

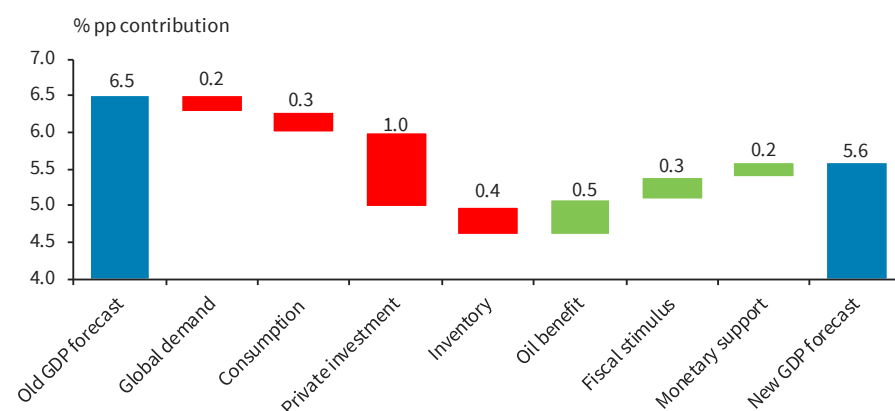
#virus

India

## Are we overestimating GDP growth?

- We recently cut our growth forecast for India in response to the global COVID-19 outbreak. We now forecast India's economy will grow 5.6% in 2020. While this is much lower than the 6.5% we had before, clients have asked: Is it low enough?
- Based on current information, the answer is: Yes.
- While India is no island, economically speaking, we believe that several factors help to mitigate the disease's economic impact:
  - India's is a broadly domestic demand-driven economy.
  - Lower oil prices will be a major benefit to India as a net importer.
  - The government and central bank are providing fiscal and monetary support.
  - The virus appears relatively contained, thus far.
  - India's supply chains are not under major stress.
- We believe that the biggest growth risk would be from preventive measures such as mass quarantine or movement restrictions and the related pullback in consumer spending, investment, and services activity. Together, these could shave almost 200bp from headline GDP, with investment potentially taking the biggest hit. We remain vigilant of non-linear impacts from a wider outbreak.
- However, we believe at least 50bp of support is likely from oil itself. The recent drop in oil prices, if sustained, could add as much as 90bp to nominal growth.

FIGURE 1  
India's 2020 GDP forecast downgrade mitigated by lower oil, policy support



Source: Barclays Research

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The authoring research analysts would like to thank Sri Virinchi Kadiyala for his assistance in connection with the preparation of this report

## Are we over-estimating India's GDP growth?

In recent days, we have received two common questions from investors.

1. Are we over-estimating growth for India, as we still assume a modest pickup from 5.3% in 2019 to 5.6%, even after a material reduction in forecasts last week (see, *EM Asia: COVID-19 drives further growth downgrades*, 6 March 2020)?
2. How low are COVID-19 cases in India relative to rest of the world, and is the country prepared to deal with an outbreak of COVID-19 through its primary/preventive health case network?

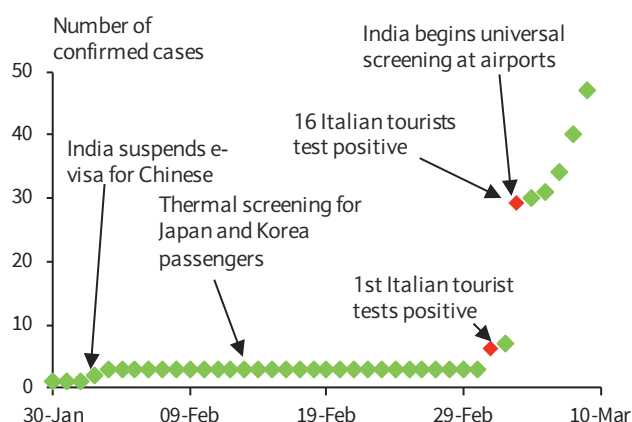
This report explores both issues, and explains why we are still comfortable forecasting a modest pickup in activity, albeit a much smaller one than we had earlier expected (see, *Global Forecasts*, 3 January 2020).

### India has been doing preventive work for source control

India has reported only 47 positive cases, with no deaths to March 10<sup>1</sup>. The cases were identified out of a sample of more than 4000 tests administered for COVID-19, while almost 34,000 people have been put under house quarantine after some contact made with people who have had the illness. Out of the 47 cases, about one-third are tourists from Italy.

