



NATIONAL BUDGET REVIEW

2023/24 – 2026/27

23 February 2023



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Key Points in the Speech

(From speech with editing)

Domestic Economic Developments and Outturn 2022/23

- Domestic economic growth for 2022 has been revised upwards to 4.0%, from the 2.8% estimated in the Mid-Year Budget Review. Growth is expected to moderate to 3.2% in 2023 before slowing further to 2.2% in 2024.
- For FY2022/23, total revenue outturn is projected at N\$64.2bn. The preliminary revenue collection stood at N\$56.2bn at the end of January, reflecting a collection rate of 87.8% over 10 months.
- The preliminary expenditure outturn stood at N\$74.9bn in FY2022/23. By the end of January, total spending stood at N\$60.8bn, equivalent to 81.2% of the N\$74.9bn estimate.
- The budget deficit for FY2022/23 is N\$10.72bn.
- At the end of January 2023, the total debt stock stood at N\$139.4bn or about 68.2% of GDP. About 95% of the total funding requirement for FY2022/23 has been secured.
- Debt servicing interest payment is estimated at 14.4% of revenue.

FY 2023/24

- The Minister announced a budget of N\$74.9bn.
- Non-interest operational expenditure is budgeted at N\$66.1bn, 10.0% higher than last year, while the development budget is set to grow by 18.4% to N\$6.51bn.
- The social sector has been allocated a larger portion of the budget and is set to receive N\$38.4bn, accounting for 53% of the budget. The public safety sector will again receive the second-largest allocation amounting to N\$14.1bn or 19.4% of the budget. The economic sector received the third largest allocation of N\$10.6bn or 14.6% of the non-statutory budget. The administrative sector is allocated N\$5.3bn or 7.3%.
- Total interest payments are forecast to rise by 8.1% to N\$10.02bn, equating to 13.4% of revenue.
- Projected revenue for 2023/24 was revised upwards by N\$5.83bn or 8.5% to N\$74.74bn after already being revised upwards by 11.5% in the mid-year budget in October.
- The significant boost to revenues stem from an upward revision in receipts from the SACU customs pool.
- Over the MTEF period, revenue growth is projected to average 7.7 percent reaching N\$79.8 billion by FY2025/26.
- Deficit-to-GDP is expected to be 4.6% versus 4.3% in the mid-year review, but well below the 5.6% expected in February last year.
- The funding requirement for 2023/24 amounts to N\$10.08bn.

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- Total debt-to-GDP is expected to amount to 70.1% in 2023/24, slightly below the mid-year and February 2022 expectations of 71.0% and 73.4%, respectively.
- The borrowing requirement will be roughly in line with debt service costs of N\$10.02bn in 2023/24.
- The government aims to maintain a primary surplus over the MTEF and consequently maintain the budget deficit below 4.0% of GDP by the end of the MTEF.

Revenue

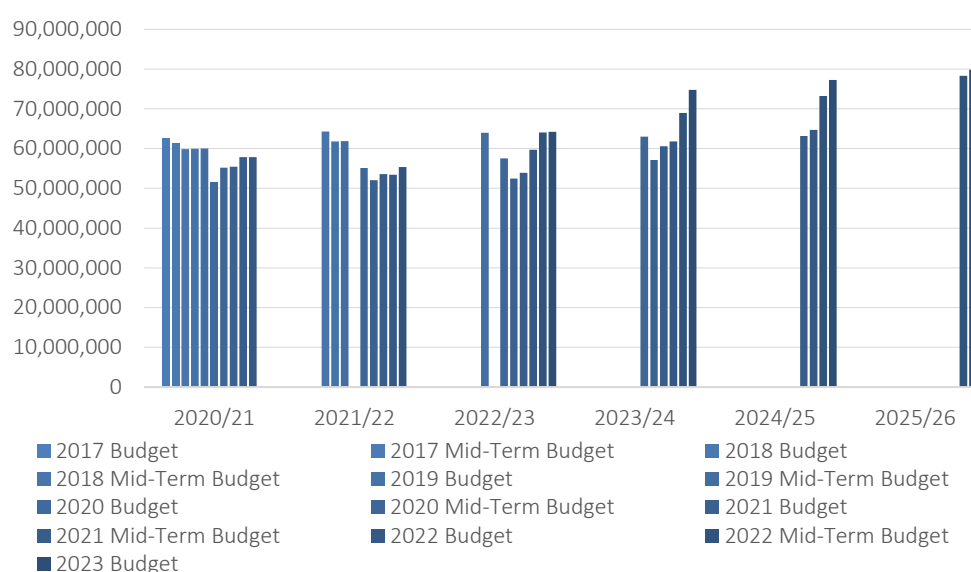
2022/23 Outturn

The revised total revenue figure for 2022/23 is estimated to come in at N\$64.16bn, 7.51% above the N\$59.67bn initially budget for the year. Tax Revenues are estimated to amount to N\$55.73bn, 10.62% more than initially forecasted for the fiscal year. Non-Tax Revenues are expected to come in at N\$8.43bn, below the initial estimate of N\$9.30bn, while no external grants are anticipated, in line with previous estimations.

The higher-than-expected tax revenue collections is mainly attributable to increased collections expected from domestic taxes on goods and services, in particular VAT on goods and services, as collections from VAT are expected to be N\$2.82bn more than initially predicted. Income Tax on Individuals is expected to amount to N\$16.73bn, up from the N\$14.66bn forecasted during last year's budget speech. Tax collections from corporates are also expected to come in higher and register at around N\$8.1bn for the fiscal year.

Compared to 2021/22, total revenue collections are expected to increase by 15.74%. If achieved, the just more than N\$64bn in revenues will be the highest revenue outturn for the country to date, surpassing the N\$58.33bn collected in 2019/20. As at the end of January 2023, the preliminary revenue outturn stood at N\$56.2bn, or 87.8% of the total revenue expected for the year according to the Minister of Finance.

Revenue Revisions (N\$ '000)



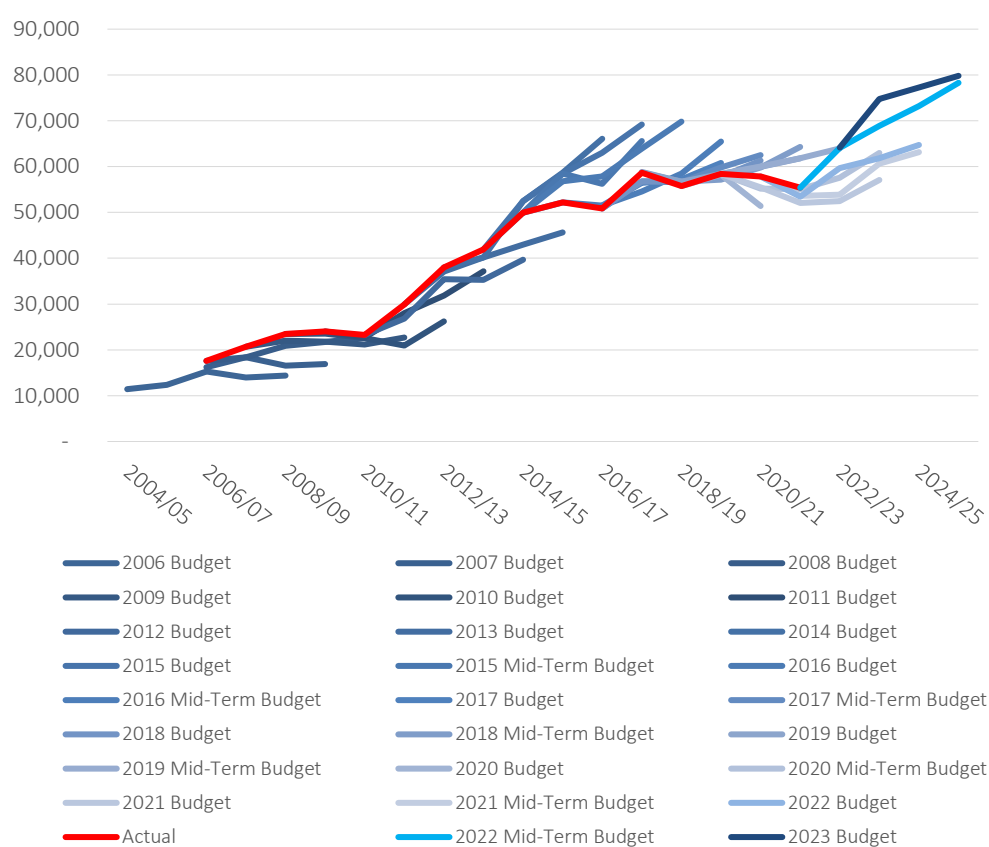
Source: MoF, IJG Securities

Nominal GDP is expected to expand by 9.2% y/y from N\$187.25bn in 2021/22 to N\$204.42bn in 2022/23. Total revenue to GDP is expected to come in higher at 31.4% in 2022/23, compared to 29.6% in the prior year. This increase emphasises the rise in revenue collection relative to the growth in Nominal GDP.

