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Abracadabra!

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Statisticians are powerful people. Statistical estimates presented in the latest national accounts suggest Namibia's economy is almost a fifth bigger than we believed it to be last year.

Every year Namibia's Central Bureau of Statistics (CBS) publishes a set of economic statistics called the national accounts. The national accounts represent the most detailed and comprehensive picture of economic performance available. They tell us if and how the economy is growing and whether people are becoming materially better off.

The national accounts are pieced together from statistics collected from a wide variety of sources in such a way that a consistent overall picture of the economy emerges. Economics is an empirical subject. It is important to remember that the national accounts represent government statisticians' best estimates at the time of compilation. There is an inevitable trade-off between quality and timeliness and cost. When new information becomes available the estimates are revised and may differ significantly from the previous estimates. The process is rather like a complex piece of detective work with new evidence constantly being used to improve our knowledge of the economy.

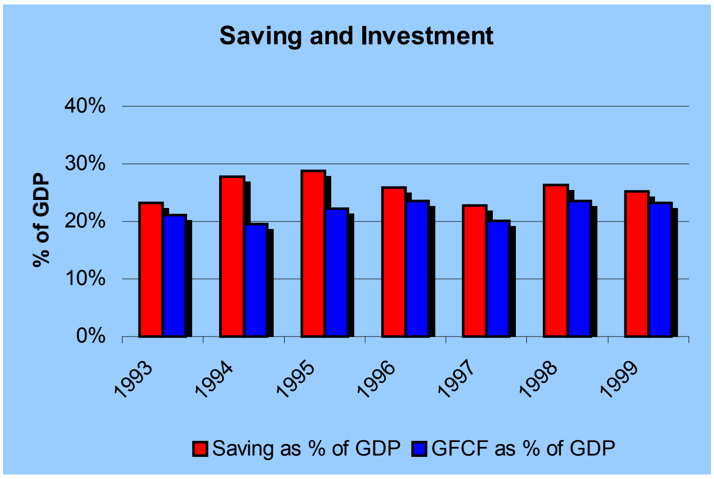
This year's national accounts are characterised by particularly large revisions due to three main reasons: a change in the base year for the estimates at constant prices, the availability of improved sources of information, and improvements in methodology.

In order to compare one year's statistics with another, all inputs and outputs have to be calculated in the prices of a single year called the base year. The base year for the latest national accounts has been changed from 1990 to 1995 in accordance with international practice. Time series have only been revised back as far as 1993.

Growth and income per head have been revised upwards significantly...

A key indicator of economic performance is growth in average incomes. Measured using real Gross Domestic Product (GDP) per capita, the latest national accounts suggest that average incomes grew by +1.2% a year between 1993 and 1999. Using real Gross National Income (GNI) per capita, a theoretically better indicator which takes into account the purchasing power of total income earned but which is harder to measure, average incomes grew by +2.5% a year. At these rates of growth, average incomes will take 58 years and 28 years respectively to double. In US$ terms average incomes have increased by 8% and 9% respectively since 1990.

The latest set of accounts represents a modest but psychologically important improvement over earlier statistics. Average incomes are now estimated to have firmly increased over the years instead of having virtually stagnated. This is because GDP has been revised upwards every year since 1993 by between 7.8% and 18.6%. The latest 1999 GDP estimate is an enormous N$3.3 billion higher than the estimates made earlier last year and published on 23 May. These revisions are mainly due to improved import statistics from Customs and Excise which suggested the trade, transport, and real estate and business services sectors had all been importing more than was previously believed and were therefore larger and contributing more value added than estimated.



Most economists believe savings are an important determinant of economic performance. Generally speaking, countries that save more, invest more and grow faster. The national accounts present the savings effort of the whole country as the excess of Gross National Disposable Income (GNDI) over domestic consumption. The chart on the left shows savings expressed as a percentage of GDP.

Reclassification of certain activities changes the picture somewhat…

The next section of Namibia's national accounts measures the incomes or value added generated by the different sectors of the economy, or GDP by activity. This year has seen several important changes in classification which have to be taken into account when interpreting the sectoral statistics. *Fish Processing* now includes only those processing activities which take place on shore. Fish processing on board is classified as *Fishing*. The copper smelter at Tsumeb is now classified as *Manufacturing* rather than *Mining*. The manufacturing sector is now divided into four rather than three categories. Bulk water supply is now classified as market production under *Electricity and Water* from 1993 rather than under *Producers of Government Services*. Finally, the value added by the central bank, the Bank of Namibia, is measured in the same way as other Government services, that is to say, at cost rather than as interest receivable minus interest payable as for *Financial Intermediaries*.

