Need to revive manufacturing sector in India: Madan Sabnavis, CARE Ratings

ET Now Dec 12, 2014, 02.39PM IST

Tags: US Fed | Madan Sabnavis | Indian Markets | China | Care Ratings

In a chat with ET Now, Madan Sabnavis, Chief Economist, CARE Ratings, shares his views on the global economy and his macroeconomic outlook. Excerpts:

('The share of manufacturing…)

ET Now: We are staring at a divided world. The Indian markets are in a bull run, Brazil is in a bear market, central bank of China has cut rates, Russia has increased rates and the signals from the US FED are very confusing. So it is difficult to come to a particular single verdict.

Madan Sabnavis: Absolutely, because actually what we are seeing today is that different geographies are being affected by different factors. So it is not very possible for one to say that there is a slowdown in the global economy or that there is a recovery taking place. We are seeing different important economic pockets and there are different kind of developments, and the kind of reactions which we are seeing from the stock markets and generally from all the prices. I am talking about exchange rates in particular, which is primarily linked to these kind of localised influences. So if I try to put all the pieces together, the answer is obviously no. We are seeing some kind of traces of recovery coming in the United States. Europe and Japan still seem to be down while China seems to be slowing down. If we look at us, internally, we appear to be doing better than what we were doing last year, though we are not still sure if we are really on the strong recovery path. So these are the things which are really manifesting in the stock market prices.

ET Now: If you remember before the 2008 prices, there was this big talk of how we are globalised and how we are all coupled. When India continued to do well after the crisis, it was the talk of decoupling. Are we still living in that rather illusionary world that we can be oblivious of what happens elsewhere and we can still grow or has reality stunk in?

Madan Sabnavis: No, while India is inherently a very domestic economy, if you are looking at the strong impulses of growth, it really comes from within. We are not really an export-oriented economy and we should also know that since our economy has been integrated greater on the capital flows part, anything that happens in the West or any kind of policy of easing or tightening taken by the ECB or by the Federal Reserve does have an impact on us in terms of the flow of funds.

So the decoupling hypothesis works only to a certain extent. But if I look at the other price indicators, like inflation for example, global prices do have an impact on what happens on domestic inflation. The crude oil price is a very good example of how it has really helped to revive our own domestic economy, especially on the fiscal side. If I am looking at interest rates, I would say it is largely being driven by domestic

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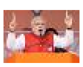
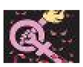


concentration. Therefore, it would be probably out of this purview of coupling or the decoupling hypothesis, but again we are talking of the exchange rate and we are very much integrated with what happens. Maybe not so much on the exports side, but definitely more on the imports side on account of what happens to crude oil prices or for that matter in terms of the capital flows.

ET Now: You are right, India is largely domestic-driven. In fact, the RBI Governor today speaking in New Delhi gave a different twist to the 'Make in India' campaign. He said that it should not be just 'Make in India', but it should be 'Make for India'. But in that case, given that demand as per his own reckoning is so important, is there a contradiction between his monetary policy stance and the requirement that we should make for India?

Madan Sabnavis: No, I do not think it is a contradiction. If we look at it this way, the thing is definitely we have to Make for India and the way to go forward is that we need to revive the manufacturing sector because the kind of trends, which we are seeing, are not really healthy. The share of manufacturing is going down and that also affects other economic indicators like employment. But then when you are talking of monetary policy, it is a very clear vision which we have. We are going to target inflation and as long as inflation moves in a certain direction, monetary policy is going to follow suit. So I do not see any kind of contradiction out there. In fact, they will have to be looked at separately.

ET Now: So you do not see any link between demand and interest rates?

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