

ECONOMY & POLICY

ited through the day. Visit www.business-standard.com

US recession to affect India: FM, Rangarajan

BS REPORTER
New Delhi, 17 January

Finance Minister P Chidambaram and the Prime Minister's Economic Advisory Council chairman C Rangarajan today expressed caution over the likely impact of a slowdown in the US on India's economy.

"If the US, in response to a slowdown, cuts interest rate drastically, that will widen the differential between Indian and US interest rates. This will have consequences through higher capital flows and rupee appreciation. Purely as a theoretical concept, if the interest rate differential widens, it would have consequences and we will have to deal with it," Chidambaram said today at the CII Partnership Summit.

However, Chidambaram said the US was unlikely to go into recession. "At the moment, we are all speculating,

Govt to ensure 4% growth in agriculture: Chidambaram

PRESS TRUST OF INDIA
Gurgaon, 17 January

Finance Minister P Chidambaram today said the government would take necessary steps to ensure 4 per cent agriculture growth, besides raising public expenditure in rural areas.

"Our goal is to make agriculture grow at 4 per cent. The area and productivity of major crops like wheat and rice

have stagnated over the last 10 years. The need is to increase area under cultivation and productivity of these crops," he said while speaking at a CII summit here.

He said that inequality is bound to rise in the country with industry and services sector growing at over 10 per cent, something that cannot be achieved in case of agriculture.

Why will the US allow its economy to slow down?" he said.

Rangarajan, on the other hand, while releasing the "Review of the Economy, 2007-08"

at a separate event, said that a deeper recession would have a serious impact on India's growth prospects next year. "We do not know whether the

sub-prime crisis will lead to a deeper or mild recession in the US economy. However, we have assumed that it will only lead to a mild recession. A deeper recession will have more impact on India through reduction in trade and capital inflows," he said.

Slower growth in the developed world is expected to impact emerging economies like India by reducing demand for their exports in rich country markets.

Chidambaram added that a slowdown in the US may have limited impact on India. "Our exports to the US are significant, but not as much that they will deeply affect us. We have equally large exports to the European Union, China, Japan and the rest of East Asia. I do not think a slight slowdown in the US will so drastically or immediately affect India's growth prospects. It will have some impact, of course," he said.