

GDP EXPECTATIONS

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Recovery in FY22

Growth in Indian economy is expected to improve by 9.2% (GDP) in FY22 led by services. Agriculture sector is also expected to provide support in parallel. With the ebbing of the 3rd covid-19 wave, pent up demand especially for hospitality sector has provided the thrust. However, prolonged geopolitical conflicts pose significant risk to future projections. In addition, surge in global inflation has added to the concerns. Global rate hike cycle is expected to counter and tame this fear.

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Growth Expectations: According to MOSPI, India's economy is pegged to grow by 8.9% in FY22 (2nd Advance Estimate) with Q4FY22 growth kept at 4.8%. ADB has projected India's growth at 7.5%, while IMF expects it at 9% for FY22. However, we expect the economy to do much better sequentially specially on the back of base effect and normalisation of economic activity. The overall impact of Omicron variant which resulted in the 3rd wave of Covid-19 seems to be relatively muted than was initially anticipated. Further, rapid pick up in the pace of vaccination programme is also expected to support growth.

Q4 growth expected to be higher: With improvement in mobility indices and opening of economy along with much lower covid-19 cases across states; contact-intensive sectors are expected to make stronger recovery. The economy is projected to grow by 5.5% in Q4FY22 against 5.4% in Q3FY22. A much needed pick up will be visible in services sector with travel and hospitality, contributing significantly towards this recovery. Construction is also likely to edge upwards. However, Agriculture growth might be a tad slow as compared to government expectations (3.3% against government estm of 3.5%) owing to lower yield of wheat crops, conflict between Russia-Ukraine and heat wave conditions. These might pose downside risk to these projections. Industrial growth might be adversely impacted too.

FY22 growth to improve: After contracting by 7.3% in FY21, India's economy is poised to recover in FY22. Following factors are likely to contribute towards this improvement: 1. Rural sector has maintained its resilience with normal monsoon and higher production of total foodgrains (As per 3rd advance estimates). 2. Uptick in bank credit growth to push financial services. 3. Improvement in services sector with passenger traffic (-62% to 59%), rail freight (2% to 15%) and port cargo (-4.6% to 7%) leading the race. 4. Higher GST tax collections has also provided much needed support. Against this backdrop, we expect GDP growth at 9.2% in FY22. However, there is downside risk emanating from ongoing Russia-Ukraine conflict, soaring of commodity prices and acceleration in global inflation going ahead. Further, aggravating heat wave conditions has curbed wheat output and added some pressure to industrial growth. A mix of both monetary (RBI frontloading with rate hike) and Fiscal policy (reduction in excise duties) at play is expected to boost growth prospects.



Table 1: Q4 growth likely to be higher than Government estimates

Sectors	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22*
Agriculture, forestry and fishing	2.8%	3.5%	3.7%	2.6%	3.3%
Mining and quarrying	(3.9%)	17.6%	14.2%	8.8%	5.8%
Manufacturing	15.2%	49.0%	5.6%	0.2%	0.1%
Electricity, gas, water supply and other utility services	3.2%	13.8%	8.5%	3.7%	6.3%
Construction	18.3%	71.4%	8.2%	(2.8%)	0.4%
Trade, hotels, transport, communication & services related to broadcasting	(3.4%)	34.3%	9.5%	6.1%	10.6%
Financial, real estate & professional services	8.8%	2.3%	6.2%	4.6%	5.0%
Public administration and Defence	1.7%	6.3%	19.5%	16.8%	8.0%
GVA at basic prices	5.7%	18.4%	8.4%	4.7%	4.9%
GDP	2.5%	20.3%	8.5%	5.4%	5.5%

Source: CEIC, Bank of Baroda Research, Note : * estimates



Table2: Growth expected at 9.2% in FY22

Sectors	FY20	FY21	FY22*
Agriculture, forestry and fishing	5.5%	3.3%	3.2%
Mining and quarrying	(1.5%)	(8.6%)	11.0%
Manufacturing	(2.9%)	(0.6%)	10%
Electricity, gas, water supply and other utility services	2.2%	(3.6%)	8%
Construction	1.2%	(7.3%)	11%
Trade, hotels, transport, communication & services related to broadcasting	6.3%	(20.2%)	12.8%
Financial, real estate & professional services	6%	2.2%	4.5%
Public administration and defence	6.5%	(5.5%)	12.8%
GVA at basic prices	6.2%	(4.8%)	8.5%
GDP	3.7%	(6.6%)	9.2%

Source: CEIC, Bank of Baroda. Note: *Estimates



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