ICRA
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GROSS DOMESTIC PRODUCT

GDP and GVA growth projected at 5.0% and 4.9%, respectively, as per Advance Estimates for FY2020

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Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Soumyaditya Pal
+91 124 4545 848
soumyaditya.pal@icraindia.com

Medha Sinha
+91 124 4545 399
medha.sinha@icraindia.com

Aarzoo Pahwa
+91 124 4545 873
aarzoo.pahwa@icraindia.com

HIGHLIGHTS

- ***The Central Statistics Office (CSO) has projected the growth of India's GDP (at constant 2011-12 prices) at an 11-year low 5.0% in its Advance Estimates (AE) for FY2020, lower than the 6.8% expansion in FY2019. Moreover, the CSO's AE indicate a decline in the growth of gross value added (GVA) at basic prices to a 17-year low 4.9% in FY2020 from 6.6% in FY2019.***

- ***Implicitly, the growth of GDP and GVA at basic prices is expected to improve mildly to 5.2% each in H2 FY2020, from 4.8% and 4.6%, respectively, in H1 FY2020.***

- ***Moreover, the CSO's AE has projected a considerable slowdown in the nominal GDP growth to a 19-year low 7.5% in FY2020 from 11.2% in FY2019.***

- ***The AE place nominal GDP for FY2020 at Rs. 204.4 trillion, lower than the Rs. 211.0 trillion forecasted in the Union Budget for FY2020. If the Government of India's (GoI's) fiscal deficit is retained at the Revised Budget Estimate (RBE) of Rs. 7.0 trillion, it would be equivalent to 3.44% of the GDP as per the FY2020 AE, higher than the budgeted level of 3.34% of GDP. Alternatively, the GoI's fiscal deficit would need to be curtailed below the budgeted level by Rs. 219.6 billion to reach the level of 3.34% of the GDP as per the AE for FY2020.***

- ***In our view, the pickup displayed by various lead indicators in November-December 2019 is encouraging, and suggests a modest improvement in economic growth in H2 FY2020. Moreover, the YoY rise in rabi sowing amid healthy groundwater and reservoir levels, bodes well for agricultural growth and rural sentiment, particularly in the ongoing quarter. However, the momentum of spending by the Central Government dipped in October-November 2019, and we are apprehensive that revenue concerns may necessitate an expenditure squeeze by the Central and state governments in the ongoing quarter, which has emerged as a key risk to the pace of economic growth. For FY2020 as a whole, we expect GVA and GDP growth to print at 5.1% and 5.3%, respectively, modestly higher than the advance estimates of 4.9% and 5.0%.***

OVERVIEW

The CSO has projected the growth of India's GDP (at constant 2011-12 prices) at an 11-year low 5.0% in its AE for FY2020. This marks a slowdown relative to the 6.8% expansion in FY2019, but exceeds the 4.8% expansion in H1 FY2020 (refer Exhibit 1 and 2). In addition, the growth of GVA at basic prices has been estimated to dip to a 17-year low 4.9% in FY2020 from 6.6% in FY2019, while exceeding the 4.6% expansion in H1 FY2020. The AE has also projected a considerable slowdown in the pace of growth of nominal GDP to a 19-year low 7.5% in FY2020 from 11.3% and 11.2%, respectively, in FY2018 and FY2019.

Implicitly, the growth of GDP and GVA is expected to improve mildly to 5.2% each in H2 FY2020, from 4.8% and 4.6%, respectively, in H1 FY2020. Notably, the AE for the full year have been based on data for six to nine months across various sectors, and are constrained by the unavailability of updated information, such as Corporate filings for Q3 FY2020 and 2nd Advance Estimates of kharif output.

Exhibit 1: Growth of GDP and its Components (in %, Constant 2011-12 Prices, YoY)

	H1 FY2019	H2 FY2019	H1 FY2020	H2 FY2020*	FY2018	FY2019	FY2020 AE
Private Final Consumption Exp.	8.5%	7.7%	4.1%	7.3%	7.4%	8.1%	5.8%
Government Final Consumption Exp.	8.7%	9.8%	12.3%	8.5%	15.0%	9.2%	10.5%
Exports	11.4%	13.6%	2.6%	-6.4%	4.7%	12.5%	-2.0%
less Imports	16.9%	13.9%	-1.6%	-10.4%	17.6%	15.4%	-5.9%
Gross Fixed Capital Formation	12.5%	7.6%	2.5%	-0.5%	9.3%	10.0%	1.0%
GDP	7.5%	**6.2%**	**4.8%**	**5.2%**	**7.2%**	**6.8%**	**5.0%**
	H1 FY2019	**H2 FY2019**	**H1 FY2020**	**H2 FY2020***	**FY2018**	**FY2019**	**FY2020 AE**
Agriculture, Forestry & Fishing	5.0%	1.4%	2.1%	3.3%	5.0%	2.9%	2.8%
Industry	8.2%	5.6%	1.6%	3.3%	5.9%	6.9%	2.5%
Services	7.2%	7.8%	6.8%	6.9%	8.1%	7.5%	6.9%
GVA at Basic Prices	7.3%	**6.0%**	**4.6%**	**5.2%**	**6.9%**	**6.6%**	**4.9%**
GVA ex-Agri	7.6%	**7.0%**	**5.0%**	**5.5%**	**7.3%**	**7.3%**	**5.3%**

