INFLATION WILL CONTINUE TO BE THREAT IN 2011; GOVERNMENT MUST REMAIN VIGILANTABOUT FISCAL SITUATION: FICCI ECONOMIC OUTLOOK SURVEY

New Delhi, January 24, 2011. The fiscal situation of the central government in 2011 is expected to remain stable; however, reducing the fiscal deficit to projected levels in 2011-12 and 2012-13 will pose a challenge for the government. The underlying reason is that expenditure is likely to rise steeply on account of rising crude prices and implementation of the proposed National Food Security Act. At the same time, windfall gains from the auction of 3G/BWA will have dried up. Astute policies to manage the fiscal situation will emerge as a priority for the country in the next two years. This is one of the key findings brought out in the latest edition of **FICCI's Economic Outlook Survey.**

The Economic Outlook Survey was based on a survey of a panel of economists. The Survey posits that in 2010-11 the central government fiscal deficit will remain under 5.5 percent of GDP. Large resources raised by the government from 3G/BWA auction, proceeds from disinvestment, better tax collections, and decontrol of petrol prices which alleviated the burden of subsidies are the main factors cited for this expected improvement in the fiscal situation.

FICCI warns that if the government wishes to maintain fiscal discipline in the coming years it must carry forward the tax reforms agenda as well as complete the reforms initiated in pricing of petroleum products.

The survey was conducted between December 29, 2010 and January 18, 2011. A total of 11 economists participated in the survey and shared their views on the country's fiscal situation, inflation trends and the steps the government can take to quell inflationary pressures. The economists also provided forecasts for select key macro variables.

FICCI's Economic Outlook Survey maintains that inflation will remain a cause for concern throughout 2011. The economists point out that a structural element – rising food prices on account of continuously increasing food demand - has been built into inflation and emphasize the need to adopt effective supply side measures to deal with this situation.

The Survey draws on the importance of enhancing overall agriculture production and agri-productivity levels to combat inflation and states that while this should be the overarching goal, it should be supplemented by certain other measures that improve distribution of and access to food grains and horticulture products throughout the country.

Other measures suggested by the economists are: 1) opening up of more procurement and distribution centres for food grains and horticulture products closer to large consumption centres; 2) allowing and encouraging farmers to deal directly with such procurement and distributions centres; and 3) promoting greater investment in agri infrastructure in the country particularly setting up of cold storages with the active intervention of the private sector; and 4) increased expenditure by state governments on irrigation, power and rural connectivity as this would enhance overall farm sector productivity.

While the above measures are of a longer term nature, in the immediate future the government must crack down on hoarders and black marketeers as this would increase food supplies. Economists have also suggested that the central government must work with the states to ensure effective implementation of the amended APMC act. Permitting farmers to sell their produce directly to private buyers by itself can reduce inflationary pressures as this would cut down on intermediaries and associated costs.

In addition to the above measures the Survey highlights the role that the Reserve Bank of India (RBI) can play by the discrete use of monetary policy. A key message of the Economic Outlook Survey is that the nation should be prepared for another 25 basis points hike in both the Repo and Reverse Repo rate in the forthcoming monetary policy review. Some of the factors that are likely to play a role and abet RBI to further tighten rates are: 1) the risk of a possible spillover of higher international commodity prices and firmed up global food prices on domestic inflation; 2) continuous passage of higher crude prices to domestic consumers by the oil marketing companies and 3) rising domestic commodity prices and emerging supply constraints in several sectors that could drive up inflation in non food items, such as manufacturing.

While projecting the likely policy moves by RBI, the participating economists pointed out that the subsequent increase in cost of capital could slow down the pace of growth in the manufacturing and industrial sectors. The Survey highlights that monetary policy may not be a very effective tool when dealing with inflation that is largely being driven by supply side factors.

Below are some highlights of the growth forecasts in different sectors of the economy:

Annual Forecast (2010-11)

- Agriculture and allied activities: 4.4 per cent
- Services: 9.6 per cent
- IIP: 8.7 per cent
- USD/ INR exchange rate (end- March 2011): Rs. 44.5/USD
- GDP: 8.7 per cent (Q3, 2010-11) and 8.2 per cent (Q4, 2010-11)
- Industry: 7.3 per cent (Q3, 2010-11) and 6.5 per cent (Q4, 2010-11)
- IIP: 6.5 per cent (Q3, 2010-11) and 6.1 per cent (Q4, 2010-11)
- USD/INR exchange rate (Q4, 2010-11): Rs. 44.5/USD

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