

# GROSS DOMESTIC PRODUCT

**GDP grew by stronger-than-expected  
7.6% in Q2 FY2024 led by industry;  
FY2024 growth forecast raised to 6.2%  
from 6.0%, amid a moderation in H2**

**NOVEMBER 2023**





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*YoY growth in GDP eased mildly to 7.6% in Q2 FY2024, sharply exceeding ICRA's expectations*

*On the production side, sharper-than-expected uptick in industry largely offset the slowdown in agriculture and services*

*ICRA expects GDP growth to moderate in H2 FY2024 amid sub-par monsoon and slowdown in Govt capex ahead of General Elections; FY2024 growth forecast is revised to 6.2% from 6.0%*

Considerably surpassing ICRA's (+7.0%) and consensus estimates, the National Statistical Office (NSO) has pegged the year-on-year (YoY) growth in India's GDP (at constant 2011-12 prices) for Q2 FY2024 at a healthy 7.6%, only a shade below the 7.8% seen in Q1 FY2024. The surprise was largely led by the manufacturing and construction sectors, even as the double-digit expansion in mining, and electricity, gas, water supply and other utility services was along the expected lines. On the expenditure front, the double-digit YoY expansion in Government final consumption expenditure (GFCE) and gross fixed capital formation (GFCF) and the turnaround in export growth boosted the GDP expansion in Q2 FY2024, even as private final consumption expenditure (PFCE) grew by just 3.1%, partly reflecting weakness in rural demand. With a stronger-than-expected growth in Q2, ICRA has raised its FY2024 GDP growth forecast to 6.2% from 6.0%, amid continued expectations of a significant moderation in H2 FY2024.

- **YoY GDP expansion eased mildly to 7.6% in Q2 FY2024, while exceeding ICRA's forecast:** While GFCF (to +11.0% from +8.0%) and GFCE (to +12.4% from -0.7%) witnessed a double-digit YoY expansion in Q2 FY2024, export growth (to +4.3% from -7.7%) turned positive in the quarter, thereby pushing up GDP growth. However, PFCE growth halved to 3.1% in Q2 FY2024 from 6.0% in Q1 FY2024, partly reflecting the weakness in rural demand.
- **GVA growth pegged at higher-than-expected 7.4% in Q2 FY2024:** This was mainly attributable to the better-than-anticipated performance of the manufacturing (YoY: +13.9%) and construction (+13.3%) sectors. The sharp improvement in overall industrial performance (to +13.2% from +5.5%) offset the steep deceleration in the services sector (to +5.8% from +10.3%) and the expectedly muted performance in agriculture (to +1.2% from +3.5%), accounting for as much as ~52% of the GVA growth in Q2 FY2024.
- **FY2024 GDP growth forecast raised by 20 bps to 6.2%:** Looking ahead, ICRA expects GDP growth to moderate significantly in H2 FY2024, amidst continuing headwinds such as the normalising base, weak outlook for agri output and rural demand, tepid global growth, narrowing differentials in commodity prices and transmission of past monetary tightening. Nevertheless, given the higher-than-expected growth turnout for Q2, we are revising our FY2024 growth forecast to 6.2% from 6.0%.

## 1 Quarterly Analysis: Production Approach



## 2 Quarterly Analysis: Expenditure Approach



## 3 Outlook

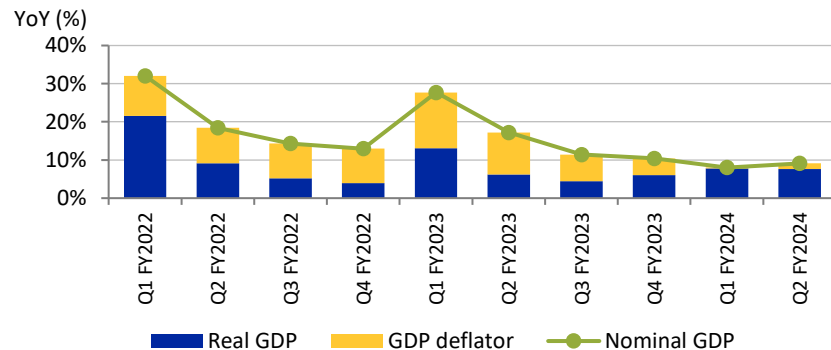


## 4 Annexure



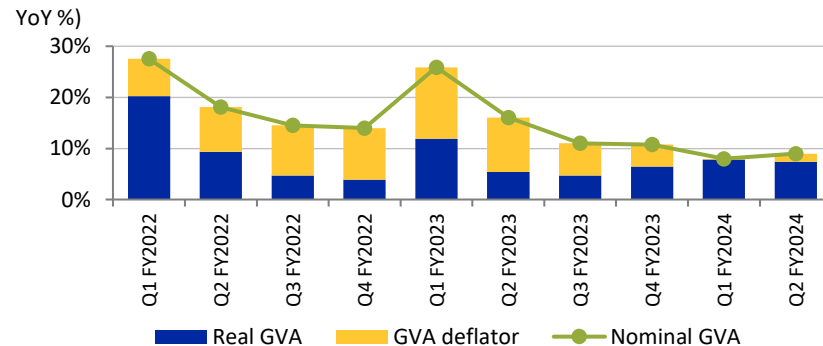
# GDP and GVA growth eased mildly in Q2 FY2024

EXHIBIT: Quarterly trends in real & nominal GDP & deflator



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real & nominal GVA & deflator

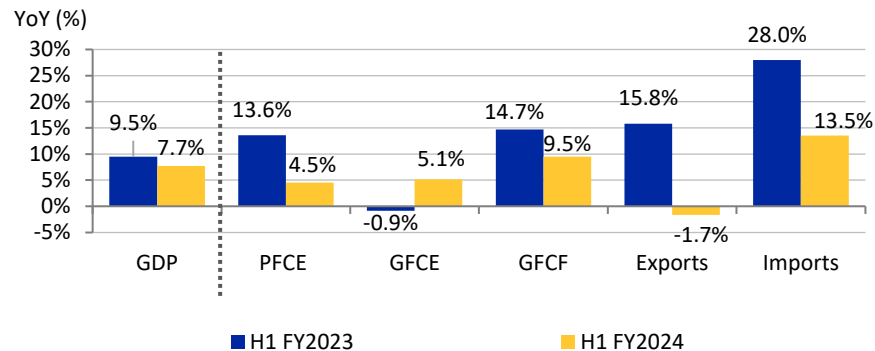


Source: NSO; CEIC; ICRA Research

- As per the data released by the National Statistical Office (NSO), the YoY growth in real GDP and GVA eased mildly to 7.6% and 7.4% in Q2 FY2024, respectively, from 7.8% each in Q1 FY2024, partly driven by a normalising base. However, this was much higher than ICRA's expectations (GDP: +7.0% and GVA: +6.8%).
- The better-than-anticipated performance was largely driven by the manufacturing (YoY: +13.9%) and construction (+13.3%) sectors, which surprised on the upside. This offset the steep deceleration in the services sector as well as the expected muted performance in agriculture.
- In nominal terms, the YoY expansion in the GDP and GVA witnessed an uptick to 9.1% and 9.0%, respectively in Q2 FY2024 from 8.0% each in Q1 FY2024, despite the easing in real growth. The GDP and GVA deflator widened to 1.5% and 1.6%, respectively, in Q2 FY2024 from 0.2% each in Q1 FY2024; this reflects the narrower deflation in WPI (to -0.7% from -2.9%) in Q2 FY2024 relative to the previous quarter, amidst an uptick in commodity prices, as well as a hardening in the CPI inflation (to +6.4% from +4.6%) between these two quarters.

