

Gross Domestic Product

Q4 FY2023 GDP growth pegged at higher-than-expected 6.1%; manufacturing and construction drive upside surprise

May 2023





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YoY growth in GDP rose to higher-than-anticipated 6.1% in Q4 FY2023; growth over pre-Covid improved sharply relative to Q3 FY2023

GVA growth improved to 6.5% in Q4 FY2023, led by all three sectors

NSO revised FY2023 GDP growth up to 7.2% in its PE from 7.0% in its SAE

ICRA expects real GDP growth to moderate to ~6% in FY2024

India's year-on-year (YoY) GDP growth recorded a sharper-than-expected uptick to 6.1% in Q4 FY2023 (ICRA exp: +4.9%) from 4.5% in Q3 FY2023, as per the data released by the National Statistical Office (NSO). The positive surprise in the GVA growth (+6.5%; ICRA's forecast: +5.1%) in Q4 FY2023 was largely on account of industry, particularly manufacturing and construction. As expected, growth improved from the lows seen in Q3 FY2023, and remained uneven. While the growth in gross fixed capital formation (GFCF) was upbeat at 8.9% in Q4 FY2023, that in private final consumption expenditure (PFCE) was subdued at 2.8%. Moreover, the FY2023 GDP growth of 7.2% exceeded the second advance estimate (SAE) of 7.0%. ICRA projects the GDP growth to ease to 6.0% in FY2024 amid external headwinds, with a downside risk of up to 50 bps in the event of sub-par monsoons. Front-loaded Government capex and a rapid execution of infrastructure projects could provide an upside to GDP growth.

- **YoY GDP expansion improved to stronger-than-expected 6.1%:** India's real GDP growth rose to 6.1% in YoY terms in Q4 FY2023 (ICRA's exp.: +4.9%) from 4.5% in Q3 FY2023, led by GFCF (to +8.9% in Q4 FY2023 from +8.0% in Q3 FY2023) and PFCE (to +2.8% from +2.2%), amidst a narrower drag displayed by net exports in that quarter. Moreover, government final consumption expenditure (GFCE) reverted to a YoY expansion of 2.3% in Q4 FY2023 after having contracted by 0.6% in the previous quarter. Encouragingly, the performance relative to the respective pre-Covid levels of FY2019 improved markedly in Q4 FY2023 (+17.3%), relative to Q3 FY2023 (+15.3%), indicating an improved albeit uneven recovery.
- **GVA growth pegged at 6.5% in Q4 FY2023:** The GVA growth rose to 6.5% in Q4 FY2023 from 4.7% in Q3 FY2023, led by industry (to +6.3% from +2.3%, led by manufacturing and construction), services (to +6.9% from +6.1%) and agriculture (to +5.5% from +4.7%).
- **GDP expanded by 7.2% in FY2023:** The NSO's provisional estimate (PE) pegs the GDP growth in FY2023 at 7.2% (ICRA's exp.: +6.9%), revised up from the 7.0% projected earlier in SAE for FY2023. As expected, the growth in FY2023 PE is lower than the 9.1% expansion seen in FY2022.

1 Overview on GDP and GVA



2 Quarterly Analysis: Production Approach



3 Quarterly Analysis: Expenditure Approach



4 Quarterly Growth Revisions and Annual Trends



5 Outlook

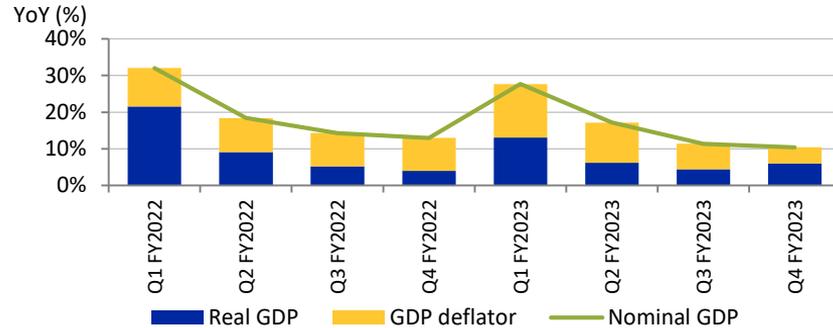


6 Annexure



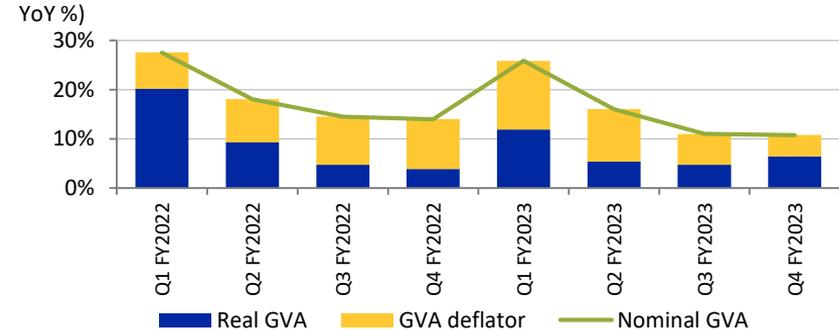
NSO placed GDP and GVA growth at higher-than-expected 6.1% and 6.5%, respectively, in Q4 FY2023

EXHIBIT: Quarterly trends in real & nominal GDP & deflator



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real & nominal GVA & deflator

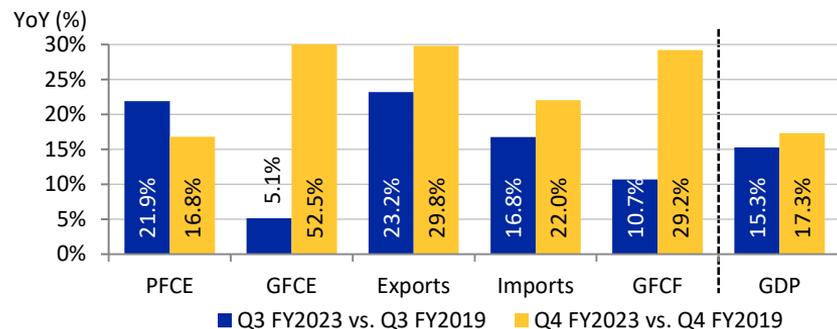


Source: NSO; CEIC; ICRA Research

- The NSO has pegged the YoY growth in real GDP and GVA at a higher-than-expected 6.1% and 6.5%, respectively, in Q4 FY2023 (ICRA's est: +4.9%/+5.1%), entailing an improvement from 4.5% and 4.7%, respectively, recorded in Q3 FY2023.
- The positive surprise in GVA growth relative to ICRA's forecast stemmed from manufacturing (+4.5%) and construction (+10.4%), as well as agriculture, forestry and fishing (+5.5%), with the former reflecting better pricing power of corporates owing to downtrend in input costs. The services GVA growth remained healthy at 6.9% in Q4 FY2023, slightly higher than ICRA's forecast, on account of continued resilience in contact-intensive segment.
- In nominal terms, the YoY expansion in the GDP and GVA eased to 10.4% and 10.3%, respectively, in Q4 FY2023 from 11.4% and 9.8%, respectively, in Q3 FY2023. The GDP and GVA deflator dipped to 4.3% and 4.3%, respectively, in Q4 FY2023 from 6.9% and 6.3%, respectively, in Q3 FY2023. This reflects the softening in the WPI inflation (to +3.3% from +6.6%) in Q4 FY2023 relative to the previous quarter, benefitting from the correction in commodity prices, even as the uptick in prices of food and housing slightly pushed up the CPI inflation (to +6.2% from +6.1%) between these quarters.

