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North-West University breaks new ground with launch of Policy Uncertainty Index (PUI) for South Africa

The need for a more certain and responsive policy environment, which is capable of addressing critical economic challenges, is a common refrain in South Africa today. While policy certainty is not a panacea for all of society's problems, it gives businesses and consumers more confidence to act, and this plays out in a more vibrant and productive economy. Policy uncertainty, on the other hand, leads to general confusion and hesitancy, and may even prompt economic inertia.

In a first for South Africa, the **North-West University School of Business and Governance (NWU-SBG)** and **School of Economics** have launched their '**Policy Uncertainty Index (PUI)**', a quantitative model designed to give stronger definition to the concept of policy uncertainty in this country and to measure policy uncertainty over time. The result of extensive research into other countries' models and tailored to South Africa's particular circumstances, the NWU Policy Uncertainty Index (PUI) reveals the collective sentiment, via an aggregated input score, about the health (or otherwise) of the policy environment in the country, while also putting the spotlight on what is evidently working and what is not.

"It is easy to lament a policy vacuum, for example, but general complaints rarely lead to concrete results," said Prof Raymond Parsons, who chairs the PUI initiative at the NWU. "The PUI allows one to distil key policy shortcomings from wide-ranging public opinion, which should clear the way for a more focused and purposeful response."

"Uncertainty is not the same as risk," continued Prof Parsons. "While risk carries the chance of an undesirable outcome, there is sufficient information to be able to determine the odds of such an outcome occurring. Uncertainty, on the other hand, is often the result of an information void, which deters proper judgement and decision-making. Even a weak policy that is certain might be better than no policy at all."

The data used in the NWU PUI are drawn from three sources: news reporting about certainty/uncertainty; leading economists' views on certainty/uncertainty; and the Bureau for Economic Research (BER) survey of manufacturers who offer their views on whether the policy climate is a constraint to doing business. Such widespread canvassing of inputs is to ensure that the results are as representative as possible.

The NWU PUI will be published every quarter - in January, April, July and October - allowing a picture of policy uncertainty in South Africa to be built up over time. In the fourth quarter of 2015, for example, two events that delivered particularly low blows to South Africa's economic outlook and thus policy atmosphere were the negative assessments provided by credit rating agencies and the spectacle of three Finance Ministers doing a musical chairs routine in as many days.

"The inevitable ebbs and flows in the PUI can typically be traced to a combination of economic and/or political decisions and events, which either brighten or cloud the policy environment," said Prof Waldo Krugell, director of the NWU School of Economics. As each successive reporting period goes by, we will acquire a fuller understanding of the dynamics of policy uncertainty in South Africa, which we will use to continuously enrich our model."

The PUI is also well-placed to highlight inconsistencies between South Africa's industrial policy and trade policy, which at times appear to be pushing different agendas. Prof Parsons went on to say,

"Although global economic uncertainty, which we can't do much about, influences the local mood, policy makers can rein in these gloomy perceptions by ensuring that policy uncertainty at home is kept to a minimum."

One of the main causes of policy uncertainty in South Africa is the lack of active engagement between the public and private sectors on matters of pressing economic concern. Many policies tend to be formulated at government level and then dispensed, without the necessary consultation, to business and civil society as a whole. The NWU PUI will act as a continuous and rather noisy reminder that an opaque policy environment serves only to erode the country's economic potential, and that the public and private sector should have an equal stake in how policies are formulated and rolled out. Given the enormity of South Africa's challenges and the need for an unobstructed view of the road ahead, the launch of the PUI could not have come at a better time.

For more information about the Policy Uncertainty Index (PUI), contact Waldo Krugell at Waldo.Krugell@nwu.ac.za.