Growth Forecast for Odisha during 2020-21

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Abstract

The lockdown in India is having severe impact on each and every economy and Odisha is no different from others. Various agencies are providing different growth estimates for the national economies that ranges from a positive growth of four percent to a contraction of output by around five percent. There are very few agencies that provide growth forecast for the subnational economies. In this paper, I provide growth estimates for Odisha, an Indian state in eastern part, for the year 2020-21. Our estimation shows a drastic contraction of output for Odisha in 2020-21 to the extent of 15.6 to 20.7 percent. The first quarter of 2020-21 will have the maximum contraction. Odisha may see positive growth of output only in the third quarter and in subsequent period. Except agriculture and allied activities all other sectors will have a contraction in the output.

Impact of COVID-19 on the Odisha Economy

COVID has put a severe dent on the global economy, national economies and regional economies alike. IMF[1] forecasts that the global output is to contract sharply by -3 percent in 2020, much worse than during the 2008-09 financial crisis. The advanced economies are set to witness a much higher contraction in the output by - 6.1 percent and emerging and market economies by -1 percent. It also further warns that the risks for even more severe outcomes are substantial. For India, different agencies have provided different growth estimates for 2020-21. International Monetary Fund has projected 1.9 percent; Fitch [2] Ratings has forecast 0.8 per cent growth. In early April ADB had forecast a 4% for India during 2020-21. Professor C. Rangarajan and D. K. Srivastav [3] have estimated 4.4% growth for India in 2019-20 and 2.94% in 2020-21. The professional forecasters projection of real GDP growth given in the monetary policy report of Reserve Bank of India released in April 2020 reports 4.6% growth in the last quarter of 2019-20, 4.7% in first quarter, 5.3% in second quarter, 5.7% in third quarter and 6.1% in fourth quarter. However, given the length of complete lockdown in India and suspension of most of the economic activities in the first quarter it is hard to believe that the Indian economy will achieve any growth in 2020-21. There is serious apprehension that total output in India will contract drastically in the first quarter, although there will be some improvement in the subsequent quarters, growth of total output won't be higher than the last year. Therefore, the fear of a double digit contraction in the output loom large.

Table 1: Growth Forecast for India during 2020-21 by Different Agencies

Sl No	Agency/ Authors	Growth Forecast
1	IMF [1]	1.9%
2	Fitch Ratings [2]	0.8%
3	ADB [3]	4%
4	Rangarajan and Srivastava [4]	4.4%
5	Goldman Sachs [5]	-5%
6	Moodys [6]	0.2%
7	Standard & Poor's (S&P) [6]	0.3%
8	Barclays [6]	0%
9	CII [7]	-0.9 to 1.5%
10	Sahoo and Ashwani [8]	0.5% to -3 to -7%
11	Das and Mishra [9]	-25%
12	My estimation	-15.6 to -20.7%

Odisha started imposing partial lockdown from March 21 in some parts of Odisha and from March 22 it was extended to the entire state. If we assume that the lockdown will be relaxed from early June, then two months of the first quarter is going under lockdown. Although the state and national governments have relaxed some selected economic activities in the lockdown 3.0 starting from May 04, it is far from the normal operation of those sectors. Even if lockdown is relaxed from mid may, there will be a lot of restrictions in most of the economic activities. Therefore, in the effect of COVID may continue in the second quarter and third quarters. We may expect normal activities towards the fourth quarter. If we look at each sectors independently during this fiscal year, agriculture is less affected compared to all other sectors. The manufacturing and service sectors are the worst sectors due to lockdown. Odisha's export to the world amounts to around 16% of GSDP. Due to COVID, this export would be badly affected. Due to massive unemployment, and return of migrant workers from within the country and outside, the purchasing power of the people in the state will shrink. Thus the aggregate demand (internal + external) will decline significantly. In this context I have attempted to calculate the GSVA for Odisha for the fiscal year 2020-21.

