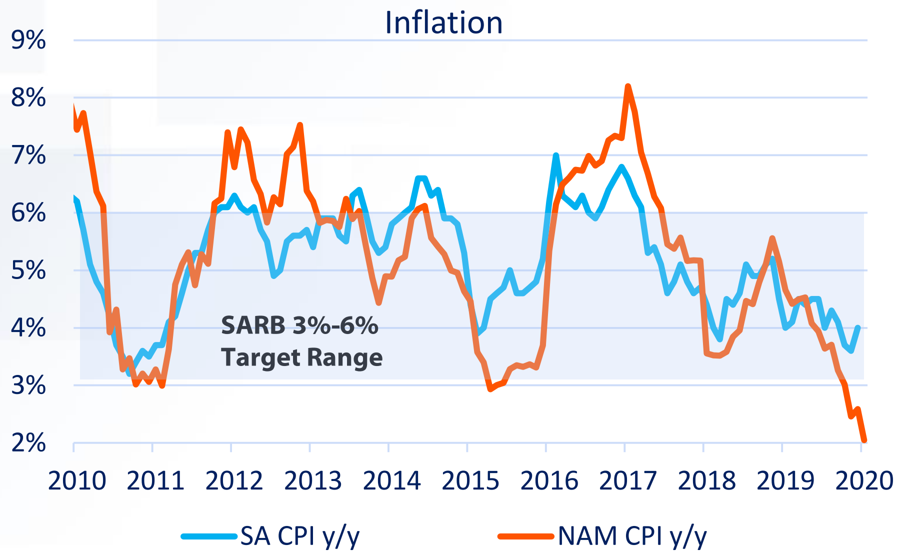
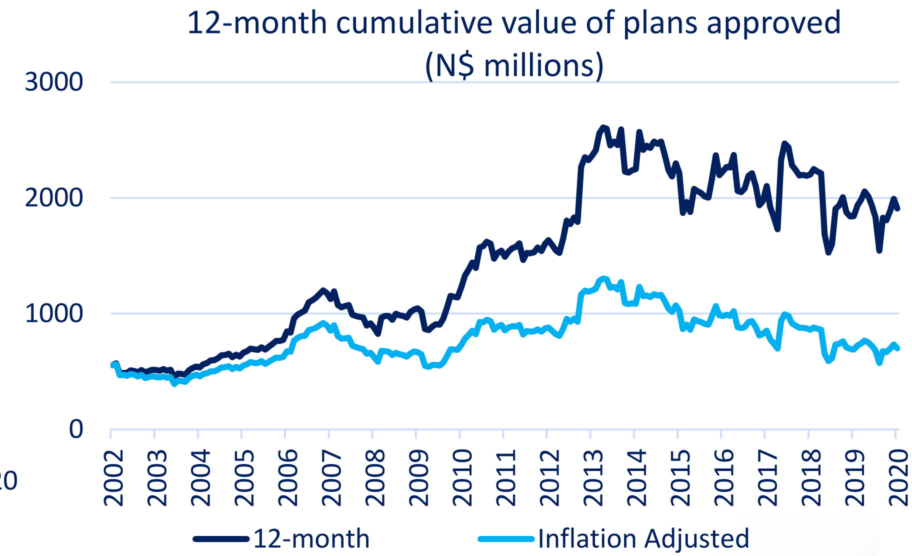
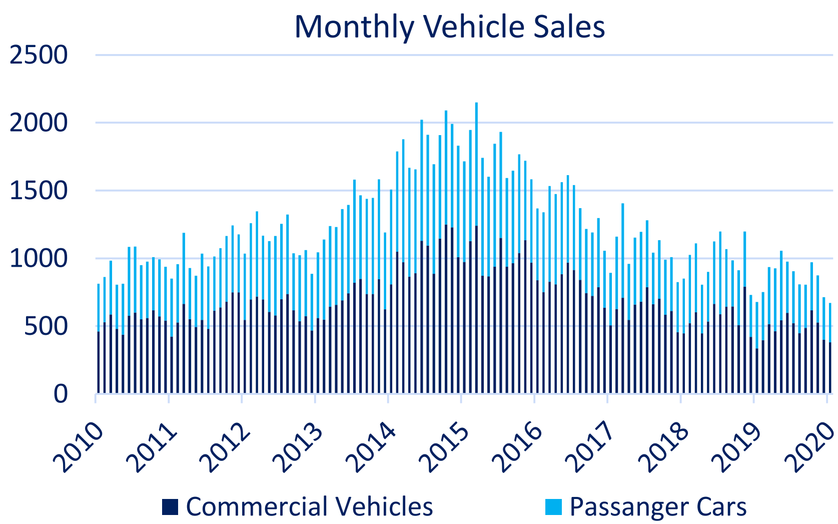
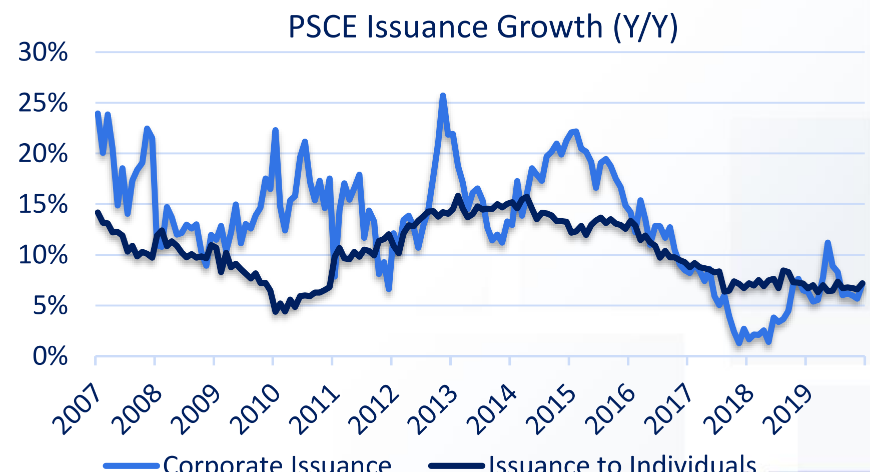
IJG Outlook 2020

