

China rout threatens to spawn India crisis, says Kampani

Mumbai, Jan 11: A deepening slowdown in China threatens to derail India's economic growth, triggering financial market upheaval and a falling currency, Vishal Kampani, the nation's top investment banker, said.

"If China keeps getting hit like this, the yuan has to devalue, and we will see another crisis in India," Kampani, managing director at JM Financial, India's top mergers and acquisitions adviser last year, said in an interview on January 8. "I refuse to believe that India will stand out and will look very different."

Indian stocks and the rupee fell on Monday, tracking declines in other emerging markets as volatility in China sapped risk appetite globally. China's efforts to stabilise the yuan failed to halt equity losses, reviving concern about the Communist Party's ability to manage an economy set to grow at its weakest pace since 1990.

The Sensex fell 0.4% on Monday. The rupee ended lower by 18 paise against the dollar.

A devaluation of the yuan could weaken the ru-



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pee, creating "huge problems" for Indian companies that have to pay back dollar loans, Kampani said.

China is India's largest trade partner and third-largest export market, so a slowdown there could prolong a record slump in India's exports, which declined 12 straight months through November.

A China-led rout in Indian markets also risks dampening private investment, already hurt by credit lines choked by bad debt and a legislative gridlock that's

blocked economic bills. That would boost pressure on Prime Minister Narendra Modi to sustain public spending even at the risk of worsening the Budget deficit.

Modi has seen his economic agenda stall in Parliament, disappointing investors who bet that his landslide win in 2014 would speed up reforms. Measures to implement a national sales tax, make it easier to buy land and ease labor rules are all stuck.

Reserve Bank of India

governor Raghuram Rajan, whose three-year term ends in September, has contended with market volatility since taking office in 2013. Back then, he stabilised a plunging rupee with discounted dollar swaps and vowed to retain confidence in the currency by keeping inflation low and stable. Most of Rajan's dollar swaps come due toward the end of 2016.

Hedging of foreign debt by Indian companies is "less than we would wish," Rajan said in an interview with Bloomberg TV India last year. "We aren't going to protect corporations against exchange-rate instability," he said, adding that the RBI's focus was on fighting volatility rather than keeping the rupee at a certain level.

So far, India has fared better than most emerging-market countries. The World Bank forecasts India will grow at 7.7% in 2016 compared with China's 6.7%, while Brazil and Russia will shrink.

"From a 10-year perspective, India remains an interesting place to be," Kampani said. *Bloomberg*