

Q4 FY23 GDP growth beats expectations

India's fourth quarter (Q4FY23) GDP growth at 6.1% overshoot the Consensus estimate (5.0%; Source: Reuters) and the Second Advance Estimates (SAE: 5.1%) by a wide margin. On the demand side, barring Government consumption, all segments of the economy recorded a positive surprise, translating into a growth of 7.2% for the full year, higher than the SAE of 7%. Robust recovery in private as well as public investment, strong services exports, and lower-than-expected imports on easing commodity prices more than made up for weak private and Government consumption in the quarter gone by. Notably, the share of Gross Fixed Capital Formation—a proxy of investments in the economy, in the real GDP rose to a decadal high of 36.2% in FY23. By economic activity, Gross Value Added (GVA) growth for Q4FY23 also accelerated to 6.5%, much higher than the SAE of 5.1%, led by a strong positive surprise from Manufacturing and Construction. Trade, Hotels, Transport & Communication sector also registered a strong 9%+ growth in Q4 and all-time high of 14% in FY23. The GVA growth for FY23 stood at 7.0%, surpassing the SAE of 6.7%.

The sharp upside in Q4 GDP growth—also corroborated with strong corporate earnings—indicates resilience of the Indian economy amidst an unfavourable global backdrop. That said, growth in the current fiscal is likely to decelerate, weighed down by the anticipated global growth slowdown, lagged impact of past rate hikes and the potential impact of El Nino on farm output and incomes. On the positive side, a steady recovery in private investments, supported by healthy balance sheets and continued capex push by the Government, should limit the downside.

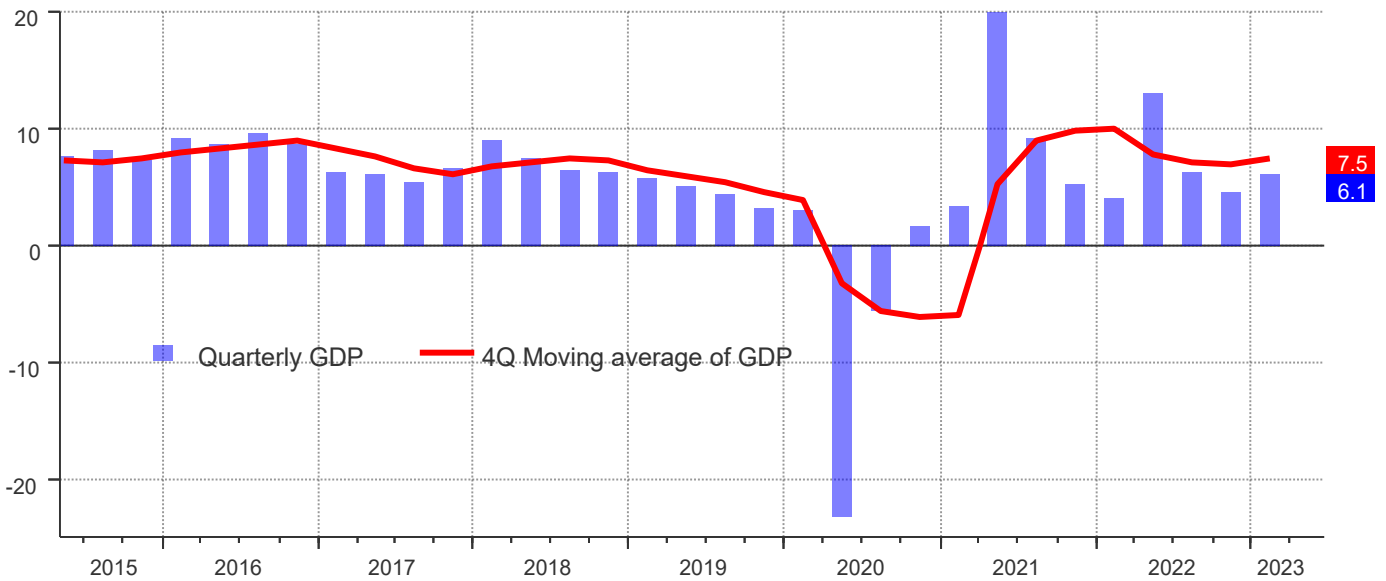
- **Q4FY23 GDP growth surged to 6.1%...:** India's GDP growth accelerated from an upwardly revised 4.5% YoY in Q3 to 6.1% YoY in Q4FY23, overshooting the Consensus (5%, Source: Reuters) as well as the RBI's estimate (5.1%) by a significant margin. The uptick was primarily led by a strong investment demand even as consumption demand—both private and public—remained weak. Sequentially, Q4 GDP inched up by 8.4%, higher than the average expansion of 6.1% observed in Q4 over the last 10 years. Nominal GDP growth, on the other hand, moderated to 10.4% in Q4FY23 vs. 11.4% in the last quarter, thanks to easing wholesale and retail prices. The three-year CAGR of Q4FY23 GDP stood at a 11-quarter high of 4.5%.
- **...supported by strong growth in investments and services exports:** The growth in Private Final Consumption Expenditure (PFCE)—that constitutes over 60% of the GDP—weakened to 2.8% YoY in Q4FY23 (vs. +4.7% in Q3FY22), even as it was higher than the implied SAE growth of 1.5%, reflecting the impact of tighter monetary conditions and elevated inflationary pressures. This seem to be primarily led by weak rural demand, even as urban demand has remained steady, as also reflected by several high-frequency consumption indicators such as two-wheeler and four-wheeler sales, tractor sales, fertilizer sales among others. Government Final Consumption Expenditure (GFCE) also grew by a mere 2.3% YoY following a contraction over the previous two quarters, undershooting the implied SAE growth by 380bps. Weak public and private consumption was more than offset by robust investments and much lower-than-estimated trade deficit. Gross Fixed Capital Expenditure—a proxy of investments—increased by 8.9% YoY, higher than the implied SAE growth of 7.8%, aided by a strong Government capex and reviving private investment cycle. Net exports—that stood at six-quarter low at (-)62.6bn—also surpassed estimates by a wide margin, supported by strong services exports and lower import bill, with the latter benefiting from easing commodity prices.

