

# **Status and Compilation Issues in National Accounts Statistics: A Short Summary**

No. 397

20-July-2023

Amey Sapre and Vaishali Bhardwaj



**National Institute of Public Finance and Policy**  
New Delhi

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Amey Sapre

Vaishali Bhardwaj

10th July, 2023

## Abstract

This paper is a summary of the status and compilation issues in the National Accounts. In addition to a brief summary of the sources and methods of estimation, the paper covers the set of issues that have emerged with the 2011-12 series of national accounts after it was introduced in 2015. Some of the key measurement issues are in the manufacturing sector, particularly after the introduction of the MCA21 database. A summary of issues with the expenditure side estimates and regional accounts are also presented. While the focus is largely on the estimates of aggregate value added, a comprehensive analysis is also needed for other macro-aggregates, such as consumption expenditure, savings, capital formation, input-output transaction tables and transactions of the public sector. Given the present compilation of national accounts, major macro-indicators such as savings, expenditure side estimates, etc. are yet to be compiled at the state level. On the sources and method front, issues with the household sector and status of the data sources are highlighted. Lastly, new challenges for GDP estimation, Code of Practice, among others are some of the areas that need systematic research initiatives for overall improvement of official statistics.

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## Disclaimer and Acknowledgments

Amey Sapre ([amey.sapre@nipfp.org.in](mailto:amey.sapre@nipfp.org.in)) and Vaishali Bhardwaj ([vaishali.bhardwaj@nipfp.org.in](mailto:vaishali.bhardwaj@nipfp.org.in)) are at the National Institute of Public Finance and Policy, New Delhi. This paper is a revised version of a research work undertaken for the Economic Advisory Council of the Prime Minister (EAC-PM). The views expressed are of the authors and not of the Institute or the EAC-PM. We are thankful to A.N Jha, R. Kavita Rao, Pinaki Chakraborty, Pronab Sen, Radhika Pandey, Pramod Sinha for helpful discussions and suggestions for improvements.

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# 1 Introduction

This paper is a summary of the status of compilation of national accounts and some of the issues involved in the 2011-12 base year series. The summary captures the basic process of compilation of national account aggregates as is understood from the official publications of the National Statistical Office (NSO). The paper also highlight some of the issues with the compilation, data sources, methods and processes used for compiling regional accounts, i.e. State Domestic Product and the status of data sources that are in use.

In recent years, studies and debates on GDP numbers have raised several issues relating to growth trends, revisions, changes in the manufacturing sector, among others (see CSO (2015a, 2015b), Nagaraj (2015, 2015a), Dholakia et. al (2015), Ghosh (2016), Anant (2018) for an initial discussion on the issues). However, the quality of overall national accounts goes beyond methodological and data issues. Systemic challenges involve exploring and dealing with new data sources, growing use of administrative data sources, conducting sample surveys in a timely manner, compiling various statistical products and coordinating with States for improving regional accounts. In the 2011-12 series, major conceptual and data changes were introduced for improving coverage of the estimates. However, changes also brought about a newer set of issues that are yet to be effectively resolved.

The existing 2011-12 base year of the national account series is nearly a decade old and a base year revision is due. The summary of the major issues provides a learning of the experience of the 2011-12 series and the areas that need critical intervention. From a data users' perspective, base year revision and the resulting back casted series may lead to substantial changes in level and growth estimates and on several occasions it may not be possible to decipher changes in estimates due to systemic changes and routine changes in the economy. From the data compilers' perspective, changes are guided by conceptual advancements in the system of national accounts, data constraints and the approximations they make in the process of estimation. The common ground can be achieved only by understanding the process of estimation and the the quality of the estimate by recognizing the state of input data.

## 1.1 Background

GDP numbers are a commonplace in macroeconomic policy, research and in public discourse as they capture the general state of the economy, direction and magnitude of economic growth. However, it is also a commonplace that debates and conclusions on economic growth and their trends often overlook the finer details of compiling such macro aggregates, which leaves parts of our understanding either incomplete or for want of sufficient information. It is reasonable to expect that important macro aggregates are not marred with measurement and computational

inconsistencies, but at the same time it is equally important to recognize the limitations that are inherent in the process of compilation. National Account aggregates such as Domestic Product, Capital Formation, Consumption Expenditure, among others are compiled on the basic principles of the System of National Accounts (SNA). While the SNA provides a guide-post for compiling such aggregates, several country specific indigenous methods are also adopted, which in-turn are guided by the structure and composition of the economy and data availability. Indigenous or ad-hoc methods have a large bearing on the quality of the estimates and their underlying data quality and methodology are often ignored in the overall assessment of growth and structural change.

GDP (or estimates of [Gross] Domestic Production) are a part of the broader set of 'accounts' prepared under the System of National Accounts. These accounts are namely Production, Generation of Income, Redistribution or Transfers, Financial or Flow of Funds, External Sector, Expenditure and Assets and Liabilities of institutional sectors such as Public Sector, Private Corporations and the Households. While the focus of macroeconomic policy is largely on growth patterns of Domestic Production (GDP) and Capital formation, the entire set of accounts provide a comprehensive and internally consistent picture of the economy. The internal consistency is primarily because GDP estimates can be compiled *independently* using *alternative* but *equivalent methods* that yield similar estimates and upon reconciliation, they would turn lead to equivalence.

However, given a country context, in practice, it may not be possible to estimate using alternate methods on account of several data limitations and inadequacies of the statistical system. In such a situation, policy makers and data users have to rely on available estimates, without having recourse to cross-validate and reconcile national account aggregates.

Major countries adopting SNA have attempted to produce estimates from alternate methods. In the Indian context, historically, erstwhile series of national accounts (base year 1999-2000) presented estimates of factor incomes, among other aggregates, several of which were discontinued over the years. While the expenditure side estimates continue to be compiled, they have their own share of measurement and data issues, both at the national and regional level.

Understanding GDP numbers requires a round-about view of the data sources, methods and the assumptions made in compiling such numbers. GDP numbers are *estimates*, in the sense that they are a measure of the value added produced by different institutional sectors engaged in economic activity. Statistically, estimates have a margin of error and given the quality of input data and the method(s) used, the magnitude of the errors can be small, large or even unknown. However, in the general discourse, such errors are usually ignored and data users often do not have the information on the magnitude of such errors. Data uses also have a

limited assessment of the definitions, data sources and the extent of revisions in estimates as it is generally not possible to reconstruct parts or components of national account aggregates for users.

Thus, to develop a working knowledge it is relevant to understand the generally accepted set of principles that are followed, in so far as they are consistent with international standards and also bring objectivity in building such aggregates. To deal with these issues, the brief is arranged as follows;

- **Section 2** presents the environment in which overall National Accounts and GDP estimation is undertaken, the requirements of the metric and some of the core standards required in the process of compilation. These standards are essential to take note of as they present the overall quality of the statistical products, in line with international standards. **Section 3** describes in brief the new developments in the sources and methods since the introduction of the 2011-12 base year series.

- **Section 4** outlines the structure and composition of sectoral value added in the economy as captured by the national accounts and a brief summary of the methods adopted. The components of the expenditure side and the data sources used are also discussed.

- **Section 5.2** presents an analysis of the revision cycle of GDP numbers, the nature, direction and the magnitude of change that is observed in the sequence of revisions.

Section 6 summarizes the issues with the 2011-12 series and **Section 7** summarizes the issues with the Regional Accounts, i.e. estimates of Gross State Domestic Product (GSDP), particularly after the introduction of the 2011-12 series. **Section 8** outlines the issues with the larger domain of official statistics that are relevant to consider towards improvement of the quality of statistical products.

## 2 The environment

### 2.1 Principles and Prerequisites for estimation

One of the important facets of the SNA is the conceptual background it provides for compiling value addition or related macro aggregates. In brief, the four basic elements required are;

- Conceptual** - Requires definitions of ‘what to capture’
- Data** - Requires data based on definitions
- Statistical** - Requires a methodology & technique to estimate and aggregate
- Comparability** - Requires comparability with other aggregates, or even cross country

Respective country’s compilation manuals do not describe conceptual elements in detail as they are primarily embedded in the SNA. Statistical agencies generally describe the data sources they

use in estimation. However, data sources such as sample surveys (eg: consumption expenditure, industrial production or prices) or administrative data (such as taxes, financial statements) have their own definitions and constructs, which may or may not be designed for use in national income accounting. This difference is more pronounced in data from administrative sources as they are an outcome of the administrative system and not necessarily statistics (based on any statistical procedure) collected for national income accounting purposes. Comparability is an essential requirement across various statistical products. Since concepts, data sources and methods of estimation change over time, the estimates so prepared ought to have a reasonable degree of comparability with previous aggregates.

