Economic Association of Namibia

PO Box 6148
Windhoek, Namibia
M +264 81 155 9775
F: +264 88 622 267
E: info@ean.org.na
W: www.ean.org.na

Will the Mid-term Budget Review strengthen investor confidence? Klaus Schade

On 11 August Moody's Investors Services downgraded Namibia from an investment grade to a speculative grade – commonly referred to as junk status. The decision was met in the country with criticism, since it was felt that some of the reasons provided were taken out of context (increase in the share of personnel expenditure over total government expenditure) or were rather speculative such as the assumption that the SWAPO Congress and general elections in 2019 could loosen fiscal policy.

Growth prospects remain challenging for this year since Namibia remains in a technical recession. Quarterly GDP has contracted since the second quarter 2016. Other parameters have, however, improved, most notably the import cover. Foreign exchange reserves received a boost from the first tranche of NAD3.0 billion of a loan from the African Development Bank during the second quarter of 2017 and from the repatriation of investment abroad. Foreign exchange reserves were below the international benchmark of three-month import cover, but have increased to above five-month import cover. The improved position will ensure investors that Namibia can honour foreign obligations. The loan also improved the domestic liquidity situation since it enabled Government to settle arrears.

However, Namibia has to attract more foreign direct investment and close the trade gap between imports and exports in order to increase reserves further to repay foreign loans such as the Eurobond and the AfDB loan. Furthermore, the loan increased total Government debts to some 41 per cent of GDP as anticipated in the national budget; a level that remains a concern to rating agencies.

While foreign exchange reserves and liquidity in the domestic market have improved, which should mitigate fears of foreign investors and rating agencies, striking the right balance between operational and capital expenditure will remain one of Government's main fiscal challenges.

Cutting capital expenditure was inevitable in the short term in order to rein in rising budget deficits and total debts. Government also used the opportunity to reduce wasteful expenditure such as Subsistence and Travel Allowance, bail-outs to State-owned enterprises or shelve capital projects that do not contribute meaningfully to economic growth, such as new offices. However, the tough task lays still ahead, namely to adjust the civil service to sustainable levels and free financial resources for much needed investment in infrastructure that can improve Namibia's competitiveness, attract private sector investment and stimulate job creation. Investors and rating agencies will look for signs in the Mid-term Budget Review whether Government is on the way to get this balance right.

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