KPMG

Namibia Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Strong observance to the rule of law and a free press provide a favourable investment for investors.	The government is raising state ownership of mining assets in the industry, which restricts those looking to tap into Namibia's large reserve of diamonds.
A strong transport network facilitates rapid transport times and lowers costs.	The country's domestic market is limited due to a small population and low population density.
Cheap construction permits benefit those looking to build property or infrastructure.	Starting a business in Namibia is extremely time-consuming and costly, deterring entrepreneurs.
Namibia has some of the largest reserves of diamonds in the world.	Due to high export and import costs, regional competitiveness is reduced.
Opportunities	**Threats**
A number of incentive programmes for foreign investors have been put in place to attract foreign direct investment in the manufacturing and export-oriented industries.	The Namibian economy is highly integrated with the South African economy. Any impact on this link could have dramatic consequences for Namibia's trade.
Upgrades to the Walvis Bay air and sea ports are expected to increase air and ocean freight capacities.	Namibia's imports exceed its exports due to its reliance on South Africa as a trade partner, expanding the country's trade deficit.
Namibia is rich in natural resources such as diamonds and uranium.	Revenue from the mining sector, the country's main source of income, is heavily dependent on the opening of a number of mines.
The government is actively pursuing ICT policy, which is likely to lead to an increase in the use of e-commerce as a means of purchasing goods.	Limited consumer credit could impact long-term growth of the economy, particularly when combined with the country's high unemployment rates.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector in Namibia includes the rearing of livestock, processing of meat products, crop farming and forestry. Namibia also has one of the most productive fishing industries in the world based on the Benguela Current system. This system supports rich populations of fish, which form the basis for the Namibian marine fisheries. Fishing contributes to over 25% of the primary sector activities. The secondary sector is also of importance to the Namibian economy as it generates a large volume of the country's foreign exchange earnings through commodity exports. The main resources mined includes diamonds, gold, coal, uranium, copper, and rare earth minerals. The services sector contributes 62% to gross domestic product (GDP) – of which wholesale and retail, transport and real estate are the main components. Tourism is a major contributor to this sector. According to the World Travel and Tourism Council (WTTC), the total contribution (direct and indirect) of tourism to Namibia's GDP in 2016 was $1.6 billion (14.9% of GDP).

Recent economic developments – Moody's Investors Services and Fitch Ratings both downgraded Namibia's sovereign to non-investment grade during August and November, respectively. The key factors contributing to the downgrade included erosion of fiscal strength due to sizeable fiscal imbalances, an increasing public debt burden, limited institutional capacity to manage shocks and the risk of renewed government liquidity pressures in the coming years. The fiscal deficit will narrow during 2017 due to larger government revenues from mining and a recovery in commodity prices. However, challenges elsewhere in the economy and the government's failure to stem expenditure will see sizeable fiscal deficits to continue. Headline inflation increased from 5.4% y-o-y in August to 5.6% in September 2017. The Bank of Namibia (BoN) cut the repo rate by 25 basis points in August 2017, citing the need to boost economic growth.

Mega trends

Population	2017	Total: 2.57 million; female: 1.32 million; male: 1.25 million; age 0-14: 36.43% of total; age 15+: 63.57% of total; age 65+: 3.62% of total
Population growth rate	2015	2.21%
Life expectancy at birth	2015	Total: 63.64 years; female: 66.58 years; male: 60.83 years
HIV/AIDS	2016	Total number of people living with HIV: 0.23 million; total adult prevalence: 13.8%; HIV AIDS orphans (age 0-17): 0.045 million
Adult literacy rate	2015	Total population: 58.84%; female: 45.53%; male: 73.43%
Urbanisation	2016	Urban population: 47.63% of total; annual urban population growth: 4.26%; rural population: 52.38% of total
Population below $1.90/day poverty line	2009	22.6%
Unemployment rate	2017	Total: 24.9%; female: 27.2%; male: 22.7%; youth (15 - 24): 48.7%
Employment	2017	Agriculture: 29.1% of total; industry: 14.6% of total; services: 56.3% of total
Labour participation rate	2017	Total (ages 15+): 60.17% of total population
Business languages	n/a	English, Afrikaans, German
Telephone & internet users	2013; 2016	Fixed telephone subscriptions: 0.19 million (2016); wired internet subscriptions: 0.05 million (2013); cell phone subscriptions: 2.66 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	4.57

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
125th	out of 188 countries	78th	out of 180 countries	90th	out of 137 countries	106th	out of 190 countries	53rd	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Fourth National Development Plan (NDP4) is based on lessons learned from the preceding three development plans, with notable changes. For example, the NDP4 is considered a higher-level plan with fewer and more carefully selected goals and associated target values. The detailed programmes on how to achieve the various NDP4 goals and targets will be led to the various offices, ministries and agencies responsible for the relevant sectors. The National Planning Commission (NPC) will be responsible for scrutinising these individual plans to ensure that these align with the overarching plan and that they have a reasonable chance of being actualised. The three overarching goals contained in NDP are: 1) high and sustained economic growth; 2) increased income equality; and 3) employment creation. While all economic sectors will need to contribute to this endeavour, the plan places a specific focus on logistics, tourism, manufacturing and agriculture.

