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India Reserve Bank Policy has Hurt Economy, India Infoline Says

By Rajhkumar K Shaaw - Oct 19, 2011 10:55 AM GMT+0100

Nirmal Jain, Chairman of brokerage [India Infoline Ltd.](#), comments on the outlook for the country's equities in an interview with Bloomberg UTV.

The benchmark BSE India Sensitive Index surged 2 percent to 17,090.01 at 3:15 p.m. in Mumbai.

On Europe crisis:

"The mood continues to be cautious; the euro zone debt crisis does not have an elegant solution in sight and whatever European leaders are trying to do, there are multiple concerns. This crisis will have very painful jitters. We live in a world, or in a market, where we will continue to have volatile stocks.

On local borrowing costs:

"The interest-rate hike has hurt more than helped our economy. There's a problem and there is a disease for which the [Reserve Bank](#) of India doesn't have a solution. RBI's monetary policy will have very little impact on food articles because they are all governed by demand-supply mismatches. Even for manufacturing, the rate hike is actually constraining capacity increase, which is a long-term solution for curbing inflation. There should be a pause now. If there is no pause then things can further aggravate."

The Reserve Bank of India raised its repurchase rate for a 12th time since March 2010 on Sept. 16 to tackle the fastest inflation among [Brazil](#), Russia, India, [China](#) and [South Africa](#). Its next policy review is on Oct. 25.

On valuations:

"Valuations have corrected and they are quite attractive. The Indian story, from a medium term of three-to-five years, remains intact. Relatively, India stands out because globally if you look at things in [Europe](#), the U.S., [Japan](#) or anywhere else,

they are so bad. Even China has seen a slowdown in the third quarter. India has potential to attract money.”

The Sensex has slumped 17 percent this year on concern the central bank’s record interest-rate increases may compound the effects of Europe’s sovereign-debt crisis and slowing economic growth in the U.S. on corporate profits. Companies in the gauge trade at 14.4 times estimated earnings, down from 21.5 times in March 2010. The MSCI Emerging Markets Index trades at 9.9 times.

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