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PRESS RELEASE

Quarterly Review of the Economy

NCAER forecasts GDP growth of 4.9 per cent in 2019–20 and 5.6 per cent in 2020-21

New Delhi (Friday, February 21, 2020): The quarterly model nowcasts that GVA will grow at 4.7 per cent in Q3: 2019-20 and forecasts that GVA will grow at 4.9 per cent in Q4: 2019-20. Using the quarterly estimates, the average GVA growth rate for 2019-20 is forecast at 4.7 per cent. The annual model forecasts that GVA will grow at 5.4 per cent in 2020-21. GDP growth is nowcast to be 4.9 per cent in Q3: 2019-20, and forecast to be 5.1 per cent in Q4: 2019-20. The annual growth rates for 2019-20 and 2020-21 are forecast to be 4.9 per cent and 5.6 per cent, respectively.

Farm sector looks up

Due to better rainfall in the monsoon as well as the post-monsoon seasons and considerable improvement in the storage of water in major reservoirs of the country, the prospects for growth in the agricultural sector remain bright. Both the Ministry of Agriculture second advance estimates and NCAER's own estimates point to higher agricultural output in the current fiscal versus the previous year. This should also lead to lowering of food inflation in the coming months, which has otherwise remained high due to the lower than expected output of a few commodities, particularly vegetables and pulses.

Industry continues to stagnate

The Index of Industrial Production grew at (-) 0.4 per cent in Q2: 2019-20 and (-) 0.9 per cent in Q3: 2019-20 on a year-on-year (y-o-y) basis. The IIP of capital goods and consumer durables goods declined in both the second and third quarters of the current fiscal. Consumer non-durables also declined in December 2019. On the bright side, core IIP improved in December 2019, with buoyant growth in the key sectors of steel and cement. The Nikkei PMI improved through November and December 2019 and January 2020.

Greenshoots in the services sector

The GVA of the services sector grew at 6.8 per cent in Q1: 2019-20 and 6.9 per cent in Q2: 2019-20. Three lead indicators, viz., tourist arrivals, aviation passenger traffic, and services trade, were the bright spots in Q3: 2019-20. Cargo traffic across different transport modes continued to show negative growth in the third quarter of the current fiscal. After falling to 49.2 in October 2019, the Nikkei PMI Services Index showed a sharp and sustained rebound. This signals that the sector is in the process of bottoming out.

Growth in service exports driving improvement in trade

The monthly data shows that exports of goods and services in rupee terms showed y-o-y growth of 2.3 per cent in November 2019, which rose to 7.1 per cent in January 2020. The imports of goods and services continued to show negative growth. Merchandise exports growth has consecutively declined since August 2019 till January 2020. After seven months of negative growth, merchandise imports showed 0.1 per cent y-o-y growth in January 2020. Service exports y-o-y growth have increased from 1.5 per cent in October 2019 to 12.3 per cent in December 2019. Service imports y-o-y growth have increased from 3.8 per cent in October 2019 to 11.1 per cent in December 2019.

Increasing core inflation

Both CPI and WPI inflation rates including the Core inflation rates moved up in the third quarter of the current fiscal. The latest data from January 2020 indicates continuation of that trend. The rise in the CPI inflation rate was mainly due to an increase in food prices, especially vegetable prices. The overall retail inflation in Q3: 2019-20 would fall to 3.8 per cent instead of 5.8 per cent if the prices of onions, potatoes, tomatoes, and garlic were excluded.

Transmission remains weak

The Monetary Policy Committee (MPC) held rates at 5.15 per cent as of December 2020 after reducing the policy Repo rate by 135 bps to 5.15 per cent in a series of consecutive cuts culminating in October 2019. This was due to renewed concerns about rising inflation. Since transmission has remained weak, the RBI has taken a number of measures to help improve it. The RBI launched three rounds of special open market operations, called Operation Twist, to flatten the yield curve. It further announced the launching of long-term repo operations with a view to increasing durable liquidity in the banking system and enabling better transmission of rates. It also took a number of measures to help improve credit flow to the micro, small, and medium enterprises sector, which has witnessed a fall in credit growth since June 2019. Credit growth in November 2019 has been low or even negative in most segments except personal loans.

Little fiscal stimulus from Budget 2020-21

The 2020-21 Budget has not provided the expected strong fiscal stimulus to revive faltering growth. The revenue projections are still overly optimistic though more realistic than the projections last year. In aligning the expenditure projections with these revenue projections, with limited allowance for slippage in the fiscal deficit and no significant steps for additional revenue mobilisation, the 2020-21 Budget has failed to provide the required fiscal stimulus.

About the Quarterly Review of the Economy

The *Quarterly Review of the Economy* has been designed to meet the needs of policymakers, corporates, and others interested in tracking the latest developments in the Indian economy. It provides an analysis of current policies and tracks developments in both the domestic as well as the global economies. The growth forecasts of NCAER are objective and are widely quoted and referred to in both the Indian as well as international media. An integral part of the Quarterly Review are the State of the Economy seminars, organised quarterly at NCAER, which bring together policymakers, industry leaders, and researchers at one forum.

About NCAER

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offerings of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of the few independent think-tanks worldwide that combine rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its - General, Dr Shekhar Shah, and governed by an independent Governing Body, chaired by Mr Nandan M. Nilekani.

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