

# Namibia: Outperforming the benchmark

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Namibia shares a lot in common with South Africa (SA), but has managed to forge ahead of its larger neighbour in some respects in the past year or so. It is our duty as investment professionals here at M&G Investments to keep abreast of developments on the ground -- to “kick the tyres”, so to speak -- and in this vein, we look to share some highlights of a recent trip made to the Land of the Brave. We held several meetings in Windhoek with policymakers, government officials, regulators, state-owned enterprises, the stock exchange, banks, stockbrokers, think tanks -- and most importantly, clients.

A powerful development in 2023 that has affected the Namibian economy as well as its financial markets has been the rising levels of cash in the banking sector. This has been attributed to a host of factors, including:

- Increased diamond revenues following the commencement of operations for Debmarine Namibia of the Benguela Gem diamond recovery vessel;
- Inflows resulting from the Heineken/Namibian Breweries corporate action (the details of which we wrote about in the last Consider this magazine);
- Repatriation of assets by investors due to the minimum 45% Namibian asset holding requirement as per Regulation 13;
- General foreign investments into the local economy and financial markets; and
- Weak growth in credit extension, with local corporates borrowing little.

The implication for financial markets of these developments has been strong demand for liquid assets such as government treasury bills and fixed rate bonds. This, combined with the relative scarcity of assets, has seen Namibian government bond yields trading through (below) their respective SA government benchmarks. At the short end of the yield curve, it must be noted that the Bank of Namibia repo rate is 0.5% below that of the SA Reserve Bank's, with Namibia having both better economic growth and fiscal outlooks to boot. These comparisons are necessary because of the Namibian dollar's peg to the rand, but the comparisons don't end there.

The woes afflicting SA have been beneficial for Namibia and provided a template of “what not to do” for both the government and business alike. The demise of Transnet has been a boon for Namibia, as some goods which would have ordinarily been exported from an SA port now get shipped overseas from a top-performing Namibian port. Furthermore, the road network in Namibia is ranked better than SA.

Fears of loadshedding which prevails south of the border due to Eskom's crumbling electricity infrastructure have seen Namibians invest in solar energy – a natural choice considering the high number of days with sunshine. Wind energy is also seeing investment and corporate customers are allowed to purchase up to 30% of power privately. Nampower is preparing for a major capital expenditure program in generation and transmission infrastructure. Namibia does not suffer from loadshedding like SA, as electricity is largely imported from neighbouring countries, with only around 15% coming from Eskom, and the aim being for the nation to become energy self-reliant.

The Namibian authorities are fully aware of the risks posed by following the path of SA and being grey-listed by global financial crime watchdog the Financial Action Task Force. The authorities are working hard to avoid such a fate, and are busy tightening up on compliance with regards to international standards around the prevention of money laundering, terrorist financing and proliferation financing. The Namibian banking sector is dominated by SA banks, who are now busy adjusting to their grey-listing and sourcing information on beneficial ownership of accounts. The burden a grey-listing places on a country's financial sector cannot be underestimated.

While corruption is present everywhere, it is a positive sign that Namibia has chosen to deal with it so effectively. For example, those implicated in the "Fishrot" fishing quotas fraud and corruption case are in jail and awaiting trial. The comparison to state capture in SA is striking and highlights the effectiveness of the Anti-Corruption Commission (ACC).

2024 will see another general election in Namibia as well as in SA. In both elections it will be interesting to see how much support the ruling party receives, since they have both ruled their respective countries since the advent of democracy in the early 1990's, with declining levels of support over time.

With the banking sector awash with cash, Namibian assets are trading more expensively than they have for some time relative to SA. Beyond the market supply/demand dynamics, the outlook for the country is also relatively more promising -- it is not only actively trying to avoid SA's missteps but benefitting from them as well.

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