GDP growth: the numbers game

SADIQ AHMED

THE GDP growth numbers used in the FY2014-15 national budget have come under considerable criticism from the national researchers. There is unhappiness regarding both the estimated GDP growth for FY2013-14 as well as the projected growth for FY2014-15. In this article I focus on this aspect of the budget numbers, looking at the underlying concerns and suggesting a way forward so that the debate could move away from the numbers game to the substantive policy issues and challenges relating to GDP growth and its measurement.

The GDP estimates are provided by the Bangladesh Bureau of Statistics (BBS). As the primary national institution vested with the responsibility of providing best possible data for use by all, including policymakers, business and research, it produces a public good and as such has accountability to the entire nation. Citizens therefore expect BBS to provide unbiased, best possible data using existing resources and methodology. As an institution of a developing country it is logical to expect BBS to be evolving with capacities improving over time. Indeed we have seen a gradual improvement in BBS capabilities and we expect it to grow further.

Against the backdrop of the above, BBS has made progressive improvements in the estimation of GDP, although there are substantial gaps on the expenditure side of the national accounts. So, why is there unhappiness with the estimated GDP growth provided by BBS for FY2013-14? Do the critics have a better method and better information for estimating GDP growth? While I cannot answer on behalf of all the critics, I can explain my own concern. I certainly do not have better information or a better method for estimating GDP and its annual growth. I always rely on BBS data to analyse GDP trends and its composition in my research. However, in looking at these numbers I do try to understand and explain them in the context of related national and international events.

STAR/FILE

The country faced a major domestic shock in fiscal 2013-14 in the form of political turbulence that caused some serious disruption to economic activities for a prolonged period.

In the end, the estimated GDP of a year is a summary reflection of what has happened to economic activities in that year. These economic activities are affected by a range of factors including the level of domestic production, weather, domestic turbulence, domestic demand and external demand. If there is severe adverse weather, it is likely that the GDP growth will be adversely affected; if external demand collapses due to recession our exports will fall and lower the GDP growth; if there is domestic political turbulence the GDP growth will likely fall. In each case, the magnitude of the adverse effect will depend on the extent of the shock.

Bangladesh faced a major domestic shock in FY2013-14 in the form of political turbulence that caused some serious disruption to economic activities for a prolonged period. There are several estimates of underlying losses. Manufacturing production, trade and transport all got disrupted during those periods of political turmoil. It is therefore intuitive that GDP growth in FY2013-14 will be lower than in FY2012-13, which was a normal year. So, when BBS came up with a GDP growth rate of 6.12 percent for FY2013-14 as compared with growth rate of 6.01 percent in FY2012-13, like other researchers I would certainly like to question the credibility of this higher GDP growth in an abnormal year marked by serious disruption of economic activities. I cannot say with certainty whether the growth was 5.5 percent or 5.7 percent and so on, as some other critics have argued, but I do believe that the GDP growth for FY2013-14 should be significantly lower than that in FY2012-13.

I do not want to argue about a specific lower number because I do not have a better estimation method or better data, but I certainly would like to request BBS to analyse and explain the rational for the higher GDP growth for FY2013-14. What were the offsetting factors that more than neutralised the adverse effects of the political disruption? Since BBS knows the GDP numbers best, they must also be able to explain the determinants of growth and the contributing factors. Depending on the convincing power of that analysis, I am willing to change my mind. But until then I remain sceptical of the FY2013-14 GDP growth estimate.

The government has not taken the criticism of the growth of estimate of FY2013-14 GDP well. This is unfortunate for two reasons. First, if I were a policymaker I would gladly accept that the political turmoil must have cost the economy some loss of output and services. I would then dwell on the positive aspects of this development. I would point out that even with a serious political turmoil, the per capita GDP growth has been a solid 4.2 percent-4.5 percent (using the 5.4 percent-5.7 percent estimated GDP growth rate suggested by international organisations like the World Bank). Although below potential, this remains a substantial growth rate by international comparison. It shows the resilience of the Bangladesh economy to external and domestic shocks. It also demonstrates the potential of the economy to attain substantially higher growth rate in an environment of political stability, better governance and better policies.

Second, the government's response sends a wrong signal to BBS about the quality and reliability of the data. If the government is happy with the BBS estimates, the BBS will have no incentive to rethink and try to improve its work.

