

# Bloomberg

## Mukherjee Signals India's Inflation Reduces Scope to Cut Rates

By Unni Krishnan and Kartik Goyal - Oct 19, 2011 1:03 PM GMT+0100

India's inflation may be "under pressure" until December and the central bank need not follow the policy of reducing interest rates being pursued by some counterparts abroad, Finance Minister Pranab Mukherjee said.

"One need not come to the conclusion that one set of prescriptions will be effective in another atmosphere and in another situation," Mukherjee told a press conference in New Delhi today.

Policy makers across Asia have been shielding their economies from Europe's debt crisis and a faltering U.S. recovery, with Indonesia cutting borrowing costs and Singapore pledging to slow currency gains this month. Governor Duvvuri Subbarao said Oct. 12 that inflation must ease before India's central bank can start lowering interest rates.

"When inflation is persistently high, the RBI will have to stick to monetary tightening," said Dharmakirti Joshi, a Mumbai-based economist at ratings company Crisil Ltd. "Different countries have different sets of problems and India is going through a serious inflation problem."

He expects the Reserve Bank of India to raise its benchmark repurchase rate by a quarter of a percentage point to 8.5 percent in the Oct. 25 policy decision.

The yield on the 7.8 percent government securities due April 2021 gained 3 basis points, or 0.03 percentage points, to 8.78 percent at the 5 p.m. close in Mumbai. The BSE India Sensitive Index rose 2 percent and the rupee strengthened 0.3 percent to 49.1550 per dollar.

### Inflation Trend

India's benchmark wholesale-price inflation rate has stayed above 9 percent since the start of December and was 9.72 percent in September, according to the commerce ministry. Non-food manufactured product inflation could be high in the

next six months due to “cost pressures,” the finance ministry said in a report yesterday.

Subbarao has boosted the [Reserve Bank](#)’s benchmark rate by 350 basis points since mid-March 2010, the fastest round of increases since the central bank was established in 1935, Bloomberg data show.

The governor in July predicted inflation to ease to 7 percent by March 31. He forecast India’s economy will expand about 8 percent in the fiscal year through March from 8.5 percent in the previous year.

India’s growth in the current fiscal year may be lower than earlier estimates, Mukherjee said.

#### Early Resolution

He said an early resolution of the debt crisis in Europe would be key for a stable global economy.

“In the G-20 ministers meet last week in Paris, we impressed upon the euro zone finance ministers to fix the solvency problem of euro zone countries by the Cannes Summit,” Mukherjee said. “Additional resources for providing liquidity could be thought of when the solvency issue of the euro zone countries are assessed and addressed.” G-20 leaders will meet in Cannes, [France](#), on Nov. 3-4.

Amid the global turmoil, Mukherjee said India is sticking to its target of raising 400 billion rupees (\$8.1 billion) in the current fiscal year from sale of equity stakes in state-run companies.

Still, the minister said high crude oil prices may boost fuel subsidies and make the goal of narrowing the [budget deficit](#) to 4.6 percent of gross domestic product by March 31 a “challenge.”

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