Fitch Rating forecasts India's GDP growth at 5.5% in 2019-2020 and 6.2% in 2020-2021

Fitch Ratings expect India's economic growth to be 5.5% in 2019-2020, before picking up to 6.2% in 2020-2021 and 6.7% in 2021-2022. According to Fitch, the economy is being held back by a large squeeze in credit availability emanating from non-bank financial companies (NBFCs). Assuming the sluggish pace of lending is maintained throughout the year, total new lending will amount to only 6.6% of GDP in the fiscal year 2019-2020, down from 9.5% in the previous fiscal year.

The Indian economy decelerated for the fifth consecutive quarter in 2Q19, with GDP expanding by a meagre 5% Y-o-Y, down from 8% recorded a year earlier. This is the lowest growth outturn since 2013. Weakness has been fairly broad-based, with both domestic spending and external demand losing momentum.

While an array of factors have contributed to the Indian slowdown - including a downturn in world trade - Fitch believes that the severe credit squeeze has taken a heavy toll. NBFCs have faced a severe tightening of funding conditions over the past year and a half. They have in turn sharply reduced the supply of credit to the commercial sector. The auto and real estate sectors have been particularly hit by NBFC credit rationing. In contrast, banks' lending has held up well in recent months, mitigating some of the overall credit supply shortfall. However, bank lending could not prevent a sizeable credit crunch in the first half of 2019.

While the RBI has been able to lower interest rates, policy rate cuts have not been fully passed through to new rupee loans. As a result, inflation-adjusted (real) borrowing costs have increased, weighing on credit demand. The lack of monetary policy transmission in India derives from the combination of high public-sponsored deposit rates against a backdrop of stretched banks' balance sheets. The Indian authorities have taken a string of policy measures over the past couple of months to shore up the economy and revive credit. These measures should gradually improve the flows of credit and nudge up growth. Looser global financial conditions are also supportive, with a noticeable pickup in external commercial borrowings in 2019.

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