

Govt sees limited economic impact

Updated: 06 May 2021, 01:40 AM IST



Union Finance Minister Nirmala Sitharaman. (ANI)

Asit Ranjan Mishra

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

The second wave of the coronavirus pandemic may shave off one percentage point from India's initial economic growth forecast for FY22, according to an internal finance ministry assessment that assumes that the disease will peak in May.

"We don't think the economic impact will be as serious as last year. The localized 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 has factored in 10.5% GDP growth. The finance ministry's fresh estimate seems to indicate growth may remain within 9.5-10% range for this fiscal.

Escalating covid cases have overwhelmed India's health system, forcing many states to announce localized lockdowns and night curfews which are expected to delay a strong recovery in domestic economic activity.

Brickwork Ratings last week revised its FY22 economic growth projection for India to 9% from 11% estimated earlier, holding that its earlier presumption of a V-shaped economic recovery is unlikely as the deadly second wave of covid has brought an abrupt halt to India's nascent economic recovery from the pandemic.

Economic activity had picked up pace in recent months after the country plunged into its deepest recession in more than 40 years, but complacency about the virus and misplaced euphoria about vaccines are threatening hard-fought gains.

With all restrictions on mass gatherings lifted by the government, people had congregated in massive numbers without protection at religious festivals, political rallies and marriages, fuelling the more severe second wave of infections.

Rating agency Standard and Poor's cautioned on Wednesday that India's second wave could knock off 1.2-2.8 percentage points from its 11% GDP growth estimate for FY22, derailing what has been a promising recovery in the economy, profits, and credit metrics in the year to date.

"In our moderate scenario, retail and recreational mobility should remain stuck at about 70% of normal levels until May 2021, before gradually normalizing by September. In our severe scenario, mobility is 50-60% of normal levels in May, recovers thereafter, but only normalizes by December. This means people are staying home more and spending less. Our moderate scenario suggests a hit to GDP of about 1.2 percentage points. This means full-year growth of 9.8% for fiscal 2022. In the severe scenario, the hit is 2.8 percentage points, with growth of 8.2%," the rating agency said.