



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

# Provisional Estimates of GDP Growth in FY2020

## *CPD's Reaction*

Dhaka: 16 August 2020



[www.cpd.org.bd](http://www.cpd.org.bd)

*The Premise*

*The Early Projections and Growth Debate*

*Is Bangladesh An Outlier?*

*A Deep Dive into the BBS Provisional Estimates*

*Do GDP Estimates Consider Real Time Credible Data?*

*What Do Updated Trends in Proxy Indicators tell us?*

*How Useful is the Provisional GDP Estimates for Policymaking?*

*CPD Recommendations*

- ❑ Over the past decade, GDP growth rate has been at the centre of attention of economic policy discourse in Bangladesh
- ❑ However, CPD has also been emphasising that qualitative and distributive aspects of GDP growth are no less important than mere growth figures
- ❑ In view of the COVID-19 pandemic, the importance of credible estimates of GDP has assumed heightened importance as it has significant implications for economic policymaking at a crucial time
- ❑ The estimates of GDP has been under scrutiny for past several years due to its apparent disjuncture with several other key macroeconomic and development correlates including private sector credit, revenue mobilisation, import payments for capital machineries, energy consumption, export receipts, employment generation etc.
- ❑ The recent release of GDP estimates for FY2020 has sparked another fresh round of discussions and debates

# The Early Projections and Growth Debate

- ❑ In view of the ramification of the pandemic for the Bangladesh economy in FY2020, there was a general consensus among experts and practitioners that the GDP growth rate will be significantly lower than the planned target of 8.2%
- ❑ The MoF prediction of 5.2% was an outlier when compared to other independent estimates – CPD had earlier estimated that GDP growth in FY2020 will not be more than 2.5%
- ❑ Surprisingly, the provisional estimates of GDP growth (5.24%) has turned out to be very close to MOF prediction of 5.2% presented at the budget time!

Institution	Economic growth projection for FY20
MoF (Budget)	5.2%
<b>CPD</b>	<b>No more than 2.5%</b>
World Bank	2.0% – 3.0% (April, 2020)
IMF	3.8% (June, 2020)
ADB	Reduction of 0.2-0.4 percentage points (depending upon the extent of demand shock and duration of containment) which could additionally increase by 1.6-4.4 percentage points in case of a significant outbreak
EIU	1.6%

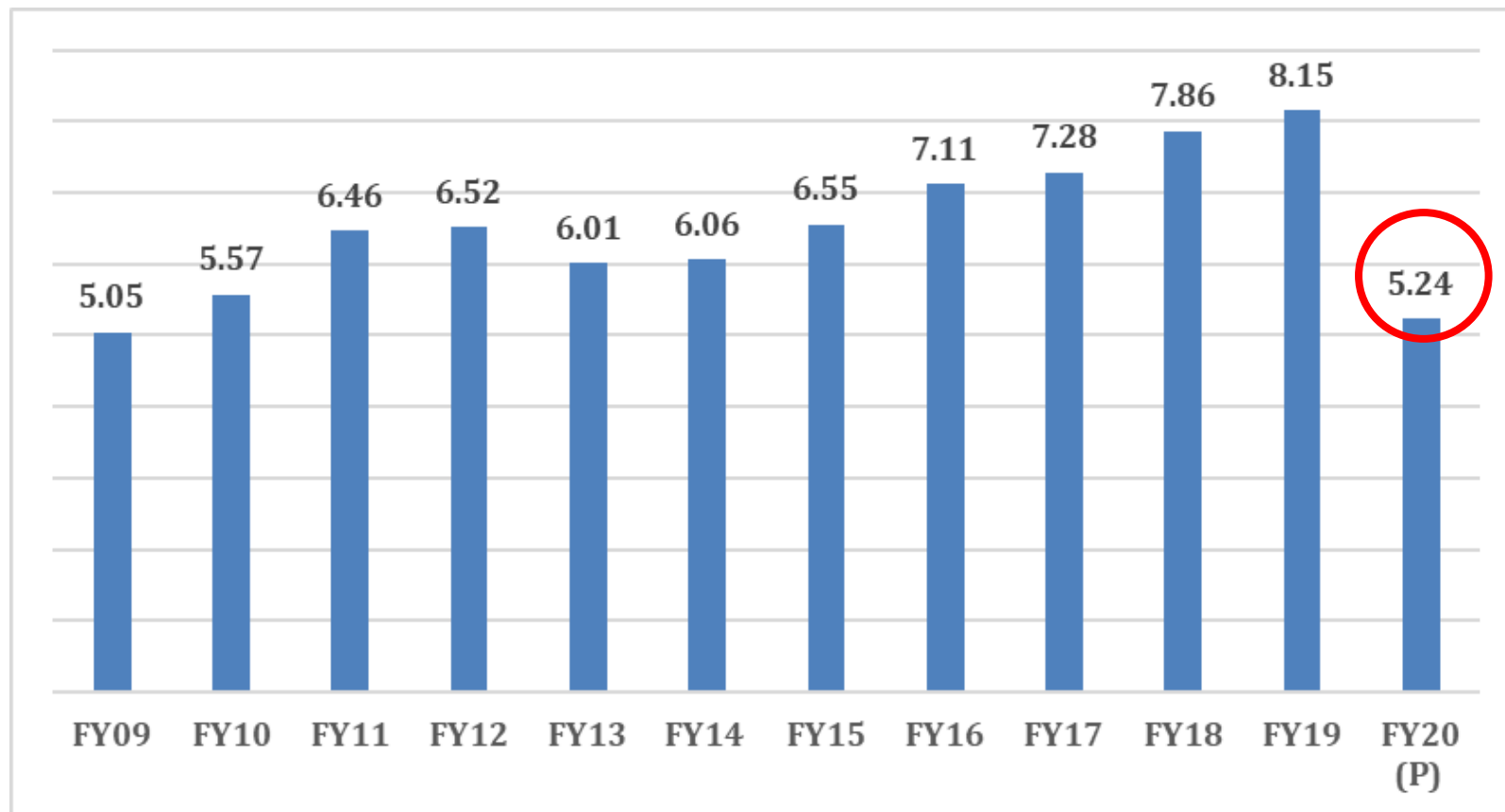
- ❑ All economic activities were affected prominently during the almost two-month long 'general holiday period', at varying degrees concerning all sectors of the economy
- ❑ CPD identified hardest hit sectors include:
  - **Manufacturing**
  - **Construction**
  - **Hotels and restaurants**
  - **Transport, storage and communication**
  - **Community, social and personal services**

