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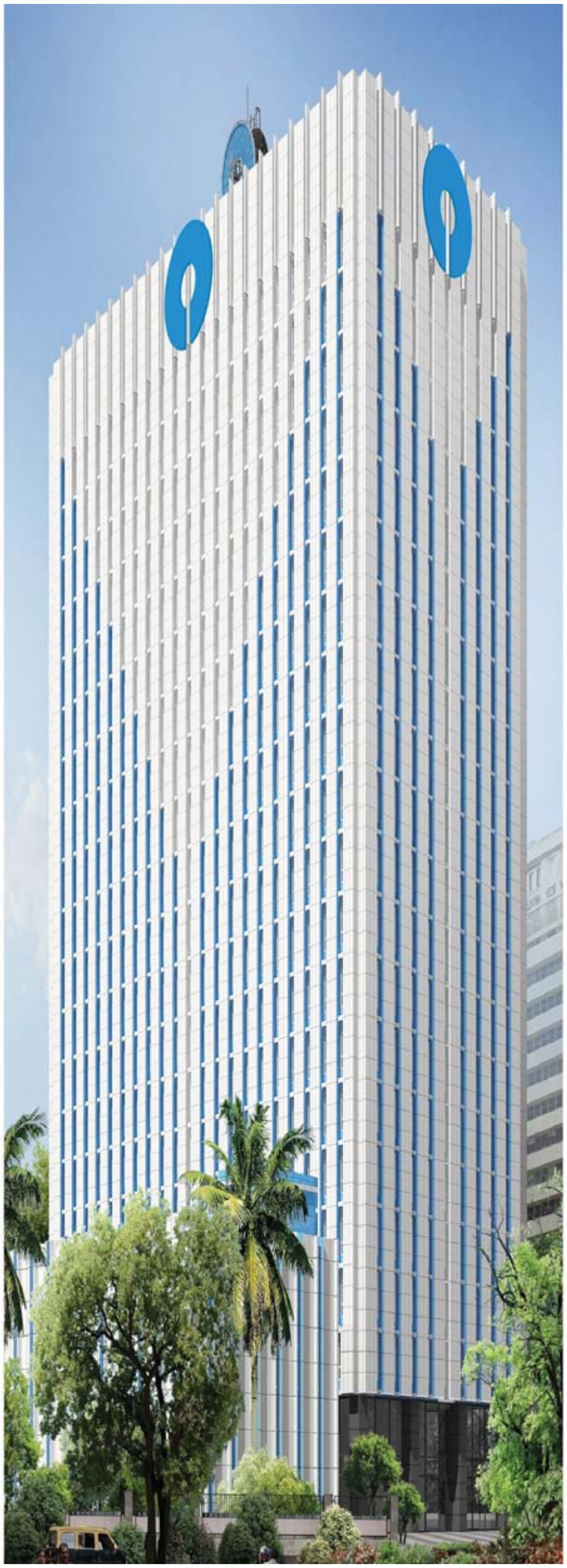
THE MANY FACETS OF GDP BACK SERIES



The CSO has made public the reports of the working group that was set up to provide an estimate of the GDP series with 2011-12 as the base. The new series throws up similar trends like the old series and the gap between GDP old and GDP new back casted series is only 7 basis points for the 18 year period ended FY12.

In fact most of the information about GDP series was already in public domain (for example, we already had a 10.3% growth in 2010-11 as per the old data, now revised to 10.8%) and thus the buzz about the recent data is intriguing. Nevertheless, some trends do emerge from the back casted series that merits attention for policy makers.

First, the GDP and GVA series are in tandem. Ideally, in economic parlance GDP should always be higher than GVA as it incorporates indirect tax collections net of subsidies. However, there could be exceptions if net indirect tax collections grow at a slower pace than subsidies, then GVA could be higher than GDP. The new series (as like the old series) shows that on at least 12 out of 18 occasions till FY12 GDP lagged GVA. Interestingly, even during FY06 and FY07, when we were expanding in excess of 9.5%, net indirect tax collections grew by only 6.5%. One possible reason for such could be fertiliser subsidy was scaled up significantly from FY06 following poor agricultural growth. It may be noted that India was officially declared drought impacted in 2002, 2004 and 2009. Thus, we may have been constrained to miss the fiscal consolidation roadmap even when the economy was buoyant but for domestic compulsions and then a global crisis.

Second, in FY09, GDP was higher by GVA by a massive 301 basis points on the back of huge fiscal stimulus (subsidies growing by a massive 83%). The fiscal stimulus did push up the growth rate to 10.8% in FY11 from 4.2% in FY09 but it did not sustain for long with a jump in inflation.

Third, India was also witness to massive nominal growth in GDP beginning FY04 and it touched a peak of 21% in FY11, but also aided by a higher deflator. In fact on the back of a fiscal stimulus, inflation as measured by GDP deflator averaged 8% for the 5 year period ended FY13.