In this context, the IMF Special Data Dissemination Standard (SDDS) also provides guideposts on what qualities or characteristics a metric ought to possess. Some of these are mentioned as under;

Legal environment	Relevance	Quality Management	Transparency
Ethical standards	Concepts	Scope of measurement	Classification
Valuation	Source data	Statistical techniques	Validation
Revisions	Consistency	Accessibility	

In brief, a country's national account aggregates are produced by their statistical agencies that operate within the legislative and regulatory boundaries set by the laws of the country. Thus, all statistical data such as population or enterprise census, industrial production, price collection, tax records, public finances, external sector transactions, etc., obtained either through the administrative system or surveys requires enabling legislative powers and an adequate administrative setup. Within the statistical system; data management, dissemination, documentation of techniques, manuals, accessibility are some of the essential requirements for maintaining quality and relevance of statistical products. Achieving these standards require statistical agencies to regularly publish manuals, data sources, methods of estimation and dissemination policies. Across countries, these features are included in a Code of Practice of the statistical agency that is made available to users.

While improvements in data collection and coverage are largely an administrative matter, the improvements at a conceptual level can be understood from the historic versions of the SNA and the timeline in which countries have adopted the revisions of the SNA. Implementation of SNA has been staggered as most countries take time to realign their existing sources and methods to new conventions. Also new administrative challenges emerge as new data sources get included, which may or may not have a past. Thus, while incorporating new sources and methods aids in quality of estimation for future years, it poses several limitations for recreating estimates of previous years. It is generally accepted that recommendations of the SNA are taken as guideposts and each country is expected to align its sources and methods with its

recommendations. However, for any statistical agency, it may not be possible to revise its existing methods within a short span of time. Thus, major overhaul and upgrades are made in a *base year revision* that takes into account limitations of previous base year series and new international conventions.

### 3 GDP estimation and the 2011-12 Base Year series

#### 3.1 The change of Base Year

New developments in national accounts involve improvements in data capture, methodological changes and institutional practices. Most of these changes are considered as a major overhaul and also create a numerical and qualitative impact on the system. Thus, such changes are usually done *periodically* so as to reconstruct a new set of accounts with a reference point called as base year. However, new developments or changes made in a base year come with several complications. As new methods and data sources are used to capture a wider set of activities, the same when applied on the past can present a different picture as most new activities may not have existed in the past.

The primary reason for changing the base year of the national accounts periodically is to take into account the structural changes taking place in the economy. In India, the practice was to revise the base ever 5 years, so as to coincide with quinquennial rounds of the NSSO. However, since 2004-05, base year revision has been staggered due to several reasons. With the financial crisis of 2009-10, 2011-12 was chosen as the base year instead of 2010-11 and the updated series was released only in 2015. Since the last base year revision (2011-12), the Indian economy went through several structural, policy induced and economic crisis events. These changes however could not be captured completely as either a normal year was not available to be considered as base year and NSSO rounds were not conducted routinely during the decade.

In the 2011-12 series several new conceptual and statistical features were introduced in line with the recommendations of the SNA 2008. These changes led to major revisions in the levels and growth rates of sub-sectors and thus aggregate GDP. Some of the important changes are summarized herein, which serves as a backdrop to understand the methodology in detail.

- By convention, in India, GDP referred to GDP at Factor cost, at constant prices. With the change in convention, the new terminology following SNA is to present “**GVA at Basic Prices**” and the new reference for GDP is “**GDP at Market prices**”. Primarily, the differences between the aggregates are based on the separation of Production and Product taxes, where, Production taxes are invariant with level of output, such as stamp duty, registration fees, etc and Product taxes are ad-valorem or indirect taxes, such as



VAT or GST. The reference point for estimation can be arrived as under;

S. No	Item	Value
1	GVA at Factor Cost	
2	[Add:] Production Tax	
3	[Less:] Production Subsidy	
4	<b>GVA at Basic Prices</b>	$(1 + 2) - 3$
5	[Add:] Indirect Product Taxes	
6	[Less:] Product Subsidies	
7	<b>GDP at Market Prices</b>	$(4 + 5) - 6$

- In the dis-aggregated statements of the national accounts, the net of production taxes and subsidies is presented separately. Thus, it is possible to reconstruct the earlier aggregate of GDP at FC for comparative purposes. The difference between GDP FC and GVA BP is significant only for sub-sectors that have large subsidies, whereas at the aggregate the difference in levels (Rs.) is less than 5%.

*Other conceptual changes*

- In the 2011-12 series, a new class of assets; Intellectual Property and Cultivated Biological resources was added under Gross Capital Formation.
- Research and Development expenditure of government, public and private corporations has now been capitalized, hence is now a part of capital formation, whereas in the earlier series, it was treated as intermediate consumption. This change was based on the SNA recommendation that; the output of research and development should be capitalized as 'intellectual property products' except in cases where it is clear that the activity does not entail any economic benefit to its producer (and hence owner) in which case it is treated as intermediate consumption (SNA 2008, para. A3.46)
- In case of Private Final Consumption Expenditures (PFCE) of Households, expenditure on Gold and Silver was earlier treated as *consumption expenditure*. In the 2011-12 series, these expenditures have been treated as savings and included in 'valuables' under capital formation.
- Non-financial and financial corporations, general government, public corporations and households are now shown separately in view of their intrinsic differences in economic activity and functions. Unincorporated enterprises considered as households but were maintaining books of accounts have been classified as '**Quasi corporations**' and are included in the Private Corporate Sector, instead of the Household sector. This shift led to an increase in the estimates of the private corporate sector and a drop in the household sector as compared to the 2004-05 series.

- Coverage extended to major municipal bodies and autonomous institutions extended as compared to the 2004-05 series.
- Major revision of methodology and estimates in few sub sectors: Registered Manufacturing - i.e. Change of method from **Establishment** to **Enterprise** in the manufacturing sector and use of MCA21 database in place of RBI sample of studies for the Private Corporate (Manufacturing) sector and the Annual Survey of Industries.
- A new **Effective Labor Input** method was introduced for estimating value added in the un-incorporated (i.e Household) manufacturing sector. This method is based on estimating GVA per worker using different marginal productivity of three types of workers, namely Owner, Hired and Helper. In the 2004-05 series, all workers were treated as homogeneous and the estimate was based on the average GVA per worker.
- Services sector now includes NBFCs, regulatory bodies and services of stock brokers, mutual funds, pension funds, etc. data on which in the 2004-05 series was limited or unavailable.
- **Output of RBI:** Previously, output of RBI was calculated as a mix of market and non-market output. The banking operations were considered as market activities and output of the issue department was taken as a non-market activity. In the new series, the entire output of RBI is considered as a non-market activity and is measured using the cost approach.
- SNA 2008 mentions two kinds of illegal activity:
  - activities that are not illegal per se, but which become illegal if carried out by unauthorized persons, eg. unlicensed practitioners or unauthorized lotteries; and
  - activities that are against national law regardless of who carries them out, e.g. illegal transportation in the form of smuggling of goods or people, the production of and trade in narcotics, human trafficking. Across countries, there are no direct estimates of such illegal activities and hence are not a part of estimation.

In terms of level changes, the 2004-05 and 2011-12 series showed considerable changes at the sub-sector level. Also, due to reclassification of economic activities, an exact mapping of the old and new sub-sector classification was not achieved. SNA recommendations are detailed and operate at a granular level. As a base year revision also makes several internal changes (i.e. other than those recommended by SNA), for a user it may not be possible to separate the effect of SNA recommendations and internal changes. It is also accepted that changes in sources and methods can lead to a revision in the levels and growth rates in comparison to any previous series. However, statistical agencies usually provide the reasoning behind revisions on the premise that new sources and methods have either improved coverage data or the method.

Table 1: Comparison of levels of sectors of the base year, 2004-05 & 2011-12 series, Rs. Crore (Current Prices)

				04-05 Sr	11-12 Sr	(Rs.)	
	Industry		Industry	2011-12	2011-12	Diff	*
1	Agri, FRST, FHG	1	Agri, FRST, FHG	14,99,098	15,01,947	0.19	
1.1	Agriculture	1.1	Crops	13,00,569	9,82,151	-	
		1.2	Livestock	-	3,27,334	-	
1.2	Forestry & LGG	1.3	Forestry, logging	1,31,667	1,24,436	-5.49	
1.3	Fishing	1.4	Fishing, Aquac.	66,862	68,027	1.74	
2	Mining, Quarr.	2	Mining, Quarr.	2,22,716	2,61,035	17.21	*
3	Manufacturing	3	Manufacturing	12,36,182	14,09,986	14.06	*
3.1	Registered			8,85,547	-	-	
3.2	Unregistered			3,50,635	-	-	
4	EGW	4	EGW, Other	1,35,670	1,86,668	37.59	**
5	Construction	5	Construction	6,89,798	7,77,335	12.69	
6	TR, HTL & Restr	6	TR, Rep, HTL, Restr.	14,57,565	8,83,582	-39.38	**
6.1	Trade & repair	6.1	Trade & repair	13,30,489	7,93,681	-40.35	***
6.2	Hotels & Restr.	6.2	Hotels & Restr.	1,27,076	89,901	-29.25	**
7	Transp., STR, Brdc	7	Transp, STR, Brdc.	6,14,707	5,29,534	-13.86	
7.1	Railways	7.1	Railways	62,710	61,150	-2.49	
7.2	Transp, other			4,56,754	-	-	
		7.2	Road transport	-	2,62,442	-	A
		7.3	Water transport	-	6,910	-	B
		7.4	Air transport	-	4,393	-	C
		7.5	Serv. inc transp.	-	63,602	-	D
7.3	Storage	7.6	Storage	5,496	5,108	-7.07	
7.4	Communication	7.7	Comm., BDcasting	89,747	1,25,930	40.32	***
8	Fin, Ins., RE, B. Serv	8	Financial Serv.	13,81,524	4,80,226	-	E
8.1	Banking & Insurance			4,81,495	-	-	
8.2	RE, Odwell, B.Serv	9	RE, Odwell,P.Serv.	9,00,029	10,50,651	16.74	F *
9	Community, P.serv.			11,54,431	-	-	
9.1	PBAdm. & Defence	10	PB Adm, Defence	4,98,346	4,91,155	-1.44	
9.2	Other services	11	Other services	6,56,085	5,34,827	-18.48	*
10	GDP FC (1 to 9)	12	GVA BP (1 to 11)	83,91,691	81,06,946	-3.39	

