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MINISTRY OF FINANCE • Economic Policy Advisory Services (EPAS)
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REGIONAL ECONOMIES

COVID-19 IN SUB-SAHARAN AFRICA

Sub-Saharan Africa is in the grips of a third wave of COVID-19 infections that threatens to be even more brutal than the first two waves.

This is yet more evidence of a dangerous divergence in the global economy. One wave-length for countries with good access to vaccines, where strong recoveries are increasing, and another for those countries that are still waiting and at risk of falling behind even further.

The growth of infections in sub-Saharan Africa is now the fastest in the world, with an explosive trajectory that is outpacing the record set in the second wave. At this pace, this new wave will likely surpass previous peaks in a matter of days—and in some countries, infections are already more than double, or even triple, their January peaks. The latest (delta) variant—reportedly 60 percent more transmissible than earlier variants—has been detected in 14 countries.

When the pandemic first hit, quick action by policymakers helped prevent infection rates seen elsewhere around the world. But it pushed already strained local health systems to the breaking point. The second wave outpaced the scale and speed of the first, and a year later sub-Saharan Africa faces its third devastating wave.

The only way for the region to break free from this vicious pandemic cycle is to swiftly implement a widespread vaccination program.

RISKS TO THE REGION

The vaccine rollout in sub-Saharan Africa remains the slowest in the world. Less than 1 adult in every hundred is fully vaccinated, compared to an average of over 30 in more advanced economies. This means even most essential frontline workers continue to work unprotected. In this context, some of the world's more fortunate countries have stockpiled enough vaccines to cover their populations many times over.

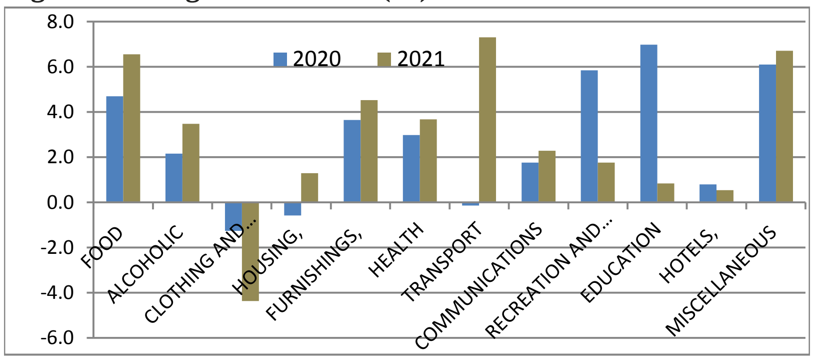
Without significant, upfront, international assistance—and without an effective region-wide vaccination effort—the near-term future of sub-Saharan Africa will be one of repeated waves of infection, which will exact an ever-increasing toll on the lives and livelihoods of the region's most vulnerable, while also paralyzing investment, productivity, and growth. In short, without help the region risks being left further and further behind.

CONSUMER PRICE MAY 2021

The annual inflation for May 2021 increased to 3.8 percent from 2.1 percent recorded during the same period in 2020, an increase of 170 basis points. The monthly increase in the inflation rate was recorded at 0.3 percent down from an increase of 0.4 percent recorded in April 2021.

The increase in growth of annual inflation for May 2021 was mainly as a result of increases in the price levels of *transport*, *food &non-alcoholic beverages*, *alcoholic beverages & tobacco*, *health*, *communication*, *& Housing, water, electricity, gas and other fuels.* This was despite the decline in the price levels of *clothing & footwear.*

Figure 1: Categories inflation (%)



Source: NSA May, 2021

Transport recorded inflation of 7.3 percent compared to a decline of 0.1 during the same period last year; the increase in inflation for transport was prompted by increase in the price level of *personal transport* and *sale of vehicles*, although the *operation of public transport* declined significantly.

