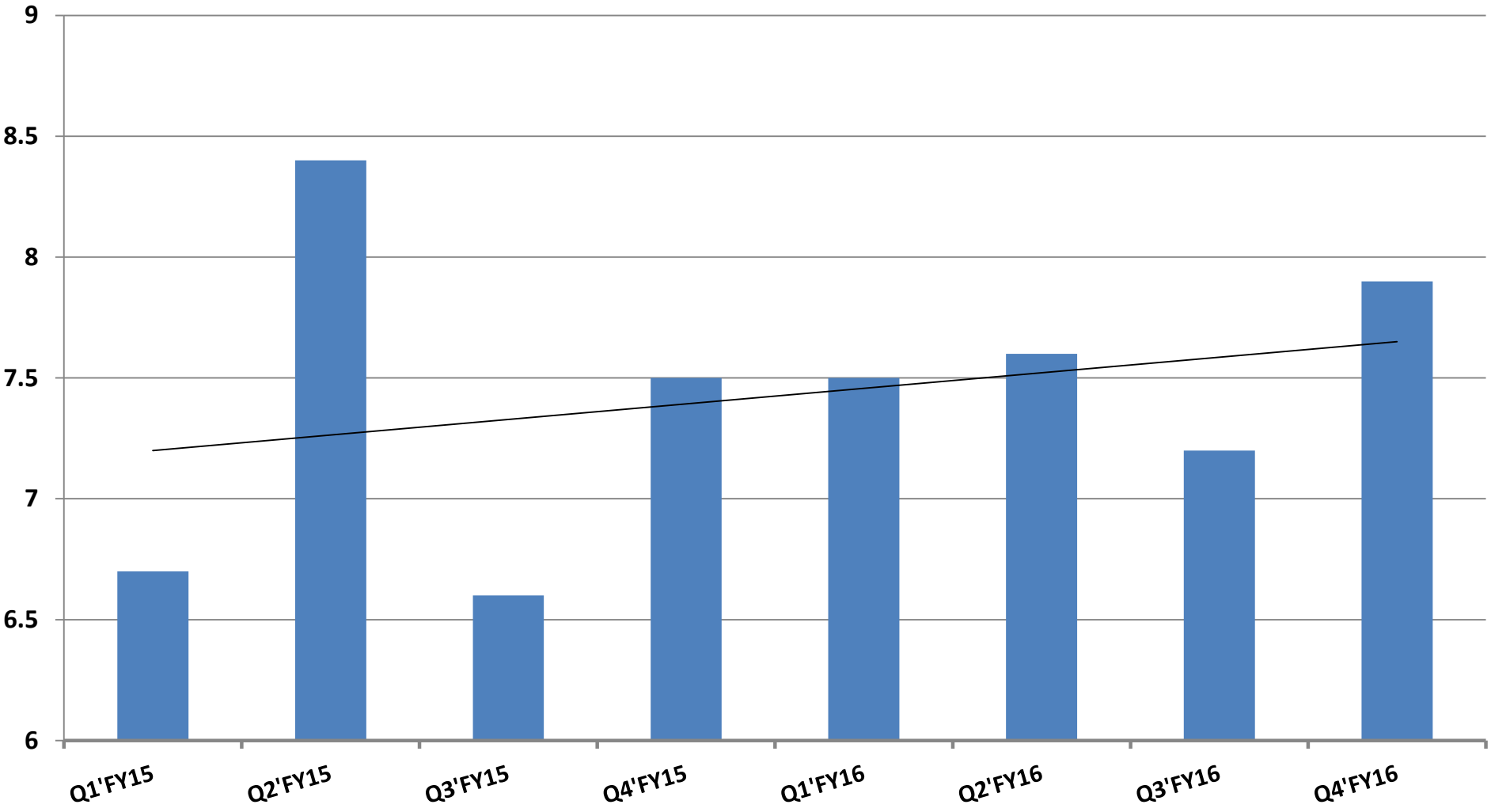
GDP Growth – Last eight quarters.

