

# COUNTRY REVIEW

## Namibia



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**ANALYST: Andrew Atkinson**

**EULER HERMES COUNTRY RISK GRADE: B**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- Stable democracy since independence in 1990
- Political environment has matured as indicated by the successful transition from long-serving Sam Nujoma to President Hifikepunye Pohamba
- Close association with South Africa through customs and monetary unions
- Natural resource base includes substantial diamonds (including offshore)
- Current account surpluses
- Manageable foreign debt ratios

## Weaknesses

- Land reform programme is a policy priority and there is concern that it may yet develop into a Zimbabwe-style land -grab
- Diversification of economy is relatively limited
- Small population base and limited arable land area
- Fiscal deficits
- Poverty and unemployment remain high
- Foreign reserves holdings, though improving, provide limited import cover

## Key Risks

- **The economy is strongly linked to that of South Africa and a rapid deterioration in the latter would have negative repercussions in Namibia**
- **The high prevalence of HIV/AIDS in a country with a small population limits the available manpower and the economy, in general, and the non-mining sector, in particular, are therefore unlikely to reach potential**

## Country Risk Assessment

Ratings	Namibia		Median Grade B	Peers		
	Latest	Previous		Botswana	Morocco	Cameroon
<b>Systemic Political Risk:</b>	<b>P2-</b>	<b>P2-</b>	<b>P2-</b>	<b>P2+</b>	<b>P3+</b>	<b>P3-</b>
<b>Systemic Economic Risk:</b>	<b>E4</b>	<b>E4</b>	<b>E4</b>	<b>E4</b>	<b>E4</b>	<b>E5</b>
ME rating:	ME4	ME4	ME4	ME4	ME3	ME4
<i>Structure</i>	6.0	6.0	5.0	4.7	5.7	6.0
<i>Policy</i>	6.0	4.6	4.0	5.6	3.6	4.3
<i>Solvency</i>	1.0	1.3	2.5	1.6	2.3	2.0
<i>External Liquidity</i>	2.3	3.3	3.7	3.8	3.2	2.8
SBE rating:	SBE3	SBE3	SBE3	SBE2	SBE4	SBE5
<b>COUNTRY GRADE:</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>C</b>

**Nomenclature:**

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

## ECONOMIC STRUCTURE

### Country Profile

Capital city:	Windhoek
Population:	2.13 mn (2008)
GDP:	USD 8824 mn (2008)
Currency:	Namibian dollar (NAD) and South African rand (ZAR)
Form of state:	Republic
Head of government:	President Hifikepunye Pohamba
Next elections:	Legislative and presidential by November 2009

Major Industries (% of GDP at market prices, 2008e)		Global Assumptions	2009f	2010f
Agriculture	9.0%	Real GDP grth (% yr/yr) *	-3.9	0.9
Mining	10.0%	Inflation (% , av) *	-0.1	1.3
Manufacturing	13.0%	Dated Brent (USD/b)	61.0	72.0
Services	54.0%	* major economies		

Main Exports (% of total, 2008e)		Main Imports (% of total, 2008e)	
Metal ores	27.0%	Food & drink	16.0%
Diamonds	22.0%	Transport equipment	14.0%
Fish & related products	17.0%	Machinery	14.0%
		Chemicals	10.0%
Lead Export Markets (% of total exports, 2008e)		Lead Import Markets (% of total imports, 2008e)	
South Africa	25.0%	South Africa	85.0%
UK	24.0%		
Angola	6.0%		
Spain	6.0%		

## Basic indicators

Selected economic indicators	2006	2007	2008	2009f	2010f
Nominal GDP (USD mn)	7,975	8,843	8,824	9,803	10,000
Population (mn)	2.05	2.09	2.13	2.17	2.21
GDP per capita (USD)	3,890	4,231	4,143	4,518	4,525
Real GDP growth (% yr/yr)	7.2	4.1	2.9	-1.0	2.0
Inflation (% , average)	5.1	6.7	10.3	8.0	5.0
Fiscal balance (% of GDP)	4.2	5.3	-1.0	-4.8	-6.4
Current account balance (% of GDP)	12.7	7.8	0.7	4.6	4.5
External debt/GDP (%)	17.9	11.3	9.2	10.2	12.0
External debt/Exports of goods & services (%)	32.7	20.9	15.7	21.1	23.5
Debt-service ratio (%)	9.2	7.3	7.8	9.5	8.3
Foreign exchange reserves (USD mn)	449	896	1,293	1,500	1,650
Import cover (months)	1.6	2.6	3.0	3.8	3.8
Exchange rate assumption, NAD:USD (av)	6.77	7.05	8.26	8.57	9.40
f: CRU central forecast					

