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Fitch Ratings affirms Namibia sovereign rating at BB+

Fitch Ratings has released its latest assessment of Namibia on 13 August 2018. It affirms the rating at BB+ with a stable outlook.

The main reasons for the decisions are:

- Government's continuous commitment to fiscal consolidation although progress is slow since Government is trying to balance fiscal consolidation with supporting economic growth and addressing poverty and inequality. The high wage bill as well as transfers to Public Enterprises (PE) remain major challenges.
- Public and net external debt ratio is below the current BB median.
- Modest economic recovery in 2018 by a projected 0.6% compared to a contraction of 0.8% in 2017. The recovery is expected to be driven by the mining sector (and in particular increased production at the Husab uranium mine) and other export-oriented sectors, while domestic demand is expected to remain subdued.
- Fitch regards Namibia's long-standing political stability as a major credit strength. However, the upcoming land conference as well as the revised NEEEF could create some policy uncertainties.

However:

- The medium-term growth prospect remains weak because of Namibia's vulnerability to external risks (global commodity demand) and structural bottlenecks such as low education outcomes and a weak business climate. In addition, Government lacks the fiscal space for counter-cyclical fiscal policy, while the Bank of Namibia's monetary policy is constrained by the currency's peg to the South African rand.
- The budget deficit remains high compared to other countries in the same category. Fitch projects the budget deficit to exceed the target and reach 4.9%, which is slightly below the 5.1% for the Financial Year 2017/18. Consequently, public debt are likely to increase further to 51% by 2020. High debts of PEs pose an additional risk to Government's finances. Fitch expects a partial privatisation of MTC, but not of any other commercial PEs at this stage. While short-term refinancing risks are considerate to be moderate, the maturity of substantial amounts of debts after 2020 could increase risks.
- External (trade) deficit remains high. While the current account deficit dropped to 3.3% in 2017 from 15.7% a year earlier, Fitch expects the deficit to widen again owing to increased costs of energy imports. The import cover of foreign exchange reserves is projected to decline to 3.2 months by 2020.

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Fitch Ratings downgraded Namibia from an investment grade to non-investment grade in November 2017. The current review maintains this rating, which remains one notch below the investment grade of BBB-. Earlier, in May and July, Fitch affirmed the ratings for the Development Bank of Namibia at BB+ with a stable outlook as well as the rating for NamWater respectively. In general, institutions cannot be rated better than the overall country rating.

There are no quick-fix solutions and it usually takes countries a couple of years to regain an investment grade. We have mentioned a number of areas in our Commentary in November 2017 that should be addressed, but would highlight a few issues:

- The high wage bill prevents Government from investing in necessary infrastructure ranging from transport to water that can attract domestic and foreign private sector investment. Investment in infrastructure will create short-term jobs in the construction sector and afterwards jobs in the private sector owing to additional investment. Additional business activities will increase tax revenue from individual and corporate income tax and thus support Government's efforts to reduce the budget deficit and public debts. As argued earlier, a thorough review of all Government structures, not only OMAs (Offices/Ministries/Agencies) with the aim to develop a leaner, more efficient public sector should be a starting point.
- Investment in infrastructure, however, has to ensure that Government receives value for money and is not being overcharged for sub-standard work. A thorough review of tender documents by – ideally independent – experts could increase the likelihood that the expected return on investment is achieved. It is already promising that Government has reportedly rejected proposals for the finalisation of some road projects owing to exorbitant costs.
- Although Public Private Partnerships are not a panacea to all infrastructure needs, a careful consideration on a project-by-project basis could reduce the burden on public coffers, reduce the risks of cost and time overruns.
- The trade deficit and current account deficit needs to be addressed. The new procurement act could increase public demand for domestically produced goods and services if properly implemented. The private sector could continue with efforts to identify domestic suppliers of goods and services rather than importing products. Domestic and foreign wholesale and retail trade companies need to take the Retail Charter seriously and provide more shelf space to domestic producers and if need be mentor domestic producers. A more aggressive shift to renewable energy sources as well as more energy-efficient equipment could reduce the import bill of electricity that amounted to NAD3 billion in 2016 as well as the importation of coal and diesel for power plants.
- We need smart policies that balance the need to address major social challenges of poverty, inequality and unemployment with the need to remain attractive to domestic and foreign investors. This requires a continuation of the close cooperation between the public and private sector.

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