PMEAC pitches for faster monetary policy tightening

■ Sees GDP growth at 8.5%, March inflation at 6.5%

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C Rangarajan,
chairman, PMEAC

GROWTH MANTRA

- Growth to accelerate to 9% in financial year 2011-12
- Farm sector to expand by 4.5% this fiscal, from 0.2% in 2009-10
- Industry & services sector growth at 9.7% & 8.9% for '10-11
- Exports to reach $216 bn, up from $182 bn in previous fiscal
- Capital inflows to increase to $73 bn from $53.6 bn in 2009-10
- FDI to touch $50 bn, up from $31.7 bn in 2009-10

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New Delhi, Jul 23: Ahead of the Reserve Bank's first quarter review of the monetary policy on Tuesday, the Prime Minister's Economic Advisory Council (PMEAC) has pitched for an increase in the pace of monetary tightening to tackle the demand-side pressures on inflation. It relied on policy tightening by the central bank, coupled with a monsoon-fed good crop, to predict a cooling of headline inflation from 10.16%, as per latest reading to 6.5%, by March 2011.

The council pegged growth this fiscal at 8.5%, higher than the February estimate of 8.2%, on the back of an apparently good monsoon and a revival in exports. With private investment back on track, the investment rate this fiscal is expected to be 37% and 38.4% next fiscal.

While the council's growth projection is in line with finance ministry's expectation, it is lower than the 9.4% growth predicted by IMF.

In its economic outlook released here on Friday, the council also called for a rationalisation of food and fertiliser subsidies to complement the subsidy reform that began with the recent deregulation of fuel prices.

Addressing a press conference, PMEAC chairman C Rangarajan, however, said "bringing the food subsidy down would not be an easy task, especially at a time when the government is gearing up to introduce the proposed Food Subsidy Bill." The Rs 1-lakh-crore-plus subsidy burden on fertiliser and food exerts a huge pressure on the government finances.

The PMEAC also stressed on the need to have a policy to broadbase the country's fuel usage to reduce the proportion of coal in the fuel mix.

Stating that taming of inflation was necessary to ensure sustainable economic growth prospects of the country, the former central bank governor said improving farm productivity and focus on developing physical infrastructure would ensure a sustainable 9% growth rate in Asia's third largest economy after China and Japan.

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