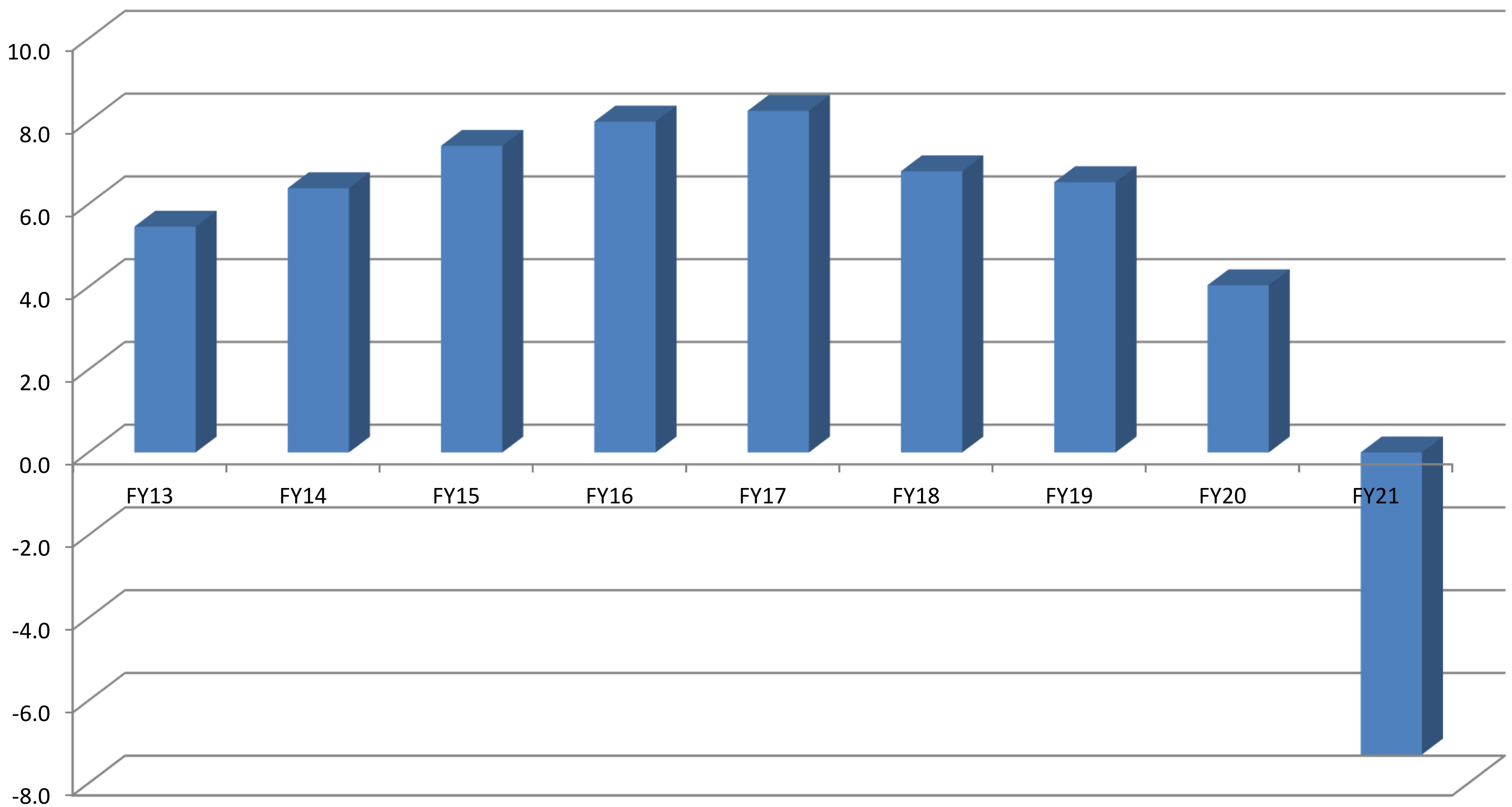
