Note on the 2021 Revision and Rebasing of National Accounts

In the recently released 2021 Economic Survey, the Kenya National Bureau of Statistics (KNBS) revealed that they had revised and rebased the National accounts in conjunction with the Government of Kenya through the National Treasury. The current rebasing involved changing the Gross Domestic Product (GDP) calculation from the base year of 2009 to 2016. This note aims to provide a background and analyze the impact of the National Accounts Revision and Rebasing. This note shall focus on;

1. Introduction to Revision and Rebasing of National accounts,
2. History of Kenya's Rebasing,
3. 2021 Revision and Rebasing, and,
4. Conclusion

Section 1: Introduction to Revision and Rebasing of National accounts

National accounts are a set of consistent accounting techniques and macroeconomic data that measures output, expenditure and income of all economic players in the nation's economy, from households at the bottom to the Government at the top. Rebasing of National accounts refers to the process by which the base year used to calculate GDP is updated to a more recent year to reflect economic changes in the country. This is necessitated by the fact that as time elapses, the previous base year becomes less relevant due to dynamic changes in the economy such as change in the economic structure of a country, change in its sectoral contribution to GDP, changes in commodity prices and consumer preferences. Revision and rebasing is important as it takes into account those changes giving the Government a better understanding of the current structure of the economy, incorporate economic activities that weren't previously captured in the old base year and sectoral growth drivers hence equipping the Government with better tools to tackle economic challenges and guide channeling of investments and resources.

The United Nations Statistical Committee recommends that countries should revise and rebase their National accounts every 5 years with a base year of not older than 10 years to accurately depict the countries' economies. Given the COVID-19 induced pandemic and the effects it has had on the global economy, IMF recommends that countries should refrain from using 2020 and 2021 as their base years when rebasing their national accounts as this could lead to overstating of their GDP growth rates for future years.

African countries that have recently rebased their National accounts in 2021 include South Africa, who in August 2021 changed their base year to 2015 from 2010 thus increasing their 2020 GDP by 11.7% to USD 370.0 bn, from USD 326.6 bn before rebasing. Uganda and Rwanda both rebased their National accounts in 2019, resulting in GDP at current prices increases of 9.4% and 11.6% to USD 32.8 bn and USD 10.4 bn from USD 27.1 bn and USD 9.2 bn, respectively. Nigeria has also announced plans to rebase their GDP in the latter stages of 2021.

Section 2: History of Kenya's rebasing

Kenya has revised and rebased its National Accounts seven times, with the first rebasing having taken place in 1957 where the base year was 1954. The other revisions took place in 1967, 1976, 1985, 2005, 2014 and the recent revision being 2021. The table below breaks down the previous rebasing and the effects they had in the economy;

Revision year	Old Base year	New Base year	Commentary
1957	1947	1954	Inclusion of manufacturing sector
1967	1954	1964	Produced estimates at both current and constant prices
1976	1964	1972	1st revision under International guidelines

1986	1972	1982	Filled data gaps of the 1976 revision
2006	1982	2001	Inclusion of standalone financial services sector
2014	2001	2009	Increased GDP by 25.3%
2021	2009	2016	Increased GDP by 5.3%

Source: Online research

Kenya's revision and rebasing of National accounts in 2014 is considered as the most important as it had the following impact on the economy;

a) The GDP increased to Kshs 4.8 tn from Kshs 3.8 tn,
b) Inclusion of a new sector, Information Communication and Technology (ICT), and,
c) Changing Kenya's status to a lower middle income country from a low income country.

As a result of the 6th revision and rebasing, Kenya's 2013 GDP in current prices increased to Kshs 3.8 tn from Kshs 4.8 tn, an increase of 25.3%. Consequently, Kenya became the 9th largest economy in Africa, from the 12th position, surpassing Ghana, Tunisia and Ethiopia. The GDP per capita in 2013 also increased to USD 1,246.0, from USD 994.0, leading to Kenya's reclassification as a lower middle income country, which effectively locked it out of concessional funding available to low income countries.