The lockdown suspended almost all economic activities including the operation of factories, construction activities, running of train, buses, and flights. There are many signals of the fall in the output in the first quarter. The total power consumption of the country in April 2020 has declined by 22.75% as compared to the April 2019 [10]. The core sector output fell by 6.5% in March 2020 with just one week of lockdown in the country [11]. The Gross Direct Tax collection in April had declined by 5.4 % [12]. The tax collection by the Income Tax Department in April is the tax collected by the employers for the income of March. Therefore, the income tax collection for the month of April will be reflected in May. This may show a significant decline in the direct tax collection. This is indicated by the fact that most of the private companies have slashed the salary of employees up to 50%. Even in the public sector, the Union government freezed the

Dearness Allowances for one year. Many state governments have slashed the salary of government employees. The GST collection of states have declined by more than 75% [13]. The Union government has deferred the release of the GST collection data for April month. The CMIE data further shows that the unemployment rate in the first week of May has gone up to 23.8 percent. Most of the metros in India are coming under the red zones, where more than one third of the total output is produced. Due to movement of migrant workers, the number of districts coming under red zones are increasing every day. In this context it would be unwise to expect any normal operation of economic activities soon. The exponential growth of number of COVID-19 positive cases after the return of migrant workers from other states also indicate that the restrictions may continue in different parts of the state. As per the information provided by the Government of Odisha, as on May 16, around 15 lakh people from Odisha stranded in other states have already registered to return to their native places. On this date 1,33,245 people had returned to the state. Out of this, more than 55 thousand workers have returned to Ganjam district alone, mostly from Surat, Gujarat. Only on May 16, a total number of 17, 855 people have returned to the state [14]. Twenty lakh migrant workers means approximately twenty lakh families in Odisha are going to be affected due to loss of employment and income. With a very conservative estimate, if we assume that all these migrant workers used to send remittances of minimum ten thousand rupees (average of both migrants working abroad and within the country) per month, then 1500 crore rupees of remittances will stop flowing to state every month or in a year 18000 crores of rupees in a year which is 3.7% of state GSDP or 12% of the state's total budget. Stoppage of flow of this amount of money will drastically reduce the demand in the local economy and hence slow down the economic growth. All these signals a drastic fall in the total output and income in the country during the first quarter of 2020-21. Therefore, we believe that instead of any growth the Indian economy will witness a slump in the total output.

Methodology

We take the nominal advanced estimates of GSVA in current basic price for the year 2019-20 as the base for GSVA estimation for 2020-21. At the outset we assume that in absence of any growth, the state has the capacity to produce at least the same level of output that was produced in 2019-20. In order to get a better estimate of GSVA for 2020-21 we first calculate the quarterly output for all sectors. In order to calculate the quarterly estimates of output we followed the following method. Using the quarterly data of GVA of India, we calculated the share of each quarter in the total GVA for the year 2018-19 (see [table 2](#)). We used this data because fourth quarter data is not available for 2019-20. The quarterly shares were multiplied with the GSVA of 2019-20 to arrive at the minimum potential output of the state for each quarter during 2020-21 (see [table 3](#)).

It is assumed that in absence of any growth the state had the capacity to produce this much of output. But the real output would be much different. Due to lockdown in the first quarter, the output of two third output of a quarter is almost wiped out, barring a few sectors like agriculture, banking, public administration and defense etc. The state

could have used around 25% of the output capacity in the first quarter. This assumption can be supported with the revenue collection data for the month of April 2020. In April 2019, the state government had collected Rs. 3034 crore. In April 2020, the state government has been able to collect only Rs 700 crore which is only 23% of the collection of last year during this time. State government has allowed some economic activities from early may. Therefore, we assume that, in most of the sectors, full output potential cannot be realized at least in the first two quarters. In the second quarter even though the lockdown would not be there, life will not come to complete normalcy. Moreover, many sectors would be facing the demand problems, and input supply problem. Most of the industries would face labour scarcity, as migrant workers are coming back to their origin. Some sectors may achieve normalcy in the third quarter due to harvest of Khariff and rise in purchase power. The fourth quarter may see some growth. We have assumed that wherever (sectors) there is scope, the fourth quarter may witness growth that of the previous year. **Table 4** shows the assumed capacity utilization in four quarters. **Table 5** shows the nominal GSVA in four quarters and aggregate GSVA for the year 2020-21. We assume a price rise of 4% in this fiscal based on the current Consumer Price Index. We have factored in this price rise in the nominal GSVA estimation. We have provided two scenarios for GSVA estimates. Scenario 1 is a little more optimistic, as it assumes that the first quarter witnessed the worst situation and things will gradually improve from the second and subsequent quarters. Under scenario 1, we assume that, the state will start witnessing positive growth from third quarter. Under scenario 2, we assume that things will not drastically improve in second and third quarter and positive growth may come only in the fourth quarter.