- ❑ Comparing official GDP growth rate figures across countries remains a difficult task:
  - The fiscal-financial year is often different for different country
  - Impact of the COVID-19 pandemic on the economy was felt at somewhat different times in different countries
  - The pre-conditions (in terms of economic performance) varied across countries
- ❑ However, almost all countries have experienced deceleration, in varying degrees, in terms of growth performance
- ❑ For many countries, GDP has indeed shrunk (e.g. UK, USA, Singapore etc.)
- ❑ Pakistan in FY2020 (July-June) is likely to register (-) 0.4% GDP growth
- ❑ The economy of Vietnam during Jan-Jun of 2020 was able to grow by only 1.81%
- ❑ India has not released its Apr-Jun quarter GDP estimates yet, but a significant contraction is apprehended
- ❑ In view of the above, even if the Bangladesh economy could grow by 2.5% in FY2020 (as projected by CPD), it is likely to be one of the fastest growing economies in the world

# A Deep Dive into the BBS Provisional Estimates

- ❑ Let us recall the preamble of GDP estimates by the BBS
- ❑ The provisional estimates of GDP (national accounts) are usually released in May of a fiscal year
- ❑ At the time of these estimates, at best eight to nine months' data are available
- ❑ BBS did not prepare the estimates in May this year when the country was under the 'general holiday' in view of the pandemic
- ❑ On 10 August 2020, the BBS released the provisional estimates on its website
- ❑ According to follow-up news reports, the BBS has considered data for about nine months (July 2019 – March 2020)
- ❑ This implies that the provisional GDP estimates could not capture the significant adverse impacts of the COVID-19 pandemic

