

GDP estimation in India

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- India's Central Statistical Office calculates the nation's gross domestic product (GDP).
- India's GDP is calculated with two different methods, one based on economic activity (at factor cost), and the second on expenditure (at market prices).
- The factor cost method assesses the performance of eight different industries.
- The expenditure-based method indicates how different areas of the economy, such as trade, investments, and personal consumption, are doing.

Changes introduced in 2015

- In 2015, a new series announced to calculate the GDP.
- Changes are → Base year + Data from MCA-21 + using GVA for calculation
- Here, the base year changed from 2004-05 to 2011-12, and a new data series used for the organized private sector, MCA-21. It included the data of all the companies registered with the ministry of corporate affairs, and each company was given a unique 21-digit code, hence MCA-21.
- Also, the new database is much more comprehensive covering financial institutions and regulatory bodies' like- SEBI, PFRDA, and IRDA. Local organizations and institutions are well represented in this series.
- GVA, which is GDP minus taxes, serves as a more realistic proxy to measure changes in the aggregate value of goods and services produced in the economy.
- Earlier, the IIP served as the primary metric to gauge manufacturing and trading activity. The problem was, it only counted the number of units produced and did not distinguish, between, say the value of a luxury car and

an entry-level hatchback. It is possible that factory output would have remained stagnant over a period of time, but its value would have multiplied.

- **Eg:** computers→ A purely output-based method would not be able to capture the innovations and the value additions in such products and industrial activity.
- The GVA method also factors in value addition and economic action carried out by activities such as marketing. Such activity can be of very high value in case of large FMCG companies.

What are the problems because of these changes?

- The problem cropping up was that the old method measured actual output of the manufacturing sector, crop production, and employment of the services sector while MCA-21 database considers balance sheet data of individual company and gathering the performance of the sector after adjusting for inflation.
- A recent National Sample Survey Office (NSSO) report says that 36% of active companies (Companies, which have filed financial statements once in the last three years) in the MCA database, was untraceable or are incorrectly classified.
- Earlier data for established companies were taken from the Annual Survey of Industries (ASI) or RBI's sample of large companies for estimating corporate savings or investment.

What are the other criticisms about GDP estimates using the new method?

- One of the biggest criticisms is about the back series that was launched in November 2018. The back series data serves as a link between the old and new formulae. The back series is aimed at calculating/updating national accounts using the new formula to help allow inter-year comparisons and enable better economic forecasting.

- Owing to the limitations of the availability of data, in some areas either splicing method or ratios observed in the estimates in the base year 2011-12 have been used for the previous years.
- The big question is: How can you extrapolate MCA 21 data for previous years when the data itself started getting collated only in 2008 and has undergone several rounds of changes in the later years.

Why the criticism?

- It was previously estimated that India clocked double-digit growth of 10.3% in 2010-11. This has now been revised to 8.5%, according to the new estimates.
- According to the new series, GDP growth rate dropped to 3.1% in 2009-10, compared to the previous estimates of 3.9%, mirroring a deeper impact of the global financial crisis of 2008 on the Indian economy than previously thought.

Why is there such a big difference?

- The difference can also be partly attributed to change in the GDP “deflator” method. GDP deflators are price indices used to calculate inflation-adjusted levels of GDP. In the new estimates, different GDP deflators have been used for different sectors of the economy.