Business Standard
Copyright©2022 Business Standard
Wed, 13 Nov-19; Business Standard - Delhi; Size : 309 sq.cm.; Circulation:114000; Page : 1

SEPT QUARTER GDP GREW AT 4.2-4.7%, SAY ECONOMISTS

A severe contraction in factory output has prompted observers of the Indian economy to downsize their estimate of the pace with which it could have grown in the July-September quarter (Q2 FY20). So much so that most of them have put the headline number at 4.2-4.7 per cent. But this time around, services sector activity, too, has pulled down growth in Q2, they said. Looking forward, they expect the Reserve Bank of India to cut rates up to 50 basis points in the two remaining policy meetings of the fiscal year.

ABHISHEK WAGHMARE reports 6

Economists peg July-Sept GDP growth at 4.2-4.7%

ABHISHEK WAGHMARE
New Delhi, 12 November

A severe contraction in factory output has prompted observers of the economy to downsize their estimate of the pace with which it could have grown in the July-September quarter (Q2 FY20).

Most of them have put the headline number at 4.2-4.7 per cent.

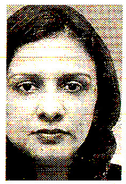
This time services sector activity, too, pulled down growth in Q2, they said.

Looking forward, though they expect the Reserve Bank of India (RBI) to cut rates up to 50 basis points in the two remaining policy meetings of the fiscal year, they said the effectiveness of rate cuts has diminished.

Saying that the domestic slowdown is syncronised with global slump, State Bank of India has lowered its estimate for growth in gross domestic product (GDP) to 4.2 per cent. For the full year, it has given the lowest estimate so far, at 5 per cent.

It attributed part of this to slowing of the money multiplier – rate at which money supply changes with respect to reserve money – due to de-risking of the financial system, including banks, and the rise in digital payments.

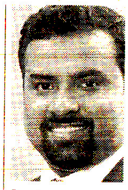
ESTIMATE FOR GDP GROWTH FOR Q2 FY20 (%)



4.2
SONAL VARMA
Chief economist for India, Nomura

4.2
SOUMYA KANTI GHOSH
Group chief economist, SBI

4.7
ADITI NAYAR
Chief Economist, ICRA



4.7
SUVODEEP RAKSHIT
Senior economist, Kotak Securities

"Under the current macro environment, monetary policy seems less effective than fiscal policy, as a low interest rate does not guarantee rise in investment demand," said the report.

"We think the economy grew at 4.5 per cent in the September quarter, and anything below 5 per cent indicates growth has not bottomed out yet," said Madan Sabnavis, chief economist at CARE ratings.

He added that services output, too, looks bleak this time, barring the financial sector and public administration. "While credit and deposit growths are in double digits, trade, freight and air traffic would pull services down."

Aditi Nayar, principal economist at ICRA, said enhanced spending by the government after the Union Budget on July 5 would add to Q2 growth.

"Slowdown would also be associated with a few positive factors, such as lower raw material costs, a sharp pick-up in spending by the government in Q2 and improved profitability revealed by some banks," she said.

She, too, said trade and freight had done poorly in that period, and would pull Q2 headline numbers down.

Nomura chief economist Sonal Varma has put Q2 growth at 4.2 per cent, similar to what SBI estimated.

Suvodeep Rakshit, senior economist at Kotak Securities, has said the Q2 growth number would be 4.7 per cent, revising downward from his earlier estimate of 5.2 per cent. He said it is too early to say the economy is showing green shoots.

"While October shows some uptick in segments of auto sales, it is most probably a blip that can be attached to festive season sales. Moreover, some increase in steel and cement prices cannot be said to be indicators of demand picking up," he told *Business Standard*.