



Back Series GDP Data

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Recently the government has released the Gross Domestic Product (GDP) growth estimates for previous years based on the new method of calculation and base year (2011-12) it had adopted in 2015.

- The government adopted the recommendations of the **United Nations System of National Accounts**, which included measuring the **Gross Value Added (GVA)**, and the use of new data sources wherever available. One of these data sources is the **Ministry of Corporate Affairs MCA-21** database, which became available since 2011-12.
- MCA-21, an e-governance initiative of the Ministry of Corporate Affairs was launched in 2006, to allow firms to electronically file their financial results.
- The new method is statistically more robust as it tries to relate the estimates to more indicators such as consumption, employment, and the performance of enterprises, and also incorporates factors that are more responsive to current changes, unlike the old series that usually took 2-3 years to register an underlying change.

Background

In the new series, the **Central Statistics Office (CSO) did away with GDP at factor cost** and adopted the international practice of **GDP at market price** and the **GVA** measure to better estimate economic activity.

GDP at market price = GDP at factor cost + Indirect Taxes – Subsidies

- Further, the change involved bringing forward of the **base year used for calculations to 2011-12 from the previous 2004-05**.
- Base year revision is normally done once in five years to accommodate and factor in the changes that take place in the economic scenario of the country.
- However, this had led to the problem of not being able to compare recent data with the years preceding 2011-12. So, the back series data released recently provided the earlier years' data using the new calculations.

New Findings

- Trends shown by the official back-data suggest that the old series **under-estimated the impact of the global financial crisis on the Indian economy**. It also over-estimated the rebound from the crisis.
- The **new data** release shows that **GDP growth during 2004 - 2014 averaged 6.7%**, compared with the **8.1% (2004-2009) and 7.46% (2009-2014)**, respectively, estimated using the **older method**.
- In comparison, the **current government** has witnessed an **average GDP growth rate of 7.35%** during the first four years of its term, based on the new method.
- The **new data shows** that, contrary to the earlier perception, the **Indian economy never graduated to a 'high growth' phase of more than 9%** in the last decade or so.
- The newer data, especially for the mining and manufacturing sectors, shows that India did not recover from the global financial crisis 2007-2008 as quickly as initially thought.

Concerns Associated

- The choice of datasets and proxies, especially those datasets that didn't exist before 2011-12 have not been explained. For instance, for years preceding 2006, when the MCA-21 database did not exist, the CSO has used Annual Survey of Industries (ASI) data for estimating manufacturing growth without giving the details about why it was selected over other available datasets.
- The new back series data diverges significantly from the estimates made in a **draft report** released by the **National Statistical Commission** (the autonomous body that helps in collection of data by India's statistical agencies) earlier this year.
- The report showed that growth during 2004-2014 crossed 9% on at least four occasions, and even hit 10.78% in 2010-11. The report pegged the average GDP growth during 2004-2009 at about 8.4% and 2009-2014 at 7.7%.
- However, the government clarified that this was just a draft report that used only one of the many methods in order to estimate the back series, and it was not the final number.
- The **role of the NITI Aayog** in the release of the statistical exercise of CSO, which comes under the Ministry of Statistics and Programme Implementation (MoSPI), has also been questioned.

Gross Value Added (GVA)

- Gross Value Added (GVA) is a measure of total output and income in the economy. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services.

- It also gives sector-specific picture like what is the growth in an area, industry or sector of an economy.
- At the macro level, from national accounting perspective, GVA is the sum of a country's GDP and net of subsidies and taxes in the economy.

Gross value added = GDP + subsidies on products - taxes on products

Gross Domestic Product (GDP)

GDP gives the economic output from the consumers' side. It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (difference between exports and imports).

GDP = private consumption + gross investment + government investment + government spending + (exports-imports)

Comparison Between GVA and GDP

- While **GVA** gives a picture of the state of economic activity from the **producers' side or supply side**, the **GDP** gives the picture from the **consumers' side or demand perspective**. Both measures need not match because of the difference in treatment of net taxes. This is one of the reasons that in the first quarter of 2015, GDP growth was stronger at 7.5%, while GVA growth was 6.1%.
- GVA is considered as a better gauge of the economy because a sharp increase in the output, only due to higher tax collections which could be on account of better compliance or coverage, may distort the real output situation.
- A sector-wise breakdown provided by the GVA measure helps policymakers decide which sectors need incentives or stimulus and accordingly formulate sector-specific policies. But GDP is a key measure when it comes to making cross-country analysis and comparing the incomes of different economies.