Central Banks Must Keep Stimulus to Support Growth, Gokarn Says

By Cherian Thomas

Sept. 9 (Bloomberg) -- Central banks must maintain low interest rates until consumer and company spending is “robust” enough to support economic growth, said Subir Gokarn, the Standard & Poor’s economist in the running for the deputy governor’s post at the Reserve Bank of India.

“The key transition is going to be in terms of private spending becoming more robust so policy makers can exit without completing disrupting the growth process,” Gokarn, Asia-Pacific chief economist at S&P, said in an interview yesterday in New Delhi. “There are signs that it is happening, but clearly not to the point of complete assurance.”

Gokarn’s comments came after officials from Group of 20 nations last week said they are “cautious” on the world growth outlook and agreed the need to coordinate when unwinding the emergency measures adopted to reverse the global recession. Weak growth accompanied by the risk of inflation is causing a “complex dilemma” for India’s central bank on setting rates, Governor Duvvuri Subbarao said Aug. 27.

The Reserve Bank of India on July 28 forecast the economy would grow 6 percent “with an upward bias” in the year to March 31, the weakest pace since 2003. It also raised its inflation forecast to 5 percent from 4 percent by the end of the financial year. The key wholesale price inflation index fell 0.21 percent in the week to Aug. 22 from a year earlier.

Subbarao said the Reserve Bank may have to reverse its easy monetary policy sooner than most other countries as inflationary pressures are mounting quickly, Dow Jones reported on the Financial Express Web site today.

Monetary Policy

Gokarn and Cornell University economist Eswar Prasad are frontrunners for the post of deputy governor at India’s central bank, the Economic Times reported Aug. 8 without saying where it got the information. The new deputy governor will be in charge of monetary policy and will fill the vacancy created when Rakesh Mohan stepped down in June. Gokarn said he hadn’t been contacted regarding his candidature.

India’s cabinet has reappointed Shyamala Gopinath as a deputy governor of the Reserve Bank of India for another two years, the Economic Times reported today without citing anyone.

“Those inflation story is a little more complicated than it appears,” Gokarn said. “I don’t see we are in danger of demand-side inflation picking up. Where it is coming from is supply side -- oil, commodities and now in India’s case, food.”

He said whether central banks will respond to supply side inflation the way they did in 2008 is “still a debate.”

India’s central bank raised the key repurchase rate by 3 percentage points to 9 percent between October 2005 and July 2008 as inflation soared to 12.91 percent, a 16-year high. Subbarao, who was appointed governor in September 2008, has since slashed the central bank’s benchmark rate to 4.75 percent as the global recession deepened.

"In 2008, they did respond to supply side inflation quite aggressively because growth was also quite high at that point,” Gokarn said. “We are in a different situation. The nature of inflationary pressures is different.”

To contact the reporter on this story: Cherian Thomas in New Delhi at Cthomas1@bloomberg.net.

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