GDP growth is not a numbers game

Thursday, Sep 16, 2021

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Bangladesh has secured major development progress since independence, substantially enabled by rapid growth in GDP.

Owing to the GDP growth acceleration from an average of 4% per annum during the 1980s to 6.8% during the decade of 2009-2019, per capita gross national income (GNI) accelerated from less than $100 in the early 1970s to $1909in 2019.

Given its primacy in enabling development progress, the government attaches great importance to annual GDP growth outcome.

Not surprisingly, the Perspective Plan 2041 (PP2041) seeks to further accelerate average annual GDP growth to the 8 plus range.

All this is welcome news.

However, over the past several years there have been some worrisome signs of a potential disconnect between the GDP growth numbers published by the Bangladesh Bureau of Statistics (BBS) and GDP correlates.

Normally, GDP growth acceleration is positively correlated with rising private and public investment rates, growth in private sector credit to finance higher investment and working capital in line with GDP growth, the growth of exports and the expansion of employment.

Available evidence suggests that in recent years (FY2016-FY2019) the private investment rate has stagnated at around 22-23% of GDP, which is nearly similar to the rate found during FY2013-FY2016.

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Over the same periods, export growth in nominal dollars fell from 8% to 6%, private sector credit growth remained unchanged at around 14% per year' and the growth of employment has slackened considerably.

Yet, according to BBS official national accounts, the average GDP growth rate accelerated from 6.6% during FY2013-FY2016 to 7.8% between FY2016-FY2019.

Manipulation?

Most researchers have expressed concern over a possible manipulation of the GDP growth numbers.

This is not unique to Bangladesh and similar concerns were raised in the past in Pakistan and India.

This concern came to a fore in the post Covid-19 period when BBS published a preliminary GDP growth estimate of 5.2% for FY2020.

Based on survey work, several researchers argued that there has been a sharp deceleration in economic activities in the urban areas including manufacturing, construction, trade, transport and other services during the Covid-infected periods of March-June 2020.

Yet the BBS GDP estimate did not seem to fully factor in this reality.

A similar reality check was missing from the government’s highly optimistic projection of 8.2% growth for FY2021 used in the FY2021 National Budget.

This was subsequently scaled down to 7.2% in the 8^{th} Five Year Plan but remained essentially disconnected from reality.

Playing with GDP growth numbers is unfortunate as this sends a wrong signal to the senior policy makers about the economic health of the country.

GDP growth, when estimated properly, is simply a measure of the buoyancy of the national economy.

When this comes under pressure from exogenous shocks like Covid-19, or from a slowdown in internal or external demand, it serves as a signal to policy makers that corrective policy measures have to be taken to protect GDP growth from the down-turn.

If instead, the growth numbers are manipulated, then this will prevent corrective measures and hurt the economy in a variety of ways including unemployment, slowdown of earnings, and increase in poverty.

So, it is very important to note that GDP growth is not a numbers game.

It has real consequences for people's welfare that cannot be masked or manipulated through an accounting process.

In this context, the recent revision of GDP growth numbers by BBS that takes a bold approach to revisit the FY2020 GDP estimates in light of the Covid-19 impact and also provide a more realistic preliminary GDP growth estimate for FY2021 is a welcome move.

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The revised numbers show a final GDP growth number of 3.5% for FY2020 and a preliminary GDP growth estimate of 5.5% for FY2021.

These are more realistic in light of evidence from correlates as well as survey findings.

These growth rates are low by past standards but still highly positive in light of global experience with Covid-19.

The government must not feel too disappointed and instead focus on a recovery policy package to stimulate the economy in the coming years as the negative Covid-19 impact weakens.

There is a large policy agenda in the area of exchange rate management, tax reforms, public expenditure management, trade policy reforms, reform of the investment climate, banking sector reforms, infrastructure reforms, health and education reforms, and environmental reforms that could provide a substantial boost to GDP and help Bangladesh to move back to the PP2041 growth path on a sustainable basis.

Credit given where it is due

We congratulate BBS for being able to provide their best professional estimate of GDP growth that is much more credible than the previous numbers.

We also appeal to the government to take steps to protect the integrity of the BBS and to strengthen its capacity.

The BBS has made significant progress over the years in expanding its data services.

Yet, there remains a large unfinished agenda.

Critical indicators like poverty and employment are outdated by more than 5 years; national accounts have improved on the production side but expenditure accounts are weak; consistency of national accounts with fiscal and financial accounts is lacking; quarterly GDP estimates are missing; district level GDP estimates have been long discontinued with no effort to re-institute this useful exercise.

These are just a few examples. There are other important gaps.

The BBS is a national institution and produces outputs that are public goods.

The government must understand and appreciate this and take steps to convert BBS into an autonomous national institution instead of treating it as a part of the bureaucracy that is managed and controlled by the government.

There is considerable global experience with managing the production and distribution of the national database and Bangladesh can learn from it in designing a truly autonomous national data institution.

This is a long-term agenda and a task force of experts can be established to help the government in this endeavor.

In the short term, several steps can be taken to strengthen the BBS.

First, the management of the BBS along with oversight of the General Economics Division (GED) could be assigned to the newly created post of the state minister for planning.

Since GED has the responsibility to prepare major national strategy documents including the

5-year plans, it is also a major user of BBS products.

The interaction of GED staff with BBS staff can be mutually beneficial and help improve the quality of BBS products.

Second, the government must recruit a top-rated professional statistician as the chief statistical officer with the rank and status of at least an additional secretary to provide quality control to BBS data products.

Third, a BBS advisory committee should be established from the researchers who can review major outputs of the BBS such as national accounts, household income and expenditure surveys (HIES), and the Labor Force Survey (LFS) and provide appropriate user feedback and technical guidance to BBS.

Finally, technical assistance can be sought from the donor community to upgrade the technical capacity of BBS.

In particular the UN, World Bank and the IMF have considerable global experience with the methodological issues relating to national accounts and consistency of financial flows, and BBS can upgrade its capacity in these areas through proper collaborative efforts.

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