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'Inflation to come in way of interest cut'

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Inflation to come in way of interest cut, says CEOs survey

With the crude oil price touching 110 dollar a barrel and the global equity market giving way to commodities touching new high, the inflationary pressure is likely to continue disallowing the RBI to opt for cut in interest rates despite signals of a slowdown, majority of the CEOs surveyed in Assocham Business Barometer have said.

In an ABB survey of 130 CEOs of the leading companies of India, 85 per cent of the respondents said while the government did announce fiscal measures in the Union Budget, the Indian economy cannot remain insulated from a sharp rise in global commodity prices.

Inflation seems to be breaching the tolerant level set by the RBI. Under these circumstances, policymakers would refrain from moderating the interest rates to ward off the slowdown concerns, especially in an election year when several of the State assemblies have to go for polls, 74 per cent of the CEOs said.

The industrial production in the month of January has grown by merely 5.3 per cent as compared to 11.6 per cent growth in previous year. The growth in manufacturing sector has halved to 5.9 per cent in January month of this fiscal compared to 12.3 per cent growth in FY07.

“Government is confronted with the dilemma of keeping the inflation rate low and prevent further hardening of the interest rates, hence they are left with little elbow room”, said Mr. Venugopal N Dhoot, President, Assocham.

Inflation as measured by the change in the wholesale prices has touched a high of 5.11 per cent for the week ended March 1, as compared to 5.02 per cent in the previous week. The prices of primary articles have increased by 6.9 per cent over the corresponding week of the last month while the fuel prices have risen by 5.4 per cent as a result of the increase in the retail prices of petrol and diesel.

Around 67 per cent of the CEOs said that, while a robust 9 per cent growth rate in the economy is important, yet the government would top priority to keeping the inflation rate low as it hurts the people most.

The measures like reduction in general cenvat rate from 16 per cent to 14 per cent and reduction in excise duties in auto and pharma sectors, certain items of mass consumption were introduced in the Union Budget for the fiscal 2008-09. Almost 83 per cent of the CEOs have said that such measures may not be able to control the inflationary pressures as not all companies would be able to pass the excise benefits to the consumers due to declining margins.

Fifty five per cent of the CEOs felt that a tolerable rate of inflation should be 3.5 per cent – 4 per cent, while another 40 per cent believe that a rapidly growing economy like India can sustain 4.5 per cent inflation level also. The Reserve Bank has set the target of 5 per cent inflation.

As the inflation has become a global issue with the major economies like US, China, Europe, grappling with it, the Indian economy will also find it difficult to insulate itself from global pressures and maintain economic buoyancy, the ABB participants stated.

The consumer prices in China have touched 11 year high of 8.7 per cent in the month of February, after rising by 7.1 per cent in January. The recession prone US economy recorded 4.3 per cent inflation in consumer goods as compared to 2.1 per cent a year ago. In the Euro area the average rise in inflation was 3.2 per cent which is far higher than the inflation rate in January 2007 when it was 1.8 per cent. Some of the Asian countries like Indonesia and Thailand are facing inflation rate as high as 7.4 per cent and 4.3 per cent.

The average inflation, at international level, in case of food products has reached 25 per cent in the period April-December 2007-08. Food inflation in India during this period was 5.1 per cent. The global price rise in case of commodities like fats & oils, grains has been as high as 56 per cent and 28 per cent. In India, the rates were much lower at 11.8 per cent and 5.3 per cent as a result of the inflation-targeted policy measures taken by the Government and Reserve Bank.

The world over inflation in the first nine months of current fiscal on account of increase in the petroleum prices has been 17 per cent. The pressure on the energy prices is expected to further intensified as the crude oil prices have crossed \$110 per barrel mark.