GDP grows 7.8% in Q1

FASTEST PACE OF GROWTH IN 4 QTRS, AIDED BY SERVICES SECTOR, INVESTMENT

WEAK MONSOON, DEPRESSED GLOBAL DEMAND, RISING RATES CLOUD OUTLOOK

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New Delhi, 31 August

India's economy grew at the fastest pace in four quarters — at 7.8 per cent — in the April-June period of FY24, which is a little below the central bank's estimate, aided by a supportive base along with a robust increase in investment.

The Reserve Bank of India (RBI) had estimated gross domestic product (GDP) to grow by 8 per cent in Q1 of FY24 while a *Bloomberg* survey put it at 7.8 per cent.

The data, released by the National Statistical Office, showed the services sector lifted growth during the quarter, with the economy now 13.8 per cent larger than the pre-pandemic first quarter of FY20 in real terms.

However, analysts fear rising interest rates, a weakening monsoon, and depressed global demand may slow economic growth for the rest of the financial year.

D K Joshi, chief economist at CRISIL, said the first quarter of FY24 was likely to see the highest growth this financial year.

"Growth in the July-September quarter will be moderated by softening consumption as spiking inflation will dent discretionary spending power. For the rest of the year, headwinds from slowing global growth and the lagged impact of interest rate hikes will play out," Joshi said.

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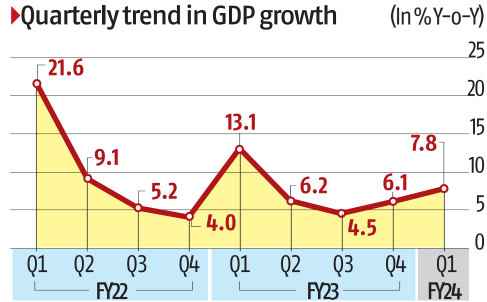
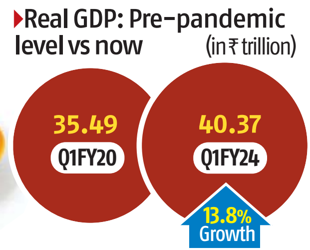
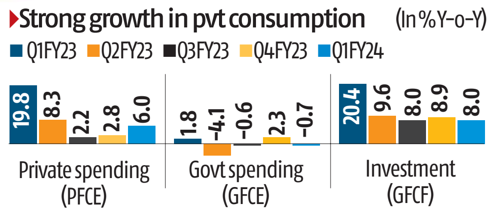
UNDER PRESSURE

STATE OF THE ECONOMY







PFCE: Private final consumption expenditure; GFCE: Government final consumption expenditure; GFCF: Gross fixed capital formation

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"Additionally, if dry weather conditions seen in August continue in September, agricultural output could be impacted. That said, our current forecast of 6 per cent GDP growth for this financial year would make India the fastest-growing G20 country this year," Joshi added.

During the June quarter, gross value added (GVA) at basic prices grew 7.8 per cent while nominal GDP was up 8 per cent due to low wholesale price inflation.

This may put pressure on tax collection in FY24.

On the supply side, growth in manufacturing was a disappointing 4.7 per cent while the labour-intensive construction (7.9 per cent) and agriculture (3.5 per cent) sectors expanded at a robust pace.

Madhavi Arora, lead economist at Emkay Global Financial Services, said low growth in manufacturing was surprising because a fall in commodity prices should have boosted manufacturing firms' operating profits and thereby lifted value-added growth in the sector.

Though the services sector growing at double digits (10.3 per cent) remained the key support pillar for growth, the trade, hotels, transport, communication services segment remained 1.9 per cent below the pre-pandemic level of FY20, signalling persisting weakness in the largest contributor to the economy.

Growth in private final consumption expenditure, or private spending, picked up at a robust 6 per cent, a three-quarter high.

Government spending, however, contracted 0.7 per cent in real terms, signalling that both the Central and state governments kept their expenditure in check during the quarter despite the Centre's capex push.

Gross fixed capital formation (GFCF), which represents investment demand in the economy, grew at a robust 8 per cent, signalling revival in private capital expenditure. Compared to the pre-pandemic period of FY20, GFCF grew 17 per cent.

The chief economic adviser in the finance ministry, V Anantha Nageswaran, said the government's capital expenditure push was paying off in terms of generating and crowding in the private sector.

"Growth in capital expenditure by the Centre was 52 per cent in the first quarter year-on-year. The capital expenditure of the states also picked up significantly, even though it might have been concentrated in a few states. It is very impressive to note that they are joining the capex creation bandwagon that the Union government has been championing over the last five to six years," he added.