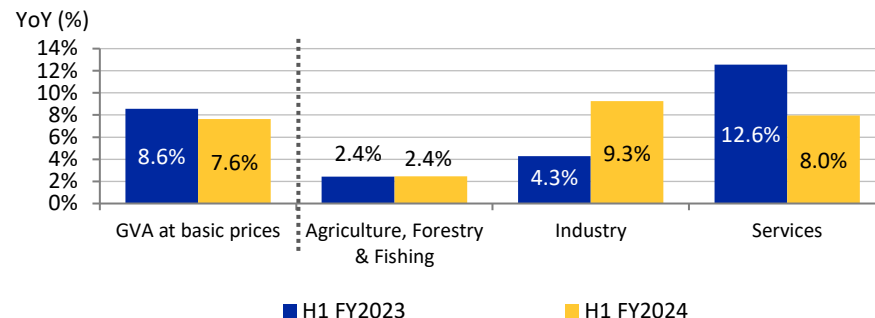
# Real GDP and GVA up by 7.7% and 7.6%, respectively, during H1 FY2024

EXHIBIT: YoY performance of GVA and its components in H1 FY2023-24



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of GDP and its components in H1 FY2023-24



Source: NSO; CEIC; ICRA Research

- India's GDP and GVA at basic prices recorded a growth of 7.7% and 7.6%, respectively, in H1 FY2024, lower than the growth seen in H1 FY2023 (+9.5% and +8.6%, respectively).
- The YoY growth in GDP in H1 FY2024 was largely driven by PFCE (+4.5%), GFCE (+5.1%), and GFCF (+9.5%). Given the 7.7% growth in GDP during H1 FY2024, the Indian economy would need to grow by 5.4% YoY in H2 FY2024 to meet the MPC's FY2024 projection of 6.5%. Likewise, GDP would need to expand by a slightly lower 4.8% in H2 FY2024, in order to meet ICRA's projection of 6.2% for FY2024.
- Additionally, the 7.6% growth in GVA in H1 FY2024 was led by industry (+9.3%; driven by a robust growth in construction and manufacturing), followed by services (+8.0%), and a modest growth in agriculture, forestry and fishing (+2.4%).





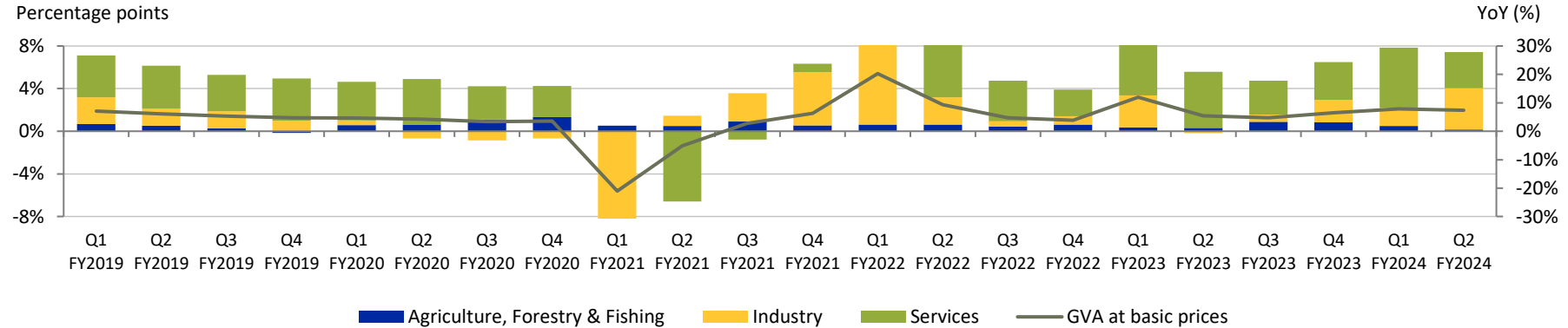
## Quarterly Analysis - Production Approach

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*YoY GVA expansion eased mildly to 7.4% in Q2 FY2024, with sharper-than-expected uptick in industry offsetting the moderation in agriculture and services*

# Sharp improvement in industrial GVA in Q2 FY2024 partly offset the moderation in services and agriculture, forestry and fishing

EXHIBIT: Contribution of GVA components

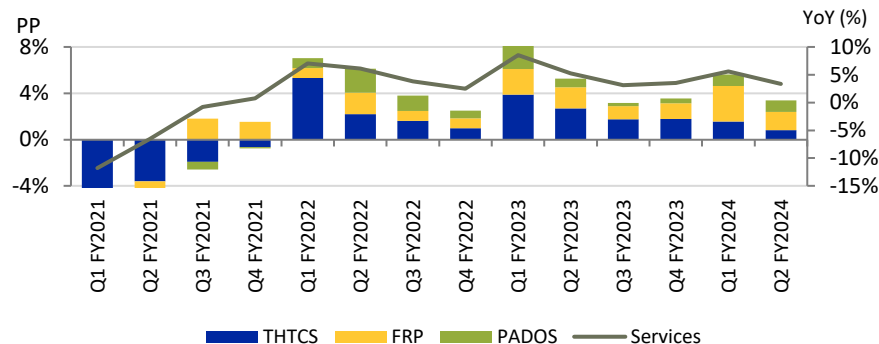


Source: NSO; CEIC; ICRA Research

- While exceeding ICRA's expectations (+6.8%), the YoY growth in GVA at basic prices moderated mildly to 7.4% in Q2 FY2024 from 7.8% in Q1 FY2024. The sharper-than-expected improvement in industry (to a nine-quarter high +13.2% in Q2 FY2024 from +5.5% in Q1 FY2024) offset the deterioration in agriculture, forestry and fishing (to an 18-quarter low +1.2% from +3.5%) and services (to a six-quarter low +5.8% from +10.3%) in Q2 FY2024, vis-à-vis Q1 FY2024.
- In terms of contribution, industry accounted for 3.9 percentage points (pp) of the 7.4% GVA growth in Q2 FY2024, followed 3.4 pp stemming from services and a muted 0.1 pp from agriculture, forestry and fishing.
- Excluding agriculture, the GVA growth stood at a higher 8.3% in Q2 FY2024, albeit slightly lower than the 8.5% growth seen in Q1 FY2024.

