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EAC REPORT

PM's council sees FY12 growth at 9%

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NEW DELHI

The Prime Minister's economic advisory council (EAC) on Monday shrugged off a spate of recent negative news and forecast India's economic expansion will accelerate to 9% in the next fiscal on robust local demand, high domestic savings and investment, compared with the 8.6% estimated for the current fiscal.

However, India needs to quickly remove shackles on the supply of goods and services, including food. In the absence of such reforms, the current level of growth would not be sustainable as inflation and the widening current account deficit would weigh down the economy.

The "growth story is intact", EAC chairman C. Rangarajan said at a press conference to present the council's "Review of the Economy 2010-11".

EAC's forecast for the next fiscal is in contrast with the outlook of private sector economists, some of whom have concluded hardening interest rates and an uncertain environment for investment could slow growth.

Nomura Financial Advisory and Securities (India) Pvt. Ltd marked down its forecast for fiscal 2012 to 8% versus its 8.7% estimate for the current fiscal.

Other research, such as that by **Standard Chartered Bank**, has pointed out downside risks to the next fiscal's forecasts.

Rangarajan said sentiment is positive in manufacturing and investment. Services is buoyant, while agriculture is expected to grow 3% on the back of a good year. That accounts for the 9% forecast, he said.

"Growth of 8.5-9% for FY12 looks likely only in case monsoon is normal, resulting in a good harvest," credit rating agency **CARE Ratings Ltd** said in a statement on the EAC estimate.

The EAC forecast shows improvement in two measures that have caused anxiety to policymakers. Its forecast on inflation echoed that of the finance ministry—7% by end-March. At the end of the next fiscal, EAC expects this to be lower than 7%.

The widening gap between India's imports and exports has has also raised concerns.

The current account deficit (CAD) this fiscal is expected to be 3% of gross domestic product (GDP), the highest recorded in over two decades, EAC said.

It forecast a marginal improvement in CAD to 2.8% of GDP in 2011-12, on account of a strong recovery in exports, but sounded a note of warning.

"It must, however, be recognized that sustaining such high levels of current account deficit on a regular basis is neither possible nor indeed desirable," EAC's report said.

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