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SBI FY20 GDP ESTIMATE IS NOW AT 4.6%: FALTERING CONSUMPTION GROWTH TO DELAY RECOVERY TO H2FY21

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The FY20 GDP estimate as released by CSO pegs the GDP growth rate at 5% (We had revised our GDP projection to 5% in Nov'19), a 11 year low. Nominal GDP growth at 7.5% is **a 42 year low**. For FY20, the budgeted nominal GDP growth rate was 12% which has now been revised downwards to 7.5%. Based on this GDP revision, the impact on fiscal deficit is around 12 basis points for FY20.

This estimate however has a shelf-life of only two months and is only used as an input for budget arithmetic. The CSO will release the first revised estimate of FY17, FY18 and FY19 on 31 Jan'20 and based on that we believe that GDP and GVA for FY20 would be revised further downwards in 2nd advance estimate for FY20 on 28 Feb'20 and on 29 May'20. We are now revising our GDP projection for FY20 to 4.6% based on current available trends. It is likely that the 40 bps downward revision could be spilt over Feb and May'20 in equal proportion.

Factors like Government expenditure are the key determinants for overall growth outlook for FY20 as variations in Government spending have a spill over effect on other sectors. In Q2, Government spending alone accounted for 40% of the entire quarter's growth (1.9% out of 4.5% headline GDP growth), even as share in GDP was lower than 13%. However, this momentum is unlikely to persist given that the Government has already announced its intention of cutting expenditure.

The key to a quick recovery is consumption. The CSO estimates reveal an impending consumption recovery but we believe the quadruple balance sheet problem (Banks, Corporates, NBFCs and Households) is creating space for deleveraging that will delay a consumption pick up and also an investment pick up. The current uptick in oil prices could create a slowdown in discretionary consumption too. Specifically, the IBC resolution has been prolonged and we understand as companies are admitted into liquidation, the employees on the rolls of the company are only cumulatively compensated till the resolution process is completed, while the contractual employees are downsized. This also results in reduced remittance flows as contractual employees could head back to place of origin. This could also act as a constraining factor on consumption growth and thus it is essential that we also find a quick resolution (average resolution time is of 324 days as on March 2019).

We now believe that the RBI projection of a 5.9-6.3% GDP for FY21 could be on the higher side. We could be now staring at a sub 6% growth for 2 successive years!

GDP ESTIMATED TO GROW AT 5.0% IN FY20

- The 1st advance estimate (AE) of GDP for FY20 indicates GDP growth to be 5.0% (11 year low) as compared to the growth rate of 6.8% in FY19. Nominal GDP growth plunged to 42 year low of 7.5% in FY20 from 11.2% in FY19. We had revised FY20 GDP projection to 5% in Nov'19.
- Anticipated growth of real GVA at basic prices in FY20 is 4.9% against 6.6% in FY19. The CSO's AE is exactly equal to the RBI's projection. Apart from two sectors (Mining & Quarrying and Public Administration, Defence and other Services) all others sectors are expected to have lower growth in FY20 compared to FY19. As H1 GDP numbers have already come, to achieve 4.7% growth in FY20, H2 should grow by 5.2%.
- Agri. and Allied Activities are likely to grow at 2.8% in FY20 as against previous year growth of 2.9%. The First Advance Estimates of production of all Kharif crops for 2019-20 released by Department of Agriculture, Cooperation and Farmers Welfare shows that there will be marginal decline in overall production to 140.57 million tonnes from 141.59 million tonnes in 2018-19.
- Industry is estimated to grow at 2.5% in FY20 as compared to 6.9% in FY19 due to lackluster performance in all the sub-sectors. Deceleration in Manufacturing (from 6.9% in FY19 to 2.0% in FY20) and construction (from 8.7% in FY19 to 3.2% in FY20) are the main reasons for such low growth in industry.
- Service sector growth is likely to come in at 6.9% in FY20, compared to 7.5% in FY19. The sub segment 'Financial, Real Estate & Professional Services' growth declined significantly to 6.4% in FY20, compared to 7.4% growth in FY19. In this sector, around 75% is contributed by the growth in Real estate and Professional services. The Public Administration sub segment is likely to increase by 9.1%, compared to last year growth of 8.6%.
- On consumption side, total final consumption expenditure is expected to grow at 6.5% yoy at constant price compared to 8.3% in the previous year. Private final consumption expenditure is projected at 5.8% (8.1% in FY19) and Government final consumption expenditure at 10.5% yoy (9.2% in FY19).
- If we look at the H1 and H2 figures, total final consumption expenditure is pegged at 6% yoy (Rs 52.48 lakh crore) in H2 FY20 compared to 8% growth (Rs 48.96 lakh crore) in H1 FY20. Within this, private final consumption expenditure is slated to increase by 7% to Rs 44.79 lakh crore in H2. When we look at 4% growth achieved in H1 FY20, this number seems unlikely to be achieved. Government is expected to reduce its expenditure in H2 to Rs 7.70 lakh crore from Rs 8.94 lakh crore in H1 FY20.
- This estimate however has a shelf-life of only two months. This is because CSO will release the first revised estimate of FY17, FY18 and FY19 on 31 Jan'20 and based on that today's estimate of GDP and GVA for FY20 would be revised further in 2nd advance estimate for FY20 on 28 Feb'20.

