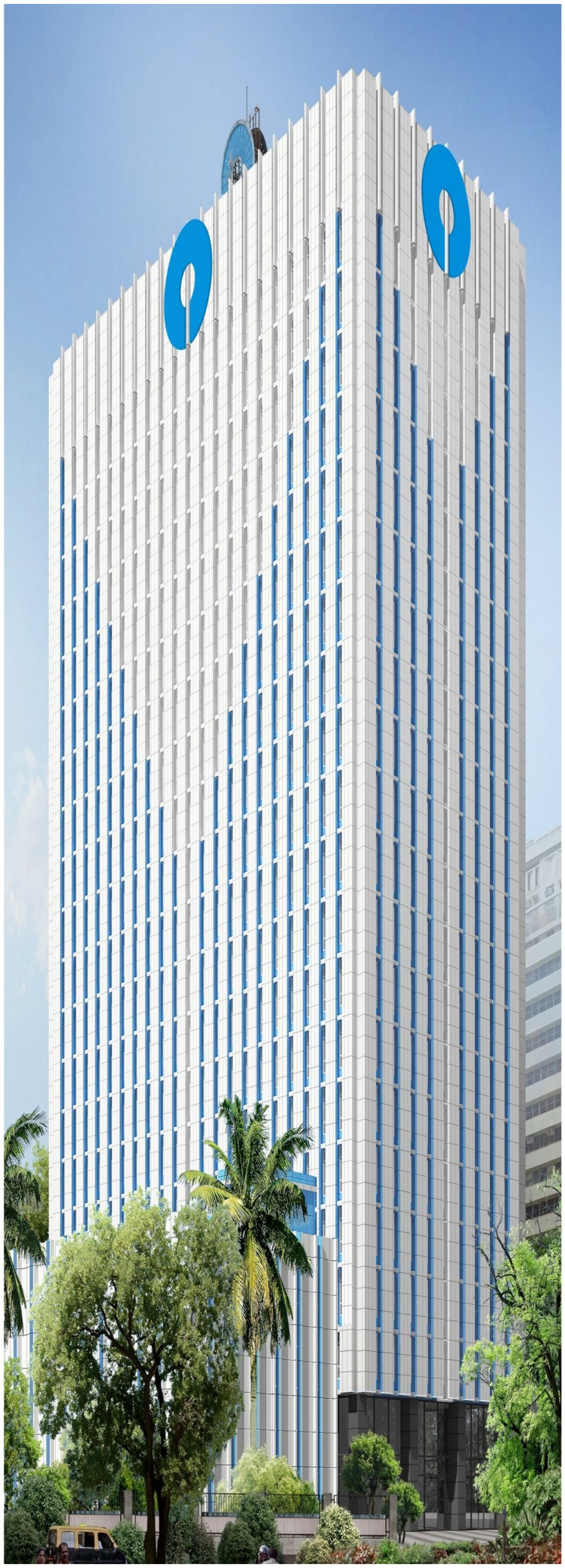
SBI ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

'Be the Bank of Choice for a Transforming India'

FEBRUARY 28, 2019
ISSUE NO:93, FY19



Q3 GDP DATA: A WHOLE SLEW OF REVISIONS

GDP data released today show that GDP growth has been on a declining trend in FY19 with Q3 GDP growth dipping to 6.6%. **Based on the second advance estimate of 7.0% in FY19, GDP growth in Q4 is further expected to ease to 6.5%.** The FY19 GDP growth has been mainly supported by Manufacturing, construction and Financial, Real Estate and Professional Services.

