

# First Advance Estimate Pegs India's GDP Growth at 7.3% for FY24

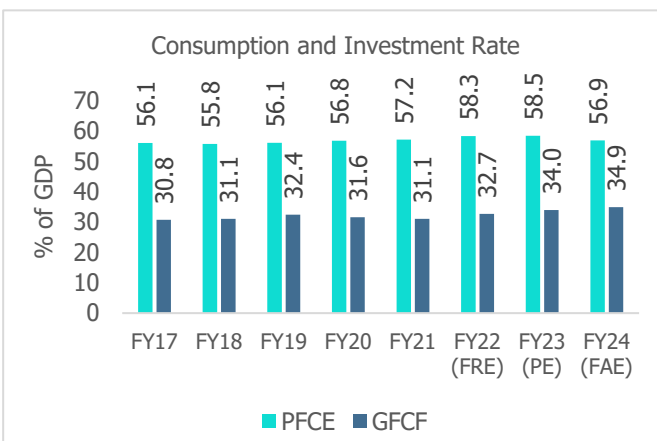
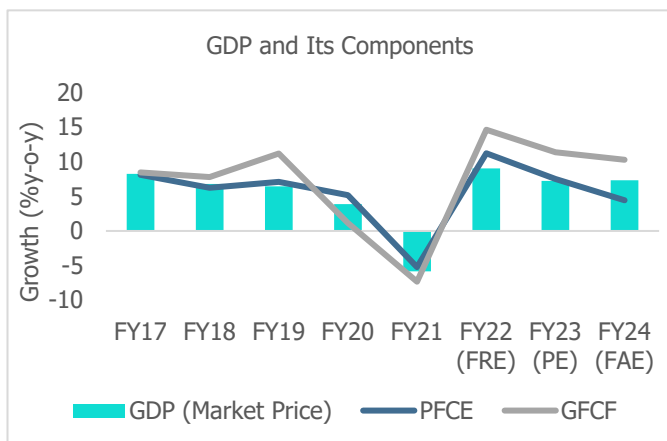
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India's GDP growth is pegged at 7.3% in FY24 as per the First Advance Estimate (FAE), after a growth of 7.2% in the previous fiscal. The growth in the current financial year was supported by a strong growth in the investment demand which is projected to grow by 10.3%. Strong growth in investment demand is supported by higher capital expenditure of both the Central and state governments. The ratio of investment (GFCF) to GDP inched up to its highest in the last decade.

On the other hand, consumption demand in the economy is likely to remain tepid with the growth rate decelerating from 7.5% in FY23 to 4.4% in FY24. This would also be the slowest consumption growth in the past two decades barring the pandemic year of FY21 when it contracted by 5.2%. A strong slowdown in the private consumption which powers more than 50% of the GDP is a cause of concern. A below-average rainfall affecting the projected Kharif output and sluggish rabi sowing, pose a substantial threat to the rural economy and agriculture sector. Despite these challenges, recent initiatives such as the reduction in LPG prices and the extension of the PMGKAY, coupled with supply-side measures to alleviate inflationary pressures in the food basket, are anticipated to provide some relief to the consumption sector.

Apart from the lacklustre performance of the consumption sector, external headwinds in terms of slower global growth are likely to impact export demand. Goods and services export is projected to grow by 1.4% in FY24 while imports are expected to grow by 13.2%, thus widening the trade deficit.

## Growth in Consumption and Investment (% y-o-y)



Source: MOSPI; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

The Gap between GDP and GVA growth in FY24 widened to 0.4 percentage points (pp) from 0.2 pp in FY23 due to strong growth in tax collections this year as the outgo on subsidies contracted this year.

