CARE Ratings
Professional Risk Opinion

GVA and GDP Growth forecasts for FY22

March 24, 2021 I Economics

GDP growth in FY22 is expected to be high due to two factors. The first is the low base effect of negative growth in FY21. This is significant because while the base effect provides a boost to the GDP numbers, it is not that impressive when compared with FY20. The second is due to the recovery which has taken place in the economy following the lockdown that was followed by the unlock process which has opened all sectors. Recovery is broad based across sectors but at varying speed as the services sector in particular still operates with significant restrictions which look unlikely to be fully eased through the first half of FY22. The recovery in the economy will also be aided by the vaccination drive which has been witnessed in the country and the sustained pace of vaccination and coverage of more age-groups is required to speed up the process.

Although the recent surge in Covid-19 cases in the country has raised the possibility of potential restrictions which are in place in several business centres, these are expected to be less potent than those in FY21.

Based on perspectives of various sectors that CARE Ratings covers separately, the GVA/GDP forecasts presented here are based on their inclusions in these calculations. The forecasts have used the CSO estimate for FY21 which is -8.0% as the base for estimation purposes. CARE Ratings' forecast for FY21 still stands at -7.8%. However, this exercise uses CSO as the base to be aligned with the official estimate. It is believed that the final forecast may not change very significantly and would vary by not more then 0.2-0.3%.

GVA Profile and growth estimates for FY22

Rs lkh cr and %	FY20	FY21	FY22	FY20	FY21	FY22 (est)
GVA	132.71	124.11	136.83	4.1	-6.5	10.2
Agriculture, forestry and fishing	19.69	20.28	20.99	4.3	3.0	3.5
Industry	39.28	36.07	40.24	-1.2	-8.2	11.6
Mining and quarrying	3.22	2.92	3.22	-2.5	-9.2	10.0
Manufacturing	22.69	20.80	23.45	-2.4	-8.4	12.8
Electricity, gas, water and other utility	3.01	3.06	3.24	2.1	1.8	6.0
Construction	10.36	9.29	10.33	1.0	-10.3	11.3
Services	73.75	67.76	75.59	7.2	-8.1	11.6
Trade, hotels, trans, storage, comm	27.00	22.14	25.23	6.4	-18.0	14.0
Financial, real estate and prof services	29.17	28.76	31.63	7.3	-1.4	10.0
Public admin, defence and other	17.59	16.87	18.73	8.3	-4.1	11.0

Source: CSO and CARE Ratings

Our estimate is that GVA will increase by 10.2% in FY22 over -6.5% in FY21. This is based on the normal monsoon assumption which will lead to stable agricultural output. Any deviation here will change the overall estimate.

- Agriculture will continue to grow by a stable rate based on steady kharif and rabi harvests. There are no unfavorable signs of an el Nino developing which is an early positive sign.
- The industrial sector will witness buoyancy with mining, manufacturing and construction registering double digit growth rates over negative growth in FY21.
  - This will be supported by metals (10-15% growth), cement (10-12%), auto (15-25% across different segments), textiles (8-10%), drugs and pharma (14-15%). The consumer goods industry will however register relatively moderate growth of between 5-8%.
  - Power sector would continue to grow by between 5-7% taking growth for the group to 6%.
  - Construction will be driven by government working hard on roads, with real estate related activity also picking up in the residential segment leading to uptick in house building.
- Services sector is expected to grow by 11.6% with all the three segments registering double digit growth.
  - Trade, transport, hotels, etc. would be growing on the back of strong growth from telecom (10-12%), retail (10-12%), hotels (20-25%) and healthcare (10-12%). The downside risk here is that continuation of localized lockdowns with restrictions on these services will have the potential to lower growth in GVA by 1-2% and can pressurize the economic recovery.
  - Maintenance of growth in the financial services will be combined with real estate growth to push overall

number to 10%. Bank credit this year will be higher with the demand for funds picking up. The downside risk is any stagnation in real estate due to issues on the home loans front. It may be pointed out here that as of August 2020 a large part of the mortgage portfolio of banks were under moratorium. The Supreme Court has recently lifted the moratorium relaxation provided to the banks which means the latter will start recognizing these NPAs going ahead. A significant uptick in NPA numbers could weigh on bank credit growth to some extent depending on the provisions already made by them. Any upside risk here will affect prospects of this sector.

– The public admin and miscellaneous services will rebound on the back on higher government spending which will keep growth above 10%.

Why these numbers should be interpreted with caution?

The high growth rates when juxtaposed with FY20 growth rates look more modest as most of the growth in FY22 involves recouping the losses of FY21 with a more moderate delta accruing in the coming year.

Growth in GVA in FY22 when compared with FY20

	FY20	FY22 over FY20
GVA	4.1	3.1
Agriculture, forestry and fishing	4.3	6.6
Industry	-1.2	2.5
Mining and quarrying	-2.5	-0.2
Manufacturing	-2.4	3.3
Electricity, gas, water and other utility	2.1	7.9
Construction	1.0	-0.2
Services	7.2	2.5
Trade, hotels, transport, storage and comm	6.4	-6.5
Financial services, real estate and prof services	7.3	8.5
Public administration, defence and others	8.3	6.5

Source: CSO and CARE Ratings

To remove the base effect, the growth rates in GVA for various sectors have been calculated over FY20 and presented in the table above. The 10.2% growth rate gets diluted to 3.1% with moderation in all sectors except agriculture and allied activities where growth has compounded being positive in both the years. In fact, growth will still be negative in mining, construction and trade, hotels, etc.

The crux to growth will be a push up in investment which will also be contingent on consumption increasing rapidly. This may not happen in the first half of FY22 with a lot of uncertainty still prevailing in the country on the spread of the virus and the imposition of various localized lockdowns across the country. With the unemployment scenario unlikely to see a significant shift and the pent-up demand gradually waning, consumption would tend to be subdued.

GDP growth for FY22

GDP growth for FY22 would be in the range of 11-11.2%. A critical factor here would be the progress in tax collections. Any slowdown in the GVA growth due to the risk factors highlighted will draw down the equivalent taxes and hence lower the GDP growth rate too.

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