

Macroeconomics | **First cut**

Some pain, some gain

June 2022

Key highlights

- The latest provisional estimates released by the National Statistical Office yesterday peg India's real gross domestic product (GDP) growth at 8.7% last fiscal, a tad slower than 8.9% according to the second advance estimate released in February 2022. In absolute terms, real GDP for fiscal 2022 is now estimated at Rs 147.35 lakh crore, marginally less than Rs 147.72 lakh crore estimated earlier. The downward revision reflects a minor correction in the first to third quarter (Q1-Q3) GDP numbers, and a mild impact of the third Covid-19 wave and the Russia-Ukraine war in the fourth quarter (Q4)
- It is important to bear in mind that, given the large output loss due to the pandemic, GDP is only 1.5% above the pre-pandemic (fiscal 2020) level
- Gross value added – the supply-side and firmer measure of the economy – rose 8.1% in fiscal 2022 (down from previous estimate of 8.3%), compared with a 4.8% contraction in fiscal 2021
- While the provisional estimates show a mild reduction in the overall size of the GDP, estimates of private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) – the biggest two demand-side drivers – were marginally notched up. The latter suggests the government's continued focus on capital expenditure (capex). PFCE at Rs 83.8 lakh crore in fiscal 2022, however, is still just 1.4% (compared with 1.2% earlier) above the fiscal 2020 level and was the slowest to recover. Moreover, it faces strong headwinds from rising inflation
- Given the sharp rise in international commodity prices following the Russia-Ukraine war, India's import bill went up at a faster rate than exports, resulting in a greater drag on the economy in fiscal 2022 than estimated earlier (see table at the end)
- Quarterly growth trends throw up a mixed picture. Real GDP growth slowed to 4.1% on-year in Q4, from 5.4% in Q3, led by a sharp slowdown in PFCE growth (to 1.8% from 7.4%). That said, both government final consumption expenditure (GFCE) and GFCF registered higher growth in Q4. To be sure, a part of the slowdown in Q4 GDP growth is also attributed to base effect.
- On the supply side, agriculture maintained a robust performance (with real growth rising to 4.1% in Q4 from 2.5% in Q3), despite some negative impact of heat waves on crop output to an extent. Healthy growth in contact-intensive services also provided support to overall supply-side growth in Q4, though they faced some pressure on account of the Omicron wave. These services, such as *trade, hotels, etc.*, finally crossed the pre-pandemic mark (Rs 7.30 lakh crore in Q4 of fiscal 2020), growing 5.3% on-year to Rs 7.42 lakh crore in Q4 of fiscal 2022. That said, for full fiscal 2022 these were still 11.3% below pre-pandemic i.e., fiscal 2020 level which means greater resumption of these activities would provide a positive spin to growth this fiscal.
- On the other hand, the manufacturing sector contracted (-0.2% on-year in Q4 down from 0.3% in Q3), largely reflecting a sharp rise in input prices owing to the surge in international commodity prices and supply disruptions due to the Russia-Ukraine war

- GDP deflator was 10.4% in Q4, its highest level since the start of the pandemic in Q1 of fiscal 2021. This reflects high inflationary pressures in both, Consumer Price Index and Wholesale Price Index

Outlook

The growth outlook for fiscal 2023 is fettered by multiple risks. Global growth is projected to slow, as central banks in major economies withdraw easy monetary policies to tackle escalating inflation. This, together with high commodity prices, especially oil¹, translates into a negative terms of trade shock for India. At the same time, higher and broad-based inflation domestically will create a drag on consumption revival. Uncertainty due to the Russia-Ukraine conflict could put some of the private capex plans on the back burner. In fact, higher input prices could also result in lower government capex, which has already seen fiscal space shrink with attention shifting to relief measures, to fight rising inflation. Amid this gloomy scenario, the forecast of a normal monsoon² comes as a silver lining. We also expect the gaining momentum in contact-intensive services to broad-base and support growth. On balance, CRISIL maintains its real GDP growth projection for fiscal 2023 at 7.3%, with risks tilted to the downside.

The economy's path, from pre-pandemic to now

Demand side (Rs lakh crore at constant prices)

	GDP	PFCE	GFCE	GFCF	X	M
FY20	145.2	82.6	14.8	46.1	28.1	33.2
FY21	135.6	77.6	15.4	41.3	25.5	28.6
FY22	147.4	83.8	15.8	47.8	31.7	38.8
FY22 over FY20 (%)	1.5	1.4	6.3	3.8	12.8	16.8

Supply side (Rs lakh crore at constant prices)

	GVA	Agri & allied	Mining	Manufacturing	Electricity, gas, etc.	Construction	Trade, hotels, etc.	Financial services, real estate, etc.	Public admin & others
FY20	132.2	19.8	3.2	22.6	3.0	10.4	26.9	29.0	17.3
FY21	125.9	20.5	2.9	22.5	2.9	9.6	21.5	29.6	16.3
FY22	136.1	21.1	3.3	24.7	3.1	10.7	23.9	30.9	18.4
FY22 over FY20 (%)	2.9	6.4	1.9	9.2	3.6	3.3	-11.3	6.5	6.4

Note: PFCE – Private final consumption expenditure; GFCE – Government final consumption expenditure; GFCF – Gross fixed capital formation; X – Exports; M – Imports

Source: National Statistical Office, CRISIL

¹ CRISIL Research's current projection for Brent crude for 2023 is at \$94-99 per barrel

² The Indian Meteorological Department has forecast 103% of long period average rainfall in India for south west monsoon 2022

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