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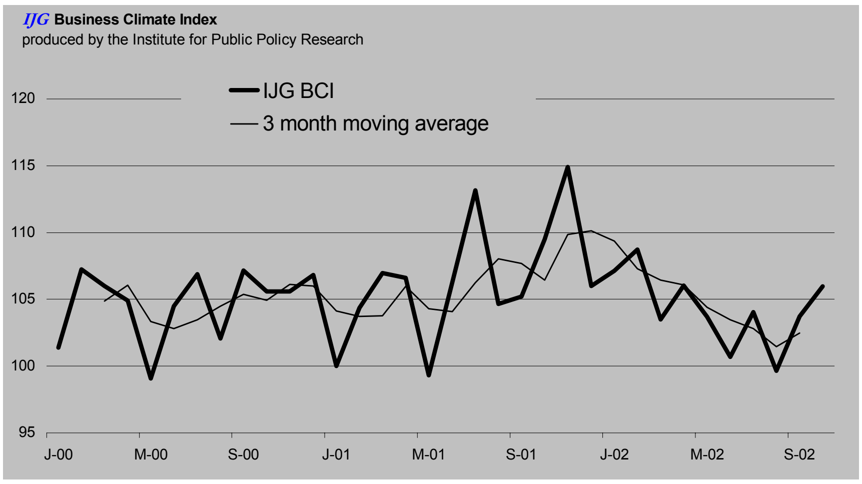
The IJG Business Climate Monitor for October 2002

produced by the Institute for Public Policy Research

- **The IJG Business Climate Index rose over two points to 106.0 in October. The gradual deterioration in the business climate since the beginning of the year seems to be bottoming out.**
- **The results of the IJG Business Climate Survey confirm that businesses have become a little more positive in the past month although manufacturers continue to view prevailing business conditions far less positively.**
- **The additional budget suggests government has considerable problems forecasting corporate tax revenue from non-mining companies.**
- **The latest National Accounts released by the Central Bureau of Statistics show that the Namibian economy grew by 2.4% in 2001. Average incomes as measured by GDP per capita fell for the first time since 1993.**

The IJG Business Climate Index for October 2002



		October	September
Business Climate Index	▲	106.0	103.7
Investment Index	▲	118.0	114.2
Consumption Index	▲	91.1	84.8
Export Index	▼	107.3	110.6
Leading Indicator	▲	116.3	114.7
Coincident Indicator	▲	100.6	96.8

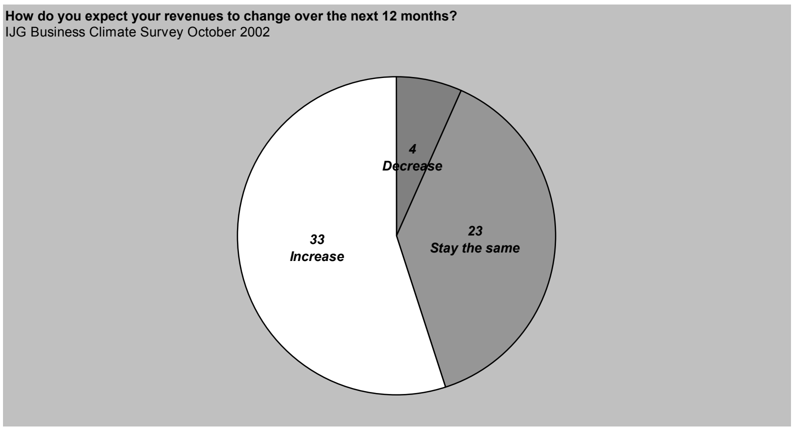
The ***IJG Business Climate Index*** continued to climb reaching 106.0 in October following the low in August. This came about partly due to a firmer exchange rate and lower oil prices. However, the value of building plans passed, corporate registrations and passenger vehicle sales also contributed to the improved business climate, surprising in view of the high interest rate environment. It looks as if the gradual deterioration in the business climate experienced since the beginning of 2002, which started so brightly, appears to be bottoming out although considerable uncertainty remains surrounding the prospects of the OECD economies. All sub-indices rose during October with the exception of the **Export Index** which fell due to softer fish prices. The slight relaxation of the South African Reserve Bank's inflation target band for 2004 from 3%-5% to 3%-6% announced in the mini-budget speech in South Africa has lchanged expectations of a further interest rate rise this year. South African policy-makers have now conceded that their inflation targets will not be met either this year or next. Meanwhile. the South African government has revised up its growth forecast for this year to 2.6% from 2.3%.

