A Few Articles on GDP Calculation in India

From forbes.com:

India's Change In GDP Calculation Method Seems Highly Sensible

Tim Worstall

There's a little bit of confusion over India's GDP growth statistics at present. The country recently changed the way that it calculates this number and while there are, obviously, the usual teething problems with changing the method by which such a complex number is arrived at the basic change seems most sensible. For the real difference in what they're doing is that they're now calculating the value that consumers get to enjoy and not the value that producers are consuming. Given that we want to know is how well off are the people this seems like a move in the right direction.

This is causing confusion though:

Ashish Kumar, the head of country's statistics office, has faced two months of questioning about how a new way of measuring GDP created the world's fastest-growing major economy overnight.

It's unlikely to end any time soon.

Until early February, when Kumar's office changed the way it measures economic activity, the Indian economy was enduring its weakest run of growth since the mid-1980s. Now it is outpacing China, having grown an annual 7.5 per cent in the fourth quarter of last year.

Well, obviously, there's going to be a few eyebrows raised when a change is rolled out that just proves that all is hunky dory. A little like the revelation by both Ghana and Nigeria recently that their economies were in fact very much larger than everyone thought as a result of similar types of changes in the calculation methods. However, in those African cases the changes were entirely justified: they'd been working on very old estimates of what the structure of the economy was and they really did need to update them.

We can go back a couple of months and have a look at what the Indian statistical office has done:

The Indian statistics ministry said that after updating the base year used for marking trends in the economy and switching to a market-price calculation of gross domestic product, the economy grew by 6.9% in the year that ended last March. Using the previous methodology, GDP expansion that year was 4.7%. China's economy grew by 7.4% in the 2014 calendar year.

Since January 2010, the base year for India's statisticians had been the 12 months that ended in March 2005. From now on, it will be the year that ended March 2012. The revised calculation also incorporates more-comprehensive data on corporate activity and newer surveys of spending by households and informal businesses.

There's that good news again. And changing the reference year has a few people confused: it shouldn't make any difference but it does, and how much it does isn't entirely clear as there's no historical series been created as yet that uses this new method. So, we can compare either the old numbers under the old method, or the new under the new, but not the old under the new method which is something we'd really like to be able to do. That historical series is expected around year end. So there's a blip or two in he implementation here. However, this part of the change seems eminently sensible:

India now measures GDP by market prices instead of factor costs, to take into account gross value addition in goods and services as well as indirect taxes. The base year has been shifted to 2011/12 from 2004/05 earlier.

The government's statistics department says the new method is more in line with global practices and gives a better picture of economic activity.

Yes, this is more in line with global practices and there's a very good reason for that being the way that everyone else does it. This is a bit of speculation, but the older method might well come from the way in which Nehru and others, the builders of independent India, were so fascinated by Fabian socialism and even aspects of the Russian version. In the sense that it was production of stuff and things that was what they thought should be measured (of course, the Soviets went entirely overboard with this idea but then that's the Soviets for you. They measured the value of output by the tonnage of it. Rather than by the obvious method of measuring the value of it although they did have at least one excuse, which is that in a non-market economy there's no simple way of calculating value).

However it came about measuring at factor prices means measuring the resources used to produce things. And yes, this ought to have some relationship to the value that consumers place upon their ability to consume but it's not a direct one to one relationship. And given that our aim with having an economy in the first place is to enable the citizenry, the people, to live the best life possible we really do want to be measuring their consumption opportunities, not the resources consumed in providing them.

Thus this basic change looks entirely sensible. India is now measuring GDP as what Indians can consume. Yes, despite it providing a lovely boost to the numbers at just the right time, it's still a sensible change.

From wsj.com (requires subscription):

India Changes GDP Calculation Method
Statistics Ministry Changing Base Year for Benchmark, Switches to Market-Price Calculation

By RAYMOND ZHONG and ANANT VIJAY KALA
Updated Jan. 30, 2015 5:23 p.m. ET

NEW DELHI—India surprised economists Friday evening by ratcheting up its official economic-expansion figure for the previous fiscal year, marking it as a year of sharp recovery rather than continuing stagnation, and putting India's growth rate much closer to China's.

The dramatic revision could shake up the way the current trajectory of India's economy is perceived both at home and abroad.

The Indian statistics ministry said that after updating the base year used for marking trends in the economy and switching to a market-price calculation of gross domestic product, the economy grew by

6.9% in the year that ended last March. Using the previous methodology, GDP expansion that year was 4.7%. China's economy grew by 7.4% in the 2014 calendar year.

