

RESEARCH
BOB Economics Research | Covid-19 Impact

Pandemic to stunt global growth, delay India's recovery

SUMMARY
INDIA ECONOMICS: COVID-19 IMPACT

With complete lockdown, ~70% of economic activity — investment, exports and discretionary consumption — has come to a halt. Only essential goods and services are operational. The government has announced stimulus of Rs 1.7tn (0.8% of GDP) to cushion the impact. More will follow. China's model of quarantine and social distancing has aided a quick return to normalcy and India is on course to achieve that. Though difficult to estimate, we believe GDP growth is likely to be ~1.5% lower from our earlier estimate of 5.5% in FY21.

[Click here for the full report.](#)

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	330
Reliance Industries	Buy	1,500

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.87	2bps	(50bps)	(150bps)
India 10Y yield (%)	6.30	(8bps)	(6bps)	(103bps)
USD/INR	76.08	0.3	(5.7)	(10.5)
Brent Crude (US\$/bbl)	27.39	0.9	(51.3)	(59.6)
Dow	21,201	2.4	(24.2)	(17.3)
Shanghai	2,782	2.2	(8.2)	(8.0)
Sensex	28,536	7.0	(29.3)	(25.2)
India FII (US\$ mn)	23Mar	MTD	CYTD	FYTD
FII-D	(206.8)	(7,003.0)	(8,570.0)	(5,625.9)
FII-E	(347.9)	(7,046.0)	(5,259.1)	2,130.1

Source: Bank of Baroda Economics Research |

Note: Bond and currency markets in India were closed on 25 Mar 2020

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COVID-19 IMPACT

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Pandemic to stunt global growth, delay India's recovery

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Global economies in turmoil: Economic growth worldwide will be severely affected in H1CY20 as Covid-19 exacts a heavy toll on supply chains, tourism, travel, consumption and investment. China has reported a 21% YoY decline in retail sales, 14% drop in industrial activity and 25% contraction in fixed asset investments in Feb'20. While the country is gradually returning to normal, other parts of the world including India are now entering into lockdown mode to halt the rampant spread of the virus. With major economies downing shutters, global growth may drop to levels last seen during the 2008-09 financial crisis.

India's FY21 growth to be lower by ~1.5%: We lower the FY21 GDP growth estimates set in our Feb'20 [India's Road to Recovery](#) report sharply downwards by ~1.5%. This is due to lower consumption of discretionary goods and services (28% of GDP) and lower capex spending (30% of GDP) amid Covid-19 restrictions. Services such as restaurants and hotels, recreation, education and transport will be the hardest hit. The Indian economy will also be buffeted by disruptions in global supply chains and lower global growth, with repercussions for exports (20% of GDP) as well as imports (22% of GDP) that will delay recovery.

Rs 1.7tn package announced, RBI to cut policy rates: Government announced a package of Rs 1.7tn (0.8% of GDP) covering provision of food and DBT to marginal households. We expect more measures which implies higher fiscal deficit and borrowings. Next set of measures will be announced by RBI on 3 April 2020 including a 50bps reduction in repo rate along with forbearance on existing loans and enhanced liquidity support. These steps would be in-line with measures taken by other Central Banks. In our view, global backdrop of sharp decline in oil prices and prospects of dismal growth provide room to RBI to undertake measures to ensure financial stability is maintained when ~70% of the economy is in a lockdown.

KEY HIGHLIGHTS

- Global growth expected to shrink at least 1ppt due to Covid-19 outbreak
- India's FY 21 GDP growth estimated to be lower by ~1.5% compared with 5.5% estimated earlier.
- RBI expected to cut rates by 50bps in upcoming policy meet



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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