State of the Economy in 2018-19: A Macro View

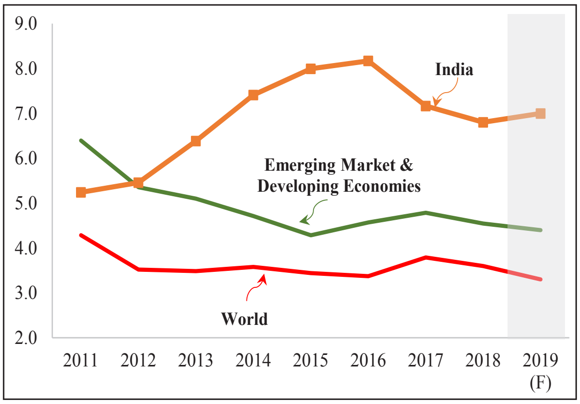
01
CHAPTER

For the global economy, the year 2018 was difficult, with the world output growth falling from 3.8 per cent in 2017 to 3.6 per cent in 2018. Growth rate of world output is projected to fall further to 3.3 per cent in 2019 as growth of both advanced economies and emerging & developing economies are expected to decline. Growth of the Indian economy moderated in 2018-19 with a growth of 6.8 per cent, slightly lower than 7.2 per cent in 2017-18. Yet, India continued to be the fastest growing major economy in the world. India maintained its macroeconomic stability by containing inflation within 4 per cent and by maintaining a manageable current account deficit to GDP ratio. The current account deficit to GDP was higher in 2018-19 as compared to 2017-18, primarily due to higher oil prices, which were about 14 $/bbl higher in 2018-19 vis-à-vis the previous year. However, the current account deficit started to narrow in the third quarter of the year. The manufacturing sector was characterised by higher growth in 2018-19 while the growth in agriculture sector witnessed tapering. Growth in investment, which had slowed down for many years, has bottomed out and has started to recover since 2017-18. In fact, growth in fixed investment picked up from 8.3 per cent in 2016-17 to 9.3 per cent in 2017-18 and further to 10.0 per cent in 2018-19. Net FDI inflows grew by 14.2 per cent in 2018-19. Capital expenditure of Central Government grew by 15.1 per cent in 2018-19 leading to increase in share of capital expenditure in total expenditure. Given the macroeconomic situation and the structural reforms being undertaken by the government, the economy is projected to grow at 7 per cent in 2019-20.

OVERVIEW: GLOBAL ECONOMIC SCENARIO

1.1 India continues to remain the fastest growing major economy in the world in 2018-19, despite a slight moderation in its GDP growth from 7.2 per cent in 2017-18 to 6.8 per cent in 2018-19. On the other hand, the world output growth declined from 3.8 per cent in 2017 to 3.6 per cent in 2018. The slowdown in the world economy and Emerging Market and Developing Economies (EMDEs) in

Figure 1: Growth rate of real GDP (per cent)



Data source: WEO, April 2019 database, CSO for India, 2019 projection for India is survey's projection.

Table 0.1 : Key Indicators

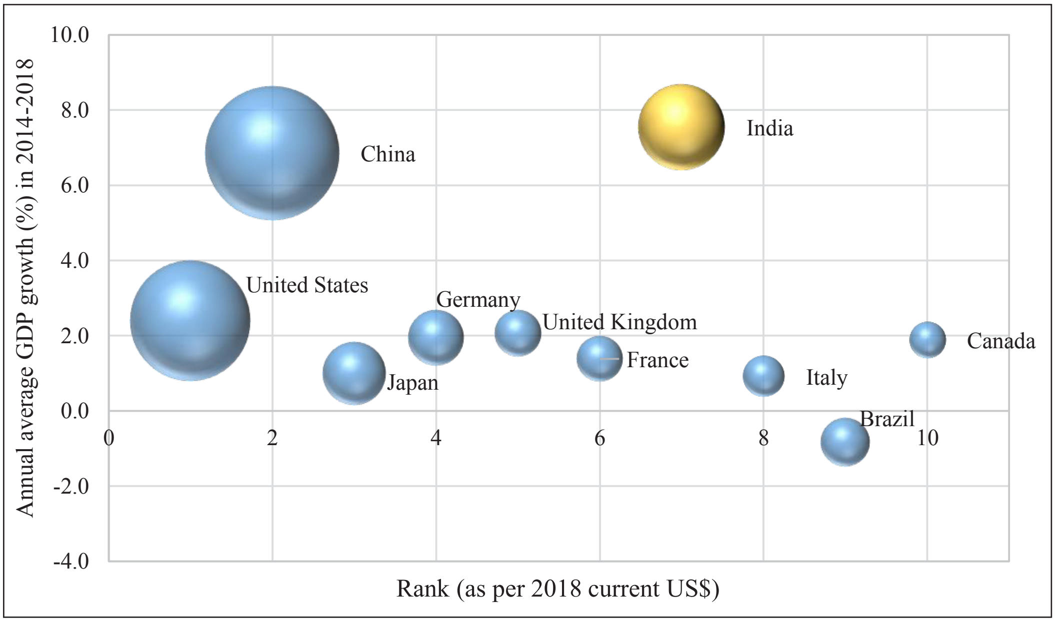
Data categories	Unit	2015-16	2016-17	2017-18	2018-19
GDP and Related Indicators					
GDP at current market prices	₹ Crore	13771874	15362386	17095005	19010164[a]
GDP at constant market prices	₹ Crore	11369493	12298327	13179857	14077586[a]
Growth Rate	(per cent)	8.0	8.2	7.2	6.8[a]
GVA at constant basic prices	₹ Crore	10491870	11318972	12104165	12906936[a]
Growth Rate	(per cent)	8.0	7.9	6.9	6.6[a]
Gross Savings	% of GDP	31.1	30.3	30.5	NA
Gross Capital Formation	% of GDP	32.1	30.9	32.3	NA
Per Capita Net National Income (at current prices)	₹	94797	104659	114958	126406[a]
Production					
Food grains	Million tonnes	251.5	275.1	285.0	283.4[b]
Index of Industrial Production (growth)	(per cent)	3.3	4.6	4.4	3.6
Electricity Generation (growth)	(per cent)	5.6	4.7	4.0	3.5
Prices					
WPI inflation (average)	(per cent)	-3.7	1.7	3.0	4.3
CPI (Combined) inflation (average)	(per cent)	4.9	4.5	3.6	3.4
External Sector					
Merchandise export growth (in US$ term)	(per cent)	-15.5	5.2	10.0	8.8
Merchandise import growth (in US$ term)	(per cent)	-15.0	0.9	21.1	10.4
Current Account Balance	% of GDP	-1.1	-0.6	-1.9	-2.6[c]
Foreign Exchange Reserves (end of year)	US$ billion	360.2	370.0	424.5	412.9
Average Exchange Rate	₹ /US$	65.5	67.1	64.5	69.9
Money and Credit					
Broad Money (M3) growth	(per cent)	10.1	10.1	9.2	10.5
Scheduled Commercial Bank Credit (Growth Rate)	(per cent)	10.9	8.2	10.0	13.3
Fiscal Indicators (Centre)					
Gross Fiscal Deficit	% of GDP	3.9	3.5	3.5	3.4[d]
Revenue Deficit	% of GDP	2.5	2.1	2.6	2.3[d]
Primary Deficit	% of GDP	0.7	0.4	0.4	0.3[d]

Notes:
NA: Not Available,
a: Provisional estimates, b: Third advance estimate,
c: (April-December) 2018, d: Provisional Actual

2018 followed the escalation of US China trade tensions, tighter credit policies in China, and financial tightening alongside the normalization of monetary policy in the larger advanced economies. In 2019, when the world economy and EMDEs are projected to slow down by 0.3 and 0.1 percentage points respectively, growth of Indian economy is forecast to increase (Figure 1). Crucially, India forms part of 30 per cent of the global economy, whose growth is not projected to decline in 2019 (World Economic Outlook (WEO), April 2019 of IMF).

1.2 India is the seventh largest economy in terms of Gross Domestic Product (GDP) in current US$ and has emerged as the fastest growing major economy (Figure 2). The average growth rate of India was not only higher than China's during 2014-15 to 2017-18 but much higher than that of other top major economies (measured in terms of GDP at current US$ terms) as well. With Purchasing Power Parity (PPP) adjustments, India's GDP at current international dollar, ranks third in the world (as shown by the size of circles in Figure 2).

Figure 2: Global comparison among top ten economies

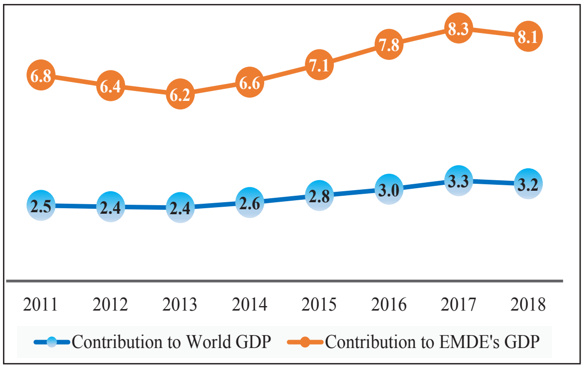


Data source: WEO, April 2019 database

Note: For France and Italy GDP of the year 2018 is the estimated figure of International Monetary Fund. Size of circle represents GDP (PPP) at current international dollar terms.

1.3 The contribution of the Indian economy to the GDP of EMDEs and world economy has increased consistently over the years (Figure 3). In a span of less than a decade, India's contribution to EMDEs GDP has increased by around 1.3 percentage points and to the world economy by around 0.7 percentage points. India's share in GDP of EMDEs stood at 8 per cent in 2018. As per the WEO, April 2019 of IMF, going forward, the growth of world economy will be bolstered mainly by growth in China and India and their increasing weights in world income. In EMDEs group, India and China are the major drivers of growth. The global economy—in particular the global growth powerhouse, China—is rebalancing, leading to an increasing role for India. Hence, India's contribution has become much more valuable to the global economy.

Figure 3: India's share in GDP of EMDEs and World (per cent)



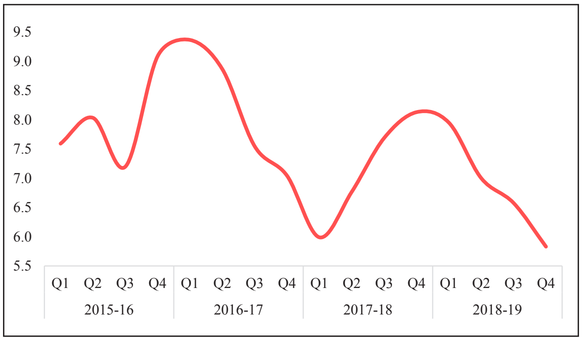
Data source: WEO, April 2019 database

OVERVIEW: INDIAN ECONOMY

1.4 India's growth of real GDP has been high with average growth of 7.5 per cent in the last 5 years (2014-15 onwards). The Indian economy grew at 6.8 per cent in 2018-19, thereby experiencing some moderation in growth when compared to the previous year. This moderation in growth momentum is mainly on account of lower growth in 'Agriculture & allied', 'Trade, hotel, transport, storage, communication and services related to broadcasting' and 'Public administration & defence' sectors. Acreage in 2018-19 for the rabi crop was marginally lower than last year, which affected agricultural performance. The contraction in food prices may have contributed to inducing farmers to produce less. On the demand side, lower growth of GDP in 2018-19 was accounted for, by a decline in growth of government final consumption, change in stocks and contraction in valuables.

1.5 When we examine the growth pattern within the various quarters of 2018-19, we note that the moderation in real GDP growth has been experienced in all quarters of 2018-19 (Figure 4) with the fourth quarter (Q4) registering a growth of 5.8 per cent. The base effect arising from a high growth of 8.1 per cent in the Q4 of 2017-18 also led to this lower growth in Q4 of 2018-19. In this quarter, election related uncertainty may have also contributed to growth moderation.

