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29 Nov 2016 15:45 IST **DJ India's Economic Growth Likely Accelerated to 7.5% Last Quarter**

By ***Anant*** Vijay Kala

NEW DELHI--India's economy is expected to have gained momentum last quarter on improved farm and manufacturing production, economists said, but predicted that growth for the current quarter could stall on the government's move to replace high-denomination bills.

Gross domestic product in the three months ended Sept. 30 likely rose 7.5% from a year earlier, according to the median estimate of 14 economists polled by The Wall Street Journal. That is a modest step up from the 7.1% expansion in the preceding quarter.

The estimates range between 7% and 8.2%.

The government will issue the fiscal second-quarter GDP data on Wednesday.

"It looks like there will be a big jump in agricultural production. The harvest has been pretty good," said Saugata Bhattacharya, chief economist at Axis Bank. "Commodity prices have been more or less controlled, which will also give a boost."

India received normal levels of rainfall during the June to September monsoon season, helping the country's farm sector recover after two-successive years of below-normal showers.

Some private indicators of activity levels at manufacturing and services firms have shown a pickup, while key sectors such as automobile manufacturers have also been witnessing sales improving. These have added to optimism about an economic recovery gaining strength.

However, Prime Minister Narendra Modi's surprise move this month to withdraw high-denomination currency comprising 86% of the total cash in circulation and replace it with new bills has hurt small traders who do business in cash and lowered demand.

The move, aimed at cracking down on tax evaders and choking funding to terrorist groups, is expected to hurt growth in the October to March period, or the second half of the fiscal year.

Economists widely predict growth to slow between 0.5 percentage point and 1.5 percentage point, although some warn the South Asian economy may be facing a much sharper slowdown.

Brokerage Ambit Capital expects growth to plummet to 0.5% in the second half of the fiscal year, pulling down the annual average to 3.5%. The economy expanded 7.6% in the year ended March 31.

"The decision will likely be negative for economic activity in the near-term. However, in the long run the move should boost government finances by increasing tax compliance and improve the business environment," research firm Focus Economics said in a note.

Other economists, however, predict a much smaller impact of the government's move as demand would get support from a big pay increase that was delivered to nearly 10 million state employees around August.

"We were betting on a second half recovery, which will now take a temporary hit post the demonetization efforts," said D.K. Joshi, chief economist at rating firm Crisil.

Global economic uncertainties, particularly over an interest-rate increase by the U.S. Federal Reserve next month, are also clouding India's growth prospects. Higher rates in the U.S. could diminish the appeal of emerging markets such as India, prompting foreign investors to yank out funds to buy U.S. assets.

"The disruption created by demonetization plus global uncertainty [including] about the Fed raising rates have created uncertainty about interest rate movements," said Rupa Rege Nitsure, chief economist at L&T Finance Holdings.

The Reserve Bank of India will be under pressure from industry lobby groups to reduce its key lending rate at its next policy review on Dec. 7, although some economists believe it may not do so as banks are flush with cash deposited as part of the government's currency withdrawal, forcing them to offer loans at cheaper rates.

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(END) Dow Jones Newswires

November 29, 2016 05:15 ET (10:15 GMT)