FNB
First National Bank

Moody's Downgrade
August 2017

Key Take Outs

- Namibia foreign currency debt downgraded to Ba1 (sub investment grade)
- Namibia local currency debt remains investment grade
- Reasons 1) No fiscal consolidation, 2) external vulnerabilities 3) government liquidity
- Renewed need for cost diligence and structural expenditure adjustments

Foreign Currency Rating				
Year-end	Fitch		Moody's	
2005	BBB-	Stable		
2006	BBB-	Stable		
2007	BBB-	Stable		
2008	BBB-	Stable		
2009	BBB-	Stable		
2010	BBB-	Positive		
2011	BBB-	Stable	Baa3	Stable
2012	BBB-	Stable	Baa3	Stable
2013	BBB-	Stable	Baa3	Stable
2014	BBB-	Stable	Baa3	Stable
2015	BBB-	Stable	Baa3	Stable
2016	BBB-	Negative	Baa3	Negative
2017	BBB-	Negative	Ba1	Negative

Moody's recently downgraded Namibia foreign debt to sub-investment grade. The rating came as a surprise, as it was unscheduled and at a time when green shoots were just starting to emerge. Although the foreign debt rating is now at sub-investment grade, the local debt remains investment grade. This reflects rising FX risk in meeting international debt obligations and thereby relegating Nam Eurobonds to speculative grade. The reasons cited by Moody's are three-fold: 1) absence of progress on fiscal consolidation which saw debt to GDP increase to 42%; 2) limited institutional capacity to manage shocks (SACU revenue, ZAR weakness and FX reserves) and 3) risk of renewed government liquidity pressures. Central to the downgrade was government debt and the bloated wage bill, the latter having impeded consolidation efforts thus far. Essentially, there has been only limited fiscal consolidation; having largely only decelerated the rate at which we accumulate debt.

Be that as it may, the downgrade highlights external frailties and structural inefficiencies within the economy, which will prolong Namibia's economic recovery. Paramount is Namibia expenditure efficiencies. From each tax dollar collected, 50c goes to wages, 13c goes to SOE, 9c goes to interest payments, leaving 11c for the provision of public goods and services.

Since the Group had conservatively included a downgrade into our core view, there are no material changes to our outlook.

Taking market sentiment, consumer confidence and national financial attitudes into account - the downgrade is a shock reminder that a longer term through the cycle view is required when implementing the necessary public sector cost diligence and structural expenditure adjustments to steer Namibia back to the high growth trajectory, which we have all enjoyed over the past seven years.