**Values for H2 FY2020 have been implicitly calculated based on the FY2020 AE released by the CSO on January 7, 2020 and the data for H1 FY2020 released previously*

Source: CSO; ICRA research

Exhibit 2: YoY Growth in GDP and its components (Constant 2011-12 Prices) in FY2019 and FY2020 AE

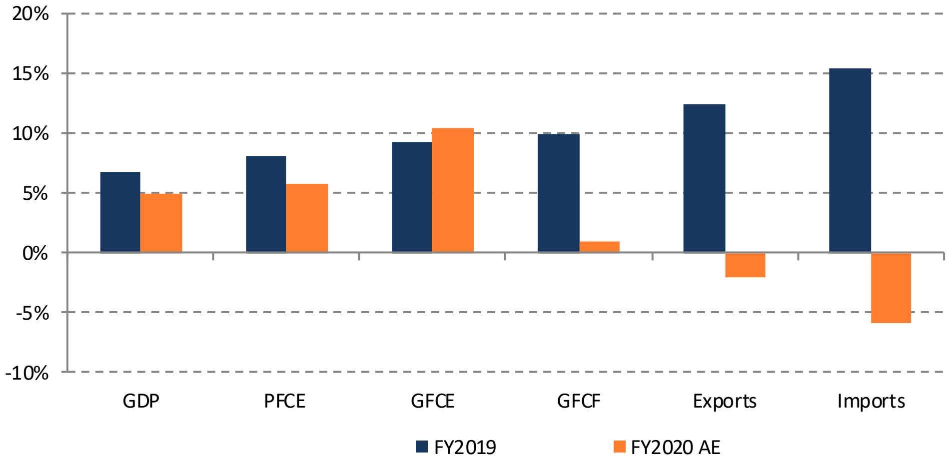
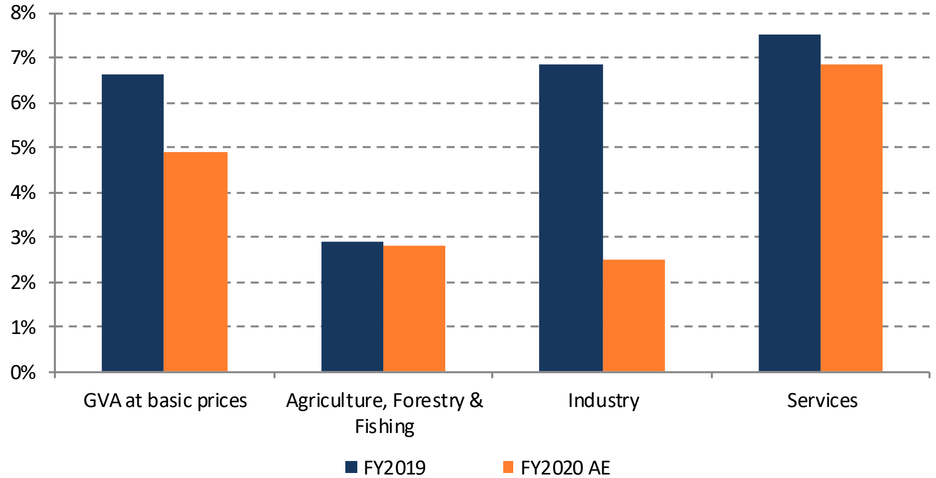


Exhibit 3: YoY Growth in GVA at Basic Prices and its components (Constant 2011-12 Prices) in FY2019 and FY2020 AE



Source: CSO; CEIC; ICRA research

Sector-wise AE for FY2020: The downtrend in GDP growth to 5.0% in FY2020 from 6.8% in FY2019 is led by a deterioration in growth of gross fixed capital formation (GFCF) to a muted 1.0% in FY2020 from 10.0% in FY2019 and private final consumption expenditure (PFCE) to 5.8% from 8.1%, respectively (refer Annexure). Exports are projected to record a contraction of 2.0% in FY2020, in contrast to the healthy 12.5% expansion in FY2019. In addition, the imports are expected to record a deeper contraction of 5.9% in FY2020, as opposed to the sharp 15.4% expansion in FY2019. As a result, net exports are expected to exert a narrower drag on GDP growth in FY2020 AE, compared to FY2019. However, the FY2020 AE estimate a rise in the growth of government final consumption expenditure (GFCE) to 10.5% from 9.2% in FY2019.