Since January 2010, the base year for India's statisticians had been the 12 months that ended in March 2005. From now on, it will be the year that ended March 2012. The revised calculation also incorporates more-comprehensive data on corporate activity and newer surveys of spending by households and informal businesses.

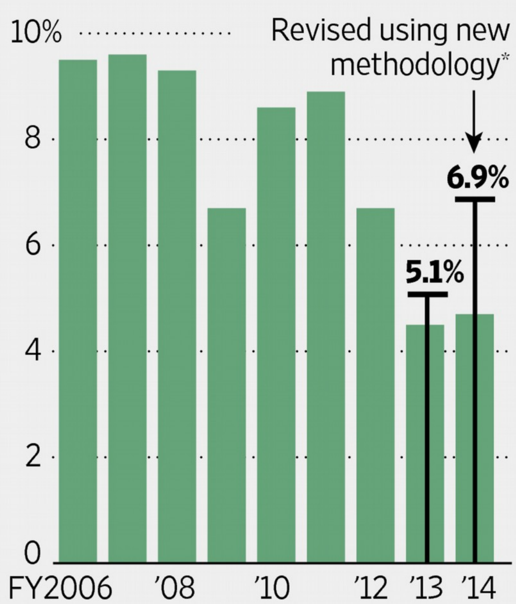
The government also said Friday that its benchmark measure of economic growth will henceforth be based on market prices, not on factor costs. The latter method, which India had previously preferred, tabulates economic activity based on the costs of production, whereas the other method is based on the amounts paid by consumers. Most countries and international bodies calculate GDP based on market prices.

Indian voters last May picked a new prime minister, Narendra Modi, partly out of frustration with the economy. The revised figures could give the now-opposition Congress party fresh ammunition to show that the country wasn't doing as badly during its time in office as originally thought.

"It kind of changes everything, at least at face value," said Shilan Shah, an economist at the London-based think tank Capital Economics. But he added that the new figures were difficult to reconcile with other indicators showing an Indian economy operating well below capacity.

Sharp Revision

Annual change in India's real GDP



Note: Fiscal year ends March 31

*Revised data are GDP at market prices with a base year of FY2012.

Source: Ministry of Statistics and Program Implementation

The Wall Street Journal

Mr. Modi's government has been struggling to build on recent signs of recovery after what had looked like a four-year stretch of weak growth. It has been trying to improve the business environment, encourage foreign investment and boost the manufacturing sector.

The revised data paint a different picture of the economy's recent path. Previously, the official growth rate in the year that ended March 2013 was 4.5%, a decade low. Using the new methodology, growth that year was 5.1% and accelerated markedly in the following year, which ended before Mr. Modi came to power.

The updated calculation also suggests that manufacturing in the year ended March 2014 was a larger share of India's economic activity than previously thought—18% instead of 15%—while real estate, hotels and financial and business services constituted a smaller share—51% instead of 60%. Agriculture's contribution grew to 17% from 14% with the revision.

Unlike other fast-developing Asian economies such as China's and South Korea's, India's economy has for decades been fueled more by high-skill service industries than by factories. That, economists say, is one main reason India has failed to lift as many of the country's agrarian poor despite rapid output growth.

It is still uncertain what all the changes will mean for more-recent growth. The government didn't, on Friday, release updated GDP figures for the quarters ending in June and September 2014. Using the old methodology, growth in the second quarter was 5.7% and third-quarter growth was 5.3%. The government said these numbers will be revised next month with the release of fourth-quarter figures.

If the updated data show continued expansion of upwards of 6.9%, the reverberations could be global.

The World Bank this month released projections that show the country overtaking China as the world's fastest-growing large economy in 2017. A slowing China would grow at 6.9% that year, while its southern neighbor would grow at 7.0%, the international lender said. The bank didn't immediately respond to requests for comment Friday evening on India's data revision.

Stronger-than-expected growth in India last year might also raise questions about whether the country's central bank was right to have lowered interest rates in January.

The Reserve Bank of India eased lending conditions "partly on the basis that growth's been pretty weak by historic standards and below what you'd call India's potential rate of growth," Mr. Shah at Capital Economics said.

The RBI is scheduled to announce its latest review of monetary policy on Tuesday. The central bank didn't immediately respond to requests for comment about whether the revised data will influence its rate decision.

The statistics ministry on Friday said the GDP revision doesn't significantly affect the ratios of India's public spending and debt to the economy. The federal budget for the year beginning April 1 is scheduled to be released on Feb. 28.

