Base Year for GDP Calculations

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Why in news

The **Ministry of Statistics and Programme Implementation (MOSPI)** is considering changing of **base year** for GDP calculation from **2011-12 to 2017-18.**

Base Year

- The base year of the national accounts is chosen to enable inter-year comparisons. It gives an idea about changes in purchasing power and allows calculation of inflation-adjusted growth estimates.
- The last series has changed the **base to 2011-12 from 2004-05.**

Need for Change

- **Accuracy:** Change of base year to calculate GDP is done in line with the global exercise to **capture economic information accurately.**
- **Globally Aligned:** GDP based on 2011-12 did not reflect the current economic situation correctly. The new series will be in compliance with the **United Nations guidelines in System of National Accounts-2008.**
    - Ideally, the base year should be changed after every five years to capture the changing economy.

GDP calculation in India

- **Gross Domestic Product (GDP)** gives the economic output from the consumers' side. It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (the difference between exports and imports).
    - **GDP = private consumption + gross investment + government investment + government spending + (exports-imports)**

- In 2015, the **Central Statistics Office (CSO)** did away with GDP at factor cost and adopted the international practice of GDP at market price and the **Gross Value Addition (GVA)** measure to better estimate economic activity.
  GDP at market price = GDP at factor cost + Indirect Taxes – Subsidies

Gross Value Added (GVA)

- **Gross Value Added (GVA)** is a measure of **total output and income in the economy.** It provides the **rupee value** for the number of goods and services produced in an economy after **deducting the cost of inputs and raw materials** that have gone into the production of those goods and services.
- It also gives **sector-specific picture** like what is the growth in an area, industry or sector of an economy.
- At the macro level, from a **national accounting perspective,** GVA is the sum of a country's GDP and net of subsidies and taxes in the economy.
  Gross Value Added = GDP + subsidies on products - taxes on products

Comparison Between GVA and GDP

- While GVA gives a picture of the state of economic activity from the **producers' side or supply side,** the GDP gives the picture from the **consumers' side or demand perspective.**
  Both measures need not match because of the difference in treatment of net taxes.
- GVA is considered a **better gauge of the economy.** GDP fails to gauge real economic scenario because a sharp increase in the output, only due to higher tax collections which could be on account of better compliance or coverage, rather than the real output situation.
- A **sector-wise breakdown** provided by the GVA measure helps policymakers decide which sectors need incentives or stimulus and accordingly formulate sector-specific policies.
  But GDP is a key measure when it comes to making cross-country analysis and comparing the incomes of different economies.

Source: IE