- Abbreviations: Agri, FRST, FHG are Agriculture, Forestry and Fishing, LGG is Logging, Aquac. is Aquaculture, EGW is Electricity, Gas and Water Supply, Other includes, remediation services, TR, REP, HTL, Restr are trade (wholesale and retail), Repair services, Hotels and Restaurants. Transp. STR, Brdc/ BDcasting are Transport, Storage and services related to Broadcasting, Comm. is Communication, RE, Odwell, P.Serv are Real Estate, Ownership of Dwelling and Professional Services, PB Adm. is Public Administration
- A,B,C,D are components of transport by other means (items 7.2 - 7.5) as shown in the 2011-12 series. E and F are reclassified sub sectors
- \*, \*\*, \*\*\* magnitude of revisions

Table 1 presents the differences at current prices for the year 2011-12 in both the old and new series. Comparing the level differences, few contentious areas were raised; (i) upward revision in manufacturing, Electricity, Gas & Water supply sector and (ii) major drop in trade sector. The single largest change happened in the retail, wholesale, hotels and restaurants sub-sector as the levels dropped by nearly 40%. These changes are primarily on account of (i) overestimation of growth of employment in these sectors in the 2004-05 series and changes in method of estimation from labor input to the Effective Labor Input method. (See CSO 2015c for a discussion on the method of estimation)

In case of the manufacturing sector the major change was due to the introduction of the MCA21 data set for the organized part of manufacturing and services, collective called as the private corporate sector. The MCA21 data set while enhancing the coverage of registered companies for estimation of value addition, capital formation and savings, introduced a new set of challenges in the process.

Some of the key limitations of the data set were; (i) no clear identification of economic activity of the company for it to be classified as either manufacturing or services, no geographical indicators for it to be classified by state and (iii) no factor level details such as employment, production, output or input costs, etc. While some of these problems were addressed through new set of forms along with the financial statements, no effective resolution could be achieved. Some of these issues were subsequently highlighted in the report of the committee on Real Sector Statistics, CSO (2018). A more detailed discussion on the issues with the MCA21 database is presented in Section 6.

#### **4 Indian NAS and the process of compilation**

In India, national account aggregates are compiled on the basis of the SNA guidelines. However, as the structure and data availability are operational constraints, estimation has its own unique features. In short, a **17 sector** classification i.e. broad economic activity classification is used and more than one method is followed, i.e. Income, Expenditure and Value Addition (Production). In cases where there are *non-market* activities or in cases where goods and services may not have a price (eg: services provided by general government), cost based methods are used. Estimates are presented at current and constant prices for different *institutional sectors*, i.e. **General Govt**, **Firms** (Public Corporations & Private Corporates) and **Households** and suitable price deflators, i.e. wholesale and retail (consumer price) indexes are used for deflating current price estimates to base year prices.

## 4.1 Structure and Composition

In order to visualize the process, it is useful to situate the economy into economic activity and institutional sectors based on which estimates are prepared and presented. Economic activity classification is based on the National Industrial Classification (NIC) 2008 that groups several economic activities, ranging from agriculture to services. The NIC follows a hierarchical structure, where each broad activity is further divided into sub-categories, represented by sector and sub-sector codes. The highest level of aggregation is at 2 digit, whereas sub-sectors can be identified at 3,4 or 5 digits. The advantage of NIC is that the same structure is followed for other aggregates such as; employment, enterprise surveys, or price series.

The other side of the classification is/are the institutional sectors, where, General Government comprises of the legislative and administrative setup such as ministries, departments of all levels of the government; central, state and local bodies. It also includes autonomous bodies that receive grants or financial support from the government. The information about General Govt. is available from their annual budgets that are presented in legislative assemblies or parliament and the task is to identify the *type of expenditure that goes as final consumption expenditure, capital expenditure, transfers and other financial and external transactions.*

To aid the process, a system called the Classification of Functions of Government (CoFoG) is used to classify and identify various types of expenditures. Details of expenditure are usually available in the expenditure budget of the government and the final figures are available in the Finance Accounts after the audit is conducted by the Comptroller and Auditor General of India (CAG).

Departmental Enterprises (Railway, Post, Ordnance Factories, etc.) are part of the government in the sense that they are owned, managed and controlled by respective ministries. The information about such enterprises is also available from the budget and the task again is to identify production, intermediate costs, taxes, capital expenditure, etc. Non-Departmental (commercial) Enterprises (eg: BSNL, erstwhile Air India) are incorporated entities such as companies (under the Companies Act) and may be listed on the stock exchange. Information about their revenue, profit, assets etc. is available from their financial statements and annual reports.

Private Corporate sector comprises of entities that are incorporated as companies (financial or non-financial) (or limited liability partnerships, etc.) that may or may not be listed on the stock market. Companies are required to file their annual financial statements (Profit & Loss Statement, Balance Sheet and other mandatory disclosures) as per the Companies Act, with the Ministry of Corporate Affairs (MCA).

The information on the corporate sector is available from the master database of such financial statements (MCA21). With financial statements, the task in contrast to general government is to estimate *value of output, intermediate cost and taxes* for compiling value addition. Other major aggregates include savings and capital formation in the private corporate sector. The actual process has more complications as the statistical system has to deal with non-filing by companies, winding up, diversified enterprises that do a multitude of activities and operate in a number of geographic locations.

Households are the remainder and perhaps that largest in proportion to other institutional sectors. SNA 2008 defines households as [SNA: 2.17] ‘institutional units consisting of one individual or a group of individuals. All physical persons in the economy must belong to one and only one household. The principal functions of households are to supply labor, to undertake final consumption and as entrepreneurs, to produce market goods and non-financial (and possibly financial) services. The entrepreneurial activities of a household consist of *unincorporated* enterprises that remain within the household except under certain specific conditions.’

Murthy (2019) presents some of the basic facts of the coverage and composition of the unorganized sector. The paper states; the terms unorganized/ informal sector are used interchangeably in the India context. The informal sector/ unorganized sector consists of enterprises which are own account enterprises and operated by own account workers or unorganized enterprises employing hired workers. They are essentially proprietary and partnership enterprises.

Table 2: Share of unorganized part of the economy, % of GVA

	Org.	Unorg.	in	Sum	Org.	Unorg.	in	Sum	Org.	Unorg.	in	Sum
			HH*				HH*	*	* HH*			
11-12	11-12	11-12	11-12	16-17	16-17	16-17	16-17	17-18	17-18	17-18	17-18	
Agri, Fr, FS	3.2	96.8	94.8	100.0	2.8	97.2	95.2	100.0	2.9	97.1	95.2	100.0
M&Q	77.4	22.6	22.6	100.0	77.4	22.6	22.6	100.0	77.5	22.5	22.5	100.0
Manuf	74.5	25.5	12.7	100.0	76.4	23.6	12.5	100.0	77.3	22.7	12.0	100.0
EGW	95.7	4.3	3.2	100.0	95.0	5.0	5.0	100.0	94.7	5.3	5.3	100.0
CONST	23.6	76.4	76.4	100.0	26.6	73.4	73.4	100.0	25.5	74.5	74.5	100.0
TR, REP, HT	13.4	86.6	56.0	100.0	13.4	86.6	55.8	100.0	13.4	86.6	55.8	100.0
TRNS, COMM	53.0	47.0	39.6	100.0	53.7	46.3	38.5	100.0	52.3	47.7	39.6	100.0
Fin Serv.	90.7	9.3	0.0	100.0	88.1	11.9	0.0	100.0	88.1	11.9	0.0	100.0
RE, OWD, PS	36.9	63.1	57.2	100.0	46.8	53.2	46.7	100.0	47.2	52.8	46.0	100.0
PB Adm	100.0	0.0	0.0	100.0	100.0	0.0	0.0	100.0	100.0	0.0	0.0	100.0
OTH Serv	58.8	41.2	22.6	100.0	52.7	47.3	24.4	100.0	52.1	47.9	24.3	100.0
GVA BP	46.1	53.9	45.5	100.0	47.3	52.7	43.6	100.0	47.6	52.4	43.1	100.0

Source: Murthy (2019)

Table 2 in Murthy (2019) describes the overall share of the unorganized sector and the part considered as Households within the unorganized sector. The difference within the unorganized sector is on account of the quasi-corporate enterprises that maintain books of accounts and hence are treated as formal enterprises. Another distinguished type of enterprise is called NPISH, i.e. Non-profit institutions serving households (NPISHs) which are legal entities

engaged in the production of non-market services for households or the community at large and whose main resources are voluntary contributions. (example: charity organizations, section 25 companies in the Indian case).

