

India – Will the Elephant Dance or Fall?

23 July 2020

Ilze Gouws: EDI Head of Economics

Key Points:

- Economic hit here **'for a long time'**
- EU in vicious recession
- Italy and Spain urgently need economic relief
- Battle continue between China & India
- Uneven sector recovery

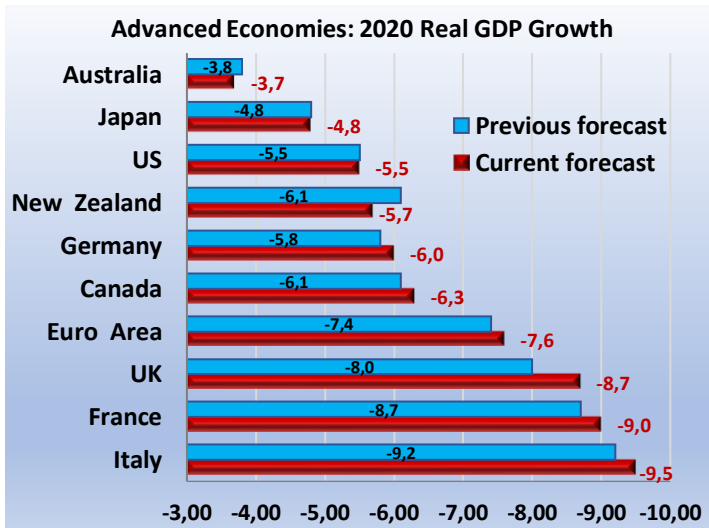
Recovery from the Covid-19 epidemic remains fragile and tremendous uncertainty still surrounds the 2020 annual growth forecasts. Business confidence is at its lowest point, fears of another wave remain, and the lack of an effective vaccine and the uncertainty about when it will be available boost insecurity. In fact, analysts warned that the economic impact will be here **'for a long time'** even if a vaccine is approved.

Early this year, we saw the oil price crash to its lowest levels. Although there was a slow upward trend in June, prices dropped again at the beginning of the month on the back of concerns about renewed coronavirus lockdowns in the United States (US), once again highlighting the uncertainty in markets. Oil prices rebounded earlier this month on the news of a COVID-19 vaccine, however demand remains an issue.

It is expected that over 95% of countries will have negative per capita income growth in 2020, with export-dependent economies mostly affected. Although COVID-19 has not had such a serious health effect on all countries to date, many countries are suffering indirect consequences from value chain disturbances and lower global demand. Although we can see a general ease in lockdown measures across the world, international trade remained at the same levels as in the beginning of the year.

Outlook for Advanced and Emerging Economies:

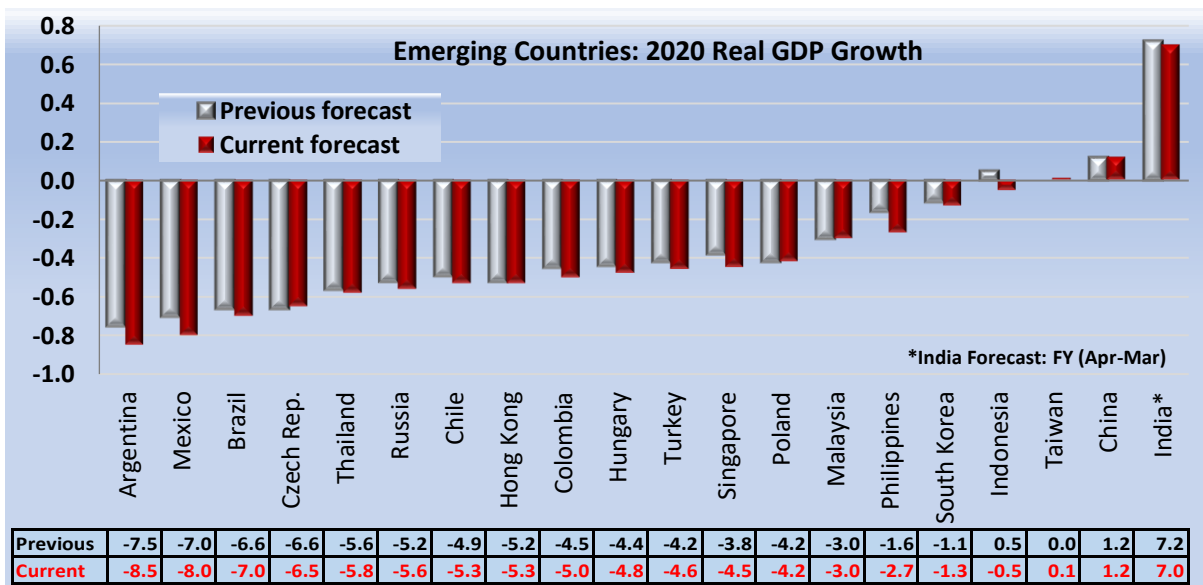
Looking at the graph below, our panel of forecasters expect most countries to deteriorate further in the latest round of forecasts compared to last month's except for **Australia and New Zealand**. On the other hand, the **Australian Westpac Melbourne Institute Index of Consumer Sentiment** fell by 6.1% in July erasing the promising boost of June which brought the Index back to within a few percentage points of the September-to-February average. The renewed virus outbreak in Victoria underlines that the recent strengthening in recovery will not be maintained. Our panel expects Japan and the US real GDP growth forecasts to stay the same.