Outturn 2019









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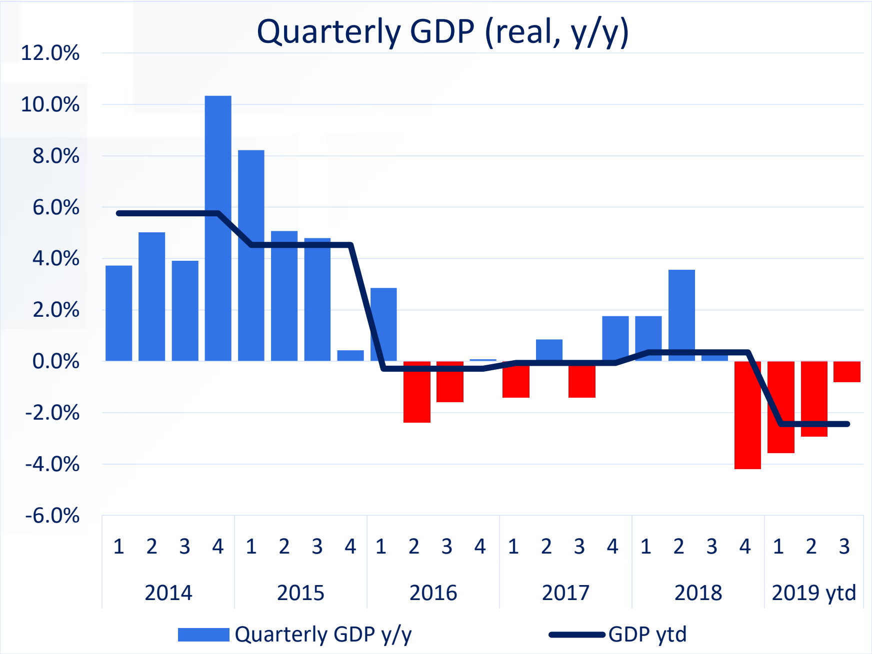
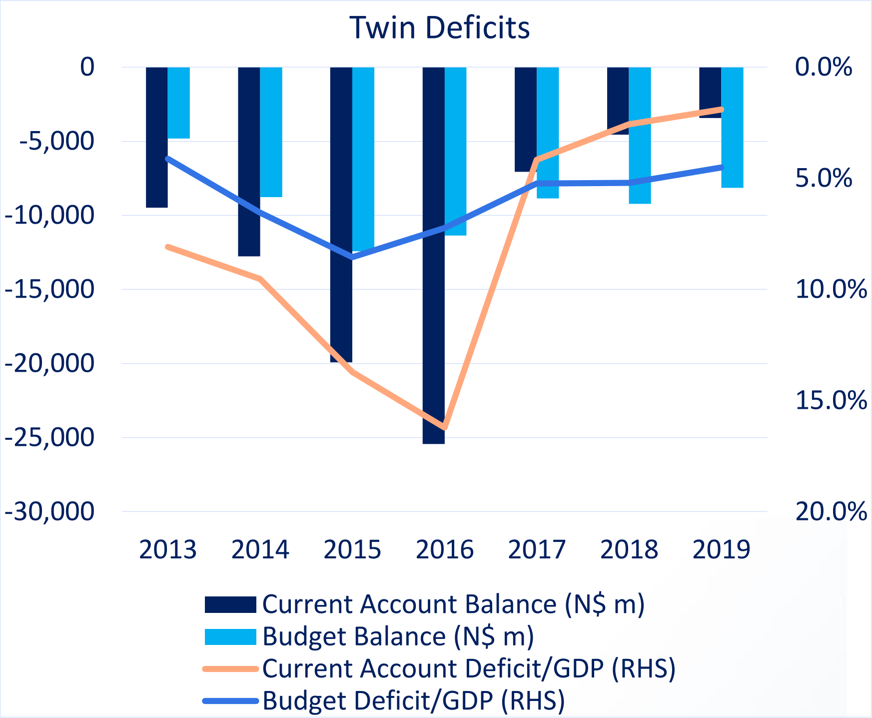


