



4.1	2.8	5.0	2.8
3.5	1.8	3.0	1.8
2.5	4.4	2.5	4.4
4.2	2.4	2.2	2.4

# Contents

Background on non-government bonds.....	8
The current makeup of non-government bonds.....	10
SOE Bonds.....	11
SOE funding needs.....	12
Conclusions.....	14



Until 2011, Namibia had very little public debt. In fact, at just 16% of GDP, the country had one of the lowest debt-to-GDP ratios in the world. Fast forward six years to 2017, and the country is downgraded by both of the international rating agencies that cover her, to a sub-investment or “junk” rating, citing amongst others, the rapid rise in public debt.



Over the first five years of this period, the country went through one of her longest and largest boom periods, with the strongest and most sustained growth levels seen since independence. However, thereafter the bottom fell out, and as is now clear, much of this growth was driven by debt, both public and private. As a result, between early 2011 and the end of 2017, Government debt levels went from N\$13.8 billion (16.4% of GDP) to N\$72.8 billion (40.6% of GDP), a N\$58.9 billion increase. Now, despite an economy that has contracted for more than two years, little surplus public debt capacity means that government is not in a position to stimulate growth through fiscal expansion (lower taxes or higher spending). In addition, shareholder support for State Owned Enterprises has become increasingly challenging due to Government financial constraints, at just the time when corporate profitability is under vast pressure due to a weak macro environment.

These increases in debt levels, coupled with a challenging economic climate, have brought about notable changes in the Namibian fixed-interest (corporate, government and quasi-government debt) space. The development of this space can be felt across much of the economy, with changes in the availability and price of capital for households and businesses becoming apparent from 2016 to this day. For many, this may seem a long-shot, however the role of the Government in providing a benchmark “risk-free” borrowing rate should not be underestimated, and the impact of dramatic changes to the risk-free benchmark can be seen and expected across the economy.

From independence in 1990 until 2011, Namibia was decidedly fiscally responsible.

Budget deficits were moderate in most years, and for an extended period through the 2000’s, budget surpluses were run. In 2011, in an effort to drive growth and stave-off the challenging economic conditions faced by other parts of the globe, particularly Europe, Government ramped up spending, and within a five-year period expenditure had grown by approximately 135%, outstripping inflation over the same period of just 31.5%. Initially this spending was counter-cyclical, to the extent that it revived lagging growth and caused an upswing in the economy despite an otherwise weakening business cycle.

However, as investment gained pace in 2013, the need for this counter-cyclical fiscal policy dissipated, and as public spending continued to increase despite the reduced need for such, policy fast became pro-cyclical. This carried the fast strengthening business cycle to abnormal highs, boosting growth to some of the highest levels seen in the country’s independent history, and pushing the economy into a state of overdrive.

