Press Release

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Macroeconomic conditions do not warrant an increase in interest rates: CRISIL

Mumbai, October 20, 2005... **"Macroeconomic conditions do not warrant an increase in interest rates by the RBI", said Dr. Subir Gokarn, Executive Director and Chief Economist, CRISIL.** He was speaking on the occasion of CRISIL's seminar on "India: Economic & Business Outlook- Mid-year review 2005-06" held in Mumbai today. He said that market forces, both global and domestic, were already causing interest rates to rise.

"While inflationary pressures are visible, primarily because of oil prices, there are no signs of demand-pull inflation, which is amenable to control through liquidity management. A further policy-induced increase in interest rates will impact the current industrial buoyancy", he said. Yields on 10-year government securities are expected to range within 7.25-7.5 per cent by March 2006.

With respect to the fiscal deficit, CRISIL believes that it will reach 4.6 per cent of GDP for the current year. "Although revenues are buoyant, budget targets were rather optimistic, so collections will still fall somewhat short", Dr. Gokarn said.

On the exchange rate front, while rising import bills, both on oil and other imports, have caused a current account deficit, CRISIL believes that the potential for inflows on the capital account remains good. Given this, while the persistent surplus of inflows that has led to large accumulation of forex reserves by the RBI will narrow, there will not be enough pressure on the rupee to depreciate significantly. "CRISIL expects the rupee to stabilize around the Rs. 43.5-44/$ range over the remaining part of 2005-06", said Dr. Gokarn.

Overall, CRISIL believes that the current performance of the economy is sustainable. It forecasts GDP growth of 7 per cent for 2005-06. Inflation is expected to touch 6 per cent by the end of the fiscal year, which is quite reasonable given the level of oil prices. "Intense competition and persistent productivity growth have significantly offset the inflationary impact of higher input prices", Dr. Gokarn said.

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