Food & non-alcoholic beverages recorded inflation of 6.6 percent compared to 4.7 percent during the same period in 2020. Food was the largest contributor to the increase in annual inflation, accounting for 1.2 percentage points of the total 3.8 percent annual inflation rate. The increase emanated mainly from price increases in most sub-categories with the exception of milk & cheese, fruits as well as food products that recorded slower growth in price levels.

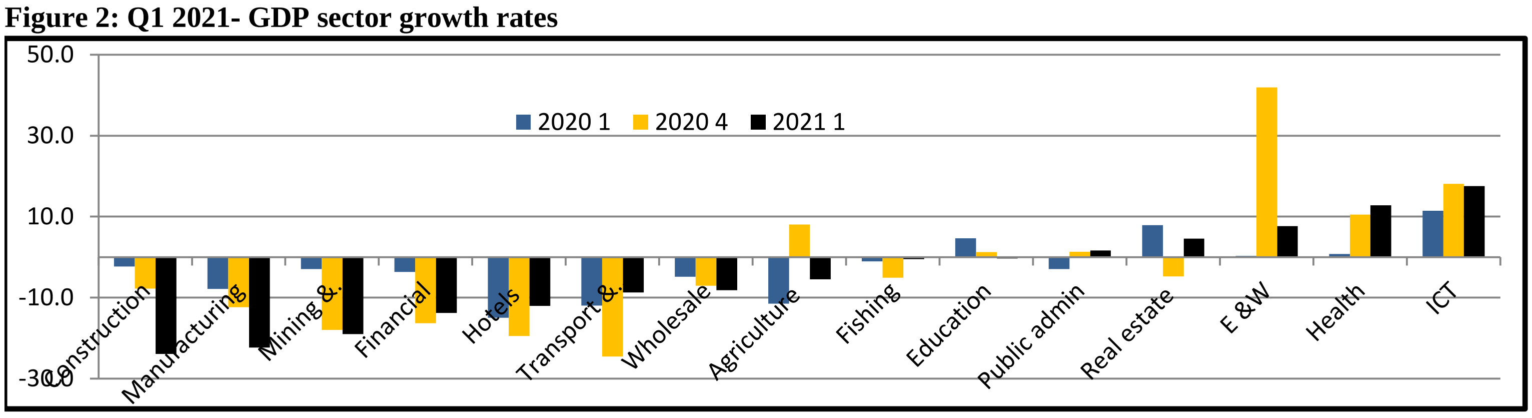
Housing, water, electricity, gas and other fuels recorded an increase of 1.3 percent compared to a decline of 0.6 percent recorded the same period in 2020. The increase was mainly reflected in the price levels of rental payments, which increased by 1.3 percent compared to a decline in price levels of 2.3 percent.

Clothing and footwear recorded a decline of 4.5 percent compared to growth of -1.3 percent recorded during the same period of 2020. The decrease in the price levels of this group emanated from all the subcategories except *infant clothing, accessories*, & *dry cleaning.* The decline emanates from prolonged lockdowns that negatively affected disposable income and weak demand for items in this category.

Q1 2021 GDP OUTTURN

The Q1 GDP figures indicates deeper contraction of 6.5 percent on an annual basis compared to a contraction of 2.5 percent which was recorded during the same quarter the previous year as per the latest release data by NSA, the economy is also estimated to have contracted by **9.3 percent on a quarterly basis**. The contraction was induced by the aftermath of **COVID-19** and its effect on the global, regional, and domestic economy. The effects were mainly caused by *lockdowns, travel bans, and subsequent health regulations* that were impose to help reduce the spread of COVID-19 2nd wave global.

