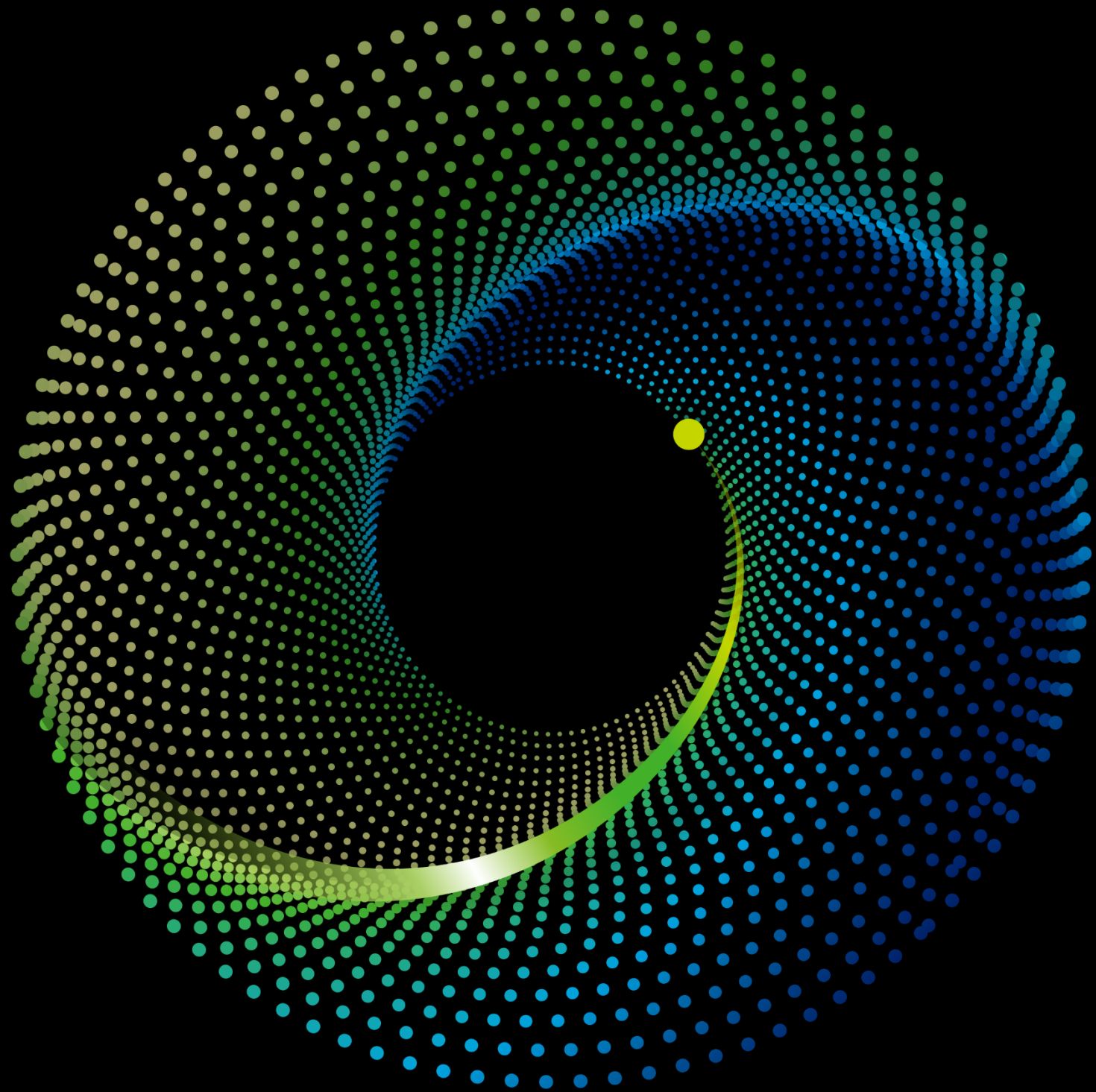


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Namibian Mid-year Budget Newsletter 2022/23

Making an impact that matters



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“I believe we can only go far if we work together to safeguard and retain our fiscal sovereignty!”

Minister of Finance, Ipumbu Shiimi
25 October 2022

Objectives of the Mid-Year Review

The 2022/23 Mid-year budget aims to provide a review of the budget execution and available resources. It is also aimed at providing macroeconomic and fiscal context and making advance announcements on the budgetary framework and government spending priorities. The introduction of the mid-year budget review a few years ago was done in the spirit of transparency and openness of the budget process to the legislature and public.

With this in mind, we summarize the key messages from the statement that the Minister of Finance delivered in Parliament earlier today.

