The Hindu

First State Investment hikes stake in Idea Cellul

Idea Cellular on Monday said First State Investment Manag
stake in the telecom services company to over 5 per cent fro
Investments is a part of the asset management division of th

Economic Advisory Council scales down growth to 8.2 %

Inflation will remain at 9 % or higher till October: Rangarajan

Special Correspondent

NEW DELHI: Painting a grim economic scenario in the wake of an uncertain global outlook and high domestic inflation coupled with a subdued trend in investment and factory output, the Prime Minister's Economic Advisory Council (PMEAC) on Monday scaled down its GDP (gross domestic product) growth projection for the current fiscal to 8.2 per cent from around 9 per cent estimated earlier.

In its 'Economic Outlook for 2011-12', which was submitted to Prime Minister Manmohan Singh last month, the PMEAC also maintained that headline inflation would remain at 9 per cent or higher till October and thereafter ease to 6.5 per cent by the end of March, 2012. In the event, the Reserve Bank of India (RBI) would certainly continue with its tight monetary policy for some more months to come.

"The Council expects that the headline WPI inflation rate would continue to be at 9 per cent or higher in the months of July-October, 2011. There will be some relief starting from November, but even in December the headline numbers may remain high. However ... we expect inflation to be around 6.5 per cent in March 2012... It is certain that the RBI will have to continue to maintain a tight monetary policy stance for quite some time, given the combination of domestic inflationary situation, the international backdrop and the fairly strong growth that the domestic economy is experiencing," the report said.

Briefing the media on the Council's projections, PMEAC Chairman C. Rangarajan sought to argue that in such an uncertain scenario, even the scaled-down growth would be commendable. "The projected growth rate of 8.2 per cent, though lower than the previous year, must be treated as high and respectable, given the current world situation," he said, quoting the report.

Farm output

However, it is the Council's projection on the farm front that appeared to be of concern. The country's agriculture output, he said, is projected to grow at 3 per cent in the current fiscal as against 6.6 per cent in the previous fiscal, provided the ongoing monsoon remains favourable during the next two months.

Evidently, the overall uncertain environment at home and abroad has led to a slowdown in investment as well as inflow of foreign capital and

C. Rangarajan

as a result, the industrial performance has weakened. In 2011-12, the sector is expected to grow by 7.1 per cent as compared to a higher 7.9 per cent expansion in 2010-11. Explaining the reasons for the deceleration in growth, PMEAC Member Saumitra Chaudhuri said: "Domestic industries are uncertain about their investments, because they feel, right or wrong, something is not moving... Surely foreign investors will be doubly conscious."

Even the services sector, which has a share of over 50 per cent of the GDP, is projected to grow at 10 per cent this fiscal, down from 10.3 per cent estimated earlier though higher than the 9.4 per cent in the previous fiscal. "We have looked at what is happening in the U.S. and Europe, which have an impact on Indian economy... International situation has not improved since February, 2011. It has rather deteriorated... the current international environment is not conducive for rapid growth," Dr. Rangarajan said.

Dr. Rangarajan said: "To keep the economy growing at 9 per cent, it is important to increase the fixed investment rate."

As for the fiscal deficit, the Council expects the government to achieve its target for 2011-12 at 4.6 per cent but it would be at 4.7 per cent with off-budget liability of 0.1 per cent for the Centre and 2.1 per cent for States. "Revenue may be equal to the budgeted level, but expenditure needs to be checked," Dr. Rangarajan said.

The PMEAC stressed the urgent need to ensure that the Goods and Services Tax (GST) materialises by the next fiscal as this along with the Direct Taxes Code (DTC) would play a key role in the medium-term as it would help in the government's efforts to boost revenue and reduce tax arrears.

Turning to the issue of capital flows, the PMEAC report said that inflows this fiscal were likely to go up to $72 billion from $61.9 billion last fiscal.