No Guarantee That India Is Heading For A Low Interest Rate Regime: Economist Gita Gopinath

by Hormaz Fatakia
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Commodity prices and monsoon will play a key role in determining a low-inflation, low-interest rate environment in India, a panel of experts unanimously agreed at the India Economic Summit 2016 hosted by the World Economic Forum.

In a panel moderated by Bloomberg's Harsha Subramaniam, Gita Gopinath, Professor of Economics at Harvard University said there is no gaurantee that India is headed is headed for a low interest rate regime.

With most global central banks adopting an accommodative monetary policy, the global economy will be flush with liquidity in the times to come. India can emerge as a beneficiary in this scenario as liquidity spurs the demand for safe assets, Gopinath added.

The U.S. Federal Reserve may hike interest rate by the end of the year but the impact on India will be minimal when that happens, she maintained.

> *There is no reason to think that there is a clear downward trajectory in interest rates. There is a huge demand for safe assets in the world. If India can announce itself as a safe asset, that will ensure that the country has minimal impact of a Fed rate hike.*
>
> **Gita Gopinath, Professor of Economics, Harvard University**

Welcoming the Reserve Bank of India decision to cut the repo rate by 25 basis point in its last policy driven by the monetary policy panel, Pawan Munjal, chairman and managing director and chief executive officer of Hero MotoCorp said lower rates will ensure more investments come into India.

The latest repo rate cut was in keeping with the RBI's policy stance over the last two years, said president of the Confederation of Indian Industry Naushad Forbes. He believes the country is transitioning into a period of low inflation, low interest rate environment.

> *We should see us as a country that is transiting into a low interest rate, low inflation regime and that transition will lay the foundation for 20 years of growth.*
>
> **Naushad Forbes, President, CII**

Vineet Nayyar, executive vice-chairman of Tech Mahindra differed from the panelists and said that the interest rate in India is currently extremely high and the foundation of a country's growth can only be laid through a low-interest rate environment.

> *Interest rates in India are way too high to encourage capital formation. High interest rates have played a key role in investments to industries coming down. Look at countries like Korea, China, their growth was largely based on low interest rates. That encouraged capital formation and resulted in the fall of inflation.*
>
> **Vineet Nayyar, Executive Vice-Chairman, Tech Mahindra**

Impact Of Oil Price Rebound

India has benefitted from lower oil prices, both on the fiscal, as well as the inflation front. Panelists said that reforms initiated by the government in the oil and gas space, including market-linked pricing will ensure that the impact of a rebound in commodity prices will be contained.

> *I don't see any upward pressure on commodity prices in a slow growth environment. However, moving away from subsidies will ensure that India is in a better position to handle any sort of price rebound.*
>
> **Gita Gopinath, Professor of Economics, Harvard University**

Government's Reform Agenda

With important reforms like the Goods and Services Tax out of the way, the focus has now shifted back to crucial land and labour reforms, which will be critical to boost the manufacturing sector, Hero MotoCorp chief Pawan Munjal said. The lack of The sees both these aspects as hinderances to business in the current environment.

> *Land and labour reforms are very very important for the industry, for manufacturing. Right now, both are inconsistent. For expansion, it is so difficult to get land. For expanding manufacturing, the capacity in labour is extremely important. There are lots of issues...these two are very important.*
>
> **Pawan Munjal, CMD and CEO, Hero MotoCorp**

> *Land and labour reforms are politically contentious. So the centre is encouraging the states on this front. Even if the centre is unable to push it, investments will still flow to the states if they manage to push for the same. It is a very effective approach.*
>
> **Naushad Forbes, President, CII**

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