CARE Ratings
Professional Risk Opinion

Lockdown impact: GDP growth to be 10.2% in FY22

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Towards the end of the last fiscal year on March 24th we had projected growth in GDP for FY22 to be between 11-11.2% based on GVA growth of 10.2%. The spread of the virus in Maharashtra had led to the announcement of a lockdown by the state government which began in a less stringent manner from the first week of April. Consequently, on factoring the potential loss of economic output due to the restrictions in Maharashtra on 5th April we lowered our GDP forecast for FY22 to 10.7-10.9%. But the lockdown has been made more obtrusive to business activity by the 20th of April, with more stringency expected for the forthcoming fortnight. Further, the spread of the virus to other states has caused similar actions by governments which have ranged from night curfews and weekend lockdowns to full lockdowns.

Two events in the country, state Elections and the Kumbh mela, have involved millions of people coming together with social distancing norms not being followed. This has potential to spread the virus at an exponential rate through the country and several states have announced measures to test people returning from the pilgrimage. The post-Elections lockdowns in the 5 states can be expected once polling is completed and more people are tested for covid.

The vaccination drive has been quite commendable notwithstanding the shortages, but the response of state governments will be to the daily number of infections rather than the progress in coverage of the preventive inoculation. The daily infection rate has come to the threshold of 300,000 which is different from the situation in March 2020 when the number was in the hundreds. The daily cases recorded on 20th April, 2021 at 2,94,000 is almost triple than the peak observed in September 2020 (~97,000) and is almost 37% of the total cases at the global level. The lockdown at that time did evoke some relief from the centre. This time it is left to the states as the centre has stated that there will be no nation-wide lockdown. The ability of states to help the displaced is limited and the extension of lockdowns cannot be rule out.

Against this background we have revised our forecast for GDP growth for FY22 as the underlying conditions have changed rapidly in the last 30 days or so. *It stands now at 10.2%.*

CARE Ratings' forecast for GDP in last one month (%)

Date of forecast	Forecast
24th March	11-11.2
5th April	10.7-10.9
21st April	10.2

The main assumptions here are:

- Centre does not announce a lockdown at the national level.
- Infection incidence will rise in May from new regions.
- Other states besides the current ones will also announce lockdowns.
- Business activity will get constricted with these measures.
- The distinction between essential and non-essential goods will further push back the latter.
- Consumption as a whole will fall and all of this decline will not be compensated for during the course of the year unlike last year. Also, the loss of output in the various segments of the services sector cannot be recouped.
- The lockdown impact has been worked out for a 'two-month effect' meaning thereby, these lockdowns will be eased from June onwards. This may not really be so in which case the impact would be sharper.

Based on these assumptions we have worked out the potential loss of GVA in various sectors.

Summary loss of output (Rs crore)

GVA	Loss in GVA
Agriculture, forestry and fishing	-
Mining, manufacturing and electricity	37,580
Construction	8,600
Trade, hotels, transport, storage and communication	38,385
Financial services, real estate and professional services	10,800
Public administration, defence and other services	18,000
	1,13,365

Source: CARE Ratings

We had projected GVA to increase from Rs 124.11 lkh crore (FY21) to Rs 136.82 lkh crore (FY22) which was an increase of 10.2%. With a potential fall in output of Rs 1.13 lkh crore GVA will be Rs 135.69 lkh crore and growth will be 9.3%. As tax collections too would be affected, there would be an impact on GDP growth which is now placed at 10.2%. Therefore, the loss in GDP this year due to the lockdowns would be to the extent of 0.8-1% from our earlier estimate of 11-11.2%.

This estimate would be subject to further revision as more information would flow through May and we get a sense on whether these lockdowns will get extended further and to what extent.

The major challenges will be providing relief to the business units which also includes employees who may have to go back to their hometowns. The SMEs specialize more in non-essentials and will be pushed back further. Maharashtra has announced a relief package of around Rs 5500 crore which is when the lockdown is to end on May 1st which may not materialize. State budgets are stressed already and have limited space to support enterprises. Localized lockdowns are also likely to pressure the revenue collections of the states. The centre may have exhausted all the policy measures under Atmanirbhar Bharat and hence cannot be expected to come up with any big-bang schemes this year too.

What will drive these lower GVA numbers?

Agriculture would be relatively unaffected by the lockdowns and with the assumption that the infections may not be very severe in the rural areas to warrant closures. Besides, agriculture being sensitive will not be subject to harsh restrictions which is witnessed in urban areas.

Industry- comprising mining, manufacturing and electricity will witness sharp decline of Rs 37,580 crore with three sectors driving the output down: automobiles (lost demand may not be made up once restrictions end), refinery products (lower consumption) and textiles (as impulse buying is not replaced in future). Linked industries like chemicals, rubber products, paper, furniture etc. would have relatively less significant impact.

The fall in construction activity will be more on the private sector and state level projects as resources are reallocated. Also, the issue of labour will impact the continuation of projects.

The sector with highest fall in output would be hotels, trade, transport, storage and communications. Of this trade, transport and hotels will account for almost 96% of the decline. Retail trade will take the biggest hit followed by hotels and transport. Trade has the highest share in the component with share of 62%. As e-commerce is not allowed to deliver non-essentials (in some regions), a major category will be affected which will feed back into wholesale activity for these products. Therefore, the impact will be sharper.

Financial services, real estate and professional services will receive a setback on real estate and ownership dwellings as uncertainty clouds the prospects. The re-emergence of “Work From Home” in a number of corporate entities from the end of March 2021 could led to lower demand for commercial real estate. Also, with the banking sector likely to report additional non-performing assets from Q4-FY21 onwards, this could further add to the risk aversion of the lenders and weigh on overall bank credit growth.

Public administration and other services will remain untouched though other components such as education, personal service and entertainment which have a share of 40% in this group will see large scale erosion in value addition on account of these lockdowns for the two-months period.

Although the setback to economic revival is seen as being limited given the region-specific nature of fresh restrictions, the double digit growth rate in GDP in FY22 was anyway going to be more of statistical driven number due to the decline witnessed in GDP in FY21. The growth rate over FY20 would be very modest to begin with. With these forecasts a GDP growth of 10.2% in FY22 over FY21 would imply growth of around 1.5% over FY20.

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