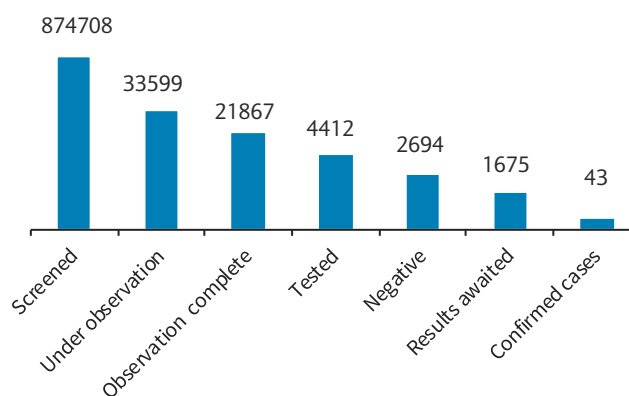
**Has India done anything differently?** India has followed similar pattern of action as other major economies. The government chose to evacuate and isolate its nationals residing in China, especially Wuhan, after the country's first three cases were identified as students returning to Kerala from Wuhan. Since then, India evacuated more than 700 Indian nationals from high-risk areas in China, limiting entry points to reduce risks of proliferation. Similarly, India has also evacuated nationals from Japan who were on the Diamond Princess cruise ship, and those who were in Iran on pilgrimage. No such efforts appear planned for other major outbreak countries such as Italy or Korea. However, scrutiny around incoming international passengers has increased dramatically, along with reduced international travel. More than 800,000 people have been screened on arrival at 30 entry points, with quarantines being imposed on suspected cases. India typically gets around 6mn international passengers in February.

FIGURE 2  
India COVID-19 confirmed cases timeline



Source: Ministry of Health, PIB, Barclays Research

FIGURE 3  
India COVID-19 cases summary as of 9 March



\*not drawn to scale

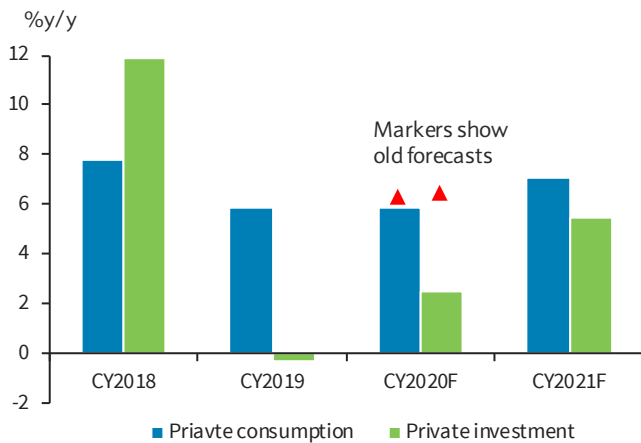
Source: Ministry of Health, PIB, Barclays Research

Number of cases are as of India morning, 10 March, graphs reflect numbers upto 9 March<sup>1</sup>

## GDP downgrade a function of weaker discretionary activity

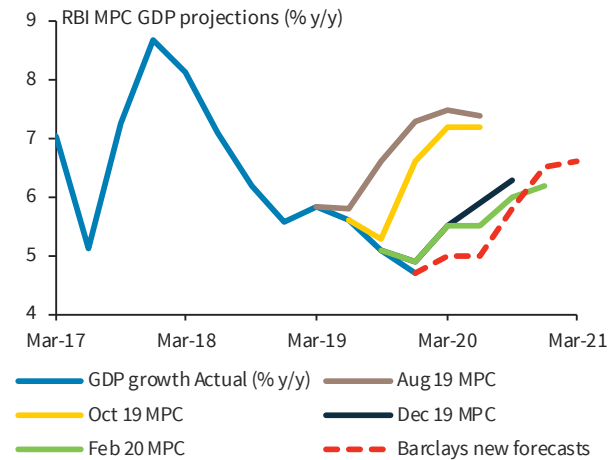
Last week, we lowered our GDP growth forecast for India for CY2020 from 6.5% to 5.6%. We now estimate FY19-20 growth at 5.1% and FY20-21 at 6.0% (RBI FY19-20: 5.0%, FY20-21: 6.0%). While we continue to believe the economy will improve, we now expect the growth revival to be more gradual. The main drivers of the reduction in our growth forecasts are reduced expectations for consumption and private investment, given subdued investment and a slower recovery in discretionary spending of late. Our forecasts assume that if India follows the path of other countries that have seen a COVID-19 breakout, the precautionary spending pullback will further intensify downside risks, likely hitting activity levels more materially through Q2 20, depending on the caseload trajectory.

