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New GDP Data: India vis-à-vis World's Economy

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Abstract

There is lot of debates coming around all the TV channels about the Gross Domestic Product (GDP) numbers and all political parties and economist are participating in the debate to discuss whether GDP numbers of India are strong enough as it appears. Further, it is also to be observed that what was the position of Indian economy in 2010 and what we estimate the Indian economy so far as size of the economy and growth of the economy is concerned, after fifteen years i.e. in 2030 in comparison to top biggest economy of the world.

Keywords: Gross Domestic Product, Factor Cost, Base Year, Gross value added

Introduction

There is lot of debates coming around all the TV channels about the Gross Domestic Product (GDP) numbers and all political parties and economist are participating in the debate to discuss whether GDP numbers of India are strong enough as it appears. The purpose of this article is neither to favor any govt. or political parties nor to criticize any faction or groups. The purpose is to know what the GDP is and how it is being calculated in India and status of economic growth of the country at international level as well.

GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period and are usually calculated on an annual basis.

The GDP is one of the primary indicators used to gauge the health of a nation's economy. It represents the total value of all goods and services produced over a specific time period and in other words we can treat are as the size of the economy of that country. Usually, it is expressed as a comparison to the previous quarter or year.

GDP can be determined in three ways, all of which should, in principle, give the same result. They are

- The production approach,
- The income approach, or
- The expenditure approach.

Under production approach, gross value added is determined by deducting value of intermediate consumption from gross value of output and it can be described as under:

Gross value added = gross value of output – value of intermediate consumption.

The income approach works on the principle that the incomes of the productive factors ("producers," colloquially) must be equal to the value of their product, and determines GDP by finding the sum of all producers' incomes.

The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people's total expenditures in buying things...

The GDP in India is calculated by the expenditure method and hence it is important to know the method of calculation through expenditure method in detail.

Calculation of GDP under expenditure method

GDP is the sum of all spending on goods and services in a nation's economy in a year and can be represented as under:

$GDP = C + I + G + (X - M)$, where as

C= Total Spending by consumers: It stands for consumption which includes personal expenditures pertaining to food, households, medical expenses, rent, etc which economists call consumption or consumption expenditure. It is assumed that consumption roughly equals household income, because people spend what they earn as income. (Although, they also save some of it and they borrow to spend)

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I = total investment (spending on goods and services) by businesses: Business investment is the total amount of spending by businesses on plant and equipment, and it accounts for a little over 15 percent of total GDP. It appears to be a relatively small portion of GDP for business, but it's an extremely important because businesses invest in productive equipment and that equipment typically creates jobs as well as goods and services. The wages and salaries that businesses pay to workers are not counted as businesses investment ("I"). That money is already counted in consumption ("C") because that is the money that households are spending. Investment ("I") includes only spending by businesses on goods and services, including raw materials, vehicles, offices and factories, and computers, furniture, and machinery but investments on financial products is not included as it falls under the head "Saving"(G).

G = total spending by government (federal, state, and local): Government spending on goods and services averages about 20 percent, or one fifth, of total GDP. The government takes in an amount equal to more than one fifth of GDP in taxes, but a portion of that money, equal to about 10 percent of GDP, goes to transfer payments rather than expenditures on goods and services. Transfer payments include Social Security, Medicare, unemployment insurance, welfare programs, and *subsidies*. These are not included in GDP because they are not payments for goods or services, but rather means of allocating money to achieve social ends.

"X" stands for gross exports which include all goods and services produced for overseas consumption "M" stands for gross imports which includes any goods or services imported for consumption and it should be deducted to prevent from calculating foreign supply as domestic supply.

Now, the Indian statistician has changed method of calculation of GDP numbers which conforms the international standards.

Following changes have been made while calculating the GDP under new method

- Estimation of GDP is changed from factor cost to constant/market price.
- GDP at factor cost has been replaced by Gross Value Added (GVA) at basic price.
- Base year has been shifted from 2004-05 to 2011-12.

The difference between factor cost and constant/market price is just the difference of movement of indirect taxes and subsidies. In case of GDP at constant/market price, indirect taxes are included and subsidies are excluded, whereas, in earlier definition of GDP i.e. at factor cost, indirect taxes are excluded but subsidies are included. The change of definition of estimation of GDP may also be seen as future plan of the govt. to more emphasis on imposing indirect taxes in one hand and cut in subsidy on the other.

The difference between GDP at factor cost and GVA at basic prices is that the production taxes are included in GDP at factor cost and production subsidies excluded from GVA at basic prices. There is difference between production taxes and subsidies and product taxes and subsidies. Production taxes are imposed even if the products are not produced, such as property where as product taxes are imposed when products are produced such as excise duty, value added tax etc. Similarly, product subsidies would not include interest subsidies, which is part of production subsidies.

