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Estimating Current Account Deficit from GDP Data – India's Case

In Q1 2011-12, RBI changed its Balance of Payments (BoP) layout as per IMF's standard Balance of Payments and International Investment Position Manual (BPM6). On 23 Nov 2010, RBI released a manual explaining the new BoP format and changes in the same. The manual shows the linkages between the GDP data (called SNA or System of National Accounts) and BoP.

The manual shows that export and import data shown in GDP is taken from Balance of Payments statement. Further the financial account of BoP is equivalent to net savings (savings – investment) calculated from GDP expenditure (see the manual). Hence, in this report, we try and compare the export/import data given by the two sources.

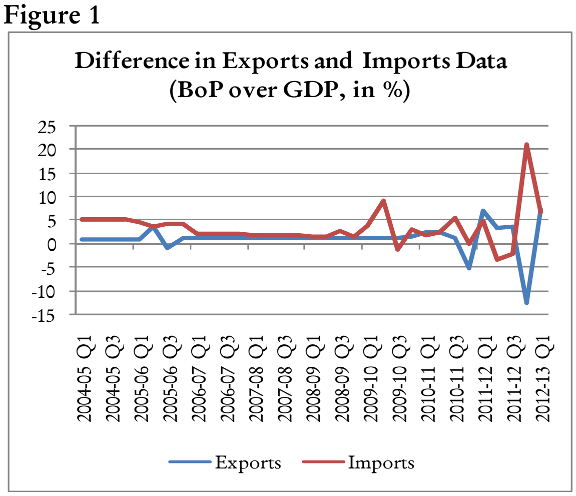
This exercise is undertaken in order to look at the consistency in reporting of macroeconomic data. There has been criticism from both analysts and policymakers over quality of macroeconomic data. This report is another endeavor in the same direction.

In the analysis we take GDP estimates at Current Prices as Balance of Payments data is based on current prices.

I. Analysis of Past Trends

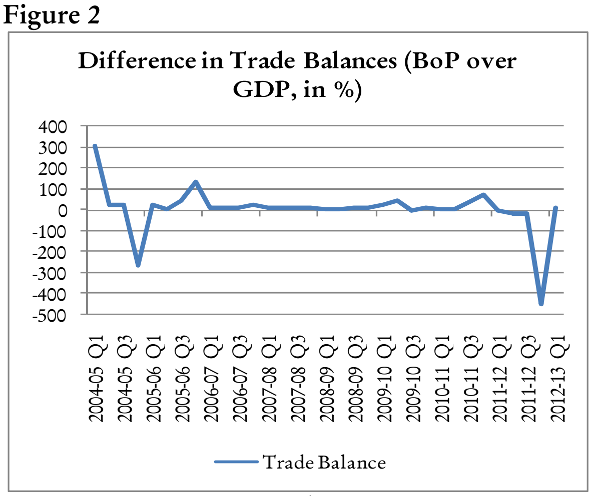
- We first look at the value of exports and imports reported by both the data points. Ideally there should not be a difference between the two sources. One understands that there could be a difference in recent figures as GDP data is released a month earlier than BoP and the former could just be quick estimates.

Figure 1



Source: RBI, CSO, STCIPD Research

Figure 2



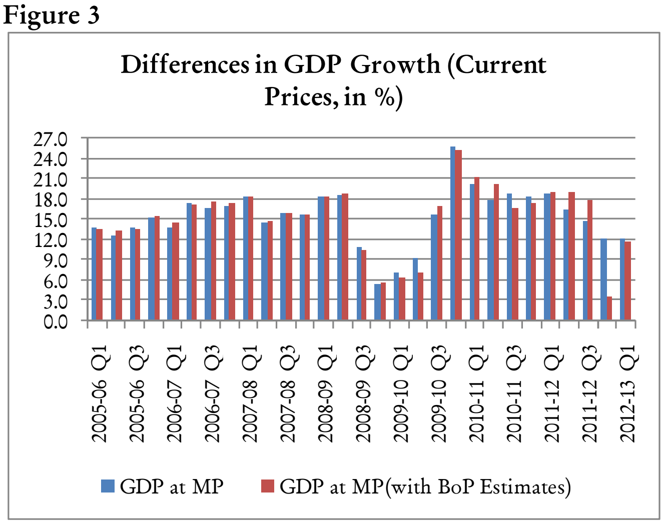
Source: RBI, CSO, STCIPD Research

However, the differences persist. In Figures 1 and 2 we show the percentage differences between the two sources of data. The difference between the two sources persists and has widened considerably over the period. BoP usually reports higher volumes for both exports and imports (Figure 1).