Section 3: 2021 Revision and Rebasing

In the 2021 Revision and rebasing of the National Accounts, the base year was updated to 2016 from 2009, with 2016 chosen as the year with normal economic activity, devoid of any major economic shocks. The main objectives of the exercise was to further implement the recommendations of the international 2008 System of National Accounts (2008 SNA) and revise the annual and quarterly National Accounts over the same period. Below are the main effects of the 2021 revision and rebasing of National accounts;

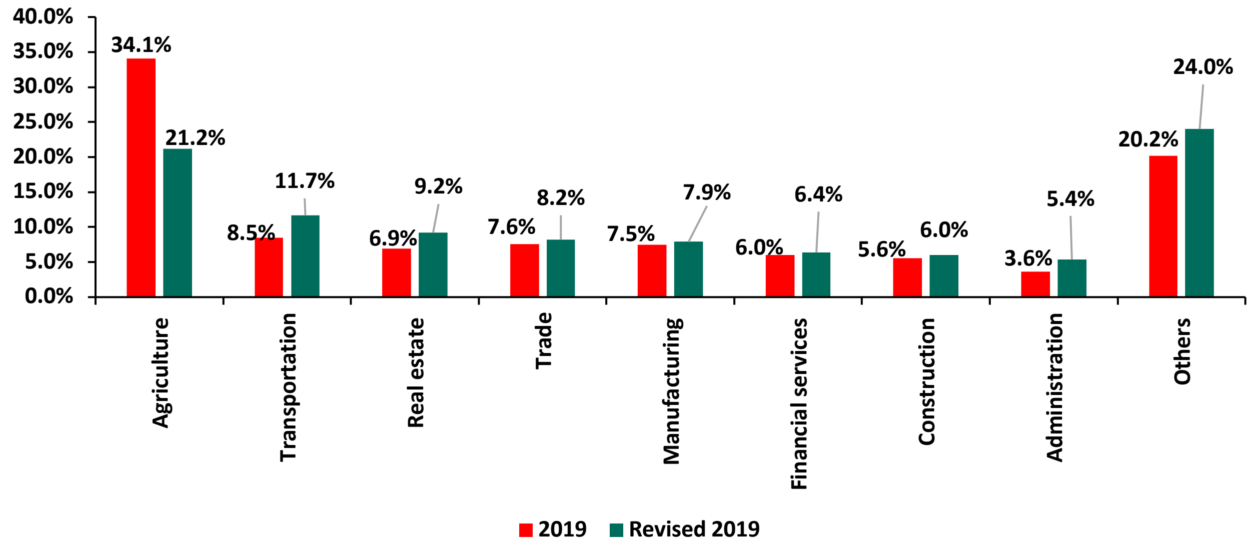
i) Widening of the economy

The main effect of revision and rebasing is usually an increase in the GDP in current prices as a result of recording and inclusion of more economic activities or a decrease if the previous GDP had been overstated. Revision and rebasing in 2021 yielded an increase in the 2019 GDP by 5.3% to Kshs 10.3 tn from Kshs 9.7 tn. According to the World Bank's Gross Domestic Product 2020, Kenya ranked 7th in Africa before rebasing and still remained 7th due to the slight increase in GDP at current prices,

ii) Sectoral contribution to GDP

As a result of an increased GDP and revision to the figures, contribution to the GDP of various sectors to the GDP in 2019 was affected. Agriculture remained the main contributor to Kenya's GDP but at 21.2% from the previous 34.1% before revision and rebasing. The graph below shows the sectoral contribution to GDP before and after revision and rebasing;

Sectoral contribution to GDP 2019(%)



Source: Kenya National Bureau of Statistics, 2019

Key take outs from the graph are;

i) Agriculture in GDP Current prices declined by 34.7% to Kshs 2.2 tn from Kshs 3.3 tn,

ii) Transportation remained the 2nd largest contributor to GDP at 11.7%, owing to an increase of 44.8% in GDP Current prices to Kshs 1.2 tn from 0.8 tn,

iii) Real estate contribution to the GDP rose from the 5th largest contributor before Revision and Rebasing, to 3rd largest, increasing contribution to GDP by 40.2%, to Kshs 0.9 tn from Kshs 0.7 tn,

iv) Wholesale and retail trade increased contribution by 13.6% to Kshs 0.8 tn from Kshs 0.7 tn in the previous estimates,