According to our panel of forecasters, the UK economy is expected to shrink even more to 8.7%, mainly due to a deterioration in the economic environment and rising unemployment. The UK Chancellor of the Exchequer recently announced a \$2.5bn fund to create jobs and a massive boost to apprenticeship programmes.

The European Union (EU) is battling a **vicious recession** and hard-hit countries like **Italy and Spain urgently need economic relief**. A few days ago, EU leaders strike a \$2 trillion deal to rebuild Europe's economy. The European Commission will borrow the money on financial markets and distribute just under half of it - €390 billion euros (\$446 billion) - as grants to the hardest hit EU states, with the rest provided as loans. Leaders also agreed on a new EU budget of nearly €1.1 trillion (\$1.3 trillion) for 2021-2027, creating combined spending power of about €1.8 trillion (\$2 trillion). The European Commission expects the EU economy to shrink to 8.3% in 2020 compared with 7.4% forecast in May.

Argentina's economy is expected to go from bad to worse. The country already faced a recession before the pandemic and with the latest economic shock, some analysts foresee a record contraction.



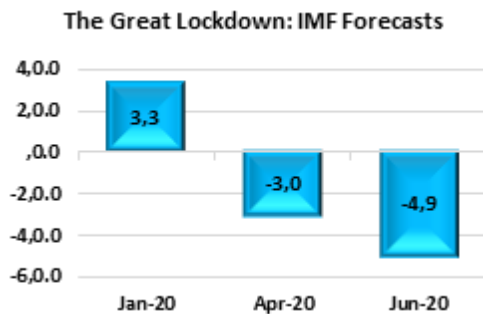
India and China economies are still showing positive growth rates for FY2020, however in FY2021, the India economy is expected to show a sharp downturn and unfortunately the country's outlook is bleak. **India's** recovery process looks like it would be an extended one after most economic activities

lost two months of output. A current FICCI Economic Outlook Survey expects an annual median GDP growth forecast for FY21 at -4.5% with a minimum and maximum growth estimate of -6.4% and 1.5%, respectively for FY2021. In the meantime, the border dispute between China and India is continuing. China has occupied Indian territory and killed 20 soldiers, after which India responded to ban some Chinese tech products.

China's GDP growth has swung back quicker than expected and the latest second quarter figures from Beijing point towards a V-shaped recovery, led by strong domestic demand. US-China economic competition is still increasing and manifesting in several ways, amongst others, infrastructure development and financing. In the US, the virus is spreading aggressively, unemployment rising, and the economy is suffering, clearly stating that the pandemic is not under control.

In summary:

As countries reopen, there is an **uneven rise in activity**. Repressed demand will lead to a surge in some sectors like retail, while contact-intensive sectors such as travel, tourism, hospitality, etc will remain depressed. At the end of June, the IMF revised their global real GDP forecast again to deteriorate further to -4.9% from -3.0% in April this year.



The world is still off-balance, and COVID-19 has highlighted the many vulnerabilities in our systems and institutions, however it also offers us a chance to shape a more resilient and sustainable world. On a positive note, better understanding of the virus and more and rapid progress on vaccines and effective medicines could substantially support confidence to overcome the pandemic sooner.

On 21 July WHO reported that there have been 14,562,550 confirmed cases of COVID-19, including 607,781 deaths in the world. KEEP SAFE!

To see all our Economic Products, visit our [website](#) or contact:

IIZE GOUWS: Cell: +27 (0) 82 7823 750
E-mail: i.gouws@exchange-data.com