WHY IS THE GDP GROWTH 5% IN 2019 - INDIA

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5% GDP Growth Why?

According to data released by National Statistical Office (NSO), India's Gross Domestic Product (GDP) grew 5% in the April-June 2019 Quarter, much lower than 8 % growth in the same quarter last fiscal.

About:

- The latest GDP growth of 5 % is the lowest in six years with the previous low recorded at 4.3 % in March 2013.
- It is also lower than 5.8 % GDP growth in the March quarter in 2018-19. This is the second straight quarter when the quarterly GDP growth was lower than 6 %.
- The growth has slowed down in five out of eight sectors, reflecting the widespread weakness in the overall economy. Growth during the first quarter was dragged down by manufacturing growth at 0.6 % as compared to 12.1 % in same quarter last fiscal.
- Private consumption has fallen in the quarter under review.
- Growth rate of Gross Value Added (GVA), which is GDP minus net product taxes, fell below 5 % level to 4.9 % in the first quarter of this financial year as against 7.7 % in the corresponding period last year.
- Nominal GDP growth was recorded at 8.0 % in April-June as against 12.6 % last year.

Gross domestic product:

Gross domestic product (**GDP**) is a monetary measure of the market value of all the final goods and services produced in a specific time period.

GDP = private consumption + gross investment + government investment + government spending + (exports – imports).

GDP can be determined in three ways:

- Production approach (Most direct from all approach and also sums the outputs of every class of enterprise to arrive at the total)
- Income approach (Works on the principle that the incomes of the productive factors must be equal to the value of their product)
- Expenditure approach (Works on the principle that all of the product must be bought by somebody)

1. Production approach:

- Estimate the gross value of domestic output out of the many various economic activities.
- The cost of material, supplies and services used to produce final goods or services. (intermediate consumption)
- Deduct intermediate consumption from gross value to obtain the gross value added.

Something Important:

- ✓ **Gross value added** = gross value of output – value of intermediate consumption.
- ✓ GVA = GDP + subsidies - Indirect taxes
- ✓ GVA + taxes on products - subsidies on products = GDP

- GVA is the grand total of all revenues, from final sales and (net) subsidies, which are incomes into businesses. Incomes which is then used to cover expenses like as ; wages & salaries, dividends , savings like as ; profits and depreciation and taxes like indirect taxes.
- GVA - sector specific , and GDP - calculated by summation of GVA of all sectors of economy with taxes added and subsidies are deducted.

Advantages of Gross value added

- Comparable figure (Internationally).
- Better market condition projection globally.

Disadvantages of Gross value added

- Comparison is difficult over time.
- Value of output = value of the total sales of goods and services plus value of changes in the inventory.
- **GDP at factor cost** - sum of the gross value added in the various economic activities
- GDP at producer price = GDP at factor cost plus indirect taxes less subsidies on products.

The output of each sector is calculated:

- By multiplying the output of each sector by their respective market price and adding them together.
- By collecting data on gross sales and inventories from the records of companies and adding them together.

2. Income approach:

- This way of estimating GDP is to use "the sum of primary incomes distributed by resident producer units".
- GDP is calculated by this way it is also called GDP (I) / GDI - Gross Domestic Income.

The "National Income and Expenditure Accounts" divide incomes into five categories:

- ✓ Salaries, Wages and supplementary labour income
- ✓ Corporate profits
- ✓ Interest and other income
- ✓ Farmers' incomes
- ✓ Unincorporated businesses income from non-farm

These components sum to net domestic income at factor cost not at market prices. Some modification to get GDP:

- To get from factor cost to **market prices** - Indirect taxes minus subsidies are added.
- To get from net domestic product to **gross domestic product** - Depreciation (or capital consumption allowance) is added.

GDP = compensation of employees + gross operating surplus + gross mixed income + taxes less subsidies on production and imports

- **Compensation of employees** (measures the total remuneration to employees for work done).

  It includes salaries and wages , as well as employer contributions to social security and other such programs.

- **Gross operating surplus** (It is the surplus due to owners of incorporated businesses).

  Often called profits, although only a subset of total costs are subtracted from gross output to calculate GOS.