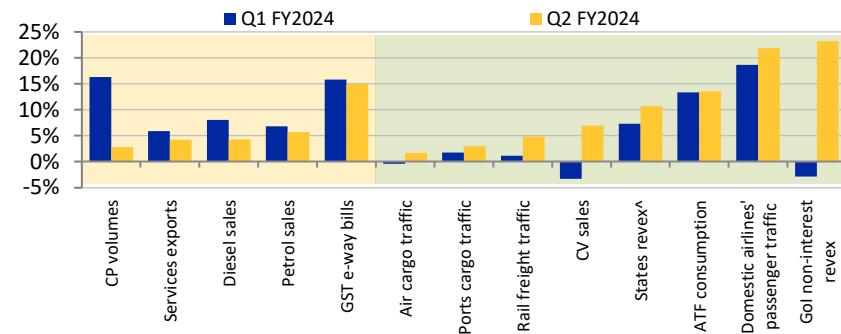
# Services GVA growth slowed to lower-than-expected 5.8% in Q2 FY2024

EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting; FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of services lead indicators in Q1-Q2 FY2024



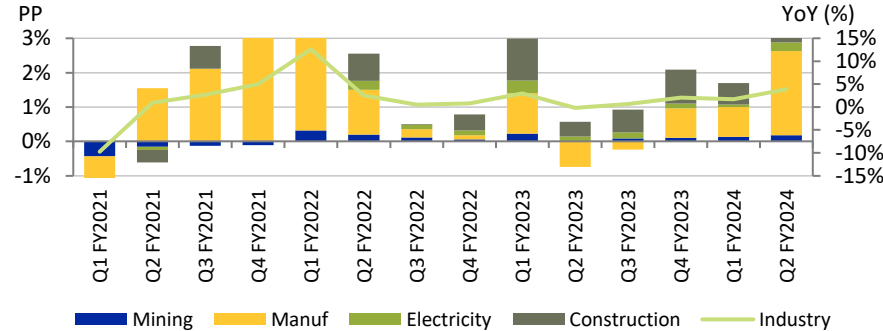
^Revex data is for 25 states except Arunachal Pradesh, Goa, and Manipur; Source: CMIE; RBI; GSTN; Indian Railways; IPA; PPAC; DGCA; CEIC; ICRA Research

- The YoY expansion in services GVA moderated to a six-quarter low 5.8% in Q2 FY2024 from 10.3% in Q1 FY2024, sharply trailing ICRA's expectation (+8.2%) for that quarter. The YoY growth in FRP nearly-halved to 6.0% in Q2 FY2024 from 12.2% in Q1 FY2024, followed by a sharp deterioration in THTCS (to a 10-quarter low +4.3% from +9.2%) and a modest easing in PADOS (to +7.6% from +7.9%) in Q2 FY2024, vis-à-vis Q1 FY2024.
  - **FRP:** The YoY growth of non-food bank credit (to +15.3% at end-Sep 2023 from +16.3% at end-June 2023; excluding the merger) and CP volumes (to +2.8% from +16.3%) eased, while the performance of the real estate sector remained robust (home sales in top 7 cities: +20.5% YoY in Q2 FY2024).
  - **THTCS:** Despite the healthy performance of most high frequency indicators (air cargo traffic, domestic airlines' passenger traffic, rail freight traffic, etc.), with the G-20 summit boosting sectors like hotels, the unfavourable base sharply dampened the GVA growth of THTCS to 4.3% in Q2 FY2024. However, this segment witnessed an expansion over the pre-Covid levels of FY2020 in Q2 after ruling below the same in Q1 FY2024.
  - **PADOS:** The combined revex of 25 state governments^, for which data is available, witnessed a higher growth of 10.7% YoY in Q2 FY2024, relative to 7.3% in Q1 FY2024. Moreover, the Gol's non-interest revenue expenditure expanded by 23.2% YoY in Q2 FY2024, after having contracted by 2.9% in the prior quarter.



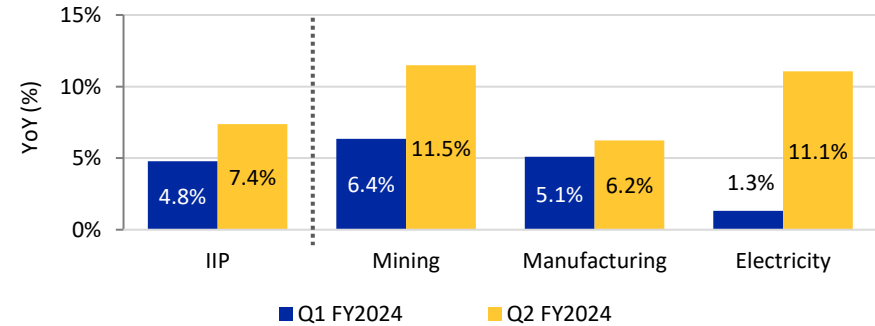
# Sub-par rainfall boosted industrial GVA growth to 13.2% in Q2 FY2024 from 5.5% in Q1 FY2024...

EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas, water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components



Source: NSO; CEIC; ICRA Research

- The sub-par monsoon and favourable base boosted the industrial GVA growth to a nine-quarter high 13.2% in Q2 FY2024 (-0.5% in Q2 FY2023) from 5.5% in Q1 FY2024 (+9.4% in Q1 FY2023), driven by a double-digit and multi-quarter high expansion across all the sub-sectors. This includes electricity, gas, water supply and other utility services (to a five-quarter high +10.1% in Q2 FY2024 from +2.9% in Q1 FY2024; amidst sub-par rainfall), mining and quarrying (to an eight-quarter high +10.0% from +5.8%), manufacturing (to a nine-quarter high +13.9% from +4.7%) in Q2 FY2024, relative to Q1 FY2024.
- Additionally, the construction GVA growth improved to a higher-than-expected 13.3% in Q2 FY2024 (five-quarter high) from 7.9% in Q1 FY2024, with sub-par rainfall resulting in relatively lower disruptions in the quarter vis-à-vis that typically seen in the past. The healthy performance of cement output (to +10.2% from +12.7%), finished steel consumption (to +16.8% from +11.1%), and GoI capex (to +26.4% from +59.1%) is likely to have supported the performance of this sector in Q2 FY2024.
- Industry accounted for a high 3.9 pp of the GVA growth in Q2 FY2024, mainly driven by manufacturing (+2.5 pp) and construction (+1.0 pp), amidst mild contributions from mining (+0.2 pp) and electricity (+0.2 pp).

# ... with the performance of manufacturing and construction surprising on the upside

## Mining

In line with the sharp uptick in the growth for mining output (+11.5% in Q2 FY2024 vs. +6.4% in Q1 FY2024) and a low base (+0.1% in Q2 FY2023), the GVA expansion of mining and quarrying rose to an eight-quarter high 10.0% in Q2 FY2024 from 5.8% in the prior quarter (+9.5% in Q1 FY2023).



