

# India slowdown, high inflation likely to persist

REUTERS, New Delhi

India's growth story, which has excited many in recent years, is passing through a not-very-happy chapter that might last well into 2012. While India should keep growing at rates many nations would envy, Asia's third-largest economy faces a period of reduced growth and stubbornly high inflation.

This is causing confidence in the growth story to wane while worries rise. Indian stocks, hit by inflation and high interest rates, are Asia's worst performers this year -- down nearly 14 percent -- resulting in a decline in portfolio flows. Weaker tax revenue can widen a yawning fiscal deficit.

Also, there's a possibility that India could lose out to China and smaller Asian economies in the battle to attract big foreign investment. China has cooled as it, too, battles inflation, but still might grow 10 percent this year.

Several years ago, annual Indian growth was about 9.5 percent. Then it fell to 6.8 percent during the global financial crisis but recovered to 8.5 percent in the last fiscal year, which ended March 31.

For the current fiscal year, private economists are slashing growth forecasts to below 8 percent and notching up inflation projections. In May, annual inflation was 9.06 percent -- compared with 5.5 percent in China.

Lower growth is an unavoidable result of the Reserve Bank of India's fight against inflation, which has featured 10 increases in interest rates since March 2010.



A labourer carries a sack of wheat inside a grain-sorting unit at Sanand in Gujarat.

REUTERS

"It's going to be a difficult year," said Vishnu Varathan of Capital Economics.

Growth is likely to be less than 8 percent and will not pick up rapidly "especially with policy having to choose between price stability and growth," he said.

The government was hoping growth in gross domestic product, which was 8.5 percent in the year ended March 2011, could remain as high -- but it cannot, given the battle against inflation and other factors including weak political leadership. Credit Suisse forecasts growth will be just 7.5 percent this fiscal year and the following one.

"We are only at the early stages of seeing the impact of the

monetary tightening, the negative effects of which are likely to persist well into 2012/13," it said in a note this month. In its latest move, the central bank on June 16 raised to 7.5 percent the rate at which it lends to banks.

Even after 10 increases, India's real interest rates remain negative, meaning the inflation pace remains above rates. That can drive consumption at a time the government is not succeeding in boosting supply, so inflation can be further fuelled, resulting in further tightening and economic pain.

"Inflation is entrenched in India, and now mostly reflects demand side pressures," said Frederic Neumann, managing

director and co-head of Asian economics research at HSBC.

A slowing economy cuts tax revenue, widening the fiscal deficit. High oil prices have cut demand, swelled import bills and raised costs at corporates. Meantime, the global picture looks discouraging, clouding the outlook for exports -- which have been a bright spot.

India escaped the worst of the 2008 global downturn due to robust internal demand and high government spending. A large middle class flush with cash spent on everything from gold to cars, and factory capacity got pushed to limits. But then firms dithered on adding capacity, thanks to weak global recovery and domestic

policy uncertainty amid a slew of corruption scandals.

Price pressures were emerging too. New Delhi's easy fiscal policy to cope with the global slowdown was not rolled back quickly enough and the central bank was widely seen as behind the curve. Drought in 2009 made caused food prices to spike.

But no one expected the level of India's slowdown in the January-March quarter. For the first time in five quarters, annual growth was below 8 percent. Growth in private investment slumped to 0.4 percent from 7.8 percent a quarter earlier, while annual gains in consumption demand slowed to 8 percent from 8.6 percent.

## SLOW, SLOW, SLOW THE BOAT

Industrial output has risen in single digits the past six months. Car sales, a barometer of consumer demand, have slowed with May's total rising the least in two years. Manufacturing data show that firms' input costs have been rising faster than output costs since December.

"It looks like the manufacturing sector is going to see very subdued single digit growth. Continued interest rate hikes are going to hamper sustained high growth in consumer durables," said Varathan of Capital Economics.

"Robust growth in export is the only positive factor for manufacturing sector. But that will help only selective industries."

