

Namibia QER Q2 2019

Namibia Quarterly Economic Review

April-June 2019

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Quarter Summary

Macro Situation – still downbeat

The overall economic situation remained downbeat with the Namibia Statistics Agency releasing Q1 GDP estimates showing the country's economy shrank by 1.9% and revising down its estimates for Q4 2018 to -1.7%. The Bank of Namibia's Economic Outlook Update revised growth for 2019 down from 1.5% to just 0.3%. Growth in neighbouring South Africa was also negative adding to what was a sombre quarter. The weak economy led to the Bank of Namibia's Monetary Policy Committee maintaining the repo rate at 6.75% where it has been since August 2017. Meanwhile, the International Monetary Fund completed its latest Article IV Mission to Namibia and forecast that the economy would contract mildly in 2019 and recover gradually thereafter. The IMF emphasised the need for Government to contain the fiscal deficit and implement structural reforms "to strengthen productivity and competitiveness, lift business confidence, and boost the long-term growth potential of the economy." At an international forum in Portugal, President Hage Geingob responded to media questions about breaking parity with the South African Rand by committing Namibia to remaining with the peg to the South African Rand "unless something very drastic happens". The negative economic outlook was compounded by the declaration of a National Drought Emergency by the President.

Policy Developments – public enterprises in spotlight

The Public Enterprise Governance Act was passed by Parliament although opposition MPs questioned the fact that changes had been made in an irregular manner by the National Assembly after the National Council had reviewed and passed the Bill. As highlighted in the QER for Q4 2018, the Act gives the Ministry of Public Enterprises significant powers but it is not clear what technical staff remain after senior advisors failed to get their contracts renewed. The situation at Air Namibia appears to become ever more critical with planes

being grounded due to non-payment of accounts, loss of contracts, routes being suspended, and talk of liquidation by the Minister of Public Enterprises himself. The sale of the huge 65,000 hectare Erindi game reserve to a foreign national so soon after the Second Land Conference in September 2018 raised eyebrows and led to a good deal of controversy given Government's stated policy towards land and legislation that places significant constraints on foreign ownership of land.

Investment News – mixed signals

The quarter saw several significant positive developments take place – De Beers giving the go ahead for its seventh diamond mining vessel, the announcement that three old mines are due to be reopened, that a private company had been granted rights to provide domestic flights, that another large PV solar plant was due to be commissioned, MTC confirming its intention to list on the NSX in 2020, and that Namibia would pilot visas on arrival for selected countries – and the tourist industry continued to raise its profile internationally. Mines and Energy Minister Tom Alweendo appeared relaxed at the prospect of Rossing Uranium being sold to a Chinese buyer further consolidating Namibia's uranium assets in the hands of a single foreign power. He also lifted the 10-year old embargo on uranium exploration. However, this good news was tempered by the emergence of another dispute over mining taxation between Government and the Chamber of Mines: this time over the tax deductibility of mineral royalties and export levies, an unusual measure which runs counter to international norms. The sale of Ohorongo Cement – hardly a sign of confidence by an important foreign investor – was mired in controversy while the introduction of a temporary “drought tax” was met with a barrage of criticism from all quarters. Government ended the quarter by announcing it would convene a two-day investment conference at the end of July but this seems to be little more than a hasty political stunt designed to show something is being done to counter the economic downturn in what is after all an election year.

News Highlights

Date	Highlight	Commentary
30 June	Cheques no longer accepted as payment (Xinhua)	The Payment Association of Namibia and Namclear announced that the last day that cheques could be used as a means of payment from 30 June 2019.
27 June	PG Glass fined over premature merger (New Era)	The Namibian Competition Commission fined PG Glass Namibia N\$1.4m for going ahead with its merger with Alpha Glass and Windscreens cc prior to receiving regulatory approval.
25 June	Singapore Stock Exchange rejects purchase of Ohorongo Cement (The Straits Times)	The Singapore Exchange rejected International Cement Group's USD104.4m bid for Ohorongo Cement on the grounds that the bid target is not profitable.
20 June	Namibia's GDP for Q1 2019 declines by 2.0% (NSA)	Namibia's GDP declined by 2.0% in Q1 2019 and growth was revised down from -1.7% to -1.9% for Q4 2018.