The expansion of GVA at basic prices is projected to ease to 4.9% in FY2020 from 6.6% in FY2019 (refer Exhibit 3), on account of a sharp fall in industry (to +2.5% from +6.9%), as well as a milder slowdown in services (to +6.9% from +7.5%) and agriculture, forestry and fishing (to +2.8% from +2.9%). Growth of GVA excluding agriculture is estimated to decline considerably to 5.3% in FY2020 from 7.3% in FY2019. Within industry, the performance is estimated to deteriorate in FY2020 compared to FY2019 for manufacturing (to +2.0% from +6.9%), construction (to +3.2% from +8.7%), and electricity, gas, water supply and other utility services (to +5.4% from +7.0%). However, the growth in mining and quarrying is estimated to rise mildly to 1.5% in FY2020 from 1.3% in FY2019. The slowdown in service sector growth in FY2020 from FY2019 is led by trade, hotels, transport, communication and services related to broadcasting (THTCS; to +5.9% from +6.9%), and financial, real estate and professional services (FRP; to +6.4% from +7.4%), the impact of which is partly counteracted by the pickup in public administration, defence and other services (PADOS; to +9.1% from +8.6%).

Exhibit 4: YoY Growth in GDP and its components (Constant 2011-12 Prices) in H1 FY2020 and H2 FY2020

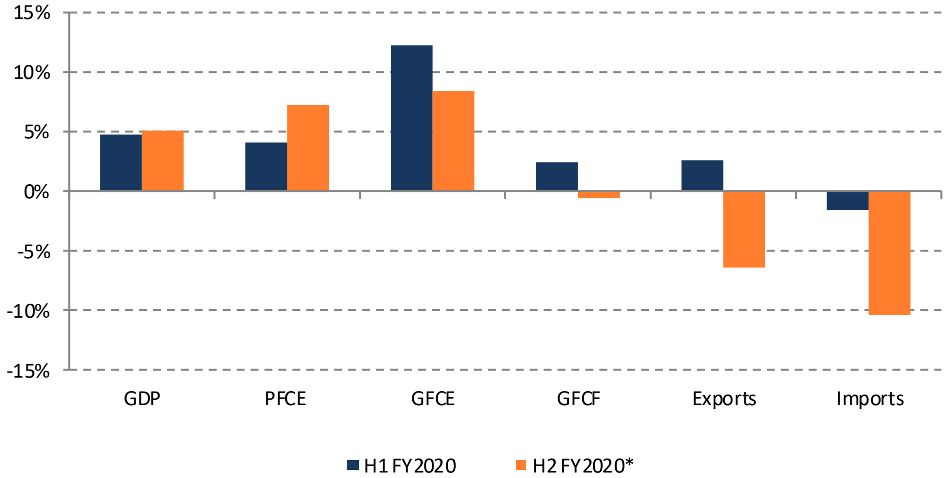
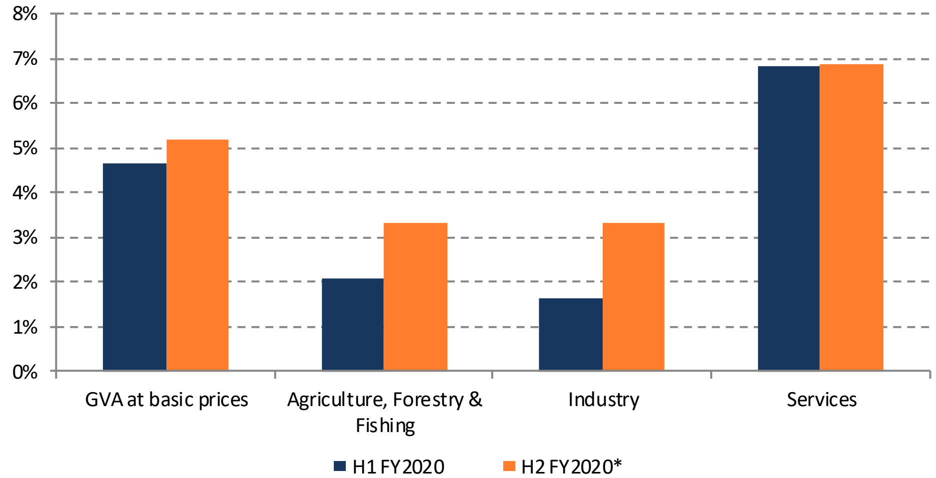


