

A Bleak Outlook For FY21

Forecasters have drastically cut growth predictions for India in the next fiscal; the govt now needs to counter the pandemic's impact on the economy

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The Indian economy is set to slow down sharply as companies face the prospect of going weeks or even months with virtually no revenue and consumer demand likely to remain soft even after the coronavirus crisis blows over because of bankruptcies, job losses and the resulting psychological scars.

Forecasters are slashing India's economic growth estimates for the financial year starting 1 April, with most expecting a severe contraction in June quarter output.

On Monday, S&P Global Ratings cut its estimate for India's gross domestic product (GDP) growth to 3.5% from its earlier estimate of 5.2%, as it expects the damages to the economy from the covid-19 pandemic

for the Asia-Pacific region to be as severe as the one during the Asian financial crisis of 1997-98.

"Amid unusually high uncertainty, we forecast Asia-Pacific growth to dive to 2.2% in 2020 with a U-shaped recovery taking hold only later this year—this would push activity 4 percentage points below trend," it said in a report published on Monday.

Indian policy makers have announced several measures to counter the impact of the virus on the economy and more are likely to come in the next few weeks. While the government has announced a relief package for those hit worst by the 21-day nationwide lockdown

to prevent community transmission of the coronavirus, the Reserve Bank of India (RBI) took a series of steps to

VIRUS EFFECT
WHAT'S NEW

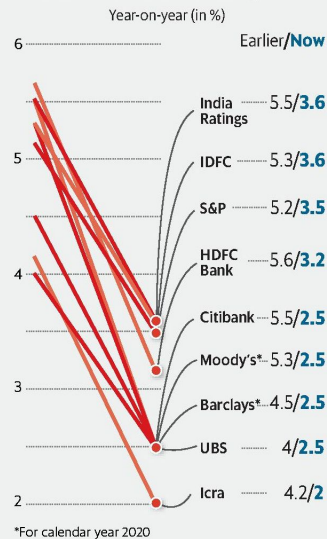
- Govt: lockdown extension news is mere rumour
- Finmin eases rules on procurement of essential supplies
- Telcos told to extend validity of prepaid plans
- 20,000 train coaches to be made isolation wards
- MIT to share design of low-cost ventilators

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STARING AT UNCERTAINTY

India's economy is set to slow down sharply as companies face the prospect of going weeks or even months with virtually no revenue. Demand is also likely to remain soft even after the coronavirus crisis blows over.

GROWTH FORECASTS SLASHED...
S&P has joined other forecasters in cutting its estimate for India's FY21 GDP growth



MARKETS SLIP...
Sensex plunged 4.6% to close at 28,440.32 points



...BUT OIL PRICES OFFER RESPITE
Oil prices plunged to their lowest level since 2002



KERALA SEES 32 NEW CASES

INDIA

1,218 Total cases
32 Deaths
116 Recovered
1,070 Active cases

GLOBAL

745,308 Total cases
35,307 Deaths
156,875 Recovered
553,126 Active cases

Forecasters predict a bleak outlook for FY21 as crisis hits growth

FROM PAGE 1

boost liquidity in the banking system and encourage banks to lend.

The unprecedented lockdown is likely to shave off 74% of the real GDP from the bank's earlier estimates for the first half of 2020, said Abheek Barua, chief economist at HDFC Bank Ltd.

"We see the possibility of growth contracting by 3% in April-June quarter that will keep growth weak but in the positive quadrant (for the full year)," Barua said. HDFC Bank has projected India's GDP to grow at 3.2% in the next fiscal year.

Barua said the direct impact of the lockdown is likely to be severe for the services sector as consumption of non-essentials take a hit. "However, once the lockdown is lifted, we expect service sector activity to bounce back

rather quickly. In comparison, the initial impact of the lockdown on manufacturing activity is expected to be somewhat lower as one-third of net value added in manufacturing comes from production of essential items such as food, beverages, petroleum and coke, pharma and medicinal products. That said, the drag on manufacturing growth is likely to linger on beyond the first half of FY21 due to lower global growth and continued supply-chain disruptions," he added.

Last week, International Monetary Fund (IMF) managing director Kristalina Georgieva said the global economy could be staring at a recession that is as bad as or worse than the global financial crisis of 2008. IMF is expected to substantially reduce its growth estimates for most economies in its World Economic Outlook, which is scheduled to be



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RAMESH PATHANIA/MINT

released in April.

Reflecting the pessimism, Indian stock markets continued their downward march on Monday, dumping stocks and conserving cash. The Sensex plunged 4.61% to 28,440.32, while the 50-share index Nifty shed 4.38% to 8,281.10.

Analysts were sceptical about the overall impact of the recent measures taken by the government and RBI, given the economy has come to a virtual standstill. Many fear that the size of the fiscal and monetary stimulus may not be enough.

Swiss investment bank UBS

also pared its India growth estimate on Monday to 2.5% for FY21 from 4%.

"Economic policy choices will determine both the depth of the crisis and the strength of recovery. As the situation is still evolving, quantifying the economic impact of covid-19 is extremely challenging. Under our alternative scenarios, assuming disruptions would last until mid-May (optimistic scenario) or September (downside), India's FY21 real GDP growth could range between 4%YoY and -0.2% YoY (negative GDP, first time since FY80)," said Tanvee Gupta Jain, an economist at UBS.

S&P's estimate is among the more optimistic projections. Rival Moody's Investors Service last week slashed India's economic growth projection for 2020 to 2.5% from 5.3%.

Among the forecasters, Ica

Ltd has the slowest GDP growth estimate for FY21 at 2%.

The only silver lining for India appears to be coming from the collapse of crude oil prices. Slowing global growth has resulted in oil prices plunging to their lowest level since 2002.

Every dollar per barrel drop in crude prices reduces India's oil import bill by ₹10,700 crore on an annualized basis.

Low energy prices have also opened a raft of opportunities such as further cooperation between India and China, the world's third and second-largest oil importers respectively, and the opportunity to fill up India's strategic crude oil reserves at favourable terms.

Utpal Bhaskar from New Delhi and Nasrin Sultana from Mumbai contributed to this story.