The *IJG* Business Climate Survey for October 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. This month we received a total of 60 responses of which 17 were from manufacturers and 17 from the NCCI. Results here are reported for the whole sample and for all manufacturers.

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

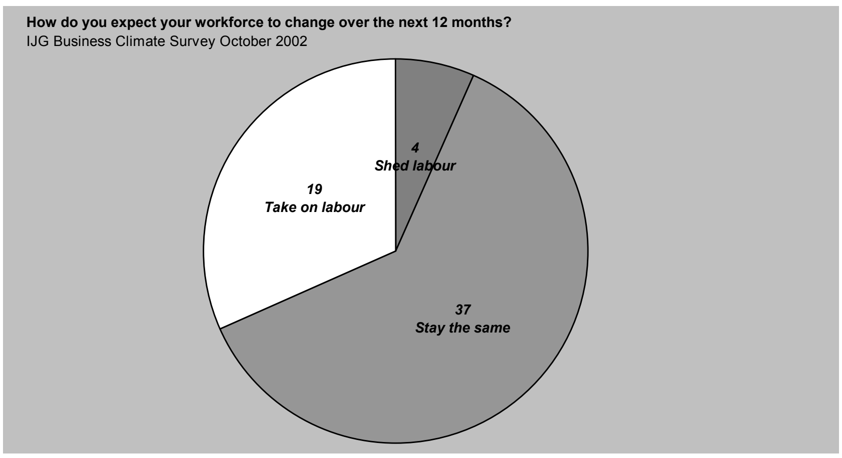
More than half of responding businesses expect revenues to increase.



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. Out of 60 responses, 33 expected revenues to increase and 23 expected revenues to stay the same while only 4 expected revenues to fall. By contrast, just over one third of manufacturers expected revenues to increase.

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

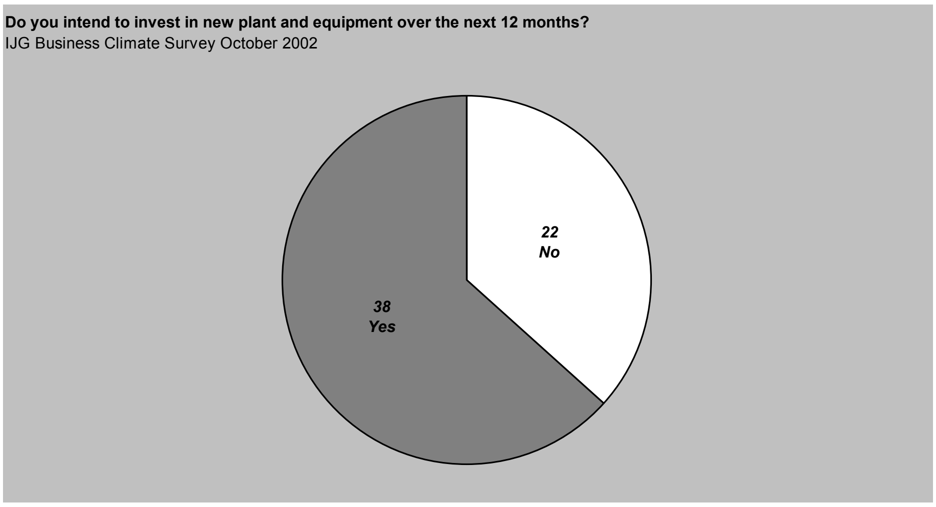
Almost one third of respondents expect to take on labour.