Results

Based on this GSVA estimation, we forecast a contraction of GSVA in 2020-21 to the extent of 15.6 to 20.7 percent (see **Figure 1**). Quarter 1 will witness the sharpest fall in the output by around 60%. Economic growth will improve from the second quarter. Nevertheless, the contraction of output will continue in the second quarter to the extent of 26 to 29 percent. Third quarter may either witness moderate contraction of around 10% or may witness positive growth of around one percent. Fourth quarter would witness positive growth between 2.4 percent to six percent.

So far as sectoral growth is concerned, construction sector is going to be the worst hit followed by the manufacturing sector, Trade, Repair, Hotels and Restaurants. The least affected sectors will be agriculture and allied sector, followed by Public Administration and Defence sector.

Table 2 GSVA of 2019-20 and Quarterly Share of GSVA in 2018-19 values

Sl. No.	Economic Activity	2019-20 (Advance Estimates) Rs in Lakh	Q1	Q2	Q3	Q4
1.	Agriculture, Forestry and Fishing	9561156	0.2300	0.1913	0.3170	0.2617
2.	Mining and Quarrying	5323225	0.2496	0.1963	0.2331	0.3210
3.	Manufacturing	8674852	0.2423	0.2500	0.2418	0.2660
4.	Electricity, Gas, Water Supply & Other Utility Services	1567045	0.2550	0.2603	0.2494	0.2353
5.	Construction	3463208	0.2485	0.2365	0.2579	0.2571
6.	Trade, Repair, Hotels and Restaurants	4544795	0.2455	0.2366	0.2456	0.2724
7.	Transport, Storage, Communication & Services related to Broadcasting	2952540	0.2455	0.2366	0.2456	0.2724
8.	Financial Services	1657388	0.2708	0.2917	0.2142	0.2232
9.	Real estate, Ownership of Dwelling & Professional Services	3474467	0.2708	0.2917	0.2142	0.2232
10.	Public Administration and Defence	2618827	0.2279	0.2465	0.2545	0.2711
11.	Other Services	4219487	0.2279	0.2465	0.2545	0.2711
12	TOTAL GSVA at Basic Prices	48056991	0.2464	0.2452	0.2503	0.2581

Table 3: Quarterly Minimum Output Potential for the year 2020-21 without any Growth (Rs in Lakh)

Sl. No.	Economic Activity	Q1	Q2	Q3	Q4
1.	Agriculture, Forestry and Fishing	2199134.96	1829019.98	3030557.75	2502443.51
2.	Mining and Quarrying	1328542.95	1045084.28	1241051.63	1708546.34
3.	Manufacturing	2101853.95	2168342.67	2097529.60	2307125.82
4.	Electricity, Gas, Water Supply & Other Utility Services	399600.35	407960.21	390755.63	368729.07
5.	Construction	860438.82	819102.72	893270.82	890395.96
6.	Trade, Repair, Hotels and Restaurants	1115590.78	1075324.93	1116075.95	1237803.56
7.	Transport, Storage, Communication & Services related to Broadcasting	724746.89	698588.06	725062.09	804142.79
8.	Financial Services	448878.50	483475.05	355089.93	369944.35
9.	Real estate, Ownership of Dwelling & Professional Services	941006.89	1013533.40	744393.13	775533.22
10.	Public Administration and Defence	596812.05	645640.85	666492.91	709881.58
11.	Other Services	961590.93	1040264.50	1073861.59	1143769.95

Scenario 1

Table 4 Quarterly and Sector Wise Capacity Utilisation during 2020-21

Sl. No.	Economic Activity	Q1	Q2	Q3	Q4
1.	Agriculture, Forestry and Fishing	0.75	1.00	1.06	1.07
2.	Mining and Quarrying	0.25	0.50	1.00	1.15
3.	Manufacturing	0.25	0.50	1.00	1.03
4.	Electricity, Gas, Water Supply & Other Utility Services	0.50	0.75	1.00	1.04
5.	Construction	0.25	0.50	1.00	1.07
6.	Trade, Repair, Hotels and Restaurants	0.25	0.75	1.00	1.05
7.	Transport, Storage, Communication & Services related to Broadcasting	0.25	0.75	1.00	1.02
8.	Financial Services	0.50	0.75	1.00	1.07
9.	Real estate, Ownership of Dwelling & Professional Services	0.25	0.75	1.00	1.09
10.	Public Administration and Defence	0.80	1.00	1.00	1.00
11.	Other Services	0.25	1.00	1.00	1.00

**Table 5 Projected Gross State Value Addition of Odisha for the year 2020-21 and
Sector wise growth rates (Rupees in lakh)**

