Revised estimates of GDP

Why in news?

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The Union Ministry of Statistics and Programme Implementation has recently released its revised estimates of national income for 2017-18.

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What does the data reveal?

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- The CSO in its advance estimate had pegged the GDP growth rate for **2018-19** at 7.2%.
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- Growth in real GDP for **2017-18**was revised upwards to 7.2% from the earlier estimate of 6.7%.
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- It also revised the actual growth rate in **2016-17** to 8.2% from the 7.1% estimated earlier.
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- This relatively slow growth in 2017-18, when compared to 2016-17, is explained as due to a slowdown in manufacturing, communications, agriculture and mining.
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- Thus, it appears that growth immediately following the demonetisation exercise of November 2016 was not too badly affected on the one hand.
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- On the other hand, it appears there might have been something of a deceleration in 2017-18 following that high growth in 2016-17.
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- Also, the gross fixed capital formation (GFCF) as a proportion of gross domestic product went up marginally from 28.2% to 28.6% in the two years under consideration.
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- The government says that estimates of GDP have undergone revision on account of the use of the latest data available on agricultural production, industrial production, and government expenditure.

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- It is also due to more comprehensive data available from various source agencies like the MCA and the NABARD and State/Union Territory Directorates of Economics and Statistics.
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What are the concerns?

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- Though GFSF was raised, much of this was driven by government spending, and the proportion of household investment in GFCF fell.
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- Thus, it is not clear that private investment recovery had taken hold in 2017-18.
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- A major concern was laid upon in the demonetisation year of 2016-17, which shows a strong growth in sectors that were widely agreed to have been badly hit by the exercise.
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- For 2016-17, a hike of 1.1% in GDP growth was cited.
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- The main factor for this was cited as the increase in private final consumption expenditure, which has also increased 1 percentage point.
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- But post-demonetisation, people hold less cash to make purchases and hence it creates questions whether there was actually an increase in household expenditure.
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- Also, it was cited that the main driver of the upward revision on the output side in 2016-17 was the construction sector, which has been revised upwards by 4.7%.
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- However, Construction is also a sector which has a large informal sector component and all earlier analyses had indicated that demonetisation adversely affected the informal sectors.
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- Also, the other two main drivers of the upward revision — the mining and quarrying sector and the public administration sector, have data that is compiled by the government itself.
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- So, it was criticised as it should not have undergone such a vast revision.
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What should be done?

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- In December 2018, the government announcement regarding the back series of GDP data with 2011-12 as the base year created a huge controversy.
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- The back series, which provided the GDP growth data from 2004-05 to 2010-11, seemed to run contrary to all the other available evidence for the years in question. Click here to know more.
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- This has raised doubts on the ability of the back series to accurately reflect what happened during those years.
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- With the latest GDP data, questions that were being asked about the credibility of official data back then will now become even louder and more pressing.
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- Thus, the government must take these concerns on board and should give a more credible picture of the economy.
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Source: The Hindu, Business Standard

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