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India's economy expands at fastest rate in two years

By James Crabtree in Mumbai Author alerts



During India's recent election, Prime Minister Narendra Modi campaigned on the slogan "Good days are coming". On Friday, he appeared to deliver early, as Asia's third-largest economy posted its best quarterly economic figures in more than two years.

It grew 5.7 per cent year on year in the three months to June. The figures exceeded analysts' expectations and the reading from the same period in 2013, when India produced its worst quarterly growth performance in four years, expanding at just 4.4 per cent.

Mr Modi can take little direct credit for the figures, however, which mostly cover the period before his overwhelming election win in mid-May. Many analysts have also been critical of the relatively modest achievements of his first 100 days in office, a milestone reached next week.

The growth numbers arrive at a moment of renewed optimism over India's prospects, however, with the country's stock market hitting record highs this week as global investors bet that Mr Modi will push forward with long-awaited economic reforms.

With China's economy slowing and Brazil barely growing, the prospect that India is set to accelerate during the next two years may also make it a rare bright spot among the world's largest developing economies.

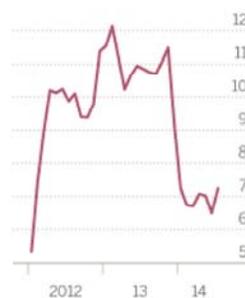
Although few analysts believe India can return to the heady growth rates of 8 per cent and above last posted three years ago, it is set to tick up to just below 7 per cent by the end of March 2016, according to Morgan Stanley.

Friday's robust figures also reflect a remarkable turnaround from this time last year, when India's currency plunged to its lowest ever level against the dollar amid frantic emergency measures to stem capital flight.

Since then, almost every economic indicator has improved, albeit from a low base. India's current account deficit has fallen sharply, while a new push by Reserve Bank of India governor Raghuram Rajan has begun to bring down consumer price inflation, which has fallen to its lowest in more than two years.

"It's fair to say good things are happening, but in small doses," says Sajjid Chinoy, chief economist at JPMorgan in India. "The recovery from here will be slow and steady, but don't expect anything too dramatic."

India inflation
Annual % change in CPI



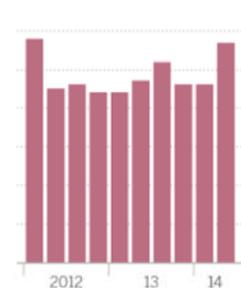
Source: Thomson Reuters Datastream FTI

India's performance in the quarter to June was helped by a strong rebound in industrial production, following nearly two years of stagnant output, helped by robust exports and increases in manufacturing and construction.

However, analysts stress that Mr Modi will need to accelerate his promised reform programme, after an underwhelming initial budget in June and a generally gradualist approach that has seen little progress on thorny issues such as taxation and land acquisition.

"Given the severity of the dip, we could even have hoped for a faster rebound from here, but I don't think that is likely to happen," says Eswar Prasad, an economist at the Brookings Institution. "For that we need a much more comprehensive economic reform plan, and so far Mr Modi has yet to explain exactly what this looks like."

India GDP
Annual % change



Source: Thomson Reuters Datastream FTI

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