- 2019 will likely be the deepest contraction since independence.
- IJG est -1.9% real GDP growth in 2019.
- 2019 marks the fourth consecutive year of negligible growth, leading us to redefine from recession to depression.
- Growth over this period has been well below est population growth (±2%) – overall Namibians are less well off with every year that exhibits growth of below 2.0%.
- Increasing unemployment: we estimate could be as high as 37.1% in 2019.

- The current downturn is no longer part of a normal business cycle in our view.
- There are structural issues preventing stimulus to the economy which are not being adequately addressed.

Outturn 2019

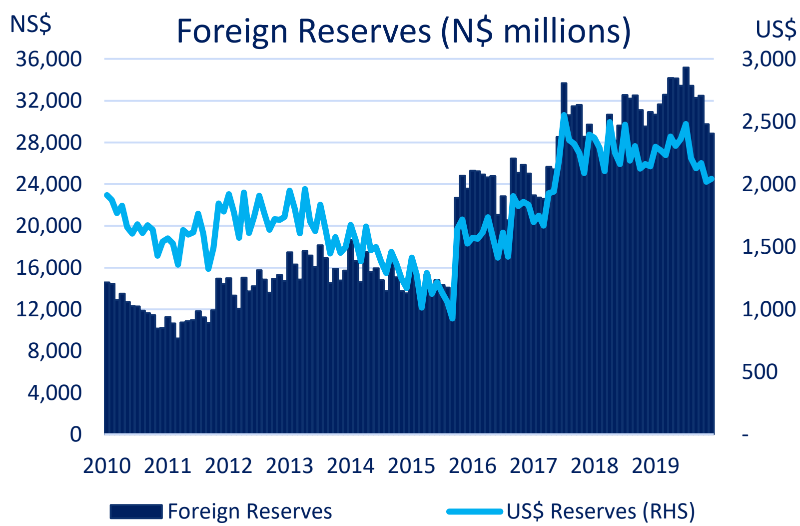
- Namibia started and ended 2019 with twin deficits once again.
- Budget deficit expanded to 4.8% in FY19 from 4.4% (before accounting for nominal GDP adjustments).
- Continued use of debt to fund largely consumptive expenditure.
- Current account deficit has shown major improvement from 16.2% to GDP in 2016 to an estimated 2.0% in 2019.
- Nominal value of imports has decreased largely due to reduced investment activity.
- Nominal value of exports increasing steadily.

