

## GDP GROWTH RETAINED AT 7% FOR FY23

The 1st advance estimate (AE) of GDP for FY23 indicates GDP growth at 7% as compared to 8.7% in FY22. The GVA growth estimate is 6.7%. Nominal GDP growth is estimated to increase by 15.4% in FY23 vis-à-vis 19.5% in FY22. The data indicates almost all sectors has recovered and well above the pre-pandemic level. **For the 4 year ended FY22, GDP estimates has been revised downwards on 3 occasions, with average revision of around 80 basis points. Also, this is the first time that RBI GDP estimates are lower than CSO.**

Agri. and Allied Activities are likely to grow at 3.5% in FY23 as against previous year growth of 3%. Industry, which was the most affected sector during pandemic, is estimated to grow by 4.1% in FY23 as compared to expansion of 10.3% in FY22. Service sector is likely to grow by 9.1% in FY23, compared to a growth of 8.4% in FY22, mainly due to the lower growth in the sector 'Trade, hotels, transport, communication & broadcasting'. The Public Administration sub segment is likely to increase by 7.9%, compared to last year growth of 12.6%

The expenditure side heads from the demand side have shown good improvement since FY22. The overall consumption has increased at 7% in real terms, at the same pace as previous year. The private consumption real growth has somewhat moderate to 7.7% in comparison to growth FY22. The government consumption growth on the other hand has inched up to 3.1% in real terms in FY23.

The investment part of the demand has lost some momentum by 350 bps to record a growth of 11.5% in FY23. The fall is equally visible in nominal terms as well. The decomposition of deflation on the demand side indicates build up of inflation in private consumption, imports and gross capital formation.

Monthly data from CGA indicates that overall expenditure has already reached 61.9% of the BE till Nov'22, with revenue expenditure at 62.5% of BE and capital expenditure at 59.6% of BE. The capital expenditure is much higher than the exp last year, which may be due to the Capex loans to states. With the moderate growth in tax revenues and rise in expenditures, it was expected that the Fiscal Deficit (FD) will shoot-up marginally. **However, taking into account the revised GDP figures of today, if tax receipts grew by the BE, then Government has an space of around Rs 85,939 crore without changing the FD target of 6.4% of the GDP in FY23.**

USD/INR continues to trade in a narrow range, with a downward bias having lost its momentum accrued post DXY cooling last month as also falling energy prices, reflecting the collateral damage that even better faring EMEs have to shoulder as AEs take a hiatus on growth front and foggy from resurging infections/dragging war. The pair has been holding close to the highs first tested in October and further FPIs selling going forward (~US\$1 Bn in first week of CY23) can destabilise the currency to new levels. Though RBI has judiciously been anchoring the volatility reduction on need basis, GARCH volatility analysis by V-Lab of Stern-NYU indicates the pair to have volatility forecast ranging from 3.3% (1D) to 4.2% (1Y) which can jump abruptly on the back of negative news from overseas. This could have an impact on exports.

### NSO ESTIMATED GDP TO GROW BY 7.0% IN FY22

- ◆ The 1st advance estimate (AE) of GDP for FY23 indicates GDP growth at 7.0% as compared to 8.7% in FY22. The GVA growth estimate is 6.7%. Nominal GDP growth is estimated to increase by 15.4% in FY23 vis-à-vis 19.5% in FY22.
- ◆ NSO's estimated GDP growth of 7.0% in FY23 is 20 bps higher than the RBI's estimates. This indicates that NSO expect 4.5% GDP growth for H2 FY23, which seems fine.
- ◆ The data indicates almost all sectors recovered and well above the pre-pandemic level.

