Press Release

Economic Survey FY22: Optimistic on growth, Cautious on inflation

FY23 GDP growth envisaged at 8.0-8.5%

01 February 2022

Notwithstanding the moderate disruption caused by the Omicron variant, the Economic Survey of 2021-22 has presented an optimistic growth scenario amidst stability achieved in most of the macroeconomic indicators primarily led by the combination of continued fiscal as well as monetary policy responses.

With repeated wave of Covid infections, supply chain disruptions and soaring inflationary pressures thwarting India's economic recovery, the Economic Survey sets out to explain the alternative "Agile" approach as compared to the traditional Waterfall approach that was brought into play to tackle the challenges posed by the pandemic. The use of "Agile" framework which is based on feedback-loops, real time monitoring of actual outcomes, and safety-net buffers has aided government to tailor its responses dynamically to the evolving situation rather than rely on pre-defined responses of a Waterfall framework.

Macroeconomic assessment:

Growth: From macroeconomic standpoint, the survey recognizes that India's economic activity has recouped its lost momentum and it's trailing well above its pre-pandemic levels with GDP growth expected to come in at 9.2% in FY22 from a contraction of 6.6% (revised from -7.3%) in FY21. Going forward, with widespread vaccine overage, supply-side reforms, availability of fiscal space to ramp up capital spending and robust export growth, the government expects FY23 GDP growth in the range of 8.0-8.5%. However, such an expectation is based on the premise that there would be no further severe economic disruption from the pandemic, normal monsoon, orderly withdrawal of global liquidity by major central banks, moderation in crude oil prices (USD 70-75 pb), and steady easing of global supply chain disruptions over the course of the year.

Fiscal: The survey highlights the comfortable position of government finances in FY22 so far, led by buoyant tax collections and non-tax revenue primarily boosted by RBI's surplus transfer to the Government. On the other hand, the emphasis on robust capital expenditure with focus on infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs has led to a sustained revival in India's economic recovery. Going forward, the government expects revenue collection from all sources to be more robust which will help to maintain a healthy fiscal position thus aiding the economy to comfortably meet the FY22 fiscal deficit target and to get back on track with the fiscal glide path outlined by the Medium-Term Fiscal Policy Statement.

External: With gradual improvement in external trade post the pandemic-induced slump, the survey expects the resilience of India's external sector to augur well for growth revival in the economy during the current year. However, global liquidity tightening, volatility in global commodity prices, high freight costs, coupled with any fresh resurgence of infections with new variants is expected to pose a challenge for India during FY23. Nevertheless, the scaling back of pandemic-era stimulus programme by the systemically important central banks is unlikely to have a significant impact on India's external sector as compared to the taper tantrum episode of 2013 as the economy is far better prepared this time to face any external shocks given a sizeable accretion in forex reserves which stood at around USD 635 bn as on Jan-22 end.

Inflation: The survey highlights concern over rise in inflationary pressures in domestic as well as global economy fuelled by pent-up demand boosting consumer spending, surge in commodity prices, supply constraints along with disruption in global supply chain. On the domestic front, while the survey acknowledges the proactive measures taken to contain the price rise in pulses and edible oils, reduction in central excise and subsequent cuts in VAT by most states to have capped the rise in inflation, it expects the price pressures to remain elevated in Q4 FY22. Additionally, the survey points to the divergence between CPI and WPI due to base effects, difference in scope and coverage of the two indices, their price collections, items covered and difference in commodity weights. Going forward, it expects the gradual waning of base effect in WPI, to narrow down the divergence in CPI and WPI inflation.

Agriculture: The agriculture sector has remained broadly resilient to the pandemic with the sector expected to grow by 3.9% in FY22. However, the survey highlights the allied sectors such as dairy, fishery and animal husbandry becoming significantly important thus advocating the need for implementation of small holding farm technologies. Additionally, the survey mentions the need for crop diversification towards oilseeds and pulses from cereals along with increase in research and development in order to focus on the objective of doubling farmers income and improve the productivity in crops and allied sectors.

Industry and Infrastructure: Post the deleterious impact of the pandemic, industrial sector has recorded an upturn amidst gradual unlocking of the economy, record vaccinations, improvement in consumer demand, continued policy support towards industries by the government in the form of AtmaNirbhar Bharat Abhiyan and further reinforcements in FY22. Going forward, the government expects the progress on PLI scheme along with several other initiatives such as National Monetization Plan (NMP), National Infrastructure Pipeline (NIP) etc. to propel the infrastructure sector. Additionally, the survey expects the next 10 years to see a high level of capital expenditure in the railway sector as more projects are taken on hand and several sources of capital funding are developed.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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