The impact of change in method of calculation can be gauged easily from table I which shows that total GDP as per new approach was Rs. 88.32, 92.81, 99.21 and 106.44 lakh crore for the financial year 11-12, 12-13, 13-14 and 14-15 respectively, where as it was Rs.56.33, 59, 61.96 lakh crore for the financial year 11-12, 12-13 and 13-14 respectively as per old approach of calculation of GDP. Further, so far as % growth is concerned table I show that as per old approach the growth (%) in GDP during the financial years 2012-13 and 2013-14 were 4.5% and 4.7% respectively where as it were 5.15 and 6.9% during the same period as per new approach. The growth during financial year 2014-15 under new approach is 7.3%.

Table I: GDP and growth at 2011-12 prices (Amt. Rs. Lac Crore)

	12 prices (Amt.t. in Rs. Lac Crore)						
	2011-12	2012-13	Simple Growth (%)	2013-14	Simple Growth (%)	2014-15	Simple Growth (%)
Gross value added at basic prices	81.95	85.99	4.9	91.70	6.6	98.27	7.2
GDP at market Prices	88.32	92.81	5.1	99.21	6.9	106.44	7.3
GDP and growth at 2004-05 prices (Amt. in Lac Crore)							
	2011-12	2012-13	Simple Growth (%)	2013-14	Simple Growth (%)	2014-15	Simple Growth (%)
GDP at factor cost	52.48	54.82	4.5	57.42	4.7	NA	NA
GDP at market Prices	56.33	59	4.7	61.96	5	NA	NA
Note: NA is not available							

While giving bird's eye view towards GDP of other countries across the world it appears that there is inequitable distribution of income at the global level where the nominal Gross Domestic Product (GDP) of the top ten economies adds up to around 65 % of the world's economy and the top 15 economies add up to around 75 %. The remaining 172 countries constitute only 25 percent of the world's economy.

Research Methodology

I have selected top ten countries having largest economies based on the nominal GDP. However, ranking of countries may differ if it is based upon purchasing-power

parity(PPP).As a general rule, developed countries have a smaller gap between their nominal GDP (i.e., current prices) and GDP based on PPP, while the difference is greater in developing countries, which tend to have a higher GDP when valued on purchasing-power-parity basis.

Results and Discussion

➤ **Position of Indian Economy vis-à-vis top ten economies of the world in 2015**

As per the data released by International Monetary Fund, the top ten largest economies based on data pertaining to 2015 have been given in table no.II. If we go through the data for

last five years i.e. from 2010 to 2015, of ten largest economies of the world, it appears that

- Japan, France, Brazil and Italy have negative growth.
- Canada has stable growth.
- Germany has negligible growth.
- China is leading so far as GDP growth rate is concerned followed by India, USA and UK.

However, if we compare the growth rate for the year 2015 in comparison with the year 2014, it is clear that only India, China and USA has (+)ve growth and India is far ahead from China followed by USA i.e.15.50%,7.79% and 4.14% respectively.

Table II: GDP and its growth of top ten economies (Amt. in trillion US \$)

	2010	2011	Simple Growth (%)	2012	Simple Growth (%)	2013	Simple Growth (%)	2014	Simple Growth (%)	2015	Simple Growth (%)	Simple Growth(%) from 2010 to 2015
United states	15.0	15.5	3.33	16.2	4.52	16.8	3.70	17.4	3.57	18.1	4.14	20.8
China	5.9	7.3	23.73	8.4	15.07	9.5	13.10	10.4	9.47	11.2	7.79	90.0
Japan	5.5	5.9	7.27	6.0	1.69	4.9	-18.33	4.6	-6.12	4.2	-8.48	-23.4
Germany	3.4	3.8	11.76	3.5	-7.89	3.7	5.71	3.9	5.41	3.4	-12.56	0.3
UK	2.4	2.6	8.33	2.6	0.00	2.7	3.85	2.9	7.41	2.8	-1.72	18.7
France	2.7	2.9	7.41	2.7	-6.90	2.8	3.70	2.8	0.00	2.4	-11.79	-8.5
India	1.7	1.8	5.88	1.8	0.00	1.9	5.56	2.0	5.26	2.3	15.50	35.9
Brazil	2.2	2.6	18.18	2.4	-7.69	2.4	0.00	2.4	0.00	1.9	-20.83	-13.6
Italy	2.1	2.3	9.52	2.1	-8.70	2.1	0.00	2.1	0.00	1.8	-14.29	-14.3
Canada	1.6									1.6		0

➤ **Position of Indian Economy vis-à-vis top ten economies of the world in 2030 (Estimated)**

As per data released by US department of agriculture, the position of top ten largest economies in world in the next 15 years time, i.e. by 2030, US will be the world’s largest economy but slightly ahead of china. The position is given in table III which shows that

- China’s economy will have doubled.
- EU countries like France and Italy will be stagnant, and emerging markets will explode.
- China's GDP will nearly overtake USA by 2030.
- The US will be the dominant economy with \$24.8 trillion in annual output, but it will see its proportion of the world economy would decline to 20 percent by 2030 from its current level of 23 percent.

