

Cash crunch may reduce GDP growth to 6.5%: Report

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Cash crunch post demonetisation is expected to slow down India's GDP growth to 6.5 per cent for the fourth quarter of 2016 and is likely to spill over into the first quarter of 2017, says a report.

According to global financial services firm Nomura, the cash shortage is likely to last till January.

Nomura noted that even though the economy experienced a robust aggregate momentum before the demonetisation, its recovery was narrow-based due to weak investments and slow non-agriculture sectors with consumption serving as the only growth engine.

"We expect the cash shortage triggered by demonetisation to last until January

and GDP growth to slow to 6.5 per cent in the fourth quarter (October-December) and to remain subdued at 7 per cent in the first quarter of 2017," Nomura said.

"However, once the cash shortage eases, we expect a gradual recovery to take hold in the second half of 2017, owing to a boost to government fiscal finances and improved banking system liquidity," it added.

Cash-dependent sectors (agriculture, trade, real estate, construction and transport) and conspicuous consumption demand (high-end white goods, cars, gold and jewellery and travel) are likely to be "particularly hit."

Nomura also said that in the light of the near-term growth slowdown, it is expecting the Reserve Bank

of India (RBI) to deliver a 25 basis point repo rate cut to 6 per cent in its policy review next week. India's GDP growth accelerated to 7.3 per cent for three month-ended September 2016, better than 7.1 per cent in the previous quarter but marginally below expectations.

The Indian economy is going through a shallow recovery and GDP growth is expected to come down to 6.9 per cent this fiscal following demonetisation, says a Bank of America Merrill Lynch (BoFA-ML) report.

"We cut our growth forecasts by about 50 bps to 6.9 per cent in FY17 and to 7.2 per cent in FY18 after September growth disappointed at 7.3 per cent with demonetisation set to hit activity in December as well," BoFA-ML said in a research note.