



## THE NEW GDP SERIES AND THE GROWTH OF SERVICE SECTOR IN INDIA

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### **Abstract**

*This paper shows how the service sector in India has been affected by the introduction of new GDP series. The base year of National Accounts Statistics has changed from 2004-05 to 2011-12 which has changed the GVA of the service sector. This paper highlights the changes of GVA of different components of the service sector under two GDP series and the growth of the service sector over a time period under the new series.*

**Key Words:** GDP, Service Sector, GVA.

### **1. Introduction**

India has shifted to a new GDP series. In Jan 2015, the CSO (Central Statistical Organisation) introduced the new series of National Accounts Statistics (NAS) based on the year 2011-12 instead of 2004-05. This is a routine matter of the CSO, as with statistical offices of most countries to change the base year to the NAS periodically to account for structural change in the economy, relative prices and to replace older survey data with newer ones to better capture the economic activities.

### **2. New Methodology**

The changes made in the new methodology for estimating GDP are explained here:

1. Changing the base year from 2004-04 to 2011-12
2. Replacing the calculation of domestic GDP at factor cost with GDP at market prices.
3. Widening the data pool through
  - (a) Improved coverage of financial institutions
  - (b) Improved coverage of local bodies and autonomous institutions
4. Changes in calculation of labour income
5. Changes in calculation of agricultural income

### **GVA at basic prices**

=CE+OS/MI+CFC+Production taxes less production subsidies

CE= Compensation of employees

OS=Operating surpluses

MI=Mixed income

CFC=Consumption of fixed capital

GVA= Gross value of output (value of the total sales of goods and services)-value of intermediate consumption.

The sum of the GVA in the various economic activities is known as 'GDP at factor cost'.

GVA at factor cost+ Indirect taxes- Subsidies= GDP at producer or market prices

### **3. Service Sector**

Services are crucial for the economies of both developed and developing countries. An efficient service infrastructure is a prerequisite for the economic performance of a country.

### **Service sector can be broadly divided into two Parts**

1. Economic services
2. Social services

Economic services include (1) Transport, storage and communication, (2) Trade, hotels and tourism and (3) Banking and insurance services. Social services include (1) Education, (2) Health and (3) Administration



In India, the service sector has been the most dynamic sector in recent years. The service sector constitutes a large part of the Indian economy both in terms of employment potential and its contribution to national income. So it is very important to know how the new GDP series has affected the growth of this sector.

#### 4. New GDP series and the change in the service sector

From table: 1 it is clear that the share of almost all the components of the service sector shrinks largely when we use the new GDP series. The highest decline is observed in the trade, repair, hotels and restaurant sector which is mainly due to decline in the trade and repair services. The highest growth rate is observed in the electricity, gas, water supply and other utility services sector which is mainly because of the fact that this group did not include other utility services in 2004-05 series. In 2004-05, other utility services were covered partially under manufacturing and partially under other services. There has been considerable growth in the construction and real estate, ownership of dwelling and professional services.

**Table: 1 Comparison of the GVA of the service sector for 2011-12** (At factor cost for old series and at basic prices for new series) (Rs. Crore)

ITEM	2004-05 SERIES	2011-12 SERIES	% DIFFERENCE
<b>Trade, repair, hotels and restaurants</b>	<b>1457565</b>	<b>882957</b>	<b>-39.4</b>
Trade and repair services	1330489	792996	-40.4
Hotels and restaurants	12076	89962	-29.2
<b>Construction</b>	<b>689798</b>	<b>774093</b>	<b>12.2</b>
<b>Financial services</b>	<b>481495</b>	<b>480232</b>	<b>-0.3</b>
<b>Transport, storage, communication and service related to broadcasting</b>	<b>614707</b>	<b>530163</b>	<b>-13.8</b>
Railways	62710	61210	-2.4
Transport by means other than railways	456754	336109	-26.4
Storage	5496	5292	-3.7
Communication and services related to broadcasting	89747	127553	42.1
<b>Construction</b>	<b>689798</b>	<b>774093</b>	<b>12.2</b>
<b>Financial services</b>	<b>481495</b>	<b>480232</b>	<b>-0.3</b>
<b>Real estate, ownership of dwelling and professional services</b>	<b>900029</b>	<b>1059342</b>	<b>17.7</b>
<b>Electricity, gas, water supply and other utility services</b>	<b>135670</b>	<b>194403</b>	<b>43.3</b>
<b>Other services</b>	<b>656085</b>	<b>531398</b>	<b>-19</b>

Source: Central Statistics Office

We can compare the growth rates of GVA of the service sector at basic price at constant 2011-12 prices between 2012-13 and 2017-18



**Table: 2 comparison of the growth rate of GVA of the service sector at basic prices, at constant 2011-12 prices during 2012-13 and 1017-18 (in %)**

ITEMS	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (PE)
Trade, hotels, transport and communication, services related to broadcasting	9.8	6.5	9.4	10.3	7.2	8
Financial services, real estate and professional services	9.7	11.2	11	10.9	6	6.6
Public administration, defence and other services	4.3	3.8	8.3	6.1	10.7	10
Total	8.3	7.7	9.8	9.6	7.5	7.9

Source: Central Statistics Office  
PE: Provisional Estimate

It is clear that the growth rates of GVA of the service sector show a declining trend under the new GDP series. The overall growth rate of the GVA of the service sector has declined from 8.3% in 2012-13 to 7.9% in 2017-18. Public administration, defence and other services show a very impressive growth rate where the growth rate has been more than doubled (from 4.3% in 2012-13 to 10 % in 2017-18). The growth rate of financial services, real estate and professional services declined drastically after 2015-16. Trade, hotels, transport and communication and services related to broadcasting show much fluctuation in the growth rate during the period.

## 5. Conclusion

It is clear from the above discussion that the share of service sector shrinks when we use the new GDP series. In 2011-12, services accounted for 63% of total GVA under the old measurements and 58% under the new one. The share of trade, hotels, transport and communication shrinks substantially under the new series. The share of financing, insurance, real estate and business services goes up as does the share of construction.

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