

First Advanced Estimate (FEA) of GDP

Why in News?

Recently, the 1st Advance Estimates (FAEs) released by the government showed that India's GDP will grow by 7.3% in the current financial year (2023-24), slightly faster than the 7.2% growth in 2022-23.

What is GDP?

- Gross Domestic Product GDP is defined as <u>total market value of all final goods</u> and <u>services</u> in an economy.
- It is used to assess the size of economy and the country's performance can be measured across years.
- Growth of GDP can be either due to increase in actual production or due to increase in prices of goods and services or combination of both.
- **Nominal GDP** It is the value of **GDP at the current prevailing prices**.
- **Real GDP** It is the value of <u>GDP at some constant set of prices</u> which is calculated by removing the effects of price inflation from the nominal GDP by <u>using a GDP or price deflator</u>.
- Since these prices remain fixed, if the Real GDP changes, then it is due to the changes in volume of production.
 - Real GDP growth rate = Nominal rate Inflation (GDP Deflator)
- **GDP deflator** It is the *ratio of nominal to real GDP* which gives us an idea of how the prices have moved from the base year to the current year.
 - \circ **GDP Deflator = GDP/gdp** (GDP nominal GDP; gdp real GDP)

Base Year is the year whose prices are being used to calculate the real GDP. In 2015, India's Central Statistics Office (CSO) introduced a new series which revised the base year from 2004-05 to 2011-12.

Parameter	GDP	GVA
Name	Gross Domestic Product	Gross Value Added
Definition	within the territorial boundaries	It is total value of goods and services produced within a country after deducting the costs of raw materials and inputs.
Measurement		By output reach and used as a proxy for GDP.
Purpose	It is internationally expected measure of overall economic growth of the country.	It is used to measure sector-wise details of economic activity from production side.

GDP = Σ GVA + Net taxes on Products - Net Subsidies on Products.

Gross National Product (GNP) takes into account the value of economic activities of those who are not residents of the country as well.

GNP = GDP + Net Income Property from abroad

What is contributing to India's growth?

• GDP is calculated by <u>3 different methods</u>.

Income method	Production method	Expenditure method
 Calculated by measuring sum total of all factor payments. GDP = Wages, Rent, Profit 	 Calculated by measuring aggregate value of final goods and services of all firms. GDP = GVA (Gross Value Added) 	 Calculated from the aggregate value of spending. GDP = Consumption + Investment + Government + Net Imports

- **GDP calculation in India** Calculated through income method and expenditure method.
- **Data released by** National Statistical Office (NSO) under the Ministry of Statistics and Programme Implementation (MoSPI).

4 main engines of GDP growth - On basis of demand side.

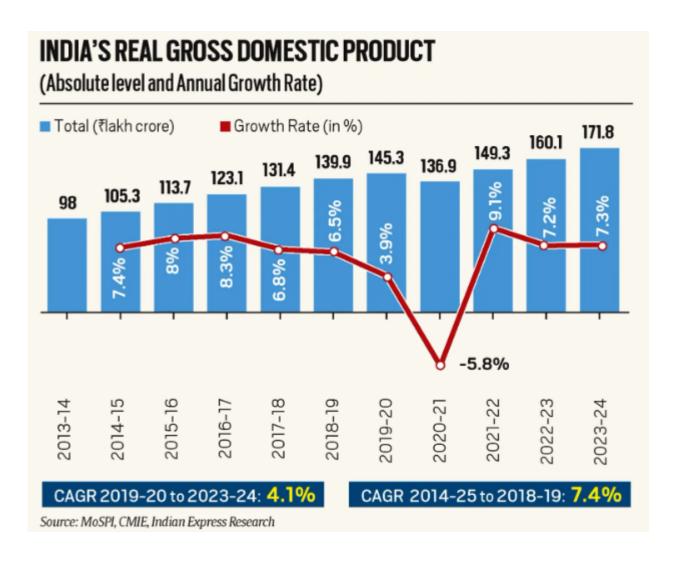
- **Private Final Consumption Expenditure (PFCE)** It is the **spending by people** in their individual capacity that accounts for **almost 60% of India's GDP**.
- Gross Fixed Capital Formation (GFCF) It is the <u>spending towards investments</u> in boosting the productive capacity of the economy which typically <u>accounts for 30%</u> <u>of the GDP</u>.
- Government Final Consumption Expenditure (GFCE) It is the <u>spending by</u> <u>governments</u> to meet daily expenditures such as salaries which accounts for <u>around</u> <u>10% of GDP</u>.
- **Net exports** It is the **net spending** as a result of Indians spending on imports and foreigners spending on Indian exports.
- Since *India typically imports more* than it exports, it *drags down GDP calculations*, and shows up with a minus sign.
- As such, negative growth rates here are a good development and for the current year, this drag effect has grown by 144%.

What are Advance Estimates of National Income?

- They are indicator-based and are compiled using the **benchmark-indicator method**, i.e. the estimates available for the previous year (2022-23) are extrapolated using the relevant indicators reflecting the performance of sectors.
- Compiled by -MoSPI
- 1st Advance Estimates (FAE) They are presented at the <u>end of the 1st week of</u>

 <u>January every year</u>, the 1st estimates of growth for that financial year.
- Calculation of FEA Based on the performance of the economy over the 1st 7-odd months, and the data are extrapolated to arrive at an annual picture.
- **Significance of the FAE** They are the last GDP data released before the Union Budget of any financial year and it constitute the base for the Budget numbers.

Union Budget is presented on February 1 every financial year. In the year of Lok Sabha elections like in 2024, a full-fledged Union Budget will not be presented.



• **Findings of FEA** - By the end of March 2024, India's GDP is expected to rise to almost Rs 172 lakh crore and on an annual basis, the growth rate estimated for 2023-24 is 7.3%.

- 2nd Advance Estimates It is released by the end of February every year.
- **Provisional Estimates** It is released by the *end of May*.
- **Revised Estimates** The GDP estimates continue to be *revised and in the coming 3 years*, the 1st, 2nd, and 3rd Revised Estimates of this year's GDP will be released.
- Actuals It is the *final number of GDP*.

References

- 1. The Indian Express | First Advanced Estimates (FEA)
- 2. The Indian Express | Gross Domestic Product (GDP)