19 June	Alten to commission Namibia's largest PV plant (PV Magazine)	Alten Energias Renovables will commission Namibia's largest solar PV plant with generating capacity of 45.5 MWp. The plant located in Mariental covers an area of 100ha and will produce electricity for 70,000 residents.
19 June	Namibia to host two-day investment summit (Reuters)	Information and Communication Technology Minister Stanley Simataa announced that Namibia will be hosting a two-day economic summit on 31 July and 1 August at which USD1bn worth of investment will be targeted with the aim of reviving the economy.
15 June	Eos Capital to buy Avbob Namibia (New Era)	Managing partner of private equity firm Eos Capital Johannes !Gawaxab announced that the company was to buy funeral service provider Avbob Namibia Holdings from its South African parent company pending the approval of the Namibian Competition Commission.
14 June	Public Enterprises Minister denies dealings with Westair (New Era)	Public Enterprises Minister Leon Jooste issued a lengthy denial that he had links with Westair following problems at Air Namibia and the granting of rights to Westair for domestic flights.
13 June	Namibian inflation drops to 4.1% (NSA)	Consumer price inflation in Namibia fell from 4.5% in April to 4.1% in May according to the Namibia Statistics Agency (NSA)
13 June	NAC does not renew ground handling agreement with Air Namibia (New Era)	The Namibia Airports Company (NAC) refused to renew its ground handling agreement with troubled public enterprise Air Namibia citing non-compliance with the agreement that expired last year.
13 June	Namibia to start issuing visas on arrival (New Era)	Information and Communication Technology Minister Stanley Simataa announced that Cabinet had approved a pilot project to issue visas on arrival for N\$1,000 for a selected number of countries in Africa, Asia and other parts of the world.
12 June	Cabinet Committee looking at liquidating Air Namibia (The Namibian)	At a press conference, Public Enterprises Minister Leon Jooste disclosed that the Cabinet Committee on Public Enterprises was examining the idea of liquidating struggling SOE Air Namibia.
12 June	Ticketing open for Westair flights to Oranjemund (New Era)	Westair was granted Designated Carrier status by the Namibian Transport Commission allowing it to offer its first route from Windhoek's Eros Airport to Oranjemund from 24 June under the brand FlyWestair.
12 June	Bank of Namibia holds repo rate at 6.75% (Bank of Namibia)	The Bank of Namibia's Monetary Policy Committee (MPC) held the repo rate at 6.75% and said the domestic economic activity slowed during the first four months of 2019 and is expected to remain weak. The repo rate has remained unchanged since August 2017. The next MPC meeting is on 13 August.
5 June	Chamber of Mines opposes tax change (fDi Intelligence)	The Chamber of Mines of Namibia is opposed to tax changes which will eliminate tax deductibility of mining royalties and export levies for non-diamond mining companies.
5 June	Cabinet asks Ministry to request extension to EU	Cabinet asked the Ministry of Finance to request more time if need be to get changes to Namibia's tax system required by the commitments made to the EU last year

	tax changes (The Namibian)	in order to get Namibia removed from a list of non-cooperating tax jurisdictions.
5 June	South Africa's GDP contracted by 3.2% in Q1 2019 (StatsSA)	StatsSA released the Q1 GDP showing the economy contracted by 3.2% in the first quarter of 2019 prompting Namibian Finance Minister Calle Schlettwein to comment that this was bad news for Namibia given the high levels of integration between the two economies.
5 June	IMF forecasts mild contraction before growth resumes (IMF)	The International Monetary Fund (IMF) completed its obligatory Article IV mission to Namibia predicting that the economy would contract mildly this year before recovering gradually thereafter (see here).
29 May	Mines Minister says China can buy Rossing (Reuters)	Mines and Energy Minister Tom Alweendo publicly stated that Government had no objection to Rio Tinto selling its share in Rossing to China provided it respects the country's laws.
29 May	AfriTin processing plant commissioned (Namibia Economist)	AfriTin announced its processing plant had been commissioned at Uis and continuous operations would begin in July followed by a four-month ramp up to full production.
29 May	MTC confirms listing on NSX within 15 months (Web Africa)	Mobile operator MTC spokesperson Tim Ekandjo confirmed that the company would seek a listing on the NSX by July 2020 and has appointed IJG Securities and PSG Wealth Management as sponsoring brokers.
24 May	Mexican billionaire to buy Erindi game reserve (The Namibian)	Mexican billionaire Albert Baillères will buy the 65,000 hectare Erindi private game reserve without any local partners after Government announced in April that it was abandoning its plans to purchase the reserve because it could not afford it.
24 May	Air Namibia suspends Lagos-Accra route (Air Namibia)	Air Namibia announced it will suspend its Windhoek-Lagos-Accra route which was only launched in June 2018.
22 May	Cabinet approves voluntary drought tax	Cabinet approved a once-off 2% drought tax requiring citizens to voluntarily donate 2% of their income to help combat the impact of the drought but this was rejected by the National Union of Namibian Workers (NUNW).
20 May	Cabinet endorses monkfish quota	Cabinet endorsed a monkfish quota of 7,200 tonnes for the 2019/20 fishing season, down from last year's 8,000 tonnes.
17 May	Namibian elections likely for 27 November (Electoral Commission of Namibia)	The Electoral Commission of Namibia proposed that the date for presidential and parliamentary elections be 27 November 2019.
16 May	De Beers approves construction of diamond recovery vessel (Anglo American)	Anglo American announced that De Beers had approved the construction of a new custom-built diamond recovery vessel valued at N\$468m which would join the current fleet of six vessels in 2022. The ship will be built by Damen in Romania.
15 May	Namibian inflation remains at 4.5% (NSA)	Consumer price inflation in Namibia remained at 4.5% in April compared to March according to the Namibia Statistics Agency (NSA).

