Invest in Namibia
Harnessing investment to drive economic recovery
October 2017
Namibia has a positive growth outlook with investment potential, combined with a robust macroeconomic environment that is politically stable and regionally competitive.
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>01</td>
</tr>
<tr>
<td>Investment climate and opportunities</td>
<td>03</td>
</tr>
<tr>
<td>Economic review and outlook</td>
<td>09</td>
</tr>
<tr>
<td>Fiscal policy and debt management</td>
<td>17</td>
</tr>
<tr>
<td>Bilateral relationships</td>
<td>22</td>
</tr>
<tr>
<td>Downside risks and challenges</td>
<td>26</td>
</tr>
<tr>
<td>Appendix A: Investment opportunities in Namibia</td>
<td>28</td>
</tr>
<tr>
<td>Appendix B: Namibian tax treaties</td>
<td>30</td>
</tr>
<tr>
<td>Endnotes</td>
<td>32</td>
</tr>
<tr>
<td>Contact details</td>
<td>34</td>
</tr>
</tbody>
</table>
Although Namibia no longer boasts a unanimous investment-grade rating, the country has a positive growth outlook with investment potential.

Favourable investment climate
The southern African country is home to one of the most politically stable democracies in the sub-Saharan Africa (SSA) region, with a relatively robust macroeconomic environment that draws from the country’s independent judicial system, the protection of property and contractual rights, and good infrastructure quality.

Namibia is one of the most competitive economies on the African continent, and also outperforms most of its regional peers in the ease of doing business rankings.

Positive growth outlook
Despite the disappointing performance in the first quarter, the Namibian economy is expected to recover from sluggish growth in 2017. Namibia’s forecast recovery of 3.8% in 2018 is set to stem from a rebound in the agricultural and mining sectors.

Strong bilateral ties
Given an increasingly protectionist global trade environment, it has become even more important for countries to recognise the mutual benefits of freer trade by solidifying existing relationships and agreements.

Namibia has done relatively well in this regard, boasting membership of key economic and trade communities, international tax treaties, and trade agreements.

Challenges remain
While the Namibian economy boasts multiple opportunities and an upbeat outlook with significant potential, there are several potential downside risks that the private and public sectors alike must be cognisant of.

There is a valid argument that current economic expansion projections are overly optimistic, which could trigger further sovereign rating downgrades. Additional challenges include the country’s twin fiscal and current-account deficits, rising public debt, and policy uncertainty.
Invest in Namibia | Harnessing investment to drive economic recovery
Investment climate and opportunities

Namibia’s sovereign debt rating is supported by the country’s political stability and relatively robust governance indicators.

Strong fundamentals...

Following South Africa’s foreign-currency sovereign debt rating downgrades in early-April 2017, Namibia was briefly the last remaining investment-grade issuer of Eurobonds in the SSA region.

However, on 11 August 2017, Moody’s Investors Service downgraded Namibia’s long-term sovereign credit rating from ‘Baa3’ (equivalent to a ‘BBB-’ rating on Fitch’s scale) to ‘Ba1’ (equivalent to a ‘BB+’ rating). Despite the downgrade to sub-investment grade, Moody’s noted that Namibia’s sovereign debt rating is still supported by the country’s “strong growth prospects in the coming years”. Moody’s also pointed to the strength of Namibia’s “key credit metrics in the economic, fiscal and external spheres”.

Fitch Ratings still has Namibia on an investment-grade rating. The rating agency affirmed Namibia’s long-term foreign currency Issuer Default Rating (IDR) at ‘BBB-’ in June 2017. In line with Moody’s, Fitch pointed to Namibia’s “strong growth potential and record of political stability” as key rating strengths.

The rating agency noted that, despite the economy narrowly missing a contraction in 2016, Namibia is set to see a recovery this year, with real GDP growth accelerating further in 2018. In line with the country’s strong growth potential, Fitch sees economic expansion returning to the 5% or higher levels seen over the 2010-15 period. This strong outlook is predicated on higher output in the agricultural sector and increased mineral production.

... but still on a negative outlook

However, Fitch currently has their investment-grade rating for Namibia on a negative outlook, with the country’s rapid rise in public debt levels a particular point of concern. Despite the downgrade in August 2017, Moody’s has kept its negative outlook in place. Both rating agencies have noted that a failure to narrow the country’s twin (i.e. fiscal and current account) deficits could result in further sovereign credit rating downgrades.

Namibia’s sovereign debt rating is supported by the country’s political stability and relatively robust governance indicators. Its well-developed financial system, via access to South Africa’s deep capital markets, is also a boon for Namibia’s ratings.

Foreign direct investment (FDI) and portfolio inflows

FDI inflows have become increasingly important over the last few years. Namibia’s current account deficit widened sharply as a result of the construction of three large mines over the 2013 to 2015 period. The associated imports required for this construction drove the huge increase in Namibia’s imports, and was largely funded by FDI inflows.