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2023/24 Revenue Review and Mid-Year Outturn

MTEF Revenue
(N\$ millions)



Source: MoF, IJG Securities

Total revenue collection in 2023/24 is expected to come in at N\$74.74bn, representing a 16.49% y/y or N\$10.58bn increase when compared to outturn anticipated in 2022/23. This is also N\$5.83bn more than was estimated to be collected in 2023/24 when compared to last year's mid-year budget review. This rise in revenues is largely expected to come from increased tax revenues, specifically increased collections from the SACU revenue pool.

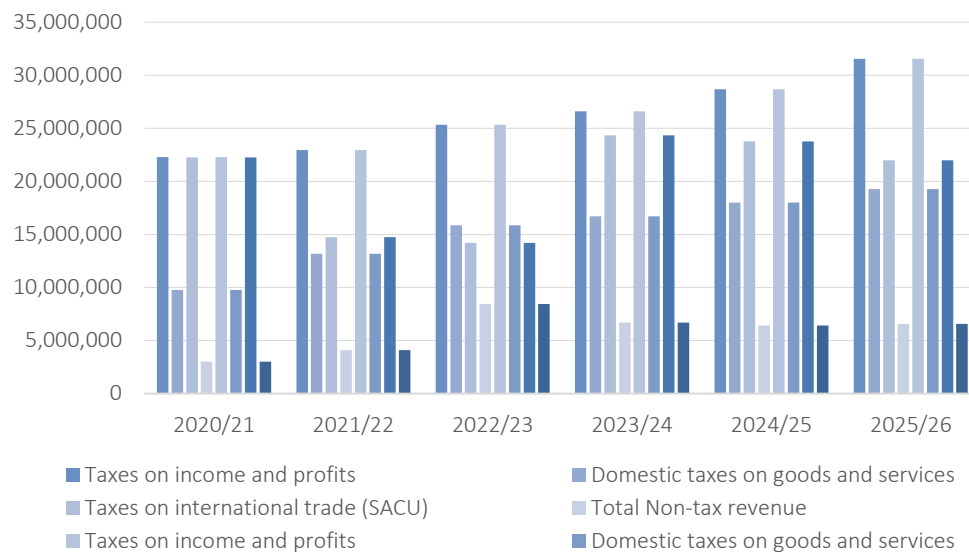
SACU revenues, which are tied to the economic performance of member countries, were revised upward and are estimated to reach N\$24.34bn in 2023/24 compared to the N\$14.19bn expected in 2022/23. The South African budget, tabled on the same date as that of Namibia this year, projects SACU payments to increase by 82.7%. SACU revenues are expected to moderate slightly to N\$23.77bn in 2024/25 and to N\$21.98bn 2025/26, albeit significantly higher when compared to last year's mid-year budget review.

Domestic taxes on goods and services are expected to increase by 5.46% y/y in 2023/24 to N\$16.72bn. VAT makes up bulk of the revenue collection in this category with N\$14.86bn expected to come from VAT on the supply of goods and services in 2023/24 before increasing to N\$16.05bn in 2024/25 and to N\$17.25bn in 2025/26. Total collections from domestic taxes on goods and service are expected to grow by a further 7.39% on average over the MTEF.

Taxes on income and profits which make up the bulk of the revenue and comprise of tax collections from individuals and corporates are expected to increase by 4.91% to N\$26.59bn in 2023/24. Tax collections from individuals are expected to rise by 3.0% y/y to N\$16.73bn while corporate tax revenues are expected to grow by 8.56% y/y to N\$8.84bn in 2023/24. Taxes on income and profits are expected to grow by a further 8.92% on average in over the MTEF, despite the tax relief announced for corporate and individual taxpayers over these periods as mentioned below.

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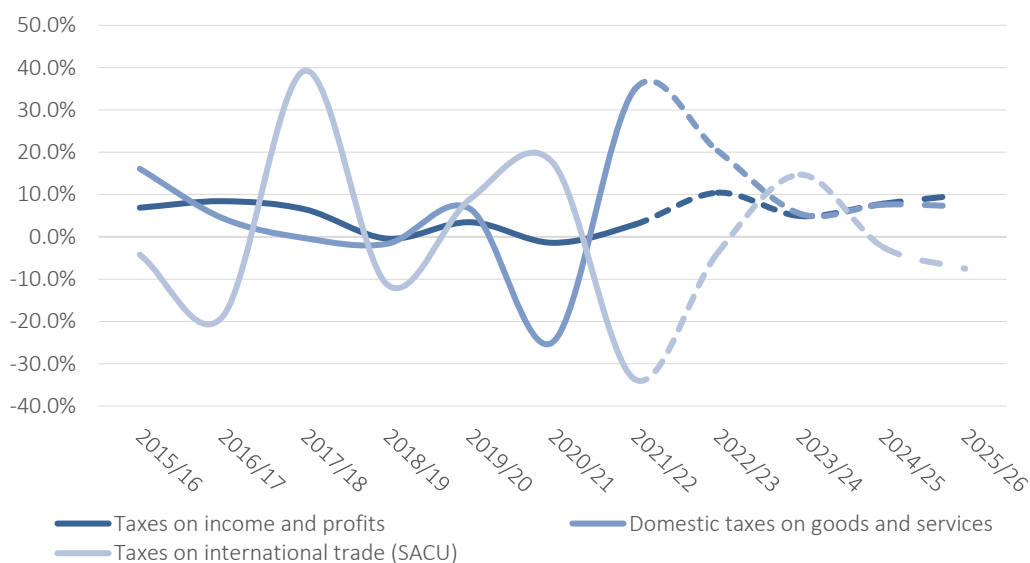
Revenue by Category (N\$ '000)



Source: MoF, IJG Securities

Non-tax revenues are expected to fall further before reaching N\$6.70bn in 2023/24 and remaining steady over the MTEF. This is a notable departure from last year's mid-year budget review when N\$10.63bn was expected to flow from non-tax revenues during 2023/24. According to the Minister of Finance, this downward revision stems from lower-than-expected dividends from the diamond sector after adjusting for current global demand and price developments.

