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India's GDP to grow at 11-11.2% in FY22; tax collections critical: CARE Ratings

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Indian economy will grow in the range of 11-11.2 per cent in the coming financial year, noted CARE Ratings. The high Gross Domestic Product (GDP) growth in FY22 will be on the back of low base effect in FY21 and broad-based recovery across the economy, the ratings agency said. Progress in tax collections will be critical factor in realising this growth as any downside risk to Gross Value Added (GVA) would impact taxes and, in turn, GDP growth, it further added.

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"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," CARE Ratings said.

Although the second COVID-19 wave has raised the possibility of lockdown, the restrictions are expected to be less potent than those seen during FY21.

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CARE estimated GVA to grow at 10.2 per cent in FY22 over (-) 6.5 per cent in FY21. This estimate is based on the normal monsoon assumption which will result in stable agricultural output. Any deviation here will change the overall estimate, the agency said.

As per CARE Ratings' estimates, agriculture will grow at 3.5 per cent during FY22 on steady kharif and rabi harvests. Both industrial and services sectors will record 11.6 per cent growth. The industrial sector will witness buoyancy with mining, manufacturing and construction registering double-digit growth rates over negative growth in FY21. All three segments under services sector - trade, hotels, transport, storage, communication; financial, real estate and prof services; and public administration, defence and other - are expected to register double-digit growth.

CARE, however, cautioned that GVA numbers should be interpreted with caution as "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."

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Compared to GVA growth in FY20, the 10.2 per cent growth rate for FY22 gets diluted to 3.1 per cent with moderation in all sectors except agriculture and allied activities. Mining, construction, and trade, hotels, transport, storage and communication in FY22 will see negative GVA growth when compared to FY20.

"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 localised 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," CARE Ratings said.

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