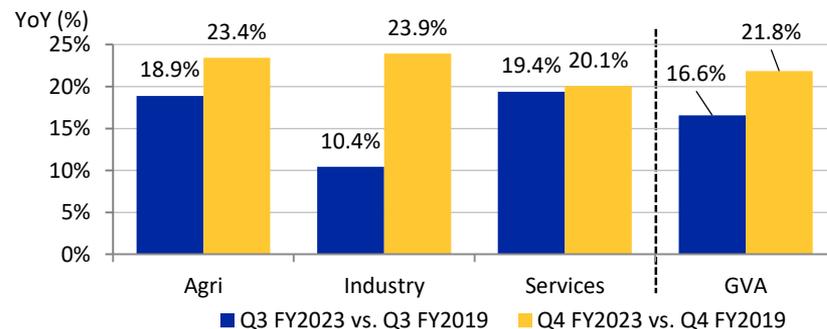
Growth in GDP over pre-Covid levels improved in Q4 FY2023 vis-à-vis Q3 FY2023

EXHIBIT: Performance of GDP and its components relative to the corresponding pre-Covid levels



Source: NSO; CEIC; ICRA Research

EXHIBIT: Performance of GVA and its sectors relative to the corresponding pre-Covid levels



Source: NSO; CEIC; ICRA Research

- Over the respective pre-Covid levels of FY2019, GDP and GVA expanded by 17.3% and 21.8%, respectively, in Q4 FY2023, marking an improvement from 15.3% and 16.6%, respectively, seen in Q3 FY2023. This indicates that underlying momentum of the Indian economy remains healthy amid external headwinds.
 - Industrial GVA was a sharp 23.9% higher in Q4 FY2023 relative to Q4 FY2019, largely driven by construction (+42.4%), followed by healthy increases in electricity, gas, water supply and other utility services (+20.2%) and manufacturing (+19.7%), and a mild rise in mining and quarrying (+1.5%).
 - The GVA for services rose above the corresponding pre-Covid level in Q4 FY2023 by a healthy 20.1%, led by FRP (+26.7% aided by the robust expansion in non-food bank credit), followed by THTCS (+16.7% amid faster recovery in contact-intensive segments) and PADOS (+16.2%).
- The 17.3% growth in the absolute level of real GDP in Q4 FY2023 over Q4 FY2019 was led by GFCE (+52.5%), exports (+29.8%), GFCF (+29.2%), followed by PFCE (+16.8%). The latter also entails a deterioration from the pre-Covid performance in Q3 FY2023 (+21.9%), indicating that private consumption remains uneven.

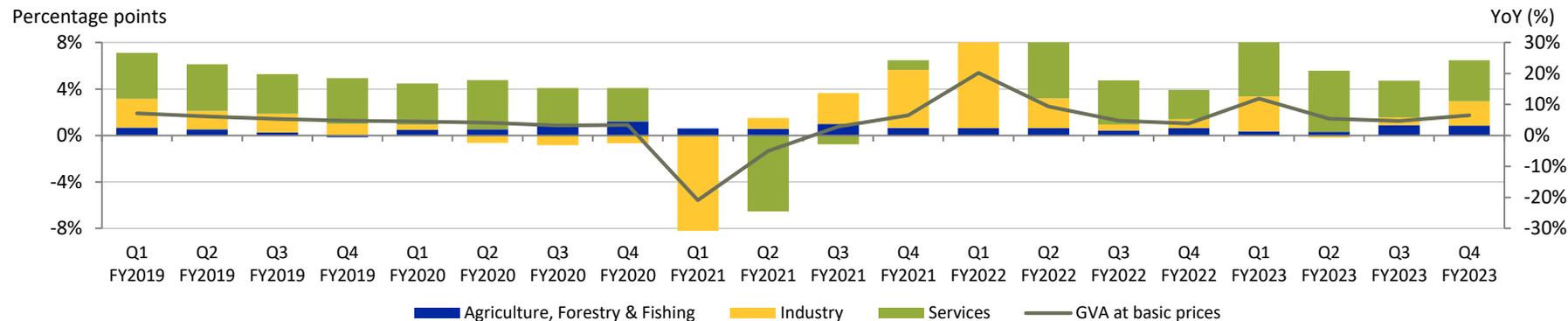


Quarterly Analysis - Production Approach

Improvement in GVA performance in Q4 FY2023, relative to Q3 FY2023 was broad-based across agri, industry and services

Services accounted for a bulk of 6.5% GVA growth in Q4 FY2023, followed by industry

EXHIBIT: Contribution of GVA components

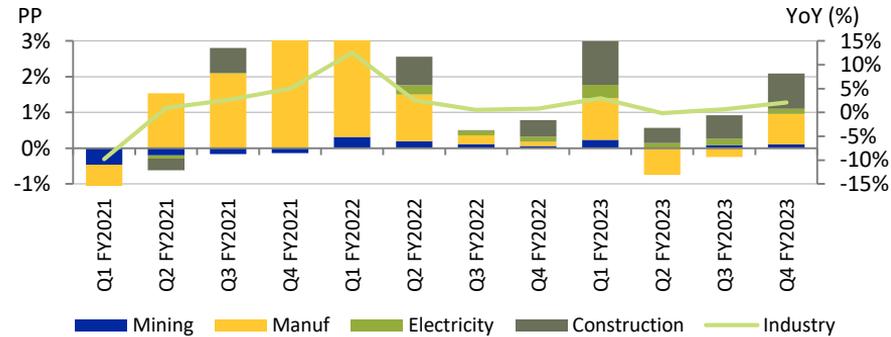


Source: NSO; CEIC; ICRA Research

- The YoY growth in GVA rose to 6.5% in Q4 FY2023 (+3.9% in Q4 FY2022) from 4.7% seen in Q3 FY2023 (+4.7% in Q3 FY2022), with a broad-based improvement across industry (to +6.3% from +2.3%), agriculture, forestry and fishing (to +5.5% from +4.7%), and services (to +6.9% from +6.1%).
- In terms of contribution, services accounted for 3.5 percentage points (pp) of the 6.5% GVA growth in Q4 FY2023, followed 2.1 pp stemming from industry and a low 0.8 pp from agriculture, forestry and fishing.
- Excluding agriculture, the GVA growth stood at a higher 6.7% in Q4 FY2023 (+3.9% in Q4 FY2022).

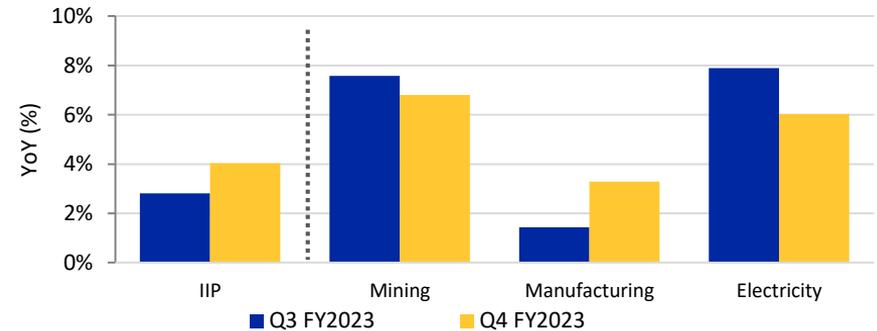
Industrial GVA growth improved to 6.3% in Q4 FY2023 from 2.3% in Q3 FY2023...

EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas, water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components in Q3 and Q4 FY2023



Source: NSO; CEIC; ICRA Research

- The YoY growth of industrial GVA increased to 6.3% in Q4 FY2023 (+2.3% in Q4 FY2022) from 2.3% in Q3 FY2023 (+1.6% in Q3 FY2022), led by an encouraging improvement in two of the four sub-sectors, including manufacturing (to +4.5% from -1.4%) and construction (to +10.4% from +8.3%), amidst a slight uptick in mining and quarrying (to +4.3% from +4.1%). The uptick in manufacturing growth largely reflects a combination of higher volume growth and an improvement in margins owing to a moderation in input costs.
- In contrast, the YoY growth in the GVA of electricity, gas, water supply and other utility services (to +6.9% from +8.2%) eased, while remaining healthy.
- Industry accounted for a modest 2.1 pp of the GVA growth in Q4 FY2023, mainly driven by construction (+1.0 pp) and manufacturing (+0.9 pp), amidst mild contributions from mining (+0.1 pp) and electricity (+0.1 pp).

... largely driven by manufacturing and construction

Mining

The uptick in YoY growth in GVA of mining and quarrying can be partly attributed to better pricing power in Q4 FY2023, relative to the prior quarter, amid a decelerating growth in mining output (as per the IIP data; +6.8% in Q4 FY2023; +7.6% in Q3 FY2023)



Manufacturing

Manufacturing volume growth (as per IIP) rose to 3.3% in Q4 FY2023 from the three-quarter low of 1.4% in Q3 FY2023. Moreover, the downtrend in commodity prices seemed to have favoured margins across some sub-sectors in the quarter.



Electricity

Notwithstanding a sequential moderation, the GVA growth of electricity, gas, water supply and other utility sectors stood at a healthy 6.9% in Q4 FY2023, benefitting from elevated demand for electricity from C&I and agri segments owing to sustained economic recovery



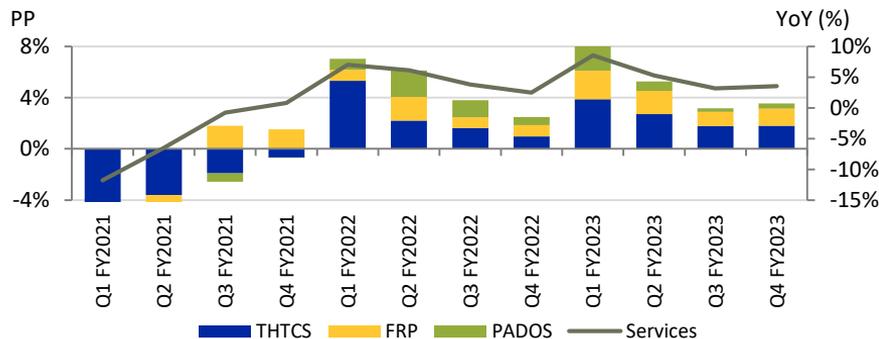
Construction

Healthy rise in construction GVA growth in Q4 FY2023 from Q3 can be explained by expansion in states' capex and net lending (+28.1% vs. +15.3%) and GoI's capex (+22.5% vs. -9.4%), even as growth decelerated across construction inputs like cement output (+3.6% vs. +10.1%) and steel consumption (+12.3% vs. +13.3%)



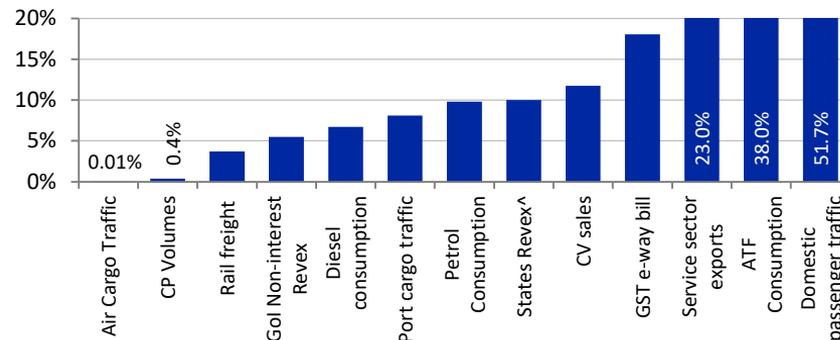
Services GVA growth firmed up to 6.9% in Q4 FY2023 from 6.1% in Q3 FY2023

EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting; FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of services lead indicators in Q4 FY2023

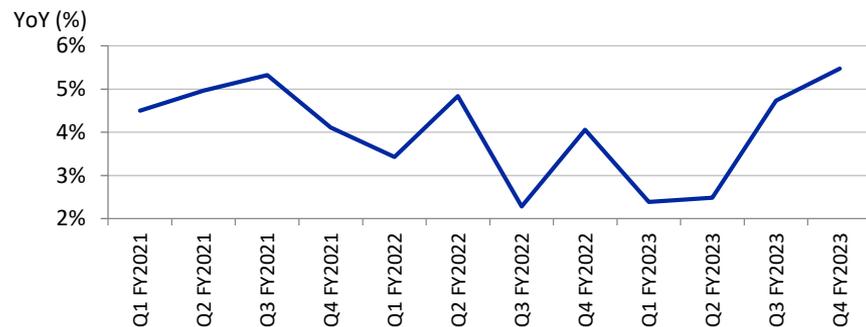


NIR: Non-Interest Revex; Diesel cons: Diesel consumption; ^Revex data for states is for 24 aforesaid states; Source: SIAM; RBI; GSTN; Indian Railways; IPA; PPAC; DGCA; CEIC; ICRA Research

- Slightly higher than ICRA’s projection (+6.4%), the GVA growth of the services sector rose to 6.9% in Q4 FY2023 (+4.9% in Q4 FY2022) from 6.1% seen in Q3 FY2023 (+7.6% in Q3 FY2022). This was driven by FRP (to +7.1% in Q4 FY2023 from +5.7% in Q3 FY2023) and PADOS (to +3.1% from +2.0%), while THTCS (to +9.1% from +9.6%) saw a slight moderation. The GVA growth of the services sector continued to outpace that recorded in industry (+6.3%) and agriculture (+5.5%).
 - **FRP:** The uptick can be attributed to the healthy expansion in non-food bank credit (to +15.4% at end-Mar 2023 from +15.3% at end-Dec 2022) and resilient Q4 performance of the banking sector, even as there was a mild dip in the YoY growth for CP volumes (to +0.4% at end-March 2023 from +2.7% at end-Dec 2022), services exports (to +23.0% from +24.5%) and aggregate home sales in top 7 cities (+13.0% from +16.1%, on a high base).
 - **PADOS:** The muted 3.1% growth trailed the expansion in the Gol’s non-interest revenue expenditure (+5.5%) as well as the combined revex of 24 state governments for which data is available (+10.0%), even as other services have continued to recover from the pandemic-lows.
 - **THTCS:** The pace of expansion remained above 9.0% led by the recovery in travel-related services and increasing confidence for availing leisure services and recovery in business travel.

