



Economic Observatory

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China revised up 2008 GDP figures due to a stronger contribution of the services sector

China revised up its 2008 GDP by RMB 1.34 trillion on December 25, largely due to a better performance of the service sector. Furthermore, real GDP growth in 2008 was revised upwards to 9.6% from the originally reported 9.0%. The upward revision for 2008 was within markets' expectations, so that it should not change our forecast for the whole 2009.

Revision of 2008 GDP figures

China revised higher its 2008 GDP to RMB 1.34 trillion following its second economic census released last December 25th.

- The nominal GDP was revised upwards from RMB 30.1 trillion (USD 4.3 trillion) to RMB 31.4 trillion (USD 4.6 trillion). After the revision, China is still the third largest economy in the world, but the distance from Japan (USD 4.9 trillion) is shortened and it is on track to take over Japan as the world's second-largest economy in 2010.
- The underestimate in the preliminary GDP figure was largely due to the tertiary industry or services sector, which was revised upwards to RMB 13.1 trillion from RMB 12.0 trillion. As a result, the share of services in GDP rose to 41.8% from the previously reported 40.1%. Even after the revision, however, the share of services remains far below the 70% average in developed economies. The final output of the primary industry was revised downwards while that of the secondary industry was revised slightly upwards. (Table 1)
- The RMB 1.34 trillion revision is within market expectation and less than that in the first economic census held in 2005. As result of the first census, the 2004 GDP size was increased by 2.3 trillion and the historical GDP was readjusted backwards to 1993. (Table 2)

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Table 1: Revision of 2008 GDP figures

| | GDP (RMB bn) | | As % of GDP | |
|--------------------|--------------|--------|-------------|-------|
| | Preliminary | Final | Preliminary | Final |
| GDP | 30,067 | 31,405 | 100 | 100 |
| Primary Industry | 3,400 | 3,370 | 11.3 | 10.7 |
| Secondary Industry | 14,618 | 14,900 | 48.6 | 47.5 |
| Tertiary Industry | 12,049 | 13,134 | 40.1 | 41.8 |

Sources: National Bureau of Statistics.

Table 2: Historical GDP Revision

| | Preliminary | | Final | | Change in Growth percentage points |
|-------------|----------------------|------------------|----------------------|------------------|------------------------------------|
| | Nominal GDP (RMB bn) | Real GDP (% yoy) | Nominal GDP (RMB bn) | Real GDP (% yoy) | |
| 2004 | 13,688 | 9.5 | 15,988 | 10.1 | 0.6 |
| 2005 | 18,232 | 9.9 | 18,387 | 10.4 | 0.5 |
| 2006 | 20,941 | 10.7 | 21,192 | 11.6 | 0.9 |
| 2007 | 24,662 | 11.4 | 25,731 | 13.0 | 1.6 |
| 2008 | 30,067 | 9.0 | 31,405 | 9.6 | 0.6 |

Sources: CEIC and National Bureau of Statistics.

- Real GDP growth in 2008 was revised higher by 0.6 percentage points from 9% to 9.6% year-on-year (yoy). This revision will mostly reflect in a larger 2009 GDP size which is likely to be raised by 0.4-0.6%, but it is not expected to change the preliminary estimates on GDP growth. The GDP growth in the first three quarters of 2009 is likely to remain unchanged at 7.7% yoy, and be further revised in May 2010 when the National Bureau of Statistics (NBS) releases the second estimate for 2009. Since 2004 the final GDP figures have always been revised upwards one year later and, this is likely to happen again with the 2009 GDP figures. (Table 2).
- Analyzing the most common source of discrepancies, we note that the preliminary national GDP figure from NBS is always below the sum of local GDP by provinces. Two reasons could explain such difference: (i) on one hand, local government's have incentives to overestimate GDP as the official evaluation system is largely based on growth targets; (ii) on the other hand, provincial statistics bureaus tend to count with better tools to calculate their respective local GDP. This has likely resulted in the upwards revisions of nationwide GDP every year since 2004.
- As this is an ordinary revision of the GDP figures, it is not expected to change the macro policy stance for 2010, namely to maintain a moderately loose monetary policy and a prudent fiscal policy. Policy direction, however, will change from ensuring a high economic growth to ensure economic sustainability, by re-balancing growth towards consumption as well as optimizing the structure among industries.

Why is the services sector underestimated?

- The discrepancies arise largely from the current statistics system for the services sector, where only enterprises above a designated size need to report their financial data to NBS regularly. Enterprise size criteria are based on its annual revenue by sector: above RMB 20 million for wholesale business; RMB 5 million for retail trade; and RMB 2 million for hotels and catering services. A large amount of small enterprises are therefore excluded in the system.
- For the enterprises below the designated size, NBS has no reliable data source but has to estimate them based on assumptions. In recent years, such assumptions have proved to lag behind the real growth of the sector and thus, underestimating its actual contribution to aggregate output.
- The Economic Census, however, takes into account a broader sample than regular reportings and includes enterprises below the designated size. As a result, the NBS counts with more reliable information to gauge the final output of the services sector nationwide.

Table 3: Comparison between NBS and Local GDP (RMB bn)

| | GDP difference | | | GDP difference | | |
|-------------|-----------------|---------------|-----------------------|-----------------------|---------------------|---------------------|
| | NBS Preliminary | NBS Final | Sum of Provincial GDP | Final and Preliminary | Local Sum and Final | Local Sum and Final |
| 2004 | 13,688 | 15,988 | 16,678 | 2,300 | 690 | 2,990 |
| 2005 | 18,232 | 18,387 | 19,736 | 155 | 1,349 | 1,504 |
| 2006 | 20,941 | 21,192 | 23,027 | 252 | 1,834 | 2,086 |
| 2007 | 24,662 | 25,731 | 27,460 | 1,069 | 1,730 | 2,798 |
| 2008 | 30,067 | 31,405 | 32,722 | 1,338 | 1,317 | 2,655 |

Source: CEIC and BBVA Research.

Annex: How frequent does China revise its full year GDP?

The official statistics bureau usually revises the nationwide GDP figure twice after the release of the preliminary estimate:

- Preliminary estimate: the figures are released around January 20th of the following year.
- Preliminary revision: the figures are released in the China Statistical Yearbook published in September of the following year.
- Final Revision: the figures are released in the China Statistical Summary (in May) and China Statistical Yearbook (September) in the second year following the accounting year.

Besides the regular revisions, China's Economic Census is held once every 5 years. In the census year, the final figure will be revised based on the results of the census. The recent revision for 2008 is the second Economic Census carried out since 2004.