FIGURE 4  
Reduction in private demand likely to drag growth lower



Source: Haver Analytics, Barclays Research

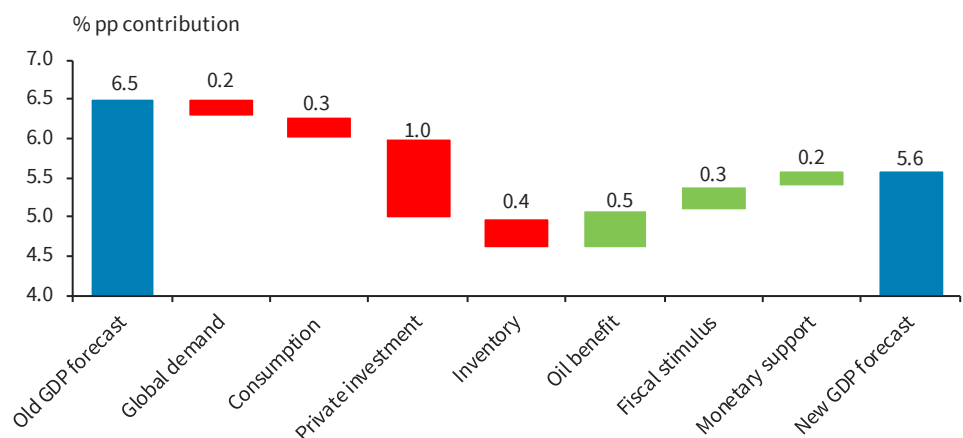
FIGURE 5  
We now project weaker growth than the RBI in H1 2020



Source: RBI, Haver Analytics, Barclays Research

We also account for softer global growth, as COVID-19 cases spike across Europe and the US, and the demand shock reverberates for longer on the back of high uncertainty. However, we see a meaningful recovery starting in H2 20, as the already large monetary and fiscal stimulus in the system make their way through the economy, supporting activity as a stronger payback makes up for some, but not all of the lost output of H1 20. The recent sharp decline in oil prices is also likely to be a supporting factor for India's growth outlook.

FIGURE 6  
India's 2020 GDP forecast downgrade mitigated by lower oil, policy support



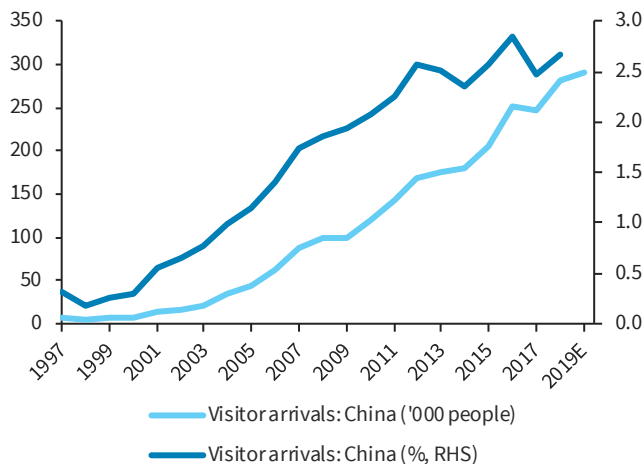
Source: Barclays Research

## India's link to China is weak on a people-to-people basis

A key source of support for India is its limited connectivity to China. While India has a large trading relationship with China, predominantly through imports, its linkages to China's services economy, especially travel and tourism, is weak. In 2019, an estimated 290,000 Chinese tourists visited India, accounting for less than 3% of total visitors. Only a small number of flights, from major cities such as Delhi and Bengaluru, fly directly to China. Many of those flights have been suspended since early February.

FIGURE 7

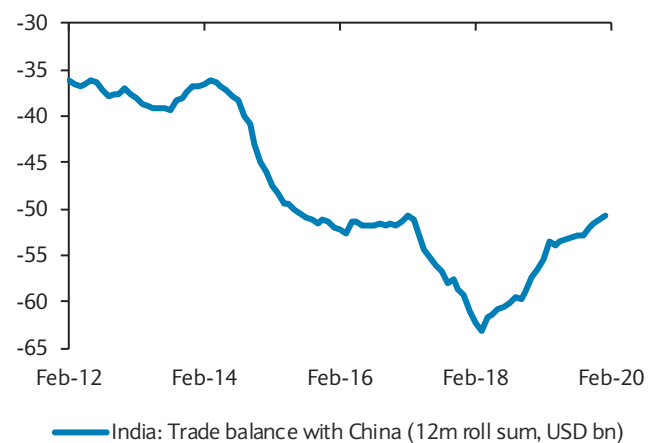
India has very limited inflow of visitors from China



