

## (BN) Indian Non-Food Inflation Eases Ahead of Interest-Rate Review

+-----+

### Indian Non-Food Inflation Eases Ahead of Interest-Rate Review

2013-03-14 09:44:50.20 GMT

By Kartik Goyal

March 14 (Bloomberg) -- India's non-food inflation eased last month even as the benchmark gauge accelerated from a three-year low, sustaining scope for the central bank to cut interest rates as it prepares to review monetary policy next week.

The wholesale-price index rose 6.84 percent from a year earlier, after climbing 6.62 percent in January, the Commerce Ministry said in a statement in New Delhi today. That exceeded the 6.6 percent median of 29 estimates in a Bloomberg News survey. Non-food manufactured goods prices, a measure of core inflation, advanced 3.8 percent after a 4.1 percent gain in January, according to Bloomberg calculations based on the data.

Today's report provides some room for authorities to move in the direction of monetary easing, Chakravarthy Rangarajan, chairman of the prime minister's Economic Advisory Council, said on CNBC-TV18 television today. Inflation and risks from the current-account deficit may limit Reserve Bank of India Governor Duvvuri Subbarao to a quarter-point reduction in the benchmark rates next week, according to a Bloomberg News survey.

"We expect the RBI to cut rates next week as core inflation eased," said Jyoti Narasimhan, India economist at IHS Global Insight in Bangalore. At the same time, "a wide current-account deficit and inflation above the RBI's comfort zone will limit the RBI in its easing cycle."

India's government bonds rose on speculation slowing economic growth will prompt the central bank to cut borrowing costs next week. The yield on the 8.15 percent bonds maturing in June 2022 fell four basis points, or 0.04 percentage point, to 7.86 percent as of 3:07 p.m. in Mumbai, according to the central bank's trading system. That's the biggest drop since Jan. 17.

### Rupee Climbs

The rupee strengthened 0.2 percent to 54.1862 per dollar. The currency has declined more than 7 percent in the past year.

India's government "firmly embraced" fiscal responsibility in last month's budget as the nation strives to slow an inflation rate that remains elevated, central bank Governor Subbarao said yesterday. Economic growth has slowed and the pace of price increases is "still high and stubborn," he said in a speech at the London School of Economics.

"Credible" fiscal consolidation is "a necessary pre-condition for stabilizing inflation and securing non-inflationary growth," Subbarao said. While the current-account imbalance poses a challenge for crafting monetary policy, the threat that a rate-cut will stoke the shortfall is "much less than apprehended," Subbarao said.

That's partly because lower borrowing costs are unlikely to translate into import demand given economic growth is "sluggish," he said.

### Budget Target

Finance Minister Palaniappan Chidambaram in last month's budget targeted a fiscal gap of 4.8 percent of gross domestic product in the year through March 2014, from 5.2 percent, in a bid to avert a credit-rating downgrade.

“Given the circumstances, I think it’s very measured and responsible, and if he delivers on that, from the Reserve Bank’s perspective, there is some softening impact on inflation,” Subbarao said in response to audience questions on the budget after the speech.

Fifteen of 16 economists surveyed by Bloomberg News forecast the central bank to reduce the benchmark repurchase rate to 7.5 percent from 7.75 percent on March 19. Subbarao last cut the repurchase rate by a quarter point on Jan. 29 and signaled limited space for further easing because of lingering price pressures and risks such as a record current-account gap.

Higher prices and subdued growth has hurt demand for cars in India. Domestic sales of passenger cars by companies including Maruti Suzuki India Ltd. and Tata Motors Ltd. contracted almost 26 percent in February from a year earlier, according to data released by the Society of Indian Automobile Manufacturers.

India’s gross domestic product will rise 5 percent in 2012-2013, the slowest since 2003, according to the statistics agency.

Fuel and power prices increased 10.5 percent in February from a year earlier, up from 7.1 percent the previous month, today’s inflation report showed.

For Related News and Information:

Top stories: [TOP <GO>](#)

India industrial-output stories: [INPIINDY <Index> CN <GO>](#) India inflation: [INFIFY <Index> HP <GO>](#)

Most-read India economy stories: [MNI INDECO BN <GO>](#) Benchmark interest-rate graph: [RSPOYLD <Index> GP M <GO>](#) Best and Worst Sensex stocks: [SENSEX <Index> MRR <GO>](#)

--With assistance from Manish Modi and Pradeep Kurup in New Delhi, Hari Govind in Mumbai.

Editors: Stephanie Phang, Andy Joyce

To contact the reporter on this story:

Kartik Goyal in Mumbai at +91-22-6120-3659 or [kgoyal@bloomberg.net](mailto:kgoyal@bloomberg.net)

To contact the editor responsible for this story:

Stephanie Phang at +65-6499-2617 or [sphang@bloomberg.net](mailto:sphang@bloomberg.net)