



**Tackling crisis:** The RBI Governor, Dr D. Subbarao, delivering a talk on "India and the global financial crisis: what have we learnt?" at GITAM School of International Business at Visakhapatnam on Monday. GITAM President, Mr M.V.V.S. Murthy, and the Vice-Chancellor, Mr G. Subrahmanyam, are also seen. — C.V. Subrahmanyam

## Rate hike is necessary to check inflationary pressures: Subbarao

Our Bureau

Visakhapatnam, Aug. 1

The recent interest hike is necessary to curb inflation and, even though it may affect growth in the short-term, the step will be beneficial in the long run, according to Dr D. Subbarao, Governor of the RBI.

He was addressing students of GITAM University here on Monday. He delivered a talk on the theme "India and the global financial crisis: what have we learnt?" He began the lecture in a lighter vein, remarking that as soon as he assumed charge as the RBI Governor the global financial crisis set in and "it will all be over when I complete my term."

He explained to the students that as India had got integrated into the world market after the 1991 economic reforms, the global economic recession had affected India too, though not on the same scale as the other countries. "Globalisation is a

double-edged sword. There are benefits such as higher growth trajectory, but there are also costs. Our endeavour is always to maximise the benefits and minimise the costs," he said.

"There are of course economic pundits writing in newspapers that India should not have been affected even to the extent it did by the global crisis. They aver that we should have been ahead of the curve and not behind it. But I often wonder whether they know the shape of the curve," he added.

India had recovered much sooner than most other countries, he said and added that the time had come now "to battle the growth-inflation dynamics. You are presented with a difficult choice. Rate hike is necessary to check the inflationary pressures, even as it impedes growth to an extent in the short-term. We have to make the little sacrifice for sustainable growth in the medium and long terms." He later interacted

with students. When a student asked him whether there were any warning signals to an impending global economic crisis, he said, "I wish I knew the answer to your question. In fact, everything seemed fine before the economic crisis hit the world in 2008. Perhaps, I can point out one or two danger signals. Too much money was pumped into the housing sector in the US and other economies and that was asking for trouble. Too much stability may also be a cause for concern. We should always be alert."

Later, Dr Subbarao gave a lecture in Andhra University on the role of the RBI. He stressed the importance of financial inclusion and taking banking to the rural areas. "The rural markets are coming alive and many corporates are now concentrating on the rural areas. Therefore, banks should also open many branches in villages. Rural branches are viable," he said.

## Refreshing introspection by PM's advisory council

NEWS ANALYSIS

G. Srinivasan

New Delhi, Aug. 1

As India celebrated its two decades of the economic and trade policy reforms recently in a subdued fashion with many pro-reformers pillorying the authorities for their reform fatigue, the Prime Minister's Economic Advisory Council (PMEAC) has done plain-speaking by plumping for "active measures to improve the investment climate" and to go ahead with unfinished reform agenda.

In his report to the Prime Minister, released here on Monday, the Chairman of the PMEAC, Dr C. Rangarajan, rightly chided the Government that "while quite clearly we were able to negotiate the global economic crisis quite well, we have been unable to find our way back to the path of rapid asset creation and growth". The reasons for the stupor in this score stems from four factors, it said, including "considerable over-confidence in both business and government" after India came out of the crisis well, disinclination to roll back fiscal and monetary stimulus quickly and flaring up of inflation first in food and then in non-food items.

The fourth factor is quite interesting as the PMEAC bluntly put that "spate of corruption related controversies that has emerged over the past one year has consumed the energies of Government has led to an unintended slowing down of initiatives to restore investment and economic confidence". What a

► *At a time when investment flows into the real sectors of the economy remain none-too-encouraging, the report's call for active measures to improve investment climate needs to be heeded by the Government.*

worse indictment than this open sourcing of factors that slowed the UPA II and its relatively nugatory response to the challenges, both political and economic?

