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PM's panel for tighter policy regime to tame inflation

Projects growth at 8.6% in 2010-11 and 9% in 2011-12

Our Bureau
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The Economic Advisory Council to the Prime Minister (PMEAC) on Monday projected the economy to grow at 8.6 per cent in 2010-11 and 9 per cent in 2011-12. It also said monetary and fiscal policies have to be "appropriately tightened" to protect the economy from inflation.

In order to "get back to the fiscal consolidation," the PMEAC also called for withdrawing some stimulus measures that were given to the industry to tide over the global financial crisis.

"I believe it is time to move towards the process of fiscal consolidation. This means withdrawal of some of the stimulus," the PMEAC Chairman, Dr C. Rangarajan, told reporters while releasing its Review of the Economy 2010-11.

The Centre's fiscal deficit had risen to 6.3 per cent in 2009-10 due to the stimulus measures, including raising public expenditure and tax incentives.

The PMEAC has projected the Centre's fiscal deficit in 2010-11 at 5.2 per cent of the GDP, down from 5.5 per cent estimated earlier. It expects the Finance Ministry to reduce the fiscal deficit to 4.8 percent of GDP in 2011-12.

GROWTH FORECAST

Dr. C. Rangarajan (right), Chairman, Economic Advisory Council to PM, and Dr. Saumitra Chaudhuri, member of the Council

- Inflation rate projected at 7% by March 2011
- Declining trend in food prices to result in lower food inflation
- Rising domestic savings and investment chief engines of growth
- Capital Flows can be readily absorbed by financing needs of the high growth of the Indian Economy
- Fiscal deficit outcome for 2010-11 could be marginally better than the budget estimates

Inflation rate has been projected by the PMEAC at 7 per cent by March 2011. The declining trend in food prices particularly that of the vegetables will result in lower food inflation, the PMEAC said.

DRIVING GROWTH

Manufactured goods inflation has remained low, it noted, adding, however, that considerable care from the policy side has to be taken to ensure that the manufactured goods inflation remains below 5 per cent in 2011-12.

The PMEAC said that to sustain a growth rate of 9 per cent, steps required are: Containing inflation by focusing both on monetary and fiscal policies and supply side management; stepping up the pace of infrastructure creation with renewed focus on the power sector; continuing efforts to contain Current Account Deficit (CAD) at 2-2.5 per cent of GDP and in parallel encourage flow of external investments into the country; and giving greater attention to agriculture including on seed development, management of water and soil fertility and improving delivery system.

Besides, the PMEAC said there is considerable urgency in the implementation of goods and services tax (GST).

As against the Commerce Ministry's forecast of the country's merchandise exports reaching around $220-225 billion in 2010-11, the PMEAC has projected that goods exports will touch $230 billion in this fiscal.

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ECONOMIC INDICATORS

	2010-11	2011-12
Overall GDP	8.6%	9%
Agriculture	5.4%	3%
Industry	8.1%	9.2%
Manufacturing	8.8%	9%
Services	9.6%	10.3%
Investment rate	37%	37.5%
Domestic Savings	34%	34.7%
Current Account Balance	(-) $50.8b	(-) $55.8b
	(-3% of GDP)	(-2.8% of GDP)
Merchandise Exports	$230.3b	$271.9b
Merchandise Imports	$362.3 b	$423.4b
Merchandise trade balance	(-)$132b	(-)$151.5b
Net Invisibles	$81.3b (4.8%)	$95.7b (4.8%)
Software and BPO	$48.2b	$56.6b
Private Remittances	$53.1b	$61.1b
Investment income	(-)$13.9b	(-) $18b
Foreign Investment	$48.1b	$45b
Inbound FDI	$27.6b	$40b
Outbound FDI	$18.2b	$20b
Portfolio Capital	$38.8b	$25b
Capital Account Balance	$64.6b (3.8%)	$76b (3.8%)
Accretion to Reserves	$12.1b (0.7%)	$20.2b (1%)