



GDP Growth Surprise

For Prelims: [Gross Domestic Product \(GDP\)](#), [Production-linked incentive scheme](#), [National infrastructure pipeline](#), **Ministry of Statistics and Programme Implementation (MoSPI)**.

For Mains: India's GDP Growth, Calculations Methods For GDP in India, Positive Factors that Can Help India Recover from the Slump.

Source: [IE](#)

Why in News?

According to the latest data from the Ministry of Statistics and Programme Implementation (MoSPI), India's **Gross Domestic Product (GDP)** grew by 7.6% in second quarter (Q2) of 2023-24, covering the months of July to September.

- India's economy in Q2 witnessed a decline in agriculture, a surge in manufacturing, and a slowdown in services sectors.

What is the Significance of This Growth Data?

- Not only is this a fairly impressive level of economic growth, it also beats all market expectations.
 - The recent quarterly GDP growth has **triggered a flurry of upward revisions in the GDP forecast** for the full financial year.
- It appears that India's central bank accurately predicted the country's GDP growth rate for the fiscal year, **despite initially seeming optimistic compared to other economists**.
 - Now, with many experts revising their projections to align with the bank's forecast of 6.5%, the **Reserve Bank of India (RBI)** seems to have made an accurate prediction.
- This also means that **RBI is unlikely to cut interest rates sooner than expected**. Had the growth rate been below market expectations, the probability of a rate cut would have heightened.
- It is also noteworthy that it was exactly three years ago — when MoSPI announced the Q2 GDP data for 2020-21 — that India went into a **technical recession**. The upside surprise on growth has given hope that India's economic recovery is now gathering momentum.

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REAL GROSS VALUE ADDED

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|--------------|---------------|--------------|--------------|--------------|
| GVA Total | 4.23 | -5.12 | 9.33 | 5.41 | 7.42 |
| Agriculture, forestry and fishing | 5.32 | 4.32 | 4.84 | 2.49 | 1.22 |
| Industry | -2.14 | 3.24 | 8.11 | -0.55 | 13.18 |
| Mining and quarrying | -5.8 | -8.06 | 10.63 | -0.12 | 9.97 |
| Manufacturing | -3.57 | 9.01 | 6.55 | -3.83 | 13.91 |
| Electricity, gas, water supply and other utility services | 1.96 | -3.93 | 10.8 | 5.96 | 10.06 |
| Construction | 1.09 | -4.88 | 10.75 | 5.66 | 13.28 |
| Services | 7.43 | -11.09 | 11.07 | 9.35 | 5.8 |
| Trade, hotels, transport, communication and broadcasting services | 6.44 | -18.42 | 13.12 | 15.63 | 4.26 |
| Financial services, real estate and professional services | 8.38 | -5.07 | 7.05 | 7.06 | 6.02 |
| Public administration, defence and other services | 7.04 | -12.24 | 16.81 | 5.59 | 7.56 |

Base Year 2011-12 Y-o-Y% change

(All data for Q2)

What are the Different Ways of Measuring Economic Growth?

▪ Two Ways to Calculate Economic Growth:

◦ GDP:

- It involves **examining people's spending patterns (the expenditure side)**. GDP can be derived from **Gross Value Added (GVA)** by incorporating indirect taxes and subtracting government subsidies.

◦ GVA:

- It focuses on the income side of the economy. GVA, as defined by the RBI, is the **value of a sector's output minus the value of its intermediary inputs**. This "value added" is distributed among the primary factors of production—**labor and capital**.

▪ Disparity Between the Two Methods:

- The disparity between the two methods is termed a discrepancy and has sparked controversies, notably during the release of first-quarter GDP data.
- For a nuanced analysis of quarterly economic trends, **GVA numbers are often considered more reliable, while GDP (expenditure data) is preferred for assessing annual trends**.

What Needs to be Done to Make India's Growth Rate More Robust?

▪ **Boosting Investment and Consumption:** These are the two main drivers of domestic demand, which **accounts for about 70% of India's GDP**.

- To increase investment, the government can continue to implement reforms that **reduce policy uncertainty, regulatory hurdles, interest rates, and bad loans**.
- To increase consumption, the government can **support income growth, inflation control, rural development, job creation, and credit availability**.

▪ **Enhancing Manufacturing and Exports:** These are the key sources of value addition, employment, and external demand, which can help India diversify its economy and integrate with the global market.

- To improve manufacturing and exports, the government can continue to implement initiatives such as the **Atmanirbhar Bharat package**, the **production-linked incentive scheme**, and the **national infrastructure pipeline**.

- **Investing in Human Capital and Social Services:** These are the essential factors for improving the living standards and productivity of India's large and young population.
 - To invest in human capital and social services, the government can continue to implement programs that **enhance education, health, skills, nutrition, water, sanitation, energy, housing, and healthcare.**
- **Maintaining Macroeconomic Stability and Resilience:** These are the necessary conditions for sustaining economic growth and coping with various shocks and uncertainties.
 - To maintain macroeconomic stability and resilience, the government can continue to **pursue prudent fiscal and monetary policies** that balance growth and inflation objectives.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans:(c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

- (a) Poverty rates vary from State to State
- (b) Price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) Quality of public distribution varies from State to State

Ans: (b)