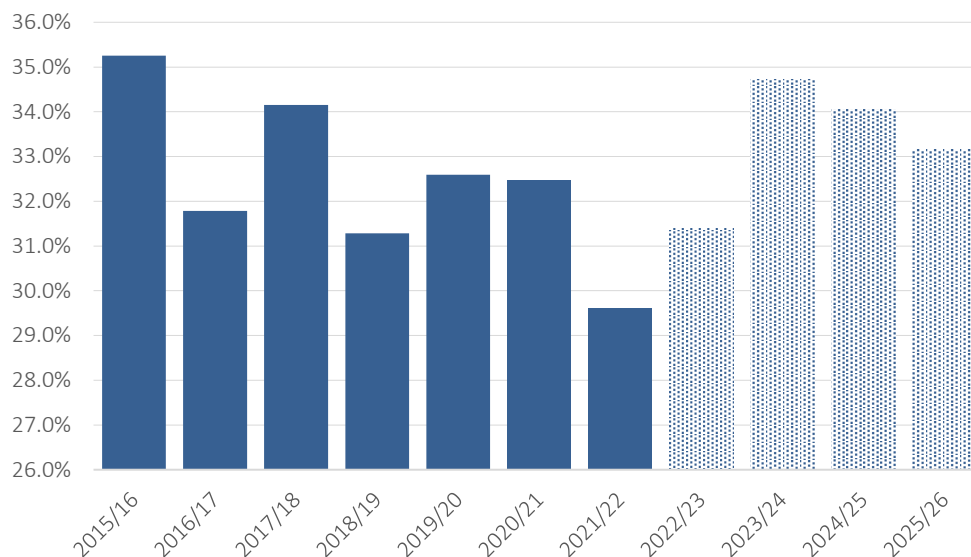
Tax Revenue Growth



Source: MoF, IJG Securities

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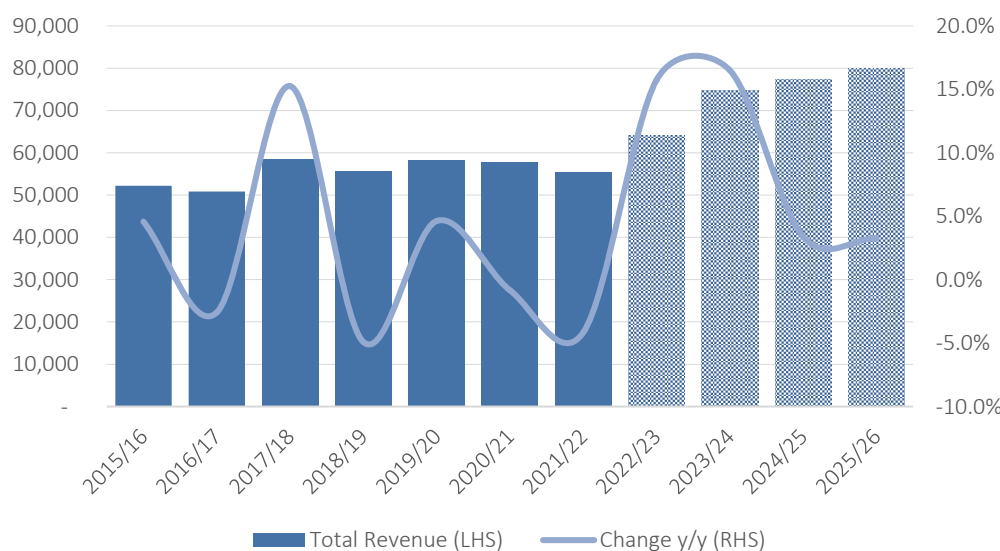
Revenue as a Proportion of GDP



Source: MoF, IJG Securities

As a percentage of GDP, the government expects revenue to increase from 31.4% in 2022/23 to 34.7% in 2023/24 before moderating to 34.1% in 2024/25 and 33.2% in 2025/26. As depicted in the graph above, this outlook is fairly in line with historical performance.

Revenue (N\$ millions)



Source: MoF, IJG Securities

MTEF Revenue Estimates

Total revenue growth is expected to average about 3.74% over the MTEF. Total revenue is estimated to reach N\$77.28bn in 2024/25 before growing to N\$79.81bn in 2025/26 as shown in the graph above. Most of this growth is estimated to come from domestic taxes on goods and services as well as taxes on income and profits as noted above.



Tax Policy and Tax Administration Reforms

Apart from the customary increase in 'sin taxes' payable on the consumption of alcoholic beverages and tobacco products, no immediate changes to tax policies were announced.

The Minister of Finance maintained the view that domestic economic activity hasn't recovered sufficiently to justify new tax policy proposals. The Ministry will continue to lean on tax administration reforms instead to enhance revenue in the near term. In this regard, the minister noted that a total of N\$747.0 million has already been collected from the recovery of outstanding tax arrears over the first six months of the current tax relief programme and excludes the N\$1.3bn that was collected from the initial relief program that ended in January 2022.

The minister announced some measures aimed at providing relief to taxpayers in the near to medium term as follows:

- The corporate income tax rate for non-mining companies will be reduced to 31% (from the current 32%) with effect from 1 April 2024 with a further reduction to 30% with effect from 1 April 2025.
- An increase in the tax-exempt threshold for individual income taxpayers from the current N\$50,000 to N\$100,000 with effect from FY2024/25.

The minister once again stated that previously announced tax proposals and considerations will be revisited once the economy has adequately recovered, and both individual and corporate financial positions have sufficiently stabilised.

While we welcome the postponement of any new tax policies that would further increase the tax burden on taxpayers, we would have preferred to see the tax relief measures implemented more swiftly. In Namibia revenue collection in relation to GDP remains high by global standards, especially so for a developing country, and thus we reiterate the need for efficiency within expenditure ceilings rather than placing taxpayers under more pressure.

The following excise duties adjustments (sin taxes) take effect from midnight on 22nd February 2023 (although we will probably only see these taxes filtering through to prices at later dates):

- Cigarettes will increase by 98c per pack of 20;
- Cigars will rise by N\$237.79 per kg;
- Unfortified wine increases by 24c per litre;
- Fortified wine will rise by 41c per litre;
- Sparkling wine will rise by 12c per litre;
- Spirits will rise by N\$12.08 per litre;
- Beer will increase by N\$5.99 per litre; and
- Ciders and alcoholic fruit beverages will go up by N\$5.99 per litre.

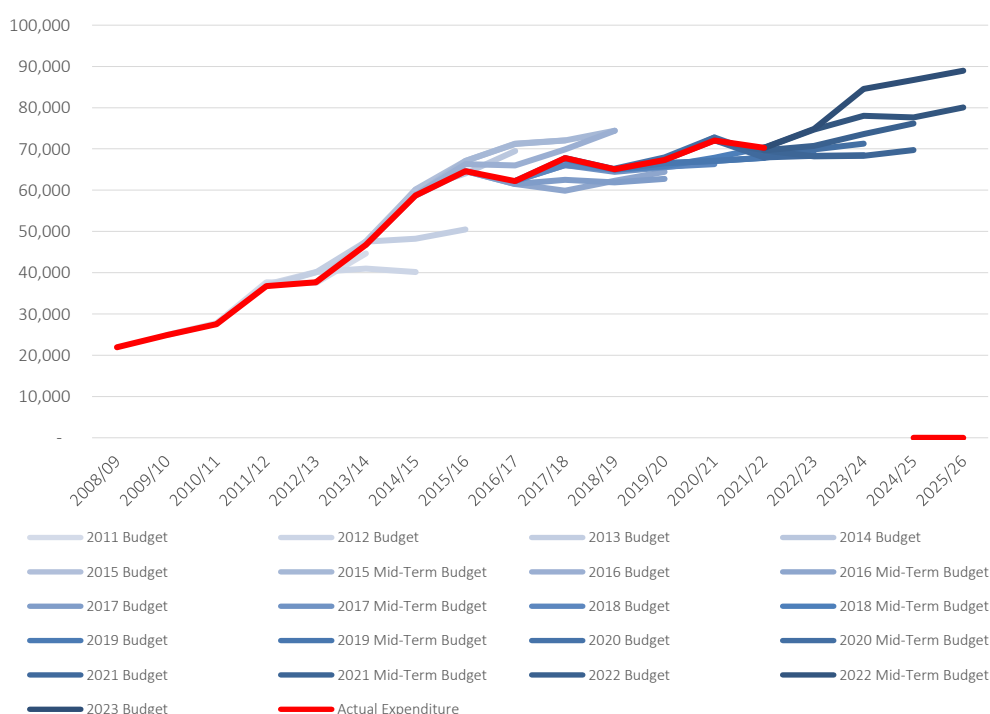
0.0005	4.85%
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Expenditure

2022/23 Outturn

Expenditure for the 2022/23 fiscal year is estimated to have come in at N\$74.88bn, marginally higher (0.3%) than the October mid-year review, but still N\$4.11bn higher than forecast in last year's February budget. This translates to a 36.6% expenditure to GDP figure. The ceiling was increased at last year's mid-year budget due to the increase in public servants' remuneration that was announced last year, as well as an adjustment to cater for a shortfall in personnel expenditure, rising cost of utilities as well as general inflationary pressure. By the end of January, total spending stood at N\$60.8bn, equivalent to 81.2% of the N\$74.88bn estimate. The operational expenditure execution rate stood at 82.2%, while the development budget's stood at 72.9%. According to the minister, no significant overruns are expected.

