Consumption trend lifts FY23 GDP hopes

Economists increasingly expecting 7% full-year growth

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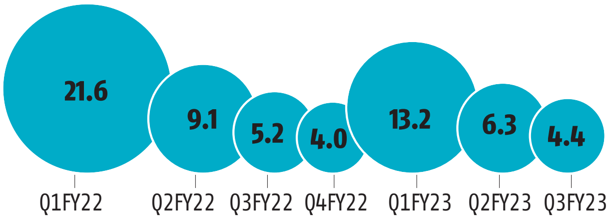
New Delhi, 28 May

India's economy, in the January-March quarter of 2022-23 (Q4FY23), is expected to show much-improved growth on sequential and year-on-year bases, primarily driven by the manufacturing and services sectors reflecting improved consumption trends, and an encouraging rise in private investment, according to analysts.

For Q3FY23 (October-December), GDP growth came in at 4.4 per cent; it was 4 per cent in Q4FY22. The official print for Q4FY23 and full FY23 will be released by the National Statistical Office on Wednesday.

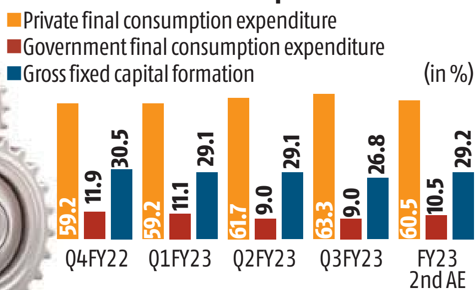
ROLLER-COASTER RIDE

Quarterly GDP growth (in %)



Source: mospi.gov.in

Share of investment and consumption in nominal GDP



*AE: Advance Estimate

Source mospi.gov.in

"SBI's model — based on 30 high-frequency indicators from key sectors and tuned/trained to project GDP numbers — forecasts quarterly GDP growth for Q4FY23 at 5.5 per cent. At this rate, India's GDP growth for FY23 is likely at 7.1 per cent," said Soumya Kanti Ghosh, chief economic advisor, State Bank of India group.

Ghosh said there were signs of "a renewed surge in resilient manufacturing".

"In India, domestic consumption and investment stand to benefit from stronger prospects for agricultural and allied activities, strengthening business and consumer confidence, and strong credit growth," he said.

A poll of 56 economists by *Reuters* last week pegged Q4FY23 growth at 5 per cent. An earlier poll by the news agency, in April, of 45 economists, pegged FY23 GDP growth at 6.9 per cent. Of late, most analysts are saying that FY23 GDP growth would be at least 7 per cent or even better. A poll of 15 analysts by digital media outlet *Moneycontrol* projects the Q4FY23 growth rate at 5.1 per cent.

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term for available but undeployed funds – worth $15.64 billion, up from $12.88 billion at the end of 2022. This is the highest uninvested capital since 2016, according to investment data firm, Preqin.

Some foreign VCs remain unfazed. Anandamoy Roychowdhary, Surge Partner, Sequoia Southeast Asia, recently told Business Standard it had been "business as usual" for the firm's early-stage portfolio companies. Sequoia's portfolio includes the likes of Cred, Dailyhunt, HealthKart, Ixigo, and Meesho.

California-based start-up accelerator Y Combinator, known for backing Zepto, Groww and Meesho, remains the most active foreign investor in India so far this year with 14 deals, followed by the likes of Sequoia with 11, and Accel with eight."Globally, firms deployed their funds at a much faster pace in 2021 and focused on portfolio management in the following year, supporting their companies in navigating the several macro shocks," says Nruthya Madappa, Partner, 3one4 Capital, an investment platform for early-stage startups, explaining the slowdown.

Optimism remains about foreign firms, too. "Global investors are still bullish about the long-term opportunity India offers and are willing to invest in VC funds with focus on India," says Ninad Karpe, Partner, 100X.VC, an Indian firm that invests in a batch of startups, called cohorts, at a time. At some point, experts say, the dry powder will begin to get fired as investment ammunition. And then the funding winter will begin to thaw.

GDP...

"Growth recovery remains on track with Q4FY23 GDP growth expected at 5.1 per cent YoY versus 4.4 per cent in Q3. Recovery is likely to be led by the services sector with a pick-up in trade, hotel, transport, and government expenditure," said Gaura Sengupta, India economist at IDFC First Bank. Sengupta sees FY23 GDP growth number to come in at 7 per cent, the same as the NSO's projections.

Sengupta said that while consumption recovery continues to be supported by urban areas, rural consumption is showing nascent signs of recovery as real rural wage growth turns positive. The economist added that capex cycle recovery, which depended on central government expenditure, got some support from a pick-up in state government expenditure and improvement in capacity utilisation by the private sector.

Capex cycle indicators showed a steady recovery with a pick-up in capital goods imports (10.8 per cent YoY in Q4), steel consumption (17.1 per cent YoY in Q4), capital and infrastructure production, Sengupta said.

Last week, Reserve Bank of India Governor Shaktikanta Das said FY23 GDP growth could be more than 7 per cent. "According to all the recent trends, it will not be a surprise if GDP growth for last year comes above the official estimate of 7 per cent. All the economic indicators for Q4 show that economy activity sustained momentum, and in fact, in all the high-frequency indictors which we monitor, the momentum was maintained in Q4," he said.

The latest Monthly Economic Review report by the Finance Ministry stated that corporations have started investing in new capacity, buoyed by sustainable growth in activity. Some analysts still had concerns about the spread of recovery. "Economic activity in Q4FY23 remained uneven, with domestic demand for services outpacing that for goods and surprisingly robust exports of services amid a contraction in merchandise items," said Aditi Nayar, chief economist, ICRA.

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