

INDIAN ECONOMY: ICRA SNAPSHOT FOR COVID-19

Extension of lockdown suggests Indian GDP may shrink by 16-20% in Q1 FY2021, 1.0-2.0% in FY2021

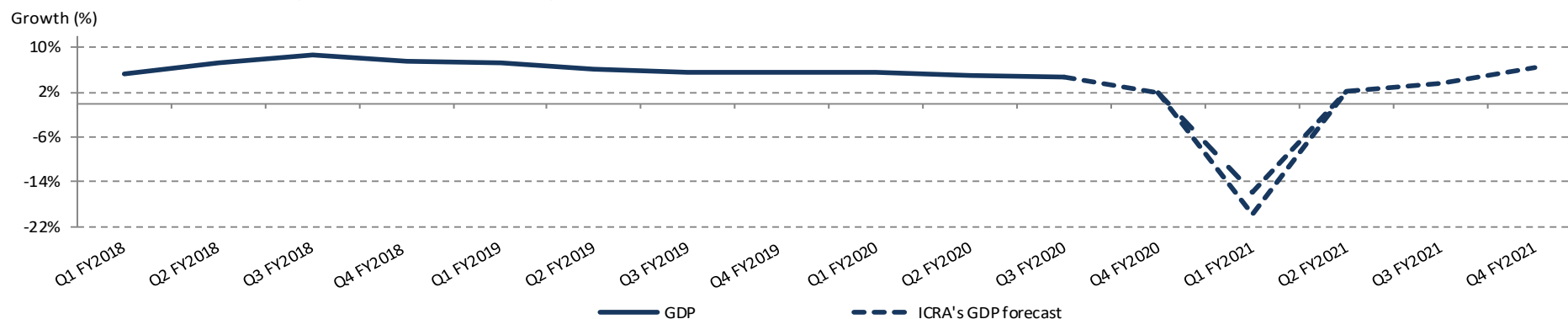
MAY 2020

Following the extension of the lockdown for two additional weeks in May 2020, albeit with graded relaxations across different zones, ICRA expects Indian GDP to contract by 16-20% in Q1 FY2021, which implies a full year contraction of 1.0-2.0% for FY2021.

In view of the gains from the lockdown measures to contain the spread of Covid-19 in India, on May 1, 2020, the Government of India (GoI) had announced that it would further extend the nation-wide lockdown for a period of two weeks with effect from May 4, 2020. The GoI also issued new guidelines to regulate different activities during this period, depending upon the risk portfolio of confirmed cases within the various districts, into Red (high risk), Orange (moderate risk), and Green (low risk) zones. All activities are now permitted in Green zones, except for those prohibited throughout the country. Additionally, inter-district movement of individuals and vehicles only for permitted activities, has been allowed in Orange zones. In the Red zones (outside the containment zones), certain activities have been allowed with restrictions, such as industrial activities in urban areas (only SEZs, Export Oriented Units, manufacturing of essential goods and its raw materials, Jute, IT hardware, etc.), on-site constructions and construction of renewable energy projects, and e-commerce activities only for supply of essential goods. Further, private offices are permitted to operate in non-containment Red zone with up to 33% of the workforce, whereas all government offices (except for Defense, Health, etc. which will remain open without any restrictions) shall function with 100% strength of officers with Deputy Secretary level and above (and up to 33% of the remaining staff). Outside of containment areas in rural Red zones, additional relaxations have been given such as allowing all industrial, construction, and agricultural activities. However, domestic and international air travel (except for medical and security purposes permitted by the MHA), movement of passenger trains, metro rail services, educational services in schools, colleges, and coaching institutions, hospitality services (except those used for housing health/police/Government officials/healthcare workers and quarantine purposes), religious activities, and large public gathering places such as cinema halls, sports complexes, etc. shall remain prohibited for two more weeks across the entire country.

While the graded relaxations announced by the government will permit the resumption of economic activity, the relatively stringent norms in major urban centres will result in the pace of activity remaining constrained. Given the likelihood of mismatches in labour availability as well as the possibility of supply chain disruptions, we now expect the drag from sectors such as manufacturing, construction, and trade, hotels and transport etc. to linger for a large part of May 2020, with a further delay in the return to normalcy for a large cross-segment of these sectors. However, we continue to expect the healthy rabi crop and a pickup in government expenditure to provide some cushion to economic activity in Q1 FY2021. At present, ICRA projects Indian GDP to contract in a range of 16-20% in Q1 FY2021 (previous expectation -10 to -15%), which would translate to a contraction of 1.0%-2.0% in FY2021 (previous expectations +/-1%).

Exhibit 1: YoY Growth in GDP (Constant 2011-12 Prices) and ICRA's forecast for Q4 FY2020 and FY2021



Source: CSO; CEIC; ICRA Research



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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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