From wsj.com (requires subscription):

On Close Inspection, India's Sharp Growth Picture Gets Fuzzy
World-beating GDP figure is based on infrequent surveys, rough estimates of tiny, cash-based enterprises

By RAYMOND ZHONG
Updated May 1, 2016 1:14 p.m. ET

KOLKATA—India's economy expanded by 7.3% last year, outpacing every other major nation, including China, for the first time in nearly two decades.

But as with most developing countries, where official statistics can be dicey even when they aren't showing world-beating growth, India's economy defies easy measurement. Most enterprises are tiny and unregistered, and most workers are employed off the books. The government's infrequent surveys represent only a best guess of the value being added in back-alley workshops, outdoor markets and other cash-based corners of the economy.

So even if India's measurement of gross domestic product, a broad indicator of activity, isn't thought to be politically manipulated like China's, it should come with a warning label: Handle with care.

GDP in India, "much more than in other economies, is more an estimate than a measurement," said Neelkanth Mishra, a Credit Suisse economist in Mumbai.

The fog surrounding India's GDP places challenges before analysts and policy makers—and just plain baffles some of them. The country's central bank, sensing an economy running at less-than-full blast despite strong headline growth, has cut its main interest rate five times since the start of 2015.

One reason for the data murkiness can be found on Lal Bazar Street, a busy thoroughfare of tea merchants, typists-for-hire and a sitar shop in the heart of Kolkata, the country's onetime colonial capital.

Within the dingy commercial buildings that line the roads in all directions are hundreds of addresses used to register shell companies, or ones used for tax-avoiding financial maneuvers and little else, tax authorities say.

Yet because these firms regularly file balance sheets to the government, they appear in a new official database of corporations—and get counted when statisticians tot up India Inc.'s contribution to national output.

India's numbers have been under a microscope since it revised methods for estimating GDP last year, causing performance in earlier years to shoot up. Growth stayed brisk throughout 2015 even as exports, cargo traffic and other indicators disappointed.

A report from India's Ministry of Finance said data-related uncertainty was causing economic signals to be "mixed, sometimes puzzling."

The GDP revision included updates large and small. Based on an academic study of "dung evacuation rates," goats and sheep were found to be contributing more to the economy, as producers of natural fertilizer, than previously thought. A much wider array of financial services is now being counted. But there are still areas where some observers, including the International Monetary Fund, see India's data falling short.

To strip price changes out of a wide swath of GDP, for instance, India uses its wholesale price index—which, thanks to lower oil prices, has been decreasing for 17 straight months. But many businesses, particularly services like finance and information technology, haven't benefited much: Retail prices are still climbing at around 5% a year overall. If India's statisticians were factoring in more of these price rises, then their inflation-adjusted GDP figures would be lower.

In a March report on India, the IMF criticized the use of wholesale prices in GDP. In a written response to questions, the country's Central Statistical Office acknowledged the issue, but said that until India updates its inflation measures, the wholesale price index "remains the best available alternative."

"There's no rhyme or reason why the service sector would be deflated by WPI," said Kunal Kumar Kundu, Société Générale SA's India economist. "It's basically a data availability issue. That will always continue to be a challenge."

Data availability is also a problem when it comes to small-time services like mom-and-pop stores, hairdressers and repair shops, which account for more than 5% of India's GDP. The government comprehensively measures their activity only every few years, so sales-tax revenue is used to approximate growth in between—another practice the IMF criticized in its report. The statistics office said tax revenue is an accurate proxy.

India relies on another workaround to gauge corporations' contribution to the economy. The new database includes hundreds of thousands of companies' balance sheets. But because not all of them file on time each year, the statistics office has to extrapolate to produce an initial estimate of GDP.

This is where Kolkata's shell entities may be entering the growth calculation. Income-tax authorities say they've logged 14,000 shell firms and counting in a new enforcement database.

T.C.A. Anant, India’s chief statistician, said shell companies are small by nature and unlikely to throw measurements off by much. “When you work with such large numbers, these things balance out.”

Whatever the data’s specific kinks, India’s GDP haze is sending some grasping for other tools.

Ambit Capital, a Mumbai-based brokerage, has created an index named after Li Keqiang, China’s premier, who once famously said his country’s GDP figures were “man-made.” Using vehicle sales, airport cargo, electricity demand and imports of machines and equipment, Ambit’s index indicates that momentum in India has been flagging since 2014.

Ila Patnaik, a former adviser in the finance ministry, said that in more than 20 years of studying India’s economy, the official GDP numbers have never appeared more out of step with other metrics.

“I don’t even know how to make sense of it,” she said. “Everything has gone out the window.”