



ECONOMIC STATISTICS ARE INTENDED TO PROVIDE INFORMATION ON VARIOUS ASPECTS OF ECONOMIC ACTIVITIES FOR ASSESSING THE PROGRESS OF THE ECONOMIC WELL-BEING OF THE PUBLIC SUCH AS INCOME, EMPLOYMENT, SPENDING AND WEALTH. THESE STATISTICS ARE BROADLY CLASSIFIED INTO MACRO AND MICRO. MACROECONOMIC STATISTICS RELATE TO THE OVERALL PERFORMANCE OF THE ECONOMY SUCH AS ECONOMIC GROWTH, EMPLOYMENT/UNEMPLOYMENT LEVEL, GENERAL PRICE MOVEMENT AND INCOME LEVEL. MICROECONOMIC STATISTICS RELATE TO DIVERSE PRODUCTION ACTIVITIES OF SECTORS AND INDIVIDUALS THAT CONSTITUTE MACRO STATISTICS, FOR EXAMPLE, PRODUCTION OF PADDY, GARMENTS, RUBBER AND COCONUT

P. SAMARASIRI

Economic development is not measured or assessed with consensus. President Donald Trump recently commented that the US also is a developing country, despite the whole world considers the US as the economically most developed country in the world. Various economic analysts quote diverse statistics to comment on the trend and development of economies. Such analyses are loud during times of economic instabilities and national elections. There are instances that same economic statistics are interpreted to express opposing views. For example, the Central Bank economists recently supported excessive currency depreciation as good for the domestic economy while many others saw it as an economic crisis.

The choice of economic statistics varies across analysts depending on their knowledge, value judgements and perceptions on the economy. As interpretations of economic concepts are diverse, economic statistics also can be interpreted diversely. For example, these days some authorities attempt to use economic

of economic activities, income and living standards among the people.

Frequently Used Macro Statistics

There are various approaches to select macro statistics to assess the performance of the economy over the years. In general, the economy can be presented as a composite of commodity market/production sector, labour market, public finance/fiscal sector, financial sector and foreign sector which are interacting each other in economic activities that result in overall performance level of the economy. Accordingly, few statistics known as key economic variables are selected from each sector to assess the overall macroeconomic performance. The selection of statistics is quite judgemental to suit views of the analysts. Some examples are as follows.

- a) National Production, Economic Growth, Per Capita Income, Investment, Inflation

ASSESSING ECONOMIC DEVELOPMENT

BEWARE OF DIVERSE STATISTICS AND INTERPRETATIONS

new production activities/sectors are traced and covered, the base

reflective from per capita income alone.

and skills and lack of research and development reduce the productivity. Interest rates, exchange rates and wage rates also are the cost-push factors that cause inflation. Wage rates and credit are the major demand side factors. Higher wages and credit are indications of higher inflation in the near future arising from increased spending/demand if the production/supply does not rise faster than the higher demand created by wages and credit. Therefore, detection of factors behind inflation is a complex task.

Higher inflation is considered bad due to its adverse impact on the economy on various facets. First, it erodes living standards of fixed income earners due to rising cost of living. Second, higher wage demands push the cost of production and inflation further. Third, interest rates will rise to keep real interest rates stable, push the cost of production and reduce the competitiveness of exports while encouraging cheaper imports. Fourth, it reduces savings by using them to keep the living



controlled and, therefore, not driven by actual market demand and supply conditions. Therefore, actual inflation driven by macroeconomic conditions is different from the inflation computed from consumer price indices. Fourth, as the index is based on average household consumption of selected goods and services, the measured inflation is not representative of actual household consumption. Therefore, inflation may vary across different households depending on differences in their consumption pattern. This is the reason why many people do not believe in officially announced inflation rate.

Sri Lanka has used several consumer price indices based on consumers in Colombo. Those are the 1952-based index up to 2007, 2002-based index between 2004 and 2011, 2006/07-based index between 2009 and 2016 and 2013-based index since

regime and turned bad in other's regime.

Meanwhile, opposition politicians highly criticize most of official statistics as being creative to show a rosy picture. As most public do not understand economic jargons, they assess experiences in living standards among their own, neighbours and communities, mainly on cost of living, income and employment, in times of national elections.

