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Falling GDP - 4.5% July-September 2019

Why in news?

India's annual growth in gross domestic product (GDP) fell to 4.5% for the quarter ended September 30, 2019.

What are the latest growth figures?

- The GDP grew at a robust 8.1% in January-March 2018.
- Since then, it has decelerated every consecutive quarter.
- The latest figures show it is estimated at 4.5% for July-September 2019.
- This is down from 5% in the previous 3 months and 7% for the corresponding period of 2018.

What are the implications?

- The sharp downturn has disrupted the plans of Corporate India.
- Companies across sectors had, over the last two decades, been prepared to plan for a trend growth rate of 8%.
- Investments were made, loans taken, capacities built, and people employed accordingly.
- Now, this normalised assumption has been disturbed, with an almost halving of the growth rate.
- There have been evident signs of this trend since the collapse of IL&FS in September 2018.
- A string of events since then has led to a freeze in the credit market.

How have companies managed with the recent situation?

- Cost of credit continues to remain high for most companies and the worst affected are small and medium enterprises.
- Companies may still borrow despite higher costs, if only credit was available.
- State-owned banks turned risk averse and almost closed the lending tap few years ago due to mounting bad loans.
- Companies thus turned to non-banking finance companies, more so after demonetisation in November 2016.

- NBFCs borrowed heavily from banks to on-lend to individuals as well as small companies.
- But after IL&FS, the NBFCs crumbled with their outstanding funding from banks dropping from a peak of 30% in 2017-18 to lower single digits now.
- NBFCs have virtually stopped lending to the wholesale segment.

Has RBI's monetary policy helped?

- The RBI and the government have been unable to address two critical needs of the industry.
- These are cost of credit and availability of credit.
- Cutting key policy rates was the easy part which the RBI did actively.
- But, this had a negative effect on the growth side.
- On the other hand, RBI had not been effective when it comes to getting banks to drop lending rates.
- These policy rate cuts have meant little for companies and to retail borrowers.

What are the challenges ahead?

- While the credit scenario has left the corporates worried, the economic slowdown has weakened the government finances.
- If the growth in collections from GST and Direct Taxes is extrapolated for the full year, the Central government will be staring at a shortfall of Rs 2.7 lakh crore in 2019-20.
- For the states, the tax shortfall cumulatively could be as high as Rs 1.7 lakh crore.
- Meanwhile, till October 2019, the fiscal deficit has already breached 100% of its full-year target.
- One way out is to spend; because core inflation is still around a very low 2%.
- But the government has little leeway.
- In fact, some argue, that if the government is bent upon meeting its fiscal deficit target of 3.3% of GDP, it will have to slash spending.
- But this will only serve to hit growth further.

Source: Indian Express