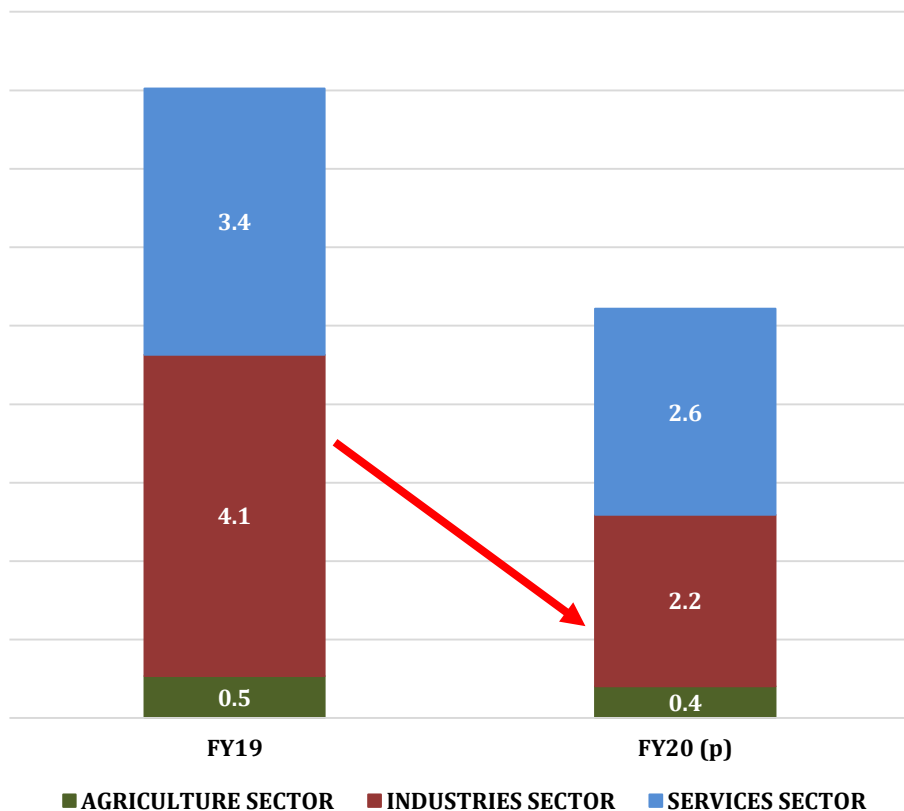
## GDP Growth (%)



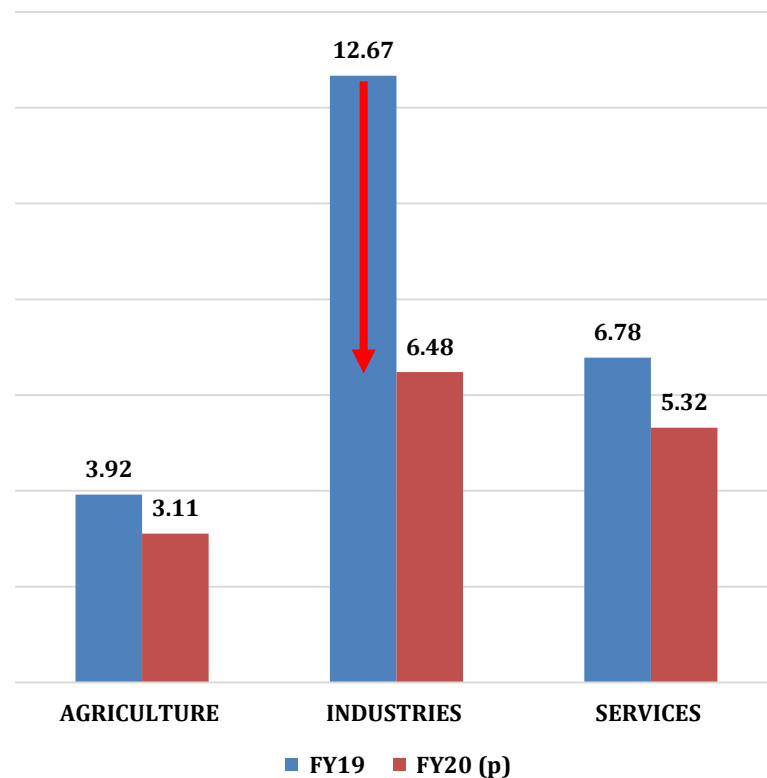
- ❑ GDP growth estimate in FY2020 (5.24%) by the BBS is the lowest in last decade
- ❑ On the other hand, in view of the current context, it is surprisingly high!