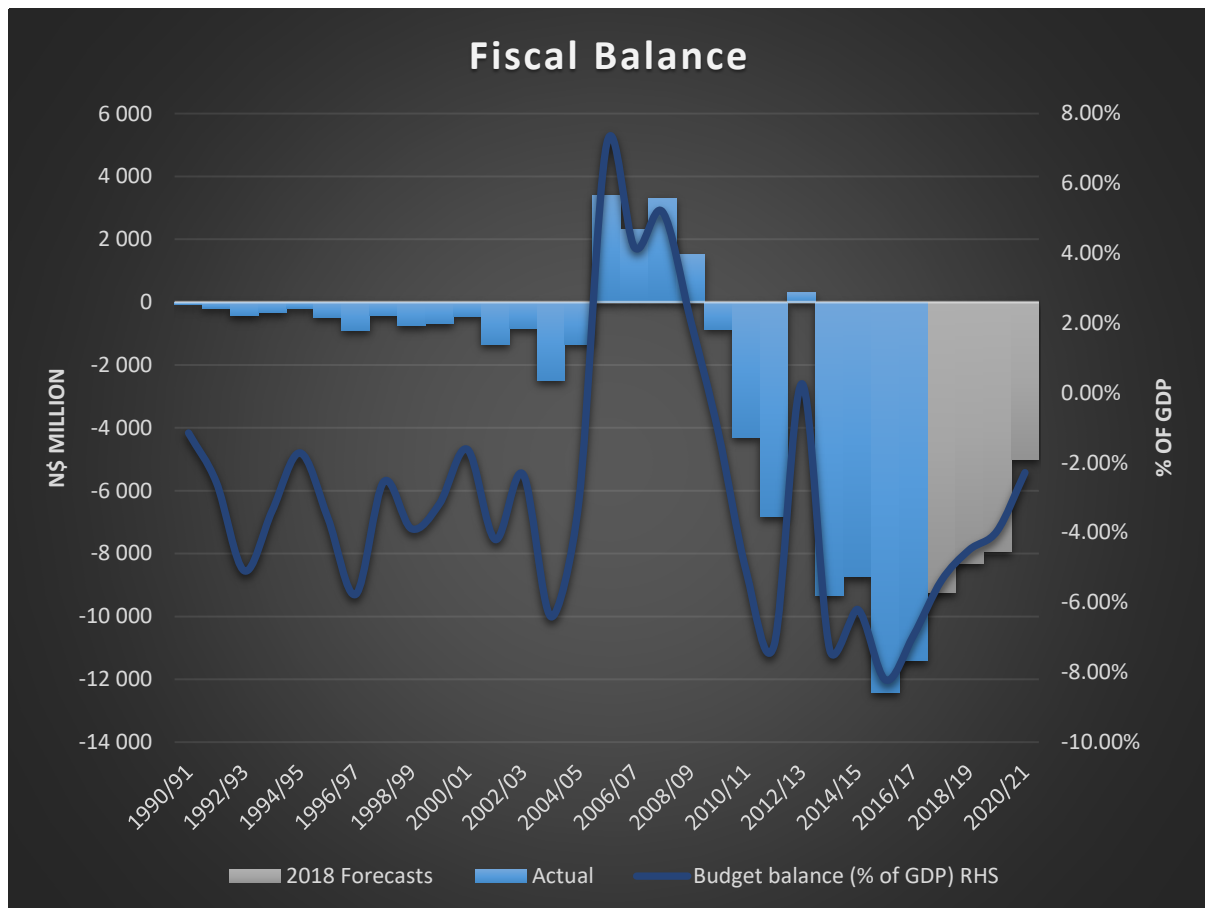
Through this period, despite a strong economic environment and abnormally high, windfall revenues, the fiscus ran budget deficits, meaning that expenditure exceeded revenue and borrowing occurred. From 2015, however, the macroeconomic environment in the country once again underwent rapid change. A plethora of challenges, both internal and external, plagued the country, including the loss of large volumes of Angolan business following the oil price collapse, a drought and the end of a public-and-private sector-based construction boom.

The result of the above was an abrupt economic and Government revenue slow-down, exacerbated by an adjustment in

the trade-related tax receipts from the Southern African Customs Union pool the operational budget meant major widening in the budget deficits from 2014 till present, with the outlook being for slow deficit reductions going forward.

The implication of these budget deficits is multi-fold, but in short-form they required that the Government borrow substantial amounts in order to fund the gap between revenue and expenditure, and cut