Figure 4: Quarterly real GDP growth (per cent)



Data source: Central Statistics Office

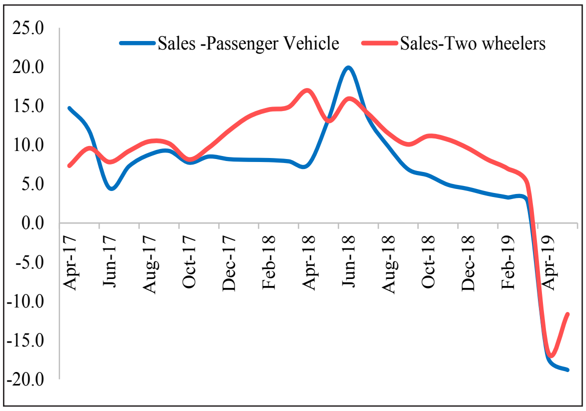
Table 1: Quarter-wise growth in Gross Value Added (per cent)

	2017-18				2018-19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture and allied	4.2	4.5	4.6	6.5	5.1	4.9	2.8	-0.1
Industry	0.8	6.9	8.0	8.1	9.8	6.7	7.0	4.2
(*of which*) Manufacturing	-1.7	7.1	8.6	9.5	12.1	6.9	6.4	3.1
Services	9.4	6.8	8.0	8.2	7.1	7.3	7.2	8.4
GVA at basic prices	**5.9**	**6.6**	**7.3**	**7.9**	**7.7**	**6.9**	**6.3**	**5.7**
GDP at market prices	**6.0**	**6.8**	**7.7**	**8.1**	**8.0**	**7.0**	**6.6**	**5.8**

Source: Central Statistics Office

1.6 There was contraction in 'Agriculture & allied' sector in the last quarter of 2018-19, though growth was reasonable in the previous three quarters. Growth of industry sector also experienced tempering in successive quarters of 2018-19 mostly on account of growth deceleration in the manufacturing sector (Table 1). This is also seen in Index of Industrial Production (IIP) of manufacturing sector, which grew at 0.3 per cent in Q4 of 2018-19, as compared to 7.5 per cent in the same quarter of previous year. Manufacturing sector was affected by the slowdown in the auto sector as well, where the production growth for all categories, apart from commercial vehicles declined in 2018-19, as compared to 2017-18. Sales growth decelerated in many segments of the automobile sector, including passenger vehicles, tractor sales, three and two wheeler sales (Figure 5). Stress in Non-Banking Financial Companies (NBFC) sector also contributed to the slow down by adversely impacting consumption finance (Figure 6). Despite the moderation of manufacturing growth within 2018-19, overall growth in the year was higher than in 2017-18, due to a high growth of 12.1 per cent in first quarter of 2018-19.

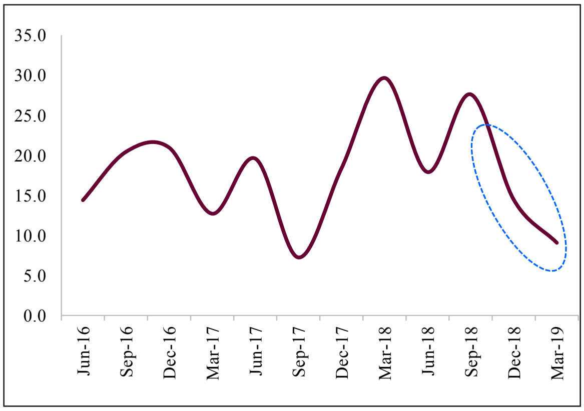
Figure 5: Change in cumulative auto sales (per cent)



Data source: Society of Indian Automobile Manufacturers

Note: Growth rates (Year on Year) are for cumulative sales from April to respective months of the year.

Figure 6: Growth of loans and advances of NBFCs (per cent)



Data source: Reserve Bank of India

Note: Data on loans and advances pertains to deposit taking NBFCs and Non-Deposit taking systematic important NBFCs including Government companies; Data from March 2018 onwards are provisional.

1.7 From the demand side, the decline in GDP growth during 2018-19 arose primarily from deceleration in private final consumption in the final two quarters. This could have been due to low farm incomes in rural areas arising from low food prices and also due to the stress in NBFCs, which affected its lending. The Q4 of 2018-19 also saw growth of exports declining.

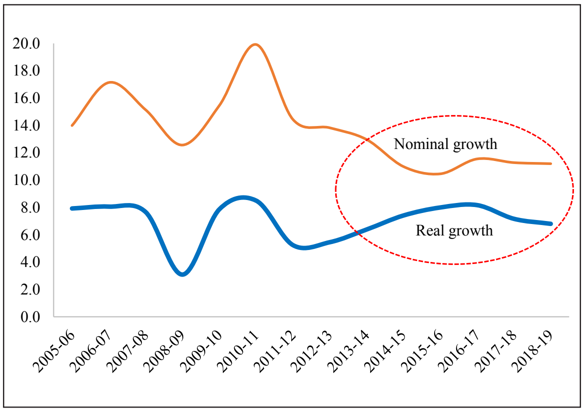
1.8 Although growth rate of real GDP was high during the last few years, the coterminous decline in the nominal GDP growth from 2010-11 onwards, points towards a secular decline in inflation. As seen in Figure 7, the gap between nominal and real growth rate has reduced significantly. Thus, the GDP deflator, which is a weighted average of Consumer Prices Index (CPI) and Wholesale Price Index (WPI), became smaller.

1.9 This is reflected in a consistent decline in CPI inflation during the last few years (Figure 8). In 2013-14, CPI headline inflation was close to double digits, but gradually declined thereafter to be within the target of 4 (+/- 2) per cent. Headline CPI declined to 3.4 per cent in 2018-19 from 3.6 per cent in 2017-18.

1.10 Headline WPI inflation stood at 4.3 per cent in 2018-19, higher as compared to

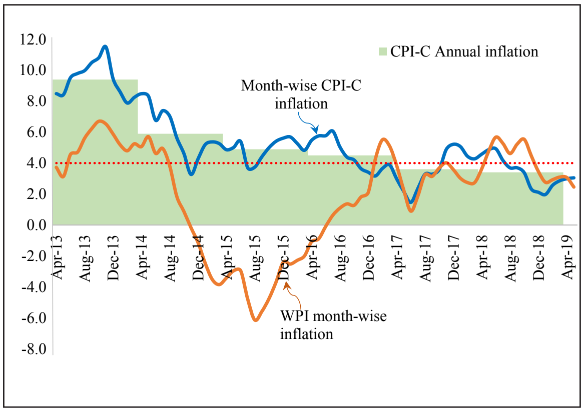
3.0 per cent in 2017-18. The increase in WPI inflation was broad based, which saw increase in inflation of all the groups except food in 2018-19. Increase in WPI led to marginal pick-up in GDP deflator from 3.8 per cent in 2017-18 to 4.1 per cent in 2018-19.

Figure 7: Growth in GDP (per cent)



Data source: Central Statistics Office

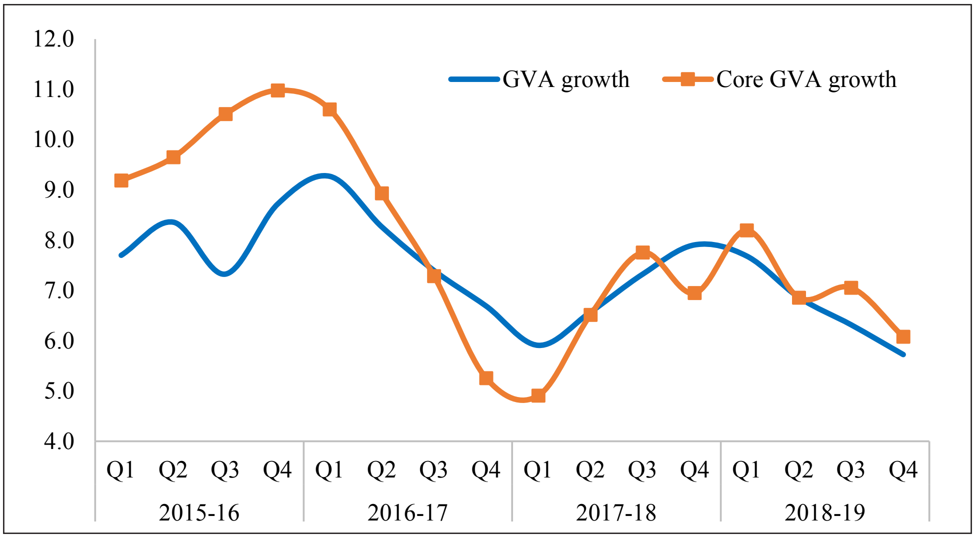
Figure 8: Significant moderation in Inflation



Data source: Central Statistics Office
Note: CPI-C stands for CPI-Combined.

1.11 Core Gross Value Added (GVA) (measured as GVA except 'Agriculture & allied' activities, and 'Public administration & defence') shows higher growth than that of overall GVA in 2018-19. Core GVA growth picked up from 6.5 per cent in 2017- 18 to 7.0 per cent in 2018-19, whereas GVA growth slowed down marginally from 6.9 per cent in 2017-18 to 6.6 per cent in 2018-19. For all quarters of 2018-19, the core GVA growth was higher than overall GVA growth, as 'Agriculture & allied' and 'Public administration & defence' experienced the largest decline in growth rates relative to other sectors. But in Q4 of 2018-19, the growth of core GVA also decelerated by 1 percentage point over previous quarter, largely on account of lower growth in manufacturing sector (Figure 9).

Figure 9: Real GVA and real core GVA growth (per cent)

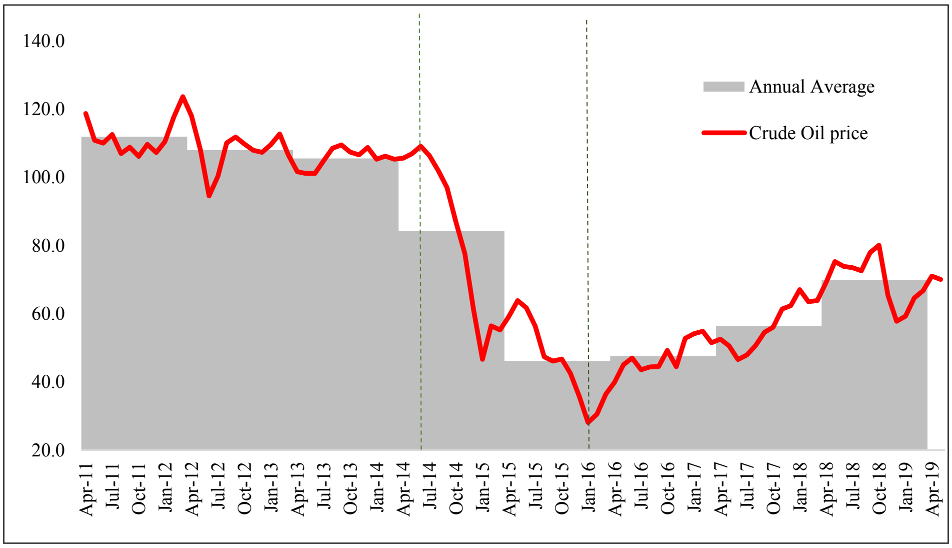


Data source: Central Statistics Office

1.12 On the external front, current account deficit (CAD) increased from 1.9 per cent of GDP in 2017-18 to 2.6 per cent in April-December 2018 (refer Figure 11). The widening of the CAD was largely on account of a higher trade deficit driven by rise in international crude oil prices (Indian basket). The trade deficit increased from US$ 162.1 billion in 2017-18 to US$ 184 billion in 2018-19.