Exhibit 5: YoY Growth in GVA at Basic Prices and its components (Constant 2011-12 Prices) in H1 FY2020 and H2 FY2020



Source: CSO; CEIC; ICRA research

Implicit Trends for H2 FY2020: The implicit pickup in GDP growth as per the AE to 5.2% in H2 FY2020 from 4.8% in H1 FY2020 (refer Exhibit 4), is led by PFCE (to +7.3% from +4.1%), which could be driven by an expected improvement in rural sentiment following the favourable outlook for the rabi crop. In contrast, the pace of growth of GFCE is expected to decline to 8.5% in H2 FY2020 from 12.3% in H1 FY2020, which may be necessitated by revenue constraints of the Central and state governments. Moreover, the performance of GFCF is projected to deteriorate in H2 FY2020 to a contraction of 0.5%, from the already muted 2.5% rise in H1 FY2020, highlighting the sluggishness in investment activity. In addition, the exports of goods and services are projected to record a sharp contraction of 6.4% in H2 FY2020 in contrast to the 2.6% growth in H1 FY2020, while the contraction in imports is expected to deepen further to 10.4% from 1.6%, respectively.

The implicit rise in GVA growth as per the AE for FY2020 to 5.2% in H2 FY2020 from 4.6% in H1 FY2019 (refer Exhibit 5), is broad-based, led by all three sectors, namely, industry (to +3.3% from +1.6%), agriculture, forestry and fishing (to +3.3% from +2.1%), as well as services (to +6.9% from +6.8%). The improvement in industrial growth is driven by manufacturing, which is expected to rebound to a 4.1% expansion in H2 FY2020 from the mild contraction of 0.2% in H1 FY2020. Moreover, the mild uptick in services growth is expected to be led by FRP (to +7.0% from +5.9%). The AE has included an implicit growth rate of 8.3% for PADOS during H2 FY2020, lower 10.1% in H1 FY2020. However, the growing fiscal concerns may necessitate an expenditure curtailment by the GoI and the state governments in the remainder of FY2020, which may further dampen the pace of growth of PADOS in H2 FY2020.

Impact on Fiscal Deficit: The AE place nominal GDP for FY2020 at Rs. 204.4 trillion, lower than the Rs. 211.0 trillion forecast in the Union Budget for FY2020. If the GoI's fiscal deficit is retained at the RBE of Rs. 7.0 trillion, it would be equivalent to 3.44% of the GDP as per the FY2020 AE, mildly higher than the budgeted level of 3.34% of GDP. Alternatively, the GoI's fiscal deficit in absolute terms would need to be curtailed below the budgeted level by Rs. 219.6 billion to reach the level of 3.34% of the GDP as per the AE for FY2020.

OUTLOOK

After a delayed start, rabi sowing has rapidly caught-up in recent weeks, with the overall area sown exceeding year-ago levels by 6.8% till January 3, 2020, led by all major crops. Moreover, healthy reservoir storage levels would positively impact rabi yields, going forward. The trends in rabi sowing, coupled with a favourable base effect, would support the GVA growth of agriculture, forestry and fishing in Q4 FY2020 and boost rural sentiment and consumption growth.

A majority of the lead indicators tracked by ICRA, such as auto production, electricity generation, fuel consumption, passengers carried by domestic airlines etc. recorded an improvement in their YoY performance in October-November 2019 relative to Q2 FY2020. Moreover, the trends revealed by various early indicators for December 2019 are encouraging, suggesting an imminent, albeit modest, improvement in the real GDP and GVA growth in Q3 FY2020 from 4.5% and 4.3%, respectively, in Q2 FY2020. For instance, the production of Coal India Limited recorded a turnaround to a healthy growth of 7.2% in December 2019 after having recorded a contraction in the previous five months. Similarly, port cargo traffic displayed a turnaround to an expansion of 6.1% in December 2019 after having contracted since September 2019. The PMI data for December 2019, GST revenues reported in that month and new project announcements in Q3 FY2020 are also encouraging.

