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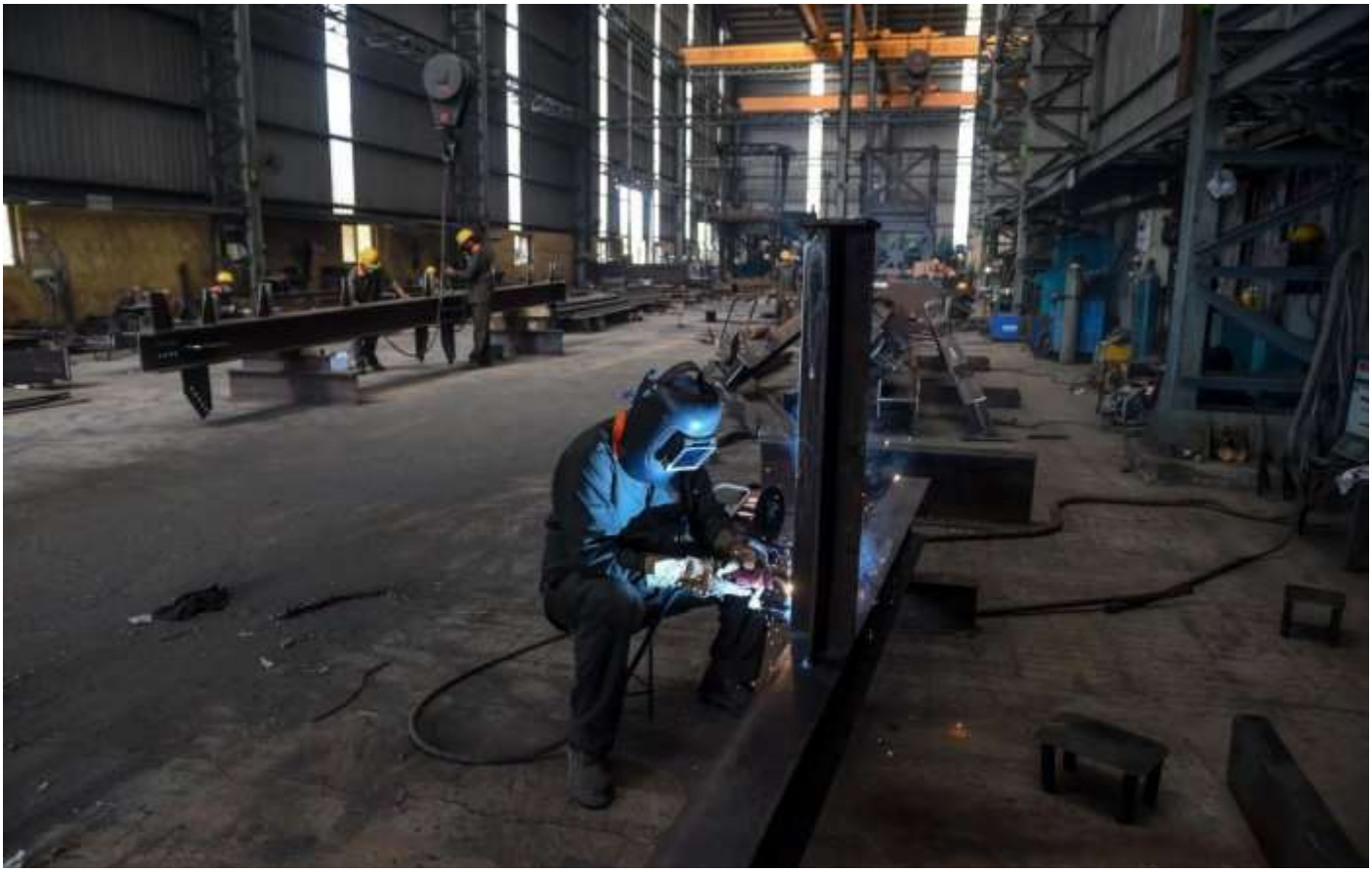
Double-digit economic growth unlikely in FY22

Rating agencies and economists have cut back their growth projections for the current financial year