GDP growth in Q4FY23 accelerated from 4.5% in Q3FY23 to 6.1% in Q4, thanks to strong investment growth and higher services exports.

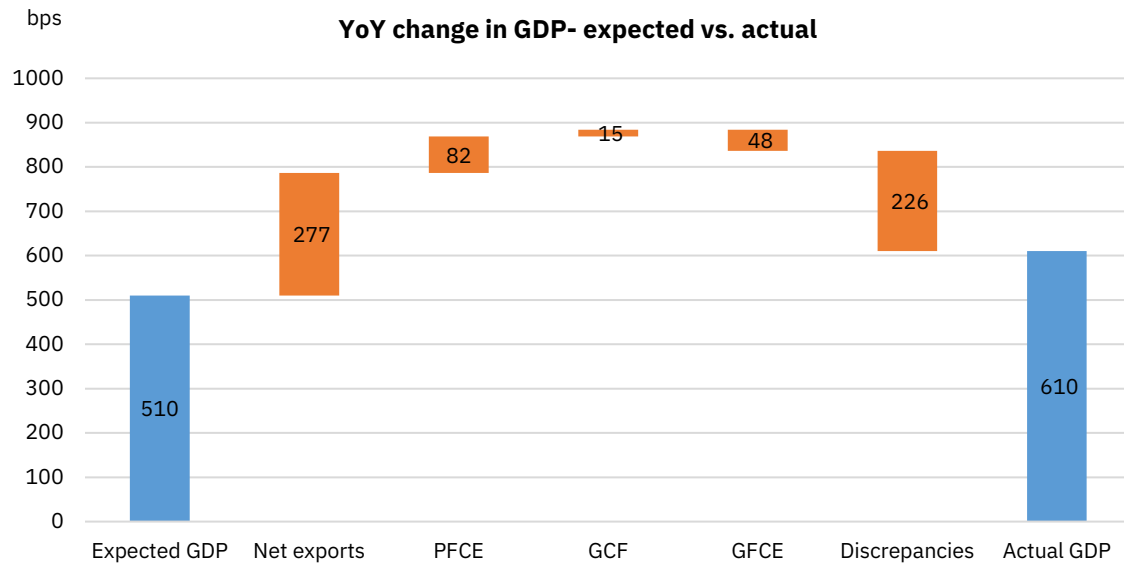
A strong growth in investments (GFCF) and services exports made up for lower private (PFCE) and government (GFCE) consumption spending.