Agri GVA growth surged to 5.5% in Q4 FY2023, amid robust growth in rabi output

EXHIBIT: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Trends for production of rabi crops (Million Tonnes)

Rabi Production					
	Final estimate AY2022 (A)	2 nd AE AY2023 (B)	3 rd AE AY2023 (C)	Growth C/B	Growth C/A
Wheat	107.7	112.2	112.7	0.5%	4.6%
Rice	18.5	22.8	25.5	12.1%	38.1%
Coarse Cereals	14.97	15.5	17.5	12.8%	17.0%
Pulses	19.1	19.7	19.7	0.01%	3.1%
Oilseeds	14.0	14.6	15.1	2.9%	7.6%

Note: Rabi production includes summer crops; AE: Advance Estimates; AY: Agriculture Year; *Million bales of 170 kgs each; Source: Ministry of Agriculture, GoI; CEIC; ICRA Research

- In spite of the unseasonal heavy rainfall and hailstorms across parts of North and Central India in March 2023, the GVA growth in agriculture, forestry and fishing was pegged at a three-year high of 5.5% in Q4 FY2023 (+4.7% in Q3 FY2023; +4.1% in Q4 FY2022), reflecting favourable trends in the rabi output as per the 3rd Advance estimates (AE) released by the Ministry.
- The 3rd AE of crop production for the Agricultural Year 2023 (AY2023) indicated a robust YoY rise in the production of rabi crops (including summer crops), including oilseeds (+7.6%), pulses (+3.1%), wheat (+4.6%), rice (+38.1%; record-high production) and coarse cereals (+17.0%), relative to the Final Estimates for AY2022. Notably, the rabi output estimate for most major crops (barring pulses) has undergone an upward revision in the 3rd AE vis-à-vis the 2nd AE for AY2023, including rice (+2.7 MT), coarse cereals (+2.0 MT), wheat (+0.6 MT), and oilseeds (+0.4 MT).

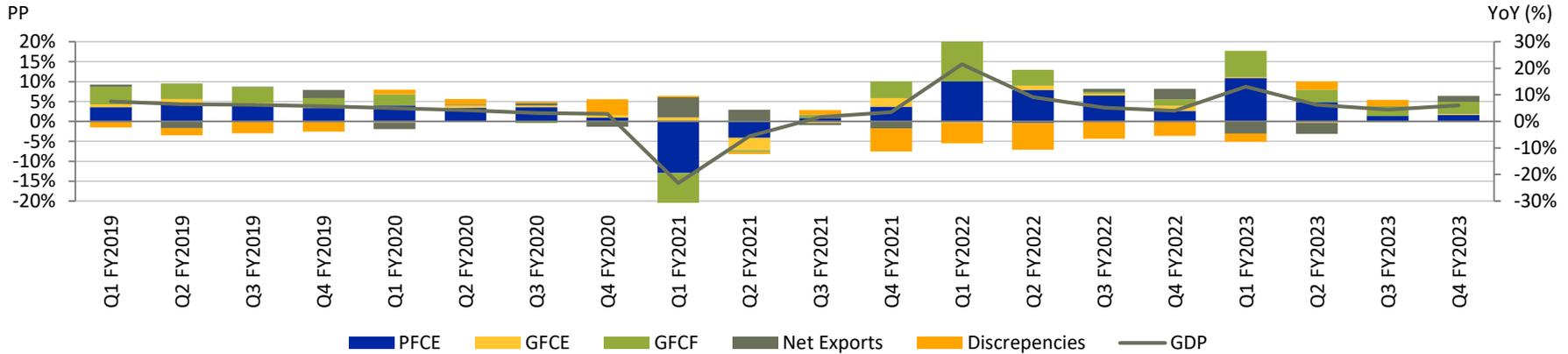


Quarterly Analysis: Expenditure Approach

Uptick in GDP growth in Q4 FY2023 relative to Q3 was on account of GFCF, followed by mild improvements in PFCE and GFCF

GFCF drove GDP growth in Q4 FY2023, followed by PFCE

EXHIBIT: Contribution of GDP components

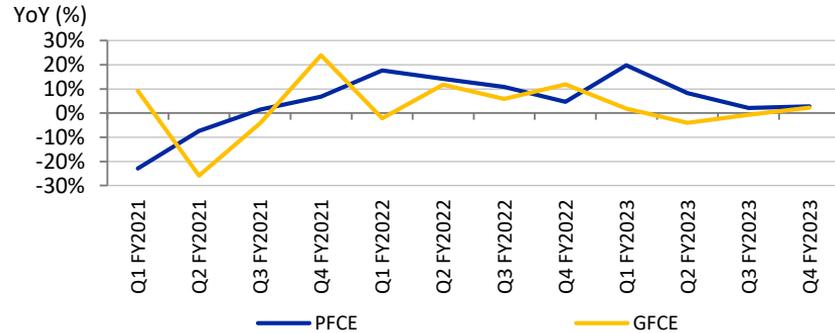


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- GDP grew by 6.1% in Q4 FY2023 on account of a healthy expansion in GFCF (+8.9%), even as the growth was modest in PFCE (+2.8%) and GFCE (+2.3%).
- The improvement in the GDP YoY expansion in Q4 FY2023 from 4.5% in Q3 FY2023 was led by GFCE (YoY growth after a gap of two quarters; to +2.3% in Q4 FY2023 from -0.6% in Q3 FY2023), PFCE (to +2.8% from +2.2%), and GFCF (to +8.9% from +8.0%). Surprisingly, exports recorded a sharp 11.9% expansion in Q4 FY2023 (+11.1% in Q3 FY2023), higher than the 4.9% growth seen in imports (+10.7% in Q3 FY2023), which contrasts with the ongoing slowdown in external demand as evinced by the trade data released by the Ministry of Commerce.
- GFCF (+3.1 pp) was the major contributor to the GDP growth of 6.1% in Q4 FY2023, followed by relatively lower contributions by PFCE (+1.6 pp) and GFCE (+0.3 pp). Moreover, the drag exerted by net exports narrowed sharply in Q4 FY2023 vis-a-vis Q3 FY2023.

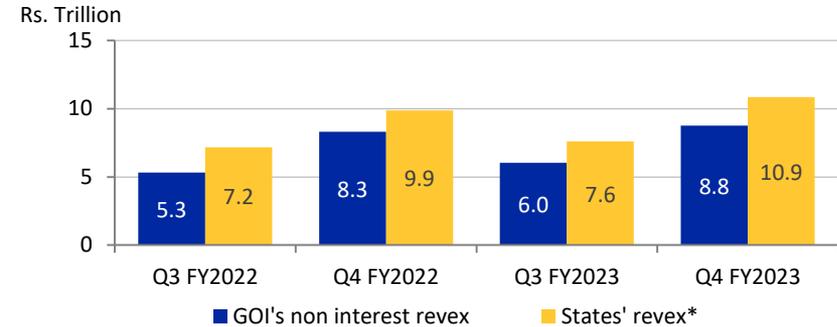
PFCE growth improved mildly in Q4 FY2023, while remaining subdued; GFCE reverted to YoY expansion after two quarters

EXHIBIT: Growth in PFCE & GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; Source: NSO; CEIC; ICRA Research

