Source : www.thehindu.com Date : 2022-06-11

INDIA IS NOT THE FASTEST GROWING BIG ECONOMY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

‘The annual estimates given now are provisional’ | Photo Credit: Getty Images/iStockphoto

The Provisional Estimates of Annual National Income in 2021-22 just released show that GDP grew 8.7% in real terms and 19.5% in nominal terms (including inflation). It makes India the fastest growing major economy in the world. Further, the real economy is 1.51% larger than it was in 2019-20, just before the novel coronavirus pandemic hit the world. In nominal terms it is higher by 17.9%. These numbers imply that the rate of inflation was 10.8% in 2021-22 and 16.4% between the two years, 2019-20 and 2021-22.

This picture implies almost no growth and high inflation since the pre-pandemic year. So, the tag of the fastest growing economy means little. If an economy drops sharply and then rises equally fast to reach its earlier level, that cannot be taken as an indication of a rapidly growing economy.

The quarter to quarter growth currently may give some indication of the present rate of growth. In 2020-21, the quarterly rate of growth increased through the year. In 2021-22, the rate of growth has been slowing down. Of course in 2020-21, the COVID-19 lockdown had a severe impact in Q1 (-23.8%); after that the rate of growth picked up. In 2021-22, the rate of growth in Q1 had to sharply rise (20.3%). Ignoring the outliers in Q1, growth rates in 2021-22 have sequentially petered out in subsequent quarters: 8.4%, 5.4% and 4.1%. True, the last quarter (January-March 2022) data was impacted by the Omicron-related lockdowns in January and February. It was further impacted in March by the supply disruptions following the war in Ukraine and the severe COVID-19 lockdown in China. Going forward, while the lockdown in China is over, the war-related impact is likely to persist since there is no end in sight. Thus, price rise and impact on production are likely to persist. The rapid rise in prices will impact demand from the vast majority of citizens who are losing out. That will reduce growth further.

More worryingly, the issue is about correctness of data. The annual estimates given now are provisional since complete data are not available for 2021-22. They may be better than the second advance estimates released three months ago as more data become available. There is a greater problem with quarterly estimates since very limited data are available for estimating it. So, the data for the fourth quarter of 2021-22 released now is even more problematic

The first issue is that during 2020-21, due to the pandemic, full data could not be collected for Q1. Further, for agriculture, quarterly data assumes that the targets are achieved. But in Q1, a lot of fruits, vegetables, flowers, milk and poultry products could not come to the market, and rotted and wasted. This is more than 50% of the agriculture output. Thus, the growth rate of agriculture was certainly less than the official figure of 3%.

Agriculture is a part of the unorganised sector. Very little data are available for it but for agriculture — neither for the quarter nor for the year. It is simply assumed that the limited data available for the organised sector can be used to act as a proxy. In other words the non-agriculture unorganised sector is represented by the organised sector. The data for the full organised sector are also not available so ‘high frequency’ data (listed in the press note) are used. For instance, Goods and Services Tax (GST) collection data are used. But, it is well known that GST is collected almost entirely from the organised sector. In brief: very little data are available for quarterly estimates; and even less is available for the unorganised sector. Since the same method is used to estimate the annual growth rate the errors get repeated.

If better data became available after the shock of the lockdown, and it got used, there should be substantial revision in the previous year's quarterly data. But if one compares the Q1 2020-21 data in the latest release with the data released in May 2021, the change is 0.3%. Does this imply that the high frequency data used is very well able to predict quarterly GDP? This is unlikely to be the case when a shock is administered to the economy which changes the parameters of the economy. The data remaining largely unchanged implies that the same error is being carried forward.

The quarterly data is added up to yield the annual total. If a better method was used to estimate the annual data, it should not equal the sum of the quarterly data which as argued above is estimated on the basis of a limited data set. The implication is that the errors in the quarterly data are repeated in the annual data.

The method using the organised sector to proxy the unorganised non-agriculture sector may have been acceptable before demonetisation (2016) but is not correct since then. The reason is that the unorganised non-agriculture sector suffered far more than the organised sector and more so during the waves of the pandemic. Large parts of the unorganised non-agriculture sector have experienced a shift in demand to the organised sector since they produce similar things. This introduces large errors in GDP estimates since official agencies do not estimate this shift. All that is known is that the Micro, Small and Medium Enterprises (MSME) sector has faced closures and failures.

If GDP data are incorrect, data on its components — private consumption and investment — must also be incorrect. Most often, ratios are applied to the GDP to estimate them. But, if the GDP is in error, then the ratios will yield erroneous results. The other main components — government and external trade — may be assumed to be reasonably accurate even though this data is revised over several years.

Further, the ratios themselves would have been impacted by the shock of the lockdown and the decline of the unorganised sectors. Additionally, private consumption data is suspect since according to the data given by the Reserve Bank of India which largely captures the organised sector, consumer confidence throughout 2021-22 was way below (not marginally lower) its pre-pandemic level of 104 achieved in January 2020. So, consumption could not have come close to its pre-pandemic level.

In brief, neither the total nor the ratios are correct. Clearly, consumption and investment figures are over-estimates and very likely because the decline in the unorganised sectors has not been captured.

In the best possible scenario, let us assume that the organised sector (55% of GDP) and agriculture (14% of GDP) are growing at the official rate of growth of 8.2% and 3%, respectively. Then, they would contribute 4.93% to GDP growth. The non-agriculture unorganised component is declining for two reasons: first, the closure of units and the second the shift in demand to the organised sector. Even if 5% of the units have closed down this year and 5% of the demand has shifted to the organised sector, the unorganised sector would have declined by about 10%; the contribution of this component to GDP growth would be -3.1%.

Based on the above assumptions, the GDP for 2021-22 would have grown by only 1.8%, and not 8.7%, and it would be less than the pre-pandemic GDP of 2019-20 by 4.92%. Clearly, recovery is incomplete and India is not the fastest growing big economy of the world.

Arun Kumar is a retired Professor of Economics at the Jawaharlal Nehru University. He is also the author of 'Indian Economy's Greatest Crisis: Impact of the Coronavirus and the Road

Ahead’, 2020

[Our code of editorial values]

END