

The Indian economy will recover from mid-year despite the recent slowdown

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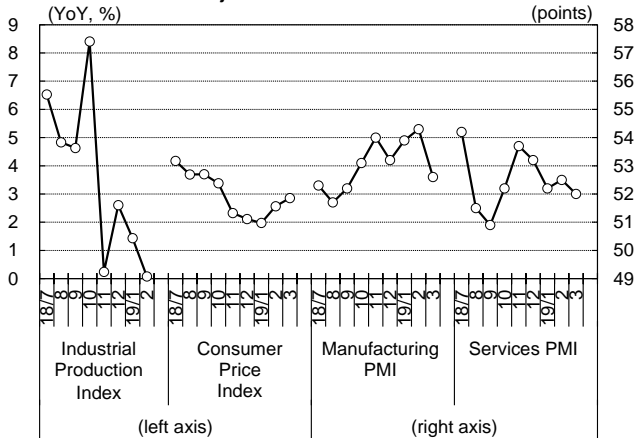
(ORIGINAL JAPANESE VERSION RELEASED ON 22 APRIL 2019)

The Indian economy has shown increasing signs of slowdown. India's real GDP growth rate started to accelerate from the second half of 2017, synchronized with global economic expansion. After having peaked by recording +8.1% YoY in Jan-Mar 2018, however, it decelerated for the third consecutive quarter and slowed down to +6.6% YoY in Oct-Dec 2018. Looking at the recent monthly economic indicators, Manufacturing PMI and Services PMI, which are sentiment readings, both exceeded 50 where indicates contraction or expansion (52.6 and 52.0 respectively) while Industrial Production Index (IPI), which is a hard data and lags behind the economic trend, was +0.1% YoY in February, remaining low level since the end of last year (see chart 1). Looking at prices, Consumer Price Index (CPI) recorded +2.9% YoY in March, slightly accelerating from the previous month (+2.6% YoY) however remaining below the Reserve Bank of India (RBI)'s target (+4%).

The RBI, the central bank of India, decided to lower the policy repo rate to 6.00% from 6.25% at the Monetary Policy Committee on 4 April, marking the second rate cut this year following February (see chart 2). These moves by the RBI are noteworthy when the central banks in most Asian countries have kept the policy rates unchanged in order to leave some room for future monetary policy measures even as anticipation of US rate hikes recedes, local currency remains stable and inflationary pressures are reduced. This, in addition to inflation rate remaining low as noted above, appears to be due to the RBI's stance to give priority to economic stimulus under the new governor, Shaktikanta Das, successor of the former governor Urjit Patel who stepped down in December last year reportedly over differences between the central bank and the Narendra Modi's administration. As the governor Das indicated that the central bank needs to be more flexible on the size of interest rate moves, it cannot deny the possibility that the RBI will implement bold monetary easing measures in the future.

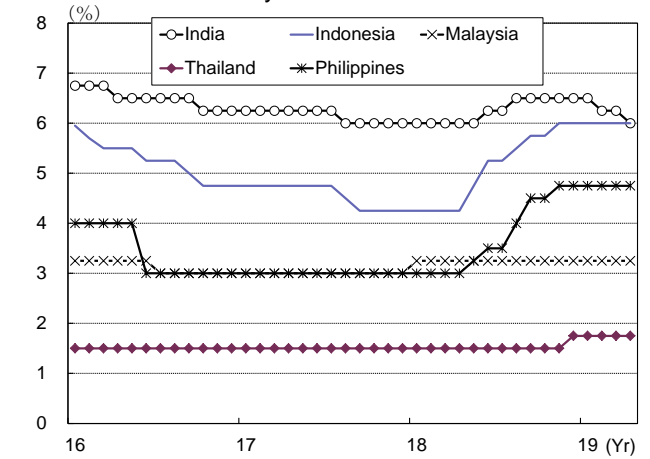
It is likely that the Indian economy slowed down even further in Jan-Mar 2019 as far as estimated from IPI reading. Going forward, however, it is expected that production and exports in India will recover through trading channels as manufacture indices in advanced countries and China started to show signs of bottoming out. The economy is projected to recover from the middle of this year as political uncertainty recedes with the ruling Bharatiya Janata Party (BJP) taking the early lead in the 2019 general elections, together with accommodative monetary policy supporting private consumption.

Chart 1: Major economic indicators in India



Source: Reserve Bank of India (RBI), Bloomberg, MUFG Bank Economic Research Office

Chart 2: Policy rates in Asian countries



Source: Individual country statistics, MUFG Bank Economic Research Office

(Translated by Makiko Stokes)

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