

Indian economy crashes 24% in April-June quarter of 2020

The last quarter was pretty much a write-off and so is much of the rest of the financial year as the Covid-19 pandemic continues to roar ahead with record daily cases. Where do we go from here?



Factory workers in India queue at Kapashera border after local police stopped them from crossing amid the lockdown on May 18, 2020 in Gurugram, India.

Source: Shutterstock

23.9%

India's GDP fall in April-June quarter
year-on-year

Worse than expected

From best to worst performer

Even as the pandemic started to hit the global economy in the first quarter of 2020, the Indian economy was still doing good with at least 3.1% year-on-year growth in that quarter. Things turned upside down as India became an epicentre of Asian and, as it currently stands, the global pandemic. The just released India GDP data for the April-June quarter, which is the first quarter of the country's financial year started in April (FY2020-21), showed the economy was the worst performer in Asia and probably in the world too.

GDP crashed by a 23.9% year-on-year in the reporting quarter, sharply undershooting our -17.8% YoY forecast for the period and the consensus of -18.0%. Of course, the nation-wide lockdown to break the Covid-19 chain, which started in late March and continued for much of the quarter, deserves the blame.

Nation-wide lockdown to break the Covid-19 chain deserves the blame

Probably, the chaotic implementation of the lockdown – it was announced just a few hours before its implementation, made the matter worse. The people weren't prepared for such an unprecedented closure of the economy, which subsequently caused panic and mass migration of workers from big cities to their native places.

Where did Covid-19 hit the economy hard?

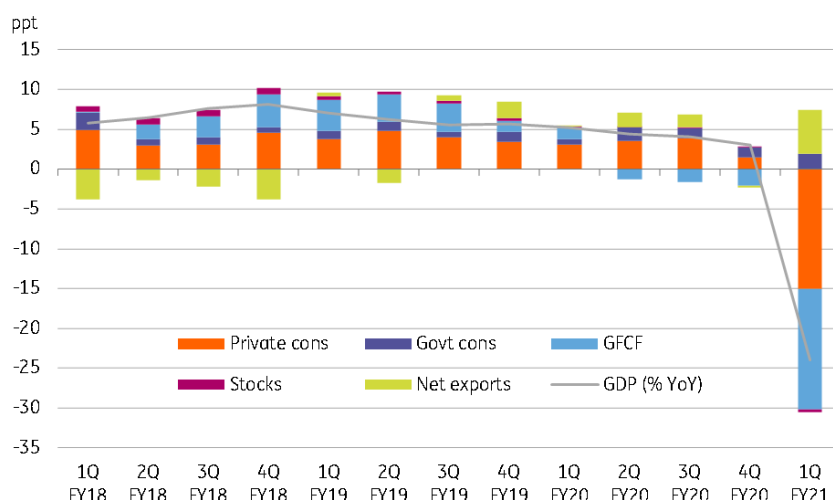
Construction and trade, hotel, transport and communication were the hardest hit sectors in the last quarter with their production halved from a year ago. Manufacturing and mining also took strong beatings with 39% YoY and 23% plunges in output, respectively. Public administration followed with -10% YoY and then utilities with -7%.

Agriculture was the lone bright spot with 3.4% YoY growth, which was despite natural disasters including typhoon Amphan in May and floods in some parts of the country.

On the demand side, investment was the hardest hit with a 47% YoY crash of gross capital formation. Consumption came next with -27% YoY and the goods and services exports with -20%. A much steeper fall in imports by 40% YoY, however, had net trade contributing positively to the headline GDP growth (see figure).

The all-touted fiscal stimulus worth 10% of GDP was also missing in action. Indeed, government consumption growth gained some traction, up to 16.4% YoY from 13.6% in the previous quarter. But its contribution to the headline GDP growth only improved marginally to 1.9 percentage point (ppt) from 1.2 ppt in the previous quarter.

Expenditure-side sources of year-on-year GDP growth (percentage points)



Source: CEIC, ING

Note: Bars may not stack up to total GDP growth due to statistical discrepancy.

Where is the macro policy headed?

Also released today, the government budget figures for July showed the cumulative fiscal deficit of INR8.21 trillion in the first four months of the fiscal year (April-July), already exceeding the INR7.96 trillion official projection for the entire fiscal year. This stems from the fiscal year-to-date revenue fall by 42% YoY and total expenditure growth of 11%.

This is unprecedented, indeed. Although the ruling government of Prime Minister Narendra Modi has been ramping up spending over the last couple of years, especially to support its re-election bid in the last year, the deficit in the same period a year ago was only 78% of the yearly target.

Additional fiscal stimulus is next to nil

And, against such a backdrop, the chance additional stimulus from the fiscal side is just next to nil.

The Reserve Bank of India's monetary easing has also reached its limit as can be judged from the central bank's decision to leave the policy rate unchanged last policy meetings in early August on the back of accelerating inflation. The supply disruption to food prices drove inflation past the RBI's 2-6% policy target range in recent months (6.9% YoY in July). The pro-cyclical measures such as a hike in excise duty on fuel prices was another contributing factor here. That said, the RBI continues to support the economy via other channels.

Where do we go from here?

There is no light at the end of India's Covid-19 tunnel just yet. The daily rise in cases reached a new record of 79,457 over the weekend, taking the total number of infections so far to over 3.6 million.

GDP growth may have passed the bottom

And, in its bid to revive the economy the government continues to ease movement restrictions. As such, GDP growth might have passed its bottom but the thriving pandemic provides little hope of a near-term recovery.

The policy stimulus has also hit a snag given stretched public finances and rising inflation. This means pretty much nothing can save the economy from continued deep GDP declines over the rest of the year. We recently cut our full-year FY2020-21 GDP growth forecast from -5.2% to -8.6%. The below-expected 1Q FY2020-21 growth nudges it further down to -10.3%. We would imagine it being much worse than that without any more policy support.

What all this means for the markets?

Just ahead of the GDP release today, the RBI moved to inject liquidity in the banking system via special open market and term repo operations. The goal was to maintain the “orderly and congenial” market conditions as the recent inflation spike stoked government bond yields higher. The central bank also moved to boost banks’ purchases of government bonds. While we believe any easing of upward yield pressure due to the latest RBI measures to be transitory, the persistent inflation threat and the supply overhang from the wide budget gap will continue to haunt investors in the Indian government bond for some time.

The weak US dollar environment has provided some cushion for the Indian rupee, though it’s still an Asian underperformer currency so far this year with a 3% YTD depreciation against the USD. We expect it to remain so over the rest of the year. That said, we are reviewing our end-2020 USD/INR forecast of 76.50 for a downward revision in consideration of the recent rally (spot 73.6).

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

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 Klok

Senior Economist, Netherlands

marcel.klok@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