Service sector value added has been revised upwards…

Large revisions upwards have been made for the *Trade* (+71%), *Transport and Storage* (+442%), *Finance Real Estate and Business Services* (+52%) sectors since the Preliminary Accounts were published last May. These revisions have not been based on sectoral surveys but rather on the basis of imports which could not be allocated to other sectors.

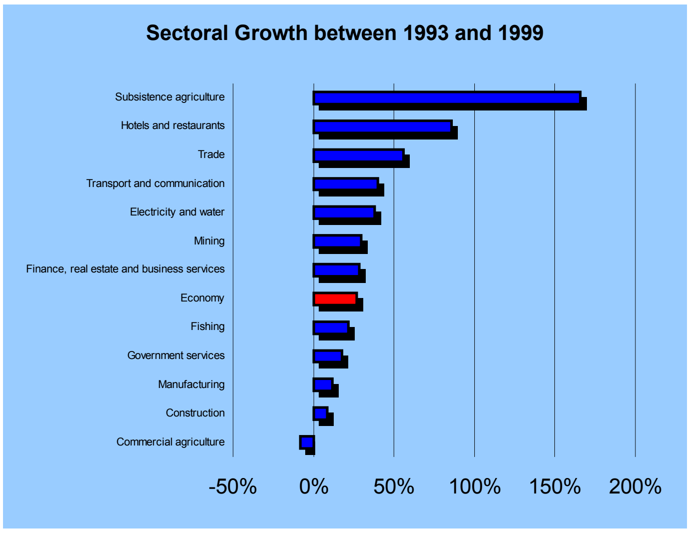
Manufacturing's share of value added is declining…

The new accounts show that primary industries have increased their contributions to GDP while secondary industries have declined in importance from 17.1% in 1993 to 14.8% in 1999. The largest component of secondary industries is manufacturing which has declined from 12.6% to 10.2% over the same period. Tertiary industries have maintained their contributions. There is no sign of the hoped for change in the relative importance of production from primary to secondary industries.

Manufacturing generates a smaller proportion of value added in 1999 than in 1993 with *Meat and Fish Processing* as well as *Other Manufacturing* in relative decline and only *Other Food Products and Beverages* showing signs of relative growth largely thanks to the success of Namibia Breweries.

Government's share of value added has fallen…

The revisions upwards in certain sectors mean that Government's contribution to value added has come down to a more acceptable 22% of GDP from the 27% presented in previous estimates.



Sectoral performance now looks a little different…

Ranking sectors by the percentage increase in real value added since 1993 reveals a very different picture from the previous statistics. Now the star performers appear to be *Subsistence Agriculture*, previously one of the poorest performing sectors, *Hotels and Restaurants*, and *Trade*. Surprisingly, the trade sector grew by a massive 5.7% in 1997, the year prime lending rates increased to 25%. Despite events in Caprivi, Angola, and the DRC, the latest statistics show that *Hotels and Restaurants* continued to grow in 1999, albeit by a modest 1.9%. Government now appears to have grown at a lower rate than that of the economy as a whole. As before, growth in commercial agriculture remains low.

Significant gaps in our knowledge still exist…

An important improvement has been made to the section on expenditure on the GDP. Instead of incorporating all errors from each element of the national accounting equation Income (Y), Investment (I), Government expenditure (G), Exports (X) and Imports (M) in the estimate of private consumption expenditure (C), private consumption has been separately estimated and a balancing item included. This balancing item has been as large as 3% of GDP.

Investment will have to rise…

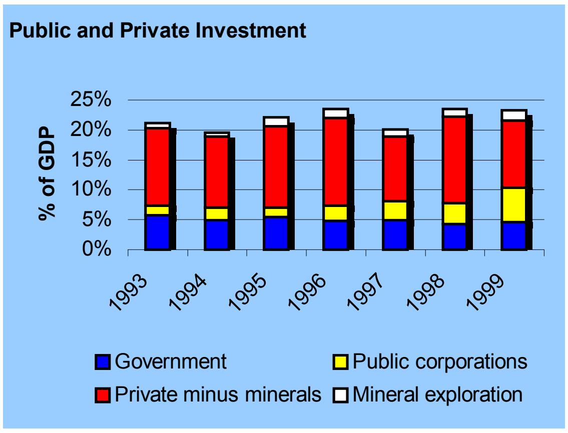
Two features stand out in an examination of the expenditure on GDP. Gross Fixed Capital Formation (GFCF), the technical term for fixed investment, has remained at or above 20% of GDP since 1993 but remained consistently lower than the saving rate as shown in the first chart above. GFCF has been revised upwards mainly because of the inclusion of oil and gas exploration expenditure. This rate is high by industrial country standards but lower than fast growing developing countries. It is insufficient to achieve the rates of growth required to reduce poverty.

