Q1FY20 GDP

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Reforms and liquidity to drive recovery

India's growth moderated to 5% in Q1FY20 on the back of a consumption and investment led slowdown. Exports too have moderated as global growth has fallen. The domestic slowdown has been accentuated by lack of liquidity with NBFCs and MSMEs. The recent reforms and measures announced by government such as pool buyouts from NBFCs, prompt payment and tax refunds to MSMEs, PSB recap, front loading of spending and liberalization of FDI norms have improved sentiment and will drive a cyclical recovery in H2.

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Q1FY20 growth slips to a 25-quarter low: Led by a sharp dip in consumption, India's Q1FY20 GDP growth fell to 5% compared with 5.8% in Q4FY19. While PFCE growth at 3.1% (7.2% in Q4) was at an 18-quarter low, investment growth too remained muted at 4% in Q1FY20 (3.6% in Q4). Declining auto sales and non-oil-non-gold imports suggest that domestic demand slowdown has continued even in Q2. Export growth too almost halved to 5.7% from 10.6% in Q4. Given the global backdrop, exports are unlikely to see a pickup. On the positive side, recap of banks, liquidity to NBFCs/ MSMEs and front-loaded government spending will drive a cyclical revival in H2.

Manufacturing dragged GVA lower: GVA growth fell to 4.9% in Q1FY20 (5.7% in Q4) led by sharp deceleration in manufacturing sector at 0.6% in Q1FY20 vs 3.1% in Q4. Mining too reported a dip at 2.7% (4.2% in Q4), construction decelerated to 5.7% (7.1% in Q4), financial services and real estate slowed down to 5.9% (9.5%in Q4) and public spending increased by only 8.5% (10.7% in Q4). However, agriculture reported an uptick at 2% (-0.1% in Q4). So was the case with electricity generation at 8.6% (4.3% in Q4).

PSB and liquidity to boost growth: The current slowdown can be attributed to liquidity issues with NBFCs and MSMEs. For the same, the government has announced a plan to infuse liquidity through pool buyouts from NBFCs and shorter payment cycle for MSMEs. In addition, the government today announced amalgamation of 10 PSBs into four anchor banks along with recapitalisation of Rs 525bn. This, in addition to reforms for attracting FDI announced earlier will help in reviving sentiment and growth (Page 2). We believe growth will bottom out at 6.4% in FY19 before recovering to 7% in FY21. A further slowdown in global growth remains a key risk to our estimates.

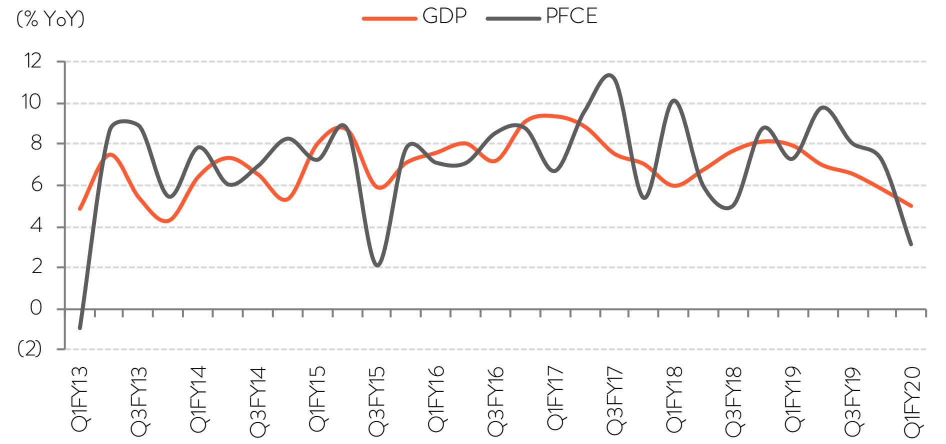
KEY HIGHLIGHTS

- GDP growth slips further to 5% in Q1FY20 from 5.8% in Q4FY19.
- GVA growth also dips to 4.9% compared with 5.7% in Q4FY19.
- Growth to recover to 7% in FY21 from 6.4% in FY20.

