

# Economy likely to grow by 11% in FY22: Brickwork Ratings

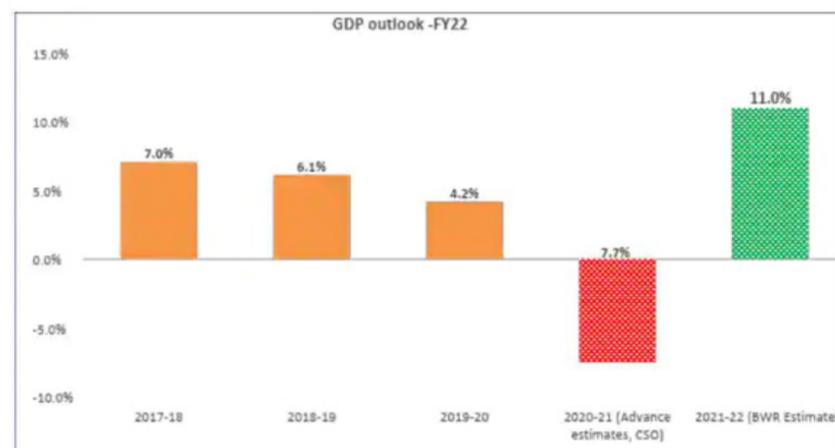
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As per the first Advance Estimates of the GDP released by MOSPI, the economy is expected to contract by 7.7% in FY21. Photo: Bloomberg

## Growth Outlook for FY22

Economic activities are slowly reaching pre-COVID levels following the relaxation of the lockdown, except in sectors that remain affected by social distancing norms. Some high-frequency indicators have been showing moderate recovery recently. Brickwork Ratings Report says, "Economy is likely to witness positive growth in H2FY21, though some sectors will continue to record staggered recovery due to social distancing norms. Revival in sectors that fall under discretionary spending is likely to be delayed as the economy is still under the grasp of the pandemic. Nevertheless, the outlook for next fiscal has improved with the progress in developing the vaccines."



Source: MOSPI, CSO and BWR Research  
Growth Outlook for FY22

## Industrial sector to bounce back with strong recovery in manufacturing sector

The impact of COVID-19 on the industrial sector was very severe in Q1FY21, and with the gradual easing of the lockdown, industrial activities have reported a marked improvement since Q2. Contractions slowed down considerably, and after a span of three quarters in Q2, the manufacturing sector reported positive growth. Depicting a resumption in activities, the manufacturing PMI has consistently remained above the 50 mark since August 2020, and the IIP, a proxy for industrial growth, has also been slowly and gradually showing some signs of improvement since September. The construction sector is expected to bounce back when the government expedites its delayed infra projects such as highways and railways and other construction activities. Amid the low base and expectation of a higher government spending on infrastructure, **Brickwork Ratings** expects the industrial sector to grow at 11.5% in FY22.

## Services sector will take longer to recover

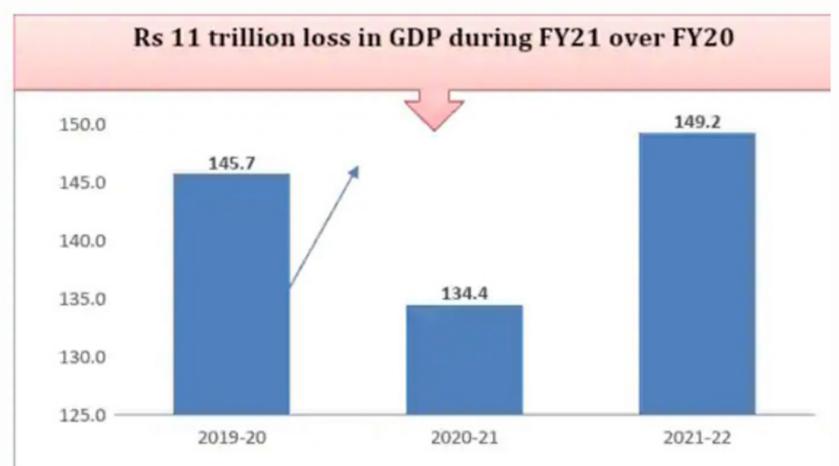
The services sector was hit the hardest due to the pandemic, resulting the severest contraction in FY21. Timely intervention by the government and RBI through fiscal and monetary policy measures helped financial services to mitigate some of its losses. The travel, tourism and hospitality sectors have been badly hit due to Covid-19 and are unlikely to recover soon as the global economy is still struggling with virus containment, in addition to other geo-political tensions. Continued social distancing measures and the partial restoration of transport facilities are likely to slow down the recovery process, but if the economy starts functioning normally, the sector may witness faster recovery with a greater rate of occupancy in hotels and restaurants, and in travel, tourism and aviation. **Brickwork Ratings** expects services sector to grow by 11 to 12% in next fiscal supported by higher growth in public expenditure and recovery in financial services.

"Most demand drivers are picking up, as evident from indicators such as the PMI, higher power consumption, GST collections and the IIP. The much-anticipated higher spending by the government in the upcoming budget enhances the recovery process; however, the constrained fiscal situation remains a concern," says the Report.

With progress in developing an effective vaccine for COVID-19 and signals of faster-than-expected recovery in the domestic economy, and also supported by a low base, we expect the real GDP to grow at 11% in FY22, from the estimated contraction of 7% to 7.5% in FY21.

Low base effect and faster recovery in economic activities foretell better growth prospects, says Brickwork Ratings.

As per the first Advance Estimates (AE) of the GDP released by the Ministry of Statistics and Programme Implementation (MOSPI), the economy is expected to contract by 7.7% in FY21. 'The estimates are close to our estimate of 7% to 7.5% contraction in GDP,' says a report by **Brickwork Ratings**. Although these estimates are likely to undergo revisions, the projections in the second AE are likely to be revised upwards owing to the recent economic recovery reflected by the performance of some leading indicators. However, the distress in economic activities caused by the pandemic in terms of job losses, along with sharp decline in income and consumption, have been unprecedented, resulting a more than ₹11 trillion loss to the GDP in FY21; this may have a long-lasting impact on the economy.



Source: MOSPI, BWR Research  
Low base effect and faster recovery in economic activities foretell better growth prospects'

## Agriculture sector outlook remains moderate, forecast largely depends on normal monsoon

Although the CSO estimates on agricultural growth for FY21 at 3.4% are slightly lower than our projections of 4%, we continue to believe that in the subsequent quarters of FY21 also, the growth rates will continue to be better than those recorded last year. The Report says, the agricultural sector may continue with stable growth momentum in the next fiscal also at ~3.5%, but these projections are largely based on normal monsoons and the effective implementation of farm reforms.