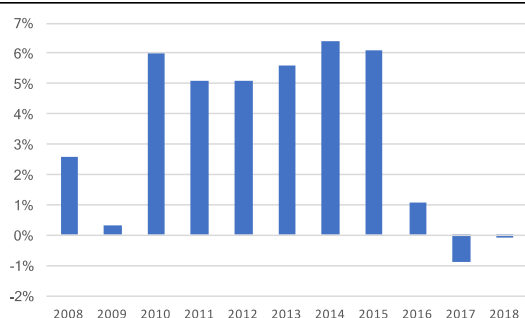
13 May	Namibia records 18 poaching incidents this year (Xinhua)	Ministry of Environment and Tourism spokesperson Romeo Muyunda announced that there had been 18 poaching incidents in the country so far this year following the establishment of an Anti-Poaching Unit last year which saw 57 rhinos and 26 elephants poached and 120 suspected poachers arrested.
13 May	Central Procurement Board awards tender to Gem Diamonds Namibia (The Namibian)	The Central Procurement Board awarded a N\$300m tender to Gem Diamonds Namibia to value Namdeb diamonds over the next five years. This was despite allegations that the company had won because of political connections.
9 May	Namibia wins best stand at Travel Indaba (The Namibian)	Namibia won the best exhibition stand at the 2019 Africa Travel Indaba in Durban.
8 May	Elections in South Africa see ANC win again with reduced majority (IEC)	General elections took place in South Africa which saw the ANC's share of the vote reduced from 62.15% in 2014 to 57.50% - its lowest share since 1994 - on a turnout of 65.99%.
8 May	President reiterates Namibia's position on ivory trade (New Era)	President Hage Geingob reiterated Namibia's support for the legal international trade in ivory proceeds of which would be used to support elephant conservation and rural conservation.
8 May	Otjikoto exceeds production target for Q1 2019 (B2Gold)	B2Gold reported that its Otjikoto gold mine produced 32,712 ounces of gold in Q1 2019 exceeding its production target.
7 May	Uranium embargo lifted (MME)	The Ministry of Mines and Energy lifted a 10-year moratorium on uranium exploration.
6 May	President declares National Drought Emergency	President Hage Geingob declared a National Drought Emergency according to Article 26 of the Namibian Constitution. An estimated 500,000 people have already been left without access to enough food and an estimated 60,000 animals have died in the past six months.
3 May	Jomec makes N\$1bn available to Deep Yellow (The Namibian)	Japan's Oil, Gas and Metals National Corporation (Jomec) has made N\$1bn available to fund exploration in Deep Yellow's Nova project.
3 May	Newspaper article raises questions about GIPF (The Namibian)	A controversial article in The Namibian raised questions about the Government Institutions Pension Fund (GIPF) suggesting it had bailed out Government to the possible detriment of its members.
30 April	Fuel price increase announced (MME)	Energy Minister Tom Alweendo announced that fuel pump prices would increase by 70 cents per litre for 95 Octane unleaded petrol and 20 cents per litre for all grades of diesel on 2 May as a result of recent rises in global oil prices.
30 April	Namibia imports 73% of its electricity requirements in 2018 (Informante)	Deputy Minister of Mines and Energy Kornelia Shilunga revealed in Parliament that Namibia imported 73% of its electricity requirements in 2018, the highest figure recorded since Independence.

29 April	Namibia Wildlife Resorts loses N\$22m in 2018 (NWR)	Namibia Wildlife Resorts Chair Leonard Iipumbu announced that the State-Owned Enterprise lost N\$22m in 2018 compared to a loss of N\$40m in 2017. Acting Managing Director Matthias Ngwangwama disclosed that NWR's 26 facilities had enjoyed an average occupancy rate of 50% in 2018 and achieved revenues of N\$300m.
26 April	Namibian mines on "tax honeymoon" (The Namibian)	The Namibian newspaper carried an article claiming that 30 mining operations in the country were not paying sufficient tax but the article seemed to confuse revenue with profits and was countered by a detailed response from the Chamber of Mines published in all major newspapers.
25 April	Namdeb produces 483,000 carats in Q1 (AA)	Anglo American reported that Namdeb Holdings produced 483,000 carats of rough diamonds in Q1 2019 compared to 505,000 carats in Q4 2018.
18 April	Namibia ranked top in Africa on media freedom (Reporters Without Borders)	Namibia regained the number one spot for media freedom from Ghana in the World Press Freedom Index ranking of media freedom coming 23 rd out of 180 countries.
15 April	Namibian inflation rises to 4.5% (NSA)	Consumer price inflation in Namibia rose from 4.4% in February to 4.5% in March according to the Namibia Statistics Agency (NSA).
15 April	Bank of Namibia cuts growth forecast for 2019 (Bank of Namibia)	The Bank of Namibia reduced its forecast for economic growth in 2019 to just 0.3% in its latest Economic Outlook Update compared to the 1.5% it had predicted in December 2018.
15 April	Parliament passes the Public Enterprises Governance Bill (The Namibian)	Parliament finally passed the Public Enterprises Governance Bill giving new powers to the Ministry of Public Enterprises as featured in our QER in Q4 2018. The Bill was passed with new amendments added by the National Assembly after the National Council had approved it.
12 April	Etosha forced to sell vessels due to pilchard ban (Undercurrent News)	Etosha Fishing Corporation sold all three of its purse-seine fishing vessels as a result of the three-year ban on pilchard fishing which came into force in 2018.
10 April	Bank of Namibia holds repo rate at 6.75% (Bank of Namibia)	The Bank of Namibia's Monetary Policy Committee (MPC) held the repo rate at 6.75% and said it expected the domestic economy to record a marginally positive growth rate in 2019. The repo rate has remained unchanged since August 2017.
8 April	Three mines to reopen (Southern Times)	Chamber of Mines CEO Veston Malango announced that AfriTin's Uis Tin Mine and North River Resources' Namib Lead and Zinc Mine were due to reopen while Desert Lion Energy was redeveloping the Helikon and Rubicon Lithium Mine outside Karibib.
8 April	Namibia commits to Rand peg (Bloomberg)	In an interview in Cascais, Portugal, President Hage Geingob committed Namibia to remaining with the peg to the South African Rand "unless something very drastic happens".

