



Downside risks to economic recovery; GDP growth estimates revised downwards to 8.5%–9% for FY22

Brickwork Ratings, Bengaluru, 06 January 2022: Economic recovery was well under way after the second wave of the pandemic although since October, there have been some disruptions caused by semiconductor shortage, along with supply shortages in coal and power outages causing a slowdown in the manufacturing sector. Rising input prices too have added to the problem. Nevertheless, there was steady improvement in economic revival. The progress in vaccination too promised broad steady progress in economic revival, and the economy was poised to achieve 9.5% growth projected by the RBI. However, the fast spread of the Omicron variant, heralding the third wave of the pandemic, has added to the uncertainty and insecurity, and threatens to disrupt progress in the broad-based recovery.

The fresh restrictions to contain the virus spread may further dampen the recovery in contact-intensive sectors, and supply disruptions and the shortage of semiconductors may continue to adversely impact the manufacturing sector output. The latest data on the manufacturing and services Purchasing Managers Index (PMI) also signals a slowdown in December with the Composite PMI output index falling to 56.4 from 59.2 in November 2021. The slowdown in eight-core sectors growth in November at 3.1%, which is the lowest in the current fiscal, and IIP growth at 3.2% for October 2021, also do not infuse much confidence. Moreover, the investments in new projects have shown a steady deceleration. According to the CMIE, new industrial investment for the September-December 2021 quarter remained muted at Rs 2,086 billion, 6.5% lower on a Q-o-Q basis. The government is also holding back on its expenditure, and capital expenditure has also not shown much improvement, constituting only 49% of the budget estimates till November 2021.

After having witnessed a sequential improvement in Q2FY22, due to pent-up demand, it appears that the growth rates in the third and fourth quarters need a downward revision. An apparent third wave, rising international crude oil prices, mineral products, steadily increasing costs of raw materials and freight rates, disruptions in semiconductor supply, and coal and power supply are likely to slow down the growth momentum.

For the full fiscal, we expect agricultural activities to be resilient as usual, while the manufacturing and services sectors will bear the brunt, if the current situation prolongs further. Accordingly, we revise our GDP estimates for the current fiscal to **8.5%–9%** as against our earlier estimate of 10%.



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