Panel sees 9 pc growth

Dollar inflows need active management: Rangarajan

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THE PRIME Minister's Economic Advisory Council on Monday projected that the economy would grow by 9 per cent in 2007-08 but argued that a temporary restriction on foreign debt might be required in the wake of a strong rupee.

The council's chairman, C. Rangarajan, said the economy would grow by 9 per cent during 2007-08 assuming a reasonably benign monsoon and conducive external conditions.

Growth in the farm sector and infrastructure, mainly power, would be critical components in the process, the council said in its Economic Outlook 2007-08.

The council has projected slightly lower sectoral growth rates than last year. The farm sector is estimated to grow by 2.5 per cent (down from 2.7 per cent last year), industry by 10.6 per cent (10.9 per cent) and services by 10.4 per cent (11 per cent).

"Global economic conditions do not seem to contain significant adverse potential during the current fiscal year. The primary downside risk to our expectations of economic performance in 2007-08 derives from uncertainties on account of the southwest monsoon, both in regard to its quantum and its spatial and temporal distribution," he said.

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—C. Rangarajan, chairman, Economic Advisory Council

The panel also projected inflation to remain within 4 per cent. "After factoring in future correction in petroleum product prices, it should be possible to maintain the headline rate close to 4 per cent," it said.

The council said there was a need to bridge the imbalance between the current account deficit and capital inflows. It suggested a mix of three strategies to address the problem of capital inflows and rupee appreciation: letting the rupee appreciate; absorbing capital flows into reserves and sterilizing the excess over what may be regarded as appropriate; and discouraging inflows by putting some restrictions and liberalising capital outflows.

"On the debt side there are some areas that can do with some scrutiny. Notably, the best non-discretionary way of ensuring that such loans are not used to acquire rupee assets is to limit the conversion of external commercial borrowing (ECB) proceeds into rupees. However, such a restriction should be temporary," Rangarajan said.

Export growth is expected to slow down to 18 per cent in dollar terms as the rupee strengthens against the dollar. The council expected exports to reach $147 billion, less than the government's target of $160 billion. Imports are projected to cross $223 billion. The panel projected foreign direct investment of $15 billion in 2007-08, up from $4 billion last year. Net portfolio inflows are estimated at $12.5 billion.

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