According to the International Monetary Fund (IMF), the country’s current account balance deteriorated after 2006, when a surplus of around US$1.1bn was recorded. It switched to a small deficit in 2009, and widened to a deficit of some US$1.5bn by 2015. More recently, Namibia attracted net FDI amounting to US$270m during the course of 2016, representing a sharp decrease from the US$1.5bn recorded in the previous year.4

Notably, Namibia’s capital account surplus in 2015 was heavily influenced by portfolio investment inflows, rather than FDI, due to the highly successful Eurobond issuance. Also, Namibia’s Government Institutions Pension Fund (GIPF) has been bringing in large sums back into the country via portfolio flows following changes to dual listings requirements.
Figure 1. Eurobond issuer debt ratings, notches from investment-grade

Source: Moody’s, 2017; S&P, 2017; Fitch, 2017

Figure 2. Net FDI inflows (US$bn), 2001-16

Source: UNCTAD, 2017
Invest in Namibia | Investment climate and opportunities

**Attractiveness for investment inflows offsets challenges**

Namibia boasts one of the most politically stable democracies in the SSA region, with a relatively robust macroeconomic environment that includes easy access to the South African market – arguably the continent’s most developed. Additional strengths include an independent judicial system; the protection of property and contractual rights; and good infrastructure quality.  

Namibia is also one of the most competitive economies in the SSA region, with its ranking in the 2017-18 World Economic Forum (WEF) competitiveness index of 90th translating to fourth place in SSA. The country only lags Mauritius (45th), Rwanda (58th), South Africa (61st), and Botswana (63rd). Namibia continues to outperform other notable economies on the continent, including Kenya (91st), Zambia (118th), and Nigeria (125th).

The country’s developed labour market and strong quality of institutions are reflected in the rankings of two pillars: ‘Labour Market Efficiency’ (33rd in the world) and ‘Institutions’ (44th globally). Both pillars’ rankings are a boon to the investment environment.

In line with Namibia’s relative competitiveness, the country also outperforms most of its regional peers in the ease of doing business. Namibia’s global 2017 Doing Business ranking of 108th translates to sixth in the SSA region.

Namibia lags Mauritius (49th), Botswana (71st), and South Africa (74th) in SADC as well as Rwanda (56th) and Kenya (92nd) in East Africa.

Looking at the specific categories, Namibia ranks best in ‘getting credit’ (62nd), followed closely by ‘dealing with construction permits’ (67th). On the other hand, the country performs less impressively in the ‘registering property’ and ‘starting a business’ categories, placing 174th and 170th, respectively.

In a regional context, Namibia’s standings are considerably more impressive. Out of 48 SSA countries included in the 2017 Doing Business rankings, Namibia places in the top 10 in five of the ten sub-categories included in the index.
Figure 3. Namibia’s competitiveness rankings

- Overall
- Labour market efficiency
- Institutions
- Financial market development
- Infrastructure
- Innovation
- Goods market efficiency
- Business sophistication
- Technological readiness
- Macroeconomic environment
- Health and primary education
- Higher education and training
- Market size

Source: WEF, 2017

Figure 4. Namibia’s doing business rankings

- Overall ease of doing business
- Getting credit
- Dealing with construction permits
- Paying taxes
- Protecting minority investors
- Resolving insolvency
- Enforcing contracts
- Getting electricity
- Trading across borders
- Starting a business
- Registering property

Source: World Bank, 2017
Investment activities
Investment into Namibia’s uranium sector has largely been driven by China. The Husab Mine, 90% owned by the China General Nuclear Power Group, as well as the stake that the China National Nuclear Company bought in Langer Heinrich, represent well over 50% of local uranium production capacity.

Additional investment interest could stem from the possibility of oil deposits off the Namibian coast. Several countries, including the UK, the Netherlands, the US and Brazil have indicated their intent to explore offshore oil deposits, although subdued international oil prices has been detrimental to the initiation of new exploration projects.

Further impetus should be seen in the infrastructure sector, given the government’s efforts to privatise formerly state-owned enterprises (SOEs).

Namibia’s Ministry of Industrialisation lists several key sectors in the economy that provide investment opportunities, including: agri-business; aquaculture; energy; infrastructure; manufacturing; mining; services; and tourism.9

However, despite still-robust inflows, total foreign investment is expected to decrease in the coming years, given base effects from several large investment projects that have already been completed.

In a much anticipated development, President Hage Geingob signed the new Namibia Investment Promotion Act into law in July 2017. The act is intended to support small local businesses, however, its protectionist stance may deter foreign investment.

Investment incentives
Incentives apply equally to domestic and foreign investors, and include the following:9

- an additional income tax deduction of 25% of employment and approved training costs in respect of employees directly involved in a manufacturing process
- an additional income tax deduction of 25% for specified export marketing expenditure
- an additional income tax deduction of 25% for certain land-based transportation costs for the first 10 years of registration
- for exporters of goods manufactured in Namibia, an allowance equal to 80% of taxable income derived from the export of manufactured goods (excluding fish or meat products)
- an 8% annual capital allowance on qualifying buildings
- an exemption from import duties on the importation or acquisition of manufacturing machinery and equipment, subject to ministerial approval.

Export Processing Zones (EPZs)
EPZ enterprises qualify for total relief from income tax, VAT, customs and excise duties, stamp duty and transfer duty (but not employee related tax and WHT). Requirements for EPZ status include conducting a manufacturing activity and exporting at least 70% of the manufactured goods outside of SACU.

Capital allowances
For buildings used for the purposes of trade, 20% of the cost of erection may be written off in the first year of use, and 4% may be written off annually over a 20-year period (the 4% allowance is increased to 8% for certain manufacturing buildings, and the write-off period is reduced to 10 years). A general three-year write-off period applies for fixed assets other than buildings (e.g. plant, machinery, equipment, aircraft and ships), with an accelerated write-off period for certain expenditure relating to mining operations and farming operations.

