

# WHAT'S WITH THE BACK SERIES GDP DATA?

Relevant for: Indian Economy | Topic: Issues relating to Planning

The government on Wednesday released the GDP growth estimates for previous years based on the new method of calculation and base year it had adopted in 2015. The new data and the manner in which it was released led to criticism from various quarters, including Opposition political parties and economists alike.

## What happened?

In 2015, the government adopted a new method for the calculation of the gross domestic product of the country, and also adopted the Gross Value Added measure to better estimate economic activity. Further, the change involved a bringing forward of the base year used for calculations to 2011-12 from the previous 2004-05. However, this had led to the problem of not being able to compare recent data with the years preceding 2011-12. The back series data released on Wednesday provided the earlier years' data using the new calculations.

## What does the new data say?

The new data release shows that GDP growth during the UPA years averaged 6.7% during both UPA-I and UPA-II, compared with the 8.1% and 7.46%, 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. Former Chief Statistician of India TCA Anant also pointed out that the newer data, especially for the mining and manufacturing sectors, shows that India did not recover from the global financial crisis as quickly as initially thought.

## What were the changes made?

The first and most basic change made in the data calculations was changing the base year. While using 2011-12 as the base year is simpler for calculations for subsequent years, it was a tougher exercise calculating backwards using the new base.

According to the Ministry of Statistics and Programme Implementation, the method for preparing the back series is largely the same as what is used to calculate the data using the new base, which is how all national accounts calculations will be made going forward.

While doing the exercise, the government adopted the recommendations of the United Nations System of National Accounts, which included measuring the GVA, Net Value Added (NVA), 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.

One problem encountered was in finding matching data for the older series as what the MCA-21 database provided. The key difference between the two was that the old method measured volumes — actual physical output in the manufacturing sector, crop production, and employment for the services sector. The MCA-21 database allows for a more granular approach, looking at the balance sheet data of each company and aggregating the performance of the sector from that, after adjusting for inflation.

For most sectors, simply changing the price vectors from a 2004-05 to a 2011-12 base was enough, but others required a splicing of new and old data in the relevant proportions to arrive at the closest approximation.

The new method is also 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.

### **What are the problems with the new data?**

As even the government concedes, there are a number of ways to calculate the back series data. To arrive at the 'best' one, it held numerous consultations with leading economists and statisticians and even delayed the data release once to address all the questions the experts posed.

However, the number of options available and the manner in which the data was released also led to criticism and doubt over the method that was finally chosen. Former Chief Statistician of India Pronab Sen pointed out that the fact that the data was released by Niti Aayog led to questions over the credibility of the method chosen. While it was being handled exclusively by the Central Statistics Office, the assumption was that the statistically strongest method would be chosen. Adding Niti Aayog to the equation puts this in doubt, Mr. Sen said, since it brought political considerations into the fray.

The Opposition also termed the data release a "gimmickry, jugglery, trickery and chicanery", a claim disputed by Finance Minister Arun Jaitley.

### **Are these numbers different from previous estimates?**

The new back series data diverges quite sharply significantly from the estimates made in a draft report released by the National Statistical Commission earlier this year, which showed that growth during the UPA years crossed 9% on at least four occasions, and even hit 10.78% in 2010-11. This report pegged the average GDP growth during UPA-I at about 8.4% and UPA-II at 7.7%. The government, however, was quick to clarify that this was just a draft report that used only one of the many methods on offer to estimate the back series, and that it was not the final number.

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