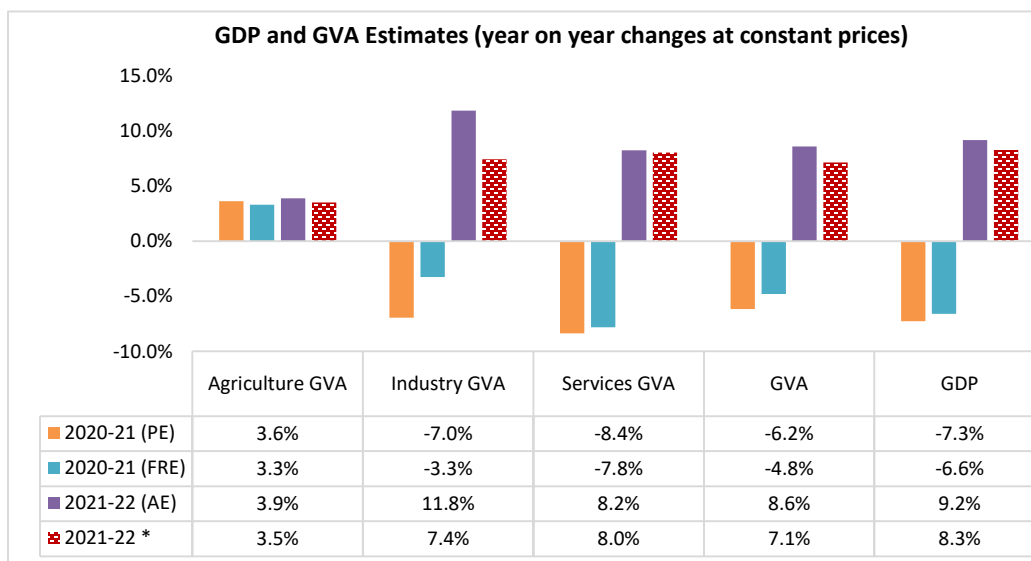


GDP growth likely to be around 8.3% in FY22: Brickwork Ratings

The impact of the third wave of Covid on economic momentum may lower growth in the second half of the current fiscal (H2FY22). With the upward revisions of the FY21 GDP growth by Mospi, we revise our GDP growth projections for FY22 to 8.3% from the earlier forecast of 8.5% to 9%.

Brickwork Ratings, Bengaluru, 24 February 2022: As per the advance estimate for FY22 released by the Ministry of Statistics and Programme Implementation (Mospi), the GDP is estimated to grow at 9.2% in real terms. The latest growth indicators suggest a loss of economic momentum in recent months. The rapid spread of Covid in January 2022 led to renewed restrictions on economic activities, dampening the revival process, particularly in contact-intensive sectors. In addition, there have been production constraints caused by a semiconductor shortage in electronic and automobile industries, along with supply shortages in coal and power outages causing a slowdown in the manufacturing sector. Rising international crude oil and input prices have also added to the problem.

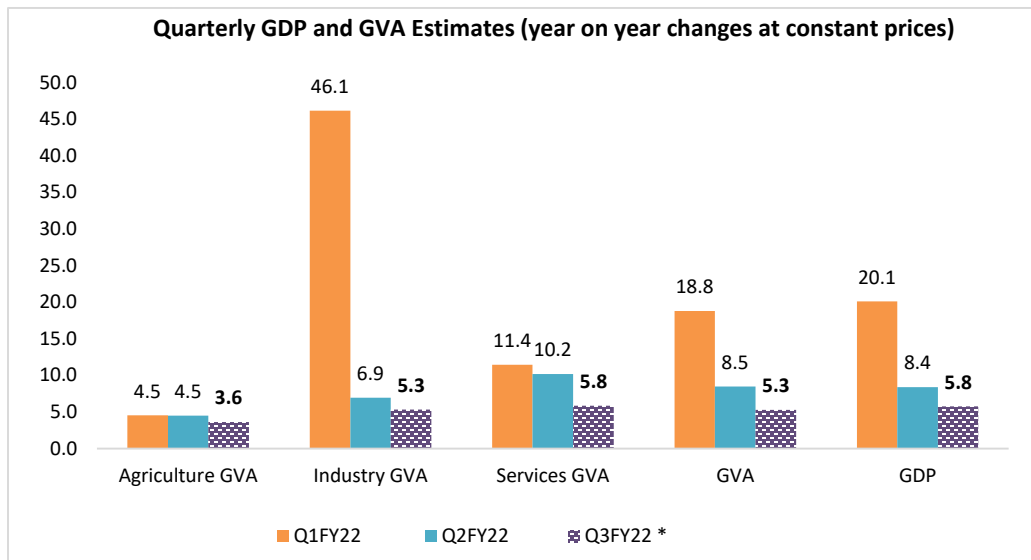
The latest data on the manufacturing and services Purchasing Managers Index (PMI) signals a sharp slowdown in January 2022, with the Composite PMI output index falling to 53 from 59.2 in November 2021. The dismal IIP growth at 0.4% and contraction in manufacturing sector growth at (-) 0.1% in December 2021 also indicate tepid revival. Continued semiconductor shortages also are causing delays in vehicle supply and restricting automobile sales, which are already in a contraction mode since August 2021.



PE: Provisional Estimates, FRE: First Revised Estimates, AE: First Advance Estimates * BWR Estimates over FRE of FY21. GVA: Gross Value Added, GDP: Gross Domestic Product

Source: CSO, Mospi and BWR Research

Economic recovery was well underway after the second wave of the pandemic, and there was a steady improvement in the revival of both industry and services. The progress in vaccination promised broad-based and steady progress in the economic revival, but the highly transmissible Omicron variant disrupted the revival process and added to the uncertainty and insecurity. Fresh restrictions to contain the virus spread dampened recovery in contact-intensive sectors, posing additional risks to the services sector growth momentum. While, the progress in capital expenditure, supported by buoyant revenue growth, largely helped sustain the recovery. After holding back in the first half, both Central and State governments have increased their public spending.



Note: Data is provisional estimates * BWR Estimates
 Source: CSO, Mospi and BWR Research

GDP estimates by BWR

Although the impact of the third wave on economic activities may be limited compared to the first and second waves, there is some loss of momentum to revival. Persistent supply-side bottlenecks, steadily rising international crude oil prices and increasing raw material costs have added to the woes. Hence, the growth rates in Q3 and Q4 may be lower than projected earlier. After having witnessed 20.1% and 8.4% growth in Q1 and Q2, respectively, we expect the Q3 GDP may come in lower at **5.8%**.

For the full fiscal, we expect agricultural activities to be resilient as usual, while the manufacturing and services sectors continue to suffer. Accordingly, we revise our GDP growth estimates for the current fiscal to **8.3%** as against our earlier estimate of 8.5% to 9%.



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