The Financial Express 22/2/10

Prime Minister's Economic Advisory Council chairman C Rangarajan (right) addresses a press conference after releasing the Review of the Economy 2010-11, in New Delhi on Monday

RAJ DAYAL

FT

PMEAC moots partial rollback of stimulus

Panel also advises higher selloff target, more services in tax net

fe Bureau
New Delhi, Feb 21

PARTIAL withdrawal of fiscal stimulus package, a higher disinvestment target, more services in the tax net and a separate package for the farm sector with the aim of increasing productivity and improving its access to finances could be some of the features of Union Budget 2011-12, if one goes by the hints thrown by the Prime Minister's Economic Advisory Council (PMEAC) in its review of the economy.

These policy measures, the council said, would help maintain the growth momentum in the economy that scale a 9% growth in the next financial year.

Then council presented a positive outlook of the economy with overall growth rate of 9% next fiscal and a pick in growth in western economies to suggest fiscal consolidation and an exit of stimulus.

"The government announced stimulus package to take care of the special situation (global meltdown). It has been two years from the time stimulus was announced. I believe it is now time to move towards fiscal consolidation and lower fiscal deficit," Rangarajan said, addressing media-persons on his report

While the report has not specifically suggested complete withdrawal of stimulus package, it has supported the fiscal consolidation as a tool to improve government finances that would come handy in reducing deficit and propelling growth in the economy.

The complete withdrawal of stimulus package could see indirect taxes (central excise and service tax) rates going up by 2% to 12% level. The rates of two taxes are currently at 10% level. As part of withdrawal of fiscal stimulus package the government has already raised central excise rates by 2% in the last Budget.

The Budget could also see the government announcing steps to address supply side constraints in sectors such as food, energy, raw materials and intermediaries. This could be in the form of incentives and interest subvention schemes. The panel in its report has advocated the measures as part of inflation management exercise to permit growth consistent with demand.

> **THE BUDGET** COULD SEE THE GOVT ANNOUNCING STEPS TO ADDRESS SUPPLY-SIDE CONSTRAINTS IN SECTORS SUCH AS FOOD, ENERGY, RAW MATERIALS AND INTERMEDIARIES

The panel has also said that services sector's contribution to overall economy would grow by 10.3 in 2011-12, up from 9.6% growth expected in current fiscal. This, the panel said would also be on account of a positive pick-up in growth and demand in the advanced economies such as the US that will generate demand from India. "A healthy services sector could not only provide room for the government to raise tax rates but also include bring more services on the tax net," said an financial expert.

In a clear indication that government will have to take several measures for the agriculture sector, the panel has suggested the development of a timebound programme of dealing with challenges such as ensuring quantity and quality of seed, water management and maintaining soil fertility. We need to ensure that agriculture grows at sustained rate of 4% annually," reiterating the need for proper attention to sector.