	FY19	FY20	FY21	FY22 (FRE)	FY23 (PE)	FY24 (FAE)
Government Final Consumption Growth (GFCE)	6.7	4.0	-0.9	6.6	0.1	4.1
Private Final Consumption Growth (PFCE)	7.1	5.2	-5.2	11.2	7.5	4.4
Gross Fixed Capital Formation (GFCF)	11.2	1.2	-7.3	14.6	11.4	10.3
<b>GDP (at constant prices)</b>	<b>6.5</b>	<b>3.9</b>	<b>-5.8</b>	<b>9.1</b>	<b>7.2</b>	<b>7.3</b>

Source: MOSPI; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

### How Have Sectors Fared in FY24?

In the context of sectoral performance, industrial growth outshines, with an acceleration from 4.4% in the previous year to 7.9% projected for FY24. This strong industrial growth is underpinned by robust expansion in manufacturing, mining, and construction. Construction activity is expected to maintain its momentum growing at 10.7% in FY24, higher than 10% last year. A stronger rebound is expected in both mining and manufacturing with the sectors expanding by 8.1% and 6.5% respectively in FY24 which is much higher than the growth witnessed last year. Positive business optimism, easing commodity prices, supportive government policies such as production-linked incentive (PLI) schemes, and the government's efforts to support infrastructure expansion collectively contribute to sustaining buoyancy in industrial growth.

However, the agriculture GVA is pegged at 1.8% in FY24 lower than the 4% growth witnessed in the last fiscal year. The growth in the services sector is also projected to decelerate to 7.7% in FY24, a decline from the robust 9.5% growth recorded in the previous year. This slowdown is primarily attributed to a pronounced deceleration in the Trade, Hotel, Transport, Communication, and Broadcasting services. The growth rate in this subsector more than halved, decreasing from 14% in FY23 to 6.3% in FY24. This slowdown is influenced by the normalization of the base effect and potentially some dilution in discretionary demand.

### Sectoral Growth (% y-o-y)

	FY19	FY20	FY21	FY22 (FRE)	FY23 (PE)	FY24 (FAE)
<b>Agriculture, Forestry &amp; Fishing</b>	<b>2.1</b>	<b>6.2</b>	<b>4.1</b>	<b>3.5</b>	<b>4.0</b>	<b>1.8</b>
<b>Industry</b>	<b>5.3</b>	<b>-1.4</b>	<b>-0.9</b>	<b>11.6</b>	<b>4.4</b>	<b>7.9</b>
Mining & Quarrying	-0.9	-3.0	-8.6	7.1	4.6	8.1
Manufacturing	5.4	-3.0	2.9	11.1	1.3	6.5
Electricity, Gas, Water Supply & Other Utility Services	7.9	2.3	-4.3	9.9	9.0	8.3
Construction	6.5	1.6	-5.7	14.8	10.0	10.7
<b>Services</b>	<b>7.2</b>	<b>6.4</b>	<b>-8.2</b>	<b>8.8</b>	<b>9.5</b>	<b>7.7</b>
Trade, Hotels, Transport, Communication & Broadcasting	7.2	6.0	-19.7	13.8	14.0	6.3
Financial, Real Estate & Professional Services	7.0	6.8	2.1	4.7	7.2	8.9
Public Administration, Defence and Other Services	7.5	6.6	-7.6	9.7	7.2	7.7
<b>GVA (at basic price)</b>	<b>5.8</b>	<b>3.9</b>	<b>-4.2</b>	<b>8.8</b>	<b>7.0</b>	<b>6.9</b>

Source: MOSPI; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

## Way Forward

India's economy held relatively well in FY24 compared to other major economies driven by strong investment growth and a rebound in industrial activity. On the other hand, a slowdown in private consumption demand and deceleration of the services sector is concerning. This is because for the investment growth to be sustained over the medium term, it is very important for the consumption growth to be bolstered. The escalation of global geopolitical tensions can further add to the downside risks.

The nominal GDP growth is also estimated to decelerate to 8.9% in FY24 from 16.1% in FY23. This slowdown raises some apprehensions regarding its potential impact on fiscal deficit target for FY24. At large, the MOSPI's projection of the GDP seems to be relatively optimistic, surpassing the RBI's estimate of 7% and our own projection of 6.8%.

Going forward, for FY25, we expect real GDP growth in the range of 6.5-7%. The most important monitorable would be a more broad-based pick up in consumption demand, which hinges on further revival in the informal sector and rural demand. The other critical aspect would be a meaningful pickup in private investment in the coming quarters. Investment demand has displayed resilience thus far, although a potential moderation in the coming months is plausible as the private sector may exercise caution in capital spending leading up to the general elections.

## Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3483
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

## CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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