Economic Update
Namibia: Credit Rating Downgrades
December 2019

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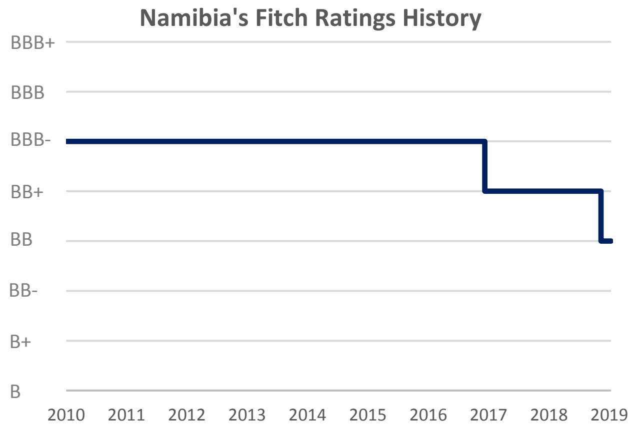
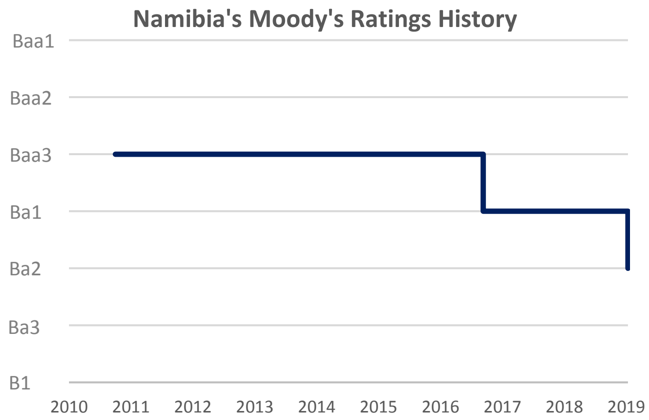
On 6 December Moody's announced that it had downgraded the Namibian government's long-term issuer and senior unsecured ratings to two notches below investment grade. This is the second such downward ratings revision the country received in recent months after Fitch Ratings downgraded Namibia's credit rating to BB in October. These downgrades should not have come as a surprise to anyone as domestic economic growth has remained lacklustre over the last four years, and prospects of meaningful and significant growth returning in the short- to medium-term remains improbable.



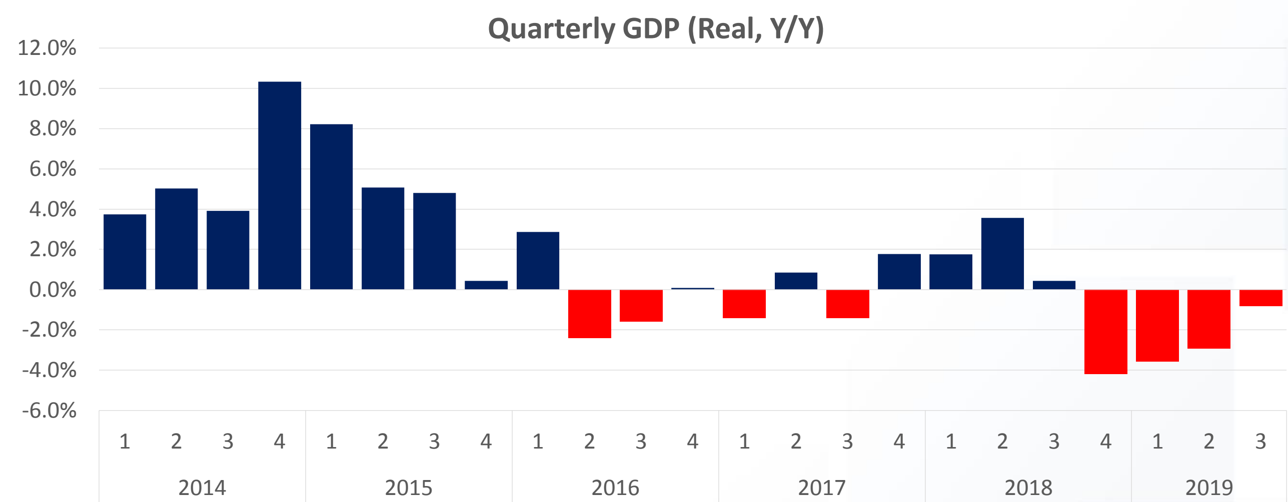


Source: Moody's, Fitch, IJG Securities

There are a number of factors that both ratings agencies are similarly concerned about. Below we list some the issues raised and what government can do to not only prevent further downgrades, but improve the economic situation.

Subdued Economic Prospects

Both Moody's and Fitch noted in their announcements that economic growth figures have been lower for longer than projected and prospects for future growth has deteriorated. When examining the data, it is not difficult to see why the ratings agencies are concerned. The most recent quarterly GDP release by the Namibia Statistics Agency pointed to a contraction of 0.8% y/y making it the fourth consecutive quarter of economic contraction the country has experienced. The data further shows that eight of the last fifteen quarters have posted contractions on an annual basis, while quarters during which growth took place were marginally positive at best.