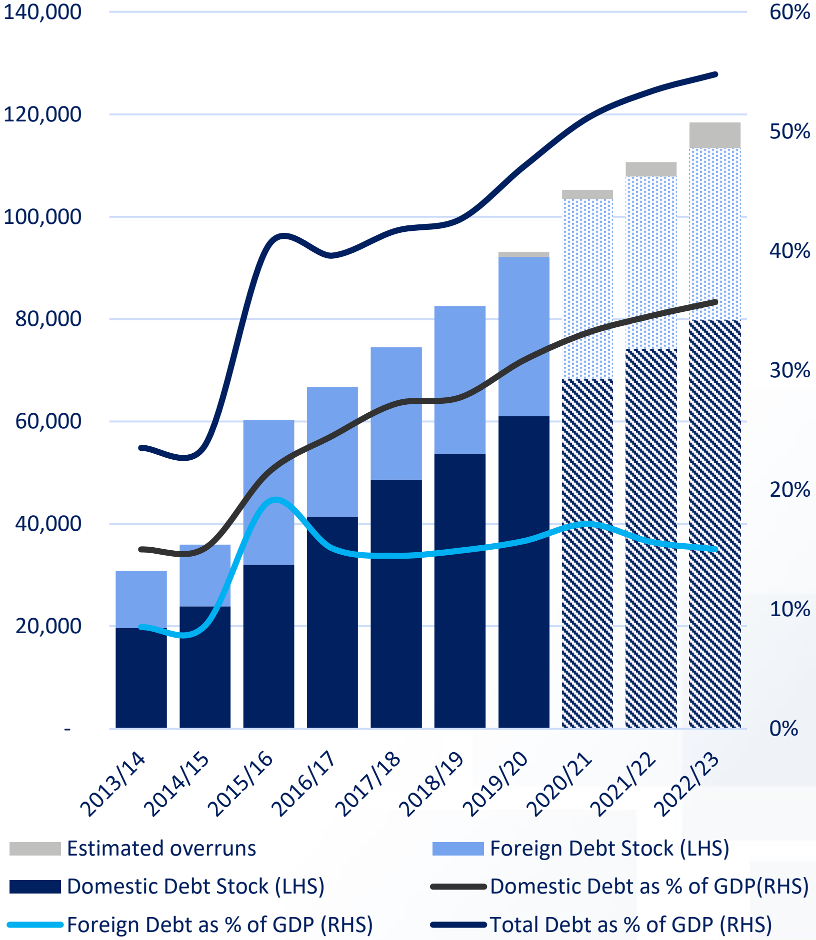


- Strong SACU revenues and capital inflows due to domestic asset requirement changes further supported the current account and BoP and by extension the reserve position.

Outturn 2019

- Persistently large budget deficits have led to a significant increase in debt-to-GDP.
- Debt service costs have also risen sharply to around N$7bn in FY20.
- As much as is being spent on the development budget is being spent on interest costs.
- Government itself expects debt stock to reach N%$118bn by 2023 (currently N$97bn).





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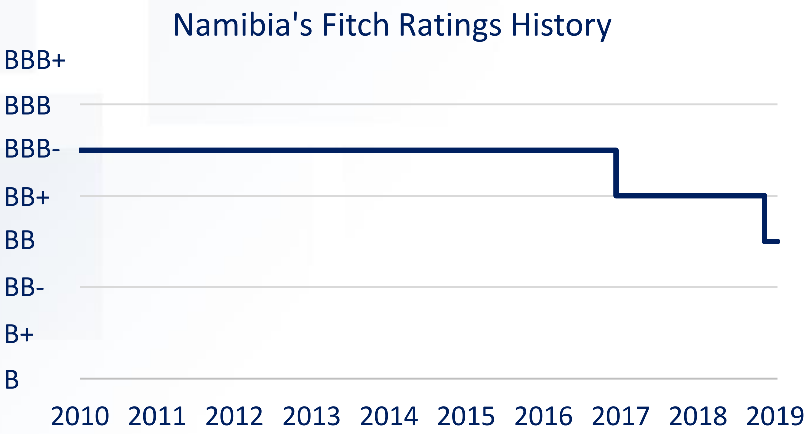

