Revised GDP forecast for FY21

Contact:
91-22-6837 4433

Economic Research team

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6837 4424

CARE Ratings had a projection of -6.4% degrowth in GDP for FY21. This was based on the expected progress of the lockdown and unlock processes which were prevalent in the country at that time.

The Q1 growth of close to -24% was slightly higher than our expectations of -20.2%. The element which came in as a surprise was the growth in the public administration, defence and other services segment at -10.3%.

The factors which are working well in the economy are more in the agricultural sector as well as the financial domain where a good monsoon as well as the efforts of the government and RBI to enhance the flow of credit has shown some positive tendencies.

The unlock process has been gradual and it needs to be seen whether there is continuity in the approach which will have a bearing on the resumption of some services and the attainment of minimum capacity utilization in these sectors.

An important factor in drawing up any forecast for the year is the assumption of a fiscal stimulus being invoked by the government which goes beyond the allocations in the Budget. While there have been some indications given that there would be another round of reforms, the nature of the same would be important in terms of the impact on the GDP prospects. For our forecasts here, it is assumed that there is no fresh round of expenditure outside the Budgetary numbers for this year. Further, as the PMI numbers indicate, there would be an improvement on a month on month basis though the same would manifest as negative growth numbers on a y-o-y basis.

It is also believed that the third and fourth quarters would show progressively better results as the unlock process becomes widespread and economic activity moves towards the range of 50-70% of normal by the end of Q4.

With these basic assumptions, the forecast for GVA growth in FY21 would be -7.7% and GDP at -8-8.2%.

In terms of sectors,

- Agriculture and allied activities would be growing at 3.8% with both the kharif and rabi output being normal. The allied activities segment would be providing support during the period between the two seasons.
- Industrial growth (GVA) would be largely negative: mining (-9.4%), manufacturing (-11.7%) and electricity -1.3%. We do see manufacturing turning positive in Q4 aided by a low base effect too. Growth in electricity, water, gas would be turning positive in Q3.

- Construction activity is expected to contract by around 24% for the year as private sector participation would be limited. More importantly the housing sector would be under pressure with build-up of inventory and there would be limited traction here. The same holds for commercial space. The government – both centre and states may have less bandwidth to provide the push to the infra sector given the constraints on the fiscal side.
- Trade, transport, hotels, communication would degrow by around 22% and this segment will witness negative growth across all the quarters. The GST collections which are the proxy that is used for trade, would be falling short significantly during the year. Hotels and transport would be affected by the pace of the unlock process and it is only in the fourth quarter can we expect resumption of some of these services and attainment of the 50% mark.
- Financial services, real estate and other services will grow by positive 1% - being pushed up by banking while real estate would be dragging growth down. The other services covering professional segment would maintain steady growth.
- The public administration, defence and other services segment would remain flat in the absence of a fiscal push and hence would not be contributing to GDP growth. While the government sector finances would show positive proclivities, the other services component would be in the negative territory which includes all the discretionary services which have around the same weight as the government sector. We also assume that the government will resort to some capex cuts towards the end of the year in the scenario of there being no new stimulus being announced.

The decline in GDP growth by around 8% would also be associated with a decline in the gross fixed capital formation. The same would hold for consumption growth that will be affected by lower growth in income across all categories of consumers. The sharp fall in GDP growth in FY21 would however provide the cushion of a faster pace of growth in FY22 depending on the rate at which various sectors get back on track.

CORPORATE OFFICE:
CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

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