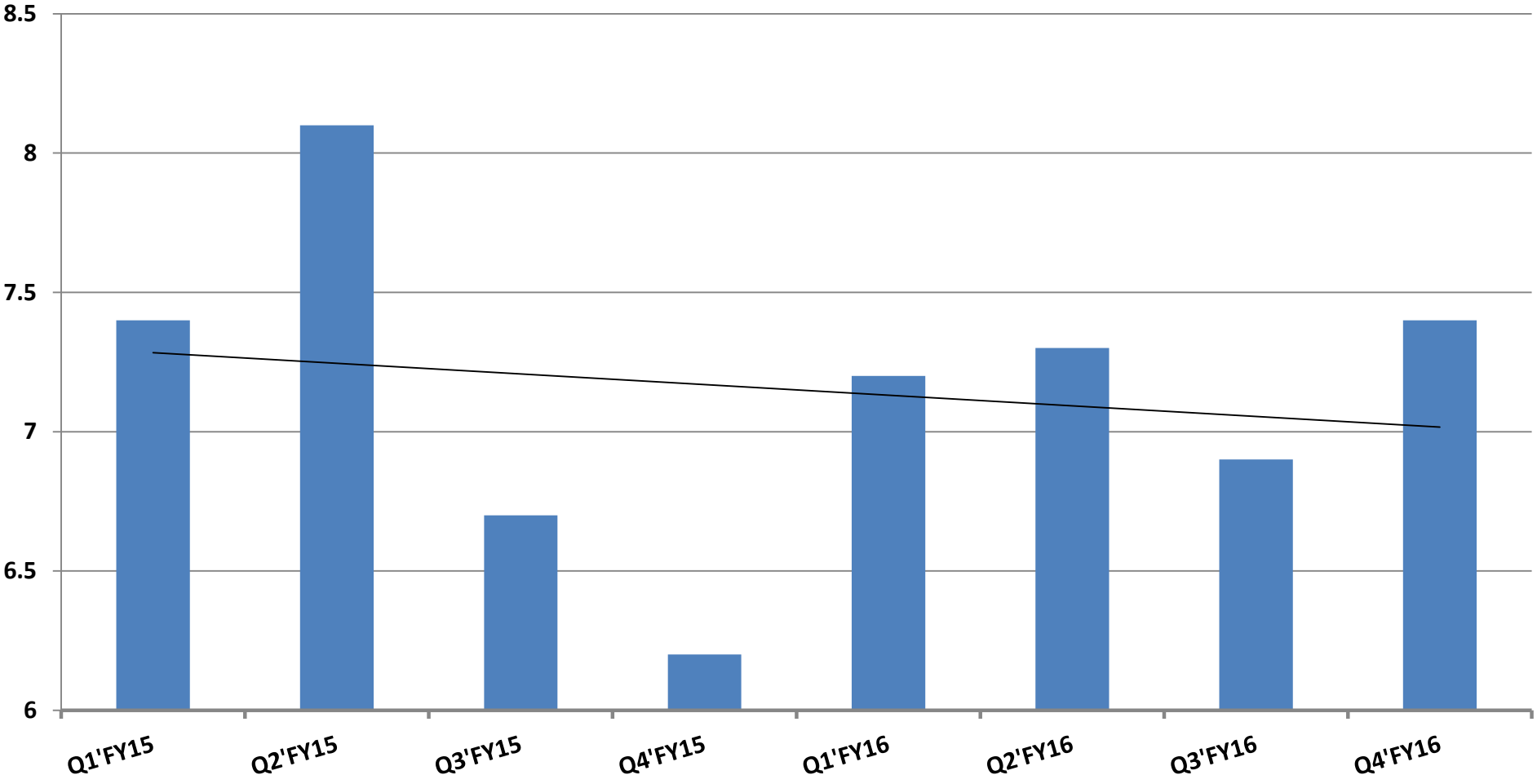
The trend line shows marginal improvement from about 7.2% to 7.6%.



GDP vs GVA…

- The difference between GDP and GVA remains a complex topic including what to use when. A brief attempt to differentiate...
- GVA is the total value produced by all the segments/ individuals of the economy. For example, if I purchase vegetable worth Rs 10, other items worth Rs 5, consume fuel worth Rs 5, pay Rs 5 to the cook and sell the product at Rs 40, the value addition is 40 – (10+5+5+5) = Rs 15. (Point to ponder- What will be the VA if I consume the product..?!)
- In case of Industries, the machinery consumed (I only mean figuratively.!) during production, called depreciation, is also subtracted to arrive at VA.
- During the production process, producers pays taxes to the governemnt such as Excise, Import duty etc called indirect taxes, which is not considered as part of the value chain. Also, some players receive subsidy from the government such as Petroleum refining companies for selling at prices lower than cost of production.
- So, indirect taxes received minus the subsidy given out can be loosely considered as the value added by the government. This when added to GVA gives the GDP of the economy.

