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### Rebound with a hole: PM's panel

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The Prime Minister's Economic Advisory Council on Friday predicted a strong recovery for the Indian economy from October, but cautioned that it would come at the risk of a burgeoning deficit in the government's budget.

The Council said the government's stimulus measures, aimed at reviving the economy, will alone push up the centre's fiscal deficit by 3.8 points to a worrisome 7.9 to 8 per cent of gross domestic product in the current fiscal year.

The Council rejected various forecasts that growth of the Indian economy, which is expected to be around 7 per cent in the current fiscal year ending March, would see a slump in 2009-10 and range between 5 to 6 per cent (see table). "The Council is of a different view," it said in a review of the economy that was submitted to the prime minister on Friday.

"The Indian economy is likely to remain relatively weak in the first quarter (April-June) and slowly pick up thereafter. That growth in 2009-10 would be between 7 and 7.5 per cent."

For the current fiscal year, the Council estimates growth to average 7.1 per cent. "This outcome factors in the impact of monetary easing, fiscal stimulus and other administrative measures (taken) to keep the growth engine running."

In recent months the government has taken a slew of fiscal measures, including sharp cuts in excise duties and increased plan spending, to help the economy tide over the crisis.

But those sops are set to push up the central government's fiscal deficit.

"It is therefore very important that there is abundant policy clarity as to the exceptional nature of circumstances in the current and next year, and the urgent need to bring government finances back on track once there is improvement in economic conditions," the Council said.

Its chairman, Suresh Tendulkar, said as of now "the revival of the economy is more important." Although analysts agree that the fiscal stimulus combined with monetary easing would help the economy stage a recovery by the second half of next fiscal year, they are skeptical of the pace.

Moreover, a "high deficit limits the scope of a direct fiscal stimulus in future," said Rohini Malkani, economist at Citibank, which has scaled down its growth forecast for 2009-10 to 5.5 per cent from 6.6 per cent earlier.