Exports posted record growth in the year ended in March. India exported \$245.9 billion of goods during the year, far above the government's target of \$200 billion.

## US regulators investigating Google

AFP, Washington

US regulators have launched a probe into Google's lucrative search and advertising business in a move that could pose the most serious legal challenge yet to the Internet giant.

Google confirmed the US Federal Trade Commission (FTC) inquiry in a blog post and a filing with the US Securities and Exchange Commission (SEC) and expressed confidence it could withstand the scrutiny.

"Yesterday, we received formal notification from the US Federal Trade Commission that it has begun a review of our business," the Google blog post said.

The Mountain View, California-based company, which controls around 65 percent of the US Internet search market and earns billions from search-related advertising, said it was "still unclear exactly what the FTC's concerns are."

But in the SEC filing, Google said it had received a subpoena from the FTC "relating to a review by the FTC of Google's business practices, including search and advertising."

"Google is cooperating with the FTC on this investigation," it said.

According to The Wall Street Journal, the FTC is looking into whether Google is abusing its dominance on the Web and if it "unfairly channels users to its own growing network of services at the expense of rivals."

As it has grown from a scrappy startup into an Internet titan, Google has branched out into various businesses including online mapping, shopping and travel and providing operating systems for mobile phones and tablet computers.

But Google makes most of its money from search-related advertising and that is why an FTC investigation targeting its core business is seen by analysts as a potentially serious risk to the company.

Silicon Valley analyst Rob Enderle compared it to the anti-trust troubles of Microsoft in the 1990s over its dominance of the personal computer industry.

# Greek PM eyes new 110b-euro bailout

AFP, Brussels

Greek Prime Minister George Papandreu said Friday he is negotiating a new bailout worth some 110 billion euros (\$155 billion), as Europe enters a crucial 10-day period in the euro crisis.

Greece is at the centre of a storm threatening financial markets, the unity of Europe's 17-nation currency area, and even the EU -- with the United States warning of a potential to drag down world economic recovery.

"We are talking about a huge, huge amount," said Papandreu, after formally requesting the second rescue at a two-day European Union summit in Brussels.

While he said it was "too early to give a precise amount," the final sum would be "similar to the first aid package" in May 2010, although that was not enough to prevent the government in Athens slipping ever deeper into the red.

The actual size, Papandreu admitted, "depends on the participation of the private creditors," those banks, pension funds and insurers that the EU wants to contribute to a rescue by way of an "informal and voluntary" rollover of Greek government bonds.

