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## TD Economics

### **International Commentary: Indian economy escapes largely unscathed from demonetization experiment in fourth quarter**

- India's economy expanded by 7.0% (year-over-year) in the fourth quarter of 2016, slightly weaker than the 7.4% y/y pace recorded in the previous quarter. Nevertheless, the Indian economy performed much better than expected, beating the consensus forecast by a full percentage point.
- For calendar year 2016, India's economy grew a strong 7.4% – the same pace of advance recorded in calendar year 2015.
- Private consumption growth surged in the fourth quarter, rising 10.5% y/y. This strong expansion in consumption is not entirely surprising given that households without access to the banking system likely spent the now-banned high denomination notes (500 and 1000 rupee notes) rather than lose their purchasing power.
- Along with private consumption, government consumption expanded firmly in the fourth quarter, a trend that was present for much of 2016. Undoubtedly, an improving primary budget balance and falling interest rates allowed the Indian government to loosen its fiscal purse strings in 2016.
- On an industry basis, most sectors expanded in the fourth quarter of 2016 relative to a year earlier, with strength in the agricultural and mining sector leading growth. Growth in the services slowed in the fourth quarter, owing largely to a steep drop in growth in the financial services sector.

### **Key Implications**

- The Indian economy appears to have held up better than expected despite the corruption crackdown, which banned up to 86% of circulating cash beginning in early November. This implies that fiscal year 2016-17 growth will be largely unaffected by the demonetization experiment that the Indian government undertook as part of their corruption crackdown.
- Today's data is further evidence that global growth in the second half of 2016 picked up after a dismal start to the year. Moreover, survey indicators thus far suggest that much of this momentum is carrying over into the start of 2017. This firming of global economic activity is helping support the strong rally in global financial markets.
- However, elevated policy uncertainty due to European elections this year that could determine the future of the euro implies a likely return of volatility after a period of seeming complacency. The global economic recovery is still fragile and likely to continue to be supported by highly accommodative monetary policy and fiscal stimulus spending for the foreseeable future.

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