



REPUBLIC OF NAMIBIA

Ministry of Finance

PRESS STATEMENT

On the State of the Economy, Chinese Loans and Tax Matters

Calle Schlettwein, MP

Minister of Finance

16 July, 2018

*Distinguished Members of the Media,
Ladies and gentlemen,*

Good morning,

1. Let me thank you for your positive response to our invitation. And also to appreciate this continued partnership whereby mainstream media continues to play an important role in disseminating our information to the public.
2. Today, I wish to convey three main messages, namely:-
 - The State of the economy and medium-term economic prospects
 - the reportedly worrying levels of foreign loans sourced from China, and
 - tax matters, especially what's termed in the media as taxation of the informal sector.

State of the Economy and Medium-term Prospects

3. We live in an interconnected world economy and intertwined global financial and trading systems. As a small, open economy with trade-to-GDP ratio of over 100 percent, Namibia has to continue charting its development path within the confines of its domestic policy space and the vagaries of external environment.
4. Externally, the upswing in the global economy presents favourable tailwinds for the regional economy and domestic economic sectors which depend on external demand such as tourism and export-oriented sectors. Global economic activity is projected to remain upbeat at about 3.9 percent over the next two years and this is thanks to the upswing in investment and trade in most Advanced Economies, especially strong growth in the United States of America and Emerging Markets Economies in Asia.
5. Against this backdrop, output rate for the Sub-Saharan African region is also improving, from the lowest rate of 1.6 percent in 2016 to an

estimated 2.8 this year and averaging above 3 percent in the next period.

- *Better global growth comes with improved demand for goods and services which bode well for export-oriented sectors,*
 - *With the exception of uranium, commodity prices are on the recovery path supporting improved output in the mining and agricultural sectors of the economy.*
6. Inasmuch as growth prospects are differentiated across economic regions and countries, such prospects are broadly and greatly underpinned by downside risks. Chief among these risk factors are the ongoing trade wars and inward looking protectionist policies which are already offsetting the pace of the growth momentum going forward.

The Domestic Economy and Prospects

7. In regard to the domestic economy, the outcomes of recent data published by Namibia Statistics Agency provides positive indications that the economy is gradually moving out of contraction. While the release of the Final National Accounts for 2017 in the coming month will establish the baseline extent of contraction in the economy over the past year, year-to-date preliminary data indicate that the domestic economy is easing out of the contractionary phase:-
- Overall pace of growth has improved to a mild contraction of 0.1 percent in the first quarter of this year, markedly better than the estimated decline of 1.1 percent for 2017 and 0.4 percent during the last quarter of 2017,
 - Sectors which were at the epicenter of contraction over past two years are emerging out of negative growth territory,
 - The construction sector has rebounded to positive territory by an estimated 23 percent in the First Quarter of this year, with positive effects on jobs and incomes,

- Contractionary pressures on the Wholesale and Retail Trade are abating, reflecting the lagged effect of recovery in construction subsector,
- Growth in the primary industry is still holding firm, thanks to better commodity prices and the positive impact of Swakop Uranium in a rather subdued uranium mining subsector and better output from the Agricultural sector.
- Other macroeconomic fundamentals of current account balance and the stock of international reserves are significantly better than two years.
- International reserves have strengthened to about 4.7 months of import cover, from 2.8 months two years ago,
- Similarly, the Current Account deficit has rebounded to less than 1 percent of GDP by the end of last year, from a deficit of 13.7 percent two years ago,
- The trade balance deficit has also significantly narrowed as imports decelerate relative to exports, given hitherto slack domestic demand conditions. We are also encouraged by the fact that Namibia, together with South Africa and Nigeria are some of the few countries whose share of intra-African trade has reached or exceeded 35 percent, thus leveraging and diversifying our markets.
- We expect the emerging overall economic recovery to be gradual at just over 1 percentage point this year but accelerating to around 3 percent by the end of the MTEF period,
- From fiscal policy point of view, we have reinforced the pro-growth dimension in the budgetary framework in the context of a broadly neutral fiscal consolidation policy:-
 - Increasingly more resources are realigned from non-core to core priority expenditure to curb wastage and enhance allocative efficiency,
 - the development budget is scaled up by a factor of 30 percent this year going forward to further spur growth,

- we are sourcing ring-fenced project financing from the African Development Bank to finance strategic projects in logistics sector, but also for agricultural modernization.
- SME Financing Strategy with a mix of mutually reinforcing facilities of venture capital, collateral guarantees and coaching and training facility is funded and it is in the process of being rolled out by the Development Bank of Namibia as an scaled up initiative to strengthen the SME financing facilities and overcome barriers of access to finance,
- Public procurement under the new Public Procurement dispensation has ushered in a new regime of transparency and enhanced scrutiny of public project pricing. The new regulatory framework gives due regard to local sourcing with positive spin-offs for local economic development, local productive capacity and job creation,
- Its worth noting that over the past year total Government spending amounted to N\$67.6 billion the highest spending rate to date and total revenue outturn of N\$57.9 billion was about 2 percent better than budget revenue. This level of spending enhances jobs as reflected in the rebound of the construction sector and recovery in domestic demand as mirrored in the growth in the Wholesale and Retail sectors. With the development budget execution rate for FY2017/18 estimated at 96 percent, the argument that public procurement framework impedes project execution is not empirically valid.
- The Preliminary National Accounts brought about the evidence that total nominal GDP is about 3.3 percent better than the budget, which supports the fiscal ratios. As such, the budget deficit for FY2017/18 remained more or less at the budgeted level of 5.4 percent and total debt at about 40.4 percent. The debt level of about 40.4 percent is in line with the median of the investment grade rating of about 42 percent of GDP for Middle Income Countries of the size of Namibia.
- In respect of the current budget, total budget execution to date, including spending commitments and statutory expenditure

