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President Hage Geingob (2015-present) makes a state visit to France and the United Kingdom (UK). In the UK he indicates that the Namibian government will drop the most controversial provision of the draft Black Economic Empowerment (BEE) law. Namibia is now technically in recession as the economy contracted by 1% in Q3 for the second consecutive quarter. The Bank of Namibia keeps the repo rate unchanged again at its Monetary Policy Committee meeting in December, despite continued high inflation of just over 7.0%.

Geingob visits France and the UK to promote investment ...

President **Hage Geingob** (2015-present) led an overseas visit to **France** and the **United Kingdom (UK)** from 27 November to 2 December. **Namibia's** First Lady, **Monica Geingos**, the deputy prime minister and minister of international relations, **Netumbo Nandi-Ndaitwah**, finance minister **Calle Schlettwein**, minister of mines and energy **Obeth Kandjoze**, presidential economic adviser **John Steytler**, and **Namibia Chamber of Commerce and Industry (NCCI)** chief executive officer **Taara Shanika** accompanied the president. Presidential press secretary **Albertus Aochamub** said the purpose of the trip was to *"strengthen investments and enhance trade opportunities for Namibia"*.¹

Geingob's 27-29 November trip to France was an official state visit; in **Paris** he met with President **François Hollande** (2012-present), who soon after (1 December) announced that he would not run for a second five-year term of office in 2017. Reportedly, Namibia had been advised (by whom is not clear) to postpone the trip until the next French president is elected in May 2017.² Before the trip, the international relations permanent secretary, **Selma Ashipala-Musavyi**, said that Namibia exports fish, fruit, meat and mineral resources to France and that French companies were also increasingly showing an interest in investing in Namibia. Following Geingob's visit, there were rumours that French vehicle manufacturer **Renault** (of which French government owns 20%) will invest in a car manufacturing plant in Namibia, although there has been no official confirmation of this.³

... and scotches 'hard' BEE at a UK briefing

In the UK, Geingob spoke to diplomats, investors and academics at the **Royal Institute of International Affairs (RIIA)** at **Chatham House** on 2 December.⁴ Geingob referred to a growing trend of democracy throughout Africa, with former heads of state respected, *"not in the ground or in exile"*.⁵ The legacy of Namibia's first president, **Sam Nujoma** (1990-2005),

¹ The Namibian, 28 Nov 2016.

² The Namibian, 16 Dec 2016.

³ Source, analyst, Windhoek

⁴ Namibian Presidency Twitter account, 2016

⁵ Namibian Presidency Twitter account, 2016

had been “to reconcile colour and tribe”; it was essential to have systems and institutions in place for representative democracy. Geingob acknowledged that the large majority (87% of the popular vote) he won in the November 2014 election was a heavy responsibility and generated high expectations. Noting that you cannot eat diamonds or uranium, Geingob stressed that he is building the Namibian house but

“...hungry children cannot be in peace...inequality cannot be allowed (to continue)...we are reducing poverty but still some people have more, too much more.”⁶

During a question and answer session, ARC Briefing asked Geingob for an update on consultation phase of the **black economic empowerment (BEE)** law (officially the **New Equitable Economic Empowerment Framework (NEEEF)**). In response, Geingob made it clear that the government would substantially revise, or drop altogether, the mandatory requirement for all companies to give minimum 25% shareholdings to BEE entities or historically-disadvantaged Namibians (HDNs). Geingob said:

“We should not think that empowerment involves punishment or grabbing. We had 26 years during which we could have nationalised.”

Prime minister **Saara Kuugongelwa-Amadhila** now has all the inputs from the consultation.

“The element that frightens (investors) is the mention of 25% to be sold to HDNs. The 25% is the only problem.”⁷

Geingob said he also had problems with the 25% provision since black people, too, would be hit by the provision. He concluded:

“So we will do it through a different way. We are a fair government...let’s sort that out.”⁸

Economy contracts for a second consecutive quarter ...

The Namibian economy continued to weaken in the third quarter of 2016, contracting by an overall 1% of gross domestic product (GDP) year-on-year (y/y), slightly less than the (revised) 1.5% contraction in the second quarter.⁹ Namibia is now technically in recession. The weak performance contrasts with the 5.0% growth of Q3 2015, and mainly reflects a continued decrease in diamond production, along with further contractions in manufacturing and construction output, and slowing central government spending. The economy grew by 3.5% in the first quarter of 2016, so a modest level of growth in the fourth quarter might keep GDP growth for the year positive. But the recent downward revision of the official growth forecast for calendar 2016 from 4.3% to 2.5% may prove too optimistic (see *ARC Briefing Namibia November 2016*).