I have a similar concern about the projected GDP growth of 7.3 percent for FY2014-15 used in the budget. While the governments in many countries often make optimistic growth projections, in this particular instance I have a concern that the projected growth rate of 7.3 percent is based on wrong information about the national investment rate. The BBS estimates national investment rate at 28.7 percent for FY2013-14. If the investment rate was indeed 28.7 percent of GDP in FY2013-14 and it reaches 29-30 percent of GDP in FY2014-15, then with an incremental capital output ratio around 4 it looks reasonable that GDP growth rate would be in the 7 percent plus range in FY 2014-15. So, where is the catch?

The catch is in the reliability of the 28.7 percent investment rate estimated by the BBS. There are several problems with this estimate. First, BBS has not provided any analysis of how the 28.7 percent investment rate was obtained. Second, when comparing the investment number for FY2012-13 between the 1995-96 base and the 2005-06 base, total investment increases from Tk 2,786 billion to Tk 3,404 billion, a massive 22 percent increase. This is even larger than the percent increase in rebased GDP.

How did BBS rediscover the missing Tk 618 billion of investment spending? This has several implications that are counter-intuitive. If this were correct than it suggests a significant increase in the capital intensity of production. The rebased GDP primarily accounts for underestimation in value added from informal activities that are likely to have very low capital intensity. So, this cannot explain all the increase in investment. For 1995-96 base, the data on components of investment for FY2012-13 published by BBS shows that 22 percent of investment is in terms of machinery and transport. The remaining 78 percent is construction. Since machinery and transport is largely imported, the additional Tk 618 billion in the 2005-06 base must mainly reflect additional construction. This massive increase in estimated construction investment implies a large increase in the value added from construction. Surprisingly, the value added from construction for FY2012-13 in the 1995-96 base was Tk 899.8 billion whereas in the 2005-06 base its contribution was revised downwards to Tk 824.3 billion.

It is clear that the reliability of the rebased investment value for FY2012-13 is very low. Using that data for projecting investment for FY 2013-14 is therefore misleading. The story does not end here. The BBS data for public investment for FY2012-13 and FY2013-14 is highly suspicious. In Bangladesh much of public investment is financed through the budget. Public enterprises and autonomous bodies have very little surplus and their investment is mostly funded by the budget. Similarly, own financing of local governments is very small and investment of local governments is mainly financed by the budget. Against this reality, while the budget shows public investment of Tk 532 billion for FY2012-13 and Tk 651 billion for FY2013-14, the BBS estimates public investment at Tk 796 billion for FY2012-13 and Tk 986 billion for FY2013-14. This is incredible. Which public entity is funding additional investment to the tune of Tk 300 billion plus outside the budget? Where is this additional funding coming from? Clearly BBS expenditure accounting under the rebased GDP estimation is seriously flawed. The national budget cannot rely on these numbers to make any realistic growth and expenditure projections. By implication, the estimated revised savings rate is also suspect.

READ MORE ON B3

Business sentiment rebounds in Asia

REUTERS, *Shanghai*

BUSINESS sentiment among Asia's top companies hit its highest level in more than two years in the second quarter of 2014, rising sharply on supportive political changes around the region and positive signs from China, a ThomsonReuters/INSEAD survey showed.

The ThomsonReuters/INSEAD Asia Business Sentiment Index jumped to 74 in the second quarter from 64 in the first, the highest reading since the start of 2012. A reading above 50 indicates an overall positive outlook.

REUTERS

A man talks on his phone near a new residential compound in Taiyuan, Shanxi province. Business sentiment among Asia's top companies hit its highest level in more than two years in the second quarter of 2014.

Leadership change gave India and Thailand sorely-needed shots in the arm, with the two key markets powering a rise in the wider index. Robust scores from China and Australia also helped lift the index with scores of 67 and 79 respectively, both up significantly from the previous quarter.

Export-driven South Korea saw a steep drop to 50 from 67 in the first quarter on weaker trade and consumer data. Japan and Malaysia edged down slightly, while Singapore and the Philippines held flat, although the Philippines still maintained its 100 reading, the same as in the first quarter.

"At the moment, stronger US growth, China providing some support to prevent collapse and the India story is still there. These are positives," said Anthony Chan, senior economist for Asia at asset management firm AllianceBernstein.

However, the sentiment spike may be short-lived. India is due a "reality check" after its election boost, China's stimulus will create only a short-term lift, and there is still plenty hanging "in the balance" for Thailand after the military coup there in May, Chan said.