Table 3: Estimates of GVA by sectors & Institutions, 2011-12 (**Base year**), Rs. Lakh Cr.

S.No	Sectors	Institutions					Total	% Share
		GG	DE	NDE	Pvt. C	HH		
1	Agri+Fi+Fs	-	0.40	0.02	0.37	14.26	15.06	18.37
2	M & Qry.	-	-	1.62	0.44	0.57	2.63	3.21
3	MANF	-	0.27	1.06	11.69	1.80	14.82	18.08
4	El., Gas, WS	0.19	0.10	1.11	0.48	0.06	1.94	2.37
5	CONST	0.43	0.12	0.03	1.32	5.85	7.74	9.45
6	TR, RE, HT, RS	-	0.00	0.20	3.67	4.95	8.83	10.77
7	TRNS, STR, COMM	-	0.77	0.53	1.93	2.08	5.30	6.47
8	FinServ.	-	0.06	2.44	2.30	-	4.80	5.86
9	RE, OWD,PS	-	0.02	0.03	4.59	5.95	10.59	12.93
10	PB. Adm.	4.92	-	-	-	-	4.92	6.01
11	OTH Serv	2.39	-	0.01	1.65	1.27	5.31	6.48
	GVA BP (Lk. Cr.)	7.95	1.72	7.05	28.44	36.79	81.96	100.00

Table 4: Estimates of GVA by sectors & Institutions, Current Prices, 2021-22, Rs. Lakh Cr.

S.No	Sectors	Institutions					Total	% Share
		GG	DE	NDE	Pvt.C	HH		
1	Agri+Fi+Fs	-	0.01	0.01	0.86	34.04	34.93	19.47
2	M & Q	-	-	1.70	0.66	0.92	3.28	1.83
3	MANF	-	0.39	1.83	22.08	2.86	27.16	15.13
4	El. Gas, WS	0.47	0.07	2.76	1.41	0.36	5.06	2.82
5	CONST	0.64	0.18	0.08	2.32	10.00	13.22	7.37
6	TR, RE, HT, RS	-	-	0.47	7.99	9.78	18.29	10.20
7	TRNS, STR, COMM	-	0.68	0.63	4.49	3.70	9.50	5.29
8	FinServ	-	0.12	4.82	5.95	-	10.88	6.07
9	RE, OW, PS	-	-	0.06	16.21	14.01	30.28	16.87
10	Pub AD	12.38	-	-	-	-	12.38	6.90
11	OTH Serv	6.44	-	0.01	4.82	3.17	14.45	8.05
	GVA BP (Lk. Cr.)	19.94	1.50	12.36	66.79	78.84	179.43	100.00

Source: NAS (various years)

- Abbreviations: Agri, FRST, FHG are Agriculture, Forestry and Fishing, LGG is Logging, Aquac. is Aquaculture, EGW is Electricity, Gas and Water Supply, Other includes, remediation services, TR, REP, HTL, Restr are trade (wholesale and retail), Repair services, Hotels and Restaurants. Transp. STR, Brdc/ BDcasting are Transport, Storage and services related to Broadcasting, Comm. is Communication, RE, Odwell, P.Serv are Real Estate, Ownership of Dwelling and Professional Services, PB Adm. is Public Administration
- GG is General Govt., DE and NDE are Departmental and Non-Departmental Enterprises, Pvt. C is Private Corporate and HH is Household sector

At the aggregate, Tables 3 and 4 present the size and composition of the total economy as observed in the national accounts. The figures are of GVA at Basic Prices for each institutional sector operating across different economic activities. The change in these shares is mapped to 2021-22 to capture the changes in the economy as reflected in the national account aggregates.

Percentage share by institutional sectors in overall GVA (2011-12 Series)

Institution	% Share in Total GVA	
	2011-12	2021-22
General Govt.	9.70	11.11
Departmental Enterprises (DE)	2.10	0.84
Non-Departmental Enterprises (NDE)	8.61	6.89
<i>Public Sector</i>	20.41	18.84
Pvt. Corporate Sector	34.70	37.22
Households	44.89	43.94
Total	100.00	100.00

The change in size and composition over the decade highlights few points for consideration.

- Over the decade, the size of GG has increased to 11.12%, while the size of DE and NDE has shrunk to 0.84% & 6.89% respectively. Within the institutional sectors, the highest share in GG is of Public Administration & Defense
- During the same period, Pvt. corporate increased marginally from 34.7% to 37.22% and the household sector remained roughly same at 43.95% of the aggregate economy
- Within the public sector, the largest share of DE is in Transport & Communication, while the highest share of NDE is in Financial Services sector
- The largest share of HH is in Agriculture, Fishing, while the highest share of Pvt. Corp. is in Manufacturing

While these changes are expected to reflect the structural shifts in the economy the compilation has several limitations. For instance, apart from the base year, the information on the household sector is unavailable in any given year, or on a routine basis. Thus, base year estimates have to be extrapolated using relevant indicators. Such a process has two concerns; (i) the size of household sectors is nearly 45% of aggregate GDP, for which there is no direct estimation in any given year and (ii) the indicators used for extrapolation are primarily from the organized sector, thus superimposing the growth rates of the organized on the un-incorporated or household sector. Thus, level estimates and compositional changes do not entirely reflect the size and growth of the household sector on a yearly basis. As current year estimation moves far from the base year estimates, the errors get compounded and the estimates lose accuracy.

These limitations are brought out more subtly in the sector-wise details of estimation as practiced in the national accounts. The next sections summarize the procedure with the



necessary details for the production and expenditure side estimates.

## 4.2 Sources and Methods

Sources and Methods are grouped into five institutional sectors and two parts - namely method followed and data used or available for estimation. To being with, the broad coverage of the institutional sectors is mention which acts as the universe for the scope of estimation for that particular sub-sector.

Table 5: Types of Enterprises under Organized & Unorganized Sectors, 2011-12 Series

I.	<b>Organized Sector</b>
(a)	<i>General Government</i>
(b)	<i>Public Financial/ Non-Financial Corporations</i>
1.	Dept. Enterprises (DE) or Dept. Commercial Undertakings (DCU)
2.	Non-Dept. Commercial Undertakings (NDCUs or NDE)
(c)	<i>Private Financial/ Non-Financial Corporations</i>
1.	Private Incorporated Enterprises
2.	Quasi-Corporations, including;
(i)	Crop plantations, other than those covered in Pvt. Corp. Sector
(ii)	Unincorporated Enterprises covered in Annual Survey of Industries
(iii)	Unincorporated Enterprises of manuf., not covered in ASI but maintain accounts
(iv)	Co-operatives providing non-financial services
(v)	Unincorporated Enterprises providing non-financial Serv. maintaining accounts
(vi)	Unorganized Financial Enterprises
II.	<b>Households or Unorganized Sector</b>
a.	Enterprises not covered in 'I', i.e, all non-Government Unincorporated Enterprises not classified as Quasi Corporations and includes <i>Non-Profit Institutions serving Households</i> (NPISH)

Source: NSO (2015)

Estimates for all major aggregates are first compiled at current prices and suitable price deflators are applied across sectors. Deflators are applied at the lowest level of aggregation possible (i.e. economic activity level) as available from the Wholesale and Consumer Price Index (WPI, CPI) groups. In case of agriculture, prices of outputs (crops) and input (seed, feed, irrigation, etc.) items are available for the base year hence the same are used to compile the constant price estimate. In principle, the method is of a *double deflator*, where output and input prices are available separately. In case of other sectors the final value added (which is a residual of Output - Input - Taxes) is deflated by an output price deflator (i.e. WPI or CPI). Thus, this

method is a *Single deflation* method, where value added is deflated by a representative output price index.

For all practical purposes, the broad method followed for each institutional sector is as under.

Ins. Sec.	GG	DE	NDE	Pvt. Corp	HH
Method	Income	Income	Production	Production	Extrapolation from base yr.
Data	Budget	Budget	Ann. Reports	MCA21	Unincorp. Survey

- **Production Approach:** In this approach, first the value of total production is estimated, which constitutes the Gross Value of Output (GVO) and value of Intermediate Consumption (IC) is deducted to arrive at Gross Value Added (GVA). This approach is typically followed for commodity producing sectors like, Agriculture (including Livestock), Forestry, Fishery, Mining & Quarrying and Manufacturing
- **Income Approach:** In this method, the income accrued to the factors of production like, land, labor and capital in the form of factor payments, i.e. rent, wages and salary (including any social security benefits), interest and profit (or loss, as a residual) of the entrepreneur are used for arriving at total value added. This method is typically followed for sectors such as; Electricity, Gas and Water Supply, parts of Trade, Hotels & Restaurants, Transport, Storage & Communications, Financing and Insurance, Real Estate, Ownership of Dwellings, Professional Services, Public Administration and other personal services. The income approach is a distribution of total value added into its components, i.e. factor incomes, however, separate estimates of factor shares are not presented.
- **Expenditure Approach:** This method measures income at the stage of disposal, i.e. similar to accounting for final expenditures. This method based on the commodity flow approach is adopted for estimation of value added in the Construction Sector.