## Contribution to GDP Growth (%)

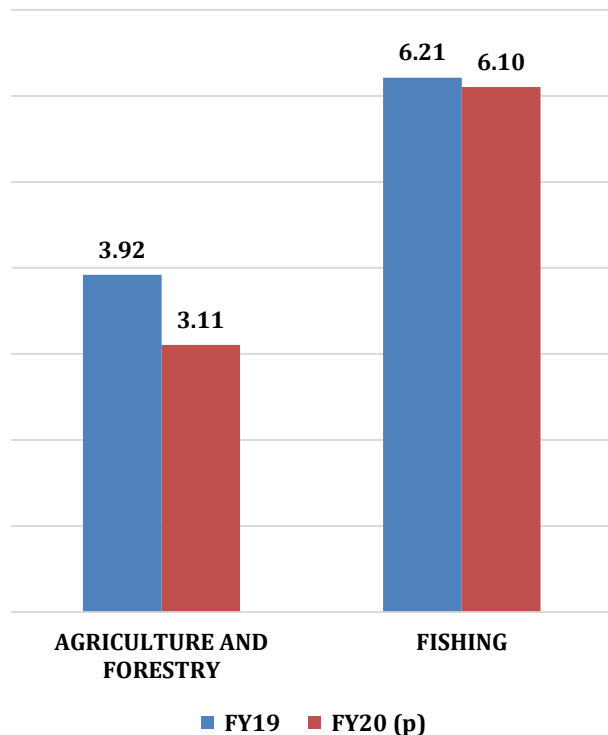


## Sectoral GDP Growth (%)

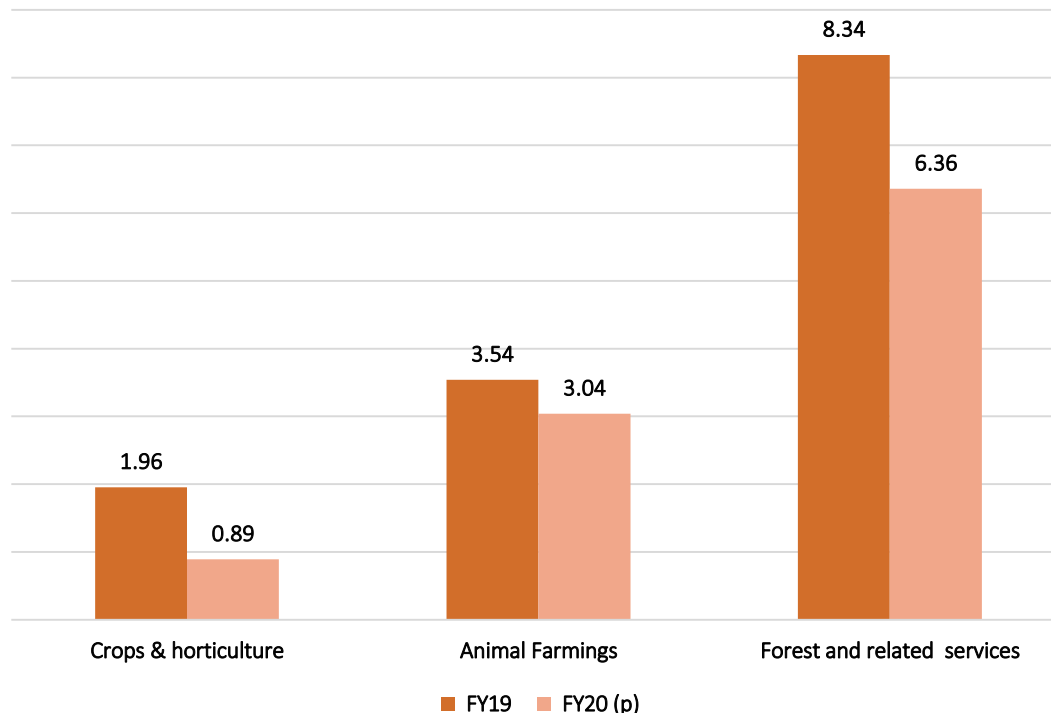


- ❑ The fall in Industries Sector growth rate contributed significantly to the fall in GDP growth rate
- ❑ Resilience of agriculture and services sectors are more by design! (See later)

