The Hindu Business Line

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US rate hike will not hurt India badly: CEA

No cause for worry; economy can absorb impact, says Arvind Subramanian

OUR BUREAUS

New Delhi/Mumbai, December 15

The Indian economy is "very well cushioned" to absorb the impact of the US Fed rate hike, and there is no need for excessive worry, Arvind Subramanian, Chief Economic Advisor (CEA) to the Finance Ministry, has said.

"If at all there is an impact, it would only be for a short term. India will be less affected than other countries," Subramanian said at an Assocham-organised interactive meeting on Thursday.

India's foreign exchange reserve of over $300 billion and its strong economic growth will help weather the impact of higher US interest rates.

Asked if he expected the outflow of funds from emerging markets to accelerate following the Fed decision overnight to hike rates by 25 basis points (one quarter of 1 per cent), the CEA replied in the negative.

"Ever since the US elections, there has been a big flow of funds from emerging markets. Given that we are a bright spot, the impact on us will be much less," he told reporters.

Subramanian said the Fed rate hike was "anticipated" and that the Reserve Bank of India (RBI) had a few days ago taken "account of this in a very sensible way". Going forward, the RBI has indicated that it would watch the data before deciding on policy action.

Das concurs

Later in the day, Economic Affairs Secretary Shaktikanta Das struck much the same tone, noting that the Fed rate hike had "ended the uncertainty" in the market. "The markets had already factored this in. We expect our stock markets, our currency markets to stabilise after some initial volatility," he added.

Das noted that although the Fed had laid out a roadmap of three rate hikes each in 2017 and 2018, one would have to wait and see how many actually come about. "This year (2016), they (the Fed) had indicated four rate hikes, but only one happened."

Following the Fed decision to raise interest rates for the first time in 2016, US 10-year yields reached their highest level in more than two years, and gold fell to a 10-month low.

Janet Yellen,
US Federal Reserve Chair

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ARVIND SUBRAMANIAN
Chief Economic Advisor

The US dollar strengthened against most currencies, including the rupee, which fell 40 paise to close at 67.8350 to the dollar, against 67.44 previously.

Vaibhav Agrawal, Head of Research & ARQ, Angel Broking, said, "The Fed's signal to raise rates three times next year is faster than market expectations. This is likely to push up US rates faster, and put pressure on the Indian rupee. The domestic markets may remain volatile for some time with the expectation of rising US rates and the impact of demonetisation."

Also read p4,5

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CEA: Economy can ride out the recent spike in oil rices

OUR BUREAU

New Delhi, December 15

Global oil prices will not surge to levels that would be difficult for the Indian economy to handle, said Arvind Subramanian, Chief Economic Advisor to the Finance Ministry.

This remark is significant as it comes at a time when analysts say oil prices may climb to $60 a barrel for the first time in almost a year and half, especially after Russia joined the OPEC's pledge to reduce output and Saudi Arabia surprised the market by saying that it will cut production more than previously agreed.

"Oil prices are going up and down. One thing not to lose sight of — don't focus on ups and downs — is the fact given the way oil market has evolved over the last seven years... this is a market when prices go up, there will be nimble production that will come on line.

"There will be natural kind of ceiling on how high oil prices can go because of shale oil and gas."

Chief Economic Advisor Arvind Subramanian PTI

"There will be natural kind of ceiling on how high oil prices can go because of shale oil and gas," Subramanian said on the sidelines of an Assocham event here.

Brent was about $54 per barrel on Thursday. Oil prices have surged 17 per cent since the Organisation of Petroleum Exporting Countries (OPEC) announced its first production cuts in eight years late last month. On December 10, as many as 11 non-members signed up to widen the accord.

The Hindu

16th December 2016

Include real estate sales and electricity charges in GST: CEA

Special Correspondent

NEW DELHI: The sale of land and real estate should be included in the Goods and Services Tax structure, Chief Economic Adviser Arvind Subramanian said on Thursday, adding that rates should be lower rather than higher as this would help the fight against black money.

