

# Economists at odds with MPC over GDP forecast

## Peg growth in first quarter at less than the 16.2% projected by the MPC

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New Delhi, 17 August

Most economists believe that India's economy grew at a slower pace than the monetary policy committee's (MPC's) projection of 16.2 per cent in the first quarter of financial year 2022-23 (Q1FY23). Their projections range between 14.5 per cent and 16 per cent.

All major official data, including the index of industrial production (IIP), for computing the gross domestic product (GDP) for the quarter have been released.

At the outset, it may appear that a double-digit GDP growth in Q1FY23 over the 20.1 per cent growth seen in Q1FY22 is quite high. However, that quarter was affected by the severe second wave of Covid-19. As such, the economy shrank by 8.5 per cent in Q1FY22, when compared with the corresponding pre-Covid period of FY20.

If the economy expands by 16.2 per cent during the June quarter of FY23, as projected by the MPC, this would translate to a 6.3 per cent expansion over the corresponding period of FY20.

Only CareEdge, previously CareRatings, pegged Q1 GDP growth much higher at 17.8 per cent. This would mean 7.7 per cent growth over the corresponding period of FY20, and would imply that the economy is recovering finally.

CareEdge's chief economist Rajani Sinha said despite multiple headwinds on the external as well as domestic fronts, the economy is expected to have performed well in Q1, led by pent-up demand, especially in the services sector.

"High-frequency economic indicators such as goods and services tax (GST) collections, auto sales, freight movement, and bank credit offtake witnessed healthy growth, reflecting a pick-up in the economy," Sinha said. However, rural consumption is still weak, she added.

Meanwhile, Bank of Baroda's chief economist Madan Sabnavis, who projected GDP growth of 14.5-15 per cent in Q1, said while sector-wise growth rates would be numerically high, the push from industry will be limited with the consumer segment not yet returning to normal. "Investment, too, has been at lower levels with only infra-based sectors showing signs of traction."

BoB's growth projections translate to a 5-5.4 per cent expansion over the corresponding quarter of the pre-Covid period, Sabnavis said. The IIP grew 12.7 per cent in Q1, against 44.4 per cent last year.

However, this represents 4.8 per cent growth over the corresponding pre-Covid period. The IIP had declined 6.9 per cent in Q1FY22, compared with Q1 of FY20.

It should be noted that IIP is a volume-based index, while GDP is a value-based estimation.

ICRA's chief economist Aditi Nayar said the impact of high commodity prices on volumes and margins of producers would weaken industrial growth.

She said double-digit GDP growth in Q1FY23 reflects the low base of the second wave of Covid-19 and the recovery in the contact intensive sectors. "However, the impact of the heat wave on wheat output would be seen in this quarter's agriculture growth," Nayar added.

Ranen Banerjee, partner at PwC India, said given the robust IIP numbers with broad-based growth across sectors, including services, Q1 GDP growth could be more than 15 per cent.

Yuvika Singhal, economist at QuantEco Research, said the economy saw continued recovery in the quarter, withstanding the impact of the Ukraine-Russia war fairly well. "Having said that, the geopolitical uncertainty and the impact of high commodity prices are likely to have had some dampening impact on goods demand and the industrial sector," she said.



## GDP GROWTH PROJECTIONS

For Q1FY23	(in % YoY)
ICRA	12.5-13.0
India Ratings	13.3
Bank of Baroda	14.5-15
PwC India	Over 15
QuantEco Research	15.0
CRISIL	14.0-16.0
RBI	16.2
CareEdge	17.8

Source: Agencies