- **GVA up by 6.5% in Q4FY23 led by a broad-based surge:** The real GVA growth in Q4FY23 rose to 6.5% YoY from 4.7% in the previous quarter, much higher than the SAE of 5.1%. This was primarily led by a strong positive surprise from Manufacturing and Construction. Agriculture recorded a sustained expansion for the fourth consecutive quarter (+5.5% YoY in Q4FY23 vs. implied SAE growth of 4.3%)—and the highest since Q4FY20, thanks to record rabi foodgrain production. Further, IMD’s forecast of a normal monsoon bodes well for the sector with the downside risk emanating from potential impact of El Nino. Services sector registered a growth of 6.9% YoY, a tad higher than 6.5% estimated by the CSO, primarily led by strong growth in Trade, Hotels, Transport & Communication (+9.1% YoY) and Financial Services & Real estate (+7.1%YoY), even as Public Administration & Defence Services grew by a modest 3.1% YoY. Industrial GVA witnessed a strong rebound and grew by 6.3% YoY, nearly double of that estimated in the SAE, aided by strong recovery in Manufacturing and Construction. While Manufacturing grew by 4.5% YoY, albeit off a low base and much higher than the implied SAE growth of 0.9%, benefiting from moderation in input costs, Construction growth at 10.4% surprised on the upside by 310bps.
- **FY23 GDP growth at 7.2%:** A big positive surprise in the last quarter translated into GDP growth for the full year of 7.2% surpassing the SAE by 20bps and the Government's Economic Survey projection by 40bps. While private consumption (PFCE) growth moderated to 7.5% from 11.2% in the previous year, Government consumption (GFCE) grew by a much lower 0.1% vs. 6.6% in FY22—the lowest growth in last 20 years barring the pandemic year (FY21), indicating the retreat of government support. The Gross Fixed Capital Formation growth maintained its momentum, recording an expansion of 11.4% in FY23 on top of a 14.6% growth in the previous year. While export growth slowed down on weakening global demand facing global headwinds, import growth remained relatively strong indicating a resilient domestic consumption, leading to widening of the trade deficit.
- **Growth momentum to decelerate in FY24:** The sharp surprise in Q4FY23 GDP growth figures is a testament of India’s economic resilience amidst several global headwinds. The growth momentum, however, is unlikely to sustain in the current fiscal. Slowing global growth in the wake of rapid monetary tightening and continued uncertainty around elevated inflation trajectory, coupled with ongoing geopolitical tensions, is likely to continue to weigh on India’s exports in FY24. On the domestic front, as the recovery post pandemic remains resilient yet divergent (refer our Chart of the Month in the May edition of Market Pulse: [Economic recovery post pandemic: Resilient yet divergent](#)), the potential impact of El Nino on farm incomes, coupled with lagged effect of past rate hikes, may further drag the already weak rural demand in the current fiscal. On the positive side, a steady recovery in private investments, supported by healthy balance sheets and continued capex push by the Government, should limit the downside.

Continued surge across the board pushed GVA growth to 6.5% in Q4FY23 vs. 4.7% in Q3FY23.

Figure 1: India quarterly GDP growth trend


Source: Refinitiv Datastream, NSE EPR.

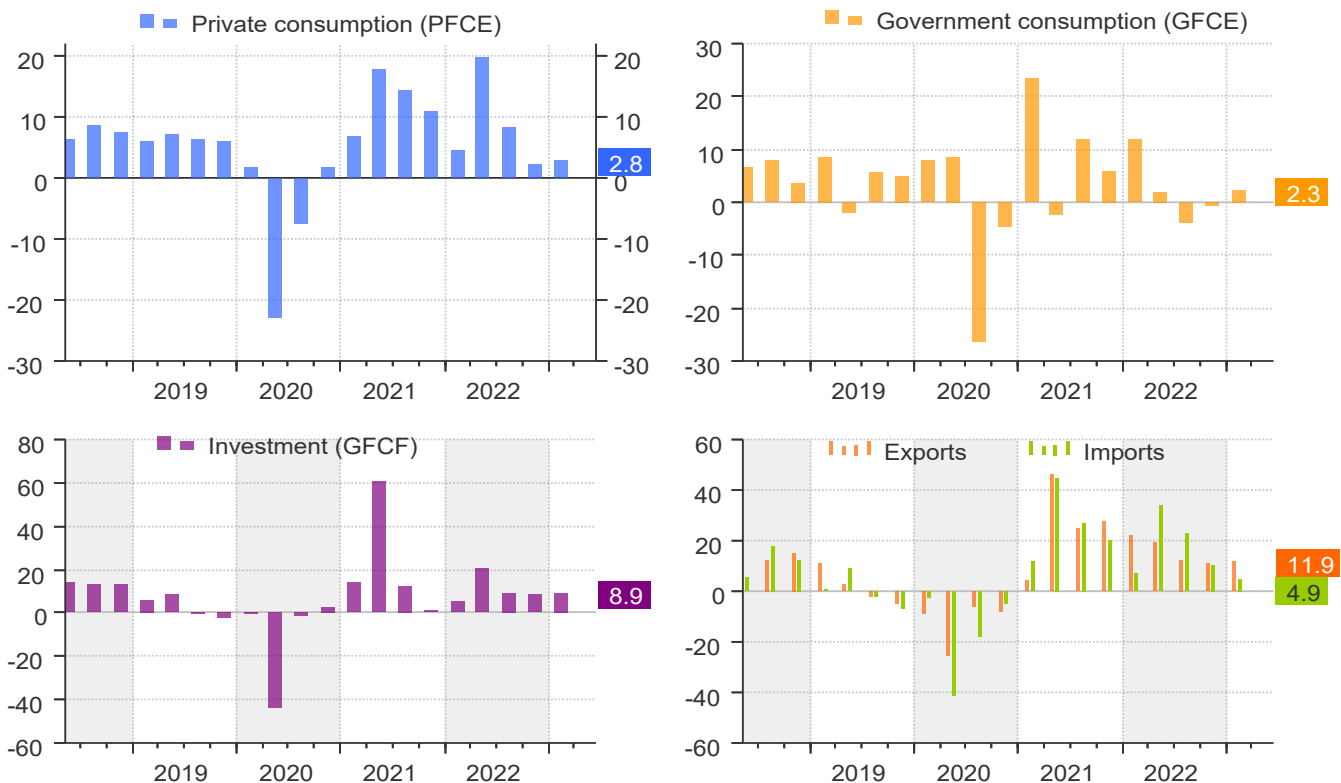
Figure 2: Segment-wise contribution to GDP surprise in Q4FY23


