GDP of India - What is GDP?
What are the Methods of GDP EStimation?

GDP stands for Gross Domestic Product. The meaning of GDP is the measure of the value of the economic activity within the country. In simpler words, GDP is defined as the sum of the final prices of the goods and services produced in an economy in a given period. It is important to read the facts related to 'GDP in India' for the IAS Exam and this article will provide you with all such relevant facts.

GDP Of India

What is GDP?

GDP's full form is Gross Domestic Product. It is evaluated regularly to account for changing production structure, relative prices, and better recording of economic activities. The GDP of India is a topic that is always in the news and hence it is relevant for the UPSC Mains.

Keep reading to know about the GDP of India, its importance, challenges, and the debate on India's GDP.

These UPSC Notes on GDP of India with the UPSC Syllabus and aspirants should prepare this topic for General Studies Paper III.

Background of India's GDP

- In January 2015, the government moved to a new base year of **2011-12** from the earlier the base year of 2004-05 for national accounts. The base year of national accounts had been revised earlier in January 2010.
- In the new series, the Central Statistics Office (CSO) did away with Gross Domestic Product (GDP) at factor cost and adopted the international practice of valuing industry-wise estimates as gross value added (GVA) at basic prices.
- With the move to the new base year, the growth rate of the economy for 2013-14 was estimated at 6.9%; it was 4.7% on the 2004-05 base. Similarly, the growth rate for 2012-13 was revised upwards to 5.1% from 4.5%.

GDP India Latest News (2023)

India’s GDP growth likely to moderate to 6.3% in FY24: World Bank

Context: The World Bank has lowered its estimate of India's economic growth for 2023-24 to 6.3%.

News in detail:

- The World Bank in its latest India Development Update has lowered the country's growth rate for FY 2023-24 from 6.6% to 6.3%.
    - India Development Update: It is published by the World Bank and it provides an analysis of current economic developments in India and contextualizes them within the global framework. Using these developments as well as policy shifts during the given timeframe, the IDU revises the economic outlook for India.
- The World Bank also mentioned that for FY 2022-23, growth is expected to be 6.9%.
    - Even though the growth rate slowed a bit in the second half of the financial year, increased capital expenditure by the government and higher private consumption, especially among higher-income earners, helped the Indian economy to grow.
- The report mentions that the pandemic-induced spike in extreme poverty had gone up to 4% points and it had moderated in FY 21-22 (though not as low as pre-pandemic levels) to 13.8%, facilitated by the widespread access to vaccines.
- **Projections on the Indian economy:**
    - On the external front, India's current account deficit is expected to reduce to 2.1% of GDP in FY24 from 3% in FY23, due to strong service exports and a reduction in the merchandise trade deficit.
    - While inflation is currently high, it is expected to decrease to an average of 5.2% in FY24 due to a decrease in global commodity prices and lower domestic demand.
    - The report stated that the Central government is expected to achieve its fiscal deficit target of 5.9% of GDP in FY24, and the general government deficit (combined fiscal deficit of Centre and states) is expected to decrease due to state government deficit consolidation and slower current spending. As a result, the debt-to-GDP ratio will stabilize at around 83%.

Reasons pointed out for lowering the growth rate:

- **Slower consumption growth:**
    - Private consumption growth: As borrowing becomes more expensive and income growth slows down, people will spend less money.
        - Due to the slower rate of income growth in lower income groups, they are expected to spend even less than what they did in FY 2022-23.
    - As the government is withdrawing the pandemic-related fiscal support measures, government consumption is also expected to grow at a slower rate.
        - Government consumption is projected to decrease to 9.3% of GDP in FY 2023-24 from 10% in FY 2022-23.

        - In case of higher-than-expected inflation, domestic demand may be hit and this could affect the government's fiscal consolidation plans. The report warns that if economic growth slows down further, it could lead to an increase in India's already high public debt-to-GDP ratio, which could be a problem for the country's financial situation.
- **Challenging external conditions:**
    - Recent episodes of financial issues in the US and European markets might reduce the risk-taking appetite for emerging market assets and might also lead to capital flight from these economies (including India). This will put pressure on the Indian rupee.
        - But experts are of the view that Indian banks are well capitalized and hence the recent crisis faced in Western economies is not posing any threat to short-term investment flows to India.

Other estimates:

- As per the second advance estimate of the National Statistical Office, India is expected to grow at 7% in FY 2022-23.
- The Economic Survey pegs India's growth rate in 2023-24 to be at 6.5%.
- The Reserve Bank of India (RBI)'s forecast for the FY 2023-24 is 6.4%.

According to data released by **NSO under the Ministry of Statistics and Programme Implementation,** the third quarter of the current financial year 2022-23 saw GDP grow at a rate of 4.4%.

Quarterly GDP data:

- In the previous quarter of the current year, the growth rate was 6.3% and declined to 4.4% in the third quarter.
- The **gross value added (GVA)** grew at a rate of 4.6 per cent in Q3.
- According to the data, the **agricultural sector was the best performer** in the past three quarters which rose from 2.4% in Q2 to 3.7% in Q3.
- The decline was mainly attributed to a slowdown in the manufacturing sector, weaker demand and low government expenditure.
- Quarterly GDP data is released by the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation.
- As per the government, the **economy is on track** to reach a **7% GDP growth** rate in the fiscal year 2022-23.
- Experts are of the opinion that the economy is facing threats from slow global growth, high inflation, weak demand, El Nino etc.