1 April	Namibia's trade deficit declines in 2018 (NSA)	Namibia's trade deficit with the rest of the world declined from NAD25.18 bn in 2017 to NAD17.38 bn in 2018 due largely to a greater increase in exports than imports. According to NSA statistics, China was Namibia's largest export market in 2018 followed by South Africa, Belgium, Botswana and the UK.
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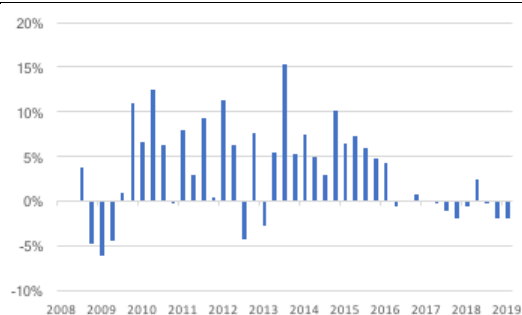
Key Economic Variables

GDP Growth (%)



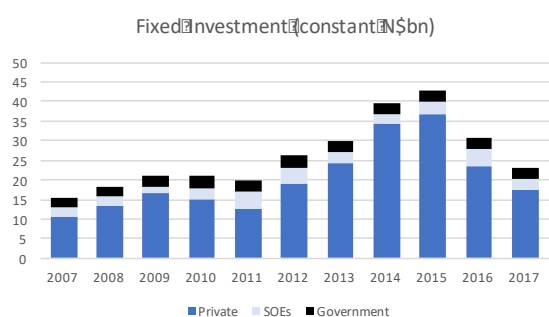
Preliminary national accounts suggest that the economy contracted by 0.1% in 2018, compared to -0.9% in 2017. Growth in 2016 was revised up to 1.1% from the previous estimate of 0.6%.

GDP Quarterly Growth (%)



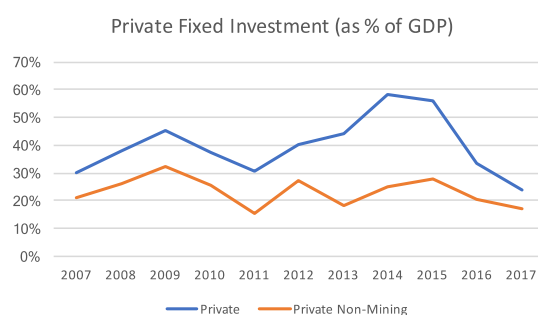
Quarterly growth crashed in Q2 2016 and has not recovered since. The latest estimates show GDP declined further by 2.0% in Q1 2019.

Fixed Investment (N\$bn in 2010 prices)



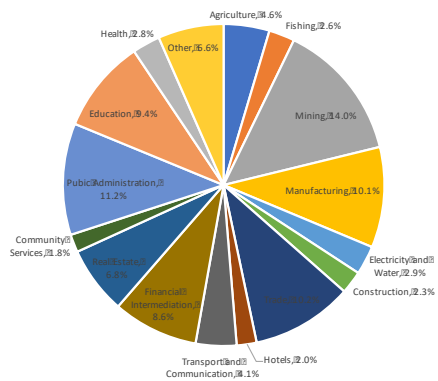
Investment, driven by strong private investment, rose significantly after 2011 but peaked in 2015 and has since returned to previous levels. These figures will be updated once the full national accounts are available for 2018.

Private Fixed Investment (% of GDP)



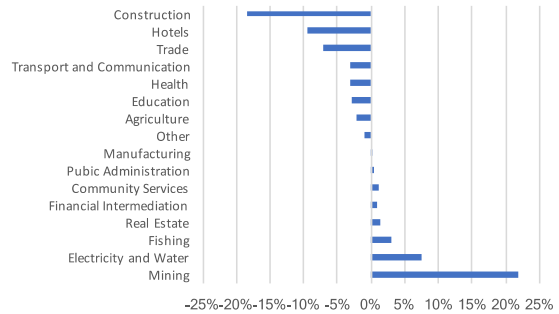
Strong private investment has been driven by investment in mining. Both mining and non-mining private investment as a proportion of GDP have declined since 2015. These figures will be updated once the full national accounts are available for 2018.

Sectoral Breakdown of GDP in 2018 (%)



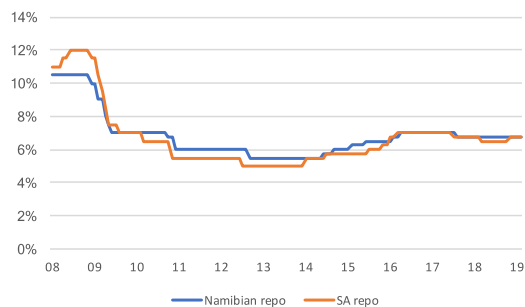
The chart shows the contributions made to overall economic activity in 2018 by the different sectors of the economy. Service sectors contributed 56.9% while primary and secondary sectors contributed 21.2% and 15.3% respectively.

Sectoral Growth in 2018 (%)



While output from the Mining and Electricity & Water sectors grew strongly in 2018, output declined significantly in a wide range of sectors with Construction again being particularly hard hit.

