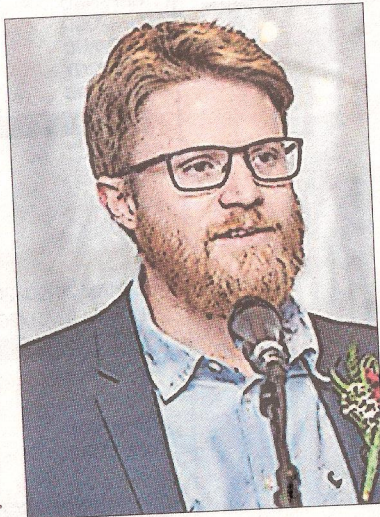


Namibia's investment rating under threat

• NDAMA NAKASHOLE

ECONOMIST and co-founder of Cirrus Capital, Rowland Brown says the chance of Namibia remaining investment grade-rated is now extremely thin, and that this introduces a number of challenges for the country.

He was reacting to the current political weather in neighbouring South Africa that saw Africa's largest economy and Namibia's biggest trading partner credit rating downgraded to junk status by the S&P rating agency on Monday afternoon.



Rowland Brown



Eloise du Plessis

"Firstly, our own cost of borrowing will continue to increase, and we will start to face some challenges regarding our unhedged foreign currency debt. Secondly, we will experience heightened inflation. Thirdly, we will likely see either an increase in interest rates, or a decrease in bank lending should the marginal net-interest margin of the commercial banks come under further pressure," Brown told *The Namibian* on Monday evening.

He further said the South African situation will have a very direct impact on Namibia, primarily through the shared currency arrangement.

"The political uncertainty and behaviour in South Africa has caused and is likely to continue causing the rand to depreciate against major currencies, and Monday's rating downgrade in South Africa will undoubtedly be the first of many,

with Fitch and Moody's likely to follow suit over the next month," he said.

He added that these downgrades will cause the rand to weaken further, and will drive the cost of borrowing for South Africa up.

"Unfortunately for Namibia, as we are joined at the hip to South Africa, we will similarly be affected. This is evidenced by the fact that over the last week alone, Namibia's debt stock has increased in value by N\$1,6 billion, just due to the rand weakness," he said.

Brown added that for now, this is just a book loss. However, it is currently fairly inconceivable that it will be reversed, "as South Africa will likely now remain junk rated for half a decade or more, depending on political action going forward.

What needs to be done?

"Given this risk environment, Namibia needs to be extremely cautious with regards to our own fiscal position and deficit. We need to look at options with regards to managing our foreign debt exposure, and we need to be extremely cautious with regards to our reserve position," he said.

In essence, Namibia will be negatively affected by the ongoing situation in South Africa, but provided we make the right policy decisions in Namibia, the situation will remain manageable, he said.

Eloise du Plessis, PSG Namibia's analyst and equity strategist, echoed Brown's sentiments and said that since Namibian debt is priced off the South African debt, it means Namibia's gov-

ernment debt becomes more expensive as well and the interest the government has to pay on its debt goes up.

"This puts further pressure on our already-stretched budget. It could also mean that the Bank of Namibia increases the repo rate which will make debt more expensive for all Namibian consumers as well," she said.

Du Plessis further said Namibia will be most severely affected by the changes in South Africa since the rating agency has decided to downgrade South African debt to non-investment grade (or junk) status.

"Even though Namibia's economic situation is measured independently of that of South Africa, indirectly we will be affected. The higher finance

cost and lower expected South African growth will also dampen our chances of decreasing our budget deficit and our growth prospects," she said.

"If the the rand continues to weaken this could put upward pressure on inflation since our imports will be more expensive," she added.

However, Alfred Kamupingene, head of research at Namibia Equity Brokers said the current political impasse is South Africa specific, therefore it will be irresponsible for people to extrapolate that to Namibia.

"This is not to say we are pontiffs, we definitively have our own headaches. However, we should be judged on what we do, not what our neighbours do," he said.

Issue Impact

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