



## GDP growth debate

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The debate about real GDP growth has resurfaced with

✘ the government preparing to present its Revised Budget for FY14. The government has revised the growth projection down quite significantly recognising the disruptions in economic activity and the costs inflicted on the economy due to the prolonged hartals and blockades. This downward revision notwithstanding, the government projection for GDP at 6.3% is still considered to be significantly higher than the projections prepared by the

national research organisations and multilateral organisations. This year, the debate about growth outlook has another important dimension and is receiving much more attention because of the costs inflicted on all major sectors of the economy due to political hostilities and consequent disruptions in business/economic activity. There is certainly a need for reconciling the estimates for sectoral costs with their overall impact on GDP and GDP growth, which appears to be absent in the ongoing debate.

Trade bodies — and BGMEA, FBCCI, Center for Policy Dialogue (CPD) and Bangladesh Economic Association (BEA) — have come up with estimates for economic costs incurred by various sectors due to the political conflict. In its most recent presentation, CPD made an effort to collate information from various sources and estimated the economic cost to only 4 sectors — agriculture, transport, RMG and tourism — at Tk. 49,000 crore (4.7% of GDP). No estimates have been provided for losses incurred by sectors like retail, wholesale, hotels and restaurants, non-RMG manufacturing which accounts for 60% of the manufacturing sector; construction and land development; and numerous other services including the financial sector. Although no such comprehensive cost estimate is available, it is reasonable to state that if all sectors of the economy are taken into consideration, based on the manner in which the estimates have been prepared by different organisations, the total cost may well exceed Tk. 1,00,000 crore. Many business and professional bodies are coming up with estimated costs of Tk. 1,00,000 or more for the economy as a whole.

Around the same time, the finance minister significantly revised down the real GDP growth outlook for FY14 to 6.3% or more from the budget target of 7.2%. The unanswered question is whether losses to various sectors of the economy as discussed above have been properly reconciled with the revised official GDP projection. If the net losses were so high (amounting about 10% of GDP), Bangladesh economy would be contracting with negative real GDP growth. Instead, we observe that the same sources/organisations are stating that real GDP growth would be 5.5% or higher. We observe no efforts to reconcile the sector level losses/costs with the macro level GDP growth projection for FY14. The organisations compiling the loss estimates have failed to clarify that, in most cases, the losses were perhaps related to loss of gross sales (of goods and services) at the points of sale, or loss of sales due to cancellation of orders (in the case of RMG exports). The potential loss of value addition should be much smaller than the estimated loss of sales. In some cases, however, the losses also include destruction of assets like burning of buses and trucks, although such

asset losses were primarily limited to the transport sector and believed to be relatively modest (about 1,000 buses burned or damaged with a cost of Tk. 130 crore) in the overall context.

Based on these considerations, we can substantially discount the estimated total cost (in gross terms). However, we do not know by what factor(s) the estimates should be discounted. Even if we discount the estimated losses by a factor of 1/3rd or 1/4th the loss in value addition would come to about Tk. 25,000-35,000 crore, which would be equivalent to a loss of 2%-3% of GDP. The real question is: How can we justify the growth rate to be 5.5% or more if the loss in value addition was in the range of 2%-3% of GDP?

Let's now start with a counterfactual scenario by asking the question: what would have happened to economic growth in the absence of political disturbances? Even on an optimistic basis, under such a scenario Bangladesh's growth probably could not have exceeded 7%, a rate never achieved by Bangladesh. Even with this optimistic growth assumption under the counterfactual scenario, if we factor in a very moderate loss in estimated value addition in the range of 2%-3% of GDP, real GDP growth rate in FY14 should be the lowest in more than a decade. Accordingly, one may strongly argue that real GDP growth in FY14 is unlikely to exceed 5%.

A review of the sectoral breakdown of national accounts for FY14 is not possible at this stage in the absence of inputs from BBS. However, growth performance in all the major sectors is likely to be much worse than the 6% estimated for FY13, which may as well be revised downwards since it was done on the basis of data up to March 2013 and political unrests worsened markedly after that (particularly in April and May 2013). In the agricultural sector, it is highly unlikely that real growth would be more than 2% given the losses reported for the poultry sector and price drop at farmers' level for winter crops and potato.

As in the past, industrial sector should still record the highest growth performance, but the growth rate should be lower than in recent years. Despite many odds (Tazreen fire, Rana Plaza collapse, labour strikes and political disturbances), the export performance of the RMG sector through December 2013 was quite impressive and indicates its resilience in coping with adverse situations. However, the increase in export proceeds may not directly translate to a corresponding increase in value addition because the entrepreneurs, even after overcoming many odds, also had to incur huge cost escalations. Air shipments entailed a tenfold increase in shipping cost, and even cost of transportation of goods from Dhaka to

Chittagong increased fivefold. Many firms had to incur penalties/discounts on account of delays in making shipments. These cost escalations significantly eroded profitability and value addition from the RMG sector.

The non-RMG manufacturing sector, accounting for about 60% of the manufacturing base, has been significantly impacted by the subdued domestic demand during most of the first half of FY14. Demand for consumer goods including durable consumer goods suffered badly during the prolonged political unrest. Most people postponed purchases of these items, hurting their domestic production, import, distribution and marketing. Even sales of normal consumer goods like clothing, shoes, cosmetic and personal hygiene products, and consumable items like packaged foods and drinks were badly hurt.

Apart from manufacturing, the other major components of the industrial sector in Bangladesh are construction and land development and utilities. Construction has been a very dynamic high growth activity in recent years, supported by private sector residential and land development activities and by government sector infrastructure projects. Because of a sharp drop in housing demand sales of newly constructed apartments reportedly have gone down by almost 60%, and unsold inventories of new apartments have surged to 23,000 units and growing. Sales of land for residential, business, and industrial uses have also reportedly fallen by 80% with most housing projects around Dhaka and other big cities facing liquidity problem. Government financed construction projects have also suffered due to political disturbances. Based on these considerations, it is highly unlikely that the manufacturing sector as a whole could grow at the pace recorded in FY13, and it would be reasonable to project industrial sector growth at 6.6% (still above the level of FY10), primarily due to the strong performance of the RMG and leather and footwear sectors.

Service sector accounts for the largest share of GDP at more than 51% share and all major components of the service sector have been adversely impacted. The most adversely impacted sectors are: transport (road and rail in particular), wholesale and retail trade/sales; domestic tourism and entertainment; hospitality sector (hotels, restaurants and decorators). Even essential services like hospitals, clinics, diagnostic centres have also suffered in terms of number of patients receiving services. For months inter-district or cross country road network was at a standstill due to nationwide blockades with enormous loss of economic activity and loss of life. The financial sector (banks in particular) also took hits as many of

these enterprises would not be able to service their debt and would require concessions to survive. Profitability of the banking sector has already gone down, non-performing loans are likely to increase further, and private sector credit growth has declined to much less than half of the levels reached during FY10-11. Against this background, it would be difficult to expect the services sector to grow at a pace more than 5% in FY14.

The purpose of this note is not to come up with an alternative projection for FY14 GDP growth. It simply aims to highlight the need for reconciling the impact of estimated sectoral losses with the revised GDP projection in a systematic manner. Dogmatism — such as Bangladesh has been growing at more than 6% in the past decade and so growth cannot fall below that — should give way to rational economic analysis, whatever the outcome may be. Only through proper economic analysis the authorities would be able to adopt the right policies on the economic front.