The spate of data revisions in the quarterly GDP numbers for FY17 and FY18 now reveal a prolonged hiatus in growth since Q1FY17. For example, Q1GDP growth in FY17 was at 9.2% and has progressively declined since then (barring a brief upturn during Q2FY18 till Q4FY18). Interestingly, growth has declined sharply from 9.2% peak to 6% in Q1FY18. **Also the significant volatility in GDP numbers during FY17 and FY18 is difficult to reconcile and it will be better if CSO comes out with a detailed advisory of such difference in estimates.**

Growth in Agri GVA deflator is projected to turn positive in Q4, even as real Agri GVA is slated to degrow. This clearly indicates the stress in the farm sector is far from over. Also, NPA in Agri sector remains elevated reflecting the spate of loan waivers in several states having a detrimental impact on credit culture.

The good thing is that construction sector comprising of construction of buildings, roads and railways and other minor construction activity (NIC 2008 Industry divisions 41,42,43) has shown an impressive recovery in FY19. The growth rate has recovered from lows of 3.6% to 8.9% in FY19. The trend shows the recovery is not knee-jerk but gradual and consistent.

The positive thing is that after picking up in the first three quarters of FY18, Core GVA is projected to decline only marginally in Q4.

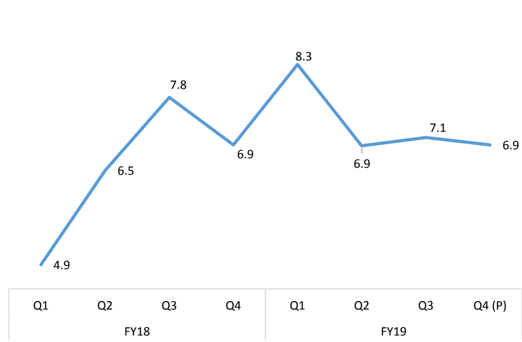
The expenditure side figures show a puzzling trend under the head 'discrepancy'. The share of discrepancy in the GDP which was of the order of 0.15% of in FY15 has increased to 2.8% of GDP in FY18 and 1.9% in FY19. This massive jump in the figures warrants some explanation, though Investment is still holding up.

Separately, a deeper analysis of sectoral data indicates that the credit off-take which crossed Rs 2 trillion mark in Sep'18 and Rs 1 trillion mark in Nov'18 decelerated thereof. Capex led growth from listed companies will remain muted. Working Capital will remain key to credit growth. Most NBFCs have witnessed an increase in cost of funds and are trying to shore up the liquidity levels. NBFCs with higher exposure to loan against shares and developer loans are likely to see an elongated cycle of pain.

GDP GROWTH: REVISIONS GALORE

- GDP growth has been on a declining trend in FY19 with Q3 GDP growth dipping to 6.6% yoy from a revised 7.0% yoy in the previous quarter and 7.7% yoy in Q3 FY18. Based on the second advance estimate of 7.0% in FY19, GDP growth in Q4 is further expected to ease to 6.5%. The significant slowdown in Q3 GDP is due to drop in agriculture sector growth to 2.7% yoy and modest easing in services sector growth(7.2%).
- After picking up in the first three quarters of FY18, Core GVA is projected to dip in Q4. For FY19, core GVA picked up in Q1 but it lost momentum thereafter.
- The spate of data revisions in the quarterly GDP numbers for FY17 and FY18 now reveal a prolonged hiatus in growth since Q1FY17. For example, Q1GDP growth in FY17 was at 9.2% and have progressively declined since then (barring a brief upturn during Q2FY18 till Q4FY18). Interestingly, growth has declined sharply from 9.2% peak to 6% in Q1FY18. Also the significant volatility in GDP numbers during FY17 and FY18 is difficult to reconcile and it will be better if CSO comes out a detailed advisory of such difference in estimates.
- In FY19, Q1 figures for all sub sectors, viz, agri, industry and services have been revised downwards, with major downward revision in Public administration, Defence and Other Services and Manufacturing. For Q2 the picture is mixed with Agri being revised upward and industry and services revised downward. Public administration, Defence and Other Services growth has again been revised downward.
- Growth in Agri GVA deflator is projected to turn positive in Q4, even as real Agri GVA is slated to degrow. This clearly indicates the stress in the farm sector is far from over.