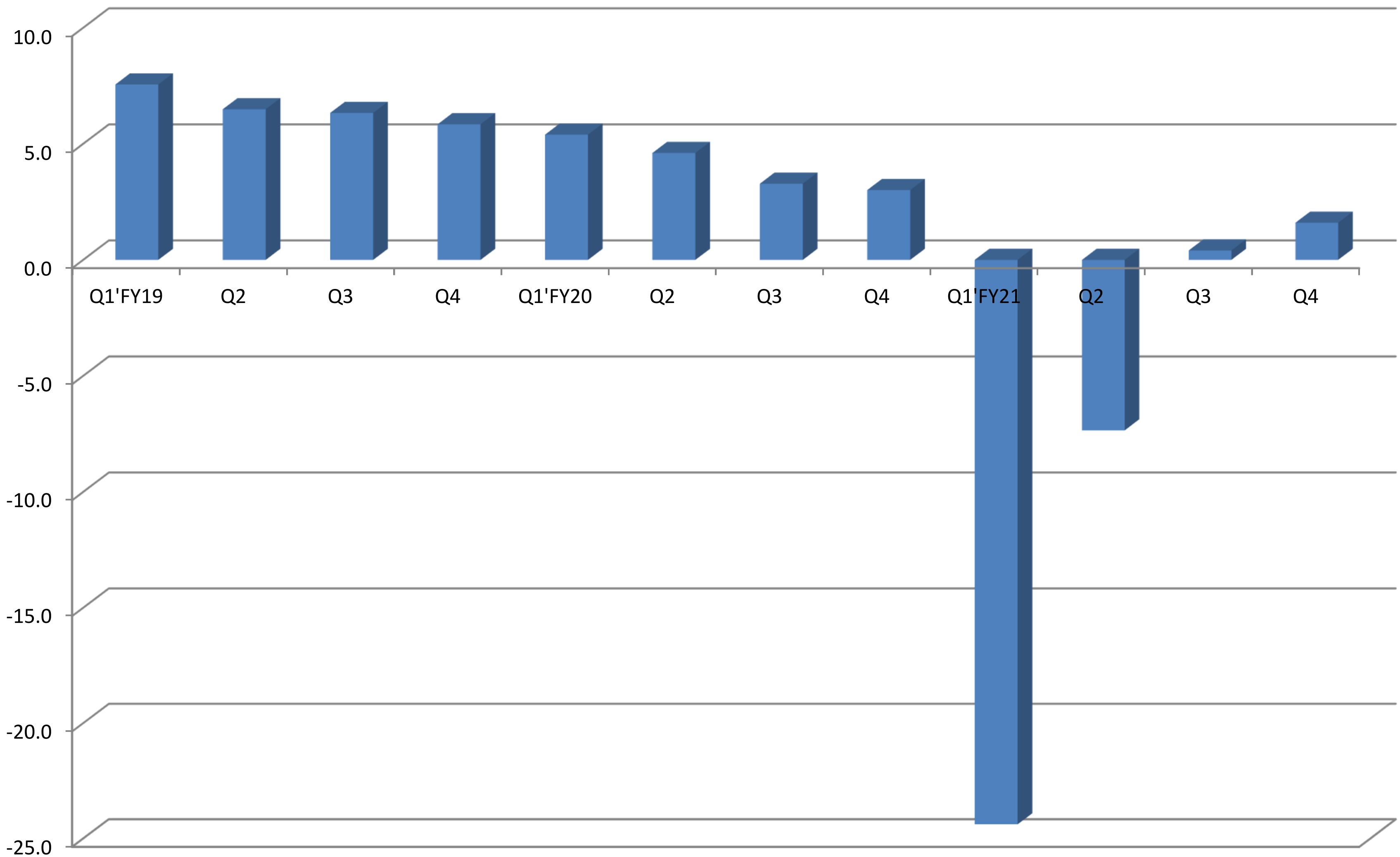
GDP Growth – Last Nine Years