<table>
<thead>
<tr>
<th>Income Tax – Companies</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard corporate rate</td>
<td>32%</td>
</tr>
<tr>
<td>Manufacturing companies</td>
<td>18%/32%</td>
</tr>
<tr>
<td>Diamond mining companies</td>
<td>55%</td>
</tr>
<tr>
<td>Petroleum mining companies</td>
<td>35%</td>
</tr>
<tr>
<td>(oil and gas companies)</td>
<td></td>
</tr>
<tr>
<td>Other mining companies</td>
<td>37.5%</td>
</tr>
<tr>
<td>Mining service companies</td>
<td>37.5%/55%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>32%</td>
</tr>
<tr>
<td>Retirement funds</td>
<td>Exempt</td>
</tr>
</tbody>
</table>

Source: Deloitte, 2017a

Note: For more information, please see Deloitte’s Guide to Fiscal Information – Key Economies in Africa 2017.
Economic review and outlook

Namibia’s strong economic performance over the 2010-15 period can largely be attributed to a combination of historically low interest rates and large construction projects.

**History of robust economic growth**
Barring 2016, Namibia achieved strong economic growth rates in the aftermath of the global financial crisis, expanding by an average of 5.7% per annum over the 2010-15 period. The IMF attributed this robust performance to “strong policy frameworks and expansionary domestic policies”.

As a result of these accommodative policies, Namibia’s strong economic performance over this period can largely be attributed to a combination of historically low interest rates and large construction projects.

Regarding the former, pro-cyclical monetary policy saw the private sector increase its debt levels sharply. Total claims on the private sector increased by an average of 13.7% per annum over the 2010-15 period, representing an increase of N$38.3bn (US$4.1bn) during the period.

Another 8.9% increase in private sector credit extension (PSCE) last year meant that private sector debt owed by the end of 2016 was N$85.8bn. This is more than twice the levels seen only six years earlier.

Expansionary fiscal policies added additional momentum to Namibia’s economic expansion, which was supplemented by large infrastructure projects – both public and private. On the public side, investment into civil works programmes boosted the construction sector, while the development and building of three major new mines on the private sector side added to the construction boom during the 2010-15 period.

The construction of the three mines (one gold, one copper, and one uranium) attracted considerable foreign investment inflows. The decision to invest in Namibia’s resources was, in part, facilitated by the country’s attractive investment climate. However, the completion of the mine construction projects, low international commodity prices and a pullback in government investment spending saw the construction sector contract sharply (-26.5%) in 2016.

**Economic slowdown in 2016**
The strong growth rates seen after the global financial crisis came to an abrupt end last year. Recent data from the local National Statistics Agency (NSA) revised the country’s meagre estimate of 0.2% growth in 2016 to a slightly higher rate of 1.1%.

The conditions leading to the sluggish expansion in 2016 stemmed from both international as well as domestic conditions. On the external front, these included headwinds from low international commodity prices, lacklustre global economic expansion, and sluggish real GDP growth in large neighbouring economies. Angola’s balance of payments crisis in particular, which led to lower foreign exchange availability in the country, has resulted in a dramatic decline in activity with regard to the export of goods and services from Namibia to Angola.

Figure 5. Real GDP growth (%), 2010-16
Invest in Namibia | Economic review and outlook

Similarly, the domestic environment proved to be less than ideal in 2016, with drought conditions leading to water shortages in the construction industry, manufacturing industry and adversely affecting the agricultural sector. This stemmed, in part, from an investment environment that was weakened by two pieces of policy that were put in place in 2016. Firstly, the aforementioned 2016 investment act aimed to preserve certain sectors of the economy for Namibian investors; requiring that repatriation of profits and invested capital back to foreign investors is signed off by various ministers, among other initiatives.

Secondly, the New Equitable Empowerment Bill, which in its latest form requires that all local businesses (including sole proprietors) have 25% “previously disadvantaged” ownership and 50% “previously disadvantaged” persons in management positions.

Economic growth was further constrained by tight liquidity conditions and weak market confidence. However, the primary reasons, arguably, for the slowdown in 2016 stemmed from the pro-cyclical fiscal and monetary policies in previous years. These policies ramped up the economic business cycle during the 2010-15 period, but also accelerated the downturn in 2016.

Figure 6. Private sector debt, (N$bn), 2005-16

Source: BoN, 2017

Figure 7. Construction sector growth (%), 2010-16

Source: NSA, 2017a
Sectoral drivers in 2016
A closer look at the sectoral growth drivers during the course of last year show that the services and agricultural sectors managed to post positive growth rates in 2016.

Services
The services sector, which accounted for some 63% of GDP in 2016, expanded by 3.9% last year.\(^5\)

The sector's growth during 2016 was driven largely by strong expansion of the health (10.5%) sub-sector, as well as robust growth in the transport & communication (6.1%) and wholesale & retail trade (3.4%) sub-sectors.

