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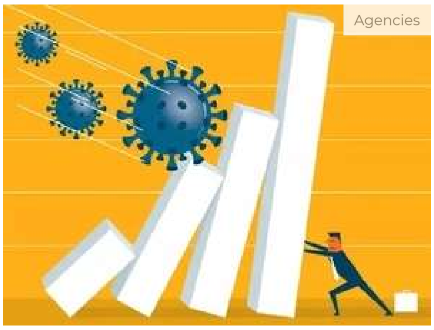
Care Ratings revises downward GDP forecast to 9.2% for FY22

Synopsis
This is the fourth revision by the rating agency in its GDP growth forecast for FY2021-22 since March this year. On March 24 this year, it had projected GDP growth for FY22 at 11-11.2 per cent but revised downwards forecast to 10.7 per cent on April 5 and further to 10.2 per cent on April 21.



There is a double whammy due to the second wave - of a lockdown as well as personal health of workers, it added.

Domestic rating agency **Care Ratings** NSE -0.59 % on Tuesday revised its **GDP growth** forecast for the current fiscal to 9.2 per cent from 10.2 per cent it had estimated earlier. This is the fourth revision by the rating agency in its **GDP** growth forecast for FY2021-22 since March this year.

On March 24 this year, it had projected GDP growth for FY22 at 11-11.2 per cent but revised downwards forecast to 10.7 per cent on April 5 and further to 10.2 per cent on April 21.

"GDP growth for FY22 will be 9.2 per cent with a downward bias as against 10.2 per cent projected in April," the agency said in a report released on Tuesday.

There is a double whammy due to the second wave - of a lockdown as well as personal health of workers, it added.

There are 37 lakh active cases today which can be affecting broadly over 100 lakh families. There have been cumulative discharges of around 1.9 crore people, which will affect at least 6-7 crore families, it said.

This can potentially also affect the purchasing power of families and hence unlike last year when the pent-up demand theory worked to a certain extent, this time it will be dormant, the report said.

These people would have spent a considerable amount of money on medical treatment and unless in the top echelons of income would not be in a position to spend more this time after the infection incidence abates, it noted.

"The sheer numbers this time will delay the demand revival process this year," the report added.

The agency further said the GDP in FY21 was Rs 134.08 lakh crore that was to increase to Rs 148.83-149.10 lakh crore as per its March forecast.

The GDP level in real terms will be Rs 146.42 lakh crore based on 9.2 per cent growth, it said.

"The lower growth in GDP compared to our initial estimate of 11.2 per cent would mean a loss of Rs 2.68 lakh crore in real terms or Rs 3.89 lakh crore in nominal terms," the report said.

In real terms, the growth in agriculture would be 3.3-3.5 per cent. The growth in the industry will be 9.5-10 per cent and 9-9.5 per cent in the services sector.

The agency said this will in turn have fiscal implications.

The **Budget** had targeted a nominal GDP of Rs 222.87 lakh crore and the **fiscal deficit** was estimated at Rs 15.07 lakh cr for FY22.

With real GDP growth falling by Rs 2.68 lakh crore, nominal GDP would now be reduced to Rs 218.98 lakh crore with a loss of nearly Rs 3.9 lakh crore of income, the report said.

Further, with GDP growth slowing down by 2 per cent, the overall tax revenue to the centre will come down from Rs 15.45 lakh crore to Rs 15.11 lakh crore, which is a shortfall of Rs 34,000 crore, as per the agency.

Last month, the government announced an outlay of Rs 25,000 crore on account of the free food programme for 80 crore people.

"This additional cost combined with the potential decline in tax revenue will mean an increase in the deficit by Rs 59,000 crore," it said, adding that the revised fiscal deficit for FY22 would be Rs 15.66 lakh crore or 7.15 per cent of GDP.

This is assuming that the government spends the additional Rs 25,000 crore outside the budget and does not channel the same from an existing allocation, the agency said.