GDP estimate for FY21

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The novel coronavirus pandemic has had an unprecedented fallout on the economic activities across the country. A nationwide lockdown was announced on March 24 for 21 days, which has now been extended until May 3, 2020. Post the lockdown all economic activities came to a standstill losing 1 productive week in March which generally is an active period in the financial year being the last month of the year where most business units strive to meet targets and register higher growth in production/sales.

Going ahead, there is a lot of uncertainty as to when the pandemic will subside and economic activities resume in the country. Disruptions and halting of activities led by countrywide lockdown impacted most economic and commercial activities across the country. This would have a lasting impact on economic growth in the ongoing fiscal year as well. Despite government exempting certain select activities pertaining to agriculture and related activity, banking including NBFCs and HFCs, construction activities in rural areas, some SEZs etc. from the lockdown restrictions, these activities have remained muted due to labour shortages and other operational issues.

Against this background, we are revising our gross domestic product (GDP) forecast for FY20 downward to 4.7% from earlier our estimate of 5% with Gross Value Added (GVA) growth expected at 4.6%.

Given the uncertainty surrounding the pandemic and difficult roadmap of recovery post lockdown revocation, **we are estimating GDP to grow around 1.1%-1.2% for the full fiscal year ending 2021 under certain assumptions.** GVA has been estimated to grow at 1.4% for the full year. However, low indirect tax collections during the year are likely to weigh on the overall GDP growth.

This estimate is based on the assumption that post June 2020, the activities would restore very gradually and may not even attain 50% of normalcy for certain sectors for the entire year. A downside to this growth estimate could arise from uneven/shortfall in monsoon, unavailability of labour, prolonged restrictions or lockdown, delay in resumption of industrial activities, subdued consumption demand and muted investment by both private and government sectors.

Rationale for GDP projections:

Table 1: FY21 projections for GVA and GDP

Sectors	CARE's estimate FY21 (% growth)
1. Agriculture, forestry & fishing	2.5
2. Mining & quarrying	-2.0
3. Manufacturing	-3.0
4. Electricity, gas, water supply & other utility services	2.0
5. Construction	-4.0
6. Trade, hotels, transport, communication and services related to broadcasting	2.2
7. Financial , real estate & prof services	0.5
8. Public Administration, defense and other services	10.0
GVA at basic prices	**1.4**
GDP	**1.1-1.2**

Source: CARE Ratings' estimation

Out of 8 sectors, we are anticipating a contraction in 3 sectors namely mining and quarrying, manufacturing and construction for the full year while overall growth is expected to be driven only by the government expenditure. Here too we are assuming that there would be some semblance of movement to normalcy albeit at a gradual pace post September.

- ***Agriculture sector is expected to grow at 2.5% yoy in FY21.*** Essential items like food grains were out of purview of lockdown restrictions. Rabi harvesting was delayed amid lack of labour availability during the first quarter of the fiscal year. The government excluded farming activities including fisheries from lockdown restrictions from April 20, 2020 that will help in pick up in harvest activities for the season. In addition, the IMD has predicted normal monsoon this year, which if materialises, is expected to bode well for the sector.
- ***Mining and quarrying sector is expected to see de-growth by 2%.*** During the lockdown period, activities in this sector have halted. Though mining activities have resumed in certain parts of the country, the output of sector is subpar due to lack of labour and social distancing norms. The sector might see revival in activities during the second half of the year once the effect of pandemic subsides and normalcy returns in the economy.
- The manufacturing sector has witnessed lacklustre growth in FY20 due to demand side constraints and supply chain disruptions in the last quarter (with expected GDP growth at 0.9% as per CSO estimates). Post imposition of lockdown most industries have witnessed halt in production. Given the revenue losses faced by manufacturers, recovery will only be partial in the latter half of the year. Thus, ***we are predicting a contraction by 3% in the manufacturing sector in FY21.***
    - The contractions can be ascribed to negative growth in industries like machinery and equipment, motor vehicles, other transport equipment, electrical equipment, metal, non-metallic mineral products due to subdued domestic and global demand.
    - In general consumer durables and capital goods would be in the negative growth territory.
    - Coke and refined products are expected to decline due to benign crude oil prices.
    - Pharma industry, on the other hand, is expected to see growth during the year on account of increase in demand for healthcare related products seen during the outbreak of COVID-19. FMCG goods would witness adequate demand and remain in the positive region.

- ***Electricity, gas and water supply and other utility services are expected to grow at 2% in FY21.*** Although the first quarter of the year might have witnessed lower demand from industries due to limited activities, the retail consumption continued and demand is likely to pick up post the resumption of industrial activities.
- In FY20, the construction sector was under pressure due to financing constraints and post lockdown; it came to a near standstill. Even after easing in lockdown, sector is may not witness upsurge in activities during the rest of the year. A major challenge will be getting labour back on board and completing ongoing projects. Against this backdrop, ***the construction sector is likely to see a contraction by 4% in FY21.***
- **Within services, *trade, hotels, transport, communication and services related to broadcasting, are expected to grow at modest 2.2% growth in FY21.***
    - Trade services might be muted as exports will be lower due to recessionary environment in other countries. Domestic trade will recover at best in the second half provided some normalcy is restored by September.
    - Hotels and restaurants were shut during lockdown leading to revenue loss in this segment. Food business might see partial recovery going ahead especially during the second half of the year. For the year it would be inclined towards negative growth.
    - During the lockdown period, transportation activities were very limited as railways and airlines had shut their operations, road transport was restricted to only essential commodities and water transport was limited due to import restrictions imposed by other countries. Even if these services will resume once the pandemic subsides, the loss of revenue incurred in the first quarter will continue to weigh on the overall performance of these industries.
    - Communications and services related to broadcasting are to grow at faster pace with increase in usage by consumers.
- ***Financial, real estate and professional services are estimated to see a muted growth of 0.5%*** mainly due to problems in the real estate sector. A stop on the construction activities will accelerate the problems of the real estate sector which is still struggling to access funding. Financial services will be constrained with expected subdued demand for credit by industries but remain the positive region. However with real estate and professional services having a higher weight in GDP, the former will witness negative growth to drive down the overall growth rate.
- **Public administration** led by government expenditure will be the only driving factor during the year. The government has already announced a package of Rs. 1.7 lakh crore and has also frontloaded the borrowings plans during the year. Since most of the activities will be hampered during the year, the government is expected give an impetus to the slowing economy by way of increased spending during the year. Thus, we are anticipating 10% growth in this sector. There can be an upside if there is further stimulus provided during the year.

Based on sectoral growth projections are expecting the GVA to grow by 1.4% in FY21. However, this growth is unlikely to translate into higher GDP growth. During the year, tax collections will be low. Target of Rs. 1 lakh crore of GST per month may not materialise due to restrictions imposed by states on non-essential commodities amid pandemic. Due to low trade, the collections from customs and excise will remain muted. **As a result we are expecting GDP growth to be 1.1% – 1.2% in FY21 with a downward bias.**

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