

India's industrial production growth slows again

Disappointing news for India Inc continued Thursday, as the latest data on industrial production showed a slower growth of seven percent for April, against 11.3 percent in the same month of last fiscal, due to sluggish expansion in the manufacturing sector.

The growth in manufacturing was just 7.5 percent in April, as opposed to 12.4 percent in the corresponding month of 2007, as per data on Index of Industrial Production (IIP), released at the Planning Commission here.

For the year as a whole, industrial production was 8.3 percent higher for fiscal 2007-08, as against 11.6 percent in the previous fiscal.

The worrisome news came against the backdrop of India's central bank hiking its short-term interest rates to 8 percent Wednesday in a bid to tame inflation - a move that experts feel could, in turn, trigger interest rate hikes by commercial banks.

'Monetary policy has to respond proactively to immediate concerns,' the Reserve Bank of India said in a statement Wednesday.

'At the same time, it is critical at this juncture to demonstrate, on continuing basis, a determination to act decisively, effectively and swiftly to curb any signs of adverse developments in regard to inflation expectations.'

The central bank was forced to take the monetary measure as India's annual rate of inflation jumped to a 45-month high of 8.24 percent for the week ended May 24, against 8.1 percent for the previous week.

Since the data on wholesale price index pertained for the week ended May 24, the inflation rate did not reflect the steep hike in prices of transport and cooking fuel announced last week, expected to add 80 basis points to inflation rate.

Rating agencies like Moody's predict that India's central bank may hike interest rates further to keep a check on spiralling prices, while predicting an economic slowdown.

'Amid tight monetary policy conditions which weigh on household consumption and business investment, the Indian economy looks set to slow this year,' Moody's Economy said in a report.

'Moody's Economy.com expects GDP (gross domestic product) growth to decelerate from an impressive 8.9 percent in 2007 to around 8 percent in 2008,' the agency said.

'The biggest challenge facing central banks across Asia is to cool inflation without hurting economic growth. The RBI is no exception,' said the agency's report, prepared by its economist Sherman Chan based in Sydney.

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