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Modi turns to old tricks as cash ban hurts GDP

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WITH indicators revealing a difficult end to Prime Minister Narendra Modi's unprecedented cash clampdown, he's turning to time-tested methods to cushion India's economy. Lawmakers last week cleared about Rs 60,000 crore in additional spending for the year through March, which includes a 10 per cent increase in a rural jobs programme Modi once mocked. Recent growth has been slower than estimated and data due Tuesday is expected to show that inflation slumped below the central bank's target as Modi's move dents demand. Public spending is needed because the cash ban will hit private investment, said J. Dennis Rajakumar, director of the Mumbai-based think tank EPW Research Foundation.

"The employment guarantee programme to some extent will help ease the rural crisis that the country is heading toward," he said.

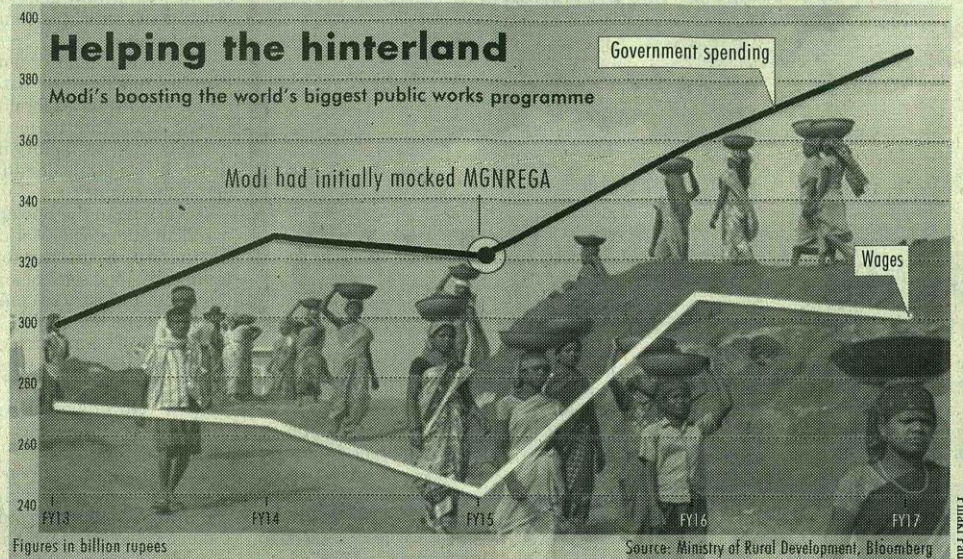
Sustaining commerce in India's cash-based hinterland is crucial for Modi before key state elections next year. Food prices are set to drop as his November 8 move to scrap 86 per cent of currency in circulation triggered distress sales of crops. Consumer prices probably rose 3.9 per cent in November, according to the median of 32 estimates in a Bloomberg survey of economists. That would be the slowest pace in 15 months and below the 4 per cent mid-point of the Reserve Bank of India's (RBI) inflation target.

RBI governor Urjit Patel kept interest rates unchanged at a six-year-low on December 7 and lowered the full-year growth forecast. The Asian Development Bank on Tuesday cut its forecast for India's 2016 gross domestic product expansion to 7 per cent from 7.4 per cent citing weak investment, a slowdown in agriculture and the cash shortages. Sales of two-wheelers fell 5.9 per cent in November, the first decline since December 2015, according to the Society of Indian Automobile Manufacturers' figures released last week.

HURTING THE HINTERLAND

Central among Modi's concerns will be the 80 crore people who live in villages, slowly rebuilding their earnings after back-to-back droughts destroyed crops and trade.

His currency clampdown, which was aimed at



hurting those with unaccounted cash, may impact these folks instead as they lack adequate access to banks or internet services.

Rural India's support is important if Modi is to win elections in agrarian states including Uttar Pradesh and Punjab next year. He has already pledged to double farmer incomes by 2022 and has raised spending on the rural jobs programme twice this year from the Rs 38,500 budgeted.

The latest boost includes Rs 4000 crore on the world's largest public works programme: the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Another Rs 3,000 crore will be spent on farm related activities.

"The government should immediately undertake more rural development programmes like building toilets, houses and roads," said Bhagwat Prasad, director of the Akhil Bharatiya Samaj Sewa Sansthan, a support group for the poor in the Bundelkhand region, part of which lies in Uttar Pradesh. "No doubt MGNREGA could be the best option in providing relief to the rural people whose livelihoods have been

made insecure by demonetisation."

'STAY CAUTIOUS'

Modi needs to do more to cushion the economy as the rural jobs programme creates fewer jobs than needed, said Jay Shankar, a New Delhi-based economist who's studied India's rural economy. While public spending is needed to boost demand, any new programme would take about one-and-a-half years for implementation, he said.

The Nifty Fast Moving Consumer Goods index has fallen 7.2 per cent since Modi's November 8 announcement, steeper than the 4.4 per cent decline in the broader gauge.

Recovery in rural demand will be delayed until October-March 2018 and companies selling goods such as soaps and cookies could report profit declines through January-March 2017, analysts at Religare Securities, including Varun Lohchab, wrote in a report on Monday.

"Market is underestimating the sharp slowdown in earnings growth," they said. "Stay cautious."