Particulars	FY23			FY22 (PE)	FY21 (1RE)
	FY23 (1AE)	H2*	H1		
<b>1. Agriculture, forestry &amp; fishing</b>	3.5	2.7	4.5	3.0	3.3
<b>2. Industry</b>	4.1	4.5	3.7	10.3	-3.3
2.1 Mining & quarrying	2.4	2.6	2.2	11.5	-8.6
2.2 Manufacturing	1.6	3.0	0.1	9.9	-0.6
2.3 Electricity, gas, water supply & other utility services	9.0	7.9	10.0	7.5	-3.6
2.4 Construction	9.1	7.3	11.5	11.5	-7.3
<b>3. Services</b>	9.1	5.4	13.1	8.4	-7.8
3.1. Trade, hotels, transport, communication & services related to broadcasting	13.7	9.4	19.5	11.1	-20.2
3.2. Financing, insurance, real estate & bus. Services	6.4	4.2	8.2	4.2	2.2
3.3. Public administration, defence and Other Services	7.9	1.7	15.3	12.6	-5.5
<b>Total GVA at Basic Prices</b>	6.7	4.7	9.0	8.1	-4.8
<b>GDP</b>	7.0	4.5	9.7	8.7	-6.6

Source: NSO, SBI Research; \* Calculaton based on AE

- ◆ The per capita nominal GDP is expected to increase significantly. Compared to FY20, the NSO estimate of per capita GDP in FY23 is almost Rs 47,000 more.
- ◆ Agri. and Allied Activities are likely to grow at 3.5% in FY23 as against previous year growth of 3.0%.
- ◆ Industry, which was the most affected sector during pandemic, is estimated to grow by 4.1% in FY23 as compared to expansion of 10.3% growth in FY22 .
- ◆ Service sector is likely to grow by 9.1% in FY23, compared to a growth of 8.4% in FY22, mainly due to the higher growth in the sector ‘Trade, hotels, transport, communication & broadcasting’.
- ◆ The sub-segment ‘Financial, Real Estate & Professional Services’ growth is expected to increase by 6.4% in FY23, as compared to growth of 4.2% in FY22. The estimated H2 FY23 growth in ‘Financial, Real Estate & Professional Services’ is 4.2%, which seems very low, as the credit growth has shown momentum in H2.
- ◆ The Public Administration sub segment is likely to increase by 7.9%, compared to last year growth of 12.6%.

**DEMAND & EXPENDITURE SIDE GDP**

- ◆ The expenditure side heads from the demand side have shown good improvement since FY22. The overall consumption has increased at 7% in real terms, at the same pace as previous year.
- ◆ The private consumption real growth has somewhat moderated to 7.7% in comparison to growth FY22. The government consumption growth on the other hand has inched up to 3.1% in real terms in FY23.
- ◆ The investment part of the demand has lost momentum by 350 bps to record a growth of 11.5% in FY23. The fall is equally visible in nominal terms as well.
- ◆ The imports and exports both have lost momentum, but the share of imports has risen 340 bps in nominal figures indicating the impact of higher energy prices and depreciation of rupee.
- ◆ The decomposition of deflation on the demand side indicates build up of inflation in private consumption, imports and gross capital formation.

Growth in Sectoral Deflator(%)					
Particulars	FY23			FY22 (PE)	FY21 (1RE)
	FY23 (1AE)	H2*	H1		
<b>1. Agriculture, forestry &amp; fishing</b>	<b>8.7</b>	<b>7.1</b>	<b>11.3</b>	<b>7.0</b>	<b>4.0</b>
<b>2. Industry</b>	<b>10.4</b>	<b>7.5</b>	<b>13.9</b>	<b>14.4</b>	<b>1.7</b>
2.1 Mining & quarrying	34.2	27.1	44.5	41.5	-0.8
2.2 Manufacturing	6.4	4.3	8.8	11.0	0.8
2.3 Electricity, gas, water supply & other utility services	18.7	15.1	23.1	7.5	4.9
2.4 Construction	6.9	4.0	10.8	17.2	3.4
<b>3. Services</b>	<b>7.6</b>	<b>5.8</b>	<b>9.7</b>	<b>8.1</b>	<b>3.4</b>
3.1. Trade, hotels, transport, communication & services related to broadcasting	9.4	6.5	13.6	10.8	3.2
3.2. Financing, insurance, real estate & bus. Services	7.6	5.3	9.6	7.7	2.0
3.3. Public administration, defence and Other Services	5.8	5.8	5.6	5.1	4.9
<b>Total GVA at Basic Prices</b>	<b>8.5</b>	<b>6.4</b>	<b>11.1</b>	<b>9.4</b>	<b>3.3</b>
<b>GDP</b>	<b>7.9</b>	<b>5.8</b>	<b>10.4</b>	<b>10.0</b>	<b>5.6</b>

