

Gross Domestic Product

Drag on GDP from net exports likely to be larger than reported in Q1 FY2024; could lead to upward revision in other GDP constituents

SEPTEMBER 2023



ICRA expects a higher drag on account of net exports in Q1 FY2024 as against the NSO's estimate of -2.3% of GDP, warranting a downward revision over subsequent quarters

A downward revision in net exports and a high discrepancies print could translate into an upward revision in PFCE and/or GFCF in Q1 FY2024



- The data released by the National Statistical Office (NSO) indicated that aggregate exports (-0.5%) and imports (-5.1%) slipped into a year-on-year (YoY) contraction in nominal terms in Q1 FY2024, amid weak global demand and sharp deflation in commodity prices. Consequently, net exports (goods and services) surged to (-) Rs. 1.7 trillion in Q1 FY2024 from (-) Rs. 1.2 trillion in Q4 FY2023.



- The net exports data released by NSO are based on provisional estimates for merchandise and services trade, as the BoP data is released after the GDP data for that quarter. As per ICRA's expectations, the drag from net exports is estimated to be higher, at 2.8% of GDP in BoP terms in Q1 FY2024 vs. NSO's initial estimate of 2.3%. Consequently, ICRA anticipates that the net exports data for Q1 FY2024 released by the NSO will undergo a subsequent downward revision.



- Interestingly, there are material variations in the trends in both, the share of net exports and contribution of net exports to GDP, in real vs. nominal terms in Q1 FY2024. This divergence is largely on account of the large gap between the deflators used for deriving real values for aggregate exports and imports.



- Discrepancies in the GDP data for Q1 FY2024 widened to (+) Rs. 1.1 trillion from (-) Rs. 1.3 trillion seen in Q4 FY2023; this contributed as much as 6.4 percentage points to the real GDP growth in Q1 FY2024. The high positive discrepancies print suggests that the expenditure side components are likely to undergo an upward revision.



- If the NSO keeps the headline GDP estimates unchanged for Q1 FY2024, then a downward revision in net exports could translate into an upward revision in private final consumption expenditure (PFCE) and/or gross fixed capital formation (GFCF), in ICRA's assessment. However, the magnitude of the same remains to be seen.



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