## Sectoral Growth in Agriculture Sector (%)

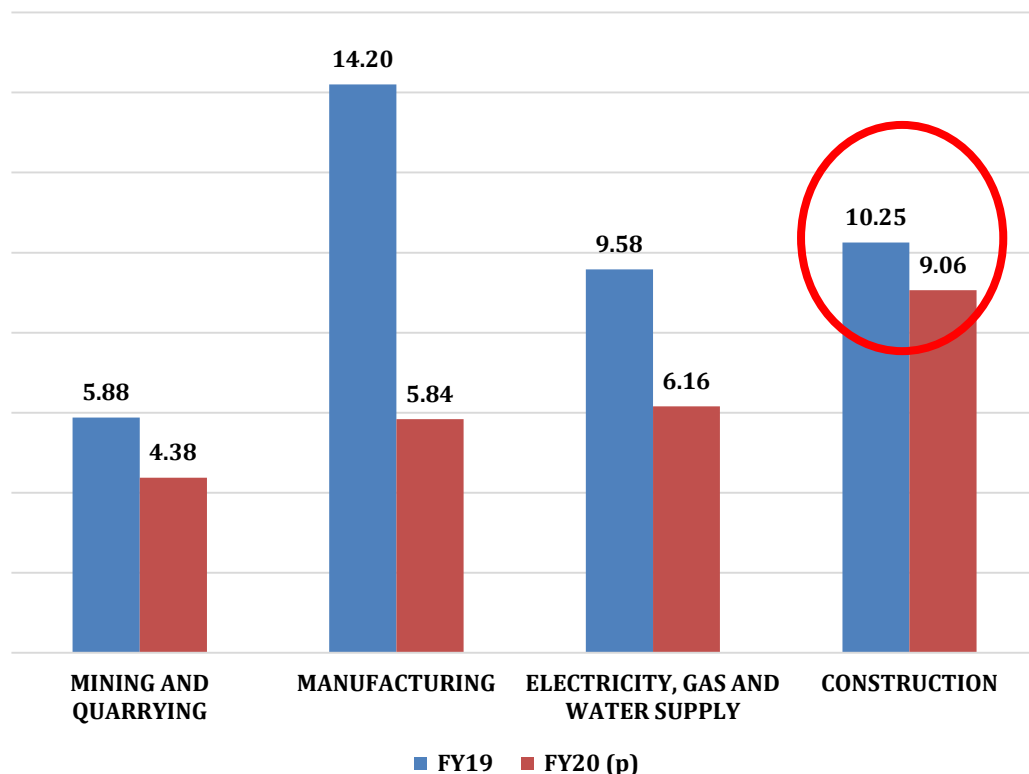


## Sectoral Growth in Agriculture and Forestry Sub-Sector (%)

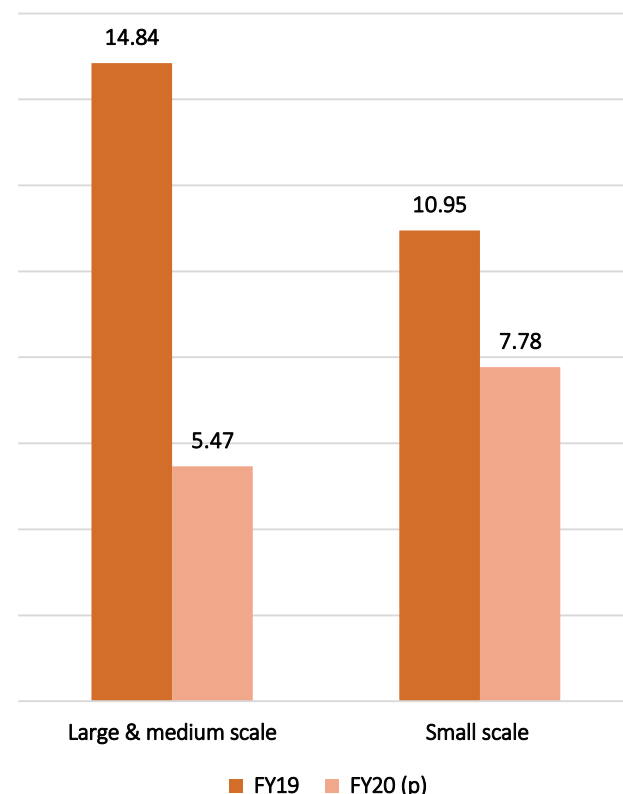


- ❑ Crops & horticulture experienced more drastic fall
- ❑ It is important to remember that production data for Aus and perhaps also Aman were considered for the crop sector, and not Boro which is the major crop

