

# GROSS DOMESTIC PRODUCT

CSO's Advance Estimates for FY2017 place GDP and GVA growth at 7.1% and 7.0%, respectively, similar to H1 FY2017 growth

JANUARY 2017



## HIGHLIGHTS

- Growth of India's GDP (at constant 2011-12 prices) in year-on-year (YoY) terms in FY2017 has been projected by the Advance Estimates (AE) released by the Central Statistics Office (CSO) at 7.1%, significantly lower than the 7.6% expansion in FY2016.
- The CSO's AE indicate a mild slowdown in growth of gross value added (GVA) at basic prices to 7.0% in FY2017 from 7.2% in FY2016.
- The growth rates projected in the AE for FY2017 are similar to the GDP and GVA growth of 7.2% each in H1 FY2017, despite the expected adverse impact of the note ban on certain sectors from mid-November 2016, as they are constrained by the unavailability of updated information such as Corporate filings for Q3 FY2017, 2nd Advance Estimates of rabi output etc.
- ICRA expects GDP and GVA growth for FY2017 at 6.8% and 6.6%, respectively, appreciably lower than the AE.

## OVERVIEW

The AE are typically released each year by the CSO in early February, around three weeks prior to the presentation of the Union Budget, with the size of the GDP required to ascertain various fiscal indicators, such as the fiscal deficit as a percentage of GDP. The AE for FY2017 have been released a month earlier than the normal schedule, which was necessitated by the preponement of the presentation of the Union Budget for FY2018 to February 1, 2017. The AE have forecast India's GDP growth (at constant 2011-12 prices) in FY2017 at 7.1% in YoY terms, significantly lower than the 7.6% expansion in FY2016 (refer *Table 1* and *Chart 1*), but similar to the estimate of 7.2% for H1 FY2017. Growth of GVA at basic prices has been estimated to slow mildly to 7.0% in FY2017 from 7.2% each in FY2016 and H1 FY2017.

**Table 1: Growth of GDP & Components (in %, Constant 2011-12 Prices, YoY)**

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017*	FY2015	FY2016	FY2017 AE <sup>^</sup>
Private Final Consumption Expenditure	6.6%	8.2%	7.1%	6.0%	6.2%	7.4%	6.5%
Government Final Consumption Exp.	1.6%	3.0%	16.9%	32.4%	12.8%	2.2%	23.8%
Exports	-5.0%	-5.4%	1.7%	2.6%	1.7%	-5.2%	2.2%
less Imports	-1.5%	-4.1%	-7.5%	-0.1%	0.8%	-2.8%	-3.8%
Gross Fixed Capital Formation	8.4%	-0.4%	-4.4%	4.2%	4.9%	3.9%	-0.2%
<b>GDP</b>	<b>7.5%</b>	<b>7.6%</b>	<b>7.2%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>7.6%</b>	<b>7.1%</b>
	Q1 FY2017	Q2 FY2017	H1 FY2017	H2 FY2017*	FY2015	FY2016	FY2017 AE <sup>^</sup>
Agriculture, Forestry & Fishing	2.3%	0.5%	2.5%	5.2%	-0.2%	1.2%	4.1%
Industry	6.5%	8.2%	5.6%	4.9%	5.9%	7.4%	5.2%
Services	8.9%	8.9%	9.2%	8.4%	10.3%	8.9%	8.8%
<b>GVA at Basic Prices</b>	<b>7.2%</b>	<b>7.1%</b>	<b>7.2%</b>	<b>6.7%</b>	<b>7.1%</b>	<b>7.2%</b>	<b>7.0%</b>
<b>GVA ex-Agri</b>	<b>8.0%</b>	<b>8.7%</b>	<b>7.9%</b>	<b>7.1%</b>	<b>8.6%</b>	<b>8.3%</b>	<b>7.5%</b>

\*Values for H2 FY2017 have been implicitly calculated based on the FY2017 AE released by the CSO on January 6, 2017 and the data for H1 FY2017 released previously