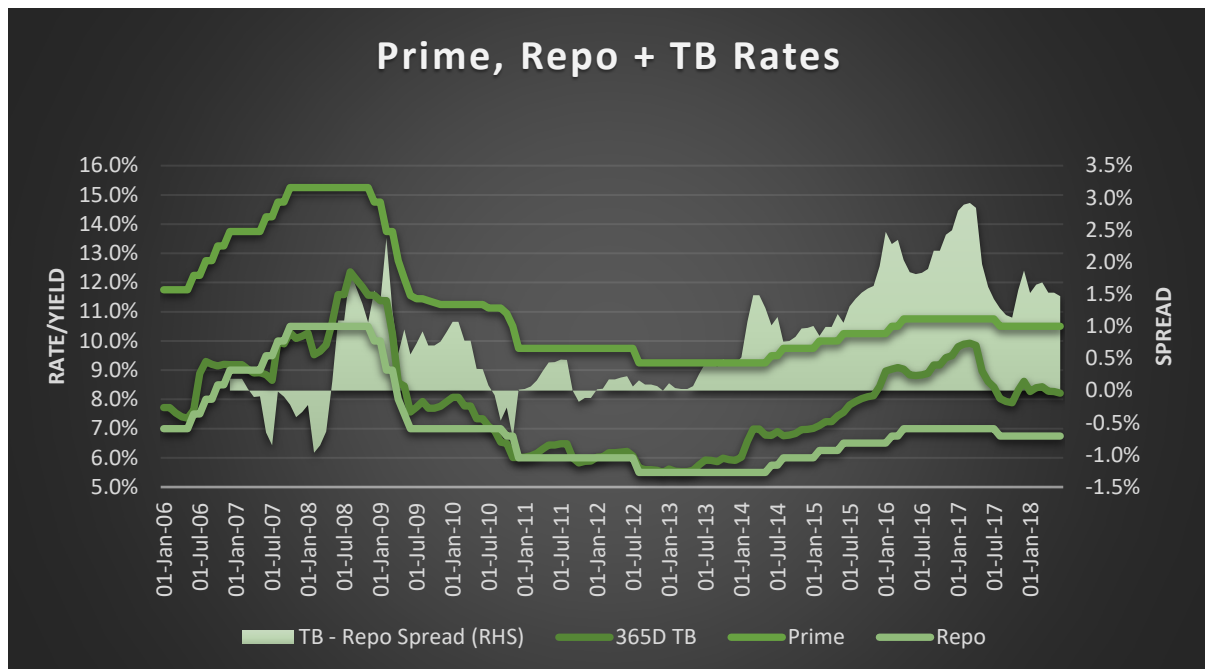
(SACU) for historic overpayment. This coupled with the large growth in spending aggressively in inflation adjusted terms, into what was an already weak and weakening growth environment. Despite these expenditure cuts, over the seven-year period from 2010/11 to 2017/18, total debt issued exceeded N\$60 billion. To put this into context, total debt issued in the 20 years prior to this period totaled under N\$12 billion.



These deficits have brought about substantial, but often underappreciated changes to the local capital markets, as the benchmark “risk-free” issuer went from fiscal prudence to rapid fiscal decline as debt issuance ramped up year after year.

This rapid issuance of public debt, at a ratio more than three-times that of the growth in assets that conventionally purchase this debt (primarily pension funds and long-term insurance funds) meant that competition for finite capital in the country increased.

This in turn drove up interest rates, making the marginal rate of public debt more expensive, but also the marginal rate of borrowing for many other entities competing in the local capital markets for funding. This can be illustrated in many ways, including the difference in interest rates between Namibian Government debt and comparable South African Government debt, but also in the difference in rates between administered borrowing rates and market determined interest rates, such as one-year treasury bills vis-à-vis the repo rate.



At the same time, the downgrading of South Africa and Namibia’s credit ratings to speculative (“junk”) (South Africa as both the local and foreign currency rating and Namibia as just the foreign currency rating), has meant that the risk-free rate for the country has become more vulnerable. While this does not per-se imply that funding will be more expensive for all that fund against the risk-free rate, it does suggest that this is a likelihood for the future.

The final noteworthy development emanating from the changing fiscal dynamics mentioned above has been the streamlining and reduction in public expenditure. One component of these expenditure revisions was a sizable reduction in subsidies and transfers to State Owned Enterprises (SOEs), which fell from approximately N\$9.9 billion in 2015/16, to N\$7.4 billion the following year, to N\$6 billion in 2017/18 and is forecast to fall further, to little over N\$4 billion, in the current 2018/19 year.



The current fiscal challenges faced by the country, coupled with the dramatic reductions in transfers to SOEs from the fiscus, as well as the efforts from the new Ministry of Public Enterprises certainly result in a change of operating environment for many SOEs. Far from the perceived negatives that could be taken from this, there is in-fact a substantial opportunity for the country that stems from these challenges.

For many SOEs, the opportunity exists to source capital partially or wholly independent of the Government, through balance sheet, collateralized or Government-guaranteed debt instruments, or through equity raising on the local stock exchange. While the latter has yet to be seen in the country from an SOE, there is a rich history of the former, with many SOEs raising funds from the local banking sector, or through debt programmes on and off the exchange.

The large growth in public debt, coupled with changes to pension fund regulation that stipulates the percentage of total assets that must be invested in Namibia, has meant that funds returning to the country have found a home in public debt, however with this has come substantial

increases in exposure to a single issuer risk – that of Government.

Thus, opportunities for these funds to be invested in developing Namibia with more diversified risk and sector exposure, certainly exist. Moreover, depending on the management and balance sheet strength of the various SOEs, funding opportunities may be plentiful and come at competitive rates, tenors and terms. Where balance sheets are not sufficiently strong, full or partial guarantees from the shareholder may provide efficient funding alternatives to direct transfers from Government.

