

ECONOMY

India's GDP grows at 13.5% in April-June quarter

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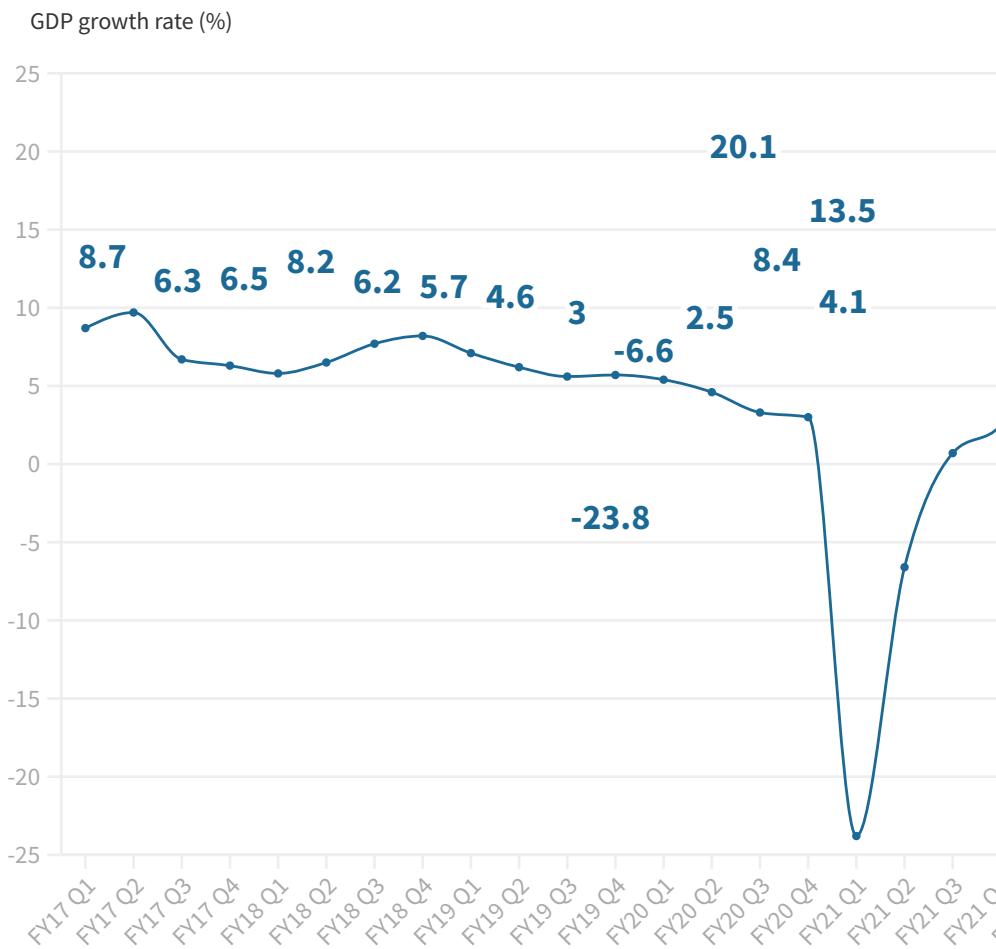
GVA from Agriculture, Forestry and Fishing, the only sector that continued to grow through the pandemic, rose 4.5% in the April to June quarter of this year



India's Gross Domestic Product (GDP) grew at 13.5% in the first quarter of 2022-23, the fastest pace in four quarters, with the Gross Value Added (GVA) in the economy rising by 12.7%, as per National Statistical Office estimates released on August 31.

The economy's latest growth print, aided by a pick-up in private consumption spending and capital investments, is significantly lower than the **16.2% GDP uptick projected by the Reserve Bank of India's Monetary Policy Committee** and was just 3.8% above pre-pandemic levels.

