

Indian GDP may grow 9.2% this fiscal on base effect

Synopsis

The Indian economy is expected to grow 9.2% year-on-year in the financial year ending in March, the Ministry of Statistics said on Friday in its first estimate for the period.



India's GDP to grow at 9.2 pc in Fy22, fastest in the world: Govt forecast

India's **economy** is expected to grow 9.2% in the current financial year, aided by the base effect of 7.3% contraction last year, according to the first advance estimates by the National Statistical Office (NSO) released on Friday.

The strong growth will lift real gross domestic product (**GDP**) 1.3% over the pre-Covid levels of FY20, but the underlying data showed consumer stress and weakness in the contact-intensive services sector. The estimated growth is below the Reserve Bank of **India's** pre-third wave projection of 9.5% last month.

Most private economists had this week trimmed their growth forecast for the current fiscal following the surge in Covid cases.

The nominal gross domestic product (GDP) is forecast to rise 17.6% in the year against the budget estimate of 14.4% for the current year, underscoring high inflation. Gross value added (GVA) is projected to grow 8.6% compared with a contraction of 6.2% in FY21.

Downward Bias

Economists see a downward bias to the growth estimates, as the data may not fully capture the impact of the ongoing third wave, a possibility acknowledged by the statistics office.

The estimates are likely to undergo revisions as more data become available, the statistics office said, adding that these are early estimates.

Fast Rebound, But Worries Ahead

1] Economy projected to recover to pre-Covid levels, but resurgent pandemic poses threat

GDP	(% annual growth)	
	Real	Nominal
FY19	6.5	10.5
FY20	4	7.6
FY21	-7.3	-3
FY22	9.2	17.6

2] Changing Mix

(% share in GDP)	2021	2022
Pvt consumption	56	54.8
Govt consumption	11.7	11.6
Gross fixed capital	31.2	32.9

3] Concerns Galore

Pvt consumption share falling in GDP, still below pre-pandemic

Omicron spread and restrictions to impact growth

Among services trade, hotel and transport etc still in stress

Further downward revision in GDP likely

Impact on next fiscal as well if the wave lasts long

4] Budget Impact

Higher nominal GDP growth may boost tax revenues, help with fiscal deficit

Weak consumption will trigger demand for budget boost

Fiscal consolidation may go slow

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"The implicit GDP growth of 5.6% for H2 **FY22** built-in by the NSO may not fully factor in the admittedly evolving impact of Omicron," said Aditi Nayar, chief economist, ICRA. "Our sense is that after a 6-6.5% rise in Q3 FY22, the GDP expansion is set to slip below 5% in the ongoing quarter."

HDFC Bank expects the GDP growth for FY22 to be between 9% and 9.5%.

"This is assuming that the impact of the new Covid variant is restricted to the months of January and February and containment measures remain localised," it said.

Demand Concerns Remain

The advance estimate of GDP for FY22 is "more optimistic at 9.2%, considering the supply bottlenecks, coal, power and semiconductor shortages and looming third wave of the pandemic," Brickwork Ratings said.

Private final consumption expenditure, a measure of demand, is projected to rise 6.9% in FY22 from a year ago, but was still 2.9% below the FY20 level, indicating the severe impact of the pandemic on incomes.

Faster inflation and likely higher interest rates and loss of incomes due to the third wave could keep consumer sentiment depressed.

The growth in FY22 is driven largely by government capital spending. It's seen increasing 7.6% while gross fixed capital formation, a measure of investment, is estimated to rise almost 15% in FY22. The share of private consumption in GDP is expected to moderate further to 54.8% in FY22 from 56% in FY21 and 57.1% in FY20.

"Expenditure prioritisation in 2022-23 should focus on reviving both consumption and investment demand," said DK Srivastava, chief policy advisor, EY India.

Agriculture is estimated to expand 3.9% in FY22 compared with 3.6% in FY21 while manufacturing growth is pegged at 12.5% against a contraction of 7.2% last fiscal. Construction is expected to grow 10.7% against an 8.6% contraction last year. Financial, real estate and professional services, as a group, is seen growing 4% compared with a 1.5% contraction last year.

Per capita net national income in real terms is estimated to be ₹1,06,975 crore in FY22, lower than ₹1,07,589 crore in FY20.

The trade, hotel, transport, and communications sector is projected to grow 8.5% in FY22 but is the only major group that is still below the pre-pandemic levels of FY20.

With a 9.2% growth rate, India will reclaim the status of the fastest-growing major economy.

Research and analytics firm IHS Markit said on Friday that India is likely to overtake Japan as Asia's second-largest economy by 2030 when its GDP is also projected to surpass that of Germany and the UK to rank as world number 3. India's nominal GDP is forecast to rise to \$8.4 trillion by 2030 from \$2.7 trillion in 2021, it said.

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