Research

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Pinpricked growth

A ferocious second Covid-19 means our GDP growth forecast gets culled 150 bps to 9.5% for this fiscal

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Base-case GDP growth forecast cut 150 basis points to 9.5% for this fiscal

The second Covid-19 wave has thrown cold water over the Indian economy that was beginning to warm up after the most severe contraction since Independence.

The rash of afflictions that followed forced states to lock down, hurting consumer and business confidence yet again.

Mercifully, daily cases seem to have peaked for now, though they remain above the peak of the first wave. But the risks of another wave and tardy vaccinations mean states would be chary of fully unlocking anytime soon.

That is unlike what we saw last fiscal, when a largely uniform and calibrated reopening spurred quite a sharp recovery.

Consequently, CRISIL is lowering its gross domestic product (GDP) growth forecast for India to 9.5% for the current fiscal, compared with 11% expected earlier.

The downward revision is premised on the clearly evident hit to the two engines of growth – private consumption and investment – by the second wave.

Our new base forecast assumes that Covid-19 restrictions will continue and mobility will remain affected in some form or other, at least till August. The pace of economic recovery will also be a function of what the pace of vaccination is in the coming months.

We find that countries with over 40% of their population vaccinated are seeing a faster and more broad-based economic recovery (see section, ‘Vaccination: the only way to faster, broad-based recovery’ for details).

The government plans to vaccinate India’s entire adult population (68% of total population) by this December – a tall order even if there are sufficient vaccines available.

CRISIL’s base case is 70% of the adult population vaccinated by December.

A third wave would pose a significant downside risk to the growth forecast, as would a slower-than-anticipated pace of vaccination.

In such a pessimistic case, we see GDP growing at 8%.

Back to square one

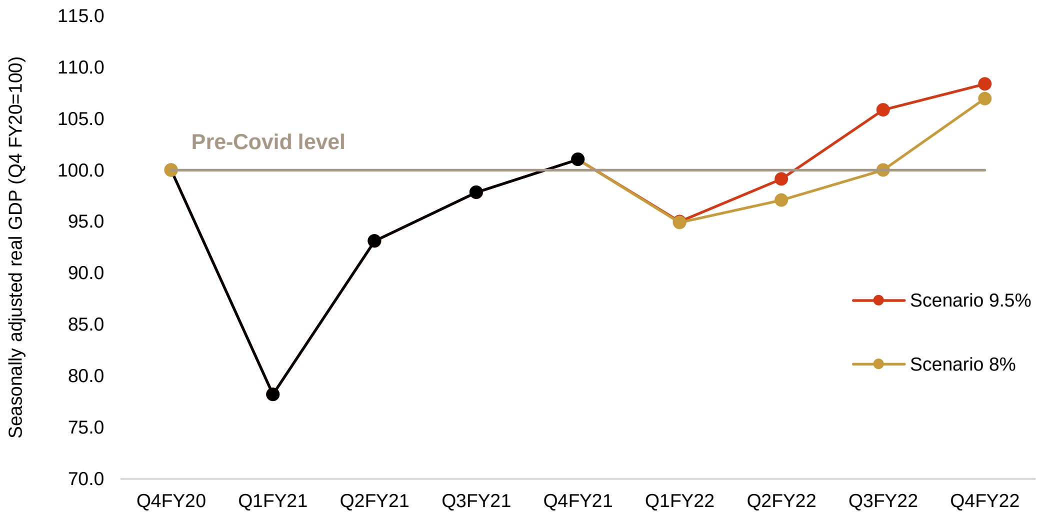
India’s GDP bounced back to the pre-pandemic level (fourth quarter of fiscal 2020) by the fourth quarter of last fiscal, after a sharp contraction in the first quarter. However, the second wave has likely erased those gains in the first quarter of this fiscal.

Consequently, it would take more than a quarter to revisit the pre-pandemic levels.

In our base case of 9.5% growth, that could happen after the second quarter. Assuming restrictions ease after August, recovery could strengthen and become more broad-based from the third quarter of this fiscal.

In our pessimistic case of 8% growth, quarterly GDP would surpass the pre-pandemic level only in the third quarter.

Quarterly trajectory of real GDP levels



Source: Ministry of Statistics and Programme Implementation (MoSPI), CEIC, CRISIL

How different is the second wave from the first?

Cases

The second wave has presented a humongous health challenge, overwhelming the health infrastructure. Cases at the peak of this wave, at 4 lakh+ daily, were more than four times that seen at the peak of the first wave in September 2020, at ~97,000. Even as daily cases are declining (they were at ~1.3 lakh as of June 03), they are still much higher than that at the peak of last year's wave. Cases have also penetrated faster and more extensively in rural areas (*see annexure*).

Further, states most impacted during the first wave (in terms of share in all-India cases) – Delhi, Maharashtra, Karnataka, Kerala, Tamil Nadu and Uttar Pradesh – have suffered a heavy blow the second time as well, but over different periods. For instance, Maharashtra saw a sharp rise in new cases towards end-March and a peak in April, while Tamil Nadu's case surge was in May.

Lockdowns and stringency

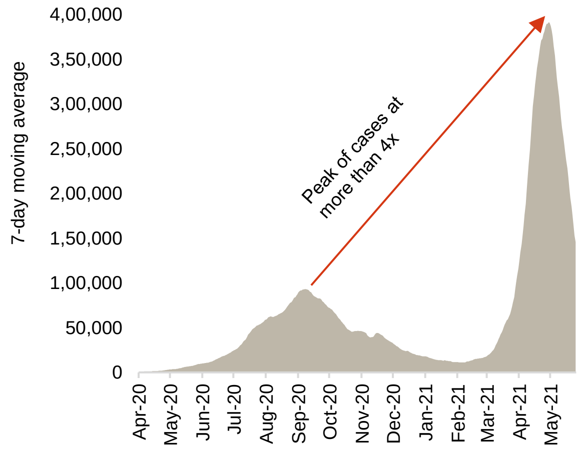
Rising cases necessitated curbs and social distancing measures. Last year, a stringent nation-wide lockdown for two months was followed by a calibrated opening. By the time cases peaked in September, we were already in the fourth phase of unlock, and pent up demand had started reflecting in faster rebound in economic activity.