Methods of Estimation of GDP

Back series can be generated in three ways, the Committee on Real Sector Statistics said

- based on the new GDP methodology by using the base data wherever available;
- based on a production shift approach;
- by projecting the old series using the base year 2004-05 forward and then adjusting it to the 2011- 12 base by comparing it with the new series. The third approach is yet to be tried, the Committee said.

Rebasing the GDP of India

- This is done by the government often to ensure that the GDP represents the true picture of the economy in terms of structural changes, the importance of the various sectors' contributions of the agriculture sector, etc.
- The Present rebasing has been done by CSO taking into consideration the recommendations given the SNA (System of National Accounts) published by the UN in 2008.

Old Method of Estimation of GDP vs New Method of Estimation of GDP

- In the older system, IIP was used to measure manufacturing and trading activity. This accounted for the volume changes but not value changes. In the newer methodology, we use the concept of GVA - Gross Value Added, which measures the value addition done to the economy.
- In the older system, GDP was first estimated by using the IIP data and then updated using the ASI data (Annual Survey of Industries). ASI accounted only for those firms which were registered under the Factories Act. In the newer system, data from MCA 21 is used (MCA 21 is an e-governance initiative of the Ministry of Corporate Affairs, launched in 2006, it allows the firms/companies to electronically file their financial results. Under this data from more than 5,00,000 firms is collected)
- In the older system, farm produce was taken as a proxy for the calculation of agricultural income. The new methodology has widened the scope for calculating value addition in the agricultural sector.
- In the older system, very few mutual funds and NBFCs were considered for considering the financial activity. In the new methodology, the coverage has been expanded by including stockbrokers, asset management funds, pension funds, stock exchanges, etc
- In the older system, the trading income data was used from the NSSO’s 1999 establishment survey against this new series uses the 2011-12 survey.

Issues/Concerns with the New Methodology

- The revised data does not reflect the other macroeconomic parameters - tax revenues, credit growth, trade performance, corporate sales, profits, more importantly, the level of investment in the economy, etc.
- The MCA21 data was collected only from 2008, then how can it be used to compare the earlier growth/ production.
- The Bank Credit Growth has averaged 20.3% between FY07 to FY12 and 12.3% between FY13 to FY18, during the same tenure the GDP growth rates have averaged 6.7% and 6.9% respectively (against the older growth rates of 8% and 6.9% respectively).
- There has been inconsistency even in the case of Investment Growth. Between FY07 to FY12, the growth rate of investment was 10.7% and 5.3% between FY13 to FY18.
- Tax collections between FY07 to FY12 has grown by 16.5% and then post that by 13.8%. There is a close relation between GDP growth and tax collection growth. With higher growth, tax collections increase.
- The inflation rate averaged 9.6% between FY07 to FY12 and 6.4% thereafter. If the growth was driven by higher demand then, there should have been a higher inflation rate in the second part.
- The gross investment to GDP ratio was peaking at 38% (FY08 to FY11) during the UPA government against the 30.3% (FY15 to FY18) in the present government (as per the economic theory, higher investments, the higher and the growth in the GDP). So how can the GDP growth during the present government be higher than the previous government. This could happen in cases where the production becomes very efficient leading to lower ICOR (Incremental Capital Output Ratio). But during the present government the twin shocks - Demonetisation and GST - have ensured that this is not the case.
- The exports during the UPA government boomed at an average growth rate of over 20% against the zero growth rates in the last four years.
- The data has been prepared from 2004-05 to 2010-11 and this coincides with the period of UPA govt.

Arguments in favour of the new methodology.

- The decline in bank credit growth can be explained by Increased capital efficiency. Bank facilitating credit to the corporates through instruments such as commercial papers, bonds, etc
- Inconsistency in investment, increased economic efficiency, Decreased ICOR (Incremental Capital Output Ratio - measures higher/incremental amount of capital needed to increase the production by a unit). There is no uniform relationship between growth and investment. The cycle is revived through consumption and then investment kicks in.

- The tax collections could also have been varied because of various other factors such as higher compliance, changes in tax rates, etc.

GDP in India - Way Forward

- Allow the CSO to independently calculate, seek feedback, and publish new data. The data/results should be realistic and reflective of the ground reality.
- If the CSO wants to make it more transparent, it can seek the opinion/involvement of experts.
- GDP is just a statistical tool. There should be more focus on inclusive growth rather than just growth. Inclusive growth entails not just the growth but also the benefits derived by the growth in the form of development. It doesn't make any sense to have farmer suicides in Maharashtra which is one of the wealthiest states in India. This dichotomy can be seen where India is ranked 6th globally in terms of nominal GDP, top in terms of growth rates but 130th in the case of HDI and 108th in WEF's Gender Gap Index.
- As per Credit Suisse, the wealth of the top 1 percent has increased from 40% to 60% (between 2010 to 2016) and the top 10% owns 90% of the wealth. As per a report prepared by Azim Premji University, the growth for India has averaged 7% and the employment growth has been at 1%. Within this also the ones who are getting the formal jobs were receiving a decreasing share of total output.
- Though this would be very difficult, India could look into Chain Linking methodology or index. Wherein the developed economies keep updating their GDP calculation methodology very often.
- Moreover, the government has already announced that the base year is going to be changed likely to 2018-19 if it's done then these numbers will be revised all over again.