# PMEAC forecasts 9% growth in FY12, pitches for GST rollout, stimulus cut

fe Bureau

**New Delhi, Feb 21:** Indian economy would bounce back to 9% growth rate in 2011-12 on the back of hefty expansion in mining and services sectors and a moderate rise in agriculture output, according to Review of the Economy 2010-11 released by the Prime Minister's Economic Advisory Council (PMEAC) on Monday. The council said the Centre should do whatever it can to bring in the Goods and Services Tax (GST), even as it waits for states to come on board. It also pitched for gradual withdrawal of the fiscal stimulus.

Addressing the media, council chairman C Rangarajan said: "Monetary and fiscal policies have to be appropriately tight to protect the economy from inflation."

In 2010-11, the economy is projected to grow at 8.6% in line with the estimates of Central Statistical Organisation. The economy grew at 9% plus prior to the global financial meltdown that pulled the growth rate down to 6.8% during 2008-09 and 8% in 09-10. GDP growth was 9.5% in 2005-06, 9.6% in 2006-07 and 9.3% in 2007-08.

> Inflation distorts the economy and hits the poor the hardest. Hence, monetary & fiscal policies have to be tight to protect the economy. Agricultural output is stagnating at around 232 million tonne, but we could see a record wheat yield
>
> **C Rangarajan,** PMEAC chairman

### GEARING UP FOR A HIGHER GROWTH ORBIT

- Indian economy to grow 8.6% in 2010-11, return to 9% GDP growth in 2011-12
- Inflation to fall to 7% by March end, but inflationary expectations should be at 4-5%
- Investment rate pegged at 37% of GDP in 2010-11; savings rate seen at 34% of GDP
- Higher growth to reduce fiscal deficit to 5.2% in 2010-11 from 5.5% estimated earlier
- Govt faces challenge in conforming to the Finance Commission's medium-term targets
- Stimulus must be gradually withdrawn and govt should maintain a tight fiscal policy

While higher growth would help the government keep fiscal deficit below the budget estimate at 5.2% in 2010-11, high inflation rate would continue to pose a major challenge, the council said. Inflation is projected to fall to 7% by March-end 2011, but the report highlighted the need to anchor inflationary expectations at

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around 4-5%.

Rangarajan said the government should withdraw the fiscal stimulus in due course and maintain tight fiscal and monetary policies, in order to arrest inflation and to curb deficit. "Inflation distorts the economy very much and it hits the poor the hardest."

The RBI's mid-quarterly review of monetary policy is scheduled for March 17, where it is expected to hike short-term lending and borrowing rates by 25 basis points.

Pointing out the need to introduce GST, the EAC said: "A major motivating factor could be the Centre starting the reform process unilaterally within the prevailing constitutional parameters. This requires the Centre to prune the exemption list to the minimum, rationalise rates of excise duty and extending tax to all services."

Investment rate in the economy has been pegged at a buoyant 37% of GDP in 2010-11, while the savings rate is estimated at 34% of GDP. The review also highlighted the need to bring the curr... dow... 3% ...

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## PMEAC forecasts...

The fiscal deficit in 2009-10 soared to 6.3%, mainly on account of the stimulus provided to the industry to combat the impact of the global financial meltdown.

The advisory council said that while the current year's fiscal adjustment may not be a problem, the government faces formidable challenge in conforming to the Finance Commission's targets in the medium term. According to the targets set by the Finance Commission, the central government is required to reduce its fiscal deficit to 3% of GDP by 2014-15.

Referring to the external conditions like sovereign debt problems in the eurozone, high global food and crude oil prices, the PMEAC said this once again underscores the importance of pursuing domestic policies which factor in some adverse development in the international sphere.