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EAN Commentary 2018/09

Date: 15 August 2018

National Accounts 2017 – Economic contraction slightly stronger

The Namibia Statistics Agency released the final National Accounts for 2017 on 15 August 2018. Gross Domestic Product (GDP) contracted slightly stronger than estimated in the Preliminary National Accounts released in March 2018 – 0.9% rather than 0.8%. It is only the second drop in real GDP since Independence after a contraction by 1.6% in 1993.

Herewith our summary of the main highlights:

- GDP refers to the value addition by all entities in Namibia. **Gross National Income** refers to the value addition by Namibian nationals whether in the country or abroad. **GNI showed a slightly different trend** compared to GDP. It already contracted strongly in 2016 by 5.8%, but slightly less in 2017 (3.5%). The figures indicate that Namibian entities were already strongly affected by the economic downturn in 2016, when GDP growth dropped to 0.6% from 6.1% in 2015, while value addition by **foreign entities prevented** a contraction of GDP in 2016. Between 2011 and 2015, GNI growth outperformed GDP growth. While GNI increased by 41.2% over the period, GDP increased by 25.2%.
- The share of **compensation of employees** (labour) over GDP dropped slightly from 45.7% in 2015 to 45.4% (2016) and 44.8% in 2017. It is the lowest share since nine years. In 2008, compensation of employees accounted for 43.9% of value added.
- Consequently**, net operating surplus** (profits) increased from 42.6% to 42.9% and 44.0% over the same period. Net operating surplus' contribution to GDP accounted for less than compensation of employees' contribution since 2008 (45.0%).
- **Per-capita income contracted** for the second consecutive year. After a decline by 1.2% in 2016 it dropped by 2.8% in 2017, since population growth exceeded GDP growth. The per-capita income decline in terms of GNI was even more pronounced. It decreased by 7.5% in 2016 and 5.3% in 2017.
- **Labour productivity** improved between 2012 and 2016 (based on the National Accounts and the Labour Force Surveys) from NAD159,000 to NAD221,000 per employee. It, however, decreased in the **manufacturing sector** from NAD459,000 to NAD399,000. The **drop in productivity** was caused by a sharp increase in employment that was not matched by a similar increase in value addition in the sector. Since manufacturing is one of the priority sectors in NDP5 some more in-depth analysis of the trend is needed. The establishment of a **productivity centre**, envisaged under the Harambee Prosperity Plan, could play an important role in increasing labour productivity and hence **increase the competitiveness**.
- The **agricultural sector** rebounded strongly after years of drought. Value added in the sector grew by 12.6%, albeit from a low base. Although value addition exceeded the values over the previous four years, it remains below value addition in 2011 and 2012 indicating the effects of the droughts. Livestock farming increased by 13.7%, while crop farming grew by 11.0%.

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The EAN Commentary is compiled by EAN Research Associate Klaus Schade and is financially supported by the Government of the Federal Republic of Germany through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) The EAN Commentaries can be downloaded from www.ean.org.na.

