

FY21 GDP UPDATE

12 May 2020

Charting India's growth trajectory

An estimated 73% of India's economy is open now compared with 30% in Apr'20. However, with 50% of urban population in red zone, discretionary consumption will be muted. A larger part of the economy will open up in Q2. Growth will bottom out in Q1FY21 and show gradual improvement. Fiscal stimulus from higher borrowings by centre at Rs 12tn (Rs 7.8tn FY21BE) and low oil prices will be key tailwinds for growth. We expect GDP growth at 0.5% (1.5% earlier) with a downside risk in FY21 and a recovery to 6.7% in FY22.

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Red, orange and green zones: India's 733 districts have been divided into red (18%), orange (39%) and green (44%) zones. Red zones are largely urban areas with 50% of population concentrated in them. This implies supply side factors will ease for manufacturing. However, services sector will continue to see restrictions. Discretionary demand in urban areas will pick up with a lag.

What is allowed: Certain economic activities such as malls, gyms, religious gatherings, sports and cinema halls are not allowed in any zone. Apart from this, most economic activities are open in green and orange zones. In red zones essential services shops are operational. Other establishments, IT services and manufacturing is allowed with social distancing. But autonomy to decide is with local administration.

Gradual easing of restrictions: From a complete lockdown under which only essential activities and agriculture were allowed (~30% of the economy) from May 4, 2020, the new rules notified imply ~73% of the economy is now open. As more and more districts move from red to orange and then to green, a larger part of the economy will open up. We expect economic activity to normalise towards end of Q2 as most domestic and global restrictions will ease.

Growth projections revised: The lockdown in domestic and global economy implies in the month of April alone ~6% of the economic output was lost. This will come down to 3.3% in May'20 as a larger part of the economy opens up. Thus maximum impact on the economy will be felt in Q1FY21. The same is visible in dip in electricity demand by 29% in Apr'20. Thus, GDP growth is now estimated at 0.5% for FY21 (from 1.5% earlier) with a rebound to 6.7% in FY22.

KEY HIGHLIGHTS

- GDP to bottom-out in Q1FY21 as activity in green and orange zones picks-up.
- India's FY 21 GDP growth estimated to be lower at 0.5%.
- Fiscal stimulus and an expansionary monetary policy to drive recovery.

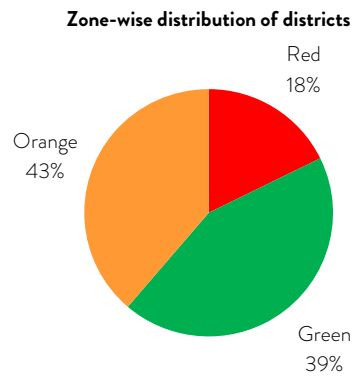


Economic lockdown

Gradual opening up

India started relaxations in its national lockdown from April 20, 2020 with bifurcation of economy into green, orange and red zones. The bifurcation of zones in different colour codes will depend upon the infections and recovery rate from COVID-19. Green zones will see largely normal economic activity going forward. The strategy is to convert red into orange and then green zones over period of time. On the other hand, restrictions on economic activity in red/containment zones will continue to remain stringent. Red zone comprises 18% of India's total districts, orange zone is 43% and green zone is 39%.

