

S&P expects surging cases to derail India's economic recovery

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The rating agency expects growth to fall to 9.8% under its moderate scenario and 8.2% under a severe scenario based on when the wave peaks.



S&P said its sovereign rating for India remains unchanged at BBB-, its lowest investment grade, with a steady outlook. In picture - A supermarket in Mumbai ahead of 15-day Covid-19 restrictions.(Reuters)

S&P Global Ratings on Friday said surging coronavirus cases in India could threaten the strong economic recovery it has seen so far, even as the finance ministry claimed the second wave of the pandemic may have muted economic impact as compared to the first.

The rating agency expects growth to fall to 9.8% under its moderate scenario and 8.2% under a severe scenario based on when the wave peaks. "Our outlook on India's sovereign rating remains stable which suggests that we do not expect there to be change in the rating level over the next two years. Currently that does remain the case," said Andrew Wood, director, sovereign & international public finance ratings.

The rating agency, however, said its sovereign rating for India remains unchanged at BBB-, its lowest investment grade, with a steady outlook.

The finance ministry in its latest monthly economic report released on Friday said with the second wave forcing localised or state-wide restrictions, there is a downside risk to growth in the first quarter of 2021-22.

"However, there are reasons to expect a muted economic impact as compared to the first wave. The experience from other countries suggests a lower correlation between falling mobility and growth as economic activity has learnt to operate 'with Covid-19'," it added.

Mint reported on Thursday quoting finance ministry sources that the government's internal assessment suggests limited economic impact of the second wave. "We don't think the economic impact will be as serious as last year. The localised lockdowns will last at best for a month or two months. This may lead to around 1 percentage point loss of GDP compared to starting estimates," a senior finance ministry official said on condition of anonymity.

While the Economic Survey has assumed 11% GDP growth in FY22, the budget presented by finance minister Nirmala Sitharaman in February factored in a 10.5% growth. The finance ministry's fresh estimate seems to indicate growth may remain within the 9.5-10% range for this fiscal.

Rising Covid cases have overwhelmed India's health system, forcing many states to announce localised lockdowns and night curfews which are expected to delay a strong recovery in economic activity. **Brickwork Ratings last week revised its 2021-22 economic growth projection for India to 9% from 11%, holding that its earlier scenario of a V-shaped economic recovery is unlikely as the second wave has brought an abrupt halt to nascent economic recovery.**

The monthly economic report said growing infections and consequent restrictions have brought a downside risk to economic activity. "The impact of restrictions is evident in a decline in the google mobility indicator to -37% in April 2021 from around -22% in the preceding month. The Oxford Stringency Index in India has surged to around 71 in April 2021 from 59 in the preceding month, though it is still below 100 in April 2020 and average of 85 in Q1: FY 2020-21," it added.

The finance ministry said ramping up vaccination is the key to curbing the pandemic and to sustained economic recovery.