Press Release

FY22 GDP growth reflects steady recovery from pandemic

Mild third wave and geo-political crisis, however, slows momentum in Q4FY22

01-June-2022

In line with expectations, India's annualized GDP growth in Q4 FY22 came in lower than NSO's second advance estimate (5.3% YoY) at 4.1% YoY from 5.4% YoY in Q3 FY22. The pace of expansion in Q4 was not only impeded by tapering of statistical base of the previous year but also due to some loss of momentum in economic revival particularly in contact intensive services amidst the spread of Omicron along with persistent supply chain disruptions and higher commodity costs arising from Russia-Ukraine crisis. Correspondingly, the GVA growth eased to 3.9% in Q4 from 4.7% in Q3. Taking into consideration the latest quarterly print, the GDP growth for FY22 stood at a fairly healthy 8.7% from a contraction of 6.6% recorded in FY21. At 8.7%, GDP growth for FY22 will be the highest in the current 2011-12 series. While the figure needs to be linked to the low base that underwent contraction in FY21, it nevertheless reflects a steady recovery of the economy from the clutches of the prolonged pandemic. When we compare the GDP with the pre-pandemic period of FY20, the GDP stands 1.5% higher with government expenditure followed by investments i.e gross fixed capital formation and private consumption albeit to a moderate extent, supporting the recovery momentum.

Looking at the internals for Q4 FY22, on the supply side, the drag was primarily led by services on account of imposition of mobility restrictions amid third Covid wave followed by only a moderate expansion in industry segment, while agriculture sector continued to remain the major support. Services GVA grew at a slower pace of 5.5% in Q4 from 8.1% in Q3 primarily led by moderation in public admin, defence and other services (7.7% in Q4 from 16.7% in Q3) and trade, hotels and transport (5.3% in Q4 vs. 6.3% in Q3). The moderation in public services was expected as the central government revenue expenditure excluding interest payments contracted by 8% YoY in Q4 FY22 from an expansion of 8% in Q3. On the other hand, industry GVA rose at a slower pace of 1.3% YoY led by modest expansion in electricity and construction segment. The manufacturing segment contracted by 0.2% YoY in Q4 for the first time in two years likely on the back of higher input prices and supply shortages which also got reflected in India's industrial production levels during the quarter.

On the demand front, growth in consumption was weighed down by private consumption which moderated to 1.8% YoY in Q4 FY22 from 7.4% in Q3. On the other hand, government final consumption expenditure provided support by growing at 4.8% in Q4. Meanwhile, net trade remained a drag on overall growth recovery, moderating to 22.9% YoY in Q4 vs. 90% in Q3, highlighting the sharp increase in imports.

Post the temporary setback from Omicron, domestic macroeconomic conditions consolidated their strength in Mar-Apr-22, amid continued normalization in economic activities particularly in the services sector and strong vaccination coverage (73% of India's total population is now fully vaccinated). Among the broad spectrum of lead indicators, most continued to display incremental strength for months of Mar-22 and

Apr-22. This was clearly captured in our inhouse proprietary AMEP (Acuité Macroeconomic Performance) index which registered its post-pandemic record high level in the month of Mar-22 (126.6) and Apr-22 (127.8).

Heading into FY23, the pace of domestic growth recovery could however, come under threat given the growing headwinds from weaker global growth prospects which could weigh on India's export growth momentum in FY23. The significant run-up in commodity prices, prolonged supply constraints along with Covid related uncertainties and slowdown induced in China has led many forecasters including the IMF and the World Bank to slash their 2022 global growth forecast lower to 3.6% and 3.2% respectively. The elevated and rising inflation has hastened the pace of monetary policy normalisation in most economies including India which has induced financial market volatility and capital outflows that could adversely impact India's economic growth in the near term. Given these entrenched risks from the prolonged strife between Russia and Ukraine, there is a significant uncertainty that will continue to play on India's growth prospects in the current year.