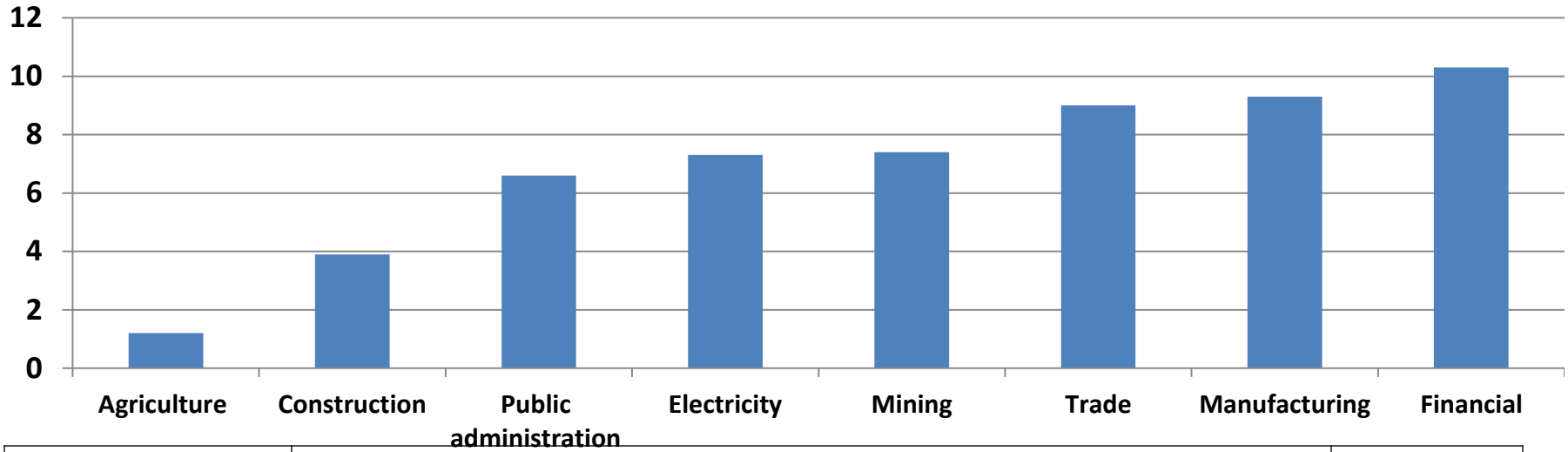
GVA Growth – Unlike GDP, the trend line is marginally declining which means the GDP has also been propped by Government value addition i.e. higher tax or lower subsidy. This is also corroborated by the fact as the subsidy has come down sharply with lower crude prices.



GDP vs GVA… (Contd.)

- Even though the two numbers are very close in absolute terms, they have behaved quite independent of each other over last two years. The correlation between the growth rate of the two is only 53% over last eight quarters. Average difference between the two growth rate is nearly 0.5 which is fairly large.
- Real GDP for FY16 stands at Rs 113.5 lakh crore whereas GVA is Rs 104.27 lakh crore, nearly 92%.
- This can also loosely mean that government contribution/ value addition to GDP is 8% on the production side. It has much larger role to play when GDP is approached from the expenditure side. (To be dealt in later slides).
- The relevance of GVA is more when sectoral comparisons are made or when assessment of the economy, future projection etc is being done. For the economy as a whole, GDP remains the key number.