- By 2030, India will be the world’s third largest economy, up from its current position at number seven. But will be far ahead from china so far as growth rate of GDP in comparison to 2015 is concerned.
- India will overtake the UK, France, Germany, and Japan in size...

The data includes projections for 189 countries that together account for 99 percent of the global economy.

In one hand, we are commenting that India is fastest growing economy in the world in 2015 and at placed at seventh place in respect of size of the economy and by 2030 it will be placed as third largest economy in the world. But we should also see few comments from the analyst on the data calculated by new approach as discussed earlier.

Table III: Top ten economies in 2015 and estimated in 2030 (Amt. in Trillion US \$)

2015					2030				
Countries	Size	Simple Growth (%) over 2014	Rank as per size	Rank as per growth over 2014	Countries	Estimated Size	Rank as per size	Simple Estimated Growth (%) over 2015	Rank as per growth over 2015
United States	18.1	4.14	1	3	United states	24.8	1	36.87	7
China	11.2	7.79	2	2	China	22.2	2	98.04	3
Japan	4.2	-8.48	3	5	India	6.6	3	185.71	1
Germany	3.4	-12.56	4	7	Japan	6.4	4	52.02	4
UK	2.8	-1.72	5	4	Germany	4.5	5	31.96	8
France	2.4	-11.79	6	6	Brazil	4	6	110.53	2
India	2.3	15.50	7	1	UK	3.6	7	26.32	10
Brazil	1.9	-20.83	8	9	France	3.3	8	33.60	6
Italy	1.8	-14.29	9	8	Canada	2.6	9	44.44	5
Canada	1.6		10		Russia	2.4	10		
					Italy	2.3	11	27.78	9

1. D.K. Joshi, Chief Economist, Crisil, Mumbai

“There is some disconnect between the GDP numbers and the situation on the ground.

“I think there are methodological issues. That is why there is a variance between the volume indicators available at the ground level and value indicators which are being increasingly used in the computation of the GDP.

“It will take us some time to understand that. These numbers should not influence the central bank.

2. Radhika RAO, Economist, and DBS, Singapore

“The RBI Governor has highlighted his reservations on the new data series.

“Hence policy makers are likely to infer the growth

momentum from other lead indicators like industrial production, non-oil non-gold imports, and PMIs (purchasing manager's indexes). The common undercurrents there are that a recovery is taking place, but it has been a very gradual process.

3. Abhishek Upadhyay, Economist, ICICI Securities Primary Dealership Ltd, Mumbai

"This data is based on value-added, so it is difficult to feel and correlate with what is happening to high frequency data like credit growth, rural and urban wages and passenger car sales, which are all still weak.

4. Shilan Shah, India Economist, Capital Economics, London

"At face value, today's GDP figures for (January-March) suggest that India is the fastest-growing major economy in the world. In reality though, the GDP data remain wildly inconsistent with numerous other indicators that point to continued slack in the economy.

"The big picture is that the official GDP data are overstating the strength of the economy, most probably by a significant margin.

"The Reserve Bank (of India) appears to be putting more emphasis on indicators such as capacity utilization, bank lending, sales of consumer goods and core inflation in policy decisions. On these measures, the case for further policy loosening remains strong."

5. Pronab Sen., chairman of the National Statistical Commission, in an interview to Times of India

"I think there is a complete misunderstanding among people as to what GDP measures. There is confusion in people that GDP is a measure of production. It is not. GDP is a measure of income and income is not necessarily equal to production. The problem crops up when you equate GDP to production you think about it in terms of volumes. And this is the error that people are now ailing in. They are looking at data set like index of industrial production or import and export data or the credit off take data and are saying production has not increased as much as the GDP growth. The fact is that these data sets are actually reasonably consistent with the GDP numbers if you interpret GDP as incomes. "

Although, it is quiet difficult to make exact comment upon the new approach of estimation of GDP numbers in India but keeping in view the position of global economy during last five years and estimation given by US department of agriculture, India will be certainly the third largest economy in the world by 2030.

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