

How to deal with the GDP growth variations in forecasts



3I4ARPUPWARDrevision In the GDP growth number from 7.6%to82aoraises a few pertinent issues tenting todata availability and qualityof foiecasts The practice is tollave the first advance estimate In /ame ary fotlowed *tyfa* a second one in lebruansThereare provisional estimates provided in May, which show that the economy has done very well last year(as per the table). And over time. there are final estimates.which are captured in subsequent

releases. These final numbers can be seen when the second advance estimates arc brought out in February and hence the F1'22growth numberwoul be anchored at thn point of time. Thetablelscerighfigimsthtrte of thew estimutes smiths; from theft nitschsuiice esti/tut/fit° the fowl numberswhich own' after twoyears'Mereare interesting utwovannwtobe made fionithe table.lbereappentobesubstm• tialdifferennw between the tint advance nainsates,whIch come swIlbefore the)e.trends,and the final numbeekthat atrnv after some iterattonsThe prmwaoal numbers bcsonsewherebetween the ones that are released in the mendio(Mayttmafterthefinan cial rarendtitscanbeseenth there is no definite pattern and the vases vary across yews. In FY20,

thetinalnumberwasmuchlower thanwininalcstimatenstulem IY2 I there was improvsmnt m growth. FY22 was different as atterbeingresisaldownwanbin May 2022. it went up %haply in the final estimates. Hence. the sharp revision in the upward direction Iniween lanuary.May aticIfinal forecamscanbewrystig-nifkantashichcanbe 1%111g/wt. The first Issue here is whet bet there is any merit in having an estimate In ['filitly even before the financial year has ended. 'this Is important because data used would be ;wadable generally up to November(industry, inflation) or ficcember(GST)and is based onseeralextrapolanons. Hence pushing up numbers for S-9 months to 12 months tuns the risk of seasonal factors which

can enwrstate or WI the true picture.14csen Cy, the only discernible use of ths number is in the Budget where revenue numbers are bawd on how the economy has grown in the pieceding year and the projection made for the coming yearilas ire necessary *as* there is neat for sonw basis for making these projections. Ilere. the lint advancetalmates has use. In theabsence of much data, the ministry of finance would haw tomake independent forecasts of bo lwprevcars year as well as the coining war. Finical on tlw rarenneby would then be even more subject me and *hence* the NSO's estimate is requires/This conk' nin thensk of skewing budgewynumbers, but there is no alternative. For example. when the Union Bud

INTERESTING OBSERVATIONS

FY20	5.0	4.2	3
FY21	-7.7	-7.3	'5.8
FY22	9.2	8.7	9.7
FY23	7.0	7.2	7.0
FY24	7.3	8.2	7



get for 1125 was precentalthe GI/PforFY24wasassumed Base at a certain level based on real growth of 7.3%. Nov, with growth being 8.2%, there can upward movement which in turn will provides higher base formakingaprojectionfor1125. Rut in FY20 and FY22, there would have been a downward

bias. And the final numbers would Increasethedenominator for the fiscal deficit ratio (in nominaltemukt has loweringit. The opposite would hold when denominatorcomes down the next issue is whether there should be second advance estimates. Bens the numberis a little more updated but still

corms before the yearcomes to an end.This forecast can be dis• pensed with as these numbers scald not be used Si any of the major policies of the govern mein This would mean that afterthcfirstadvanceestimates. there would be only provisional estimat tile monthof May. The divergencebsiween the thialandprociStonal numbers is a concernfists inNO because for all 'mellows. the provisional number Is used to explain what has happened in the economy winch is then used forpolgyfor. mulatto°. But once the final growth numbers vary by as much as Iwo from the pmv ssonalectimates.therearequest ions of comparability that conic in. Ideally, t he final nuns bersshould bepublished within three months by August to

rod • ambiguity. The problem is that since data has been volatile and sub Wet to base effects.111051 expla nations would *be* erroneous if the final nungwrsdcviate to this ement.Thcchallenges for NSO are known and hard to solve inunediatlygiven that the flow of data isunnersAs a large pswt of theeconomy is u norganised, getting authentwdata uadal• lence. li mier thew circumstanes. it would he prudent for policyMAXISand corporates to workwith GI •growth numbers with a range of up to 25 bps on both sides. ktearnchsle, efforts must be on to narrowdown the time period before the final IItallbOISAMOUL *file Uglier a thuf economise, Rank of Itanvia.Vieses erpn-ssed ore personal*