GDP Growth Planning

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Planning for development is more an art than a science. For any objective, good planning consists of setting a feasible target, a strategy to achieve that target, and a road map consisting of specific resources, policies and implementation arrangements to achieve that target. Since the future is unknown a sound plan tends to use the best available information contained in lessons of own past experience and the experience from other countries.

A plan normally tends to be optimistic that is reflected in the concerned target, which is set as a stretch target. However, the level of optimism needs to be balanced with some measure of realism based on assessment of resources, politically feasible policies and institutional implementation capabilities. This balancing of targets with realism is the main challenge facing the plan makers. The better the balance, the narrower is the gap between the set target and the actual result.

From a national plan perspective, the most important objective is the target for gross domestic product (GDP) growth. This is central to the planning exercise because this has pervasive influence on other important development targets relating to employment, poverty and macroeconomic framework, especially saving and investment rates.

The Perspective Plan 2010-2021 that was adopted in fiscal year (FY) 2010-11 set an ambitious growth target, rising from 6.1% in FY 2009-10 to 10% by FY 2019-20 (Figure 1).

The Perspective Plan in turn encompasses two medium-term five-year plans. The first of these plans, the Sixth Five Year Plan (FY2011- FY2015) is now coming to an end. The next one, the Seventh Five Year Plan, is in the making and will run from FY2016-FY2020. The results of the Sixth Plan provide very helpful indications of the realism of the annual GDP growth targets of the Perspective Plan and how these need to be modified for the Seventh Plan.

The actual GDP growth of the first four years of the Sixth Plan and the estimated growth for the ongoing FY2015 are also shown in Figure 1. The results on the ground show that the average GDP growth rate in the first four years has been around 6.2 per cent. Based on currently available data on agricultural and manufacturing production and export performance, a 6.2% GDP growth rate for FY2015 looks reasonable. Based on this, the average growth in the Sixth Plan is around 6.2%. This is a healthy rate of growth by any definition; it is not only the fastest rate of growth for any five-year plan periods in Bangladesh, it is also among the fastest in the developing economies.

What are the implications of Bangladesh past growth experience, especially during the sixth Plan and the above international experience for GDP growth for the seventh Plan?

The first point that emerges from Figure 1 is that the ability to go back to the Perspective Plan GDP growth path does not appear feasible. For four years in a row Bangladesh has experienced yearly growth rates of about 6.0%. The ability to move from 6.0% to 10% yearly growth in the next five years in the context of the same political, social and economic environment does not look very convincing. The investment requirement of 40-45% of GDP to support a GDP growth of 10% by itself militates against this. Instead, I believe, there are two alternative and more reasonable end targets for FY2020: an 8.0% growth rate and a 7.0% growth rate. The related growth paths are illustrated as dashed and dotted lines respectively in Figure 1.

I consider the dashed growth path (ending with 8.0% growth) as the optimistic path and the dotted growth path (ending with 7.0% growth) as the realistic path. Both involve considerable investment requirements and policy reforms beyond the present business as usual path of 6.0% growth. The good thing is that all three growth paths are consistent with the Vision 2021 objective of attaining low middle income status by 2021. All three scenarios also entail considerable reduction in poverty and improvement in the job situation. In this respect, Bangladesh policymakers are facing a comfortable economic environment that is not generally available to most developing countries.

Yet, it is important to note that the 6.0% growth path is by no means assured. In view of the increasing ICOR, it will require slightly higher investment effort growing from 26% of GDP now to 27% by FY2020. Other policies relating to exports, sectoral growth and macroeconomic framework will continue to be necessary to support the 6.0% growth momentum. The 8.0% growth path is a stretch target because the investment rate will need to accelerate from 26% of GDP to 36% of GDP. This is a 10 percentage point increase that is indeed a huge stretch target when compared with the fact that the investment rate increased by only two percentage points during the sixth Plan.
For the 7.0% growth path, the associated increase in the investment rate is from 26% of GDP to 32% of GDP. Achieving this will challenge policy, especially in regards to improving the investment climate for domestic and foreign private investment, but it is not impossible. Along with greater investment effort, the binding constraints relating to electricity, primary fuel, land for industrialization and skills will need to be addressed. The policy requirements for the 8.0% growth path are commensurately stronger.

Bangladesh growth performance is solid but is below potential. In that regard, the Government’s objective to accelerate growth beyond the present 6.0% rate is welcome. But it will be prudent to set meaningful medium-term GDP growth targets (7.0-8.0%) and develop an agenda of policy reforms to achieve those targets. This will strengthen the credibility of the planning effort. If the actual performance is better, then it is power to the policy makers. As opposed to this, setting highly unrealistic growth targets (9.0-10%) and failing to achieve them with a huge margin will tend to hurt the credibility of the planning process.