Agriculture
The agricultural sector recovered from the drought conditions seen in 2015 (which saw the sector contract by 5.6%), expanding by 3.6% last year. Despite the sector's relatively small contribution to the overall economy (accounting for some 6.9% of GDP in 2016), Namibia's agricultural sector plays a pivotal role for a large share of the population, supporting over 70% of Namibians in a direct or indirect manner.\(^6\)

In line with the relatively unequal structure of the overall economy, the agricultural sector also faces equality challenges and ultimately two separate sub-sectors: a commercial sub-sector that is capital-intensive and export-orientated, and a subsistence-based sub-sector that is labour-intensive and has low levels of technological sophistication.\(^7\)

Industry
The industrial sector came under considerable pressure last year, largely due to sharp contractions in the construction (-26.5%) and mining & quarrying industries (-5.7%). Consequently, the industrial sector shrank by just over 7.1% in 2016.

While the contraction in construction stemmed primarily from the completion of mining construction projects, the slowdown was also exacerbated by low international commodity prices and the resultant weakness in diamond and copper production.

Economic woes continue into early 2017
Namibia's poor economic performance in 2016 worsened further during the first three months of this year. The economy shrank by 2.7% y-o-y in Q1 2017, marking the sharpest contraction since the first quarter of 2013 (-2.8% y-o-y).\(^8\)

Within the different sectors, the industrial sector once again posted the worst performance, shrinking by 8.5% y-o-y. In turn, the services sector saw its first contraction in several years (-1.1% y-o-y), while the agricultural sector managed to post strong growth (7.6% y-o-y).

Figure 8. Annual sectoral growth performances (%), 2010-16

Source: NSA, 2017a
Invest in Namibia | Economic review and outlook

Figure 9. Quarterly real GDP growth (y-o-y % change), Q1 2015 – Q1 2017

![Graph showing quarterly real GDP growth from Q1 2015 to Q1 2017.]

Source: NSA, 2017b

Figure 10. Agricultural sector (y-o-y % change), Q1 2015 – Q1 2017

![Graph showing agricultural sector growth from Q1 2015 to Q1 2017.]

Source: NSA, 2017b
Figure 11. Industrial sector (y-o-y % change), Q1 2015 – Q1 2017

Figure 12. Services sector (y-o-y % change), Q1 2015 – Q1 2017

Source: NSA, 2017b
Robust outlook
Despite the disappointing performance in the first quarter, the Namibian economy is expected to recover from the 1.1% growth in 2016 to a projected 2.9% this year. Real GDP growth is forecast to accelerate further to 3.8% next year, before slowing again to 1.6% in 2018.¹⁹
The forecast recovery is set to stem from a rebound in the agricultural and mining sectors, although there is some concern that uranium production may not meet expectations.
However, real GDP growth is expected to be constrained by weak construction activity, with delayed government-led projects remaining problematic for the industry.
Additional downside risks to GDP growth projections stem from the possibility of further downgrades in both Namibia and neighbouring South Africa.

Growth drivers
Industrial sector
Namibia’s mining sector dominates the country’s industrial sector, and is still considered to be the backbone of the economy.
After a difficult 2016, the mining sector is set to benefit from the completion of the Husab uranium mine, which will add to production levels from the country’s other two uranium mines – Rössing and Langer Heinrich.
Both existing mines have faced difficulty under the low price conditions of the last few years. Rössing has reduced production while Langer Heinrich has ceased mining activity.²⁰ Nevertheless, the Husab mine is expected to reach full production by August 2018, thereby sharply increasing Namibia’s uranium output and exports.²¹
Additional impetus to the industrial sector’s growth outlook is expected to be provided from an ongoing (albeit gradual) recovery in commodity prices. A vastly improved outlook for diamonds – Namibia’s key foreign exchange earner – bodes well for the sector. The expected recovery in diamond prices is set to be driven by stronger real GDP growth in the US, robust demand from China, as well as no scheduled maintenance on Namibia’s offshore diamond mining fleet (unlike in 2016).²²
Of Namibia’s other two major mining commodities, gold and copper, the former is expected to enjoy resilient demand in the face of rising geopolitical risk in the global sphere. The outlook for copper prices is not as optimistic, yet Namibia is still expected to post strong production numbers due to the Tschudi mine, which only reached full production last year.
Consequently, the mining sector is expected to recover from the contractions seen during the last three years, and make a positive contribution to the industrial sector’s growth over the medium term – projected at 6.9% in 2017 and 6% in 2018.23

Agricultural sector
The agricultural sector is set to benefit from improved weather conditions this year. In particular, white maize is set to benefit from a return to more normal rainfall patterns, although some concern has been noted regarding possible armyworm infestations in the region.

The fishing sector is also expected to make a positive contribution to real GDP growth this year, recovering from the sharp contraction in 2015 and stagnation last year.24

While Namibia’s livestock sector is expected to improve on the back of a return to normal rainfall patterns, it will take some time for the livestock sub-sector to recover fully. 2017 is likely to be a stock-rebuilding year after the high cattle exports during the previous drought.25

The Economist Intelligence Unit N.A. Incorporation projects a rebound for the agricultural sector in 2017 (3.5%) and in 2018 (4.1%), before growing at a still-robust pace in 2019 (2.7%).26

Industrialisation and diversification
On top of the aforementioned sectoral growth drivers, Namibia has pinned its growth objectives on industrialisation and diversification efforts. Government adopted a pro-industrialisation policy in 2012, with the so-called ‘Growth at Home’ plan launched in 2015 in an effort to implement the policy.