1.13 Nominal growth of both merchandise exports and imports declined in US dollar terms in 2018-19, as compared to 2017-18. However, the decline was much sharper in merchandise imports, which reduced from 21.1 per cent to 10.4 per cent. Growth of merchandise imports declined as oil price driven increase in growth of oil imports was more than offset by contraction in value of gold imports and lower growth in the value of non-oil non-gold imports. The crude oil prices, however, showed movements in both the directions within the year. As the year commenced, crude prices increased and reached above 80 US$/bbl. in October 2018. Thereafter, it started to decline before increasing again after December 2018 (Figure 10). Overall the oil prices were substantially higher in 2018-19, as compared to previous year.

Figure 10: Crude oil price (Indian basket in US$ per barrel)



Data source: Petroleum Planning & Analysis Cell

1.14 Growth in service exports and imports in US dollar terms declined to 5.5 per cent and 6.7 per cent respectively in 2018-19, from 18.8 per cent and 22.6 per cent respectively in 2017-18.

1.15 Rupee depreciated by 7.8 per cent vis-à-vis US dollar, 7.7 per cent against Yen, and 6.8 per cent against Euro and Pound Sterling in 2018-19. During 2018-19, Indian rupee traded with a depreciating trend against US dollar and touched ₹74.4 per US dollar in October 2018 before recovering to ₹69.2 per US dollar at end March 2019. Rupee depreciated in the first half of the year due to concerns related to widening of CAD owing to rising crude oil prices coupled with tighter financial conditions in US caused by increase in Federal Funds rate by the US Federal Reserve. However, rupee performed better than some of the other major emerging market currencies, such as, Argentine Peso, Turkish Lira, Brazilian Real, and Russian Ruble, which depreciated more than 10 per cent vis-à-vis US dollar. Not only in terms of bilateral exchange rate with US dollar, rupee also depreciated when measured as trade based weighted exchange rates in 2018-19. Nominal Effective Exchange Rate (NEER) (36 currency trade based bilateral weights) of rupee depreciated by 5.6 per cent in 2018-19. Correspondingly, Real Effective Exchange Rate (REER) also depreciated by 4.8 per cent in 2018-19 (Figure 12).

1.16 The foreign exchange reserves in nominal terms (including the valuation effects) decreased by US$ 11.6 billion at end-March 2019 over end-March 2018. Within the year, foreign exchange reserves were declining until October 2018 due to RBI's intervention to modulate exchange rate volatility. India's foreign exchange reserves continue to be comfortably placed at US$ 422.2 billion, as on 14th June 2019 (Figure 13).

1.17 Net Foreign Direct Investment (FDI) inflows grew by 14.2 per cent in 2018-19. Among the top sectors attracting FDI equity inflows, services, automobiles and chemicals were the major categories. By and large, FDI inflows have been growing at a high rate since 2015-16 (Figure 14). This pick-up indicates the improvement in confidence of the foreign investors in the Indian economy.

Figure 11: Current Account Balance (per cent of GDP)

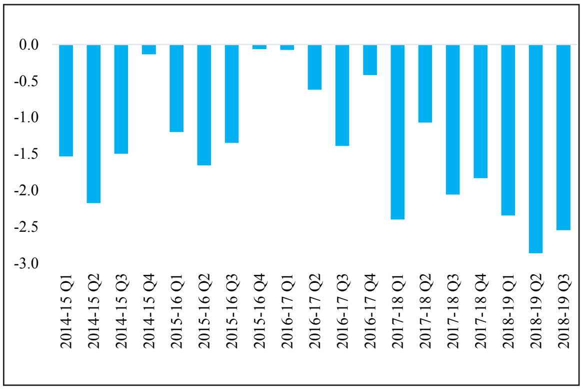


Figure 12: Index of REER and ₹/US$ exchange rate

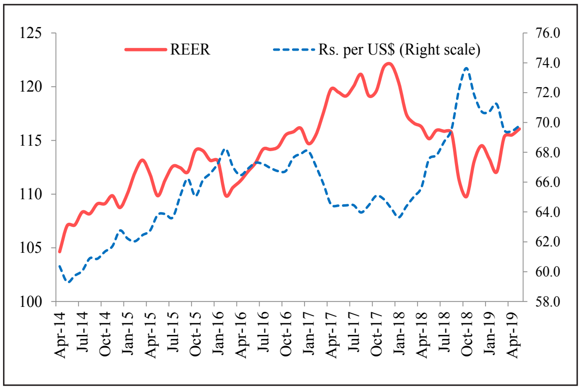


Figure 13: Foreign Exchange Reserve (US$ billion)

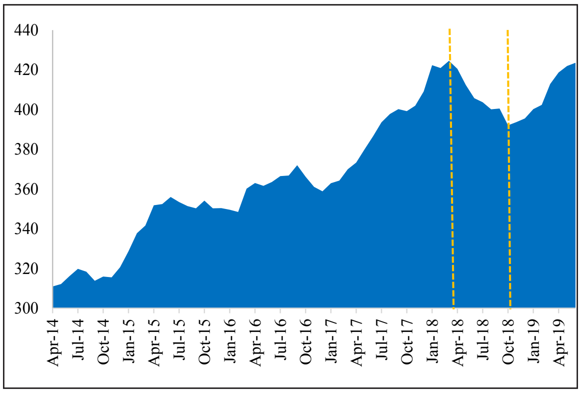
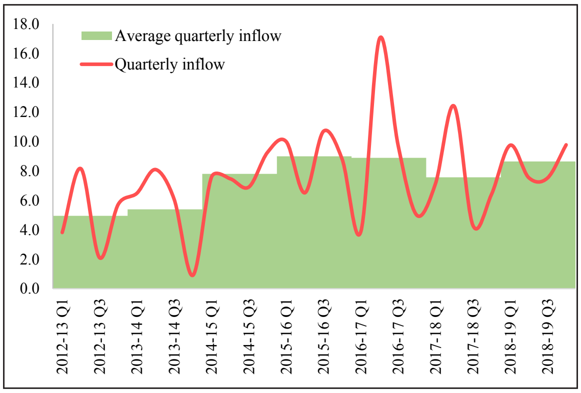


Figure 14: Net FDI inflows (US$ billion)



Data source: Reserve Bank of India (from figure 11 to 14)

Note: FDI inflow for the fourth quarter of 2018-19 (in Figure 14) is calculated on the basis of information published in the RBI Bulletin – May 2019.

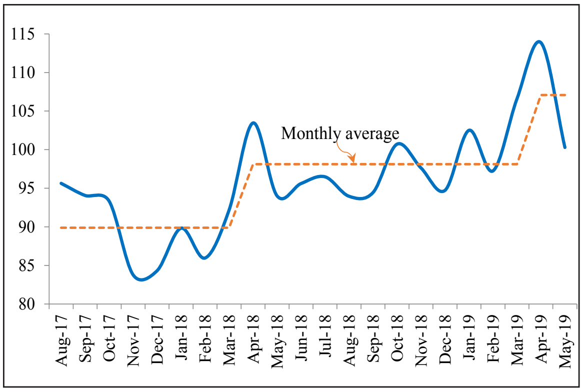
1.18 As per Provisional Actuals (PA) for 2018-19, fiscal deficit stood at 3.4 per cent of GDP. In 2018-19, direct taxes grew by 13.4 per cent (PA) owing to improved performance of corporate tax. However, indirect taxes fell short of budget estimates by about 16 per cent, following a shortfall in GST revenues (including CGST, IGST and compensation cess) as compared to the budget estimates. GST was implemented in July 2017. After the initial transitional issues following the roll-out of GST, revenue collection picked up from annual average of ₹89.8 thousand crore in 2017-18 to ₹98.1 thousand crore in 2018-19 (Figure 15). Accordingly, Gross Tax Revenue as a proportion of GDP declined to 10.9 per cent of GDP in 2018-19 (PA), lower by 0.3 percentage points as compared to 2017-18.

1.19 Total expenditure of central government grew by 7.9 per cent in 2018-19 (PA), with the growth of 15.1 per cent in capital expenditure leading to increase in share of capital expenditure in total expenditure (Figure 16). The corresponding growth in total expenditure was 8.4 per cent and capital expenditure, (-)7.5 per cent in 2017-18.

1.20 Government stood by its path of fiscal consolidation in 2018-19. The new targeting framework was adopted in 2018-19 which rests on the twin pillars of reducing debt and fiscal deficit. There has been consolidation of revenue expenditure while expenditure quality has improved with gradual tilt towards capital spending of the Central Government in 2018-19. There has been a progressive reduction in primary and fiscal deficits. Primary deficit (amount by which a government's total expenditure exceeds its total revenue, excluding interest payments on its debt) of the central government has been consistently declining and now stands at 0.3 per cent of GDP in 2018-19 (PA) from 0.7 per cent in 2015-16. Total liabilities of the Central Government, as a ratio of GDP, have declined, as an outcome of both fiscal consolidation efforts as well as relatively high GDP growth.

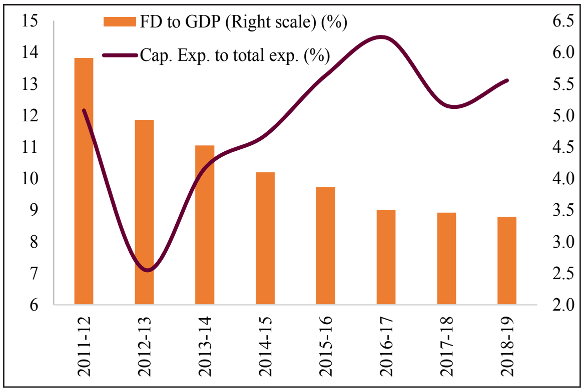
1.21 State's Gross Fiscal deficit reduced from 3.5 per cent of GDP in 2016-17 to 3.0 per cent in 2017-18 (RE), and is budgeted to decline to 2.6 per cent in 2018-19 (as per data available from RBI). The combined liabilities of General Government (Centre and States) has declined to 67 per cent of GDP as on end-March 2018. Fiscal deficit of general government is further expected to decline to 5.8 per cent of GDP in 2018-19 (BE) from 6.4 per cent of GDP in 2017-18 (RE).

Figure 15: GST revenue collections (₹ crore)



Data source: Press Information Bureau

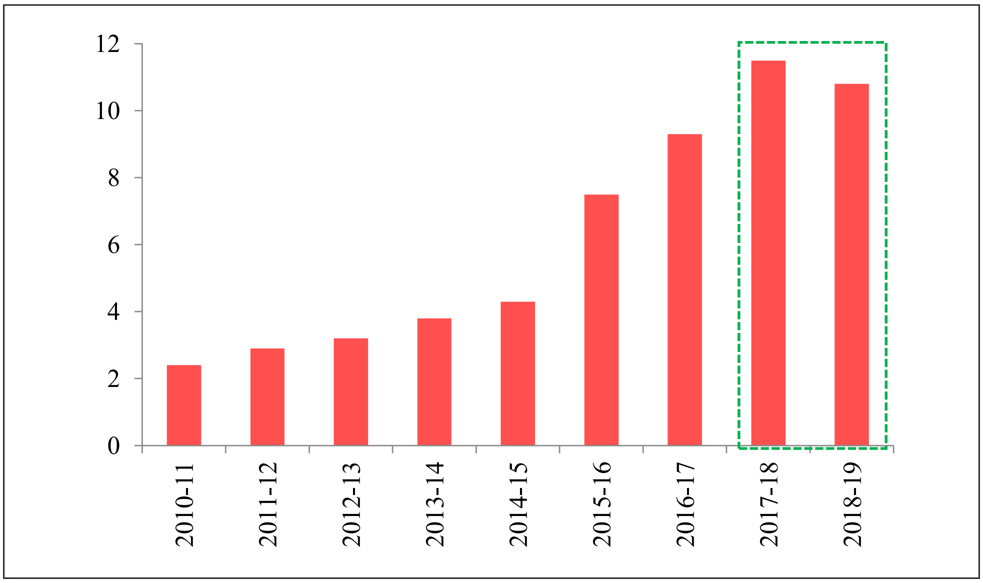
Figure 16: Expenditure of Central Government (in ₹ crore)



Data source: Controller General of Accounts

1.22 Indian banking sector has been dealing with twin balance sheet problem, which refers to stressed corporate and bank balance sheets. The increase in Non-Performing Assets (NPA) of banks led to stress on balance sheets of banks, with the Public Sector Banks (PSBs) taking in more stress. However, the performance of the banking sector (domestic operations), and PSBs in particular, improved in 2018-19. NPAs as a percentage of Gross Advances of Scheduled Commercial Banks (SCBs) decreased from 11.5 per cent to 10.1 per cent between March 2018 and December 2018 (Figure 17). The decline was sharper for PSBs from 15.5 per cent to 13.9 per cent during the same period.