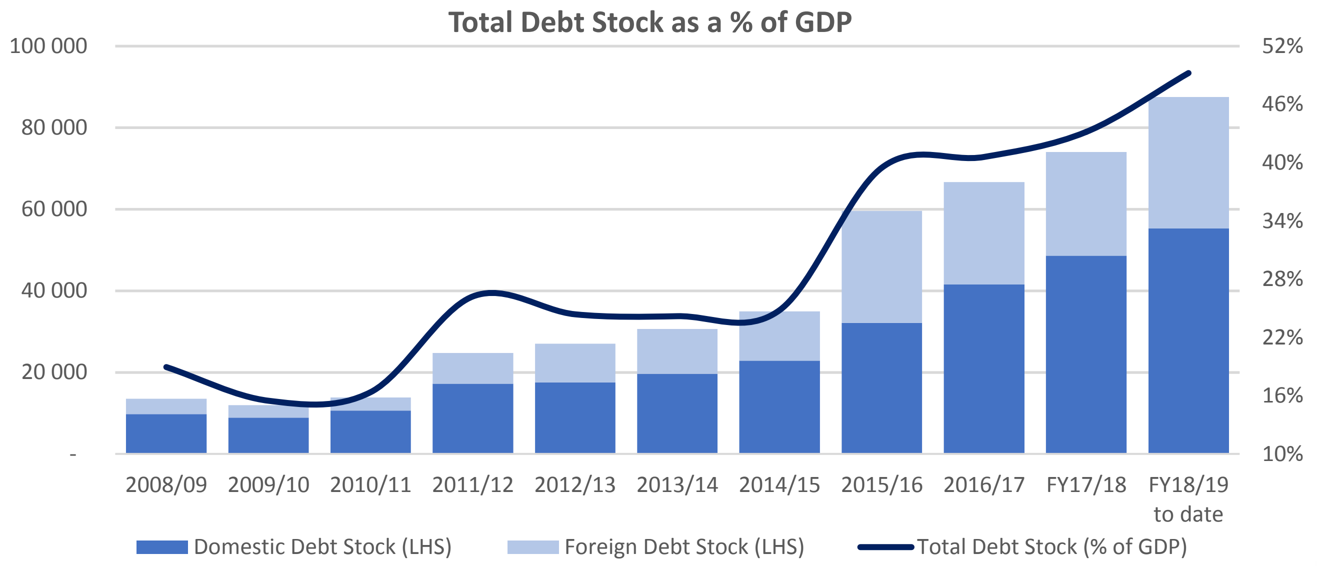


Source: NSA, IJG Securities

The agricultural, wholesale and retail trade, construction sectors in particular have struggled in recent years as a result of the ongoing drought, low consumer demand and subsequent low capital investment by businesses, coupled with government's commitment to fiscal consolidation. Fitch expects the economy to contract by 1.2% y/y in 2019, while Moody's expects a decline of 1.5% y/y. The Q3 GDP release shows a year-to-date contraction of 2.4% as at the end of the quarter, although these figures are expected to be revised going forward.

Debt Burden

Both ratings agencies expect Namibia's weak economic growth to translate into a rise in the debt burden and increasing debt servicing costs. If government revenue underperforms as a result of lower than expected SACU revenues or lower tax revenue due to the struggling economy, government will need to raise additional debt to fund larger than expected budget deficits, leading to an increase in debt servicing costs and therefore making government's fiscal consolidation efforts more difficult.



Source: BoN, IJG Securities

Fitch expects government debt to rise above 51% of GDP in 2021/22, which will be more than double the 25% of GDP level at the end of 2014/15. It furthermore notes that past savings that were achieved through fiscal consolidation were mostly absorbed by the rise in interest costs and the drop in SACU revenues. Moody's stated that they expect that the current account deficit will hover around 2% - 5% of GDP in the medium-term.

Competitiveness and Policy Uncertainty

The minister of finance's initial response to the Fitch's rating downgrade was to compare Namibia to its neighbouring countries in the sub-Saharan area, saying that Namibia's rating is still second highest in the region. While we share the view that struggling neighbouring economies might have an impact on the domestic economy (specifically through lower SACU revenues and weaker trade flows), it is not the main cause of Namibia's problems. Consistent policy uncertainty over the last few years (particularly surrounding NEEEF and NIPA), over-regulation and other unnecessary barriers to entry into the market have slowed down the investment process, leaving investors not only frustrated, but also deterred to invest in Namibia.

Investor-friendly policy reforms are needed if government wishes the country to return to growth. According to the World Bank's 2020 Doing Business Report, Namibia's ranking has deteriorated significantly in the last decade, falling from 66th place in 2010 to 104th in 2019. This indicates that it is becoming increasingly difficult for both local and foreign investors to operate businesses in Namibia. Government needs to comprehend that investors will only invest capital into the country if it is easy and profitable for them to do so. Wriston's Law of Capital explains this quite well:

> *"Capital will always go where it's welcome and stay where it's well treated… Capital is not just money. It's also talent and ideas. They, too, will go where they're welcome and stay where they are well treated."*

Only after taking responsibility for the current economic situation and implementing growth enhancing policies will our leaders be able to affect a turnaround. Merely comparing Namibia to its neighbours is not enough reason to ignore the own goals that government has been scoring for the last few years.

Although the ministry of finance has stated that it remains confident that "growth-friendly fiscal consolidation" combined what it refers to as policy certainty will result in economic recovery, the ratings agencies seem unconvinced. Fitch specifically mentioned in its downgrade announcement that "recent policy initiatives aiming at spurring investment, including an investment summit held in August, will have only a muted impact on economic activity amid persistent structural bottlenecks."

In our view, the only component in the GDP equation (Personal Consumption + Private Sector Investment + Government Spending + Net Exports) that can currently drive growth is investment. Low revenue growth and fiscal consolidation means that government is not currently in a position to drive economic growth. Distressed consumers are also not able to spur growth. It is currently only through foreign and local direct investment that positive economic growth can return to the economy. Net exports are contingent on investment growing Namibia's exports and shrinking the trade gap. Investment will only increase if government introduces policies that will boost business and consumer confidence, giving them incentive to invest in the economy.

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