

THE HINDU  
**Business Line**

# 'Rupee appreciation has helped control inflation'

**Rangarajan sees cyclical overheating of economy**

**Our Bureau**

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Rising rupee has helped lower inflation, said Dr C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

"The appreciation of the rupee has had a dampening effect on inflation. How far it will go depends on various cyclical factors," he said here today.

The rupee has increased by over 8 per cent during the year. The home currency has strengthened from about 44.24-level in January to about 40.66 today.

**MODERATING GROWTH**

According to Dr Rangarajan, exchange rate policy is corollary to price stability. Inflation could soften during the current year if the monsoon is good and the agricultural season is also good.

"Last year, the inflation rate picked up very strongly from June onwards and so there is a base effect (a reference to higher prices last year moderating the growth in the



**Technologies summit:** Dr C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister, and Dr K. C. Chakrabarty, CMD, Punjab National Bank, at a meeting in Mumbai on Wednesday. —Paul Noronha

current year) also," he said.

He said the economy was facing cyclical overheating but the inflation may soften this year. "We should really see that cyclical overheating does not get translated into structural overheating (a ref-

erence to a phenomenon of fundamental shifts in cost structure of goods and services leading to higher prices)," he pointed out.

**ACCELERATED GROWTH**

In the medium term, he feels,

the availability of infrastructure and power can act as a constraint on the accelerated growth. Inflation was at 5.06 per cent during the week ended May 19, lower than the previous week's 5.27 per cent.

On branch network expan-

sion, Dr Rangarajan said, since the banks are keen to open branches in the urban centres, an incentive system can be worked out on the basis of which a bank can be given preference for opening branches at urban centres if they set up more rural branches. "It may not be a rigid rule but just an incentive for banks to open more rural branches."

He also said that bank facilitator and correspondent model needs to be effectively implemented.

At present, individuals are not allowed to function as business correspondents. Perhaps, a relaxation can be made here.

Individuals who have served as bank facilitators and have shown to have a satisfactory record may also be used as business correspondents, he further added.

Dr Rangarajan feels that rural branches must go beyond providing credit. They should advise on a wide variety of matters relating to agriculture.