

## India's GDP Controversy

### Why in News?

Recently, an allegation has been made on the government that it is overstating its GDP growth rate after the release of quarterly data of GDP value.

### What is GDP?

- Gross Domestic Product (GDP) is defined as total market value of all final goods and services in an economy.
- It is used to assess the size of economy.
- The performance of the country can be measured both from one year to another as well as among other countries.
- **Growth of GDP** - It can be either due to increase in actual production or due to increase in prices of goods and services or combination of both the above two factors.
- **Nominal GDP** - It is the value of GDP at the current prevailing prices.
- **Real GDP** - It is the value of GDP at some constant set of prices.
- It is calculated by removing the effects of price inflation from the nominal GDP using GDP or price deflator.

$$\text{Real GDP growth rate} = \text{Nominal rate} - \text{Inflation (GDP Deflator)}$$

- Since these prices remain fixed, if the real GDP changes, it is ascertained that the volume of production is undergoing changes.
- **The GDP deflator** - It is the ratio of nominal to real GDP.
- It gives us an idea of how the prices have moved from the base year (the year whose prices are being used to calculate the real GDP) to the current year.

$$\text{GDP Deflator} = \text{Nominal GDP} / \text{Real GDP}$$

### How is GDP calculated?

- Generally, GDP is calculated by 3 different methods -
  - Income method
  - Expenditure method
  - Production method
- In India, it is calculated through income and expenditure method.
- The **National Statistical Office (NSO)** under the Ministry of Statistics and Programme Implementation (MoSPI) releases the economic growth data.
- The base year for GDP calculation is **2011-12**.

Income method	Production method	Expenditure method
<ul style="list-style-type: none"> <li>• Calculated by measuring sum total of all factor payments.</li> <li>• <math>GDP = \text{Wages, Rent, Profit}</math></li> </ul>	<ul style="list-style-type: none"> <li>• Calculated by measuring aggregate value of final goods and services of all firms.</li> <li>• <math>GDP = GVA \text{ (Gross Value Added)}</math></li> </ul>	<ul style="list-style-type: none"> <li>• Calculated from the aggregate value of spending.</li> <li>• <math>GDP = \text{Consumption} + \text{Investment} + \text{Government} + \text{Net Imports}</math></li> </ul>

### Why is India's GDP facing controversy?

- **Issue of overstating GDP** - The released GDP growth rate is 7.8% which implies that inflation was around 0.2% in the three months.
- But in the said quarter, retail inflation was around 4% in all 3 months, while wholesale inflation was negative.
- If one was to "deflate" nominal GDP using consumer price inflation, the real GDP would fall to less than 4%.
- But then if one goes by wholesale inflation, the real GDP will actually be much higher than 8%.
- **Issue of GDP discrepancy** - The GDP data obtained from the two methods vary due to issues such as lack of availability of data on time, etc.
- The difference between the GDP estimates from production method and income method is called "discrepancy".

## Share of 'discrepancies' in annual GDP

Discrepancy refers to gap between GDP (Production/Income Approach) and GDP (Expenditure Approach)



Chart: Udit Misra • Source: CMIE • Created with Datawrapper

- The NSO in its latest report treats income as the right one and assumes that expenditure *must be identical* to income earned which is an obvious violation of international best practice.
- **Issue with WPI** – In recent times [WPI](#) (Wholesale Price Index) and [CPI](#) (Consumer Price Index) are not moving together suggesting that one of the indices is not reflecting the real price.
- It is *unrepresentative of economy* as it does not include services whose share in consumption basket is large and increasing.
- Calculation of WPI by Department of Commerce and Industry is based on *Index of Industrial Production (IIP)* which itself is in criticism.
- It does *not provide information on rural and urban* as well as the state level estimates, which are all relevant for public policy.

### What lies ahead?

- More attention has to be given to India's macroeconomic data.
- India's inflation indices need to be updated periodically.
- Wholesale price index (WPI) must be discarded and has to be altered with a new *Producer Price Index* which is a measure of the change in prices that domestic producers receive for their goods and services.

### Quick facts

	Wholesale Price Index	Consumer Price Index
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<b>Definition</b>	<ul style="list-style-type: none"> <li>• A WPI measures and tracks the changes in the price of goods before they reach consumers.</li> <li>• WPI tracks inflation at the producer level.</li> </ul>	<ul style="list-style-type: none"> <li>• The CPI examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.</li> <li>• CPI captures changes in prices levels at the consumer level.</li> </ul>
<b>Components/ Types</b>	<ul style="list-style-type: none"> <li>• Manufactured products - 64.2%</li> <li>• Primary articles - 22.6%</li> <li>• Fuel and power - 13.1%</li> </ul>	<ul style="list-style-type: none"> <li>• CPI for Industrial Workers (IW)</li> <li>• CPI for Agricultural Labourer (AL)</li> <li>• CPI for Rural Labourer (RL)</li> <li>• CPI (Rural/Urban/ Combined)</li> </ul>
<b>Base Year</b>	• 2011-12	2012
<b>Published By</b>	• Office of Economic Adviser, Ministry of Commerce and Industry	<ul style="list-style-type: none"> <li>• CPI -IW, AL and RL are compiled by the Labour Bureau, Ministry of Labour and Employment.</li> <li>• The National Statistical Office (NSO) releases the CPI-Rural, Urban, and Combined.</li> </ul>
<b>Services</b>	• WPI does not capture changes in the prices of services	• CPI capture changes in the prices of services
<b>Uses</b>	<ul style="list-style-type: none"> <li>• It is a marker for price movements in the purchase of bulk inputs by traders.</li> </ul>	<ul style="list-style-type: none"> <li>• The dearness allowance of Central government employees is calculated on the basis of movement in this index.</li> <li>• Inflation rate will be based on the final combined CPI.</li> </ul>

### Index of Industrial Production (IIP)

- It is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time.
- It measures the growth rate of industry groups classified under,
  - **Broad sectors** - Mining, Manufacturing and Electricity
  - **Use-based sectors** - Basic Goods, Capital Goods and Intermediate Goods
- **Base year** - 2011-12
- It is compiled and published on a monthly basis by the ***CSO (now known as National Statistics Office (NSO))*** with a time lag of 6 weeks from the reference month.

### References

1. [IE| GDP Controversy](#)
2. [NCERT | Concepts of GDP](#)



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