Source: NSO, SBI Research; \* Calculaton based on AE

GDP Constant Prices: Loss Recovered		
Sectors	FY23/ FY19	FY23/ FY20
Agriculture, forestry & fishing	116	110
Industry	110	111
Mining & quarrying	103	104
Manufacturing	108	111
Electricity, gas, water supply & other utility services	115	113
Construction	114	113
Services	116	109
Trade, hotels, transport, communication & services related to broadcasting	107	101
Financing, insurance, real estate & bus. Services	121	113
Public administration, defence and Other Services	122	115
Total GVA at Basic Price	114	110
<b>GDP</b>	<b>113</b>	<b>109</b>

Source: NSO & SBI Research

Expenditure Growth Rates (YoY%) at Current Prices					
Particulars	FY23			FY22 (PE)	FY21 (1RE)
	FY23 (1AE)	H2*	H1		
Total final consumption expend	15.5	7.6	25.5	16.0	-0.1
Private final consumption expenditure	16.3	6.3	29.1	17.1	-1.7
Government final consumption expenditure	11.2	14.6	7.4	10.1	8.7
Gross fixed capital formation	17.9	13.0	23.8	28.4	-8.3
Change in Stocks	11.9	27.4	-5.1	1954.6	-108.7
Valuables	7.1	24.9	-7.2	48.0	39.4
Exports	22.7	19.3	26.6	36.7	-1.3
Less Imports	32.3	20.2	47.3	49.5	-11.5
Discrepancies	313.1	241.1	430.1	302.1	-181.9
<b>GDP</b>	<b>15.4</b>	<b>10.6</b>	<b>21.2</b>	<b>19.5</b>	<b>-1.4</b>

Source: NSO, SBI Research; \* Calculaton based on AE

**REVISION OF GDP NUMBERS**

- ◆ As we are aware, CSO releases the first estimates of any fiscal year in January and revises it first in February and again in May. So, it take almost 4-years (refer table) to publish the final data (1AE, 2AE, PE, 1RE, 2RE & 3rd RE).
- ◆ Except, during FY19, FY20 and FY22, all years GDP data revision indicates an upward revision from the 1st AE released in January. However, in FY23 we expect GDP numbers to be revised downwards.
- ◆ If we look at the RBI estimates of GDP numbers, which is always higher than the NSO, except in the current year FY23 at 6.8%.

**GOVERNMENT EXPENDITURE & FISCAL SITUATION**

- ◆ Monthly data from CGA indicates that overall expenditure has already reached 61.9% of the BE till Nov'22, with revenue expenditure at 62.5% of BE and capital expenditure at 59.6% of BE. The capital expenditure is much higher than the exp last year, which may be due to the Capex loans to states.
- ◆ Meanwhile, net tax revenue at Rs 12.24 lakh crore was 63.3% of BE 2022-23 (73.5% last year). Non-tax revenue was at Rs 1.98 lakh crore or 73.5% of BE.
- ◆ With the moderate growth in tax revenues and rise in expenditures, it was expected that the Fiscal Deficit (FD) will shoot-up marginally. However, taking into account the revised GDP figures of today, if tax receipts grew by the BE, then Government has space of around Rs 85,939 crore without changing the FD target of 6.4% of the GDP in FY23. While, if Government sticks to the FD of RS 16.6 lakh crore, then with the revised GDP numbers FD % GDP would be at 6.1% in FY23.
- ◆ For FY24, the fiscal consolidation should remain limited to 30-40 bps from the current fiscal.

