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GDP CONTRACTION FOR FY21 AT 7.7% COULD STILL HAVE AN UPWARD BIAS

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Its now official. Due to the COVID pandemic India will witness negative GDP growth rate for the first time after 1979-80. The FY21 First Advance Estimates of GDP as released by CSO pegs the GDP growth rate at –7.7% (SBI latest projection:-7.4%). Nominal GDP growth is pegged at -4.2%. If we juxtapose the data which is available for H1 and look at the FY21 estimates, CSO is expecting some recovery in services sector, with financial, insurance, real estate services leading. Another good thing is the improvement in the manufacturing sector. Agriculture, the only sector which displayed positive growth during H1 is expected to stay on positive growth trajectory in the future as well. **The nominal GDP loss for H1 was Rs 13.1 lakh crore and as per AE the FY21 nominal GDP loss would be Rs 8.6 lakh crore (trade sub segment loss at Rs 6.05 lakh crores and Manufacturing at Rs 2.21 lakh crores), this indicate that in H2 the nominal gain in GDP would be around Rs 4.5 lakh crore. Additionally,** sector-wise rating upgrades to downgrades reflects improvement in credit ratios across sectors post August'2020. Sectors such as Metal, Steel, Cement, Financials etc. have shown improvement in the ratio of 20 bps or more.

However, barring for government consumption, every single head on the expenditure side has contracted. The private consumption is estimated to decline by 5.6% in nominal terms and by almost 10% in real terms. The gross fixed capital formation has taken the maximum brunt with a double-digit contraction of 14% in real terms. The contraction in change in stocks entails that there has been draw down of inventory which might be inflationary going forward. On the external side the exports have contracted at a slower rate than imports, including valuables, implying very poor domestic absorption and investment demand.

This estimate however has a shelf-life of only two months and is only used as an input for budget arithmetic. The CSO will release the first revised estimate of FY18, FY19 and FY20 on 31 Jan'21 and we believe that GDP and GVA for FY21 would be revised further downwards in estimates for FY21 in Feb'21 and May'21. This could impart an upward bias to FY21 GDP estimates at –7.7%!

With inflation likely to have significantly picked pace in December, monetary policy accommodation has been exhausted . Thus the budget could be the immediate starting point of a revival. However, a word of caution. The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress. The pandemic has also amplified the risk that contingent liabilities will be realized, which could further strain public finances.

In the Indian context, with nominal GDP growth projected at 15% in FY22, fiscal deficit for FY22 is expected at Rs 12.2 lakh crore, or 5.4% of GDP. Thus gross borrowings for FY22 is likely to be around Rs 11-12 lakh crore and combined with states borrowing of around Rs 8-9 lakh crore, the total borrowing for FY22 will be at least Rs 20 lakh crore.

A word on state finances. If we look at the states, they have borrowed 41.5% more than last year till now. However, there is a silver lining in the form of revenue collections. The gap between last year and this year's cumulative revenue is narrowing as GST collections have improved. As per our projections, if 50% of the IGST collected is disbursed to states by Mar'21, then state GST shortfall can narrow down to around Rs 25,000 crore after taking into account the full compensation cess. However, the Apr-Dec'20 average allocation shows that states have got only 31% of the allocated IGST. If the Centre keeps 60% of the IGST revenue, then the states could be staring at a shortfall of around Rs 79,000 crore. This can help them in maintaining their expenditure, which was budgeted at Rs 33.3 lakh crore for FY21.

GDP ESTIMATED TO CONTRACT BY 7% IN FY21

- The 1st Advance Estimate (AE) of GDP for FY21 indicates GDP growth to be –7.7% as compared to the growth rate of 4.2% in FY20. Nominal GDP growth plunged to –4.2% in FY21 vis-à-vis 7.2% in FY20. NSO's estimates are 20 bps lower than the RBI's estimates.
- The nominal GDP loss for H1 was Rs 13.1 lakh crore and as per AE the FY21 nominal GDP loss would be Rs 8.6 lakh crore, this indicates that in H2 the nominal gain in GDP would be around Rs 4.5 lakh crore. This is quite expected as both Q3 and Q4 nominal GDP will be in positive territory. Though due to inflation, the overall H2 GDP growth will be tad negative.
- The per capita nominal GDP loss of almost Rs 8,000 (or Rs 660 per month) is small given the fact that for 2-3 months the entire economic activity was halted. The FY21 per capita GDP at Rs 1.43 lakh is almost same as at FY19 level.
- Agri. and Allied Activities are likely to grow at 3.4% in FY21 as against previous year growth of 4.0%. This is only sector which is unscathed from the lockdown. Industry, which is the most affected sector during lockdown, is estimated to contract at 9.6% in FY21 as compared to 0.9% growth in FY20 due to almost contraction in all sub-sectors (except 'Electricity & Gas, etc.).
- Service sector growth is likely to contract by 8.8% in FY21, compared to 5.5% growth in FY20. The sub segment 'Financial, Real Estate & Professional Services' growth expected to contract marginally by 0.8% in FY21, to compared to 4.6% growth in FY20. The Public Administration sub segment is likely to contract by 3.7%, compared to last year growth of 10.0%. In services, the most impacted sub-sector is 'Trade, hotels, transport, communication & broadcasting', is expected to contract by –21.4% compared to last year growth of 3.6%, mainly due to lockdown.