Sources: Central Bank, Local Sources, IMF, World Bank, Euler Hermes Country Risk Unit

## Political Stability

In elections in November 2004, long-serving President Sam Nujoma—head of state since independence in 1990—was constitutionally prevented from standing for another term and, unlike some African leaders, he decided not to alter the statutes to allow an extension of his role. However, he retains considerable influence within the ruling South West Africa People's Organisation (SWAPO) party, although President Hifikepunye Pohamba—his chosen successor—has made genuine attempts to forge an independent line. Pohamba officially took over in March 2005, having won 76.4% of the presidential vote on a campaign of “no change”. Concurrently in November 2004, elections to the legislature took place and SWAPO received an overwhelming majority to continue in power (76% of the vote). **Presidential and legislative elections later this year are highly likely to provide renewed mandates for Pohamba and SWAPO, thereby suggesting continuity in policy implementation.**

Opposition to SWAPO is limited. At the end of 2007, some former SWAPO activists set up an alternative organisation, the Rally for Democracy and Progress (RDP), which may usurp the Congress of Democrats (CoD) as the leading opposition group. However, it is unlikely that the RDP will provide a serious challenge to SWAPO at forthcoming elections and other parties, including the CoD, tend to be riven by factions and unable to provide a united front to test the ruling party.

**Land reform continues to dominate policy-making** and Pohamba previously held the land portfolio and pledged to speed up the programme of expropriation. The system of compensation for property owned by white farmers that is sequestered still remains opaque. Initially, the government claimed that only “abandoned” or under-utilised land would be taken over—in addition to “willing buyer-willing seller” disposals—but this has echoes of the early days of Zimbabwe's policy. Indeed, some white farmers received compulsory purchase orders in 2004 and this led to market distortions and largely proscribed “market” sales. Comparisons with Zimbabwe have also included anti-white rhetoric and formation of groups of hardline farmers, trends that may be exacerbated in the build-up to elections. However, such comparisons have limitations and the role of agriculture in the Namibian economy is much smaller than it is in Zimbabwe. Moreover, **all participants stand to lose if Namibia goes the route of its eastern neighbour.** The Namibian authorities are wary of upsetting investor sentiment through a land policy that appears unregulated, particularly as it may spill over to the mining sector, which relies on foreign input.

International relations are dominated by the presence of **South Africa, which acts as a political and economic regional power.** Namibia maintains close links with its large neighbour at a political and economic level and is a fellow member of the Southern African Customs Union (SACU) and the Common Monetary Area (CMA). The border region with Angola is now much more stable and Namibia's security from external forces is relatively assured.

## Economic Stability

Traditional economic sectors are agriculture (largely cattle and sheep), fishing and **mining (chiefly diamonds, but also uranium, zinc, copper, lead and gold)** although manufacturing (13% of GDP in 2008) is now second only to services (54%) in terms of contribution to overall activity levels.

Economic planning is conducted through standard five-year development strategies. Broad policy aims include poverty reduction, improving income distribution, creation of employment in the private sector, black economic empowerment (BEE, as in South Africa) and alleviation of the human, social and economic costs of HIV/AIDS. Despite attempts at diversification, the economy is based on **mineral extraction**, particularly diamonds, which **accounts for around 50% of total export receipts.** Marine extraction of diamonds is a vibrant sector of the mining industry. However, land reform continues to dominate the current agenda. Although Namibia is likely to avoid the excesses of a Zimbabwe-style land grab (see above), particularly given the adverse media attention to the current state of political and economic development in Zimbabwe. Nevertheless, western foreign investors will have continuing uncertainties until clarity of policy is established in relation to land reforms and, partly for this reason, Namibia is likely to seek closer economic ties with China and Russia.

**Annual average economic growth** in 1991-2000 was 3.9% but the rate of expansion **increased to 4.9% in 2001-08.** With the UN projecting population growth of only 1% each year up to 2015, real incomes and expenditure growth should expand further. The main economic driver is the diamond sector, partly through increased output as a result of offshore operations, but also because of enhanced cutting and related downstream activities. Additional economic activity includes mining diversification and zinc, uranium, silver, tin and tungsten deposits are also exploited, as well as fishing and a rudimentary textile sector. Assuming Namibia can avoid serious drought, we **forecast real economic**

**growth of around 2% in 2010, following outright contraction of around 1% this year**, with the latter reflecting recession in South Africa and weak global demand for commodities.