Source: CSO, NSE EPR. Expected GDP here is the implied growth figure from the Second Advance Estimate.

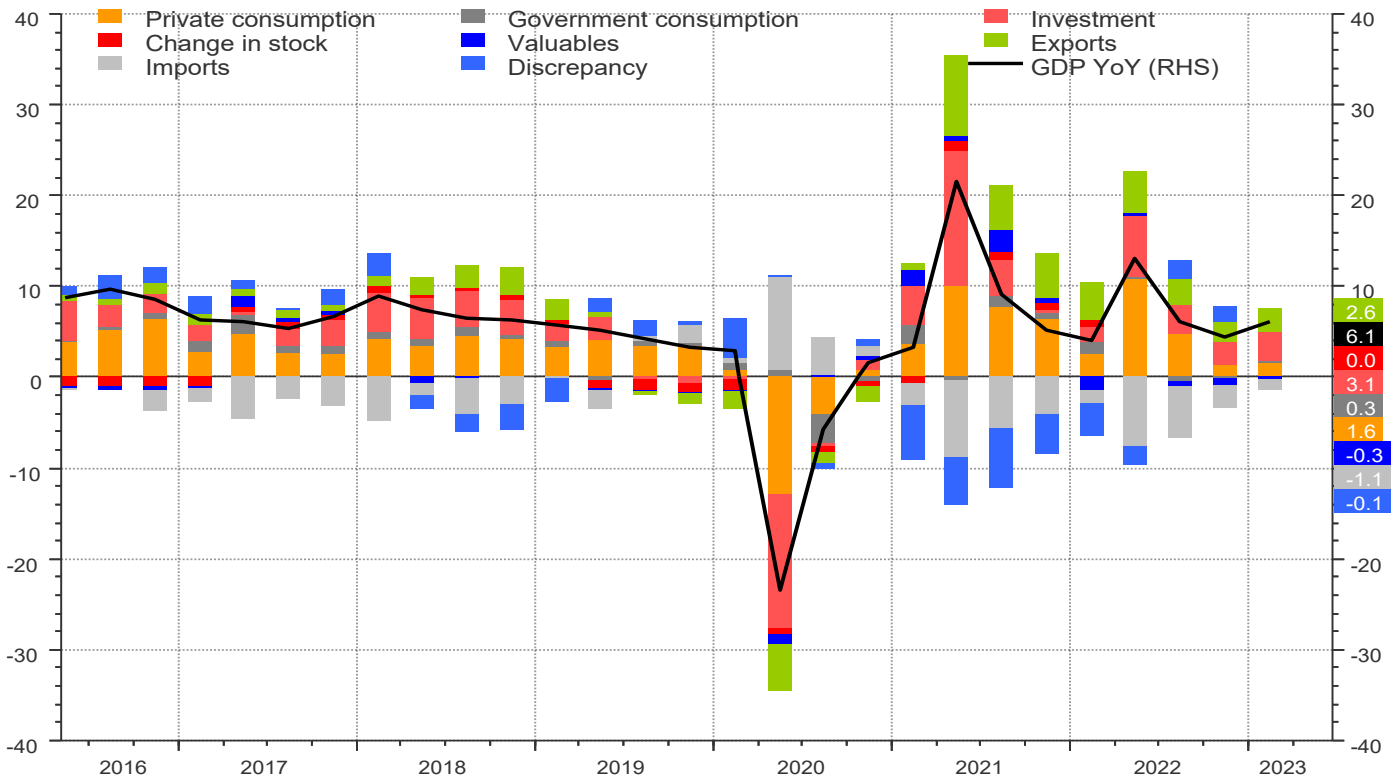
Table 1: Quarterly GDP growth trend (2011-12=100) (%YoY)