EXHIBIT: Non-interest revenue expenditure of GOI and 24 states

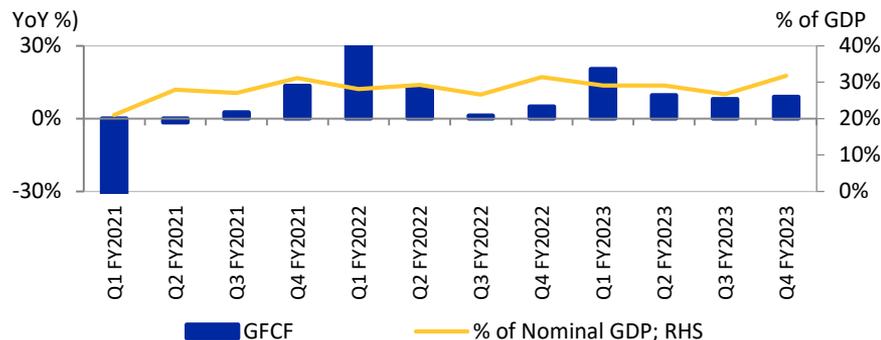


*24 states except Bihar, Goa, Manipur and Meghalaya; Source: CGA; GOI: ICRA Research

- The YoY growth in PFCE rose slightly to 2.8% in Q4 FY2023 from 2.2% in Q3 FY2023, in line with the improvement in the YoY performance in the consumer goods output (to -0.4% in Q4 FY2023 from -2.9% in Q3 FY2023), as per the IIP data. However, the performance of this sector remained muted, belying the uptick in consumer sentiments as per the RBI's consumer confidence survey. Surprisingly, the growth in PFCE relative to the pre-Covid levels of FY2019 has softened to 16.8% in Q4 FY2023 from 21.9% in Q3 FY2023, which may portend subsequent upward revisions.
- In addition, GFCE reverted to an expansion of 2.3% in Q4 FY2023 from the contraction of 0.6% seen in Q3 FY2023, after a gap of two quarters. However, the non-interest revenue expenditure by the Centre moderated to 5.5 in Q4 FY2023 from 13.4% in Q3 FY2023, led by a dip in the subsidy outgo during those months. On the contrary, the combined revex of 24 state governments for which data is available, posted a YoY growth of 10.0% during Q4 FY2023, higher than 6.1% recorded in Q3 FY2023.

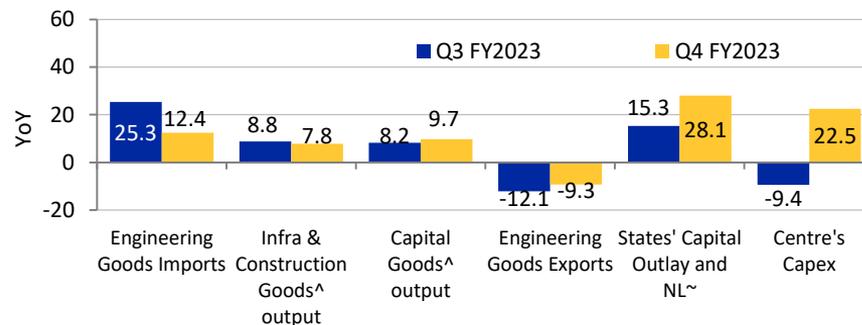
YoY expansion in GFCF remained healthy at 8.9% in Q4 FY2023

EXHIBIT: GFCF- YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

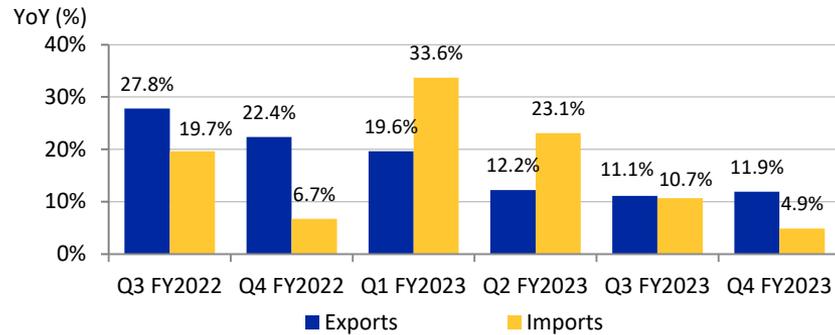


~24 states except Bihar, Goa, Manipur and Meghalaya; ^As per IIP data; Source: CGA; GOI: ICRA Research

- The YoY growth in GFCF rose to 8.9% in Q4 FY2023 from 8.0% in Q3 FY2023. As a % of GDP, the GFCF rose to a 35-quarter high of 31.7% in Q4 FY2023 from 26.7% in Q3 FY2023.
- While project announcements had surged to Rs. 11.9 trillion in Q4 FY2023, they were boosted by one big-ticket aircraft deal by Air India (Rs. 6.6 trillion), indicating that the rise in capex proposals has not yet broad-based. However, project completions expanded by healthy ~67% YoY to Rs. 2.3 in Q4 FY2023 from Rs. 1.4 trillion in Q4 FY2022, led by the government sector (Rs. 16.9 trillion) even as private sector completions remained low (Rs. 6.8 trillion).
- The GoI's gross capital expenditure expanded by 22.5% in Q4 FY2023 as against the 9.4% contraction recorded in Q3 FY2023. Additionally, the growth in the aggregate capital outlay and net lending of the aforesaid 24 state governments* rose to 28.1% YoY in Q4 FY2023 from 15.3% in Q3 FY2023. Moreover, the YoY growth performance of capital goods output and engineering goods exports improved in Q4 FY2023 vis-à-vis Q3 FY2023.

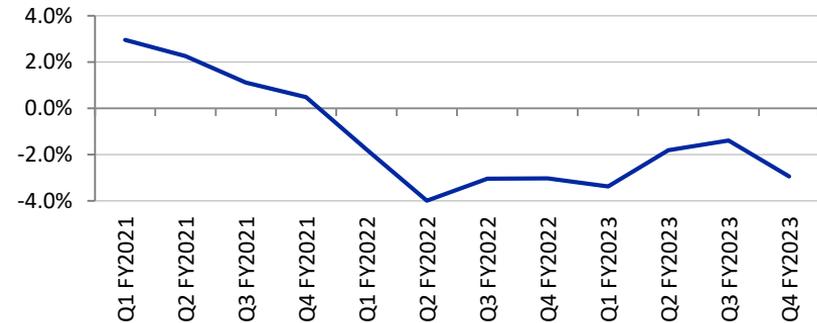
YoY expansion in exports outpaced that in imports during Q4 FY2023; drag on GDP on account of net exports narrowed sharply in that quarter

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Discrepancies as % of GDP (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

- Notwithstanding the ongoing slowdown in external demand, the YoY growth in exports rose to 11.9% in Q4 FY2023 from 11.1% in Q3 FY2023, even as imports saw a moderation in growth to nine-quarter low of 4.9% from 10.7%, respectively. Consequently, the drag displayed by net exports on the real GDP declined sharply to ~Rs. 62.6 billion in Q4 FY2023 (Rs. 655.8 billion in Q4 FY2022) from ~Rs. 975.1 billion in Q3 FY2023. This is likely to reflect in a sharp improvement in India's current account balance in the quarter.
- Notably, the uptick in the YoY growth in real exports in Q4 FY2023 vis-à-vis Q3 FY2023 is likely to have been driven by a dip in the deflator. As per the data released by the Ministry of Commerce indicated that in \$ terms, merchandise exports reported a slightly deeper contraction of 5.0% in Q4 FY2023 vis-à-vis 2.1% in Q3 FY2023. Moreover, the YoY growth in services exports dipped to 23.0% in Q4 FY2023 from 24.5% in Q3 FY2023.
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q4 FY2023 widened to (-) Rs. 1.3 trillion (at 2011-12 prices) from (-) Rs. 1.2 trillion in Q4 FY2022, also exceeding the Rs. 0.6 trillion seen in Q3 FY2023.