Budget surpluses equivalent to over 4% and 5% of GDP in 2006/07 and 2007/08 (fiscal years April-March), respectively, largely reflected increased contributions from **allocations from Southern African Customs Union (SACU) receipts** rather than representing a fundamental change to a more balanced expenditure/revenue pattern. With a reduced allocation in 2008/09 and continuing high health expenditure on HIV/AIDS-related treatments and associated costs, a fiscal deficit equivalent to 1% of GDP was recorded last year. Fiscal rectitude through a more disciplined approach to budgetary planning (targets are outlined within a three-year medium-term expenditure framework, MTEF) was blown off course by the local impact of the South African and global recession this year. **The government implemented a fiscal stimulus package**, with increased projected expenditure over a three-year period and with accompanying larger budget deficits. **We forecast that fiscal deficits will be equivalent to 4-7% of GDP in 2009/10 and 2010/11.** These require careful management.

Inflationary pressures increased markedly in 2008, reflecting higher costs of imported energy and weak local harvests, with consumer prices increasing 10.3% on average for the year. We forecast a rate of 8% this year (7.5% in July) and 5% in 2010. **The Namibian dollar will remain linked to the rand—effectively pegged at par**—throughout the period to end-2010 and probably beyond. Around 85% of the value of imports derives from trade with South Africa. Namibia is a member of the Common Monetary Area (CMA), within which capital flows freely, and its principal interest rate therefore mirrors developments in South Africa's repo rate. There is an upward bias in our interest rate outlook for 2010, although monetary tightening is likely to be moderate, reflecting a slow economic recovery.

Merchandise trade deficits are traditionally offset by positive net inflows in services (tourism) and income and by large surpluses in transfers (reflecting allocations from the centralised SACU accounts). Accordingly, Namibia **tends to register a current account surplus**. In 2008, the surplus was equivalent to less than 1% of GDP as the deficit on merchandise trade widened because of high imported energy costs. The current account surplus will increase in 2009 and 2010 as a result of reduced pressure on the import bill, even if export growth is subdued. **We forecast current account surpluses of 4-5% of GDP in 2009 and 2010.** In December 2005, Namibia received its first credit rating from a major agency, with Fitch allocating a BBB- investment grade to LT foreign currency debt. Foreign debt ratios are all comfortable but FX reserves require further accumulation.

### Structural Business Environment

The structural business environment is adequate, but generally below average for the full range of countries we assess, although higher than the median for the Sub-Saharan African region. The Heritage Foundation's 2009 Index of Economic Freedom ranks Namibia 71 out of 179 countries assessed, below Romania, Thailand and Slovenia but above Colombia, Turkey and Italy. The overall regulatory environment is efficient and relatively straightforward. However, there are **some areas of weakness, including protection of property rights (particularly under land reform)**, investment freedoms (a black economic empowerment policy) and corruption. Transparency International's Corruption Perception Index for 2008 ranks the country 61 out of 180, below Greece, Poland and Turkey but above Croatia, Tunisia and Kuwait.

In the World Bank's Doing Business 2010 survey, Namibia ranks 66 out of 183 countries in relation to the overall ease of conducting business operations. This survey suggests that contracts should take a much shorter time (270 days) than the regional average (643 days). Moreover, effectiveness of insolvency legislation is also better than the regional average, with bankruptcy resolution taking almost half the time for the region and the recovery rate is more than double the regional average.

Human development indicators are generally poor, with a life expectancy of only 52 years, although adult literacy is over 87% and around 90% of the population has access to an improved water supply. Overall, Namibia ranks 129 out of 179 countries covered by the UN Human Development Index, which provides a proxy for the overall level of development and sophistication of the country concerned, below South Africa, Botswana and Morocco but above India, Yemen and Pakistan.

**The banking system is small but sound**, profitable and relatively well-regulated. It is **closely linked to that in neighbouring South Africa**. There is some internal unevenness in access to credit and banking services, with poorer availability in regions away from the key urban centres.

Andrew Atkinson

London: +44 (0)20 7860 2577

**Charts**