## Manufacturing

Manufacturing GVA growth surged to a nine-quarter high 13.9% in Q2 FY2024 from 4.7% in Q1 FY2024, led by the higher volume growth (as per IIP; +6.2% in Q2 FY2024 from +5.1% in Q1 FY2024), favourable base (-3.8% in Q2 FY2023), and improvement in profit margins owing to continued deflation in input prices.



## Electricity

The GVA growth of electricity, gas, water supply and other utility sectors expectedly rose to a five-quarter high 10.1% in Q2 FY2024 from 2.9% in Q1 FY2024, largely on account of the uptick in electricity demand from household, C&I and agri segments owing to deficient rainfall seen in Aug 2023.



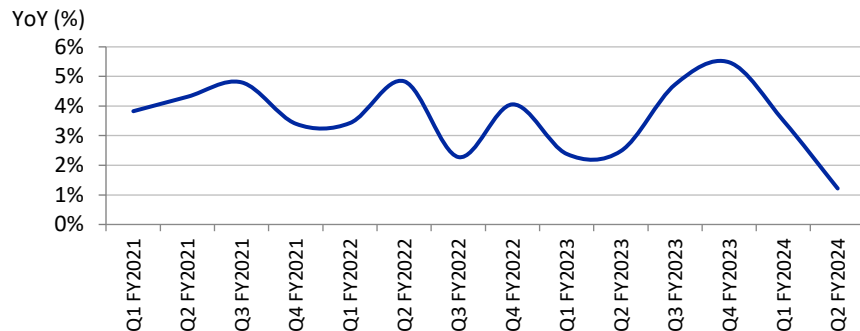
## Construction

Construction GVA growth improved to a five-quarter high 13.3% in Q2 FY2024, led by a considerable YoY expansion in the capex of the Centre (+26%) and 23 states (+34%, outlay and net lending), as well as double-digit growth in construction inputs including cement output (+10%) and finished steel consumption (+17%).



# Agri GVA growth pegged at 18-quarter low 1.2% in Q2 FY2024, amidst uneven and sub-par monsoon, and decline in kharif output

EXHIBIT: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Kharif production as per the First Advance Estimates for 2023-24

Kharif Production			
In million tonnes	Final Estimate 2022-23 (A)	1 <sup>st</sup> AE 2023-24 (B)	Growth (%; B/A)
Rice	110.5	106.3	-3.8%
Coarse Cereals	37.6	35.1	-6.5%
Pulses	7.6	7.1	-6.6%
Oilseeds	26.2	21.5	-17.7%
Cotton*	33.7	31.7	-6.0%
Sugarcane	490.5	434.8	-11.4%

\*Million bales of 170 kgs. each; Source: Ministry of Agriculture and Farmers' Welfare, GoI; CEIC; ICRA Research

- The GVA growth in agriculture, forestry and fishing declined sharply to an 18-quarter low 1.2% in Q2 FY2024 (+2.5% in Q2 FY2023) from 3.5% in Q1 FY2024 (+2.4% in Q1 FY2023), on account of uneven and sub-par monsoon, and the consequent decline in output across all major kharif crops.
- As per the First Advance Estimates of crop production for 2023-24 released by the Ministry of Agriculture and Farmers' Welfare, the output of all kharif crops is estimated to have declined on a YoY basis, including sugarcane (-11.4%), rice (-3.8%) and coarse cereals (-6.5%), which had seen an uptick in their sown area. Moreover, the decline in output of most crops is larger than the fall in their area sown, reflecting a contraction in yields.
- Although these are initial estimates, the fears of uneven South-west Monsoon manifesting into lower yields and output seem to have materialised. This is likely to have depressed expectations around farm incomes and may have also weighed on rural spending in Q2 FY2024.



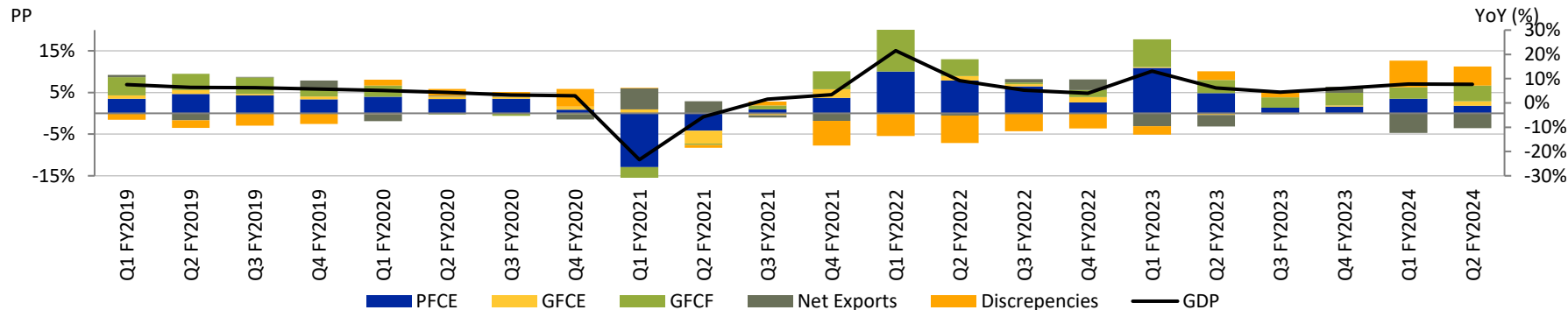
## Quarterly Analysis: Expenditure Approach

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*GDP growth momentum sustained at a healthy 7.6% in Q2 FY2024, owing to double-digit expansions in GFCE and GFCF, amidst a modest rise in PFCE*

# Double-digit growth in GFCE and GFCF drove a healthy 7.6% expansion in GDP in Q2 FY2024, even as PFCE grew by just 3.1%

EXHIBIT: Contribution of GDP components



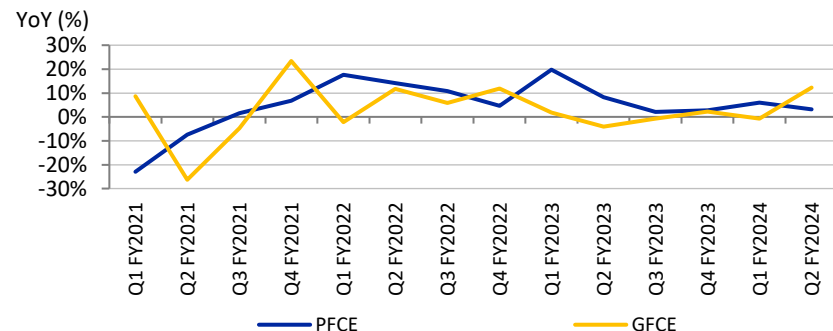
PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- Surpassing ICRA's forecast (+7.0%), the NSO placed the GDP expansion at a healthy 7.6% for Q2 FY2024, attributable to a double-digit expansion in GFCE (+12.4%) and GFCF (+11.0%).
- This entailed a marginal easing from 7.8% GDP growth recorded in Q1 FY2024, mainly led by PFCE (to +3.1% in Q2 FY2024 from +6.0% in Q1 FY2024), which was largely offset by a sharp turnaround in GFCE to an expansion (to +12.4% from -0.7%), and a higher expansion in GFCF (to +11.0% from +8.0%). Besides, the drag from net exports on GDP growth increased slightly to Rs. 2.9 trillion in Q2 FY2024 from Rs. 2.6 trillion in Q1 FY2024, while sharply exceeding the Rs. 1.5 trillion seen in Q2 FY2023.
- Half of the 7.6% GDP growth in Q2 FY2024 was contributed by GFCF (+3.8 pp), followed by relatively lower contributions by other major components of GDP, namely, PFCE (+1.9 pp) and GFCE (+1.1 pp).