## Sectoral Growth in Industries Sector (%)

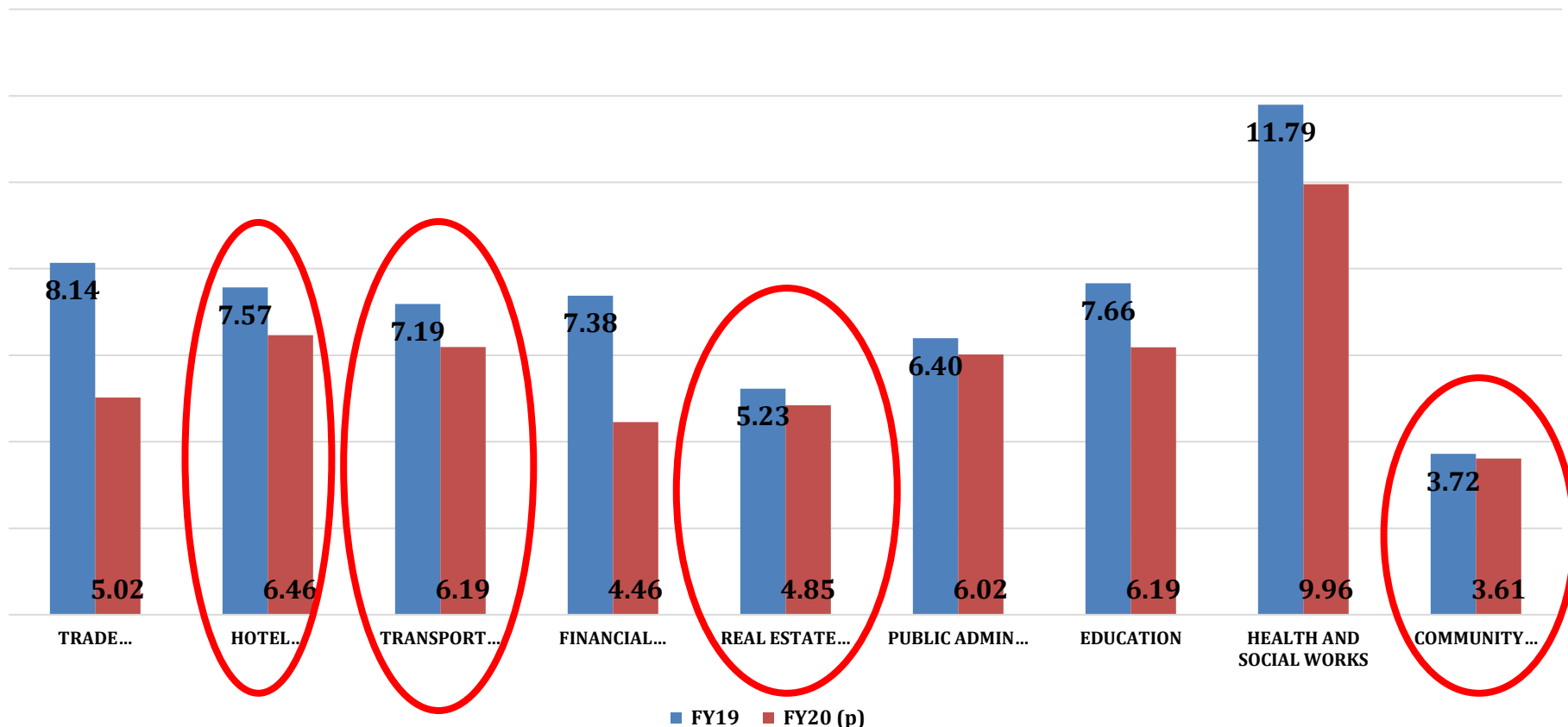


## Sectoral Growth in Manufacturing Sub-Sector (%)



- ❑ The fall in growth rate for Construction Sector was not significant
- ❑ Manufacturing sector was struggling even before the pandemic struck

## Sectoral Growth in Services Sector (%)



- It needs to be asked if the resilience of the services sectors as depicted above, is 'resilient' by design. The growth estimates for these sectors may not align with what happened in the performance of the real economy

# A Deep Dive into the BBS Provisional Estimates

- ❑ Curiously, even during a year of pandemic, private investment registered a notable growth
- ❑ Private investment as a share of GDP increased to **23.63%** in FY2020 from 23.54% in FY2019 – which required a nominal growth of **10.4%**
  - It may be recalled that MoF (during budget) predicted that private investment as a share of GDP was predicted to decline to 12.7% in FY2020!
- ❑ A rise in private investment is indeed unexpected when the entrepreneurs have been struggling to keep the existing production capacity fully operational
- ❑ Public investment as a share of GDP, on the other hand, also increased to 8.12% in FY2020 from 8.03% in FY2019
- ❑ Overall, investment as a share of GDP increased to **31.75%** in FY2020 from 31.57% in FY2019
- ❑ On the other hand this implied a significant deterioration in productivity. The Incremental Capital Output Ratio (ICOR), in a single year has risen to **6.06** in FY2020 (the highest since FY2002) from 3.87 in FY2019 indicating falling productivity of capital

