Macroeconomic indicators - Morgan Stanley revises Indian GDP

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In the past few weeks a lot of good news has hit the Indian economic scene, whether it is Index of Industrial Production or inflation numbers or even the way in which the rupee has appreciated.

Mr Chetan Ahya chief economist for India with Morgan Stanley said that it has increased its gross domestic product growth estimate to 6.4% for FY10 from 5.8% earlier. He expects inflation to go up to 6.5% by March 2010.

According to Mr Ahya, credit growth will rise rapidly to about 17% to 18% by March 2010. Speaking on rate cuts, he said that the Reserve Bank is likely to increase the cash reserve ratio by about 50 basis points in its monetary policy on October 27.

Here is a verbatim transcript of the exclusive interview with Mr Chetan Ahya on CNBC-TV18.

Q. Let me begin with the Index of Industrial Production numbers coming in at nearly 10.5% for August is it making you rethink your industrial output estimates for the year in fact even your GDP numbers?

A - Yes. The numbers were very surprisingly. I think it is not just the month of August what we saw this was coming in June-July and now the last month which is August so this has been happening now for three months. We have also quickly reviewed our number. We have increased our GDP growth for FY10 to 6.4% from 5.8% earlier which is much higher than the consensus number which is ranging around 6% now.

Q. Let me come to the inflation number as well. We saw inflation galloping on a week on week basis even if on year on year it was in negative terrain week on week we have seen the index galloping from March almost from March until August but the last two weeks have been benign. They have actually seen fairly steep fall of 0.5% in week on week inflation. Are you getting an impression that maybe things will pan out and what is your inflation forecast for December and March?

A - Just to explain the steep rise and the fall, I think food is the biggest culprit. In the last two weeks there has been some specific global commodities as well which has come off. But we do not think this is the trend. We expect the inflation to go up to 6.5% by March 2010 much against what RBI is expecting it to be 5% because we do think that the base effect which is right now supportive will very quickly recede from now.

Q. We have seen some appreciation in the rupee. I think it is about 10% to 11% from the lows in March and much of it almost 3% has come in the last few weeks where do you see the rupee headed is there going to be almost the coming back of the 39s and the 40s?

A - Not really. We are looking for a moderate appreciation from here. Our currency team is forecasting it to go to INR 45 per dollar by end 2010 so actually there is definitely upside risk to that number. But we are not seeing it going back all the way to INR 39.4 per dollar.

Mind you that number was driven by almost a six sigma event in capital inflows which were at USD 108 billion in March 08 financial year and since we are not forecasting that as of now we do not see that kind of number but I think the direction is definitely that of moderate appreciation going forward.

I think we also evaluate this in the context of what is happening else where in the region. Actually the rupee has been underperforming a lot of the other currencies and even after this bout of appreciation that we have seen in the last two weeks it is still the second worse performing currency after a Korean Won.

(Sourced from CNBC-TV18)