Sovereign Risk Ratings		
S&P Global Ratings	Fitch Ratings	Moody's Investors Service
---	BB+/Stable	Ba1/Negative

Source: Trading Economics

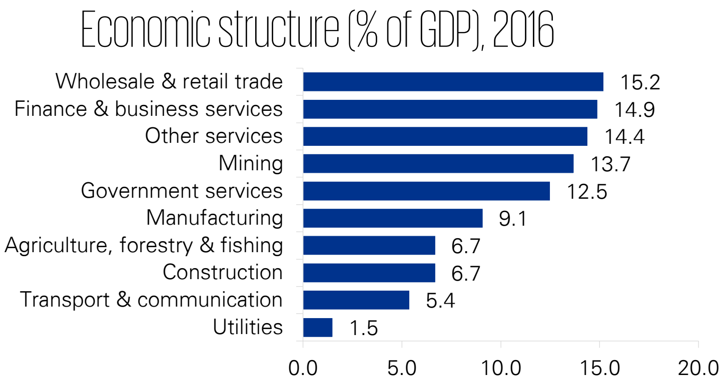
Fitch Ratings downgraded Namibia's long-term foreign Issuer Default Ratings (IDR) from "BBB-" to a non-investment grade "BB+" in November 2017. This rating carries a stable outlook. The downgrade reflects a weak economic recovery, the view that economic growth has shifted into a lower gear, an associated weaker-than-expected fiscal outcome and a projected continued rise in public debt-to-GDP. Fitch raised concern with the government revising its fiscal consolidation strategy by no longer targeting a stabilisation of public debt-to-GDP towards 2020. The agency also warned that the accumulation of previously undisclosed arrears by several ministries "has shed light on underlying shortcomings in the management of public finances." In order to regain its investment-grade rating, Namibia would need to narrow the budget deficit in order to put the government debt-to-GDP ratio on a downward trend, see a marked improvement in the current account deficit and register stronger medium-term economic growth.

Moody's Investors Services downgraded Namibia's rating in August 2017 from an investment-grade "Baa3" to a non-investment grade "Ba1" with a negative outlook. The key factors contributing to the downgrade included erosion of fiscal strength due to sizeable fiscal imbalances, an increasing public debt burden, limited institutional capacity to manage shocks, and the risk of renewed government liquidity pressures in the coming years. At the same time, Moody's commented that the country's key credit metrics in the economic, fiscal and external spheres were well aligned with those of other "Ba1" rate sovereigns. Nonetheless, a negative outlook was retained, reflecting "the risk that the erosion in key fiscal and debt metrics could be more pronounced than currently anticipated, giving rise to significant funding challenges." A downgrade could be seen if fiscal consolidation does not materialise or if such a plan is ineffective in containing public sector debt accumulation. An upgrade in the country's rating is unlikely in the near term, and a stabilisation in the outlook is only possible if the government demonstrates a commitment to fiscal consolidation.

Finance & Banking				
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of Namibia (BoN)	11	12.78	64.41	876.81
Stock market	Listed companies	Market capitalisation*	Largest sectors	Weekly trading value*
Namibia Stock Exchange (NSX)	39	$2.3 billion	Financial services	$2.7 million
Capital market	Level of development	Maturity range	Municipal bonds	Corporate bonds
Yes	Developed in an African context	91 days to 30 years	No	Yes

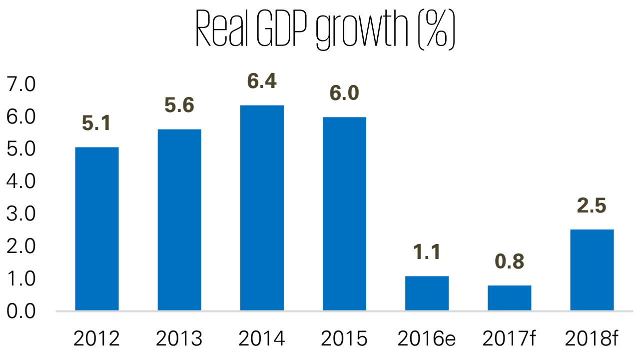
Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