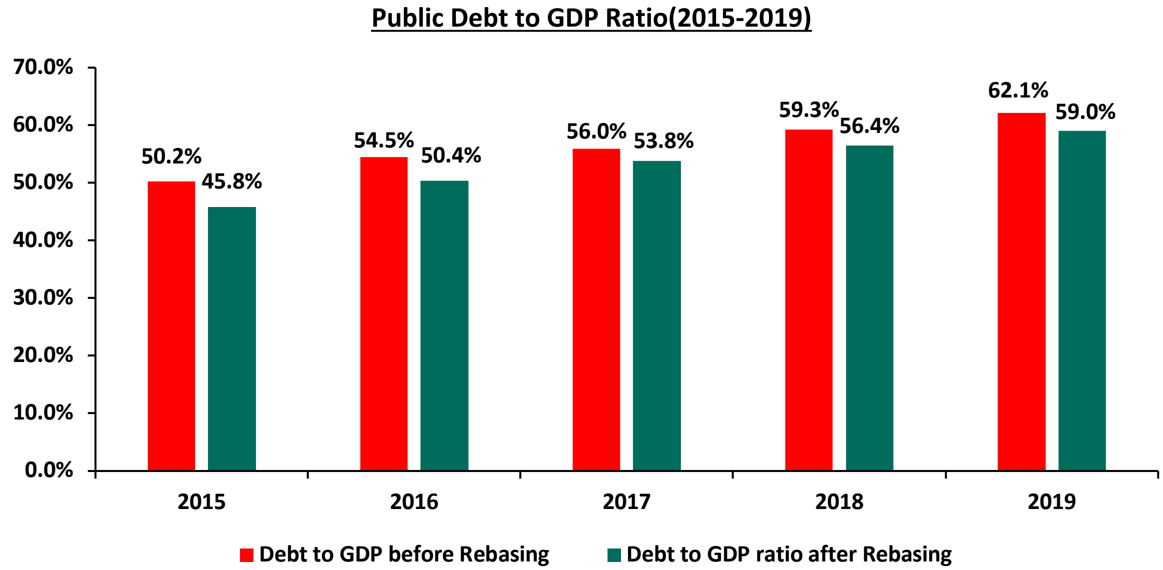
v) Financial services contribution grew by 12.2% in the revised estimates to Kshs 0.7 tn from Kshs 0.6 tn,

vi) Public administration and defence, and construction grew by 1.8% points and 0.4% points respectively, and,

vii) The other sectors combined, increased their contribution to the GDP by 3.8% points to 24.0%, from 20.2% before revision and rebasing.

iii) Public Debt to GDP ratio

The main indicator to a country's credit worthiness and ability to pay back its debts is the debt to GDP ratio, which is a factor of GDP. Revising and rebasing national accounts is key to get a true picture of the Public Debt to GDP ratio and to examine the country's debt sustainability. The graph below shows the Public debt to GDP ratio before and after revision and rebasing;