GDP Growth Rates (YoY%) at Constant Prices (Base: 2011-12)

Particulars	FY20 (AE)			FY19 (PE)	FY18 (RE)
	FY20 (AE)	H2*	H1		
1. Agriculture, forestry & fishing	**2.8**	**3.3**	**2.1**	**2.9**	**5.0**
2. Industry	**2.5**	**3.3**	**1.6**	**6.9**	**5.9**
2.1 Mining & quarrying	1.5	1.4	1.6	1.3	5.1
2.2 Manufacturing	2.0	4.1	-0.2	6.9	5.9
2.3 Electricity, gas, water supply & other utility services	5.4	4.7	6.1	7.0	8.6
2.4 Construction	3.2	1.8	4.6	8.7	5.6
3. Services	**6.9**	**6.9**	**6.8**	**7.5**	**8.1**
3.1. Trade, hotels, transport, communication & services related to broadcasting	5.9	5.8	6.0	6.9	7.8
3.2. Financing, insurance, real estate & bus. Services	6.4	7.0	5.9	7.4	6.2
3.3. Public administration, defence and Other Services	9.1	8.3	10.1	8.6	11.9
Total GVA at Basic Prices	**4.9**	**5.2**	**4.6**	**6.6**	**6.9**
GDP	**5.0**	**5.2**	**4.8**	**6.8**	**7.2**

Source: CSO, SBI Research; * Based on AE

Expenditure Growth Rates (YoY%) at Current Prices

Particulars	FY20 (AE)			FY19 (PE)	FY18 (RE)
	FY20 (AE)	H2*	H1		
Total final consumption expenditure	**9.8**	**11.0**	**8.5**	**12.2**	**11.9**
Private final consumption expenditure	**9.0**	**10.9**	**7.0**	**12.0**	**10.6**
Government final consumption expenditure	14.0	12.3	15.6	13.2	19.1
Gross fixed capital formation	3.1	2.2	4.0	13.7	13.0
Change in Stocks	5.5	7.1	3.8	7.9	24.5
Valuables	11.9	32.3	-8.4	-11.3	31.3
Exports	**0.5**	**-3.7**	**5.0**	**16.9**	**8.9**
Less Imports	-3.5	-7.7	0.8	19.6	16.7
Discrepancies	-70.7	-111.2	-40.4	-2.4	31.0
GDP	**7.5**	**8.0**	**7.0**	**11.2**	**11.3**

Source: CSO, SBI Research; * Based on AE

Consumption growth at Constant Price(% yoy)

	H2 FY20	H1 FY20
Total final consumption expenditure	8	6
Private final consumption expenditure	7	4
Government final consumption expenditure	8	12

Source: SBI Research, Mospi

FISCAL ARITHMETIC

- For FY20, the budgeted nominal GDP growth rate was 12% which has now been revised downwards to 7.5%. Based on this GDP revision, the impact on fiscal deficit is around 12 basis points for FY20.
- With nominal GDP growth projected at 10% in FY21, fiscal deficit for FY21 even at 3.5% comes to Rs 7.9 lakh crore. Thus gross borrowings for FY21 are likely to be around Rs 8 lakh crore and combined with states borrowing of around Rs 7 lakh crore, the total borrowing for FY21 will be at least Rs 15 lakh crore.

