REPUBLIC OF NAMIBIA

Ministry of Finance

Statement

On the

2019 Fitch Credit Rating Opinion on Namibia

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01 October, 2019

Fellow Namibians,

1. Namibia's credit worthiness is rated by two international credit rating agencies, namely Fitch and Moody's. Both agencies conduct annual ratings assessment of the Namibian economy and its creditworthiness.

2. Fitch Ratings undertook its latest annual assessment visit to Namibia during 09 – 12 September 2019. The Ratings Action Report was released today, in line with the dissemination formalities of the credit ratings action reports.

3. During the assessment visit, Fitch held consultations with the Government, the private sector and non-state actors as part of the consultation process.

4. The consultations allowed for the articulation of the Government macroeconomic and fiscal policy stance. Fitch also assessed the latest economic developments and undertook its own medium-term forecasts of the economic outlook.

Economic and Regional Context to the Ratings Action

5. The ratings assessment and consequent action by Fitch ratings was undertaken in the context of subdued developments in the global, regional and domestic economy.

6. The global economy is facing significant headwinds, arising from the multiplicity of risk factors which have become manifest. As such, the International Monetary Fund has revised downwards the global economic outlook for 2019 three times since April 2018, from 3.9 percent to 3.2 percent.

7. Global trade has also taken the knock, while non-fuel commodity prices are projected to decline during 2019. This is a result of a combination of adverse factors, chief among them being the on-going trade spat pitting the United States and China, which weighs heaving on commodity exporters such as Namibia through reduced demand.

8. Namibia, as a small open economy is exposed to these adverse global developments through the trade channel, although specific domestic factors are noted. Within the sub-region, the Namibian economy is closely interconnected with the neighboring economies as trade partners whose growth is equally subdued.

9. In the international credit ratings context, Namibia is one of the few countries rated in the Sub-Saharan African region and, in fact, having

been the last investment grade economy in the region as rated by Fitch, before the downgrade in 2017.

10. The feedback effects on growth for Namibia as a small open economy through the trade channel are large. The South African economy, to which the Namibian economy is closely integrated also faces subdued growth outlook, with trade in the sub-region having receded to low ebb. Most of the rated Sub-Saharan sovereigns have their ratings down-graded due to shocks on growth and its concomitant effects on public finance.

11. Notably, Namibia is currently experiencing one of the severest drought spells in recent times, which occasioned the deep contraction in the agricultural sector as well as water scarcity affecting water depended industries.

12. Adjustments to commodity prices and shocks to income have taken longer, given the prolonged presence of the risk factors arising from the vagaries of the global and regional economic and trade developments.

Fitch Ratings Action, September 2019

13. In its ratings action released today, 01 October 2019, Fitch:-

    - further downgraded Namibia's long-term non-Rand foreign currency bonds from BB+ sub-investment grade assigned in 2017 with a negative outlook, to a BB sub-investment grade, with a stable outlook.

    - this is a notch lower than the previous rating, reflecting Fitch's view that the domestic economy remains under recessionary pressures, amidst external shocks arising from the impact of the prevailing severe drought condition, elevated risks of contingent liabilities from certain Public Enterprises and lower sub-regional growth outlook.

14. In its report, Fitch highlighted the following key drivers which weigh on the ratings and the outlook:-

    - weakening of economic growth which Fitch expects to contract by 1.2 percent in 2019, against its initial positive growth expectations of 0.7 percent,

    - weak domestic demand as low credit extension to the private sector and fiscal consolidation weigh on domestic demand and the pace of economic activity,

- the negative impact of temporary factors such as the severe drought in the agricultural sector and the weak growth in the mining sector, particularly lower diamond output due to maintenance of some of the mining capital,
- increased budget deficit when statutory payments for project financing under off-budget extra-budgetary funds are considered,
- reduced ability to stabilize growth in public debt through cutting back on spending, particularly the inability to reduce the high wage bill costs in a low growth environment, and
- elevated contingent liabilities arising from certain Public Enterprises, thus posing significant contingent liabilities for the Government.

15. While emphasizing these ratings areas of needed improvement, Fitch has, *inter alia*, recognized the following strengths for Namibia:-

- reduction in the primary deficit, excluding SACU revenues, by a sizeable 7.6 percent over the past four years, underscoring the effectiveness of fiscal consolidation to stabilize public finance,
- a sharp reduction in the Current Account deficit to about 1.8 percent in 2018, from 15.6 percent in 2016,
- financing flexibility on the back of a well-capitalized banking and non-bank financial sector with a combined asset base in excess of 150 percent of GDP,
- strong governance standards, institutional framework and the projected return to economic recovery by 2020, which supports the ratings going forward.

16. On the Fitch scale, Namibia is only second to South Africa, based on the latest Fitch Ratings action and, thus, the second highest rated economy in the Sub-region, albeit at sub-investment grade.

The Government Policy Stance and Action Steps

17. The Government takes note of Fitch Ratings action and the areas of improvement raised. As such, the Government reiterates its commitment to a growth-friendly fiscal consolidation and the package of structural policy reforms to support domestic economic activity, improve business confidence, policy certainty and bring about recovery of the domestic economy and sustainable public debt management.

18. Achieving economic growth, which is the necessary condition for the reduction of public debt, revenue generation, the creation of jobs and the reduction of poverty and inequality is by far the most important objective over the short and the long term.

19. In this regard, the Government, in collaboration with the private sector, has already commenced with the implementation of growth enhancing measures:-

- implementation of an increased development budget by 42.2 percent, from N$5.5 billion to N$7.9 billion in FY2019/20 as a lever for supporting domestic economic activity. As such, available data indicate the easing of contractions in the construction sector.

- implementation of the project financing arrangements with the African Development Bank to the tune of N$4 billion over the next three years for the agricultural mechanization program, rail and road infrastructure projects as well as essential public infrastructure projects in the education sector. Procurement of these projects have reached an award stage and poised to inject activity and enhance the productive capacity of the economy,

- implementation of SME and youth entrepreneurship financing facilities at the Development Bank of Namibia to provide improved access to finance for SMEs and youth entrepreneurs, thus enhancing economic activity, job creation and self-employment,

- implementation of directives for local sourcing and local empowerment provisions in public procurement sphere to stimulate domestic productive capacity, local value and jobs,

- implementation of the recommendations of the 2019 Economic Growth Summit in the broad areas of structural policy reforms and private sector investment commitments in the local economy,

- increased mobilization of domestic savings through increased domestic asset requirement from 35 percent of total assets to 45 percent by December 2018, thus releasing money into the domestic economy to finance investments in the real and services sectors,

- continuing to strike the fine balance between fiscal consolidation and achieving broad-based economic growth in favour of long-term sustainability and to deliver the overall budget as appropriated,

- Implementation of Public Enterprises and state assets reforms within the framework of the Public Enterprises Act and effectively managing contingent liabilities arising from certain Public Enterprises, and
- implementation of public-sector wide wage bill reforms to reduce the wage bill as a proportion of Gross Domestic product and total expenditure.

Conclusion

20. We are confident that these policy packages will place the economy on a firm positive and sustainable growth trajectory over the medium to long term. Throughout the years, Namibia has demonstrated its ability and resilience to deal with shocks and also to direct policy actions to addressing socio-economic development needs.
21. We, therefore, remain optimistic that growth prospects will gain traction as the implementation of the adopted measures is scaled-up. The Government summons the collective support of all Namibians and call on the private sector and investor community to remain positive and supportive during this adjustment process.

Thank you