stands at 23.8 percent of the total appropriation, with tax revenue collection including SACU flows standing at about 31.8 percent of the projected budget revenue. We anticipate revenue to perform in line with budget estimates or even better, given a better baseline outcome over the previous year.

- Let me however state that spending discipline should at all times be maintained across all Offices/Ministries and Agencies in order realize the intended outcomes of a pro-growth fiscal consolidation program. Treasury has noted with concern the growing expectations for more resources to be allocated. We should all guard against over-commitment of the budget as appropriated.

Public Debt Dynamics and Exposure to Chines Loans

8. Recently, Treasury has observed with concern subjective reporting from the media and certain bodies regarding the financial relationship between the Republic of Namibia and the Government of the People's Republic of China. We would like to inform the public that such statements are not supported by facts. If at all, they are mere perceptions propagated to hoodwink the public into believing that Namibia is overexposed to Chinese loans or such loan uptakes are assuming unsustainable level.
9. In this regard, it is only fair that we reiterate to the public the factual information on public debt and the proportion of Chinese loans in total foreign debt portfolio.
10. In this regard, a brief overview of the concessional loan from the Government of the People's Republic of China to the Government of the Republic of Namibia suffices.

11. Currently the Government of the Republic of Namibia debt portfolio is as follow:

○ Domestic market	N\$51.3 bil or 67%
○ Foreign bonds (EUROBOND and JSE)	N\$17.6 bil or 23%
○ Bilateral (G to G) (German and China),	N\$1.1 bil or 1%
○ <u>Multilateral (Foreign development banks)</u>	<u>N\$6.7 bil or 9%</u>
<u>Total Debt</u>	<u>N76.6 bil</u>

12. As per the bilateral arrangement, the Namibian Government has benefited from Government of the People’s Republic of China, where by the Government of the Republic of Namibia request the Government of the People’s Republic of China to extend funding to its development projects as set out in Development Plan (NDPs).

13. To date the Government of Namibia benefited from the Chinese Government in form of:

○ Grant	N\$1.340 billion
○ Interest free loan	N\$302 million
○ concessional loans	N\$1.694 billion

14. These loan offers are provided within mutual understanding between the two Governments and contain concessional terms and condition as opposed to market loans or other borrowing like those provided for by Development Financial institution and the bonds market. The concessionalism is achieved either through interest rates below those available on the market, the grace periods and lower management and commitment fees as described below:

15. The terms for the concessional loans are:

- 2% interest
- 0.5% commitment fees on undisbursed balance of the loan
- 5 years grace period before repayment of principal starts
- 15 year repayment period

16. Although a Chinese contractor is required in this arrangement, it is worth stating that projects that benefited from this funding are mainly large for the construction of roads and the procurement method employed is that of the Namibian Government. Apart from the machinery and highly specialized skilled labor that Namibia does not have, locally available material consumed in this type of projects are

Namibian sourced. This include bitumen from Okahandja, diesel, Sand and Stone in addition to 20% Namibian company participation.

17. As per our record, and as set out in the table above, the total loans from China Export Import Bank, excluding the grants component, amount to N\$1.99 billion, or 8% of foreign debt and only 2.6% of total debt.
18. The projects that benefited from this borrowing is as follow:
 - National Youth Centre
 - Omakange Ruacana Roads (60KM)
 - Engela Uutapi Roads (90KM)
 - Scanners at all borders
 - Electronic Documents recording Management System (EDRMS) with OPM, and
 - Transnamib Locomotives
19. The debt service toward Chinese loan includes capital repayment and interest and, in total, amounts to N\$65 million. As a portion of total debt serving obligations, the debt serving for loans from China is around 1 percent of total debt servicing obligation.
20. As indicated, total debt exposure to China is 2.6 percent of total debt portfolio, whereas the total debt servicing obligation is only 1 percent, which is indicative of the concessonality in relation to other debt. This does not include the grants support received from China.
21. We should also objectively and factually address the alleged state capture by China. What does is this purported to entail? For the size of our economy, Government operations account for about 57 percent and the private sector, mainly Mining, Wholesale and Retail Trade, financial intermediation and the tertiary services sector does not reflect predominance of Chinese ownership. For certain, the proportion of loans sourced from China does not exhibit such predominance. Indeed China, as the second largest economy, has invested in the mining sector in Namibia and so did other foreign investors.