The CEA, however, did not reply to questions regarding the government's decision to demonetise high-value currency notes, only saying that the issue of how to manage the situation over the next few weeks and months would be challenging.

"The passage of the GST Constitutional Amendment Bill was the mother of all achievements," Dr. Subramanian said while speaking at an Assocham event. "We should aspire to simple, clean rates that are lower rather than higher. The sale of land and real estate needs to be part of GST. That way the input tax credits can enter the system." Dr. Subramanian added that electricity charges should also be included in GST.

Arvind Subramanian

"The other challenge is to keep an eye on the currency situation in South East Asia and in China," he said. "The third international challenge is that if we need strong growth, then exports have to grow 15-20 per cent every year. But the question is, can advanced economies buy our exports? Can they handle our service exports?"

The CEA also highlighted two challenges the Indian economy would have to face domestically. "One will be how to manage demonetisation over the next weeks and months until remonetisation is done fully," he said. "And the other is the 'twin balance sheet problem' of the corporates and banks."

Dr. Subramanian said that the Indian economy was very stable, with both retail and wholesale price inflation having fallen from double-digit levels, the current account deficit being low and fiscal deficit consistently reducing.

The Financial Express

16th December 2016

India well-cushioned to absorb Fed rate hike impact, says CEA

fe Bureau

CEA Arvind Subramanian

New Delhi, Dec 15: With the US Fed rate hike increasing the prospect of capital flight from emerging economies, chief economic adviser Arvind Subramanian on Thursday allayed such fears and said the Indian economy is "well-cushioned" to absorb its impact.

The Fed raised interest rates by 25 basis points on Wednesday. "My own view is that the Indian economy is very well-cushioned to absorb the impact of this. The RBI policy also took account of this in a very sensible way. There may be some short-term things. This is not something we need to worry about," Subramanian said at an Assocham event.

In its latest monetary policy review on December 7, the RBI kept its main policy interest rate unchanged.

Observing that the Fed rate hike has ended the uncertainty surrounding the major global event, economic affairs secretary Shaktikanta Das said the Indian markets have already factored in the impact of the increase. "Projection for growth outlook remains fairly stable and only marginally improved. Markets had factored in the rate hike and we expect that our markets, the currency market, to stabilise after initial ripples or volatility. Whatever has happened today is not unusual and our markets will remain fairly stable," Das said.

The Stateman

16th December 2016

India very well cushioned to absorb Fed rate hike: CEA

PRESS TRUST OF INDIA
New Delhi, 15 December

The interest rate hike by the US Federal Reserve will bring volatility and uncertainty in capital flows into emerging market economies, but India is very well cushioned to absorb the impact, chief economic adviser Arvind Subramanian said today.

He said that the 0.25 per cent rate hike by the US Fed was on expected lines and India with strong macroeconomic fundamentals is "less anxious" than other markets.

"The US interest rates are rising and dollars are rising. Of course, there will be some re-assessment and money will flow from emerging market to the USA at least for some time. But in that, we will be less affected than other countries," he said at an Assocham event here.

With economic growth picking up since the middle of the year, the US Federal Reserve raised interest rate yesterday, the second time in a decade. It had last hiked rates in December 2015.

"This was anticipated and expected. The Indian economy is very well cushioned to absorb the impact of that. I think the RBI policy also took an account of this in a sensible way. I think there will be some short-term things, but we need not worry on that," Mr Subramanian said.

"The RBI took the right call on this. In this period of volatility and uncertainty, we need to have a strong macro-economy which we have. I am a little bit less concerned about that," he said.

Last week, the RBI maintained a status quo on interest rates, saying it wants to wait and see how the impact of demonetisation and US Fed rate hike plays out.

He said that there has been a big flow of funds from emerging markets, but given that India is a bright spot, the impact will be much less.

Asked about spike in oil prices after OPEC and non-OPEC members agreed to cut production for the first time since 2008, he said that the oil market has evolved in the last five to seven years and there is a natural kind of ceiling on how high the price can go because of shale oil and shale gas.