Although 2016 proved to be a difficult year, the industrialisation policy “lays a strong foundation for economic diversification and job creation” over the medium to long term.27 The ‘Fifth National Development Plan’ (NDP5), launched in May 2017, outlines the government’s vision for “structural transformation through value added industrialisation”.

The NDP5 aims to promote structural change through industrialisation in nine key focus areas, namely: enterprise development; manufacturing; agriculture; rural economic development; the so-called ‘blue economy’; mining; fishery; tourism; and research & innovation.28
Invest in Namibia | Harnessing investment to drive economic recovery
Fiscal, debt and monetary policies

As expected, further consolidation efforts were announced in the latest budget statement, with the fiscal deficit forecast to narrow to 3.6% of GDP in the 2017/18 fiscal year (FY).

Fiscal policy
Over the last few years, Namibia’s fiscal expenditure has been primarily guided, albeit with relatively low implementation, by the ‘Fourth National Development Plan’ (NDP4), which commenced in the 2012/13 FY (April 1 to March 31) and expired in March 2017.

The expiration of NDP4 made way for NDP5, which was unveiled at the end of May. The fifth NDP draws heavily on its predecessor, with a key focal point of NDP4 – infrastructure development (particularly electricity generation and transport infrastructure) – remaining on the agenda for NDP5. However, after growing by an average of 19% per annum over the 2013-15 period, gross fixed capital formation contracted by 25.3% in 2016.

As a result of the ambitious spending programme by the Namibian government, the fiscal deficit widened from 0.1% of GDP in the 2012/13 FY to 8.3% of GDP by the 2015/16 FY. The fiscal shortfall remained in the 2016/17 FY, estimated at some 6.3% of GDP, despite fiscal consolidation efforts in order to narrow the deficit to below the self-imposed target of 5% of GDP.

Although real GDP growth in the Southern African region is expected to accelerate in 2017, sluggish regional trade implies the downward trend in SACU revenues may continue. Namibia’s budget forecasts, however, still show very high SACU receipts in the short term.

Given that SACU inflows have accounted for a significant share of Namibia’s tax revenues over the last few years, a significant fall in SACU revenues could potentially be a key risk for fiscal sustainability.

2017/18 Budget
In the run-up to Finance Minister Calle Schlettwein’s 2017/18 budget statement on 8 March, expectations were for consolidation efforts to be continued as the foundations for the 2017/18 FY, which started 1 April, were laid out.

While excessive consolidation is challenging in the context of a difficult macroeconomic environment, the Ministry of Finance (MoF) expects Namibia to post a muted recovery over the medium term, with real GDP growth forecast at 2.5% this year and increasing further to 3.7% in 2018 – in line with projections from the Economist Intelligence Unit N.A. Incorporated.

In the context of the Namibian economy still facing some pressure, Mr Schlettwein noted the importance of holding true to the more sustainable fiscal trajectory that the government embarked on in the 2016/17 FY.

As expected, further consolidation efforts were announced in the latest budget statement, with the fiscal deficit forecast to narrow to 3.6% of GDP in the 2017/18 FY.
A closer look at government’s budgeted financial operations shows that total fiscal revenue and grants are forecast to increase by 9.5% to N$56.4bn in the 2017/18 FY. The increase stems in part from the expectation of higher SACU receipts and improved domestic revenue streams.

Total fiscal expenditure is projected by the government to increase marginally to N$62.5bn in the 2017/18 FY, representing a mere 1.7% increase and a corresponding drop as a share of GDP, from 39% to 37% from 2016/17 to 2017/18.

Although the 2017/18 budget statement proved to hold no unexpected surprises, and with the ministry focusing on reigning in fiscal expenditure in what was a still difficult macroeconomic environment, there remains some concern that not enough has been done to address the government’s debt levels.

### Public debt

The rise in external debt (and subsequent servicing requirements) was among the reasons cited by both Fitch and Moody’s when the two agencies adjusted Namibia’s sovereign debt rating outlook to negative in 2016.

Of particular concern is the manner in which the government intends to deal with Namibia’s debt dilemma. In line with the rapidly widening fiscal deficits over the last few years, the country’s financing requirements increased accordingly. Total public debt reached an estimated 42.1% of GDP in the 2016/17 FY – above the self-imposed prudential limit of 35% of GDP. By September 2016, public debt increased by 49% from the previous year.

Foreign currency denominated debt was higher by 71% y-o-y due to the issuance of a Eurobond in October 2015, while domestic debt increased by 37% y-o-y over the same period.

### Public debt

Looking ahead, Namibia’s fiscal deficits are set to be financed primarily by an accumulation of domestic debt.

In nominal terms, the 2017/18 FY budget sees domestic debt held by the government increasing by 4.6% to N$43.2bn, with foreign debt held by the government increasing by 11.8% to N$28.4bn in the 2017/18 FY. Domestic public debt is forecast to account for 25.3% of GDP in the 2017/18 FY, while foreign public debt is projected to account for 16.6% of GDP in the same period.