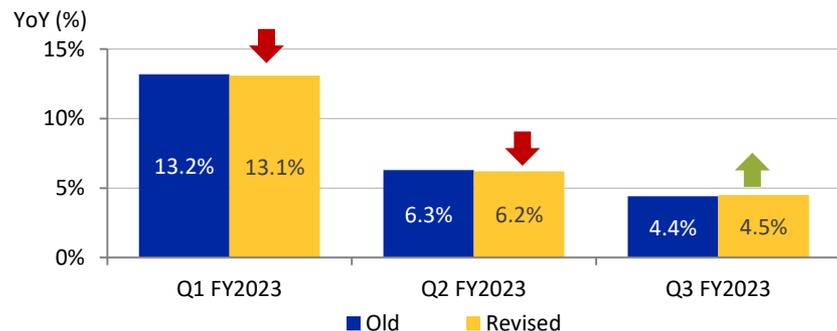


Quarterly Growth Revisions and Annual Trends

GDP growth moderated to 7.2% in FY2023 from 9.1% in FY2022, but was higher than the 7.0% as per the Second Advance Estimate

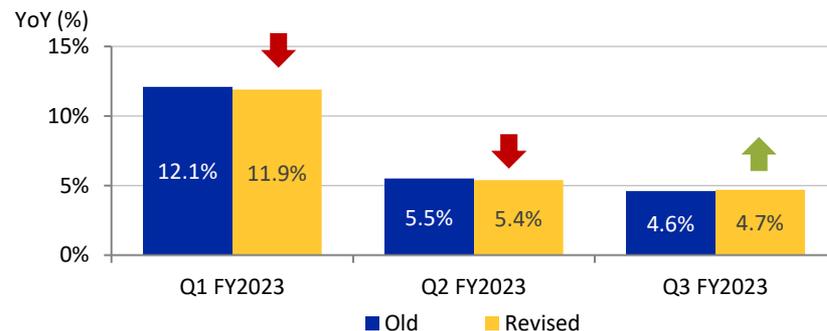
GDP and GVA growth for Q3 FY2023 revised upwards

EXHIBIT: Quarterly revisions in GDP at Basic Prices (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly revisions in GVA at Basic Prices (Constant 2011-12 Prices)

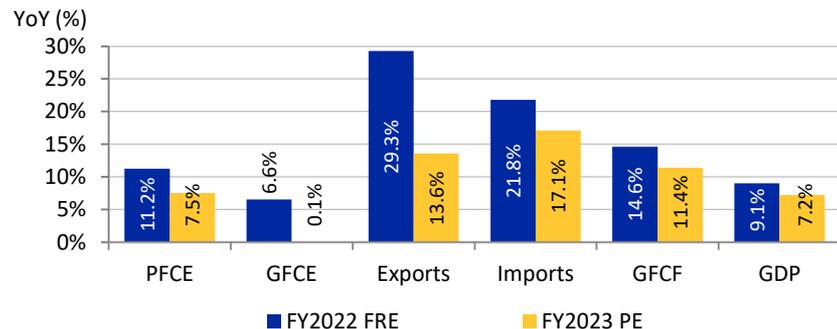


Source: NSO; CEIC; ICRA Research

- While the GDP growth has been pared mildly for Q1 FY2023 (to +13.1% from +13.2%), Q2 FY2023 (to +6.2% from +6.3%), that for Q3 FY2023 (to +4.5% from +4.4%) has been raised slightly. PFCF followed a similar trend, with a downward revision in Q1-Q2 FY2023, and an upward revision in Q3 FY2023. Additionally, the contraction in GFCE has been revised to a narrower 0.6% from the initial 0.8% for Q3 FY2023. In contrast, the YoY expansion in GFCE has been pared for Q1-Q3 FY2023, to 20.4%, 9.6%, and 8.0% from the initial 20.6%, 9.7%, and 8.3%, respectively.
- The growth in GVA has been revised mildly downwards for Q1 FY2023 (to +11.9% from +12.1%) and Q2 FY2023 (to +5.4% from +5.5%), while that for Q3 FY2023 (to +4.7% from +4.6%) was raised mildly. This was led by a downward revision in the industrial sector throughout Q1-Q3 of FY2023 (Q1: to +9.4% from +9.6%; Q2: to -0.5% from -0.4%; Q3: to +2.3% from +2.4%). Moreover, the growth in the GVA of the agricultural sector was raised for Q2 (to +2.5% from +2.4%) and Q3 FY2023 (quite sharply to +4.7% from +3.7%), while that for Q1 FY2023 was pared slightly to 2.4% from the earlier 2.5%. The YoY growth of the services sector has remained largely unchanged during Q1-Q3 FY2023.

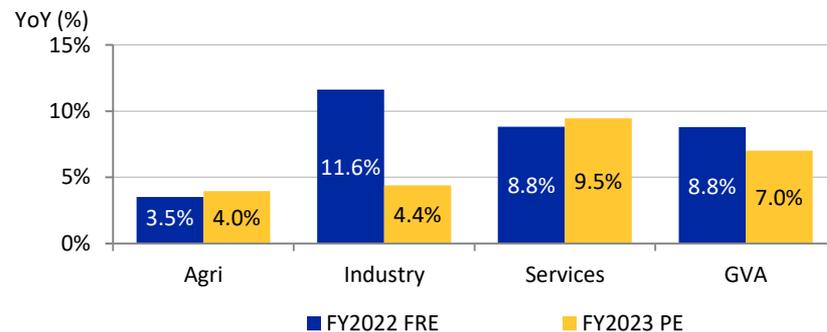
GDP and GVA growth pegged at 7.2% and 7.0%, respectively, in FY2023 PE

EXHIBIT: Annual trends in Real GDP and its components



FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Annual trends in real GVA and its components



FRE: First Revised Estimates; PE: Provisional Estimates; Agri: Agriculture, Forestry & Fishing; Source: NSO; CEIC; ICRA Research

- The provisional estimates (PE) released by the NSO for FY2023, pegged the YoY growth in GDP and GVA at 7.2% and 7.0%, respectively (higher than the +7.0% and +6.6%, respectively in the FY2023 SAE). The deceleration in GDP growth in FY2023 PE relative to FY2022 was broad-based, led by exports (to +13.6% from +29.3%), GFCE (to +0.1% from +6.6%) and PFCE (to +7.5% from +11.2%), followed by a modest downtick in GFCF (to +11.4% from +14.6%).
- On the production side, industry (to +4.4% from +11.6%) led to the moderation in the overall GVA growth, even as the performance of agriculture, forestry and fishing (to +4.0% from +3.5%) and services (to +9.5% from +8.8%) improved in FY2023, relative to FY2022.
- The growth in nominal GDP and GVA for FY2023 is placed at 16.1% and 15.4%, respectively (+15.9% and +15.2% in the SAE for FY2023). The nominal GDP for FY2023 has been pegged at Rs. 272.4 trillion as per the PE, mildly higher than the Rs. 272.0 trillion projected in the SAE. Based on this and the Gol's FY2023 Provisional data, the fiscal deficit in FY2023 is equivalent to 6.36% of the GDP, slightly lower than the 6.43% as per the FY2023 RE. Additionally, the nominal GDP growth embedded in the FY2024 BE is slightly lower at 10.5%, vis-à-vis the 10.8% as per the FY2023 PE.

