

What seemed an oddity in the otherwise glum atmosphere was an unbelievable 46.5% rise in merchandise exports in June to \$29.21 billion. This defied trade experts' outlook that uncertainties in the US and Europe might have already had an adverse impact on exports. But commerce secretary Rahul Khullar cautioned that the situation was unlikely to remain sanguine for long, as the developments in country's two largest export markets — the US and EU — were 'far from cheerful.'

The PMEAC confirmed these fears. "The recovery process in the US and EU has run into distinct and separate difficulties... It appears unlikely that there will be at any time in near future a clear-cut solution for the enormous strains on the management of the European currency union," it said. Agencies reported that Republican and Democratic lawmakers in the US were expected to vote on Monday on a White House-backed deal to raise the US borrowing limit and avert an unprecedented debt default. The Democratic-led Senate is expected to pass the deal, which raises the \$14.3 trillion debt ceiling and cuts about \$2.4 trillion from the deficit over the next decade, it said.

In its revised economic outlook, the PMEAC cautioned that inflation might stay high in the coming months before some relief becomes visible in the last quarter of the fiscal. The wholesale price inflation which stood at 9.44% in June is expected to ease to 6.5% in March 2012, the council said, adding that the RBI will have to continue with its "tight monetary policy stance for quite some time."

The price rationalisation process of automotive fuel and other subsidised petroleum products is still to be completed and this will impact price levels in the coming months, the council said. It added that headline WPI inflation rate will continue to be at 9% or higher in Ju-

## PM's panel...

ly-October 2011. "There will be some relief starting from November, but even in December, the headline numbers may remain high," it said.

In its first quarter review, the RBI had revised the baseline projection of WPI inflation for March 2012 upwards to 7% from 6% earlier. The central bank had cited inflationary pressures becoming "very strong, notwithstanding signs of moderation of economic activity" for the revised inflation forecast.

Significantly, the PMEAC suggested that fuel prices may have to be raised further if global crude oil price continues to remain at high levels. "The task to cut down fiscal deficit is difficult as subsidy provided for fuel may not necessarily be enough. The government has also sacrificed some revenue. But subsidy can be maintained at budgeted levels if prices are adjusted to international crude oil prices," council chairman C Rangarajan told reporters after the release of the revised outlook.

The Indian basket of crude oil price had been at an average \$113 a barrel in the first quarter of the fiscal. The budget has pegged the fiscal deficit for the current fiscal at 4.7%.

The Council said that the eurozone crisis, high global commodity prices and the volatility in financial markets have forced the think tank to lower its growth forecast. As per the panel's forecast, agriculture, which recorded a spectacular rebound of 6.6% growth in 2010-11, will grow at 3% this fiscal, industry which expanded at 7.9% last fiscal, will grow at 7.1% this year; while services sector, which grew at 9.4% last fiscal, will grow at 10% this fiscal.

"The report's projection relating to services sector growth (10% in 2011-12)

seems to be fairly high. Our projection for the services sector growth is 7-7.5% in the current fiscal," said Saugata Bhattacharya, senior vice-president & chief economist, Axis Bank.

One disturbing trend the panel noticed was the significant weakening of gross domestic fixed capital formation, which was at a low of 29.5% last fiscal. Political instability, global economic slowdown, and excessive government debt affected the investment rate.

"It is important to push through the reform agenda and generate conditions to increase the fixed investment rate to 33% plus. This is imperative to achieve a 9%-plus economic growth," Rangarajan said. Rangarajan also said the task before the government to manage its finances is uphill. "In the short term, the challenge in the case of the Centre is rising crude oil prices, which are creating an upward pressure on the subsidy bill, while lower taxes on crude and diesel are impacting revenues."

The PMEAC recommended that the government should, therefore, undertake expenditure reforms and step up revenue collection. This is particularly important considering that new social sector schemes such as the one aimed at ensuring food security, are set to enhance government spending. Introduction of the Direct Taxes Code is good, but the real revenue gain will come from the introduction of the proposed goods and services tax (GST), the panel said. The panel also noted that it is important to encourage foreign investment flows to contain current account deficit.

As for PMI, forward-looking indicators suggest the fall is not yet over: The ratio of new orders to the stock of finished goods moderated to 1.06 in July from 1.19 in June, its lowest in 27 months, signalling that manufacturing activity will likely remain lacklustre in the coming months.