A short note on the GDP back-series released by the National Statistical Commission

Surjit S Bhalla

19th August 2018

Many of us have been demanding that the government should release the GDP back series prior to the start date of the new GDP series (base 2011/12). Yesterday, first estimates of the back series were released by the Indian Statistical Commission (a body I have had the privilege of serving in its first three years, under the chairpersonship of Dr. Suresh Tendulkar). The report is titled "Report of the Committee on Real Sector Statistics", available on the mospi website, and hereafter the Report.

Anything that the NSC does should be treated with the utmost academic respect, and it is a credit to our institutions, and democracy, that this report has been submitted, and released, for discussion. India is also a democracy, in the midst of an election year, with many "nattering nabobs of negativism". The ink was not even dry on this draft report before the leading spokesperson for the Congress, former Finance Minister Mr. P.C. Chidambaram, fired the first political interpretation of the statistical report fit more for economic and statistical nerds (like me!).

Chidambaram, boldly stated that the UPA had delivered high GDP growth in both its terms and that "The back series data is now available. The numbers prove the dictum that truth cannot be suppressed forever and truth has a way of emerging amidst a torrent of lies and distortions."

There will be enough time to dissect the "truth" in the days to come, and I will have a preliminary look at the report in the *Indian Express* (and *Finncial Express*) on August 21st. A first look at the report suggests that we should show some care, and respect, for statistics before claiming "truth". For example, somewhat strangely and somewhat inexplicably, the Report shows the following growth rates for the sector "Trade, Hotels, Transport and Communication" (THTC).

For the five low inflation years (1998-2002), nominal GDP growth in the new THTC (back-series) had averaged 6.4 % per annum, with a low of 3.9 % in 1999/00 and a high of 9.6 % in 2002/3. In one year, nominal GDP growth in THTC – in 2003/4 – catapults to a growth rate of 23.8 %, and over the next five years of UPA rule – 2004/5 to 2008/9 - averages 25.4 % per annum. The two five-year averages are miles apart and seem to have no connection with each other. No policies changed, the underlying economic reality did not change. Oh, but wait a minute – the second period represents the first five years of UPA-I, and co-incidentally, the previous period represents the five years of NDA-I.

I have looked at many series for India and many world economies (told you I was a statistics nerd) but I haven't ever come close to this kind of an "explosion". Briefly put, the Report does not pass the first "smell" test.

We can make a preliminary conjecture about the effect this seeming over-estimation has on growth rates. Most GDP price indices growth rates are higher by 1 % in the second period – THTC price index averaged 3 % in NDA-I and 4.4 in UPA-I. If the nominal THTC growth rate is higher by 19 % in UPA-I, and price index higher by 1.4% per annum, then the real THTC growth rate in UPA-I is higher, conservatively, by 17 % per year. Now THTC has roughly an average share in GDP of 17 %; hence, the extra THTC growth accounts for an extra 3 % per year in real GDP growth.

Stated differently, the Report's conclusion of 9 % growth in UPA-I (2004/5-2008/9) maybe, in reality, close to 6 % per annum. As I said earlier, more needs to be researched by all of us before jumping to conclusions.