GDP Growth Rates (YoY%) at Constant Prices (Base: 2011-12)

Particulars	FY21			FY20 (PE)	FY19 (1RE)
	FY21 (1AE)	H2*	H1		
1. Agriculture, forestry & fishing	**3.4**	**3.4**	**3.4**	**4.0**	**2.4**
2. Industry	**-9.6**	**1.1**	**-20.5**	**0.9**	**4.9**
2.1 Mining & quarrying	-12.4	**-8.3**	-17.2	3.1	-5.8
2.2 Manufacturing	-9.4	**0.5**	-19.4	0.0	5.7
2.3 Electricity, gas, water supply & other utility services	2.7	**7.1**	-1.4	4.1	8.2
2.4 Construction	-12.6	**4.4**	-30.2	1.3	6.1
3. Services	**-8.8**	**-1.1**	**-15.9**	**5.5**	**7.7**
3.1. Trade, hotels, transport, communication & services related to broadcasting	-21.4	**-12.0**	-31.5	3.6	7.7
3.2. Financing, insurance, real estate & bus. Services	-0.8	**7.1**	-6.8	4.6	6.8
3.3. Public administration, defence and Other Services	-3.7	**3.3**	-11.3	10.0	9.4
Total GVA at Basic Prices	**-7.2**	**0.3**	**-14.9**	**3.9**	**6.0**
GDP	**-7.7**	**-0.1**	**-15.7**	**4.2**	**6.1**

Source: CSO, SBI Research; * Based on AE

Real GDP Growth & Nominal Loss

Quarter	Real GDP Growth		Loss in Nominal GDP (Rs lakh crore)
	FY20	FY21 NSO	FY21 NSO
Q1	5.2%	-23.9%	-11.1
Q2	4.4%	-7.5%	-2.0
Q3 P	4.1%	-0.1%	4.5
Q4 P	3.1%		
Annual	4.2%	-7.7%	-8.6
Memo:			
Per Capita GDP	FY20	FY21	Change
	151677	143734	-7943

Source: NSO; SBI Research

- Except for government consumption, every single head on the expenditure side has contracted. The private consumption is estimated to decline by 5.6% in nominal terms and by almost 10% in real terms. The gross fixed capital formation has taken the maximum brunt with a double-digit contraction of 14% in real terms. The contraction in change in stocks entails that there has been draw down of inventory which will be inflationary going forward.
- On the external side the exports have contracted at a slower rate than imports, including valuables, implying very poor domestic absorption and investment demand.

REVISION OF GDP NUMBERS

- As we are aware, CSO releases the first estimates of any fiscal year in January and revises it in February and again in May. Simultaneously, it also revises the previous year estimates in February along with the February data release.
- The last 2-years' GDP data revision indicates a downward revision from the 1st AE released in January. For example, CSO has revised the FY20 GDP to 4.2% in PE from the 1st AE of 5.0%. However, in the current year FY21, we expect GDP numbers will be revised upwards and may come around –7.4% (SBI estimate for FY21).

FISCAL ARITHMETIC

- For FY21, we believe Rs 3.8 lakh crore is the net revenue shortfall for the Centre and at the same time expenditure is higher by around Rs 4 lakh crore, thus taking the fiscal deficit to Rs 15.8 lakh crore and with new revised nominal GDP estimate it will be around 7.8% of GDP.
- With nominal GDP growth projected at 15% in FY22, fiscal deficit for FY22 is expected at Rs 12.2 lakh crore, or 5.4% of GDP. Thus gross borrowings for FY22 are likely to be around Rs 11.9 lakh crore and combined with states borrowing of around Rs 8.7 lakh crore, the total borrowing for FY22 will be at least Rs 20.6 lakh crore.

SBI INDEX DECLINED MARGINALLY

- The yearly SBI Composite Index declined marginally to 53.5 (Moderate Growth) in December 2020, compared to 53.9 (Moderate Growth) in Nov'20. The monthly index slipped from the all time high of 62.1 (High Growth) in Nov'20 to 58.2 (High Growth) in Dec'20.
- Based on the SBI index, we believe IIP & IIP manufacturing may grow –1 to –1.5% in Nov'20 and 2.5-2.8% in December 2020.

