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Recalculating economic output

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This week, Ministry of Finance (MoF) endorsed the upward revision of the economic growth forecast rate to 3.2 percent made by Reserve Bank of Fiji (RBF). This is the expected increase in percentage terms to country's 2013 output of goods and services, usually referred to as gross domestic product (GDP).

Early this month, RBF decided on the revision after reviewing the performance by various sectors. The upward revision is from the earlier forecast of 2.7 percent. The impressive positive contributions are from many sectors. These include manufacturing; agriculture; wholesale and retail trade; communication; financial intermediation; construction and the transport and storage sectors, which provided impetus to the estimated 3.2 percent growth in 2013.

Revisions of forecasts and corrections of previously reported growth rates are not unusual. The International Monetary Fund (IMF) announces periodical revisions. The IMF reduced the 2013 global growth projections from 3.3 per cent to 3.1 per cent. Most of the economies, including the United States (US), make mid-year corrections of the already reported figures as well. For example, the US revised its 2013 first quarter actual growth rate to 2.4 percent, from the originally reported 2.5 percent increase.

Enlarging GDP Base

How about revision of the database itself?

That is, by covering new kind of economic activities. In the US, according to US Bureau of Economic Analysis (BEA), the last such update was done in the US database in 1999. That was when computer software was added to national accounts database.

Last month, BEA revised the US GDP database by adding US\$ 370 billion, about 3 percent of GDP. The new components are intangibles such as research and development (R&D), which were outside the database all along. They were treated previously as operating expenses. Only final products of R&D such as computer tablets were included in GDP calculations. Now, as per the new international standard for GDP accounting, R&D activities for creating new products will be considered as investment.

The *Financial Times* of London reports, billions of dollars of intangible intellectual property creating activities, which include "entertainment, literary and artistic originals, which would be things like motion picture originals, long-lasting television programmes, books and sound recordings" would form the enhanced GDP database.

GDPs of Pacific island countries

National Accounts of island countries are of recent origin. None of them had any GDP data before their independence in the 1970s or later. National accounts were built with technical assistance from Asian Development Bank in the mid 1980s.

Most of the economic activities were subsistence oriented, which did not enter markets for exchange for cash. Thus, GDP figures based on the database of 1980s, which were revised as in Vanuatu in 2008, were not truly reflective of the total economic efforts. Once the expatriate Technical Assistance (TA) consultants left after their work done in the mid 1980s, there were no updating efforts.

The required skills in the most of PICs statistical offices for growth rate estimation were inadequate. They had to rely upon the annual or bi-annual visiting IMF Article IV Mission's estimates. In Fiji, which was better endowed with human resources, the turnover of staff in the past had been reported to be rapid hurting institutional memory.

In January 2013, Asian Development Bank (ADB)'s Pacific Department's principal economist, while speaking to Radio Australia's Pacific Beat was skeptical about Fiji's growth rate forecasts for 2013. Similar views were expressed previously about Fiji's actual growth rates as well. In his response, Permanent Secretary to MoF observed that Fiji's growth is now more broad-based, not merely dependent on tourism and that a majority of sectors have been contributing to growth. Referring to apparent divergences between estimates by IMF, ADB and government, he said MoF would take up with both ADB and IMF and find out ways and means to narrow down the divergences. It is not known whether there has been any further development in this regard.

Size of GDP database

The task of enlarging the GDP database, by including what was left out as non-quantifiable activities, is more challenging.

In 2008, AusAID and IMF's Pacific Financial Technical Assistance Center provided joint technical assistance to Vanuatu. Major improvements were effected in methodology, since economic structure of Vanuatu had undergone massive change since 1990. Furthermore, the consultants introduced conceptual changes and enhanced scope and coverage of economic activities which were not quantified by previous database.

Fiji's informal sector, since the late 1980s has widened into new spheres. Its intellectual and creative activities have grown too. It is time that government looks into enhancing GDP database. Since the exercise would require substantial technical inputs, international funding agencies should come together and assist the country.