



Concerns Related to India's GDP Data

For Prelims: [GDP \(Gross Domestic Product\)](#), Gross Fixed Capital Formation, [Purchasing Managers' Indices](#), [Bank Credit Growth](#), [Index of Industrial Production \(IIP\)](#).

For Mains: Concerns Related to India's GDP Data, Calculations Methods For GDP in India.

Source: [IE](#)

Why in the News?

Recently, the Ministry of Finance has **addressed concerns regarding the credibility of Indian [GDP \(Gross Domestic Product\)](#) data**, particularly in light of a 7.8% increase in the first quarter of FY 2023-24.

- Several experts have pointed out **discrepancy in India's GDP statistics**, which present a positive image of economic growth on billboards, while underlying issues such as **rising inequalities, job scarcity, and a decline in manufacturing jobs** persist.

What are the Concerns Raised with Respect to GDP Numbers?

- **Discrepancies in GDP Calculation:**
 - An analysis of the GDP expenditure components **reveals a concerning trend where most elements have decreased** as a percentage of GDP.
 - This includes private consumption, government spending, valuables, and exports.
 - Imports have slightly increased, while **Gross Fixed Capital Formation** (investment in assets) and Change in Stocks (inventory changes) have remained stable.
 - Therefore, there is an unexplained gap in the GDP calculation, which raises questions about the **accuracy of the reported economic data**.
- **Dual GDP Calculation Methods:**
 - India's GDP is calculated using two distinct methods: Economic activity (at factor cost) and Expenditure (at market prices).
 - **The factor cost method** assesses the **performance of eight different industries**. The following eight industry sectors are considered in this cost:
 - Agriculture, forestry, and fishing,
 - Mining and quarrying,
 - Manufacturing,
 - Electricity, gas, water supply, and other utility services,
 - Construction,
 - Trade, hotels, transport, communication, and broadcasting,
 - Financial, real estate, and professional services,
 - Public administration, defense, and other services
 - **The expenditure-based method** indicates how different areas of the economy are performing, such as trade, investments, and personal consumption.
 - The differences between **these methods may lead to variations in GDP figures**.

Statement 2: Quarterly Estimates of Expenditure Components of GDP for Q1 (April-June) 2023-24
(at 2011-12 Prices)

Expenditure Components [#]	(₹ Crore)				
	April-June (Q1)				
	2021-22	2022-23	2023-24	Share in GDP (%) [#]	
			2022-23	2023-24	
1. Private Final Consumption Expenditure (PFCE)	1,822,102	2,182,357	2,312,601	58.3	57.3
2. Government Final Consumption Expenditure (GFCE)	403,808	411,243	408,300	11.0	10.1
3. Gross Fixed Capital Formation (GFCF)	1,077,836	1,297,588	1,400,832	34.7	34.7
4. Changes in Stocks (CIS)	28,895	31,050	32,256	0.8	0.8
5. Valuables	22,035	34,959	27,633	0.9	0.7
6. Exports	765,031	915,111	844,252	24.4	20.9
7. Imports	749,401	1,001,571	1,102,748	26.7	27.3
8. Discrepancies	-59,256	-126,452	114,019	-3.4	2.8
GDP	3,311,050	3,744,285	4,037,144	100.0	100.0
GDP (Percentage change over previous year)		13.1	7.8		

@ GDP (Production/Income Approach) = GVA at Basic Price + Net Taxes on Product

Following Expenditure Approach, GDP = PFCE + GFCE + GFCF + CIS + Valuable + Export - Import. Discrepancy refers to gap between GDP (Production/Income Approach) and GDP (Expenditure Approach)

▪ Impact on Public Perception:

- Experts express concern that **presenting an overly positive image of economic growth** through GDP figures can mask the **economic struggles and challenges faced by a significant portion** of the population.
- This can impact public perception and policy decisions.

▪ Outdated Data Sets and Delayed Census:

- One of the major concerns is the **usage of outdated data sets** in the calculation of GDP, which may not **accurately reflect the current economic scenario**.
- Additionally, delays in conducting the census **contribute to potential inaccuracies in economic assessments**.
- There are concerns that the methods employed may not effectively capture the complex and evolving economic landscape, leading to potentially skewed GDP figures.

▪ Allegations of Government Interference:

- Allegations of government interference in the calculation and release of GDP figures have surfaced.
- Experts worry that **political motivations might influence the presentation** of economic data, impacting its accuracy and reliability.

How Has the Government Addressed the Issues Raised by the Experts?

▪ Credibility of Indian GDP Data:

- The Finance Ministry **refuted doubts about the credibility of Indian GDP data**, clarifying that **it is not seasonally adjusted** and is finalized three years later.
- This implies that relying solely on GDP indicators to assess underlying economic activity is misleading.

▪ Need for Comprehensive Analysis:

- The Ministry urged **critics to consider various growth indicators**, such as [Purchasing Managers' Indices](#), [Bank Credit Growth](#), and consumption patterns, to form a well-rounded view of the economic activity.

▪ Underestimation of Growth Numbers:

- The Ministry argued that **India's growth numbers might actually underestimate** the economic reality, citing the [Index of Industrial Production \(IIP\)](#) as an example where reported manufacturing growth is lower than what companies are indicating.

▪ Nominal vs. Real GDP Growth:

- Addressing concerns about nominal GDP growth being lower than real GDP growth, the Ministry explained that **India's GDP deflator**, dominated by the [Wholesale Price Index \(WPI\)](#), is affected by various factors and will **normalize in the coming months**.