GOVERNMENT EXPENDITURE

- Government expenditure is an important factor in overall growth outlook since it has spillover effects on other sectors.
- Monthly data from CGA indicates that overall expenditure has already reached 62.7% of the BE till Nov'20, with revenue expenditure at 63.3% of BE and capital expenditure at 58.5% of BE.
- Revenue expenditure excluding interest payments showed an upward movement in Nov'20. Even capital expenditure increased modestly in Nov'20. However, the fiscal deficit has already reached 135% of BE already till Nov'20 owing to weaker revenues. Corporate taxes collections so far are only 27% of BE and income tax are only 37% of BE. The higher excise duties 74% of BE have provided some respite to Government revenues. Meanwhile, GST collections are also below the budget estimates of Rs 6.9 lakh crore. We believe there would be an overall shortfall in GST c ollection of Rs 1.44 lakh crore for Centre.
- This in turn limits the expenditure that the Government can incur looking ahead.

Sector-wise Nominal Loss/Gain (Rs crore)	
Agriculture, forestry & fishing	2,37,380
Mining & quarrying	-98,853
Manufacturing	-2,21,879
Electricity, gas, water supply & other utility services	-9,405
Construction	-1,71,178
Trade, hotels, transport, communication & services related to broadcasting	-6,05,529
Financing, insurance, real estate & bus. Services	53,871
Public administration, defence and Other Services	49,198
Total	**-8,57,874**

Source: NSO; SBI Research

Expenditure Growth Rates (YoY%) at Current Prices

Particulars	FY21			FY20 (PE)	FY19 (1RE)
	FY21 (1AE)	H2*	H1		
Total final consumption expenditure	**-2.8**	**6.8**	**-13.1**	**6.3**	**7.6**
Private final consumption expenditure	**-5.6**	**3.7**	**-16.0**	**5.3**	**7.2**
Government final consumption expenditure	**11.4**	**24.2**	**-0.1**	**11.8**	**10.1**
Gross fixed capital formation	**-13.7**	**0.9**	-28.3	-2.8	9.8
Change in Stocks	**-1.3**	**1.5**	-4.2	1.9	22.5
Valuables	**-38.6**	**-4.8**	-69.3	13.5	-11.9
Exports	**-5.6**	**-3.1**	**-8.2**	**-3.6**	**12.3**
Less Imports	**-18.5**	**-9.3**	-27.4	-6.8	8.6
Discrepancies	**-124.1**	**-184.0**	148.0	-25.6	-73.9
GDP	**-4.2**	**4.3**	**-13.3**	**4.2**	**6.1**

Source: CSO, SBI Research; * Based on AE

Revision in GDP Estimates

Year	Q1	Q2	Q3	Q4	Annual	Revision
2020-21	-23.9	-7.5			-7.8	IAE
2019-20	5.0	4.5	-	-	5.0	IAE
	5.6	5.1	4.7	-	5.0	2AE
	5.2	4.4	4.1	3.1	4.2	PE
2018-19	8.2	7.1	-	-	7.2	1AE
	8.0	7.0	6.6	-	7.0	2AE
	8.0	7.0	6.6	5.8	6.8	PE
	7.1	6.2	5.6	5.7	6.1	1RE

Source: SBI Research, MOSPI

- If we look at the states, they have borrowed 41.5% more than last year till now. However, there is a silver lining in the form of revenue collections. The gap between last year and this year's cumulative revenue is narrowing as GST collections have improved. As per our projections, if 50% of the IGST collected is disbursed to sates by Mar'21, then state GST shortfall can narrow down to around Rs 25,000 crore after taking into account the full compensation cess.
- However, the Apr-Dec'20 average allocation shows that states have got only 31% of the allocated IGST. If the centre keeps 60% of the IGST revenue, then the states could be staring at a shortfall of around Rs 79,000 crore. This can help them in maintaining their expenditure, which was budgeted at Rs 33.27 lakh crore for FY21.

IMPROVEMENT IN CREDIT RATIO (RATING UPWARD TO DOWNWARD RATIO)

- Sector-wise rating upgrades to downgrades reflects improvement in credit ratios across sectors post August'2020. Sectors such as Metal, Steel, Cement, Financials etc. have shown improvement in the ratio of 20bps or more. A comparative table of credit ratios April to July'20 and from August to December'20 is mentioned in the adjacent table.

MODERATION IN BORROWING COST

- With inflation likely to have significantly picked pace in December a rate cut is unlikely in February. Thus the budget could be the immediate starting point of a revival.
- Various measures taken by the Government and Reserve Bank of India over last one year have resulted in a significant moderation in the structure of interest rates across the spectrum, narrowing of risk spreads.
- The average spread of AAA rated 3-year corporate bond fell from 171 bps in May'20 to 22 bps in Dec'20. Similarly, for a 5-year AAA corporate bond spread fell from 108 bps in May'20 to 45 bps in Dec'20. The spreads on AA rated corporate bonds also moderated significantly during the same period i.e. by 131 bps (from 243 bps to 113 bps) and 60 bps (from 177 bps to 117 bps) each for 3-year and 5-year bonds respectively.
- Weighted average yield on commercial paper also declined significantly from above 5% level in April and May'20 to 3.62% in December'20.

