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Growth In Service Sector Propels India's Q1 GDP Growth To One-Year High, Concern Persists

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by BW Online Bureau

Despite global headwinds, India has managed a healthy GDP growth of 7.8 per cent for Q1 of FY 2023-24, which is also a one-year high. Although this growth is lower than the RBI's forecast of 8 per cent, it is in line with market expectations.

The service industry has emerged as a major growth driver for Q1 of the current fiscal year, with the Gross Value Added (GVA) of Financial, Real Estate and Professional Services achieving a growth rate of 12.2 per cent. This marks a seven-year high (28 quarters) since FY17.

However, according to the World Trade Center (WTC) in Mumbai, there are causes for concern. In a statement, WTC said that the major cause of worry in the Q1 GDP number is the sharp rise in net imports in real terms, which affected overall GDP growth. The sharp rise in net imports in constant terms (which has risen from 2 per cent of GDP in Q1 of the last fiscal year 2022-23 to 6.4 per cent for Q1 of this fiscal year) has been a major dampener of growth.

While exports (in constant terms) have declined by 8 per cent, imports have risen by 10 per cent for Q1 of FY24 compared to the previous fiscal year. The fall in India's exports may be attributed to recessionary fears and the slowdown of major economies such as the USA, EU, and China. Strong imports indicate robust domestic demand, in line with market expectations, the statement said, the statement added.

The Center expects a marginal pickup in merchandise exports in the coming months due to the restocking of inventories by retailers in the Western countries ahead of the festive season.