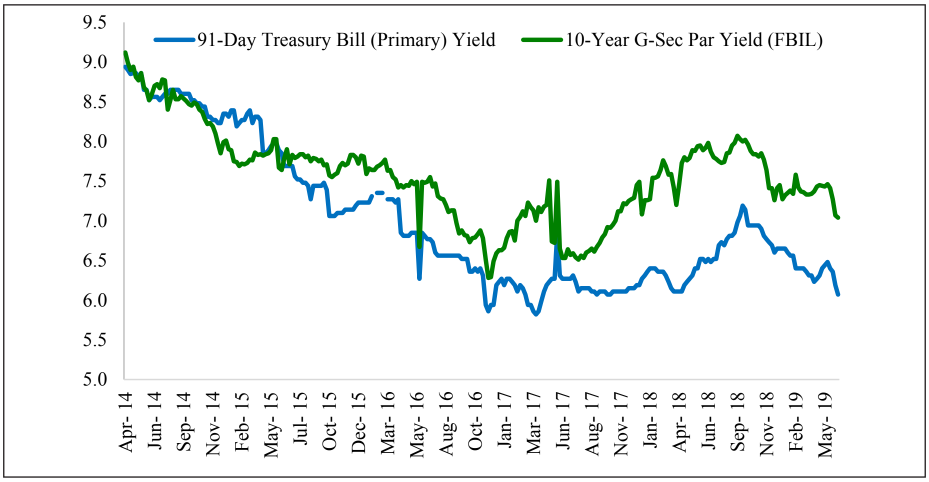
Figure 17: Non performing assets as a percentage of Gross Advances



Data source: Reserve Bank of India

1.23 During 2018-19, the 10-year benchmark Government Security (G-Sec) yields was volatile (Figure 18) and closely tracked the movement in oil prices, domestic liquidity and rupee exchange rate. It hardened in the first quarter but witnessed intermittent softening in the second and third quarters. The hardening of yields in the first quarter may be attributed to rising crude oil prices, the firming up of US treasury yields, concerns regarding the pace of rate hikes by the US Fed, and upside risks to domestic inflation. Later, with the decline in crude oil prices in July 2018, and with the announcement of Open Market Operations (OMO) purchases, the yields softened in July. However, the currency depreciation in August 2018 due to rising crude oil prices and rising US interest rates, caused the yields to harden in August again which continued into September as well, increasing the yields from end-July to mid-September, by 40 bps. Yields started softening towards the end of September reflecting the measures taken for containing rupee volatility along with expectations of lower market borrowings by the central government in H2 of 2018-19. In the third quarter of 2018-19, the OMO purchase of ₹1.36 lakh crore along with the decline in crude oil prices and CPI inflation rate, caused the yields to soften once again. Consequent upon the policy rate cut announced by the Monetary Policy Committee in February, April and June 2019, the yields have further softened. The 10-year G-Sec yield dropped to 6.97 per cent as on 10 June 2019.

Figure 18: Yield on 10 year and 91 day T Bill



Data source: Reserve Bank of India

DRIVERS OF GROWTH

1.24 Consumption has always been a strong and major driver of growth in the economy. Within total final consumption, it is the private final consumption expenditure that has a major share (close to 60 per cent) in the economy's GDP, with its growth rate mostly being higher than the overall GDP growth rate (Table 2). The huge size of the economy serves as a big market for businesses. Growth in private final consumption expenditure (PFCE) increased to 8.1 per cent in 2018-19, although within the year, the growth momentum slowed in the last two quarters. Although the share of private consumption in GDP remains high, the pattern of consumption has undergone some change over time – from essentials to luxuries and from goods to services (Box 1).

Table 2: Components of aggregate demand

Components	Real growth (per cent)			Share at current prices (per cent)		
	2016-17	2017-18	2018-19	2016-17	2017-18	2018-19
Total consumption	7.8	8.6	8.3	69.6	70.0	70.6
Government consumption	5.8	15.0	9.2	10.3	11.0	11.2
Private consumption	8.2	7.4	8.1	59.3	59.0	59.4
Fixed investment	8.3	9.3	10.0	28.2	28.6	29.3
Change in stock	-48.2	21.2	4.8	0.9	1.0	1.0
Valuables	-18.9	27.4	-9.0	1.1	1.3	1.0
Exports of goods and services	5.1	4.7	12.5	19.2	18.8	19.7
Imports of goods and services	4.4	17.6	15.4	21.0	22.0	23.6
GDP at market prices	**8.2**	**7.2**	**6.8**	**100**	**100**	**100**

Source: Central Statistics Office
Note: For 2018-19, figures are as per provisional estimate.

Box 1: India's high income elasticity of consumption and its changing pattern over time

The relationship between per capita consumption and per capita national income shows a very high elasticity of consumption, implying that the growth rate of consumption per capita is almost the same as that of per capita income. The elasticity of consumption may have reduced a bit over time, but still remains very high. Growth of real per capita PFCE is slightly higher than that of per capita GDP or per capita net national income (NNI) (Table A).

Figure a: Income elasticity of consumption
(Old GDP series)

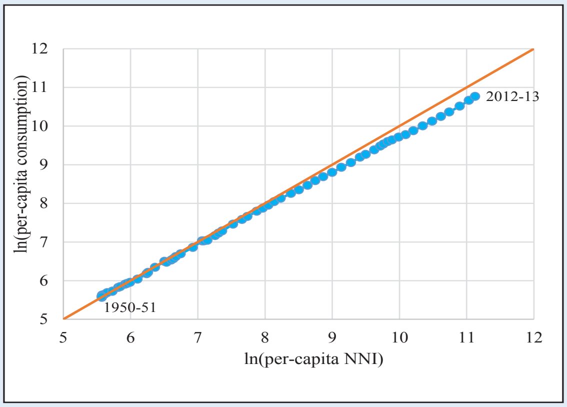
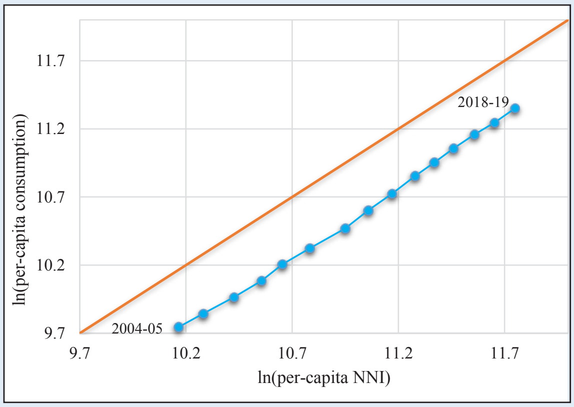


Figure b: Income elasticity of consumption
(New GDP series)



Data source: Central Statistics Office
Note: Old GDP series means series at 2004-05 base and new GDP series means series at 2011-12 base.

Table A: Level and growth of per capita income and consumption

	Level in Rupees				Real growth (in per cent)	
	Nominal		Real			
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
Per-capita GDP	129901	142719	100151	105688	5.8	5.5
Per-capita NNI	114958	126406	87623	92565	5.7	5.6
Per-capita PFCE	76619	84760	56364	60185	6.0	6.8

Source: Central Statistics Office

Even though the elasticity of consumption has remained very high, its composition has changed in the past few years. From food & beverages, transport & communication, which are more of necessities, the spending has been shifting towards clothing & footwear, health & education, housing & maintenance (Figure c). This shows an increase in discretionary spending by the households as compared to the necessities. This shift is also visible in the change in pattern of spending from consumption of goods to services. There has been a decline in share of goods in total final consumption, which has correspondingly increased the share of services by more than 1 percentage point (Figure d).

Figure c: Share of consumption expenditure among major purposes (per cent)

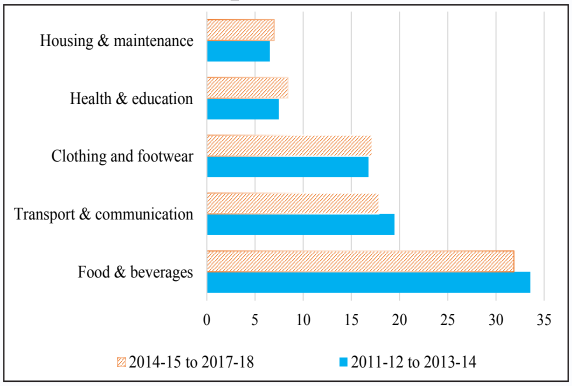
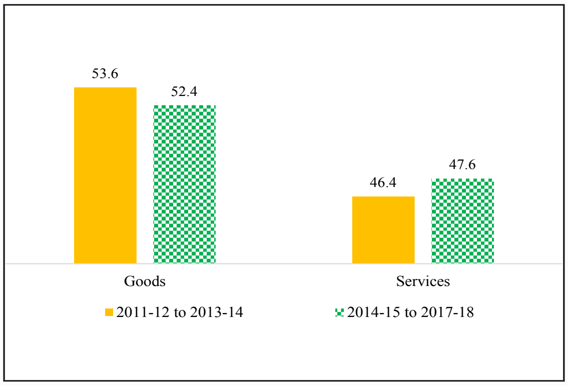


Figure d: Changes in consumption share (per cent)



Data Source: Central Statistics Office

The data from NSSO Household Consumption survey also shows the increase in share of non-food expenditure in total consumption over time. First interesting point to note is that the share of food in total consumption is more than 10 percentage points lower in urban areas (in 1999-00, 2004-05 and 2011-12 as well) as compared to rural areas. Secondly, share of food in total consumption has gone down by around 6.5 percentage points in rural areas and 5.5 percentage points in urban areas from 1999-00 to 2011-12. Within food, cereals have accounted for almost the entire decline. The share of cereals has reduced to half between 1999-00 to 2011-12 in both urban and rural areas. Overall, the share of non-food expenditure has increased with the expenditure share increasing for education, medical, conveyance and durable goods (Table B). This shows that the shift towards discretionary spending has been increasing while with the spending on necessities has been gradually decreasing. In 2011-12 as well, the share of non-food expenditure was higher by almost 10 percentage points in urban area as compared to rural areas, same as that in 1999-00. The share of spending on education was almost double in urban areas as compared to rural areas in 2011-12 (Table B).