### ASSET CREATION

It rightly diagnosed that asset creation in the private sector was always a matter of taking risk since it enlarges the liabilities in the balance sheets and entails both greater market and financial risks into the enterprise. Hence for businesses to take risks and price them prudently, the precondition is the promise of stability — both financial and political. With inflation and corruption charges obstructing the functional manoeuvrability to focus on issues of even normal governance the Council did "a structured consultation" with business representatives.

The corporates today get genuinely concerned over "bottlenecks in power, as also roads and the port sector, a slowing down of the approval process for projects, cost escalation causing erosion of profitability and keeping at bay new investment projects and a shortage of labour especially skilled labour impacting negatively on the manufacturing sector and the uncertainty flowing from political developments that has had a very negative impact in business confidence and in-

vestment outlook."

### LITANY OF SUGGESTIONS

Hence, it has reiterated its by now familiar litany of suggestions such as subsidy reduction, fiscal consolidation, putting in place goods and services tax, reform push including modernisation of the retail sector, expeditious clearance of projects and efficient expenditure management and augmenting tax resources.

At a time when investment flows into the real sectors of the economy remain none-too-encouraging, the report's call for active measures to improve investment climate needs to be heeded by the Government. The suggestions by the PMEAC cover, among others, clarity on policy, removal of uncertainties on both policy and administrative fronts, pushing through the reforms agenda and taking all other measures to strengthen the competitive character of the market and dealing with unresolved issues that are required to facilitate the expansion and acceleration of private investment over the medium term."

The moot point is whether the UPA Government has the political spunk to junk its inertia and move ahead to seize the moment to leave an imprint in history that it is the same party which originally

claimed the patent right to economic reform in July 1991.

The need for stepping up domestic investment through focused sector-specific action to rev up prospects in the industry is indubitable but the premises of the PMEAC in anticipating FDI inflows at \$35 billion this fiscal against the level of \$23.4 billion appear to be flawed, given "the inflationary situation and investment slowdown" in the economy. As the gap between the perception of the PMEAC's wise men and the performance of the UPA government gets wider, the hope of fixed investment rate moving upwards to over 33 per cent even in the next fiscal (the domestic savings rate touched an acme of 36.9 per cent of GDP in 2007-08) might be chimerical.

Finally, the report's caution that despite improvements in the consolidated fiscal deficit including off-budget liabilities in 2010-11, both revenue, fiscal and primary deficits continue to be large and the fiscal situation remains "precarious" might goad the authorities to act swiftly on several fronts. "The Government will have to redouble its efforts to collect large revenues, resolve cases to reduce tax arrears and save expenditures in other areas to conform to the targets. In the case of the States, the large and persistent losses of electricity utilities are worrisome," the report aptly argued, persuasively telling the authorities to fast-track priorities before the economy slips into slowdown mode at a time when inflation is unlikely to come down till October this year.

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## BJP not to disturb party structure in Karnataka now

Our Bureau

Bangalore, Aug. 1

A day after the Karnataka Chief Minister, Mr B.S. Yeddyurappa, tendered his resignation, it is resort politics now in Bangalore.

The two camps have emerged in pitching for the Chief Minister's chair — one led by Mr Yeddyurappa rooting for D.V. Sadananda Gowda and the other led by the Bharatiya Janata Party (BJP) Karnataka unit Chief, Mr K.S. Eshwarappa, opting for Mr Jagadish Shettar.

Immediately after Mr Yeddyurappa tendered his resignation, the two camps went into over drive with each showing numbers to prove their strength.

The central observers, Mr Arun Jaitley and Mr Rajnath Singh, after taking the views of both the camps and meeting all the 121 MLAs individually, left for Delhi on Sunday night to brief the party high command.

After failing to build a consensus on the leadership issue on Sunday, the BJP high command is planning to call the BJP legislature party meet on Wednesday.

The high command has promised the MLAs that the new leader will be elected transparently.

The BJP high command is of the opinion not to disturb the party structure but only address the issue of Chief Ministership.

Earlier in the day, Mr Yeddyurappa went public saying former state unit President, Mr D.V. Sadananda Gowda, is his choice but it was simply not acceptable to the rival side led by senior leader Mr H.N. Ananth Kumar and the State unit chief, Mr K.S. Eshwarappa.