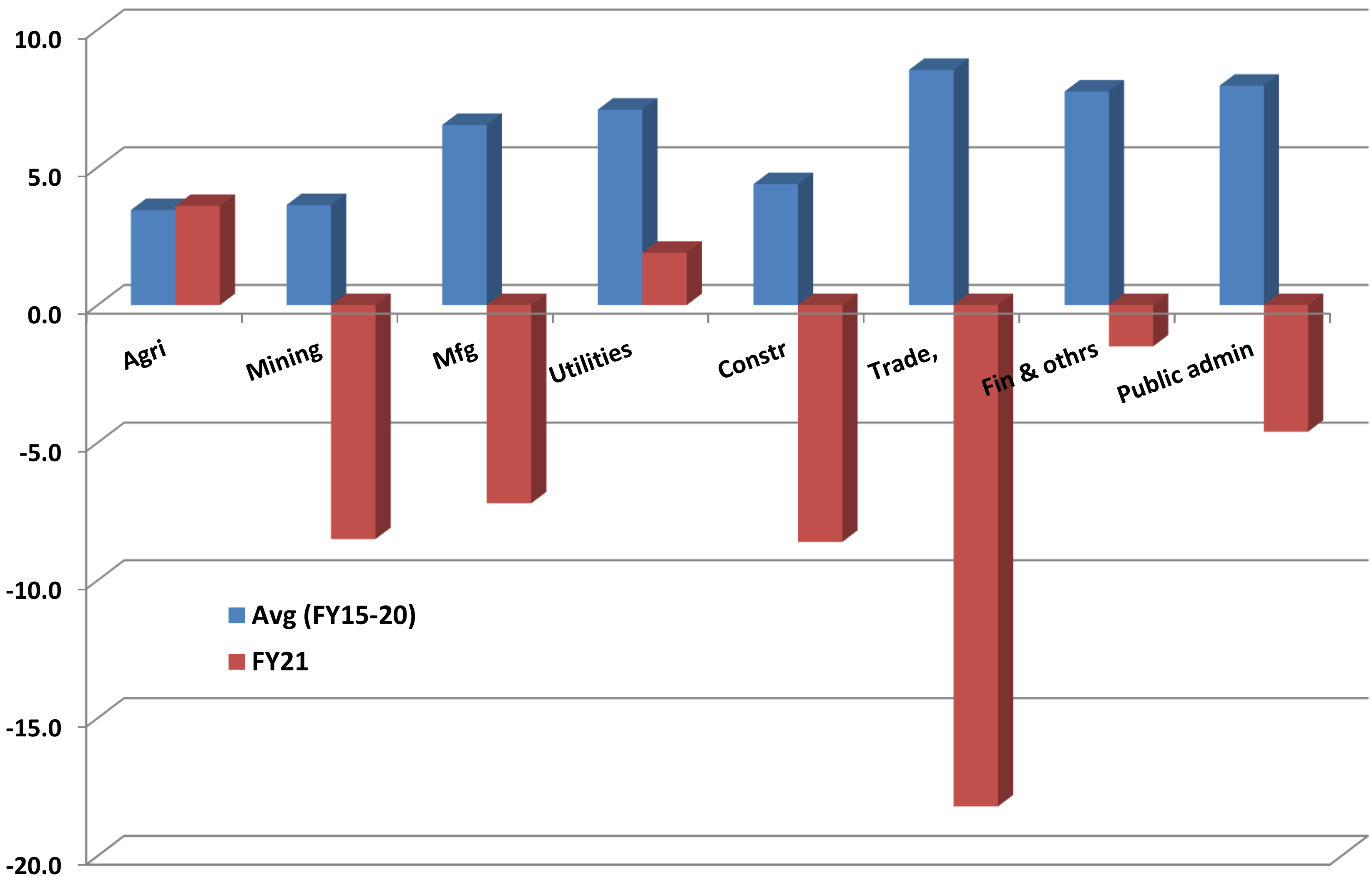
After peaking at 8.3% in FY17, the economy lost momentum. The decline, however, is more due to structural reforms causing short-term disruptions.



