India’s New GDP Series 2011-12: Everything You Need To Know

India has shifted to a new GDP series. The organisation responsible for calculating national income – CSO (Central Statistical Organisation) – adopted a new series based on the year 2011-12 instead of the previous 2004-05. One might need to understand a few technical terms like GVA at basic prices, production tax, product tax etc. to understand the changes brought about in the new series, which is explained below.

National Income

The total income of a nation can be expressed using many parameters like GDP, GNP, NDP, NNP etc. There are again sub-variations like GDP at factor cost, GVA at basic price, GDP at market price etc.

GDP

- Gross Domestic Product (GDP) is the total money value of all final goods and services produced in the economic territories of a country in a given year.
- In simple terms, GDP is the product of the quantity of goods (and services) produced with their final price (value).
- GDP can be expressed at the constant price and at the current price. Constant price calculations are inflation adjusted (real GDP), while current price calculations include

the inflation component too (nominal GDP).

- GDP can also be expressed at factor cost and market prices.

Factor Cost vs Basic Price vs Market Price

- **General Relationship between Factor Cost and Market Price:** Factor Cost + Indirect Tax – Subsidies = Market Price.
- **The relationship between Factor Cost and Basic Price:** Factor cost + production tax – production subsidies = Basic prices.
- **The relationship between Basic Price and Market Price:** Basic Price + Product tax – Product Subsidy = Market Price.
- Note: Thus, it is clear that market price includes both product tax as well as production tax while excludes both product and production subsidies.
- **Basic price:** Basic prices exclude any taxes on products the producer receives from the purchaser and passes on to the government (Eg: GST or Sales Tax or Services Tax) but include any subsidies the producer receives from government and uses to lower the prices charged to purchasers. In simple terms, basic price is the subsidized price without tax.

GDP	***Factor Cost***	***Market Price***
Constant Price	GDP-CoP-FC	GDP-CoP-MP
Current Price	GDP-CuP-FC	GDP-CuP-MP

GVA

- GVA is defined as the value of output less the value of intermediate consumption. For example, if the value of final output is Rs.25 and that of an intermediate product is Rs.17, then the value addition is Rs.8. The gross value addition – when value additions at all intermediate stages are calculated should be equal to the GDP, ie Rs.25.
- The significance of GVA: Value added represents the contribution of labour and capital to the production process.
- The connection between GDP and GVA: As an example consider the case of 1 bottle of orange juice you buy from a retail outlet for Rs. 30. As this is the money value of the final output, Rs.30 is value for GDP. The same GDP can be calculated by counting the value addition in intermediate stages too.
- GVA is calculated usually without discounting for capital consumption or depreciation.
- When the value of taxes on products (less subsidies on products) is added, the sum of value added for all resident units gives the value of gross domestic product (GDP).

[Also read: Goods and Services Tax (GST): Everything You Need to Know Including Issues Unresolved]

Note: GDP at market price (current prices): Under the Fiscal Responsibility and Budget Management Act 2003 and Rules thereunder, Ministry of Finance uses the GDP numbers (at current prices) to peg the fiscal targets.

The relationship between Factor Cost and Basic Prices: Factor cost + production tax – production subsidies = Basic prices.

Indian GDP series – Base Year 2004-05

- **Headline GDP:** Headline GDP was GDP at factor cost. **Producer-end given**
- **preference**: GDP at market prices could have been derived from factor cost but Indian GDP was always expressed as GDP at factor cost. **The relation between**
- **GDP at factor cost and GDP at market price:** Indirect tax was added and subsidies were subtracted from factor cost, to obtain GDP at market price.

Indian GDP series – Base Year 2011-12

- **Headline GDP:** Headline GDP is now GDP at market prices as per the new GDP series.
- **GVA at basic prices:** GDP at market prices is derived from a new quantity ie. Gross Value Added (GVA) at basic prices.
- **The relation between GVA and GDP:** GVA at basic prices + (product taxes) – (product subsidies) gives GDP at market price.
- **Consumer-end given importance:** Earlier, domestic GDP was calculated at factor

cost, which took into account prices of products received by producers. The new formula takes into account market prices paid by consumers.

