Double Deflation Method in GDP Calculation

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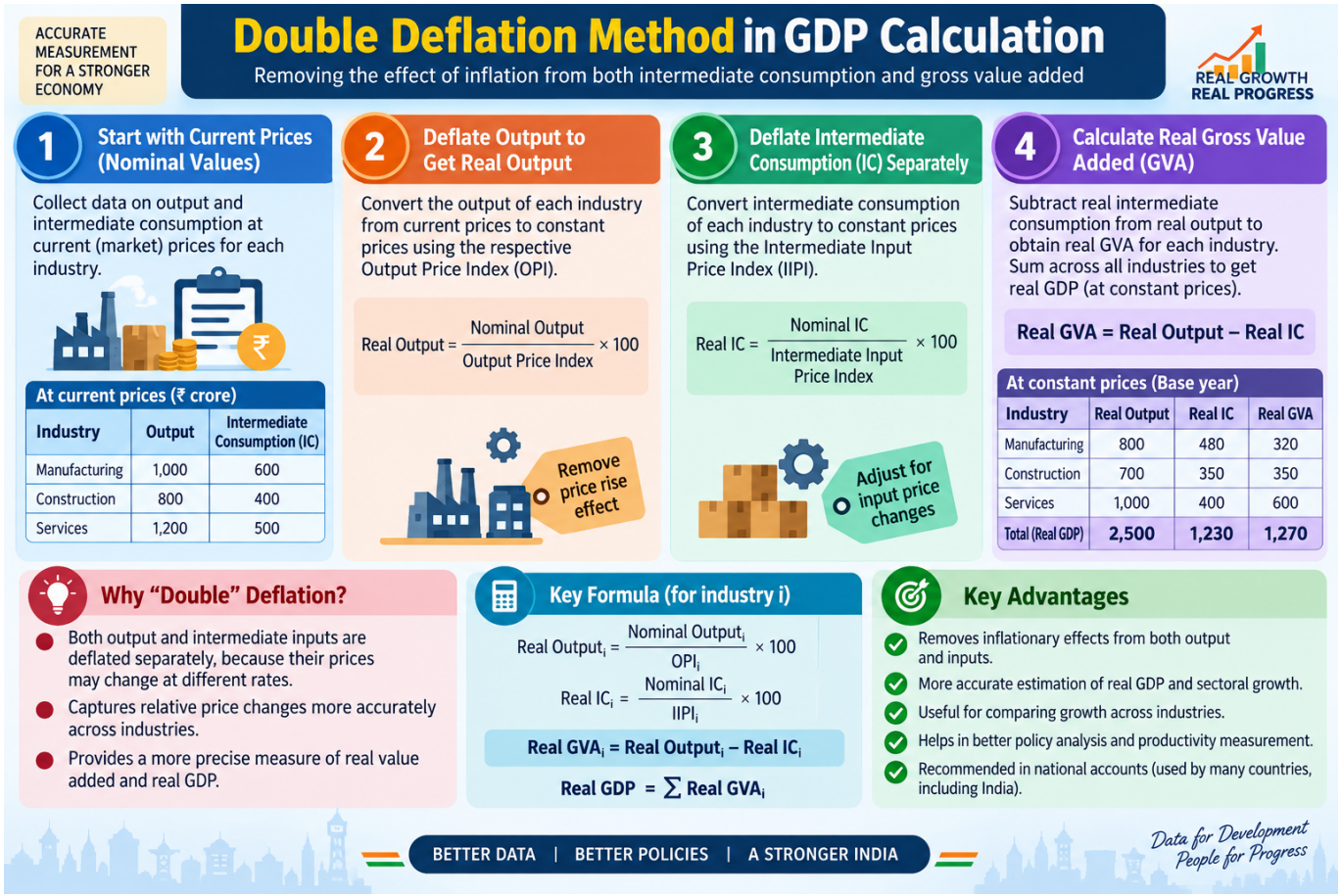
Why in News?

The NITI Aayog Vice Chairman stated that the ongoing debate surrounding the adoption of the double deflation method in India's new Gross Domestic Product (GDP) series is "not a great battle".

Double Deflation Method

- **Definition-** A national accounts technique used to derive Real Gross Value Added (GVA) by separately adjusting the nominal value of a sector's gross output and the cost of its intermediate inputs using distinct, sector-specific price indices.
- **Formula** - "Real GVA"= ("Nominal Gross Output" /"Output Price Index")- ("Nominal Intermediate Inputs" /"Input Price Index").
- Under the earlier 2011–12 GDP series, India primarily used **single deflation (often the Wholesale Price Index or WPI)**.
- A single price index was applied directly to deflate nominal GVA or output to arrive at real figures, assuming input prices moved in exact tandem with output prices.
- **Global Standard -** Strongly recommended by the United Nations ***System of National Accounts (SNA)*** and widely implemented by major global economies (e.g., US, UK, EU, Australia).



Key Issues

- **Lack of a Producer Price Index (PPI)**
  - Economists and former statisticians (including former Chief Statistician Pronab Sen and former Finance Secretary S.C. Garg) argue that India lacks a comprehensive **Producer Price Index (PPI)** covering both goods and services.
  - Currently, the Wholesale Price Index (WPI) covers only physical goods and excludes the service sector (which constitutes over 50% of India's economy).
- **Amplification of Errors -** During volatile periods (e.g., global crude oil or commodity price shocks), input prices shift at a different speed than output prices.
- Applying imprecise deflators to both sides can distort real GVA calculations.
- **Data Disparity for Informal Sector-** Intermediate consumption ratios in India's vast unorganised/informal sector are updated infrequently, making accurate input-deflator estimation challenging.

NITI Aayog's Stance

- The Vice Chairman highlighted that double deflation simply requires separating input costs from output values, a manageable statistical exercise that improves data quality over time.
- While acknowledging that statistical systems can always be improved, NITI Aayog maintained that India currently possesses "good enough data" to implement double deflation effectively.
- The think tank questioned why the new methodology faced criticism only when the resulting GDP growth figures in the revised series appeared lower than those under the 2011–12 series, noting that the method provides a more realistic assessment.

Reference

[The Hindu | Double deflation debate over GDP methodology]

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