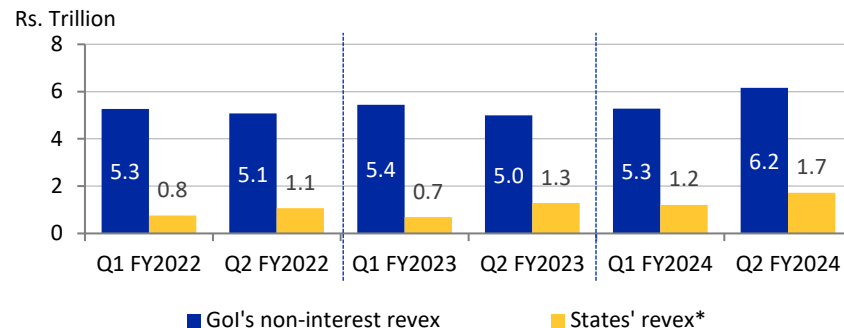
# PFCE growth surprisingly halved in Q2 FY2024 compared to Q1, while GFCE saw an impressive 10-quarter high growth

EXHIBIT: Growth in PFCE & GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure;  
Source: NSO; CEIC; ICRA Research

EXHIBIT: Revenue expenditure of Gol (net of interest outgo) and 25 states

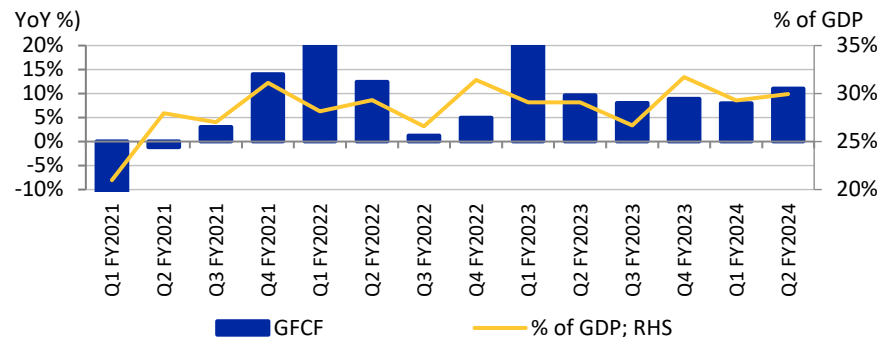


\*Revex data has been used for 25 states except Arunachal Pradesh, Goa and Manipur; Source: CGA; Gol: ICRA Research

- The YoY growth in PFCE decelerated to 3.1% in Q2 FY2024 from the three-quarter high 6.0% in Q1 FY2024, which can be partly attributed to some weakness in rural demand amid the uneven monsoon, and the surge in food inflation during the quarter (CPI: to +9.3% from +3.8%) which may have constrained household budgets. This stood in contrast with the improvement in the YoY performance in the consumer goods output (to +4.2% in Q2 FY2024 from +2.5% in Q1 FY2024, led by durables segment), as per the IIP data, as well as the resumption of recovery in consumer sentiments across 19 major cities in Sep 2023 vis-à-vis July 2023, based on the RBI's consumer confidence survey, amid resilience in demand for certain discretionary goods (PVs) and services (air travel, hotels).
- After a short-lived and marginal fall in Q1 FY2024 (-0.7%), GFCE recorded an impressive YoY growth of 12.4% in Q2 FY2024, highest in the last 10 quarters. This was in line with a healthy performance in the Gol's non-interest revenue expenditure (to +23.2% in Q2 FY2024 from -2.9% in Q1 FY2024) as well as the combined revenue expenditure of 25 state governments\* (to +10.7% from +7.3%), for which data is available, in Q2 FY2024, compared to Q1 FY2024.

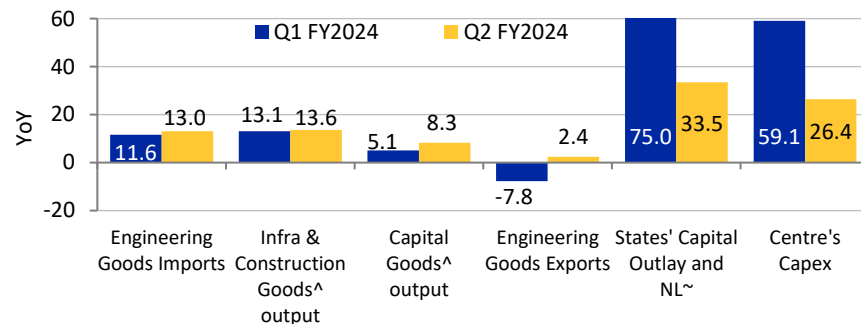
# Even on a normalised base, GFCF growth rose to a five-quarter high 11.0% in Q2 FY2024

EXHIBIT: GFCF- YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

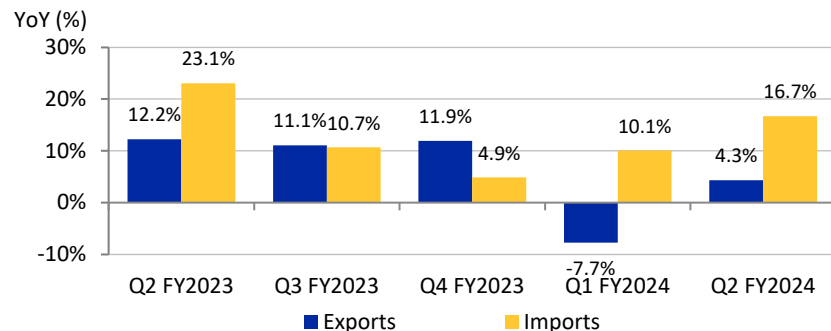


~25 states except Arunachal Pradesh, Goa and Manipur; ^As per IIP data; Source: CGA; GOI: ICRA Research

- The YoY growth in GFCF rose to a five-quarter high 11.0% in Q2 FY2024 from 8.0% in Q1 FY2024, amidst a stronger growth in construction GVA as well as other high frequency indicators such as exports (to +2.4% in Q2 FY2024 from -7.8% in Q1) and imports (to +13.0% from +11.6%) of engineering goods, and capital goods (to +8.3% from +5.1%) output.
- While the YoY growth in the remaining four indicators weakened in Q2 FY2024 relative to Q1, all of them witnessed a double-digit expansion in the quarter, including the CV registrations (+13.5%), cement production (+10.2%), states' capital outlay and net lending (+33.5%), and the Centre's capex (+26.4%), thereby boosting the growth momentum of GFCF in Q2 FY2024. Nevertheless, project announcements and completions slid to 13- and five-quarter lows, respectively, in Q2 FY2024.
- The share of nominal GFCF in GDP increased to 30.0% in Q2 FY2024 from 29.1% in Q2 FY2023, as well as 29.3% in Q1 FY2024. This was the highest investment rate in any Q2 since Q2 FY2015.