Source: CSO; ICRA research

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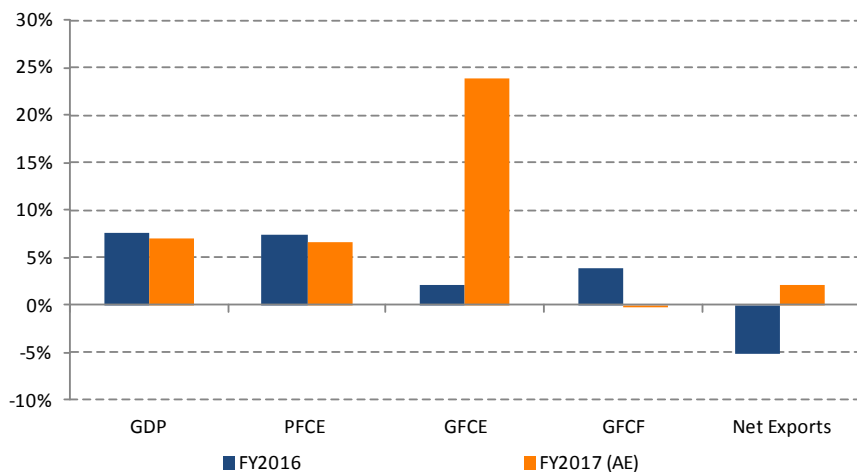
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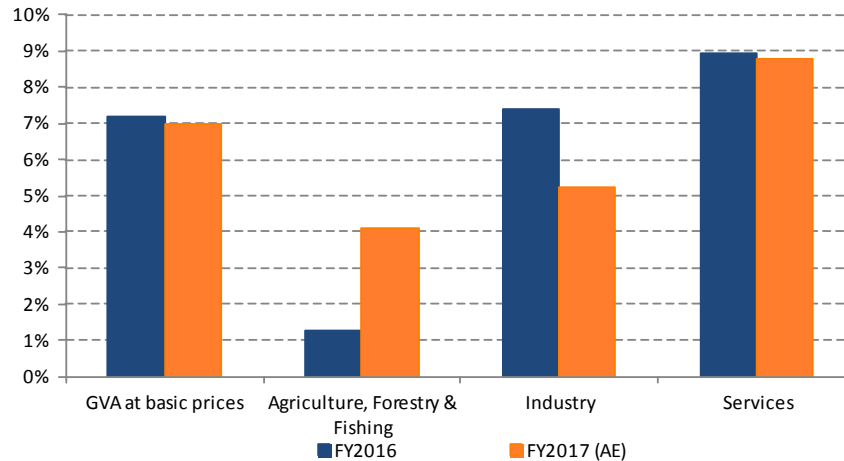
The growth rates projected in the AE for FY2017 are unsurprisingly similar to the GDP and GVA growth of 7.2% each in H1 FY2017, despite the expected adverse impact of the note ban on certain sectors, as they are constrained by the unavailability of updated information, such as Corporate filings for Q3 FY2017 and 2nd Advance Estimates of *rabi* output. For many sectors, lead indicators are available only till September or October 2016, with data for November 2016 limited to sectors such as freight and passengers handled by the railways, cargo handled at sea ports, cargo and passengers handled by civil aviation, sales of commercial vehicles, production of cement and consumption of finished steel. Given the impact of demonetisation on actual activity from mid-November 2016 onward, projecting GDP growth for the full year by extrapolating the available trends up to September/October 2016 for several sectors, may introduce more error than what has been observed in earlier years. In ICRA's view, GDP and GVA growth for FY2017 would be appreciably lower than the AE at 6.8% and 6.6%, respectively.

**Sector-wise AE for FY2017:** The slowdown in GDP growth to 7.1% in FY2017 AE from 7.6% in FY2016 (refer *Chart 1*) is led by the 0.2% contraction in gross fixed capital formation (GFCF), in contrast to the 3.9% rise in FY2016. Additionally, the growth of private final consumption expenditure (PFCE) has been estimated to ease to 6.5% in FY2017 from 7.4% in FY2016. In contrast, government final consumption expenditure (GFCE) expansion is projected to increase to a robust 23.8% in FY2017, from the low 2.2% in FY2016. Moreover, exports are expected to record a turnaround to a growth of 2.2% in FY2017, from the contraction of 5.2% in FY2016. This, in conjunction with the deeper contraction of imports (3.8% in FY2017; 2.8% in FY2016), would reduce the drag exerted by net imports on the pace of GDP expansion in FY2017.

