First Advance Estimates for GDP

For Prelims: First Advance Estimates, Gross Domestic Product, Gross Value Added, Inflation, Real GDP vs Nominal GDP

For Mains: GDP calculation mechanism

Why in News

Recently, the **Ministry of Statistics and Programme Implementation (MoSPI)** released the **First Advance Estimates (FAE)** for the current financial year (2021-22).

- According to MoSPI, India's **Gross Domestic Product (GDP)** will grow by 9.2% in 2021-22.

Key Points

- **First Advance Estimates of GDP:**
  - The FAE, first **introduced in 2016-17,** are typically published at the end of the first week of January.
  - They are the **"first" official estimates of how GDP is expected to grow** in that financial year.
  - Apart from it, they are also the **"advance"** estimates because they are published **long before the financial year (April to March) is over.**
  - The FAE is published soon after the end of the third quarter or **Q3 (October, November, December).**
    - However, they **do not include the formal Q3 GDP** data, which is published at the end of February as part of the Second Advance Estimates (SAE).
  - **Significance:** The main significance of FAE lies in the fact that they are the GDP estimates that the Union Finance Ministry uses to decide the n**ext financial year's** budget **allocations.**
    - From the Budget-making perspective, it is important to estimate the **nominal GDP** — both absolute level and its growth rate.
    - This will further help in calculating **Real GDP** and **inflation.**
    - The difference between the real and nominal GDP shows the levels of inflation in the year.
    - **Real GDP = Nominal GDP — Inflation Rate.**
- **FAE Calculation:**
  - According to the MoSPI, the approach for compiling the Advance Estimates is based on the **Benchmark-Indicator method.**
    - According to this, the estimates available for the previous year (2020-21 in this case) are **extrapolated using relevant indicators reflecting the performance of sectors.**
  - The MoSPI extrapolates sector-wise estimates using indicators such as previous data of **Index of Industrial Production (IIP)**, sale of commercial vehicles data, etc.
  - **Issues in Calculation of Data:** The pandemic has upset many such projections because

    of significant fluctuations during the past couple of years.
        - Due to this, the MoSPI has alerted that **“these are early projections”** which are liable for subsequent revisions depending on Covid, the impact on the economy and the government’s fiscal response.

GDP vs GVA

- GDP maps the economy from the expenditure (or demand) side — that is by adding up all the expenditures.
    - **GDP = private consumption + gross investment + government investment + government spending + (exports-imports).**
- The **Gross Value Added (GVA)** provides a picture of the economy from the supply side.
    - GVA maps the “value-added” by different sectors of the economy such as agriculture, industry and services.
    - **Gross Value Added = GDP + subsidies on products - taxes on products.**
- 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.**
    - Change of base year from 2004-2005 to 2011-2012.
    - Replacing Factor Cost with Market Prices.
    - Broadening of data pool.
    - Improved coverage of financial corporations in GDP estimation (like stock brokers, stock exchanges, asset management companies, mutual funds and pension funds).

Source: IE