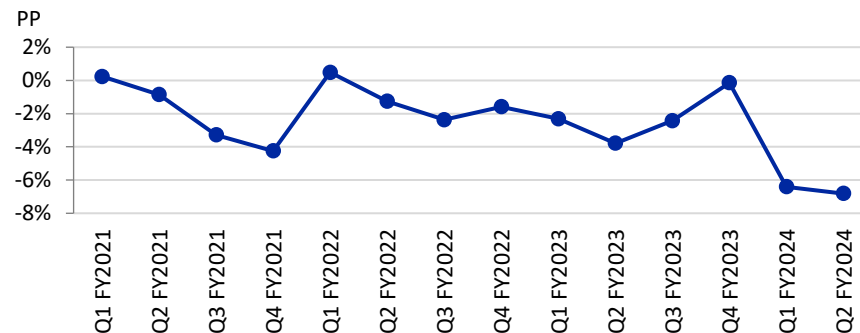
# Drag from net exports on GDP growth widened slightly in Q2 FY2024

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Net exports as % of GDP (Constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

- Exports reverted to a YoY growth of 4.3% in Q2 FY2024, after having contracted in Q1 FY2024, while the expansion in imports was pegged at a four-quarter high 16.7% in the quarter (+10.1% in Q1 FY2024). The drag displayed by net exports on the real GDP widened slightly to Rs. 2.9 trillion (-6.8% of GDP) from Rs. 2.6 trillion (-6.4% of GDP), respectively.
- The YoY trend in exports was in line with the improvement in merchandise exports as per the data released by the Ministry of Commerce (-3.1% in Q2 FY2024 from -14.1% in Q1 FY2024), although services exports witnessed a 10-quarter low growth in Q2 FY2024 (to +4.2% from +5.9%). In nominal terms, imports have contracted by a deeper 6.5% in Q2 FY2024 relative to 5.1% in Q1 FY2024, largely led by deterioration in services import growth (to -4.6% from +0.9%; as per RBI data), even as merchandise import growth witnessed a mild improvement (to -11.7% from -12.8%; as per the Commerce Ministry).
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q2 FY2024 remained largely stable at ~(+) Rs. 1.1 trillion (at 2011-12 prices), compared to Q1, while remaining larger than the (-) Rs. 0.7 trillion seen in Q2 FY2023.



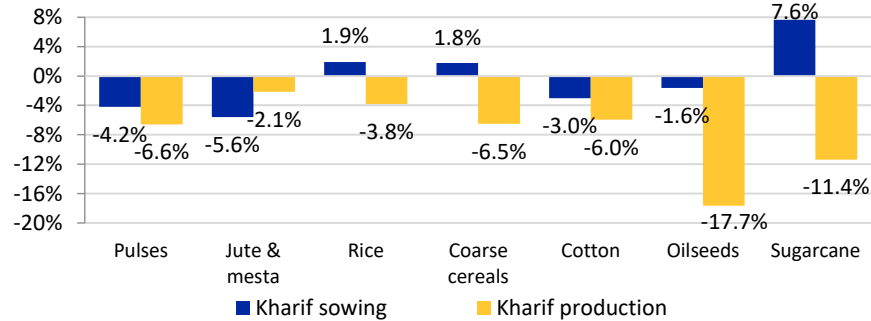
## OUTLOOK FOR FY2024

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*GDP growth may moderate to around 5% in H2 FY2024 amid multiple headwinds; FY2024 growth forecast raised to 6.2% from 6.0%, after higher-than-expected Q2 print*

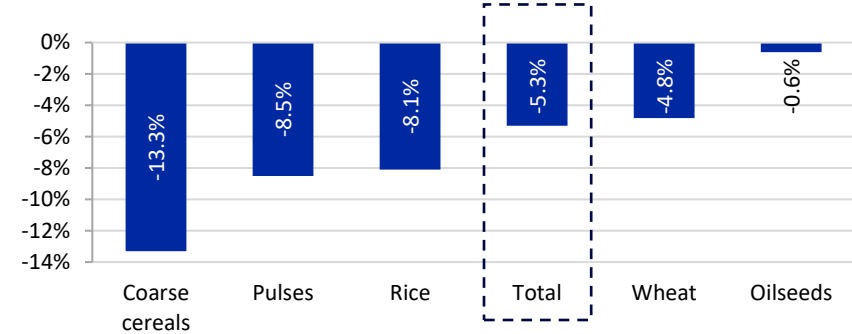
# Agri-GVA growth estimated at sub-1% in H2 FY2024, amid a decline in kharif output, concerns regarding prospects for rabi crops

**EXHIBIT: YoY trends in kharif sowing at end-Sep 2023 and kharif production as per First Advance Estimates for 2023-24**



Source: Department of Agriculture and Farmers' Welfare: CEIC; ICRA Research

**EXHIBIT: YoY trends in sowing of major rabi crops as on Nov 24, 2023**



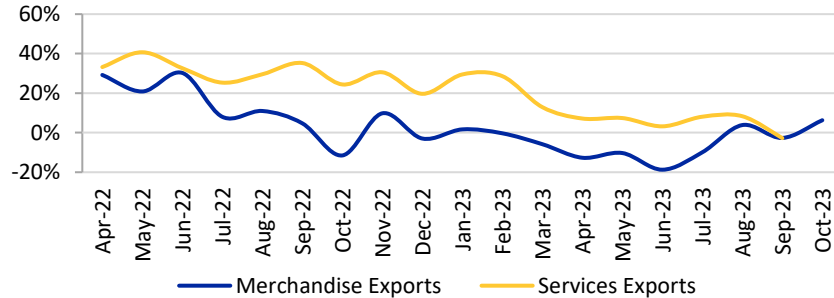
Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