India's GDP



Source: MoSPI | Govt. of India • The Hindu Graphic

A Flourish chart

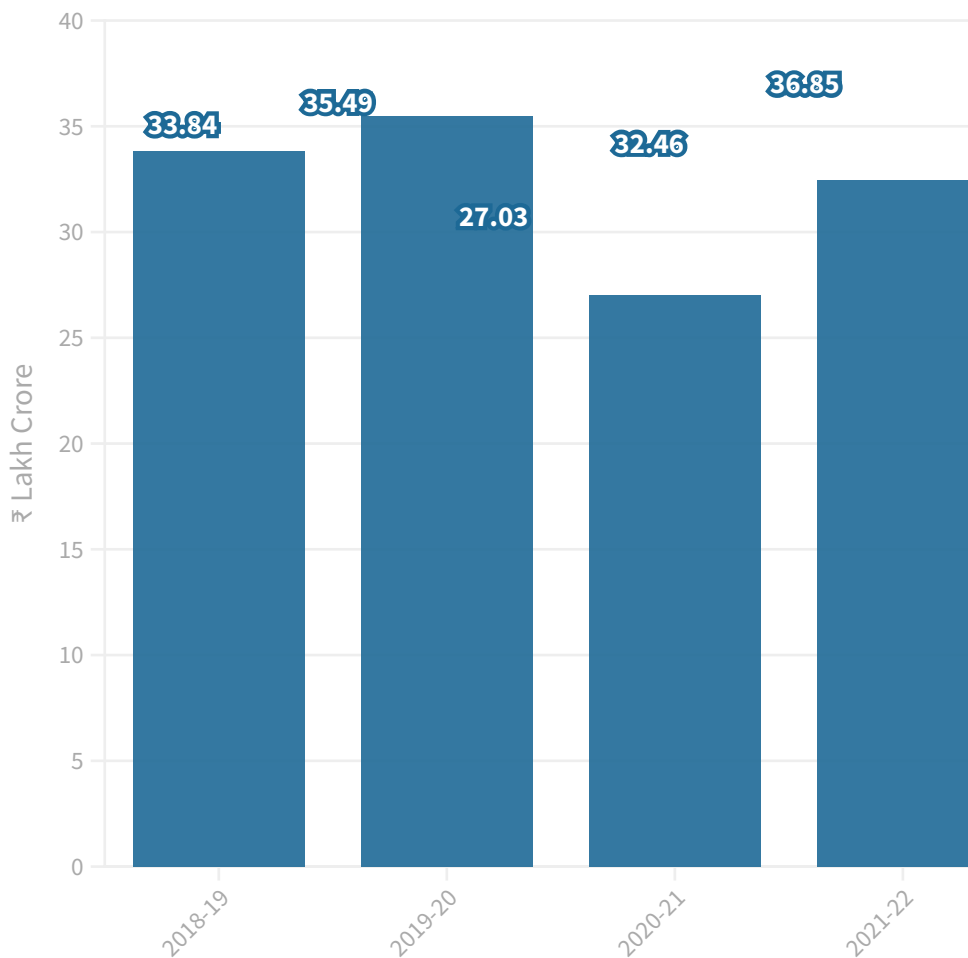
The corresponding April to June quarter of last year had recorded a GDP growth of 20.1% and an 18.1% uptick in GVA amid the second COVID-19 wave, thanks to the base effects from the more stringent initial COVID-19 lockdowns. Economists expect the headline growth rate to moderate in the ongoing quarter as base effects fade out and uncertainties

GVA from agriculture, forestry and fishing, the only sector that continued to grow through the pandemic, rose 4.5% in the April to June quarter of this year, while manufacturing and mining grew at 4.8% and 6.5%, respectively.

While the share of Government Final Consumption Expenditure in GDP moderated to 11.2% between this April and June, from 12.6% last year, GDP growth was boosted by private final consumption expenditure which surged to 59.9% of GDP from 54% in Q1 of 2021-22 and Gross Fixed Capital Formation (GFCF) which reflects capital investments in the economy. The share of GFCF improved to 34.7% of GDP in Q1 this year from 32.8% in 2021-22.

The Finance Ministry said that GFCF and private consumption spending in the first quarter were at their highest levels in the past 10 years, aided by several reforms and steps taken by the government to reinvigorate capital investments and boost consumption.