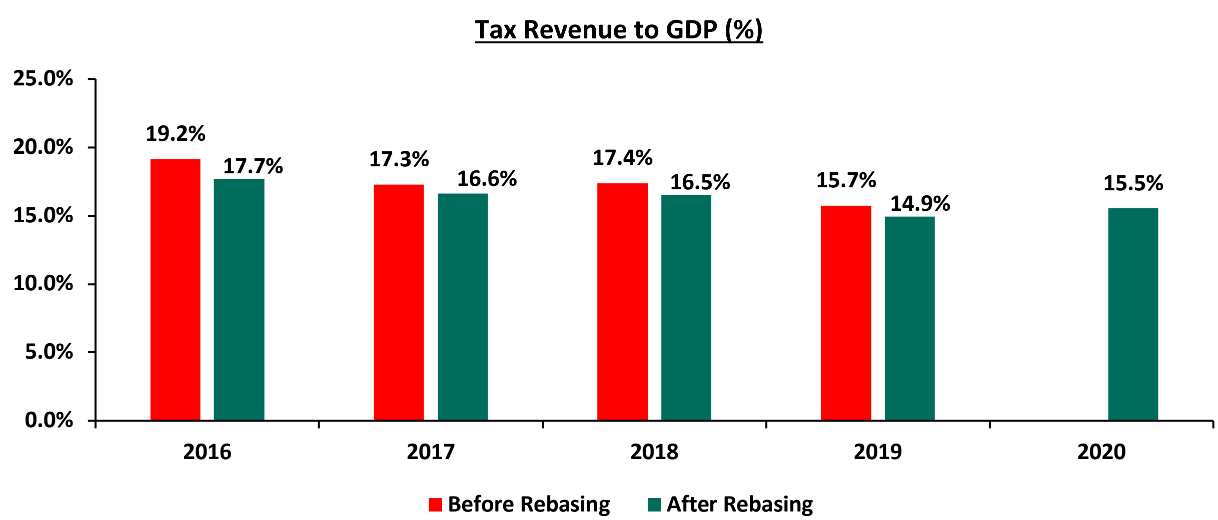


Source: Central Bank of Kenya and Kenya National Bureau of Statistics

In 2019, Kenya's public debt to GDP ratio was at 62.1% before Revision and rebasing. This was 12.1% above the IMF threshold for developing nations which is at 50.0%. After the exercise, the debt to GDP ratio declined by 3.1% points to 59.0% in 2019 due to an expanded GDP hence improving the country's debt outlook and credit worthiness. The Debt to GDP ratio however increased in 2020 to 67.7% attributable to a 20.4% growth in public debt outpacing the 4.8% growth in GDP at current prices. The increase in public debt in 2020 is attributable to Government borrowing from facilities like the IMF and World Bank to deal with effects of the Covid-19 pandemic.

iv) Tax Revenue to GDP

Tax revenue to-GDP ratio is the ratio of the tax revenue compared to the GDP and can used as a gauge of how well the Government controls the country's economic resources. The graph below shows the changes in tax revenue to GDP ratio before and after rebasing;



Source: Central Bank of Kenya and Kenya National Bureau of Statistics

Kenya's Tax revenue to GDP ratio deteriorated by 0.8% points in 2019 following Revision and rebasing to 14.9% from the 15.7% prior to rebasing. This can be attributed to the more accurate depiction of economic production of the different sectors, leading to increase in GDP while tax revenue collected remained constant.

v) GDP per Capita

After the 7th Revision and Rebasing in 2021, Kenya's GDP per Capita in 2019 increased by 5.3% after revision and rebasing to USD 1,778.6 from the prior USD 1,689.2. This meant that Kenya remained within the World Bank's threshold for lower-middle income countries, currently set at between USD 1,036.0 and USD 4,045.0.

Section 4: Conclusion

The 7th Revision and rebasing of the National accounts in 2021 yielded a marginal increase in Kenya's GDP as compared to the 6th Revision and Rebase in 2014 mainly attributable to the fact that the main changes in the country's economic structure were accounted for in the 2014 exercise. Revising and Rebasing National accounts in 2021 has painted a clearer picture of the economy and its drivers, highlighting strong growth in sectors such as Real estate and Transport which can be supported further by increased budgetary allocation to their thematic constituents such as infrastructure development. A decline in GDP contribution was witnessed in key drivers of the economy such as Agriculture and Manufacturing, which form part of the Government's Big four Agenda, meaning the Government will have to relook and rethink policies and operations to achieve intended targets. The new estimates will also provide clarity and accurate information on balance of payment data used to evaluate value of the currency, imports and exports which have had gaps in the previous years. Deterioration of the tax revenue to GDP ratio also implies that the Government has to embark on revenue mobilization to better capture the tax base. For the private sector, the revised estimates paint an accurate picture of the economy and can be used to guide determination of investment options and rethink of strategies to focus on sectors that attract better returns. For the common citizen, impact of the expanded economy will not be felt immediately felt and the status quo remains. However, the benefits are expected to trickle down when the Government aligns its policies and efforts with the Revised and Rebased economy.