Institute for Public Policy Research

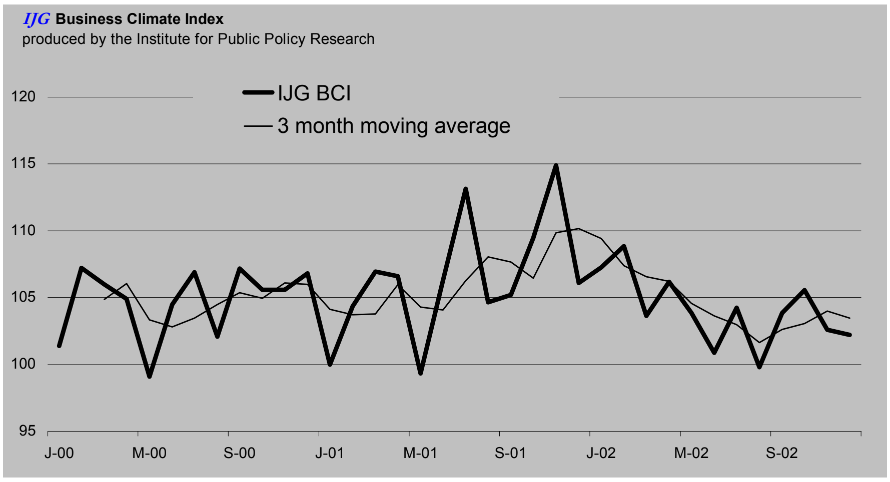
152 Robert Mugabe Avenue PO Box 86058 Eros Windhoek Namibia Tel: +264 61 240514/5 Fax: +264 61 240516 ippr@iway.na www.ippr.org.na

The *IJG* Business Climate Monitor for December 2002

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index fell slightly from 102.6 points in November to 102.2 points in December. More encouragingly, increases in the investment index and the leading indicator suggest improved economic prospects into 2003.**
- **There appears to be a good correlation between the *IJG* Business Climate Index and estimates of quarterly GDP.**

The *IJG* Business Climate Index for December 2002



		December	November
Business Climate Index	▼	102.2	102.6
Investment Index	▲	111.1	109.6
Consumption Index	▼	94.2	95.7
Export Index	▼	99.4	104.1
Leading Indicator	▲	115.7	93.5
Coincident Indicator	▼	96.8	101.6

The *IJG* ***Business Climate Index*** fell slightly from 102.6 in November to 102.2 in December. The continued strengthening of the exchange rate led to lower export prices in Namibia dollar terms and depressed the ***Export Index***. Most other components of the BCI were slightly negative, especially oil prices which rose sharply. Much of this can probably be explained by seasonal factors although oil prices are currently being influenced by US policy towards Iraq and OPEC policy towards the situation in Venezuela. The main exception to this subdued picture was the rise in credit to individuals and business.

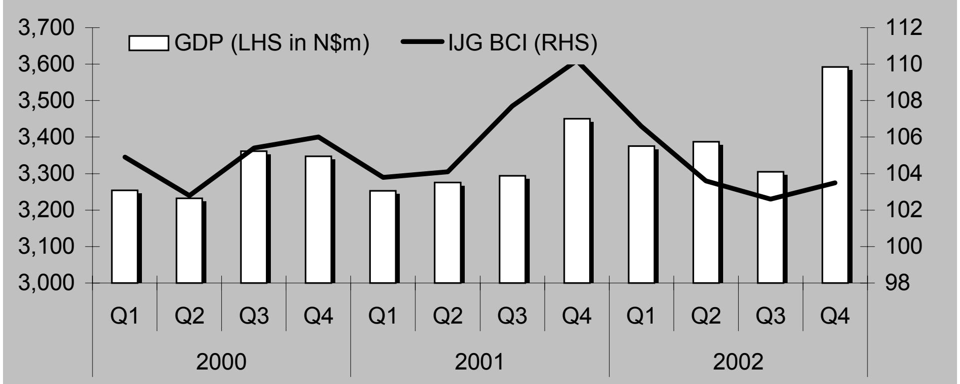
The *IJG* Business Climate Survey for December 2002

The *IJG* Business Climate Survey asks 50 top businesses in Namibia across all major sectors to reply to four questions on revenues, employment, investment and prevailing business conditions. In addition to this sample, members of the Namibian Manufacturers Association (NMA) are also surveyed. Since September 2002 members of the Namibia Chamber of Commerce and Industry (NCCI) have taken part in the survey but participation at this early stage is still limited. Results of our survey are usually reported for the whole sample and for all manufacturers. This month, however, we decided not to send out survey questionnaires because of the extremely poor response received in December last year.

IPPR commentary for December 2002

IPPR commentary presents the views of the IPPR alone and not the sponsor.

Chart 1: Quarterly GDP and *IJG* BCI compared



Source: IJG, CBS, BON

The ***IJG Business Climate Index (BCI)*** has now been available for three years. Our sponsor ***IJG*** has performed a comparison between the BCI and quarterly GDP estimates provided by the Central Bureau of Statistics and the Bank of Namibia. ***IJG*** has used unadjusted GDP estimates since the BCI does not, at this stage, incorporate adjustments for seasonality. Chart 1 suggests there is a relatively strong correlation with the three-month moving average BCI closely tracking the trend in quarterly aggregate GDP. Rather encouragingly, this comparison suggests the BCI, simple as it is, does indeed contain useful economic information. The BCI may, therefore, be used as a good guide to future official output figures which should appear quarterly but generally only do so with a significant lag.

The **South African Rand** started the year trading at R8.6 to the US$ compared to R12.3 on 1 January 2002 (The Economist January 4th – 10th 2003). The Rand has in fact been the world's best performing currency during 2002. This strengthening of the currency is primarily a reaction to the dramatic depreciation which took place at the end of 2001 and which baffled many economic observers who believed South Africa's economic fundamentals did not justify such a fall in value. Back in January 2002 the Reuters Econometer consensus poll of economists forecast that the exchange rate would be R12.34 to the US$ by the end of 2002 with the lowest estimate at R10.55 and the highest at R14.00 (see www.ber.sun.ac.za for more details). In other words, at the beginning of 2002 none of the economists surveyed believed the Rand would bounce back to the extent it has.

Markets, perhaps especially currency markets, can be fickle and there are plenty of examples of currencies "overshooting", that is to say, reaching values which do not appear economically justified. Economists have identified theoretical reasons why this might occur. The devaluation a year ago led to something of a sense of crisis and a special presidential commission – the Myburgh Commission - was established by President Mbeki to investigate its causes. However, the main lesson to be learnt from this episode is probably that markets do overshoot but generally move back towards an explainable equilibrium position justified by the economic situation of the country. The best defence against speculative attacks are sound economic policies. Certainly, asking the monetary authorities of whichever country to defend an exchange rate that is for some reason unsustainable is asking for trouble. For now it appears that the South African monetary authorities have weathered the storm and will now, hopefully, reap the benefits. This having been said, however, the Rand remains significantly undervalued in purchasing power terms.