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 only 4 firms stated they expected to shed labour while 37 expected their workforces to stay the same and 19 expected to take on labour. These results are not very different to last month's responses. Only 2 out of 17 manufacturers expected to take on labour.

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

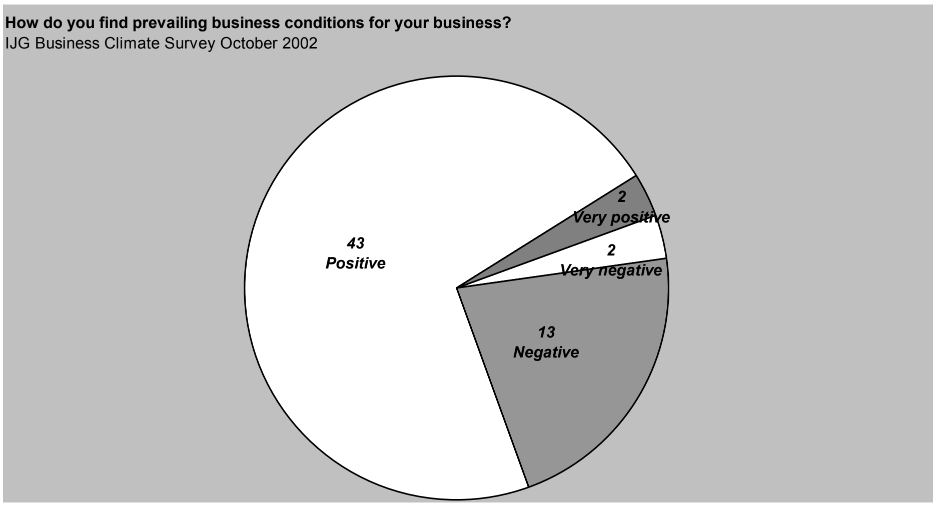
A greater proportion of businesses intend to invest compared to last month.



Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. Out of the 60 respondents, 38 stated that they intended to invest in new plant and equipment while 22 replied that they would not. For manufacturers the responses were more evenly split.

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

Three quarters of responding firms continue to 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. Out of 60 responses, 43 viewed prevailing business conditions as positive and 2 as very positive. A total of 13 viewed them as negative and 2 as very negative. Manufacturers were more negative.

October's *IJG* Business Climate Survey is not significantly different to that of September. Firms view prevailing business conditions as slightly more positive which corresponds to the upturn in the *IJG* Business Climate Index. Since its inception in November 2001, the *IJG* Business Climate Survey has recorded consistently more negative results from the manufacturing businesses surveyed than from the sample as a whole. This should give the new Minister of Trade and Industry considerable food for thought. We will present a more detailed analysis of the first year's survey results in next month's *IJG* Business Climate Monitor.

IPPR commentary for October 2002

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

The Minister of Finance Nangolo Mbumba presented the ***additional budget*** to the National Assembly on 31 October. The budget included revised estimates of revenue (up by 9% on the main budget) and expenditure (up by 6%) as well as a reduced budget deficit estimate (3.8% compared to the earlier 4.4%). We present a more detailed analysis of the additional budget in IPPR Opinion No. 7 but would highlight the difficulty government appears to have forecasting revenue from corporate income tax. Table 1 presents revenue estimates from the last three budgets and additional budgets. For each of the last three years estimates of corporate income tax have been revised down substantially in the additional budget. The latest estimate for non-mining corporate revenue is lower than the 2000/01 estimate presented three years ago. We look forward to the data on actual outturns as well as the recommendations of the Comprehensive Tax Review launched by the Minister a year ago.

