The Indian EXPRESS
JOURNALISM OF COURAGE

GDP growth rate revised down to 8.9%, construction sector contracts

AANCHAL MAGAZINE
NEW DELHI, FEBRUARY 28

INDIA'S GDP is seen growing at 8.9 per cent in the current financial year, lower than the earlier estimate of 9.2 per cent, the second advance estimates of national income released by the National Statistical Office (NSO) on Monday showed.

GDP growth rate for the October-December quarter is seen at 5.4 per cent as against 0.7 per cent growth in the corresponding period a year ago, with the construction sector recording a contraction of 2.8 per cent and manufacturing sector registering a meagre growth of 0.2 per cent.

The lower GDP print for this fiscal comes on the back of an upward revision in the GDP growth rate for FY21 to a contraction of 6.6 per cent as against minus 7.3 per cent earlier, as part of the first revised estimates for FY21 released on January 31.

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EXPLAINED

E. Omicron, Ukraine take toll

THE FIRST estimates pegged GDP growth rate at 9.2%, which didn't reflect the loss in the last quarter due to the third Covid wave. Concerns over Ukraine and rising crude prices will also weigh on the growth outlook.

GDP growth rate revised downwards to 8.9% this fiscal

The 8.9 per cent GDP estimate for this year has been projected assuming a 4.8 per cent growth rate for the fourth quarter, indicating a further slowdown as the full impact of the Covid restrictions reflect on the economic momentum.

The Indian economy is estimated to have grown at 20.3 per cent in April-June as against earlier estimate of 20.1 per cent, and at 8.5 per cent in July-September against earlier estimate of 8.4 per cent.

The first advance estimates, released last month, had pegged the country's GDP growth rate at 9.2 per cent, which did not reflect the loss of economic activity in the last few months due to the impact of the Omicron variant, especially in contact-intensive sectors.

Economists said the full impact will be visible in the Q4 numbers. "...the implicit message is that Q4 will witness a slowdown which will be around 4.8%. The Omicron effect is responsible for this...a disappointment has been the low growth in manufacturing in Q3 of just 0.2% even though corporates have established healthy growth in profit. It means that the unorganised sector has still not gotten up -- the SMEs," Madan Sabnavis, chief economist, Bank of Baroda, said.

Private final consumption expenditure grew by 7 per cent in Q3. However, gross fixed capital formation, an indicator of investment activity, grew by just 2 per cent. Government final consumption expenditure provided support by growing at 3.4 per cent in October-December and is estimated to rise 4.8 per cent year-on-year in FY22. The growth in Gross Value Added -- GDP minus net product taxes -- is seen at 8.3 per cent for FY22 as against 8.6 per cent earlier. The GDP in nominal terms, which factors in inflation, is seen growing 19.4 per cent as against a contraction of 1.4 per cent last year.

"The most encouraging piece of the disaggregated GDP data is the 7 per cent expansion in private consumption in Q3 FY2022, which, coupled with the mild rise in current consumer confidence in January 2022 despite the onset of the third wave, bodes well for the outlook for demand and capacity utilisation. However, the feeble 2 per cent YoY rise in gross fixed capital formation was the biggest disappointment, reiterating the tentativeness of the investment cycle," Aditi Nayar, chief economist, ICRA Ltd, said.

ICRA estimates full-year GDP growth to be revised down to 8.5 per cent. "This (4.8% in Q4) looks challenging given the fact that the third wave of the pandemic had caused considerable restrictions. In addition, the ongoing geopolitical tensions, persistent supply bottlenecks, coal, power, and semiconductor shortages too have been pronounced. The effect of semiconductor shortages is already evident in the weak 0.2 per cent growth in the manufacturing sector in Q3. The third wave largely impacted the economic activities in the fourth quarter (Q4). We expect the full fiscal growth may undergo revisions. Finally, the higher crude oil prices are also likely to adversely impact both growth and inflation," M Govinda Rao, chief economic advisor at Brickwork Ratings, said.

The Reserve Bank of India had earlier forecast growth rates of 6.6 per cent for October-December and 6 per cent for January-March quarters in its December policy meeting. It did not detail GDP estimates for these quarters in the February policy review meeting.