This time around, states announced restrictions of varying degree and duration, as they faced increasing caseloads at different periods:

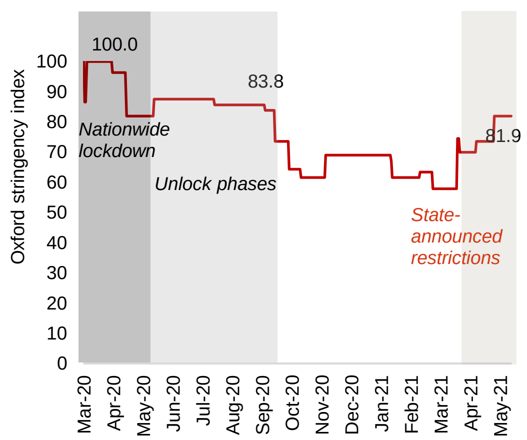
- In terms of stringency, current restrictions are not as strict as those imposed during the first nationwide lockdown. And while manufacturing, construction and transport have been allowed to function with caveats, many establishments have been forced to curtail operations owing to supply-side bottlenecks and employees getting infected

- But restrictions are stretching longer. In their third month now, they are being further extended (e.g., in Maharashtra, Bihar, and Delhi) as states have been cautious in reopening, given the devastating impact of this wave, uncertainty of vaccine supply and possibility of a third wave.

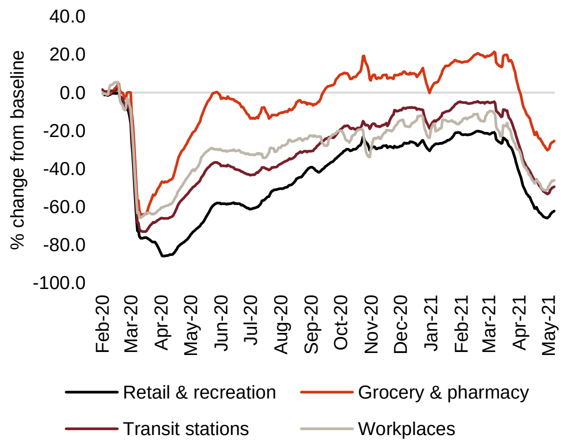
The second wave poses a bigger healthcare challenge



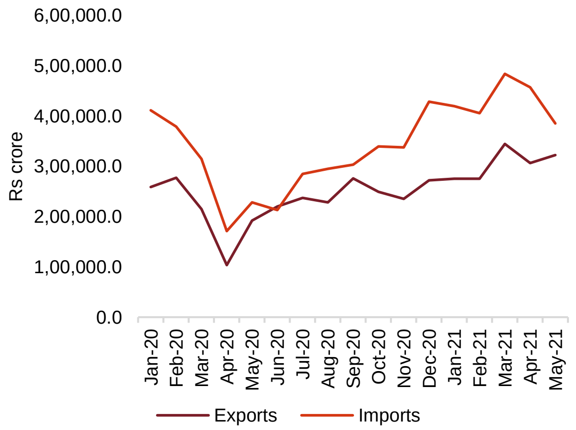
Lockdowns are less restrictive, but more stretched



Mobility has plummeted despite lower stringency



But exports have stayed strong through this wave



Source: Ministry of Health and Family Welfare (MoHFW), Oxford Blavatnik School of Government, Google LLC, Ministry of Commerce and Industry, CEIC

Mobility

Mobility has taken a sharp hit in the second wave despite less stringent restrictions, given risk-averse behaviour. In early May, retail mobility had dropped to June 2020 levels, though there was a slight uptick – of seven percentage points – in the last week of the month.

With supply constraints for vaccines expected to persist (due to limitations in scaling up production), a gradual coverage of vaccination implies mobility would recover slowly. The pace of vaccinations will thus be the key to consumer confidence and, in turn, economic recovery.

External demand

The only bright spot amid the persisting uncertainty is India's exports. And that has been due to the rebound in its major trading partners, viz., the United States (US), United Kingdom (UK) and east Asia.

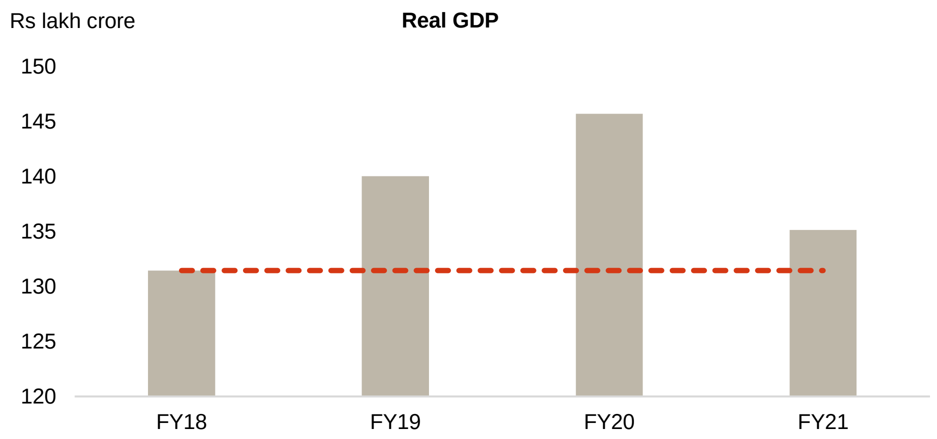
This is unlike the first wave, when global trade had crashed.

Recovery, particularly in advanced economies, is expected to accelerate from the second half of this calendar year, aided by a larger vaccination coverage and stimulus packages[1]. This, in turn, will support India's exports, even as imports may be muted given the second-round hit to domestic consumption in this wave (*see box: External demand to cushion growth*).

Domestic demand pushed back by over two years

Domestic demand last fiscal was not only lower than in fiscal 2020, but also below that in fiscal 2019.

Comparing GDP levels with previous years



Source: MoSPI, CEIC, CRISIL

Some sectors have had it worse

For some sectors, GDP has slid more than two years backwards. Figures highlighted in yellow in the following two tables show when a particular sector/segment's GVA/GDP value was at least as low as in last fiscal.

On the supply side, manufacturing, construction and contact-based trade, hotels, transport and communication services slid all the way back to fiscal 2017 levels last fiscal in the aftermath of the pandemic.

[1] *S&P Global, 'Global Economic Outlook Q2 2021: The Recovery Gains Traction As Unevenness Abounds' (March 2021)*

Gross value added (GVA) levels across sectors (Rs lakh crore)

	Supply side							
	Agri and allied segments	Mining	Manufacturing	Electricity, gas, water supply and other utilities	Construction	Trade, hotels, transport and communicati on services	Financial services, real estate and professional services	Public administration and others
FY15	16.1	2.9	16.8	2.1	8.4	18.1	20.7	12
FY16	16.2	3.2	19	2.2	8.7	19.9	22.9	12.8
FY17	17.3	3.5	20.5	2.5	9.2	21.5	24.9	14
FY18	18.4	3.3	22.1	2.7	9.6	23.7	25.4	15.1
FY19	18.9	3.3	23.3	2.9	10.3	25.4	27.2	16.2
FY20	19.7	3.2	22.7	3	10.4	27	29.2	17.6
FY21	**20.4**	**2.9**	**21.1**	**3.1**	**9.5**	**22.1**	**28.7**	**16.8**

Source: MoSPI, CEIC, CRISIL

On the demand side, investment, household consumption, and exports reached fiscal 2018 levels, while imports were the lowest since fiscal 2017.