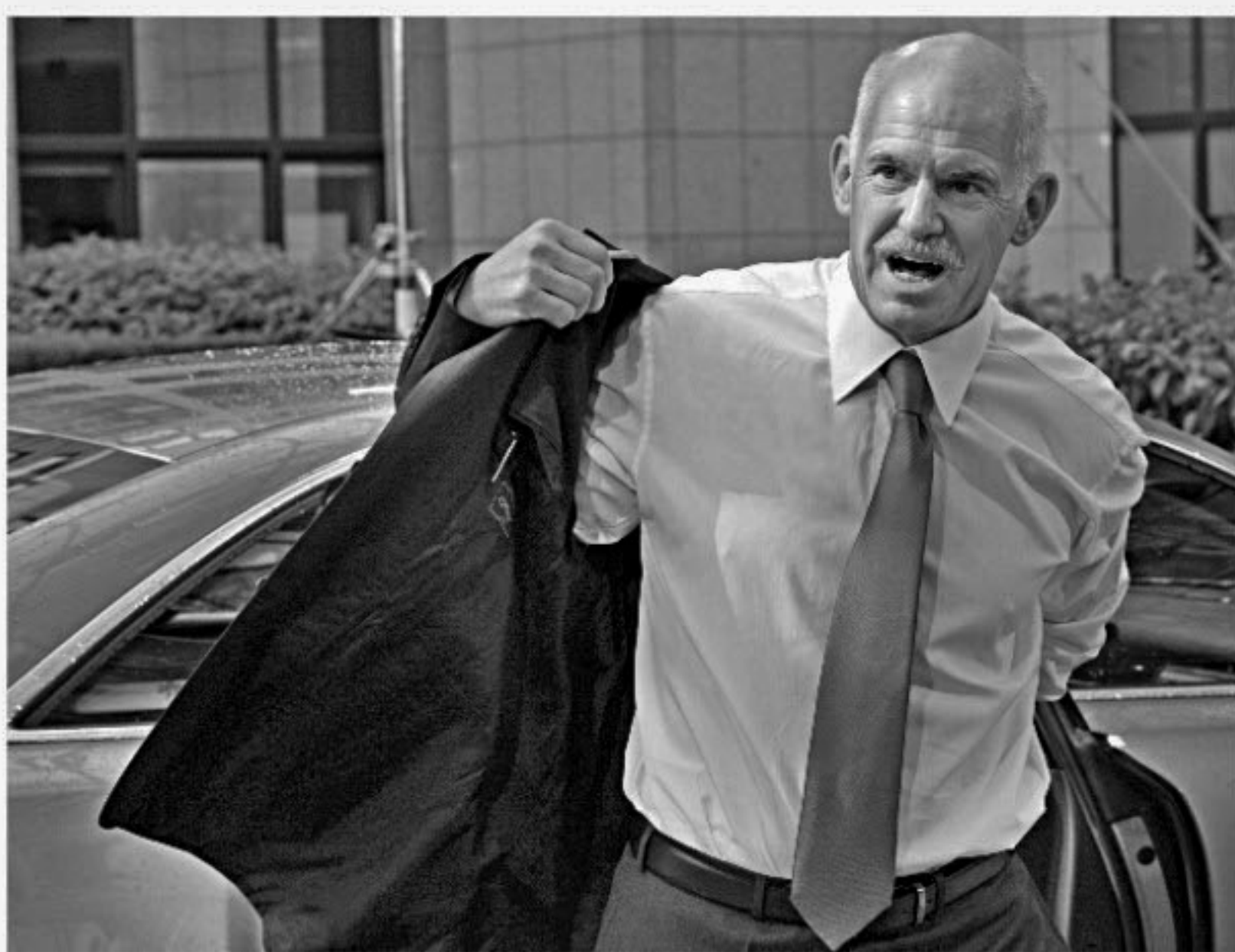
Athens needs to receive by mid-July a 12-billion-euro tranche of eurozone and IMF loans from last year's bailout to avert a default.

But in order to unlock the funds Greece needs to impose more unpopular austerity measures on an increasingly restive public.

A parliamentary vote is due on June 28, with opposition rife to planned privatisations of state holdings, and will be taken amid a general strike.

The second bailout has been prompted by the IMF, which before it releases its part of the aid wants to see that Athens has sufficient assistance lined up for the next couple of years.

Even before the new bailout, Greece owes the equivalent of a year-and-a-half of total national economic output, some 350 billion euros.



Greek Prime Minister George Papandreu puts on his coat as he arrives to attend a EU summit of the EU heads of state, in Brussels, on June 23.

AFP

On Friday, the euro slid against the dollar amid persistent concerns the Greek debt crisis was spreading contagion across the eurozone.

If Papandreu steers his legislation through next week's voting, 28 billion euros of additional austerity measures will be imposed over five years, alongside a sale of Greek state holdings which international partners hope can raise up to 50 billion euros.

But Papandreu has only a slim, five-seat majority, with waverers already in his Socialist Party, and he faces a general strike called by Greek unions starting on Tuesday.

Greek conservative opposition leader Antonis Samaras bluntly rejects "more taxes in an economy in unprecedented depression."

Euro finance ministers next meet on Sunday July 3. If the Greek parliament has adopted the austerity measures an approval of the slice of bailout funds would reach Athens just in time to avoid a payments crunch.

