REPUBLIC OF NAMIBIA

Ministry of Finance

Media Statement

On Fitch Credit Ratings Opinion on Namibia

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Minister of Finance

20 November, 2017

Hon Speaker,

Hon Members,

Fellow Namibians

1. Namibia credit worthiness is rated by two internationally reputable rating agents, namely Fitch and Moody's. Both agencies conduct annual assessments of the Namibian economy and its sovereign credit worthiness. Moody's on their part commenced with a rating action three months ago, down grading Namibia's long term non Rand foreign currency bonds to BB- with a negative outlook, while maintaining investment grade ratings for the domestic and Rand denominated bonds. Subsequently they held the annual consultations two weeks ago and we are awaiting the rating report later this year. We. Do not anticipate major changes in the rating however.

2. Fitch Ratings Agency visited Namibia for the ratings assessment during 31 October – 1 November 2017. The assessment and rating action was part of the annual ratings, which Fitch as the second ratings agency assessing Namibia, undertakes every year.

3. The required consultative approach engaging the authorities and stakeholders was conducted and is appreciated. Such engagements clarified the Government policy position as formulated in the Mid-year Budget review tabled in the National Assembly recently. The necessity of timely adjustments made on Government spending to pay outstanding invoices as a once-off expenditure, avoiding reversals in the provision of urgent services in especially education and health and to provide for a more directed infrastructure spending over the medium-term to support future economic growth objectives were shared.

4. In its ratings action released on 17 November 2017, Fitch:-

   - retained the domestic bonds and South Rand-denominated bonds at an investment grade (AA+), with a stable outlook,
   - downgraded the long-term non-Rand foreign currency bonds to sub-investment grade BB+, from BBB- investment grade, but assigns a stable outlook. This is better than the outlook assigned by Moody's Investor Serve in August this year and reflects material improvements in a number of key indicators.

5. In their report Fitch recognized the following material improvements in the macroeconomic and fiscal policy metrics:-

   - improvement in liquidity and Government financing conditions, with liquidity increasing four-fold since 2016,
   - reduction in Current Account deficit, from a high of 14.5 percent of GDP in 2016, to an average of about 7 percent over the medium-term,
   - improved international reserves to an average of 4.2 months of import cover over the medium-term, from 3.1 months in 2016, and
   - continued political stability and strong governance which remain the hallmark of Namibia's democratic governance.

6. The stated factors driving the downgrade on the foreign currency denominated bonds include weaknesses in fiscal outcomes, lower economic growth, interruption in announced fiscal consolidation stance due to increased spending to cover previously un-budgeted spending arrears, the resultant higher than projected budget deficit and public debt over the medium-term. Improvements in these metrics will be important in improving the rating in the medium-term.

7. As a result of these constructive engagements, the policy context of the once-off adjustment in the 2017/18 budget as expressed in the 2017/18 Mid-Year Budget Review and the targeted recalibration of the medium-term fiscal policy stance to address economic growth objectives and

continued uninterrupted provision of the critical public services were understood. The policy stance to support medium to long-term inclusive economic growth was embraced as critical for long-term socio economic development.

8. The observed once-off increase in the revised expenditure for 2017/18 is to appropriate for the settlement of the previous spending arrears. Over the next MTEF moderate but targeted expenditure is to support socio-economic growth objectives, while maintaining a more gradual fiscal consolidation to avoid large unintended consequences.

9. The Mid-year Budget review provides for the continuation of a sustainable consolidation to achieve debt sustainability. Debt to GDP ratios are falling year on year for the past three years and so are budget deficits. Emerging economic growth is protected through sourcing private capital for infrastructure development and the vulnerability of the external position is lessened by stronger international reserves and an improved current account deficit.

10. Hon Speaker, Hon Members, Namibia is rated not only by these two rating agents, but indeed by several other reputable institutions. The latest is by the Mo Ibrahim Foundation, where in its report released yesterday it is highlighted that Namibia as one of the top African countries with increasing improvements of its overall governance. In the last five years, that is as from 2012, 18 countries picked up pace in improvements and Namibia is scored as one of the top four countries in which the average increased score of past five years the score is greater than that of the last 10 years. Namibia has improved in its overall rating to number five in Africa.

Conclusion

11. Hon Speaker, we are confident that our policy interventions are broad based and that they indeed place the economy on a credible recovery path. The initially sharp consolidation measures were very necessary to stop a slide into unsustainable macroeconomic fundamentals. As a result our broad fundamentals are now stronger than a year ago and with the more gradual consolidation, improved liquidity, stronger external position and stabilizing debt we can look into the future with cautious optimism.

12. Obviously the Government recognizes the policy significance of these rating actions raised by credit ratings agencies with their recommendations to address the macro-fiscal weaknesses.

13. As such, the Government has proposed a package of policy interventions in the 2017/18 Mid-Year Budget Review to address these concerns, consistent with the principle policy stance implemented since 2016/17 Mid-Year Budget Review. Among the key policy interventions are the targeted measures to support domestic economic growth objectives, protecting spending in the social sectors, maintaining the fiscal consolidation, albeit in a gradual manner, and implementing structural policy reforms to reinforce the impact of the policy interventions.

I thank you for your support.