Covid-19 2nd wave may cost India Rs one lakh crore

The upsurge in new Covid-19 cases, fears of lockdown in Maharashtra and tougher restrictions in other states battered the Indian share market, wiping off over Rs 8 lakh crore of investors wealth on Monday.

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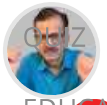

Mayank Mishra
New Delhi April 14, 2021 UPDATED: April 14, 2021 09:44 IST

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People wearing protective masks crowd a marketplace amid the second wave of Covid-19 in Mumbai (Picture Credits: Reuters)

A loss of Rs 8 lakh crore in the market value of listed companies amidst apprehension

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Now that the second wave of the pandemic in Asia's third-biggest economy shows no signs of ebbing any time soon, what will be the extent of loss to the overall output?

"The hit will be closer to Rs 1 lakh crore if Covid-related restrictions in Maharashtra and elsewhere come to an end in April. It may be much higher if the same trend persists i May," Madan Sabnavis, a chief economist at Care Ratings, a leading credit-ratings age in the country, told India Today.

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SURGE DERAILS EARLIER FORECASTS

In a report last week, the agency estimated a loss of nearly Rs 40,000 crore in Maharashtra alone. The estimates, however, were based on assumptions that Covid restrictions in Maharashtra would end in April and that it would be back-to-business as usual in most parts of the country.

Those assumptions no longer hold, with a possible stringent lockdown in Maharashtra and tighter restrictions back in place in most of India's urban centres.

Sabnavis foresees a disproportionately high impact if restrictions/lockdown extend beyond April. "The very painful reverse migration will begin and there will be a perma closure of some of the service establishments," he said.

An economy that is on a recovery path after a severe drubbing last year can ill-afford that, the economist observed.

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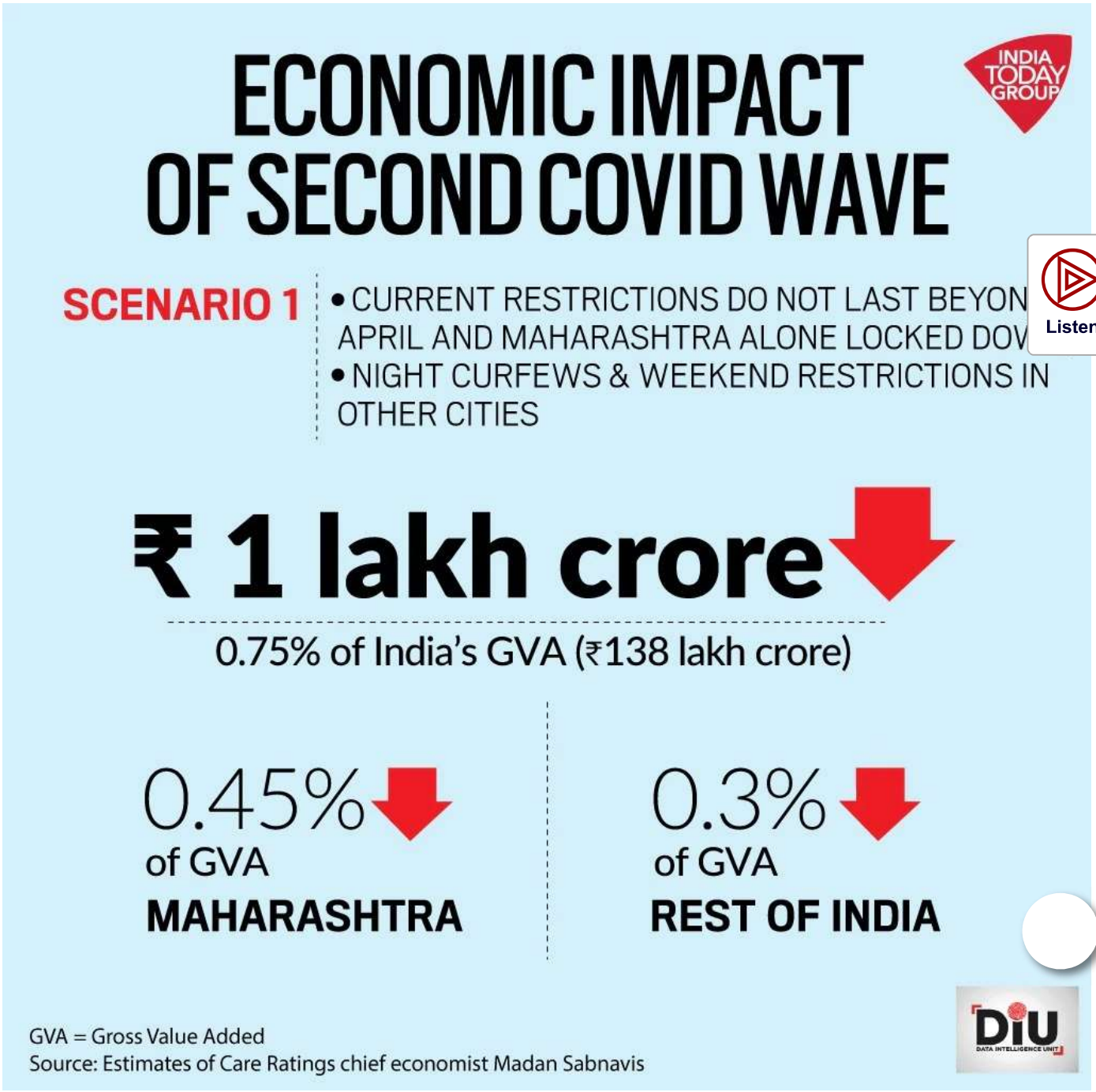
Here is what he predicts:



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Scenario One

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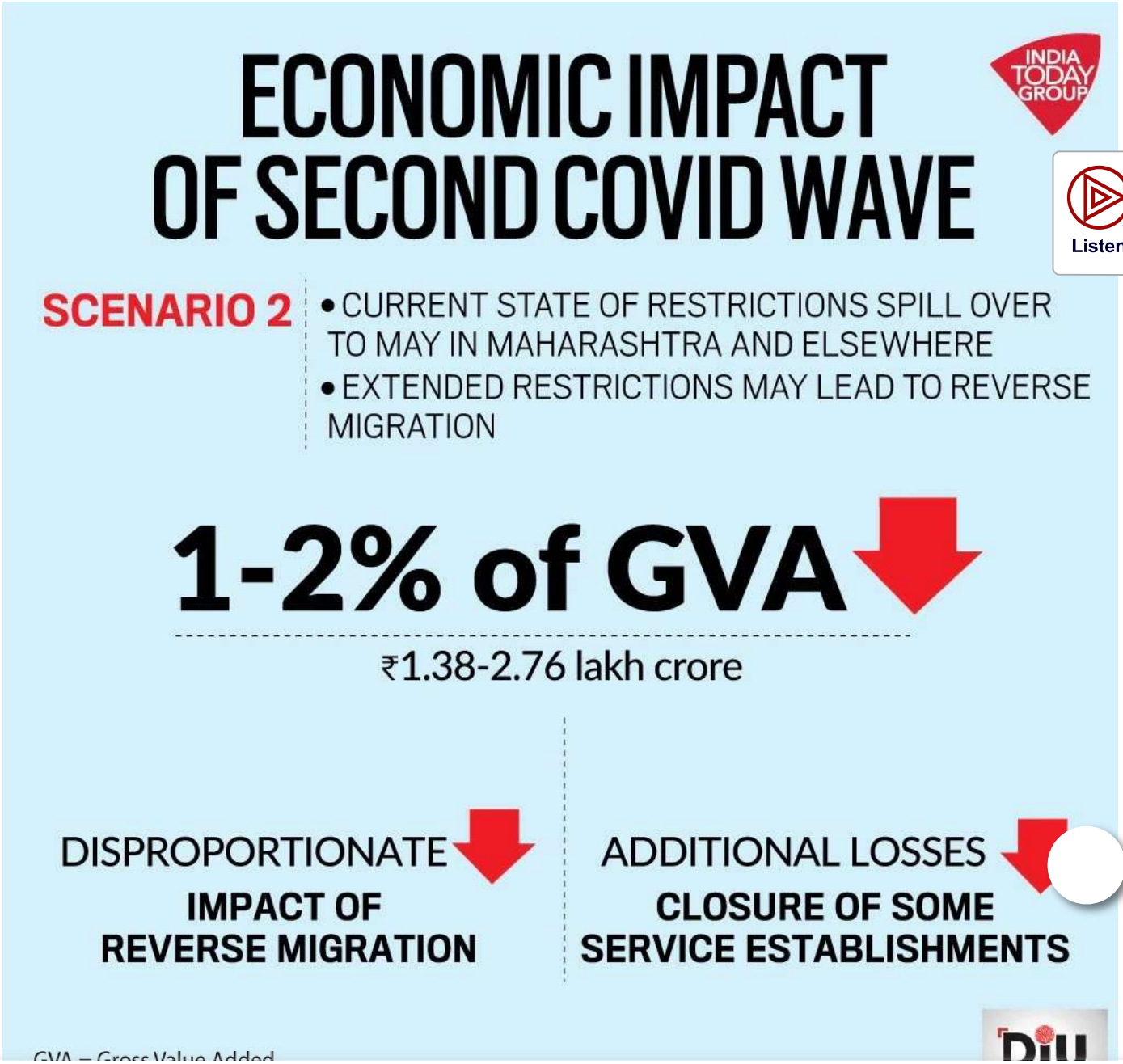
· Based on assumptions current restrictions do not last beyond April and Maharashtra alone goes for a lockdown in the second half of this month.

