

Services sector helps Karnataka, Telangana up their share in GDP

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At a time when services sector has become the bulwark of India's overall economic growth, *businessline* analysis shows that States that have grown services GVA and diversified into services sector relatively higher than peers, lead in performance.

DATA FOCUS.

The recent EAC-PM working paper shows Karnataka, Telangana, Madhya Pradesh, Gujarat and Tamil Nadu have recorded the biggest jump in their contribution to India's GDP from FY11 to FY24 among large States. Analysis of States' gross value added (GVA) across sectors during FY12-24 shows that these States also recorded the highest CAGR in services.

Karnataka and Telangana grew their share of GDP the most during FY11-24 and these States also recorded the biggest services CAGR at 8.5 per cent and 8.2 per cent respectively. They were also among those who diversified the most into services, increasing share of GVA from services by 8.4 and 10.3 percentage points.

SLOWER GROWTH

Madhya Pradesh, Gujarat and Tamil Nadu (TN) grew GDP share in the 13-year period, though slower, at 0.7, 0.6 and 0.5 percentage points respectively.

Though these States saw an average 6 per cent CAGR in services, they did not have a big push into diversifying into the sector.

Gujarat reduced its share of services GVA 0.7 per cent points and TN grew services share only 1.2 per cent points. Performance of manufacturing helped compensate in these States.

Maharashtra, West Bengal, Punjab, Bihar and Uttar Pradesh were among

Services - The growth engine

States that grew contribution to India's GDP the most from FY11 to FY24 were supported by services

States	Incremental States share to India's GDP (% points)*	CAGR of services GVA (in %)*	Change in share of services in total GVA (% points)*
Karnataka	2.3	8.5	8.4
Telangana	1.1	8.2	10.3
Madhya Pradesh	0.7	6.3	0.6
Gujarat	0.6	6.6	-0.7
Tamil Nadu	0.5	6.2	1.2

States that saw biggest fall in contribution to India GDP from FY11 to FY24 grew services relatively slower

States	Incremental States share to India's GDP (% points)	CAGR of services GVA (in %)*	Change in share of services in total GVA (% points)*
Maharashtra	-1.9	6.8	8
West Bengal	-1.1	5.3	2
Punjab	-0.9	6.1	7
Bihar	-0.5	6.0	3
Uttar Pradesh	-0.4	6.3	2

*Between FY12 to FY24

Source: EAC-PM Working Paper, MoSPI

States that saw decline in State share of national GDP.

These States grew services GVA at a relatively-lower CAGR of around 6 per cent.

The change in share of services in their total GVA was also relatively lower with UP and West Bengal just adding 2 percentage points.

"In the last 10 years, services capabilities have helped States such as Karnataka, Andhra Pradesh and Telangana grow their share in India's GDP. The more traditional and industrialised economies like Gujarat and TN may be lagging peers in IT and banking and financial services and need to work more on it," Paras Jasrai, Senior Economic Analyst, India Ratings and Research, said.

"Gujarat, for instance, has already started efforts to diversify with GIFT City and shift focus to IT/ITES," he added. As for Maharashtra, Jasrai noted that growth tends to be low when you are

a large economy. Services GVA includes value added by sectors including trade, transport, financial services, real estate/construction, professional services and others.

Within services, while Karnataka had higher share of real estate, construction and professional services at around 56 per cent, TN and Maharashtra had 33 per cent and 38 per cent value added from these segments with trade and transport contributing more.

Services-heavy States also fared better on per capita income (PCI).

The relative per capita income as per the EAC report — measured as the ratio of per capita Net State Domestic Product (NSDP) of the State as a percentage of all-India per capita Net National Product — is 193.6 per cent for Telangana in FY24.

Karnataka and TN have relative PCI of 181 per cent and 171 per cent respectively.