Table B: Share of monthly per capita consumption expenditure in total (per cent)

	Rural			Urban		
	1999-00	2004-05	2011-12	1999-00	2004-05	2011-12
Food	59.4	55.1	52.9	48.1	42.5	42.6
(of which)						
Cereals	22.2	18.1	10.8	12.3	10.1	6.7
Milk & Milk products	8.8	8.4	8.0	8.7	7.9	7.0
Vegetables	6.2	6.1	6.6	5.1	4.5	4.6
Non food	40.6	44.9	47.1	51.9	57.5	57.4
(of which)						
Clothing & footwear	8.0	5.4	7.0	7.2	4.7	6.3
Education	1.9	2.7	3.5	4.3	5.0	6.9
Medical	6.1	6.6	6.6	5.1	5.2	5.6
Conveyance	2.9	3.8	4.2	5.5	6.6	6.5
Durable goods	2.6	3.4	4.5	3.6	4.1	5.3

Source: NSSO Reports on Household consumption expenditure

1.25 The second component of consumption is the government final consumption expenditure (GFCE). Growth of GFCE decelerated from 15.0 per cent in 2017-18 to 9.2 per cent in 2018-19. GFCE is calculated using growth of revenue expenditure net of interest payments and subsidies. GFCE comprises government's (revenue) expenditure on compensation of employees, net purchase of goods and services and consumption of fixed capital. This lower growth in GFCE is consistent with lower revenue expenditure growth of the government in 2018-19. On average, annual growth of GFCE in the last 5 years has been 9.0 per cent.

1.26 The third major component of demand is investment. Investment (Gross Capital Formation) accounts for nearly 32 per cent of GDP, within which fixed investment (Gross fixed capital formation) accounts for about 29 per cent of GDP. The other two components of investment are change in stocks and valuables, each having a share of around 1 per cent in GDP. Fixed investment mainly refers to the value of new machinery and equipment and the value of new construction activity of dwellings and other structures. Cultivated biological resources and intellectual property products are the other two components of fixed investment, although they constitute a very small share.

1.27 Decline in investment rate and fixed investment rate since 2011-12, seems to have bottomed out with some early signs of recovery since 2017-18 (Figure 19). Fixed investment growth picked up from 8.3 per cent in 2016-17 to 9.3 per cent in 2017-18 and further to 10.0 per cent in 2018-19. The decline in fixed investment until 2016-17 was mainly by the household sector, with fixed investment by public sector and private corporate sector remaining almost at same levels (Figure 20). The 'household' sector here includes 'quasi-corporates' as well. Unincorporated enterprises belonging to households, which have complete sets of accounts, are called quasi-corporates. Household sector mostly invests in dwellings and other structures and the quasi-corporates invest in machinery & equipment. This decline in household sector fixed investment is due to decline in investment in dwellings. This is borne out by a decline in physical savings of household sector as well.

Figure 19: Investment rate (measured as percentage of GDP)

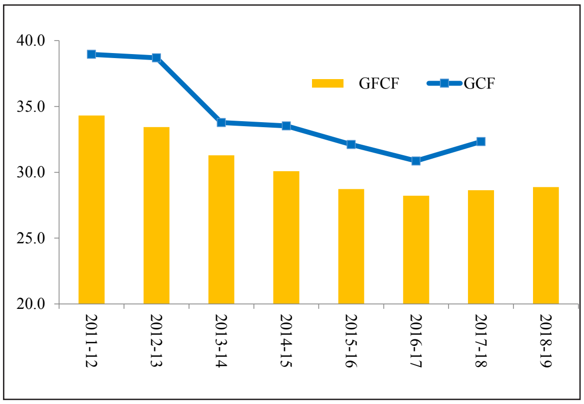
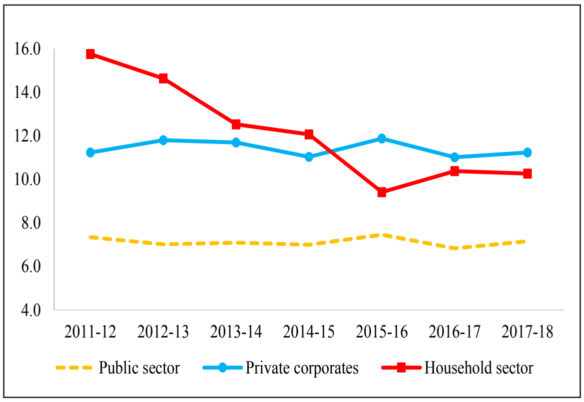


Figure 20: Sector-wise fixed investment rate (percentage share in GDP)

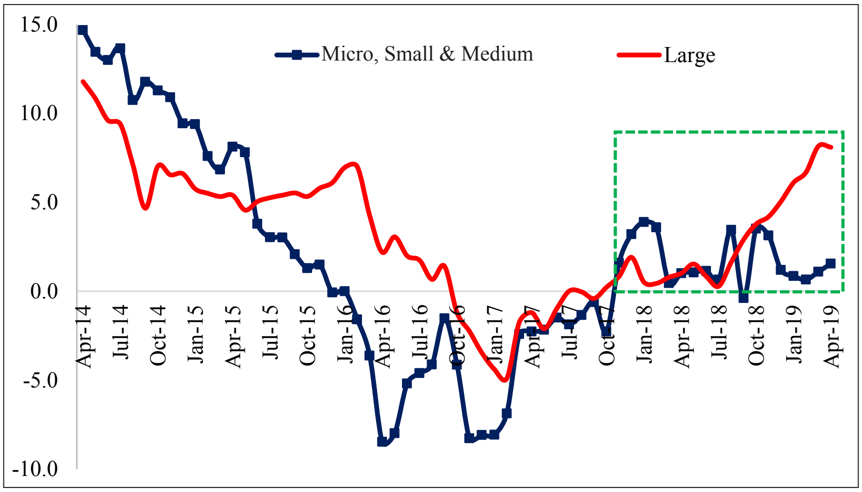


Data source: Central Statistics Office

Note: Investment data and sectoral break up of fixed investment is available only upto 2017-18.

1.28 Green shoots in the investment activity appear to be taking hold as also seen in the pickup in credit growth to industry. Credit to, both, large and micro, small & medium enterprises has seen pickup in growth. The growth of bank credit to micro, small & medium enterprises was contracting in 2016 and 2017, but has started picking up in 2018. Credit growth to large industry started declining since March 2016 and entered negative territory by October 2016. It has recovered since early 2017-18 and the momentum has picked up in the second half of 2018 (Figure 21).

Figure 21: Deployment of Bank Credit in industry sector: month wise growth (per cent)

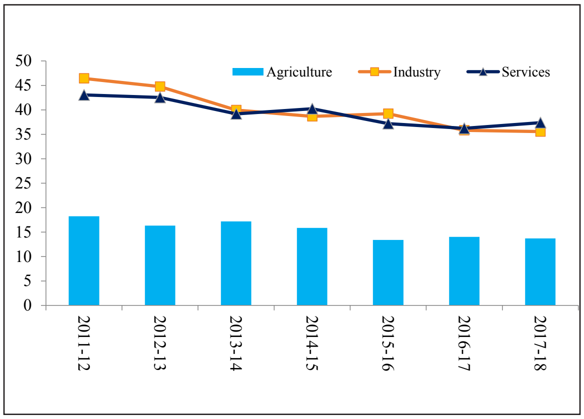


Data source: Reserve Bank of India

1.29 At the sectoral level, investment rates have been declining since 2011-12, though the investment rate in services is displaying signs of bottoming out (Figure 22). In year 2011-12, industry sector had the highest investment rate, followed by services, whereas the agriculture sector had investment rate much less than half of that of services. In 2017-18, investment rate in services sector became the highest. Investment rate in agriculture still continues to lag behind and now is half the investment rate in the industry sector.

1.30 Simultaneously, there has been a decline in savings rate as well, with the household sector entirely contributing to the decline. Household savings declined from 23.6 per cent in 2011-12 to 17.2 per cent in 2017-18. Almost this entire decline is in physical savings of the households, with only marginal decline in financial savings in 2016-17 and 2017-18 (Table 3). Household physical savings comprises gold and silver and physical assets including construction and machinery and equipment, with physical assets forming the major share. The decline in physical savings is reflected in decline in gold imports or low growth of gold imports since 2011-12 (Figure 23).

Figure 22: Ratio of GCF to GVA across sectors



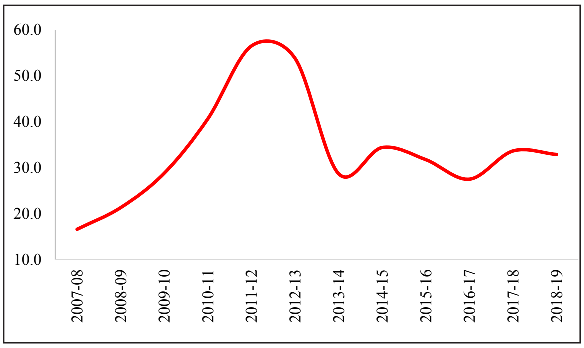
Data source: Central Statistics Office

Table 3: Gross Savings as percentage of GDP

	2011-12	2014-15	2015-16	2016-17	2017-18
Gross Savings	34.6	32.2	31.1	30.3	30.5
Public	1.5	1.0	1.2	1.7	1.7
Private corporates	9.5	11.7	11.9	11.5	11.6
Household sector	23.6	19.6	18.0	17.1	17.2
Net financial savings	7.4	7.1	8.1	6.3	6.6
Physical savings	16.3	12.5	9.9	10.8	10.6

Source: Central Statistics Office

Figure 23: Gold imports (in US$ billion)

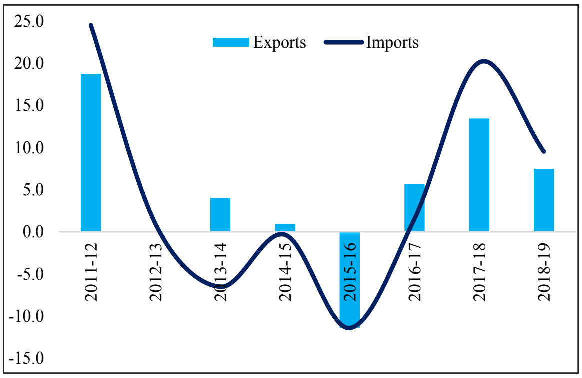


Data source: Directorate General of Commercial Intelligence and Statistics, Kolkata

1.31 As the saving rate has declined, so has the investment rate. However, the decline in investment rate has been greater than the decline in the saving rate leading to continuous narrowing of the saving-investment gap. The saving investment gap narrowed from (-)4.8 per cent of GDP in 2012-13 to (-)1.8 per cent in 2017-18. This is also reflected in the narrowing of current account deficit to GDP ratio.

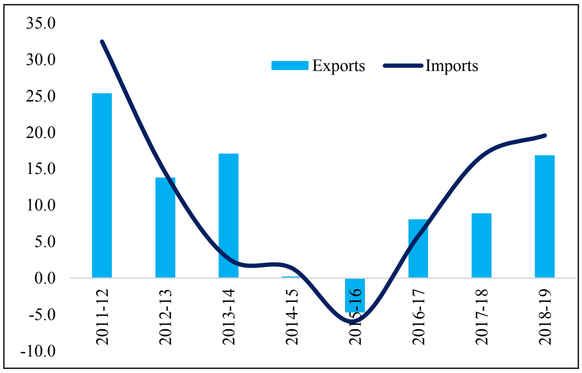
1.32 The fourth component of demand is net exports. Exports are the external component of demand of domestic goods, and imports are a leakage of income of the country for demand of products from other countries. The contribution of exports and imports to GDP would matter in rupee terms for national accounting purposes rather than US dollar. Hence, the discussion in this section is based on growth in rupee terms. Interestingly, the trend of growth of exports and imports was different in 2018-19 in rupee and US dollar terms (Figure 24 & 25). While the growth of both export and import declined in US$ terms, it increased in rupee terms (at current prices) in 2018-19.This happened due to the depreciation of rupee vis-à-vis US dollar in 2018-19 (Figure 12).

Figure 24: Nominal Growth in exports and imports in USD terms (per cent)



Data source: Reserve Bank of India

Figure 25: Nominal Growth in exports and imports in Rupee terms (per cent)



Data source: Central Statistics Office

1.33 After contraction in exports in 2015-16, the performance of exports growth started to improve from 2016-17. Exports of both service and merchandise (in rupee terms) picked up in 2018-19 in nominal terms. Nominal growth of imports also picked up in 2018-19 but the pickup in nominal export growth was much higher. So although growth of export in dollar terms declined, the positive growth in rupee terms, because of depreciation has insured a steady growth in the export earnings.

