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Putting a spoke in the growth cycle?

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NEW DELHI: As the government scrapped 86.9% of the currency in circulation in one go in November last year, critics said that it will put a spoke in the growth cycle, sending shock waves through an economy largely dependent on cash.

But government data showed that despite some economic pain last year, it is now well-poised to rebound in 2017-18.

While economists and experts sparred over the extent of the damage to Asia's third largest and world's fastest growing emerging nation, many believe demonetisation crimped economic activity in some sectors.

"Anecdotal evidence shows the formal sector was hurt to some extent. But it is the informal sector that has been impacted the most. We still don't know the extent of impact," said Pronab Sen, the country's former chief statistician. Sen, also a former chairman of National Statistical Commission, said that activity in the construction sector, which is the second-biggest employer after agriculture, was halted after demonetisation. Trade and hotels were also hurt.

The CSO estimated growth will slow to 7.1% in 2016-17 from 7.9% the previous year. Sen contested the estimates, saying growth could have slowed to 6.5% if not more, when the informal sector data comes in.

IMF in its first assessment lowered India's growth forecast to 6.6% for 2016-17, citing the impact of note ban. As warned by economists, industrial growth also faltered. Output fell in two of the four months between November and February. As economic activity slowed, demand contracted and lowered inflation to an average 3.5% between November and March 2017, as farmers sold their winter crop at throwaway prices.

But prices have started rising as Indians got back new cash. "Bypassing the risk of slowdown post-demonetisation, the economy is estimated to grow at 7.1% in FY17, according to CSO. This number would be met…as Q4 growth would be in the same range," said Madan Sabnavis, chief economist of Care Ratings, a unit of Fitch.

How the economy fared

Government data shows India weathered the demonetisation well and is on the revival path