- **More data from manufacturing sector:** The new GDP has incorporated more comprehensive data on corporate activity and has brought more factories under its umbrella. Now, selling and marketing expenses are also reckoned, and not just production costs.
- **Government's earnings, ie tax – subsidies:** Previously, in India what government received was not included in the headline GDP. Now what it earns by the indirect taxes (such as sales tax and excise duty) after deducting subsidy is also included in headline GDP. ie GDP at constant market price.
- **Criticism:** The objection to this method is that the GDP figure can be manipulated by changing subsidy disbursal or by raising taxes.

Also read: Micro, Small and Medium Enterprises (MSME): The Importance in Indian Economy

Results of the change

- Taking the old definition and base of 2004-05, India's GDP growth stood at 4.5 percent in 2012-13 and 4.7 per cent in 2013-14. However, the new Indian GDP series put GDP growth at 5.1 percent for 2012-13 and 6.9 percent for 2013-14.
- The move towards this method of GDP calculation has brought the method in par with those used by international agencies like IMF, World Bank etc.

Production taxes vs Product taxes

- Production taxes/subsidies are independent of the quantity (volume) of production. It is often imposed even if the products are not produced (Eg: tax —land revenues, stamps fees, registration fees tax on the profession; subsidies — subsidies to Railways, input subsidies to farmers, subsidies to the village and small industries, administrative subsidies to corporations or cooperatives, etc.).
- Product taxes/subsidies depend on quantity produced. Product taxes or subsidies are paid or received on per unit of product (Eg: tax —excise tax, sales tax, service tax and import and export duties; subsidies — food, petroleum and fertiliser subsidies, interest subsidies given to farmers, households, etc)

GDP at Factor Cost vs GVA at Basic Prices

- In place of GDP at factor cost, gross value added (GVA) at basic prices will be used now.
- For a producer, GDP at factor cost represents what he gets from the industrial activity. This can be broken down into various components — wages, profits, rents and capital — also commonly known factors of production. Aside from these costs, producers may also incur other expenses such as property tax, stamp duties and registration fees, among others. Similarly, producers may also receive subsidies (production related) such as input subsidies to farmers and to small industries (not food or petrol subsidies that you get on the final product). It is important to note that only taxes and subsidies on intermediate inputs are adjusted.
- For arriving at the new gross value added (GVA) at basic prices, production taxes, such as property tax, are added and subsidies are subtracted from GDP at factor cost.
- Put simply, GVA at basic price represents what accrues to the producer, before the product is sold.
- The price paid by the consumer is not the same as the revenue received by the producer. This is because of the taxes that are paid to the government in the form of indirect taxes. Similarly, the consumer may receive subsidies on food or petrol. GVA
- at basic prices will include production taxes and exclude production subsidies available on the commodity.
- GVA at factor cost includes no taxes and excludes no subsidies.
- GDP at market prices include both production and product taxes and excludes both production and product subsidies.

Also read: India's Free Trade Agreements - The 'present' and the 'future'

Summary

- In simple terms, for any commodity, the **basic price** is the amount receivable by the producer from the consumer for a unit of a product **minus any tax** on the product **plus any subsidy** on the product.

- GDP – can be calculated as the final value of the output. It can also be calculated as the sum of value additions done in different stages to obtain the final output. GDP at
- factor cost → GVA at basic prices → GDP at market prices.
- The objection to this method is that the GDP figure can be manipulated by changing subsidy disbursals or raising taxes

Model Prelims Questions about the Indian GDP series

Qn: Which among the following is not added while calculating GDP at market prices?

- A – Product tax.
- B – Product subsidy.
- C – GDP at factor cost.
- D – GVA at basic prices.

Right Answer = B – Product subsidy.

Qn: Which among the following statement(s) regarding India's new GDP series is/are true?

1. GVA at basic prices is the new headline GDP.
2. Production taxes may be imposed even when the total quantity produced is zero.
3. Value added represents the contribution of labour and capital to the production process.

Answer Choices:

- A – 1 only.
- B – 2 and 3 only.
- C – All the above.
- D – None of the above.

Right Answer = B – 2 and 3 only.