A further benefit, from a macroeconomic and public interest perspective at least, is the additional accountability that external funding through conventional capital markets brings to corporates. This starts with the preparation and publication of the financial results, unfortunately still a shortcoming of many Namibian SOEs.

All in all, the development of Namibian capital markets and the SOE use of these markets, rather than direct reliance on Government, could play a significant role in the country's development.



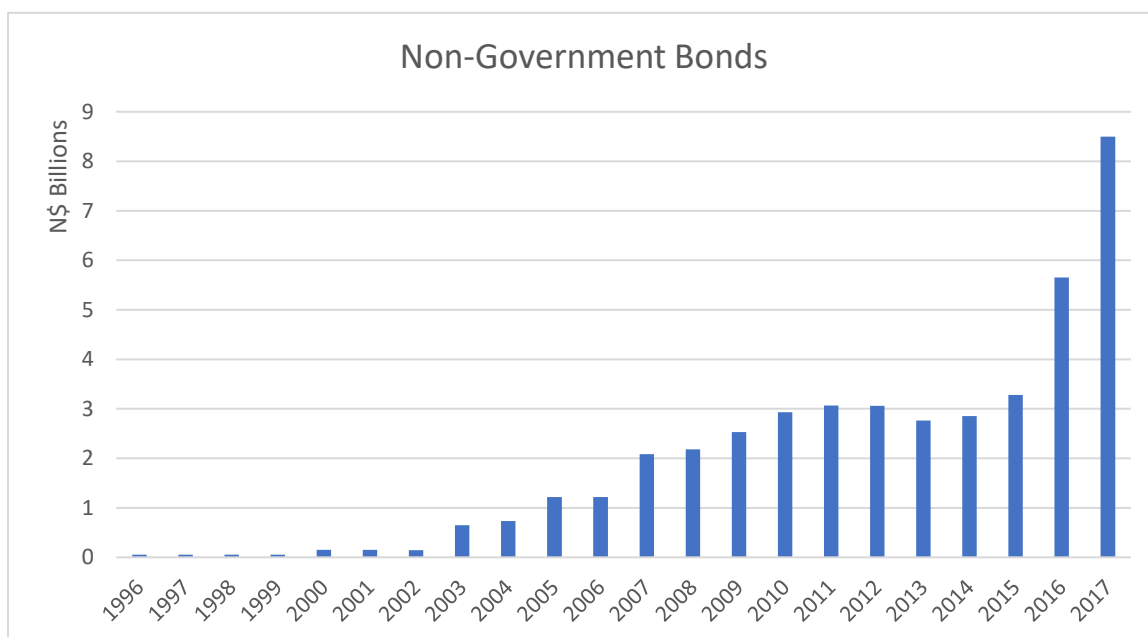
# Background on non-government bonds

The non-government bond market on the Namibia Stock Exchange (NSX) dates back to the 1990s with numerous institutions meeting their funding requirements from within the Namibian capital markets through the NSX.

In 2011 the nominal value of bonds outstanding on the NSX peaked out at just over N\$3 billion after which it gradually decreased until 2013. In 2016 and 2017, however the non-government bond space ballooned, growing to more than N\$8 billion in nominal values outstanding.

This increase was fueled by the local liquidity challenges and Government funding constraints that forced companies to investigate and develop funding options, one of which was tapping the capital markets.

Corporate funding through the bond market usually brings diversity and stability to the financial system, as borrowers and savers are directly connected to each other without further gearing of deposits as can often be seen in the fractional banking system.