Manojit Saha, MAY 16 2021, 21:46 IST | UPDATED: MAY 17 2021, 08:01 IST



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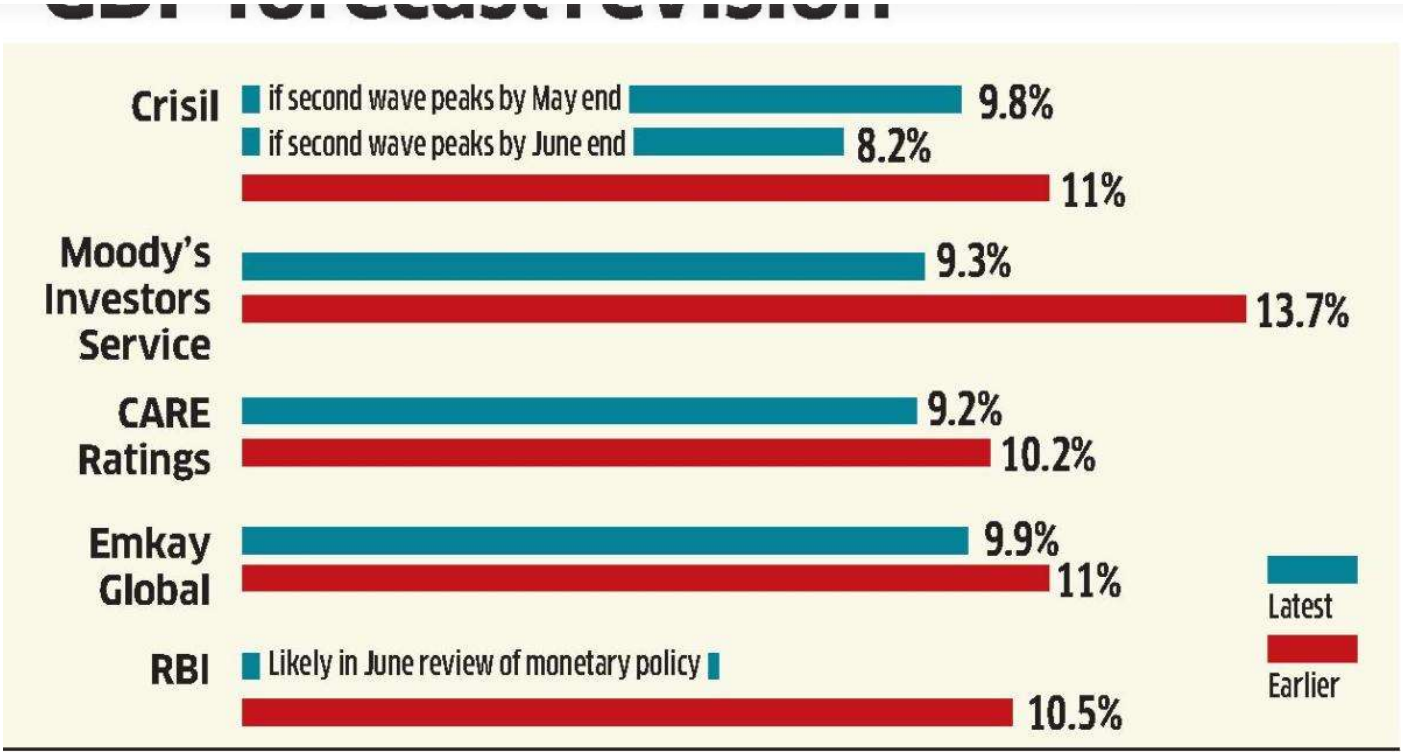

GDP forecast revision

Rating agencies and economists have cut back their growth projections for the current financial year due to the impact of economic activity following lockdowns imposed by various states to combat the second wave of the Covid-19 pandemic.

While the country's GDP is expected to contract in 2020-21, growth was expected to bounce back in the current financial year to double-digit growth figures as rapid vaccinations were expected to counter a second surge. However, vaccinations remained slow, with some states halting jabs to those below 45 due to shortages.

"With the second wave and associated lockdown/restrictions, economic disruption is now clearly visible," Soumya Kanti Ghosh, Group Chief Economic Adviser, State Bank of India said in a note.

"At least 20 states are now in lockdown. Even the monthly leading indicators, including GST e-way bills, vehicle sales, fertiliser sales have declined in April 21 when compared to March 21… Given the rise in cases and restrictions now imposed in every state, real GDP growth of 10.4 per cent looks a bit ambitious," the report said while adding that recovery will actually depend on the psyche of people to come out and this will not happen till the larger population is vaccinated.

While economists suggested vaccination is key for economic revival, the rollout of vaccines is marred with several hiccups, mainly due to shortages. Till now, only a fraction of the population has been vaccinated fully though experts have pointed out that vaccinating 70 per cent of the

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and December.

Rating agency Crisil, which had projected 11 per cent growth for FY22, lowered its projection to single-digit following the second wave. The rating agency now projects 9.8 per cent growth in case the hit on the economy is moderate, that is the second wave peaks in May end and 8.2 per cent if the hit is much severe, that is if the second wave peaks by June-end.

Crisil said growth in the first half of FY22 will be supported by the base effect but is clouded by the pandemic's spread.

"H2 [second half of FY22] to be led by better-spread economic growth, owing to increased inoculations and better adaptability to the pandemic, which would support sectors that are lagging. Also, H2 should see stronger global growth, supporting India's export to an extent." Another rating agency Moody's also revised India's GDP projection for the current financial year due to the second wave, to 9.3 per cent as compared to an earlier forecast of 13.7 per cent.

"The reimposition of lockdown measures will curb economic activity and could dampen market and consumer sentiment. However, we do not expect the impact to be as severe as during the first wave," Moody's said.

"… as of early May, only around 10 per cent of the country's population had received at least one dose of the vaccine. Meanwhile, a shortage of vaccines and logistical difficulties in reaching a large rural population (about two-thirds of the population) complicate the vaccine rollout," the rating agency said.

Care Ratings has also revised its GDP growth forecast for the current fiscal to 9.2 per cent from the 10.2 per cent estimated earlier.

In a note to its clients, economists at Emkay Global said a successful vaccine strategy is the cheapest path for economic normalisation. The report said that the welfare cost of universal jabbing at 0.6-0.7 per cent of GDP is much lower than 0.9-1.0 per cent loss of monthly economic output amid soft lockdowns.

"India's macroeconomic narrative has changed swiftly from being a linear V-shaped recovery in FY22 to being a story of a lost quarter," Emkay economists said. "Assuming Covid-II peaks in May 21 and restrictions ease by Q2FY22, we mark down our FY22 GDP forecast to 9.9 per cent from 11 per cent earlier," they added.

The report noted that vaccination drive is skewed state-wise and has slowed substantially, and in the base case scenario, 70 per cent of the population is likely to be vaccinated by March 2022 and

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to see a temporary dip, depending on how the Covid situation unfolds.

In the April review, the Monetary Policy Committee (MPC) of the central bank projected a GDP growth of 10.5 per cent for the current financial year. For the first quarter, growth was projected at 26.2 per cent, for Q2 it was 8.3 per cent, 5.4 per cent in Q3, and 6.2 per cent in Q4. The committee is likely to review its growth forecasts when it meets in June for a review of the policy as the economic landscape has changed substantially since the April policy meeting.

(The writer is a senior journalist based in Mumbai)

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