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Slashing India's growth by 170 bps

GDP growth next fiscal seen plunging to 3.5% in pandemic aftermath

The past few days have seen global growth forecasts slashed and financial markets heaving as the Novel Coronavirus (Covid-19) pandemic spread geometrically.

It is now the No 1 risk for the world economy with multi-dimensional ramifications because, unlike the Global Financial Crisis of 2008, it not only slams the brakes on economic activity and jeopardises financial stability, but also brings with it enormous human suffering not seen in decades.

Since our last forecast of 5.2% GDP growth for fiscal 2021, the scenario has worsened notably. S&P Global has marked global growth down significantly, predicting likely recession in the US and the Eurozone, and lowering Chinese growth to 2.9% from 4.8% with dominant downside risks.

The pandemic in India and the consequent lockdown for 21 days pose a material risk to our India economic outlook. The adverse effects that will follow can dwarf the gains from the sharp drop in crude oil prices, and the anticipated monetary and fiscal stimuli.

Latest high-frequency data on the impact of the pandemic, such as industrial production, PMI and exports is not yet available. So beware the Ides of March.

Says Dharmakirti Joshi, Chief Economist, CRISIL, "We have slashed our base-case gross domestic product (GDP) growth forecast for fiscal 2021 to 3.5% from 5.2% expected earlier. This assumes two things: a normal monsoon, and the effect of the pandemic subsiding materially, if not wearing out, in the April-June quarter. The slump in growth will be concentrated in the first half of next fiscal, while the second half should see a mild recovery."

The impact of social distancing and decline in discretionary spending will aggravate the downturn in the April-June quarter, and the sharp slowdown in key trading-partner economies will slam exports.

Services, which now account for 41% of total exports, have been resilient so far. But a recession in the advanced economies would dampen prospects for IT-ITES, tourism and bring down services exports growth

The ongoing lockdown is bringing manufacturing and services to a grinding halt and disrupting domestic supply chains. As revenue streams of companies get impacted, daily wagers and temporary workers will be in the firing line.

The impact of all this will vary by sector, but services would be hit particularly hard and there is a risk of long-term loss of demand and capacity in both industrial and services sectors, if the crisis prolongs.

Says Ashu Suyash, MD and CEO, CRISIL Ltd, "The non-linearity and complexity of what's unfolding creates uncertainties not only for businesses but for all mankind, and weighs heavily on sentiment and outlook, with risks tilted to the downside. Inability to control the pandemic and extension of the lockdown will aggravate supply and demand shocks. Reasons why it is hard to quantify the downside at the present moment."

Inflation is likely soften in fiscal 2021, for three reasons: one, the abnormal surge in food inflation in 2019 has started to correct; two, core inflation with remain moderate with slowing growth; and, three, the sharp drop in crude prices will keep fuel inflation soft.

With base effect also kicking in, the second half of next fiscal should see a perceptible drop in inflation.

There could be a transitory spike because of panic buying, but food grain stocks are well above government buffer norms, which gives authorities the baton to smoothen price fluctuations.

The current account should remain under check with deficit seen at 0.7% of GDP because of low commodity and crude prices. Yet the rupee will be volatile because of the equity selloff and the risk-off scenario.

The fiscal package of Rs 1.7 lakh crore announced by the government on Thursday, directed at the most vulnerable sections of the society in the rural and urban areas, is well designed and targeted. It will help cushion the blow on the poorest of poor.

More measures are necessary to offset business disruptions, including loan forbearance for small and medium enterprises, and households whose incomes have been materially impacted, impairing their ability to service loans.

For further information,

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