	FY21				FY22				FY23			
	Q1	Q1	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product (GDP)	-23.8	-6.6	0.7	2.5	20.1	8.4	5.4	4.1	13.5	6.3	4.4	6.1
Private Consumption (PFCE)	-23.7	-8.3	0.6	6.5	14.4	10.5	7.4	1.8	25.9	9.7	2.1	2.8
Government Consumption (GFCE)	13.6	-22.9	-0.3	29.0	-4.8	8.9	3.0	4.8	1.3	-4.4	-0.8	2.3
Gross Capital Formation (GCF)	-48.3	-6.1	-1.9	11.9	72.3	26.8	8.4	5.2	19.3	5.9	5.4	7.8
Gross Fixed Capital Formation (GFCF)	-45.3	-4.5	-0.6	10.1	62.5	14.6	2.1	5.1	20.1	10.4	8.3	8.9
Exports	-25.5	-6.4	-8.6	3.7	40.8	20.7	23.1	16.9	14.7	11.5	11.3	11.9
Imports	-41.1	-17.9	-5.2	11.7	61.1	41.0	33.6	18.0	37.2	25.4	10.9	4.9
Gross Value Added (GVA)	-21.4	-5.9	2.1	5.7	18.1	8.3	4.7	3.9	12.7	5.6	4.6	6.5
Agriculture	3.0	3.2	4.1	2.8	2.2	3.2	2.5	4.1	4.5	4.6	3.7	5.5
Industry	-33.7	0.6	6.3	13.4	46.6	7.0	0.3	1.3	8.6	-0.8	2.4	6.3
Mining and Quarrying	-17.8	-7.9	-5.3	-3.9	18.0	14.5	9.2	6.7	6.5	-2.8	3.7	4.3
Manufacturing	-31.5	5.2	8.4	15.2	49.0	5.6	0.3	-0.2	4.8	-4.3	-1.1	4.5
Electricity	-14.8	-3.2	1.5	3.2	13.8	8.5	3.7	4.5	14.7	5.6	8.2	6.9
Construction	-49.4	-6.6	6.6	18.3	71.3	8.1	-2.8	2.0	16.8	6.6	8.4	10.4
Services	-20.8	-10.8	-0.9	2.1	10.5	10.2	8.1	5.5	17.6	9.3	6.2	6.9
Trade, Hotels, Trans., Storage, Comm.	-49.9	-18.8	-10.1	-3.4	34.3	9.6	6.3	5.3	25.7	14.7	9.7	9.1
Fin. Svcs, Real Estate & Business Svcs.	-1.1	-5.2	10.3	8.8	2.3	6.1	4.2	4.3	9.2	7.2	5.8	7.1
Community, Social & Personal Svcs.	-11.4	-10.2	-2.9	1.7	6.2	19.4	16.7	7.7	26.3	6.5	2.0	3.1