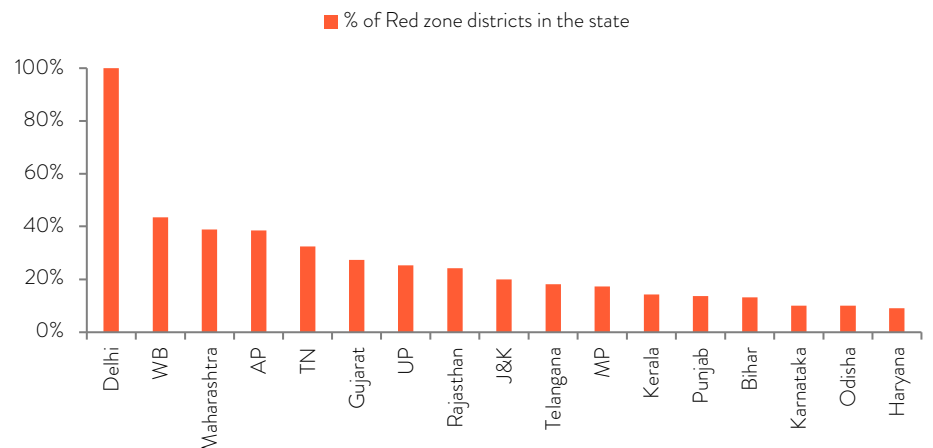
FIG 1 – 18% OF DISTRICTS UNDER RED ZONE



Source: MoHFW, Bank of Baroda Research

In terms of state wise break-up, Delhi is the worst hit with all its districts under red zone. Other states such as West Bengal (43.5%), Maharashtra (38.9%), Andhra Pradesh (38.5%) and Tamil Nadu (32.4%) also have a high share of their districts falling under the red zone. However states such as Haryana, Karnataka and Odisha have a lower incidence of red zones.

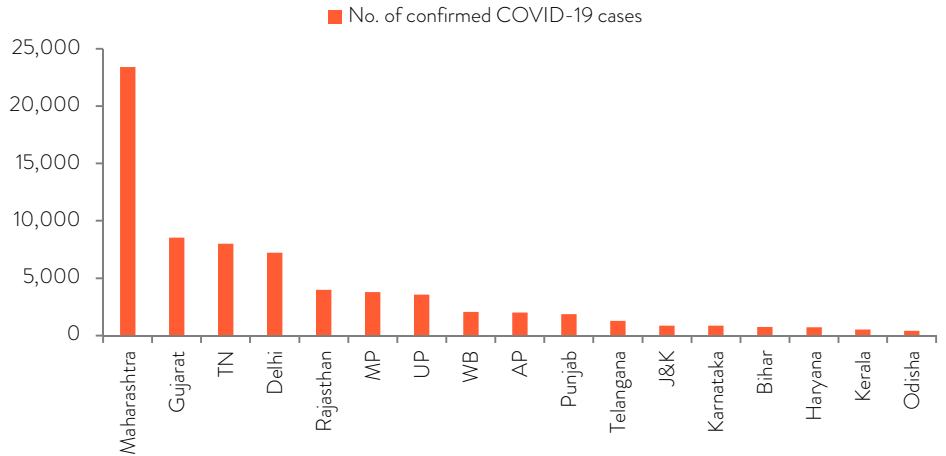
FIG 2 – ALL OF DELHI'S 11 DISTRICTS UNDER RED ZONE



Source: Ministry of Home Affairs, Bank of Baroda Research

While states such as Maharashtra and Gujarat have high number of COVID-19 cases, the concentration is restricted to a few districts. These districts are relatively wealthier thus there will be a higher impact on consumption rather than production, in particular services and discretionary goods.

FIG 3 – MAHARASHTRA AND GUJARAT HAVE THE HIGHEST CASE LOAD

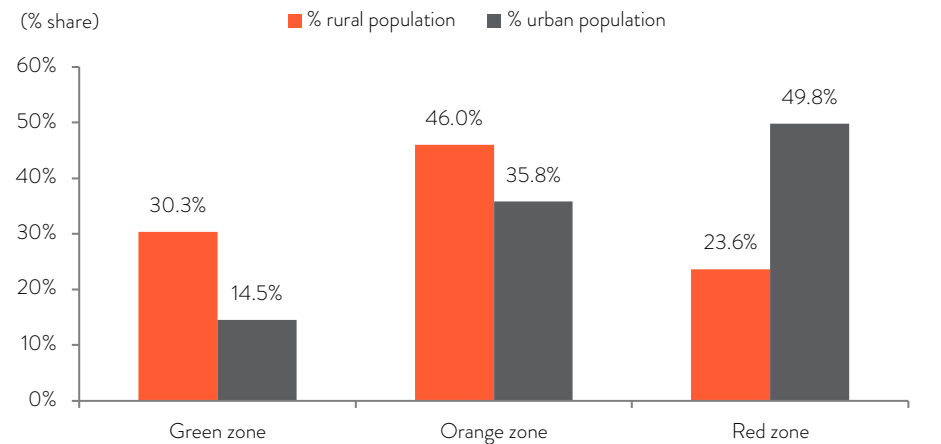


Source: MoHW, Bank of Baroda Research, Data as on 12 May 2020

Green, orange and red zones: What will open?

