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DAILY NEWSPAPER ANALYSIS

THE HINDU

(13th December,2018)

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Daily News Paper

A self-goal for India : concerns with GDP back-series data

Context:-

- The Central Statistics Office (CSO) and NITI Aayog recently released the back series detailing growth numbers for 2005-06 to 2011-12.

Why back series Data:-

- Back series calculations are done to link a new series of national accounts with an old series, for better comparison of growth over the years and precise analysis.

Changes with new Series:-

- The **base year** was changed from 2004-05 to 2011-12.
- In the **methodology from GDP at factor cost to GDP at market price** as this is the international norm
- In the method of estimating company output/revenue, which has been done in a much more detailed manner **using new data collected by the Ministry of Corporate Affairs (MCA 21).**
- Instead of using Gross Domestic Product (GDP) at factor cost new series adopted the *international practice of valuing industry-wise estimates as gross value added (GVA) at basic prices*.

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Higlights of new Series:-

- According to the back series data, Indian economy growth is recorded *at an average 6.7% in 2005-06 to 2008-09 and 2009-10 to 2013-14, significantly, these are lower than the earlier estimates of 8.1% and 7% respectively, with 2004-05 base.*
- These growth rates compare *with an average 7.4% (2011-12 base year) since 2014.*
- ***India never really decoupled from the global economy*** during the years of the financial crisis (2008-10), unlike what was earlier believed.

Issues with the new back series:-

- **Mundle expert panel** set up by National Statistical Commission (NSC), which was constituted to prepare the back series under the revised methodology,
  - estimated the average GDP *growth at market prices at 8.37% (2004-05 to 2008-09), and then 7.69% (2009-10 to 2013-014) and*
  - *during 2006-07* with new series (2011-12), the growth number stands revised **at 10.08%.**
  - The MoSPI has termed the estimates 'unofficial', but the revised methodology, had *not come up with the counter-intuitive estimates that have just been released by Sudipto Mundle panel.*

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- Most of the important indicators of the Indian economy were better in 2004-2014 than since 2014, which raise concerns that how is the GDP growth rate higher in estimates just released
    - **Agriculture growth-** Agricultural growth rates at constant prices were much higher from 2004-05 to 2013-14 than since then. Two back-to-back drought years (2014 and 2015) notwithstanding
        - The Index of Agricultural Production, with a base of 100 for the triennium ending 2007-08, had risen to 129.8 in 2013-14. But after falling, it barely recovered to 130 in 2017-18.
    - **Non Agriculture Informal sector-** Agriculture, like the non-agricultural informal sector, collapsed first after demonetisation and then after a poorly implemented Goods and Services Tax. Both measures affected output as well as jobs, especially in the unorganised sector which constitutes nearly half of GDP and half of all exports.
    - **Export Performance-** Exports have performed much worse in the last four years than over the preceding 10 years. Exports were only $50 billion in 2002-03, but had risen to $250 billion in 2010-11, and reached $315 billion in 2013-14. They have not recovered to that level even in 2017-18.
    - **Investment to GDP ratio-** In 2003-04, India’s savings rate was stood at 25.9% which rose sharply

- thereafter to peak at 36.8% (highest ever in India). This rising savings rate contributed to an unprecedented increase in the investment to GDP ratio, which peaked at 36.8% in 2007-08, having risen from 23.8% of GDP in 2002-03.
    - Then the investment to GDP fell in the wake of the global economic crisis. But in 2010-11, it still stood at 34% of GDP. In the 2011-12 series, the new government, having inherited an investment/GDP share of 31.3% in 2013-14, allowed it to fall to 30.4% in 2014-15, to 29.3% in 2015-16, to 27.1% next year (provisional estimate), and 26.4% in 2017-18. It is investment that mainly drives growth.
- **Industrial Growth-** The slowing growth is consistent with trends in the Index of Industrial Production (IIP, which consists of manufacturing, mining, electricity). IIP had risen from 100 in 2004-05 to 172 in 2013-14 (in the 2004-05 series), and from a base of 100 in 2011-12 (in the later series) to 107 in 2013-14, but only rose to 125.3 in 2017-18. Slower industrial production recently is also suggested by other indicators.
    - In no year between 2004-05 and 2013-14 did bank credit grow less than 14% (range 14.1 to 37%). Since then, in no year has bank credit grown faster than 10.9% (range 8.2% to 13.9%).

- Plant load factor (PLF, or the ratio of actual energy produced to maximum possible energy that could have been produced) averaged 68.5% from 2004-05 to 2013-14, and until 2011 had never fallen below 74%. By contrast, the PLF from 2014-15 to 2017-18 has been 57%.

- **Labour Force-** According to Centre for Monitoring Indian Economy data that job growth is lower in recent years than from 2004 to 2014.
- **Data-** MCA 21 is available since 2008 but is probably not available prior to that the CSO release mentioned usage of several proxies as the CSO has used Annual Survey of Industries (ASI) data for estimating manufacturing growth, this was also used earlier, raise concern over so sharp changes.
- **Deflator-** CSO used a deflator which is different for the back series.
- **Unconventional role of NITI Aayog-** The CSO comes under the Ministry of Statistics and Programme Implementation (MoSPI). So the role of the NITI Aayog in the release of the statistical exercise has also been questioned as it goes against convention.

Way Ahead:-

➢ The method of computation reflects the latest **United Nations System of National Accounts**; it also captures changes in the economy since 2004-05. Data sources have also been updated. Experts had

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- testified to the robustness of the method when it was introduced in 2015, even while underlining that the availability of reliable data was crucial to arrive at the correct overall picture.
- But the manner it was released with *political slugfesting* raise a dent to the credibility of the CSO data and it also ***project the doubt on credibility of India's growth in the international community.***
- Political slugfesting of data, ***may loose the analysits's sight of interesting and relevant finding.***
- The *political influence in such professional data should seriously be taken note of by the policymakers,* in long term interests.
- Such exercise should be **more academic than political.**

THANK YOU

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