- Curiously, the difference in export growth is around 1.1-1.3% till Q4 2009-10. From Q1 2010-11 onwards, it has been volatile in the range of -12.6% (in Q4 11-12) to 7.5% (inQ1 12-13). In case of imports, the difference narrows from 5.2% in Q1 2004-05 to 1.6% in Q1 2008-09 and has been volatile ever since. The export growth difference has been in the range of -1.9% in Q3 2011-12 to 21.2% in Q4 2011-12.
- One sees a similar trend in trade balances as well. BoP usually reports higher trade deficit than GDP figures as import growth is higher in BoP compared to export growth as explained above. Hence, we see volatile trend in initial period which then settles to a difference of 5.5-7% between 2006-09. However, just as differences in export/import growth starts to become volatile in recent quarters so does difference in changes in trade deficits. Infact in Q4 2011-12, GDP data reports trade surplus of Rs. 48,529 Cr against a trade deficit reported in BoP of Rs. 1,70,900 Cr. It is one thing to have differences in trade deficit volumes and completely another to have trade surplus in one data and trade deficit in another data.

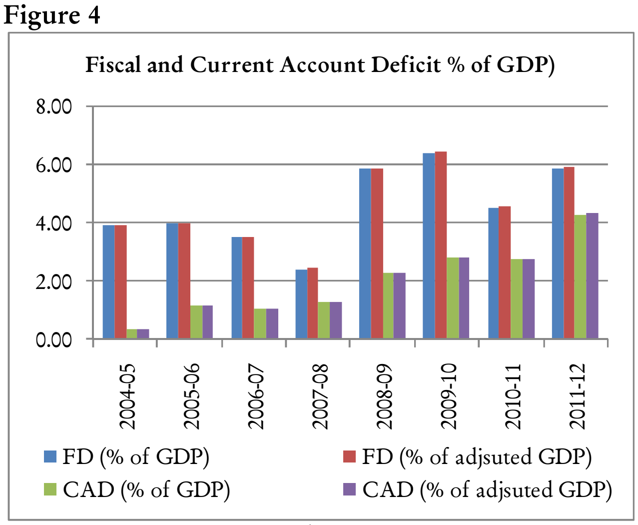
The past analysis clearly shows that differences in the two data points do not pertain to just current data. It remains persistent in the past data as well which is puzzling. The counterfactuals to these differences are large. If we use the exports and imports data reported in BoP in GDP estimates, we are going to get different estimates for GDP growth rates. Figure 3 looks at growth rates in GDP (at Market Prices) using the export and import estimates given by BoP. The figure does show the differences in growth rates which have risen significantly from 2009-10 onwards. These GDP numbers are in turn used for estimating Current Account Deficit, Fiscal Deficit etc in terms of percent of GDP. So, it impacts all the other estimates as well and does not give a correct picture. The differences in terms of GDP may be miniscule as shown in Figure 4 but the inconsistent reporting of data remains a challenge for analysts.

Figure 3



Source: RBI, CSO, STCIPD Research

Figure 4



Source: RBI, CSO, STCIPD Research

II. Final Thoughts

The above analysis shows that there are differences in reporting the same data across two indicators. The inconsistent reporting of data remains a challenge. The authorities need to look at this reporting of data and make it consistent. The market participants and analysts should know the reasons for the persisting differences. This will help economists make more reasonable estimates for current account deficit in future.

As per GDP estimates for Q2 12-13, trade deficit stands at Rs. 2,22,772 Cr. This is the highest deficit in the time series since Q1 2004-05. There are differences between the estimates in the two data series but both mostly follow the same trend. Hence, there is a possibility that trade balances for Q2 12-13 reported in BoP is also the highest in the time-series. GDP has also lowered compared to previous quarters which could mean higher current account deficit as a % of GDP.

It is difficult to project the current account deficit given the uncertainty in above numbers. The highest current account deficit was 4.5% of GDP reported in Q4 2011-12. The preliminary estimates show that it will be difficult to even match this highest reading of current account deficit. The growth in export of goods and services will have to be higher and growth in imports lower and matched by a high growth in remittances. Overall, it will be interesting to look at current account estimates to be released in December end. The trends arrived from GDP estimates show it could be a negative surprise for the economy.

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