- **Gross mixed income** (It is the same measure as GOS, but for unincorporated businesses).

  This often includes most small businesses.

Total factor income = employee compensation + corporate profits + proprietor's income + rental income + net interest

3. Expenditure approach :

- This way of estimating GDP is to calculate the sum of the final uses of goods and services measured in purchasers' prices. (all uses except intermediate consumption)

GDP is the sum of **consumption, investment** , **government spending** and **net exports (export – import)**.

- **Consumption** is normally the largest GDP component in the economy. (Include food, rent, jewelry, gasoline, and medical expenses, but not the purchase of new housing)

GDP (Gross National Product) - product produced within the country's borders. Defines its scope according to location.

GNI (Gross National Income) - product produced by enterprises owned by a country's citizens.

Defines its scope according to ownership.

Real GDP growth rate for year *n*
= [(Real GDP in year *n*) – (Real GDP in year *n* – 1)] / (Real GDP in year *n* – 1)

Central Statistics Office (CSO):

The **Central Statistics Office** (CSO) is a governmental agency in India under the Ministry of Statistics and Programme Implementation.

The Central Statistics Office is responsible for co-ordination of statistical activities in the country, and evolving and maintaining statistical standards.

- **Formed -** May 2, 1951
- **Preceding agencies -** Central Statistical Organization / Central Statistical Institute
- **Jurisdiction – under Government of India (GoI)**
- **Headquarters -** New delhi, India
- **Minister responsible -** Rao Inderjit Singh, Minister of Statistics and Programme Implementation

Exclusive Analysis by Dheeraj Sharma:

- India's economy grew at its slowest pace in over six years in the June quarter following a sharp deceleration in consumer demand and tepid investment.
- Nominal GDP growth, a measure of GDP without adjusting for inflation, at 8%, lowest since Financial Year 2002-03.
- The GDP slowdown is led by a dramatic slowdown in the manufacturing

sector.

- The slowdown in investment and consumer demand derailed manufacturing, which grew just 0.6%. A meagre 2% rise in farm sector added to the demand slowdown.
- Consumption, the bedrock of growth in the past few years, collapsed to an 18- quarter low of 3.1% from 10.6% in the March quarter, pointing to fragile sentiment.
- Investments grew 4%, up from 3.6% in the previous quarter.
- Automobile sales, a barometer of the economy, have declined sharply in recent months, forcing production cuts and jobs losses.
- Regardless of the monetary easing and the measures announced so far by the government to support the economy, some of the constraints to economic growth, including the moderate capacity utilisation levels, cost of land acquisition, and weak outlook for farm incomes, persist.

In Depth:

- Independent experts, expect the slowdown to persist for a while and see another rate cut by the central bank in October after the 110 percentage points slashed in this round of monetary easing.
- In its annual report, the Reserve Bank of India (RBI) had said that the slowdown was cyclical, rather than structural, which would have required deeper reforms.
- Bibek Debroy, chairman of the Economic Advisory Council to the PM, stressed that those who seek to spread a message of gloom and doom are doing a great disservice.
- The government has, has announced a whole host of measures to help revive the economy, aimed at
    - easing tax rules for foreign portfolio investors, start-ups
    - increasing credit outflows by the banks and NBFCs
    - increasing demand for the auto sector
    - liberalising FDI for select sectors

- liberalising the foreign direct investment rules for single-brand retail etcFinance Minister Nirmala Sitharaman also announced a slew of banking reform measures, including merging 10 banks into four entities.
- The government has offered incentives on auto purchases to help revive demand. Weak global economy and trade tensions have kept export growth muted.

What lies ahead?

- As per the Economic Survey 2019 shows that ; investment is a critical driver of the economy with consumption being a key force multiplier.
- Finance Minister's stimulus package may propel demand.
- Faster rate cut transmission is needed to revive demand.
- Further rate cuts and sentiment boosters are the need of the hour.
- Windfall gain from the RBI may boost government expenditure.

Gist :

Together with steps taken by the government for the banks and the financial sector, and structural reforms, investment should continue improving and drive economy to higher growth.

Special Article

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