India Signals Slower Pace of Rate Rises on Global Economic Risks
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By Kartik Goyal

June 17 (Bloomberg) – India's central bank signaled it may slow the most aggressive monetary tightening among Asia's major economies as risks to global growth threaten to undermine consumer demand.

"While the Reserve Bank needs to continue with its anti- inflationary stance, the extent of policy action needs to balance the adverse movements in inflation with recent global developments and their likely impact on the domestic growth trajectory," the central bank said yesterday after it raised the repurchase rate to 7.50 percent from 7.25 percent.

Asian nations such as China and the Philippines refrained from boosting interest rates this week, pausing to gauge the strength of the global economy. The Reserve Bank of India said lead indicators suggest growth moderated in advanced and emerging countries, and uncertainty about the resolution of Europe's sovereign debt crisis has "increased."

"Global risks are weighing on monetary policy decisions across the region," said Sonal Varma, a Mumbai-based economist at Nomura Holdings Inc. "The RBI is in its last leg of rate increases, and will be gradual going forward given the slowdown in growth."

The yield on the 7.80 percent bond due in April 2021 fell 10 basis points, or 0.10 percentage point, to 8.30 percent in Mumbai yesterday. The Bombay Stock Exchange's Sensitive Index declined 0.8 percent, and the rupee weakened 0.3 percent to
44.91 per dollar.

Longest Streak

Reserve Bank Governor Duvvuri Subbarao yesterday boosted borrowing costs for the 10th time since the start of 2010, extending the longest streak of monetary tightening in a decade, after India's benchmark wholesale-price inflation accelerated to
9.06 percent in May from 8.66 percent in April.

For now, India's growth outlook remains the same as outlined in the central bank's May 3 statement, Subbarao said, adding that the "recent global macroeconomic developments pose some risks to domestic growth."

Rate increases will slow India's economic expansion this year and help ease inflation to 6 percent "with an upward bias" by March 31, 2012, Subbarao said May 3. India's economy may grow "around 8 percent" in the year through March from 8.5 percent in the previous 12 months, he estimated.

In China, where consumer prices rose 5.5 percent in May, the biggest gain since 2008, Premier Wen Jiabao's government hasn't raised rates for 10 weeks, the longest gap this year.

China’s Aim

Wen aims to tame prices and sustain growth to maintain social stability. China has so far boosted rates every other month from mid-October, with the most recent increase taking effect on April 6. Officials have also increased banks’ reserve requirements to a record and allowed the yuan to gain about 1.9 percent against the dollar this year.

The Philippine central bank yesterday unexpectedly kept its benchmark interest rate unchanged at 4.5 percent, a decision predicted by only six of 16 economists in Bloomberg News survey.

The rest expected an increase. Instead, Bangko Sentral ng Pilipinas increased the reserve requirement to 20 percent from 19 percent effective June 24.

Officials may be reviewing signs of weakening global growth.

U.S. manufacturing grew in May at the slowest pace in more than a year, according to the Institute for Supply Management’s factory index, while consumer spending rose less than forecast in April. The unemployment rate in the nation unexpectedly climbed to 9.1 percent last month.

Europe’s Woes

In Europe, 13 months after Greece was granted a 110 billion-euro ($155 billion) bailout that failed to halt the spread of the debt crisis to Ireland and Portugal, policy makers are at odds over fulfilling a pledge to make creditors pick up some of the cost of a second rescue.

Ireland opened a new front in the drive to restructure debt on the euro area’s periphery. Irish Finance Minister Michael Noonan said June 15 that senior bondholders should share in the losses of Anglo Irish Bank Corp. and Irish Nationwide Building Society, reversing a policy of protecting owners of senior securities.

The Indian central bank’s concerns about the global economy “would imply that if there is any major deterioration in the global growth environment, and global commodity prices also correct meaningfully, like oil prices dropping to $90 a barrel, then the RBI will likely stop hiking policy rates,” said Chetan Ahya, Singapore-based regional economist at Morgan Stanley.

In the meantime, climbing food costs may add to inflation after Prime Minister Manmohan Singh’s coalition increased the prices it pays farmers for grains and oilseeds. The federal government sets the crop prices to assure farmers’ incomes, while selling subsidized grains and cooking oils to the poor.

India also plans to allow state-run refiners such as Indian Oil Corp. to increase diesel tariffs. A panel of Indian ministers will meet “shortly” to consider raising fuel costs, Oil Minister S. Jaipal Reddy said June 13. The refiners had a revenue loss of 450 billion rupees ($10 billion) in the first quarter from selling fuel below cost, Reddy said.

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--Editors: Cherian Thomas, Stephanie Phang

To contact the reporter on this story:
Kartik Goyal in Mumbai at +91-22-6120-3734 or kgoyal@bloomberg.net