1.34 Import prices as compared to export prices in rupee terms increased sharply in 2018-19, vis-à-vis 2017-18. Growth in Unit Value Index of merchandise exports and imports was 1.1 per cent and (-)1.9 per cent respectively in 2017-18, but increased to 6.9 per cent and 17 per cent respectively in April-December 2018-19. Due to increase in price of imports, real growth of imports in rupee terms fell in 2018-19 possibly reflecting the softening of GDP growth in the year. On the other hand, real growth of exports picked up in 2018-19.

1.35 As India is a net importer, net exports are always negative. However, the growth contribution of net exports is positive in many years. In 2018-19, there was improvement in contribution of net exports to GDP growth, owing to higher growth of exports and lower growth of imports at constant prices as compared to previous year. Going forward, the prospects of export growth are dependent on the impact of rising trade protectionism and effectiveness of export promotion measures of Goverment.

Supply side of the economy

1.36 Gross Value Added (GVA), reflects the supply or production side of the economy to which net indirect taxes on products are added to get GDP at market prices. Growth of GVA reflected a decline in economic activity, registering a growth of 6.6 per cent in 2018-19, lower than 6.9 per cent in 2017-18 (Table 4). Growth of net indirect taxes was 8.8 per cent in 2018-19, lower than that of 2017-18, on account of loss of momentum of economic activity.

1.37 Real growth in 'Agriculture & allied' sector was lower in 2018-19 at 2.9 per cent, after two years of good agriculture growth (Table 4). As per the 3rd Advance Estimates released by Ministry of Agriculture & Farmers Welfare, the total production of food grains during 2018-19 is estimated at 283.4 million tonnes, as compared to 285 million tonnes in 2017-18 (final estimate). There was a significant decline in food prices in 2018-19 as indicated by nearly zero per cent consumer food price inflation in 2018-19 with prices contracting straight for five months in the year (Figure 26). This is reflected in the decline of the nominal growth rate of GVA in agriculture from 7.0 per cent in 2017-18 to 4.0 per cent in 2018-19. Share of agriculture sector in total GVA has been consistently falling and now stands at 16.1 per cent in 2018-19.

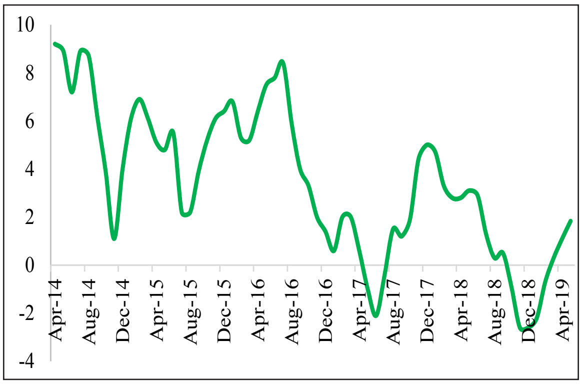
1.38 Agriculture sector in India typically goes through cyclical movement in terms of growth and production. As per the latest data series, crop sector's growth rate remains volatile largely because of vagaries of nature, although the growth in livestock and fishing has remained stable during the past four years. There has been a modest compositional shift within the 'Agriculture and allied' sectors i.e., from crop to livestock sectors and within crop sector from cereals to horticultural produce. The share of crops in GVA has reduced from 12.1 per cent in 2013-14 to 10.0 per cent in 2017-18, and that of livestock increased from 4.1 per cent to 4.9 per cent (at current prices) during the same period.

Table 4: Gross Value Added at Basic Prices by Economic Activity

	Real growth (per cent)			Share at current prices (per cent)		
	2016-17	2017-18	2018-19	2016-17	2017-18	2018-19
Agriculture, forestry & fishing	**6.3**	**5.0**	**2.9**	**17.9**	**17.2**	**16.1**
Industry	**7.7**	**5.9**	**6.9**	**29.4**	**29.3**	**29.6**
Mining & quarrying	9.5	5.1	1.3	2.3	2.3	2.4
Manufacturing	7.9	5.9	6.9	16.8	16.4	16.4
Electricity, gas, water supply & other utility services	10.0	8.6	7.0	2.5	2.7	2.8
Construction	6.1	5.6	8.7	7.8	7.8	8.0
Services	**8.4**	**8.1**	**7.5**	**52.7**	**53.5**	**54.3**
Trade, hotel, transport, storage, communication & services related to broadcasting	7.7	7.8	6.9	18.2	18.2	18.3
Financial, real estate & professional services	8.7	6.2	7.4	20.9	21.0	21.3
Public administration, defence and other services	9.2	11.9	8.6	13.6	14.3	14.7
GVA at basic prices	**7.9**	**6.9**	**6.6**	**100.0**	**100.0**	**100.0**

Source: Central Statistics Office
Note: Data for 2018-19 are as per the Provisional Estimates.

Figure 26: Decline in Food Inflation (per cent)



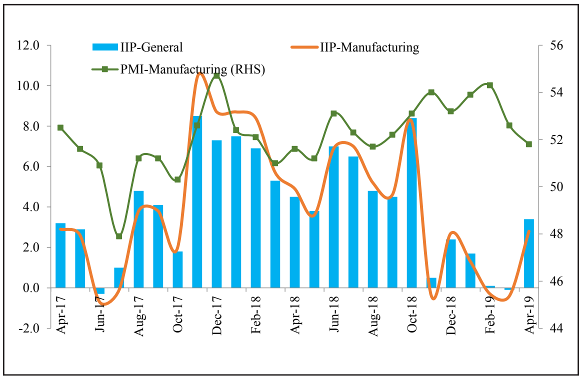
Data source: Central Statistics Office

1.39 Growth in industry accelerated during 2018-19 on the strength of improving manufacturing and construction activity (Table 4), which have more than offset the deceleration in the other two sub sectors, 'Mining & quarrying' and 'Electricity, gas, water supply & other utility services'. Manufacturing accounted for 16.4 per cent in total GVA in 2018-19, marginally higher than that of 'Agriculture & allied' sector.

1.40 The GVA of the private corporate sector, with around 70 per cent share of the manufacturing sector (estimated from available data of listed companies with BSE and NSE) grew by 8.4 per cent at constant prices in 2018-19. On the other hand, production in manufacturing sector as measured by IIP slowed down to 3.5 per cent in 2018-19 from 4.6 per cent in 2017-18 (Figure 27). Growth in IIP is used to estimate the GVA growth of 'quasi-corporate' and 'unorganized' segment of manufacturing sector. Hence, contribution of unorganised sector to growth of manufacturing sector declined in 2018-19. Another positive development in the manufacturing sector has been the gradual improvement in capacity utilisation since Q4 of 2016-17 (Figure 28) along with the pick-up in bank credit to large industry since June 2018.

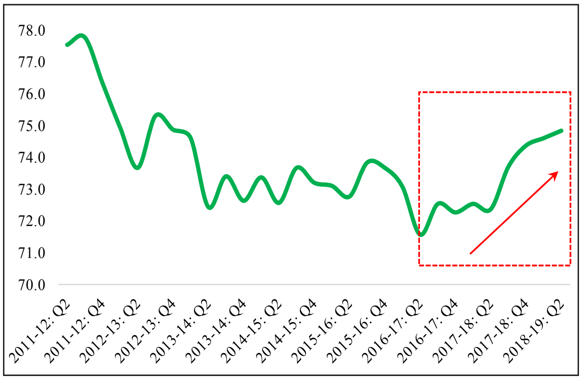
1.41 The growth in manufacturing sector picked up in 2018-19, although the momentum slowed down towards the end of

Figure 27: Index of Industrial Production growth (per cent) and PMI index



Data source: Central Statistics Office

Figure 28: Capacity utilization for selected manufacturing companies (per cent) (3 quarter moving average)



Data source: Reserve Bank of India

the financial year with a growth of 3.1 per cent in fourth quarter of the year, as compared to 12.1 per cent, 6.9 per cent and 6.4 per cent in first, second and third quarter respectively. The growth rate in Q4 of 2018-19 moderated considerably, on account of lower NBFC lending, which in part led to low sales in the auto sector. The moderation is also evident in IIP manufacturing growth that decelerated considerably in the Q4 of 2018-19, with contraction in automobile (manufacture of motor vehicle and other transport equipment) sector and low growth in basic metals sector. PMI manufacturing, despite weakening in Q4 of 2018-19, remained above 50, reflecting the non-cessation of the accelerating phase in manufacturing, although at a lower rate (Figure 27).

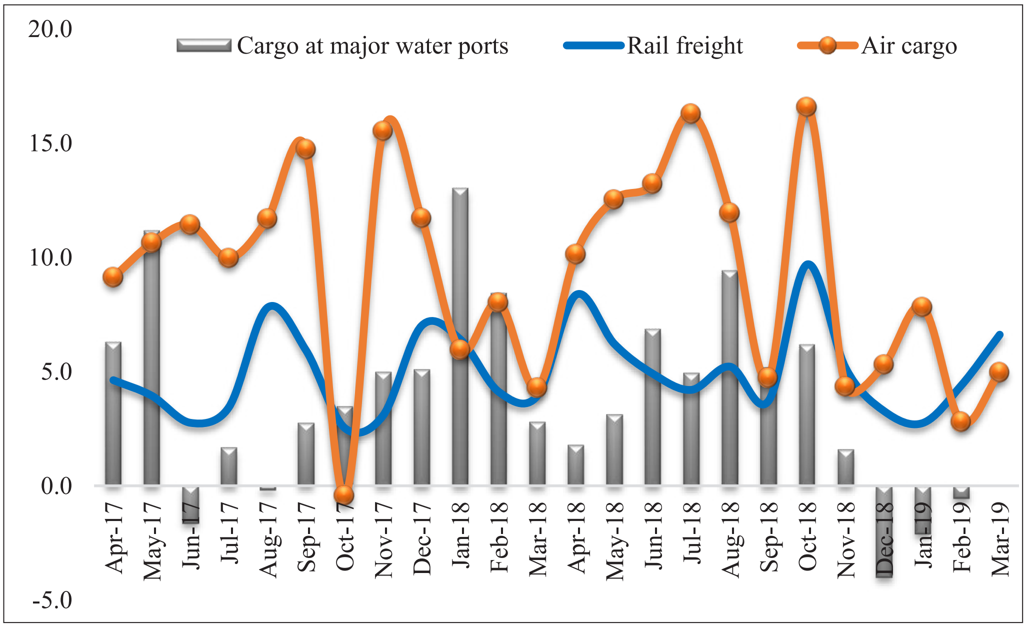
1.42 Construction sector growth is estimated using growth of production of cement and consumption of finished steel. Production of cement and consumption of finished steel grew at 13.3 per cent and 7.5 per cent respectively in 2018-19, higher than their growth rates in 2017-18 and this reflects in higher growth of construction sector in 2018-19.

1.43 Service sector is the most dynamic sector in the economy and has remained the key driver of economic growth along with being a major contributor to GVA and export basket of the Indian economy. Service exports has become one of the mainstay of India's total exports increasing manifold, from ₹0.746 lakh crore in 2000-01 to ₹14.389 lakh crore in 2018-19, raising its share in total exports from 26.8 per cent to 38.4 per cent. Share of India in world service exports has also increased from 2 per cent in 2005 to 3.5 per cent in 2017. This share is much higher than that of manufacturing exports, which stands at 1.8 per cent in 2017.

1.44 Service sector growth declined from 8.1 per cent in 2017-18 to 7.5 per cent in 2018-19, due to decline in the growth in 'Public administration, defence & other services' and 'Trade, hotel & transport' sector. Yet, the sector continues to be the main contributor to growth of the Indian economy. The share of services sector in overall economy has been increasing and now stands at a little over 54 per cent. Within the services sector, 'Financial, real estate & professional services' is the largest component, followed by 'Trade, hotel & transport' sector. PMI services continued to remain above the 50 mark in 2018-19, reflecting the non-cessation of its expansionary phase.

