

ASSOCHAM

BUSINESS

BAROMETER

CEOs see interest rate hike around the corner

June 2008

Prepared by -Nusrat Ahmad

CEOs see interest rate hike around the corner, ABB found

Howsoever the industry would not like it to happen, the Reserve Bank of India is expected to increase the interest rates, to do its bit in controlling the spiraling inflation, an ABB survey has found.

In view of the upward pressure on price situation intensified by the hike in fuel prices, the chances of money tightening by the central bank have gone up immensely. In a quick survey done by Assocham Business barometer of 120 CEOs and Managing Directors, about 107 of them expressed their apprehension of rate increase by the Reserve Bank.

The industry heads already wary of the rising raw material and wage cost stated that any further rise in the borrowing cost would shake the business confidence.

Around 85 per cent of those surveyed see rate hike as “imminent”. “All the economic indicators point towards high possibility of rate hike by the Reserve Bank despite the concerns of slowdown well spelled out by various sections of businesses”, said Mr. Sajjan Jindal, President, Assocham.

Two months back RBI had hiked CRR by 50 basis points to 8 per cent to impound Rs 18,500-crore liquidity from the banking system as a measure to combat the rising inflation. The hike was in two phases, the first on April 26 and the second on May 10.

There was a lack of consensus among the ABB respondents as to the choice of instrument, which RBI may adopt to bring into the affect of money tightening. Fifty two per cent of the CEOs fell that RBI would continue its previous stance with raising the cash reserve ration in view of the slowdown mode economy is

witnessing. The rest 48 per cent believed that the central banks' move may be harsher this time, with 50 to 75 basis points rise in the repo rate. This would hurt the industry more directly.

About 76 per cent of corporate heads expect inflation rate to move northwards within the range of 9-9.5 per cent level by the mid June 2008. This is majorly in view of the fuel price hike measures taken by the government, as the dependent industries may witness a trickle down effect in their rising input costs, as revealed by Assocham Business Barometer (ABB).

Around 63 per cent of the CEOs feel that sectors such as power, steel, cement, fertilizers, transportation and FMCG are already in line to increase the cost of their products as higher crude oil prices are expected to have a cascading effect on the main inputs used by these industries. These industries will pass the price hike on the ultimate consumers. This will lead to higher inflationary levels, which is already hovering above 8 per cent on the weekly basis, much higher, than the governments comfort zone.

Seventy nine per cent of the business heads are of the view that with the crude oil price touching 130 dollar a barrel the inflationary pressure is likely to continue with no room left for the RBI but to opt for interest rates hike upto 50-75 basis points.

Inflation has become a global issue with the major economies like US, China, Malaysia, European nations struggling with it. The Indian economy is also finding it difficult to insulate itself from global pressures thus the government's fiscal, monetary and administrative steps needs execution to maintain the economic buoyancy.