Economic outlook

Since the reading of the main budget in February this year, we saw major changes in the global and domestic landscapes and just as the economy was beginning to recover from the impact of the COVID-19 pandemic, several external shocks have emerged, among them the conflict in Ukraine and the high global inflation.

The global economy maintained growth at 2.2 percent with a downwards revision of growth for 20223 to 2.7 percent. The main factors are the conflict in Ukraine, cost-of-living increases due to inflation pressures and the downturn in the Chinese economy.

In the sub-Saharan Africa region the negative spill overs from the global economic developments have seen economic growth revised downwards to 3.6 percent in 2022 and 3.7 percent in 2023.

In the Namibian economy the Minister noted that the short-term growth prospects have not reduced significantly, despite the various global factors referred to earlier. The Namibian economy is still expected to grow by 2.8 percent in 2022 and by 3.4 percent in 2023. In the main budget these growth percentages were estimated to be 2.9 percent in 2022 and 3.7 percent in 2023.

The projected growth is expected to be supported by output from the primary and tertiary industries as a result of a strong recovery in the mining sector and a return to growth for most of the tertiary industries. The expected growth in the tertiary industries is however lower than initially projected due to increased inflation and interest rates.

Risks to the domestic economy however continues to be elevated and the fiscal space continues to be under pressure.

Fiscal snapshot FY2021/2022

For the FY2021/2022 year the Minister reported actual revenue of N\$55.4 billion compared to the revised estimates of N\$53.4 billion.

Over spending of 1.1 percent in operational expenses were reported, amounting to total operational expenditure of N\$56.9 billion. The main reason for the overspending was on personnel expenditure in Education, Arts and Culture as well as Health and Social Services.

Development expenditure was reported to be N\$ 4.7 billion. This amount represents a 92.7 percent execution rate.

Actual spending on interest payments amounted to N\$ 7.7 billion compared to a revised budget estimate of N\$8.3 billion.

Overall total expenditure of N\$70.2 billion was reported against a revised budget estimate of N\$69.2 billion.

This translated in a budget deficit of N\$14.9 billion and 7.9 percent of GDP.

Total debt stock stood at N\$126.1 billion and 66.9 percent of GDP.

Actuals YTD September 2022

The mid-year assessment for the FY2022/2023 shows improved fiscal fundamentals, that are aligned to positive economic growth prospects and revenue mobilization.

The Minister reported preliminary revenue of N\$30.4 billion, 51 percent of the total budget estimate and 3 percent higher than the past mid-year collection rates. The Minister attributed the revenue performance to the recovery of the domestic economy and early gains from tax administration reforms. We really hope to see more information on the impact of tax administration reforms in the next budget statement.

Operational and development expenses at the end of September 2022 were in line with past trends and reflected an execution rate of 49.6 percent and 38 percent respectively.

Total debt of N\$136.2 billion was recorded which equate to 69 percent of GDP.

Please refer to our infographic for more information.

Revised budget 2022/2023

Revenue is revised upwards by N\$4.4 billion from N\$59.7 billion to N\$64.1 billion. The increased expected revenue equates to 7.9 percent year-on-year growth. It is further expected that revenue will grow to N\$78.3 billion in 2025/2026.

In line with fiscal sustainability objectives, expenses are expected to grow at a slower rate. Expenditure is projected to grow by 2.4 percent to reach N\$80 billion in 2025/2026.

These projections include, amongst others, the following policy priorities and adjustments:

- Expenditure ceilings incorporated the agreed 3.0 percent general salary increase and benefits adjustments for civil servants;
- Funding of N\$ 97 million to increase the disability grant for beneficiaries under the age of 18 from N\$250.00 to N\$ 1 300.00 and the Old Age grant with N\$ 100 in the 2023/2024 year.
- A N\$ 100 monthly increase of the conditional income grant for former food bank recipients from October 2022;
- Reduction of N\$1 billion over a two year period in the allocations towards the public service Employees Medical Aid Scheme (PSEMAS);
- Increase in public debt stock.

Interest payments are revised downwards to N\$9.1 billion. Despite this downward revision, debt stock continues to extend beyond the benchmark of 10 percent of revenue and is expected to peak in 2023/2024.

Overall the budget deficit is projected to decline to 5.3 percent of GDP in 2022/2023. It was expected to be 5.6 percent of GDP during the main budget statement. Over the medium term the deficit is projected to average at about 2.4 percent of GDP.

Please refer to our infographic for more information.

