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Maintaining 9.5% growth difficult: NCAER

The days of the Sensex at 20,000 and GDP growth of 9.5% may not come back unless the global financial environment changes, says Suman K Bery of the National Council of Applied Economic Research

Rahul Sharma

New Delhi: *Mint* correspondent Rahul Sharma recently met economist and Director-General of the National Council of Applied Economic Research (NCAER), Mr. Suman K. Bery. Here are some responses from the interaction.

Growth rate expectations

When we came out with our October forecast we were still talking about 7.6% growth rate. Two things have happened since then. The global situation has worsened but there has been considerable easing in domestic policy. It's really a question of how these two offset each other and what the timing is. Our own judgement at the moment is that probably for liquidity reasons and to some extent for expectation reasons, private investment will be affected this year. So we would probably shave off growth of a percentage point from that 7.6% for FY 2008-09. For FY 2009-10, the international organizations are coming with their forecast of 5.5% etc. Our initial judgment is not as negative as that. We see most of the hit really being now and then recovery in investment thereafter. Much will depend actually on agriculture as well. This year we saw good growth rate in agriculture. If we continue to have good agriculture growth, not only is that good for the output but also good for sustaining consumption. So, if you have fiscal stimulus, which we have done, consumption stays strong, then really it's a horse race between private investment on one hand and the decline in exports on the other hand. So medium term we are still willing to see around 7% or may be more for the next year.

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Berry_Bytes_MINT_TV.flv 3ab7a822-cf5d-11dd-bfcf-000b5dabf636.flv **Should there be more fiscal or monetary measures to counter the slowdown?**

Priority needs to be monetary fiscal, as has been pointed out by others as well. We have administered major fiscal stimulus over the year for political reasons etc. It's true we have more fiscal space because the oil prices have gone down and some of the subsidies we were fearing would not be there. But at the end of the day what has been impressive about India is the boom in private corporate investment and it requires a bit of judgment whether the fiscal stimulus crowds out or crowds in private investment. I think that there

are some risks if you overdo it. One, you end up with debt. That's bad for private investment in longer run and even in the short run because we are in a moment right now where everybody wants government debt as it is a safe asset. But once a longer view is taken then you'll be back with the debt and that debt has to be placed and it'll be competing with corporate debt and corporate credit. The banks will find it very comfortable to take on more debt instead of going out and lending. I am inclined to be slightly more cautious on the fiscal side.

The FRBM targets have been missed and the government's finances are in a mess...

I'm not one who insists on the Fiscal Responsibility and Budget Management (FRBM) targets at this time. Most economists would argue that FRBM targets ought to have been calibrated to the cycle and they weren't. I think had they been calibrated to the cycle they shouldn't have been more stiff on the upswing. But then it would have been ridiculous to have them bite at this moment. We do need some kind of fiscal anchor. What I am arguing is that rather than worry about inflation targeting or fiscal anchor we should manage our economy so that our current account deficit does not contract and also it does not become threatening. It shouldn't contract because we have a contribution to make to the global demand but doesn't become threatening because our Balance of Payment (BoP) is a little wobbly and we do not want people to panic.

Outlook for next year...

Inflation will certainly be heading down, interest rate would be heading down for the foreseeable future. I do see growth dipping, as being a reasonable short growth recession and then I think prospects are reasonable for getting back. But I think one must realize there were certain elements we came from that were not sustainable, going back to a Sensex of 20, 000 and a 9.5% growth. That's going to be difficult in the world environment. We have never enjoyed that before. So I see this as a kind of step adjustment and then we'll kind of get back to our growth path.

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