**SBI COMPOSITE INDEX : DECEMBER 2022**

- ◆ The monthly SBI Composite Index has continued to increase and is at 55.9 (High Growth) in December 2022, compared to 53.1 (Moderate Growth) in December 2021. The yearly index is continued to decline to 53.6 (Moderate Growth) in December from 52.0 (Moderate Growth).
- ◆ Based on the SBI index, we believe IIP & IIP manufacturing may grow in the range of 2.5-3.0% in Nov and & 0.5-1.0% in Dec 2022.

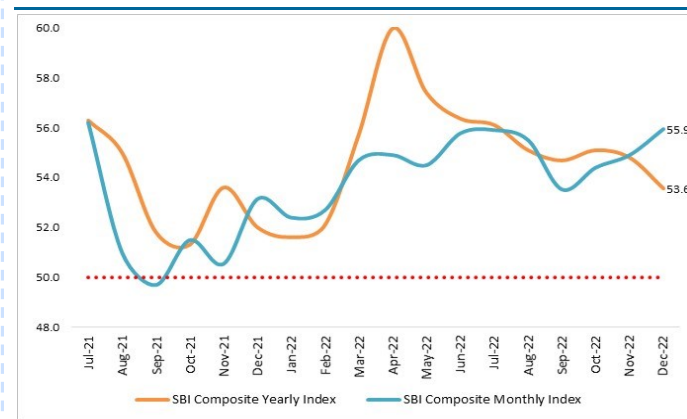
Revision in Real GDP Estimates							
Year	1AE	2AE	PE	1RE	2RE	3RE	Change
T1 (Current Year)				T1+1Y	T1+2Y	T1+3Y	
	Jan	Feb	May	Jan	Jan	Jan	
2016-17	7.1	7.1	7.1	7.1	8.2	8.3	1.20
2017-18	6.5	6.6	6.7	7.2	7.0	6.8	0.30
2018-19	7.2	7.0	6.8	6.1	6.5	6.5	-0.70
2019-20	5.0	5.0	4.2	4.0	3.7	-	-1.30
2020-21	-7.7	-8.0	-7.3	-6.6	-	-	1.10
2021-22	9.2	8.9	8.7	-	-	-	-0.52
2022-23	<b>7.0</b>	-	-	-	-	-	-

Source: CSO, SBI Research

Fiscal Arithmetic				
(Rs lakh crore)	FY22 (RE)	FY22 Actual	FY23 BE	FY23AE
Fiscal Deficit	15.9	15.9	16.6	17.5
% of GDP	6.9	6.7	6.4	6.1
Memo:				
Nominal GDP	232	236.64	258	273

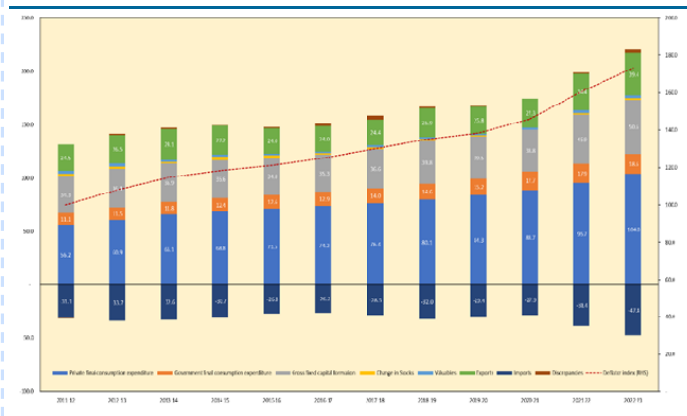
Source: SBI Research

**SBI Yearly and Monthly Composite Index Trend**



Source: SBI Research

**Decomposition of GDP Deflator by Components Demand**



Source: SBI Research

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