Namibian and SA Repo Rates (%)



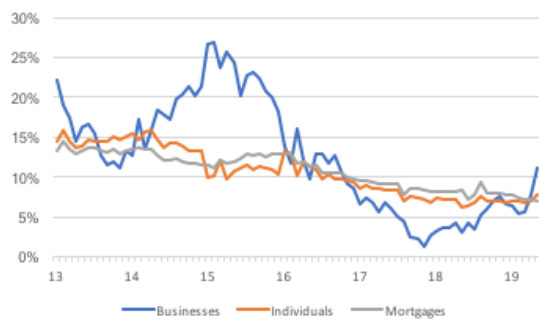
The Bank of Namibia's repo rate has been 6.75% since August 2017 and the latest Monetary Policy Committee (MPC) meeting on 12 June 2019 reaffirmed this rate. The next MPC meeting is due on 13 August 2019.

Namibian and SA Inflation (% y-o-y)



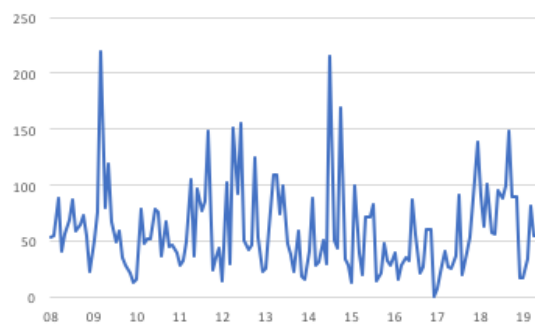
Namibian consumer inflation started to rise steadily from 3.6% at the beginning of 2018 to reach 5.6% in November but has since declined to reach 4.1% in May 2019.

Private Sector Credit Extension (% y-o-y)



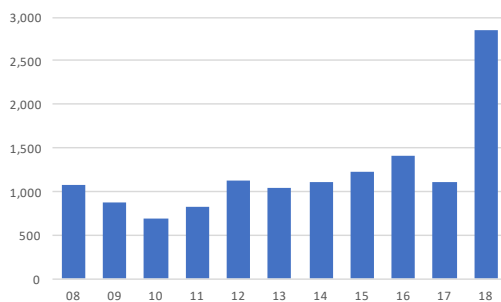
Credit growth to domestic businesses fell steadily from a peak in 2015 to a trough towards the end of 2017 but has since recovered reaching 11.2% in May 2019. At the same time credit growth to households including residential mortgages has fallen steadily to 7.8% and 6.9% at the end of May 2019.

Building Plans Completed (N\$bn)



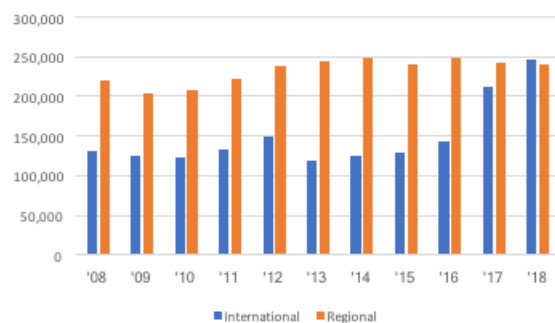
The value of building plans completed in Windhoek has risen in nominal terms since the beginning of 2017 and this rise continued throughout 2018 but has not been sustained during the first five months of 2019.

Company Registrations



Registrations of Pty (Ltd) companies dipped in 2017 as the economy weakened but spiked in 2018, primarily due to the registration of new companies in advance of fishing rights being allocated.

Passenger Arrivals at HKIA



At 246,717 in 2018, international arrivals to Hosea Kutako International Airport (HKIA) were 15.9% higher than in 2017 while regional arrivals were 1.1% lower at 239,485. Last year international arrivals surpassed regional arrivals for the first time.

Data Trends

	Unit	2013	2014	2015	2016	2017	2018
Annual Economic Growth							
GDP	%	5.6%	6.4%	6.1%	1.1%	-0.9%	-0.1%
GDP current prices	N\$m	122,792	138,763	150,083	166,006	180,605	192,138
Change in Mining Value Added	%	1.7%	-6.0%	-4.9%	-3.2%	13.3%	22.0%
Change in Manufacturing Value Added	%	4.4%	-0.1%	-4.3%	5.6%	1.9%	0.2%
Fixed Investment							
Fixed Investment	% of GDP	26.5%	33.4%	33.3%	22.4%	15.7%	12.6%
Change in Fixed Investment	%	13.5%	33.7%	7.9%	-28.6%	-24.2%	-14.1%
Fixed Investment - Government	'000 N\$m	4,926	7,411	9,473	8,233	6,380	n/a
Fixed Investment - SOEs	'000 N\$m	2,955	2,852	3,867	5,142	4,316	n/a
Fixed Investment - Private	'000 N\$m	24,684	36,107	36,692	23,824	17,600	n/a
Prices and Interest Rates							
Average Inflation	%	5.6%	5.4%	3.4%	6.7%	6.2%	4.3%
Year End Prime Lending Rate	%	9.25%	9.75%	10.25%	10.75%	10.50%	10.50%
Year End Repo Rate	%	5.50%	6.00%	6.50%	7.00%	6.75%	6.75%
Trade and Balance of Payments							
Exports - total goods	N\$bn	44.8	46.7	50.7	61.7	61.0	67.2
Exports - total services	N\$bn	5.8	7.0	7.0	6.5	6.7	7.2
Imports - total goods	N\$bn	66.9	81.4	96.8	97.6	79.8	82.3
Imports - total services	N\$bn	4.4	6.6	6.3	5.6	4.4	4.1
Trade Balance	N\$bn	-20.7	-34.3	-45.5	-35.0	-16.5	-11.9
Balance of Payments	N\$bn	-6.3	-15.8	-27.2	-22.1	-10.7	-5.5
as % of GDP	%	-4.1%	-10.3%	-17.0%	-12.1%	-4.8%	-1.9%
Foreign Exchange							
Year End Exchange Rate (N\$ to USD)	N\$	10.4499	11.5616	15.5553	13.6240	12.3930	14.4116
Year End Exchange Rate (N\$ to EUR)	N\$	14.4208	14.0532	16.9997	14.3403	14.8063	16.4848
Year End Exchange Rate (N\$ to GBP)	N\$	17.2366	17.9932	23.0652	16.7264	16.6789	18.3424
Foreign Exchange Reserves	N\$bn	15.7	13.5	23.6	24.7	30.2	31.0
Financial Sector							
Private Sector Credit Extension Growth	%	14.3%	16.4%	13.5%	8.9%	5.1%	6.6%
Non-Performing Loans	% of total loans	1.3%	2.1%	2.2%	2.5%	2.9%	3.6%
NSX Overall Index	Index	997	1,098	865	1,069	1,206	1,303
NSX Local Index	Index	332	389	498	547	591	621
New Local Listings		1	0	0	0	1	0
Business Indicators							
Namdeb Diamond Production	'000 carats	n/a	1,886	1,764	1,573	1,805	2,008
Uranium Production	tonnes	4,327	3,255	2,994	3,654	4,224	6,514
Gold Production	kg	1,795	2,140	6,009	6,604	7,272	6,171
Mining Licences Granted	number	0	3	0	1	2	3
Exploration Licences Granted	number	395	138	56	142	174	259
Number of Companies Formed	number	1,043	1,112	1,226	1,409	1,110	2,851
Tourist Arrivals	'000	1176	1320	1388	1469	1499	n/a
- From Africa	'000	913	1029	1083	1094	1091	n/a
- From Europe	'000	200	222	234	295	312	n/a
- From RoW	'000	64	69	71	81	97	n/a
International Arrivals at HKIA	'000	118	125	128	143	213	247
Regional Arrivals at HKIA	'000	245	249	239	248	242	239