Chart 1: Core GVA growth (% yoy)



Source: CSO; SBI Research

Quarterly Estimates of GVA at Basic Price by Economic Activity (%)										
	FY18					FY19				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4(P)	Annual
Agriculture	**4.2**	**4.5**	**4.6**	**6.5**	**5.0**	**5.1**	**4.2**	**2.7**	**-0.1**	**2.7**
Industry	**0.8**	**6.9**	**8.0**	**8.1**	**5.9**	**10.0**	**6.7**	**7.1**	**7.0**	**7.7**
Mining & quarrying	2.9	10.8	4.5	3.8	5.1	0.4	-2.1	1.3	4.2	1.2
Manufacturing	-1.7	7.1	8.6	9.5	5.9	12.4	6.9	6.7	6.8	8.1
Electricity, gas, water supply & other utility services	8.6	9.2	7.5	9.2	8.6	6.7	8.7	8.2	8.5	8.0
Construction	3.3	4.8	8.0	6.4	5.6	9.6	8.5	9.6	8.1	8.9
Services	**9.4**	**6.8**	**8.0**	**8.2**	**8.1**	**7.2**	**7.4**	**7.2**	**7.7**	**7.4**
Trade, hotels, transport, communication & services related to broadcasting	8.3	8.3	8.3	6.4	7.8	7.8	6.9	6.9	5.8	6.8
Financial, real estate & professional service	7.8	4.8	6.8	5.5	6.2	6.6	7.2	7.3	8.2	7.3
Public administration, defence and Other Services	14.8	8.8	9.2	15.2	11.9	7.6	8.7	7.6	10.0	8.5
Total GVA at Basic Price	**5.9**	**6.6**	**7.3**	**7.9**	**6.9**	**7.8**	**6.8**	**6.3**	**6.3**	**6.8**
GDP	**6.0**	**6.8**	**7.7**	**8.1**	**7.2**	**8.0**	**7.0**	**6.6**	**6.5**	**7.0**

Source: CSO & SBI Research

Growth in Sectoral Deflator (YoY%)								
Sectors	FY16	FY17	FY18	FY19				
				Q1	Q2	Q3	Q4(P)	Annual
Agriculture	**5.7**	**5.5**	**1.9**	**1.7**	**-0.8**	**-0.6**	**1.6**	**0.5**
Industry	**-0.3**	**0.9**	**4.5**	**5.3**	**6.2**	**5.8**	**4.9**	**5.5**
Mining & quarrying	-13.5	0.0	3.8	17.7	24.1	17.9	13.7	17.7
Manufacturing	1.1	0.8	2.8	3.8	4.4	4.1	3.5	3.9
Electricity, gas, water supply & other utility services	13.3	-4.0	10.2	5.5	7.4	8.4	6.4	6.9
Construction	-2.3	3.0	6.2	4.7	5.0	4.6	4.0	4.6
Services	**0.9**	**2.9**	**4.3**	**5.1**	**5.4**	**4.8**	**4.6**	**5.0**
Trade, hotels, transport, communication & services related to broadcasting	-1.2	2.8	3.2	4.7	5.2	4.7	4.1	4.6
Financial, real estate & professional service	0.4	2.0	5.2	5.2	5.6	5.0	4.4	5.1
Public administration, defence and Other Services	4.9	4.6	4.0	5.6	5.1	4.7	5.1	5.1
Total GVA at Basic Price	**1.2**	**2.7**	**3.9**	**4.6**	**4.7**	**3.8**	**4.1**	**4.3**
GDP	**2.3**	**3.1**	**3.8**	**4.3**	**4.6**	**4.2**	**3.7**	**4.1**