Expenditure
(N\$ millions)



Source: MoF, IJG Securities

2023/24 Expenditure Review

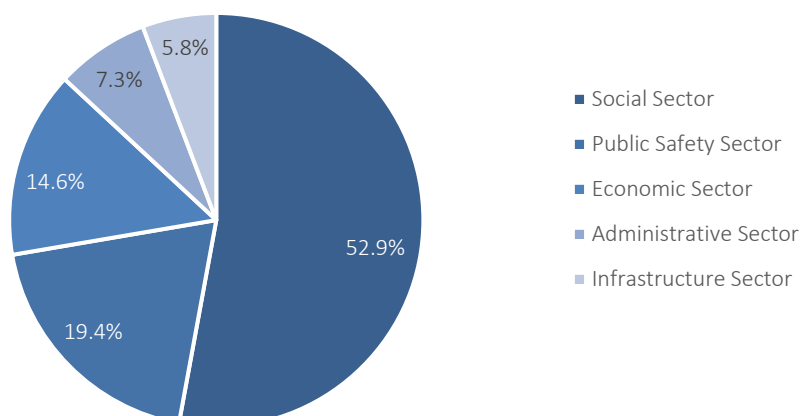
Total expenditure (including interest payments) is expected to increase by 13.0% to N\$84.58bn in 2023/24, representing 39.3% of GDP. This is an upward revision of 8.4% from the mid-term budget review last year, and a hefty 14.9% higher than projected at last year's February budget.

Unsurprisingly, the 2023/24 budget remains one with a heavy operational bias. Operational expenditure (excluding interest payments) is set to increase by 10.0% to N\$66.09bn, accounting for 71.0% of the total budget. The development budget, meanwhile, is set to grow by 18.4% to N\$6.51bn. Seeing as much of the deficit will be financed by debt, total interest payments are forecast to rise by 8.1% to N\$10.02bn, equating to 13.4% of revenue. This ratio is expected to remain above the 2020-2025 Debt Management Strategy's 10% benchmark over the MTEF period at 13.8% in 2024/25 and 14.2% in 2025/25.

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Sectoral Splits

2023/24 Sectoral Allocations



Source: MoF, IJG Securities

The social sector has been allocated a larger portion of the budget this year and is set to receive N\$38.4bn, accounting for 53% (FY2022/23) of the budget. The main beneficiary of this allocation will be the Ministry of Education, Arts and Culture which, at N\$16.8bn, receives 23.1% of the budget. Of this, N\$200m is reserved for the recruitment of additional teachers, and N\$570m is earmarked in the development budget for the construction and renovation of classrooms and hostels.

The Ministry of Health and Social Services is allocated N\$9.68bn. N\$700m is assigned for the investment in- and renovation of health facilities, to purchase pharmaceuticals and ambulances, as well as to recruit medical personnel. The minister noted in his speech that the ministry will be developing the Universal Health Coverage Policy Framework during the year. The minister brought up the hotly debated issue of procurement of pharmaceuticals through the Central Procurement Board. Without giving any detail, he mentioned that the government will “undertake the necessary reviews to confirm compliance with the Public Procurement Act” to prevent overpayment of services and supplies.

The public safety sector will again receive the second-largest allocation amounting to N\$14.1bn or 19.4% of the budget. The Ministry of Home Affairs, Safety and Security is allocated N\$6.71bn, which is 9.2% of the budget while the Ministry of Defence and Veteran Affairs is allocated N\$7.47bn.

The economic sector received the third largest allocation of N\$10.6bn or 14.6% of the non-statutory budget. The largest portion of this is made up of the allocation to the Ministry of Finance and Public Enterprises, which will receive N\$5.85bn. Out of this allocation:

- N\$2.7bn is earmarked for PSEMAS;
- N\$425.4m is allocated for transfers to public enterprises;
- N\$288.3m is allocated to the Contingency Fund; and
- N\$99.3m is assigned to Agribank to “support ongoing interventions in the agriculture sector”.

N\$921.1 million has been allotted to the National Planning Commission to cater for the census during the year. The Ministry of Agriculture, Water and Land Reform’s allocation has been bumped up by 22.1% from the current financial year to N\$2.39bn or 3.3% of the appropriation, of which N\$634.8m is for the water sub-sector.

The administrative sector is allocated N\$5.3bn or 7.3%. The Ministry of Urban and Rural Development is allocated N\$1.9bn, which includes N\$40 million to settle the outstanding Covid-



19 water bills of various local authorities, N\$96 million targeted for upgrading informal settlements in major urban centres as well as N\$50 million for the land compensation programme.

Infrastructure is allocated N\$4.2bn or 5.8% of the budget. The transport vote makes up the lion's share of the allocation, receiving N\$2.9bn. The allocation is mainly for the completion of ongoing phases of road construction projects. This includes finalising the Windhoek-Okahandja dual carriageway, finalising Phase II of the Swakopmund-Henties Bay-Uis-Kamanjab road, completing Phase I of the Windhoek-Hosea Kutako Airport road, and retention for the upgrades to the Walvis Bay-Kranzberg railway line.

Operational Budget

VOTE	2022/23	2023/24	% CHANGE
PRESIDENT	665,699,000	870,580,000	30.8%
PRIME MINISTER	384,483,000	468,743,000	21.9%
NATIONAL ASSEMBLY	167,031,000	167,761,000	0.4%
AUDITOR GENERAL	116,671,000	119,823,000	2.7%
INTERNATIONAL RELATIONS AND COOPERATION	853,965,000	858,797,000	0.6%
DEFENCE	5,775,213,000	5,991,947,000	3.8%
FINANCE & PUBLIC ENTERPRISES	5,194,620,000	5,850,896,000	12.6%
EDUCATION, ARTS & CULTURE	14,854,632,000	16,203,161,000	9.1%
NATIONAL COUNCIL	102,900,000	120,407,000	17.0%
HEALTH & SOCIAL SERVICES	8,651,502,000	9,386,890,000	8.5%
LABOUR, INDUSTRIAL RELATIONS & EMPLOYMENT	184,788,000	201,336,000	9.0%
MINES & ENERGY	145,544,000	160,674,000	10.4%
JUSTICE	429,843,000	549,430,000	27.8%
URBAN & RURAL DEVELOPMENT	1,063,783,000	1,264,323,000	18.9%
ENVIRONMENT & TOURISM	488,255,000	525,405,000	7.6%
INDUSTRIALISATION & TRADE	219,834,000	243,556,000	10.8%
JUDICIARY	386,714,000	421,464,000	9.0%
FISHERIES & MARINE RESOURCES	169,360,000	270,510,000	59.7%
DEPARTMENT OF WORKS	552,163,000	554,442,000	0.4%
DEPARTMENT OF TRANSPORT	404,804,000	331,352,000	-18.1%
NATIONAL PLANNING COMMISSION	187,984,000	921,146,000	390.0%
SPORT, YOUTH AND NATIONAL SERVICE	312,428,000	403,224,000	29.1%
ELECTORAL COMMISSION OF NAMIBIA	97,132,000	421,930,000	334.4%
INFORMATION & COMMUNICATION TECHNOLOGY	525,131,000	551,455,000	5.0%
ANTI-CORRUPTION COMMISSION	73,971,000	80,688,000	9.1%
VETERANS AFFAIRS	1,029,153,000	1,168,661,000	13.6%
HIGHER EDUCATION, TECHNOLOGY & INNOVATION	3,408,646,000	3,702,648,000	8.6%
PUBLIC ENTERPRISES	894,314,000	-	-100.0%
GENDER EQUALITY & POVERTY	5,512,746,000	6,464,120,000	17.3%
AGRICULTURE & LAND REFORM	1,044,635,000	1,282,069,000	22.7%
WATER	223,683,000	234,773,000	5.0%
HOME AFFAIRS, IMMIGRATION, SAFETY & SECURITY	5,941,824,000	6,297,532,000	6.0%
TOTAL	60,063,451,000	66,089,743,000	10.0%

Source: MoF, IJG Securities

The operational budget totals N\$66.09bn, an increase of 10.0% y/y, and is intended to grow by 2.0% and 2.1% in each of the next two budget years.

