Press Release

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CRISIL cuts India's GDP growth this fiscal to 6.9%

Corporate revenue growth to slip back to single-digit after two fiscals

CRISIL has sliced its estimate of India's gross domestic product (GDP) growth by 20 basis points to 6.9% for this fiscal, following a triangulation of downside risks: weak monsoon, slowing global growth, and sluggish high-frequency data for the first quarter.

The slowdown would be pronounced in the first half, while the second half should find support from expected monetary easing, consumption, and statistical low-base effect, CRISIL said, while releasing its report on the outlook for India in fiscal 2019 titled '*Uphill trek'*.

Agricultural terms of trade are also expected to improve with a pick-up in food inflation. In addition, farmers would benefit from income transfer of Rs 6,000 per year announced by the Centre, and farm loan waivers in a few states.

Says Ashu Suyash, Managing Director & CEO, CRISIL Ltd, "Given the crosswinds, the sops announced so far might not be enough to pitchfork growth in this fiscal to, or above, the past 14-year average of 7% per annum. Policy action looks more attuned to consumption than investment demand, which means consumption will be the first to ascend as the tide turns."

India's GDP had grown at an impressive 8.2% in fiscal 2017, the fastest in a decade. This was followed by disruptions stemming from policy initiatives and reforms, and rising global uncertainty including from trade disputes – which together triggered a cyclical downturn.

Then the non-bank (including housing finance companies) crisis, which began late last fiscal, and the stress that ensued, slowed disbursals and further impacted household demand, which had already moderated amid lower incomes, weak sentiment and rising costs (fuel prices and insurance for automobiles). With access to funding becoming a challenge and non-banks caught up in managing liquidity, their growth halved to a multi-year low in the second-half of last fiscal, and remains impacted.

On the corporate side, revenue growth is set to grow at a slower 8%, reversing the trend of double-digit growth in the past two fiscals.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Sales volume in the automobiles sector will be impacted by a trifecta – of spurt in costs due to changes in regulation, tightening liquidity, and moderating income growth. Somber farm incomes will also weigh on rural-led segments such as FMCG."

Most consumption segments will pull India Inc's revenue growth to single digits. And weak prices of commodities such as steel would exacerbate the pain.

Banking sector non-performing assets (NPAs) are expected to decline to ~8% by this fiscal end from the peak of 11.5% in fiscal-end 2018, given lower accretion and increased recoveries. Credit growth should also grind up to 14%, the highest in five years, after having decelerated to 8% on asset quality pressures and capital constraints in fiscal 2018. Growth for NBFCs, particularly in the retail segment, is expected to pick up gradually. Also, NBFCs, have used this opportunity to correct their asset-liability mismatches and have reduced reliance on short-term market borrowings, which is a positive for the sector.

Says Dharmakirti Joshi, Chief Economist, CRISIL, "The crucial question, therefore, is whether a trough is in sight. Given the fiscal constraints, public spending is unlikely to have the heft to pull growth above 7%. And some of the recent, and much-needed, reforms would pay off only over the medium term. There would, therefore, be some near-term onus on monetary policy to stimulate. But how effective that can be is the big question."

For further information,

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