		2013	2014	2015	2016	2017	2018	
Employment								
Government		82,844	95,873	n/a	88,421	n/a	86,587	
Parastatals		30,253	32,983	n/a	25,558	n/a	30,654	
Private Companies		231,703	245,437	n/a	235,877	n/a	214,693	
Private Households		92,555	105,460	n/a	136,417	n/a	70,036	
Total		437,355	479,753	n/a	486,273	n/a	401,970	
Government Finances								
		FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
Revenue	N\$bn	41.9	49.9	52.2	50.9	56.7	56.7	58.4
Expenditure	N\$bn	46.7	58.7	64.6	62.2	67.5	64.3	66.5
Balance	N\$bn	-4.8	-8.8	-12.4	-11.4	-8.9	-7.6	-8.2
Public Debt	N\$bn	30.9	35.9	59.8	69.9	74.5	87.1	96.3
Interest Payments	N\$bn	1.8	2.1	2.6	4.3	5.4	5.8	6.4
Public Guarantees	N\$bn	7.4	6.4	6.5	6.4	11.0	14.8	11.1
Revenue	% of GDP	33.0%	35.4%	34.6%	30.2%	32.0%	30.2%	29.7%
Expenditure	% of GDP	36.8%	41.6%	42.8%	36.9%	36.8%	34.2%	33.8%
Balance	% of GDP	-3.8%	-6.2%	-8.2%	-6.7%	-4.8%	-4.0%	-4.1%
Public Debt	% of GDP	24.3%	25.5%	39.6%	41.5%	40.6%	46.3%	48.9%
Interest Payments	% of GDP	4.3%	4.1%	5.0%	8.5%	9.3%	10.2%	11.0%
Public Guarantees	% of GDP	5.8%	4.5%	4.3%	3.8%	6.0%	7.9%	5.6%
International Rankings								
		2013	2014	2015	2016	2017	2018	2019
Global Competitiveness Index Ranking		90/148	88/144	85/140	84/135	99/135	100/140	
Global Competitiveness Index		3.9	4.0	4.0	4.0	4.0	4.0	
Ease of Doing Business Ranking		87/185	98/189	88/189	104/189	108/190	106/190	107/190
Ease of Doing Business Index		n/a	61.15	57.16	59.61	59.57	60.29	60.53
Corruption Perceptions Index Ranking				45/168		53/180	52/180	
Corruption Perceptions Index		48	49	53	52	51	53	
Ibrahim Index of African Governance		69.5	70.3	70.4	69.3	71.2	68.6	
Ibrahim Index of African Governance Ranking		6/52	6/52	5/54	5/54	5/54	4/54	
Investment Attractiveness Index		68.97	76.37	69.78	66.11	60.67	56.66	
Investment Attractiveness Index Ranking		35/112	21/122	33/109	53/104	54/91	60/83	
Open Budget Index (out of 100)		55*	n/a	46	n/a	50	n/a	
World Press Freedom Index - Ranking		19/180	22/180	17/180	17/180	24/180	26/180	23/180

Sources: Anglo American, Bank of Namibia, Business and Intellectual Property Authority, Chamber of Mines of Namibia, Fraser Institute, International Budget Partnership, Ministry of Environment and Tourism, Ministry of Finance, Mo Ibrahim Foundation, Namibia Airports Company, Namibia Statistics Agency, Namibian Stock Exchange, Reporters Without Frontiers, Transparency International, World Bank, World Economic Forum, World Nuclear Association

Rising Debt, Falling Growth Means Tough Choices Ahead - Namibia's Public Debt

Our last QER showed how public debt in Namibia had more than doubled in the last decade from under 20% of GDP in FY 2008/09 to almost 50% of GDP in FY2019/20. Hitherto, public debt had never breached 35% of GDP and indeed former Minister of Finance Kuugongelwa-Amadhila took strong measures after the then record deficit of FY2004/05 culminating in an investment grade rating from Fitch Ratings and a budget surplus by 2006/07. This feature examines briefly the composition and profile of public debt, and what they imply for the public finances over the coming years.

