

First Advance Estimates (FAE) of GDP

January 17, 2022

In news– Recently, the Ministry of Statistics and Programme Implementation (MoSPI) released the First Advance Estimates (FAE) for the current financial year (2021-22 or FY22).

Key updates-

- As per MoSPI, **India's gross domestic product (GDP) will grow by 9.2 percent in FY22** and it is slightly lower than most expectations, including RBI's, which pegged it at 9.5%.
- Last financial year, FY21, the GDP had contracted by 7.3%.
- The current estimates are based on data before the rise of the Omicron variant. As such, **there is a possibility that the final rate may be revised further downwards by May-end** when the full financial year's "provisional" estimates will be published.
- For FY22, **the real GDP (that is, GDP calculated using constant 2011-12 prices) will grow by 9.2%**, nominal GDP (that is GDP calculated using current market prices) will grow by a whopping 17.6%.
- The difference between the two growth rates of about 8.5 percentage points is **essentially a marker of inflation.**
- **An analysis of the three main contributors to GDP** such as *private consumption demand, investments in the economy, and government expenditures* shows that while the latter two are expected to claw back to the pre-Covid level, the first engine will continue to stay in a slump.
- Private consumption expenditures typically account for more than 55% of all GDP.

About First Advance Estimates (FAE) of GDP-

- The concept of **FAE was first introduced in 2016-17.**
- They are **typically published at the end of the first week of January.**
- They are the **“first” official estimates of how GDP is expected to grow in that financial year.**
- But they are also the “advance” estimates because they are published long before the financial year (April to March) is over.
- Even though the FAE are published soon after the end of the third quarter (October, November, December), they do not include the formal Q3 GDP data, which is published at the end of February as part of the Second Advance Estimates (SAE).
- The main significance of FAE lies in the fact that **they are the GDP estimates that the Union Finance Ministry uses to decide the next financial year’s budget allocations.**
- The FAE is derived by extrapolating the available data.
- According to the MoSPI, the **approach for compiling the Advance Estimates is based on the Benchmark-Indicator method** i.e. “the estimates available for the previous year (2020-21 in this case) are extrapolated using relevant indicators reflecting the performance of sectors.”

GDP and GVA calculation

- Gross domestic product (GDP) is the total value of all final goods and services produced within the country in one financial year.
- Gross value added (GVA) is defined as the value of output less the value of intermediate consumption.
- While the GDP maps the economy from the expenditure (or demand) side – that is by adding up all the expenditures, the GVA provides a picture of the economy

from the supply side.

- GVA maps the “value-added” by different sectors of the economy such as agriculture, industry and services.