Institute for Public Policy Research

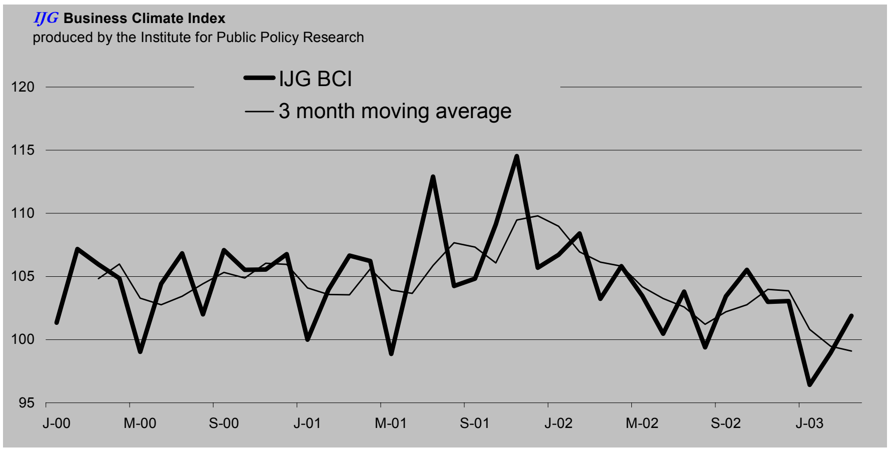
152 Robert Mugabe Avenue PO Box 86058 Eros Windhoek Namibia Tel: +264 61 240514/5 Fax: +264 61 240516 ippr@iway.na www.ippr.org.na

The *IJG* Business Climate Monitor for March 2003

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index rose almost three points in March suggesting the economic outlook is improving.**
- **By contrast, the *IJG* Business Climate Survey suggests the gloomy perceptions of business recorded in the past few months have started to affect employment. Perceptions of the prevailing business climate are more negative now than at any time since the survey began in November 2001.**
- **The latest national budget document shows that non-mining corporate tax revenue is accounting for a steadily smaller proportion of overall tax revenue.**

The *IJG* Business Climate Index for March 2003



		March	February
Business Climate Index	▲	101.9	99.0
Investment Index	▲	105.6	104.2
Consumption Index	▲	96.0	91.2
Export Index	▼	100.5	101.8
Leading Indicator	▲	111.1	101.1
Coincident Indicator	▼	94.1	94.3

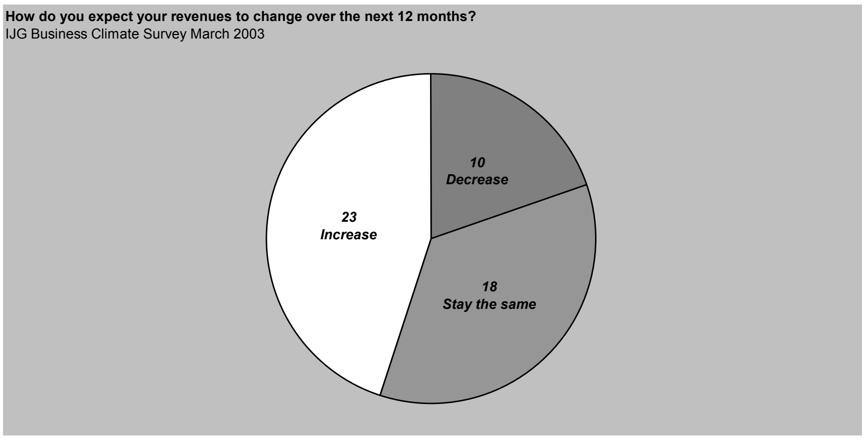
The ***IJG Business Climate Index*** climbed almost three points last month from 99.0 in February to 101.9 in March. On the positive side, the annual rate of inflation appears to show a gradual decline reaching 11.8% in February compared to its peak in November 2002 of 13.7%. Sales of passenger vehicles have rebounded from a seasonal low as have company registrations and private credit. Oil prices fell during March following the start of the Iraq war as coalition forces initially appeared to make rapid progress and the markets convinced themselves that the conflict would end quickly. On the negative side, the strengthening of the exchange rate has negatively affected exports while sustained high interest rates continue to affect business credit and investment in buildings and commercial vehicles.

The *IJG* Business Climate Survey for March 2003

The *IJG* Business Climate Survey asks 50 top businesses in Namibia across all major sectors of the economy 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. This month we received an improved response of 51 companies compared to just 32 last month. As usual, we report the results of our survey for the whole sample and for all manufacturers.

