

Gross Domestic Product, Economic Growth and Development

The Seychelles economy is estimated to have grown by 6.2% in 2010 based on the latest available statistics. In very simple terms, the figure measures the extent to which overall economic activity increased in 2010 relative to 2009. This annual indication of economic activity therefore refers to the performance of the economy in terms of the change in the value of goods and services that are produced and sold compared to the previous year.

Economic activity or the performance of the economy is measured based on the computed value of Gross Domestic Product (GDP). There are three methods of calculating GDP, namely the expenditure, income and output methods which in theory should give the same result. Hence, *GDP measures the total value of expenditure undertaken in the economy over a given period, say a year, which should also be equal to the amount spent in the economy or the total value of income and output produced over the same period.*

GDP is normally measured on a real and nominal basis. The term “*nominal*” refers to GDP at the current price level whereas in “*real*” terms, the measure of GDP assumes no change in prices compared to a specific time or base period, referred to as GDP-at constant prices. Generally, GDP growth is most commonly expressed in real terms and therefore does not take into account price effects.

In Seychelles, GDP statistics is compiled by the National Bureau of Statistics (NBS) using a method known as the production approach. The production approach is the most widely used of the approaches and it is calculated by taking the sum of all economic activity less the intermediate costs required to reach the figure for economic activity. For example, if a consumer purchases a bottle of water for R15, which was initially sold to the retailer for R12, which is the sum of all the costs involved as well as the markup, the value added within the economy is R3 for that specific activity.

Under ideal circumstances an economy would grow at a constant pace yet the reality of the matter is that it undergoes a process known as an economic cycle. This process refers to an economy-wide fluctuation in production or economic activity over a period of time. For example, tourism related activities in Seychelles would be expected to increase during the peak tourist season and adjust downwards after. This is not a sign of a decline but rather how a certain activity may affect an economic cycle, in this case over a year. When looking over a longer period, should an economy experience a period of below average growth, it would be expected to improve and revert back to its normal growth levels.

Countries desire economic growth as it often means an improvement in the standard of living. As an example, an indicator of an improvement in the standard of living is the measure of GDP per capita over time. GDP per capita which divides GDP by the population size, provides an average measure of what each individual contributes to economic activity in a period. This however does not give an accurate idea of economic development and the number does not give an indicator of the distribution of wealth. As

such, while the standard of living using the GDP per capita method may show that one economy is larger than another economy, it does not necessarily mean that overall, one country has a better standard of living than the other.

Nevertheless, history has proven that improvement in infrastructure, including roads, utilities, schools and hospitals and the right policies on issues such as education, health, human rights and good governance leads to sustained and higher long term economic growth.

GDP is also used as a measure for a number of indicators. For example, while a government may increase or decrease revenue or expenditure over time, expressed as a percentage of GDP, it may provide an alternative and often completely different view of the trend in government activity. Debt to GDP ratio also provides a useful guide as to how debt levels evolve with the change in GDP.

For further information on GDP and details of its composition the NBS Statistical Bulletins and National Accounts data file should prove useful.