And export performance must improve…

Exports of Goods and Services have declined as a proportion of GDP while *Imports of Goods and Services* have increased. Exports per capita have declined using the population estimates used to calculate GDP per capita. This poor export performance is worrying since growth in Namibia is greatly dependent upon export success.

Public investment remains high but there are questions about its quality…

On the face of it, Namibia's investment performance appears reasonable even if it falls short of what is being achieved by faster growing economies. While it can be argued that private investment has grown, by far the lion's share of investment growth has come about due to investment by public corporations. In the last year these have included large items such as Nampower's 440kv interconnector and Air Namibia's Boeing 747. It remains to be seen whether these investments yield longer-term returns. What seems to be happening is that public investment is being undertaken by public corporations rather than central government. This may be a good thing if one believes public corporations are more efficient at investing resources.



Stripping out mineral exploration expenditure, which includes oil and gas exploration, private sector investment appears to have suffered a sharp dip in 1997, presumably as a result of the hike in interest rates, and again in 1999. This latest decrease requires some explanation since the macroeconomic environment appears favourable. The sectors responsible for the fall appear to be *Fishing*, *Construction*, and *Trade, Hotels and Restaurants*. As expected, the capital intensities of the economic sectors differ greatly from *Electricity and Water* to *Fishing*.

Export performance differs across sectors…

The national accounts present *Exports of Goods and Services* recalculated in constant 1995 prices which is not available in the Balance of Payments statistics. These show that the main drivers of export growth since 1993 have been *Meat Preparations*, *Hides and Skins*, *Beverages* and *Tourism*.

Namibia's terms of trade have improved year-on-year…

Finally, the national accounts present estimates of the Terms of Trade, the ratio of export prices to import prices. An increase in the terms of trade benefits the exporting country since it allows it to buy more imports per unit of export. The national accounts suggest that Namibia's terms of trade have improved year-on-year since 1993. This is reflected in the growth in GNI mentioned above.

So, in conclusion, a mixture of good news…

The latest national accounts present a rather mixed picture of economic performance. On the one hand there does appear to be a case for revising GDP upwards. Provided population growth estimates are reliable, this implies raising the estimate of average incomes. Statistical detectives in Namibia have long been puzzled by "missing GDP". The revisions would be more convincing, however, if based on sectoral surveys rather than statisticians' judgement. With a higher GDP, many ratios economists use to assess economic performance – government revenue, expenditure, and deficit to GDP – begin to look a little less alarming. In contrast to last year's numbers, subsistence agriculture begins to look rather more healthy with year-on-year increases in real output since 1993. Because so many of the country's poorest people depend on this activity, this has to be good news as far as poverty reduction is concerned.

…and not such good news

Before one starts thinking that all this is beginning to look suspiciously good for government, especially considering that the national accounts require approval by Cabinet prior to their release, it is as well to remember that not all changes point in a more positive direction. Performance in on-shore *Fish Processing* and *Other Manufacturing* is disappointing while fishing overall is not quite the roaring success previous statistics had suggested. There continues to be evidence that previous fast-growing sectors – *Fishing*, *Manufacturing of Food and Beverages*, *Hotels and Restaurants*, and *Telecommunications* - are losing steam. Private investment needs to grow faster while export performance has generally disappointed.

Compared to many other countries, Namibia does well in producing preliminary national accounts statistics in June (not February as rather disingenuously stated by the CBS) and a full set of revised numbers in November. There always appears to be delays between the compilation of the statistics and their eventual release. The Bank of Namibia now produces quarterly GDP estimates but again these neglect the increasingly important service sectors. While revisions are only to be expected, they are often significant leading readers to question their validity. When revisions of up to 18% of GDP can be made, the value of trying to refine forecasting techniques which deal with annual changes of 2% or 3% is rather questionable.

At the end of the day producing statistics costs money. The CBS currently relies on just two full-time statisticians to produce the national accounts. Given the importance of these statistics, and especially the importance attached to them by the Minister of Finance in framing the national budget, there is a strong case for increasing the resources devoted to their compilation and initiating better service sector surveys. If the CBS is incapable of providing the resources to do the job, perhaps it should become the responsibility of the Bank of Namibia.

sources is clear, the IPPR can take no responsibility for the quality of data or information provided by other organisations.