Given the institutional sectors, economic activity wise method of estimation is elaborate in the sense that it has to account for all institutional sectors and the sum of value added thereof is the estimate of that sector. The process is further split into (i) coverage of activities and (ii) method and (iii) available data. In cases where no data is available on either output or cost, base year or fixed proportions are applied and value added is computed.

As earlier, estimates of the public and private sector are prepared from expenditure available in the annual budgets of central and state governments and the financial statements of registered companies in the MCA. For the household sector, primarily, base year estimates are extrapolated using indicators as annual information from surveys, local area statistics, etc. are not available with the NSO.

## 5 Expenditure side estimate of GDP

NAS provides expenditure side GDP estimates which are based on the conventional macroeconomic identity of  $GDP = PFCE + GFCE + GFC + X - M$ , measured at market prices. Expenditure side components are;

- **Consumption:** of private households on goods and services (**PFCE**) and NPISH
- **Government Exp.** Expenditures on goods and services that the govt. consumes in providing public services. Example, direct purchases of material, labor, etc. (**GFCE**)
- **Gross Capital Formation**
  - Final purchases of machinery, equipment and tools by business
  - Construction: New and repairs
  - Changes in inventories (Physical stocks)
  - Valuables
- **Exports and Imports (X-M)**

The balancing item between the production side estimate of value added (and taxes) and the expenditure side estimate is shown as *Discrepancies*. While the expenditure side estimates are presented separately, there are several qualitative limitations to its aggregates.

- Expenditure side estimates are not derived independently of the production side. Within the components, Govt. Final Consumption Expenditure (GFCE) is derived from the budget and primarily consists of compensation of employees and purchase of goods and services by the general government. The component of net exports is derived from data on international flow of goods and services as reported by RBI and DGCIS.

Gross Capital formation includes fixed capital formation by all institutional sectors, with the households treated as a residual, i.e. after accounting for public and private corporate sector from the estimated overall estimate. The overall estimate is first prepared by type of asset (Dwellings, Buildings and Structures) and institutional sector using the information on basic material groups (viz. Cement & Cement Products, Iron & Steel, Bricks & Tiles, Timber & Bitumen, Glass Products, Fixtures & Fittings) and Service Charges.

- While the extent of expenditure on fixed assets is available for the public and private sector, capital formation for the household is based on the estimates of the NSS All India Debt and Investment Survey (2013) for investment in rural residential buildings and NSS 65th Round on Conditions of Housing (2009).

- For the private corporate sector, the estimate based on the available set of companies is scaled up (as in case of GVA) to account for the unavailable companies.
- One of the major limitations of the process of compiling capital formation are that the ratio and proportions used for the household sector are dated and may not correspond to the level of activity in economy. Since the proportions are fixed, they also do not take into account the variations and economic fluctuations that happen over the years.

Thus, the measurement errors could be significant, particularly for the household sector as survey results are not available on a routine basis. This case is more prominent for the physical assets such as residential buildings, dwellings and other structures as they are primarily based on overall use of inputs (expenditure on construction items) and not direct estimation of residential construction undertaken by households.

- In case of private final consumption expenditure, the aggregate is treated as a residual on the expenditure side after accounting for the other components. Using this residual, the NAS allocates item wise expenditure based on a commodity flow method. The method, which begins by using the estimate of production accounts for imports, removes exports and makes adjustments (in case of food items) for wastage, seed & feed consumption, trade/ transport margins, marketable surplus and supply through Public Distribution Systems.

The remainder of production is valued at average annual prices and is treated as domestic consumption expenditure. However, while estimating the residual production, the NAS uses fixed proportions on item (such as seed, feed, wastage, etc.) which are based on previous surveys. In case of services (housing, water supply, health, recreation, communication, education, etc), either a fixed proportion of GVO (gross value of output) is considered as consumption expenditure or the proportions are based on the 68th Round of NSS Consumption Expenditure survey (2011-12).

## 5.1 Data Sources and their Status

The indicative list of data sources captures the nature of database which is either from administrative sources or surveys. In case of the organized sector, data sources are primarily from administrative sources (such as MCA), whereas for the household sector estimates are from the surveys. Since the introduction of the 2011-12 series, the status of the data sources is as under;

	<b>Sector</b>	<b>Indicative Data Sources</b>
1	Agriculture	State DES, Min. of Agriculture
2	Forestry and Logging	State DES, Forest Dept.
3	Fishing	State DES and Min. of Agri.
4	Mining and Quarrying	Indian Bureau of Mines, etc.
5	Manufacturing - Registered	ASI and now MCA21
6	Manufacturing - Unregistered	NSSO Enterprise Surveys
7	Construction	Nat. Building Org., CPWD, etc.
8	Electricity, Gas and Water Supply	CERC, SEBs
9	Transport, Storage and Comm.	NSS EUS, Empl. Survey
10	Railways	Dept. Enterprise
11	Storage	NSS UES, Empl. Survey
12	Communication	NSS UES, Empl. Survey
13	Trade, Hotel and Restaurants	NSS UES, Empl. Survey
14	Banking and Insurance	SCBs, NABARD, etc.
15	Real Estate, Dwellings etc.	NSS UES, Empl. Survey
16	Public Adm. and Defence	Budgets, Dept. Undertakings
17	Other community services	Budgets, Dept. Undertakings

- Allied activities in agriculture include dairy, horticulture, etc., ASI is Annual Survey of Industries CERC is Central Electricity Regulatory Commission and SEBs are State Electricity Boards, DES is Directorate of Economics of Statistics of respective state governments, ELI method is Effective Labor Input method: capturing number of person-jobs, UES is Unincorporated Non-Agricultural Enterprise (excluding construction), EUS is Employment and Unemployment Survey, MCA is Ministry of Corporate Affairs

Table 6: Status of Data sources and proportions used in NAS

	<b>Data</b>	<b>Status</b>
1	Population Census	Dated by 12 years
2	Economic Census	Dated by 9 years
3	Consumption Exp. Survey	Dated by 12 years
4	Unincorporated Ent. Survey	Dated by 13 years
5	Employment Survey	2015-16 Survey has not been incorporated in NAS Dated by 12 years PLFS has not been incorporated in NAS
6	Consumer Price Index (CPI)	Dated by 12 years
7	Wholesale Price Index (WPI)	Dated by 12 years
8	Index of Indust. Prod. (IIP)	Dated by 12 years
9	Input Output Table	Dated by 15 years
10	NIC codes	Dated by 14 years

The delay in quinquennial surveys has led to several quality issues with the estimates. As earlier, base year benchmark estimates have been dated by nearly 12 years, which may not reflect changes that have happened over the years. Similarly, in case of price series, the composition of the item basket does not reflect the changes that have happened at the household level (in case of CPI) and the weight structure of the index does not adequately represent the expenditure shares in recent years. These changes are more significant for services as expenditure on transport, communication, health is likely to have changed considerably in the recent years.

Specifically, the weight structure of items such as fuel, power, lighting, health, housing may lead to an understatement of their contribution to overall inflation as these weights have not been revised since 2011. On the index front, the item selection depends on the standard product description and market shares of items. Given the change in product variety, composition, quality and expenditure patterns, the prices of existing item basket may not adequately represent the product variety and the variation in prices.

In the literature, the divergence between the aggregate and share estimates of NSSO's household consumption expenditure survey and the expenditure side of the NAS has been highlighted on several counts. Apart from the measurement issues, the composition of item wise expenditure (as shown in the NAS) and the composition of weights for the price index (as used in CPI) presents a contrasting picture. Thus, if the weight structure of the CPI were to be aligned with the NAS, the contribution of services would be significantly higher in overall inflation.

## **5.2 Understanding Revisions in GDP**

Revisions in GDP estimates are a part of constructing the national accounts. This section uses Sapre & Sengupta (2017) to provide a short summary of the revision cycle of GDP estimates. GDP numbers for any given year are released in a sequence, primarily because it is not possible to compile the estimates in a span of a calendar or financial year. Since collection of data is time consuming, GDP numbers for any given year are released in a sequence of revised estimates *based on different levels of data availability*. The SNA however does not specifically provide a revision cycle or its methodology, thus leaving for respective countries to adopt their own procedures.