Segment-wise demand drivers of GDP (Rs lakh crore)

	Demand side				
	Private consumption	Government consumption	Investment	Exports	Imports
FY15	59.1	10.5	32.8	25.1	26.7
FY16	63.8	11.3	34.9	23.7	25.1
FY17	69.0	12.0	37.9	24.9	26.2
FY18	73.3	13.4	40.8	26.0	30.8
FY19	78.8	14.3	44.9	29.2	33.4
FY20	83.2	15.4	47.3	28.3	33.2
FY21	**75.6**	**15.9**	**42.2**	**26.9**	**28.7**

Source: MoSPI, CEIC, CRISIL

Consumption demand gets a fresh jolt

Private final consumption expenditure (PFCE) is the biggest demand-side driver of India's GDP. Last fiscal, PFCE contracted a massive 9.1% on-year, compared with overall GDP contraction of 7.3%. This meant PFCE (in real terms), at Rs 75.6 lakh crore, got pushed back to nearly fiscal 2018 levels (Rs 73.3 lakh crore).

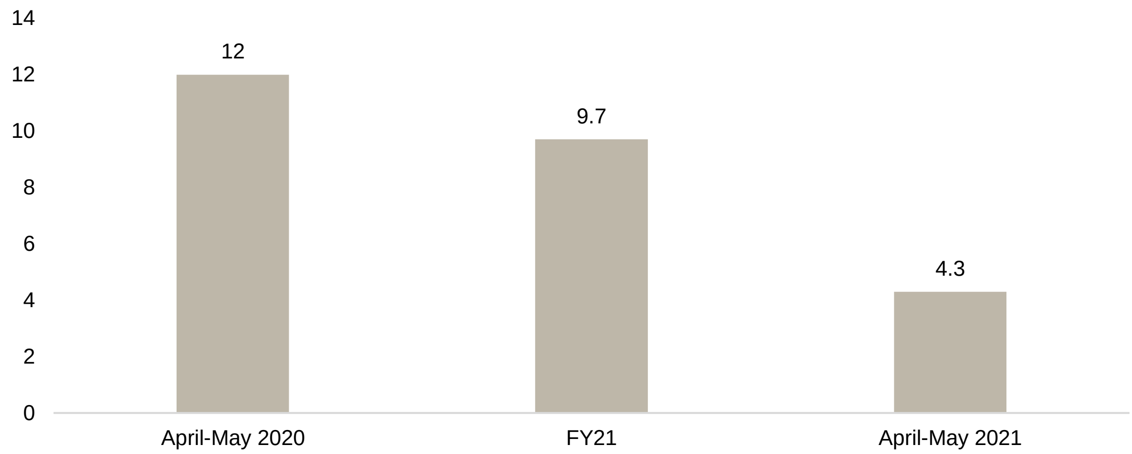
Thanks to some pent-up demand and optimism on account of an improvement in the pandemic situation, PFCE growth turned mildly positive (2.7% on-year) in the last quarter of last fiscal. But the second wave has put renewed pressure on it. The Reserve Bank of India's latest consumer confidence survey buttresses this: the Current Situation Index fell to a record low of 48.5 in May from 53.1 in March (a reading above 100 shows optimism). Respondents were also worried about the year-ahead prospects, with the Future Expectations Index dropping to 96.4 from 108.8.

Not just urban, but rural demand, too, may soften this time

Even as urban demand remains weak (in the absence of any urban-focused policy support and given that urban areas account for ~70% of the services economy – the most-affected segment), rural demand, which was buoyant last year, may have come under threat this time around.

- **Pressure on income**: The government upped the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) allocation last fiscal by way of supporting the rural economy, but this is missing so far, this time. That is disconcerting, given that the extensive penetration of the second wave in India's hinterlands would have brought about disruption in rural activities, necessitating a similar or even better government support. But latest data shows that the MGNREGS wage growth is not as robust as it was last fiscal (*see chart below*). As a result, rural incomes, especially of wage earners, may come under pressure.

Average growth in MGNREGS wages (%, on-year)



Source: MGNREGS portal, CRISIL

- **Worsening rural terms of trade:** Core inflation in rural India seems to be firming up – a likely reflection of supply-related disruptions in rural areas. Rural core inflation stood at 6.5% on-year in April 2021, much above 1.4% rural food inflation. This is in contrast with last fiscal, when core inflation averaged 5.7%, whereas food inflation was at 7.6%. Since food inflation is expected to decline this fiscal (over a high base and helped by a likely normal monsoon), farmers' realisation on crops would be subdued. At the same time, they would have to spend more on goods and services they consume (because of higher core inflation), on top of probably bearing a larger medical expenditure related to Covid-19. This deteriorating 'terms of trade' implies they would be left with lesser purchasing power for discretionary spending.

Not enough household savings to unwind

When the pandemic hit last fiscal, people turned cautious and started saving more to take care of future employment and income uncertainties. Accordingly, household savings shot up to 21% of GDP in the first quarter of last fiscal from 9.8% in the preceding quarter.

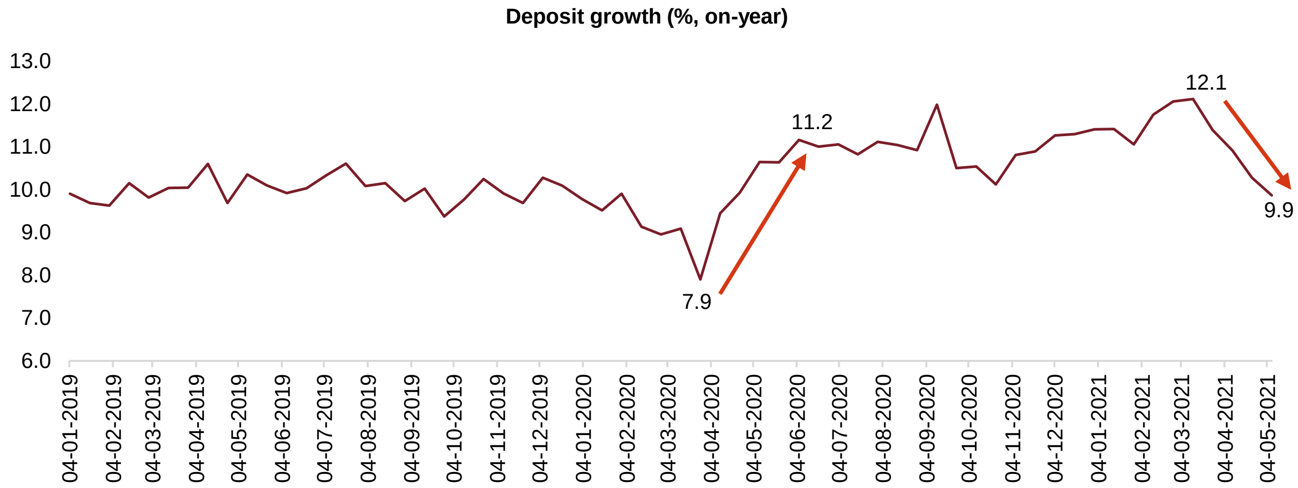
But as the pandemic abated and the economy opened up, the household savings trend normalised: people started spending again and household savings 'unwound' to 10.4% in second quarter and further to 8.1%[2] in the third quarter of last fiscal.