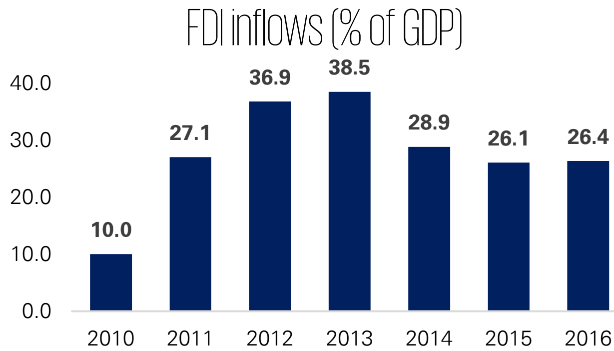
Macroeconomic overview



Source: African Economic Outlook (AEO)

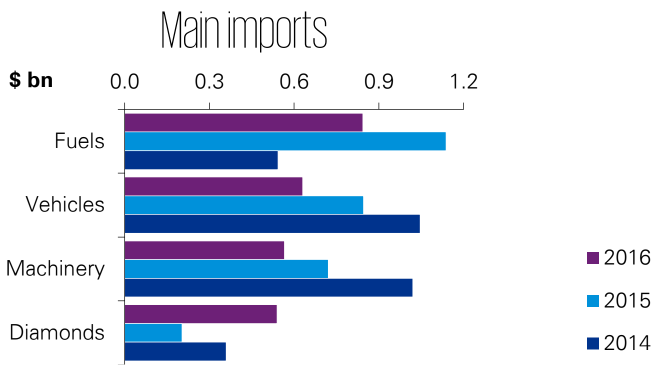
Economic growth - Namibia's GDP growth slowed significantly in 2016 with the weak growth rate continuing into 2017. The economy has faced a number of challenges in the form of the ongoing drought, a possible bubble in the construction and real estate market, high household indebtedness and a disappearing Angolan consumer base. Namibia has also struggled with significant fiscal constraints, the August 2017 downgrade of the sovereign credit rating, low foreign reserves and a decline in foreign direct investment (FDI) inflows. However, as the Husab uranium mine moves towards peak production in 2018, it will establish Namibia as one of the top producers of the metal in the world, and shore up fiscal revenues. The increased revenues from uranium and diamond mining, coupled with a recovery in the agriculture sector, will drive the economic recovery towards 2018. GDP growth is expected by the International Monetary Fund (IMF) to rise from 0.8% in 2017 to 2.5% in the year thereafter.

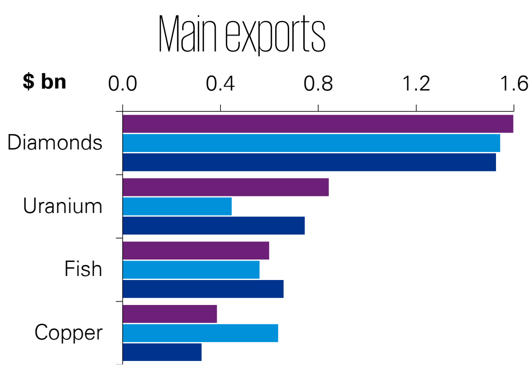




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Namibia has struggled to attract sufficient foreign direct investment (FDI) in the past few years amid high private and public debt levels. Regionally, Namibia also has a small market and population as well as a low GDP per capita ratio. Fixed investment could see a decline over the coming years owing to lower investor sentiment towards the government's New Equitable Economic Empowerment Framework (NEEEF). In addition, government could implement possible regulatory reforms affecting property rights and business law in 2018 that will contribute to investor caution. While the government will allocate an increasing proportion of its fiscal budget towards improving the country's infrastructure, the large fiscal deficit will place pressure on public sector capital expenditures in the coming years.

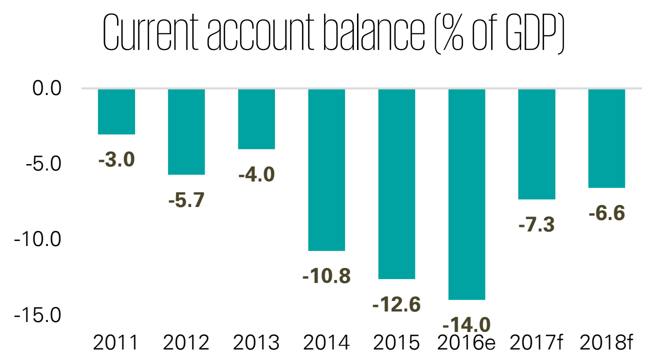


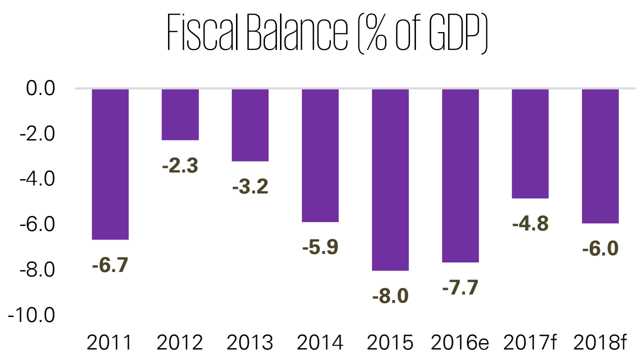


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	6.4%	14.8%	12.5%	Diamonds	25.5%	33.4%	33.2%
Vehicles	12.3%	11.0%	9.4%	Uranium	12.4%	9.6%	17.5%
Machinery	12.0%	9.4%	8.4%	Fish	11.0%	12.1%	12.4%
Diamonds	4.2%	2.6%	8.0%	Copper	5.4%	13.7%	8.0%

