Gross Value Added (GVA)

Gross Value Added (GVA) is the value of the goods and services generated by an industry, sector, manufacturer, location, or region in an economy. It is the total cost of all output produced, excluding the costs of any intermediaries used in their production.
Aspirants must cover the GVA well in detail for UPSC Prelims and UPSC Mains. The topic is covered under the economy section of the syllabus. The article here covers all the essential sub-topics, such as the full form of GVA, its definition, GVA vs. GDP, etc.

Gross Value Added (GVA): Definition

The United Nations System of National Accounts of 2008 defines GVA as the 'value of output minus the value of intermediate consumption.' It measures the contribution to growth made by an individual producer, an industry, or a sector.

- GVA accounts for a sizeable portion of the nation's overall GDP. The contribution provided by the producer is shown by the final value linked to the items before taxes, and other expenses are deducted.
- While the GDP is an important indicator of a nation's growth and progress, the GVA offers a similar picture more objectively and includes all main revenues.

GVA Full Form

The GVA Full Form is Gross Value Added. GVA is the total of all industry revenues, including sales and subsidies, which constitute profits and earnings for the firm.
GVA is significant because it is used to adjust GDP, a crucial indicator of the overall health of a country's economy. It can also be used to calculate how much a good or service has cost an organization in fixed costs.

GVA Significance

Gross Value Added (GVA) is significant since it tells us the value added to the cost incurred. It reveals the amount of value-added in each company, sector, and country.

- It also helps reduce the supply or producer's economic activities. On the other hand, GDP taps the economy from the demand or consumer side.
- GVA is also highly relevant for policymakers in making sector-specific policies. It offers sector-wise classification of contribution or value addition and helps policymakers incentivize and provide subsidies to low-performing sectors.
- Also, it aids them in levying more taxes on high-performing sectors.
- GDP facilitates international economic comparison, which compares income levels, living conditions, and the overall financial status of different countries. On the other hand, GVA helps in inter-sectoral economic comparison by comparing the economic standing of sectors like agriculture, manufacturing, and services.

GVA Formula

One way to calculate Gross Value Added is to subtract the value of intermediate consumption from the total output. GVA can also be calculated via GDP (Gross Domestic Product) at the

macro level of a country's economy. GDP refers to the total value of the country's final goods and services produced.

GDP = Private consumption + Government spending + Gross investment + government

investment + net foreign trade (Exports – imports)

- Net taxes are the difference between taxes on a product and subsidies on the product.
- If you subtract net taxes on products from GDP results, you will get the value of GVA.
- The magnitude of product taxes and subsidies determines the value of GDP.

GVA = GDP – NTP (Net Taxes on Products)
NTP = taxes on products – subsidies on products

Drawbacks of GVA

The accuracy of GVA depends on the quality of data and data sources. Reliable data sources result in a more accurate value of GVA. Changes in data collection and calculation methods may lead to an overestimation or underestimation of GVA. On the other hand, standard methodology and data sources give more reliable value.

- GVA is vulnerable to employing unfitting and flawed methodologies.
- To sum up, GVA (Gross Value Added) is the value-added to raw material/product or service during production. GVA is the total output produced minus the intermediate consumption incurred.
- Sometimes, Gross Value Added is better than GDP, since the latter does not always give correct measures about the status of a country's economy in terms of development.
- A rise in GDP may happen due to a boost in tax collections. It may be due to stringent tax measures and the compliance of taxpayers.
- However, this rise in GDP does not correspond to the increase in actual output, whereas GVA will give you an idea.

GVA vs GDP

The Difference Between GDP and GVA is given in a tabular form below:

GDP	GVA
The entire number of goods produced in a nation is its GDP.	GVA stands for the value added to the product to improve its many features.
GDP provides information from a consumer or demand standpoint.	GVA provides a snapshot of the state of economic activity from the supply-side or producer perspective.

GDP comprises five components: government investment, government spending, net foreign trade, and personal consumption (the difference between exports and imports).	GDP = gross investment + government investment + private consumption + government spending + (exports-imports)