

Growth to accelerate as GST impact fades

India is moving on to the next phase of business cycle, says Morgan Stanley

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Economic activity in the country lost some pace amid GST related disruptions but underlying growth momentum remains strong and the country may clock 6.7 per cent growth this fiscal, says a Morgan Stanley report.

India's economic growth slipped to a three-year low of 5.7 per cent in April-June, underscoring the disruptions caused by uncertainty related to the GST rollout amid slowdown in manufacturing activities.

Commenting on the GDP numbers, Morgan Stanley said: "We are inclined not to read this as a sign of general slowdown in aggregate demand".

"Indeed, we remain skeptical that the GDP statistics are fully reflecting the underlying growth trends in the economy," Morgan Stanley said in a research note.

It further said that a number of high frequency growth

ECONOMIC SCENARIO

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However, on account of the weak GDP print in June 2017 quarter, Morgan Stanley has made some mark-to-market

adjustments to its full year GDP growth estimates.

"We believe that June 2017 likely marked the trough in growth in this cycle and we expect GDP growth to accelerate by almost 200 bps to 7.5 per cent year-on-year in March 2018 quarter," it said.

On a calendar year basis, Morgan Stanley now project growth of 6.4 per cent and 7.4 per cent in 2017 and 2018, respectively, as against 7.6 per cent and 8.0 per cent previously.

The revised new financial 2018 and fiscal 2019 growth estimates are at 6.7 per cent and 7.5 per cent, respectively.

According to Morgan Stanley, currency replacement programme and GST had led to a deceleration in growth momentum.

"However, considering that these events are already in the rear view mirror, we expect the underlying economic growth momentum to re-assert themselves, leading to a re-acceleration in growth," it said.

"In our view, India is moving on to the next phase of the business cycle of productive growth - a phase marked by further improvement in growth while macro stability remains in check. This will also set the stage for a sustained growth cycle," it added.