Business Line
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EAC update: Outlook on growth and inflation

S. Venkitaramanan

Curtailing money supply growth has to be an integral part of the recommended policy package. Growth requires financing, but inflation management requires containing money supply. How are we to reconcile these opposing requirements?

Basic features of EAC estimates

(in $ billion)

	2004-05	2005-06	First half 2006-07	Full year 2006-07
Exports (Merchandise) (A)	82.2	105.2	60.6	128.4
Imports (-do-) (B)	118.6	157	95.7	194.3
Trade deficits (A - B)	-36.6	-51.8	-35.1	-65.1
Net invisibles	31.2	42.7	23.5	52.5
Net investment account	-2.7	-4.9	-1.8	-3.5
Invisibles, of which				
Software exports	16.5	22.6	12.1	28.5
Remittances	20.3	24.1	11.2	26.5
Current account balance	-5.4	-9.2	-11.7	-13.4
Net investment account	20.3	24.1	11.2	26.5

Recently, there has been a feast of economic updates, starting from the RBI Governor, Dr Y.V. Reddy's macro-economic policy statement of October 31, 2006, and the Finance Ministry's mid-year review of the economy. This flurry of forecasts now reaches its climax with the Economic Advisory Council (EAC) to the Prime Minister presenting its update of the outlook, particularly on Balance of Payments, Central Government finances and inflation.

The EAC, headed by the redoubtable Dr C. Rangarajan — one of our eminent economists — is, indeed, a good appetiser for the *Economic Survey*, which will be timed just before the Budget. On the current account deficit, the EAC observes that while the current account deficit numbers for the first half of the year are reported to be 2.5 per cent of GDP, they require revision in the light of past experience. Taking such reviews into account, the EAC expects the current account deficit to be about 1.5 per cent of GDP. Such frequent substantial downward revisions, which have characterised the data in recent years, admittedly erode the credibility of our data.

Foreign Direct Investment, in the EAC's view a more desirable form of capital, has increased in the recent period. Net foreign direct investment this year will, for the first time in several years, exceed portfolio capital flows. Net FDI flows will be around $9 billion, up from $4.7 billion last year. This comprises inbound FDI of around $12 billion, offset by an outward FDI of $3 billion. It is worth reflecting that inward FDI flows are still relatively small compared to the $50-billion-plus figure recorded by China, year after year.

The EAC comments that the measure of global integration of

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