Deceleration of GVA in Agri-Sector

Why in news?

Central Statistics Office (CSO) has released the advance estimates of national income for the current financial year.

How national income is estimated?

- Since 1955 the national income estimates are being prepared by Central Statistical Organization.
- The Central Statistical Organization has divided Indian economy into three basic sector for the purpose of evaluation of various data.
- They are

1. **Primary sector** - Comprising agriculture, forestry, fishing, mining and quarrying.
2. **Secondary sector -** Comprising manufacturing, power generation, gas and water supply.
3. **Tertiary sector**- Comprising transport, communication and trade, banking insurance, computer software, public administration, defense and external trade.

- The CSO uses different methods like the Product Method, Income Method and Expenditure method for various sectors in the process of estimating the National Income.
- National Income may be calculated on current prices or at constant prices.
- Currently, the base year for measuring national income and per capita income at constant prices is 2004 - 05, introduced in Jan 2010.

- National Income does not include data from the following activities

1. Income from illegal activities like smuggling, gambling etc.
2. Income from work done without remuneration like domestic work by housewives.
3. Black Money

What are the issues spotlighted by the recent estimates?

- For 2018-19, the overall growth of gross domestic product (GDP) has been pegged at 7 per cent compared to 7.2 per cent in the first advance estimates.
- But one of the most worrying aspects was the data on agriculture growth.
- Growth in gross value added (GVA) in the agriculture, forestry and fishing sector has decelerated from 5.1 per cent in the first quarter of the fiscal to 4.2 per cent in the second, and to just 2.7 per cent in the third.
- Even a year-on-year comparison looks poor, as agri-GVA grew by 5 per cent in Q3 of FY18.
- This is in tune with a largely middling performance by the agriculture sector in the past five years.

What are the issues prevailing in agriculture sector?

- Despite economic diversification, the fact is that almost half of India is still involved in the farm sector.
- Several state governments have declared massive farm loan waivers to reduce the discontent, but that is hardly a long-term solution.
- As the farm sector continues to struggle each passing quarter, there is considerable worry that the farm unrest could likely sustain.
- The other implication of this is the expected run rate for agriculture growth will keep climbing to achieve the government's goal of doubling farm incomes by 2022-23.
- The Expert Committee on Doubling Farmers' Incomes has stated that to achieve this target, agriculture growth rate would have to be 10.4 per cent per annum from a base period of 2015-16.
- Given the modest growth rates in agri-GDP so far, the actual growth rate required now is estimated to be closer to 15 per cent over the remaining four years.
- This is almost impossible, as the best five-year growth rate in the past 25 years has been 4.3 per cent in 2009-10 and 2013-14.
- The growth rate in the past five years has been significantly lower at 2.9 per cent.

What are the pitfalls with government measures?

- The experience of the recent past shows that even though farm output is increasing, farmers' income growth is nowhere near the level required to improve their living standards.
- Governments, both past and present, have resorted to knee-jerk reactions such as announcing farm loan waivers and higher minimum support prices, both are unsustainable and distort the market.
- The current government has in the interim Budget presented earlier this year unveiled a scheme of direct income transfers as well.

- In this, it has followed several state governments such as Telangana and Odisha. But there are question marks over its implications on the fisc at a time when none of the other subsidies has been touched.
- Union government must realize that traditional policies have failed to make farming remunerative.
- Distortions created due to interventionist and restrictive policies that depress producer prices below international market levels needs to be addressed.

Source: Business Standard

Quick Fact

Gross Value Added (GVA)

- Gross value added (GVA) is an economic productivity metric that measures the contribution of a corporate subsidiary, company or municipality to an economy, producer, sector or region.
- Gross value added provides a dollar value for the amount of goods and services that have been produced in a country, minus the cost of all inputs and raw materials that are directly attributable to that production.
- GVA thus adjusts gross domestic product (GDP) by the impact of subsidies and taxes (tariffs) on products.
- GVA = GDP + Subsidies on products - Taxes on Products.