But that pattern appears to be different during the second wave.

Growth in deposits with scheduled commercial banks (a proxy for household saving, having ~ 50% share in households' overall savings portfolio), has declined starting April 2021 (*see chart below*). Last year, in contrast, deposit growth had moved up.

This could be indicative of pressure on incomes and a simultaneous rise in medical expenditure given the heightened ferocity of the second wave. This, in turn, implies that that the prospects of a pent-up demand could be bleaker this time.

Declining deposit growth points to weaker pent-up demand prospects this time



Source: RBI, CRISIL

Fall in per capita income

India's per capita GDP declined by a massive 8.2% on-year to Rs 99,694 last fiscal. In fiscal 2020, per capita GDP had risen 3% to Rs 108,645. Localised lockdowns and further hit to incomes due to the second wave could only mean per capita GDP may not be able to come back to the pre-pandemic level this fiscal as well.

And this would keep discretionary spending in check.

Investments will continue to require government hand

The pandemic took a toll on investments, the second-largest demand side driver of the economy, as well. Gross fixed capital formation (GFCF) declined 10.8% on-year last fiscal to Rs 42.2 lakh crore, a level similar to fiscal 2018's Rs 40.8 lakh crore. Much of this decline was due to a cut in planned private capital expenditure (capex), on account of the pandemic.

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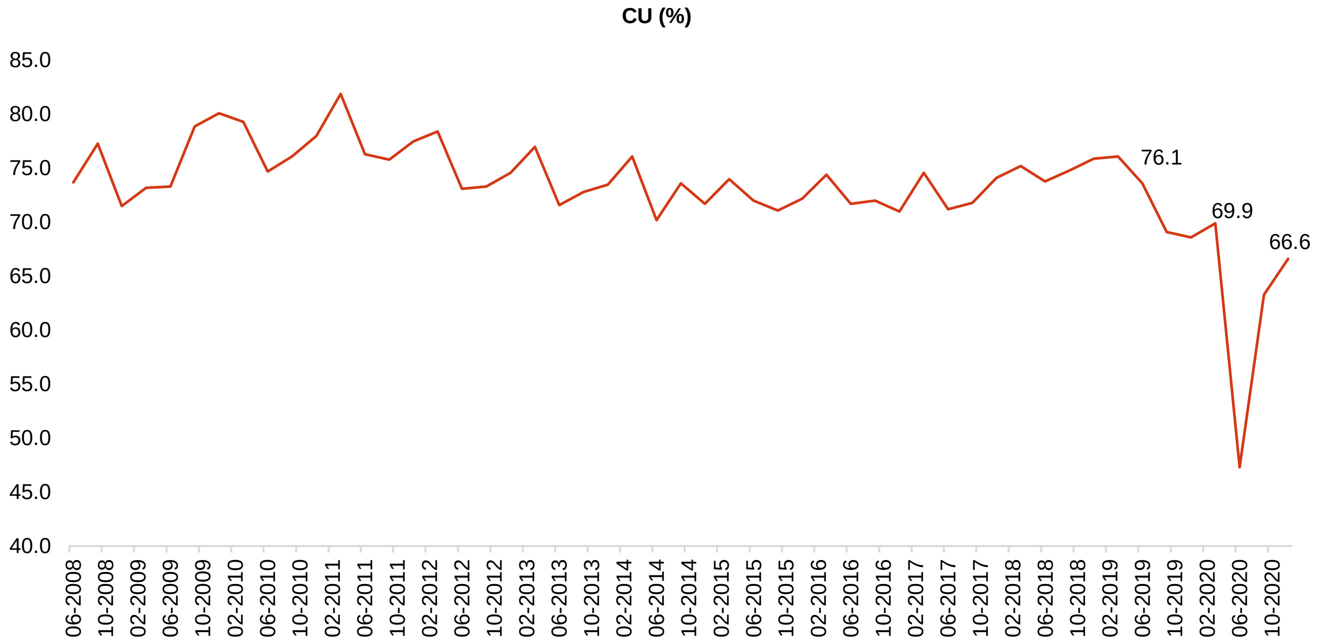
[2] *Estimate as per RBI Annual Report, 2020-21, May 2021*

With capacity utilisation in the manufacturing sector still low (*see chart below*), and the second wave again creating demand uncertainties, private sector investment is highly likely to remain subdued.

Capacity utilisation perking up, but still low



Source: RBI's Order Books, Inventories and Capacity Utilisation Survey (OBICUS)

That said, the government (largely central) did the heavy lifting on the investment front after the pandemic situation mended last fiscal. As a result, GFCF growth improved from -27.6% on-year in the first half to 6.7% in the second. This trend is likely to continue this fiscal as well.

Also, construction activity, especially roads, has got off easier this time. According to CRISIL Research, the pace of highway construction in April 2021 was still four times higher than in April 2020.

Though the second wave of infections has dampened the momentum of national highway construction, it may not have a material bearing on growth for the current fiscal, as the ramp-up typically happens in the fourth quarter.

But real estate and rural construction have been hit more. CRISIL expects a slowdown in new launches this fiscal, and developers to focus on sale of ready or near-complete properties, leading to a gradual reduction in inventory.

Persistent impact of the pandemic on employment generation and incomes and, in turn, on demand for residential real estate, will bear watching.

Wanted: a more targeted fiscal policy response

The government has the immediate responsibility to deploy policy support in segments that have been hurt the most, or to those who have suffered a debilitating double blow.

Fiscal policy will need to go all out, as it is more effective than monetary policy in reaching the last mile.

The primary responsibility of monetary policy this fiscal continues to be maintenance of conducive liquidity conditions. Specifically, it means ensuring cost of credit remains benign and availability of credit, easy to vulnerable segments such as healthcare, smaller firms and consumers as they gradually heal. RBI's recent policy recent policy took it forward by extending support to a greater number of vulnerable services.