- The **mining sector** also showed a strong performance and expanded by 12.8% after three consecutive years of contraction. All sub-sectors showed strong and positive growth, led by uranium mining (23.4%) and diamond mining (12.0%).
- Value added in the **primary sector** overall increased by 10.6% after four years of contraction.
- The strong performance of the primary sector did not completely benefit the secondary sector. Value added of the **manufacturing sector** grew by only 1.3%, down from 5.6% a year earlier. **Meat processing** activities decreased by 14.4%, mainly because of increased **livestock exports** to South Africa (up from NAD1.1 billion to NAD2.6 billion in 2017). The **grain milling** sector grew by 15.5% owing to a much better harvest, while value added of other food products and beverages declined by 4.6% and 0.8% respectively. Except for **diamond processing** that expanded by 14.6%, other **mineral processing** sub-sectors expanded only slightly.
- Value added of the **construction sector** contracted sharply for the second year by 25.6% compared to a contraction of 26.3% in 2016. Value addition in real terms, however, remained higher than in any year before 2013, when the boom started caused by the development of new mining sites and public infrastructure projects.
- Overall, value addition in the **secondary sector** contracted by 6.7% in 2017 after a contraction by 6.8% in 2016.
- Value addition in the **tertiary sector** decreased by 1.4% after growth of 3.2% in 2016. The decline was caused by a strong decrease in the **wholesale and retail trade** sector (7.5%) and a contraction in the **hotel and restaurant** sector by 1.1%. The **transport and communication** sector was negatively affected by the contraction of the construction and wholesale and retail trade sectors, but benefited from increased outputs in the agricultural and mining sectors and grew by 0.9% after a strong performance in 2016 (7.0%). The **real estate and business services** sector almost maintained its performance of 2016 (1.0% growth) in 2017 (0.9%).
- The decline of the **hotel and restaurant** sector was not only caused by fewer workshops organised by Government. The **drop in spending by foreign tourist** from NAD4.5 billion to NAD2.5 billion also contributed to the decline.
- **Tax revenue decreased** by 5.5% in 2017, after a slight increase of 0.9% in 2016. The decline reflects the strains on the national budget (see also the EAN Commentary on the Fitch rating).
- **Gross Fixed Capital Formation (investment) dropped** from a high of NAD50.0 billion in 2015 to NAD28.3 billion in 2017, mainly because of the completion of new mining projects. Investments in the **mining sector declined** from NAD20.6 billion in 2014 to NAD4.9 billion in 2017, the lowest level since 2011. Likewise, **public investment decreased** from NAD9.5 billion in 2015 to NAD6.4 billion. Furthermore, investment in **transport equipment dropped** to one of the lowest levels (NAD3.2 billion) over the past decade. On the other hand, **investment in the electricity sector more than doubled** from NAD0.6 billion in 2015 to NAD1.3 billion and NAD1.1 billion during the next two years owing to investment in renewable energy sources and into water supply in particular in Windhoek during the droughts. This investment is in line with the **priorities of NDP5**.
- Investment into **mineral exploration dropped** to the lowest level since 2007. NAD585 million were invested in 2017 compared to NAD3,153 million in 2013. Low oil and mineral prices contributed to the decline. In contrast, **investment into buildings** not only increased to NAD7.9 billion in 2017, but reached the highest level since a decade, only exceeded in 2015 with NAD8.0 billion.

A lot of attention is always paid to the overall economic growth rate. However, **what matters** more is, which sector has grown or declined and how growth is distributed, since growth is not an end in itself, but a means to achieve a better standard of living for all. Furthermore, **growth has to be sustainable** in line with the **Sustainable Development Goal** number 8 (Decent work and sustainable economic growth) and in support of our **National Development Plan**.

The re-bound of the **agricultural sector** has certainly **reversed the job losses** incurred during 2016 in particular in the communal agricultural sector, but the continuous contraction in the labour-intensive **construction sector** has resulted in **job losses** that will negatively affect the performance of the wholesale and retail trade sector. The introduction of **Conservation Agriculture and Smart Agriculture** has the potential to increase the output of the communal agricultural sector and hence contribute to household food security and poverty reduction. Other priority sectors in NDP5 include **fisheries** that grew by just 1.3% and **faces challenges** with some fish species as well as **mining** that showed strong growth. However, the decline in **investment in mineral exploration** indicates that growth in this sector might not be sustainable unless new mining deposits are being explored and developed.

Tourism is another priority sector in NDP5. It has not performed well over the past two years. It is doubtful that the **increase in tourist visa fees** to NAD500 will increase Namibia's tourism competitiveness and support the objectives of NDP5. Namibia could consider following the example of Rwanda and **abolish visa requirements**. This move would position the country well to become a preferred destination also for business and in particular **conference tourism**, which would require the construction of a convention centre in an urban setting such as Windhoek.

Although the **Blue Economy** is another priority sector in NDP5, except for fishing and aquaculture, shipping and transport and tourism not much has happened to derive more value out of the ocean. More concerted efforts are required to **attract research** into the use of the ocean for marine renewable energy such as wave power, for pharmaceuticals, biotechnology and sea-based products. Since these are, if well-managed, **renewable resources** investment in this sector is more sustainable than investment in the extraction of finite resources.

The declining **share of labour compared to capital** (profits), suggests that economic growth is not contributing to the reduction of income inequality. The right balance is needed between profits that are necessary for investment and hence future growth on the one hand and remuneration of labour that determines the level of demand for domestically produced and imported goods and services on the other.

Much emphasis is placed on regular economic statistics, such as quarterly GDP figures, quarterly trade statistics, etc. However, economic statistics have to be **complemented by social statistics**, such as **regular labour force surveys** that are currently not even conducted on an annual basis, let alone even more frequently. Only then would we **be in a position to evaluate** whether economic growth translates into social gains such as employment creation and a reduction in income inequality and poverty. And only then would we know whether our National Development Plans, policies and strategies work and whether we achieve our objectives.