Source: CSO & SBI Research

Revision in GDP and GVA Growths							
Quarter		GVA			GDP		
		Old	New	Change in bps	Old	New	Change in bps
FY17	Q1	8.3	9.2	88	8.1	9.2	111
	Q2	7.2	8.1	89	7.6	8.7	108
	Q3	6.9	7.3	40	6.8	7.4	65
	Q4	6.0	6.6	56	6.1	6.9	78
FY18	Q1	5.6	5.9	35	5.6	6.0	40
	Q2	6.1	6.6	44	6.3	6.8	45
	Q3	6.6	7.3	70	7.0	7.7	72
	Q4	7.6	7.9	35	7.7	8.1	43
FY19	Q1	8.0	7.8	-19	8.2	8.0	-17
	Q2	6.9	6.8	-4	7.1	7.0	-15
	Q3	-	6.3	-		6.6	-
	Q4 (P)	-	6.3	-		6.5	-
FY17	Annual	7.9	7.9	0	8.2	8.2	0
FY18	Annual	6.9	6.9	0	7.2	7.2	0
FY19	Annual	5.8	6.8	97	5.9	7.0	112

Source: CSO & SBI Research

JUMP IN DISCREPANCY ON EXPENDITURE SIDE

- The expenditure side figures show a puzzling trend under the head 'discrepancy'. The share of discrepancy in the GDP which was of the order of 0.15% of in FY15 has increased to 2.8% of GDP in FY18 and 1.9% in FY19. This massive jump in the figures warrants some explanation, though Investment is still holding up.
- After comparing the First Revised Estimate for FY18 and the First Revised Estimate for FY17, a major revision occurred in the Government Final Consumption Expenditure for the year 2016-17. This figure was revised downward by Rs 80,524 crore was the highest revision which has got added up almost completely in the discrepancy (Rs 75,700 crore). This revision has almost altered the growth rates in the subsequent years and will also impact the overall GDP growth.

SURGE IN CONSTRUCTION GROWTH

- The construction sector comprising of construction of buildings, roads and railways and other minor construction activity (NIC 2008 Industry divisions 41,42,43) have shown an impressive recovery in FY19. The growth rate has recovered from lows of 3.6% to 8.9% in FY19. The trend shows the recovery is not knee-jerk but gradual and consistent.
- Quarterly data shows jump in Q3 construction, however it is again expected to move downwards in the next fiscal.
- The construction activity in part has recovered due to massive thrust to rural housing under PMAY. The acceleration and completion of road projects and construction activity taken up by railways also explain the surge in the growth rates. However with piling of housing inventory in urban areas it is likely that FY19 estimate may be revised going forward.
- Thus while the GVA growth in PMAY, roads and railways partly explain this surge in real terms, a part of this trend is also due to continuous fall in the housing prices. The RBI All-India House Price Index for the reference period FY18 and FY19 is showing a downward trends. The much broader NHB RESIDEX index also showing a similar trend. The quarterly seasonally adjusted growth rate has declined to 4.02% in Mar 2018 after attaining a peak of 11.6% in June 2016. This trend in the price will push the real growth up.

GAP BETWEEN MSP AND MARKET PRICES OF VARIOUS CROPS

- In the Union Budget for 2018-19, Government announced the pre-determined principle of offering to farmers a threshold MSP of at least 1.5 times the cost of production (CoP) for all mandated kharif crops and accordingly, in July'18 it declared MSPs for 14 mandated kharif crops for FY19 marketing season. On similar line, MSP for Rabi crops were also announced in Oct'18 for FY20 marketing season.
- Post announcement of MSP for both Kharif and Rabi crops, it is well argued among academicians, researchers and regulators that higher MSP will push up the market prices and there by impacting CPI food inflation significantly. However, despite the procurement by Central and State Government agencies and even allowing the private agencies to procure through PM-ASHA scheme, the market prices are still trading below the MSP for crops like Jowar, Ragi, Arhar, Moong, Urad & nigerseed during last 8 months.
- To address this price deficiency and declining farm income, the Government in Union Budget 2019-20 announced to implement Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), which will provide direct income support at the rate of Rs 6,000 per year to 12 crore small and marginal farmers. However, identifying the beneficiaries, and transferring the amount to all farmers by March'19 remains a challenge. As per the latest data, only 2.04 lakh villages (33%), out of 6.55 lakh villages are linked with banks. So, going by this figure and considering the active KCC accounts (presently more than 6 crore), we believe Government can easily transfer the respective amount to more than 4 crore farmers by March'19.
- The coverage would, however, require participation of all the states, which has not been forthcoming even now. Secondly, the Government has to take up active steps to allay the apprehensions of farmers who have not been able to retain the first installment of the PM-Kisan scheme which has subsequently been debited from the account.