1.45 The 'Trade, hotel, transport, storage, communication & services related to broadcasting' sector growth decreased by 0.9 percentage point to 6.9 per cent in 2018-19. A proxy for growth in transport sector is the amount of cargo and passengers carried by air, rail and water, growth of which also declined in the second half of 2018-19 (Figure 29). Further, growth in number of passengers travelling by air and railways, which are indicators of growth of this sector, also declined in 2018-19 as well, as compared to previous year.

Figure 29: Growth in Cargo carried by various means of transport (per cent)



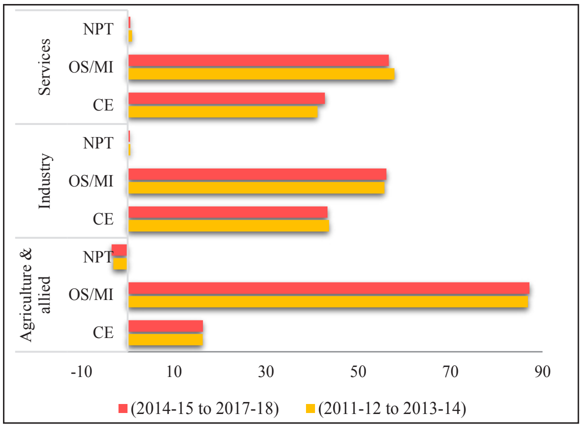
Data source: Directorate General of Civil Aviation, Ministry of Railway, and Ministry of Shipping

1.46 The 'Financial, real estate and professional services' sector grew at 7.4 per cent in 2018-19, higher as compared to 6.2 per cent in 2017-18. This sector accounts for more than 20 per cent of overall GVA of the economy. Major component of this sector is the 'Real estate and professional services', which has a share of more than 70 per cent (refer to GDP compilation methodology table in annex). Financial services component of the sector is estimated using growth rate of bank credit and bank deposit, which grew at 14.5 per cent and 10.0 per cent respectively in 2018-19, as compared to 10.0 per cent and 6.2 per cent respectively last year, reflecting a growth in GVA in financial services.

1.47 Union government revenue expenditure net of interest payments grew by 5.6 per cent in 2018-19, as compared to 11.3 per cent in the previous year. This is reflected in the growth rate of 'Public administration, defence and other services' (which is calculated using growth rate of revenue expenditure net of interest payments), declining from 11.9 per cent in 2017-18 to 8.6 per cent in 2018-19.

1.48 Each sector has a different composition of income going to labour, capital and entrepreneurship. Agriculture has a very small share of income going to labour as paid labour in this sector has only a marginal presence which is reflected in a very small share of Compensation of Employees (CE). Since most people work on their own farms, Operating Surplus (OS) / Mixed income (MI) has a very large share in the GVA of agriculture. On the other hand, industry and services sector continue to show a high share of employee compensation in their GVA, which has not changed much over the last few years (Figure 30).

Figure 30: Net Value Added share in different income categories (per cent)



Data source: Central Statistics Office
Note: CE : Compensation of Employees, CFC: Consumption of Fixed Capital, OS: Operating Surplus; MI: Mixed Income of the self-employed, NPT: Net Production tax

Outlook of the economy

1.49 The year 2019-20 has delivered a huge political mandate for the government, which augurs well for the prospects of high economic growth. Real GDP growth for the year 2019-20 is projected at 7 per cent, reflecting a recovery in the economy after a deceleration in the growth momentum throughout 2018-19. The growth in the economy is expected to pick up in 2019-20 as macroeconomic conditions continue to be stable while structural reforms initiated in the previous few years are continuing on course. However, both downside risks and upside prospects persist in 2019-20.

1.50 Investment rate, which was declining from 2011-12 seems to have bottomed out. It is expected to pick up further in the year 2019-20 on the back of higher credit growth and improved demand. The political stability in the country should push the animal spirits of the economy, while the higher capacity utilization and uptick in business expectations should increase investment activity in 2019-20. Accommodative monetary policy in the beginning of the year should help in decreasing real lending rates, more so, if the transmission mechanism improves. There are signs of continuing resolution of stressed assets in the banking sector as reflected in decline in NPA to gross advances ratio as on December 2018, which should push the capex cycle.

1.51 The performance of consumption will be crucial in deciding the growth path of economy. Rural wages growth which was declining seems to have bottomed out and has started to increase since mid-2018. Further growth in rural wages should help spur rural demand. Pick up in food prices should help in increasing rural incomes and spending capacity and hence rural consumption demand. PM-Kisan scheme was announced by the government to provide an income support of ₹6000/- per year to small and marginal farmer families having combined land holding/ownership of upto 2 hectares. The condition of minimum land holding has been subsequently removed to benefit all farmers. This cash transfer scheme will also increase the rural incomes.

1.52 The oil prices increased in 2018-19 by around 14 \$/bbl. However, oil prices are expected to decline in 2019-20 from the current level (based on the oil futures price for 2019-20). This should provide a positive push to consumption.

1.53 However, downside risks to consumption remain. The extent of recovery in farm sector and farm prices will decide the push to rural consumption, which is also dependent on the situation of monsoon. The meteorological department has predicted that the rainfall over the country as a whole is likely to be near normal this year. This should lead to improvement in agriculture sector growth. However, according to IMD, some regions are expected to receive less than normal rains. This could prove to be detrimental for crop production in certain affected areas. If the impact of stress in the NBFC sector spills over to this year as well, it may lead to lower credit offtake from NBFCs, which may dampen growth in consumption spending.

1.54 Prospects of export growth remain weak for 2019-20 if status quo is maintained. However, reorientation of export policies to target countries/markets based on our own relative comparative advantage and the importing country's exposure to Indian goods can foster export performance. Under status quo, the outlook for the global economy is bleak in 2019, with most of the countries projected to slow down. The major threat facing the world economy is the increase in trade tensions between U.S. and China, which could lead to large disruptions in global value chains, outcome of Brexit and downside risk to China's growth. The lower global growth and the increased uncertainty about trade tensions may negatively affect export demand, including that of India's, which in turn will further lower GDP growth rates of several countries.

1.55 On balance, the prospects of the economy should improve with growth of the economy expected to be 7 per cent in 2019-20.

CHAPTER AT A GLANCE
➢ Growth of GDP moderated to 6.8 per cent in 2018-19 from 7.2 per cent in 2017-18. However, India was still the fastest growing major economy.
➢ This moderation in growth momentum is mainly on account of lower growth in 'Agriculture & allied', 'Trade, hotel, transport, storage, communication and services related to broadcasting' and 'Public administration & defence' sectors.
➢ Growth in investment, which had slowed down for many years, has bottomed out and has started to recover since 2017-18. Growth in fixed investment picked up from 8.3 per cent in 2016-17 to 9.3 per cent in 2017-18 and further to 10.0 per cent in 2018-19.
➢ India maintained its macroeconomic stability by containing inflation within 4 per cent and by maintaining a manageable current account deficit to GDP ratio.
➢ Fiscal deficit of Central Government stood at a 3.4 per cent of GDP in 2018-19. Current account deficit was 2.6 per cent in April-December 2018.
➢ Non-Performing Assets as percentage of Gross Advances reduced to 10.1 per cent at end December 2018 from 11.5 per cent at end March 2018.
➢ Outlook of Indian economy appears bright with prospects of pickup in growth in 2019-20 on back of pick up in private investment and robust consumption growth.

ANNEX

Table: Key data sources and indicators used for each sector during different stages of estimation[1] of GDP

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
Agriculture	**Current price:** *Crops:* Production: Fourth advance estimate for food grain production and third advance estimate/ final estimate (as available by January) for area and production of horticulture crops, both published by Ministry of Agriculture and Farmer Welfare (MoAgFW). Prices: Wholesale Price Indices (WPI) of crops (category specific) are applied on previous year price supplied by corresponding State Directorate of Economics and Statistics (DES). *Livestock:* Production: Latest data on major livestock products by MoAgFW Prices: Prices are supplied by corresponding State DES. If some State DES has not finalized the prices, item-wise WPI is applied on previous year's price supplied by corresponding State DES. *Irrigation system:* GVA at current prices are estimated by analyzing budget documents of Central and State Governments and annual reports of public sector irrigation companies.	Final estimate of crops and horticulture crops by MoAgFW. For some State specific crops, updated production data is supplied by the corresponding State DES. Price data is updated after comparable discussion from States.	Specific crop and revised prices made available during comparable discussion by some States or UTs. Latest cost of cultivation rates of by-products are used for compilation.

[1] For the methodology of Advanced and Provisional Estimates, please refer to Economic Survey Volume II of 2017-18. In First Advance Estimate, Second Advance Estimate and Provisional Estimate, indicator-based methodology is followed. The estimates are based on seven to nine months data. First Revised Estimates (RE) are released in January of the subsequent year and then second and third revised estimates are released in January of following years. For example, for the year 2015-16, First RE was released in January 2017, Second RE was released in January 2018 and Third RE in January 2019.

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
	Constant prices: *Crops and livestock:* Current year production is multiplied with base year price. *Irrigation system:* Base year GVA estimates are moved with the index of area irrigated through government canals.		
Forestry	**Current prices:** Latest production and prices data from State forestry departments and category-specific WPI (used in case when prices are not available from some states). Recorded production is multiplied by 1.1 to estimate actual production. **Constant prices:** Latest production and base year prices are used.	Updated production and price estimate of Industrial Wood (IW) and minor forest product provided by concerned States or UTs.	Revision of production and price data of IW and minor forest product after comparable discussion.
Fishing	**Current prices:** Production: Current data of inland fish, marine fish and curing activities from Department of Fisheries and Animal Husbandry Statistics (AHS) Division of MoAgFW and State Fisheries departments. Price: Prices are supplied by corresponding State DES. If some State DES has not finalized the prices, WPI of fish is applied on previous year price supplied by corresponding State DES. **Constant prices:** Latest production and base year prices are used.	Updated production and price estimate on curing activities as per latest data provided by concerned States or UTs.	Revision of production, information on curing activities and revision of prices after comparable discussion.
Mining & Quarrying	**Current price:** Annual reports of the public sector mining companies, MCA-21 for private corporate sector, Salt commissioner for production of salt, State geological department for minor minerals.		

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
	Constant price: Implicit Price Deflator (IPD) for major minerals from Indian Bureau of Mines and category specific WPI is used for the constant price estimation for coal and petroleum.		
Manufacturing	**Current price:** Annual reports of public sector manufacturing companies, Budget documents of Departmental Enterprises, MCA-21[2] for private corporate sector, Annual Survey of Industries (ASI), and NSS employment unemployment survey and Unincorporated survey data used for the base year and then carried forward by IIP and WPI (in absence of ASI data). **Constant price:** WPI manufacturing (sector-specific) is used as the deflator.		
Electricity	**Current price:** Budget documents of Departmental Enterprises (DE), Annual reports of electricity companies, MCA-21 for private corporate sector. **Constant price:** Quantum Index (created using amount of transmission and distribution of electricity companies) is used.		
Gas and Water Supply	**Current price:** MCA-21 and annual reports, NSS results taken forward by corporate growth and KVIC. **Constant price:** Base year estimates are moved with Quantum Index (created using volume of production) of gas and CPI for water supply.		
Construction	**Current price:** Pucca Construction: For compiling the estimates of pucca construction in Dwellings, other buildings and structures (DOBS), commodity flow approach is used. On site value of construction materials, i.e., cement, iron & steel, bricks & tiles, timber & roundwood, bitumen & bitumen mixtures and glass & glass products, fixture & fittings, etc. used in construction activity was compiled for the base year 2011-12 using ASI results. Further, trade and transport margins were also added. The base year estimates are further moved by growth of gross value of output of manufacturing of particular compilation categories for future years. Rates and ratios based on study on construction conducted by Central Building Research Institute are used to arrive at the GVA of pucca construction.		