Under the new set of guidelines, several activities such as domestic and international air travel, railways, metro services, schools, colleges etc, hospitality services such as hotels and restaurants, cinema halls, malls, gyms will continue to remain shut across all the zones. All other activities are allowed in the green/orange zones. It must be noted that orange and green zones are located primarily in the rural/semi-urban areas. In fact, these zones together account for 76% of India’s total rural population.

FIG 4 – POPULATION DISTRIBUTION ACROSS ZONES



Source: Census, Bank of Baroda Research

In the red zone, industrial activities in urban areas are permitted for manufacture of essential goods and pharmaceuticals. Apart from this, manufacturing activities in industrial townships and SEZs are also exempted. IT companies have to operate with 50% staff. This will ensure supply chain for exports and services exports continues. Mining activity too will remain open. Construction activities are allowed as long as workers are available on site. Standalone shops, selling non-essential items can also operate. Private offices are also allowed to operate, however employee strength has been capped at 33%. Red zone districts are primarily located in urban areas and account for 50% of India's total urban population. Hence, the above relaxations will allow a greater share of economy to open up.

Gradual opening up of the economy

From only 30% of the economy, now an estimated 73% of economy will be operational. Agriculture activities were operational in all zones and continue to remain functional still. Agriculture sector contributes about 14.6% to overall economic activity. A large part of manufacturing sector is also open led by automobile, iron and steel, cement etc. Notably, pharma and food manufacturing was already open.

Within services which accounts for about 54.3% of GVA, about 31.6% of overall economic activity is estimated to open up. Under services, while hotels & restaurants, recreation and education are completely shut, retails shops, communication and financial services are operational. Further, since green and orange zones are located mostly in the rural areas, there are fewer restrictions on economic activity.

FIG 5 – SHARE OF PERMITTED ACTIVITIES ZONE WISE

Activities & share in GVA, constant prices (%)	Share in GVA	Green	Orange	Red	Total
Agriculture, forestry and fishing	14.6	4.3	6.7	3.7	14.6
Mining and quarrying	2.7	0.7	1.2	0.9	2.7
Manufacturing	18.1	4.1	6.2	4.3	14.6
Electricity, gas, water supply & other utility services	2.3	0.5	0.9	0.9	2.3
Construction	8.0	1.8	3.3	2.1	7.2
Services	54.3	8.5	16.5	6.6	31.6
Trade & repair services	11.9	2.7	8.0	0.2	10.8
Hotels & restaurants	1.1	0.0	0.0	0.0	0.0
Transport	4.9	0.9	1.4	0.4	2.7
Storage	0.1	0.0	0.0	0.0	0.1
Communication & services related to broadcasting	1.6	0.3	0.6	0.7	1.6
Financial	6.0	0.7	1.3	1.0	3.1
Real estate, ownership of dwelling & professional services	15.8	2.3	4.9	1.4	8.5
Public administration and defence	5.8	1.2	2.3	2.3	5.8
Other services	7.3	0.5	1.1	0.6	2.2
Total GVA at basic prices	100	19.9	34.7	18.5	73.0

Source: MoSPI, Economic Census, Bank of Baroda Research, Note: Assumptions on functioning of services sector have been incorporated

