INDIA'S GDP GROWTH IN Q1 - ECONOMY

GDP growth in Q1 quickens to five-quarter high of 7.8%, buoyed by cross-sector strength. India's economy grew by a robust 7.8% in Q1 2025, driven by strong manufacturing and services sectors. This performance beat forecasts and is explained alongside key concepts like Real vs. Nominal GDP and India's post-2015 calculation methodology.

Current Context - India's Economy Surges in Q1 2025

India's economy demonstrated robust performance in the first quarter of the fiscal year (April–June 2025), recording a Gross Domestic Product (GDP) growth of 7.8%. This marks the fastest economic expansion in five quarters and significantly outpaced the Reserve Bank of India's forecast of 6.5%.

Key Growth Drivers - The impressive growth was primarily fueled by strong performances in the manufacturing, construction, and services sectors.

Government's Outlook - Despite global headwinds, including the potential impact of 50% U.S. tariffs on imports from India, the government remains optimistic. Chief Economic Adviser (CEA) V. Anantha Nageswaran expressed confidence that the effect of the tariffs would be modest and that strong domestic demand, supported by lower indirect taxes, will sustain growth. The government is therefore retaining its full-year growth estimate for the economy.

Detailed Sector-Wise Performance in Q1 2025

A closer look at the quarterly data reveals a mixed but overall positive picture across different sectors of the economy.

Manufacturing - This sector showed significant acceleration, growing at **7.7%**, a substantial increase from the 4.8% growth recorded in the previous quarter.

Construction - The sector posted a solid growth of **7.6%**. However, this represents a slowdown compared to the impressive 10.1% growth in the same quarter last year.

Electricity, Gas, Water Supply & Other Utilities - This sector experienced a sharp deceleration, with growth slowing to just **0.5%**, a stark contrast to the 10.2% growth seen last year.

Services Sector - This was the standout performer, with overall growth reaching **9.3%**. This is significantly faster than both the previous year (6.8%) and the previous quarter (7.3%). Key sub-sectors recorded multi-year highs -

1. Public Administration, Defence & Other Services - Grew at a 3-year high of 9.8%.
2. Financial, Real Estate & Professional Services - Expanded at a 2-year high of 9.5%.
3. Trade, Hotels, Transport & Communication Services - Clocked a 2-year high growth of 8.6%.

Understanding GDP - The Basics

Gross Domestic Product (GDP) is the most common measure of a country's economic health. It represents the total monetary value of all final goods and services produced within a country's borders during a specific period, typically a year or a quarter.

Significance - GDP provides a snapshot of an economy's size and performance. A rising GDP indicates that the economy is growing and resources are being utilized effectively.

Simple Example - If a country produces only cars worth ₹500 crore, rice worth ₹300 crore, and mobile apps worth ₹200 crore in a year, its GDP for that year would be ₹1,000 crore.

Types of GDP Explained

GDP can be measured in several ways, each providing a different insight into the economy.

1. **Nominal GDP -** This measures the value of goods and services at current market prices, which means it includes the effects of inflation. While it shows the current size of the economy, it is not ideal for comparing economic output across different years because an increase could be due to a price rise rather than an increase in production.
2. **Real GDP -** This is adjusted for inflation, providing a more accurate measure of the actual growth in the volume of goods and services produced. It is calculated by dividing Nominal GDP by a price deflator. This is the figure used when reporting growth rates like the 7.8% for India.

3. **GDP Per Capita -** This is calculated by dividing the country's total GDP by its total population. It represents the average economic output per person and is often used as a proxy for the average standard of living.
4. **GDP Growth Rate -** This measures the percentage increase in GDP from one period to another (e.g., year-on-year or quarter-on-quarter). It indicates how quickly an economy is expanding or contracting.
5. **GDP by Purchasing Power Parity (PPP) -** This method adjusts a country's GDP to account for differences in the cost of living across countries. It is particularly useful for making international comparisons because it reflects what a country's currency can actually buy in terms of goods and services. For example, India's GDP in PPP terms is much larger than its nominal GDP because many goods and services are cheaper here than in developed countries like the US.

Methods of Calculating GDP

There are three primary approaches to calculating GDP, which should theoretically yield the same result.

1. **Income Method -** This method sums up all the incomes earned by individuals and businesses within the economy. This includes wages and salaries, corporate profits, rent, and interest.
2. **Expenditure Method -** This method adds up all the spending in the economy. The formula is GDP=C+I+G+(X-M), where -
    1. **C** = Consumption (spending by households)
    2. **I** = Investment (spending by businesses)
    3. **G** = Government spending
    4. **(X - M)** = Net Exports (Exports minus Imports)
3. **Production (Output) Method -** This method calculates the total value of goods and services produced by summing the value added by all sectors of the economy (e.g., agriculture, industry, and services).

Key Economic Concepts and Ratios

Tax-to-GDP Ratio - This ratio compares the amount of taxes collected by the government to the nation's GDP. A higher ratio indicates that the government has more financial resources to spend on public services like infrastructure, healthcare, and education.

Potential GDP - This refers to the maximum level of output an economy can sustainably produce without causing a surge in inflation. It is determined by factors like the available capital, labor force, and technology.

Changes in India's GDP Calculation (Post-2015)

In 2015, India revised its methodology for calculating GDP to align with global standards and better reflect the structure of the modern economy.

Base Year Change - The base year for calculations was updated from 2004–05 to 2011–12.

Methodological Shift - India shifted from reporting GDP at factor cost to GDP at market prices as the headline figure. GDP at market prices includes indirect taxes and excludes subsidies, providing a more accurate reflection of the final value of goods.

Improved Data Sources - The new methodology incorporates more comprehensive data, including from the MCA-21 database of the Ministry of Corporate Affairs, which covers a much larger number of companies.

Better Sectoral Coverage - The new series provides better coverage of sectors like financial services, livestock, and the unorganized sector.

Other Key Macroeconomic Variables

Net Domestic Product (NDP) - NDP=GDP-Depreciation. This accounts for the wear and tear (depreciation) of a country's capital goods.

Gross National Product (GNP) - GNP=GDP+Net income from abroad. This measures the total income earned by a country's residents, regardless of where the income is generated.
Net National Product (NNP) - NNP=GNP-Depreciation. This is also known as National Income.
GDP at Factor Cost - GDP at Factor Cost=GDP at Market Price-Indirect Taxes+Subsidies.

Sectoral Contribution to India's GDP

The contribution of different sectors to GDP reflects an economy's stage of development. In India, the services sector is the largest contributor.

1. **Primary Sector (Agriculture) -** Dominant in less developed economies.
2. **Secondary Sector (Industry, Manufacturing, Construction) -** Grows as economies industrialize.
3. **Tertiary Sector (Services) -** The fastest-growing sector and the largest contributor in most modern economies. In India, it contributes approximately 55% of the GDP.

Source - https - //www.thehindu.com/business/Economy/gdp-growth-in-q1-quickens-to-five-quarter-high-of-78-buoyed-by-cross-sector-strength/article69988801.ece