Q1: How do you expect your revenues to change over the next 12 months?

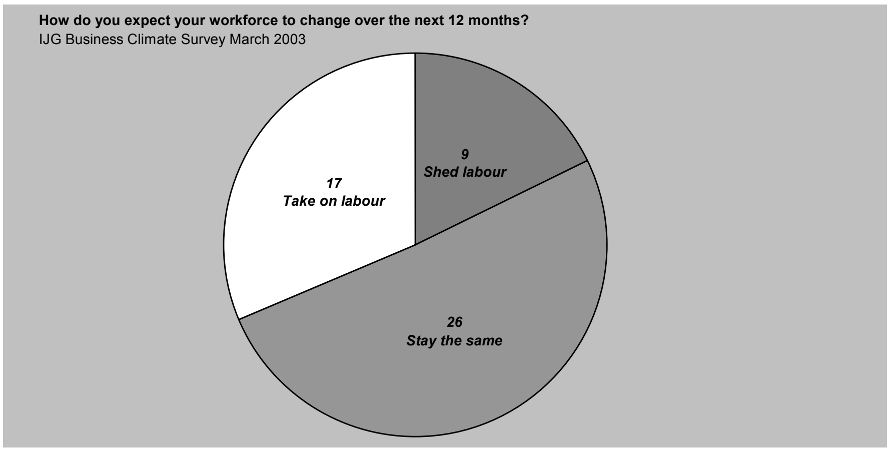
Nearly a half of responding businesses expect revenues to increase.



Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. This month's responses were more positive than last month's and similar to January's. Out of 51 responses, 23 expect revenues to increase while 18 expect revenues to stay the same and only 10 expect revenues to fall. Unusually, manufacturers were more positive with only 1 out of 12 expecting revenues to fall.

Q2: How do you expect your workforce to change over the next 12 months?

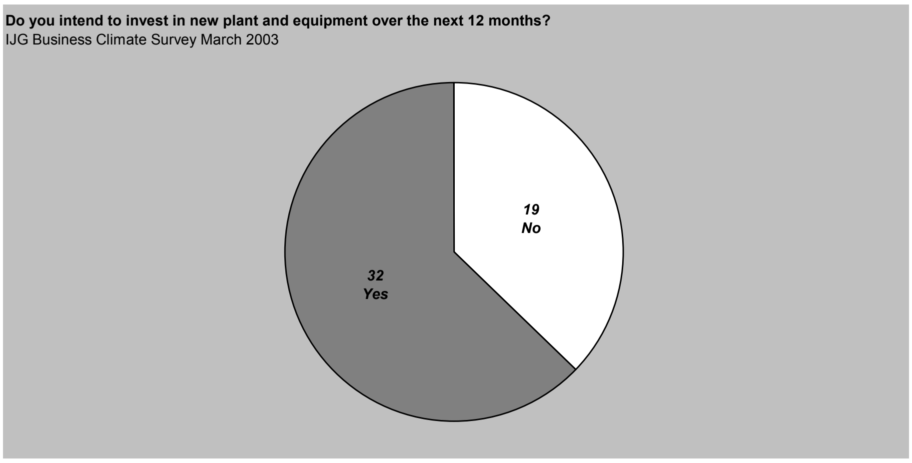
More respondents expect to shed labour than ever before.



Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour. This month 9 firms stated they expected to shed labour while the majority expected their workforces to stay the same (26) or to take on labour (16). The proportion of respondents expecting to shed labour is the highest since we started our survey. Responses from manufacturers mirror the overall response.

Q3: Do you intend to invest in new plant and equipment (not inventories) over the next 12 months?

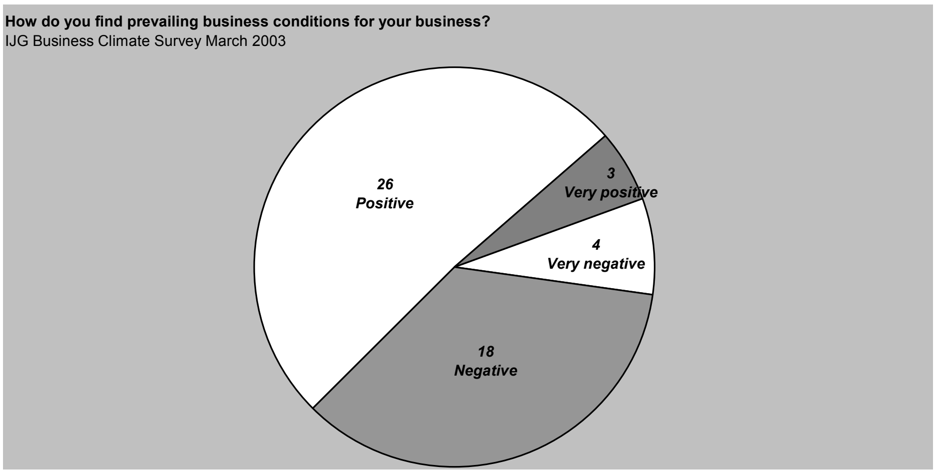
More than one third of all responding businesses do not intend to invest.



Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. The response this month was exactly the same as last month and the month before. Out of the 51 respondents, 32 stated that they intended to invest in new plant and equipment while 19 replied that they did not. Yet again, manufacturers were more evenly split.

Q4: How do you find prevailing business conditions for your business?

Less than two thirds of responding firms view prevailing business conditions as either positive or very positive.



Firms were given a choice of four responses to the question on prevailing business conditions: very negative, negative, positive or very positive. A total of 29 viewed prevailing business conditions as positive (26) or very positive (3) while 21 viewed them as negative (18) or very negative (3). Again manufacturers gave virtually the same response.

This month's survey experienced an improved response rate and the renewed participation of the NCCI. Although respondents were more positive about revenue growth than last month, expectations remain more negative than during any other month since the survey started in November 2001. These gloomy expectations finally appear to be feeding through to employment. A greater proportion of firms now expect to shed workers than at any time since November 2001. Likewise, investment expectations have remained worryingly low since the sharp fall in the proportion expecting to invest experienced in July 2002. Sustained high interest rates and economic uncertainty appear to be taking their toll. All in all, the balance of perceptions has changed for the worst. A higher proportion of businesses perceive prevailing business conditions as negative than at any time since November 2001.

IPPR commentary for March 2003

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

The Minister of Finance Nangolo Mbumba unveiled his national budget to Parliament on Thursday 6 March. We comment in detail on the budget in another publication (see IPPR Opinion Piece No. 8 at www.ippr.org.na). Here we want to highlight the role corporate taxes play on the revenue side of fiscal policy. Table 1 below shows non-mining company tax revenue since 1996/97, the budget before Mr Mbumba became Minister of Finance. Included are main budget estimates, revised budget estimates and actual revenues. These are expressed as a proportion of total revenue and of fiscal year GDP. All numbers have been taken from official government documents. Mr Mbumba raised the corporate tax rate in his 1998/99 budget speech from 35% to 40% and reduced it back to 35% the following year where it has stayed ever since.

Table 1: Non-mining company tax revenue

N$ million	*96/97*	*97/98*	*98/99*	*99/00*	*00/01*	*01/02*	*02/03*	*03/04*
Main budget	318	350	447	440	625	635	515	495
Revised budget	360	345	573	440	590	500	460	
Actual revenue	282	406	540	359	426	465		
Total revenue	4,676	5,690	6,186	7,272	8,343	9,098	10,256	11,164
As % of total revenue	6.0%	7.1%	8.7%	4.9%	5.1%	5.1%	4.5%	4.4%
FY GDP	15,447	17,263	19,263	21,510	24,806	28,158	32,116	36,688
As % of GDP	1.8%	2.3%	2.8%	1.7%	1.7%	1.7%	1.4%	1.3%

Sources: Main budget documents 1996/97-2003/04, Budget speeches 1996/97-200304

Table 1 shows that corporate tax revenue has declined as a proportion of total revenue and of GDP since Mr Mbumba took office. While actual corporate tax revenue collected jumped from N$406 million to N$540 million when the Minister raised the corporate tax rate in 1998/99, revenues sank back to well below the pre-tax increase in 1999/00. Since then, revenues appear to have been revised downwards from the original estimates presented in the main budget giving the impression that the Ministry is not collecting as much revenue as it believes is out there. As a proportion of overall revenue, the Minister expects to collect just over half of what he was collecting in 1998/99. Corporate tax revenue appears to be playing a steadily less important role in the government's resource mobilisation effort with each passing year. It is not clear whether this is intentional. It could have come about due to the increasingly discretionary nature of the corporate tax system resulting from the myriad of tax incentives on offer, higher levels of legitimate tax deductions, or greater tax avoidance and evasion and a lack of tax collection effort.

Recent IPPR Publications

National Budget 2003/04: Mr Mbumba's Low Maintenance Garden, IPPR Opinion No. 8 by Robin Sherbourne