## A Snapshot of Background Data for GDP Estimates

Sector	Comments
<b>AGRICULTURE SECTOR</b>	
Crops & horticulture	Mainly real time data. BBS is the main source.
Animal farmings	Mainly real time data. Not directly collected by BBS. Requires significant improvement.
Forest and related services	Mainly real time data. Not directly collected by BBS. Requires significant improvement.
<b>Fishing</b>	Mainly real time data. Not directly collected by BBS. Requires significant improvement.
<b>INDUSTRIES SECTOR</b>	
<b>Mining and quarrying</b>	Mainly real time data. Not directly collected by BBS; but more reliable data. SOEs provide data.
<b>Manufacturing</b>	Mainly real time data. BBS is the main source.
<b>Electricity, gas and water supply</b>	Mainly real time data. Not directly collected by BBS; but more reliable data. SOEs provide data.
<b>Construction</b>	Government budget data is used which is overestimated. For a major part, data is not collected annually for private sector.

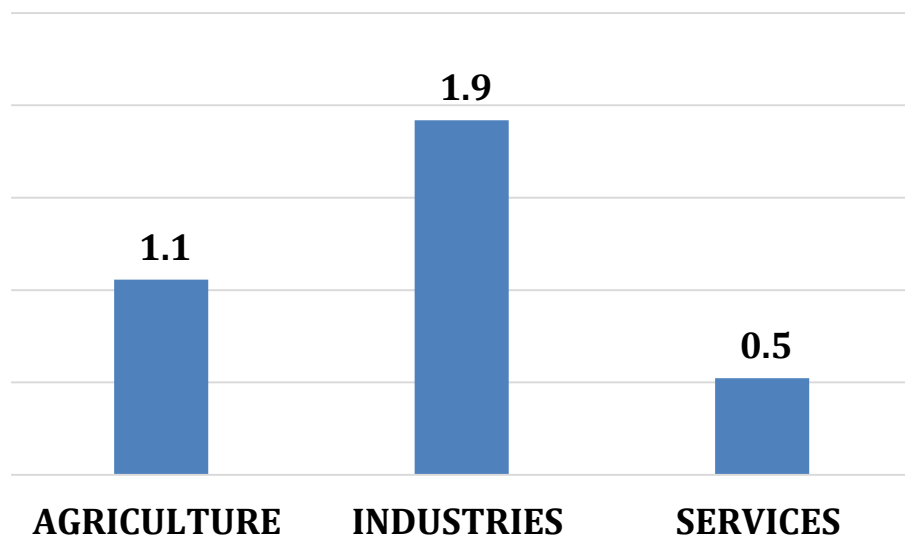


# Do GDP Estimates Consider Real Time Credible Data?

SERVICES SECTOR	
<b>Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods</b>	Mainly estimated residually.
<b>Hotel and restaurants</b>	Not collected annually on a regular basis.
<b>Transport, storage &amp; communication</b>	Public sector data is collected annually from SOEs. Private sector data (other than air transport) is not collected annually.
<b>Financial intermediations</b>	Mainly real time data. Not directly collected by BBS; but more reliable data.
<b>Real estate, renting and business activities</b>	Not collected annually on a regular basis.
<b>Public administration and defence</b>	Government budget data is used which is overestimated for provisional estimates.
<b>Education</b>	Public sector data is collected annually from budget documents which is overestimated. Private sector data is not collected annually on a regular basis.
<b>Health and social works</b>	Public sector data is collected annually from budget documents which is overestimated. Private sector data is not collected annually on a regular basis.
<b>Community, social and personal services</b>	Not collected annually on a regular basis.

- ❑ Other than Industries sector (except for Construction) and Crop sector, GDP estimates for majority of the sectors do not consider real time credible data
- ❑ **Indeed, more than half of the provisional GDP estimates are not based on credible real time data**
- ❑ This is also reflected when the variation of sectoral GDP growth rates are examined

**Standard Deviation of Sectoral GDP Growth Rates**



- ❑ A simple standard deviation test for sectoral GDP growth rates shows that growth rate of services sector was by far the most stable
- ❑ It may not be due to the resilience of the subsectors; rather it originated from the weaknesses in the estimation process