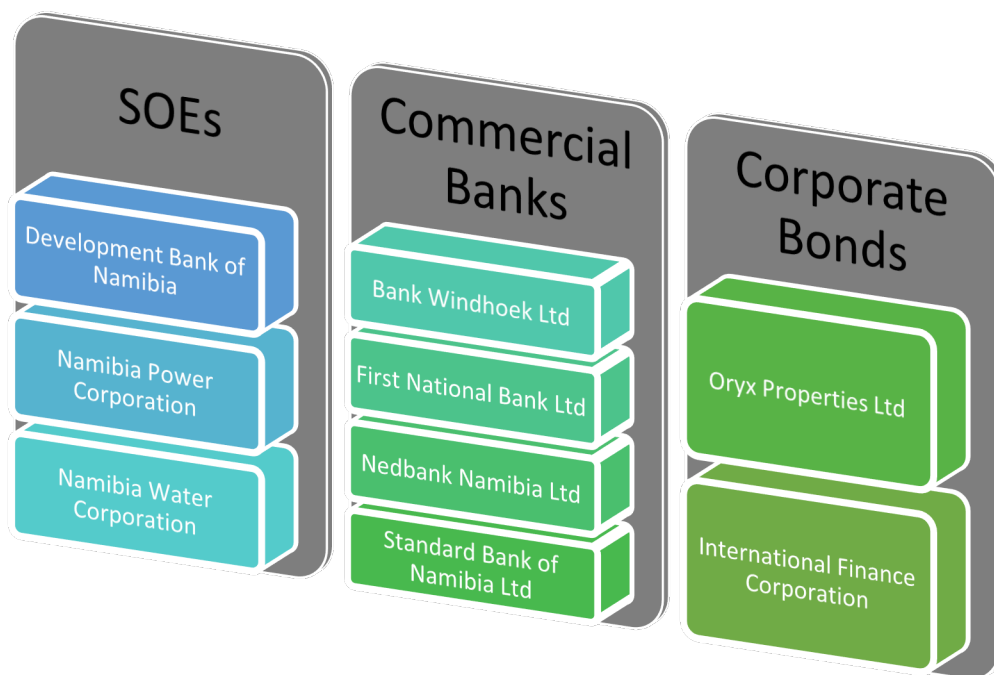
Source: Bank of Namibia, Cirrus Capital Research



Over the years numerous corporate entities have listed debt programmes on the NSX through which they were and are able regularly tap the market for their funding needs. As at end of April 2018, nine entities had outstanding debt on their bond programmes listed on the Namibian Stock Exchange, three of which are SOEs, four of which are commercial banks and two of which are non-government corporates, as detailed below.

Other companies like Air Namibia, Telecom Namibia, Road Fund Administration (RFA) and Ohlthaver & List have also issued bonds or bond programmes on the exchange in the past.

It is expected that in the near future, more Namibian companies will approach the capital markets to issue debt, due to a number of factors including conventional funding mechanisms coming under pressure in the current economic climate with banks' balance sheets and loan to deposit ratios stretched, and Government debt to GDP ratios under pressure.



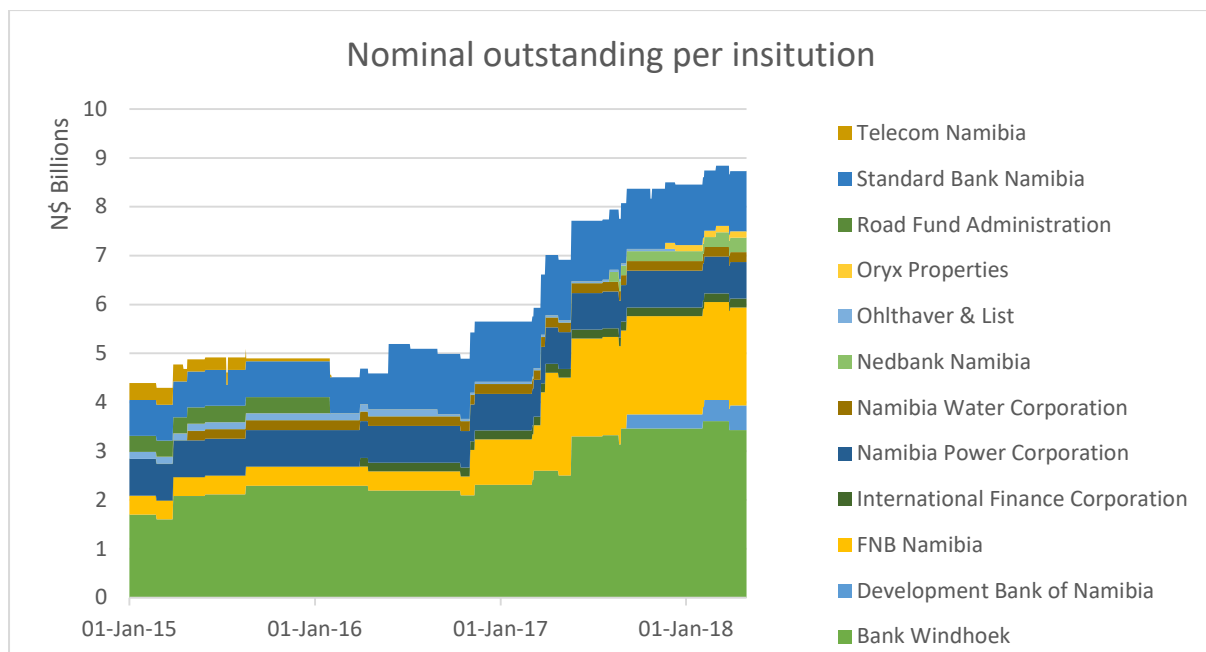
# The current makeup of non-government bonds