However, the growth of the GoI's spending, which was one of the major drivers of GDP growth in Q2 FY2020, recorded a slowdown in October-November 2019, which may weigh upon the GDP growth in Q3 FY2020. For instance, the pace of growth of its revenue expenditure eased to 8.9% in October-November 2019 from 23.3% in Q2 FY2020. Moreover, the GoI's capital expenditure and net lending contracted by 9.5% in October-November 2019, in contrast to the sharp 69.7% expansion in Q2 FY2020. Going forward, any expenditure curtailment by the GoI as well as the state governments to curtail the extent of the fiscal slippage would dampen the outlook for economic growth.

The YoY rise in rabi sowing amid healthy groundwater and reservoir levels, bodes well for agricultural growth and rural sentiment in the ongoing quarter. Moreover, the pickup displayed by various lead indicators in October-December 2019 is encouraging, and portends a modest improvement in economic growth in H2 FY2020, in our view. However, the momentum of spending by the Central Government dipped in October-November 2019, and we are apprehensive that revenue concerns may necessitate an expenditure squeeze by the Central and state governments in the ongoing quarter, which has emerged as a key risk to the pace of economic growth. Overall, ICRA expects the GDP and GVA growth to print at 5.3% and 5.1%, respectively, in FY2020, mildly higher than the AE of 5.0% and 4.9%, respectively.

ANNEXURE

Exhibit 13: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	H1 FY2019	H2 FY2019	H1 FY2020	H2 FY2020*	FY2018	FY2019	FY2020 AE
GVA at Basic Prices	7.3%	**6.0%**	**4.6%**	**5.2%**	**6.9%**	**6.6%**	**4.9%**
Agriculture, Forestry & Fishing	*5.0%*	***1.4%***	***2.1%***	***3.3%***	***5.0%***	***2.9%***	***2.8%***
Industry	*8.2%*	***5.6%***	***1.6%***	***3.3%***	***5.9%***	***6.9%***	***2.5%***
Mining & Quarrying	-0.7%	3.1%	1.6%	1.4%	5.1%	1.3%	*1.5%*
Manufacturing	9.4%	4.7%	-0.2%	4.1%	5.9%	6.9%	*2.0%*
Electricity, gas, water supply & other utilities	7.7%	6.3%	6.1%	4.7%	8.6%	7.0%	*5.4%*
Construction	9.1%	8.4%	4.6%	1.8%	5.6%	8.7%	*3.2%*
Services	*7.2%*	***7.8%***	***6.8%***	***6.9%***	***8.1%***	***7.5%***	***6.9%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	7.4%	6.4%	6.0%	5.8%	7.8%	6.9%	5.9%
Financial, Real Estate & Professional Services	6.8%	8.4%	5.9%	7.0%	6.2%	7.4%	6.4%
Public Administration, Defence and Other Services	8.1%	9.1%	10.1%	8.3%	11.9%	8.6%	9.1%

**Values for H2 FY2020 have been implicitly calculated based on the FY2020 AE released by the CSO on January 7, 2020 and the data for H1 FY2020 released previously*

Source: CSO; CEIC; ICRA research

Exhibit 14: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	H1 FY2019	H2 FY2019	H1 FY2020	H2 FY2020*	FY2018	FY2019	FY2020 AE
GDP	7.5%	**6.2%**	**4.8%**	**5.2%**	**7.2%**	**6.8%**	**5.0%**
PFCE	8.5%	7.7%	4.1%	7.3%	7.4%	8.1%	5.8%
GFCE	8.7%	9.8%	12.3%	8.5%	15.0%	9.2%	10.5%
Exports	11.4%	13.6%	2.6%	-6.4%	4.7%	12.5%	-2.0%
less Imports	16.9%	13.9%	-1.6%	-10.4%	17.6%	15.4%	-5.9%
Gross Capital Formation	10.8%	7.3%	2.1%	0.8%	10.4%	9.0%	1.5%
GFCF	12.5%	7.6%	2.5%	-0.5%	9.3%	10.0%	1.0%
Change in Stocks	7.2%	2.6%	0.6%	3.9%	21.2%	4.8%	2.3%
Valuables	-19.0%	4.0%	-7.4%	34.8%	27.4%	-9.0%	13.5%
Discrepancies	-6.1%	-37.1%	-24.8%	-82.6%	42.3%	-21.8%	-48.4%

**Values for H2 FY2020 have been implicitly calculated based on the FY2020 AE released by the CSO on January 7, 2020 and the data for H1 FY2020 released previously*

Source: CSO; CEIC; ICRA research

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

1809-1811, Shapath V,
Opposite Karnavati Club
S.G. Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B, Unit No. 1004,
10th Floor,1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony,
S. No. 210 CTS 3202 Range Hills Road,
Shivajinagar,Pune - 411 020
Tel: +91 20 2556 0194, 020 6606 9999

Email: info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.icraresearch.in