

# Likely Impact of FED tightening on Indian Economy

By Dorab E Mistry  
Godrej International Limited



# Time Line

- The FED let it be known early in 2017 that they would begin tightening gradually from September-October 2017
- Side by side they would continue to raise interest rates
- However at the July meeting of the FED and later in testimony to Congress, the FED softened its approach

# Adverse Impact of Tightening

- Why was tightening likely to adversely impact developing economies ?
- The U S Dollar would strengthen
- Developing economy currencies would come under pressure
- World growth would slow
- India could have suffered outflows
- Indian interest rates would not decline

# Scenario has changed

- FED Chair Janet Yellen has been much more dovish in recent 3 months
- The 2 big Hurricanes have changed the mindset of legislators
- Statements from FED Governors talk of Gradual Change which keeps up Growth
- The Opium of Easy Money is hard to give up

# Some observations

- Currencies respond to economic growth expectations rather than to how much money is being printed
- Euro got stronger as they printed more Euros
- Dollar peaked in December when optimism for the Trump Tax Reform and Growth were highest

# Effects on India

- Very gradual tightening brings before us the prospect of higher commodity prices
- So long as Energy prices remain soft, India can handle higher commodity prices  
Growth in the developed world means  
Indian exports will continue to do well  
despite a strong Rupee

# Headwinds When ?

- World growth seems secure upto FH 2018
- In Q3 of 2018 the impact of tightening will be felt. By then we may also have rate hikes in December 2017 as well as in March or April 2018
- If the ARAMCO IPO comes out in mid 2018 and flops, it could be a problem