Extent of revisions in Rs. Lk. Crore (Current prices)

	Item	Adv. Est			3rd RE	2nd RE	1st RE	Diff.		
		18-19	19-20	20-21	18-19	19-20	20-21	18-19	19-20	20-21
1	Agri +	26.92	30.47	34.95	30.30	33.58	36.09	3.37	3.11	1.15
2	M & Q	4.57	4.03	2.94	3.78	3.59	3.25	-0.80	-0.45	0.31
3	Manuf	28.54	28.83	25.54	28.13	27.05	27.09	-0.41	-1.78	1.56
4	EGW	4.53	5.03	4.77	4.49	5.02	5.07	-0.03	-0.01	0.30
5	Constr	12.79	14.40	12.14	13.52	13.73	13.16	0.74	-0.67	1.02
6	TR/HT	31.58	33.91	27.11	32.03	34.78	28.66	0.45	0.87	1.55
7	Fin Serv	35.56	39.45	38.96	35.29	38.79	40.46	-0.26	-0.66	1.49
8	Pub. Adm	25.13	28.90	29.36	24.21	27.01	26.79	-0.92	-1.88	-2.57
	GVA BP	169.61	185.02	175.77	171.75	183.55	180.58	2.14	-1.47	4.81

- Difference is 3rd RE - AE (first Advance Estimate), + ve sign shows under-estimate at the AE stage, -ve sign shows over-estimate at the AE stage

### 5.3 What to make out of revisions?

- High frequency indicators are by construct noisy indicators of the growth performance of the sub-sector they represent. Also, most high frequency indicators suffer from seasonality and are influenced by business cycle conditions. For instance, components of the Index of Industrial Production (IIP) are used as indicators for the registered manufacturing sector. Typically, item level manufacturing output has a seasonal variation and fluctuates with other business indicators. Similarly, sales of vehicles, tax collections, passenger & freight revenue, among others suffer from seasonality on account of various events over the calendar year.
- The element of seasonality may also change over time. Given that most of the indexes are based on a fixed sample frame of production units, each indicator has a limited ability in capturing the level of economic activity in its sector. Other than seasonality, the coverage of the indicator also poses certain limitation. Presently, a single indicator is considered as representative of the entire sector and the choice of high frequency indicators is guided more by the notion of data availability and coverage, than accuracy.
- *Revisions and economic fluctuations*: It is important to de-link periodic revisions from actual fluctuations in the economy that are inevitable due to the changes in the underlying macroeconomic conditions. Subsequent revisions of initial estimates of GDP should not and cannot be concluded as pure economic fluctuations in levels of value addition or other aggregates.

- *Revisions and expectations*: The basic premise of the AE and its subsequent revision is that initially, the state of the economy can be projected for the current year based on its previous position. Subsequently, the projection can be revised, once source data becomes available. However, in this process, revisions can and often miscommunicate the information about the economy and are taken by surprise, especially when revisions take place contrary to expectations.
- *Revision and directional uncertainty*: it useful to have some directional predictability about the final estimate. The level of revisions at the sub-sector level may be very different as compared to overall GDP growth rate. While growth rates of some sectors are overestimated in the initial estimates, most sectors do not show any consistent trend over the years. Manufacturing has been the only sector where the AEs were consistently overestimating of the actual growth rate. The analysis at the sub-sector level shows that extent of revision in both direction and magnitude in any sector remains unpredictable.

## 6 Issues with the 2011-12 series

Some of the key areas of concerns that came up with the introduction of the methods and datasets in the 2011-12 series are as follows;

### **Manufacturing sector**

- *Enterprise vs. Establishment approach*: The use of MCA data also led to few conceptual changes. First, the dataset includes both manufacturing and service sector companies, as opposed to ASI that only had factories. Second, it was asserted that the financial statements from MCA21 capture information of the entire ‘enterprise’ (i.e. a firm) as opposed to an ‘establishment’ (i.e. a factory) covered under the ASI (See CSO (2015) for details). Thus, the enterprise level has a wider coverage as it accounts for all source of value addition that an establishment level approach may miss. However, Dholakia et. al. (2018) showed that such a situation was possible only in a case where the head office was outside the state in which the factory was situated. See CSO (2015), Anant (2017), Dholakia et.al (2018) for a detailed discussion on the issue. The methodological changes for the manufacturing sector and consequently the data revisions have been substantial. Various authors (Nagaraj, 2015a, 2015b, 2015c, Rajakumar (2015), Nagaraj and Srinivasan (2016), Sapre and Sinha (2016)) have analyzed the estimation process in detail. The important findings relate to;
- The MCA21 database (*as yet*) does not offer clear identifiers of economic activity such as manufacturing, trading or other services to classify enterprises. This process has the potential of mis-classification of companies which can lead to incorrect sectoral



estimates of growth rates. The enterprise is classified into the sector/ economic activity as shown by the NIC digits in the Corporate Identification Number (CIN), which could be different than the actual economic activity carried out by the enterprise. The efforts to use MGT 7/9 form that has product level revenue contribution is a feasible way forward but also has major limitations. The revenue generation criteria does not clearly distinguish between manufacturing or trading as an activity as it only reports the items that have the maximum revenue generation.

- The filing pattern of companies in the MCA21 ought to be studied in detail. Presently, the universe of companies is dynamic in the sense that the MCA adds companies on a monthly basis (based on new registrations) and de-registers companies as per the norms of de-registration. Within the dynamic additions and deletions, the estimates are built on an ‘active’ set of companies that have submitted their financial statements at least once in the past three years. Within the active set of companies, the number of available companies that file financial statements are on average 58%, thus leaving a large number of active companies as ‘unavailable’. The filing pattern as available for the initial years from the press note (MoF, 2019) is as under.

Table 7: Information of aggregates from MCA21 dataset

Year	12-13	13-14	14-15	15-16	16-17
Filing for the year (lakhs)	5.6	6.1	6.0	6.3	7.1
Active Companies(lakhs)	8.8	9.5	10.1	10.8	11.6
Multiplier (Based on PUC)	1.15	1.14	1.17	1.13	1.17
Share of PUC of Reporting Co.	87%	88%	85%	88%	85%
Filing as a % of active	63.64	64.21	59.41	58.33	61.21

Ministry of Finance (2019)

- One of the key differences in the erstwhile ASI based estimates and the MCA21 is that in the ASI the multipliers were based on the number of factories as per the sampling strategy. Whereas, in the MCA21, the multiplier to scale up value added and other aggregates is based on the inverse of the ratio of Paid-Up Capital (PUC) of active to available companies. This construct of the multiplier assumes a close association of PUC and GVA and the scaling up is done at the aggregate level with the single multiplier, as opposed to strata based multipliers in the ASI. It is well known that at an enterprise level, while value added can be negative for any given year, PUC does not vary on a yearly basis and will always remain positive and thus may not be the most suitable metric for scaling up value addition. A detailed study of PUC, GVA and the filing pattern would be required to establish whether such a scaling up technique is leading to mis-measurement and the potential of overestimation of value addition and other aggregates such as savings and capital formation.

- In case of un-organized manufacturing, growth rates of the organized sector (based on MCA) are used to extrapolate the levels of GVA. While there could be several areas of sector wise mis-classification of companies in the MCA, using the growth rates of the organized sector poses serious measurement errors and has the potential to overestimate growth rates for the unorganized sector.
- In comparison to the ASI, the MCA data also does not offer product classification as sources of value addition include revenue from all source of the enterprise, as opposed to industrial sales. Thus, at the enterprise level, using Profit and Loss statements, it is not possible to separate sources of value addition, particularly for multi-product companies or diversified enterprises. The lack of separation poses challenges for applying appropriate price deflators (such as WPI) as value addition may include the contribution of both manufacturing and service activities.
- MCA21 presently does not have geographical and physical indicators (such as plant location, employees, etc.) which makes it unusable for building state level estimates. Thus, estimates allocated to states within the manufacturing sector present a disconnect with the ASI based estimates and pose an inconsistent picture in terms of levels and growth rates.

### **Services Sector**

- One of the major challenges of the 2011-12 series is the estimation of unorganized part of the services sector. Since the estimates are based on value added per worker in the base year (2011-12), it does not take into account the changes in employment in the services sector or the improvements/ fall in value added by workers. The extrapolation is based on growth in indicators of the organized sector (such as; Motor Vehicles Sales, Growth in profits of organized hotels/ restaurants, GST collections, which replaced all service tax collections for services such as communication, storage, warehousing, cargo handled for transport sector, etc.) and growth in GVA of corporate sector for other professional services. These indicators pose several measurement errors as in recent years there has been no updation of the landscape of the unorganized sector enterprises. The count of unorganized sector enterprises is based on the last available survey of 2010-11 (67th Round of Un-incorporated enterprises) and the urban and rural directory of establishments. These estimates have nearly lost their relevance as the landscape of enterprises may have undergone considerable changes, especially after introduction of GST and the Covid-19 pandemic.
- As of 2023, the current base year is dated by nearly 12 years and given the non availability of updated data source, it is expected that the present series would be revised only during the next base year change. However, as new and updated sources are brought out, the

revisions in the next base year are more likely to alter the levels, composition and growth rates of the unorganized sector.