· Night curfews and weekend restrictions in other major cities.

· Impact on Maharashtra's economy alone would be close to 0.45 per cent of the Gross Value Added

· Impact on rest of the country to be close to an additional 0.3 per cent of the GVA

Scenario Two



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Maharashtra and elsewhere

· Loss could be in the region of 1-2 per cent of the GVA.

· Extended restrictions for an extended period may lead to reverse migration yet again

· Impact of reverse migration will be disproportionately high if people start to leave cities because of extended restrictions/ lockdown

· Additional impact in the form of closure of some service establishments

According to Care Ratings, estimated GVA for this fiscal is Rs. 137.8 lakh crore.

Care Ratings is not alone in cutting India's growth forecast for the current financial year.

Global Brokerage firm Nomura has cut its GDP forecast by nearly one percentage point, from the earlier projected 13.6 per cent to 12.6 per cent now.

Leading investment firm Barclays too has warned of downside risks to growth followi the recent surge in Covid-19 cases. Barclays has kept its forecast unchanged at 11 pe cent though. The Reserve Bank of India too anticipates growth of 11 per cent this year.

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Following an extended period of stringent lockdown last year, the country's economy plunged by nearly 24 per cent in the first quarter last year. For the first time ever, the sale of vehicles had dropped to zero in the month of April and an estimated 1.9 crore people lost their jobs.

While restrictive measures now in place in most parts of the country are nowhere close to what they were in and around April of 2020, the surge in cases will likely hit sectors like trade, hotels, transport, and financial services very hard, yet again.

Read | Explained: 4 ways how fresh Covid-19 restrictions can disrupt economic recovery

DOWNSIDE RISKS TO GROWTH

The nascent recovery will, therefore, be adversely impacted, experts reckon.

The share market on Monday reflected those concerns. Incidentally, stocks of banks, real estate and auto companies witnessed a sharp fall.

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energize the Indian economy hit hard by the pandemic.

A month later, government data showed that the GDP grew 0.4 per cent in October-December, signaling that the country exited recession in the third quarter of the last financial year.

As growth limped back to the positive territory, the IMF raised India's growth forecast to 12.5 per cent for 2021-22.

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In a recent interview to India Today, Gita Gopinath, the IMF's chief economist, however, underlined the risks from widespread virus restrictions.

"We have to keep in mind that it's coming off a very large contraction of -8 per cent. And we locked in these numbers (the projections) around March 5 when we started seeing the second Covid-19 wave in India. We assumed that there would be localised lockdowns just because until you get widespread vaccination, things will not get back to perfectly normal. If, on the other hand, there was a widespread nationwide lockdown, then that would be a downside risk to our forecast," she cautioned.

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