Figure 2: Q1 2021- GDP sector growth rates

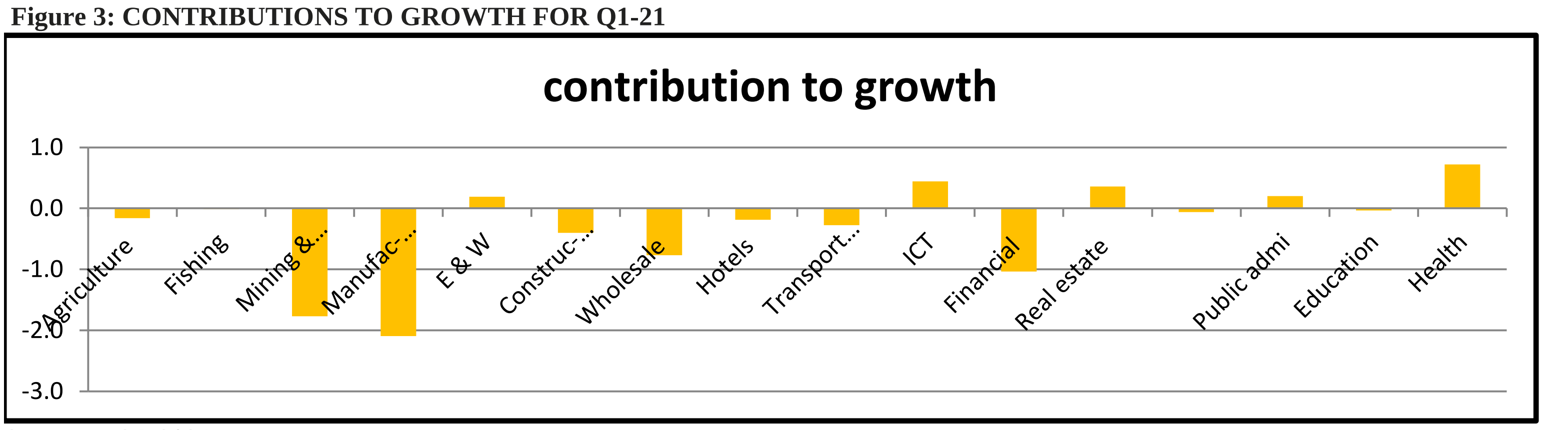


Source: NSA 2021

The contraction in the growth was stunned by the contraction in construction, manufacturing, mining & quarrying and financial services, these sectors recorded double digit contractions during the period under review. GDP contracted despite strong growth in ICT (17.6%), *health* (12.8%), *Electricity & water* (7.7 %) as well as *real estate* (4.6%) and *public admin* which grew by 1.6%. This means that the sectors which contracted were stronger than those that posted positive growth and hence the overall contraction.

The contraction of 23.9 percent in *construction* is attributable to declines in both *building plans completed* and *overall government expenditure* on construction, both of these components posted positive growth during Q1-2020. The contraction of 22.3 percent in *manufacturing* is on the back of most of the subsector except for *diamond cutting & polishing, chemical products*, and *leather products* which positive growth of 3.5 %, 2.7% and 32 % respectively.

Figure 3: CONTRIBUTIONS TO GROWTH FOR Q1-21



Source: NSA 2021

Only those sectors that recorded positive growth were able to positively contribute to growth, meaning that the strength of the contraction was stronger than those that posted positive growth and hence it wasn't able to have an offsetting effect. *Health* recorded the highest contribution of 0.7 percentage points, *real estate* and *ICT* contributed 0.4 percentage point while public admin and *E&W* contributed only a mere 0.2 percentage points to total growth. While *manufacturing* contributed the most to the contraction with a negative contribution of -2.1percent, *mining, & quarrying* with a negative contribution of -1.8 percent and *financial service activities* contributed -1.0percent to the overall contraction, the remaining sector contributed negatively but less than -1.0percent.

1. Background and introduction

The Value Added Tax (VAT) is a consumption tax payable on the goods and services consumed by any person whether government agencies, business organizations or individuals. The VAT was first implemented by developed countries in 1960s and 1970s. Since then, most developing countries have adopted the VAT as part of major fiscal policy reforms. The VAT is one form of taxes which is relatively easy to administer and generally difficult to evade.