But contrary to what was expected when the fiscal began, the Centre may not have the luxury to 'normalise' the extraordinary spending undertaken last fiscal. It will, in fact, have to put the pedal to the metal, creating a bridge to recovery and ensuring the vaccination rate speeds up.

Given the limited scope for fiscal expansion, funds will have to be well targeted towards two key objectives:

First, speed up vaccinations. Until supplies become fluid, there will be limits to progress on this front. Until then, the focus will have to be concomitantly directed to ramp up healthcare infrastructure and support incomes through the second wave and prepare for the possibility of a third.

Second, extend support to smaller firms, rural incomes, services sector and the urban poor. These are the four segments that most likely received a double blow on account of imposition and extension of restrictions on economic activity. Healthcare costs in a situation where incomes have already been hit, would have added to the pain.

- **For the rural economy**, with the available resources, the government could increase allocation to the MGNREGS and rural construction works. Last fiscal, the government spent Rs 1.1 lakh crore on the rural employment guarantee scheme (81% higher than budgeted and 56% higher on-year), with total person days rising ~50%. Under the assumption that the Covid-19 afflictions have been considerably contained, allocations were downsized to Rs 73,000 crore in the current fiscal budget, while the Pradhan Mantri Awas Yojana – Gramin, or the PMAY-G, allocation was kept at last fiscal's spending level of Rs 19,500 crore. There might be merit in increasing spends under both these to support rural incomes hit hard by the second wave.
- **For the urban economy**, some income support to the unorganised sector may be required. For instance, though the lockdowns are less restrictive this time, overall slowdown in economic activity has continued to hit urban construction activity, with workers rendered jobless and forced to return to their villages where incomes are much lower.
- **In the services sector**, about 70% of activity is in the urban areas. Of these, sectors that are more contact-driven such as retail and wholesale trade, repair, hotels, restaurants, and other services such as entertainment and recreation, and personal services like tailoring, laundry and salons, have been hit harder than others such as financial, banking and other professional services. The unorganised nature of their activity also makes it more likely that income or job protection to workers is minimal or absent. Many of these were already lagging in recovery compared with the rest of the economy in the second half of last fiscal.

- **For smaller firms** facing the triple whammy of weak demand, supply-side disruptions due to curbs on movement of goods and transport, and rising input cost prices, the government has provided some support through the Emergency Credit Line Guarantee Scheme and other measures. But the sector is expecting more policy intervention to ease raw material procurement and restrictions on non-essential products and services, boost confidence of lenders to ease liquidity pressures, and tighten pricing and payment norms from large corporates.

Vaccinations, the only way to faster, broad-based recovery

In fact, given the healthcare challenges posed by the enormity of the second wave and expectation of an impending third wave, we expect restrictions imposed by states in one form or the other to stay for longer – at least for as long as a larger proportion of the population is not vaccinated against Covid-19.

This will come in the way of a faster recovery.

In contrast, countries like the US and the UK, where over 30-40% of the population has been fully vaccinated and ~50% of the population has taken at least one vaccine dose, have seen faster opening up of their economies and stronger recovery. This is bound to happen as the fear factor dips and risks associated with relaxing restrictions and social distancing norms diminishes.

But India's vaccination progress is far from encouraging. Instead of picking up speed, vaccination rate has only slowed in the past 2-3 weeks. The average daily vaccination rate dropped from 1,666 per million in the last week of April, to 1,265 per million in the last week of May, due to shortage of vaccine supplies.

That translates to a little over 3% of India's total population being fully vaccinated and ~12% having received at least one dose.

Based on the experience of countries (specifically, the US and the UK) leading in terms of vaccination coverage, two conclusions can be clearly drawn:

First, countries with higher vaccination coverage (over 40% of population fully vaccinated) are seeing economic activity catching up faster. This is clear from the purchasing managers index (PMIs), which are not only steadily rising and significantly above the expansion mark, but are also much above their long term average. On the other hand, those with vaccination coverage less than 20%, are seeing either sluggish economic activity or a fragile pick-up if any.

Second, rapid vaccination is helping laggard sectors – mainly services – catch up faster. This is something that policy support alone could do until now. In the US, households are reorienting their consumption toward services after the economy has gradually opened up, thanks to an improving healthcare situation effectively supported by rapid vaccination that helps reduce restrictions. Most forecasters believe a sizeable pick-up in services demand will be a lead driver of consumer spending in the second half of 2021.

China's story is somewhat different. Here, recovery owes its strength not only to the recent rapid increase in vaccination, but also to early containment of the virus and macroeconomic stimulus. As per an International Monetary Fund (IMF)[3] report, "China is on track to vaccinate its adult population by end-2021" given its substantial production capacity. All these have helped to smoothen re-opening of the economy as well as restoring business confidence.

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3 Agarwal, R. & Gopinath, G., (May 2021). A Proposal to End the Covid-19 Pandemic. IMF Staff Discussion Note. SDN/2021/004

Vaccine supply and demand dynamics

For India, where economic recovery has been slow, shaky and lopsided, ramping up vaccinations to cover a larger proportion of the population seems the only way to usher in speedier and broad-based recovery.

The Indian government's target[4] is to fully vaccinate the adult population by end-2021. That translates to covering 68% of the total population. So there is a lot of ground to cover.

Our own estimates puts this figure at 70% of the adult population.

But speeding up the vaccination rate is a tall order, indeed. India faces the twin challenge of a large population size and severe shortage of vaccine supplies.

The supply issue is expected to be sorted out by August, as higher domestic production and imports start to kick-in. But once vaccine supplies and government procurement start increasing, the next big hurdle would be about deploying them.

At that stage, as a study by Forman, *et al*[5] suggests, some of the primary challenges that could arise include: (a) safe and secure transportation and delivery of vaccines; (b) fair vaccination allocation to priority groups; and (c) encouraging the uptake of vaccines.

While India has so far fairly managed the first two challenges, it is the third that the government will have to focus on. In that, vaccine hesitancy could be a barrier.

Resistance to receiving the jab could rise as caseloads dip. There could also be delays in acceptance of newer vaccines that enter the market, the same study suggests.

To tackle this, the government will have to engage in clear communication to create awareness about vaccine safety, side-effects and trust, and perhaps also provide incentives. In the US, for instance, as resistance to vaccines rose, local governments announced a number of incentives including lotteries, college scholarship (for those in the 12-18 age group), savings bonds and cash payouts.

Thus, we see vaccination as the one way to usher in faster and broad-based recovery. But in the interim, the government will have to take steps to minimise the ill-effects of the ongoing second wave and the possible third wave on lives as well as livelihoods, in ways described in the previous section.

Provided that we stay on the road to the December vaccination target, recovery could start in the third quarter of this fiscal, and as there is more progress and clarity on vaccination, strengthen in the fourth quarter, and into the first quarter of fiscal 2023.

