

GDP growth in FY23: Positive surprise

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). Amidst the risk of global slowdown, stubborn elevated global inflation print, rate-hike cycle, we expect India's economy to clock 6-6.5% growth in FY24 with possible recovery in capex cycle and resilience shown by strong domestic fundamentals. Adverse impact of El Nino, untimely departure of monsoon and spatial distribution of rainfall will pose significant downside risk to these projections. Moreover weaker exports due to global slowdown will add to the downside risks.

India's growth surprised positively as it rose by 6.1% in Q4FY23 compared with an increase of 4.5% in Q3FY23. The improvement was led by expansion across sectors such as agriculture clocking 5.5% growth (4.7% in Q3) despite unseasonal rainfall in Mar'23 which was expected to adversely affect the rabi Output. Mining and quarrying growth edged up by 4.3% (4.1% in Q3) and manufacturing sector growth improved by 4.5% after contracting by (-) 1.4% in Q3FY23. Moderation in commodity prices offered much respite to certain sectors in form of margins. Construction sector registered double digit growth of 10.4% against 8.3% in Q3. Even sectors such as financials services and public administration recorded a much higher growth of 7.1% and 3.1% respectively in Q4FY23. However, some moderation in services activity was noticed with growth decelerating to 6.9% compared with a growth of 8.2%. Growth in trade, transport and hotels eased down to 9.1% in Q4 from 9.6% in Q3FY22.

On expenditure side, in nominal terms private consumption spending was down to 7% from 8.1% in Q3. Government consumption spending on the other hand accelerated to 7.9% against a growth of 5.3% in Q3. Gross fixed capital formation slipped down marginally to 11.5% in Q4 (12% in Q3). Notably in real terms, both private consumption expenditure and government spending has expanded by 2.8% (2.2% in Q3) and 2.3% (-0.6% in Q3) respectively in Q4FY23. Even Gross capital formation has registered a robust growth of 8.9% in Q4 compared with a growth of 8% in Q3FY23.

Table 1: GDP clocks 4.4% growth in Q3FY23

Sectors (%)	Q4FY22	Q4FY23
Agriculture, forestry and fishing	4.7	5.5
Mining and quarrying	4.1	4.3
Manufacturing	(1.4)	4.5
Electricity, gas, water supply and other utility services	8.2	6.9
Construction	8.3	10.4
Trade, hotels, transport, communication & services related to broadcasting	9.6	9.1
Financial, real estate & professional services	5.7	7.1
Public administration and Defence	2.0	3.1
GVA at basic prices	4.7	6.5
GDP	4.5	6.1

Source: CEIC, Bank of Baroda Research

GVA slows in FY23: India's overall GVA growth eased to 7% in FY23 from 8.8% in FY22.

Agriculture growth shined brightly for another year as the growth story remains intact with rural demand continuing to showcase its resilience as kharif output improved. Manufacturing sector disappointed the most with unfavourable base effect, growth slipped down to single digit at 1.3% in FY23 from 11.1% in FY22. Moderation in mining (4.6% from 7.1% in FY22), electricity (9% from 9.9% in FY22) and construction sector (10% against 14.8%) was evident as the effect of geopolitical conflict continued to hamper growth. On the other hand, uptick in financial services on the back of strong credit growth kept the momentum going. Improvement in the growth of trade, hotel services pointed to the pickup in the contact intensive sector guided by strong demand.

FY24 GDP growth at 6-6.5%: After expanding by 9.1% in FY22, India's economy eased by 7.2% in FY23. On expenditure side, household and government consumption spending has slowed down to 7.5% and 0.1% in FY23. Investment growth, while in double digit has also decelerated down to 11.4% from 14.6% in FY22. Both exports (13.6% compared with 29.3% in FY22) and imports (17.1% from 21.8%) have eased in FY23. We expect economy to moderate by 6-6.5% in FY24 against the headwinds of global economic slowdown, weaker exports, lower services sector due to waning pent-up demand and dwindling agriculture growth assuming the monsoon is not normal or spatially distributed and aggravating heat wave conditions (El Nino). These remain key risk to our growth projections.

Table 2: GDP slows down to 7.2% in FY23

Sectors (%)	FY22	FY23
Agriculture, forestry and fishing	3.5	4.0
Mining and quarrying	7.1	4.6
Manufacturing	11.1	1.3
Electricity, gas, water supply and other utility services	9.9	9.0
Construction	14.8	10.0
Trade, hotels, transport, communication & services related to broadcasting	13.8	14.0
Financial, real estate & professional services	4.7	7.1
Public administration and Defence	9.7	7.2
GVA at basic prices	8.8	7.0
GDP	9.1	7.2

Source: CEIC, Bank of Baroda Research

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