

EAC sees 7.2%-plus growth, pitches for stimulus rollback

■ Seeks excise hike & expenditure cut

■ Puts consolidated deficit at 10.3%

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New Delhi, Feb 19: Just a week ahead of the Union Budget, the Prime Minister's Economic Advisory Council has unequivocally pitched for a major compression in the government expenditure and a hike in excise duty, to start a phased withdrawal of the fiscal stimulus that pushed deficit to a 16-year high.

In its Review of the Economy 2009-10, unveiled on Friday, EAC projected the economy to grow at 7.2%-plus on the back of robust industrial expansion, services growth and less-than expected contraction in the agriculture sector. It projected the economy to return to the 9% growth rate in the next two years, while cautioning price pressure could move beyond food inflation—which is touching 18%—to other sectors.

Pegging the consolidated fiscal deficit at 10.3% of GDP in 2009-10, EAC said large revenue and fiscal deficits of the past two years are unsustainable. "Although the large deficits this year and the last year did have a counter-cyclical impact, it is necessary to initiate measures towards fiscal consolidation in the forthcoming budget," the economy's report card said.

GDP growth

Advance estimate, 2009-10

• Agri & allied activities	-0.2
• Mining & quarrying	8.7
• Manufacturing	8.9
• Electricity, gas, water supply	8.2
• Construction	6.5
• Trade, hotels, transport, storage & communication	8.3
• Finance, insurance, real estate & biz services	9.9
• Community & personal services	8.2
• GDP at factor cost	7.2

Figures in %

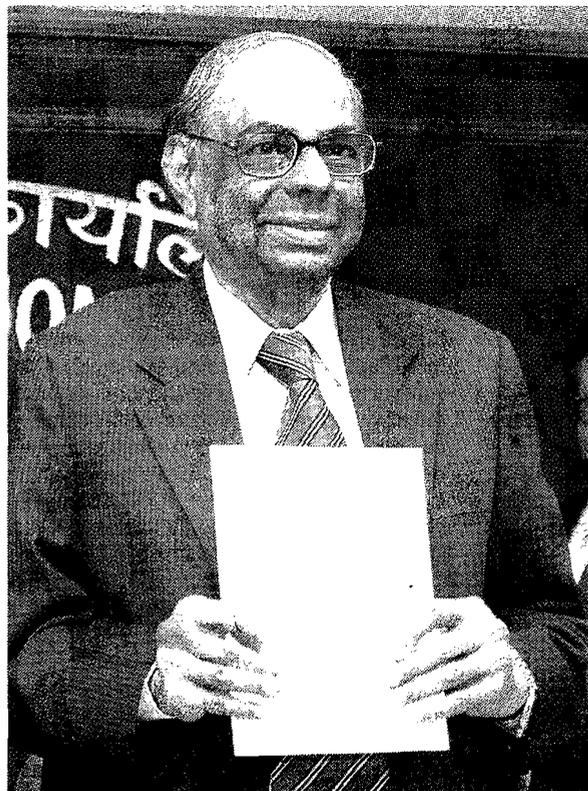
'If you partially roll back (stimulus), you unify both the rates (excise duty and service tax) at 10% to 12%'

Govinda Rao,
EAC member

It suggested the government to reduce its expenditure as a proportion of GDP by one percentage point. "The expenditure impact (of the fiscal stimulus) is more important than the reduction in the rates of taxation," EAC chairman C Rangarajan stressed.

Suggesting an expansion of the service tax base, EAC said bringing railway fares and freights in the tax net could add to revenue by about 0.5% of the GDP.

Significantly, it argued



Report card: C Rangarajan, chairman, Prime Minister's Economic Advisory Council, releasing Review of the Economy 2009-10, in New Delhi on Friday

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for aligning rates of Cenvat and service tax, by pegging the rate between the current and previous higher levels. Cenvat is the median excise duty levied on almost 90% of manufactured items. The Centre has reduced it to 8% from 14%, while it pared service tax to 10% from 12%.

"Partially, we need to roll back (stimulus) and if you partially roll back, there is one possibility that you unify both the rates (excise duty and service tax) at 10% (and also raise both rates) to 12%,"

EAC member Govinda Rao said. However, the EAC report has not explicitly suggested what the rates should be. "Measures taken in the Budget should pave the way for GST (goods and services tax)," Rangarajan said.

EAC said by keeping spending and subsidies at current levels, it was possible to cut the fiscal deficit by 1-1.5% in the next fiscal without hurting economic growth. While it is important to reduce the fiscal deficit significantly in the

coming budget, it is important to safeguard capital expenditures, particularly in the infrastructure sectors, the report said. Rangarajan expected the government borrowing for 2010-11 to be around or slightly lower than the current year's record Rs 4.51 lakh crore.

EAC raised its inflation forecast to 8.5%—the same as projected by RBI—from its last October projection of 6%. It suggested import of 3-4 million tonnes of sugar to meet domestic shortfall next fiscal. EAC also recommended timely release of food grain below prevailing market prices, advance planning for imports at early signs of production shortfall and developing better distribution channel of food stocks.