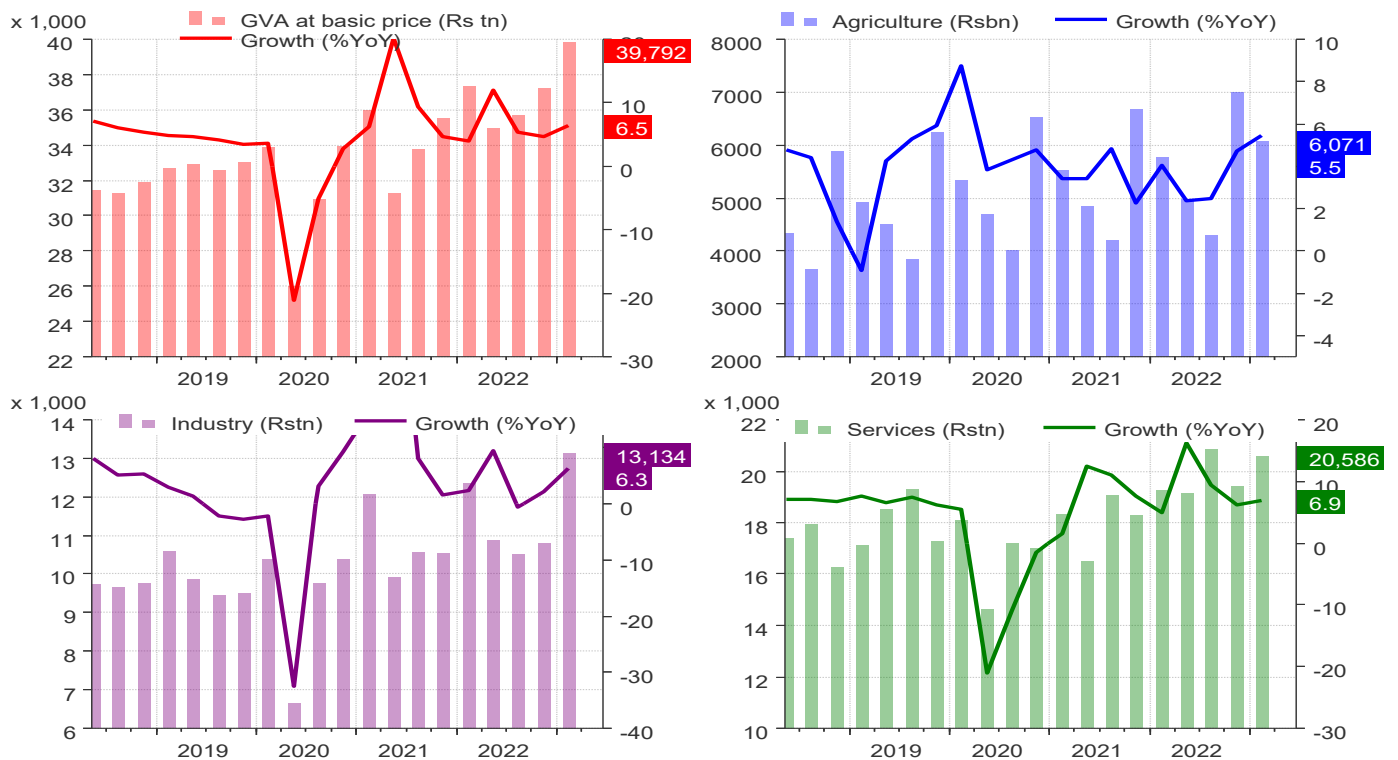
Source: CSO, NSE EPR.

Figure 3: Quarterly GDP growth by expenditure (%YoY)


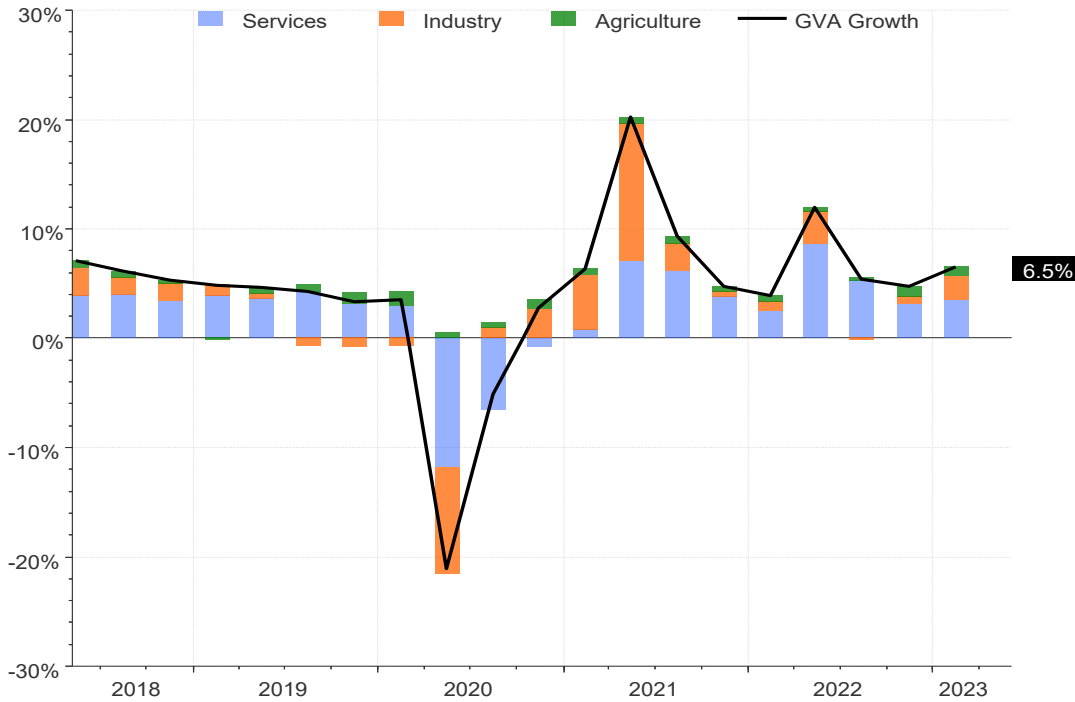
Source: Refinitiv Datastream, NSE EPR.