While the Department of Census and Statistics is the official statistician for all demography, social and economic statistics, the Central Bank (CB) is the source of monetary and financial statistics. The Right to Information Act provides for the public to have some access to unpublished information from state institutions.

Types of Economic Statistics

Economic statistics are intended to provide information on various aspects of economic activities for assessing the progress of the economic well-being of the public such as income, employment, spending and wealth. These statistics are broadly classified into macro and micro. Macroeconomic statistics relate to the overall performance of the economy such as economic growth, employment/unemployment level, general price movement and income level. Microeconomic statistics relate to diverse production activities of sectors and individuals that constitute macro statistics, for example, production of paddy, garments, rubber and coconut. Therefore, both types of statistics are important in economic analyses. Although analysts generally talk on macro performance, micro or sectoral performances are most important to understand the wider distribution

Credit, Interest Rate
e) Foreign Sector: Exchange Rate, Current Account Balance, Foreign Capital Inflow, Foreign Reserve

In analyses, reasons/causes behind the movement of each variable are explained from micro statistics at different layers when necessary.

National Production-based Variables

National production is about movements of total production, income, investment and general prices in the economy. Accordingly, four macro variables that reflect the economic outcome of national production are outlined below.

a) Economic Growth

This measures the growth of total production volume of all goods and services during a period, a quarter or a year. For this purpose, gross domestic product (GDP) or total production in the country is estimated by valuing each good and service at prices that prevailed in a selected past year (base year). This valuation eliminates the impact of change in prices on the value of the production (i.e., price x volume). If the base year is 2010, production in all subsequent years is valued at prices of respective products in 2010. Accordingly, the annual growth of production so valued indicates the growth of aggregate production volume in the year as compared to the last year production. The rising economic growth is presented as an indication of rising income, employment and living standards in general.

The major problem in GDP is the inability to cover all production activities in the country due to lack of information across the country. Therefore, a large number of micro and small businesses and household productions are not covered. When

therefore, analyses made in previous years may not hold. In such instances, past authorities tend to criticize new GDP estimates as being flawed.

b) Per Capita Income

Per capita income is the total value of production or income per person of the population in the country. This is estimated from the GDP valued at current year prices or market prices. Since people have to live on spending in the market, they should have a sufficient income of money. If the population rises faster than the production or income, the living standards should fall. Therefore, per capita income is a relative measure of overall living standards of people.

Country comparisons are made on the basis of per capita income in US dollar terms, per year as well as per day, to assess the income level whether it is poverty or low income or middle income or high income on global level. This is the per capita income in local currency divided by the current exchange rate, i.e., domestic currency per unit of US dollar. Therefore, country policymakers do not like currency depreciation as the country's international position in income level falls.

Several limitations are associated with this variable. First, income can rise faster if the inflation or prices in the economy rise faster when production growth is slow. Second, when the base year is revised to a new year, the income will jump due to the coverage of new production sectors even without buoyancy in the economy. Third, even if the income rises, actual income of majority people may not rise if the much of the new income is concentrated among the rich. Therefore, the improvement of living standards of the general public may not be

reported from time to time from the world. After Zimbabwe in mid-2000s, Venezuela is the current episode with inflation around one million percent where the local currency has no value. The reduction in prices or deflation is also bad as it causes economic recession due to discouragement of investments and production. The US, Europe and Japan have been taking monetary and fiscal stimulus in order to increase spending and raise inflation towards a target of 2% during the past decade and they are still not successful.

Investment

Investment is the spending or savings utilized to enhance the capacity of production or capital stock such as buildings, machinery, new technology, infrastructure, research and development and commencement of new businesses. Investment is necessary to maintain and promote economic growth and income for better living standards. The rising investment is an indication of the strength to enhance production and income in the future. Investment is analyzed as a percent of GDP (at current prices) in the country to show how much of its current income is invested.

The buoyancy of the economy is reflective from rising investment. Any economic downturn/recession is a result of reduction in investment. In the event, domestic savings is low, it is necessary to attract foreign savings/investment by way of loans and equity to boost investment in the country. Many developing countries have emerged as high-income countries due to foreign investments.

Inflation

Inflation is the general increase in prices of goods and services. In economics, the general price level is determined by the aggregate demand for and supply of all goods and services in the commodity market. Therefore, rising inflation is necessarily reflective of lower growth of production/supply than the growth of demand. Therefore, the management of both demand side and supply side of the economy is necessary to control the inflation in the economy.

