Singh Says No Surrender as Markets Query India Global Commitment

Dec. 15 (Bloomberg) -- India’s Prime Minister Manmohan Singh pledged to overcome opposition to opening the country’s retail industry to companies like Wal-Mart Stores Inc., saying his two-decade reform agenda is the best way of reviving the slowest economic growth in two years.

In an interview in his office at Parliament House in New Delhi, Singh said he’ll succeed in letting foreign companies buy majority stakes in Indian retailers after contesting regional elections early next year and as slower inflation bolsters support for his administration. He said he underestimated the opposition that derailed the plan a week ago and sent the benchmark stock index to its biggest three-day drop since July 2009.

“There was inadequate preparation and some partners in the coalition developed cold feet,” Singh said in the interview yesterday covering subjects from his legacy to the losses suffered by Kingfisher Airlines Ltd. “But I can assure you, India remains committed to a system of regulation that is supportive of enterprise and we will do everything to encourage foreign investment.”

Singh is facing one of the most challenging periods since taking office in 2004 after opposition from coalition allies prompted his Dec. 7 decision to delay indefinitely the retail-opening measure. At stake for Singh, 79, is preserving an economic turnaround that began in the 1990s, when as finance minister he helped engineer a shift toward free-market policies.

The policy setback is a symptom of a functioning democracy, Singh said. Still, a democratic system of government remains “the most credible,” he said. ‘Only Path’

“There may be zigzags along the way, but the path is the one I set,” said Singh, the only Indian to have served as governor of the Reserve Bank of India, finance minister and prime minister and the nation’s first head of government to come from a religious minority. “It is the only path to reduce the chronic poverty millions still live under.”

He predicted that gross domestic product will increase 7.5 percent in the fiscal year that ends March 31, while inflation will cool to between 6 percent and 7 percent. Once the global economy stabilizes, India will return to 8.5 percent to 9 percent trend growth, he said.

Shoppers Stop Ltd., India’s second-largest retailer by market value, gained 1 percent to 310.6 rupees, ending five straight days of losses after Singh’s comments yesterday.

Rupee, Stocks

The rupee briefly pared losses, before weakening to a record low of 53.715 per dollar in Mumbai. India’s currency has tumbled 17 percent so far this year, the worst performance among 10 major Asian currencies tracked by Bloomberg, hurt by India’s parliamentary gridlock, elevated inflation, widening budget gap and the weakest economic growth in two years. The benchmark Sensitive Index of stocks has fallen 23 percent in 2011.

“This is his last innings and he has everything to gain,” said B.G. Verghese, an analyst with the Centre for Policy Research in New Delhi, using a term from cricket, India’s most popular sport. “The economic indicators are such that he realizes that he better do something or there will be trouble.”

Verghese, who served as an aide to former Prime Minister Indira Gandhi and has written books on Indian development policy, predicted the government will invigorate its legislative record by passing an anti-corruption bill. Policy makers may follow up with efforts to reduce regulation in the financial industry and the revival of the foreign retailers’ measure, he said.

Political Patchwork

As prime minister, Singh has had to hold together a coalition government in a nation of 1.2 billion people where political backing in some areas is aligned with social castes. More than half a century after independence from Britain, debates still occur over carving out new states to acknowledge ethnic and social differences.

The Congress party-led United Progressive Alliance has 263 seats in the lower house of parliament, 9 short of a majority. Two allies, the All India Trinamool Congress party that’s centered in West Bengal, and the Dravida Munnetra Kazhagam based in southern Tamil Nadu state, have 18 members each.

Both of those allies opposed the policy to allow foreign direct investment in retailing, a measure that Singh and Commerce Minister Anand Sharma said would create 10 million jobs, and help rein in inflation by reducing the 40 percent of fruit and vegetables that rot before they can be sold due to a lack of cold-storage facilities.
“Reforms were not sold the way they ought to have been,” said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and former International Monetary Fund economist. “The narrative that was built up around the change in policy on FDI into retail was that it would end up benefiting some big multinational companies,” rather than improving the nation’s distribution system and keeping prices down, he said.