Table 1: Budget and revised budget revenue estimates compared

N$ million	00/01 main	00/01 revised	change	01/02 main	01/02 revised	change	02/03 main	02/03 revised	change
Income tax	1,405	1,405	0	1,705	1,705	0	1,935	2,103	+168
Diamond mining	185	375	+190	475	745	+270	745	1,010	+265
Other mining	65	50	-15	55	105	+50	120	250	+130
Non-mining	625	590	-35	635	500	-135	515	460	-55
GST/ASL/VAT	1,405	1,460	+55	1,950	1,901	-49	2,085	2,150	+65
Total tax	6,935	7,115	+180	7,837	7,938	+101	8,378	9,116	+738
Use of rand	76	76	0	79	79	0	84	149	+65
Diamond royalties	240	240	0	294	420	+126	420	450	+30
Total revenue	7,686	7,912	+226	8,595	8,808	+213	9,406	10,256	+850

Source: Additional budget documents 2000/01 – 2002/03

The Central Bureau of Statistics published Namibia's latest ***national accounts*** showing real Gross Domestic Product (GDP) rose by 2.4% in 2001 to stand at N$27.2 billion (US$3.2 billion). This compares to the IPPR's rather more positive forecast of 3% made at the beginning of 2001 (see IPPR Economic Outlook 2001). Chart 1 shows how the different measures of Namibia's income - GDP and Gross National Income (GNI) - have grown since 1994. The year 2001 stands out as being the only year in which average incomes measured by GDP per capita have actually fallen. More encouragingly, real GNI, which captures primary incomes receivable from and payable to the rest of the world, rose by 5.7% and real GNI per capita by 2.4%.

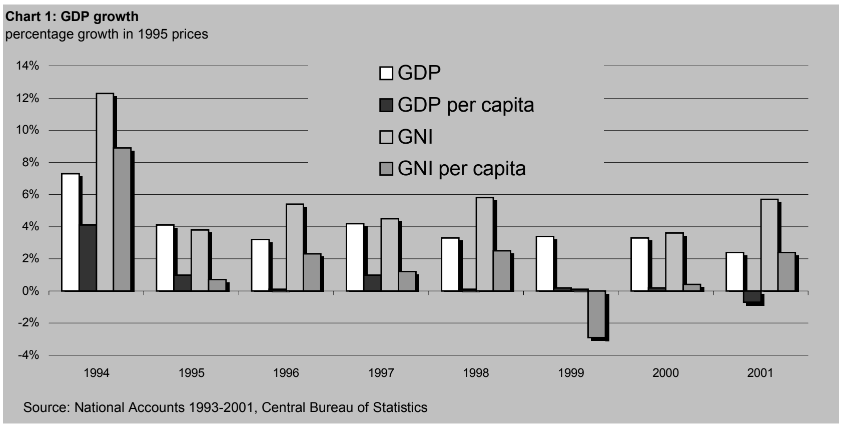
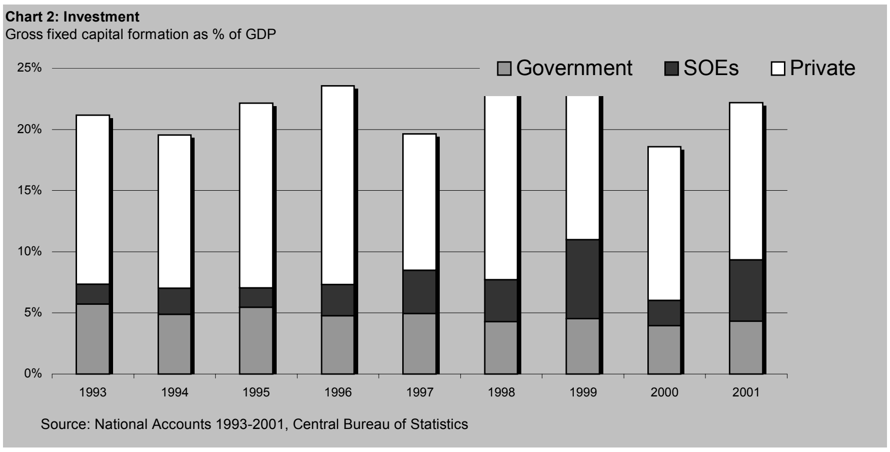