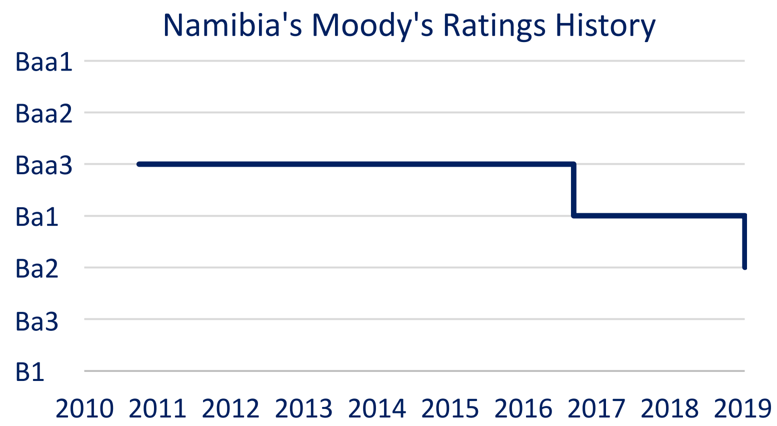

- Both Moody’s and Fitch Ratings downgraded Namibia’s credit rating during the year.
- These downgrades did not come as a surprise given the context of poor economic growth, rapidly expanding government debt, and policy uncertainty.
- Issues:
  - Poor growth prospects going forward
  - High debt service costs and debt-to-GDP (+11.9% of revenue, 4% to GDP)
  - Policy uncertainty
- Slide from 66th place globally in the World Bank’s 2010 Ease of Doing Business report to 104th place in 2019.

