PMEAC Projects Economy To Grow At 7.2% In 2009-10 With Upward Bias

'Roll back stimulus gradually'

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New Delhi: A week ahead of the Union Budget, the clamour in policy-making circles for a rollback of the economic stimulus is getting increasingly louder. On Friday, C Rangarajan, the chairman of the Prime Minister's Economic Advisory Council (PMEAC) too pitched for a rollback, albeit in a phased manner, starting with the Budget.

Releasing a review of the economy in 2009-10, the PMEAC chairman said the economy would grow at 7.2% with an upward bias as predicted by the Central Statistical Organisation (CSO). However, the PMEAC report stresses the need for fiscal correction with the projected fiscal deficit escalating to 10.3% in 2009-10 and the debt-GDP ratio galloping to 77% compared to 71% in the previous year.

The large fiscal deficits of the past two years are unsustainable, said Rangarajan. While the government must make efforts to reduce them, it is desirable to reduce the expenditure-GDP ratio by 1%, he added.

The PMEAC report seeks expansion of the service tax coverage, suggesting unification of the rate structure of central excise and service tax while putting it between the current and the previous higher level. The report also moots bringing all services under the service tax structure to broaden the tax base while having a lower tax rate.

Before the stimuli were introduced in 2008, the central excise rates were 16% while the service tax rate was 12%. These were brought down to 8% and 10% respectively in phases. Govinda Rao, member of the PMEAC, said the government should gradually raise the rates to a level like, say, 10% or 12% which could also serve as the rate for the proposed Goods and Services Tax (GST) when it is introduced. Rangarajan said borrowings for the 2010-11 fiscal would be in the range of the current year, that is, around Rs 4.5 lakh crore, while fiscal deficit is likely to come down by a percentage point from 6.8% in 2009-10 to 5.3%-5.8% in 2010-11.

He defended the government's higher expenditure as that was the primary reason which pulled back the economy on the high growth path. He said in India's case the growth was largely domestically driven which is also reflected in the current account deficit being at a low of 2.2%

He said the rising food prices are a major concern and the government will have to strike a balance between growth and fiscal discipline.

Inflation, according to PMEAC, is estimated at 8.5% at the end of the fiscal as prices are expected to ease in the next two months as a result of better supply of foodgrains. Rangarajan, a former RBI governor, said the central bank would have to take a more neutral stand on monetary policy. He, however, said the future RBI action would depend more on price pressure and credit growth picking up.

On the decontrol of fertilizer prices and expected hike in fuel prices, the PMEAC said these are long-awaited steps and are needed to maintain fiscal discipline. There will be some adjustments initially, but in the long run prices will stabilize.

Fiscal Prudence

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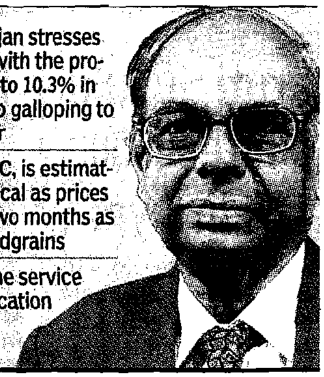

Investment climate set to improve further

TIMES NEWS NETWORK

New Delhi: The investment climate in the country will improve further as more and more companies are expected to approach the capital markets to raise funds through issuances of equity and debt in domestic as well as overseas markets, according to Prime Minister's Economic Advisory Council (PMEAC). However, foreign portfolio investments are likely to slow down in the second half of the current financial year.

PMEAC in its review of the Indian economy said, " Companies who have lined up internal sources of funds and/or equity issuances are likely to increase their credit lines once capital expenditure commences in the next fiscal, for which they seem to be prepared at this point."

The report said unless there are unexpected setbacks, the investment climate should see a rapid recovery in credit growth, accompanied by substantial issuances of debt and equities in the domestic and overseas markets.

The review pointed out that credit expansion in the second half of 2009-10 was much stronger at Rs 165,500 crore compared to Rs 83,700 crore in the corresponding period of the previous year. Mobilization from the capital market by way of debt and equity during the current financial year — up to the end of January 2010 — is over Rs 2,39,000 crore — almost 50% higher than in the same period of the previous year. Issuance of capital rasing instruments like equity and debt in October-January has been quite strong, the review said. However, the foreign fund flows into stock and bond markets during the second half of the current fiscal have slowed down to $9.2 billion, as against $17.9 billion in the first half.

Portfolio flows include investment made by FIIs, investments in ADRs or GDRs and offshore funds. The review expects the total portfolio flows in 2009-10 will be $27.2 billion. In 2008-09, portfolio flows was negative $14billion.

Foreign Fund Flow

Month	Equity ($ M)	Debt ($ M)	Total ($ M)
Up to Feb 19, '10	-44	1,000	956
Jan '10	-94	1,943	1,849
Dec '09	2,200	326	2,526
Nov '09	1,180	147	1,327
Oct '09	1,950	1,480	3,430
Sept '09	3,810	452	4,262
Aug '09	1,000	-63	937
July '09	2,280	443	2,723
June '09	824	235	1,059
May '09	4,140	-568	3,572
April '09	1,300	490	1,790
Total for '09-10	18,545	5,885	24,430