PM panel lowers 2008-09 growth forecast to 7.1%

'The combined fiscal deficit of the Centre and the states will be at an undesirable level of around 10 per cent'

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The Prime Minister's Economic Advisory Council (EAC) today cut its growth forecast for the current fiscal to 7.1 per cent, lower than the previous projection of 7.7 per cent, due to "painful adjustments" to the ongoing global economic turmoil. India's economy had grown 9 per cent in 2007-08.

However, it has projected a growth rate of 7-7.5 per cent or more in 2009-10 due to positive spin-offs of recent fiscal stimulus packages, monetary easing, increased public expenditure, and a likely rebound in global economy in the June-September quarter.

The panel, in its second review of the economy, said the sharp fall in prices of crude oil and other commodities would have a positive bearing on inflation, which was likely to be close to 4 per cent by March this year, lower than the earlier estimate of 8 per cent. The headline inflation for the week ended January 10 was 5.6 per cent.

The combined fiscal deficit of the Centre and the states would be at an undesirable level of around 10 per cent, the panel said. Panel Chairman Suresh Tendulkar said it was not feasible to stick to the Fiscal Responsibility and Budget Management Act's prudential norms at this juncture as it might result in a steeper slowdown.

The fiscal deficit has widened because of supplementary demand for grants, stimulus packages and permission to the states to borrow more. However, falling commodity prices would have a positive impact next year due to lower oil and fertiliser subsidies, said Govinda Rao, a member of the panel.

"There is an equally urgent need to bring government finances back on the track of fiscal consolidation once there is an improvement in economic conditions," said Tendulkar, cautioning that higher fiscal deficit might create a crisis in the medium term.

The panel has lowered its investment rate estimate by 2.5 percentage points to 35 per cent in 2008-09 over the previous year on account of financing constraints faced by companies and lower investor confidence. The savings rate was also likely to be lower due to larger negative savings of governments and corporations, it said.

The panel has projected external payment situation to be reasonably comfortable and expects the current account deficit to be at 1.9 per cent of GDP in 2008-09.

"India's economy is likely to remain relatively weak in the first quarter of fiscal 2009-10 and will slowly pick up thereafter. It is expected to show a fairly strong recovery in the second half of the fiscal," said Tendulkar.

The forecast has taken into account favourable factors like a robust agrarian economy, resilience of Indian enterprises, healthy balance sheets of banks, strong domestic demand and a high savings rate.

Agriculture is expected to grow at 3 per cent as against the earlier projection of 2 per cent in 2008-09.

SOUTHWARD BOUND

		2008-09**	
	2007-08	Jul-08	Jan-09
Agriculture	4.5	2.0	3.0
Manufacturing	8.8	7.2	4.0
Services	11.8	10.0	9.1
GDP at factor cost	9.0	7.7	7.1
Investment rate	37.4	37.5	35.0
Savings Rate	36.0	34.5	33.1
Current Account Balance*	(-)1.5	(-)3.2	(-)1.9

* Current account balance as percentage of GDP
** 2008-09 figures are projections by PM's panel (in %)