Real GDP at Constant (2011-12) Prices in Q1



Source: MoSPI | Govt. of India • The Hindu Graphics

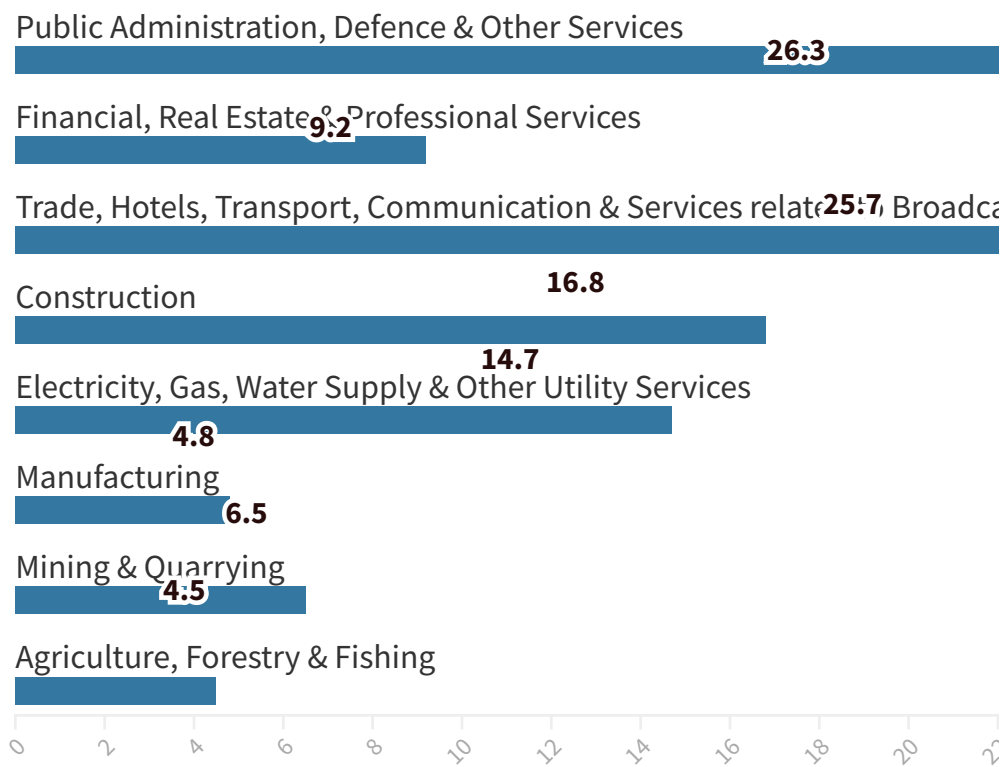
With the sharp rise in imports over the first quarter, their share of GDP has jumped to 31% from 25.7% a year ago, while the share of exports inched up to 22.9% from 22.7% in Q1 of 2021-22. The Finance Ministry noted that this was the highest share for exports in Q1 of any year since 2014-15 “despite supply chain disruptions and slowing global demand”.

“With relatively high growth and low inflation, India, among the major peer economies has faced less of a trade-off between growth and inflation... The robust performance of high-frequency indicators in July and August 2022 indicates to a sustained growth in Q2 of 2022-23,” the Department of Economic Affairs in the Ministry said.

“Compared to the pre-COVID-19 GDP level of ₹35.5 lakh crore in the first quarter of 2019-20, real GDP growth is only 3.8%. This shows that while the Indian economy is now fully recovered from the COVID shock, restoring a normal growth of 6.5 to 7% would require more time and policy support,” observed D.K. Srivastava, chief policy advisor at EY India.

Quarterly Estimates of GVA at Basic Prices

Q1 (April-June) 2022-23 (at 2011-12 Prices)



Source: MoSPI | Govt. of India • The Hindu Graphics

 A Flourish chart

Public administration, defence and other services which include education, health, recreation, and other personal services recorded the sharpest GVA growth at 26.3%, followed by trade, hotels, transport, communication and services related to broadcasting which grew rose 25.7%.

However, relative to the pre-COVID-19 level, contact-intensive sectors like trade, hotels, transport, stood out as the only sub-sector reporting a contraction in Q1, in line with a “robust but incomplete recovery”, noted ICRA chief economist Aditi Nayar.

“The GDP in the first quarter has recorded growth of 3.8% when compared to the pre-pandemic period of Q1 2019-20 and is lower than our expectations. The consumption demand revival has been uneven so far with weak rural demand and the sharp sequential contraction in the industrial sector is especially concerning,” said CARE Ratings chief economist Rajani Sinha.