In the South African Customs Union (SACU), South Africa was the first country to introduce a VAT system in 1991. Later Namibia introduced VAT in 2000, Botswana in 2002, followed by Lesotho in 2003, and Eswatini in 2011. The VAT is known to have some advantages especially contribution to GDP by virtue of being consumption-based tax, however it is also known to cause costs and administrative problems, particularly in dealing with cross-border transactions especially in the customs union and this has been a point of contention in SACU.

2. Principles

The VAT system has certain desirable principles, which include neutrality, efficiency, certainty, simplicity, effectiveness and fairness (Grandcolas, 2008). These principles, although often tested in cross border trade situations, should guide the design of any harmonised system.

3. VAT as a destination based tax

VAT is based on the destination principle in that it is levied at the place where consumption occurs. This means that all goods and services consumed locally are liable to attract VAT whereas goods produced locally for foreign consumption are exempt from VAT. The destination principle reduces market distortions by taxing imports and zero rating exports. By levying a consumption tax on imports, the VAT system therefore creates parity between the price of locally produced goods and imports.

Figure 4: Chnages in final consumption and imports

Source: Namibia Statistics Agency

4. VAT in Namibia

In Namibia, the VAT was introduced in 2000 following the enactment of the VAT Act, No. 10 of 2000. Namibia applies destination VAT taxation principle on goods with credit invoice method. Services imported for the purpose of making taxable supplies are liable for VAT but can be claimed back as input tax.

VAT rate was introduced at a rate of 15.0 percent on the supply of most goods and services and on the importation of goods. VAT zero rated items and services – amendments to the VAT Act, No. 10 of 2000

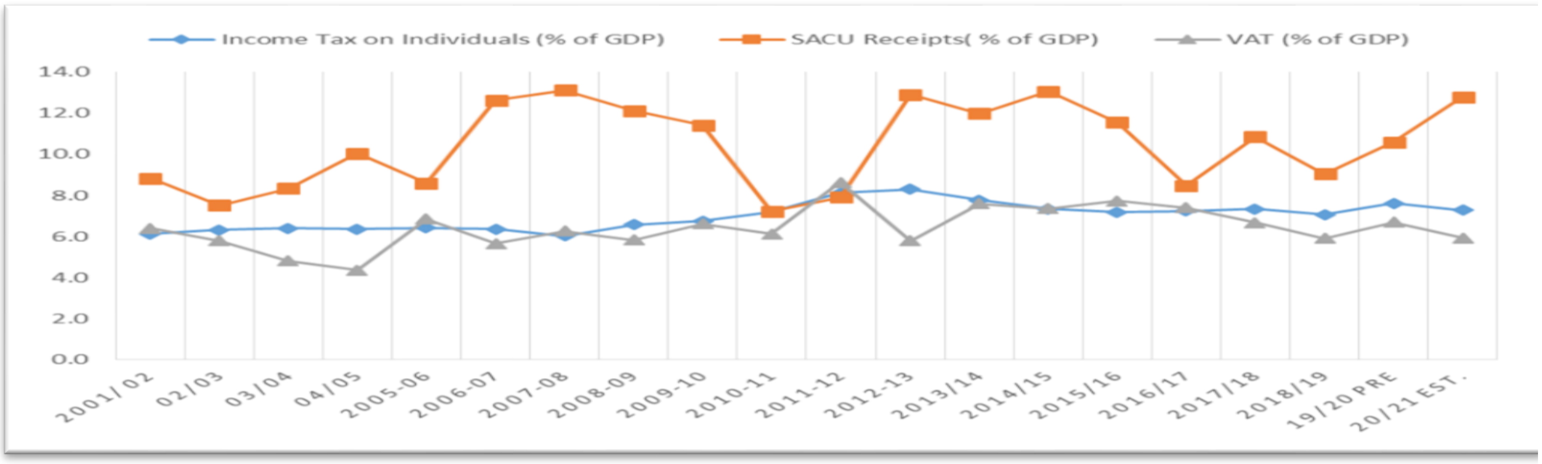
- *Fresh and dried beans, Maize meal, bread and cake flour and bread, but not as a prepared meal, Sunflower oil (added to the Act in 2008)*
- *Sugar and Fresh milk (effective 1st May 2010)*
- *Water and electricity to a residential account (added to the Act in 2004)*
- *Selling of residential property (added to the Act in 2004)*
- *Funeral undertaking services (effective 1st May 2010)*

