

Looking closer at GDP Estimates

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). In order to understand how each of the sectors have performed since the pandemic as there have been several base effects in play the CAGR growth has been estimated since FY19.

Also, an attempt has been made to study how GDP forecasts have varied at different points of time given that there are advance, revised and provisional estimates provided for each year with a further change being made in the succeeding year. For example, the advance estimates for FY23 are provided first in January 2023, followed by a revised one in February and a provisional one in May. In May 2024, there will be the final estimate provided for FY23.

Growth in FY23

India's growth surprised positively as it rose by 7.2% in FY23 much more than anticipated. High growth of Q4FY23 at 6.1% pushed the overall growth much higher. Covid-19 pandemic had wreaked havoc across the globe, India too was not immune to this disaster. The impact of this was clearly visible with growth across sectors declining. Subsequently there have been sharp increases in the next two year.

With the objective to understand the FY23 growth in complete light, CAGR growth has been calculated from FY19, to see the real growth. The compound growth rate will tell us as to how much the economy has moved over the period of 4 years. The base has been taken as FY19 as it was normal. FY20 was largely normal but the lockdown imposed in the last week of March 2020 came in the way of companies pushing forward with their yearend targets. Therefore FY19 has been chosen as the base year.

- Indian economy's CAGR growth form 2019-23, has been a meagre 2.7%, while that for 2020-23, stands at 2.4%.
- In comparison to annual growth, CAGR growth in the agriculture sector has remained strong at 3.5%. this is one sector that was not impacted by the lockdown as it is considered to be 'essential' and was exempted from the restrictions placed on other sectors.
- Notably, mining has not performed as well, with the CAGR growth contracting down to 0.1% raising concerns around the sector.
- Manufacturing sector has registered a steady CAGR growth of 2.4% which is higher than the FY23 growth estimate. Geopolitical challenges at play including the Russia-Ukraine conflict, supply side challenges, global covid-19 pandemic and elevated global inflation print had added to the pressure of firms with their margins levels hitting the most during this period.
- Electricity also has shown resilience, growing by 3.2% for CAGR (FY19-23).
- Interestingly sector such as Trade, transport and services had shown remarkable improvement given the pent up demand in the contact-intensive sector post the removal of lockdown restrictions. These reasons pushed the sector to outperform from previous year. However, taking a closer look, the CAGR growth of this sector stands at only 2%.

- The finance sector and public administration segments also witnessed growth of 4.1% and 3% respectively on a compound growth rate basis.

Therefore it does look like that the economy has still some distance to traverse before it can take off. The lockdown had depressed growth considerably and the economy has managed to come out of it in the two years FY22 and FY23. We do expect growth to be lower at 6-6.5% in FY24 as the prospects will be affected by progress of monsoon, global economic slowdown, dilution of pent up demand, interest rates having an impact on demand etc.

Table 1: GDP clocks 7.2% growth in FY23

Sectors (%)	FY23	CAGR (FY19-23)
Agriculture, forestry and fishing	4.0	3.5
Mining and quarrying	4.6	(0.1)
Manufacturing	1.3	2.4
Electricity, gas, water supply and other utility services	9.0	3.2
Construction	10.0	3.9
Trade, hotels, transport, communication & services related to broadcasting	14.0	2.0
Financial, real estate & professional services	7.1	4.1
Public administration and Defence	7.2	3.0
GVA at basic prices	7.0	(0.3)
GDP	7.2	2.7

Source: CEIC, Bank of Baroda Research

How have estimates of GDP fared over time?

GDP estimates for the year come at different points of time. There is the first estimate which comes in January which is based largely on extrapolations of the first 6-8 months. The second one is out in February while the third comes in May. Subsequently the final number is provided in the following year in May when the complete picture is known.

Table 2 highlights the variations across calculations of GDP growth through differ rounds including the, advance, revised and provisional estimation. For instance, GDP number for FY22 has changed from 9.2% in the first advance estimates to 8.7% in provisional estimates.

Interestingly if the 1st AE is compared with the Year ahead numbers, there have been significant variations across years. In FY22 however, it was minimal though the difference between the lowest and highest estimates/forecasts was still 0.5%. In FY19, the final number was 1.1% lower than the first advance estimate. In FY20 the difference was 1% lower while in FY21 it came better at 1.1% though the growth rate was negative.

In FY23 the three estimates are closer with the difference being just 0.2% so far. It would be interesting to see how the final number would turn out.

Table 2: GDP estimations through advance, provisional and revised

Sectors (%)	1 ST AE	2 nd AE	PE	Year Ahead
2018-19	7.2	7.0	6.8	6.1
2019-20	5.0	5.0	4.2	4.0
2020-21	(7.7)	(8.0)	(7.3)	(6.6)
2021-22	9.2	8.9	8.7	9.1
2022-23	7.0	7.0	7.2	-

Source: CEIC, Bank of Baroda Research Note: AE-Advance Estimate, PE-Provisional Estimate

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com