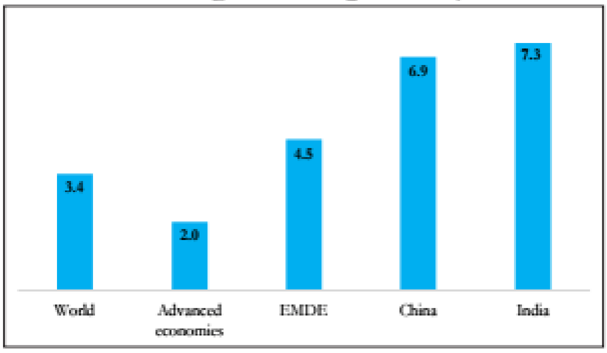
PART- 1
AN OVERVIEW OF INDIA'S ECONOMIC PERFORMANCE IN 2017-18

GDP GROWTH IN 2017-18

With Gross Domestic Product (**GDP**) growth averaging 7.5 per cent between **2014-15** and **2016-17**, India can be rated as among the **best performing economies** in the world on this parameter. Although growth is expected to decline to **6.5 per cent in 2017-18**, bringing the 4-year average to **7.3 per cent**, the broad story of **India's GDP growth** to be significantly higher than **most economies** of the world does not alter. The growth is around **4 percentage points** higher than global growth average of last 3 years and nearly **3 percentage** points more than the **average growth** achieved by **emerging market & developing economies** (EMDE) (Figure 1).

Figure 1 : Average growth of GDP during 2014-17 (per cent)



Source: Based on IMF's World Economic Outlook Database (October 2017)

Table 1 : Annual real GVA and GDP growth (per cent)

GVA at basic prices from	2014-15	2015-16	2016-17	2017-18 (1st AE)
Agriculture, forestry & fishing	**-0.2**	**0.7**	**4.9**	**2.1**
Industry	**7.5**	**8.8**	**5.6**	**4.4**
Mining & quarrying	11.7	10.5	1.8	2.9
Manufacturing	8.3	10.8	7.9	4.6
Electricity, gas, water supply & other utility services	7.1	5.0	7.2	7.5
Construction	4.7	5.0	1.7	3.6
Services	**9.7**	**9.7**	**7.7**	**8.3**
Trade, Hotel, Transport, Storage, communication & services related to broadcasting	9.0	10.5	7.8	8.7
Financial, real estate & professional services	11.1	10.8	5.7	7.3
Public administration, defence & other services	8.1	6.9	11.3	9.4
GVA at basic prices	**7.2**	**7.9**	**6.6**	**6.1**
GDP at market prices	**7.5**	**8.0**	**7.1**	**6.5**

Source: Based on data from CSO

In the **recent years**, the wedge between the **real** and **nominal GDP growth** has **narrowed** significantly. While **real GDP growth** averaged **6.4 per cent** between **2012-13** and **2014-15**, the **nominal growth** was **12.5 per cent** in this period. In comparison, during the three-year period from **2015-16 to 2017-18**, the real and nominal GDP average growth is estimated to be **7.2 per cent** and **10.1 per cent respectively**, pointing to higher differences in the former period than latter. This is not surprising given that the fact that **inflation** in the **earlier period** (particularly in 2012-13 and 2013-14) was significantly **higher than the latter.**

The **growth** in **nominal GDP** in 2016-17 is estimated to be **11 per cent** and it is expected at **9.5 per cent in 2017-18** on account of both lower **real growth** as well as lower value of **deflator in 2017-18.** The growth of nominal GVA in these two years is estimated to the 9.7 per cent and 9.0 per cent respectively. The **differences** in the **nominal growth** between **GVA and GDP** have also increased in the **last few years**. This is indicative of an increase in the share of **net indirect taxes in GDP.**

PER-CAPITA INCOME

The **real per capita income** (measured in terms of **per capita net national income** at **constant (2011-12) prices**) is one of the **important indicators** representing the **welfare of people of a country**. It is expected to increase from **Rs. 77,803 in 2015-16** to **Rs. 86,660 in 2017-18,** growing at an **annual average rate of 5.5 per cent**. In nominal terms it increased by an average of 9.0 per cent per annum from **Rs. 94,130 in 2015-16** to **Rs.111, 782 in 2017-18.**

GDP AND ITS COMPONENTS

Consumption expenditure has been the **major driver**, accounting for **nearly sixty per cent** of the **total GDP growth** between **2012-13** and **2015-16**. This contribution increased to over **95 per cent in 2016-17**, which is attributed to higher growth of **both**

