Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: Growth in the gross domestic product (GDP) in the July-September quarter hit a 25-quarter low of 4.5%, the government announced on Friday.

Prelims and Mains focus: about the recent economic slowdown in the Indian economy, challenges and ways to address them; GDP v/s GVA

Context:

- The lowest GDP growth in six years and three months comes as Parliament has been holding daylong discussions on the economic slowdown, with Union Finance Minister Nirmala Sitharaman assuring the Rajya Sabha that the country is not in a recession and may not ever be in one.

- Growth in gross value added (GVA) also dipped to 4.3% in Q2 of 201920 from 4.9% in Q1, and 6.9% in the Q2 of last year.

Performance of various sectors:

- The manufacturing sector contracted 1% in the second quarter of the current financial year, compared with a robust growth of 6.9% in the same quarter of the previous year. The manufacturing sector saw an overall contraction of 0.2% in the first half (April to September) of the current financial year compared to a growth of 9.4% in the first half of last year.

- The agriculture sector saw growth coming in at 2.1% in second quarter of this year compared with 4.9% in Q2 of last year. The sector grew just 2.1% over the first six months of the year compared with 5% in the first half of the previous year.

- Among the services sectors measured, only the ‘Public Administration, Defence & Other Services’ category saw growth quicken in the second quarter of this year, to 11.6%, compared with 8.6% in the same quarter of the previous year.

- The ‘Financial, Real Estate & Professional Services’ category saw growth slow to 5.8%
in Q2 of 2019-20, compared with 7% in Q2 of the previous year.

- **Private final consumption expenditure**, the closest proxy in the data to a measure of **consumption demand**, grew 5.06% in the second quarter of this financial year, compared with a growth of 3.14% in the first quarter. However, the growth in the second quarter this year is still significantly lower than the growth of 9.79% recorded in the second quarter of the previous year.

- **Gross fixed capital formation (GFCF)**, which is a **measure of the level of investment in the country by both the government and the private sector**, grew only 1.02% in the second quarter of this financial year, compared with a growth of 4.04% in the first quarter, and drastically lower than the growth of 11.8% seen in the Q2 of last year.

**Government’s take on the status of the economy**

- Union Finance Minister Nirmala Sitharaman assured the Rajya Sabha that the country is not in a recession and may not ever be in one.

- The fundamentals of the Indian economy remain strong and GDP growth is expected to pick up from the third quarter of FY 2019-20.

- The International Monetary Fund has projected India’s GDP growth at 6.1% in financial year 2019-20 and 7% in 2020-21 in its October 2019 report.

**GDP v/s GVA**

**GDP**

- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

- GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted)
Thus the components of GDP are (C) plus Investment (I) plus Government Spending (G) plus BOP i.e. Exports minus Imports (X-M)

GDP is calculated using this standard formula: C + I + G + (X-M).

GDP is commonly used as an indicator of the economic health of a country, as well as to determine a country’s standard of living.

Since the mode of measuring GDP is uniform from country to country, GDP can be used to compare the productivity of various countries.

GVA

The term that is used to denote the net contribution made by a firm is called its value added.

The raw materials that a firm buys from another firm which are completely used up in the process of production are called ‘intermediate goods’.

Therefore the value added of a firm is, value of production of the firm – value of intermediate goods used by the firm.

Gross value added (GVA) is defined as the value of output less the value of intermediate consumption.

Value added represents the contribution of labor and capital to the production process.

When the value of taxes on products (less subsidies on products) is added, the sum of value added for all resident units gives the value of gross domestic product (GDP).

Thus, Gross value added (GVA) = GDP + subsidies on products - taxes on products

Note: GDP at factor cost = Gross value added (GVA) at factor cost GDP at market price = GDP at factor cost + net indirect taxes (indirect taxes- subsidies) GVA at factor cost = value of output (quantity * price) - value of intermediary consumption.