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Controlling inflation will lead to interest rate cut: K C Chakrabarty

High inflation, current account deficit and fiscal deficit are the challenges that the country faces

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If the inflation is controlled, it will automatically bring down the interest rates, said RBI Deputy Governor K C Chakrabarty.

Speaking on the sidelines of financial conference on systemic risk, organised by Great Lakes Institute of Management near Chennai, he said that the country is facing three challenges- high inflation, current account deficit and fiscal deficit.

“To check food inflation, we don’t need to achieve the productivity level of developed countries, like US and Australia. If we can replicate Punjab, Haryana and Uttar Pradesh, it is sufficient."

Countries like India and China cannot afford to import food and if they do, the prices will shoot up, he predicted.

The second factor – manufacturing inflation— need to be negative and to achieve this technology should be adopted. “If we can produce same quality goods and services at lower price, which China does, we can achieve this,” he said.

On the current account deficit, he said, if we can manage to curtail imports of gold and dil, we can check current account deficit. “Had we not imported around $60 billion worth of gold last year, our current account would have been surplus."

In the case of fiscal deficit, the Deputy Governor said, “Government should target subsidies at poor and ensure that rich are not subsidied”.

Talking about an inclusive economy, he said said the banks should reach out to poor and should extend credit facility to those who required. Today only 10% of the people have access to bank credit, Chakrabarty noted. “Today the poor saves and rich borrow, which will increase the systemic risk,” he said.

However, he said, all is not lost. The country’s young population, lower per capita income (offers immense scope for improvement), less complex financial system and lower credit penetration should keep the country in good stead, he said.