- The issue with the estimates of the unorganized parts of the manufacturing and services are much more complex than outdated data. The introduction of the Effective Labor Input (ELI) method poses conceptual issues with its construct and econometric technique. (see Nagaraj (2016) for a discussion). The Sub-Committee report on the unorganized sector (CSO (2015) contended that the erstwhile Labor Input method did not take into account the differential labor productivity and the estimates were also subject to potential overestimation due to problems with inter-survey growth of GVA per worker and Workforce Participation Rate (WPR). Extrapolation was based on the assumption that inter-survey growth for all aggregates was fairly constant. However, as WPR and growth in employment changes across various categories of workers were starkly different in later surveys, it violated the basic assumption and lead to imprecise estimates. To overcome some of these limitations, the ELI method was adopted that differentiated marginal labor productivity of three categories of workers namely; Owner, Hired worker and Helper. The estimates were prepared using the unit level data of enterprises covered in the 67th Round of NSSO's unincorporated enterprise survey. In order to produce estimates of marginal product of labor, a log-linear nested Cobb-Douglas Production function was estimated  $\ln Y = \ln A + \beta \ln K + \alpha \ln[L2 + \delta_1 L1 + \delta_2 L3] + \gamma S$ , where  $Y$  being GVA,  $K$  as Capital,  $L1, L2, L3$  being the three types of labor and  $S$  as a dummy variable for Rural and Urban. To quote,  $\delta_1, \delta_2$  were treated as conversion factors (or relative marginal productivity) of the owner and helper categories of workers respectively in terms of hired worker. For eg.  $\delta_1 = 0.5$  implies that 10 owners are equivalent to 5 hired workers (See CSO 2015c).
- While estimating the equation, it was contended that: [] The unreliability of capital stock data in unorganized sector enterprises was discussed and it was felt that there may be some degree of inaccuracy in the capital stock estimates for own account enterprises. But, the bias in capital stock estimates in own account enterprises is unlikely to be correlated with the employment level and its structure in such enterprises. Therefore, it may be safely presumed that the estimates of labour input related parameters obtained by regression analysis will not be biased because of the inaccuracies in capital stock estimates. While the inaccuracy in capital estimates may cause a downward bias in the estimate of capital coefficient, it is unlikely to cause any bias in the estimate of conversion factors (derived from labour coefficients) which are used to convert different types of workers into an equivalent number of hired workers (Section 4.2, CSO (2015c)). Thus, effectively, capital stock was omitted from the estimating equation altogether.

- The estimation structure assumes interchangeability between Gross value of output (GVO) and Gross value added (GVA) as theoretically a production function relates inputs to outputs and not inputs to value added. Since value added at an enterprise level can be negative, it does not conceptually fit into a production function structure.
- The indicators used for extrapolation across compilation categories are primarily from the organized sector, i.e. Growth in corporate GVA, or are based on volume index such as the Gross Trading Index and a few limited to consumer expenditure (See CSO 2015)

## 7 Issues with Regional Accounts

- GDP estimation underwent considerable changes after the introduction of the 2011-12 base year series of the National Accounts. The changes made at the all-India level also led to considerable changes at the state level, primarily on account of changes in source data and method of estimation. A detailed mapping of changes between the 2004-05 and the 2011-12 series could not be done as no process manuals were available alongside the changes in methodology in the 2011-12 series. NSO released the manual (NSO: 2019) for compilation of Gross State Value Addition (GSVA), which provides a general approach for all states. Respective states, wherever available, in their own manuals have adopted and documented the same principles, with minor variations, wherever applicable.
- NSC Committee on Regional Accounts (2020) made detailed sector wise recommendations for improving the overall quality of state income estimates. One of the specific recommendations was [.] “A bottom up approach for compilation of National Aggregates from the corresponding State aggregates is deemed to be the ideal approach and should be followed to the extent possible in all sectors except the supra-regional activities. Actually, such is the status in respect of Agriculture, Forestry and Fishing. However, for structural, administrative and data availability reasons, allocation of National Aggregates amongst the States becomes imperative. It is nonetheless emphasized that States ought to evolve systems and processes so that such allocations are minimized.” (NSC (2020))

Although the methods followed are consistent across states, the quality of data, particularly for the agricultural sector and indicators used for allocation may differ. The broad structure is summarized as follows;

### I. Organized Sector

(a) *General Government (GG)* - Estimates for GG are prepared from State Budget or are distributed in the proportion of the Central Government Employees.

(b) *Public Financial/ Non-Financial Corporations*

1. Departmental Enterprises (DE) or Departmental Commercial Undertakings (DCU) - Estimates are prepared from State Budget or distributed in the proportion of the Central Government Employees.

2. Non-Departmental Enterprises (NDE) or Non-Departmental Commercial Undertakings (NDCUs) - Analysis of Profit and Loss statement of NDCU for States or All-India estimates are allocated on the basis of State wise number of employees and value of assets.

*c. Private Financial/ Non-Financial Corporations*

1. Private Incorporated Enterprises and 2. Quasi-corporations: All India estimates are allocated using indicators (based on ASI and NSSO's unincorporated enterprise survey)

## **II. Households or Unorganized sector**

Estimates of services (including quasi corporate sector) and manufacturing sector are prepared for the base year by multiplying the value added per worker by labor input and extrapolating these benchmark estimates with suitable indicators for other years. Information on Taxes and subsidies on products are provided by the NSO to respective states.

- Manufacturing sub-sector (including organized and unorganized) saw substantial changes in terms of both data source and method of estimation. With the data source changed from ASI to MCA21, the method for state income in manufacturing changed from a bottom-up to a top-down approach. Estimates for organized manufacturing are first compiled at the all-India level and are then allocated to regions based on the proportion of state x industry in the ASI. For the unorganized part, the new Effective Labor Input method is based on differential marginal productivity of three types of workers and is based on estimates of value added per worker in the base year (2010-11 67th round NSSO survey for the establishments and 2011-12 68th round NSSO survey for employment). For all subsequent years, the base year estimates are extrapolated based on representative indicators.

*Procedural*

- *Estimates at Market Prices:* Presently, sector specific aggregates are not available at market prices. These are available at either at factor cost (as in the erstwhile 2004-05 series) or at basic prices, which is inclusive of production taxes. The estimate of product taxes (total indirect taxes) is available only at the aggregate which is added to aggregate GSVA at the state level to arrive at GSDP at market prices.

- *Benchmark Year*: Substantial part of GSDP depends on the benchmark estimates of the base year. For instance, for the household sector, estimates of labor productivity/input (or value added per-worker), workforce composition depends entirely on the base year.
- *Other macro aggregates*: Presently, other macro aggregates such as Gross Capital Formation and its components such as Fixed Capital, Change in Stocks, Valuables, etc. are not available or are not being compiled as part of the overall set of accounts. In some cases, few States have prepared the estimates for the Public Sector, whereas no estimates have been compiled for the private corporate and household sectors. Similarly, in absence of income and expenditure side aggregates, estimates of savings of various institutional sectors are not being compiled.
- Within the scheme of preparing the national accounts, regional accounts (state income) also follow the same principles, but differ in terms of their process of compilation. Conceptually, region specific estimates can be prepared by two approaches, namely; *income originating* within the region and *income accruing* to the region. In the first approach, the estimates correspond to the income *originating* to factors of production that are physically located *within* the geographic boundary of the region. Thus, GSDP (or final value added estimates) reflects the net value of goods and services *produced within* the region.
- In the second approach, the estimates correspond to the income *accruing* to the residents of a region, irrespective of the *ownership* of factors of production by persons residing within the region. In this case, the GSDP estimates reflect the net value of goods and services available to the residents or that is attributable to the region. Conceptually, income accruing is wider in coverage than income originating in the region. Income accruing also provides a true and fair measure of the economic standard of living or Per-Capita aggregates of the region.
- However, procedurally, this method is data intensive and requires detailed inter-regional flows of goods & services, factors of production and factor payments. Regional entities such as States and Districts have 'open boundaries' with free physical and financial flows. Due to non-availability of data that can capture all such flows, it is practically difficult to prepare estimates based on the income accruing concept. Thus, in its present structure, GSDP estimates are prepared by the first approach, i.e. domestic product *originating within the geographical boundaries* of the region. Both methods, however, can lead to potentially different estimates, primarily because free flow of factors of production, goods and services and factor payments can lead to a significant difference between the income *originating* within the geographical boundaries and the income *accruing* to residents.

- There are two accepted practices of compiling the state level estimates; either a top-to-bottom approach in which national totals are estimated first and its parts are allocated to regions based on indicators, or a bottom-up approach, in which estimates are prepared for the region and are aggregated to arrive at national totals. In the present system of compilation, the approach is top-to-bottom and other than the direct estimation of value addition in the agriculture and allied sectors (crops, livestock, fishing) the estimates for all of manufacturing and services sector are prepared and allocated by the NSO. Such an allocation process is conventionally followed in case of supra-regional activities such as railways, communication etc. for activities that are not confined to a region. However, under the present system of compilation, it is followed for nearly all sub-sectors.
- Since state boundaries are 'open' to flow of goods and services, factors of production and individuals, compiling *final expenditure* estimates is also a major challenge. Recent papers T. Rajeswari & Singh (2018) and Sapre & Sinha (2018) attempt to estimate the PFCE component in the expenditure side at the state level. The results remain inconclusive as there are no set of indicators that can be used to allocate item wise expenditure in a meaningful way. Another issue with allocation is that for some states the PFCE component upon allocation from the NAS can exceed its GSDP as measured from the production side. While this excess is a possibility, the same will have to be resolved in several iterations to balance the expenditure side identity at the state level.

