Economics

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Revised GDP growth projections for FY21

GDP forecasts for FY21 are unique as they would be varying depending on the evolving situation and the assumptions being made on the recovery process in the country. This is so as the explanatory factors i.e. the extension of lockdown and the quantum of economic activity permitted is unknown and has to be assumed. In May we had projected a decline in GDP growth of 1.5-1.6% on the assumption that the lockdown would be ending by the month end and that the recovery process will be gradual and be calibrated across sectors with the second half being closer to normal.

However, given that the nation is into a lockdown for July too with several restrictions on resumption of services in particular as well as movement of people, the cutoff date for normalcy will spread into the latter part of the third quarter and more likely to the fourth quarter.

Our assumption now is that 2/3 of the economic sectors would broadly be operating at 50-70% capacity by end Q3 and the balance may not even reach this state this year. In particular services like hospitality, tourism, entertainment, travel would take a much longer time pan India to resume anywhere close to normal with interstate restrictions being the norm for the next quarter or so. The restriction on movement of people translates into fall in demand for goods and services and further exacerbates the low-consumption growth syndrome that pervaded for three years now. Job losses and pay cuts will add to the stickiness in spending even during the festival time. It is assumed that good rural income cannot compensate for this loss of purchasing power which is topped with uncertainty. Also, in this scenario a direct fiscal stimulus has been ruled out for the year. If, however, there is a surprise package, then the forecast could change.

Under these assumptions our forecast for GDP growth is now -6.4% for FY21 with GVA (de)growth estimated to be around -6.1%.

Sector	Growth in FY21 (%)
Agriculture	2.5
Secondary (manufacturing, mining, electricity)	-9.5
Services including construction	-6.5
GVA	-6.1

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1. Positive growth to come from only agriculture and the government sector within the 8-fold classification of the CSO.
2. Agricultural production would be handicapped by base year effect as growth was high at 4% last year.
3. Higher agricultural production may not necessarily lead to higher income for farmers as excess supplies may lead to moderation in prices given that the MSP increase has not been very sharp this year. Therefore, rural consumption while increasing will not be able to compensate for lower spending in the non-farm sector.
4. Government sector would grow by 10% in normal course and excludes the possibility of any fresh stimulus in the form of additional spending.

The sharper fall in real GDP also means that the nominal GDP for the year will also decline assuming inflation of 5% which in turn will affect the projected fiscal deficit number of the central government which will be in the region of 8% for FY21.

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