

**ASSOCHAM**

**BUSINESS**

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**Hike in interest rates may worsen the price and  
supply situation**

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## **Hike in interest rates may worsen the price and supply situation: ABB**

The price and supply conditions may get worse if the Reserve Bank of India resorts to raising interest rate to control the spiraling inflation and the move would not only hurt the industry but also the consumers, an Assocham Business Barometer (ABB) quick CEOs survey has revealed.

94 per cent of the 165 CEOs from leading business organizations expressed their apprehensions in the ABB survey, that RBI may find tightening interest rates as the most likely option to curbing the gruesome rise in inflation.

But (84 per cent) said the raising of interest rates or tightening the liquidity through cash reserve ratio would not help as the problem does not lie with the quantum of money floating in the economy. It lies in the shortages of goods, particularly food and metals, due to global scarcity and the attendant speculative activities building around the same.

Around 94 per cent of them said that the Regulator should give adequate weightage to the fact that price rise has been mainly on account of supply crunch and in view of dropping growth rate, tightening monetary policy would not be a wise step.

As many as 76 per cent of the ABB respondents agreed that presently inflation is a global phenomenon and domestic demand has little role in fueling inflation pressure on the essential commodities

The quick survey was done in backdrop between 28 March and 4 April. The wholesale price index had touched a three year high of 7 per cent on account of dearer food, vegetables, minerals and manufactured items.

About 87 per cent of the CEOs said that government and RBI should adopt a two prong strategy. In long term, they should adopt measures to boost farm production and divert resources towards increasing productivity. As short term measures, government should concentrate on strengthening the public distribution system.

Government should aim at improving the functioning of the public distribution system by making use of the modern technology. The quality of food provided under PDS should also be improved.

Of the total respondents, 72 per cent supported the view that the budgetary allocation for the food subsidy may be increased to give relief to the consumers to meet the problem of price rise. In the Union Budget 2008-09, the food subsidy was raised by Rs.1121 crore from the previous year, to Rs.32,667 crore. It formed 6.4 per cent of the total non-plan expenditure of the government.

The industry leaders also believed that centre alone may not be able to handle the critical issue of inflation. 68 per cent of those surveyed said that the state machinery be geared up to deal with the problem. Also, the state governments may consider reducing VAT, octroi and turnover tax on essential food items.

The CEOs conveyed their discontent with the policy stance taken by the central bank. Sixty three per cent of them stated that instead of using money tightening as the primary tool to deal with inflation, RBI shall reform credit policy towards enhanced credit allocation to the critical sectors like food processing, cold storage, logistics and transport.

About 66 per cent of the CEOs felt that RBI should take note that if borrowing cost is again raised, it may hurt the robust investment rate India was enjoying and a slowdown in capacity expansion can breed price pressures.

A large number of the corporate heads (71 per cent) polled also believed that impact of RBI policies are felt with a lag and hence would do little to control the escalating prices.

Around 56 per cent of the surveyors said that the buffer stock of rice held by the government can be used partly by the government to cool the commodity market.

There was a divided opinion about the exchange rate policy to be adopted by the central bank in wake of intense price pressure building up in the economy. While 54 per cent of the CEOs felt that letting the Rupee appreciate against Dollar would help in curbing prices through cheaper imports, the other 46 per cent were against the Rupee rise as it would hurt certain exports which are already under pressure.

The Survey also revealed that 69 per cent of the respondents felt that the sectors like steel and cement, which are facing huge increase in raw material cost, shall be provided reduction in excise duty on the input materials.

Assocham has suggested the Reserve Bank in its 'Pre Policy Submissions for Annual Monetary Policy 2008-09', to raise the External Commercial Borrowing (ECB) limit for the food processing companies to encourage capacity expansion in the sector, which help in taming food inflation in the medium term.