

COMMENT

GDP for FY23 calls for guarded optimism



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India's economy has continued to perform relatively well in FY23 compared to other emerging and advanced countries and this is getting reflected in the gross domestic product (GDP) data. According to the Advance Estimate released by the statistics and programme implementation ministry, the Indian economy has grown by 7 per cent in FY23. While the growth is lower than 8.7 per cent GDP growth recorded in FY22, that's mainly because the base effect had statistically pushed up

the FY22 growth. In the second half of FY23, the economy is estimated to grow by 4.5 per cent. Again, while this is lower than the first half average growth of 9.7 per cent, that's mainly because of the base effect. Ignoring the base effect, the message is a steady growth momentum in the economy.

As the economy recovers post the two years of pandemic, it is benefitting from strong pent-up demand, especially in the services sector. However, there are several challenges emanating from the external sector. With exports growth slowing down, there has been a sharp widening of net exports that has pulled down the overall GDP number for FY23. Slowing exports will remain a concern even in FY24.

Domestic consumption in the economy is showing gradual improvement, with consumption GDP rising by 7.7 per cent (YoY) in FY23. As per high frequency indicators, consumption has been giving mixed signals. While IIP consumer goods remain weak, some other indicators like

passenger car sales, GST collection are reflective of healthy consumption recovery. Overall consumer spending in the economy and specifically rural consumer spending has been adversely impacted by high CPI inflation. However, according to the RBI household survey consumer sentiments have been improving in the last few months. Apart from spending on essentials, households are also getting optimistic on their discretionary spending as per the survey. Moreover, with inflation likely to moderate, consumption in the economy is expected to improve further, going forward.

Investment GDP has recorded a growth of 11.5 per cent (YoY) in FY23, mainly led by the government's push to capex. Private sector has been showing hesitance in the midst of the economic uncertainties. However, with improvement in manufacturing sector capacity utilisation level (and given the deleveraging in the last few years), the intent to invest has improved. According to the

Centre for Monitoring Indian Economy, new investment projects announced have shown cumulative growth of 36 per cent in the fiscal year so far compared to previous year. However, the actual pick-up in investment is likely to be gradual in midst of global uncertainties and tighter financing conditions.

Sector-wise break-up of GDP data shows that growth has been led by the services sector that has recorded a growth of 9 per cent in FY23. Segments like trade, hotel, transport, communication that was hit severely by the pandemic are benefitting from pent up demand in FY23. While this segment has recorded a growth of 13.7 per cent (YoY) in FY23, it has only grown by a marginal 0.8 per cent compared to the pre-pandemic period of FY20. This shows that the recovery in this segment is still weak. As expected, the manufacturing sector has recorded a feeble growth of 1.6 per cent in FY23.

The manufacturing sector suffered from high raw material

prices, uneven domestic demand recovery, and weak external demand. Going forward, moderation in global commodity prices will provide some reprieve to the manufacturing sector but weak external demand will remain a pain point. While the climate related disruptions (heat-wave, uneven rainfall, etc.) posed challenges for the farm sector by impacting yields of some major crops, overall the agriculture sector performed well, recording a growth of 3.5 per cent.

Overall, while India's economy is recovering, we need to be cautious given the looming challenges, especially in the external sector. While domestic CPI and WPI inflation are likely to moderate in FY24, sticky core inflation will remain a concern. We expect GDP growth to moderate to around 6.1 per cent in FY24, as domestic pent up demand fades and India feels the pain of global slowdown.

In this uncertain global environment, the most crucial aspect would be continuation of domestic demand recovery.