India marginally slashes GDP target for 2021-22; analysts say rising crude, Russia-Ukraine war may pose challenges in achieving Q4 target

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India retained its position as the world's fastest growing economy despite the country's economic growth slowing down to 5.4 percent in Q3FY22. This was higher than China's gross domestic product (GDP) expansion of 4 per cent during the same period. However, India's GDP estimate for 2021-2022 was slashed to 8.9% from 9.2% estimated earlier.

In the current fiscal, the GDP growth stood at a whopping 20.3 percent in the April-June quarter and 8.5 percent in the July-September period.

Economists and analysts are of the view that slowing down of GDP was primarily due to omicron impact and disappointing manufacturing and industrial growth, and believe that challenging road lies ahead for India as far it has to achieve revised growth of 8.9% for 2021-2022.

From 8.5 percent growth in the previous quarter to 5.4%the third quarter, the dip may be attributed to the emergence of the Omicron variant of coronavirus, which led to the reimposition of restrictions by many states and affected certain sectors, apart from lacklustre in manufacturing output and investment, said Mohit Nigam, Head - PMS, Hem Securities

Challenging road ahead for India

"To achieve 8.9% growth, the Q4 GDP has to grow by 4.8%. This looks challenging given the fact that the third wave of the pandemic had caused considerable restrictions," said M Govinda Rao, Chief Economic Adviser at Brickwork Ratings.

They believe it would be difficult to achieve even the revised target in the view of restriction due to third wave, current geo-political tension surrounding Russia and Ukraine and subsequent rise in crude oil prices globally.

"4Q GDP prospects weighed down by weak activity in January"

"Going forward, the 4Q GDP prospects are weighed down by weak activity in January due to the third wave linked restrictions. However, the pickup in activity since early February should provide some support, although risk from elevated oil prices and the impending pass through of input prices may weigh on the already weak consumption demand," says Upasna Bhardwaj, Senior Economist at Kotak Mahindra Bank.

"Third wave, geopolitical tensions, rising crude among major challenges"

Rao says estimated growth 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, says the expert.

"The third wave has 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," said Chief Economic Adviser at Brickwork Ratings.

Policy challenges for RBI

VK Vijayakumar, Chief Investment Strategist at Geojit Financial Services, says "Q3 GDP growth at 5.4% indicates slowing growth momentum in the economy.

"This poses serious policy challenges. RBI's accommodative monetary stance is necessary to sustain growth in the economy, but this is difficult, almost impossible, with crude above $100 and an imminent spike in inflation. FY 22 GDP is likely to come at 8.9%, lower than budget estimates. This means the fiscal deficit for FY22 will be higher than projected. In brief, macro headwinds are getting stronger," added Vijayakumar

"Energy supply shock to have near-term negative impact"

Madhavi Arora, Lead Economist, Emkay Global Financial Services, said the weaker growth in 3QFY22 reflected kicking in of high base effects kick in and consolidation of activity.

"The economic recovery might see a minor bump down in 4QFY22 led by mild omicron wave, while the current geopolitical escalation may lead to potential global energy trade and price disruptions and weigh on growth. We assume the energy supply shock may resolve in coming months and likely will not leave a lasting mark on global and domestic expansion. However, it would clearly have a near-term negative impact. Going ahead, Fiscal and monetary support continue to nurture growth, especially a s recovery in domestic economic activity is yet to be broad-based," Arora added.