



GDP Decreases to 11-year Low

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Why in News

According to the provisional data released by the **National Statistical Office (NSO)**, economic growth slowed to an 11-year low of 4.2% in 2019-20.

Key Points

- **Growth in Fiscal Year 2019-20:**

- The provisional growth estimate for the year 2019-20 is at 4.2%.
 - The budget estimate for **Gross Domestic Product (GDP)** growth in 2019-2020 was stated at 8.5%, the NSO's previous estimates had pushed the projection down to 5%.
 - The Indian economy grew at 6.1% in 2018-19.
- Growth rate in terms of **Gross Value Added (GVA)**, slowed to 3.9% in 2019-20 from 6% growth in the previous year.
 - GVA is GDP minus net product taxes and reflects supply-side growth.
- The **nominal GDP growth rate**, which accounts for inflation, is estimated to have grown at 7.2% in 2019-20, sharply lower than 11% in the previous year.

- **Growth in Final Quarter of 2019-20:**

- In the final quarter of the year, that is, January 2020 - March 2020, the growth rate of GDP fell to 3.1%.
- This is the lowest growth rate in the last 44 quarters.
- Agriculture and mining sectors grew in the fourth quarter at rates of 5.9% and 5.2% respectively.
- Public administration, defence and other services grew at 10.1%.
- The manufacturing sector contracted to a negative growth of 1.4%.
- The **three components of demand** have also fallen i.e. **consumption** demand has slowed, while **investments** and **exports** are both in negative territory.

- **Analysis of the growth data:**

- **Nominal GDP growth:** There are two reasons why the sharp deceleration in the nominal GDP matters.
 - First, the nominal GDP growth rate is the **base of all fiscal calculations** (revenue and spending) in the country.
 - A sharp divergence in nominal GDP growth rate basically upsets all other calculations in the economy.
 - For instance, a sharp fall means the government does not get the revenues it had hoped for and, as such, it can't spend as much as it wanted to.
 - Second, this substantial deceleration reflects poorly on the government's **fiscal marksmanship**.
 - In other words, it shows that the government was **not able to assess the magnitude of economic growth deceleration** that was underway.
 - Poor fiscal marksmanship, in turn, leads to inaccurate policy making because a government could end up making policies for an economy that doesn't actually exist on the ground.
 - This sharp deceleration also shows the continued weakening of India's growth momentum even before it was hit by the **Covid-19** lockdown in the last week of March.
- **Negative Growth of Manufacturing:**
 - It has been argued in the past, that for India to grow and create jobs for the millions that enter its workforce each year, **manufacturing growth has to rise**.
 - But 2019 paints a dismal picture in this regard. Manufacturing contracted for three of the four quarters.

Indian manufacturing has lost its way

Quarterly GDP growth rate (in %)	Q1	Q2	Q3	Q4
Agriculture	3	3.5	3.6	5.9
Manufacturing	3	-0.6	-0.8	-1.4
Construction	5.2	2.6	-0.04	-2.2

Key Terms

- **Gross Domestic Product (GDP):**
 - It is a **measure of economic activity in a country**. It is the total value of a country's annual output of goods and services. It gives the economic output from the consumers' side.
 - **GDP = Private consumption + Gross investment + Government investment + Government spending + (exports-imports)**
- **Gross Value Added (GVA):**
 - It is the **sum of a country's GDP and net of subsidies and taxes in the economy**. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services.
 - **Gross Value Added = GDP + subsidies on products - taxes on products**
- **Nominal GDP:**
 - It is GDP **evaluated at current market prices**. It includes all of the changes in market prices that have occurred during the current year due to **inflation or deflation**.
 - It is **different from the Real GDP** which is calculated in a way such that **goods and services are evaluated at some constant set of prices**.

The National Statistical Office

- NSO is the **central statistical agency of the Government** mandated under the **Statistical Services Act, 1980** under the **Ministry of Statistics and Programme Implementation**.
- It is responsible for the development of arrangements for **providing statistical information services** to meet the needs of the Government and other users for information on which to base policy, planning, monitoring and management decisions.
 - The services include collecting, compiling and disseminating official statistical information.
 - All business operations in NSO are done in compliance with **international standards, procedures and best practices**.

Conclusion

Economists have highlighted that GDP is headed for a contraction in 2020-21 due to the impact of Covid-19. Therefore, government expenditure will be the growth engine in the year 2020-21. Weak commodity prices and import demand will also provide some support to growth.

Source: TH