All India Average Price Movement of Kharif crops Post MSP Announcement (price per quintal)

Crops		Weight in CPI	MSP 2018-19	Jan-19	Feb-19	Growth Feb'19 over MSP (%)	Growth Feb'19 over Jan'19 (%)
Cereals	Wheat*	2.73	1840	2089	2098	14.0	0.4
	Paddy	4.75	1750	1977	2010	14.8	1.6
Coarse Cereals	Barley*	0.05	1440	2065	1846	28.2	-10.6
	Jowar	0.23	2430	2452	2276	-6.3	-7.2
	Bajra	0.11	1950	1984	2106	8.0	6.1
	Maize	0.06	1700	1768	1913	12.5	8.2
	Ragi	0.05	2897	2337	2320	-19.9	-0.7
Pulses	Gram*	0.29	4620	5078	4991	8.0	-1.7
	Masur*	0.3	4475	5766	5786	29.3	0.3
	Arhar	0.80	5675	5152	5408	-4.7	5.0
	Moong	0.36	6975	5745	5673	-18.7	-1.2
	Urad	0.27	5600	5205	5349	-4.5	2.8
Oilseeds	Mustard*	1.33	4200	3969	3951	-5.9	-0.5
	Soyabean	0.30	3390	3536	3660	8.0	3.5
	Groundnut	0.33	4890	4645	4909	0.4	5.7
	Seasamum	0.01	6249	10060	9999	60.0	-0.6
	Nigerseed	0.01	5877	4395	4447	-24.3	1.2
	Cotton	0.05	5150	5358	5263	2.2	-1.8

Source: AGMARKET, SBI Research Note: *: MSP for 2019-20

AGRICULTURE STRESS: YET TO RECEDE

- Agriculture sector in India is grappling with problems including low credit growth and higher NPA among others. ASCB overall credit growth has picked-up this fiscal with an average growth of 12.0% yoy during Apr'18 -Jan'19 (6.5% yoy during Apr'17-Jan'19). Credit deployed to agriculture sector has also picked-up momentum in Q3 FY19, however cumulative growth for the first three quarters of FY19 comes around 6.9% which is still lower than 7.2% growth registered during the same period last fiscal. In Jan'19 again credit growth to agri sector decelerated.
- If we look at the agriculture NPA (as % of agriculture advances) for select banks, it has either increased or remained stagnant at higher levels for most of them in this fiscal year so far. Only a few banks including Bank of Baroda, SBI and OBC have been able to reduce their agriculture sector NPA.

Agriculture NPA (% of Agri advances)				
Banks	Mar-18	Jun-18	Sep-18	Dec-18
Bank of India	11.2	13.5	15.0	15.7
BoB	13.6	11.7	11.5	10.6
Canara Bank	4.6	4.9	4.8	5.0
Central Bank	7.4	7.9	7.6	7.8
Corporation Bank	7.4	7.7	8.7	9.3
IDBI	19.0	12.4	13.6	13.3
Indian Bank	2.0	2.6	1.9	2.1
OBC	13.2	16.1	15.7	15.4
SBI	11.3	11.6	11.4	11.0
Syndicate Bank	11.0	14.5	16.4	15.7
Union Bank	6.1	6.9	7.6	7.7
Vijaya Bank	3.6	4.1	5.4	5.5
Source: SBI Research				

- This increase in agriculture NPA along with low credit growth is a cause of worry. This might be indicative of pressures in the farm sector also corroborated by agriculture debt waivers. In order to address growing farmers' distress, several state governments, viz., UP, Punjab, Maharashtra, Rajasthan and Karnataka have announced farm loan waivers this year. While waivers may cleanse banks' balance sheets in the short-term, but research suggests they may actually dis-incentivise banks from lending to agriculture in the long-term.