**Chart 1: YoY Growth in GDP and its components (Constant 2011-12 Prices) in FY2016 and FY2017 AE**



**Chart 2: YoY Growth in GVA at Basic Prices and its components (Constant 2011-12 Prices) in FY2016 and FY 2017 AE**



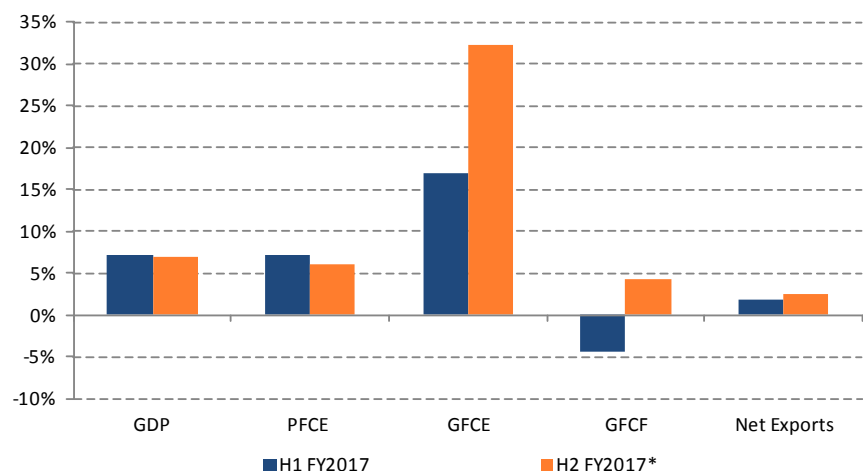
Source: CSO; ICRA research

On a YoY basis, the pace of expansion of GVA at basic prices is projected to ease to 7.0% in FY2017 from 7.2% in FY2016 (refer *Chart 2* and *Annexure*), on account of a slowdown in industry (to +5.2% from +7.4%). While services sector growth is forecast to ease mildly to 8.8% in FY2017 from 8.9% in FY2016, the pace of growth of agriculture, forestry & fishing is projected to increase to 4.1% from 1.2%. Within industry, the performance of mining & quarrying is estimated to deteriorate substantially, to a contraction of 1.8% in FY2017 from the expansion of 7.4% in FY2016. In addition, the growth of manufacturing (to +7.4% from +9.3%), construction (to +2.9% from +3.9%) and electricity, gas, water supply & other utility services (to +6.5% from +6.6%) are forecast to worsen in FY2017 compared to FY2016. The mild easing in service sector growth in FY2017 compared to FY2016 is led by trade, hotels, transport, communication and services related to broadcasting (THTCS; to +6.0% from +9.0%) and financial, real estate & professional services (FRP; to +9.0% from +10.3%), the impact of which is largely counteracted by the doubling in growth of public administration,

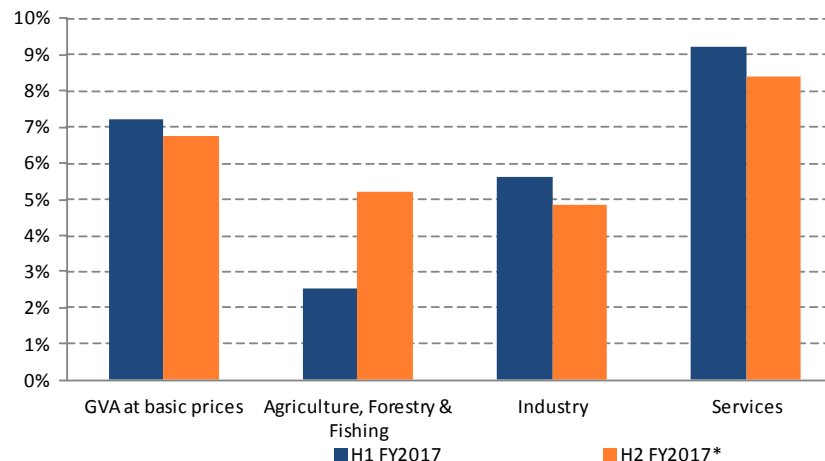
defence and other services (PADOS; to +12.8% from +6.6%). In contrast, a near-normal monsoon is likely to boost growth of agriculture, forestry & fishing to a three-year high 4.1% in FY2017 from 1.2% in FY2016. Excluding agriculture, GVA growth is estimated to moderate sharply to 7.5% in FY2017 from 8.3% in FY2016.