Mining and quarrying output contracted by 5.6%, an improvement on the second quarter’s 13.9% decrease, but contrasting with 12.6% growth a year earlier. The main culprit was a 13.0% decline in diamond output. **De Beers** previously reported production by Namibia’s sole diamond producer, the 50:50 government/De Beers-owned **Namdeb Holdings**, fell by 13% to 405,000 carats due to lower onshore grades (*ARC Briefing Namibia, November 2016*). This more than offset a 16% growth in uranium output, along with a 10% increase in gold production, mainly by the new **Otjikoto** mine.

⁶ Namibian Presidency Twitter account, 2016

⁷ Namibian Presidency Twitter account, 2016

⁸ Namibian Presidency Twitter account, 2016

⁹ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2016.

Primary sector component, agriculture, apart from fishing, recorded the first positive growth – of 1.6% – for six consecutive quarters. Volumes of livestock slaughtered at Namibia’s export abattoirs in **Windhoek** and **Okahandja** for beef exports to the main **European Union (EU)** market increased.

In contrast, manufacturing output contracted by 5.3% due to decreased output by diamond cutting and polishing, and beverages. The construction industry – which will bear this year’s brunt of the cuts in capital spending – is in a far worse state. Real value-added fell by 12.3%, following a 19.4% contraction in quarter two and in contrast to 36% positive growth a year earlier. This reflected the completion of all major mining works that underpinned the construction boom of the previous two years.

In the tertiary sector, wholesale and retail trade, financial intermediation, real estate and business services, transport and communication all recorded lower output growth. Reduced public spending accounted for a 3% decrease in government output. Central government accounts for the biggest share of GDP at 24% – double mining and trade, the next two largest components at around 12% each. So even small shifts in the direction of government spending have a proportionately greater impact on the overall GDP trend than output changes in other sectors.¹⁰

Real GDP growth Q3 2016¹¹			
(% change)			
	2016		2015
	Q3	Q2¹²	Q3
Agriculture & fishing	1.6	-5.4	-15.5
Fishing	-4.8	6.1	-11.2
Mining & quarrying	-5.6	-13.9	12.6
Manufacturing	-5.3	-8.5	-7
Construction	-12.3	-19.4	36
Electricity & Water	5.3	6.1	7.5
Wholesale & retail trade	3.6	9.6	4.9
Hotels & restaurants	10.3	-15.5	-2.9
Transport & communications	1.8	3.2	-1
Financial intermediation	3.4	4.1	1.3
Real estate & business services	0.1	1.1	4.6
Government services	-3	-0.9	5.6
FSIM ¹³	2.3	2	-0.8
All industries at basic prices	-1.6	-2.4	4.2
Taxes on products	4.8	7.9	13.8
GDP at market prices	-1	-1.5	5

¹⁰ Namibia Statistics Agency, Annual National Accounts 2015.

¹¹ Source: Namibia Statistics Agency, Gross Domestic Product -Third Quarter 2016

¹² Revised figures

¹³ Financial Intermediation Services Indirectly Measured

... while Bank of Namibia keeps interest rates unchanged ...

The weak economy was the key reason that the **Bank of Namibia (BoN)**, central bank) opted to keep Namibia's repurchase (repo) rate on hold at 7% at its 6 December monetary policy committee (MPC) meeting.¹⁴ This was the fourth consecutive 'hold' decision; the repo rate was last increased by 25 basis points (bps) in April 2016. The central bank had been expected to leave the rate unchanged, especially as the **South African Reserve Bank (SARB)**, whose decisions the Bank of Namibia usually replicates, has not raised interest rates either. This is despite higher inflation in both countries (see below).

In the 7 December monetary policy statement, central bank governor **Ipumbu Shiimi** noted that Namibia's foreign reserves totalled N\$25.0 billion (US\$1.8 billion) at the end of November, up from N\$22.6 billion (US\$1.6 billion) two months earlier, while import coverage had increased to 3.3 months, up from 2.9 months previously, and now exceeds the **International Monetary Fund's (IMF)** recommended three months for the first time in 2016.

Another positive development was the continued decrease in domestic credit growth. Annual growth in private sector credit extension (PSCE) slowed to 11.8% over the first ten months of 2016, down from 15.5%. Business borrowing slowed from 19.6% in 2015 to 12.7% this year. While this is positive in terms of slowing the previous rapid growth in consumption of high-end imports, it does reflect a reduction in the discretionary disposable income of Namibian households. Reduced consumer demand will inevitably contribute to an economic slowdown.