Consequently, total public debt is forecast to fall slightly to 41.9% of GDP in the 2017/18 FY, but still remain above the self-imposed prudential limit. Depreciatory pressure on the South African rand (and consequently the Namibian dollar), as well as the high levels of external debt, raises some concern regarding external debt servicing requirements.
Figure 15. Fiscal revenue and expenditure (% of GDP), 2012/13 FY – 2017/18 FY

Source: Ministry of Finance, 2017

Figure 16. Public debt (N$bn; % of GDP), Q1 2015/16 – Q2 2016/17

Source: BoN, 2017
Inflation, monetary policy and exchange rate regime

While Namibia has a central bank and a monetary policy committee (MPC), the Bank of Namibia (BoN) is only partially independent, given that monetary policy is “underpinned by the exchange rate system linked to the South African rand”. This system entails a one-to-one fixed peg between the Namibian dollar and the rand, with Namibia a member of the Common Monetary Area (CMA). The fixed peg with its largest trading partner offers stability, the Namibian exchange rate regime also makes Namibia’s external position of paramount importance. As such, the country’s twin deficit situation is concerning.

In an effort to mitigate this risk, the government has initiated extraordinary measures in recent years in order to prop up the central bank’s foreign exchange reserves. These include the second Eurobond issuance in 2015, swap agreements between the GIPF and the BoN, as well as swap agreements between NamPower and the BoN.

The BoN’s MPC largely follows its South African counterpart’s moves, but also has some discretion regarding capital controls and other prudential regulation. Most recently, the BoN followed the South African Reserve Bank (SARB) by reducing its benchmark repurchase (repo) rate by 25 bps to 6.75% in August 2017. The BoN was widely expected to follow its southern counterpart, given Namibia’s currency peg.

Figure 17. Repo rate and inflation (%), January 2014 – May 2017

Source: BoN, 2017; NSA, 2017
Bilateral relationships

Beyond the diamond industry, uranium is another commodity rapidly climbing the ranks of Namibia’s key exports.

Uncertain global trade environment
While the global economy is widely thought to be in an upswing, after experiencing its slowest pace of growth last year since the global financial crisis, there is some concern pertaining to the so-called ‘rise of protectionism’. Notably, the IMF pointed out in its April 2017 World Economic Update (WEO) that the turn toward protectionism, particularly in developed economies, is a “salient threat” to global growth.⁴⁰

In this environment, it has become increasingly important for countries to recognise the mutual benefits of freer trade by solidifying existing relationships and agreements.

Namibia has done relatively well in this regard, boasting membership of key economic and trade communities, international tax treaties, and trade agreements.

Trade and tax agreements
Namibia has several key community memberships, notably forming part of SACU and SADC.

Namibia is also a member of the following trade agreements:⁴¹

• Cotonou Agreement, World Trade Organisation, Common Monetary Union
• African Growth and Opportunity Act (AGOA) beneficiary country
• Namibian products qualify for preferential market access to 34 countries under the Generalised System of Preferences
• Preferential trade agreement with Zimbabwe
• Economic partnership agreement signed with the EU in June 2016.

Furthermore, Namibia enjoys several international trade agreements, including tax treaties with non-African countries like Russia and the UK.

Widening domestic trade deficit
Large-scale investment projects have sharply increased pressures on the country’s trade balance. Namibia’s total imports increased from an average of around US$4.4bn over the 2005-10 period to an average of almost US$7bn over the 2011-16 period. This represents an increase of almost 60%.⁴²

On the other side of the equation, Namibia’s exports increased from an average of US$4.4bn to an average of just over US$5bn over the same period.

As a result, the country’s trade balance switched from a surplus of US$0.6bn in 2006 to a deficit of some US$2.9bn a decade later. Once the aforementioned projects achieve full production, it is likely that Namibia’s trade balance will again enter surplus territory.

Figure 18. Merchandise trade balance (US$bn), 2001-16

Source: Trade Map, 2017
Diamonds dominate, but uranium exports set to accelerate

Even though Namibia’s diamond exports fell by almost 25% last year (on top of the 19.3% decrease in 2015), the precious gem was still Namibia’s top commodity export in 2016. Diamonds accounted for just under 30% of the country’s total exports, with fish exports in second place and representing 16.5% of total exports.

Fortunately, the diamond industry is expected to improve in the coming years. De Beers noted in its flagship *Diamond Industry Outlook* report for 2016 that the fundamentals of the industry remain positive, given that growth in demand is expected to “continue to outstrip growth in carat production”.

The industry though faces an environment of still-sluggish global growth, with the possibility of slowing growth in China a particular concern for players in the diamond market.

Beyond the diamond industry, uranium is another commodity rapidly climbing the ranks of Namibia’s key exports. While only accounting for an average of 8.4% of the country’s total exports over the 2015-16 period, uranium exports are set to rise rapidly with the completion of the Husab uranium mine last year.

According to the BoN’s latest *Economic Outlook*, uranium production is forecast to expand rapidly by 25.8% and 41.2% in 2017 and 2018, respectively.

Close trade ties with South Africa

Apart from the monetary policy linkages to South Africa, Namibia is also closely connected to its Southern neighbour via strong trade ties. In 2016, Namibia imported almost 60% of its total merchandise goods from South Africa. To put this in context, the second-largest single import source was Botswana, which accounted for only 6.6% of total imports last year.

Similarly, a large share of Namibia’s commodity exports is sent to South Africa. Some 16% of Namibia’s total exports went to its southern neighbour in 2016.