GDP Growth – Last Twelve Quarters.



Sectoral Growth Rate (GVA) (Refer next page)



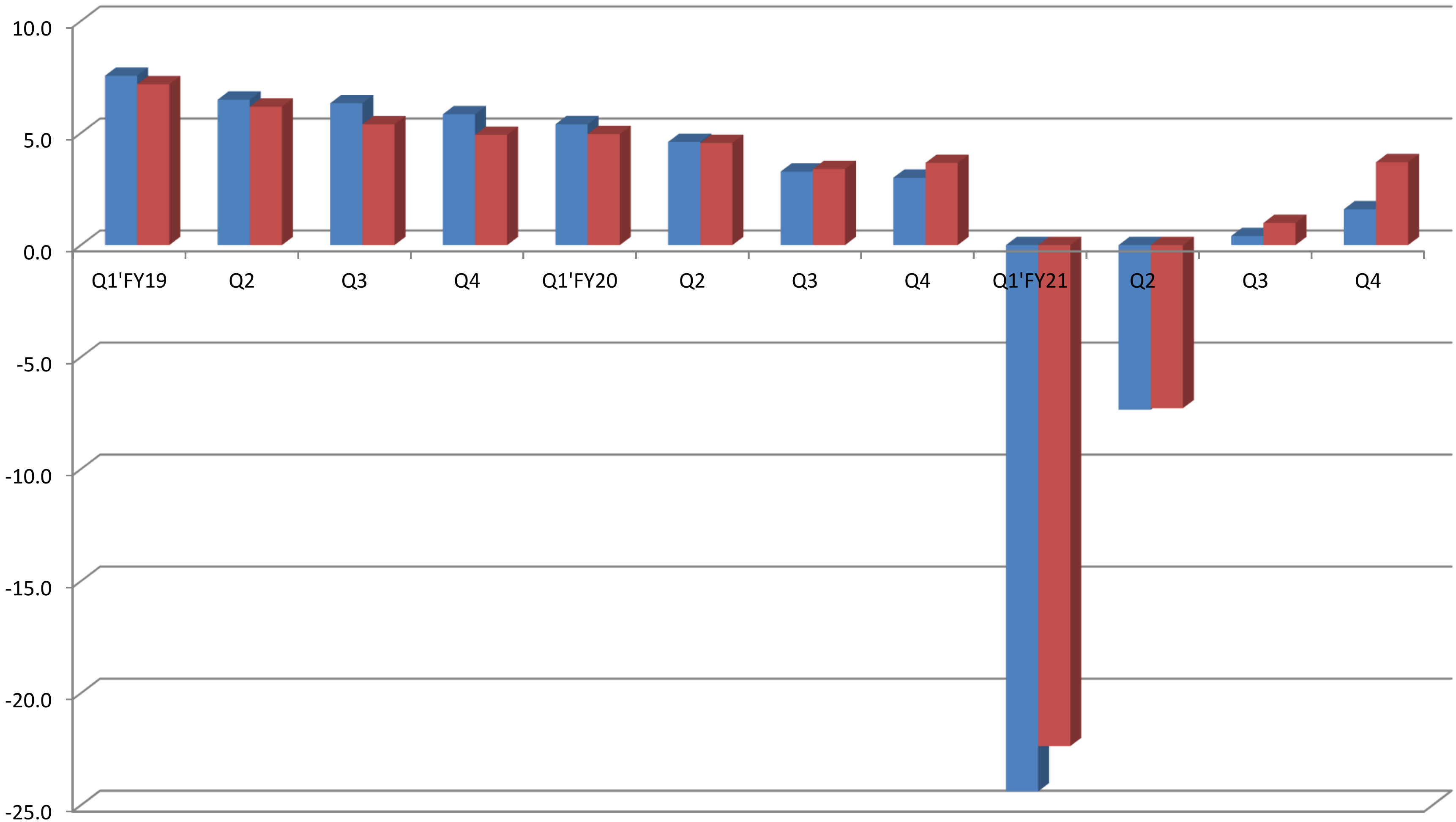
Sectoral Analysis -

- GVA is computed for eight broad categories based largely on similarity within the category and uniqueness of each category.
- The year has seen major reversal in fortune of different sector. Except for Agriculture and Utilities, all other sectors have seen significant decline. The worst is trade, hotels, transport & other services, declining by over 18%. The contrast is even sharper when looked at the previous years' performance with average growth of 8.5% during FY15-20. The sector account for maximum employment generation for urban youths.
- Among other worst hit sectors are manufacturing and construction, declining by 7.2% and 8.6%. Saving grace is that the sectors grew at 6.9% and 14.5% in the fourth quarter, which may be pointing to some gain in momentum. These are the sectors providing maximum employment opportunities to blue-collared workers.
- Financial, real estate & professional services managed to contain the decline to just 1.5%. However, performance of Public administration, defense and other services at -4.6% looks inexplicable. These are mostly government expenditure and should have shown an uptick on the back of sharp increase in total government expenditure.
- Agriculture & allied sectors maintained its growth momentum, largely unaffected by the pandemic.

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 a business person purchases vegetable worth Rs 10, other items worth Rs 5, consumes fuel worth Rs 5, pays Rs 5 to the cook and sells the product at Rs 40, the value addition is 40 – (10+5+5+5) = Rs 15. (Point to ponder- What will be the Value addition if he consumes the product?)
- In case of Industries, the machinery consumed (figuratively!) during production, called depreciation, is also subtracted to arrive at Value addition.
- During the production process, producers pays taxes to the government which is not considered as part of the value addition. Also, some players receive subsidy from the government such as fertilizer manufacturing companies for selling at prices lower than cost of production.
- So, indirect taxes received minus the subsidy given out is government's income. This amount can be loosely considered as the value added by the government. This when added to GVA gives the GDP of the economy.

GDP Vs GVA Growth Rate - Even though directionally, GVA and GDP move the same, there growth rate may differ depending upon government income and subsidies paid. In Q1’FY21, decline in GVA was 2% lower than GDP whereas in Q4, it has grown 2.1% more than GDP. This means government income (Indirect taxes minus subsidy) has grown at lower rate than GVA growth. Average difference between GDP and GVA growth over last 12 quarters is 0.7%