The bulk of the operational budget is allocated to the Ministry of Education, Arts and Culture, which receives 24.5% or N\$16.2bn of the total operational budget. N\$10.7bn is allocated to primary education and N\$4.07bn is allocated to secondary education. 82.6% of the vote's budget is allocated to personnel expenditure. This budget is set to remain relatively stable over the MTEF, increasing by 0.9% to N\$16.3bn in 2024/25 and by 2.1% to N\$16.7bn in 2025/26.

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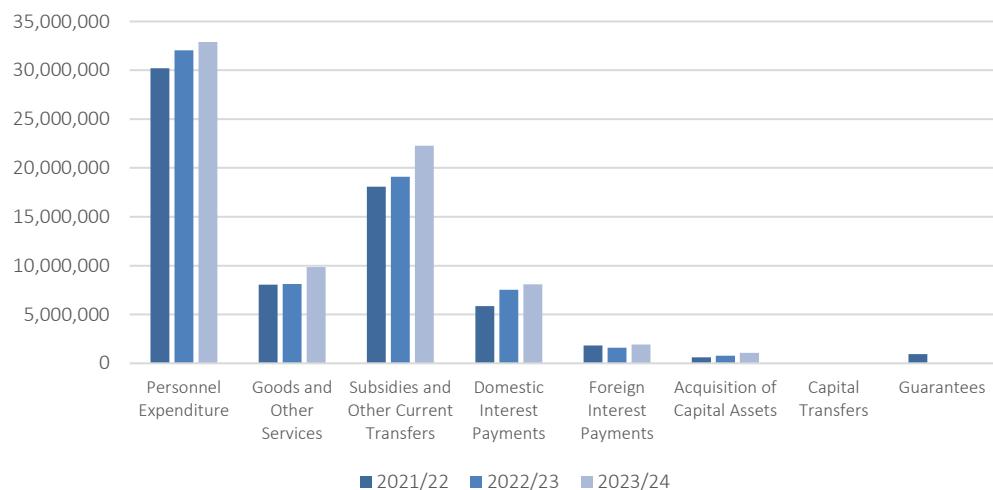
The Ministry of Health and Social Services will receive the second-largest allocation, receiving N\$9.39bn or 14.2% of the operational budget, which is split N\$4.77bn towards personnel expenditure, N\$4.01bn towards goods and services and N\$354.8m towards subsidies. This budget is set to increase marginally over the MTEF.

The Ministry of Gender Equality, Poverty Eradication and Social Welfare is allotted N\$6.46bn or 9.8% of the budget. The Ministry of Home Affairs, Immigration, Safety & Security receives a budget of N\$6.30bn or 9.5% of the operating budget. Most (N\$5.32bn) of this is earmarked for personnel expenditure, while N\$854.2m is allocated for goods and other services.

Defence is allocated N\$5.99bn or 9.1% of the operating budget. N\$4.19bn is apportioned to personnel, while goods and services account for N\$1.24bn and operational equipment, machinery and plants account for N\$453.8m. This budget is expected to increase by 0.7% and 2.0% in the MTEF years.

The Ministry of Finance and Public Enterprise's budget is expected to increase by 12.6% to N\$5.85bn in 2023/24, following the merger with the former Ministry of Public Enterprises.

Operating Expenses (N\$ '000)



Source: MoF, IJG Securities

Overall personnel expenditure is forecast to grow by 2.6% or N\$823.8m to N\$32.9bn following the 3% increase in public servants' remuneration. The 2022/23 budget contained a N\$1.43bn allocation to the 'Improvement of Remuneration Structure'. This is set to decline to N\$134.7m in 2023/24.



Development Budget

VOTE	2022/23	2023/24	% CHANGE
PRESIDENT	60,000,000	86,000,000	43.3%
PRIME MINISTER	16,000,000	10,000,000	-37.5%
NATIONAL ASSEMBLY	396,000	15,000,000	3687.9%
INTERNATIONAL RELATIONS AND COOPERATION	71,320,000	74,000,000	3.8%
DEFENCE	295,000,000	300,000,000	1.7%
FINANCE & PUBLIC ENTERPRISES	-	1,700,000	
EDUCATION, ARTS & CULTURE	300,000,000	577,000,000	92.3%
HEALTH & SOCIAL SERVICES	200,000,000	298,000,000	49.0%
LABOUR, INDUSTRIAL RELATIONS & EMPLOYMENT	5,000,000	6,500,000	30.0%
MINES & ENERGY	53,000,000	90,000,000	69.8%
JUSTICE	28,000,000	50,000,000	78.6%
URBAN & RURAL DEVELOPMENT	375,000,000	596,000,000	58.9%
ENVIRONMENT & TOURISM	40,000,000	70,000,000	75.0%
INDUSTRIALISATION & TRADE	79,000,000	54,000,000	-31.6%
FISHERIES & MARINE RESOURCES	22,000,000	20,000,000	-9.1%
DEPARTMENT OF WORKS	13,000,000	90,000,000	592.3%
DEPARTMENT OF TRANSPORT	2,737,000,000	2,558,200,000	-6.5%
SPORT, YOUTH AND NATIONAL SERVICE	23,000,000	70,000,000	204.3%
INFORMATION & COMMUNICATION TECHNOLOGY	35,000,000	100,000,000	185.7%
ANTI-CORRUPTION COMMISSION	-	1,000,000	
VETERANS AFFAIRS	3,000,000	5,500,000	83.3%
HIGHER EDUCATION, TECHNOLOGY & INNOVATION	87,000,000	135,000,000	55.2%
GENDER EQUALITY & POVERTY	11,000,000	18,000,000	63.6%
AGRICULTURE & LAND REFORM	340,000,000	470,000,000	38.2%
WATER	347,227,000	400,000,000	15.2%
HOME AFFAIRS, IMMIGRATION, SAFETY & SECURITY	354,512,000	411,100,000	16.0%
TOTAL	5,495,455,000	6,507,000,000	18.4%

The development budget is set to grow by 18.4% or N\$1.01bn to N\$6.51bn this year, making up 7.7% of statutory expenditure. It is expected to grow by another 12.1% in 2024/25 before remaining relatively steady in N\$7.32bn in 2025/26.

Transport will again receive a significant portion of the development budget this year at N\$2.56bn and is expected to increase by 9.5% in 2024/25 to N\$2.80bn. N\$1.73bn is earmarked for road transport and N\$557.9m for railway transport.

The Ministry of Education, Art and Culture's development budget is increased by N\$277.0m to N\$577.0m while the Ministry of Urban and Rural Development will be given an additional N\$221.0m this year at N\$596.0m.

Most of the Ministries' development budgets will remain relatively steady in 2025/26 apart from the Department of Works, whose budget is expected to increase by N\$135.0m to N\$225.0m, and the aforementioned transport budget.