Source: Haver Analytics, Barclays Research

FIGURE 8

India runs a large trade deficit against China

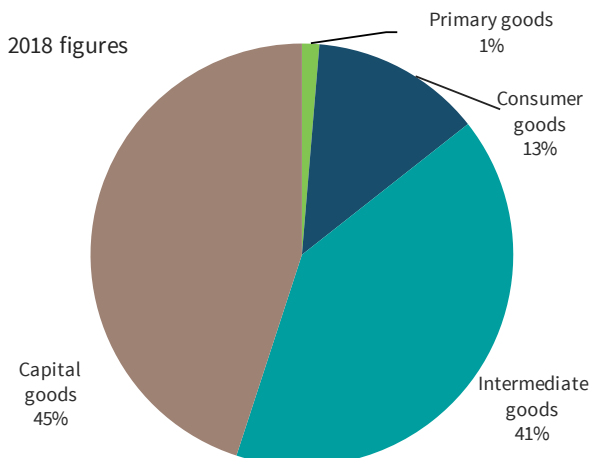


Source: Haver Analytics, Barclays Research

The loss of critical imports is likely to be felt mainly in sectors such as automobiles, smartphones assembly and pharmaceuticals, of which autos were already underperforming, while smartphones are not expected to be identified as critical equipment. While there may be some loss of production and inventories may remain low, consumption is likely to face only modest challenges as a result of sectoral dislocations. For pharmaceuticals, inventories can last until early Q2, according to the commerce ministry, while the government has taken preventive steps such as an export ban on bulk drugs. However, the supply chain disruption is unlikely to have as big an impact on exports as it is having on Chinese imports. Rather, we see a brief narrowing of India's persistent trade deficit with China.

FIGURE 9

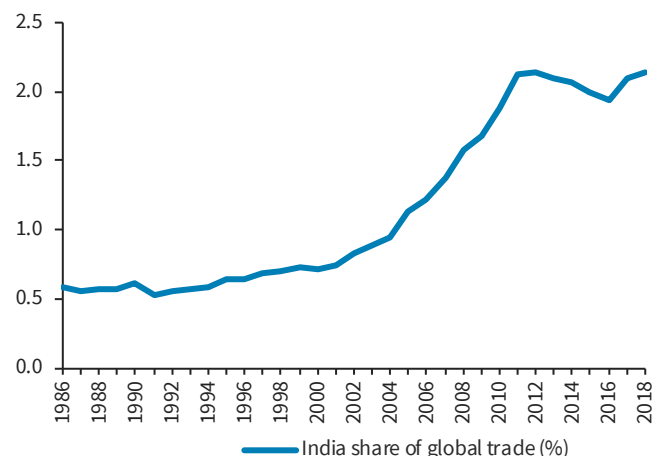
Imports from China dominated by capital and consumer goods



Source: CEIC, Barclays Research

FIGURE 10

India's trade openness remains low



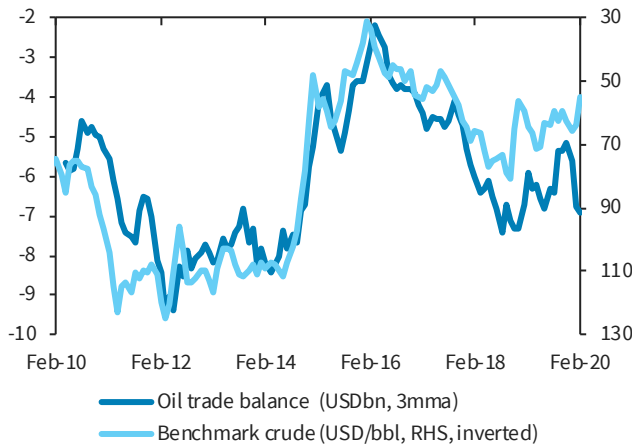
Source: Haver Analytics, Barclays Research

## Oil: A major mitigating factor

The sharp decline in oil prices is likely to help cushion the impact of COVID-19 on India's national accounts. Brent oil has fallen by almost USD30/bbl in last six weeks, potentially driving an improvement of USD20-25bn in India's oil trade balance over the full year, which posted a deficit of USD72.2bn in 2019. Brent has averaged USD59.7/bbl so far in 2020. If current prices prevail for the remainder of the year, that would come down to about USD40/bbl, almost USD25/bbl lower than 2019 (see, *Emerging Asia: Testing the gauges: oil and gold*, 8 January 2020).

FIGURE 11

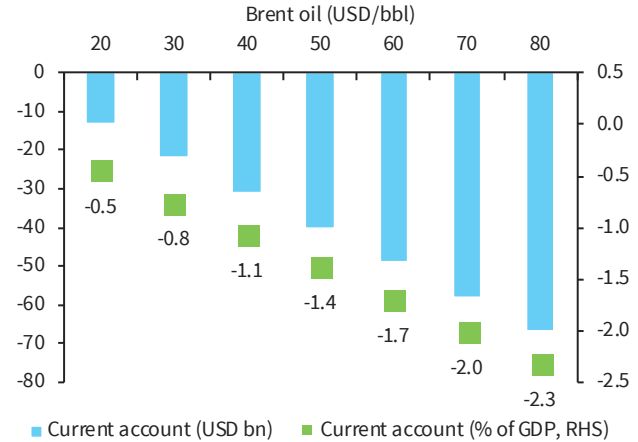
India's oil imports account for a large part of trade deficit