2 In the 1st RE, only common companies' growth in MCA 21 data is used, whereas for 2nd RE all companies that have filed return until the date are included.

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
	Kutcha Construction: For compiling the estimates of kutcha construction, expenditure approach is used. Construction activities on kutcha DOBS, land improvement, irrigation, mineral exploration, plantations, etc, are treated as kutcha construction. 75 percent of expenditure made by different institutional sectors on said activities constitutes the GVA of kutcha construction. **Constant prices:** Estimates are compiled using appropriate WPI and CPI based deflators.		
Trade & Repair services	**Current prices:** Budget documents of DE, annual reports of Non Departmental Enterprises (NDE), MCA-21 data for private corporate sector, NSS results for quasi-corporations sector taken forward by unorganised index of sales tax turnover* (for trade sector), service tax growth rate (for repair services), sale growth of motor vehicles (for maintenance and repair of motor vehicles and motor cycles). **Constant prices:** Weighted WPI and sales growth of vehicles		
Hotels & Restaurants	**Current prices:** Annual reports of DE, MCA-21 data for private corporate sector, NSS results for unorganised sector in the base year taken forward using corporate sector growth. **Constant prices:** Weighted WPI is used as a deflator.		
Rail Transport	**Current Prices:** Estimates from Central Government budget documents for Departmental Commercial Undertakings, MCA-21 data for the private Corporate Sector and latest available annual report for Non Departmental Commercial Undertakings. **Constant Prices:** Volume extrapolation using weighted volume index of passenger earning, goods earning etc. combined with their earnings in the base year as weights.		
Other (Land, water, air) transport	**Current price:** Budget documents of DE, Annual reports of NDE, MCA-21 data for private corporate sector, NSS results for unorganised sector carried forward using vehicles growth (for current price inflated using CPI -transport and communication) **Constant price:** Volume index of transport (for land transport), air volume index (for air transport), index of cargo handled (water transport), combined growth of road, water and air (for service incidental to transport).		

<table>
<tr><th>Sector</th><th>1st Revised Estimates</th><th>2nd Revised Estimates</th><th>3rd Revised Estimates</th></tr>
<tr><td>Commu-nication & Broadcasting</td><td colspan="3">Current prices:

Budget document of Department of Post, annual reports of NDE (BSNL, MTNL), MCA-21 data for private corporate, unorganised sector by NSS results moved forward using Service tax growth (for courier, cable and telecommunication) and corporate growth (for recording, publishing and broadcasting services).

Constant price:

Minutes of usage growth and CPI-transport and communication</td></tr>
<tr><td>Banking including NBFI and financial auxiliaries</td><td>Current price:

Annual accounts data of nationalised banks, RBI data for private banks, foreign banks and urban cooperative banks, NABARD data for Regional Rural Banks and rural cooperative banks, SEBI data for financial auxiliaries, MCA data for Non-Banking Financial Institutions and financial auxiliaries, All-India Debt and Investment Survey data, RBI report on private moneylenders and NSS 67th round data of enterprise surveys and RBI data on loans and advances to households for unorganised sector. Budget documents are used to estimate the GVA of Post Office Savings Bank.

Constant price:

Estimates are prepared separately for each of the sub-sectors. In general, the base year estimates are carried forward using indicators measuring the volume of activity in the corresponding sub-sector (e.g., for banks, aggregate deposit and credit growth rates are derived using data from Reserve Bank of India). In cases where the volume of activity is measured in value terms i.e., at current prices, these are deflated by implicit price deflator of non-financial sectors to obtain the corresponding quantum index.</td><td colspan="2">Current price:

Data is updated based on latest data from the MCA, NABARD, National Federaton of State Cooperative Banks Limited and receipts of annual reports from State Financial Corporations, Central and State level public sector financial companies and corporations and budget documents for Post Office Bank.

Constant price:

The implicit price deflator also is updated based on revised estimates in current and constant prices for the non-financial sector.</td></tr>
</table>

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
Insurance and pension	**Current price:** Data from annual accounts of public sector life and non-life insurance companies, IRDAI data for private insurance companies, PFRDA data for pension funds, and budget documents for postal life insurance are used. **Constant price:** Estimates of GVA at constant prices are prepared separately for each of the sub-sectors. In general, the base year estimates are carried forward using indicators measuring the volume of activity (for instance, using premium less reinsurance and claims paid for public non-life insurance) in the corresponding sub-sector. In cases where the volume of activity is measured in value terms i.e., at current prices, these are deflated by implicit price deflator of non-financial sectors to obtain the corresponding quantum index. For postal life insurance, current price GVA is deflated using all-India overall CPI.	In both current price and constant price, data is updated based on latest data from the IRDAI, PFRDA and analysis of budget documents. In constant price estimates, the implicit price deflator also is updated based on revised estimates in current and constant prices for the non-financial sector.	
Real Estate	**Current price:** Annual reports of NDE, MCA-21 data, NSS results for unorganised sector carried forward with corporate sector growth. **Constant price:** CPI and WPI are used for constant price estimation.		
Ownership of Dwellings	**Current price:** Gross rental is the number of census houses (urban) times rent per household as obtained from Consumer Expenditure Survey (CES) for the base year. For years subsequent to the base year, rent per household is extrapolated using the index of house rent (urban areas) and the number of dwellings is extrapolated using the inter-censal growth rate of urban dwellings. For rural dwellings, capital stock of rural residential buildings is used. **Constant price:** Base year estimate with inter-censal growth rate of dwellings for urban areas and deflated by CPI (Rural) for rural dwellings.		

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
Professional services	**Current Prices:** Annual reports of NDE, MCA-21 data, NSS results taken forward using private corporate sector growth). **Constant Prices:** WPI and CPI are used.		
Public Administration and Defence	**Current Prices:** Revised estimates from Centre and State budget documents along with Local Bodies (LB) and autonomous institutes' data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data (revision, if any, based on comparable discussion).
	Constant Prices: Current price estimates of Net Value Added are deflated using CPI and Consumption of Fixed Capital at constant prices are added to arrive at GVA.		
Product Taxes	**Current Prices:** Revised estimates from Centre and State budget documents along with LB and autonomous institutes data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data (revision, if any, based on comparable discussion).
	Constant Prices: Constant price estimates of taxes on products are compiled by volume extrapolation. Volume extrapolation is done separately for different product taxes. Indicators used for extrapolation are growth in volume of output of manufacturing , services, etc.		

<table>
<tr><th>Sector</th><th>1st Revised Estimates</th><th>2nd Revised Estimates</th><th>3rd Revised Estimates</th></tr>
<tr><td rowspan="2">Product Subsidies</td><td>Current Prices:

Revised estimates from Centre and State budget documents along with LB and autonomous institutes' data.</td><td>Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data.</td><td>Actual estimates from Centre and State Budget documents along with LB and autonomous institutes' data (revision, if any, based on comparable discussion).</td></tr>
<tr><td colspan="3">Constant Prices:

Current price estimates are deflated using IPD of GVA.</td></tr>
<tr><td>Private Final Consumption Expenditure</td><td colspan="3">Current prices:

(a) Agriculture: From the quantity of production, the amount used up for feed and seed, wastage, Public Distribution System (data from Ministry of Consumer Affairs), inter-industry consumption, government consumption and retained for self-consumption are subtracted to get the private final consumption.

(b) Manufacturing:

• Share of consumable goods is calculated from ASI data by calculating the share of items of final consumption in products and by products for the organised manufacturing. Then this ratio is used on the output produced in the public sector, private corporate sector and private unincorporated sector.

• For unorganised manufacturing, base year ratio of output of organised and unorganised manufacturing is used. Total supply available for consumption is calculated by excise duty, import duty, trade and transport margin. After this, the government consumption, capital formation, exports are subtracted using Supply Use table and the remaining is Private Final Consumption Expenditure (PFCE).

(c) Electricity, gas and other fuel: For the base year, consumption of electricity has been taken from consumer expenditure survey of NSS; it is moved forward with the data supplied by CEA on electricity sold for domestic consumption. Domestic consumption of natural gas is taken from Indian Petroleum and Natural Gas statistics.</td></tr>
</table>

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
	(d) Services: • For most of the services (health, education, hotels & restaurants), base year estimates are calculated from Consumer Expenditure Survey and then further moved with growth in gross value of output. • Transport: Ratio of PFCE to passenger earnings in the base year and are assumed to be constant throughout the series, and then taken forward using registered commercial vehicles growth. • Communication and various other personal services: PFCE is fixed percentage of total output. • Housing and water supply: GVA growth is used to take the estimates forward. **Constant prices:** (a) Agriculture: Estimation done at base year prices. (b) Manufacturing: Headline WPI is used as deflator (c) Electricity, gas and other fuel: Base year estimates are moved using quantum index. (d) Services: Deflation by implicit output deflator or CPI in some cases.		
Government Final Consumption expenditure	**Current Prices:** Revised estimates from Centre and State budget documents along with LB and autonomous institutes' data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data.	Actual estimates from Centre and State budget documents along with LB and autonomous institutes' data (revision, if any, based on comparable discussion).
	Constant price: Individual components are deflated using CPI and WPI based indicators and CFC at constant price is added.		

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
Gross Fixed Capital Formation	**Current price:** Estimate of Gross Fixed Capital Formation (GFCF) is compiled by type of assets, by type of institutional sectors and by industry of use. The four types of assets and methodology used are given as follows: (a) Dwellings, other buildings and structures (DOBS): The output of new construction part of DOBS is taken as GFCF and the methodology used for compilation is the same as mentioned in the Construction Sector GVO. For compilation of institution and industry-wise estimates, expenditure on new construction given in budget documents, annual reports of public corporations, ASI, annual reports of private corporations and NSS surveys for households are used. (b) Machinery and equipment (M&E): GFCF estimates of M&E asset are compiled using commodity flow approach. For compilation of institution and industry wise estimates, capital expenditure on M&E given in budget documents, annual reports of public corporations, ASI, annual reports of private corporations and NSS surveys for households are used. (c) Cultivated Biological Resources (CBR): Increment in livestock and expenditure on increment of area of plantation crops is treated as capital formation under CBR asset. For compilation of GFCF asset of livestock and plantation, information of capital stock from Livestock Census and expenditure on plantation crops from NABARD Report are used. (d) Intellectual Property Products: Total capital expenditure on Research & Development activities, software, etc. from budget documents, annual reports of public corporations, ASI, annual reports of private corporations and NSS 67th round for software asset data for households and unincorporated enterprises is used. **Constant price:** Estimates are compiled using appropriate WPI and CPI based deflators.		
Exports of goods and services	**Current price:** Data of exports of goods and services is taken from RBI. **Constant prices:** Export of goods is deflated by unit value of export index and export of services is deflated by implicit price index of service sector.		

Sector	1st Revised Estimates	2nd Revised Estimates	3rd Revised Estimates
Imports of goods and services	**Current prices:** Data of import of goods and services is taken from RBI. **Constant prices:** Import of goods is deflated by unit value of import index and import of services is deflated by implicit price index of service sector.		
Net Factor Income from Abroad	**Current prices:** Data on receipt of compensation of employees and property & entrepreneurial incomes is taken from RBI. **Constant prices:** Deflated by implicit price of service sector.		

Note:

^ : Inputs are assumed to be 16.2 per cent of total value of output at current price in Forestry sector.
# : Commodity flow approach refers to consumption of cement and cement products, iron and steel, Bricks and tiles, timber, bitumen, glass products.
* : After the implementation of GST, sales tax is now subsumed under GST and now a comparable estimate of turnover is estimated.