The current non-government bond issuers are categorized into three economic sectors, namely state-owned enterprises, commercial banks and corporate bonds. The commercial banks are by far the largest issuers on the market, with Bank Windhoek at N\$3.5 billion in nominal outstanding, FNB Namibia N\$1.6 billion and Standard Bank Namibia at N\$1.7 billion.

Since August 2017 Nedbank Namibia has also started tapping the market, with N\$300 million in nominal outstanding at the time of writing.

Within the Corporate Bonds sector, Oryx Properties also tapped the market for the first time in November 2017, issuing commercial paper (short term promissory notes), a first for Namibia. The International Finance Corporation placed a bond in March 2016.

In 2017, N\$3.2 billion was raised by 5 institutions (Bank Windhoek, FNB Namibia, Nedbank, DBN and Standard Bank) through 16 placements, while over the past 12 months N\$2.4 billion (gross) was raised by 5 institutions (Bank Windhoek, Nedbank, DBN, Standard Bank and Oryx Properties) through 15 placements.



# SOE Bonds

Currently the only state-owned enterprises with live bond programmes are NamWater, NamPower and the Development Bank of Namibia (DBN), however Telecom Namibia and the RFA had bonds maturing within the past three years and did not refinance them through the NSX programmes.

Telecom Namibia was downgraded from BBB- (investment grade) to BB+ (junk) in August 2014, which saw the company's bonds being sold from portfolios with investment grade mandates. As a result of the sub-investment grade rating Telecom Namibia has not gone back to the capital markets since, as they had access to cheaper funding sources through the commercial banks.

RFA's last issuance was a 10-year bond that matured in 2016 and was issued with a Government guarantee, the only explicit

Government guarantee issued to an NSX bond on record.

NamPower last issued a bond in 2009 and has two tenures outstanding at the current point in time, namely NMP20N (N\$500 million issued July 2007 maturing July 2020) and NMP19N (N\$250 million issued November 2009 maturing November 2019). NamPower has a strong cash position and balance sheet generally, and therefore has not had the need to tap the market in recent years, despite being able to do so whenever required.

NamWater raised N\$200 million in a debut issuance in April 2015. DBN has been very active in the bond markets after successfully listing its bond programme in July 2017. DBN has tapped the market three times since, in September 2017 for N\$291 million, February 2018 for N\$140 million and March 2018 for 70 million.



# SOE funding needs

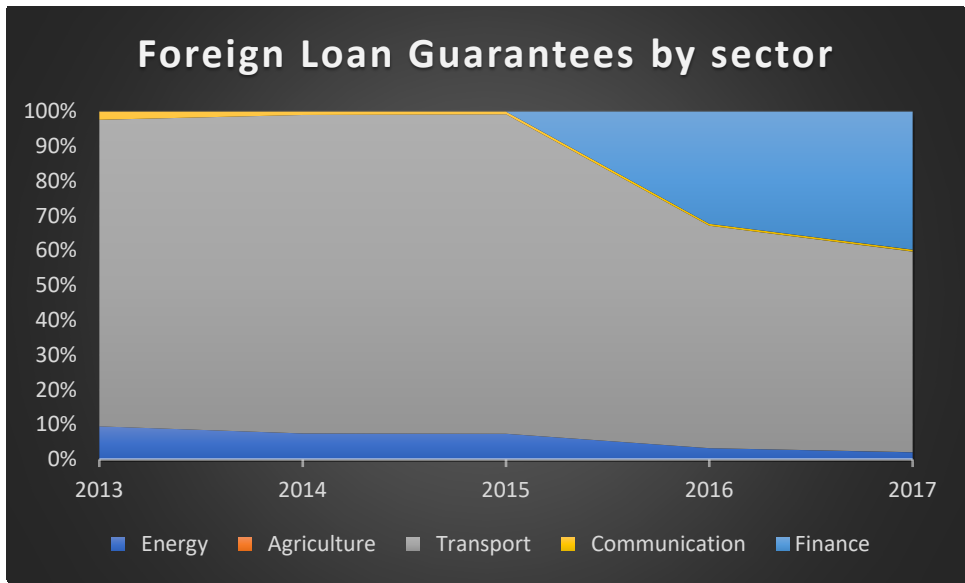
It is expected that more state-owned enterprises would have to source funding independently on a standalone basis going forward, given the Government's debt profile and debt to GDP ratio.

