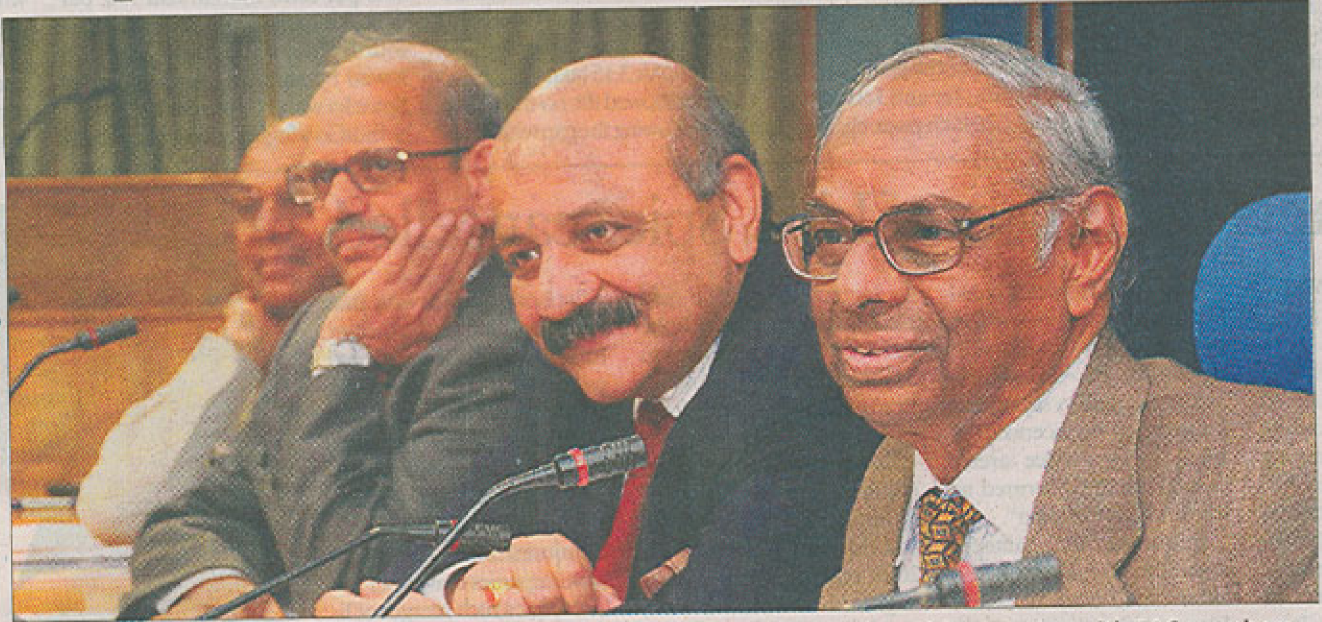
Economic Times



Calls for fiscal, monetary tightening to deal with fiscal deficit, inflation

# PMEAC for stimulus rollback; pegs FY'12 growth at 9%



(From right to left) Chairman, Economic Advisory Council to the Prime Minister C Rangarajan with EAC members Saumitra Chaudhuri, M Govinda Rao and EAC secretary K P Krishnan at the release of the 'Review of Economy 2010-11' report in New Delhi on Monday. RAAJ DAYAL

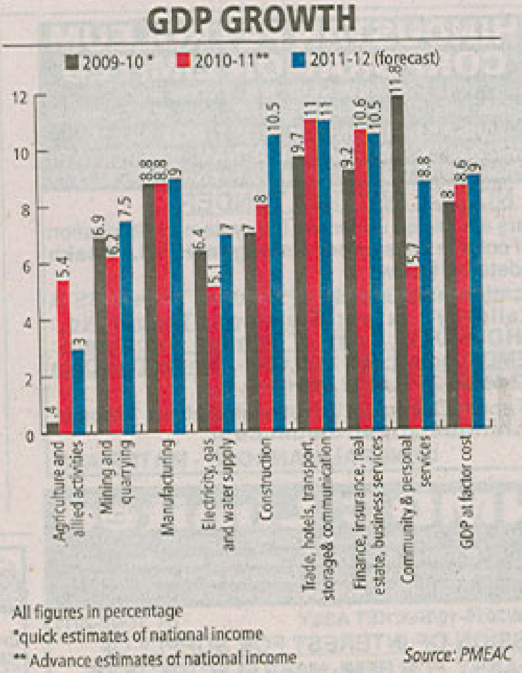
ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 21

A week before the Union Budget for 2011-12 is to be presented, a key advisory body to Prime Minister Manmohan Singh has pushed for a withdrawal of fiscal stimulus measures on the grounds that the Indian economy will expand at a rate of 8.6 per cent in the current fiscal and better it to 9 per cent in 2011-12.

But despite its bullish forecast that is based on improved manufacturing and service growth as well as high investments and savings, the PM's Economic Advisory Council has called for fiscal and monetary tightening to deal with the fiscal deficit and the high inflation, which is however expected to ease to 7 per cent by the end of next month.