*Statistical Products, others:*

- *Concordance with other statistical products:* National Account aggregates require input data from several other statistical databases such as agricultural/ industrial production, Census, municipal records, trade statistics, among others. Most of the input statistics are independently available in publications such as the statistical abstract, business register, departmental reports and publications, etc. However, it is possible in several cases that the input data published in other publications does not reconcile with the input data being used for GDP estimation. These discrepancies are largely due to level of updation of statistical databases and the information used by NSO for computation and allocation.
- *Back Series:* Presently, the available series of GSDP is of the 2011-12 base year and begins from 2011-12. A back series as is available for aggregate GDP is not available at the state level. The non availability of a back series considerably limits any scope of analysis as longer trends of growth and structural changes cannot be analyzed.
- *Statistical Audits:* As of prevailing practices of the statistical agency (either at the national or state level) statistical audit of products such as GSDP, IIP, agricultural statistics, statistical abstracts or any other publicly disseminated statistical product are not routinely conducted. Statistical audits are an important means of identifying gaps, limitations

and quality of products, the findings of which can be used for making changes during periodic base year revisions.

- A set of papers on regional accounts were presented and compiled in India's New GDP Series- Implications for the Estimation of GSDP, VM Dandekar Memorial Seminar series (See ISPE: 2018). Issues related to state of compilation in GSDP, manufacturing sector, consumption expenditure, among others were highlighted in Anant (2018), Bairwa et. al (2018), Chauhan et. al (2018), Manna (2018), Rajakumar & Shetty et. al (2018), Phani (2018), Sapre & Sinha (2018), and T. Rajeswari (2018). A summary of issues along with the debate on expenditure side of GSDP can also be found in Sethia (2018).

*New concerns for GDP/GSDP estimation:*

GDP (including GSDP) estimates follow the guiding principles of the SNA and methodological or changes in data sources are introduced typically during base year revisions. However, changes in the economy are a continuum and capturing such qualitative and quantitative changes is a challenge for the statistical system. The economy wide changes in the past decade, particularly in areas of telecommunication, digital services, e-commerce, electronic payment systems and e-commerce based service delivery have significantly altered the services sector. While these changes happen across states, some of the key services sectors such as retail trade, transport, tourism, room rentals, hotels and restaurants have a much higher impact in tourism driven states. Broadly, there are four areas that require a systemic effort to capture the nature of economic activity, employment, pricing and thus sources of value addition. These are;

*Digital content and assets* - Content on internet based technologies, digital assets such as; internet networks, servers, cloud storage, media and related infrastructure.

*Free content:* Free content available via internet in the form of media, tutorials, etc. that does not require any subscription fee or charges.

*Platform aggregators and service providers* - which has linkages with retail trade, hotels and restaurants, personal services (such as medical, beauticians, educational/ coaching services), city transport (such as taxi providers) and payment systems. Other areas are equally challenging such as hotels, home-stay, paying guests and for similar hospitality services.

*Service delivery:* Internet enabled technologies (ITES) that are used for service delivery such as food, consumer products that may or may not be chargeable, but employ a significant amount of workforce. The NAS has also made initial progress in compiling environmental accounts. Thus, newer set of accounts such as Natural Environmental Asset Account are also being compiled, but not at the state level.



## 8 Issues with Official Statistics

### 8.1 Statistical system and Code of Practice

- *Data standards:* Statistical agencies in all developed countries have adopted a Code of Practice (CoP). The CoP subjects the official statistics to standards of data quality, periodic reviews of methodology, conducting statistical audits and mandates a consistent policy on updating data sources and methods. In India, limited efforts in this domain (other than base year revisions) have been made at the national and state level. Adopting international best practices, a CoP suitable to the Indian landscape ought to be formulated for overall and timely improvement of national and regional income estimation.
- *Engagement with stakeholders:* A consistent communication policy to regularly engage with data users is vital. While the sources and methods available from the CSO provide an account of how national aggregates are compiled, the process of adjustments made at the state level is largely unknown to data users. Renewed efforts at the state level are required to build the expenditure side estimates of GSDP, capital formation of all institutional sectors, input-output tables, updating price series and routine collection of local area statistics in selected areas (such as housing, unorganized enterprises and updating of business registers).
- *Exploring new data alternatives:* GDP estimation relies primarily on data generated through administrative processes and sample surveys. With rapid changes in the nature and volume of economic activities, traditional sources of collecting data will eventually fall short of the requirement. New systems like the Goods & Services Identification Network (GSTIN) and digital transaction records that generate detailed product or service level information on three key items, value, volume and prices, need to be explored. Data from these systems can be used to produce reliable price indices and consumer expenditure estimates. The latter can feed into the expenditure approach of measuring GDP and also for state level estimation of major aggregates.
- *Revision metrics:* Actual data on economic activities is not readily available for the computation of GDP estimates for any given year. A detailed study of historic revisions in India's annual GDP data, both at the aggregate and sectoral levels reveals that there have been large and unpredictable revisions in growth rates (Sapre and Sengupta 2017). Currently, detailed of revisions are not studied at state level as various DES do not publish historic data on revisions. Initiatives in this area would lead to clarity and improvement in overall quality of estimates.

There are several areas for research in the national accounts which require initiation. One of the first is the compilation of expenditure side estimates of GSDP. Second is the allocation of organized manufacturing/services sector estimates at the state level, which is presently based on the state x activity share as per the ASI. A bottom-up approach would be required to reconcile the estimates of MCA and ASI by mapping the state wise list of registered corporates in the respective ROCs of the states and the ASI frame of each state. Similarly, for the unorganized sector, regular updates of state wise Business Registers, directory of establishments and the finalization of the Economic Census would aid in assessing the landscape of the enterprises.

Issues raised in several studies have important implications for quality of estimates and for improving the process of compilation. In particular, unresolved measurement issues in the manufacturing sector, a re-look at the effective labor input method and the lack of survey data for the unorganized part of the economy are more critical than others. These issues ought to form a part of the base year revision that is due for the national accounts. However, as the economy has gone through several structural and policy oriented changes in the last decade, it remains open ended as to how much of would be effectively captured by newer datasets. While conceptual advancements in estimation are also needed for addressing newer challenges in estimation, it is equally important to address measurement issues in existing sources and methods.

## Notes

### Definitions used in the NAS

- **Production boundary:** Production is an activity carried out under the control and responsibility of an institutional unit that uses inputs of labor, capital and goods and services to produce goods and services.
  - Includes: Own Account Production (i.e. for self consumption)
  - Excludes: Domestic and personal services that are produced and consumed within the same household
- **Asset Boundary:** Based on (i) creation of ownership and (ii) economic benefit
  - Includes: Assets held domestically by various entities
  - Excludes: Mineral deposits that have not been explored
- **Consumption Boundary:** For estimating final consumption expenditures of various entities, such as general government, households and NPISH
- **Income:** based on Sum of incomes distributed by resident producer units, i.e compensation of employees + gross operating surplus + gross mixed income + taxes less subsidies on production and imports

- **Expenditure:** based on Sum of the final uses of goods and services (excluding intermediate consumption) + Govt. Purchases of goods and Services, + Capital formation + Exports – Imports
- **Value addition: GVA** = Gross Value of Output – Value of Intermediate Consumption – Product taxes

The specific aggregates are as follows;

<b>GVA:</b>	Value of output less value of inputs (less taxes) used in production
<b>GDP:</b>	Aggregate measure of production activities (within the country) by summing up their GVA
<b>Factor Cost:</b>	Output measured at prices of basic factors of production
<b>Basic price:</b>	Amount receivable by producer as value of output minus tax plus subsidy Basic price measures the amount retained by the producer
<b>Market Prices:</b>	Price offered in the market, i.e. inclusive of all taxes
<b>Current price (Nominal):</b>	Prices prevailing in the current year
<b>Constant price (Real):</b>	Prices prevailing in a chosen base year (Eg: 2011-12)
<b>Final Consumption:</b>	Expenditure on goods & services for final use (not for production)
<b>GNP or GNI:</b>	Value of all goods and services produced in a country plus <i>income</i> earned by the country's citizens abroad, minus <i>income</i> earned by foreigners in the country

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Amey Sapre, is Associate Professor, NIPFP  
Email: [amey.sapre@nipfp.org.in](mailto:amey.sapre@nipfp.org.in)

Vaishali Bhardwaj, is Research Fellow, NIPFP  
Email: [vaishali.bhardwaj@nipfp.org.in](mailto:vaishali.bhardwaj@nipfp.org.in)



National Institute of Public Finance and Policy,  
18/2, Satsang Vihar Marg,  
Special Institutional Area (Near JNU),  
New Delhi 110067  
Tel. No. 26569303, 26569780, 26569784  
Fax: 91-11-26852548  
[www.nipfp.org.in](http://www.nipfp.org.in)