Figure 4: India GDP sector share of growth (%)


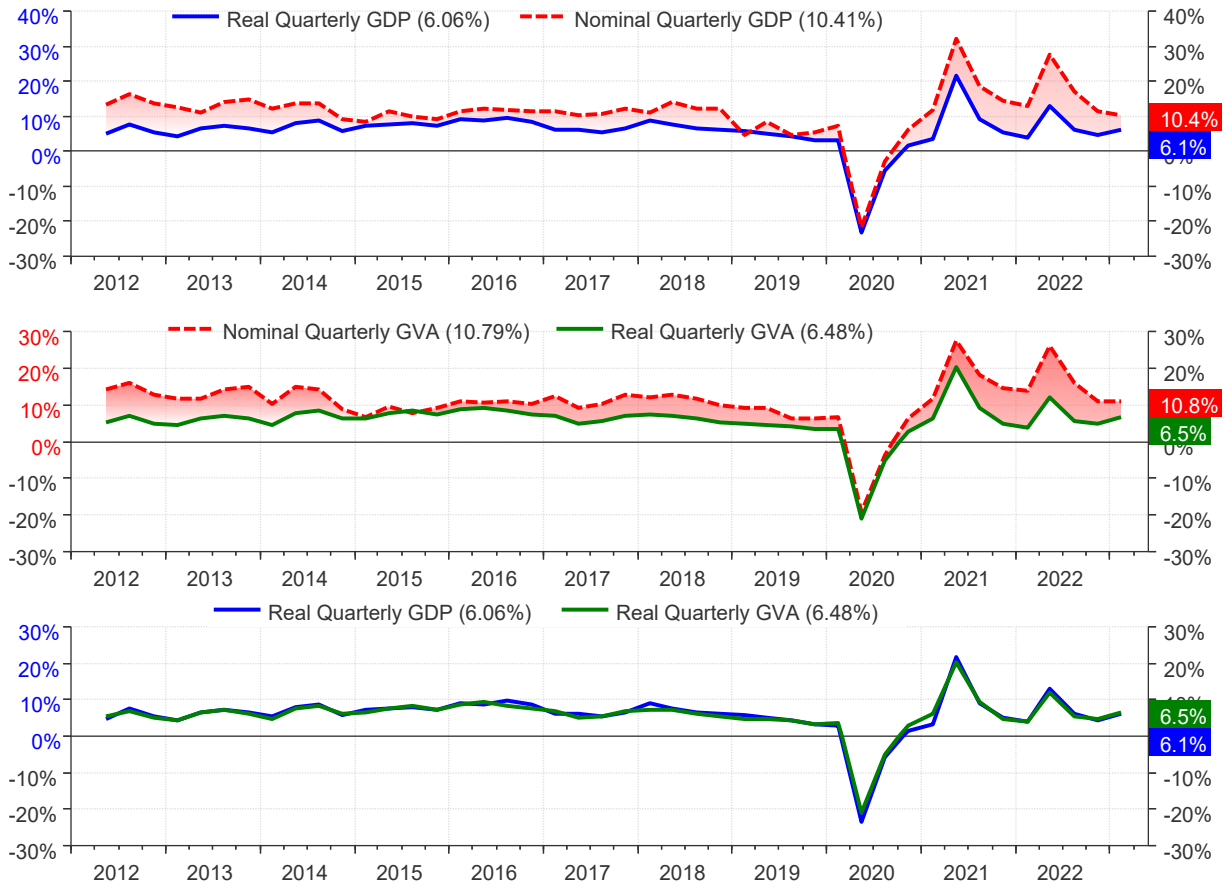
Source: Refinitiv Datastream, NSE EPR.