**Implicit Trends for H2 FY2017:** The AE for FY2017 suggest a mild slowdown in GDP growth to 7.0% in H2 FY2017 from 7.2% in H1 FY2017 (refer *Chart 3*), led by PFCE (to 6.0% from 7.1%), which appears likely in light of the deferral of consumption after the note ban. In contrast, the performance of GFCE, GFCF and exports is projected to improve in H2 FY2017 relative to H1 FY2017. In particular, **GFCF is estimated to record a rise of 4.2% in H2 FY2017, in contrast to the contraction of 4.4% in H1 FY2017, which seems quite optimistic. With a sharp revival in private investments unlikely, a substantial increase in capital spending by both the central and several state governments would be necessary for GFCF to display such a turnaround. In this context, the implicit doubling in growth of GFCE to 32.4% in H2 FY2017 from 16.9% in H1 FY2017 suggests the likelihood of a fiscal slippage at the general government level.**

**Chart 3: YoY Growth in GDP and its components (Constant 2011-12 Prices) in H1 FY2017 and H2 FY2017**



**Chart 4: YoY Growth in GVA at Basic Prices and its components (Constant 2011-12 Prices) in H1 FY2017 and H2 FY2017**



Source: CSO; ICRA research

In terms of GVA growth, the AE indicate a sharper slowdown to 6.7% in H2 FY2017 from 7.2% in H1 FY2017 (refer *Chart 4*), led by services (to 8.4% from 9.2%) and industry (to 4.9% from 5.6%), whereas growth of agriculture, forestry and fishing is projected to rise to a robust 5.2% from 2.5%. While *rabi* sowing has grown by a healthy 7% on a subdued base, activity and incomes related to non crop agricultural sectors including horticulture and livestock may have been adversely impacted by the liquidity crunch. The slowdown in growth of services is primarily driven by THTCS (to 4.5% in H2 FY2017 from 7.6%), which appears to capture the initial impact of the note ban, benefitting from the availability of information for November 2016 for some of its sub-components. The decline in industrial growth is driven by manufacturing (to 6.7% in H2 FY2017 from 8.1% in H1 FY2017) and mining & quarrying (to -2.6% from -0.9%). The growth of construction is projected to improve to 3.4% in H2 FY2017 from 2.5% in H1 FY2017, which appears unlikely post-demonetisation. **Given the unfolding trends, we expect actual FY2017 growth to be lower than the AE for sub-sectors such as manufacturing, agriculture and construction. In contrast, the recent uptick in commodity prices may well result in a somewhat improved GVA performance of the mining & quarrying sector in H2 FY2017 as compared to the YoY decline in H1 FY2017. Overall, ICRA expects GDP and GVA growth for FY2017 at 6.8% and 6.6%, respectively, appreciably lower than the AE.**

## ANNEXURE

**Table 2: GVA at Basic Prices & its Components (YoY Growth, Constant 2011-12 Prices)**

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017*	FY2015 1 <sup>st</sup> RE	FY2016 PE^	FY2017 AE
<b>GVA at Basic Prices</b>	<b>7.1%</b>	<b>7.1%</b>	<b>7.2%</b>	<b>6.7%</b>	<b>7.1%</b>	<b>7.2%</b>	<b>7.0%</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>2.3%</b>	<b>0.5%</b>	<b>2.5%</b>	<b>5.2%</b>	<b>-0.2%</b>	<b>1.2%</b>	<b>4.1%</b>
<b>Industry</b>	<b>6.5%</b>	<b>8.2%</b>	<b>5.6%</b>	<b>4.9%</b>	<b>5.9%</b>	<b>7.4%</b>	<b>5.2%</b>
Mining & Quarrying	6.9%	7.9%	-0.9%	-2.6%	10.8%	7.4%	-1.8%
Manufacturing	8.2%	10.3%	8.1%	6.7%	5.5%	9.3%	7.4%
Electricity, gas, water supply & other utilities	5.7%	7.4%	6.4%	6.6%	8.0%	6.6%	6.5%
Construction	3.3%	4.5%	2.5%	3.4%	4.4%	3.9%	2.9%
<b>Services</b>	<b>8.9%</b>	<b>8.9%</b>	<b>9.2%</b>	<b>8.4%</b>	<b>10.3%</b>	<b>8.9%</b>	<b>8.8%</b>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	8.3%	9.5%	7.6%	4.5%	9.8%	9.0%	6.0%
Financial, Real Estate & Professional Services	10.7%	9.8%	8.8%	9.2%	10.6%	10.3%	9.0%
Public Administration, Defence and Other Services	6.4%	6.8%	12.4%	13.2%	10.7%	6.6%	12.8%