Outlook 2020

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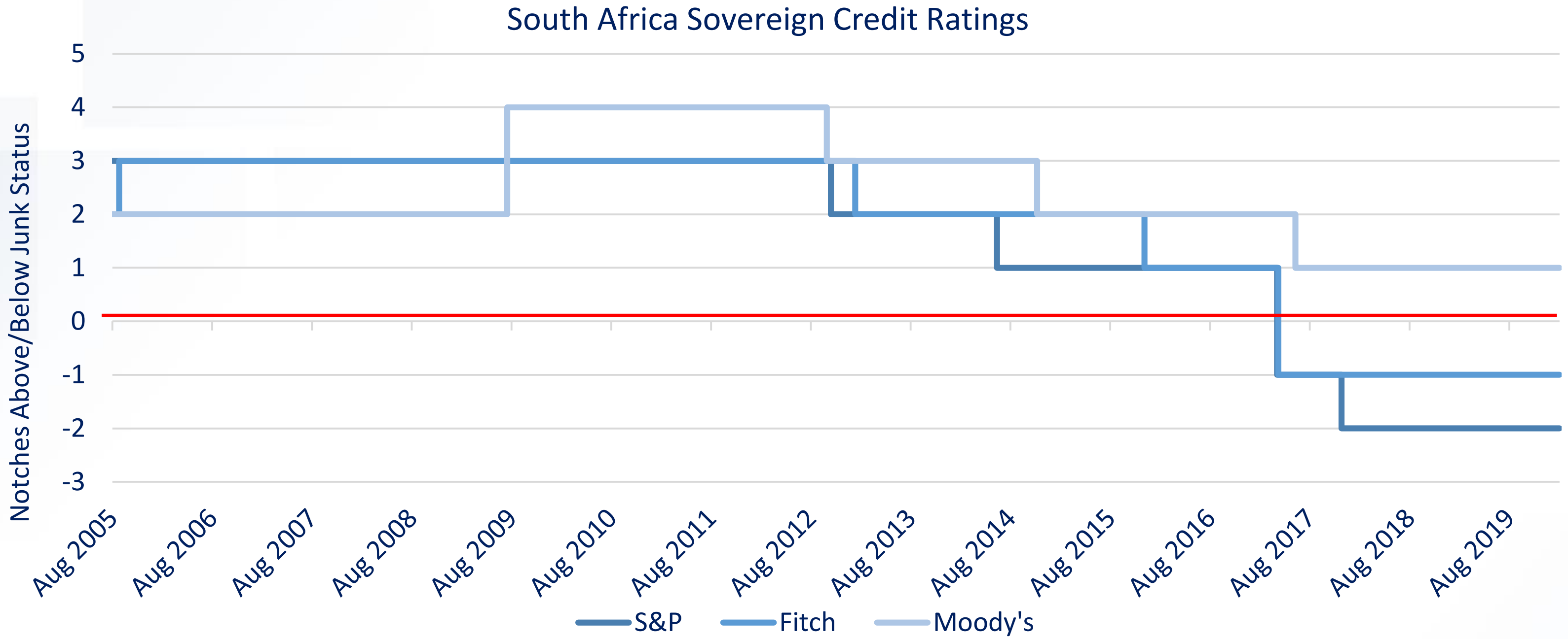
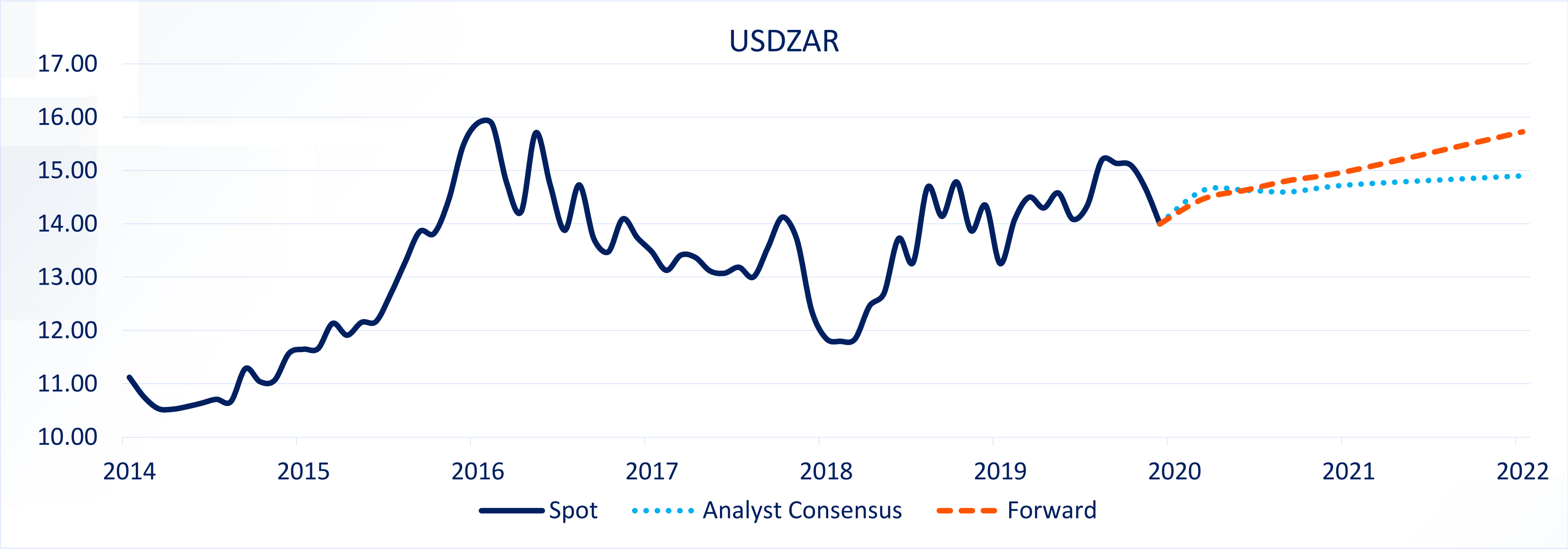


- The consensus view is that Moody's will downgrade SA in 2020.
- This has been a source of concern as there will be an exodus of funds from SA government bonds.
- An outflow of funds will put pressure on the Rand.
- However given the attractive real yields in SA at present we cautiously expect the search for yield to see funds flow back into SA paper, returning yields to around present levels.

