MOVING AHEAD

PM's panel puts growth at 9%, inflation at 4%

The Economic Advisory Council estimates that net FDI will almost double from $8.4 billion last fiscal to $15 billion

By Paromita Shastri
paromita.s@livemint.com

NEW DELHI

The Prime Minister's Economic Advisory Council, chaired by C. Rangarajan, expects the economy to grow at 9% in 2007-08, with inflation contained at 4%, despite slowing credit expansion and pressures of a climbing rupee that hit a nine-year high of Rs40.37 to a dollar on Monday.

"The Indian economy is on an unprecedented strong trajectory of economic growth," Rangarajan said, while releasing the council's annual Economic Outlook. With a 36.3% investment rate driving growth and net foreign capital flows expected to remain strong at $58 billion, he argued for selective controls on the flow of debt funds into the country, namely external commercial borrowings (ECBs). "Controls on FDI (foreign direct investment) or equity would be most unwise," he added.

The council estimates that net FDI will almost double from $8.4 billion last fiscal to $15 billion, and portfolio flows will grow 76% from $7.1 billion to $12.5 billion.

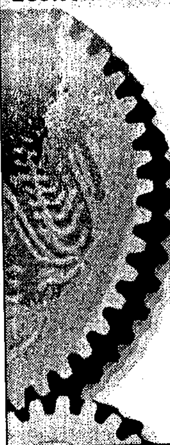
But ECBs will grow slower by 25% to $20 billion against last fiscal's growth of almost six times to $16.1 billion. Asked if there was concern that ECBs were being used for speculative investment in real estate, Rangarajan said there was "a need to curb funds flow to the real estate sector". However, last week, former chief economic adviser Ashok Lahiri ruled out the possibility of selective controls, saying "there is no going back to the era of capital controls". As a result of higher capital inflows, the current account deficit will rise to $17.4 billion or 1.5% of gross domestic product (GDP), against $9.6 billion last year or 1% of GDP. The council expects exports to grow reasonably well at 18% in dollar terms, against 21% last fiscal. But this is below the commerce ministry's target—28%.

Said council member Saumitra Chaudhuri, "We have accounted for lower growth in exports and capital flows. Last year saw an exceptional rise in terms of capital flows, which is unlikely to be repeated."

He said current inflation should be read around 4.7%. Barring a huge rise in oil prices, the year should end with 4% average inflation, well within the Reserve Bank of India's comfort range, he added.

Will that mean a halt in rising interest rates? Shashank Bhide, senior research counsellor at NCAER, said, "Since June 2006, the Libor (London inter-bank offer rate) has stayed steady, while interest rates in India kept rising, suggesting that... domestic inflation was driving interest rates. With the steady international rates and moderating inflation, the rising trend in interest rate would be arrested."

ECONOMIC OUTLOOK FOR 2007-08



GDP growth: 9%	Net FDI flows: $15 bn
Inflation: 4%	Portfolio flows: $12.5 bn
Investment rate: 36.3%	ECBs: $20 billion
Savings rate: 35.7%	Current account deficit: $17.4 bn (1.5% of GDP)
Exports growth: 18%	Remittances: $30 billion
Trade deficit: $ 84.4 billion (7.3% of GDP)	Software exports: $41 billion

Sandeep Bhatnagar/Mint