

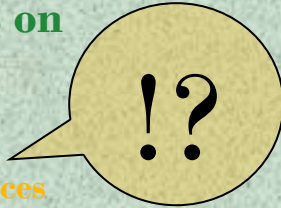
# NEWS ALERT

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## RBI Hints At Curbs on Capital Inflows

Call for measures to avoid stark economic imbalances



RBI governor D Subbarao has for the first time said the nation “may have to take some measures towards capital control” in the short term to avoid stark economic imbalances after acknowledging in the past the role played by fund inflows in worsening inflation, boosting asset prices and destroying industry competitiveness.

Ther governor has laid the foundation for possible action by drawing attention to the fact that most emerging markets faceunprecedented flows that are pushing up commodity prices, asset prices and disturbing exchange rates to the disadvantage of the local industry.

## Why Capital controls?

RBI fears that if inflows are in excess of what is required, they will create problems on the foreign exchange as well as liquidity front. Subbarao is acknowledging the impossible trinity — you cannot have free capital flows, control on inflation and control on exchange rate.

## What will be the impact?

If inflows shoot up, there could be restrictions on returns on NRI deposits, FII investments in debt, and external commercial borrowings. In the medium term, RBI will lobby for boosting investments in the core sector that will increase the absorptive capacity of the economy.

## Survey Indicates Strong Revival In Manufacturing

The HSBC Markit Purchasing Manager’s Index (PMI), one of the most reliable indices tracking the health of the manufacturing sector, climbed to its highest level in one-and-half years to 57.6 in January, 2010. The index had stood at 55.6 in December 2009.

The positive results come against the backdrop of Reserve Bank of India’s decision last week to start tightening monetary policy by raising the cash reserve ratio 75 basis points.



## Windows 7 fails to boost PC makers’ net

Microsoft Corp’s new Windows 7 operating system has fattened the company’s earnings and boosted personal computer sales at retailers like Best Buy Co. But it hasn’t increased the profits of PC giants Hewlett-Packard Co., Dell Inc. and others.

That’s largely because laptop prices posted a record year-over-year drop, falling 23% to an average of \$581 last quarter from a year ago, according to market research firm NPD group.