Economists anticipate another 25 bps hike in repo and reverse repo rate by RBI
But caution against too frequent hikes to keep growth intact
Expect headline inflation to settle between 6 to 8 percent by December 2010 against government estimate of 5 percent
FICCI Economic Outlook Survey

New Delhi, 17, July, 2010. **A majority of the participating economists in a FICCI Economists' Poll anticipate a hike of 25 basis points in both repo and reverse repo rates by RBI at the forthcoming monetary policy review on 27, July, 2010**.

At the same time, given the present liquidity situation, a hike in CRR at this juncture has been ruled out by the respondents. **Some economists however feel that too frequent hikes in policy rates could derail the growth momentum**, according to FICCI's latest Economic Outlook Survey (July 2010). While normalization of the monetary policy is expected, premature and aggressive rollback of easy money policy can jeopardize growth, these economists felt.

While taking note of the recent fall in IIP figures from 16.5 percent in April 2010 to 11.5 percent in May 2010, the surveyed economists feel that the industrial sector is still growing at a reasonable pace. They have however pointed towards the **prevailing inflation situation as one of the major domestic factors that could slow down growth**.

Economists have pointed out that **high prices are eating into the budget of the middle class population as far as their outlay for industrial produce is concerned**. Thus if inflation persists at the current levels for a long time or if there is a sharper than anticipated pick-up in inflation then consumption demand could get dampened.

While mentioning that non food manufacturing inflation is building up in the economy, the economist have pointed out that the present headline inflation rate would remain at this level for another couple of months.

According to the survey participants, there are three factors that would hold the price line at the present level in the immediate future. These are –

> The increase in fuel prices is yet to play itself out fully in the economy. This has led to increase in transportation cost for primary articles and increase the cost of production for manufactured goods.

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Food inflation continues to remain sticky and the progress and spatial distribution of the monsoon will be a key factor in dousing food inflation in the months ahead.

The depreciation of the INR is preventing any meaningful reflection of lower global prices in metals on inflation in India.

While the above is the near term prognosis, economists feel that post September 2010, headline inflation would start trending downwards. They predict that the current situation **headline inflation would settle in the 6 percent to 8 percent range by end of the year against the government's projection of 5 percent**.

Looking at the prognosis for the two key components – primary articles and manufactured articles – the trend is expected to be the same as for overall inflation. The only difference being that primary inflation will start to cool down from August 2010 onwards as the 'negative base affect' will come into play then and manufactured articles inflation would trend down from November 2010 onwards as it was in November 2009 when manufactured goods price index had shown a spike. Besides this base effect, some of the other factors that should help ease inflation later this year include –

Low probability of aggressive MSP hikes

Slowdown in global growth which would keep a lid on commodity prices particularly those of industrial metals

Annual Forecasts for 2010-11

- ♣ GDP growth – 8.5 percent
- ♣ Agriculture and allied activities growth – 3.5 percent
- ♣ Industry growth – 10.0 percent
- ♣ Services growth – 9.0 percent
- ♣ Fiscal Deficit – 5.1 percent of GDP
- ♣ IIP – 10.6 percent
- ♣ WPI inflation rate (End March 2011) – 6.5 percent
- ♣ Money Supply (M3) growth – 17.0 percent

- ♣ Trade Balance – (-) 8.2 percent
- ♣ USD / INR exchange rate (End March 2011) – Rs. 44.5/USD
- ♣ Bank credit growth – 20.0 percent

Quarterly Forecasts for Q1 (Apr- June) and Q2 (July- Sep) of 2010-11

- ♣ GDP growth – 8.7 percent (Q1, 2010-11) and 8.5 percent (Q2, 2010-11)
- ♣ Agriculture and allied activities growth – 2.6 percent (Q1, 2010-11) and 4.0 percent (Q2, 2010-11)
- ♣ Industry growth – 11.0 percent (Q1, 2010-11) and 10.0 percent (Q2, 2010-11)
- ♣ Services growth – 9.2 percent (Q1, 2010-11) and 9.1 percent (Q2, 2010-11)
- ♣ IIP – 13.1 percent (Q1, 2010-11) and 11.0 percent (Q2, 2010-11)
- ♣ WPI inflation rate – 10.0 percent (Q2, 2010-11)
- ♣ Money Supply (M3) growth – 15.8 percent (Q2, 2010-11)
- ♣ Trade Balance – (-) 8.0 percent (Q2, 2010-11)
- ♣ USD / INR exchange rate – Rs. 46.0/USD (Q2, 2010-11)
- ♣ Bank credit growth – 19.5 percent (Q2, 2010-11)

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