▪ Income Approach for GDP Calculation:

- The Ministry highlighted that India consistently uses the **Income Approach for calculating GDP** growth and does not switch between approaches based on favorability, dismissing **arguments that favor nominal GDP growth**.

What is GDP?

▪ About:

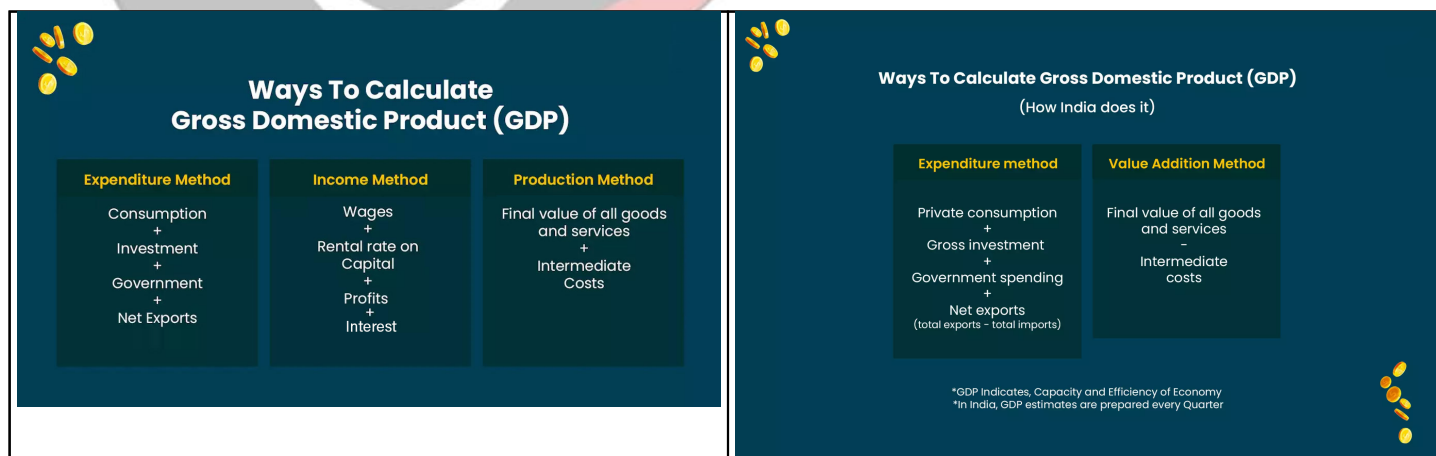
- GDP is the gross valuation of all the goods and services generated within a country's borders for a specific period, typically one financial year.
 - One can identify a **country's development and economic progress from its GDP.**
- The percentage growth of **GDP over a quarter is taken as a standard growth** of the economy.
 - As per the reports by [International Monetary Fund \(IMF\)](#), India is among the top 10 countries in the world **based on the nominal GDP in 2023.**

▪ Types of GDP:

- Real GDP:
 - Real GDP is measured with **respect to a base year**. It is adjusted to inflation and hence is also known as **inflation-corrected GDP** or current price.
 - For example, the base year for calculating **India's Real GDP is 2011- 12.** Earlier, it used to be 2004- 05.
 - It is considered to be a more precise representation of GDP as it considers the actual income of **individual residents after adjusting to the price fixed for a base year.**
- **Nominal GDP:**
 - Nominal GDP is assessed **using prevailing market prices** and does not consider inflation or deflation.
 - From the government's perspective, **Nominal GDP is a more accurate reflection of economic growth** as it affects the citizens directly.

▪ Calculation of GDP:

- **Expenditure Method:** This approach **takes into consideration** the total expenditure incurred by **all individuals in one economy** for Goods and Services.
 - GDP (as per expenditure method) = $C + I + G + (X-IM)$
 - where, C: Consumption expenditure, I: Investment expenditure, G: Government spending and (X-IM): Exports minus imports, that is, net exports.
- **Output Method:** This approach is used to determine the **market value of all the services and products** produced within a country.
 - This method **helps eliminate any difference** in GDP measurement due to price level fluctuations.
- **Income Method:** This approach **considers the gross income earned** by various factors of production, like capital and labour, within the boundaries of a country.
 - This is a **sum of expenditure** made by companies on their workforce.
 - GDP calculated based on this approach is known as GDI or Gross Domestic Income.
 - GDP (through Income Method) = Wages + Rent + Interest + Profit



What Are the Limitations Of GDP?

- GDP does not include **non-market transactions** that positively impact productivity, such as

domestic, voluntary, or other participations. Also, it **doesn't take into account goods produced** for private consumption.

- India is one of those countries **where unequal income distribution is a prime discrepancy** in its economy. **GDP doesn't reflect that.**
- One cannot **determine the standard of living of a country** from its GDP.
 - India is the best example of it. It has a high **GDP but a relatively low standard of living.**
- Most importantly, GDP doesn't reflect **how industries affect the environment and social well-being.**
 - The government launched **Green Gross Domestic Product (Green GDP)** to address this issue.

Conclusion

- The Ministry of Finance emphasized the **importance of considering various economic indicators** and higher frequency data to form a comprehensive view of economic activity.
- It urged critics to refrain from selectively using data and maintain a nuanced understanding of the Indian economy.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. With reference to Indian economy, consider the following statements: (2015)

1. The rate of growth of Real Gross Domestic Product has steadily increased in the last decade.
2. The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)