This is evident in more Government guarantees being issued with parastatals set to raise funding by themselves. In the 2013/14 financial year Government guarantees doubled from just over N\$2

billion to more than N\$4 billion. From 2013/14 to 2016/17 Government guarantees double again to more than N\$8 billion. As at the end of the 2017/18 financial year total guarantees were recorded at N\$10.9 billion of which 16.8% was domestic and 83.2% was foreign. Over the past four years, total Government guarantees as a percentage of GDP increased from 1.9% to 6.1%.

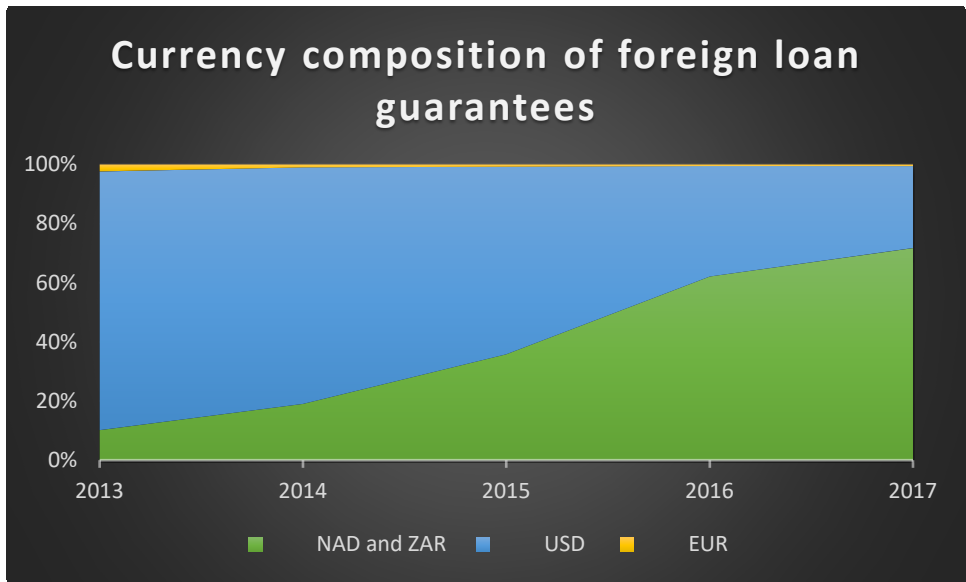


Foreign loan guarantees issued by Government have in the past been predominantly exposed to the transport sector, which will include guarantees to Air Namibia and TransNamib. However, in 2016 and 2017 guarantees of N\$2.5 billion and N\$1 billion, respectively were issued to the finance sector.



In 2013 almost 90% of the foreign loan guarantees were USD guarantees. However, more recently this has changed

substantially with approximately 30% exposure to USD and 70% exposure to NAD and ZAR.





## Conclusions

The Namibian capital markets are currently undergoing rapid development, driven by a number of factors, from regulation changes to changes in public finances. As a result, a number of changes can be expected with regards to public corporates funding options and opportunities. While not a new opportunity, one so-far underused source of capital for local SOEs is the listed debt capital markets, and with a dynamic approach to capital raising and funding, more efficient use of finite capital in country could be key to driving growth and development in the future. The opportunities abound.





# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), our global network of member firms and our related entities. DTTL (also referred to as "Deloitte Global") and each of our member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more. Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

This communication is for internal distribution and use only among personnel of Deloitte Touche Tohmatsu Limited, its member firms and their related entities (collectively, the "Deloitte network"). None of the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication. 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.

© 2019. For information, contact Deloitte Touche Tohmatsu Limited