Fourth, global growth had a roller coaster impact on our GDP growth with growth being significantly impacted in both directions.

Clearly, it is important that we should keep pushing our structural reforms and macro economic prudence so that we continue to expand at a healthy rate even if external conditions turn adverse (as being witnessed now). However, with corporates continuing to deleverage it is important that we keep our patience in quest for a higher eventual growth rate.

OLD GDP/GVA SERIES TO NEW BASE RELEASED

- In 2010, the National Statistical Commission (NSC) chaired by Dr. C. Rangarajan made recommendations for reform and strengthening of the Indian statistical system and one such recommendation is to improve the Real Sector Statistics in India.
- In accordance with that, recently MOSPI has made public the working group report of the "Committee on Real Sector Statistics", which was submitted by the Committee on 15 July 2018. Though, the report have discussed various issues and methodologies but we have only focussed on the Chapter 5 which gives the GDP & GVA data both in old and new series, both in nominal and real terms, since 1994-95. As previously the revised GDP series with 2011-12 as base year is available only from 2011-12 and to facilitate public policy research, the committee has made an attempt to generate the back series of GDP/GVA data though "production shift approach" with the base year 2011-12.
- In fact most of the information about GDP series was already in public domain (for example, we already had a 10.3% growth in 2010-11 as per the old data, now revised to 10.8%) and thus the buzz about the recent data is intriguing. Nevertheless, some trends do emerge from the back casted series that merits attention for policy makers.
- **GDP and GVA:** If we compare both back casted GDP and GVA series, we can clearly see that in several years, i.e., during FY97-FY99, FY01-FY04, FY06-FY07, FY09-FY10 and FY11-FY12 GDP was lower than GVA. Interestingly, even during FY06 and FY07, when we were expanding in excess of 9.5%, net indirect tax collections grew by only 6.5%. One possible reason for such could be fertiliser subsidy was scaled up significantly from FY06 following poor agricultural growth. It may be noted that India was officially declared drought impacted in 2002, 2004 and 2009. The difference between GDP and GVA of converted (new back series) was less than 100 bps till 2007-08 but jumped significantly to around 300 bps in 2008-09. But the interesting fact is that in the very next year, it plunged to merely 15 bps and again rose to 136 bps in 2010-11.
- **GDP Deflator:** Third, India was also witness to massive nominal growth in GDP beginning FY04 and it touched a peak of 21% in FY11, also aided by a higher deflator. However, on the back of a fiscal stimulus, inflation as measured by GDP deflator averaged 8% for the 5 year period ended FY13.

New Series GDP/GVA and other variables (%)

Year	GVA	GDP	Difference (GDP-GVA) in bps	GDP MP (Current Prices)	GDP Deflator (%)	Net Indirect Taxes (YoY%)	Fiscal deficit (% of GDP)
1994-95	4.9	5.4	46	15.9	10.0	10.2	5.5
1995-96	6.3	6.7	40	16.4	9.1	10.6	4.9
1996-97	7.3	6.9	-34	15.0	7.6	3.7	4.7
1997-98	3.8	3.5	-28	10.2	6.5	0.7	5.7
1998-99	6.5	5.9	-55	14.4	8.0	0.4	6.3
1999-00	7.3	8.2	96	11.3	2.9	18.5	5.2
2000-01	3.9	3.7	-27	7.4	3.7	1.0	5.5
2001-02	5.3	4.7	-53	8.1	3.2	-0.5	6.0
2002-03	3.8	3.7	-5	7.6	3.7	3.2	5.7
2003-04	8.2	8.1	-14	12.3	3.9	6.6	4.3
2004-05	7.5	8.2	68	14.6	5.9	15.5	3.9
2005-06	9.8	9.6	-23	14.2	4.2	7.2	4.0
2006-07	10.1	9.7	-38	16.7	6.4	5.8	3.3
2007-08	9.8	10.2	44	16.6	5.8	15.0	2.5
2008-09	7.2	4.2	-301	13.2	8.7	-26.6	6.0
2009-10	9.0	8.8	-15	15.4	6.1	6.5	6.5
2010-11	9.4	10.8	136	20.7	9.0	31.5	4.8
2011-12	7.1	7.0	-9	16.1	8.5	5.8	5.9
2012-13	5.4	5.5	4	13.8	7.9	5.9	4.9
2013-14	6.1	6.4	34	13.0	6.2	10.6	4.5
2014-15	7.2	7.4	26	10.8	3.1	10.5	4.1
2015-16	8.1	8.2	1	10.6	2.3	8.2	3.9
2016-17	7.1	7.1	3	10.8	3.5	7.4	3.5
2017-18	6.5	6.7	20	10.0	3.1	9.1	3.5

Source: Report of the Committee on Real Sector Statistics; SBI Research

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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