

# GDP growth to slow down to 6.5% in Q4: Nomura

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India's economic growth rate is likely to fall to 6.5 per cent in the ongoing quarter and remain subdued at around 7 per cent in the January-March period as cash shortage is expected to last at least until next month, says a report.

According to Japanese financial services major Nomura, demonetisation of high value notes last month is affecting the growth numbers and once the cash shortage eases, the country is expected to see a gradual recovery.

"We expect GDP growth to slow from 7.3 per cent year-on-year in the third quarter to around 6.5 per cent in the fourth quarter and to remain subdued at around 7 per cent in the first quarter of

2017, as we expect the cash shortage to last at least until January," Nomura said in a research note.

Once the cash shortage eases, a gradual recovery is likely to take hold in the second half of 2017 on boost to government fiscal finances and improved banking system liquidity, it said.

On the services PMI numbers, it said demonetisation has hit services much more than manufacturing and financial intermediation, hotels & restaurants and renting activities were hit the most.

The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector companies on a monthly basis contracted in November owing to cash shortages, as new business orders declined for the first time since June

2015.

"The drop in services activity is not surprising since the share of the unorganised sector in services (around 45 per cent of total, as per 2004-05 data) is much higher than in manufacturing (around 23 per cent), suggesting larger dependence on cash transactions," Nomura said.

In particular, the construction, trade, hotels & restaurants and real estate sectors have a higher share of the unorganised sector, and as such are more vulnerable to the cash shortage, it added.

The note also affected manufacturing sector activity as the growth in this sector decelerated sharply in November as cash crunch slowed down domestic consumption, production of goods and new orders.