Private Final Consumption Expenditure (**PFCE**) and **Government Final Consumption Expenditure** (**GFCE**), particularly the latter. Growth of GFCE was nearly 21 per cent in 2016-17, against an average growth of 3.5 per cent during 2012-13 to 2015-16. This owed mainly to the **payment of higher wages** and **salaries** to the government staff that followed the implementation of the **recommendations of the Seventh Pay Commission**. The growth of both **PFCE** and **GFCE** is expected to be in **lower in 2017-18** as compared to **2016-17**. The **share of investment**, and in particular that of fixed investment in the GDP continuously **declined** between **2011-12** and **2016-17**. While **fixed investment** was **34.3 per cent** of **GDP in 2011-12**, it declined to **27.1 per cent** in **2016-17**. Although fixed investment is expected to grow at a faster rate in 2017-18 than in 2016- 17 (thus pointing to some recovery in investment), it is still not high enough to prevent a further reduction in the share of fixed investment in GDP. After nearly **stagnating in 2014-15** and **declining in 2015-16, exports of goods and services** began to pick up in **2016-17**. Imports also increased but at a slower pace, thus helping in narrowing the current account deficit in 2016-17. **Exports** are expected to grow at **4.5 per cent in 2017-18**, while imports are expected to **grow at a faster rate**. As a result, the share of **net exports of goods and services** (as reflected in National Accounts Statistics) in **GDP** is expected to **decline from (-) 0.7 per cent in 2016-17** to (-) **1.8 per cent in 2017-18**.

Box 1.1 : Engel's elasticity of major commodity groups with respect to PFCE

One of the ways to analyse the consumer's behaviour is through Engel's elasticity. Table 1 below gives the Engel's elasticity for some selected group of commodities. It may be mentioned that Engel elasticities calculated here refer to the responsiveness of PFCE of a particular commodity group to the aggregate PFCE, at constant 2011-12 prices.

Table 1 : CAGR of Private Final Consumption Expenditure in domestic market and Engel Elasticity

Item Description	CAGR (per cent) 2011-12 to 2015-16	Elasticity with respect to PFCE
Food and non-alcoholic beverages	4.1	0.61
Clothing and footwear	9.6	1.44
Housing, water, electricity, gas and other fuels	5.2	0.78
Furnishing, household equipment and routine household maintenance	9.3	1.39
Health	13.1	1.95
Transport	6.5	0.98
Communication	7.3	1.09
Education	6.3	0.93
Private Final Consumption Expenditure in domestic market	6.7	

Source: **National Accounts Statistics (NAS), CSO**

As expected, the Engel elasticity of food items is significantly less than one, confirming the hypothesis that as the income levels rise, the expenditure on food increases less than proportionately. Within food, the elasticity of products like eggs, meat and fish, vegetables, etc. is higher than that on items like bread, cereals and pulses, etc. While the elasticity of expenditure on health is significantly higher than unity, surprisingly that of education is a little less than unity.

SAVINGS AND INVESTMENT

Despite the fact that **Indian economy** has registered a **fairly robust growth** in the **4 years** between **2014-15 and 2017-18**, story on **savings** and **investment** in the economy **has not been so heartening**. The **investment rate** (**Gross Capital Formation** (GCF) **as a share of GDP**) in the economy declined by **nearly 5.6 percentage** points between **2011-12 and 2015-16**. As can be seen from Table 3, the major reduction occurred in the year **2013-14**, when **investment rate declined** by nearly **5 percentage points**. This was on account of **number of factors** viz. **difficulties in acquiring land, delayed** and **cumbersome environmental clearances, problems on infrastructure front**, etc. Although many of these problems have been addressed, resulting in **improved power situation**, lessening of **infrastructure bottlenecks**, etc., the **investment rate** (mainly fixed investment) has **not picked up**. **Savings rate** (**Gross saving as a share of GDP**) also **declined by two and half percentage points** between **2011-12 and 2013- 14** and **has remained range bound thereafter**. The **faster decline in investment rate** vis-à-vis the **savings rate** has led to **lower level of current account deficit** (**Savings Investment gap**) from **2013-14 to 2015-16**.

Table 3 : Saving, Investment rate (per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16
Investment rate	39.0	38.7	33.8	34.4	33.3
Savings rate	34.6	33.9	32.1	33.1	32.3
Saving Investment gap	-4.3	-4.8	-1.7	-1.3	-1.0

Source: Based on data from CSO

PREVIOUS YEARS' QUESTIONS (PRELIMS)

1. 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

2. Economic growth in country X will necessarily have to occur if **(2013)**
(a) there is technical progress in the world economy
(b) there is population growth in X
(c) there is capital formation in X
(d) the volume of trade grows in the world economy

3. In the context of Indian economy, consider the following statements: **(2011)**
1. The growth rate of GDP has steadily increased in the last five years
2. The growth rate in per capita income has steadily increased in the last five years

Which of the statements given is/are correct?
(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

4. Which one of the following is the correct sequence in the decreasing order of contribution of different sectors to the Gross Domestic Product of India? **(2007)**
(a) Services—Industry—Agriculture
(b) Services—Agriculture—Industry
(c) Industry—Services—Agriculture
(d) Industry—Agriculture—Services

5. With reference to the Indian economy, consider the following activities: **(2002)**
1. Agriculture, Forestry and Fishing
2. Manufacturing
3. Trade, Hotels, Transport and Communication
4. Financing, Insurance, Real Estate and Business services

The decreasing order of the contribution of these sectors to the Gross Domestic Product (GDP) at factor cost at constant prices (2000-01) is
(a) 3, 1, 2, 4 (b) 1, 3, 4, 2 (c) 3, 4, 1, 2 (d) 1, 3, 2, 4

6. Since 1980, the share of the tertiary sector in the total GDP of India has **(1999)**
(a) shown an increasing trend
(b) shown a decreasing trend
(c) remained constant
(d) been fluctuating

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