Sectoral Growth Rate, GVA (FY16) -

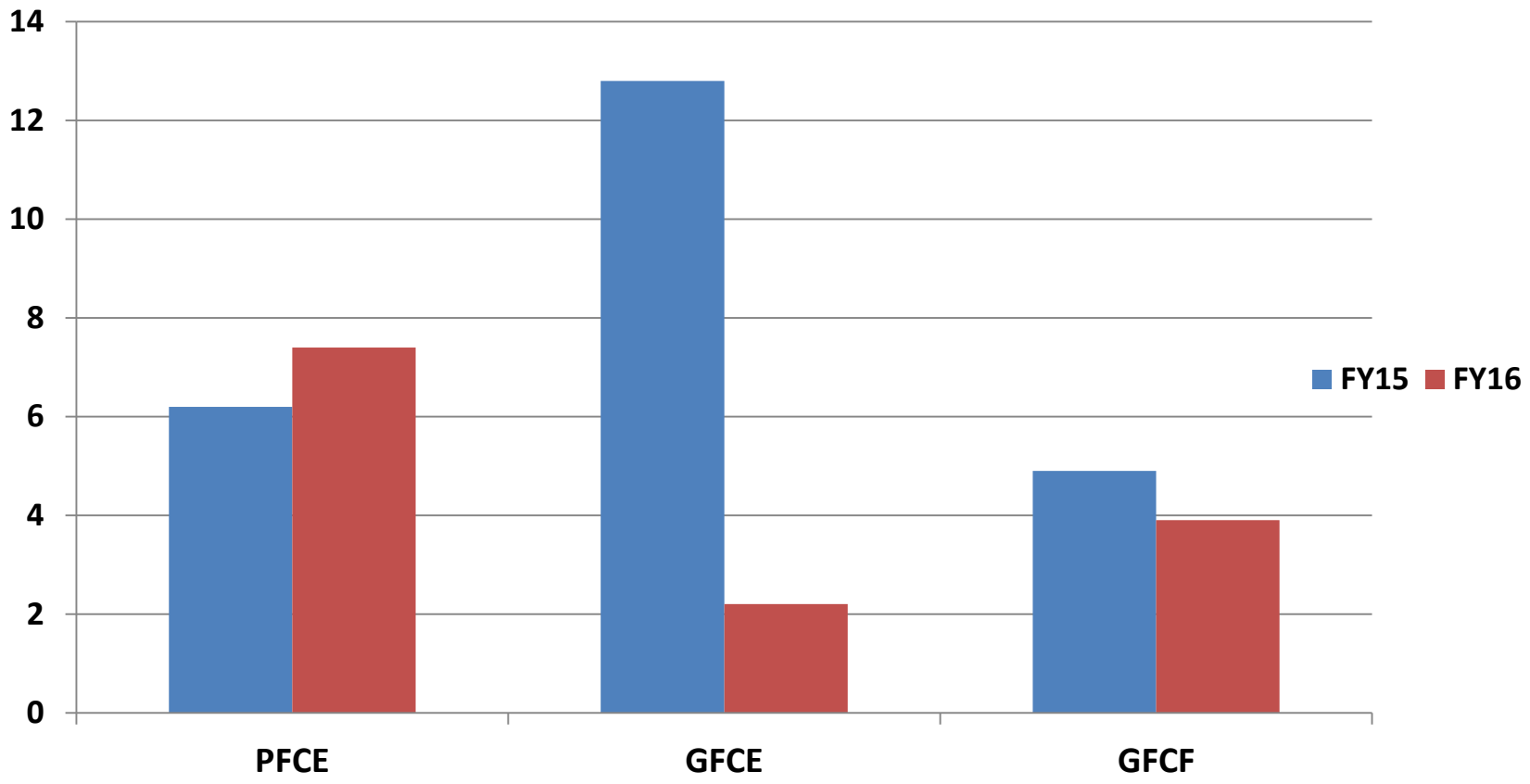


Sector	Description	% Share
Agriculture	Agriculture, forestry & fishing	15.4%
Construction	Construction	8.5%
Public Administration	Public Administration, defense and other services	12.6%
Electricity	Electricity, gas, water supply & other utility services	2.2%
Mining	Mining & quarrying	3.0%
Trade	Trade, hotels, transport, communication and broadcasting services	19.2%
Manufacturing	Manufacturing	17.5%
Financial	Financial, Insurance, real estate & professional services	21.6%

Sectoral Analysis -

- Only two sectors, Agriculture and Construction have shown below 6% growth rate indicating growth is becoming broad based. In FY15, manufacturing had also shown less than 6% growth.
- All the top three sectors in terms of GVA share have shown above 8% growth.
- Public administration group has recorded sharp decline from over 10% growth in FY15 to 6.6% now.
- Other than that, Mining and electricity groups have recorded decline over last year, mining primarily due to lower crude oil production and electricity due to decline in natural gas production.
- A good monsoon should give significant push to the GVA of fourth largest group.

Expenditure side growth Performance



Expenditure side Analysis -

- Goods produced in the economy is either consumed or exported. This simple fact enables policy makers/ Statisticians to approach GDP from consumption/ expenditure side also.
- Expenditure is divided into three broad groups –
  - Private Final Consumption Expenditure. (PFCE). (Share - 56%)
  - Government Final Consumption Expenditure (GFCE). (10%)
  - Gross Fixed Capital Formation (GFCF). (31%)
  - Others and discrepancies.
- Of the three, only PFCE has recorded growth acceleration leading to much talked about consumption led growth. It may be noted that China had, for long, recorded an investment led growth (High GFCF) now finally shifting to consumption growth.
- GFCE has come down sharply primarily due to lower outgo on oil products subsidy.
- Much is being talked about discrepancies attributing part of GDP growth to this also. However, the discrepancy is only to the extent that it is not possible to ascertain which of the three group has incurred that expenditure. The aggregate expenditure remains undisputed.
- However, a high discrepancy does mean that growth rate of any or all of the three group would increase after the complete data is available.

Thank you..!