The first MPC meeting of 2017 will be held on 14 February and on present indications the repo rate will be kept at 7.0% due to the economy's sharp slowdown. Monetary policy may even be loosened next year, especially if the SARB decides a repo rate reduction – a move Namibia would almost certainly replicate – is necessary to provide a stimulus to South Africa's economy. The 14 December decision by the **United States Federal Reserve** to raise its short-term rate by 25 basis points, and an indication it will hike interest rates three more times in 2017, would increase the risks of a looser interest rate policy by both the SARB and the BoN. Windhoek stockbroker **IJG Securities** said that South Africa faces a combination of low growth and high inflation, making monetary policy "a tight balancing act".¹⁵

*"Given these factors our base case remains for South African interest rates to remain flat for this year (as they have) and next year."*¹⁶

... and inflation stays above 7.0%

Year-on-year (y/y) inflation rose sharply in October to 7.3% (from 6.9% in the previous month) and remained at that level in November.¹⁷ That is more than double the 2015 level; similarly, average annual inflation for January-November 2016 was 6.7% compared to just 3.4% in the same period of 2015. The main drivers of inflation in November continued to be food and non-alcoholic beverages at 11.6% vs 11.7% in October; housing, water, electricity, gas and other fuels at 7.9% vs 7.8%; transport at 3.7% vs 3.6% and alcoholic beverages and tobacco at 6.5% vs 6.0%. Currently, the main upward pressure on food prices is the regional drought which is anticipated to ease in 2017.

¹⁴ Bank of Namibia, Monetary Policy Statement, 7 Dec 2016.

¹⁵ IJG Namibia- PSCE October 2016- Outlook, November 2016

¹⁶ IJG Namibia- PSCE October 2016- Outlook, November 2016

¹⁷ Namibia Statistics Agency, Namibia Consumer Price Index, November 2016

Namibia's inflation rate remains higher than South Africa's due to more expensive imported food products reflecting the depreciated South African rand/Namibia dollar and the impact of utility tariff increases in mid-2016. South African inflation is expected to average 6.4% for this year, falling to around 5.8% in 2017. Namibian inflation should also fall next year, although to 6.4%.¹⁸

Common to both South African and Namibian inflation expectations are the weaker real effective exchange rate and the pass-through effect of higher import prices. According to IJG Securities,

*"The effect of higher food inflation due to the drought and the pass-through effect of (higher) South African food prices on Namibia will likely cause the double digit increases in food prices to continue in the short term."*¹⁹

Implications

In some respects, President Geingob's visit to France and, more especially, the UK was a curious one. It appeared that Geingob's UK agenda was largely organised by **InvestAfrica**, an invitation-only global private business club run by London-based South African entrepreneur **Robert Hersov**, which hosted a banquet for him. No meeting had been scheduled with Britain's prime minister, **Teresa May** (2016-present), which again appears odd. The UK's eventual exit from the **European Union (EU)** will impact trade with Namibia. The UK intends to negotiate bilateral trade agreements with many countries, including most **Commonwealth** states. Namibia's beef exports to the EU are mainly channelled by a London-based marketing firm, Namibia will need to negotiate a trading agreement which at least replicates the current duty-free access to the EU market.

The government now appears to be taking a realistic stance over the implementation of BEE. Geingob acknowledged the policy is not sustainable in its current incarnation. A BEE law will still come into effect, with a new layer of bureaucracy to supervise compliance with empowerment targets under a point-scoring system, as in South Africa, but most investors can live with that. The current compulsory proposal for the sale of minimum 25% equity stakes to local partners, supposedly BEE entities is not practicable for companies. It will now be a surprise if, when the final version of the BEE law is published next year, the 25% provision has not either been removed or substantially watered-down. It seems likely that representatives of black-owned businesses who would also have to carry out unwelcome and costly restructurings may have swayed Geingob as well.

Economically, 2016 has proven to be one of the most challenging years since independence in 1990. A "perfect storm" of external circumstances and domestic factors is driving a sharp fall in growth and reducing local business and consumer confidence. The economy's contraction for a second successive quarter in 2016 is unprecedented and does not bode well for Geingob's hopes of achieving sustainable, inclusive growth in the near term.

The 2016-17 spending cuts risk amplifying the downturn, with the construction sector especially at risk from the freeze on new government office buildings. In mid-December, the **National Union of Namibian Workers (NUNW)**, the trade union federation aligned with the ruling **South West African People's Organisation (SWAPO Party of Namibia)** party, claimed that some 10,000 employees had already been made redundant due to a halt in the

¹⁸ IJG Securities, Namibia CP- November 2016

¹⁹ IJG Securities, Namibia CP-November 2016

issue of new tender contracts and some existing construction projects. The impact of spending cuts will amplify in the coming year, and there are few developments in prospect that will mitigate a substantial loss of construction industry jobs. Hopes of an economic recovery next year largely depend on the **Chinese**-owned **Husab** uranium mine starting up in early 2017, and then ramping up quickly towards its full capacity of 6,800 tonnes of uranium oxide per year. That is by no means a certainty, and even when fully staffed, Husab's 1,600 permanent workforce (95% Namibian) will make little dent in the overall unemployment level of over 25%.

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