



# The larger picture on GDP numbers

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## **Highlights**

- The new data on GDP have raised a political storm, with the back series for GDP growth since 1993-94 becoming available.
- The NDA claimed that the second United Progressive Alliance (UPA II) government had messed up the economy and it had turned it around. But, in the new series, the rate of growth during the last two years of UPA II was also higher than what the old series showed so that the economic performance under the UPA also did not look so bad.
- What the new series also showed was that the NDA had inherited an economy with GDP growing at 8.4% in the second quarter of 2014.
- Most macroeconomic variables had also recovered from their lows in 2013.
- Data show that after the NDA took over, the rate of growth fell and then rose to a peak of 8.65% in 2015-16 Q4.
- After that it fell for five consecutive quarters — to 5.57% by 2017-18 Q1.
- The two shocks to the economy (demonetisation and then the GST) had a big negative impact on the rate of growth.
- This is not even captured in the new data since a shock requires a change in methodology for calculation of GDP.

There are three distinct aspects to the controversy.

- First, why was the back series —now the bone of contention — needed.
- Second, what do the data show.
- And, third, why was the rate of growth during the UPA regimes higher.

## **Why need to update to new series?**

- An economy produces a large number of goods and services and new ones are added all the time.
- The production of all these items has to be estimated in order to calculate the rate of growth of the economy.
- This requires lots of data, which is a tall order.
- So, a select set of items is taken to represent the entire production raising concerns about accuracy of the data
- Technology poses another challenge posing redundancy issues.
- So, as time passes, the earlier series of data does not represent the true growth rate of the economy and needs to be modified, thus the old series is replaced by a new one periodically.
- The earlier series (from 2004-05) was replaced by a new series (from 2011-12).

## Comparing New and Old Data

- Analysts have demanded a back series whenever a new series is prepared. There were problems with the new series which is why the back series was not generated automatically.
- This is also why the new committee (which has presented its report) was set up.
- The difficulty with the new series (2011-12) was because it not only changed the bundle of items used to calculate growth but also used a more extensive data base (of companies) called MCA21.
- The committee had to use a new method which has its own assumptions, which are likely to be debated by experts.
- The report has been submitted to the National Statistical Commission which will finalise it.
- Therefore, government functionaries are arguing that the data cited by the media are not final.

## Quarrel about causes

- It is interesting that the criticism is more about the causes of the higher rate of growth under the UPA than the methodology of the study.
- The implicit admission is that the economy did grow faster under the UPA but due to wrong policies (allowing the fiscal deficit to rise, undue expansion of bank loans, etc).
- The argument is that these have led to non-performing assets (the twin balance sheet problem), higher inflation and current account deficit.
- The 2007-08 crisis was a global one but the Indian economy continued to grow when many other economies were slowing down due to increase in fiscal deficit from its record low in 2007.
- The crisis of 2012-13 was due to the rise in petroleum prices and largely due to international factors.
- However, the current slowdown is largely policy induced and less due to international factors.

## Twin Shocks

- The twin shocks (demonetisation and the GST) have played havoc with the unorganised sector (not yet captured in the data).
- Household savings have declined sharply and the investment climate remains poor with large numbers of dollar millionaires leaving the country.

The government might consider leaving the data debate to experts and not making it a political one.