

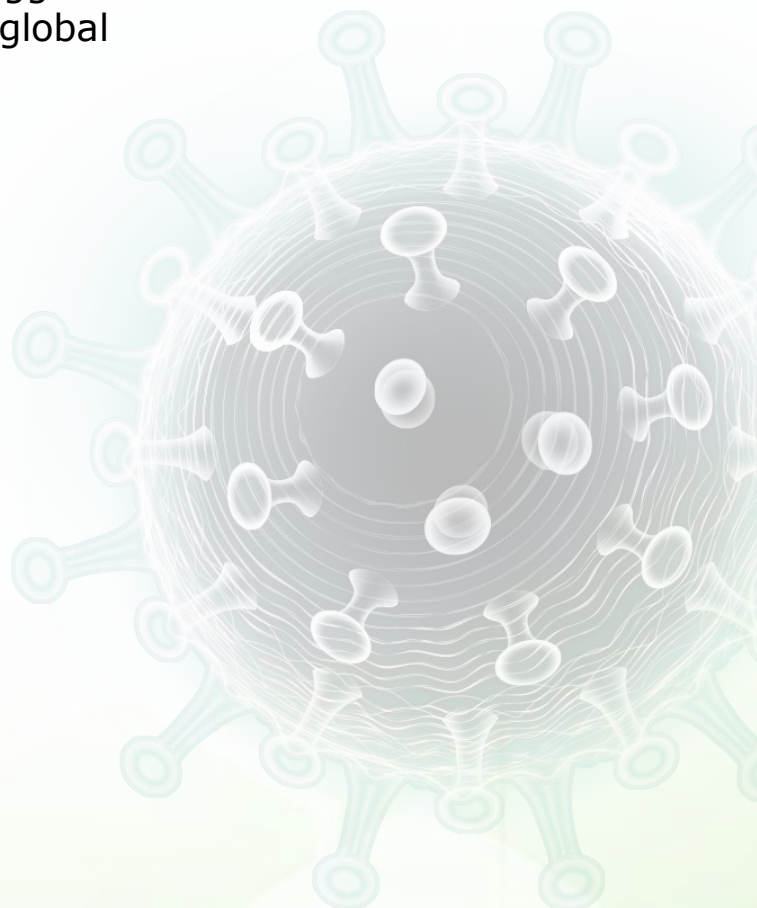
COVID-19: Likely case scenarios for Indian economy

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The rampant spread of COVID-19 outbreak, across borders and geographies, has severely impacted almost the whole world and triggered significant downside risks to the overall global economic outlook.

Due to the lockdown announced by the Indian Government, the economy may slow over the next few months. For most businesses, the slowdown could be in the form of supply disruptions, fall in consumption demand, and stress on the banking and financial sectors.



Potential case scenarios for Indian economy

Assessing the exact impact for India is hard with uncertainty on how long the pandemic would last. Here is a Deloitte point of view, based on a macro-economic forecasting model, on what the three likely scenarios for India's economic situation could be:



An optimistic situation that shows a temporary impact of COVID-19 and a V-shaped recovery

Under this forecast scenario, the COVID-19 pandemic in India could be controlled efficiently by June 2020. The government's effective interventions may improve healthcare resources and services, and India's economy could revive from Q2 FY2021 onwards.



A somewhat optimistic scenario with a severe and extended impact of COVID-19 and a U-shaped recovery

In the second scenario, India may see limited success in controlling the spread despite the focus on public health-related measures and fiscal policies. With stringent restrictions on movement, the current lockdown may extend until September 2020. Some industries will face pressure as rising debt and defaults affect market sentiments, stress the financial sector, and reduce domestic demand.



A pessimistic situation, with a prolonged severe downturn leading to a new low-level normal

Under the third scenario, the pandemic may spread rapidly (amidst strict movement restrictions) until Q4 FY2021. Due to steep decline in demand, the economy will witness production cuts. The situation will ease only in Q1 FY2022 after medical interventions. Subsequently, the economy will revive modestly as consumers will continue to be wary of spending, which will affect long-term spending. Over the next two years, the model predicts the economy to grow by 1.5–2%, lower than it would have grown otherwise, with unequal recovery across sectors.

The above-mentioned scenarios are plotted in Table 1, and it summarises projected GDP growth rates and inflation for each scenario.

Table 1: The likely impact of each scenario on growth and inflation

Scenario 1				
Quarters	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21–Q4 FY22
GDP growth	4.0–4.2%	2.5–2.8%	4.1–4.3%	5.5–6.8%
Inflation	Moderate	Low around target rate	Low	Rises but moderates
Scenario 2				
Quarters	Q4 FY20	Q1–Q3 FY21	Q4 FY21	Q1 FY22– Q4 FY23
GDP growth	4.0–4.2%	2.2–3.0%	4.2– 4.4%	5.5–7.5%
Inflation	Moderate	Low moderates by Q4 FY21	Moderate	Rises above 4%,
Scenario 3				
Quarters	Q4 FY20	Q1–Q4 FY21	Q1–Q4 FY22	Q1 FY23–Q4 FY23
GDP growth	4.0–4.2%	2.2–3.5%	4.4–4.5%	5.0–6.0%
Inflation	Moderate	Moderate		Moderate

Notes:

1. The colours of the table indicate the phases of the slowdown and revival. Red is a sharp decline in growth, while green is recovery.
2. In scenario 2, inflation picks up in H2 FY 2021 as demand revives faster than supply. Inflation may increase above the target range (4 percent) for a short time in FY 2021 because of economic overheating. In this scenario, inflation remains 3-4 percent during this period despite weak demand because of a sharper fall in production.

What has been done so far

India has already undertaken the following measures to counter the impact from of the pandemic:.

- A three-week countrywide lockdown and fiscal steps, coupled with monetary measures from the RBI, to provide relief for all, especially the vulnerable and the disadvantaged
- A government has directed the employers to not terminate or cut wages, particularly that of casual or contractual workers, and low-paid workers to also take paid sick leave and unemployment allowance through insurance cover
- Government to contribute to both employees' and employers' share in the Employees' employees' Provident Fund
- RBI relaxes lending norms for banks, injects cash into the system, slashes interest rates, and relaxes repayments for three months
- Managing the pandemic and the resultant public health crisis
- Protecting income and employment, particularly for the disadvantaged and vulnerable sections of the society



Certain measures that Government may consider: Managing the endemic and the resultant health crises

- Create a national database of the available physical health infrastructure and medical and para-medical resources
- Segregate the public and private health care facilities by earmarking a section of available hospital beds for treating COVID-19 patients only
- Extend additional one-time budgetary support to augment public health care system in terms of facilities, equipment, and human resources capacity
- Earmark financial resources to provide one-time grants/financial support to research institutions and leading pharmaceutical/biotechnology/medical equipment companies
- Extend the coverage of Ayushman Bharat and other applicable insurance schemes to COVID-19 if not already included
- Tweak the existing customs duty structure for select components, which are essential for manufacturing testing kits, ventilators etc.



Supporting the corporate sector to minimise adverse economic impact and facilitate quick recovery

- Enable access to funds for businesses to run their day to day operations and service their debt
- Ensure smooth supply of essential products and commodities to contain the economic impact of the COVID-19 outbreak
- Provide credit support to Medium and Small Enterprises
- Encourage investments such as one-time set off of capital investments made by corporates for income-tax computations

Overall, the steps and the recognition of the likely scenarios for the Indian economy can enable policy makers to identify appropriate counter measures to stem the spread of the pandemic.

Full Deloitte Paper on **COVID 19: Following up on the immediate economic response** is available on this [link](#).

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