Table 2 presents highlights from the national accounts Tables B1 – B4 which cover value added by activity. It shows that 2001 was a particularly good year for certain sectors – meat processing and other manufacturing (which includes the Tsumeb smelter), construction and transport – but a particularly bad year for primary industries and fish processing. There are also considerable differences between performance measured in current and constant prices. Thus although diamond mining value added rises almost 50% from N$1.9 billion to N$2.8 billion, in constant prices terms it declines by over 5%. Similarly, value added from the post and telecommunication sector falls from N$481 million to N$460 million in current prices but rises in constant price terms by 2.6%.

Table 2: Highlights from the National Accounts 1993-2001

Industry	*Value added (N$ million)*	*% of total value added*	*% growth*	*Investment (N$ million)*
Agriculture and forestry	1,208	4.4	-15.2	299
Commercial	786	2.9	-9.7	
Subsistence	422	1.6	-24.0	
Fishing	1,223	4.5	-2.6	238
Mining and quarrying	3,489	12.8	-6.0	867
Diamond mining	2,854	10.5	-5.1	
Other mining	635	2.3	-8.2	
Primary industries	5,920	21.7	-8.6	1,404
Manufacturing	2,638	9.7	6.0	394
Meat processing	142	0.5	8.2	
Fish processing on shore	512	1.9	-17.5	
Other food and beverages	1,215	4.5	4.4	
Other manufacturing	768	2.8	20.5	
Electricity and Water	652	2.4	3.3	1,217
Construction	773	2.8	51.3	167
Secondary industries	4,063	14.9	12.7	1,178
Trade	3,004	11.0	2.8	292
Hotels and restaurants	477	1.8	8.4	
Transport and communication	1,435	5.3	6.2	615
Transport and storage	975	3.6	8.1	
Post and telecommunications	460	1.7	2.6	
Financial intermediation	958	3.5	2.7	753
Real estates and business	2,497	9.2	4.1	
Owner-occupied	1,317	4.8	2.5	
Other	1,180	4.3	5.8	
Community	219	0.8	0.1	20
Government	5,671	20.8	1.8	1,177
Other	486	1.8	2.0	
Tertiary	14,746	54.2	3.1	2,357
Total	24,401	100.0		6,039

The National Accounts also present data on ***investment*** trends. Table 2 shows that spending on investment (Gross Fixed Capital Formation) totalled some N$6 billion or 22.2% of GDP in 2001. Chart 2 shows the composition of investment spending broken down by government, state-owned enterprises (SOEs), and private businesses. No dramatic trends are apparent. Government investment appears to be gradually declining over time but is being made up for by investment from SOEs. Air Namibia and Nampower have added considerably to the contribution to overall investment in recent years, particularly 1999 and 2001. Private sector investment appears stable at around 12% of GDP.



Copies of the National Accounts 1993-2001 can be obtained from the Central Bureau of Statistics at the National Planning Commission in Windhoek (Tel: 283-4111).

A high-profile conference on ***black economic empowerment*** took place in Windhoek on 22 and 23 October organised jointly by the Namibia Chamber of Commerce and Industry (NCCI), the National Union of Namibian Workers (NUNW) and the Namibian Economic Society (NES). The conference included discussions on the controversial issues of privatisation and land reform. Conference recommendations included the establishment of a Black Economic Empowerment Commission and the setting up of an interim Task Force to put together a position paper for Cabinet consideration as well as a follow-up conference in March 2003. A copy of the conference recommendations can be obtained from Senorita Gowases at the NCCI on (061) 228809.

Recent IPPR Publications

Additional Budget 2002/03: Old Habits Die Hard, IPPR Opinion No. 7 by Robin Sherbourne, October 2002