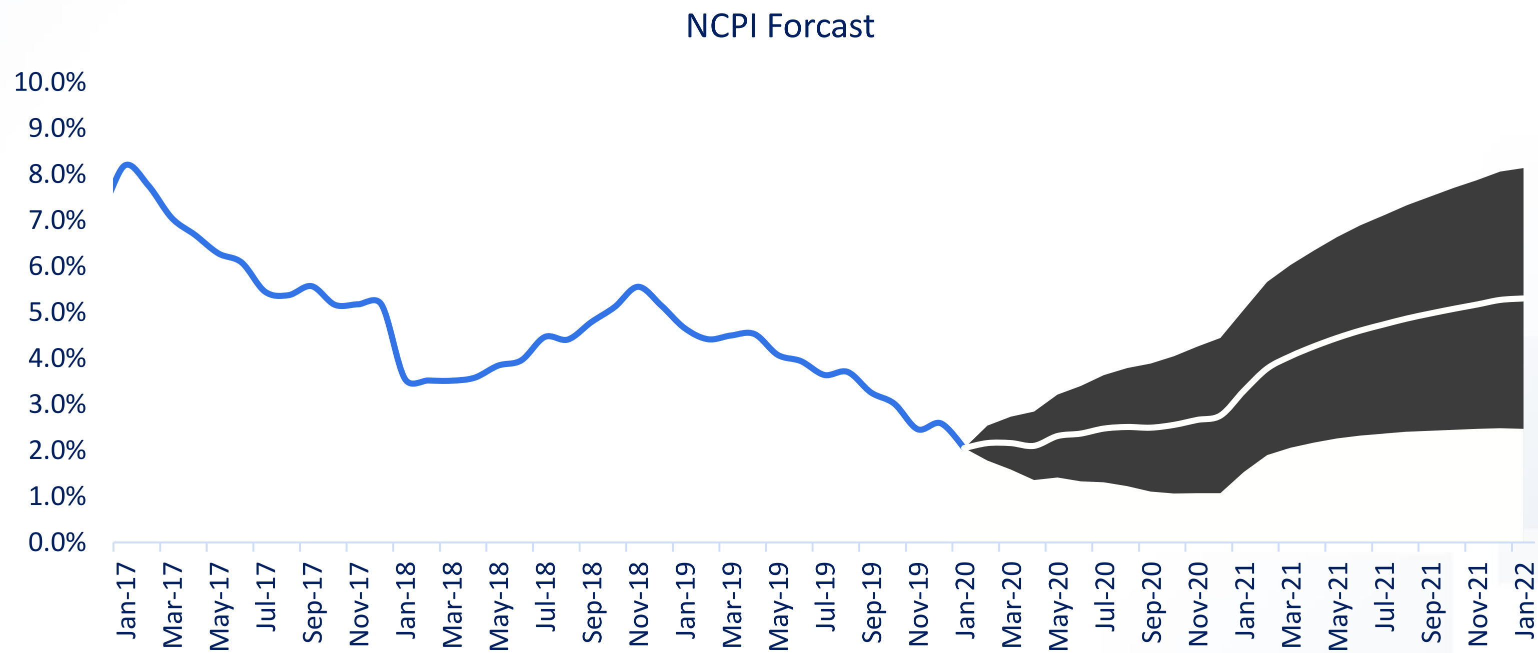
Outlook 2020



- Bloomberg's median analyst forecast is pointing to a USDZAR exchange rate of ZAR 14.80 by the end of 2020.
- This is however well below the forward rate of ZAR 14.99.
- This supports the view that a ratings downgrade is more or less priced in.

