

India Ministry Pushes for Rate Cut, Says Inflation Under Control

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By Unni Krishnan and Siddhartha Singh

(Bloomberg) -- India's Finance Ministry continued to push for an interest-rate cut after the country's two main inflation gauges slowed more than estimated this week.

India's economy could expand faster and risks to growth would be mitigated if interest rates are lowered, Finance Secretary Rajiv Mehrishi said in an interview on Friday.

Sluggish manufacturing, low loan demand and shrinking exports could be worsened by China's currency devaluation, he said.

"If the RBI decides to lower rates then certainly it will help the economy and some of the possible risk areas that we identified will get relief," he said, referring to the Reserve Bank of India. "Inflation is under control."

Central bank Governor Raghuram Rajan has rebuffed calls to cut interest rates as he awaits more clarity on whether consumer-price inflation will hit his 6 percent target for January. India has the fourth-highest borrowing costs among 14 Asia-Pacific countries tracked by Bloomberg.

Consumer prices eased to an eight-month low of 3.78 percent in July. Wholesale prices in July fell the most on record, according to data released on Friday.

Rajan left the repurchase rate unchanged at 7.25 percent on Aug. 4 after cutting it three times this year. While two of those cuts have come in unscheduled meetings, he's held rates at three of four reviews in 2015.

The central bank expects CPI to hit 4 percent in August and rise toward the 6 percent target by January.

Monetary Policy Committee

Most of 18 analysts in a Bloomberg survey conducted after the CPI data predict Rajan will cut borrowing costs as early as the next meeting on Sept. 29. Five say he may opt for another unscheduled cut, with some saying he'll wait for one more month of inflation data.

"RBI is best placed to make a decision on the rate cuts,"

Mehrishi said. "It is a view they have to take and I am sure they are taking it in the best interest of the country."

Mehrishi said the government and central bank have reached a “broad” agreement on a rate-setting panel and debt office.

Prime Minister Narendra Modi’s administration will look to cement it into legislation in the next parliament session due late-November, he said, without elaborating.

Mehrishi also said the government will achieve almost all of its 695 billion rupees (\$10.9 billion) disinvestment target.

Stake sales so far have been only 5 percent of the budgeted amount for the year through March 2016.

India’s factory output has grown an average 1.6 percent each month since January 2013, almost half the pace of the previous two years. Credit growth hit a two-decade low in February and exports have shrunk for seven straight months, undermining the government’s efforts to boost investment.

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To contact the reporters on this story:

Unni Krishnan in New Delhi at +91-11-4179-2033 or ukrishnan2@bloomberg.net; Siddhartha Singh in New Delhi at +91-11-4179-2006 or ssingh283@bloomberg.net To contact the editors responsible for this story:

Daniel Ten Kate at +91-11-4179-2028 or

dtenkate@bloomberg.net

Jeanette Rodrigues