

Need to raise rates to curb prices: Subbarao

Visakhapatnam, Aug 1: Reserve Bank of India governor said on Monday that the country needs to raise interest rates to restrain inflation even at the cost of some sacrifice to growth, reinforcing expectations that more rate hikes are in the offing.

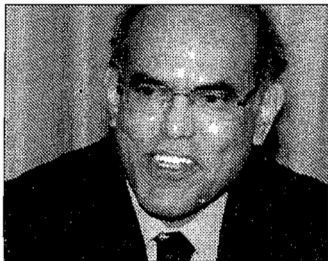
Government bond yields and swap rates rose following Reserve Bank of India (RBI) governor Duvvuri Subbarao's comments.

Growth last year was 8.5%. This year it might be slightly lower. We need to raise rates in order to restrain inflation. That hurts growth, Subbarao said in a speech in the southern city of Visakhapatnam.

So, people say are you not hurting growth in order to contain inflation? Our response is that, you need to restrain inflation in order to ensure that our middle-term growth is sustainable, he said, less than a week after surprising markets with a steeper-than-expected 50 basis point interest rate rise.

The 10-year benchmark bond yield rose 3 basis points to 8.46%, while the 5-year benchmark OIS and one-year OIS rose 5 basis points each to 7.49% and 8.34% from before the comments. It is a kind of preparatory notice for the market, so that it is not surprised by another rate hike if inflation stays sticky, said NS Venkatesh, treasurer at IDBI Bank.

Last week, the RBI raised inter-



**Reserve Bank of India
governor Duvvuri Subbarao**

est rates for the 11th time since March 2010 in a bid to tame inflation, despite signs of slowing economic growth, making it one of the most aggressive inflation fighters among central banks.

Expectations for interest rate increases in India for the remainder of 2011 jumped 50 basis points from a previous poll after the RBI's higher-than-expected rate increase, a poll found on Monday.

Inflation is being driven by three factors: structural pressures on food prices, crude and commodity prices and wage and demand pressure, Subbarao said, adding that the performance of India's summer monsoon was not the driver of food inflation.

Across villages in India incomes have gone up, people are eating better. People are shifting from cereal to protein. So there is a structural component to food inflation, he said.

Reuters