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# PM panel cuts growth projection to 8.9%

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THE economy is likely to stay on the path of high growth this year and the next, forecasts the Prime Minister's Economic Advisory Council (EAC), headed by C Rangarajan. This is so despite dark clouds of a slowdown on the external horizon and domestic industry losing steam in sectors like consumer durables. The EAC forecasts a growth rate of 8.9% for 2007-08 and 8.5% for 2008-09. Inflation is expected to stay at 4% for the year, or a little higher, if oil prices are hiked. The fiscal position continues to be sound although the EAC warns against the build-up of off-Budget costs such as oil, food and fertiliser bonds.

Consumer durables have turned in a negative growth rate of 1.7% over April-November. Yet, driven by a stronger-than-expected growth in agriculture (3.5%) and accelerating investment in plant, machinery and buildings, the economy continues to grow fast, permitting the country's per capita income to grow 7.2% and rise above the $1,000 level for the first time — the total size of the economy is $1.18 trillion and the population is 1.12-billion strong.

Policy makers cannot rely on the mood swings of weather gods and ignore the slowdown in the manufacturing sector, particularly consumer durables, Mr Rangarajan said on Thursday. He had suggested at the finance minister's pre-Budget consultations that there is a case for moderating indirect taxes to stimulate demand. Successive interest rate increases to fight inflation have taken a toll on demand for consumer durables as well as non-durables, Mr Rangarajan said. The manufacturing sector has 79.4% weightage in the index of industrial production (IIP). Its growth has dipped to 9.8% in the second quarter against 11.6% in the year-ago period. IIP grew at 10.4% during the first half, lower than 11.2% a year earlier. Electricity generation and mining were more or less the same during the comparable half years, making manufacturing sector the only culprit for the slowdown in industrial output.

"The consumption of durables is always cyclical. In every country, consumption grows and then pauses. In India, it may have plateaued for now. To some extent, the monetary policy may have impacted the growth. Looking ahead, it could pick up next year although the rate may not be close to what we have seen earlier," Mr Rangarajan said.

However, what saves the day is the rise in investment, over 15% quarter after quarter for the last six quarters. As a result, gross fixed investment—investment in plant and machinery, buildings and vehicles—has risen to 32.3% of GDP by the second quarter of the fiscal, from 27.5% in Q1 of 2005-06. The share of gross investment in GDP, called the gross investment rate, has reached the unprecedented level of 37.1% by Q2 of 2007-08. Gross investment takes into account, apart from gross fixed investment, investment in works-in-progress and physical inventories of finished goods and raw materials as well. Such investment is being financed by domestic savings for the most part. The current account deficit, which measures the absorption of foreign savings by the economy, would still be a meagre 1.3% of GDP this fiscal, lower than the 1.5% forecast by the EAC at the beginning of the year.

The panel forecast an 8.9% growth for 2007-08 based on robust agriculture growth expected to grow at 3.5% against its July outlook of 2.5%. Growth would be lower at 8.5% in 2008-09 due to continued slowdown in consumer goods, slightly slower growth in the trade, hotels, transport and communication sectors and farm sector growth lower at 2.5%. The figure of 8.5% may be seen as a baseline projection that would be impacted if underlying assumptions were to change, he said.