

Moody's Upgrades, Barclays Downgrades

GDP FORECAST FOR FY21 Moody's sees contraction at 10.6% vs 11.5% earlier; Barclays sees contraction at 6.4% vs 6% earlier

Our Bureau

New Delhi:

Moody's Investors Service said India's GDP will contract 10.6% in FY21, less than the 11.5% it had projected in September.

The government's latest fiscal stimulus package, aimed at manufacturing, infrastructure, job creation, credit supply and stressed sectors of the economy, provided a potential upside to the estimated growth, Moody's said in a report on Thursday.

However, Barclays projected a slightly deeper contraction of 6.4% for FY21 against 6% before to reflect incoming data that's marginally weaker than expected.

"The latest measures aim to increase the competitiveness of India's manufacturing sector and create jobs, while supporting infrastructure investment, credit availability and stressed sectors. As such, they present potential upside to our current growth forecasts, a credit positive," Moody's said.

The rating company revised upwards its forecast for growth in the next financial year to 10.8% from 10.6% earlier, adding that medium-term growth would settle at about 6%.

Barclays upgraded its forecast for FY22 to 8.5% from 7% earlier as India's recovery was broadening into more sectors, apart from gaining traction, it said in a report on Thursday. It also revised its projection for the second quarter contraction to 8.5% from 8% earlier.

State Bank of India Research also upgraded its forecast for Q2FY21 to a 10.7% contraction with a positive bias from -12.5% earlier. Improvements in the quarter were led by utilities, financial services, public administration and defence sectors, it said in a report on Thursday.

Moody's had earlier raised India growth projections for calendar year 2020 and 2021. Earlier this week, investment bank Goldman Sachs scaled down its FY21 GDP forecast for India to a contraction of 10.3% from 14.8% estimated in September. More private economists are expected to revise their estimates soon.

High-frequency data over the past two months indicate that a recovery is gaining pace. Industrial production grew 0.2% in September, reversing six months of contraction. The Purchasing Managers' Index (PMI) rose to the highest in eight-and-a-half years in September.

FISCAL DEFICIT

Moody's expected the combined fiscal deficit of the Centre and the states to remain at 12% of GDP in the current financial year and projected it would narrow to 7% over the medium term, compared with 6.5% in FY20. "Stronger nominal GDP growth over the medium term would make it easier for India's government to address its weak fiscal position, which the coronavirus has exacerbated," the report said, projecting general government debt at 89.3% of GDP in FY21.