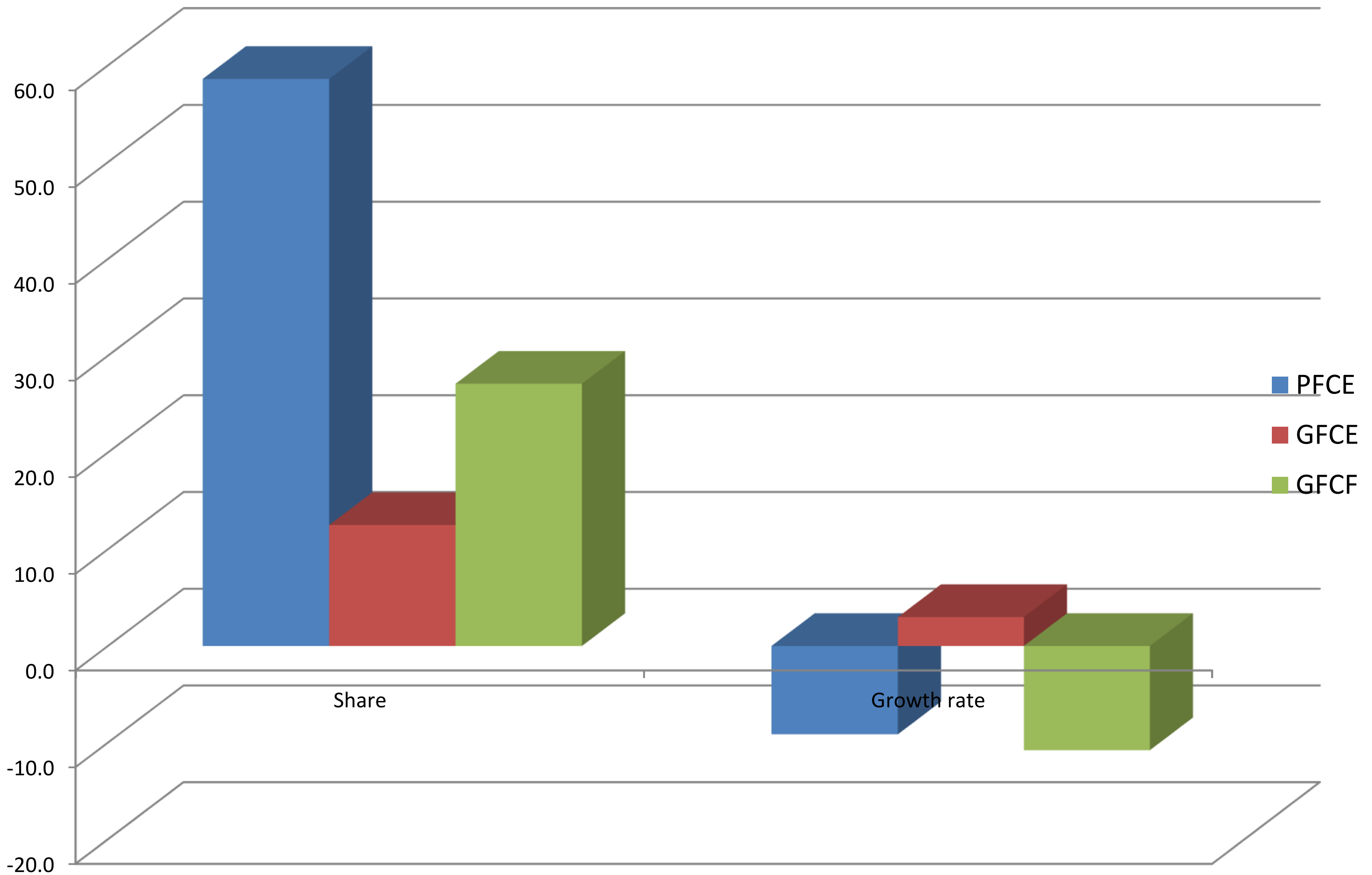


GDP vs GVA (Contd.)

- GDP for year 2020-21 stands at Rs 135.1 lakh crore on constant price basis (base year, 2011-12) whereas GVA is Rs 124.5 lakh crore, nearly 92% of that.
- This means value added by government is nearly 8% of GDP on the income side. Its share is much larger when approached from the expenditure side, the difference coming-in as deficit.
- 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.

Expenditure side growth Performance

(Please refer next slide also)



Expenditure side Analysis -

- Goods produced in the economy is either consumed or exported. This simple fact enables policy makers/ Statisticians to analyze GDP from consumption/ expenditure side also.
- Expenditure is divided into three broad groups –
  - Private Final Consumption Expenditure (PFCE). (Share - 59%)
  - Government Final Consumption Expenditure (GFCE). (12%)
  - Gross Fixed Capital Formation (GFCF). (27%)
  - Net trade, others and discrepancies.
- Barring GFCE, other two heads of expenditure has declined sharply during the year. However, Private expenditure appears to have recovered; from decline of 26% in Q1 to a marginal growth of 2.7% in Q4.
- GFCE’s performance has been quite interesting, increasing by 13% in Q1, declining by 24% in Q2, again a marginal decline in Q3 and finally, increase of 24% in Q4. While the first quarter increase was to meet the immediate needs of the economy reeling under lock-down, fourth quarter increase has, possibly been due to clearing of the backlog of committed expenditure. Government’s share in total GDP has increased by almost 2 percentage points to provide a support.
- After growing by 2.6% in Q3, GFCF has again declined by 1.1% in Q4 which looks quite worrying. (The decline in first two quarters was 46% and 7%). GFCF’s share in GDP stood at over 34% a few years back has fallen to 27% now. It may be noted that China had, for long, recorded an investment led growth (GFCF of over 40%).

Thank you..!