Reallocation of budget

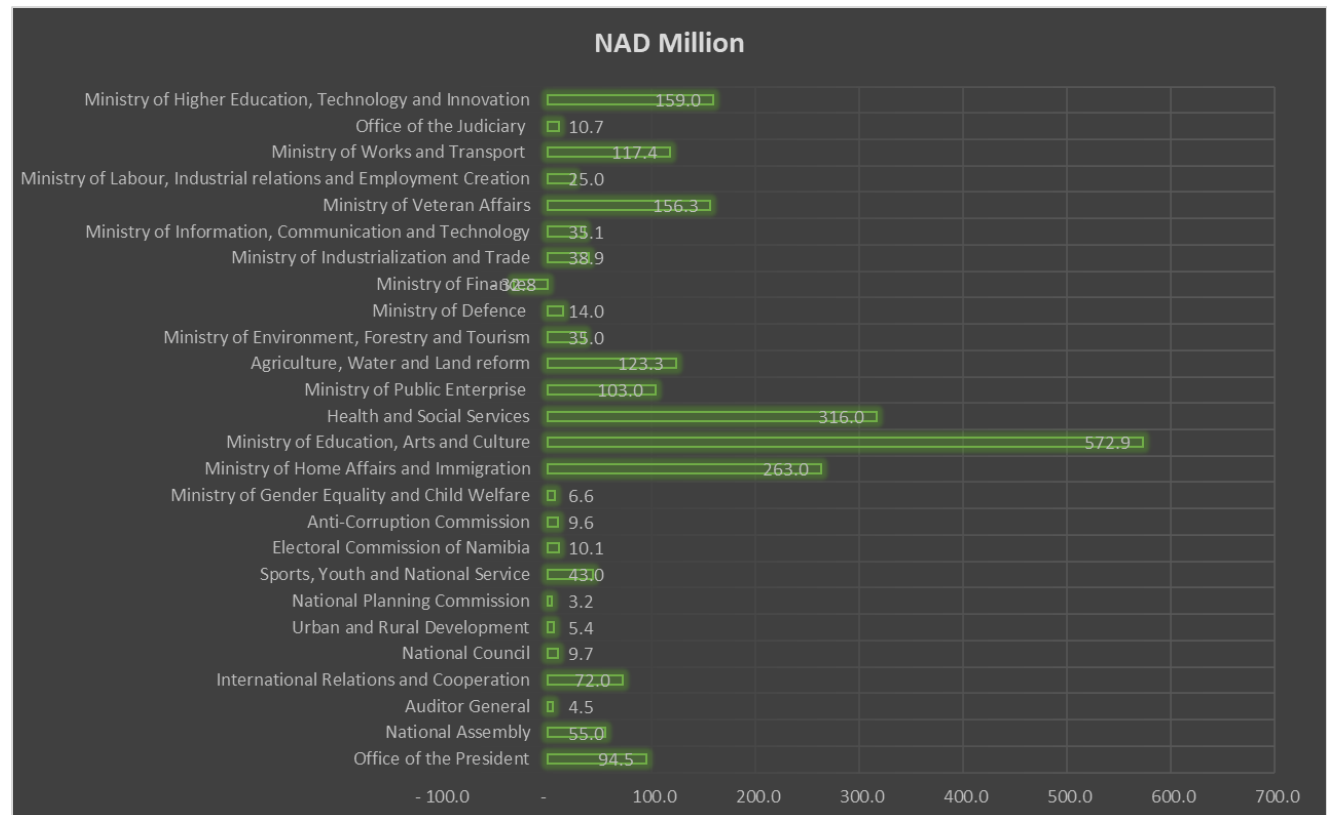
The budget review sees expenditure adjustments and reallocations amounting to N\$2.7 billion. The reallocations consist of N\$2.25 billion to the operational budget and N\$497.7 million to the development budget. Total savings availed for the reallocations were N\$225 million and N\$165.8 million from the operational and the development budget, respectively.

A significant portion of the expenditure adjustment in the operational budget relates to the N\$1.3 billion dedicated to the general salary and benefits adjustments for the civil servants.

In the development budget, the project to revamp the Apron at Hosea Kutako Airport allocated to the Ministry of Works and Transport accounts for N\$449 million of the total N\$497.7 million adjustment.

The reallocations in the operational budget are depicted in the chart on the next page.

Budget reallocation



Economic policy

The Minister provided the following update under the Economic Diversification and Growth Strategy pillar:

- NIPDB continues to market investment opportunities in Namibia by using the Investment Promotion Tool. Strong recovery of foreign direct investment have been seen in the first half of 2022;
 - The pilot high value fruits productivity taskforce is continuing its work and the meat value chain taskforce was recently launched; and
- A preliminary diversification strategy for City of Windhoek has been completed where 47 industries have been identified. Similar strategic research work is being conducted for the Port of Walvis Bay as well as the agricultural opportunities in the North.