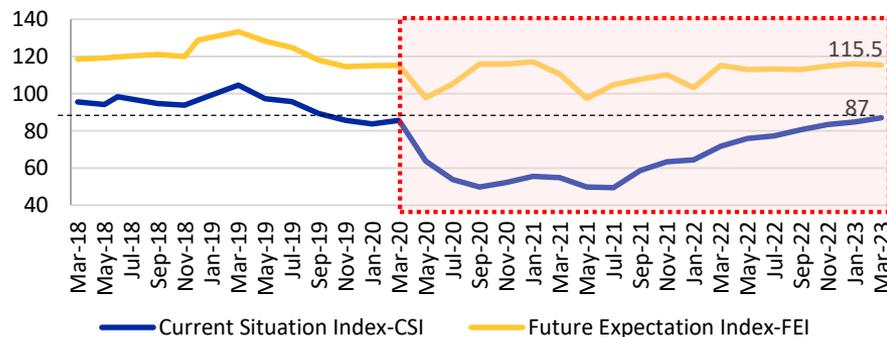


OUTLOOK FOR FY2024

ICRA pegs GDP growth at 6.0% in FY2024

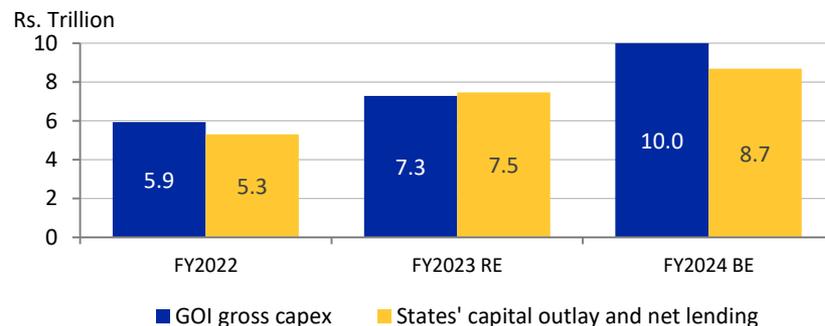
Improvement in consumer sentiments, robust increase in government capex targets FY2024 augur well for economic activity in FY2024

EXHIBIT: Current Situation and Future Expectation Index of the Reserve Bank of India's (RBI's) Consumer Confidence Survey



Source: RBI; ICRA Research; survey conducted in 19 major cities

EXHIBIT: Budgeted capex of GOI and 26 states*



*26 states except Sikkim and Tripura; Source: CGA; GOI; ICRA Research

- As per the March 2023 round of the RBI's consumer confidence survey, the Future Expectation Index moderated to 115.5 from 116.2 in the previous round, while remaining in the positive territory. Moreover, perceptions around non-essential spending in the year-ahead period improved further as compared to the January 2023 round of the survey, printing in the positive zone for the third consecutive round of the survey. **This augurs well for sustaining the spending of households and profitability of companies associated with these segments.**
- The considerable increase of ~36% to Rs. 10.0 trillion in the capex target for the FY2024 Union Budget augurs well for the infrastructure and construction sectors, particularly roads and railways. Additionally, the combined capex and net lending of 26 state governments (excluding Sikkim and Tripura) is budgeted to rise by ~16% to Rs. 8.7 trillion in FY2024 BE. **If the budgeted levels of the GOI and states' capex materialises in FY2024, and gets front-loaded, this would support economic activity and provide an upside to ICRA's growth forecast for this fiscal, although timely execution remains key.**

However, sub-par monsoon and contraction in merchandise exports to exert drag on GDP growth

EXHIBIT: IMD's forecasts for monsoon seasonal (June-September) rainfall

Year	IMD April Forecast	IMD June Forecast	Actual Rainfall (% of LPA)
2016	106% +/- 5% of LPA	106% +/- 4% of LPA	97%
2017	96% +/- 5% of LPA	98% +/- 4% of LPA	95%
2018	97% +/- 5% of LPA	97% +/- 4% of LPA	91%
2019	96% +/- 5% of LPA	96% +/- 4% of LPA	110%
2020	100% +/- 5% of LPA	102% +/- 4% of LPA	109%
2021	98% +/- 5% of LPA	101% +/- 4% of LPA	99%
2022	99% +/- 5% of LPA	103% +/- 4% of LPA	106%
2023	96% +/- 5% of LPA	96% +/- 4% of LPA	

LPA rainfall over country as a whole on data of 1971-2020 is 87 cm; Source: IMD; ICRA Research

EXHIBIT: India's merchandise exports (\$ billion; YoY%)

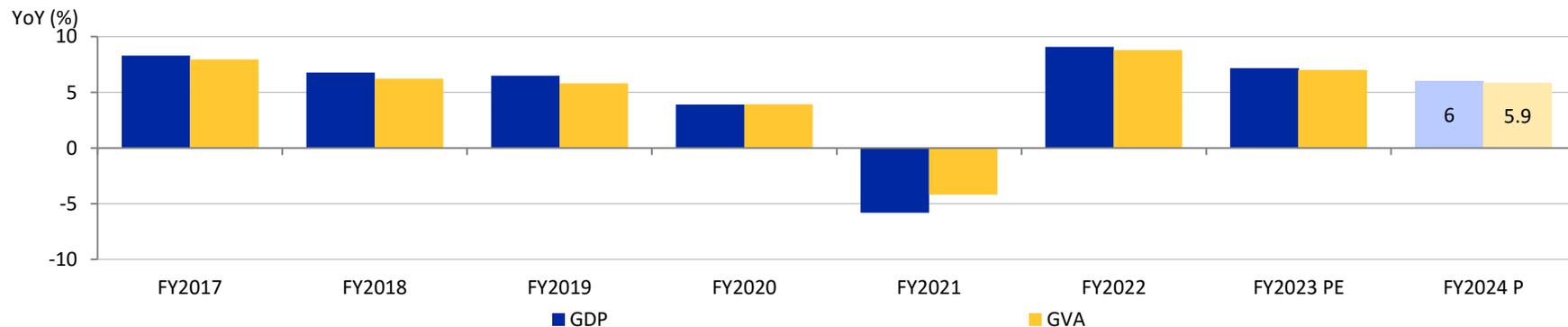


Source: Ministry of Commerce and Industry; Gol; ICRA Research

- The IMD has indicated the monsoon rainfall to be normal at 96% of LPA +/-4% in June-Sep 2023 in its second long range forecast, with below 92% of LPA rains in June 2023. While a slightly late onset and below-normal rainfall in June 2023 can be mitigated by the seasonally healthy reservoir levels, a normal distribution of rainfall in July 2023 will be critical to ensure timely sowing of kharif crops over the majority of the country. Moreover, **the development of El Nino conditions could lead to sub-par monsoon in 2023, which will weigh on crops, food prices and farm incomes.**
- India's merchandise exports contracted sharply for the third consecutive month in April 2023 (YoY: -12.7%), declining to a six-month low of \$34.7 billion. Additionally, non-oil exports have contracted in eight of the last 10 months (up to April 2023), with a YoY decline across most categories, including gems and jewelry, RMG, chemicals, engineering goods, etc. **A slowdown in global demand as well as lower commodity prices are expected to compress India's merchandise exports in FY2024, which would weigh on the output of manufacturing sector during the year.**