Figure 5: Gross value added (GVA) across sectors


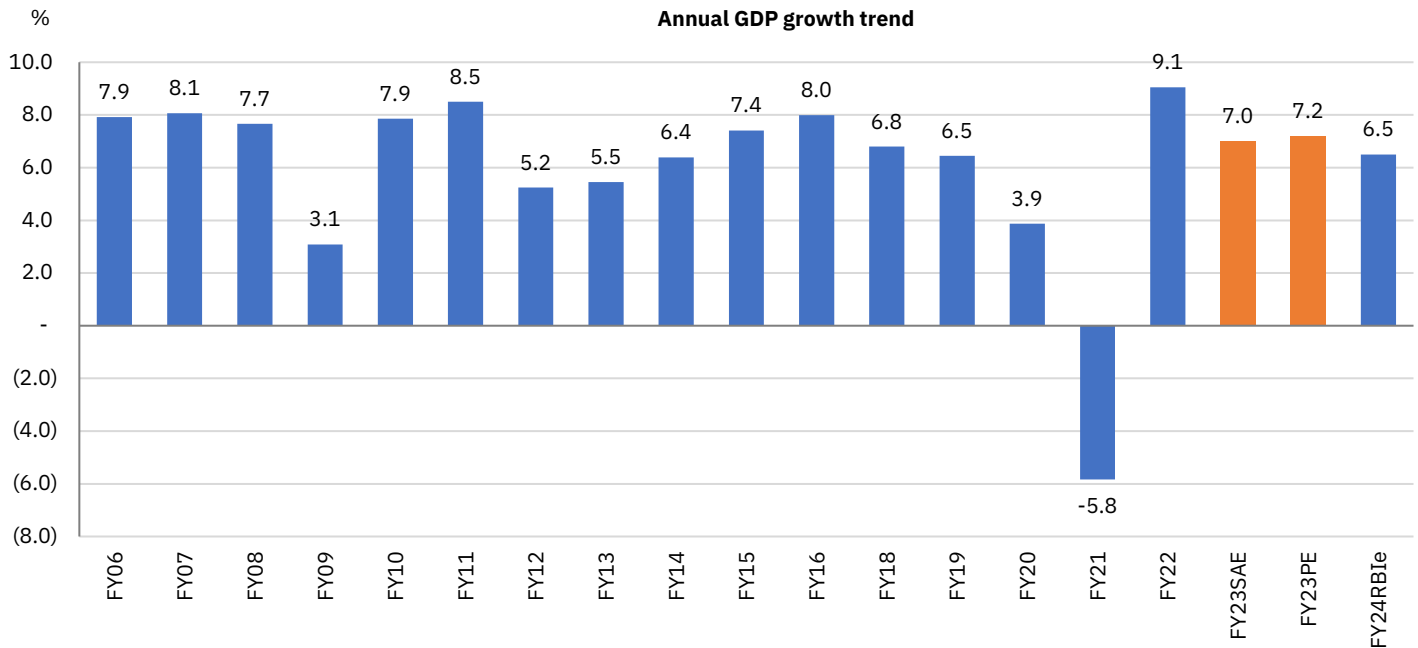
Source: Refinitiv Datastream, NSE EPR.

Figure 6: India GVA sector share of growth (%)


Source: Refinitiv Datastream, NSE EPR.

Figure 7: Quarterly trend of nominal vs. real GDP and GVA growth
India GDP, GVA: Nominal and Real Growth


Source: Refinitiv Datastream, NSE EPR.

Figure 8: Annual real GDP growth trend


Source: CSO, CMIE Economic Outlook, NSE EPR. SAE = Second Advance Estimate; PE = Provisional Estimate; RBIe = RBI Estimate.

Table 2: Annual real GDP growth trend (% YoY)

	FY19	FY20	FY21	FY22	FY23PE
Gross Domestic Product (GDP)	6.5	3.7	-6.6	8.7	7.2
Private Consumption (PFCE)	7.1	5.2	-6.0	7.9	7.5
Government Consumption (GFCE)	6.7	3.4	3.6	2.6	0.1
Gross Capital Formation (GCF)	11.0	-2.2	-11.4	21.7	9.6
Gross Fixed Capital Formation (GFCF)	11.2	1.6	-10.4	15.8	11.4
Net trade of goods & services	-8.2	16.1	-39.1	127.5	79.7
Exports of goods & services	11.9	-3.4	-9.2	24.3	13.6
Imports of goods & services	8.8	-0.8	-13.8	35.5	17.1
Gross Value Added (GVA)	5.8	3.8	-4.8	8.1	7.0
Agriculture	2.1	5.5	3.3	3.0	4.0
Industry	5.3	-1.4	-3.3	10.3	4.4
Mining and Quarrying	-0.8	-1.5	-8.6	11.6	4.6
Manufacturing	5.4	-2.9	-0.6	9.9	1.3
Electricity	7.9	2.2	-3.6	7.5	9.0
Construction	6.5	1.2	-7.3	11.5	10.0
Services	7.2	6.3	-7.8	8.4	9.5
Trade, Hotels, Transport, Storage, Comm.	7.2	5.9	-20.2	11.1	14.0
Fin. Svcs, Real Estate & Business Svcs.	7.0	6.7	2.2	4.2	7.1
Community, Social & Personal Svcs.	7.5	6.3	-5.5	12.6	7.2

Source: CSO, NSE EPR.

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