Further structural reforms and policies will continue to be implemented, including amongst others:

- The on-going review of the benefit structure of Public Service Medical Aid Scheme (PSEMAS) that will reduce expenditure by N\$500 million per annum in FY2023/24 and FY2024/25;
- The Wage Bill Committee has produced a draft report on findings and recommendations regarding the containment of the public sector wage bill;
- Business Rescue Fund will be launched by Development Bank of Namibia in November 2022 to assist SMEs adversely impacted by the COVID pandemic;
- The Public Procurement Amendment Act was passed into law in July 2022 and has subsequently been gazette and operationalized;
- Government is negotiating the terms and conditions of the green hydrogen agreement with the preferred bidder, Hyphen. The president is expected to make an announcement at COP27;
- A revised version of the Namibia Investment Promotion and Facilitation Bill has been produced by the dedicated Technical Committee and will be workshopped for inputs from several stakeholders over the next two months; and
- The Ministry of Mines and Energy has engaged stakeholders and is now finalizing revisions to the Minerals Act, among others, to ensure maximizing the rent appropriation from our natural resources.

Tax reforms

The Minister continued with his message from February 2022 that it is not the right time to introduce any tax proposals that are inconsistent with the economic revival agenda. With the focus on reforms that may provide relief to taxpayer in the near to medium term the Minister confirmed that the following resolutions were taken:

- To reduce the non-mining corporate income tax rate from 32 percent to 31 percent in 2024/2025 and to 30 percent in 2025/2026;
- To undertake an assessment to review the threshold for individual income tax from N\$50 000 to N\$100 000; and
- To strengthen enforcement of withholding tax on services in which taxpayers will be required to provide proof of actual tax withheld from payments.

The Minister also confirmed that the Income Tax Amendment and VAT Amendment Bills are with the Legal Drafters and will be tabled in this financial year.

The Income Tax Amendment Bill includes an increase in the tax deductibility on pension, provident and retirement fund contributions and educational policy deductions to a maximum of N\$150 000. The current aggregate deduction is limited to N\$40 000. The Income Tax Amendment Bill further includes provisions relating to thin capitalisation.

The VAT Amendment Bill includes relief through the zero-rating of VAT on the supply of sanitary pads.

The Minister further referred to the current ITAS relief programme (amnesty programme) that has two phases. The first phase will end on 30 November 2022 and offers full relief of penalties and 70% of interest provided a taxpayer is registered on ITAS and is in good standing in respect of tax capital payments and returns. The second phase will commence on 1 December 2022 and continue until 31 May 2023. This second phase offers full relief of penalties and 60% of interest provided a taxpayer is registered on ITAS and is in good standing in respect of tax capital payments and returns. We would have liked the Minister to comment on how much the incentive programme has contributed to increased revenue collection and hope to hear about this in the February 2023 budget.

The Minister also noted that NamRA compiled a Tax Compliance and Enforcement strategy that will be implemented in the next two to three years to combat tax evasion. NamRA has further developed new guidelines for the issuing of good standing certificates. The guidelines are aligned to the continuance efforts to improve tax compliance. Per the Minister, NamRA will announce the necessary details and timelines in due course. We hope that these guidelines include or at least take into account the migration and processing issues that many taxpayers still face on a daily basis.

Individual income tax rates

On the assumption that tax rates will remain the same*, proposed tax tables may be as set out below:

Current tax tables		Proposed tax tables*			
Taxable income	Rate of tax	Taxable income		Rate of tax	
N\$ 0 - N\$ 50 000	Not taxable	N\$ 0	N\$100 000	not taxable	
N\$ 50 001 - N\$ 100 000	N\$ 0 + 18%	N\$ 100 001	N\$ 150 000	0	18%
N\$ 100 001 - N\$ 300 000	N\$ 9 000 + 25%	N\$ 150 001	N\$ 350 000	N\$ 9 000	25%
N\$ 300 001 - N\$ 500 000	N\$ 59 000 + 28%	N\$ 350 001	N\$ 550 000	N\$ 59 000	28%
N\$ 500 001 - N\$ 800 000	N\$ 115 000 + 30%	N\$ 550 001	N\$ 850 000	N\$ 115 000	30%
N\$ 800 001 - N\$ 1 500 000	N\$ 205 000 + 32%	N\$ 850 001	N\$1 550 000	N\$ 205 000	32%
Over N\$ 1 500 001	N\$ 429 000 + 37%	N\$ 1 550 000		N\$ 429 000	37%

The proposed changes will result in the following tax savings:

Annual taxable earnings	Annual tax per current tax tables	Annual tax per proposed tax tables	Annual saving
NAD	NAD	NAD	NAD
50 400	72	-	72
60 000	1 800	-	1 800
99 000	8 820	-	8 820
250 000	46 500	34 000	12 500
450 000	101 000	87 000	14 000
650 000	160 000	145 000	15 000
900 000	237 000	221 000	16 000
1 600 000	466 000	447 500	18 500

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