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Panel lowers GDP growth projection to 7.1%

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NEW DELHI: The PM's economic advisory council on Friday scaled down forecast for the country's GDP growth to 7.1% in the current fiscal year against its earlier prediction of 7.7%. In 2007-08, the economy had registered 9% growth.

The PM's panel has projected the combined fiscal deficit to be in excess of 10% of GDP in 2008-09, well above a comfortable level, but finds it "a compelling need in the exceptional circumstances of the current year".

The council, which monitors the economy closely and advises the PM on key issues, said the impact of global meltdown was the prime reason for low GDP growth. It, however, expressed hope that the conditions may improve in the next fiscal and GDP growth may go up to 7.5%.

On the scope of further interest rate cuts by RBI, economist and chairman of the PM's panel Suresh Tendulkar said that though there was enough room to do so in view of a low inflation rate, it was unlikely that the RBI would do so in its policy review slated for January 27.

Tendulkar said the rate of inflation was likely to come down to 4.1% by February from 5.6% at present.

The GDP forecast is in line with what PM Manmohan Singh had earlier predicted at 6.5%-7% considering hostile global economic environment. India Inc was badly affected by a financial crisis in August last year that was largely triggered by a mortgage crisis in the US.

Export orders have since gone down substantially across sectors, affecting the domestic industry that has cut production and jobs. Industry chambers have raised an alarm, seeking more subsidies from the government for units facing shutdown.

The PM's panel has also projected the rate of investment at 35%, lower by 2.5% from the last fiscal. "It is basically due to financing constraints facing Indian enterprises and lowering of investor confidence in the second half of the current fiscal," it said. The panel has also estimated a moderation in the saving rate on account of larger negative savings of the government.

The current account deficit is expected to be 1.9% of GDP in 2008-09 but it may not adversely affect the external payment situation. There is, however, some upward revision in the agriculture sector that is expected to grow at 3% as against the earlier projection of 2%.