On 23 May 2019, the Ministry of Finance took the unprecedented step of issuing a media release on the subject of public debt management and public procurement. The document contained details of Namibia's public debt which is reproduced in Table 1 below. The table excludes debt guarantees issued by Government. These numbers correspond with the numbers presented in the National Budget on 27 March and are in agreement with numbers contained in the Bank of Namibia's latest Quarterly Bulletin (there are some minor discrepancies due to exchange rates). It can be seen from the table that total public debt has risen to an unprecedented 46.3% of estimated GDP as described in the previous QER and is due to breach the 50% mark within the current Medium Term Expenditure Framework period. This debt consists of domestic debt (Treasury Bills and Bonds) which makes up 63% of total debt and external debt (bilateral and multilateral debt plus JSE-listed bonds and two Eurobonds) which makes up the remaining 37% of total debt.

Treasury Bills are short-term debt instruments which have to be repaid within a year: 91 days, 182 days, 274 days or 365 days. Bonds are longer-term debt instruments which have to be repaid within a period longer than a year. The shortest-dated bond in issue matures in 2020 (GC20) while the longest-dated bond matures in 2045 (GC45). As at 31 March 2019 the Government had the following bonds outstanding: GC20, GC25, GC27, GC30, GC32, GC37, GC40 and GC45. In addition to these are the inflation-linked bonds GI22, GI25, GI29 and GI33.

Foreign debt consists of bilateral loans (from Germany and China), multilateral loans (from international development finance institutions including the African Development Bank), a series of South African Rand-denominated bonds listed on the JSE (NAM01 was originally issued in 2012, NAM02 in 2015 and NAM03 and NAM04 were issued in 2016 raising a total of N\$2,892m and will mature in 2020), and two US Dollar-denominated ten-year Eurobonds listed on international exchanges (Eurobond1 of US\$500m was issued in 2011 and matures in 2021 while Eurobond2 of US\$750m was issued in 2015 and matures in 2025). As shown in the table, the two Eurobonds account for 56.1% of foreign debt and 20.7% of total debt. Their outstanding value in Namibia dollars at any particular time depends upon the exchange rate which is applied.

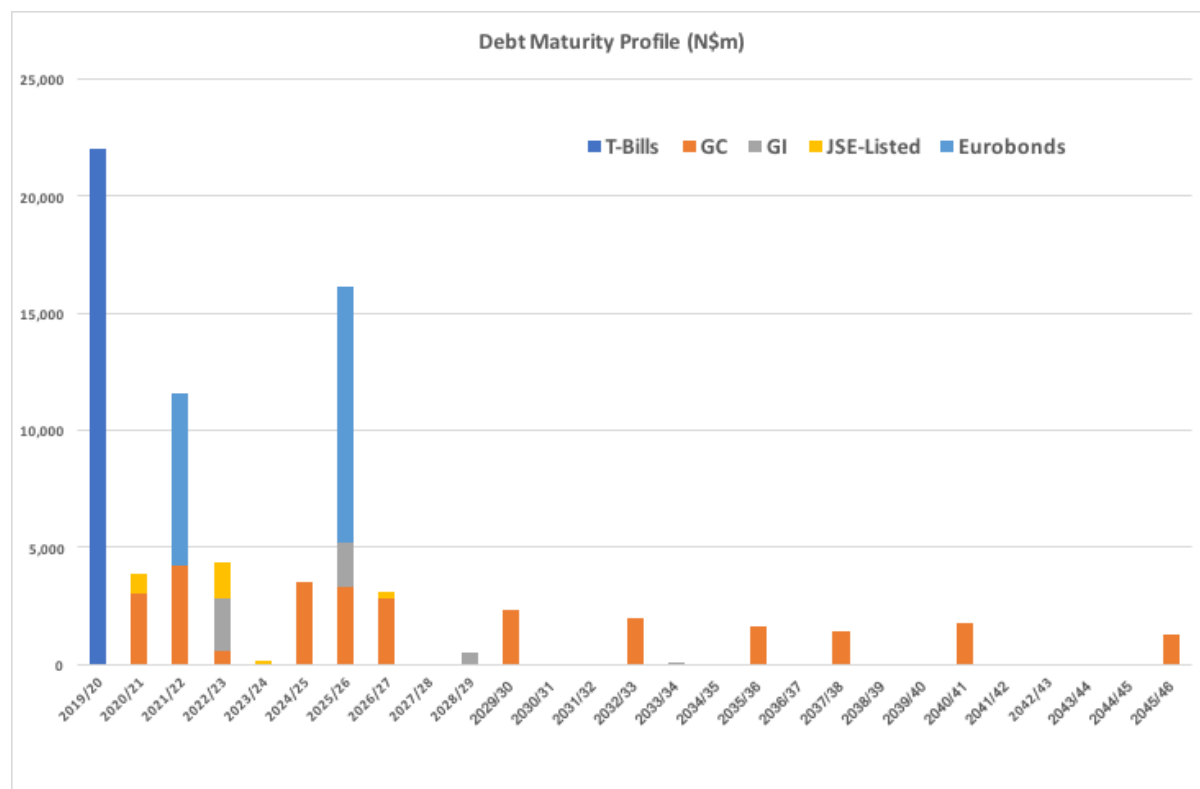
These maturities give rise to a very uneven maturity profile heavily weighted towards the next year (due to the preponderance of Treasury Bills) and the period up to FY2025/26 when Eurobond2 matures as shown in Chart 1. One of the aims of Government's debt management operations is to create an environment of stability and certainty so that it becomes less dependent on short-term debt and is able to smooth debt repayment over a longer period and in the process reduce the cost of debt to the fiscus and the risk of default due to short-term cash flow considerations.