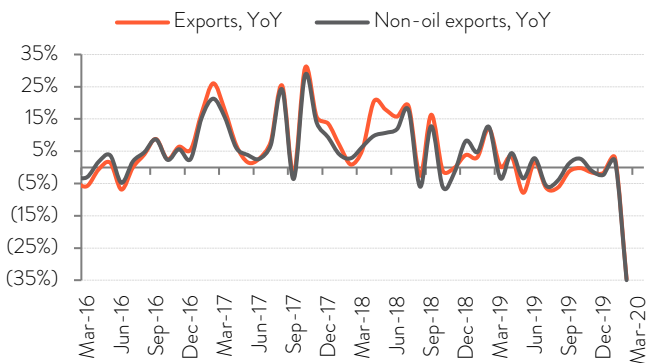
GDP growth at 0.5% in FY21

From a lockdown wherein only 30% of GDP was functional, now an estimated 73% of GDP is operational. Recent indicators point to a sharp slowdown. India’s exports contracted by 34.6% in Mar’20, registering the steepest decline since liberalisation of the economy in 1991. Imports too fell by 28.7%. More importantly, non-oil-non-gold imports contracted by 30.5%, the biggest decline on record.

Manufacturing activity too has remained largely shut with only manufacturing firms producing essential commodities operating in April. This is visible through falling electricity production (decline of 24.3% in Apr’20) and demand (decline of 28.8%) in Apr’20. Manufacturing and services PMI too have fallen to record lows at 27.4 and 5.4 respectively in Apr’20. Further, while credit growth has fallen to 7.2% in Apr’20 versus 14.2% in Apr’19, deposit growth has also fallen to 9.5% from 10.6% earlier.

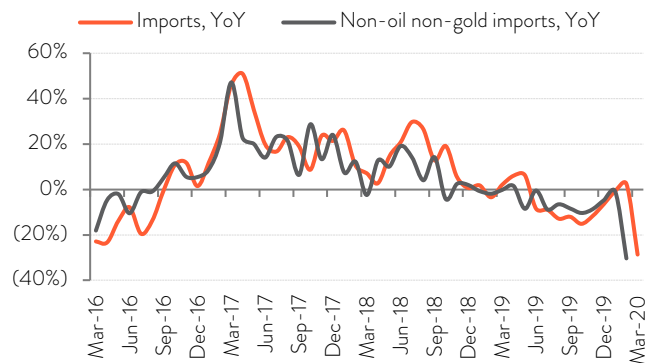
With 50% of urban population still in red zone, we expect a large drag on the economy in Q1FY21.