GLOBAL ECONOMIC OUTLOOK

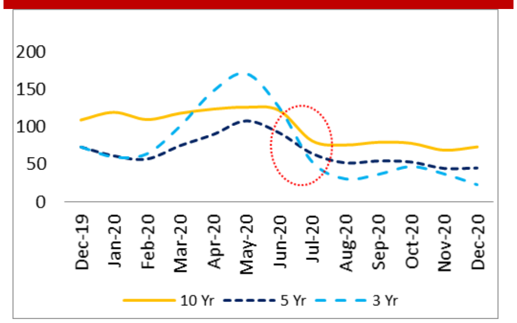
- Global activity is estimated to have contracted 4.3% in 2020 as a result of COVID-19, making it the fourth most severe global recession of the past 150 years, exceeded only by the first World War, the Great Depression, and the Second World War.
- Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand 4% in 2021. Global growth is projected to moderate to 3.8% in 2022, weighed down by the pandemic's lasting damage to potential growth. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in emerging market and developing economies.
- Although global trade in goods has largely rebounded, trade in services remains feeble. Global trade is projected to contract by 9.5% in 2020 before growing by an average of 5.1% in 2021-22.
- The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress. The pandemic has also amplified the risk that contingent liabilities will be realized, which could further strain public finances.

Sectorwise Rating Upgrade and Downgrade (select sector)

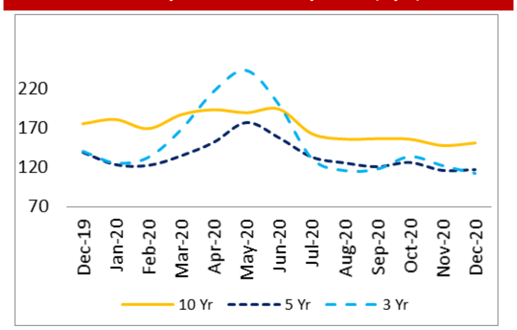
Sector	April to July 20			Aug-Dec 20			Change in U/D Ratio
	Rating Upgrades	Rating Downgrades	U/D ratio	Rating Upgrades	Rating Downgrades	U/D ratio	
Capital Goods-Non Electrical Equipment	77	1098	0.07	199	1175	0.17	0.10
Construction & Engineering	44	523	0.08	95	573	0.17	0.08
Healthcare	43	160	0.27	63	173	0.36	0.10
Consumer Durables & Apparel	34	752	0.05	82	706	0.12	0.07
Textiles	27	522	0.05	53	501	0.11	0.05
Metals and Mining	13	279	0.05	69	273	0.25	0.21
Pharmaceuticals	23	80	0.29	33	97	0.34	0.05
Steel	12	232	0.05	56	224	0.25	0.20
Capital Goods - Electrical Equipment	9	131	0.07	20	120	0.17	0.10
IT	7	105	0.07	20	107	0.19	0.12
Sugar	11	20	0.55	9	22	0.41	-0.14
Auto Components and Ancillaries	7	134	0.05	12	115	0.10	0.05
Fertilizers & Agriculture chemicals	6	31	0.19	7	15	0.47	0.27
Cement	4	11	0.36	7	6	1.17	0.80
Automobiles	-	8	-	1	5	0.20	0.20
Hotels Restaurants & Leisure	-	84	0.00	3	113	0.03	0.03
Gems & Jewellery-Diamonds jewellery retailing	-	14	0.00	5	20	0.25	0.25
Retailing	14	496	0.03	55	523	0.11	0.08
NBFC	1	47	0.02	10	48	0.21	0.19
Financials	9	89	0.10	31	99	0.31	0.21

Source: Crisil; SBI Research; U/D - upgrade to downgrades

AAA Corporate Bond Spread (bps)

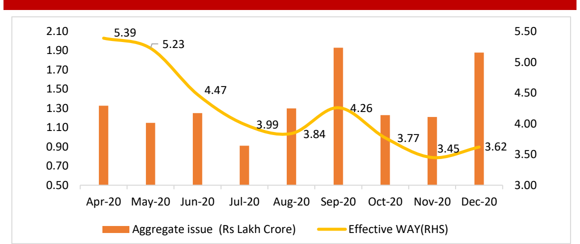


AA Corporate Bond Spread (bps)



Source: SBI Research; Bloomberg

Month wise CP issuances and WAY



Source: Source: RBI, CCIL; SBI Research; WAY - Weighted Average Yield

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