

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 **total market value of all final goods and services** 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 **GDP at some constant set of prices** which is calculated by removing the effects of price inflation from the nominal GDP by using a GDP or price deflator.
- 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.
 - **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	It is the market values of all final goods and services produced within the territorial boundaries of a country in a given period.	It is total value of goods and services produced within a country after deducting the costs of raw materials and inputs.
Measurement	Output, Income and Expenditure approaches.	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.

$$\text{GDP} = \Sigma \text{GVA} + \text{Net taxes on Products} - \text{Net Subsidies on Products.}$$

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

$$\text{GNP} = \text{GDP} + \text{Net Income Property from abroad}$$

What is contributing to India's growth?

- GDP is calculated by 3 different methods.

Income method	Production method	Expenditure method
<ul style="list-style-type: none"> • Calculated by measuring sum total of all factor payments. • $\text{GDP} = \text{Wages, Rent, Profit}$ 	<ul style="list-style-type: none"> • Calculated by measuring aggregate value of final goods and services of all firms. • $\text{GDP} = \text{GVA (Gross Value Added)}$ 	<ul style="list-style-type: none"> • Calculated from the aggregate value of spending. • $\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government} + \text{Net Imports}$

- **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).

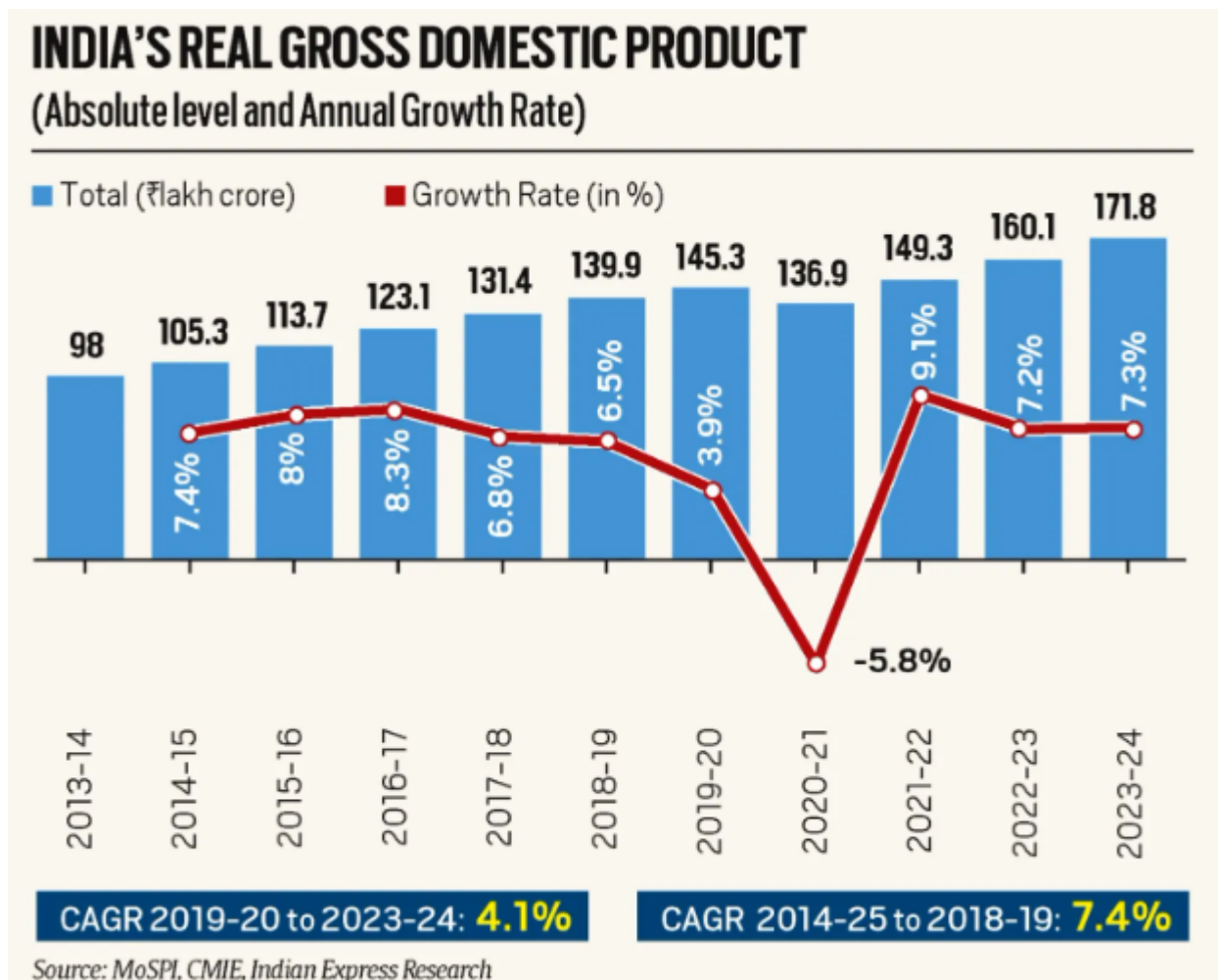
4 main engines of GDP growth - On basis of demand side.

- **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 spending towards investments in boosting the productive capacity of the economy which typically accounts for 30% of the GDP.
- **Government Final Consumption Expenditure (GFCE)** - It is the spending by governments to meet daily expenditures such as salaries which accounts for around 10% of GDP.
- **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 **end of the 1st week of January every year**, 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 \(GDP\)](#)

