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.

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

GNP = GDP + Net Income Property from abroad

What is contributing to India's growth?

- GDP is calculated by *3 different methods*.



- **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)

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