

# PMEAC for tighter fiscal policies

## Says Controlling Inflation Is Must For Substantial Growth In Medium Term

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**New Delhi:** While pegging the economic growth at a conservative 8.5% for the current financial year, the Prime Minister's Economic Advisory Council (PMEAC) pitched for tightening of the monetary and fiscal policies to check rising inflation in its economic outlook report for 2010-11.

Releasing the report on Friday, PMEAC chairman C Rangarajan said controlling the high inflation is essential for a sustainable growth in medium term. It has projected GDP growth at 8.5% for this year and 9% for 2011-12, while inflation rate is anticipated to be 6.5% by March 2011, a shade higher than the finance ministry's estimation of 5%-6%.

Rangarajan said exit from the expansionary fiscal and monetary policies were not only feasible but necessary. He said the central bank should complete the process of exit and operate with bias

toward tightening as the credit offtake has picked up, backed by a strong growth rate in the first quarter of this fiscal. He said on the fiscal front there was a case for withdrawal as there is a high buoyancy in both direct and indirect tax collections. The telecom auctions and decontrol of petroleum products prices have provided additional cushion.

Rangarajan, however, clarified that the government may not revise tax rates by raising excise or other duties in the current fiscal as they are more of a budgetary drill and would be done only at the time of next budget.

But on the monetary front, the former RBI governor was quite vocal, saying high inflation has made reversal of monetary stimulus necessary. He said tightening would not impact growth as fund flow from capital market to commercial sectors has been quite strong. The bond issuance growth has been rel-

### Sectoral GDP Forecast

	2010/11	2011/12
Agriculture & Allied Activities	4.5	4.0
Mining And Quarrying	8.0	8.0
Manufacturing	10.0	10.5
Electricity, Gas & Water Supply	7.5	9.0
Construction	10.0	11.0
Trade, Hotels, Transport, Storage & Communication	10.0	10.0
Finance, Insurance, Real Estate & Business Services	9.5	10.5
Community & Personal Services	6.0	7.5
Gross Domestic Product At Factor Cost	8.5	9.0



Inflation is projected to come down to 6.5% by March 2011 due to expected normal monsoon combined with the base effect

Exit from the expansionary fiscal policy is not only feasible but also necessary. Rise in tax collections, telecom auctions can provide cushion

**C Rangarajan** | (PMEAC)

atively higher than issuance of equity.

He said even if the RBI raises rates, this may not impact the exchange rate much. "The variations will remain within acceptable range," he added. The report painted a bright picture for agricultural production, projecting a 4.5% growth this fiscal and 4% in 2011-12. "The monsoon has been good so far and we should comfortably achieve 4.5% expansion in agricultural production," the PMEAC chief said.

The economic scenario for the next two years, according to the PMEAC projections, looks promising, given the fact that industry that grew 9.3% in 2009-10, is set to grow at 9.7% this fiscal and 10.3% in the next fiscal. Services sector that contributes more than 57% to the gross domestic product is estimated to grow at 8.9% in the current fiscal and 9.8% in the next one as compared to 8.5% that it had achieved in 2009-10.