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India's GDP may revert to pre-Covid levels by 2022

Advanced estimates predict most components of the GDP will register a sharp decline in the year to March 31

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Laborers work at a site for laying new electricity cables in Mumbai on January 7, 2021. Photo: Punit Paranjpe/AFP

India's economy is forecast to contract 7.7% in the year to March and may take another year to get back to pre-Covid level, the National Statistics Office (NSO) says.

The NSO says the country would need support in the February 1 national budget to help lift demand and growth in sectors that are still tottering.

Its figures project gross domestic product (GDP) shrinking more than the 7.5% forecast by the central bank. The economy contracted 23.9% in the first quarter ended June 30 and 7.5% in the second quarter.

In the advanced estimates released by the NSO, the government expects most components of the GDP to register a sharp decline in the financial year ending March 31. Investment is seen as contracting by 14.5% and consumption by 9.5% led by high unemployment, layoffs, salary cuts and tepid economic activity because of draconian lockdowns and other Covid-related restrictions.

Fresh investment in the economy will be the slowest since 1994-95, the government said. A series of interest rate cuts by the Reserve Bank of India (RBI) haven't had much of an impact on pick-up in fresh investment. The RBI cut its key repo rate or the rate at which the central bank lends to banks by 400 basis points to a historic low of 4%.

With CPI inflation rate around 6.93%, economists see little scope for the central bank to make further cuts in its interest rates to help individuals and companies to borrow more from banks.

A pick-up in sales in sectors such as automobiles is largely seen to be triggered by pent-up demand and festival purchases. Companies, though, have been taking advantage of low interest rates, surging stock market indices and a flood of cheap global money being brought by foreign portfolio investors, to raise fresh money by selling shares.

Companies have been borrowing more from banks to retire liabilities than to make fresh investment, a study by the central bank showed.

"We expect the real GDP in absolute terms to reach around 133 trillion rupees by March 2022, which is approximately similar to March 2020 levels," said Upasna Bhardwaj, senior economist at Kotak Mahindra Bank in Mumbai.

A pre-Covid GDP growth trend would have led the GDP to grow to around 149 trillion rupees, suggesting an almost 10% decline because of the pandemic.

She expects the economy to contract a deeper 8.6% in the year to March 31.

Centre for Monitoring Indian Economy (CMIE) data shows joblessness rising again in January after dipping in September and November. Unemployment rose to 23.52% in April after the nationwide lockdown from March 25.

Unemployment dropped to 6.68% in September as the annual festival season helped businesses boost sales and employ more workers. Unemployment rose to 9.06% in December and was last reported by CMIE at 8.9% as of January 7.

A vendor displays kites printed with the portraits of Indian Prime Minister Narendra Modi (L) and Union Home Minister Amit Shah ahead of the Makar Sankranti kite festival in Hyderabad on January 5. Photo: Noah Seelam/AFP

Some businesses are now looking up to the government to make fiscal concessions to help revive the economy in its February 1 budget, while others acknowledge its limitations.

"The Government has created the right policy framework. It can do no more in the budget and expecting anything drastic is being too optimistic. There are fiscal constraints," said Madan Sabnavis, chief economist at CARE Ratings in Mumbai.

"The government has shown in this year it was not willing to spend more on investment when it would have been in order. Hence one cannot expect it to do so in the next year."

Sabnavis expects the economy to revert to its March 2020 position by March 2022 in absolute terms. In terms of percentage, the economy could grow by around 9-10% in the year to March 31, 2022.

"The base effect will help to prop up growth this year and we can expect close to 10% real growth," Sabnavis said. "However this will be a statistic and what is more important is that jobs have to be created."

Bhardwaj said, "An infrastructure boost by the government should kick-start construction-linked investment activity. Steel and cement should benefit.

"In the coming quarters we expect consumer goods, mainly discretionary, to continue to support growth given the boost to savings arising due to the strict lockdown earlier in the year. '