CREDIT GROWTH: NO GREAT EXPECTATIONS IN CREDIT CYCLE PICK UP IN AN ELECTION YEAR

- The ASCB data for the fortnight ended 01 Feb'19 indicates that on YTD basis, Aggregate deposits grew by 6.1% or Rs 6,967 billion (2.8% or Rs 2,999 bn last year) and advances by 9.3% or Rs 8,044 billion (5.0% or Rs 3,920 billion). On YoY basis, Aggregate deposits grew by 9.6% or Rs 10,652 billion (5.2% or Rs 5,472 billion) and Advances grew by 14.5% or Rs 11,964 billion (10.6% or Rs 7,875 billion).
- A deeper analysis of sectoral data indicates that the credit off-take which crossed Rs 2 trillion mark in Sep'18 and Rs 1 trillion mark in Nov'18 decelerated thereof. During the Jan'19, the monthly credit growth was Rs 337 billion. This is not encouraging and is clearly evident in industries ands services, despite marginal improvement in credit to MSME. Bank credit to NBFCs decelerated to Rs 5576 billion in Jan'19 from Rs 5709 billion in Dec'18. Credit to MSE sector has seen good growth in January also due to Government's recently launching an MSME Support and Outreach Programme, which will run for 100 days covering 100 Districts throughout the country.
- Capex led growth from listed companies to remain muted. Working Capital to remain key to credit growth.
- Most NBFCs have witnessed an increase in cost of funds and are trying to shore up the liquidity levels. With limited availability of liquidity and sell down of portfolios, NIMs will be under pressure across the board with small and low rated NBFCs facing balance sheet contraction. NBFCs with higher exposure to SMEs/ Loan against shares and developer loans likely to see an elongated cycle of pain.

Sector-Wise Credit Flow (Rs bn)											
Sectors							Monthly Growth (Rs Bn)				
	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Agri. & Allied	**10419**	**10544**	**10597**	**10648**	**10821**	**10832**	**126**	**53**	**50**	**174**	**10**
Industry	**26621**	**27016**	**26962**	**27084**	**27494**	**27495**	**396**	**-55**	**122**	**410**	**1**
MSE (Priority)	9881	9945	9961	9957	10047	10180	64	16	-5	91	133
Infrastructure, of which	**9237**	**9367**	**9550**	**9579**	**9719**	**9863**	**130**	**183**	**29**	**140**	**143**
Power	5299	5318	5339	5397	5476	5542	18	22	57	80	65
Telecommunications	907	919	953	900	906	928	13	33	-53	6	22
Roads	1712	1745	1789	1822	1870	1882	32	44	34	47	13
Other Infrastructure	1319	1385	1469	1460	1467	1516	66	84	-9	7	49
Services	**20740**	**22014**	**22081**	**22538**	**22330**	**22346**	**1274**	**67**	**457**	**-208**	**16**
NBFCs	4902	5467	5626	5663	5709	5576	565	160	37	46	-133
Personal Loans	**19924**	**20200**	**20386**	**20662**	**20997**	**21371**	**275**	**186**	**276**	**335**	**374**
Housing (Including Priority)	10419	10502	10623	10774	10966	11208	84	121	151	192	242
Other Personal Loans	5309	5431	5480	5582	5714	5831	122	49	102	133	117
Gross Bank Credit	**78191**	**80250**	**80574**	**81652**	**82413**	**82750**	**2058**	**325**	**1078**	**761**	**337**
Source: SBI Research											

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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