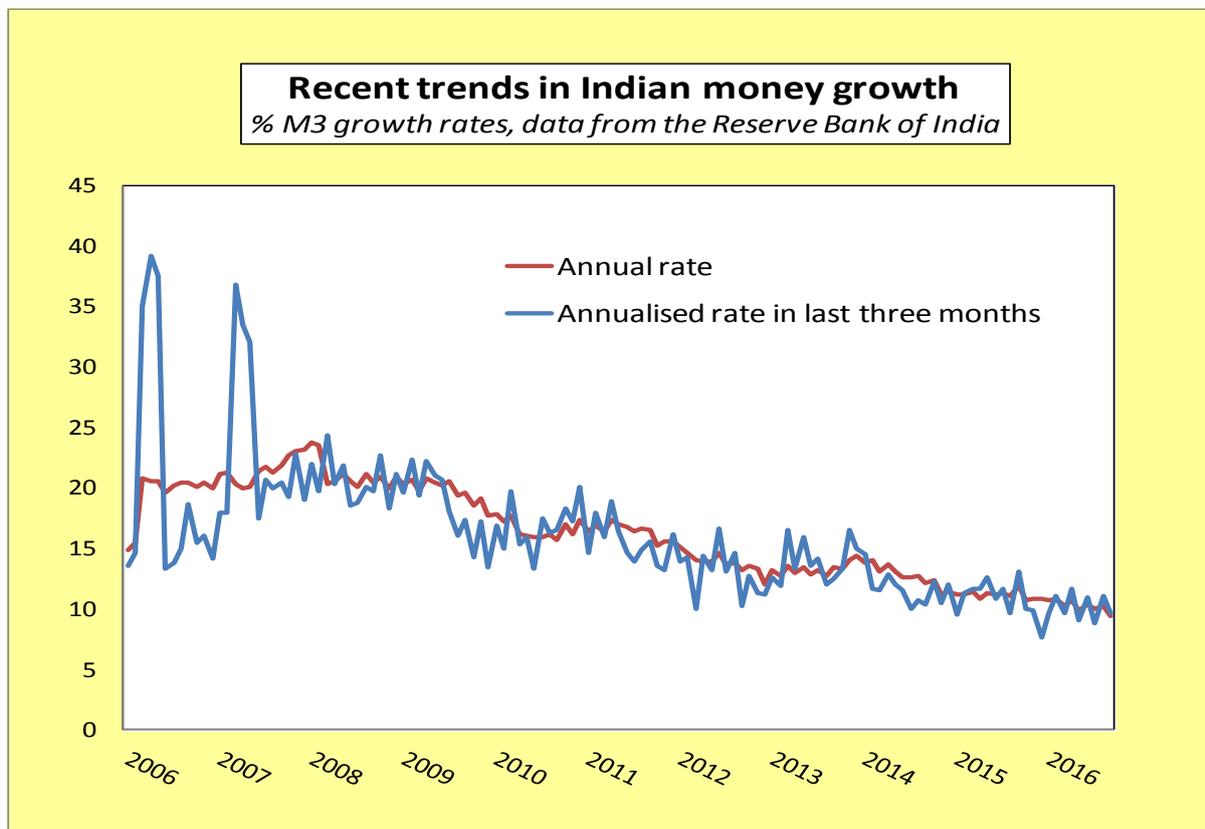


India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1991- 2014	16.5	13.8
2010 - 2014	14.2	14.4
Year to September 2016	9.5	n/a
Three months to September 2016 at annualised rate	9.7	n/a

Sources: Reserve Bank of India for M3 and IMF for GDP



Sluggish money growth continues

Summary: The annual rate of Indian broad money growth – which has been mostly in an 11% - 14% corridor in recent years – is slowing. In September it stood at 9.5%, while the annualised rate of increase for the third quarter of 2016 was 9.7%. Annualised quarterly broad money growth has dropped below 10% for five out of the nine months of 2016, something unprecedented since at least 2004. September 2016 is also the first month in over a decade when both annual and annualised quarterly growth rates have fallen below 10%.

One of the first acts of the Reserve Bank of India's new governor, Urjit Patel, was to reduce bank lending rates by 0.25% on 4th October. Annual consumer price inflation stood at 6.1% in the year to July, but had dropped to 4.3% two months later, following a moderation in food prices. With inflation falling below the Indian government's 5% target, this monetary loosening is no surprise. (There had previously been an obvious deceleration in in broad money growth.)

During the tenure of Patel's predecessor, Raghuram Rajan, the Reserve Bank of India pursued an anti-inflationary monetary policy. As interest rates were raised to bring the annual inflation rate down from 8% or more, so the M3 growth rate declined. (See the chart above.) The fall in commodity prices, especially oil, during the last two years, enabled Rajan to bring interest rates down again without reigniting inflation. Mr Patel will not make radical changes in direction. He has also made clear his determination to follow in his predecessor's footsteps and tackle the problem of non-performing loans on the books of some Indian banks. He said, "The non-performing assets situation is an important issue for the RBI in India", on the same day that the rate cut was announced. It is estimated that the number of NPLs has doubled in the last year. One bank, Axis Bank Ltd, saw its profits fall by 83% in the second quarter of 2016 due to NPLs estimated to total Rs. 72.9b.

Liquidity conditions remain favourable and even before the rate cut was announced, the annual growth of the stock of bank lending rose from 9.8% in August to 10.4% in September. This is still below the 13% average for the 2012-16 period, but is a respectable level. The Modi government is keen to pursue structural reform, having recently swept away an elaborate system of local state-level taxes and checkpoints in favour of a country-wide single economic area. Some estimates put the potential for GDP growth from this goods-and-services-tax legislation as high as 2%. The latest RBI report was upbeat about inflation prospects, particularly food prices. Assuming this optimism is justified and the lower inflation rate and currency stability continue, India's macroeconomic prospects still look good for the remainder of 2016. But broad money growth must not be allowed to weaken further.

John Petley
25th October, 2016

	% annual growth rate:	
	M3	Nominal GDP
1991 - 2000	16.9	14.4
2001 - 2010	17.3	13.6
Four years to 2014	13.4	12.9