The index surveyed 200 of the Asia-Pacific region's top companies in 11 economies across sectors from property, to financials and tech. Companies included Japanese clothes maker Fast Retailing, Korea's Hyundai Heavy Industries and Australian construction materials firm James Hardie Industries Plc.

The poll, conducted by ThomsonReuters in association with INSEAD, a global management and business school, was compiled in June 2-13. It showed global economic worries, rising costs and other risks including political and regulatory uncertainty were the key business concerns.

Of the 124 companies that responded 52.42 percent said they had a neutral outlook and 47.58 percent said they had a positive outlook in the second quarter of 2014. None reported a negative outlook, the first time ever in the survey's history.

Positive trends for key trade partners gave Asia a boost, said Simon Shakesheff, Sydney-based group executive for strategy and stakeholder relations at Australian property group Stockland Corp Ltd.

"Business confidence has been buoyed by a broad improvement in the global environment, especially some increased optimism with regards to the outcome of Europe, the US looking quite respectable and Japan travelling better than expected," he said.

Political changes around Asia sparked a positive mood in the countries affected with all 10 companies surveyed from India and the majority in Thailand reporting a positive outlook. This helped Asia's third-largest economy hit the maximum score of 100 after pro-business candidate Narendra Modi stormed to victory in India's general election in May.

"India is positive because the previous government has done such a poor job that everyone expects it can only improve," said Dariusz Kowalczyk, Hong Kong-based senior economist for Asia ex-Japan at Credit Agricole, pointing to Modi's strong majority in parliament and wide popular support.

"This will make it easier for him to push through reform and therefore business sentiment improved."

A military coup in May helped Thailand, Southeast Asia's second-largest economy, rebound strongly to 91 after months of anti-government protests had dragged the country's score down to negative territory since the end of last year.

REUTERS

A shopper holds a clock as she walks in the cordoned-off area of an H&M store in Stockholm. The Swedish fashion giant yesterday said profits soared in the second-quarter as it continued a major global expansion, and announced it would launch a broader footwear range later this year. Net profit in the second quarter rose 25 percent from the March-May period a year earlier to $874.5 million.

US is key to Uniqlo's global aspirations

AFP, *New York*

MANY of the details of Uniqlo's aggressive US expansion still need to be worked out, but at least one thing is clear: the campaign will start on the coasts.

The Japanese apparel chain, known in its home market for its cheap chic clothing basics, has so far confined its US adventure to cities like Boston, San Francisco and Los Angeles.

But a broader US presence will be inevitable as the company blankets the country as part of its ambition to become the world's biggest specialty apparel retailer. Uniqlo will grow from fewer than 10 US stores last year, to about 40 by the end of 2014, to 200 by 2020.

"We will have a much larger footprint, which has to include the middle of the country," said Larry Meyer, chief executive of Uniqlo USA.

So far, Uniqlo's brand recognition is strong in the Northeast, where consumers know its flagship US stores in New York City, and in the West Coast, where a large Asian population already recognizes the company.

Uniqlo, a unit of Fast Retailing Co., is part of a wave of giants remaking global apparel. This group includes Spain's Grupo Inditex, parent of Zara; Sweden's Hennes & Mauritz (H&M); and US chain Gap, all of which have greater sales than Uniqlo. For now.

The United States, along with China and Southeast Asia, are the key growth markets identified by founder and chief executive Tadashi Yanai, ranked Japan's second-richest man by Forbes.

Yanai aims to increase global sales to five trillion yen (nearly $50 billion) by 2020, about a five-fold increase from 2013 sales and a sum that would make it the biggest player in this segment.

Yanai's philosophy "and my philosophy is, 'If you think small, you get no higher. So you might as well think big,'" said Meyer, a retail industry veteran who joined Uniqlo in January 2013.

Uniqlo is especially known for basics like t-shirts that may fetch $12 and undergarments that cost less than half of what they would garner at department stores.

The company also prides itself on innovations like "heattech," a thin fabric that keeps heat from escaping the body, and "performance wear," athletic gear donned by tennis star Novak Djokovic that is sweat and odor-resistant.

Morningstar analyst Jaime Katz said Uniqlo's challenges include attracting enough customers at especially pricey locations like Fifth Avenue in Manhattan. She also cites the difficulty of breaking into a new market where companies like Gap and H&M are already established.

But Katz sees an appeal in Uniqlo. "It's more a color schematic than anything else," Katz said. "It's the same thing offered in 100 different colors."