

India: Complete lockdown to break Covid-19

The three-week nationwide lockdown will significantly dent India's GDP growth, making this an even worse year for the economy than the 2008 Global financial crisis. This demands a stronger policy response. Until then, the looming economic misery is poised to push USD/INR above 80 in the coming days



Source: Shutterstock

Breaking the Covid-19 chain

Prime Minister Narendra Modi has announced the complete lockdown of the country for three weeks to break the Covid-19 transmission cycle as confirmed infections crossed the 500 mark. Starting today, 25 March, the lockdown imposes a total ban on all non-essential businesses and prevents people from stepping out of homes, with anyone flouting rules facing fines and even jail. The government also has allocated \$2 billion for the healthcare sector in this emergency.

This follows lockdowns in a number of Indian states already underway, while the authorities have also restricted international arrivals into the country and suspended domestic air and other modes of transport.

The economic impact

The Prime Minister warned the crisis risked pushing the country 21 years backwards if people failed to comply with the restrictions during the lockdown.

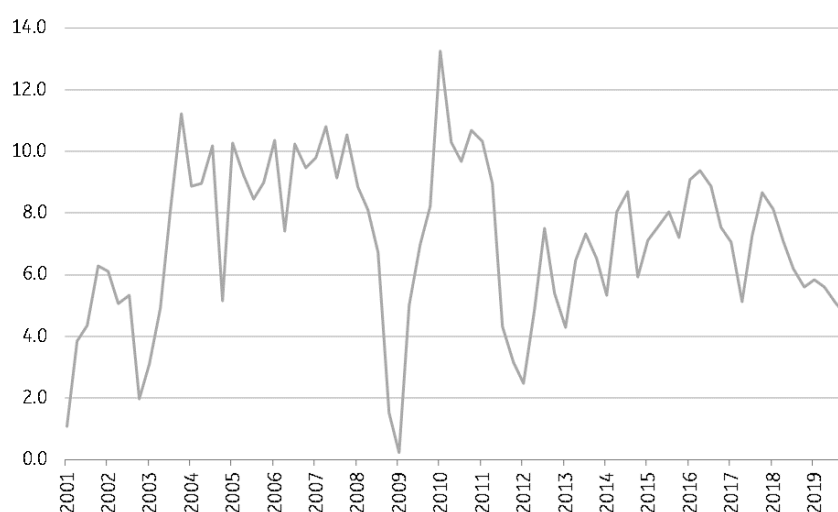
Just as everywhere else in the world, the Indian economy is bracing for the fallout of this unprecedented event. We expect the lockdown to dramatically reduce GDP in the current and subsequent quarters, while there will be prolonged economic gloom throughout the rest of the year.

If we are not able to manage this pandemic in the next 21 days, the country and your family will be setback by 21 years. – Prime Minister Narendra Modi

The biggest whammy will be to private consumption, which accounts for 57% of India's GDP. With all non-essential consumption dropping virtually to zero for a week in the current quarter means year-on-year GDP growth plunges to just about 1%, and with two weeks of a hit in the next quarter could push it to about -5%. We would anticipate at least one more quarter of drag keeping growth in negative territory, beyond which the policy support and favourable base effects should drive recovery back to positive growth.

While this shaves a full percentage point from the yearly growth in the current fiscal year (ends on 31 March 2020) to our estimated 4.0%, we have revised our forecast for the next financial year to 0.5% from 4.8%. This is a far cry from the government's expectation of over 6% growth outlined in the FY2020-21 budget, which will surely be scaled back significantly as the Finance Ministry prepares fresh stimulus to stem the crisis. However, citing significant policy support, the official growth outlook may not be as bearish as ours, though we note that official growth tends to be overestimated by about 2%.

Real GDP growth (% year-on-year, quarterly data)



Source: Bloomberg, ING

More policy support on the way

Finance Minister, Nirmala Sitharaman, has announced a series of support measures, though these only included waivers and relaxations of tax and bankruptcy codes, no material stimulus which still seems to be in the making. The talk on the street is of about \$20 billion (1% of GDP) stimulus. But given the enormity of the crisis, it could be bigger than that.

This also raises the chance of the Reserve Bank of India cutting its policy rates by more than our 50bp forecast at the meeting next week (3 April). The lockdown will be associated with a significant drying of financial system liquidity in coming weeks. However, the RBI has been pumping cash into the system through repo auctions and will be prepared to do more to support any surge in liquidity demand post-lockdown.

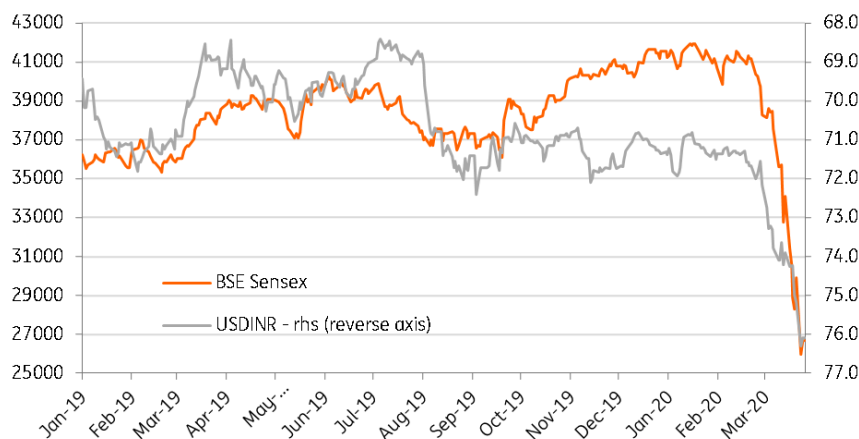
Market pricing for the worst

Markets are pricing in a massive economic impact of this health crisis. The BSE Sensex suffered its steepest-ever single-day plunge by 13% on Monday, a day after a nationwide lockdown on Sunday. It recovered on Tuesday. But this new and longer lockdown will likely push it deeper into negative territory today. The stock market remains open for trading during the lockdown.

Government bond yields remain under upward pressure with the 10-year bond up now 30bp to yield 6.3% from over a decade low hit earlier this month. And, the Indian rupee (INR) continues on a steady depreciation path, trading above 76 against the US dollar. We see no end to these market trends until we have signs of Covid-19 coming under control.

For now, we see the USD/INR rate trading past 80 USD within days.

Markets - one way down



Source: Bloomberg, ING

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke

Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania
valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klokk

Senior Economist, Netherlands
marcel.klokk@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com