- Owing to the erratic South-west Monsoon in 2023 as well as concerns regarding yields, the Ministry of Agriculture and Farmers' Welfare indicated a YoY decline in the output of all major kharif crops, such as oilseeds, sugarcane, pulses, coarse cereals and rice in its First Advance Estimates for FY2024.
- Additionally, India has seen deficient post-Monsoon rainfall at 80% of LPA (till Nov 29) amid El Nino conditions. Moreover, reservoir levels stood at 65% of live capacity at FRL up to Nov 30, 2023, lower than the year-ago (83%) as well as historical (71% in the past decade) levels. This, combined with late harvesting of paddy in some states have led to a YoY decline of 5.3% in the cumulative rabi sowing as on Nov 24, 2023, led by coarse cereals (-13%), pulses (-8.5%), rice (-8.1%) and wheat (-4.8%).
- El Nino conditions are expected to prevail until April 2024, while the positive IOD conditions could weaken in the near term, which may weigh on moisture levels. **ICRA is cautious about the prospects of the rabi crop output, and estimates the GVA growth of agriculture, forestry and fishing at sub-1.0% each for Q3 and Q4 FY2024. Notably, the GVA of livestock (+5.6%) and fishing (+5.2%) had seen a higher CAGR than that of crops (+1.5%) during FY2018-22, which would support the overall agri GVA performance in this fiscal. Overall, ICRA estimates a sub-2.0% agri-GVA growth for FY2024 (vs. +4.0% in FY2023).**



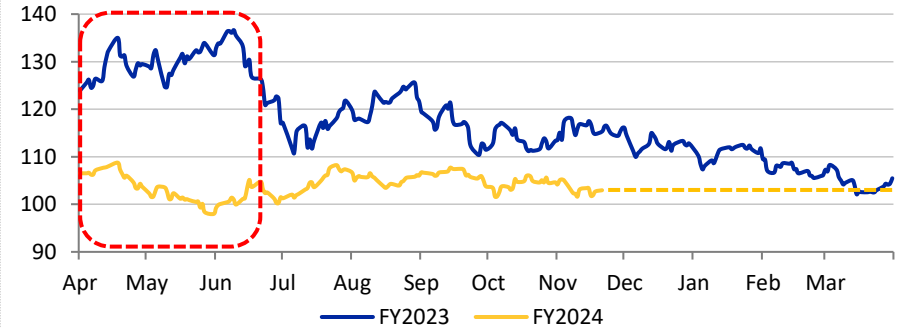
# Slowdown in global growth and narrowing differentials in year-ago commodity prices pose headwinds in H2

EXHIBIT: YoY trends in Merchandise and Services Exports



Source: Ministry of Commerce and Industry; RBI; ICRA Research

EXHIBIT: Trends in Bloomberg Commodity price index

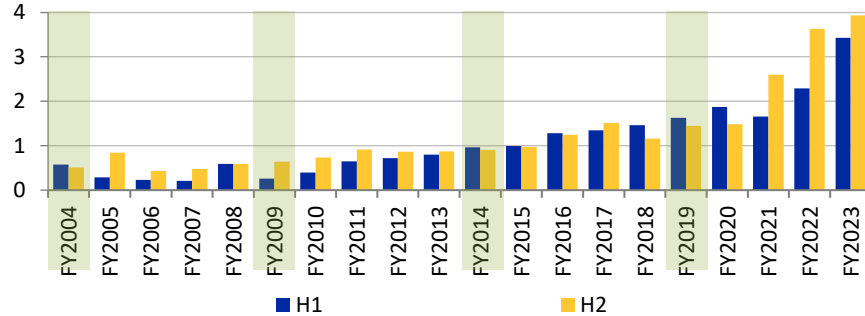


Source: Bloomberg; ICRA Research

- In Oct 2023, the IMF highlighted that the global growth momentum has started to cool amid higher interest rates. It has projected the GDP growth to slow from 3.5% in CY2022 to 3.0% in CY2023 and further to 2.9% in CY2024. India's merchandise exports have declined by 7.0% YoY in Apr-Oct FY2024, while services exports rose by a modest 5.0% YoY in H1 FY2024. **Tepid global demand, lower commodity prices, impact of erratic rainfall on domestic agri production, and continuation of export ban on certain items are expected to compress India's merchandise exports in FY2024. Moreover, the ongoing slowdown in Euro Area could dampen services export growth in H2.**
- In addition, the global crude oil prices have been volatile since Sep 2023, taking cues from the supply cuts being announced by the OPEC+ and independent producers, as well as sluggish demand recovery from China, and substantial building up of crude oil inventories by the US. While the Bloomberg Commodity Index has remained at benign levels in Q3 FY2024 so far (till Nov 29), the YoY decline has narrowed sharply to 9.2% from 15.6% in H1 FY2024, mainly on the back of a normalising base; this YoY gap is set to narrow further in Q4 FY2024, even if commodity prices remain at the current levels. **The narrowing differentials in year-ago commodity prices is likely to have a bearing on margins of some sectors, and hence, on the value-added growth.**

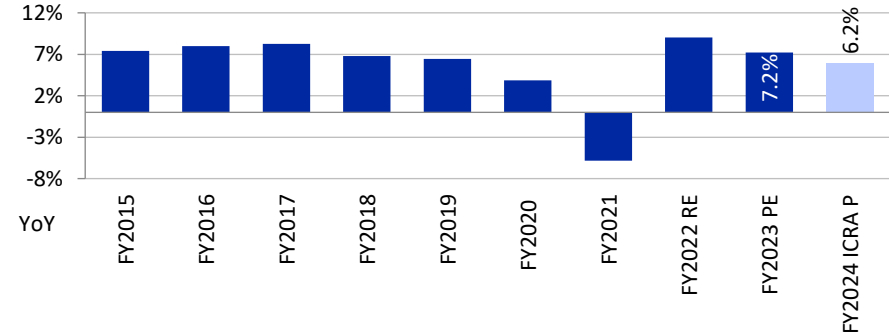
# Government capex likely to moderate prior to General Elections; post Q2 print, FY2024 GDP growth forecast raised to 6.2% from 6.0%, with ~5% level for H2

EXHIBIT: Trends in Govt's capex in H1 and H2 since FY2004 (Rs. Trillion)



Source: CGA; CEIC; ICRA Research

EXHIBIT: Annual trends in GDP growth (at constant 2011-12 prices)



P: Projected; PE: Provisional estimates; Source: NSO; CEIC; ICRA Research

- Another headwind to the growth trajectory in H2 FY2024 will stem from the cumulative impact of monetary tightening on household budgets. Furthermore, the recent tightening of norms for personal loans and credit cards by the RBI is likely to impact credit growth for these segments, which could also weigh on discretionary consumption of urban HHs. As discussed previously, the weak prospects for agri may pose a constraint on farm incomes and overall rural consumption in the near term, even as election-related spending may temporarily support the consumption of lower income groups.
- After witnessing an upfronting of capital spending by the Centre, and 25 states in H1 FY2024, project execution and momentum of capex growth could moderate in H2 FY2024, amid the Assembly State Elections as well as in the run-up to the 2024 General Elections (as seen in the past 3 of the 4 pre-General Election years).
- Overall, ICRA projects the GDP growth to moderate to around 5% in H2 FY2024, trailing the MPC's forecast of 5.7-6.0%. However, owing to the better-than-anticipated growth turnout for Q2, we are revising our FY2024 growth forecast to 6.2% from 6.0%.**