Source: Haver Analytics, Barclays Research

FIGURE 12

India's current account has a high sensitivity to oil

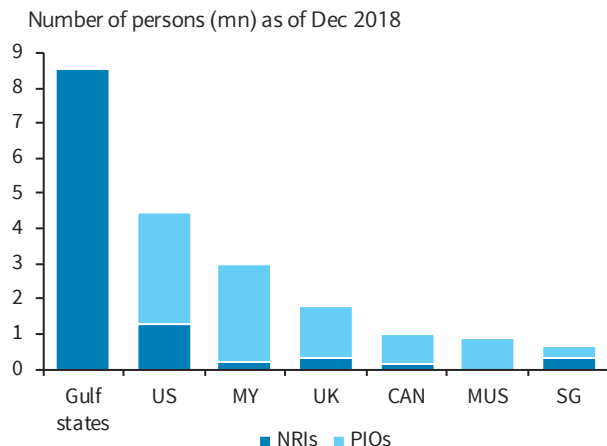


Source: Haver Analytics, Barclays Research

We estimate this decline in oil prices could save India USD20-25bn in 2020, depending on underlying economic growth. This in itself would contribute about 70-90bp to GDP on nominal terms, and close to 40-50bp on a real basis, provided the savings flow into consumer prices and ultimately demand. In the past, we have noticed that India's refining sector is broadly unaffected by lower oil prices, given its contractual nature. A potential second-order negative effect on India could come in the form of potential spreading of COVID-19 in the Middle East beyond Iran, leading to an unhealthy combination of higher oil prices and lower remittances (given a large migrant worker population in the Middle East).

FIGURE 13

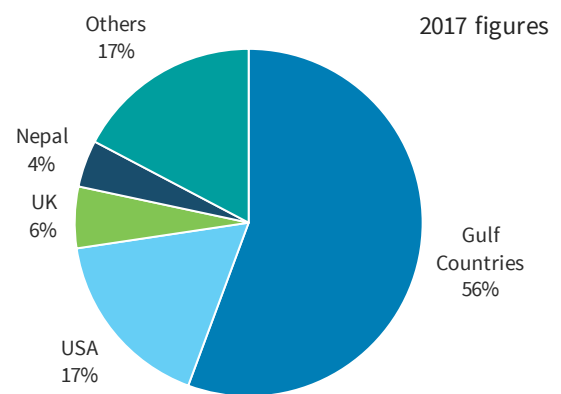
India has a number of large migrant workers in West Asia



Source: Ministry of External Affairs, Barclays Research

FIGURE 14

50% of India's remittance flows are from the Middle East



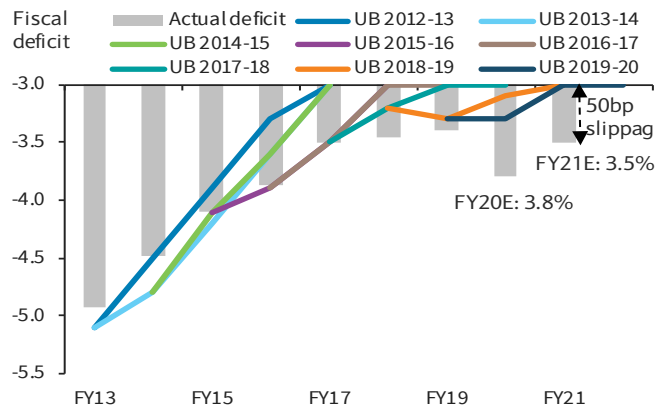
Source: World Bank, Barclays Research

## Fiscal and monetary support already in the economy

Another factor supporting India's economy this year will be the already large amount of monetary and fiscal support in the system. The sharp reduction in corporate tax rates and smaller cuts to personal income taxes announced last year contributed to the government reporting the largest fiscal slippage in many years.

FIGURE 15

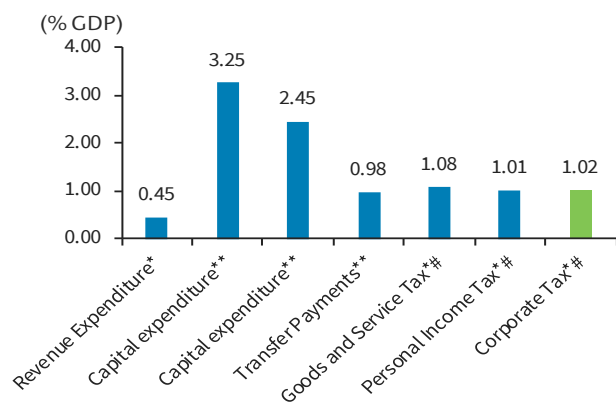
### Biggest fiscal slippage in FY20



Lines indicate resetting of FRBM paths at every Union Budget since FY12-13.  
Source: Ministry of Finance, Haver Analytics, Barclays Research