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4 https://theprint.in/health/india-to-get-267-cr-covid-vaccines-can-inoculate-all-adults-by-year-end-harsh-vardhan/661508/

5 R Forman, S Shah, P Jeurissen, M Jit and E Mossialos (2021). Covid-19 vaccine challenges: What have we learned so far and what remains to be done? Published by Elsevier B V

External demand to cushion growth in 2021

Global growth outlook has improved since the start of 2021, with global growth forecast for calendar year 2021 at 5.5%, up 50 basis points (S&P Global, March 2021). This is supported by massive fiscal stimulus in a few large economies (US, UK), governments' and businesses' improved adaptability to manage the virus, and an accelerated recovery in the second half of 2021, powered by increased vaccine coverage.

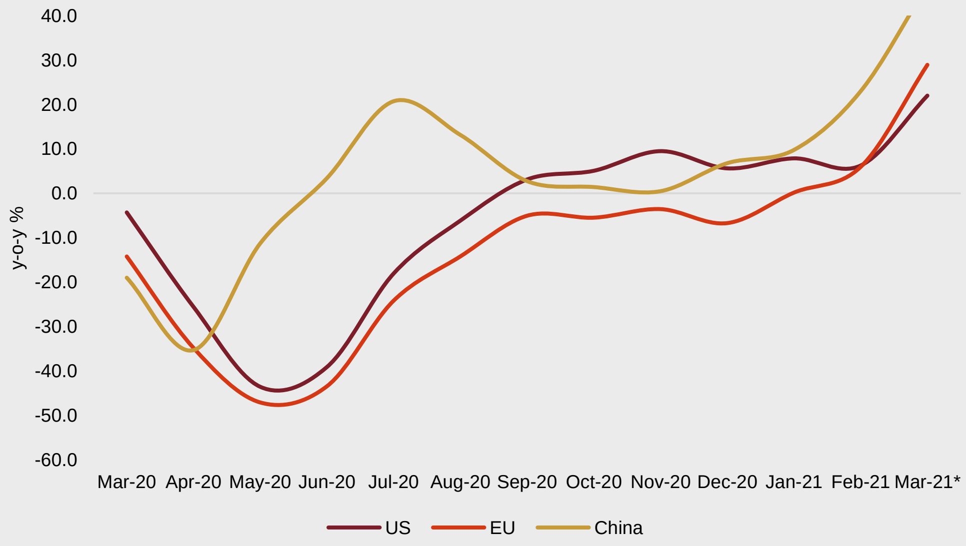
To be sure, uneven pattern of output, seen since the beginning of the pandemic, has persisted. While in the US, household spending drove growth, industrial production and exports drove growth in east Asia. Further, new virus mutations, trajectory of the pandemic, and pace of vaccination coverage, continue to pose uncertainty to the global outlook (IMF, April 2021).

Country/region	GDP growth, % (CY21)	Change from previous forecast* (percentage points)	Share in India's exports (%)
US	6.5	+2.3	16.9
EU	4.2	-0.7	14.4
China*	8.0	+1.0	8.8
UK	4.3	-1.7	2.8
World	5.5	+0.5	100

*Source: S&P Global, "Global Economic Outlook Q2 2021" March 31, 2021, *Previous forecast as of December 2020*

India's exports were on a declining trend since fiscal 2020, but this fiscal, faster rebound in major trading partners, such as the US, EU, and Asia, is expected to support exports. In the middle of the second wave too, exports have held steady, growing 2.6% in March and accelerated to 8.5% in April 2021 (compound annual growth rate (CAGR) over 2019), unlike the first wave, when exports had contracted 60.2% on-year in April 2020. Exports to major trading partners, especially the US, EU and China have been robust (see chart below).

Exports to major trading partners have been going strong even amid the second wave



Note: Y-o-y growth as 3-month moving average; growth rate in March 2021 is exaggerated because of the low-base effect on-year
Source: Ministry of Commerce and Industry, CEIC

Assessing medium-term prospects

India's GDP growth is expected to see a base effect driven 'sharp rebound' until fiscal 2023. The 9.5% growth expected this fiscal will largely be on account of a low base. Even with this, GDP would have grown merely 1% over the pre-pandemic level of fiscal 2020.

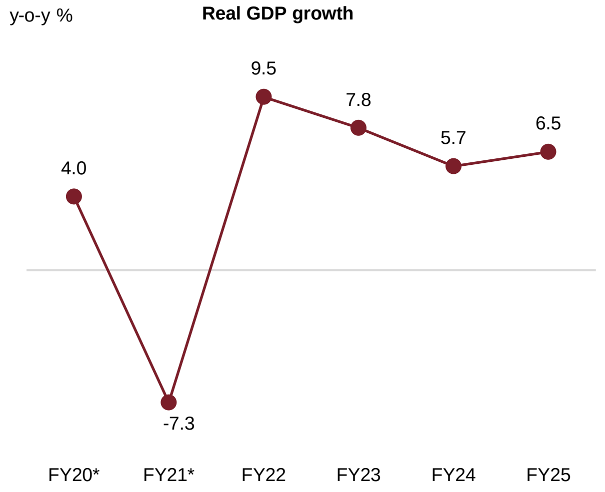
In fiscal 2023, we expect growth to remain strong and become more broad-based, as a sufficient proportion of population gets vaccinated by then. This will particularly strengthen growth for contact-based services, which have been the biggest victims. Beyond that, growth is expected to moderate (*see chart below on the left*).

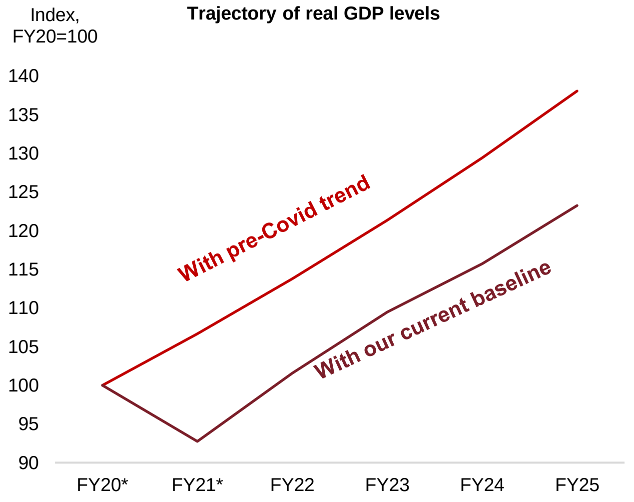
But all this will not make up for the permanent damage wrought by the pandemic on the GDP level.

