Recent Measures taken by Government and RBI is in the right direction to alleviate stress in the economy; concerns on growth still remain

Brickwork Ratings, Chennai, August 29, 2019: Steps taken by the Government of India and Reserve Bank of India to instil consumer confidence and boost the banking system are in the right direction for the revival of credit cycle in the economy. However, concerns still remain on growth of the economy given the large NPA levels in the banking system and the risk averseness to lend to certain sectors.

To boost credit growth, the policy makers announced various steps to increase the capacity of PSU banks to and also nudge the banks to increase the lending and also reduce lending rates. PSU banks were recapitalised through an immediate infusion of Rs 70,000 crores. Also, guidelines were issued on operationalising of Rs 1 lakh crore partial guarantee scheme under which public-sector banks can purchase high-rated pooled assets of financially sound NBFCs – supporting them while boosting banks' credit. Introduction of repo linked products will also help better transmit reduction of rates by the central bank. Further, increasing the lending exposure limit to NBFCs to 20% per borrower and providing priority sector status to loans given to NBFCs lending to agriculture, micro and small enterprises (MSEs), and Housing is a definite step towards improving the credit environment in the country. The focus has been on increased lending to NBFCs as they play a significant role in financing segments like Microfinance, Small to Medium Enterprises (SMEs), Real Estate, Affordable Housing sectors, which form the backbone of the economy.

In context to the current interest rates, RBI led monetary policy committee's (MPC) decision of slicing the key policy rate- repo rate by 110 basis points to 5.40% in this calendar year 2019 has been unprecedented. Following this dovish move, the government bond yields (Gsec) fell around 90 basis points in 1-5 years curve. Mirroring the sovereign bond yields fall, corporate bond yields also fell between 70-110 basis points across sectors (PSUs, NBFCs and Corporates) after widening significantly in Sep-Dec 2018 period.

Talking about certain steps to be taken to provide relief to the stressed sectors of Indian Economy, the sectors that can be looked for providing further aid are - Real Estate and Infrastructure. There are significant concerns in the real estate sector including the developer's inability to repay due to lack of sales and thus leading to high inventory even as stressed status of NBFCs hits the refinancing ability of these developers. The infrastructure segment holds the potential to revive many associated struggling sectors and requires further impetus from the government.

In spite of the actions taken hitherto, India's growth trajectory continues to be a concern. Brickwork Ratings' revised estimated of the growth of Gross Domestic Product (GDP) to 6.9% for financial year 2020, seems to have a lingering impact on the INR 5 trillion economy dream by 2025.

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