India, 7% plus annual growth, and the realities

Given the desire to achieve developed country status in the next 25 years, the required rate is in the range of 8% to 9%

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The National Statistical Office's real GDP growth estimate of 13.5% for the first quarter of 2022-23 is 2.7% points lower than the Reserve Bank of India's earlier assessment of 16.2%. Assuming that the central bank's estimates of the remaining three quarters of the fiscal year at 6.2% in 2Q, 4.1% in 3Q, and 4% in 4Q are realised, the annual GDP growth using the NSO's 1Q estimate works out to be 6.7%. Compared to the pre-COVID-19 GDP level of ₹35.5 lakh crore in 1Q of 2019-20, real GDP at ₹36.9 lakh crore shows an increase of only 3.8%. This indicates that the performance of the Indian economy is not fully normalised yet which would be consistent with a growth of 6.5% to 7%. In order at least to reach an annual growth of 7%, GDP may have to grow at about 5% in 3Q and 4Q of 2022-23.

Composition of growth

Out of the eight Gross Value Added (GVA) sectors, the first quarter growth performance is higher than the average of 12.7% in public administration, defence and other services (26.3%), trade, hotels, transport *et al.* (25.7%), construction (16.8%), and electricity, gas, water supply *et al.* (14.7%). Agricultural growth has remained robust, showing a growth of 4.5% in 1Q of 2022-23, which is the highest growth over nine consecutive quarters. Growth in manufacturing, at 4.8%, however, is much below the overall average. A more relevant comparison would be to look at the increase with respect to corresponding output levels in the pre-COVID-19 normal year, that is in 1Q of 2019-20.

In this comparison, manufacturing seems to have done better with an increase of 7% in 1Q of 2022-23 while the trade, hotels, transport *et al.* sector has remained below its pre-COVID-19 level by a margin of minus 15.5%. This was the main contact-intensive sector which suffered the most during COVID-19 and which may show better recovery in succeeding quarters. Construction has also increased by a small margin of 1.2% when compared to its 1Q 2019-20 level.

On the demand side, all major segments showed magnitudes in 1Q of 2022-23 that were higher than their corresponding levels in 1Q of 2019-20. Recovery in domestic demand has been reflected in the growth rates of private final consumption expenditure (PFCE), at 25.9%, and gross fixed capital formation (GFCF) at 20.1% over the corresponding quarter of the previous year. As compared to its 1Q 2019-20 level, the GFCF showed a growth of 6.7%. The ratio of gross fixed capital formation to GDP at current prices is 29.2% in 1Q of 2022-23 which is 1% point higher than the investment rate of 28.2% in the corresponding quarter of the previous year.

The contribution of net exports to real GDP growth is negative at minus 6.2% points in 1Q of 2022-23 since import growth continues to exceed export growth by a tangible margin. Such an adverse contribution of net exports to real

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GDP growth is an all-time high for the 2011-12 base series. It is likely that import growth will continue to exceed export growth in the next few quarters, both in real and nominal terms, considering prevailing high global prices of petroleum products and other intermediate inputs and India's growing demand for importing intermediate goods with a view to boosting 'Make in India'.

On the feasibility

The Indian economy may still show a 7% plus growth in 2022-23 provided it performs better in the subsequent quarters, particularly in the last two. Two important areas of policy support for this purpose would be to further increase the investment rate and to reduce the magnitude of negative contribution of net exports. Available high frequency indicators for the first four to five months of 2022-23 indicate continuing growth momentum.

Headline manufacturing Purchasing Manager's Index (PMI) was at an eight-month high of 56.4 in July 2022. It remained high at 56.2 in August 2022. PMI services were at 55.5 in July 2022, indicating 12 consecutive months of expansion. Outstanding bank credit by scheduled commercial banks (SCBs) grew by 15.3% in the fortnight ending August 12, 2022. Gross Goods and Services Tax collections have remained high at ₹1.49 lakh crore and ₹1.43 lakh crore in July and August 2022, respectively, although a good part of this may be due to the higher inflation levels of both Wholesale Price Index (WPI) and Consumer Price Index (CPI).

As seen in 1Q of 2022-23, GVA growth has been led by public administration, defence, and other services, with a growth of 26.3%. This has been driven by the central government's frontloading of capital expenditure. The Centre's capital expenditure grew by 62.5% during the first four months of 2022-23. This momentum needs to be maintained. This would be facilitated by a buoyant growth in the Centre's gross tax revenues, which showed a growth of nearly 25% during the first four months of the current fiscal year. The relatively high tax revenue growth is in turn linked to the excess of nominal GDP growth at 26.7% in 1Q of 2022-23 over the real GDP growth of 13.5%. Such a large gap between these two growth measures reflects a high implicit price deflator (IPD)-based inflation which is estimated at 11.6% in 1Q of 2022-23. This in turn is because of the ongoing WPI and CPI inflation trends where the former continues to exceed the latter. With buoyant tax revenue growth, fiscal policy may strongly support GDP growth without making any significant sacrifice on the budgeted fiscal deficit target.

Raise investment rate

In the light of likely development in 2022-23, how confident are we of achieving the growth rate of 6% to 7% over a normal base? Given our desire to achieve developed country status in the next 25 years, the required growth rate is in the range of 8% to 9%. In 2023-24, we must try to achieve a growth rate of 6% to 7%. The key to growth lies in raising the investment rate. Public capital expenditure has shown a rise. In crisis years, it is particularly good. It can crowd in private capital expenditure. But this cannot be the normal. Private capital expenditures, both corporate and non-corporate, must rise. It is pointed out that capacity utilisation in industry has touched 75% in 4Q 2021-22. This should help to attract private investment if demand for goods continues to increase. The output loss because of COVID-19 and the consequent lockdown is greater if we measure it from the trend line rather than the base of 2019-20. Had we maintained growth of 7% since 2019-20 in successive years, the real GDP would have been ₹183.4 lakh crore in 2022-23. Even if we achieve a 7% growth in 2022-23 over 2021-22, there is a shortfall of ₹25.7 lakh crore at 2011-12 prices. The international environment for growth is bleak. Developed countries even fear a recession. India's growth path in the next few years must depend on domestic investment picking up. Sector-wise growth in investment must be the focus of policymakers in removing bottlenecks and creating a favourable climate.

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