

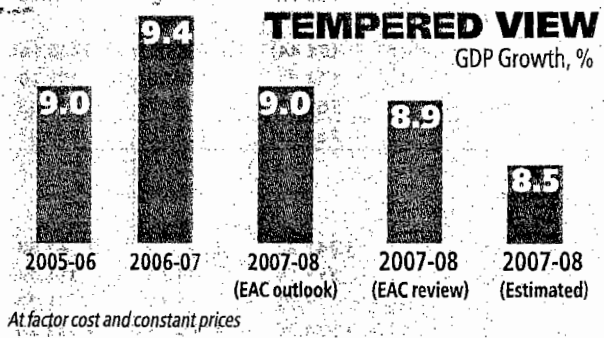
# EAC says inflation is the biggest challenge

**Economy Bureau**  
New Delhi, Jan 17

The economy is on course to achieve a record fourth consecutive year of 8%-plus GDP growth. The Economic Advisory Council (EAC) of the Prime Minister has projected at least 8.5% growth for 2008-09.

At the same time, it has warned that inflation will be the biggest challenge for 2008, together with the fallout of large capital inflows. In addition, full-blown recession in the US could make it difficult for Indian companies to go abroad for M&As. "The effects are likely to be felt through both trade and capital flows with Indian companies experiencing greater challenges in gaining market share as also to finance their ambitious investment projects or overseas acquisitions," says the EAC Review of the Economy for 2007-08, released on Thursday.

The EAC has forecast GDP growth for 2007-08 at 8.9%, "a shade lower" than the 9% projected in its July economic out-



look, as reported by FE. "We have taken into account the new developments since July, when we released the economic outlook for the fiscal and have used them for our projections," EAC chairman C Rangarajan said.

The EAC expects a lower-than-expected expansion in manufacturing output and a lower growth in output of energy utilities. It will be offset by slightly better-than-projected growth in the farm sector. The report estimates agriculture growth at 3.6% this fiscal.

While manufacturing is expected to see a major dip to

9.7%, services will see marginally lower growth of 10.3%. The review also expects the Budget to show a lower gross fiscal deficit of 5.6% for 2007-08.

Summing up the impact of rupee appreciation on exporters, the EAC concludes that they are under considerable stress. But individual Indian companies have greatly benefited from foreign investment in their stocks and through overseas listing. "The interaction between global investors and Indian companies has improved their ability to tap into global markets and internalise best practices," it concludes.