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Check on rupee, rate cut top wish list

OUR SPECIAL CORRESPONDENT

New Delhi, Sept. 22: Corporate India today pitched for an interest rate cut by the Reserve Bank of India and its intervention to control a runaway rupee as the government looks for stimulus options to boost the economy.

The Confederation of Indian Industry called for an interest rate cut of 100 basis points to boost the economic growth rate and also suggested interventions to bring down the exchange rate to protect export-related jobs.

"The CII is of the firm belief that the current blip in growth rates is temporary and we are confident of a strong recovery by the end of the fiscal as industry gets over the teething problems of the GST and other positive measures take effect. New investments will also start early next year as capacities fill up." CII president Shobana Kamineni said.

The RBI is slated to announce its next round of bi-monthly monetary policy on October 4.

However, Radhika Rao, India economist at DBS, in a research note said, "We see limited scope for fiscal pump-priming measures and an aggressive rate cutting cycle to support growth. Adopting such quick fixes are a threat to near-term macro-stability and carry long-term implications."

The report said the strong fiscal and monetary policy stimulus undertaken in the wake of the 2008-09 global financial crisis, which initially shored up India's growth through higher consumption and investment spending, gave way to double-digit inflation and wide domestic and external imbalances.

It is thereby crucial to ensure the growth turnaround is durable and sustainable, even if slower in the short-term. Structural changes (GST, bankruptcy laws, moves to limit corruption) will inflict pain in the short-term, but if implemented efficiently will lift potential growth in the medium-term, DBS said.

The debate around the need for fiscal stimulus has emerged after economic growth slipped to a three-year low of 5.7 percent in the first quarter of the current fiscal.

Growth has been sliding for five consecutive quarters hit by stagnant private investment, weak exports, along with one-off factors such as demonetisation and the implementation of GST.

Concerns over economic expansion have been compounded because the central and state finances are not in the best of health. The central government has exhausted over 90 per cent of its fiscal deficit target in the first four months alone.

For 2017-18, the government aims to bring down the fiscal deficit to 3.2 per cent of GDP. Last fiscal, it had met the deficit target of 3.5 per cent.

A cut in interest rates would encourage domestic demand in sectors such as affordable housing, consumer durables and construction. Interest rate subvention in certain sectors such as exports, housing and MSME would also help to raise growth, the industry chamber said.