Pessimistic GDP Estimates Underline Urgency of Reforms

Brickwork Ratings, Bangalore, 3rd September 2019:

The first quarter estimate of GDP for the current fiscal has been much below the market expectations. The market had expected at least 5.5 per cent GDP growth and the growth at 5 per cent comes as a shocking disappointment. The growth rate in the first quarter of 2018-19 was 8 per cent and the growth in the previous quarter was 5.8 per cent. The GVA figure at 4.9 per cent is sub 5 per cent and this has not been seen for more than five years. With this, it is time for all to rework the GDP estimate downwards for the year as the prospect is not likely to be very different in the next quarter as well.

The poor growth performance comes in the wake of very low growth in manufacturing GVA which has registered the growth at barely 0.6 per cent as compared to 12.1 per cent in the first quarter of last year and 3.1 per cent in the previous quarter. In fact, such a poor manufacturing growth has not been seen for a long time. The Construction sector too has shown a much lower growth at 5.7 per cent in this quarter as compared to 9.6 per cent in the corresponding quarter last year. Interestingly, the quarterly growth of public administration and defence at 8.5 per cent was higher than in the corresponding quarter last year by one percentage point. On the expenditure side, much of the slowdown has happened in the private consumer expenditure and gross domestic capital formation. The government expenditure has actually shown a marginal increase both in current and constant prices and exports have maintained a constant share to GDP.

The disappointing growth in the first quarter presents serious doubts on the possibility of the economy to grow at 7 per cent or 6.9 per cent projected in the Economic Survey and the Reserve Bank of India. The indicators are that the second quarter too may not see any significant improvement, hence the full year growth is likely to be around 6.5% - lower than the growth projected by Economic Survey or RBI.

The pessimistic growth estimate is clearly a wakeup call to fast track the reform process because the slowdown is much more than what is claimed as cyclical. Structural reforms have to be immediately unleashed. The government has done well to announce the consolidation and recapitalisation of banks, and has also announced some governance reforms in the banking system. Although the customers may not see much disruption, the governance of the banks will take time to adjust to the consolidation process and hopefully this will not constrain lending. One of the fears is that there will be a lot of pressure on the Finance Minister now to go slow on the fiscal constraint and loosen the purse to provide fiscal stimulus so that in the short run the demand created by government spending can perk up the growth rate. It would be a short-sighted view to forego the hard-earned consolidation. Indeed, the government spending should be increased substantially, but this has to be financed from the proceeds of disinvestment. The time is ripe for the government to undertake substantial disinvestment and spend the proceeds in creating infrastructure. It is said that ‘crisis is the mother of reforms’, and the government should use this opportunity to reform the factor markets – particularly land and labour markets. Hopefully, there will be a flurry of reform initiatives in the coming days and weeks.

Contacts:

MSR Manjunatha

Chief Ratings Officer

080-40409940

manjunathamsr@brickworkratings.com

Investors and Media Contact

investordesk@brickworkratings.com

+91 77388 75550

Anita Shetty
Research Editor
+91 22 28311426
anitashetty@brickworkratings.com

About Brickwork Ratings

Brickwork Ratings is India's home-grown credit rating agency built with superior analytical prowess from industry's most experienced credit analysts, bankers and regulators Established in 2007, brickwork ratings aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. Brickwork ratings provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. Brickwork ratings has employed over 350 credit analysts and credit market professionals across 8 offices in India. our experienced analysts have published over 12,000 ratings across asset classes. Brickwork Ratings is committed to provide the investment community with the products and services needed to make informed investment decisions. brickwork ratings is a registered credit rating agency by securities and exchange board of India (SEBI) and a recognised external credit assessment agency (ECAI) by reserve bank of India (RBI) to carry out credit ratings in India. Brickwork ratings is promoted by Canara bank, India's leading public sector bank. more on Canara bank available at www.canarabank.co.in

BWR Rating criteria is available at https://www.brickworkratings.com/ratingscriteria.aspx

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.