Table 1: Public Debt at 31 March 2019

				BoN
Domestic Debt by Instrument	N\$m	% Domestic	% of Total	N\$m
Treasury Bills	21,789	39.7%	25.0%	21,982
Treasury Bonds	28,428	51.8%	32.7%	33,325
Inflation Linked Bonds	4,678	8.5%	5.4%	
Total Domestic Debt	54,894	100.0%	63.0%	55,307
Foreign Debt by Category	N\$m	% Foreign	% of Total	N\$m
Bilateral (Germany and China)	1,193	3.7%	1.4%	3,025
Multilateral (Development Financial Institutions)	10,032	31.2%	11.5%	8,063
JSE-Listed Bond	2,892	9.0%	3.3%	2,892
Eurobond	18,039	56.1%	20.7%	18,243
Total Foreign Debt	32,156	100.0%	36.9%	32,223
Currency Composition of Debt	N\$m	% of GDP	% of Total	
NAD	54,894	29.2%	63.1%	
EUR	1,970	1.0%	2.3%	
USD	18,230	9.7%	20.9%	
RMB	2,174	1.2%	2.5%	
ZAR	9,097	4.8%	10.5%	
CHF	40	0.0%	0.0%	
JPY	588	0.3%	0.7%	
KWD	57	0.0%	0.1%	
Total	87,050	46.3%	100.0%	
Total Debt	N\$m	% of Total	% of GDP	N\$m
Domestic Debt	54,894	63.1%	29.2%	55,307
Foreign Debt	32,156	36.9%	17.1%	32,223
Total Debt	87,050	100.0%	46.3%	87,530
GDP	187,896			

Source: Ministry of Finance Media Release 23 May, Bank of Namibia Quarterly Bulletin June 2019

Chart 1: Namibia's Debt Maturity Profile (excluding bilateral and multilateral debt)



In order to repay debt, the Ministry of Finance states it has a Debt Redemption Strategy which aims to “ensure prudent credit risk management to avoid default events”. Namibia has so far never defaulted on public debt of any sort. Government maintains two sinking funds in two currencies - South African Rand for the purposes of redeeming the local and JSE-listed bonds and US Dollars for the Eurobonds - to which money is transferred on a quarterly basis. As of 31 March 2019, the Ministry of Finance states that the balance on the ZAR fund was N\$858m and on the USD fund was US\$350m (or about N\$4.9bn). This compares with N\$2.9bn and US\$1,250m outstanding.

Since 2011 Government has paid Fitch Ratings and (subsequently) Moody's to provide a sovereign credit rating for Namibia (estimated to cost N\$10m in FY2019/20). Obtaining a second rating was one of the conditions for issuing the Eurobonds. In August 2017 Moody's downgraded Namibia's long-term debt and issuer rating to junk status, a reflection of its view that Namibia's creditworthiness had been damaged by its flagging economic performance. This was followed by a similar downgrade from Fitch in November 2017 for the same reasons. Such downgrades limit the exposure key international investors can take in Namibian debt and raises the cost to the country of issuing debt in future.

Conclusion – tough budget choices ahead

As laid out above in statements from the Bank of Namibia and International Monetary Fund during this quarter as well as from the Minister of Finance himself, Namibia faces several years of lacklustre growth. The Ministry of Finance envisages three scenarios in the National Budget as laid out in Table 2 below.

Table 2: Ministry of Finance Growth Scenarios

	2017	2018	2019	2020	2021	2022
Optimistic	-0.9%	1.0%	1.2%	2.2%	2.3%	2.4%
Central	-0.9%	-0.5%	0.2%	0.8%	1.1%	1.5%
Pessimistic	-0.9%	-0.8%	-0.4%	-0.3%	0.1%	0.5%

Source: Fiscal Strategy 2019/20

These growth estimates are far lower than those experienced by Namibia since the last economic downturn in 2009. Furthermore, the monetary and fiscal firepower employed then to stimulate the economy out of a slump is no longer available. Interest rates remain low by historic standards and public debt has risen to record highs. Growth as low as even the optimistic scenario will imply only very limited revenue growth and limit the ability to pay down debt without cutting expenditure elsewhere. With limited growth and the stated objective of bringing debt levels down to sustainable levels (which Government itself currently puts at around 35% of GDP and limited to 25% of GDP in its previous Debt Management Strategy of 2005) implies that Namibia will have to pay down around 15% of GDP in debt in net terms in the coming years. This in turn means that if Namibia is to avoid default and meet its domestic and foreign debt obligations in full, harsh budget decisions will have to be made. The case for major reforms – on the size of the public sector, on the civil service wage bill, on support to loss-making public enterprises, and on capital projects whose economic viability is questionable – has never been stronger.