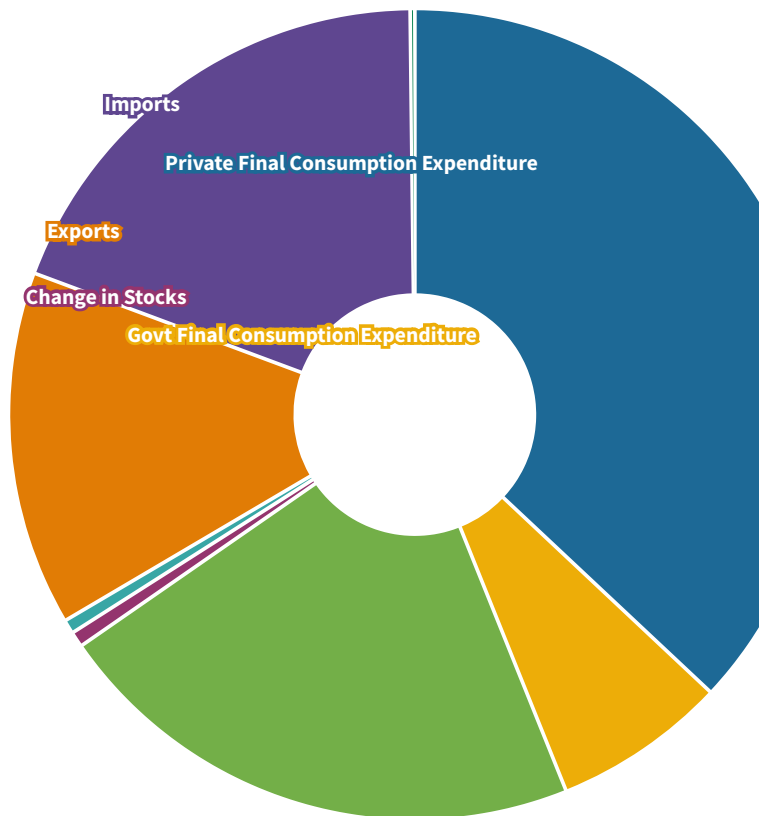
While the base effects from the second COVID-19 wave in Q1 of 2021-22 have bolstered the growth rate this year, the overall trend is a mixed bag, said Madhavi Arora, lead economist at Emkay Global Financial Services.

“This is largely a story of service sector rebound which also was visible in private consumption on the expenditure side. However, manufacturing has remained disappointing,” she remarked.

Quarterly Estimates of Expenditure Components of GDP

Q1 (April-June) 2022-23 (at 2011-12 Prices)

Private Final Consumption Expenditure Govt Final Consumption Expenditure
 Gross Fixed Capital Formation Change in Stocks Valuables Exports Imports
 Discrepancies



Source: MoSPI | Govt. of India • The Hindu Graphics

The coming quarters will see a moderation in headline GDP growth. The Reserve Bank of India (RBI), earlier this month, reiterated its 7.2% GDP growth projection for 2022-23, with the first quarter expected to grow 16.2%, followed by 6.2% in the second quarter. The RBI expects growth to moderate to 4.1% in the October to December quarter, and 4% in the period from January to March 2023.

“Assuming that the RBI’s estimates of the remaining three quarters are realised, the annual GDP growth using the Q1 estimates of the NSO comes out to be 6.7%,” Mr. Srivastava said.

“We see secular downturn in the growth print ahead, as the base effect fades and the economy also slows sequentially. Even as the recovery in domestic economic activity is yet to be broad-based, global drags in the form of still-elevated prices, shrinking corporate profitability, demand-curbing monetary policies and diminishing global growth prospects weigh on the growth outlook,” cautioned Ms. Arora, who expects GDP growth to be 7% in 2022-23.

The **drop in core sector growth** to a 4.5% in July is a signal that overall GDP growth moderation in Q2, even as an uneven monsoon is likely to weigh upon the farm sector and rural demand, Ms. Nayar noted. Rebound spending on services and some easing in commodity prices could help prop up Q2 growth to 6.5%-7%, she said.

“Going forward, with the global headwinds, India’s external sector would face a challenging time. It will be critical for domestic consumption and Investment to gather momentum,” Ms. Sinha said. That capacity utilisation levels in industry have risen to 75% and the Centre has ramped up its capital spending this year, augurs well for investments, she noted.

ICRA expects downside risks to the initial estimate of 12.7% GVA growth in Q1 on account of potential downward revisions in agricultural performance currently said to have grown 4.5%.

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