Inflation is influenced by various factors arising from demand side and supply side of the economy. The weather conditions, cost of production and productivity are the major supply side factors. Low productivity and higher cost raise inflation. Outdated technology

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The measurement of general prices and inflation is a major statistical problem. There is no way to collect information on all prices of goods and services people buy. Even if price information is collected, it is difficult to calculate an overall or general price level because the importance of consumption of each good and service varies across the households. Therefore, the simple average of the prices of goods and services is not the general price level.

The cost of living is the major aspect that the country authorities worry as the majority of the population is wage income-dependent and frequent labour disputes due to rising inflation could destabilize economies. Therefore, country authorities world over have made arrangements to compile consumer price indices to measure the movements of cost of living due to changes in prices of generally consumed goods and services on a monthly basis.

Such indices are compiled from prices of basic goods and services consumed by households. The information on consumption pattern is obtained from periodical household income and expenditure surveys. Accordingly, average household consumption expenditure is used as the base to calculate the price index for each month. The ratio of consumption expenditure in the survey basket at current prices to consumption expenditure estimated in the survey period (base year) in same basket is the price index (100 for the base year). The rate of increase (%) in the consumer price index in each month or year is the rate of inflation or increase in the cost of living. This price index is used for periodical wage negotiations to compensate for the inflation.

There are several major weaknesses of consumer price indices to measure the inflation. First, consumer price indices are driven by basic food items whose prices are mostly weather-driven and cyclical. Second, cost and prices of modern technology consumption is hardly covered. Third, prices of most consumer items are subsidized and administratively

Sri Lankan Data

The Table shows decade-averages of above macroeconomic variables for nearly 60 years. Although economic growth has risen by about 1%, the growth level is still low. A salient increase in per capita income is observed from the decade of 2000 whereas the growth of population also has decelerated. However, per capita income is still less than US\$ 10 a day. The increase in investment to a level of 34% of GDP (an increase of 18% of GDP) shows the expanded production and income capacity available for the future if the investment level is maintained continuously.

The cost of living or consumer inflation has increased. As a result of inflation, the real per capita income estimated by removing the impact of consumer inflation (base 1952 prices) has increased only to Rs. 5,200 or 9 times since 1960 as compared to 625 times increase in per capita monetary income. This reflects insufficient economic growth to provide for increasing demand.

The macroeconomic statistics do not show a strong picture of economic development of the country during the past 60 years. Sixty years is a long period of post-independent economic management. There is no dispute that a large number of households and population have come out of poverty and their living standards are now much improved. The issue is whether the current level of development reflected from national income statistics is fair when compared to other information. The statistics also subject to various weaknesses. Therefore, other sectoral macro statistics also need to be reviewed to identify strengths and bottlenecks of the economy and living standards (please read next article).

The public are not aware of data governance systems such as internal controls on definitions and computation models and auditing systems behind economic statistics. Such information can be sought from relevant state authorities under the Right to Information Act.

(The writer is a recently retired public servant as a Deputy Governor of the CB and a chairman and a member of 6 Public Boards. In his nearly 35 years' service in the CB, he also served as Director of Bank Supervision, Secretary to the Monetary Board and Senior Deputy Governor and authored 5 economics and financial/banking books published by the CB and more than 50 published articles.)

Sri Lankan Economy - Macro Production and Income Level 1960-2017

Decade	Economic Growth, %	Per Capita Income			Inflation, %	Investment, % of GDP	
		Nominal, Rs.	US\$	US\$ a Day			
1960-69	4.7	751	150	0.4	664	4.7	15.3
1970-79	3.9	1,999	232	0.6	1,031	3.9	17.5
1980-89	4.2	9,625	362	1.0	1,709	4.2	26.2
1990-99	5.2	36,445	674	1.8	2,140	5.2	24.9
2000-09	5.0	133,238	1,297	3.6	2,989	5.0	25.3
2010-17	5.8	468,962	3,552	9.7	5,191	5.8	33.9
Change 1960-2010	1.1	468,211	3,402	9.3	4,527	1.1	18.6

* Estimated by deflating the nominal income by consumer price index (1952=100)

Source: Compiled from data in the Central Bank Annual Report