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The IMF has recently estimated India's real GDP growth at 5.9 per cent for 2023-24 in their April 2023 issue of the World Economic Outlook, revising downwards their earlier January 2023 estimate of 6.1 per cent.

The RBI had estimated a growth of 6.5 per cent for 2023-24 in their April 2023 review of the monetary policy. Their estimate is further explained in their assessment of the 'State of the Economy' included in the April 2023 RBI Monthly Bulletin.

There are considerable uncertainties in the prevailing global and domestic economic conditions and the final outcome would depend largely on the balance between global headwinds and domestic tailwinds. Our expectation is that India's real GDP growth may be close to 6 per cent in 2023-24.

GLOBAL HEADWINDS

Quarterly GDP data for 2022-23 indicates that while GDP growth in first half at 9.6 per cent was characterised by a strong base effect, the growth in the second half at 4.8 per cent may be considered more relevant as it is over a near normal base.

The global economic slowdown which followed in the wake of the Russia-Ukraine war has led to a persistent slowdown of India's exports. In the third and fourth quarters of 2022-23, merchandise exports showed a contraction of 9.9 per cent and 10.1 per cent.

The global crude prices as also prices of other primary commodities came under pressure during 2022-23. The quarterly averages ranged between \$110.1/bbl. in the first quarter to \$79/bbl. in the fourth quarter of 2022-23. The contribution of net exports to GDP growth was negative in all the four quarters of 2022-23 at 3.1, 3.4, 0.2, and 1.1 percentage points respectively. The current account deficit in the first three quarters of 2022-23 was negative at 2.1 per cent, 3.7 per cent, and 2.2 per cent of GDP respectively.

According to the IMF, growth in global trade volume of goods and services is expected to fall from 5.1 per cent in 2022 to 2.4 per cent in 2023. Growth in import volumes of key advanced countries is expected to fall in 2023. For example, in the case of the US, it is projected at (-)2 per cent in 2023.

In the case of the Euro area, growth in import volumes is forecasted to fall to 2.8 per cent in 2023 from 7.9 per cent in 2022. With global developments continuing to pose challenges, India's growth prospects in 2023-24 would



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Headwinds and tailwinds in the Indian economy

REPORT CARD. To maintain 6-7% growth and cut poverty, private investment is needed

largely depend on domestic growth drivers.

DOMESTIC GROWTH DRIVERS

Manufacturing PMI increased to a four-month high of 57.2 while PMI services increased to a near 13-year high of 62.0 in April 2023. Bank credit continued to show a double-digit growth at 15 per cent in March 2023. Merchandise trade deficit narrowed to its lowest level since August 2021 to \$(-)15.2 billion in April 2023 due to a relatively faster pace of contraction in imports vis-à-vis exports.

An encouraging sign is India's services exports have risen 1.5 times since 2019 and are estimated at an all-time high of 4.9 per cent of the global services exports. As per the Ministry of Finance, gross GST revenues at ₹1.87-lakh crore in April 2023 posted the highest ever level of monthly collections since the

inception of GST in July 2017.

On the output side, agriculture had showed a healthy and sustained growth at an average of 4.3 per cent during 2019-20 to 2022-23.

However, due to the effect of the El Nino in 2023-24, monsoons are expected to be delayed which might cause agricultural growth to fall although in RBI's assessment, this effect may be partially neutralised by the Indian Ocean Dipole. If agriculture experiences a cyclical downturn, the Budget numbers may also change since the budgeted subsidies on food and fertilisers may call for upward revisions.

INVESTMENT PROSPECTS

Some improvement in gross fixed capital formation (GFCF) relative to GDP has occurred in 2021-22 and 2022-23 both in nominal and real terms.

In nominal terms, GFCF to GDP ratio improved from 27.3 per cent in 2020-21 that is the Covid year to 29.2 per cent in 2022-23. A good part of these increases is due to increase in government capital expenditure.

For a sustained increase in growth, it is important for the private sector investment also to grow. There is some noticeable improvement in the manufacturing capacity utilisation ratio

which increased from 72.4 in the first quarter of 2022-23 to 74.3 in the third quarter, which may favour fresh investment.

If the adverse El Nino effect proves to be strong and if the Russia-Ukraine war escalates, India's growth may fall below 6 per cent. It will be closer to the RBI's expectation of 6.5 per cent if the global economic situation improves.

As we look ahead over the next few years, to maintain a reasonably high growth of 6-7 per cent which is also needed to bring down the poverty ratio, focus must be on private investment, both corporate and non-corporate.

For this to happen, improvement in the overall investment climate is called for. This would depend both on economic and non-economic factors. It is also important to look at the sectoral investment behaviour and take suitable action.

To some extent, Budgetary focus on government capital formation may help in crowding in private investment, especially in an uncertain situation.

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