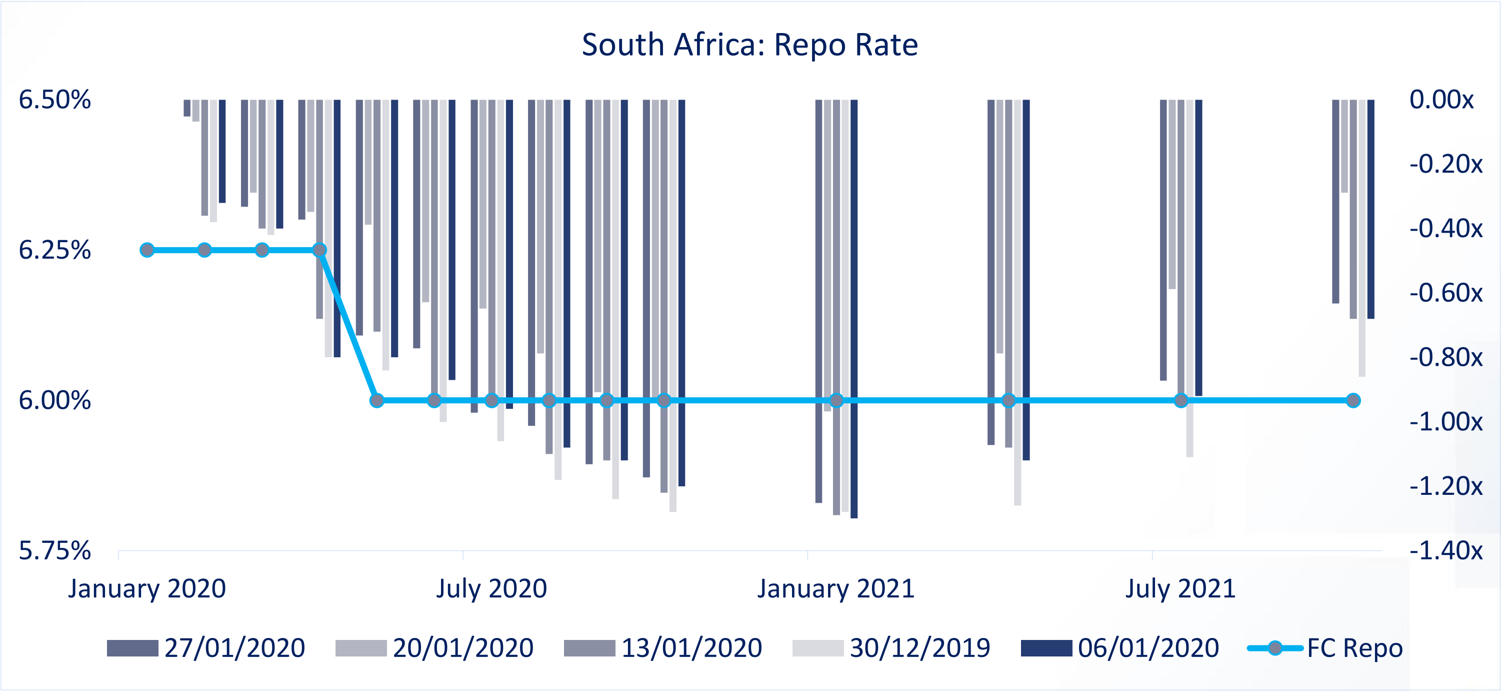
Outlook 2020

- With the currency expected to remain relatively stable we do not expect major shocks in NCPI.
- Our expectation is for inflation of around 2.4% avg in 2020, ending the year at around 2.8%.
- Rental inflation registered negative 1.2% y/y in January (deflation).
- Similarly inflation in SA is relatively muted (core CPI of 3.7% in Jan).
- This is supportive of accommodative monetary policy.



Outlook 2020

- As we expect the rand to be supportive of low core CPI in SA we expect one further repo rate cut in the first half of 2020.
- The possibility for a further cut is growing as the SARB revises down growth expectations.
- Our base case scenario is that Namibia will follow the SARB and reduce the repo rate by a further 25bps.



Outlook 2020

Monetary Policy

- We do not expect more accommodative monetary policy to have the stimulative impact that is needed in the current economic climate.
- Lower interest rates add marginal relief only.

Fiscal Policy and Regulation

- As we are no longer in a normal downswing in the business cycle we believe that extraordinary reforms are necessary to correct the current trajectory of the economy.
- There is little room to increase government spending and deficits remain large.
- $C + I + G + (X – M)$ …
- Focus should be on the I
- Reforms need to improve competitiveness and create a more conducive environment for investment from both foreign and local sources of capital.

Thank You

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