FIG 6 – EXPORT GROWTH PLUNGES TO MULTI YEAR LOWS



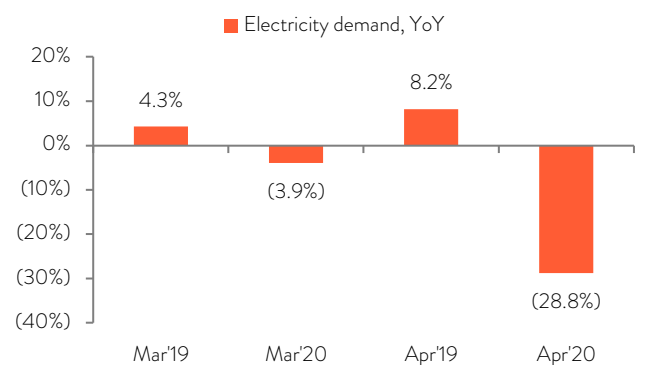
Source: CEIC, Bank of Baroda Research

FIG 7 – SIMILAR TREND VISIBLE IN NON-OIL-NON-GOLD IMPORTS



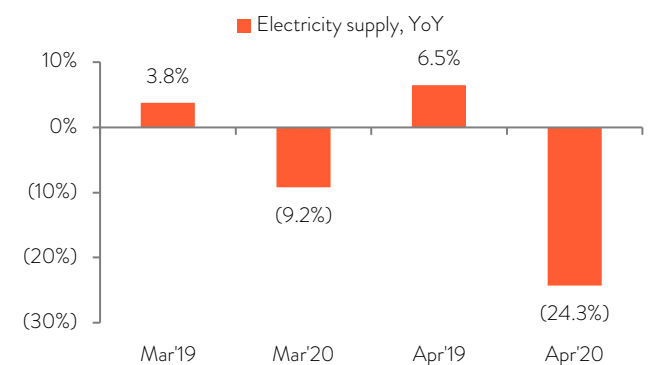
Source: CEIC, Bank of Baroda Research

FIG 8 – ELECTRICITY DEMAND HAS FALLEN IN MAR’20 AND APR’20



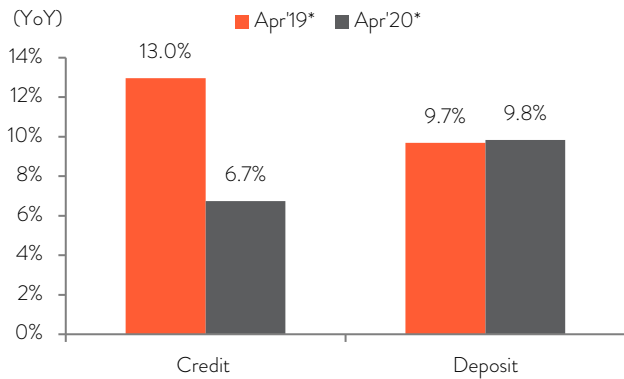
Source: POSOCO, Bank of Baroda Research

FIG 9 – ELECTRICITY PRODUCTION HAS ALSO DIPPED



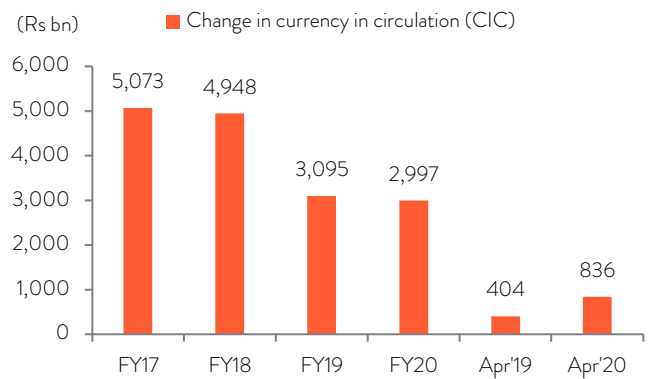
Source: POSOCO, Bank of Baroda Research

FIG 10 – CREDIT DEPOSIT GROWTH HAS FALLEN



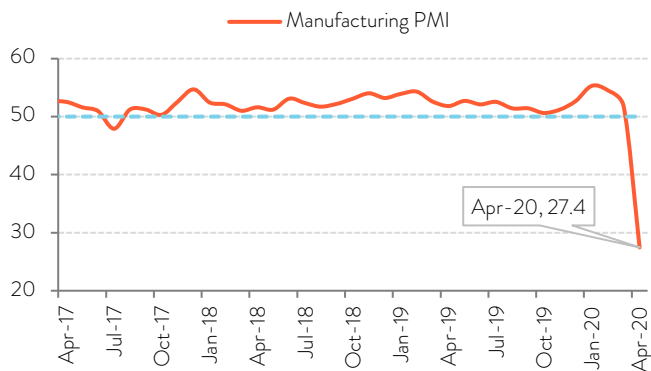
Source: CEIC, Bank of Baroda Research, Data as of 24 Apr 2020