"There is a very strong determination among the member states to save what we have done since 50 years all together," French Foreign Minister Alain Juppe said of fears the

eurozone and ultimately the EU itself might implode due to the crisis.

US Federal Reserve chief Ben Bernanke has warned that failure of the rescue efforts "would pose threats to the European financial systems, the global financial system and to European political unity."

The new Greek bailout would combine fresh eurozone loans and privatisation proceeds with a contribution from banks and other private investors who are being pressed to rollover Greek bonds coming due for redemption.

French President Nicolas Sarkozy said private-sector creditors had shown "a willingness to save the euro." "nothing to fear," Sarkozy said.

France is the country most exposed to Greek sovereign debt, mostly held by private institutions.

However Italy was hit by Greek contagion fears on Friday, with the spread between Italian and German 10-year bonds hitting their highest level since the creation of the euro and banking shares plunging over market rumours of an imminent downgrade of the country's sovereign rating.

## Canada, Australia support Carstens' IMF bid

AFP, Ottawa

Canada and Australia said here that they will support the bid of Mexico's central bank governor Agustín Carstens to be the next IMF managing director.

A statement late Friday from Canadian Finance Minister James Flaherty and Australian Finance Minister Wayne Swan said that the two countries will support the long-shot bid by the 53-year-old Mexican economist, who worked at the International Monetary Fund from 2003 to 2006.

Carstens' previous experience, which include a stint in the number-three position as the IMF's deputy managing director, "equip him very well to understand and address, on a collaborative and inclusive basis with IMF member countries, the challenges faced by the global economy," the joint statement read.

"Accordingly, after due consideration of the candidates and the IMF selection criteria, we have decided to support him for the position of IMF managing director," read the statement.

Carstens faces stiff competition from French Finance Minister Christine Lagarde, seen as the clear frontrunner to succeed managing director Dominique Strauss-Kahn, who resigned May 18 to fight sexual assault charges in New York.

Lagarde has the backing of Europe, which holds seven of the 24 seats on the executive board, and the board hopes to select the new managing director by consensus.

## Egypt withdraws request for IMF, World Bank loans

AFP, Cairo

Egypt has withdrawn its loan request to the International Monetary Fund and the World Bank, an adviser to Finance Minister Samir Radwan told AFP on Saturday.

"We have decided not to have recourse to loans from the international financial institutions," Abdelfattah al-Gebali said.

He said the decision was taken in response to the "pressure of public opinion," which has been largely hostile to the loan request, and after the submission of a new draft budget for 2011-2012 that foresees a reduction in public spending.

"The government has a policy of budget reductions," he added, saying it had decided to turn to local loans, financial aid and grants to finance its deficit.

Earlier this month, the finance minister announced that the IMF had granted Egypt a loan of three billion dollars over 12 months to help put its economy back on track.

"Egypt announces the end of negotiations with the IMF and the clinching of

an agreement with the fund to relaunch the Egyptian economy," Radwan told reporters on June 5.

The two parties agreed to a "three-billion-dollar loan over 12 months... with an interest rate of 1.5 percent," he said, adding that the loan would help partly offset a budget deficit of \$28 billion.

The Egyptian economy, which depends in large part on tourism, has seen a dramatic drop in tourist arrivals and near zero economic growth during and after the revolt that ousted former president Hosni Mubarak in February.

Tens of thousands of Egyptian workers in Libya, who used to send money back to their families in Egypt, also had to flee the conflict in the neighbouring north African nation.

Egypt, which estimates it needs between 10 and 12 billion dollars in international funding to keep it going until mid-2012, was courting loans worth roughly \$6 billion from the IMF and the World Bank.

Activists from India's leftist parties hold placards during a demonstration against price hikes in New Delhi yesterday. Indians will have to pay more for fuel from June 25 after the government announced a hike in the price of some petroleum products, increasing inflationary pressures in the fast-growing economy.



AFP