

GDP GROWTH IS UPGRADED TO 7.5% (FROM 7.3%) FOR FY23 ON THE BACK OF A BETTER STATISTICAL BASE & CONTINUED CREDIT GROWTH: RBI RATE HIKES WILL BE GRADUAL AND PRAGMATIC

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India's economy grew by 8.7% to Rs 147 lakh crore in FY22. Incrementally, India added Rs 11.8 lakh crore in real terms during the year. Given the high inflation and the subsequent upcoming rate hikes, we believe that real GDP will incrementally increase by Rs 11.1 lakh crore in FY23. This still translates into a real GDP growth at 7.5% for FY23. Nominal GDP for FY22 expanded by Rs 38.6 lakh crore to Rs 237 lakh crore, a y-o-y growth of whopping 19.5%. For FY23 also, as inflation remains elevated in first half, our projection is that nominal GDP will grow by 16.1% to Rs 275 lakh crore.

The factors that will impact the GDP growth for FY23 are as under:

- In FY22, around 2000 Corporates, in listed space, reported 29% growth in top line and 52% growth in profit after tax (PAT) as compared to previous year. It is pertinent to mention that, construction sectors including cement, steel etc. reported impressive growth numbers in both revenue as well as PAT. Both construction and steel sector reported growth of 45% and 53% respectively in revenue in FY22 as compared to FY21. Interestingly, orderbook position remains strong, with construction major L&T reporting 9% growth in order book position at Rs 3.6 lakh crore as on March'22, supported by 10% growth in order inflow of Rs 1.9 lakh crore in FY22 as compared to Rs 1.7 lakh crore in FY21.
- The sector-wise data for April indicate that credit off-take has happened in almost all sectors. Personal loans segment continued to perform well, registering acceleration in growth to 14.7% in April 2022 and contributes around 90% of the incremental credit during the month, primarily driven by 'Housing', 'Vehicle Loans' and 'Other Personal Loans' segments. Customers, especially in retail verticals could be having a feel of future run expected in interest rates, and might be front loading their purchases in days to come, giving a fillip to consumer demands in select niche areas.
- We expect RBI also to be supportive of growth and hike repo rates gradually, but mostly frontload it in June and August policy. Specifically, core liquidity in the banking system has declined from Rs 8.3 trillion in the beginning of the year to Rs 6.8 trillion. Net LAF absorption has declined from Rs 7.5 trillion to Rs 3.3 trillion during the same period. We now expect a 50 basis point repo rate hike and 25 basis point CRR hike in forthcoming June policy. RBI is likely raise the repo rate cumulatively by 125-150 basis points over the pandemic level at 4%. RBI might also increase the CRR rate cumulatively by another 50 bps, after raising it by 50 bps in the last monetary policy. This would lead to absorption of Rs 1.74 lakh crore from the market on durable basis (Rs 87,000 crore absorbed earlier). High Government borrowing has ruled out the possibility of OMO sale, thus CRR increase seems as the possible non disruptive option of absorbing the durable liquidity. Furthermore, this opens up space for RBI to conduct liquidity management in future through OMO purchase. RBI can give back to the market at least 3/4th of the Rs 1.74 lakh crore absorbed through CRR hike or Rs 1.30 lakh crore in some form to address duration supply. This would lower the Market Borrowing to around Rs 13 lakh crore.
- **We are keenly watching the uncertainties regarding the crude oil prices. At \$120/bbl, it still poses significant uncertainties regarding inflation trajectory. We however now believe that inflation will average 6.5%-6.7% in FY23 on the back of excise rate cuts by Government. Independent forecasts reveal that oil prices could climb further before declining, but it might still hold up at current levels for a longer period of time. Clearly, growth numbers at 7.5% perhaps looks better but is subject to significant uncertainties.**

GDP Growth for FY23												
		FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 P
Real GDP												
Real GDP (Rs lakh crore)	Level	92	98	105	114	123	131	140	145	136	147	158
	Incremental	4.8	5.9	7.3	8.4	9.4	8.4	8.5	5.2	-9.6	11.8	11.1
GDP Growth (%)		5.5	6.4	7.4	8.0	8.3	6.8	6.5	3.7	-6.6	8.7	7.5
Nominal GDP												
Nominal GDP (Rs lakh crore)	Level	99	112	125	138	154	171	189	201	198	237	275
	Incremental	12.1	12.9	12.3	13.0	16.2	17.0	18.1	11.8	-2.7	38.6	38.0
GDP Growth (%)		13.8	13.0	11.0	10.5	11.8	11.0	10.6	6.2	-1.4	19.5	16.1
GDP Deflator												
GDP Deflator (%)		7.9	6.2	3.3	2.3	3.2	4.0	3.9	2.4	5.6	10.0	8.0

Source: SBI Research; P: SBI Projections assuming a downward revision in FY22 growth

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