Business Standard

NCAER pegs India's FY20 GDP growth at 4.9% as slowing demand weighs

Forecast lowest among recent predictions

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The National Council of Applied Economic Research (NCAER) has pegged India's gross domestic product (GDP) growth for 2019-20 at 4.9 per cent, the lowest among the recent forecasts by rating agencies, multilateral institutions, research firms, and government institutions.

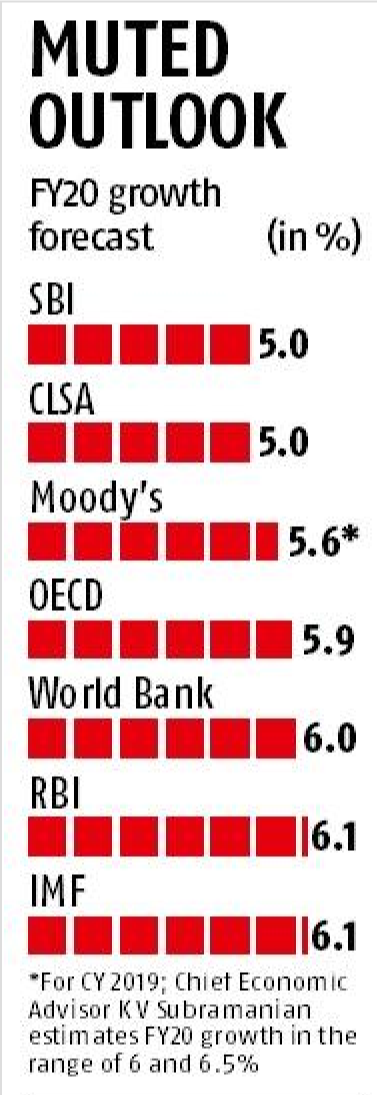
"India is experiencing a decline in growth, which is sharper than the global slowdown. The sharp decline in growth reflects a growth slowdown across virtually all sectors. It is primarily being driven by a simultaneous deceleration of all the drivers of aggregate demand," the New Delhi-based policy think tank said in its mid-year review released on Saturday.

For the July-September quarter, the report forecasts gross value added (GVA) growth at 4.9 per cent. The second-quarter and full-year forecasts have been arrived at by using a model developed by a joint team of the NCAER and the National Institute of Public Finance and Policy.

The NCAER's outlook comes just days after global ratings agency Moody's cut its calendar year 2019 GDP forecast for India to 5.6 per cent from 6.2 per cent, and State Bank of India (SBI) and CLSA forecast a growth rate of 5 per cent for FY20. A week earlier, Moody's had cut India's credit rating outlook to 'negative' from 'stable'.

In its report, the NCAER said that while the farm sector and agriculture output had been looking up, the industrial sector outlook remained grim.

"Capital goods showed negative growth for nine months in 2019, with this slowdown deepening further in August and September. The overall outlook for the industrial sector remains gloomy due to weak demand and investment activities," the report said.



"In the services sector, the indicators available for the second quarter point to a decline in the growth of most services. The decline in railways cargo traffic, international air cargo traffic, and cargo handled at major ports, taken together, is indicative of a general decline in the level of economic activity," it said.

The report said that while the Reserve Bank of India (RBI) had cut the repo rate by 135 basis points (bps) till October this year, the transmission of rates has been weak, raising concerns about the effectiveness of monetary policy in reviving real output growth. It said the credit extended to micro and small industries was declining and had been aggravated because of the liquidity crisis in non-banking financial companies (NBFCs).

The report also raised concerns about the Centre's revenue situation and said that while some of the revenue shortfall would be offset by squeezing expenditure, the fiscal deficit might be larger than budgeted estimates of 3.3 per cent of GDP. "It is evident that the real economy has been experiencing a sustained slowdown. Unfortunately, because of weak transmission, it is unlikely that monetary policy can be very effective in reviving growth at the present juncture. Providing a fiscal stimulus may be desirable but also challenging unless it can be financed through better revenue generation," the report said.