India's premier vows to protect economy
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India stands ready to boost public spending and cut interest rates to safeguard its fast-growing economy in the face of a global downturn, Manmohan Singh, the prime minister, said yesterday.

The prospect of falling growth rates and possible job losses is highly sensitive for the Congress party-led government. It faces a round of state elections later this month ahead of a general election that must be held before the end of May.

Shrinking international credit and falling investor sentiment has led to volatility on India's stock and currency markets over the past month. Listed Indian companies have recorded their biggest drop in quarterly profits for a decade, with net profit falling 34 per cent across the board. Exports are also showing signs of stress. Shipments of iron ore last month totalled 1.5m tonnes, compared with 8m tonnes a year earlier, as demand from Chinese steel mills slowed abruptly.

Cheered by a weekend rate cut and Mr Singh's comments, the Sensex index rose 6 per cent yesterday to 10,338. The rupee rose 1.5 per cent to 48.73 to the dollar.

In the face of a "severe and prolonged" downturn, Mr Singh told India's top business leaders at a specially convened meeting yesterday that "the government will take all necessary monetary and fiscal policy measures on the domestic front to protect our growth rates".

He appealed to business leaders not to shed jobs in the short term. "While every effort needs to be made to cut costs and raise productivity, I hope there will be no knee-jerk reaction such as large-scale lay-offs, which may lead to a negative spiral. Industry must bear in mind its societal obligations in coping with the effects of this global crisis," he said.

Last week the government responded angrily to a report by the Associated Chambers of Commerce and Industry of India, which predicted the workforce of sectors such as aviation, financial services, construction and IT would fall by a quarter in the coming weeks. Yesterday Sajjan Jindal, the group's president, said the government was seeking to address fears about job cuts.

Analysts already detect an emphatic policy shift in favour of growth, as weaker commodity prices ease inflationary pressures. Over the past two weeks, the Reserve Bank of India has cut its repo rate by 150 basis points to 7.5 per cent, ending four years of rate rises aimed at curbing inflation, which peaked this year at 12 per cent.

The RBI estimates current fiscal year growth of 7.5-8 per cent, down from 9 per cent over the past two years. Businesspeople at yesterday's meeting said they were reassured the government would act to restore confidence in the economy.

Fonte: Financial Times, London, November 4 2008, Primeiro Caderno, p. 8.