WE NOW PROJECT FY20 GDP ESTIMATE AT 4.6%

- Though, the CSO has projected FY20 GDP growth at 5.0% we believe that achieving this growth is not possible as there is less optimism for any revival in growth in Q3 and Q4 quarters. The leading indicators data indicate that Q3 GDP growth would be around 4.4% and Q4 growth also won't be greater that 4.6%.
- In the current FY so far (upto 20 Dec'19), the ASCBs YoY credit growth has continued its downward journey and touched 7.1% (vis-à-vis 15.1% in corresponding period previous year). Even on a YTD basis incremental credit growth is merely 26% of previous year. Thus, on an YTD basis the ASCBs advances increased by 1.8% (Rs 1.75 lakh crore) in FY20, compared to last year YTD growth of 7.7% (Rs 6.6 lakh crore). Additionally, aggregate deposits of ASCBs has increased by 10.1% (YoY), compared to last year growth of 9.2%. On YTD basis, deposits grew by Rs 4.3 lakh crore till 20 Dec in FY20 vis-à-vis Rs 3.9 lakh crore in FY19. Based on the trend growth, we believe credit growth will be range bound and may end with below 7% in FY20.
- Overall energy demand fell 2% yoy in Nov'19 to 100 billion Units (fell 6% on average in Q3FY20). However, peak demand has reversed, rising 4.4% yoy to 171GW (down 1.4% during Q3FY20). Energy demand remains weak due to sustained low Industry/Agriculture demand but has improved – down only 2% in Dec'19 from a high of 13%-fall in Oct'19.

A TEDIOUS PATH TO $5 TRILLION BY FY25

- To achieve $5 trillion target by FY25, the FY20 GDP should have been around $3.2 trillion (or around Rs 225 lakh crore). However, the CSO has projected FY20 GDP to be around RS 204 lakh crore. This leads to a gap of around Rs 20 lakh crore. We believe that FY25 nominal GDP will be in the range of $4.5-4.7 trillion (not the $5 trillion as expected) at the current rate.

GOVERNMENT EXPENDITURE

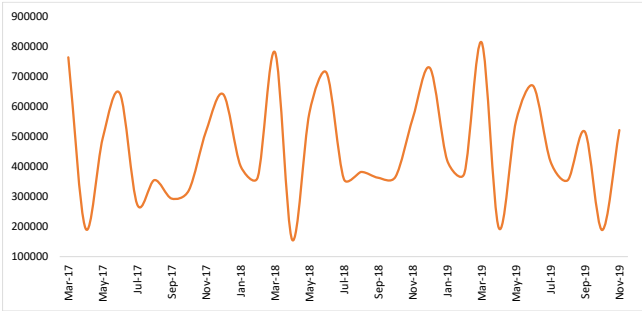
- Factors like Government expenditure are the key determinants for overall growth outlook for FY20 as variations in Government spending have a spill over effect on other sectors. For example in Q2, Government spending alone accounted for 40% of the entire quarter's growth (1.9% out of 4.5% headline GDP growth), even as share in GDP was lower than 13%.
- Monthly data on Central government consumption (Government revenue expenditure excluding interest payment), shows that in Nov'19, the expenditure is picking momentum. However, this momentum is unlikely to persist given the lack of limited fiscal space and given the Government has already announced its intention cutting expenditure.
- With inflation likely to have significantly picked pace in December and could be closer to 6.7-6.8%, a rate cut is unlikely in February. Thus the budget could be the immediate starting point of a revival.

Mapping of Leading Indicators with GDP Growth

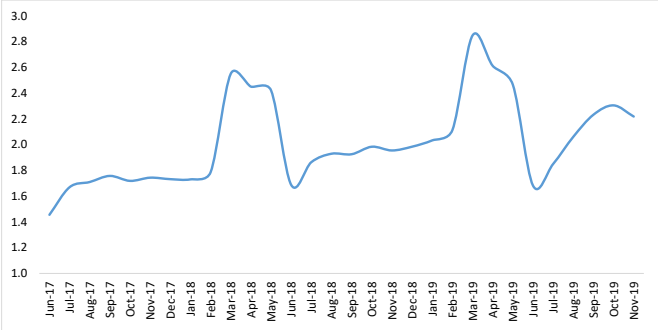
Year	Quarter	% of indicators showing acceleration	GDP Growth (%)
FY18	Q1	59	6.0
	Q2	67	6.8
	Q3	64	7.7
	Q4	74	8.1
FY19	Q1	65	8.0
	Q2	63	7.0
	Q3	63	6.6
	Q4	48	5.8
FY20	Q1	35	5.0
	Q2	27	4.5
	Q3 P	26	4.4

Source: SBI Research

Central Govt. Revenue Exp. (Excluding interest) in Rs Crore



State Government Total Expenditure (in Rs Lakh Crore)



Source: SBI Research

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