FY2024 GDP growth forecast placed at 6.0%

EXHIBIT: Annual projection of Real GDP and GVA



P: Projected; PE: Provisional estimates; Source: NSO; CEIC; ICRA Research

- Domestic economic activity is expected to see a healthy momentum in the ongoing fiscal, boosted by the sustained demand for contact-intensive services and the overall recovery in investment activity, even as the demand for goods remains uneven amid softening inflationary pressures. **ICRA projects the GDP and GVA growth at 6.0% and 5.9%, respectively, for FY2024.**
- The vulnerability of the impact of recent withdrawal of Rs. 2,000 bank note is likely to differ across sectors, with greater impact on sectors (agri, construction) which have higher reliance on cash relative to those who conduct transactions online. Notably, consumption of discretionary goods and services could witness a temporary uptick in the immediate term.
- **External demand is expected to remain fragile in the current fiscal, while the potential development of El Nino conditions poses a downside of up to 50 bps to ICRA's GDP growth forecast. At the same time, frontloading of capex by the Government, and rapid execution of infra projects may provide an upside of a similar extent.**



Annexure

EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q4 FY2022	Q1 FY2023	Q2 FY2023	Q3 FY2023	Q4 FY2023	FY2021 SRE	FY2022 FRE	FY2023 PE
GVA at Basic Prices	3.9%	11.9%	5.4%	4.7%	6.5%	-4.2%	8.8%	7.0%
<i>Agriculture, Forestry & Fishing</i>	4.1%	2.4%	2.5%	4.7%	5.5%	4.1%	3.5%	4.0%
<i>Industry</i>	2.3%	9.4%	-0.5%	2.3%	6.3%	-0.9%	11.6%	4.4%
Mining & Quarrying	2.3%	9.5%	-0.1%	4.1%	4.3%	-8.6%	7.1%	4.6%
Manufacturing	0.6%	6.1%	-3.8%	-1.4%	4.5%	2.9%	11.1%	1.3%
Electricity, gas, water supply & other utilities	6.7%	14.9%	6.0%	8.2%	6.9%	-4.3%	9.9%	9.0%
Construction	4.9%	16.0%	5.7%	8.3%	10.4%	-5.7%	14.8%	10.0%
<i>Services</i>	4.9%	16.3%	9.4%	6.1%	6.9%	-8.2%	8.8%	9.5%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	5.0%	25.7%	15.6%	9.6%	9.1%	-19.7%	13.8%	14.0%
Financial, Real Estate & Professional Services	4.6%	8.5%	7.1%	5.7%	7.1%	2.1%	4.7%	7.1%
Public Administration, Defence and Other Services	5.2%	21.3%	5.6%	2.0%	3.1%	-7.6%	9.7%	7.2%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q4 FY2022	Q1 FY2023	Q2 FY2023	Q3 FY2023	Q4 FY2023	FY2021 SRE	FY2022 FRE	FY2023 PE
GDP	4.0%	13.1%	6.2%	4.5%	6.1%	-5.8%	9.1%	7.2%
PFCE	4.7%	19.8%	8.3%	2.2%	2.8%	-5.2%	11.2%	7.5%
GFCE	11.8%	1.8%	-4.1%	-0.6%	2.3%	-0.9%	6.6%	0.1%
Exports	22.4%	19.6%	12.2%	11.1%	11.9%	-9.1%	29.3%	13.6%
Imports	6.7%	33.6%	23.1%	10.7%	4.9%	-13.7%	21.8%	17.1%
Gross Capital Formation	3.0%	20.8%	6.5%	5.2%	7.8%	-7.9%	17.9%	9.6%
GFCF	4.9%	20.4%	9.6%	8.0%	8.9%	-7.3%	14.6%	11.4%
Change in Stocks	613.8%	7.5%	-2.6%	-0.1%	5.9%	-85.5%	687.8%	2.7%
Valuables	-51.7%	58.7%	-19.5%	-38.0%	-23.4%	26.4%	34.0%	-18.9%
Discrepancies	-758.1%	113.4%	-51.8%	-52.4%	2.9%	-49.7%	-307.4%	-14.8%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GVA at Basic Prices (Constant 2011-12 Prices)

	Q4 FY2022	Q1 FY2023	Q2 FY2023	Q3 FY2023	Q4 FY2023	FY2021 SRE	FY2022 FRE	FY2023 PE
GVA at Basic Prices	100.0%							
<i>Agriculture, Forestry & Fishing</i>	15.4%	14.2%	12.1%	18.8%	15.3%	16.4%	15.6%	15.1%
<i>Industry</i>	33.1%	31.1%	29.4%	29.0%	33.0%	30.6%	31.4%	30.7%
Mining & Quarrying	2.5%	2.4%	1.8%	2.1%	2.5%	2.3%	2.2%	2.2%
Manufacturing	18.9%	18.2%	17.6%	16.5%	18.6%	18.3%	18.7%	17.7%
Electricity, gas, water supply & other utilities	2.1%	2.6%	2.5%	2.2%	2.1%	2.3%	2.3%	2.3%
Construction	9.5%	7.9%	7.6%	8.2%	9.8%	7.8%	8.2%	8.4%
<i>Services</i>	51.5%	54.8%	58.5%	52.2%	51.7%	53.0%	53.0%	54.2%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	19.9%	17.0%	19.0%	19.2%	20.4%	17.0%	17.8%	19.0%
Financial, Real Estate & Professional Services	19.0%	25.2%	26.2%	20.0%	19.1%	23.3%	22.5%	22.5%
Public Administration, Defence and Other Services	12.7%	12.6%	13.3%	12.9%	12.3%	12.6%	12.7%	12.7%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)

	Q4 FY2022	Q1 FY2023	Q2 FY2023	Q3 FY2023	Q4 FY2023	FY2021 SRE	FY2022 FRE	FY2023 PE
GDP	100.0%							
PFCE	56.7%	58.3%	59.3%	61.6%	55.0%	57.2%	58.3%	58.5%
GFCE	11.5%	11.0%	8.6%	8.7%	11.1%	10.8%	10.6%	9.9%
Exports	21.6%	24.4%	23.9%	22.8%	22.8%	18.7%	22.1%	23.5%
Imports	23.2%	26.7%	27.7%	25.2%	22.9%	21.0%	23.4%	25.6%
Gross Capital Formation	36.3%	36.4%	37.8%	33.5%	36.9%	32.7%	35.4%	36.2%
GFCF	34.3%	34.7%	34.2%	31.7%	35.3%	31.1%	32.7%	34.0%
Change in Stocks	0.8%	0.8%	0.8%	0.7%	0.8%	0.1%	0.8%	0.8%
Valuables	1.2%	0.9%	2.8%	1.1%	0.9%	1.5%	1.9%	1.4%
Discrepancies	-3.0%	-3.4%	-1.8%	-1.4%	-2.9%	1.6%	-3.0%	-2.4%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research



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ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzo Pahwa	Senior Associate Economist	aarzo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Anusha Jindal	Associate Economist	anusha.jindal@icraindia.com	0124 – 4545 399





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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