Source: Trade Map

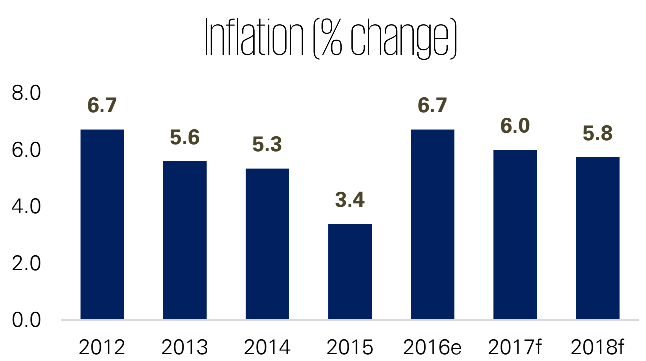
External trade – Namibia's current account deficit should narrow in 2017 from the high levels seen during 2014-2016. These elevated deficits were due to the global commodity price slump. Increased output in the mining sector, especially of uranium and diamonds, coupled with rising commodity prices, will lead to a recovery of the current account balance during 2017-2018. Rising export receipts and easing financing needs will also lead to a reduction in the country's external debt-to-GDP ratio. The completion of several major construction projects and regulatory uncertainty will see investment decline. Weaker output in the construction and retail sectors will lead to a lower demand for capital and consumer goods, thereby capping the import bill. As a result, reserves will remain relatively stable and allow the continuance of the currency peg to the South African rand. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 3.3 months in 2018, compared to a global benchmark of at least three months.

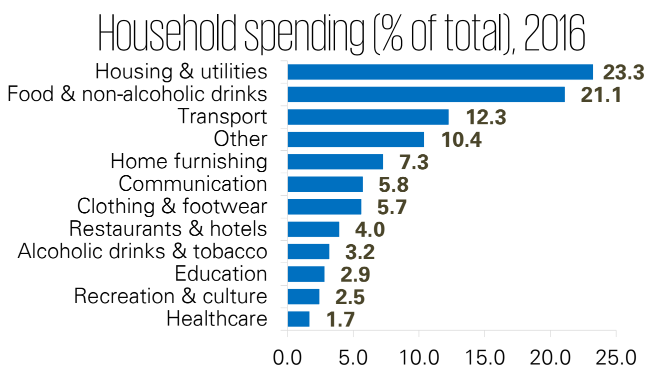




Source: IMF

Fiscal policy – Namibia's fiscal deficit widened sharply in 2015-2016 after the global commodity price slump reduced government revenues amid continued public expenditure on infrastructure. The fiscal deficit will narrow during 2017 due to larger government revenues from mining and a recovery in commodity prices. However, challenges elsewhere in the economy and the government's failure to stem expenditure will see sizeable fiscal deficits to continue over the next few years. The government will likely look to secure debt from international capital markets in the years ahead after its successful Eurobond issuance in 2015. However, in August 2017, Moody's and Fitch both downgraded Namibia's government credit rating, which will increase the cost of new borrowing for the government in the short term. The IMF expects Namibia's fiscal deficit to reduce to 4.8% of GDP in 2017 and 6% of GDP in 2018.





Source: IMF, BMI, country statistics agencies

Monetary policy - Headline inflation increased from 5.4% y-o-y in August to 5.6% in September 2017. The BoN's monetary mandate is to achieve price stability and to maintain the one-to-one currency peg regime with the South African rand. However, this often makes Namibia's monetary policy ineffective and leaves the Namibian financial system vulnerable to political and macroeconomic developments in South Africa. Namibia's inflation is, to a large extent, driven by South Africa's price developments, due to the fact that the former is highly dependent on imports from the South African economy. In 2016, inflation averaged above the BoN's 3%-6% target, and the BoN hiked interest rates by 150 basis points between June 2014 and April 2016. At their October 2017 meeting, the central bank's Monetary Policy Committee (MPC) left the repo rate unchanged at 6.75% following a 25 basis point cut in July 2017. The BoN stated that the October decision remains appropriate to support the Namibian dollar's peg. The cut in August was prompted by the need to boost economic growth.

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