FIGURE 16

### Tax cuts likely to be positive for growth

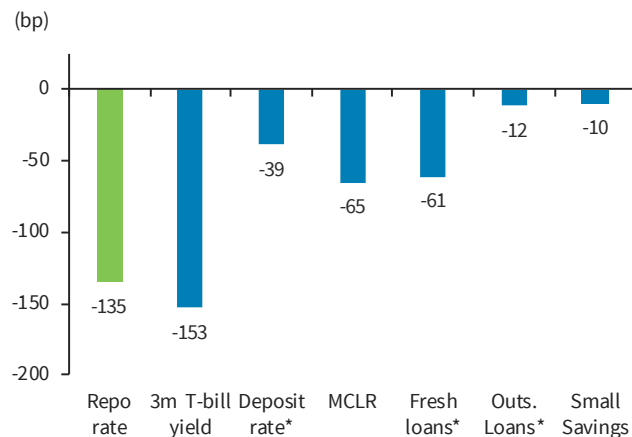


\*RBI (2019), \*\*Bose and Bhanumurthy (2013), #Impact of revenue foregone;  
Source: RBI, Ministry of Finance, Haver Analytics, Barclays Research

Sensing headwinds to India's economic growth, the RBI became the first central bank in Asia to cut rates, beginning its easing cycle in February 2019. In addition to delivering a cumulative 135bp of rate cuts since then, the central bank has flushed markets with liquidity. For the latter, the central bank has deployed a number of tools, including Long Term Repo Operations (1y-3y), open market operations, FX swaps and 'operation twists' to keep borrowing costs low. Regulatory changes have also been employed, such as linking lending rates to external benchmarks, cash reserve ratio exemptions for credit flows to specific sectors, reductions in risk weights for consumer credit, and the easing of limits on foreign investments in corporate bonds. The combination of all of these actions by the RBI has achieved a material easing in financial conditions across the economy.

FIGURE 17

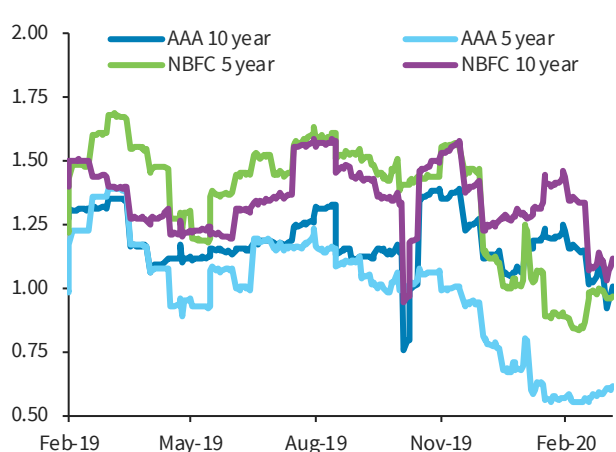
### Financial conditions have eased materially in India



\*Data till January, rest all till February. Source: RBI, Bloomberg, Haver Analytics, Barclays Research

FIGURE 18

### Use of LTROs has recently pushed down borrowing costs



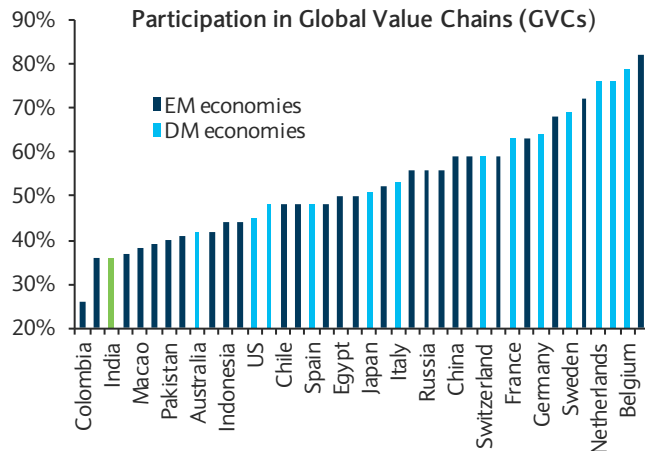
Source: RBI, Bloomberg, Barclays Research

## Domestic orientation and rising rural incomes should shield India from effects of global slowdown

Among the world's major economies, India remains the least integrated in global value chains. Indeed, UNCTAD estimates that domestic value addition accounts for nearly 90% of India's exports. The domestic orientation of the economy also manifests itself in a high share of private demand, with private consumption accounting for nearly 60% of GDP. Private consumption is closely associated with the fate of agriculture, which employs nearly 50% of India's workforce.