That said, a healthy support to overall growth dynamics is likely to emerge from the capital expenditure focused government expenditure, expectation of a normal Southwest monsoon and the benefits from the full unlocking of the economy post the Omicron wave with more than 70% of population fully vaccinated. Indian Meteorological Department (IMD) expects Southwest monsoon to be normal, pegged at 99% of LPA with a margin error of +/-5% in 2022, with Government setting the food grain production target of 328 mn tonnes for 2022-23 (3.8% higher vs. last year). Additionally, a steady improvement in manufacturing capacity utilization to 72.4% in Q3 FY22 (higher than its pre pandemic level of 68.6% in Q3 FY20) corroborates the gradual easing of domestic supply side constraints and bodes well for India's future economic activity. As the economy emerges out of the pandemic, we also expect services sector to play a dominant role in the growth dynamics vis-à-vis the manufacturing sector in the near term. On an overall basis, we retain our FY23 GDP growth forecast at 7.2%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "Considering the back ended impact of the Omicron wave on contact intensive services closely followed by the emergence of the Russia-Ukraine conflict in Q4FY22, the print of 8.7% for FY22 GDP can be considered to be reflective of a broad based economic recovery after the prolonged disruption caused by the pandemic. Nevertheless, the headwinds from the geo-political crisis rages on with crude oil prices well above USD 100 pb and the entrenched inflation risks will indeed slowdown the ongoing domestic recovery. What can be a positive surprise is a pickup in private capital expenditure induced by the increased capacity utilization in a larger number of sectors along with PLI programmes launched by the government."

Annexure

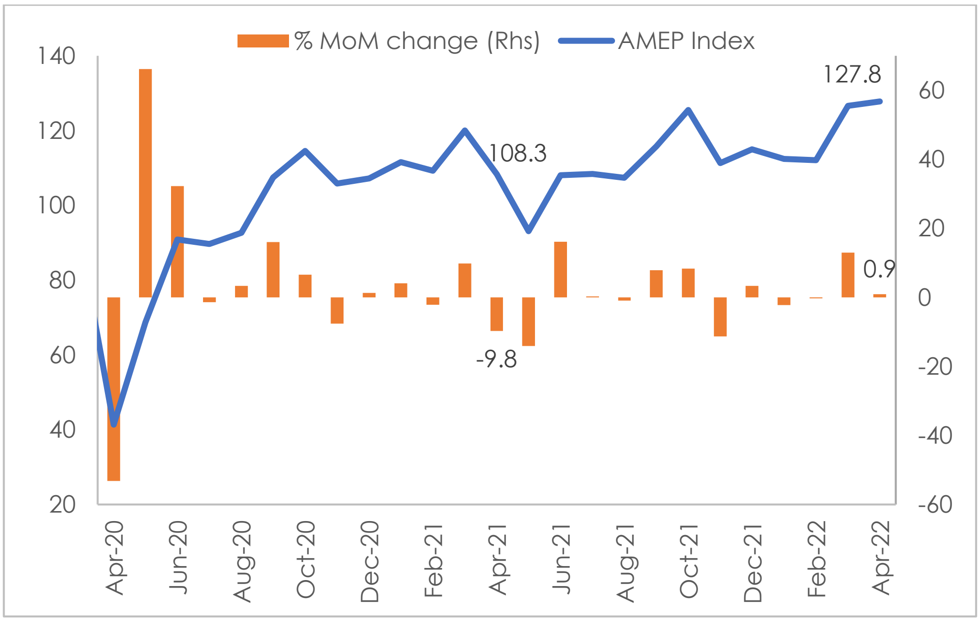
Table 1: Key highlight of GVA data (% YoY)

	2020-21	2021-22	Q3 FY22	Q4 FY22
Total	**-4.8**	**8.1**	**4.7**	**3.9**
Agriculture, forestry and fishing	3.3	3.0	2.5	4.1
Industry	-3.3	10.3	0.3	1.3
Mining and quarrying	-8.6	11.6	9.2	6.7
Manufacturing	-0.6	9.9	0.3	-0.2
Electricity, gas, water supply services	-3.6	7.5	3.7	4.5
Construction	-7.3	11.5	-2.8	2.0
Services	-7.8	8.4	8.1	5.5
Trade, hotels, transport, comm. services	-20.2	11.1	6.3	5.3
Financial ser., real estate and profess. services	2.2	4.2	4.2	4.3
Public admin., defence and other services	-5.5	12.6	16.7	7.7

Table 2: Key highlight of GDP data (% YoY)

	2020-21	2021-22	Q3 FY22	Q4 FY22
Private Consumption	-6.6	7.9	7.4	1.8
Government Consumption	-6.0	2.6	3.0	4.8
Gross Fixed Capital Formation	15.8	15.8	2.1	5.1
Exports	-9.2	24.3	23.1	16.9
(less) Imports	-13.8	35.5	33.6	18.0
GDP	**-6.6**	**8.7**	**5.4**	**4.1**

Chart 1: AMEP index surges to record high levels in Mar-Apr-22



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Investor Outreach: / Analytical Contact:

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in