

India's GDP estimated to grow at 7% in FY23

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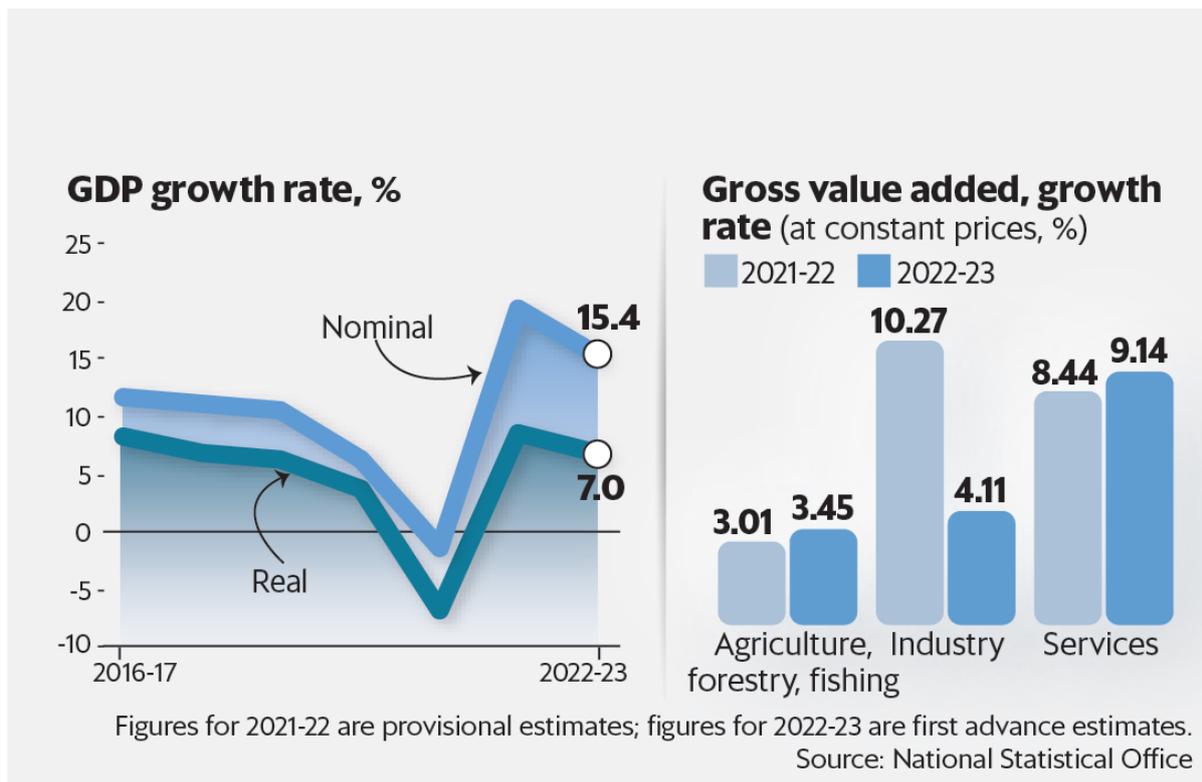
India's economic growth may slow to 7% in FY23 from 8.7% in the previous year, the National Statistical Office (NSO) said, as the war in Europe and rising interest rates globally hit demand in India and abroad.

Nominal GDP growth in FY23 is estimated to also slow to 15.4% from 19.5% in the previous fiscal, according to the NSO's first advanced estimates for the current fiscal year.

The government uses the NSO's estimate to formulate its spending and growth plans for the Union budget, which finance minister Nirmala Sitharaman is set to announce on 1 February.

This will be the last full-year budget before the current government's term ends. The national elections are due in the first half of 2024.

According to the NSO's estimates, agriculture may grow 3.5% against 3% in FY22, while manufacturing is likely to slow to 1.6% from 9.9% and mining from 11.5% to 2.4%.



Meanwhile, the services sector is expected to pick up pace. Electricity, gas, water supply and other utility services are expected to grow at 9% in FY23 from 7.5% in the previous year. Trade, hotels, transportation, communication and broadcasting services are expected to grow 13.7% from 11.1% in FY22.

Similarly, financial, real estate, and professional services are seen growing at 6.4% in FY23, against 4.2% in FY22.

Madan Sabnavis, chief economist at Bank of Baroda, said all sectors barring manufacturing, are expected to do well. "Manufacturing growth is 1.6%, which is in line with the low corporate profitability seen in the first half of FY23," he said. Sabnavis termed the construction growth of 9.1% over 11% growth in FY22 as "impressive", attributing it to the government's infrastructure push as well as a partial revival in residential construction.

Last month, the Reserve Bank of India (RBI) lowered its forecast for FY23 growth to 6.8% from its previous projection of 7% amid global headwinds, including geopolitical tensions and the slowdown in global demand. Several international agencies and investment banks have lowered their estimates.

Friday's data showed that private final consumption expenditure (PFCE) may grow 7.68% in FY23 over the previous fiscal. PFCE is the expenditure incurred by households and non-profit institutions serving households on the final consumption of goods and services, whether made within or outside the economic territory, thereby showing the demand scenario in the country.

Consumption growth is due to the impact of inflation, along with the pent-up demand, which has been reflected in the GST collections as well, Sabnavis said.

The share of PFCE in GDP is expected to rise to 57.2% in FY23 from 56.9% in FY22, while that of government final consumption expenditure may fall to 10.3% from 10.7%.

Similarly, the share of imports in GDP may grow to 29.7% this fiscal from 26.3% last fiscal and that of exports is seen at 22.7% against 21.5% in FY22.

"We believe that buoyant albeit mixed domestic consumption should help stave off some of the pain arising from weak exports during this period. Contrary to our expectations, the NSO expects private final consumption expenditure to contract by 0.2% y-o-y in H2 FY23. Further, it expects exports to rise by 11.9% in H2 FY23, which we believe is unlikely, given the flagging external demand," said Aditi Nayar, chief economist, ICRA Ltd.

Nayar was of the view that there may be revisions in the sectoral numbers for the first or second half of the ongoing fiscal in the subsequent data releases.

Rajani Sinha, chief economist with CareEdge, said that the projected 7% growth rate is on the back of the expansion in the services sector, and the manufacturing sector has recorded weak growth as it is under pressure due to high input costs.

"Looking ahead, with challenges looming on the external front, India's export growth is likely to moderate in FY24. The manufacturing sector will benefit from the moderation in commodity prices but will feel the pain of lower external demand. In the services sector, there could be some fading of pent-up demand that we saw in FY23," she said, adding that considering the headwinds arising on the external front and its possible spillovers on the Indian economy, the GDP growth may moderate further to 6.1% in FY24.

The official statement, however, noted that these are early projections and improved data coverage, actual tax collections and expenditure incurred on subsidies, data revisions made by source agencies, among others, would have a bearing on subsequent revisions. The first revised estimates for 2021-22, due for release on 28 February 2023, may lead to a revision in growth rates, the estimates released on Friday, the statistics ministry's statement said.