Yet, Namibia’s export destinations are considerably more diversified than the country’s import origins. Switzerland was the top single-destination of merchandise goods last year (18.8% of total exports), with South Africa’s 16% coming in second, and Botswana in third place with 14.1% of total exports.
Figure 19. Top five merchandise exports, (US$bn), 2001-16

Source: Trade Map, 2017

Figure 20. Top five merchandise imports, (US$bn), 2001-16

Source: Trade Map, 2017
Figure 21. Main merchandise export destinations (% of total), 2016

- Switzerland: 18.8%
- South Africa: 16.0%
- Botswana: 14.1%
- Zambia: 6.3%
- Spain: 4.3%
- Italy: 3.9%
- China: 3.4%
- Belgium: 3.2%
- Norway: 3.1%
- Other: 26.9%

Source: NSA, 2017c

Figure 22. Main merchandise import sources (% of total), 2016

- South Africa: 58.7%
- Botswana: 6.6%
- Zambia: 4.0%
- China: 2.8%
- Norway: 2.4%
- Bahamas: 2.3%
- India: 2.2%
- US: 1.8%
- Italy: 1.7%
- Other: 17.3%

Source: NSA, 2017c
Downside risks and challenges

The most pertinent downside risk facing Namibia’s macroeconomic environment is the recent sovereign debt rating downgrade.

While the Namibian economy boasts multiple opportunities and an upbeat outlook with positive potential, there are several likely downside risks. Investors, government and the private sector alike should be cognisant of these risks.

Sub-investment grade rating
The most pertinent downside risk facing Namibia’s macroeconomic environment is the recent sovereign debt rating downgrade, thereby joining its southern neighbour in sub-investment grade territory. The potential for further downgrades is real, given that both Fitch and Moody’s have Namibia on a negative outlook.

Downgrade triggers noted by the rating agencies include: a sharp decline in foreign exchange reserves; increased debt financing pressure from lower investor demand for government securities; an inability to narrow the current account deficit; and slower-than-expected real GDP growth.

Of particular concern to the rating agencies is the risk of inadequate fiscal consolidation. While the MoF has made it clear that it aims to continue its consolidation efforts, there is still a risk that revenues could decrease further.

Following the downgrade, higher borrowing costs on government debt are likely, which in turn will place pressure on the fiscus. This will further limit the already-stressed available fiscal stimulus which, in turn, could see decreased investment and slower economic expansion. Further strain on the investment environment could stem from the government’s protectionist investment policies.

Overly optimistic growth outlook
There is a valid argument that current economic expansion projections, by both the government and the rating agencies, are overly optimistic. A real GDP growth rate of close to 3% in 2017 is exceedingly unlikely, particularly given the sharpness of the contraction seen in the first quarter.

The optimistic projections rely heavily on the assumption that Namibia’s uranium production will grow sharply this year. However, international prices remain downbeat, set to weigh on production targets.

Additional draggers on Namibia’s growth outlook stem from the government’s sterner fiscal stance, continued pressure on the wholesale and retail sale sectors, and a potential lack of investor confidence following the protectionist leanings of the new investment act.

Namibia’s largest trading partner, South Africa, is projected to continue to grow at a sluggish pace in 2017, which will weigh on Namibia’s economic prospects.

Additional challenges
While potentially not having as extreme an effect as the aforementioned downside risks, there are several other developments that could place pressure on the Namibian macroeconomic environment.

Addressing Namibia’s high levels of economic inequality is a structural component of the government’s policy framework. One of the avenues via which transformation is intended to be achieved is through wealth redistribution, particularly via Black Economic Empowerment (BEE) initiatives. While this is not an unfamiliar policy in the region, there is some concern that increasing the minimum equity shareholding of BEE entities could negatively affect investor sentiment towards Namibia.

Recent legislation surrounding this issue proposes a minimum ownership stake of 25% for “previously disadvantaged persons” and 50% management control by “previously disadvantaged persons” for all corporates in the country, as a part of the New Equitable Economic Empowerment Bill (NEEEB).

Land redistribution is another controversial government policy that could be implemented on the back of strong support from a large share of Namibians. Implementation of this policy could well have adverse consequences on the country’s investment climate.
Invest in Namibia | Harnessing investment to drive economic recovery
Appendix A: Investment opportunities in Namibia

| **Agri Business** |  |
|---|---|---|
| Hungorob project | Combined agricultural project | Fruit & Vegetable Production project |
| Cultivation of potatoes & onions project | Crop Development Project | Fish farming & vegetable planting project |
| Production of vegetables & cereal crops project | Industrialisation of Wood from Invasive Trees project | Mahangu production plant project |
| Integrated Farming Project | Nkurenkuru Irrigation Project | Broiler chicken production project |

| **Aquaculture** |  |
|---|---|---|
| Marine & fresh water algae project | Omaheke aquaculture project | Establishment of fish ponds & vegetable garden project |

