GDP Deflator Formula

GDP deflator, also known as the implicit price deflator is used to measure inflation. It is used to determine the levels of prices of the new, domestically produced final goods and services in a country in a year.

GDP deflector shows the changes in the average price levels in the economy and therefore, it is used in conjunction with the Consumer Price Index (CPI) for measuring inflation.

GDP deflator consists of two important components which are nominal GDP and real GDP

Nominal GDP is the monetary value of all the goods and services produced in an economy and is valued at current prices, while the real GDP shows the monetary value of all the finished goods and services in an economy calculated at constant prices.

For calculating GDP deflator, the following steps are necessary

1. Determine the nominal GDP
2. Determine the real GDP
3. Find the GDP Deflator

GDP deflator formula can be represented as

GDP deflator = Nominal GDP / Real GDP * 100

Like other price indices such as CPI, GDP deflector is not formed on a fixed basket of goods and services. The basket is altered every year depending on people’s investment and consumption patterns for that year.