

Revision and rebasing of national accounts estimates

Wednesday, Feb 1, 2017

By *Dr. Bazlul Haque Khondker*

Gross Domestic Product (GDP) is the single most important indicator used to assess the health of an economy. Along with GDP, other macro-economic indicators such as Gross national income (GNI); Gross Domestic National Income (GDNI), Gross Fixed Capital Formation (GFCF) and national savings are measured to assess the performance of an economy. These indicators/estimates are produced by the national accounts wing within the National Statistical Office (NSO). Revising and rebasing (i.e. change of base year) of the national accounts estimates/aggregates is an essential and important task for measuring the actual movement of prices and volumes of the outputs of the economy from one period to another.

Revision and rebasing of NAS (national accounts statistics) is necessary at regular intervals. The United Nations Statistics Division (UNSD) has suggested five years interval for revision and rebasing of national accounts statistics. Revision of NAS is undertaken to address the following three reasons: (i) altering the coverage of the economic activities or mitigating data gaps; (ii) improving the methodological deficiencies; and (iii) addressing structural changes in the economy. The most important reason for revision of NAS is to capture updated coverage of all the economic activities based on available data from various censuses and surveys. It is found that within a reasonable interval, some new activities have emerged and some activities ceased to operate. These changes in coverage are captured in the revision process.



Rebasing of NAS, on the other hand, is related to changing or shifting the base year. The main aggregates of NAS are recorded both at current (i.e. market) and constant prices. A base year is used for compilation of constant price estimates and real growth rates. Base

year should be a “normal” year (i.e. free from natural calamities, external economic shocks, normal production year etc) and as recent as possible. Rebasing of base year is simply to estimate all goods and services produced in the economy using newly set base-year prices instead of using old base year prices. In the rebasing exercise, a good number of deflators for various sectors and sub-sectors are needed to be updated or revised.

The Bangladesh Bureau of Statistics (BBS) has revised and rebased NAS of Bangladesh three times since independence. The first and the second round revision were carried out for 1984-85 and 1995-96 base years, which were implemented in 1993 and 2000 respectively. The third round revision and rebasing of national accounts was implemented in 2014 with 2005-06 as a base year. Usually, revision and rebasing exercises are done together. Figure 1 summarises some impacts of revision and rebasing implemented in 2014 on GDP. As a result of revision, per capita GDP and GNI have increased. Although, aggregate GDP growth remained the same after rebasing to 2005-06, the structure of economy has experienced considerable change.

It is believed that Bangladesh Bureau of Statistics (BBS) has been contemplating to revise and rebase the national accounts of Bangladesh to a more recent year, for instance 2015-16, as the new base year. Given the importance of the national accounts aggregate in planning; budgeting and policy formulation, this write up is an attempt to discuss some issues pertinent to revision and rebasing.

Given the importance of GDP and other national accounts aggregates to assess the health of the economy, the recent plan to revise and rebase the NAS of Bangladesh may consider following issues:

1. The first issue relates to restructuring and reclassification of sectors and sub-sectors. National accounts data, particularly GDP by industrial sectors is needed for measurement of structural changes in the economy. For planning and policy formulation of the domestic economy and also for international comparison, reclassification of economic activities by industrial sectors and sub-sectors should be properly considered at the time of revision and rebasing of NAS. ISIC-Rev4 (International Standard Industrial Classification of all economic activities, Revision 4) may be considered for international comparison. The proposed 21 sectors by BBS will not be feasible and user-friendly. Moreover, data have not been

generated yet for some of the proposed activities, e.g., households, arts, entertainment and recreation etc. ICT should be a separate sector in the upcoming revision. Currently, it is included in the communication sub-sector. At present, manufacturing activity is classified as small, medium and large. We believe major changes in manufacturing may be needed to reflect the importance of activities such as RMG and Food Processing etc. In this context, the manufacturing classification adopted in the 7FYP may be considered.

2. There may be some methodological flaws due to lack of data. It is noted that in previous revisions, extrapolations are done using outdated coefficients (i.e. CPI, BMPI, growth-rate etc.) and as well as outdated deflators for estimation of constant price estimates to current price estimates or vice-versa. In the revision process, some other methodological improvements such as production method or income method may also be attempted.

3. BBS may decide to form an expert committee involving national accounts experts;, economist, academicians and planners to provide technical support to this important and massive effort. Furthermore, a separate project like the one for 'Household Income and Expenditure Survey' may be undertaken to smoothly facilitate revised and rebased national account aggregates.