The economic recovery in India necessitates a more neutral monetary policy but the RBI action will depend on pick-up in credit, liquidity conditions and further pressure on prices. EAC also pitched for opening up the nuclear power sector to private companies.

The review has pegged industrial expansion at 8.6% in 2009-10, compared to 3.9% in 2008-09, while services sector is projected to grow at 8.7% in 2009-10, down from 9.85 in 2008-09. Agricultural output is expected to fall by 0.2% in 2009-10, compared to an expansion of 1.6% in 2008-09.

The council expects a reversal in the sharp fall in investment seen in the previous year.

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'Unified excise duty, service tax to fast-track GST rollout'

■ PMEAC for partial rollback of stimulus by hiking duties ■ Harps on cut in govt spendings to bring in fiscal discipline

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New Delhi, Feb 19: Just a week before the general Budget, Prime Minister Economic Advisory Council (PMEAC) has made a case for raising duties as part of stimulus rollback, and said excise duty and service tax could be unified for a faster introduction of goods and services tax (GST) at the central level.

"Partially, we need to rollback (stimulus) and if you partially roll back, there is one possibility that you unify both the rates (excise and service tax) at 10% or 12%," PMEAC member Govinda Rao said after the release of 'Review of the Economy 2009-10' report by the council's chairman C Rangarajan on Friday. Expressing concerns over the rising fiscal deficit, which is estimated at 6.8% this fiscal, the panel said it was crucial to cut down on spending to bring in fiscal discipline.

"There is a case for adjustment of duties. Adjustments are possible both on the revenue and expenditure front in order to bring down fiscal deficit," PMEAC chairman C Rangarajan said.

'There is a case for adjustment of duties. Adjustments are possible both on the revenue and expenditure side in order to bring down fiscal deficit'

PMEAC chairman C Rangarajan at the press conference to release the Review of the Economy 2009-10, in New Delhi on Friday



The panel suggested unifying the threshold and rate structure of cenvat and service tax to introduce GST at the Centre. "The unification may be done at a level in between the current rate and the previously existing general rate for excise duty," it said. Doling out stimulus to the industry in two installments since December 2008, the government reduced the excise duty

1% by rationalising expenditure and another half a percent from the revenue side.

Expanding the service tax base would also help in assessing the base of State GST and help to finalise the revenue neutral rate of State GST as well as the mechanism for compensating states for the loss of revenue, PMEAC advised. This will also provide a measure of comfort to the states in making a smooth transition to the GST regime, it added.

The panel said the government needs to do a "considerable preparatory work" before GST is launched, and suggested that the April 2010 deadline is not realistic. An important initiative for bringing in GST regime is putting in place a centralised agency to track inter-state transactions and function as a clearing house, the council added. "This will also help in the computerised information system for Central GST. This will ensure better tax compliance, prevent misuse of tax credit mechanism for input taxes and will enable a smoother mechanism for relieving the tax on exports," it added.

from 14% to 8% and service tax from 12% to 10%.

Suggesting expansion of service tax base, the council said if the government brings previously exempted items like railway fares and freights under the service tax net, it could add to the revenue by about 0.5% of gross domestic product. Rangarajan said the government could reduce the fiscal deficit during 2011-12 by

Rangarajan calls for PPP in agriculture research

fe Bureau

New Delhi, Feb 19: Barely days after environment minister Jairam Ramesh snubbed private participation in agricultural research and put an indefinite moratorium on the commercial release of country's first genetically modified food crop, Bt brinjal, the Prime Minister's Economic Advisory Council (PMEAC) has advocated public-private participation in extension of research findings to the farm level.

"The private sector has made significant contribution in evolving hybrid varieties of seeds for commercial crops," the PMEAC said in a review of the economy for 2009-10.

The council has also favoured a clear cut policy on genetically modified crops in light of success of Bt cotton and the benefits it has brought to farmers in Gujarat and Maharashtra, in a clear divergence of views expressed by Ramesh, who sought to make a clear distinction between Bt cotton and brinjal.

"After the success of Bt cotton and the benefits, it has brought to the farmers in Gujarat and Maharashtra, it is imperative that the government must have a clear policy on Genetically Modified (GM) crops," the PMEAC said,

adding that the regulatory framework should clearly assess performance in the field and the impact on environmental and food safety issues and bring the results into the public domain at the shortest possible time.

The council added that in the extension of research findings to farm level, there is a large scope for public-private partnership (PPP), as the public extension system has virtually collapsed. The private sector is especially strong in IT-enabled extension services.

Ruing that no major breakthrough has come in agricultural research since the 'Green Revolution,' the PMEAC said that inadequate resource allocation, lacunae in content and organization of research, inefficiencies in extension activities and inadequate risk mitigation strategies for the farmer.

The council also called for increasing the allocation to agricultural research to 1% of the GDP from the current level of 0.7% as recommended by the Eleventh Plan. "Agri research has to be more focused in terms of the crops as well as the regions, soil cards should be provided to growers and the research should also focus on improving the quality of seeds, particularly of cereals," the council said.