FIGURE 19

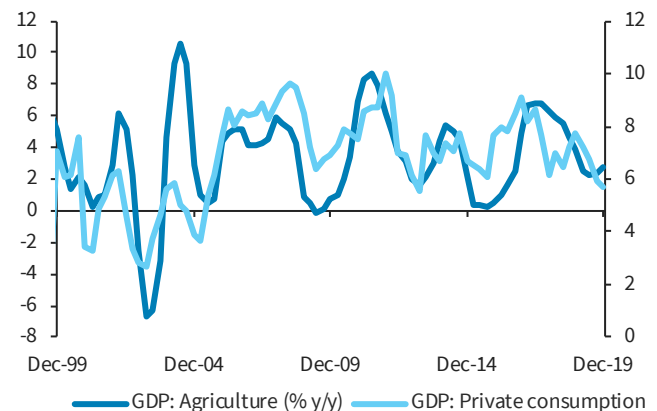
Global value chain integration is low for India



Foreign value added used in country's exports (upstream) plus value added supplied to other countries' exports (downstream), divided by total exports.  
Source: Haver Analytics, Barclays Research

FIGURE 20

Private consumption is closely tied to agriculture activity

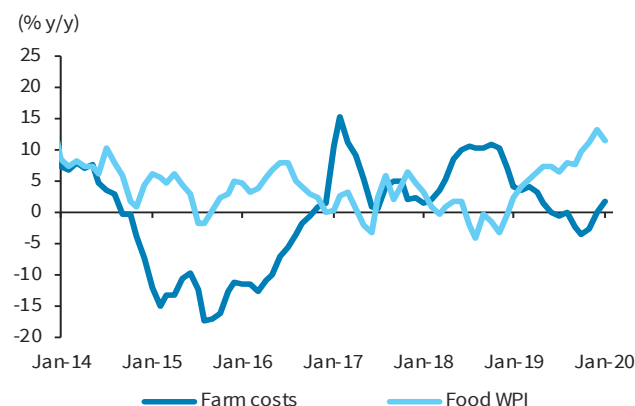


Source: Haver Analytics, Barclays Research

The sharp fall in global commodity prices, if sustained, should result in a material reduction in farm input costs, thereby increasing the relative incomes of India's farmers. The government has also rolled out farm income support schemes, with nearly 80mn farm workers already receiving the first two cash transfer instalments. Further, the winter crop (*Rabi*) sowing season has been strong, with crop yields aided by healthy soil moisture and high reservoir storage levels, which augur well for a bumper crop during the coming year.

FIGURE 21

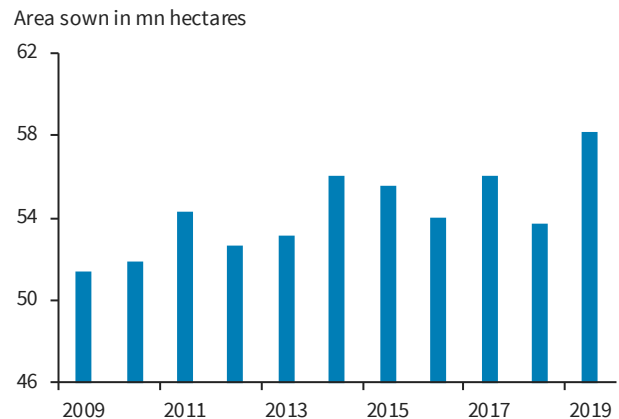
Farm sector costs are likely to drop materially



Source: Haver Analytics, Barclays Research

FIGURE 22

India set to enjoy a bumper *Rabi* (winter) crop harvest



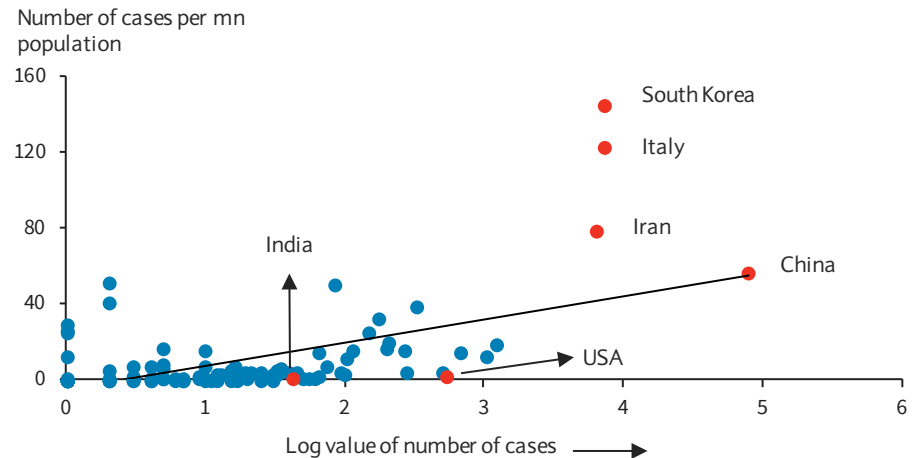
Source: Haver Analytics, PIB, Barclays Research