5. VAT Revenue Performance

VAT is the third most important component of government tax after SACU receipts and Income Tax on Individuals, Namibia's VAT tax system has been one of better performing systems in the Region. The chart below depicts the main components of tax revenue as percent of GDP since 2001/02. The data in figure 2 shows high volatility in the SACU receipts with VAT showing mild volatility, while income tax on individuals has been fairly stable.

In terms of percentage of total revenue, VAT recorded an average of 20.0 percent during the period 2001/02-2011/12 against an average of 20.5 percent of total revenue during the period 2012/13-2020/21.

Figure 5: VAT, SACU and Income Tax

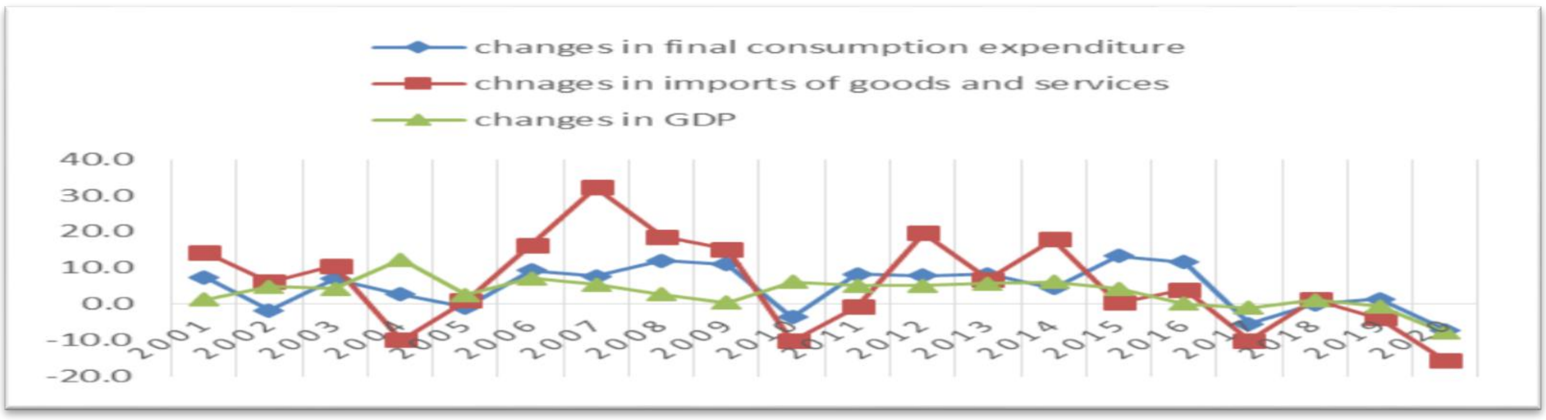


Source: Ministry of Finance

SUMMARY OF ANALYSIS OF VAT TREND…continued

The same trend reflects volatility in VAT as a share of total government revenue. The volatility mirrors the changes in both imports and consumption during the same period. The data provides evidence of stability in the VAT revenue trend since its introduction with variations only observed in relations to other major variables such as final consumption expenditure, imports and GDP as reflected in the chart below.

