REPUBLIC OF NAMIBIA

Ministry of Finance

Statement

On the

2019 Moody's Credit Rating Opinion on Namibia

Calle Schlettwein, MP

Minister of Finance

06 December, 2019

Fellow Namibians,

1. Namibia's credit worthiness is annually rated by two international credit rating agencies, namely Fitch Credit Ratings and Moody's Investor Service. Following the recent ratings report by Fitch Credit Ratings in September 2019, Moody's Investor Service visited Namibia during 11 – 15 November 2019. The Ratings Action Report was released today, in line with the dissemination formalities of the credit ratings action reports.

2. During the assessment visit, Moody's held consultations with the Government, the private sector and non-state actors as part of the consultation process.

3. The consultations allowed for the articulation of the Government macroeconomic and fiscal policy stance. Moody's 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

4. The ratings assessment and consequent action by Moody's ratings was undertaken in the context of subdued global, regional and domestic economy.

5. 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. This is especially the close linkages with the main trading partners of South Africa and Angola.

6. The feedback effects on growth for Namibia as a small open economy through the trade channel are large. Most of the rated Sub-Saharan sovereigns have their ratings downgraded due to shocks on growth and its concomitant effects on public finance.

7. 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. The early rains we are currently experiencing, if sustained would support the return to growth for the agricultural sector, especially crop farming.

8. 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.

Moody's Ratings Action, December 2019

9. In its ratings action released today, 06 December 2019, Moody's:-

    - downgraded Namibia's long-term non-Rand foreign currency bonds from Ba1 sub-investment grade assigned in 2017 with a negative outlook, to a Ba2 sub-investment grade, with a stable outlook.

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

10. While the long-term non-Rand, foreign bonds are rated at sub-investment grade, the Rand-denominated bonds are still at investment grade.

11. In its report, Moody's highlighted the following key drivers which weigh on the ratings and the outlook:-

    - weakening of economic growth which Moody's expects to contract by 1.5 percent in 2019, against its initial positive growth expectations,

    - 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,

    - the negative impact of temporary factors such as the severe drought in the agricultural sector and the weak growth in the mining sector, and

    - declining national competitiveness relative to global rankings

12. While emphasizing these ratings areas of needed improvement, Moody's has, *inter alia*, recognized the following strengths for Namibia without much emphasis:-

    - Relatively robust institutions and governance strength, national capacity to respond to shocks and domestic liquidity capacity,

    - Monetary and price stability which contributes to bolstering shock national resilience,

- a sharp reduction in the Current Account deficit to about 2 percent in 2018, from averages of 8 percent over 2008 to 2016 perid
- a large and liquid domestic financial sector, with 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.

Previous Ratings Action by Moody's and Progress to date

13. The Government takes note of Moody's Ratings action and the areas of improvement raised. When Moody's downgraded Namibia to sub-investment grade in 2017, the main factors cited for the downgrade were:-

    - erosion of Namibia's fiscal strength due to sizeable fiscal imbalances and an increasing debt burden,
    - limited institutional capacity to manage shocks and address long-term structural fiscal rigidities, and
    - risk of renewed government liquidity pressures in the coming years

14. Since then, Namibia has made real progress points to stabilize the macro-fiscal framework:-

    - expenditure as a proportion of GDP is reduced from 42 percent in 2014/15 to 33.6 percent in 2019/20,
    - the budget deficit as a proportion of GDP is reduced from 8.1 recent in 2015/16 to about 4.1 percent by 2019/20,
    - the year-on-year increase in public debt has sharply moderated to 11.2 percent by 2019/20, from the average of 30.1 percent three years ago,
    - the current account deficit has narrowed from high levels of 15.6 percent of GDP in 2016 to 2 percent by 2018, and
    - foreign reserves have improved to about 4.3 months of import cover by 2019, from about 2 months of import cover in 2015/16

The Government Policy Stance and Action Steps

15. 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.

16. As stated in the Government's medium-term policy stance, 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.

17. 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 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 which were launched in early November 2019 and already became effective on 1 December 2019,
    - 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, including measures to improve national competitiveness 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,
- envisaged 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,
- dealing decisively with aspects of alleged corruption in the public sector sphere to instill public and business confidence, 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

18. 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.

19. 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 as the economy rebounds to positive growth, thus enabling broad-based socioeconomic development and shared prosperity.

Thank you