^RE: Revised Estimates, PE: Provisional Estimates

Source: CSO; ICRA research

**Table 3: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)**

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017*	FY2015 1 <sup>st</sup> RE	FY2016 PE^	FY2017 AE
<b>GDP</b>	<b>7.5%</b>	<b>7.6%</b>	<b>7.2%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>7.6%</b>	<b>7.1%</b>
PFCE	6.6%	8.2%	7.1%	6.0%	6.2%	7.4%	6.5%
GFCE	1.6%	3.0%	16.9%	32.4%	12.8%	2.2%	23.8%
Exports	-5.0%	-5.4%	1.7%	2.6%	1.7%	-5.2%	2.2%
less Imports	-1.5%	-4.1%	-7.5%	-0.1%	0.8%	-2.8%	-3.8%
Gross Capital Formation	8.1%	-0.3%	-5.7%	3.1%	6.0%	3.8%	-1.4%
GFCF	8.4%	-0.4%	-4.4%	4.2%	4.9%	3.9%	-0.2%
Change in Stocks	4.5%	6.6%	5.9%	4.6%	20.3%	5.5%	5.2%
Valuables	6.2%	-4.8%	-47.9%	-19.3%	15.4%	0.3%	-33.5%
Discrepancies	-92.6%	331.8%	-1044.3%	-17.9%	-20.0%	-708.9%	12.6%

Source: CSO; ICRA research

**Table 4: Composition of GVA at Basic Prices (Constant 2011-12 Prices)**

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017*	FY2015 1 <sup>st</sup> RE	FY2016 PE <sup>^</sup>	FY2017 AE
<b>GVA at Basic Prices</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>13%</b>	<b>18%</b>	<b>13%</b>	<b>17%</b>	<b>16%</b>	<b>15%</b>	<b>15%</b>
<b>Industry</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>
Mining & Quarrying	3%	3%	3%	3%	3%	3%	3%
Manufacturing	18%	17%	18%	17%	17%	17%	18%
Electricity, gas, water supply & other utilities	2%	2%	2%	2%	2%	2%	2%
Construction	9%	8%	8%	8%	9%	9%	8%
<b>Services</b>	<b>55%</b>	<b>51%</b>	<b>57%</b>	<b>52%</b>	<b>53%</b>	<b>53%</b>	<b>54%</b>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	19%	20%	19%	19%	19%	19%	19%
Financial, Real Estate & Professional Services	24%	19%	25%	19%	21%	22%	22%
Public Administration, Defence and Other Services	13%	13%	13%	13%	13%	13%	13%

Source: CSO; ICRA research

**Table 5: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)**

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017*	FY2015 1 <sup>st</sup> RE	FY2016 PE <sup>^</sup>	FY2017 AE
<b>GDP</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
PFCE	55%	56%	55%	55%	56%	56%	55%
GFCE	11%	9%	12%	11%	10%	10%	11%
Exports	22%	20%	20%	20%	25%	24%	20%
<i>less Imports</i>	24%	22%	21%	20%	27%	25%	20%
Gross Capital Formation	36%	33%	32%	32%	36%	36%	32%
GFCF	33%	30%	29%	29%	33%	32%	29%
Change in Stocks	2%	2%	2%	2%	2%	2%	2%
Valuables	2%	1%	1%	1%	2%	2%	1%
Discrepancies	0%	4%	1%	3%	0%	0%	2%

Source: CSO; ICRA research



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