## What is the COVID-19 situation in India

While India has reported 47 COVID-19 cases up to 10 March, 15 of these people belonged to a single group of Italian tourists who came to the country before thermal screenings were put in place for passengers from Italy. On a per capita basis, the number of cases in India is very low compared with countries that have seen large breakouts. The number of confirmed cases diagnosed with COVID-19 works out to ~0.03 per million population for India, the sixth lowest among the 107 countries<sup>2</sup> that have reported cases of COVID-19 till 9 March.

FIGURE 23

India has registered relatively few confirmed cases for COVID-19 so far

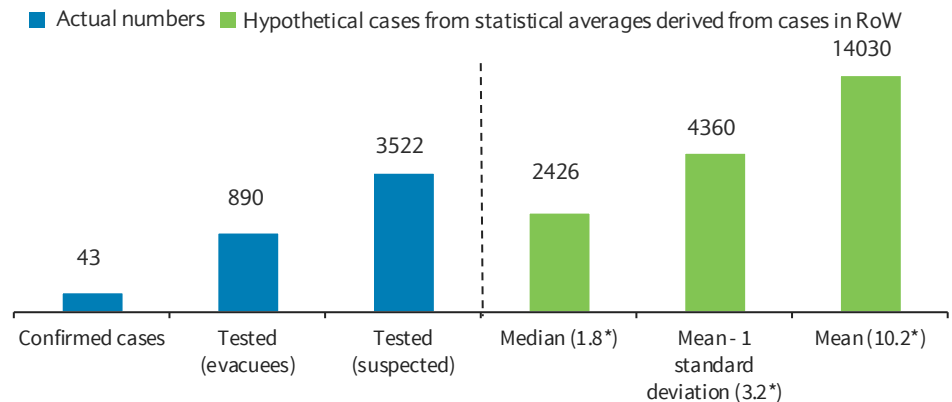


Source: Worldometers, WHO, Barclays Research

To gauge India's position relative to other countries, we derive some simple statistical metrics – mean and median – for COVID-19 cases per million population for all of the 107 countries that have reported cases. The resulting mean is 10.2 cases per million and median is 1.8 cases per million. Extrapolating these metrics to India's population (~1380mn), if India was to conform to the mean it would reach ~14,030 confirmed cases, and ~2,426 cases under the median. We apply a third metric – one standard deviation less than mean – which results in a hypothetical number for India of ~4,360 cases.

FIGURE 24

If India conforms to global per-capita average, number of COVID cases will rise sharply



Source: Ministry of Health and Family Welfare, PIB, Worldometers, Barclays Research

<sup>2</sup> Source: Worldometers



While we acknowledge that community spread can lead to large and sudden spikes in the number of cases, as evidenced in South Korea, for now, India's reported cases remain very low with respect to its large population, perhaps due to its preventive measures and focused evacuation of potential COVID-19 cases from Wuhan, the Diamond Princess cruise ship, and now Iran, where a large group of pilgrims were stranded.

FIGURE 25

Comparison of tests and confirmed cases per-capita in different countries (as of 9 March)

Upto 9 March	Tests conducted	Confirmed cases	Tests per mn people	Confirmed cases per mn people
South Korea	191692	7313	3739.6	142.7
Italy	53826	7375	889.7	121.9
UK	24960	319	367.7	4.7
Japan	8286	502	65.5	4.0
Germany	4734	1040	56.5	12.4
US	8554	538	25.8	1.6
India	4412	43	3.2	0.0

Source: Official COVID-19 reporting sources of countries, Barclays Research

It is difficult to estimate what the potential impact of widespread proliferation of COVID-19 in India would be on consumer behaviour, given the large disparities across the country's regions, their connectivity and people. But if India starts to see a faster and widespread community outbreaks of COVID-19 cases in the coming weeks, the risks to growth are likely to be non-linear in nature, as is the case in China, and more recently, Italy and the Euro Area. We believe a quarantine cycle across India, no matter how difficult to enforce, would create material downside risks to growth, which, in turn, would require a larger policy support to counter the impact. Still, India has displayed a rapid response to the crisis since it first emanated around end-January, and has set up over 52 centres to test for COVID-19 and conducted 4412 tests, which have yielded a positive result in ~1% cases.

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We, Rahul Bajoria and Shreya Sodhani, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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