MTEF Expenditure Projections

Total expenditure is expected to increase moderately by 2.5% to N\$86.70bn in 2024/25 and 2.6% to N\$88.96bn in 2025/26. Both these figures however represent significant upward revisions of N\$9.04bn and N\$8.91bn, respectively, from the mid-year budget tabled in October.

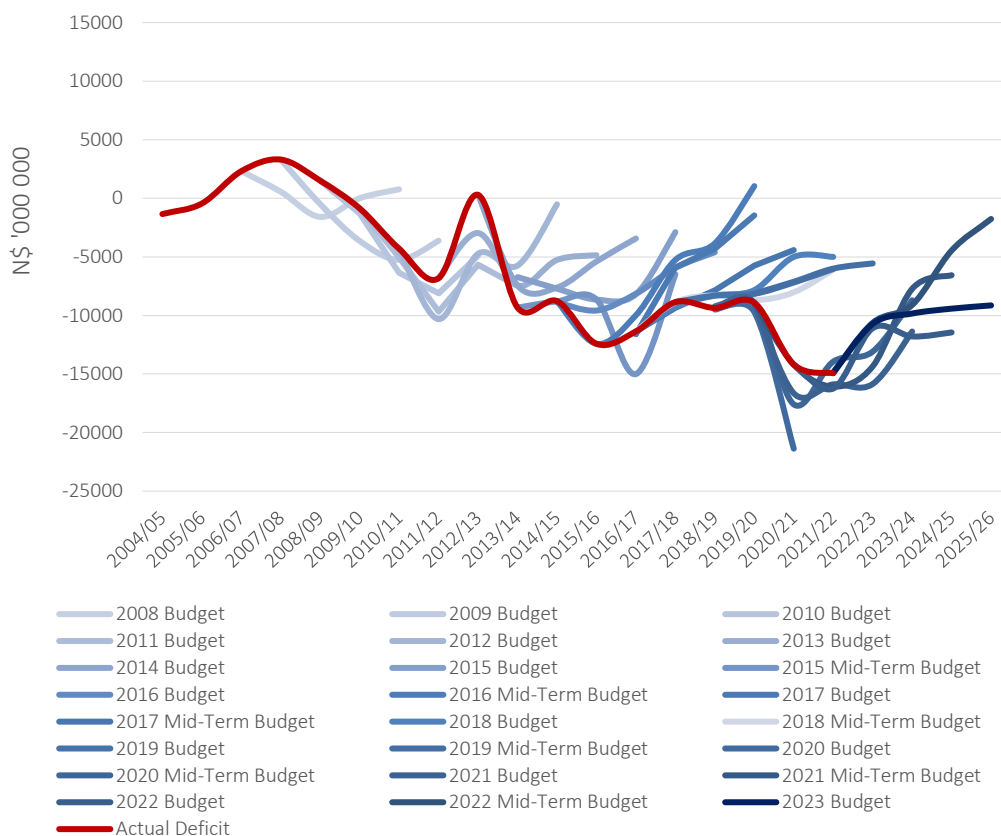
0.0005	4.85%
0.0003	13.04%
0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

Budget Balance and Financing

2022/23 Outturn

Revenue for 2022/23 has been revised up slightly from N\$64.06bn to N\$64.16bn from the mid-year review, while expenditure was revised up by a similarly modest amount, from N\$74.69bn to N\$74.88bn. Thus, the budget deficit for 2022/23 amounted to N\$10.72bn, or 5.2% of GDP. The deficit outturn was thus more or less in line with the Mid-Term Budget expectations and below expectations from February last year. As noted last October, 2022/23 marks the 10th consecutive year in which the budget deficit exceeded 5.0% despite being the smallest deficit in 3 years. Anticipated revenue collection in 2022/23 has far surpassed expectations from one and two years ago on the back of strong increases in taxes on income and profits, VAT receipts, and dividends and profit share from SOE's and other companies. While expenditure has increased by a similar amount, revenue growth slightly outpaced expenditure growth. 2022/23 marked the first significant growth in revenue since 2017/18, and this despite reduced SACU receipts.

Deficit Forecasts



Source: MoF, IJG Securities

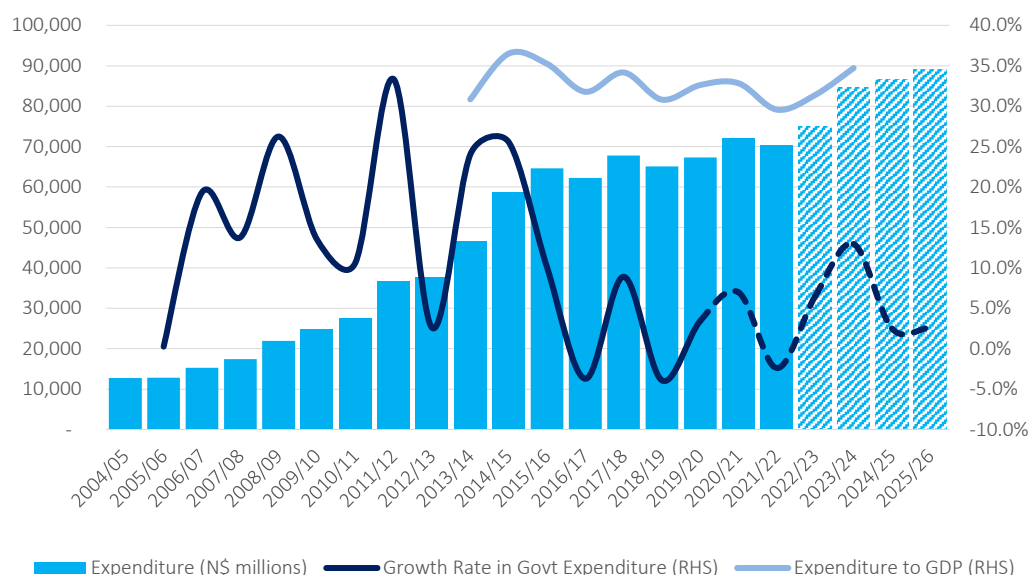
2023/24 Budget Balance Review

Projected revenue for 2023/24 was revised upwards by N\$5.83bn or 8.5% to N\$74.74bn after already being revised upwards by 11.5% in the mid-year budget in October. Thus, estimated revenue for 2023/24 is some N\$12.94bn or 20.9% higher than expected in last year's budget review. The main increase expected is in SACU revenues, which are expected to increase by 71.6% from N\$14.19bn in 2022/23 to N\$24.35bn in 2023/24. The South African budget, tabled on the same date as the Namibian budget this year, projects SACU payments to increase by 82.7%, providing credibility to the expected increase in SACU revenue due to Namibia.

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0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

Projected expenditure for 2023/24 was revised upwards by N\$6.56bn or 8.4% from the Mid-Year budget. Total expenditure for 2023/24 is now estimated to reach N\$84.58bn making this the largest budget ever tabled by the MoF. Of course, this upwards revision is driven mainly by the higher revenue expectations. The annualised growth rate in budget expenditure since 2019/20, or the last pre-Covid year, is a somewhat reasonable 5.9%, slightly lower than the 6.4% growth in revenue over the same period. These figures point to real growth in revenue and expenditure considering inflation for the same period is likely to be in the region of 4.8% and nominal GDP growth is expected to be 4.7% annualised. As a result, government expenditure, as a proportion of GDP is increasing again, and revenue collection as a proportion of GDP is as well.

