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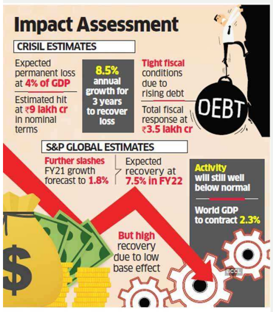
INDIA NEEDS TO GROW AT 8.5 PER CENT IN SUCCESSION TO GET BACK ON TRACK: REPORT

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

MUMBAI: The lockdown throughout the country due to COVID-19 concerns may cause a permanent erosion of 4 per cent of India's GDP. India may need to grow 8.5 per cent for three years in succession to be back on track according to ratings firm Crisil.

"We estimate 4% permanent loss to real GDP (from the decadal trend levels) in the base case" Crisil said. "Catch-up requires a never-before seen GDP growth of 8.5% on average for three years up to fiscal 2024" Crisil has forecast FY'21 growth rate at 1.8 per cent in its latest revision



Rating firms and many brokerages have already revised their GDP forecast twice since the COVI-19 pandemic resulted in lock-downs throughout the country halting the economic activity through-out the country and many parts of the globe.

"Protecting India's workforce will be a major challenge (for which) fiscal policy has to be more aggressive" said Crisil chief economist D K Joshi. Crisil anticipated a fiscal stimulus of about Rs 3.5 lakh crore. "Fiscal support needs to go up in scale and scope beyond vulnerable households to cover firms as well"

The most affected are daily-wage earners and those with no job security. In India, casual labourers form almost 25% of the workforce and would take the first hit due to shutdowns and layoffs.

So far policy support has been largely through monetary policy through liquidity support to impact sector and also regulatory relaxations on loan repayment. But fiscal space to spend is somewhat constrained by tight fiscal position of Centre and states.

MSMEs are more vulnerable than larger players, especially on the liquidity front. Crisil's research suggests that even in a relatively milder slowdown than we expect this fiscal, MSME working capital can stretch by over a month.

Crisil expect the banking sector to also bear a big brunt of the lockdown. It expects banking sector NPAs to rise to 11-11.5% by March 2021 from an estimated at 9.6% as of March 2020, with sharply lower recoveries and rising slippages. NPAs are expected to swell for non-banking finance companies, too,with microfinance, MSME loans and wholesale/developer funding witnessing the sharpest spike.

Indian companies' EBITDA- earnings before interest, taxes, depreciation and ammortisation, is set fall by 15 per cent assuming a real GDP growth of 1.8 per cent.

we expect consumer discretionary services and products such as airlines, hotels, automobiles and consumer durables to be the worst-hit. Non-pharma exporters, real estate and construction companies also face one of their worst years. Even resilient sectors such as IT services will see muted growth as global budgets on IT spending fall.

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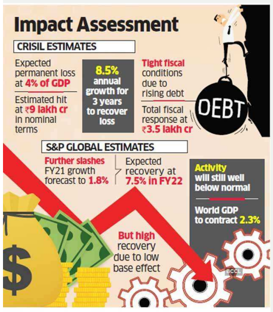

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