Tax Matters Regarding So-called Taxation of the Informal Sector

Ladies and gentlemen,

22. Let me now turn my address to tax matters, more specifically the alleged so-called indiscriminate taxation of the informal sector. It is alleged that the Receiver of Revenue is turning to indiscriminately taxing informal traders such as micro and small entrepreneurs irrespective of income earned.
23. We have objectively followed the diverse contestation of views and perceptions on what is termed as planned taxation of the informal sector, presumably a sector on which taxation should not occur. These views have been invariably put forth in the print media and various online platforms in recent days.
24. I wish to take this opportunity to demystify the misrepresentation and consequent misunderstanding regarding this matter.
 - First and foremost, the obligation to pay tax and the collection of taxes are set out in the tax law as to who is liable to pay tax, when, where and what amount,
 - Among the key principles of our tax system, or any tax system for that matter, is the equity principle that persons who earn the same level of income should pay the same tax. This is irrespective of economic sector in which such persons may be operating. In essence, therefore, paying tax is an obligation of all earners of taxable income,
 - Secondly and equally important is the redistributive principle of tax policy. In respect of individuals, and due to stark income inequalities and relative poverty levels, the tax burden is disproportionately shared, with high income earners attracting higher tax rates and the low income earners are relieved of the tax burden.
 - In balancing among these principle objectives, the tax law establishes thresholds below which low income individuals are

relieved of the tax obligation and all individuals earning above the threshold start contributing to the payment of tax. This is an obligation for everybody with taxable income above the minimum threshold levels.

25. That said, let me now return to the various interpretations on what is now being termed as taxation of informal Sector.

- To start with, the Ministry has not announced any new tax regime that is aimed at targeting the informal sector, nor do we intend to introduce such a regime in the near future for administrative reasons. What is being postulated as a new tax targeting the informal sector is misconstrued generalization of a well-intended information from our tax education pamphlets on “Taxation of Business Income”. What we intend doing is to seek for increased compliance and escalate enforcement of the provisions of the existing tax laws.
- The current Income Tax Act (Section 5) subjects any person and any company that earned income during every tax year to income tax. This provision does not discriminate between formal and non-formal businesses. Neither does it discriminate between Namibian-owned or foreign-owned businesses.
- In respect to individual persons, the law sets a taxable income threshold at N\$ 50 000 for those who ought to be registered and pay tax. On top of the threshold, the law further allows for various deductions against taxable income before tax liability is calculated. Both the threshold and deductions equally apply to formal and non-formal businesses.
- It is inconceivable and a fragrant violation of tax laws to expect a tax system which is fair and equitable to exempt certain individuals earning the same income as others who are taxed on the bases of an industry or sector of the economy in which they operate. The fundamental basis of taxation is levels of income and the tax law defines those levels of taxable income.
- Income is generated from various sources and their categorization as formal or informal is not material for tax purposes. The informal businesses mentioned in our pamphlets

are cited as a way of illustration, but not limited to those listed. The idea is rather to draw the public attention to the fact that any person or company generating revenue from any trade which is above the required threshold is subject to income tax and should be registered and comply with tax laws.

- Consider, for instance a case where an Administrative Officer working for Government or private sector earning N\$8 000.00 per month and pays payroll tax as normal and compare that to a corner shop or a hair dresser earning on average 60 000.00 per month but not paying tax. Tax policy is about equity and fairness.
- We urge all taxable income earners to embrace corporate citizenship and muster tax morality to comply with tax laws. We should effectively address the free-rider problem whereby persons who should pay tax evade and avoid to pay tax but proceed to make use of public services such as roads, schools and hospitals paid for by other persons earning the same income as themselves.
- In the bid to achieve greater equity and fairness in the administration of the tax system we have, of recent, embarked on different initiatives such as lifestyle audits, auditing of multinational companies including mining and fishing companies aimed at ensuring tax compliance of all individuals, businesses, companies, close corporation, partnerships and other entities. These initiatives are being undertaken for all registered and non-registered persons irrespective of their nationality and background. We shall not relent on this front. Non-registration does not protect anyone from tax obligations and it is an offense in terms of tax laws.
- Such efforts have yielded positive results, with additional revenue and more taxpayers being brought into the tax net.
- These initiatives include a dedicated quarterly field compliance Operation Sunrise, targeting non compliant entities and individuals.

- To date, 381 foreign-owned small and medium business trading in second hand car dealerships, cell phone, watches, clothing and accessories retails were visited during country wide Operation Sunrise.
 - As a result, 217 new taxpayers were registered and assessments to the value of N\$ 50 million were raised.
26. Let me use this opportunity to call on all potential taxpayers to approach the Receiver of Revenue in the various regions of the country who are not yet registered for tax purposes to do so. In the same vein, I call on all taxpayers to file their returns on time and to fully declare their income for tax purposes.
27. The Ministry and the Receiver of Revenue will not relent in our efforts to achieve full compliance with the tax laws. We will enlist all information, including third-party information at our disposal in executing this obligation in an objective and non-discriminatory manner.
28. I trust this information will go a long way to clarify some of the unintended misunderstandings regarding this matter.

Thank you.