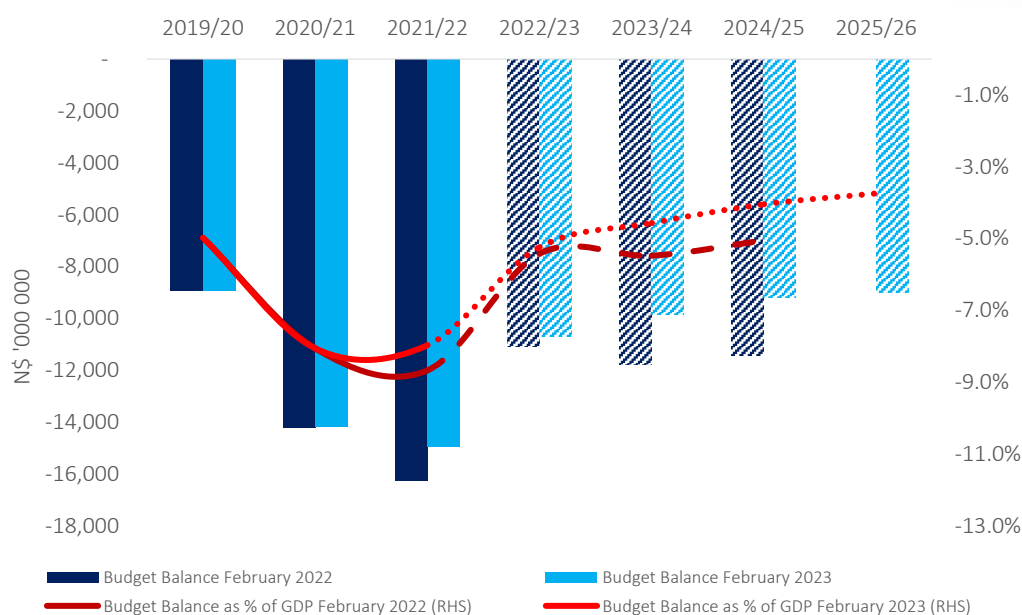
2023/24 Government Expenditure



Source: MoF, IIG Securities

The net effect of the improved revenue estimate being offset by a larger increase in expenditure is a N\$728m increase in the expected deficit for the 2023/24 year, versus the mid-year expectation. Deficit-to-GDP is thus expected to be 4.6% versus 4.3% in the mid-year review, but well below the 5.6% expected in February last year. As alluded to earlier, this will be the first budget deficit of less than 5.0% in more than a decade. 2023/24 will also see the smallest absolute deficit in four years.

Budget Balance



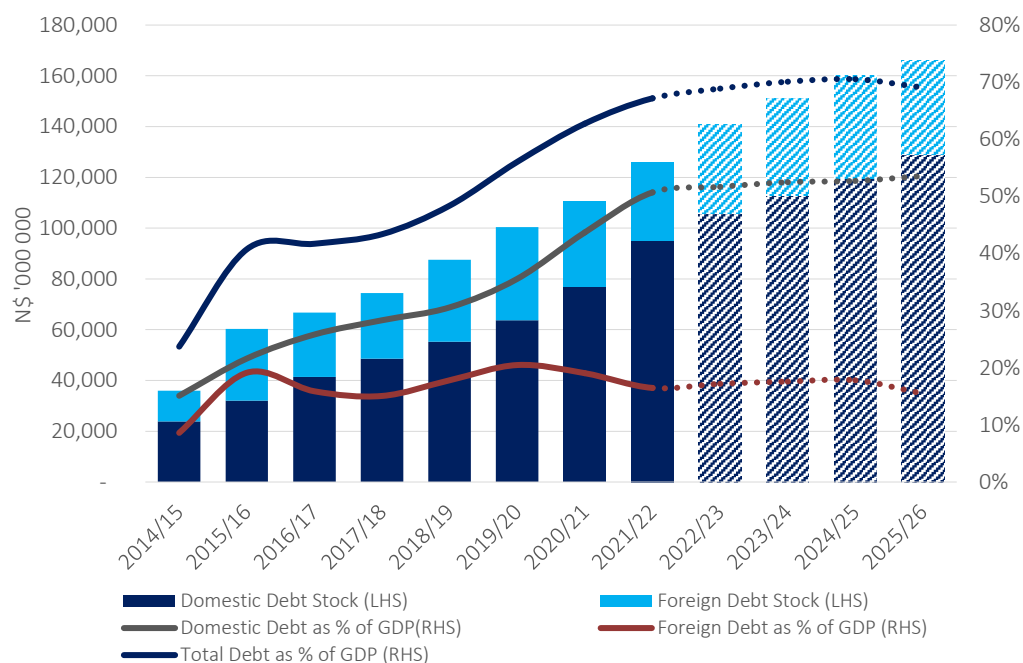
Source: MoF, IIG Securities

0.0005	4.85%
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0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

The funding requirement for 2023/24 amounts to N\$10.08bn, according to the MoF. Omitted from this financing requirement are provisions for redemptions of bonds maturing during the year. Thus, this funding requirement only looks to quantify the new debt that will be issued as the MoF is comfortable with regards to the market's appetite to roll existing debt. This is not entirely presumptuous as rolling maturing debt has yet to be problematic, bar the need to facilitate the first Eurobond redemption through a debt swap with the GIPF, due to a large domestic savings pool. However, the growth in the debt stock means that in 2023/24 over N\$35bn in treasury bills will need to be rolled and another N\$3bn in domestic and regional debt. What is more is the growth in debt maturing has outpaced domestic savings growth and is likely to do so for at least the MTEF period.

Total debt-to-GDP is expected to amount to 70.1% in 2023/24, slightly below the mid-year and February 2022 expectations of 71.0% and 73.4%, respectively. This is very much attributable to the strong revenue growth projections for the 2023/24 budget year. Despite the expectations for debt-to-GDP to come in lower in the current year than previously expected, the metric continues to rise versus prior budget years as can be seen in the Total Debt Stock-to-GDP figure below.

Total Debt Stock and Debt to GDP

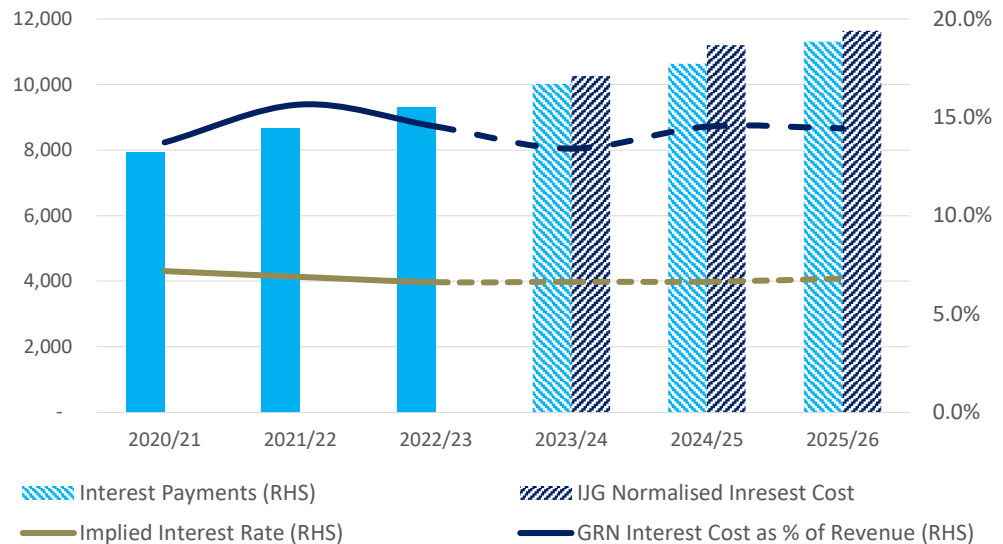


Source: MoF, IJG Securities

Our preferred metric to track in terms of debt sustainability and sovereign risk is interest payments (including statutory commitments) as a percentage of revenue. This metric is improved in the 2022/23 year to 14.5% from 15.6% in the prior year due to improved revenue figures. The further vastly improved revenue projections for 2023/24 manage to drop this metric to 13.4%. Even after we normalise for what IJG sees as a slightly optimistic debt service cost this metric is improved to 13.7% when compared to the prior year. We still see this as high, considering this is equivalent to debt service costs-to-revenue witnessed in the pandemic year of 2020/21. The borrowing requirement of N\$10.08bn will be roughly in line with debt service costs of N\$10.02bn in 2023/24. Thus, all debt issued will effectively cover interest costs only, whereas in prior years debt funded other expenditure as well. Thus 2023/24 will be the first primary budget (excluding interest and other statutory costs) surplus in quite some time.