On aggregate, between fiscals 2021 and 2025, in our base case, we expect real GDP to be Rs ~97 lakh crore, or 10.9% below the level we would have reached had the pandemic never occurred. This is the permanent loss suffered on account of the pandemic (*see chart below on the right*).

This loss could increase to Rs ~100 lakh crore, or 11.3%, in the pessimistic scenario of 8% growth this fiscal.

Strong GDP rebound expected for two years, but not sufficient to catch up to pre-pandemic trend





*Note: *Actual data*
Source: MoSPI, CRISIL

How the PLI scheme could alter the medium-term trajectory

Under the Production-Linked Incentive (PLI) scheme, the Indian government has given incentives of Rs 2.04 lakh crore across 14 targeted sectors, which could potentially add Rs 35-40 lakh crore in incremental revenue over the scheme tenure, aided by Rs 2-2.7 lakh crore capex. This will provide a much-needed push to the capex cycle, the lack of which has been one of the biggest impediments to structural growth for many years now.

Currently, a large part of the scheme is still under various stages of approval at the cabinet and ministry levels. Traction has been witnessed sectors such as mobiles and electronics, and pharma and medical devices for which schemes were devised earlier. About 47 applications with a committed investment of Rs 5,400 crore have been approved in pharma active pharmaceutical ingredient/key starting material, 14 worth Rs 874 crore in medical devices, and 16 with an estimated incremental capex of Rs 11,000 crore in mobile and electronics.

Though part of the investments have been made in sectors such as mobiles, most of the approved companies have not achieved their incremental revenue thresholds due to pandemic-related disruptions in the supply chain (for e.g., shortage of displays and/or unavailability of labourers). The second wave too, has softened demand. The government is likely extend the base year to benefit companies. Projects would likely kick-in in the next 18-24 months as the scheme for other sectors would likely materialise.

Source: CRISIL Research

Risks

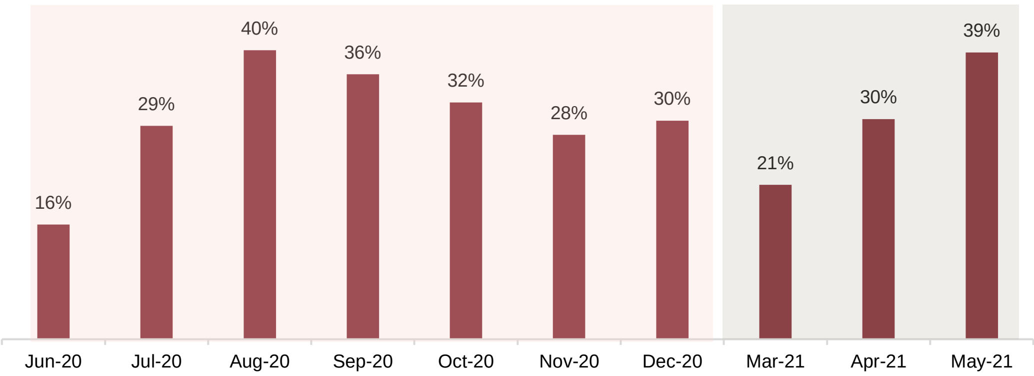
- **A third wave this fiscal:** This could bring further disruption to mobility and economic recovery
- **Slower pace of vaccination:** Insufficient pick-up in pace of vaccinations, accentuating risks of a third wave
- **Elevated inflation:** Significant cost-push pressures on account of surging international commodity prices and supply disruptions has raised cost of production for manufacturing firms. Pass-through to consumer prices could further pose as a headwind to recovery in demand
- **Premature tightening of global monetary policies:** Resurgence of inflation globally could lead major central banks to unwind their extraordinary easy monetary policies sooner than expected. This could hit sentiment, possibly leading to capital outflows from the Indian economy and some tightening in domestic financial conditions.

Macroeconomic outlook for this fiscal

Macro variable	FY20	FY21E	FY22F	Rationale for outlook
Real GDP (%, y-o-y)	4.2	-7.3	9.5	The second wave and the resultant localised lockdowns has impeded the path to economic recovery, leading us to revise down our growth forecast for this fiscal to 9.5%, from 11.0% earlier. That said, expected pick-up in economic activity post-vaccination and support from global growth would act as positives
CPI inflation (%, y-o-y)	4.8	6.2	5.3	Upside risks on inflation are growing from surging international commodity prices. While producers are bearing a greater burden of rising input costs for now, these could get passed to retail prices once demand recovers. Food inflation could also face pressure from disruptions to rural economy due to the pandemic's spread, and rising global prices
10-year G-sec yield (%, March average)	6.2	6.2	6.5	The RBI's unconventional policy measures have been instrumental in keeping G-sec yields at decadal lows, at a time when the bond market is facing an unprecedented rise in government borrowing. Supply pressures could have a bearing on yields once the RBI starts normalising liquidity. Adverse global developments such as premature withdrawal of monetary easing by US Federal Reserve could further add pressure
Current account balance/GDP (%)	-0.9	1.3	-1.2	The trajectory of Covid-19 infections, pace of the vaccination drive, and duration of state lockdowns will have an important bearing on domestic demand and, consequently, import growth. Increased prices of commodities, especially crude oil – India's largest import item – will drive imports. External demand will support exports, backed by strong economic recovery among India's major trading partners in the US, Europe, and Asia
Rs/$ (March average)	74.4	72.8	75.0	With the second wave adversely impacting India's economic recovery, and amid inflationary pressures, the rupee may weaken against the dollar. The current account balance turning into deficit (from a surplus last fiscal), will exert further downside pressure on the rupee. Some support may be seen due to the RBI's interventions to mitigate volatility. Record high forex reserves, and foreign investor inflows owing to interest rate differential between India and global economies, will also prop up the rupee

Source: CRISIL

Annexure



State	Share of rural districts in new cases (%)				
	Second wave			First wave	
	May-21	Apr-21	Mar-21	Sep-20	Aug-20
Andhra Pradesh	72.2	68.3	54.3	76.4	74.6
Bihar	81.4	75.8	63.7	84.5	84.7
Gujarat	16.9	13.2	9.1	16.9	15.9
Haryana	29.7	19.6	20.6	28.3	28.5
Jharkhand	55.2	43.7	20.1	40.9	47.6
Karnataka	34.6	22.5	20.2	31.8	32.4
Kerala	22.6	23.4	24.5	18.6	18.6
Madhya Pradesh	49.9	50.9	32.9	50.7	46.9
Maharashtra	36.5	24.8	19.3	24.3	21.3
Odisha	69.7	63.5	69.1	74.3	76.2
Punjab	18.5	18.8	28.3	21.8	19.7
Rajasthan	58.3	54.3	52.6	49	52
Tamil Nadu	11.4	9.5	6.8	14.8	11.1
Uttar Pradesh	45.8	42.4	32.2	42.5	48
West Bengal	36.0	33.2	20.9	40.7	38.2

