

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2073

ANSWERED ON:12.08.2011

INFLATION

Mani Shri Jose K.

Will the Minister of FINANCE be pleased to state:

(a) whether the economic fundamentals to attain 9 per cent GDP growth by 2011 are still intact despite the prevailing spectre of high inflation and a possible slowdown in the economy;

(b) if so, whether the persistently high inflation and subsequent interest rate hikes by the Reserve Bank of India (RBI) risks a possible slowdown;

(c) if so, whether the burgeoning fiscal deficit could threaten the economy, curtailing the growth rate well below 8.5 per cent;

(d) if so, whether the recently constituted Financial Stability and Development Council has assessed the prospects of attaining the projected 9 per cent growth rate; and

(e) if so, the findings thereof and the reaction of the Government thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a): Yes, sir.

(b): The Reserve Bank increased the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points from 7.5 per cent to 8.0 per cent in its First Quarter Review of Monetary policy released on July 26, 2011. This decision was based on the assessment of the prevailing macroeconomic conditions. According to the projections made by the Reserve Bank, inflation measured by the whole sale price index is expected to moderate to 7.0 per cent by March 2012 from the present 9.4 per cent. While some slowing of growth in the short run is unavoidable to contain inflationary pressures, in the medium term it will be beneficial for growth.

(c): As a proportion of the GDP, fiscal deficit of the centre is budgeted to come down to 4.6 per cent in 2011-12 from levels of 6.0 per cent, 6.4 per cent and 4.7 per cent in 2008-09, 2009-10 and 2010-11 respectively. This fiscal consolidation process envisaged by the Medium Term Fiscal Policy Statement 2011-12 would be supportive of growth.

(d): Financial Stability and Development Council had, in its 3rd meeting held on 27.07.2011, discussed the State of the Indian Economy.

(e): During the meeting, the general consensus was that while inflation may not be conducive to short-term economic growth, India's medium to long-term economic growth prospects remains bright. It was noted by the Council that investment as a percentage of GDP is encouraging and this should help growth prospects of the nation. The Council also noted that the provisional tax collections figures for the first quarter of current fiscal are encouraging and they give reason for optimism on growth and meeting the fiscal targets. The Government is broadly in agreement with these views.