Annexure

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## EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2023	Q3 FY2023	Q4 FY2023	Q1 FY2024	Q2 FY2024	FY2021 SRE	FY2022 FRE	FY2023 PE
<b>GVA at Basic Prices</b>	<b>5.4%</b>	<b>4.7%</b>	<b>6.5%</b>	<b>7.8%</b>	<b>7.4%</b>	<b>-4.2%</b>	<b>8.8%</b>	<b>7.0%</b>
<i>Agriculture, Forestry &amp; Fishing</i>	<i>2.5%</i>	<i>4.7%</i>	<i>5.5%</i>	<i>3.5%</i>	<i>1.2%</i>	<i>4.1%</i>	<i>3.5%</i>	<i>4.0%</i>
<i>Industry</i>	<i>-0.5%</i>	<i>2.3%</i>	<i>6.3%</i>	<i>5.5%</i>	<i>13.2%</i>	<i>-0.9%</i>	<i>11.6%</i>	<i>4.4%</i>
<b>Mining &amp; Quarrying</b>	-0.1%	4.1%	4.3%	5.8%	10.0%	-8.6%	7.1%	4.6%
<b>Manufacturing</b>	-3.8%	-1.4%	4.5%	4.7%	13.9%	2.9%	11.1%	1.3%
<b>Electricity, gas, water supply &amp; other utilities</b>	6.0%	8.2%	6.9%	2.9%	10.1%	-4.3%	9.9%	9.0%
<b>Construction</b>	5.7%	8.3%	10.4%	7.9%	13.3%	-5.7%	14.8%	10.0%
<i>Services</i>	<i>9.4%</i>	<i>6.1%</i>	<i>6.9%</i>	<i>10.3%</i>	<i>5.8%</i>	<i>-8.2%</i>	<i>8.8%</i>	<i>9.5%</i>
<b>Trade, Hotels, Transport, Communication &amp; Services related to Broadcasting</b>	15.6%	9.6%	9.1%	9.2%	4.3%	-19.7%	13.8%	14.0%
<b>Financial, Real Estate &amp; Professional Services</b>	7.1%	5.7%	7.1%	12.2%	6.0%	2.1%	4.7%	7.1%
<b>Public Administration, Defence and Other Services</b>	5.6%	2.0%	3.1%	7.9%	7.6%	-7.6%	9.7%	7.2%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

## EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2023	Q3 FY2023	Q4 FY2023	Q1 FY2024	Q2 FY2024	FY2021 SRE	FY2022 FRE	FY2023 PE
<b>GDP</b>	<b>6.2%</b>	<b>4.5%</b>	<b>6.1%</b>	<b>7.8%</b>	<b>7.6%</b>	<b>-5.8%</b>	<b>9.1%</b>	<b>7.2%</b>
<b>PFCE</b>	8.3%	2.2%	2.8%	6.0%	3.1%	-5.2%	11.2%	7.5%
<b>GFCE</b>	-4.1%	-0.6%	2.3%	-0.7%	12.4%	-0.9%	6.6%	0.1%
<b>Exports</b>	12.2%	11.1%	11.9%	-7.7%	4.3%	-9.1%	29.3%	13.6%
<b>Imports</b>	23.1%	10.7%	4.9%	10.1%	16.7%	-13.7%	21.8%	17.1%
<b>Gross Capital Formation</b>	6.5%	5.2%	7.8%	7.1%	9.9%	-7.9%	17.9%	9.6%
<b>GFCF</b>	9.6%	8.0%	8.9%	8.0%	11.0%	-7.3%	14.6%	11.4%
<b>Change in Stocks</b>	-2.6%	-0.1%	5.9%	3.9%	11.6%	-85.5%	687.8%	2.7%
<b>Valuables</b>	-19.5%	-38.0%	-23.4%	-21.0%	-4.0%	26.4%	34.0%	-18.9%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research



## EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q2 FY2023	Q3 FY2023	Q4 FY2023	Q1 FY2024	Q2 FY2024	FY2021 SRE	FY2022 FRE	FY2023 PE
<b>GVA at Basic Prices</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<i>Agriculture, Forestry &amp; Fishing</i>	<i>14.8%</i>	<i>22.8%</i>	<i>18.6%</i>	<i>16.6%</i>	<i>14.6%</i>	<i>20.3%</i>	<i>19.0%</i>	<i>18.4%</i>
<i>Industry</i>	<i>27.3%</i>	<i>26.4%</i>	<i>30.5%</i>	<i>27.6%</i>	<i>27.9%</i>	<i>27.3%</i>	<i>28.5%</i>	<i>28.2%</i>
<b>Mining &amp; Quarrying</b>	2.0%	2.2%	2.6%	2.4%	2.0%	1.7%	2.0%	2.4%
<b>Manufacturing</b>	14.8%	13.4%	15.4%	14.3%	15.1%	15.4%	15.8%	14.7%
<b>Electricity, gas, water supply &amp; other utilities</b>	3.1%	3.0%	3.0%	3.1%	3.0%	2.8%	2.6%	3.0%
<b>Construction</b>	7.4%	7.8%	9.6%	7.8%	7.7%	7.4%	8.1%	8.2%
<i>Services</i>	<i>57.9%</i>	<i>50.7%</i>	<i>50.9%</i>	<i>55.8%</i>	<i>57.5%</i>	<i>52.4%</i>	<i>52.5%</i>	<i>53.3%</i>
<b>Trade, Hotels, Transport, Communication &amp; Services related to Broadcasting</b>	18.3%	18.0%	19.3%	16.1%	17.6%	15.8%	16.8%	18.0%
<b>Financial, Real Estate &amp; Professional Services</b>	25.1%	19.0%	18.4%	24.7%	24.7%	22.2%	21.5%	21.4%
<b>Public Administration, Defence and Other Services</b>	14.6%	13.8%	13.2%	15.0%	15.2%	14.4%	14.1%	13.9%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

## EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q2 FY2023	Q3 FY2023	Q4 FY2023	Q1 FY2024	Q2 FY2024	FY2021 SRE	FY2022 FRE	FY2023 PE
<b>GDP</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>PFCE</b>	61.5%	63.2%	58.4%	59.7%	61.0%	61.3%	61.1%	60.6%
<b>GFCE</b>	9.0%	9.0%	12.1%	10.5%	9.8%	11.6%	11.2%	10.3%
<b>Exports</b>	23.1%	22.2%	22.7%	21.4%	21.9%	18.7%	21.5%	22.8%
<b>Imports</b>	28.4%	26.2%	24.3%	23.8%	24.4%	19.1%	24.2%	26.4%
<b>Gross Capital Formation</b>	32.1%	28.3%	33.2%	30.6%	32.9%	28.8%	31.2%	31.0%
<b>GFCF</b>	29.1%	26.7%	31.7%	29.3%	30.0%	27.3%	28.9%	29.2%
<b>Change in Stocks</b>	0.7%	0.6%	0.7%	0.7%	0.7%	0.1%	0.7%	0.7%
<b>Valuables</b>	2.4%	1.0%	0.8%	0.6%	2.2%	1.4%	1.6%	1.2%

FRE: First Revised Estimates; SRE: Second Revised Estimate; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research



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