Note: Districts with over 70% rural population as per Census 2011 have been classified as rural

Source: MoHFW,, Census 2011, CRISIL

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High-frequency indicators of economic activity

Sector	Growth (y-o-y %)	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21*	Apr-21*	May-21
Industry	IIP	2.2	5.2	-18.7	-57.3	-33.4	-16.6	-10.5	-7.1	1.0	4.5	-1.6	2.2	-0.9	-3.4	-0.2		
	Manufacturing IIP	1.8	3.8	-22.8	-66.6	-37.8	-17.0	-11.4	-7.6	0.4	4.5	-1.6	2.7	-1.3	-3.7	-1.5		
	Capital goods IIP	-4.4	-9.6	-38.8	-92.7	-65.9	-37.4	-22.8	-14.4	-1.2	3.2	-7.5	2.2	-9.0	-3.8	-6.8		
	Consumer durables IIP	-3.7	-6.2	-36.8	-95.7	-70.3	-34.8	-23.7	-10.2	5.3	18.1	-3.2	6.5	-0.2	6.6	-1.1		
	Consumer non-durables IIP	-0.6	-0.3	-22.3	-48.1	-9.7	6.9	1.8	-3.0	2.4	7.3	-0.7	1.9	-5.4	-4.5	-0.4		
	Cement production	5.1	7.8	-25.1	-85.2	-21.4	-6.8	-13.5	-14.5	-3.4	3.2	-7.3	-7.2	-5.8	-5.6	-0.3	-2.1	
	Coal production	8.0	11.3	4.0	-15.5	-14.0	-15.5	-5.7	3.6	21.0	11.7	3.3	2.2	-1.9	-4.4	2.1	-3.8	
	Electricity production	3.2	11.5	-8.2	-22.9	-14.8	-10.0	-2.4	-1.8	4.8	11.2	3.5	5.1	5.5	0.2	6.0	3.4	
	Consumption of petroleum products (Transport and industry)	2.0	5.9	-21.7	-54.3	-18.0	-7.4	-14.6	-17.5	-6.0	6.4	-4.5	-4.1	-5.5	-5.9	-2.5	-3.9	
	Steel consumption	3.5	-2.3	-22.9	-88.0	-55.0	-28.3	-18.8	-18.5	-5.7	-2.0	12.2	5.7	6.0	6.7	-4.1		
	PMI manufacturing	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.7	55.5	50.8
	Tractors sales	4.8	21.3	-43.5	-100.0	-100.0	22.4	38.5	74.7	28.3	7.7	51.3	43.1	46.7	30.4	17.2	-2.5	
	Two wheelers sales	-16.1	-19.8	-39.8	-100.0	-83.8	-38.6	-15.2	3.0	11.6	16.9	13.4	7.4	6.6	10.2	1.9	-22.1	
	Cars sales	-13.5	-13.3	-54.7	-100.0	-89.9	-58.0	-12.0	14.1	28.9	9.7	-2.8	8.4	-1.2	4.4	-6.1	-6.1	
Services	PMI services	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.3	54.6	54.0	
	Domestic airline passenger traffic	1.5	10.0	-32.9	-99.9	-97.4	-83.5	-82.6	-75.8	-65.1	-56.8	-50.2	-42.9	-38.7	-35.9	-17.1		
	Railway freight cargo	2.6	6.5	-13.9	-35.3	-21.3	-7.7	-4.6	3.9	15.5	15.4	9.0	8.7	8.7	5.5	4.4	5.1	
	Consumption of petroleum products (services)	-1.4	6.1	-24.7	-58.4	-33.4	-19.3	-23.2	-24.6	-10.4	2.3	-10.0	-5.6	-5.3	-10.5	-2.5	-5.3	
	Digital payments: credit cards transactions	27.0	33.9	1.3	-53.8	-40.6	-23.5	-26.0	-20.6	-17.1	-15.4	-9.0	-15.1	-14.0	-14.8	14.7		
	Digital payments: debit cards transactions	-16.3	-14.3	-31.7	-61.4	-47.6	-37.0	-38.5	-35.6	-31.4	-28.4	-8.4	-13.0	-13.1	-13.3	9.8		
	Number of telecom subscribers	-2.2	-2.0	-0.5	-1.2	-1.6	-2.2	-2.1	-2.0	-2.2	-2.7	-0.1	0.1	0.2	0.6			
Unconventional high frequency indicators	GST e-way bill	11.6	14.3	-26.0	-83.6	-53.0	-12.7	-7.3	-3.5	9.6	21.4	8.1	15.9	10.5	11.6	13.9	5.8	-16.1
	- Intra state	13.2	15.3	-24.4	-79.8	-46.1	-7.9	-3.9	1.4	15.1	23.3	9.6	17.3	13.0	14.5	15.4	8.3	-12.9
	-Inter state	9.4	12.9	-28.1	-88.9	-62.8	-19.9	-12.3	-10.4	2.2	18.8	6.0	13.8	6.8	7.6	11.7	2.1	-20.7
	Electricity consumption	3.2	7.1	-9.2	-24.0	-15.2	-10.5	-2.7	-2.1	4.6	12.1	3.5	5.0	4.8	3.5	5.6	3.2	-4.7
	Retail mobility^		-0.2	-34.3	-82.5	-75.6	-59.9	-59.3	-51.5	-41.9	-33.8	-28.1	-27.5	-27.6	-22.7	-22.1	-38.0	-63.0
	Grocery mobility^		0.9	-24.0	-49.7	-24.8	-2.5	-9.2	-11.2	-4.9	6.6	10.8	9.5	6.9	15.8	18.5	5.9	-25.6
	Workplaces mobility^		2.7	-27.9	-60.8	-43.9	-30.6	-31.9	-28.8	-24.0	-23.9	-24.3	-17.9	-17.0	-14.9	-14.1	-28.8	-48.1
	Transit stations mobility^		1.6	-31.5	-66.8	-52.4	-38.3	-41.5	-38.0	-30.0	-21.0	-17.4	-10.7	-12.7	-6.9	-6.5	-23.7	-49.8

*Note: *For IIP, core infra index, consumption of petroleum, auto sales, transport, GST e-way bill: March and April 2021 growth rate is CAGR over March and April 2019; Monthly averages for daily data; green cells indicate highest value for the time period presented, red cells represent lowest values; ^indicates % change from baseline of Jan-Feb 2020*

Source: National Statistical Office, Society of Indian Automobile Manufacturers, IHS Markit, Office of Economic Advisor, RBI, Ministry of Commerce and Industry, Railway Board, GST Network, Google Mobility reports, CEIC, CRISIL

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