Figure 6: Changes in final consumption, imports and GDP

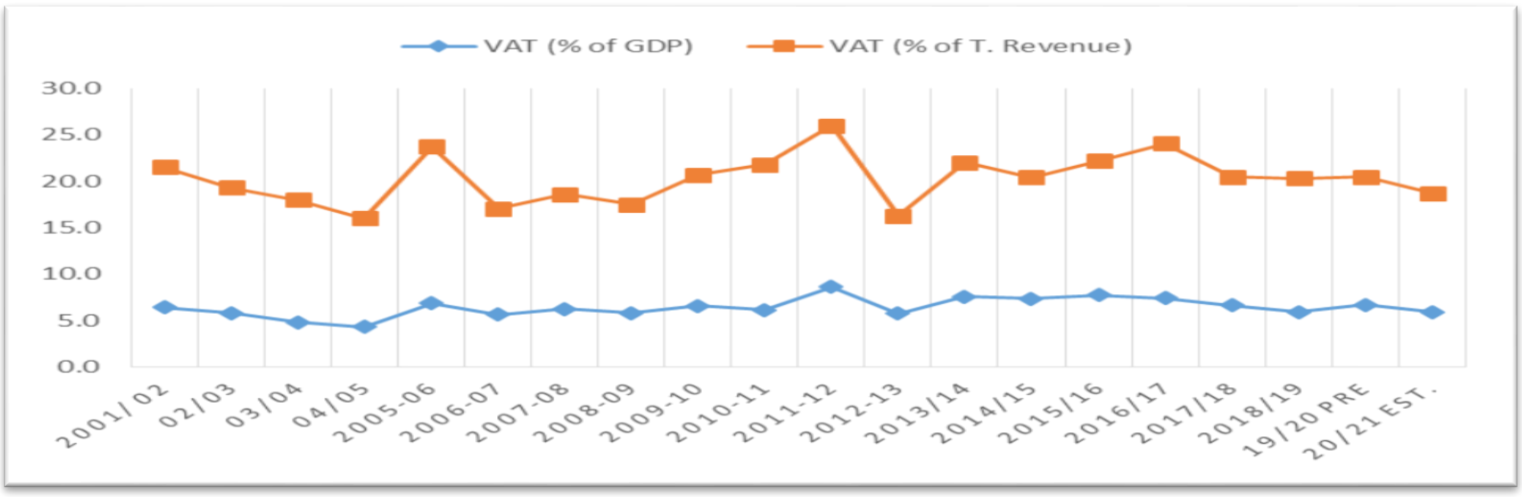


Source: Namibia Statistics Agency

For analysis purpose, we divided the trend into two periods for example, from 2001/02-2011/12 and 2012/13-2020/21. On average, VAT revenue as percentage of GDP was recorded at ***6.1 percent*** during the period 2001/02-2011/12, while during the period 2012/13-2020/21 an average of ***6.8 percent*** was recorded.

In terms of percentage of total revenue, VAT recorded an average of 20.0 percent during the period 2001/02-2011/12 against an average of 20.5 percent of total revenue during the period 2012/13-2020/21.

Figure 7: VAT as % of GDP and as % of Revenue



Source Ministry of Finance Namibia

Conclusion

It was observed from the trend analysis that VAT revenue as a proportion of GDP slowed down marginally from 2015/2016 but it has been relatively stable. This is consistent with the main variables directly linked to VAT namely final consumption expenditure and imports of goods and services.

It was further observed that from the theoretical point of view, the VAT revenue does not necessarily dependent on the rate but more on disposable income, imports and consumption. Furthermore, taking into account the current standard VAT rate of 15 percent, VAT revenue as a percent of GDP VAT was supposed to be as close to 15 percent, we then conclude that VAT collection is effective. Effective VAT rate is basically what government can effectively collect from the economy all things but it is lower than 15 percent as per evidence of the analysis. The cause of the ineffective VAT collection can be attributed to a number of factors including exemptions (zero-rated goods), over-claiming (higher VAT refunds), avoidance but just to mention a few.

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