<table>
<thead>
<tr>
<th><strong>Aquaculture Project</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Energy</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy generation from biomass project</td>
<td>Electricity Generation from Landfill Gas</td>
</tr>
<tr>
<td>Production of Energy from Solid Waste</td>
<td>Biomass Gasification (BMG)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Infrastructure</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of apartments for rental services in Windhoek</td>
<td>Construction of private accommodation complex for students</td>
</tr>
<tr>
<td>Construction of Mixed Infrastructure Development in Tsumeb</td>
<td>Walvis Bay Marina Facility</td>
</tr>
<tr>
<td>Construction of District Road DR 3609 Oshakati-Okahandja-Onganga Road</td>
<td>Servicing of Municipal Land</td>
</tr>
<tr>
<td>Upgrading of the Railway Line Network in Namibia</td>
<td>Construction of low cost houses and commercial properties</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Manufacturing</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bricks, Tiles and Stone Crushing Plant</td>
<td>Corn processing plant</td>
</tr>
<tr>
<td>Chlorine and Caustic Soda Factory</td>
<td>Detergent, soap and washing powder manufacturing plant</td>
</tr>
<tr>
<td>Production of diapers and sanitary pads</td>
<td>Production of Fertilisers and Chemicals</td>
</tr>
<tr>
<td>Safety equipment manufacturing plant</td>
<td>Computer manufacturing assembly line plant</td>
</tr>
<tr>
<td>Mining and Exploration Equipment Plant</td>
<td>Processing, dehydration, packaging of general food products and production of fuel briquettes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Mining</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral exploration</td>
<td>Copper Mining</td>
</tr>
<tr>
<td>Mineral Prospecting and Exploration</td>
<td>Small scale mining project</td>
</tr>
<tr>
<td>Sodalite processing plant</td>
<td>Sandstone and quartzite processing</td>
</tr>
</tbody>
</table>
### Services

<table>
<thead>
<tr>
<th>Service</th>
<th>Project Details</th>
<th>Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambulance and Rescue Service Project</td>
<td>Establishment of Micro Medi Clinics in Okakarara and Otjinene</td>
<td>Establishment of Secondary Education School in the Kavango Region</td>
</tr>
<tr>
<td>Establishing a communication and marketing company</td>
<td>Mobile vending and payment services project</td>
<td>Establishment of a Neurological Rehabilitation Unit</td>
</tr>
<tr>
<td>Establishment of Business and Conferencing Facilities</td>
<td>Establishment of a Mobile Computer Literacy Center</td>
<td>Establishment of a construction company</td>
</tr>
<tr>
<td>Import and Export of finished fuel and oil products</td>
<td>Establishment of Private School in the Caprivi Region</td>
<td>Tourist Helicopter Service</td>
</tr>
</tbody>
</table>

### Tourism

<table>
<thead>
<tr>
<th>Tourism</th>
<th>Project Details</th>
<th>Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of wellness centre</td>
<td>Establishment of Lodge and Tourism facility</td>
<td>Shipanga Bungalows, Campsite &amp; Caravan Park</td>
</tr>
<tr>
<td>Lodge Development at Okongo</td>
<td>Establishment of lodge at Ruacana</td>
<td>Lodge establishment in Windhoek</td>
</tr>
<tr>
<td>Development of Conference and Accommodation Centre</td>
<td>Establishment of a tourist park lodge</td>
<td>Establishment of tourist facilities near Spitzkoppe Mountains</td>
</tr>
<tr>
<td>Tourist Resort Development</td>
<td>Construction of tourist lodge</td>
<td>Construction of lodge in Dordabis</td>
</tr>
<tr>
<td>Establishment of waterfront rest camp</td>
<td>Establishment of private resorts company</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Ministry of Industrialisation, Trade and SME Development, 2017*
### Appendix B: Namibian tax treaties

<table>
<thead>
<tr>
<th>Treaty</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
<th>Directors' fees</th>
<th>Entertainers' fees</th>
<th>Services fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>25%</td>
<td>10%</td>
<td>0% / 10%</td>
</tr>
<tr>
<td>France</td>
<td>5% / 10%</td>
<td>10%</td>
<td>10%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Germany</td>
<td>10%</td>
<td>0%</td>
<td>10%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>India</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>25%</td>
<td>10%</td>
<td>0% / 10%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5% / 10%</td>
<td>10%</td>
<td>5%</td>
<td>25%</td>
<td>10%</td>
<td>0% / 5%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>5% / 10%</td>
<td>10%</td>
<td>5%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Romania</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Russia</td>
<td>5% / 10%</td>
<td>10%</td>
<td>5%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>South Africa</td>
<td>5% / 10%</td>
<td>10%</td>
<td>10%</td>
<td>25%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>5% / 10%</td>
<td>10%</td>
<td>10.2% / 5%</td>
<td>25%</td>
<td>10%</td>
<td>0% / 10%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5% / 10%</td>
<td>10%</td>
<td>5% / 50% of domestic rate</td>
<td>0% / 25%</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Deloitte, 2017a*

*Note: For more information, please see Deloitte’s Guide to Fiscal Information – Key Economies in Africa 2017.*
Invest in Namibia | Harnessing investment to drive economic recovery
Endnotes


8. See Appendix A for a more comprehensive list of investment opportunities.


15. Ibid.


17. Ibid.


Invest in Namibia | Harnessing investment to drive economic recovery
Contacts

Erwin Tjipuka
Country Managing Partner | Namibia
Deloitte Namibia
etjipuka@deloitte.com

Gerda Brand
Director | Taxation Services – Windhoek
Deloitte Namibia
gbrand@deloitte.com

Dr Martyn Davies
Managing Director | Emerging Markets & Africa
Deloitte Africa
mdavies@deloitte.com

Hannah Edinger
Associate Director | Africa Services Group
Deloitte Africa
hedinger@deloitte.com

Author

Hanns Spangenberg
Senior Economist | Africa Services Group
Deloitte Africa
hspangenberg@deloitte.com
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Touche Tohmatsu Limited (813951/rina)