Gross Value Added

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Why in News

According to the provisional data released by the **National Statistical Office (NSO)**, the **Gross Value Added** (GVA) estimates for the first three quarters of financial year 2019-20, revealed significant revisions from what the NSO had shared back in February 2020.

Key Points

- In February, the NSO had pegged year-on-year GVA growth rates in the first three quarters at 5.4%, 4.8% and 4.5%, respectively.
- However, the latest estimates saw significant downward revisions in the GVA data pertaining to the first three quarters to 4.8%, 4.3% and 3.5% respectively.
- The revisions combined with dull performance in the fourth quarter ultimately **lowered the overall annual GVA growth estimate** for 2019-20 by as much as 1% point to 3.9%, from the 4.9% forecast in February.
- The significant revisions in GVA data point to a **deeper weakness in the service sectors.**
    - The growth estimates for the **largest services sector, Financial, Real Estate and Professional Services,** have been reduced sharply.
        - Q1, Q2 and Q3 growth has been cut from 6.9%, 7.1% and 7.3%, respectively to 6%, 6% and 3.3%, respectively.
        - Financial, Real Estate and Professional Services **contributes almost one-fourth of the overall GVA.**
    - Trade, Hotels, Transport, Communications and services related to Broadcasting also saw a significant reduction in estimates.
        - Q1, Q2 and Q3 growth has been cut from 5.7%, 5.8% and 5.9%, respectively to 3.5%, 4.1% and 4.3%, respectively.
        - These services contribute almost 20% to GVA and are the **second largest component of GVA.**

- However, the revisions show two other key sectors, **Agriculture and Public Administration in a positive light.**

    The Public Administration sector's Q1, Q2 and Q3 growth have been revised from 8.7%, 10.1% and 9.7%, respectively, to 7.7%, 10.9% and 10.9%.

Gross Value Added

- In 2015, India opted to make major changes to its compilation of national accounts and decided to bring the whole process into conformity with the **United Nations System of National Accounts (SNA) of 2008.**
    - The SNA is the internationally agreed standard set of recommendations on how to compile measures of economic activity.
    - It describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules.
- As per the SNA, **GVA is defined as the value of output minus the value of intermediate consumption** and is a **measure of the contribution to growth made by an individual producer, industry or sector.**

    It provides the **rupee value** for the number 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.
- It can be described as the **main entry on the income side of the nation's accounting balance sheet,** and from an economics perspective **represents the supply side.**
- At the macro level, from a **national accounting perspective,** GVA is the sum of a country's GDP and net of subsidies and taxes in the economy.

    Gross Value Added = GDP + subsidies on products - taxes on products
- Earlier, India had been measuring GVA at **'factor cost'** till the new methodology was adopted in which GVA at **'basic prices'** became the primary measure of economic output.
    - GVA at basic prices will **include production taxes** and **exclude production subsidies.**
    - GVA at factor cost included no taxes and excluded no subsidies.
- The **base year** has also been shifted to **2011-12** from the earlier 2004-05.

- The NSO provides **both quarterly and annual estimates of output** of GVA. It provides sectoral classification data on **eight broad categories** that includes **both goods produced and services provided** in the economy. These are:
    - Agriculture, Forestry and Fishing.
    - Mining and Quarrying.
    - Manufacturing.
    - Electricity, Gas, Water Supply and other Utility Services.
    - Construction.
    - Trade, Hotels, Transport, Communication and Services related to Broadcasting.
    - Financial, Real Estate and Professional Services.
    - Public Administration, Defence and other Services.

Importance of GVA

- While GVA gives a picture of the state of economic activity from the **producers' side or supply side,** the GDP gives the picture from the **consumers' side or demand perspective.**
    - Both measures need not match because of the difference in treatment of net taxes.
    - **GDP** is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (the difference between exports and imports).
    - **GDP = private consumption + gross investment + government investment + government spending + (exports-imports)**
- GVA is considered a **better gauge of the economy.** GDP fails to gauge the real economic scenario because a sharp increase in the output can be due to higher tax collections which could be on account of better compliance or coverage, rather than the real output situation.
- A **sector-wise breakdown provided by the GVA measure helps policymakers** decide which sectors need incentives or stimulus and accordingly formulate sector-specific policies.

    But GDP is a key measure when it comes to making cross-country analysis and comparing the incomes of different economies.
- From a **global data standards and uniformity perspective,** GVA is an integral and necessary parameter in measuring a nation's economic performance.

    Any country which seeks to **attract capital and investment from overseas does need to conform to the global best practices** in national income accounting.

Issues with GVA

- The accuracy of GVA is heavily dependent on the sourcing of data and the accuracy of the various data sources.
- GVA is as susceptible to vulnerabilities from the use of inappropriate or flawed methodologies as any other measure.

Source: TH