GDP and GVA

For Prelims: Gross domestic product, Gross Value Added

For Mains: Growth and Development in the Indian Economy.

Why in News?

Recently, the Ministry of Statistics and Programme Implementation (MoSPI) released **India's economic growth data for the second quarter** of the current financial year (2022-23 or FY23).

- India's Gross Domestic Product (GDP) grew by 6.3% in Q2 and Gross Value Added (or GVA) in Q2 grew by. 5.6% on a year-on-year basis.
- Notably, India remained the fastest-growing major economy as China registered an economic growth of 3.9% in July-September 2022.
- GDP and GVA are the **two main ways to ascertain the country's economic performance.**

What do GDP and GVA mean?

- **GDP:**
  - The GDP measures the **monetary measure of all "final" goods and services**— those that are bought by the final user— produced in a country in a given period.
  - **Four Key "Engines of GDP Growth":**
    - All the money Indians spent for their private consumption (that is, Private Final Consumption Expenditure or PFCE)
    - All the money the **government spent on its current consumption,** such as salaries [Government Final Consumption Expenditure or GFCE]
    - All the money **spent towards investments to boost the productive capacity of the economy.** This includes business firms investing in factories or the governments building roads and bridges [Gross Fixed Capital Expenditure]
    - The **net effect of exports** (what foreigners spent on our goods) and imports (what Indians spent on foreign goods) [Net Exports or NX].
  - **Calculation of GDP:**
    - GDP = private consumption + gross investment + government investment + government spending + (exports-imports)
- **GVA:**
  - The **GVA calculates the same national income from the supply side.**
  - It does so by adding up all the value added across different sectors.
  - According to the RBI, the **GVA of a sector is defined as the value of output minus the value of its intermediary inputs.** This "value added" is shared among the primary factors of production, labour and capital.
  - By looking at the GVA growth **one can understand which sector of the economy is robust and which is struggling.**

How are the two Related?

- The GDP is **derived by looking at the GVA data.**
- The GDP and GVA are related by the following equation: GDP = (GVA) + (Taxes earned by the government) — (Subsidies provided by the government)
- As such, **if the taxes earned by the government are more than the subsidies** it provides, the GDP will be higher than GVA.
- The GDP data is more useful when looking at annual economic growth and when one wants to compare the economic growth of a country either with its growth in the past or with another country.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q1. With reference to Indian economy, consider the following statements: (2015)

1. The rate of growth of Real Gross Domestic Product has steadily increased in the last decade.
2. The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (b)

- Gross Domestic Product (GDP) is the monetary value of all the final goods and services produced within a country's borders in a specific time period, generally 1 year. It is a broad measurement of a nation's overall economic activity.
- Real Gross Domestic Product is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.
- The rate of growth of real GDP has not steadily increased in the last decade. It has fluctuated due to various international and domestic economic pressures. **Hence, statement 1 is not correct.**
- The GDP at market prices of India has steadily increased in the last decade from around 900 billion USD in 2005 to 2.1 trillion USD in 2015. As of 2020 India's GDP is 2.63 trillion USD. **Hence, statement 2 is correct. Therefore, option (b) is the correct answer.**

Q2. A decrease in tax to GDP ratio of a country indicates which of the following? (2015)

1. Slowing economic growth rate
2. Less equitable distribution of national income

Select the correct answer using the code given below:

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (a)

- The tax-to-GDP ratio is a ratio of a nation's tax revenue relative to its Gross Domestic Product (GDP). For example, if India's tax-to-GDP ratio is 20%, it means that the government gets 20% of its GDP as tax contribution.
- The tax-to-GDP ratio is used to compare tax receipts from year to year. As taxes are related to economic activity, the ratio should stay relatively consistent. When the gross domestic product (GDP) grows, tax revenue should increase as well.
- Economic slowdown results in lower rates of growth, where unemployment usually rises, and

consumer spending decreases. As a result, **the tax-to-GDP ratio declines. Hence, statement 1 is correct.**
- The less equitable distribution of national income is not directly related to decrease in tax to GDP ratio.
- Equal distribution of national income and resource allocation generally depends upon the economic planning of a country. **Hence, statement 2 is not correct. Therefore, option (a) is the correct answer.**

Mains

Q1. Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP? **(2020)**

Q2. Explain the difference between computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015. **(2021)**

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