Sl. No.	Economic Activity	Q1	Q2	Q3	Q4	Total Output	Total Output adjusted for Price Growth of 4%	Growth
1.	Agriculture, Forestry and Fishing	1649351	1829020	3212391	2677615	9368377	9743112	1.90
2.	Mining and Quarrying	332136	522542	1241052	1964828	4060558	4222980	-20.7%
3.	Manufacturing	525463	1084171	2097530	2376340	6083504	6326844	-27.1%
4.	Electricity, Gas, Water Supply & Other Utility Services	199800	305970	390756	383478	1280004	1331204	-15.1%
5.	Construction	215110	409551	893271	952724	2470656	2569482	-25.8%
6.	Trade, Repair, Hotels and Restaurants	278898	783572	1092286	1298638	3453394	3591530	-21.0%
7.	Transport, Storage, Communication & Services related to Broadcasting	271470	567453	725062	820630	2384616	2480001	-16.0%
8.	Financial Services	224439	362606	355090	395840	1337976	1391495	-16.0%
9.	Real estate, Ownership of Dwelling & Professional Services	235252	760150	744393	845331	2585126	2688531	-22.6%
10.	Public Administration and Defense	477450	645641	666493	709882	2499465	2599444	-0.7%
11.	Other Services	240398	1040264	1073862	1143770	3498294	3638226	-13.8%
12.	TOTAL GSVA at Basic Prices	4649766	8310942	12492184	13569076	39021969	40582848	-15.6%

Scenario 2

Table 6 Quarterly and Sector Wise Capacity Utilisation during 2020-21

Sl. No.	Economic Activity	Q1	Q2	Q3	Q4
1.	Agriculture, Forestry and Fishing	0.75	1.00	1.06	1.07
2.	Mining and Quarrying	0.25	0.50	0.75	1.00
3.	Manufacturing	0.25	0.50	0.75	1.00
4.	Electricity, Gas, Water Supply & Other Utility Services	0.50	0.75	1.00	1.04
5.	Construction	0.25	0.50	0.75	1.00
6.	Trade, Repair, Hotels and Restaurants	0.25	0.50	0.75	1.00
7.	Transport, Storage, Communication & Services related to Broadcasting	0.25	0.75	1.00	1.02
8.	Financial Services	0.50	0.75	1.00	1.07
9.	Real estate, Ownership of Dwelling & Professional Services	0.25	0.75	1.00	1.09
10.	Public Administration and Defence	0.80	1.00	1.00	1.00
11.	Other Services	0.25	1.00	1.00	1.00

**Table 7 Projected Gross State Value Addition of Odisha for the year 2020-21 and
Sector wise growth rates (Rupees in lakh)**

Sl. No.	Economic Activity	Q1	Q2	Q3	Q4	Total Output	Total Output adjusted for Price Growth of 4%	Growth
1.	Agriculture, Forestry and Fishing	1649351.2	1829020	3212391.2	2677614.6	9368377	9743112	1.9
2.	Mining and Quarrying	332135.7	522542.1	930788.7	1606033.6	3391500.2	3527160.2	-32.4
3.	Manufacturing	525463.5	1084171.3	1573147.2	2168698.3	5351480.3	5565539.5	-34.8
4.	Electricity, Gas, Water Supply & Other Utility Services	199800.2	305970.2	390755.6	360469.5	1256995.5	1307275.3	-15.4
5.	Construction	215109.7	409551.4	669953.1	836972.2	2131586.4	2216849.8	-35
6.	Trade, Repair, Hotels and Restaurants	278897.7	537662.5	837057	1163535.3	2817152.5	2929838.6	-34.5
7.	Transport, Storage, Communication & Services related to Broadcasting	271470.1	466247.4	620020.8	771392.5	2129130.8	2214296	-23.8
8.	Financial Services	224439.2	362606.3	355089.9	372090	1314225.5	1366794.5	-16.4
9.	Real estate, Ownership of Dwelling & Professional Services	235251.7	760150	744393.1	794611.3	2534406.2	2635782.5	-23.1
10.	Public Administration and Defense	477449.6	645640.9	666492.9	667288.7	2456872.1	2555147	-0.8
11.	Other Services	240397.7	1040264.5	1073861.6	1075143.8	3429667.6	3566854.3	-14.1
12	TOTAL GSVA at Basic Prices	4649766.5	7963826.6	11073951.2	12493849.7	36181393.9	37628649.7	-20.7

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