FIG 11 – CURRENCY IN CIRCULATION



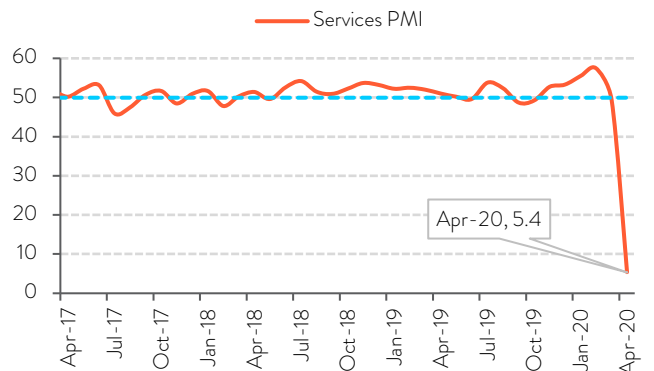
Source: CEIC, Bank of Baroda Research

FIG 12 – MANUFACTURING PMI FELL TO A MULTI YEAR LOW IN APR'20



Source: CEIC, Bank of Baroda

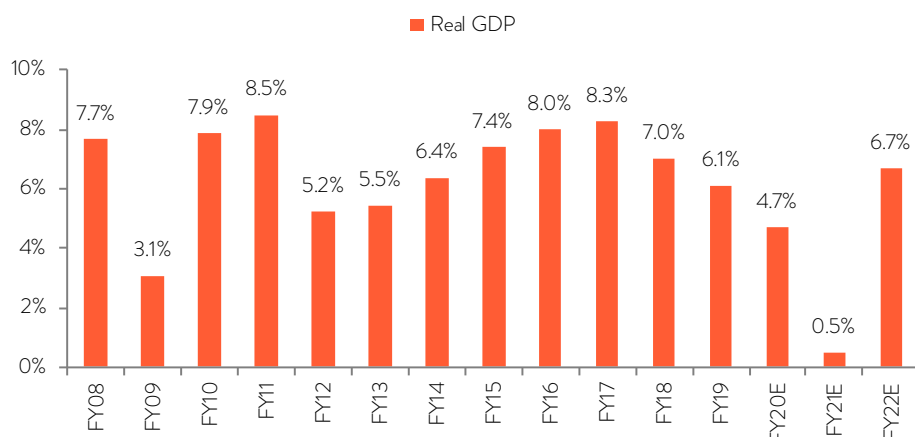
FIG 13 – SERVICES PMI FALLS TO 5.4 IN APR'20



Source: CEIC, Bank of Baroda Research

With ~70% of the economy under lockdown from March 25, 2020, the monthly loss in monthly economic output is 5.8%. With gradual opening up of the economy in May'20 to 73% of normal levels, the monthly loss of economic output is estimated at 3.3%. We expect economy to open up further in Jun'20. This will also coincide with opening up of world economy as well. Thus substantial opening up of domestic and global economy is expected only in Q2FY21.

Given the above trajectory, GDP growth is estimated at 0.5% for FY21 with a rebound to 6.7% in FY22. While growth downtick is led by manufacturing in FY21, the increase in FY22 will also led by manufacturing. Services will be supported by government spending in FY21. Fiscal expansion will play an important role in FY21 growth as the government has already announced an increase in gross market borrowing from Rs 7.8tn to Rs 12tn.

FIG 14 – REAL GDP GROWTH TO REBOUND TO 6.7% IN FY22

Source: CEIC, Bank of Baroda Research, E: Bank of Baroda Estimate

FIG 15 – GDP GROWTH TO FALL SHARPLY TO 0.5% BEFORE REBOUNDING TO 6.7%

(% change)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Agriculture, forestry and fishing	6.8	5.9	2.4	3.6	3.3	3.3
Industry	7.7	6.3	4.9	0.9	(4.6)	8.2
Mining and quarrying	9.8	4.9	(5.8)	2.5	(0.8)	5.0
Manufacturing	7.9	6.6	5.7	(0.1)	(6.5)	9.3
Electricity, gas, water supply and other utility services	10.0	11.2	8.2	3.2	(1.3)	7.0
Construction	5.9	5.0	6.1	2.0	(2.5)	7.5
Services	8.5	6.9	7.7	6.8	2.9	6.6
Trade, hotels, transport, communication & svcs related to broadcasting	7.7	7.6	7.7	5.5	(0.3)	5.8
Financial, real estate & professional services	8.6	4.7	6.8	6.8	3.8	7.0
Public administration and defence	9.3	9.9	9.4	8.9	6.0	7.0
GVA at basic prices	8.0	6.6	6.0	4.5	0.7	6.5
GDP	8.3	7.0	6.1	4.7	0.5	6.7

Source: CSO, MOSPI, Bank of Baroda Research | E-Bank of Baroda Estimate

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