GDP deflator

The Gross Domestic Product (GDP) deflator is a measure of general price inflation. It is calculated by dividing nominal GDP by real GDP and then multiplying by 100. Nominal GDP is the market value of goods and services produced in an economy, unadjusted for inflation (it is the GDP measured at current prices). Real GDP is nominal GDP, adjusted for inflation to reflect changes in real output (it is the GDP measured at constant prices).

\[
\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100
\]

Importance of GDP Deflator

There are other measures of inflation too like Consumer Price Index (CPI) and Wholesale Price Index (or WPI); however, GDP deflator is a much broader and comprehensive measure. Since Gross Domestic Product is an aggregate measure of production, being the sum of all final uses of goods and services (less imports), GDP deflator reflects the prices of all domestically produced goods and services in the economy whereas, other measures like CPI and WPI are based on a limited basket of goods and services, thereby not representing the entire economy (the basket of goods is changed to accommodate changes in consumption patterns, but after a considerable period of time). Another important distinction is that the basket of WPI (at present) has no representation of services sector. The GDP deflator also includes the prices of investment goods, government services and exports, and excludes the price of imports. Changes in consumption patterns or the introduction of new goods and services or structural transformation are automatically reflected in the deflator which is not the case with other inflation measures. However, WPI and CPI are available on a monthly basis whereas deflator comes with a lag (yearly or quarterly, after quarterly GDP data is released). Hence, monthly change in inflation cannot be tracked using GDP deflator, limiting its usefulness.

Statistics

Ministry of Statistics and Programme Implementation (MOSPI) comes out with GDP deflator in National Accounts Statistics as price indices. The base of the GDP deflator is revised when base of GDP series is changed.