"We are on track to achieve 8.6 per cent growth in the current fiscal," C Rangarajan, chairman of the PM's EAC said on Monday after releasing the Review of the Economy 2010-11.

The projection is a shade higher than its earlier forecast of 8.5 per cent but is in line with government estimates released earlier this month.




All figures in percentage
*quick estimates of national income
** Advance estimates of national income
Source: PMEAC

According to PMEAC, the agriculture sector is expected to grow at 5.4 per cent this fiscal as against 0.4 per cent last fiscal. "Agriculture will do very well this year. We might have record harvest of wheat," Rangarajan said.

It also said the services and industry sectors would maintain the high growth rate of last few years. While services is expected to register a growth rate of 9.6 per cent, industry is projected to grow by 8.1 per cent. In 2009-10, services sector had witnessed a growth of 9.1 per cent and manufacturing had grown by 8.8 per cent.

While the investment rate is expected to be 37 per cent in 2010-11 and 37.5 per cent in the next fiscal, he domestic savings rate is likely to be over 34 per cen in the current fiscal and 34.7 per cent in 2011-12.

However, Rangarajan stressed that the govenment must return to a path of fiscal consolidation and o consider rolling back the fiscal stimulus measures uch as the excite duty cut. "We introduced the stimulu in the wake of the financial crisis. That was a special sitation. We have had two years of high growth since then nd so I believe it is time to move towards fiscal consolidatin," he said. The council has pegged the Centre's fiscadeficit at 5.2 per cent of the GDP in 2010-11, which is lover than the targeted 5.5 per cent and consolidated fiscal eficit is likely to be 7.5-8 per cent. But it has warned, "Theurrent year fiscal adjustment may not be a problem, te challenge is of adhering to the Finance Commissio's targets with credible expenditure management."

While pointing out that revenue buoyancy is hgh with a growth of 62.9 per cent in April-December 210, the EAC has urged that the goods and services tashould be implemented as soon as possible. Listing th possible impediments to a 9 per cent growth, the FAC has warned that inflation continues to be at an 'unconortably high level' and expects the central bank to contiue with its measures to control inflation as monetary polir has an important role to play. The EAC expects inflatioto ease to 7 per cent by end March 2011, but has said th global commodity prices and international crude oil pees are expected to rise.

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## ECONOMIC BLUEPRINT

**DIESEL PRICES** can be deregulated at an 'appropriate time' after headline inflation eases to 6 per cent. EAC expects inflation to start cooling by March end.

**FDI IN RETAIL:** EAC bats for FDI in retail, but process will be gradual. Says deep pockets needed for big ticket investments in cold chains and processing centres

**GST INTRODUCTION:** Cals for speedy introduction of GS to improve long term revenu productivity. Says DTC will ony enhance revenues in mediun term

**FARM GROWTH:** Expects agriculture sector to grow at 5.4 per cent in 2010-11

**FISCAL DEFICIT:** Pegs theCentre's fiscal deficit at 5.2 per cent of the GDP in 2010-11

**EXPORTS:** Exports estimaed to increase to $230 bn this fiscal

**CURRENT ACCOUNT DEFICIT:** Expects current account deficit to be 3 per cent of GDP

**SERVICES & INDUSTRY:** Expects industry to expand at 8.1 per cent and services 9.6 per cent

**DOMESTIC SAVINGS RATE:** Domestic savings rate expeced to be 34 per cent in 2011-12

# 'Tighter monetary policy needed to rein in inflation'

*The Prime Minister's Economic Advisory Council has said that the central bank must continue with monetary tightening to deal with high inflation even though industrial growth is slowing down. After releasing the Review of the Economy 2010-11,* C RANGARAJAN, *chairman of the PM's EAC said this will help achieve a 9 per cent growth. Excerpts:*

**Will further tightening of the monetary policy affect industrial growth and hurt revenue collections?**

If inflation continues to remain at an uncomfortably high level, tighter monetary policy is needed to pull it in. This will help contain inflation and containment of inflation is an important factor in contributing to a sustained rate of growth in the economy, which in turn will lead to higher revenues.

INTERVIEW
WITH C RANGARAJAN

**The EAC has projected fiscal deficit to be lower than the Budgeted 5.5 per cent in 2010-11. How will that be possible given the higher subsidy bill for both fuel and fertilisers?**

The reason behind our forecast is that the revenues have been very buoyant — both tax and non tax revenues have increased quite substantially. Therefore this will give considerable leeway to the government in perhaps meeting the deficits of the petroleum sector and also meeting the fiscal deficit lower than 5.5 per cent.

**The report has expressed concerns over the decline in foreign direct investment in recent months. Do you expect this trend to continue?**

We estimate 9 per cent growth in 2011-12. The medium-term growth prospects are also good and therefore foreign direct investment should be forthcoming. But there are ups and downs which are due not only because of factors operating in India but also external factors like what's happening in the Middle East and developed countries. But on the whole, I think foreign direct investment will start increasing in the next fiscal. ENS