Major economic measures announced to revive growth

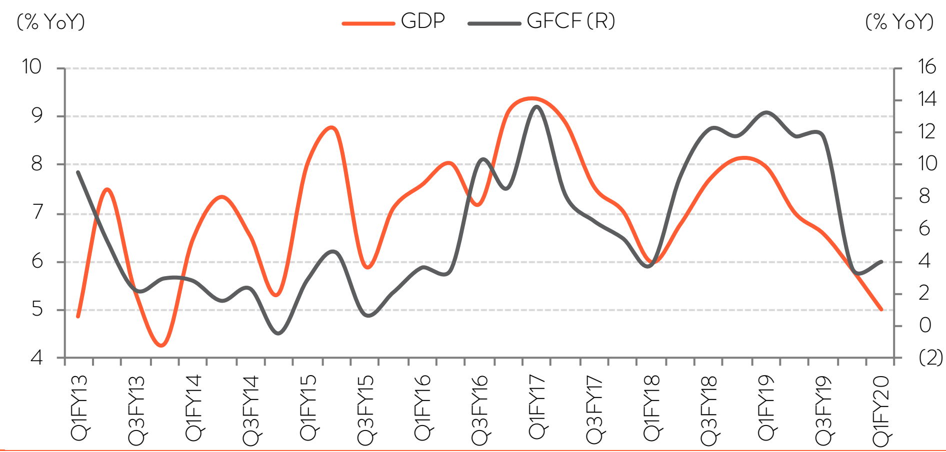
- In order to improve FDI inflows in manufacturing, Cabinet has permitted 100% FDI under the automatic route in contract manufacturing.
- Significant easing of local sourcing norms for Single Brand Retail Trading (SBRT) including permission to start online sales before starting brick and mortar stores.
- In the mining sector, 100% FDI under automatic route has been permitted for sale of coal, coal mining activities including associated processing infrastructure.
- 26% FDI has been permitted under government route for uploading/streaming of news and current affairs through digital media.
- Enhanced surcharge on long/short term capital gains withdrawn.
- Government has also announced upfront release of Rs 525bn capital to PSBs, which is expected to ensure pick in credit growth in H2FY20.
- In a major relief to MSME sector, government announced that all pending GST returns will be paid within 30 days and future refunds will also be settled within 60 days.
- In addition to Rs 100bn of budgetary support to NHB, government has also announced a liquidity support of Rs 200bn for HFCs through NHB.
- FM has announced consolidation of 10 PSBs into 4 anchor banks. This in turn will provide economies of scale and operational efficiency for achieving US$ 5tn economy. These are: 1) Punjab National Bank Oriental Bank of Commerce and United Bank, 2) Canara Bank and Syndicate Bank, 3) Union Bank, Andhra Bank and Corporation Bank, and 4) Indian Bank and Allahabad Bank.
- Major changes in governance reforms have been announced for PSBs ranging from recruitment of Chief Risk Officer at market linked compensation, empowering PSB boards by allowing them to appraise performance of GMs, CGMs and Directors, appointment of four Executive Directors instead of three at present, Individual Development plans for all senior executive positions and Non-Official Directors to be paid market linked compensation. This will enhance governance and risk-taking in PSBs thus reviving growth.

FIG 1 – PFCE GROWTH DECELERATES FURTHER



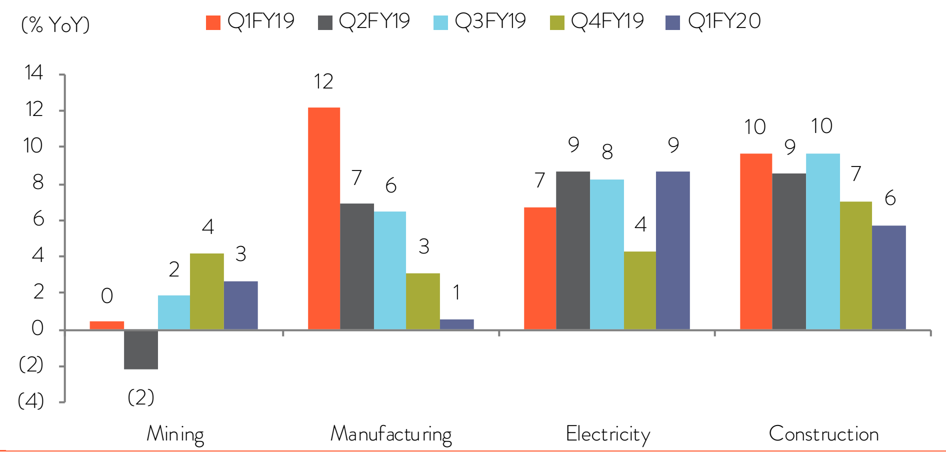
Source: CEIC, Bank of Baroda Research

FIG 2 – SIMILAR TREND SEEN IN INVESTMENT



Source: CEIC, Bank of Baroda Research

FIG 3 – GVA GROWTH SLIPS TO 4.9% LED BY MANUFACTURING



Source: CEIC, Bank of Baroda Research

FIG 4 – BANK RECAPITALISATION

Bank	Amount (Rs bn)
Punjab and National Bank	160
Union Bank of India	117
Bank of Baroda	70
Canara Bank	65
Indian Bank	25
Indian Overseas Bank	38
Central Bank of India	33
UCO Bank	21
United Bank of India	16
Punjab and Sind Bank	7.5
Total	**552.5**

Source: Press Information Bureau, Government of India, Bank of Baroda Research

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