0.0005	4.85%
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0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

Projected Interest Costs vs IJG Expectations

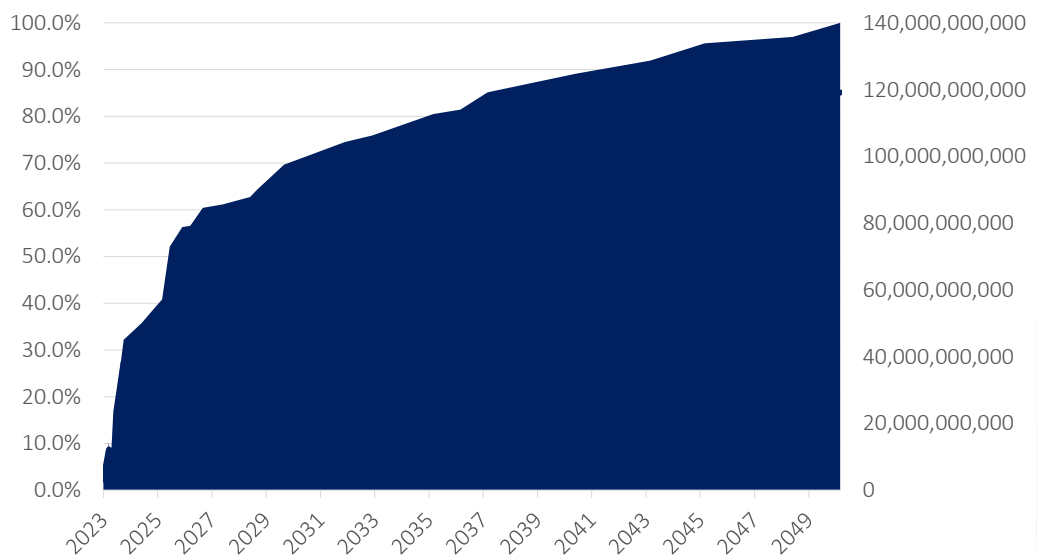


Source: MoF, IJG Securities

MTEF Deficit and Funding Projections

The MoF projects that the budget deficit will narrow over the outer MTEF years due to revenue growth outpacing expenditure growth. The MoF projects the budget deficit to amount to N\$9.84bn in 2023/24, N\$9.42bn in 2024/25, and N\$9.15bn in 2025/26. In relation to GDP, projected budget deficits thus drop from 5.2% in the current year to 4.6% in 2023/24, 4.2% in 2024/25, and 3.8% in 2025/26. For each of the coming MTEF years, the MoF thus projects a primary surplus, or a surplus before accounting for interest payment and statutory commitments. The forecasts for decreasing deficits remain, but are much more realistic than those for these same periods produced in last year's mid-term budget.

Debt Maturity Profile



Source: MoF, IJG Securities

Total debt as a percentage of GDP is expected to peak at 70.5% in 2024/25, falling thereafter. Total government debt is expected to reach N\$150.87bn in 2023/24, N\$160.02bn in 2024/25 and N\$166.22bn in 2025/26. Total guarantees are projected to rise to N\$2.60bn in 2023/24 on the back of a N\$500m increase. Foreign guarantees are expected to rise about N\$2.15bn to N\$10.06bn in 2023/24. These increases are attributed to guarantees provided to TransNamib, Agribank and NamPower for capital projects and SME funding during the year. Thereafter

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0.0003	13.04%
0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

guarantees creep up very slowly to N\$12.91bn in 2024/25 and N\$13.17bn in 2025/26. This is well within acceptable limits for the time being, but these should be monitored closely, especially in light of NamPower's recent losses which we attribute to the reduced electricity supply from a floundering Eskom.

Outlook

The 2023/24 budget is certainly one of the most positive sounding budgets we have seen in the last decade. Revenue growth has exceeded expectations in 2022/23 despite reduced SACU receipts, and revenue projections for 2023/24 point to even more rapid growth in revenue. These increases in government's revenue are also being passed on to social and developmental objectives through raised expenditure ceilings. Over the MTEF period, expenditure is projected to grow by roughly the same absolute amounts as revenue is, meaning budget deficits remain and fiscal policy continues to be expansionary. These deficits are however projected to decrease slightly in absolute terms in each MTEF year, and even more so in relation to GDP. Government is essentially projecting that revenue and economic growth will result in more sustainable debt and deficit metrics going forward.

Furthermore, the Minister of Finance highlighted the need for reforming supply-side policies in order to "address the key structural factors impeding growth". According to the Minister, areas requiring such reforms include "rigid laws and regulation", "suboptimal education outcomes", and limited skills. He went on to note the need for enhanced energy and water security. We cannot agree more with this summary of worthy developmental objectives. The Minister went on to mention a number of initiatives which seem to indicate progress in terms of these reform objectives, or progress to be expected soon on other initiatives in this regard.

A key reason for the Minister's focus on alleviating the structural factors impeding growth is due to the myriad of social challenges faced by large portions of the Namibian population. As such, most of the increased expenditure ceiling will find its way into the social sectors which are allocated N\$38.4bn or 52.9% of the budget. Although Namibia's educational expenditure in relation to GDP is among the highest globally, it is clear from the poor educational outcomes achieved that simply allocating funds to social sectors does not necessarily produce results. The fact that this was noted by the Minister is encouraging as it points to a growing understanding within government's decision-making bodies of the role of implementation in successfully achieving developmental goals.

We also view some of the tax reforms as positive. The reduction in corporate tax rates in the outer MTEF years might be small but are favourable in terms of positioning Namibia as a competitive regional jurisdiction for foreign or regional companies to set up shop. The increase in the lower bound of the personal income tax brackets from N\$50,000 to N\$100,000 in 2024/25 is long overdue and a welcome relief to low-income earners. However, nothing else is mentioned in terms of adjusting any other tax brackets and we assume that bracket creep continues to eat into the average Namibian's disposable income.

At this juncture it is necessary to take a step back and critically evaluate some of the projections made in this year's budget. We feel it would be prudent to remain somewhat sceptical regarding some of the specific revenue drivers for the MTEF period. SACU revenues have long been unpredictable, or at least inconsistent, and the projections are for very healthy SACU revenues, although decreasing modestly, in the outer MTEF years. Our view is that the future of SACU revenues is quite uncertain, and we would have preferred to see some additional caution applied to these projections. Similarly, the elevated rate growth projected in company taxes suggests a resurgence in business confidence which is not yet broadly visible in our opinion.

Furthermore, a number of legislative changes over the last year or two would suggest that legal and legislative requirements may be becoming more onerous rather than less so. Though some

of these regulatory hurdles are being passed along due to increased international red tape, others seem to be entirely of our own doing. The NEEEF and Investment Promotion Act still loom large on the horizon as likely impediments to economic activity rather than facilitators thereof. The Investment Promotion and Facilitation Bill and the Minerals Act were noted as being open for comments and inputs. The last iterations of these pieces of legislation seemed to be less than ideal for purposes of promoting investment, contrary to their stated intent.

Despite the above few paragraphs' intent to temper enthusiasm and promote realistic expectations, the 2023/24 budget remains upbeat. The improvement in revenue collection is the cornerstone of this outlook as it may just persist. Possibly not quite to the extent projected, but very likely at an elevated growth rate compared to the prior decade. We would have been much more comfortable with expenditure growth projections lagging those of revenue growth projections as this is within government's control and would be prudent considering Namibia's high debt burden and persistent budget deficits. Especially considering the current unpredictable global macro environment and the challenges faced by South Africa and Eskom.

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