Kingfisher Aid

Turning to Kingfisher Airlines, the Indian carrier seeking cash after losses, Singh predicted that banks will support its turnaround efforts. Kingfisher has pledged assets ranging from its brand to office furniture for bank loans of as much as 64.2 billion rupees ($1.2 billion).

“In the case of Kingfisher, where government banks have given loans, if they take corrective measures I am sure things should work out,” Singh said. “The Indian banking system has a stake in their well-being. With a government nod things will turn around.”

The prime minister said some of his administration’s unpopularity at home stems from high inflation. Wholesale prices, India’s benchmark gauge, rose 9.1 percent in November from a year before, the government reported yesterday. India’s inflation is the highest among the BRIC nations, which include Brazil, Russia and China.

Inflation Pressures

While international commodity prices have pushed up costs in India, record food production should help to ease inflation pressures, said Singh. Interest rates should be about two percentage points more than inflation over the long run to encourage savings, he said.

The Reserve Bank of India has raised interest rates 13 times since the start of last year, to 8.5 percent. Governor Duvvuri Subbarao has blamed fiscal deficits for contributing to inflation. Singh yesterday indicated he agreed.

“We have taken steps on the monetary policy side but we haven’t been as successful in the fiscal side,” Singh said. “You should understand fiscal policy is an acutely political weapon.”

ICICI Securities Primary Dealership Ltd., a unit of the nation’s second-biggest lender, sees the gap widening to 5.5 percent of GDP, compared with the 4.6 percent target.

2004 Appointment

Without making a harder push to get his economic agenda approved, Singh may risk clouding his legacy, after his initial appointment by Congress party President Sonia Gandhi in 2004 won accolades from overseas investors.

The government has failed to enact key economic legislation, including an overhaul of the tax code, since the end of last year. The past three sessions of parliament have been disrupted by opposition protests in the aftermath of a former telecommunications minister, bureaucrats and businessmen being accused of conspiring to benefit from a 2008 sale of mobile- phone licenses.

“The government should have done more -- it is very frustrating as an investor,” said Walter Rossini, a Milan-based fund manager who oversees 200 million euros in Indian equities at Aletti Gestetille SGR SpA. Rossini has switched to an underweight on the country’s shares from overweight in the last year, compared with benchmarks he uses to gauge performance.

Welfare System

Singh has had more success in strengthening India’s welfare system than deepening market deregulation since he took office as prime minister. The government has expanded programs to provide jobs and subsidized food for the nation’s poor, in a country where more than three quarters of the population lives on less than $2 a day.

“He played a very important role in setting India on a high growth path, and that will be his legacy,” said Prasad, who serves on an advisory committee to India’s finance minister. “The lack of an independent political base certainly constrained his ability to push forward reforms aggressively. That in addition to his modest and demure personality made it very difficult for him to be as effective as prime minister.”

Engineer of Change

A Sikh born in what is now Pakistan, Singh studied economics at both Oxford and Cambridge universities. He built his reputation as an engineer of change during his time as finance minister in the government of Congress party Prime Minister Narasimha Rao. With a surge in oil prices depleting India’s foreign exchange reserves, he began removing barriers to investment in what had until then been an economy dominated by state enterprises.

In his first two months as finance minister, Singh devalued the rupee, dismantled government monopolies, cut import tariffs and taxes and let foreign companies take 51 percent stakes in sectors including automobiles and pharmaceuticals. The measures helped growth accelerate to 7.6 percent from 2.1 percent during his tenure, and the economy has quadrupled in size.

“The world has seen India’s potential,” Singh said. “India should remain a functioning democracy which is integrated with the evolving global economy, that recognizes globalization brings many advantages, that makes a success of globalization.”

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