XIII NO 119 20 PAGES Rs 4 Read t

GDP will grow 9%: PM panel

Economy Bureau
New Delhi, Jul 16

The Prime Minister's Economic Advisory Council (EAC) on Monday said the economy would grow 9% in the current fiscal, assuming normal monsoons and other external conditions, down from 9.4% in 2006-07. This is a more optimistic estimate than the Reserve Bank of India's 8.5% GDP growth projection for the year.

	2006-07	2007-08 (Projected)
GDP	9.4%	9.0%
Exports	21%	18%
Imports	26%	23%
Net FDI	$8.4 bn	$15 bn
Net portfolio capital inflows	$7.1 bn	$12.5 bn
Current Account Deficit	$9.6 bn	$17.4 bn
Capital Account Surplus	$44.9 bn	$58.0 bn

Presenting its economic outlook for 2007-08, the council emphasised that growth was sustainable because a large part of it was driven by investment and not consumption, as was believed earlier. Inflation would stay at around 4% it said, and noted there were no longer concerns of the economy overheating. GDP has grown at an average 8.6% in the past four years, touching 9.4% in 2006-07.

It expected exports to slow to 18% in 2007-08, from 21% in the previous fiscal, and projected net FDI inflows to nearly double to $15 billion from $8.4 billion in 2006-07. The EAC, chaired by former RBI governor C Rangarajan, projected the agriculture sector to grow 2.5%, while industrial output and services were estimated to grow a healthy 10.6% and 10.4%, respectively, this fiscal. The biggest uncertainty was the amount and distribution of rainfall in this year's southwest monsoon.

While projecting a benign scenario on the price front, the EAC said, "After factoring in future correction in petroleum products prices, it should be possible to maintain the headline (inflation) rate close to 4%," the report said. It further expected the headline inflation rate to continuously drop with appropriate monetary management. "Monetary policy will be related to the behaviour of inflation and also capital inflows," Rangarajan said.

The EAC estimated the current account deficit (CAD) to jump to $17.4 billion, or 1.5% of GDP, this fiscal, from $9.6 billion in the last fiscal, or 1% of GDP. Given the projected total capital inflows of $58 billion, more than thrice the CAD, the council said the RBI's intervention in the market should continue to be directed towards "orderly conditions", but must be reconciled with gradual real appreciation of the rupee.

■ See also Page 4