



### Economic Update

The fiscal policy in Namibia and South Africa is in a serious predicament. That much is clear from the National Budgets that were recently presented. Last month we commented on the Namibian Budget. This month's main event was that of South Africa. The macroeconomic background against which fiscal policy is being crafted remained scarily similar.

Economic activity is being severely curtailed by the Covid-19 containment measures. So much so that both economies are expected to contract by 7% to 10% in 2020, unheard of in living memory. This is in line with global trends. Many economies will be subject to this kind of contraction. This will lead to a sharp rise in unemployment and business closures. The lack of pricing power in such an environment and, hence, lower inflation, have enabled central banks to lower interest rates sharply. We expect the SARB and the BoN to cut interest rates by a further 50bp before the end of 2020.

One cannot help but think of a scorpion as fiscal policy is hit by the double pinchers of collapsing revenue and surging spending needs – the former due to sagging economic activity and the latter in an effort to save lives and livelihoods – while the sting is in the tail of a threatening deficit and debt spiral.

The SA MoF (Minister of Finance) expects revenue to fall short by

R300bn. Where previously R1.4tn was expected, this will now come to R1.1tn. He did not give a breakdown of what is expected from the various sources, save to say it will be worse than during the Great Credit Crisis of 2008/09. All three main sources of revenue, personal income tax, corporate taxes and VAT, will be harshly affected. For more details we will have to wait for the October Budget. No tax changes were announced. For that we will have to wait for the February Budget. The MoF and his staff were at great pains to typify this Budget statement as a “bridge to the future”. Furthermore, expected revenue is subject to continued, considerable uncertainty due to the unknowable economic effects of the Covid-19 virus and policy responses to it such as lockdowns and restrictions.

In the end, it does not seem that the spending overrun is expected to be that huge – under the circumstances – it boils down to R43bn out of a total of R1.8tn. Much of the cash spending coming from the R500bn Covid-19 plan is supposed to be funded by reprioritizing, reorganizing and shifting of expenditure within and amongst all levels of Government – local, provincial and national, as well as SOE's. This will require a concerted effort and strong political will. The only SOE that receives additional support from this crisis Budget is the Landbank, namely R3bn in equity funding.

The revenue shortfall and the spending overrun will result in doubling the deficit from R350bn to R700bn. Compared to an economy that will shrink to just below R5tn, it means that the deficit to GDP ratio will amount to 14.6% - the biggest ever. Most of the funding will come from the domestic money- (R146bn) and capital market (R463bn). Upcoming maturities push up the funding requirement so that cash reserves and offshore funding will also be drawn upon. An amount of U\$4.2bn from the IMF had been applied for in terms of its Covid-19 related emergency funding provisions.

The sting in the tail of the scorpion lies in debt. The MoF warns of a looming “debt spiral”, another word for a debt trap. This comes about when new debt is needed to pay and service current debt, that is, debt gets a life of its own and grows uncontrollably. The emergency funding requirement pushes up total debt to R4tn. This is the equivalent of 82% of GDP, where previously 65% was expected. The venom of debt threatens to paralyze the fiscus if nothing is done. Interest cost will rise to 22% of revenue. This means that from every R1 in revenue, 22 cents is paid to bondholders. Therefore, less and less revenue will be available for other critical Government spending priorities such as grants and investments.



The level of debt and its expected trajectory result in worsening credit worthiness. All three major credit rating agencies rank SA as non-investment grade. This means that the interest rates that lenders demand is higher than what would have been the case for investment grade. Short-term interest rates dragged down by monetary policy and higher long-term interest rates demanded by lenders, result in a very steep yield curve.

The MoF raised expectations of the October Budget when plans are to be submitted, amongst others, cabinet proposals of economic reforms and fiscal plans on how to avoid the debt spiral. We do not see a default by Government on its debt on the horizon. However, the only anti-venom is the implementation, not just talk, of a credible plan. Such a plan must address the wage bill and the interest bill and unshackle the economy so that it can grow in a post-Covid-19 world.

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Please refer to the below guides providing a few tips on digital security.



# What's Phishing?

Phishing is a form of social engineering by which fraudsters send an email disguised as legitimate communication from a trusted source. It is referred to as social engineering since this kind of attack exploits human emotions, such as fear, anxiety, excitement or empathy, to prompt the receiver to take immediate action. The majority of Phishing emails are aimed at credential harvesting in which they try to source your username, full names, passwords or bank details.



Recent studies have shown that email is used by 65 % of all known cybercriminal syndicates as their primary attack vector.

## Why do you receive it?



Spam filters work 24/7 to eliminate threats, but these emails are becoming increasingly more complex and some do pass through the email filters successfully. The reason for this is because phishing emails often contain no dangerous payload other than a message and perhaps a URL (website link) in the body of the email, which legitimate emails mostly have too.

## How to spot a phishing email



- Phishing always have some sense of urgency, aimed at proactively addressing some pending inconvenience or risk to the receiver. E.g. "change your password now before it expires."
- It may contain links that direct users to sites that look remarkably similar to our trusted website.
- The senders email address in messages requesting confidential information will differ from our official email addresses. The email address is often disguised as coming from a trusted domain.

## How to protect your details



- Always login to Capricorn Online via the Capricorn Asset Management website at [www.cam.com.na](http://www.cam.com.na)
- We will never request a client to provide their password or login details via email or phone for Capricorn Online.
- Your Capricorn Online password can be reset by yourself.
- No change in your details (email, cellphone nr and bank details) will be processed without positive personal verification.



## Take Action

If you receive a suspicious email purporting to be from us, please report it immediately by forwarding the email to [cam.info@capricorn.com.na](mailto:cam.info@capricorn.com.na) or phone us at 061-299 1950.



# Statement Security

Email has long been the standard corporate communication channel for business related documentation across the globe. This is a fast and easy way to send documentation.



Emails sent via the most popular email applications such as Outlook and Gmail are encrypted by default. However the email is sent across open public networks daily and travel across multiple DNS servers, firewalls and routers to reach its final destination.

At any point in this journey from the sender to the receiver, a fraudster may intercept your email, and for them any information will do, even if it seems trivial to the rest of us. Thus encryption is important as neither the sender nor receiver can guarantee security in the cloud.



## Why is my statement password protected

- Fraudsters intercepting emails with ill intent
- Human error where statement is sent to the wrong receiver
- Emails accidentally forwarded
- Email opened at the workstation by an unauthorized person



## Global Practice

Due to these risks, we have added the additional password protection to the statements. Although this is a relative new concept in Namibia, it is global practice and has proven to be worth the slight inconvenience.



## Our Commitment

Your financial confidentiality is important to us, and therefore this new password protected statement feature will serve to further this commitment.



## Take Action

If you receive a suspicious email purporting to be from us or an email wrongly addressed to you, please report it immediately by forwarding the email to [cam.info@capricorn.com.na](mailto:cam.info@capricorn.com.na) or phone us at 061-299 1950.