- ❑ There is a serious need to take urgent steps to address the weaknesses in the data for estimating a credible GDP growth
- ❑ A number of surveys will need to be conducted on a regular basis. For example:
  - i. Annual Establishment & Institution Survey (AEIS)
  - ii. Private commercial mechanized transport survey
  - iii. Survey of Private Education Services in Bangladesh
  - iv. Survey of Private Health Establishments
  - v. Survey of Non-profit Institutions Serving Households
  - vi. Farm Forest Surveys
- ❑ These surveys have not been conducted over the last decade
- ❑ There is a need to improve data quality from a number of government agencies. For example, Livestock Department, Directorate of Fisheries etc.
- ❑ The provisional estimates of GDP significantly rely on budget data from the government – a large part of the budgetary allocations remains unspent and undermines GDP data quality

## Quantum index of industrial production (QIIP) for large and medium manufacturing industries

Overall index declined by **(-) 24.5%** in April 2020

## Export receipts

Total export declined by **(-) 51.2%** during Apr-Jun quarter of FY2020

## Annual development programme (ADP)

Only **76.8%** of original ADP could be spent (**80.7%** of RADP) in FY2020 according to IMED data – in nominal terms **(-) 1.7%** lower than last year

- While the GDP estimates could not capture the updated data, a short review of recent trends (particularly during the last quarter of FY2020) of some proxy indicators may be useful

## Private sector credit

**8.6%** growth as of June 2020 – the lowest in the decade

## Import of capital machinery

In FY2020, import of capital declined by **(-) 33.8%**

## Import of other key capital intensive items

Clinker: **(-) 11.6%**  
Iron, steel & other base metals: **(-) 4.8%**  
Other capital goods: **(-) 18.1%**

- ❑ **Rural credit** in Jul-May FY2020: **(-) 12.0%**
- ❑ **SME loan** in Jul-Mar FY2020: **1.3%**
- ❑ **Term loan** in Jul-Mar FY2020: **(-) 4.6%**

## Foreign direct investment

In FY2020, net FDI declined by **(-) 42.5%**

## Revenue collection

In April, total revenue collection declined by **(-) 34.6%** according to MoF data

## Operating expenditure of the government

Up to April, only **50.4%** of the allocated budget could be spent

The provisional estimates of GDP did not capture the impact of COVID-19 pandemic on Bangladesh economy in FY2020

The provisional estimates of GDP should not inform the policymaking in the coming months as it does not provide a reliable assessment about the actual health of the economy

The provisional estimates of GDP indicates that Bangladesh economy was already losing its steam even before the COVID-19 pandemic

The weaknesses in GDP estimation and dearth of real-time data were exposed by the GDP estimates in the time of pandemic when there is a heightened need for credible real time data

- The government's own initiatives in the form of stimulus packages and expanded safety net programmes do not tally with the GDP growth narrative

- ❑ *The government must appreciate the value of data integrity. Policymakers need to acknowledge that credible and up-to-date data provides a strong foundation for sound and effective policymaking*
- ❑ The government/BBS should take urgent steps to generate credible and updated data. The final GDP estimates should be informed by the reality on the ground
- ❑ BBS must be adequately strengthened with both financial and non-financial resources to conduct required surveys annually (even if it is on a limited scale) so that GDP estimates are credible
- ❑ BBS should also scrutinise data provided by other government agencies to ensure the quality of the data used for GDP estimations, as it is mandated by the Statistics Act , 2013
- ❑ It is now critical to take necessary steps to conduct GDP estimation on a quarterly basis and at the subnational level – this will provide more transparency and can guide the policymakers in real times
- ❑ BBS should make background data and calculation available for GDP and other indicators for transparency and better accountability

- ❑ The need for updated data should not be limited to GDP estimations – the fiscal budgetary data should be assessed at the earliest to review the national budget
- ❑ Data should be adequately prioritised in view of the COVID-19 pandemic – GDP should not be ‘the indicator’ to understand the health of the economy and monitor the path of recovery
- ❑ The government should take immediate steps to revive Annual (if not quarterly) Labour Force Survey and expedite the Household Income and Expenditure Survey to assess the employment and poverty (and inequality) situation. Indeed, the recovery performance of the economy should be measured in terms of employment, poverty and inequality trends
- ❑ Disaggregated data should be prioritised in view of attaining the SDGs aspiration of ‘leave no one behind’
- ❑ Independence of BBS is critical for restoring credibility of official data. BBS should be endowed with adequate financial resources to undertake the needed tasks
- ❑ CPD, to this end, reiterates its earlier suggestion to constitute an Independent Statistical Commission to guide and steer the transition towards greater data reliability and integrity

# Stay Well, Stay Safe

