

Macroeconomics | **First cut**

A narrow rebound

January 2022

Domestic economy recovers from pandemic lows but a long way to go

- The first advanced estimates (FAE) released by the National Statistical Office today show India's real gross domestic product (GDP) is set to grow 9.2% in this fiscal compared with a pandemic-led contraction of 7.3% in fiscal 2021, indicating the economy (in real terms) is still only 1.3% above the pre-pandemic (fiscal 2020) levels
- Gross value added (GVA) – the supply-side and a firmer measure of the economy – rose 8.6% in fiscal 2022 (compared with a 6.2% contraction in fiscal 2021)
- While the economy has rebounded to pre-pandemic levels (fiscal 2020), private final consumption expenditure (PFCE) – the largest demand side driver – continues to lag at Rs 80.8 trillion in fiscal 2022, 2.9% below Rs 83.2 trillion in fiscal 2020. Also, while investments, i.e., gross fixed capital formation (GFCF), are back in green, they are only 2.6% above the fiscal 2020 levels (see tables at the end), suggesting that they are largely driven only by government-led infrastructure creation programmes and a wider investment cycle recovery with private and household sector participation still remaining weak
- On the supply side, the agriculture sector remained a consistent growth story; agri GVA in fiscal 2022 is estimated to be 3.9% above the fiscal 2021 level and 7.7% above the fiscal 2020 level. The other two segments that continue to recover well are government services and manufacturing, growing 5.6% and 4.4%, respectively, above the fiscal 2020 level. On the other hand, construction sector growth is still muted at 1.2% (Rs. 10.5 trillion in FY22 over Rs. 10.4 trillion in fiscal 2020) and remains a concern, given the sector's labour-intensive nature and employment potential. Further, some contact-intensive services are still estimated to trail pre-pandemic levels as reflected in 'trade, hotels, transport, communication and services related to broadcasting' segments, which still remain a huge 8.5% below fiscal 2020 levels. With the rise in Omicron cases and a looming third wave, contact-intensive services could be vulnerable to prolonged pain
- As per the advance estimates, nominal GDP growth in fiscal 2022 is pegged at 17.6%, significantly higher than 14.4% assumed by the government in its budget estimates last year. This is a reflection of high price levels in the economy (average CPI inflation of 5.2% and WPI inflation of 12.2% so far this fiscal and a GDP deflator of 7.7%, which is the highest in nine years). That said, nominal GDP growth has helped the government realise higher tax collections, which are linked to nominal prices in the economy. The central government's gross tax receipts grew 50% on-year in April-November 2021 and rose 31% over the same period in fiscal 2020 i.e., the pre-pandemic period
- Needless to say, the pandemic also hurt the government's ambitious economic target. Given India's economy currently stands at ~\$3.1 trillion, achieving the \$5 trillion mark by 2024-25 would be a tall order
- The looming third pandemic wave on account of the rising Covid-19 cases and the resultant curbs across states could lead to some more pain in the current quarter of this fiscal. These factors, along with the budget (to be

presented on February 1, 2022), would remain key monitorables for the next fiscal's growth outlook

Tracing the economy's path from pre-pandemic levels

Demand side (Rs trillion at constant prices)

	GDP	PFCE	GFCE	GFCF	X	M
FY20	145.7	83.2	15.4	47.3	28.3	33.2
FY21	135.1	75.6	15.9	42.2	26.9	28.7
FY22	147.5	80.8	17.1	48.5	31.4	37.1
FY22 over FY20 (%)	1.3	-2.9	10.7	2.6	11.1	11.8

Supply side (Rs trillion at constant prices)

	GVA	Agri & allied	Mining	Manufacturing	Electricity, gas etc.	Construction	Trade, hotels etc.	Financial services, real estate etc.	Public admin. & others
FY20	132.7	19.7	3.2	22.7	3.0	10.4	27.0	29.2	17.6
FY21	124.5	20.4	2.9	21.1	3.1	9.5	22.1	28.7	16.8
FY22	135.2	21.2	3.4	23.7	3.3	10.5	24.7	29.9	18.6
FY22 over FY20 (%)	1.9	7.7	4.6	4.4	10.5	1.2	-8.5	2.5	5.6

Note: PFCE - private final consumption expenditure; GFCE - government final consumption expenditure; GFCF - gross fixed capital formation; X - exports; M - imports

Source: National Statistical Office, CRISIL

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