FICCI'S Economic Outlook Survey
Estimates GDP Growth at 6% in FY14 and 5.0% in Q1 FY14

NEW DELHI, 20 July 2013: The latest round of FICCI's Economic Outlook Survey reveals a moderately optimistic outlook for FY14. The economists expect GDP for FY14 to be around 6.0%, which is in sync with FICCI estimates. Near term outlook for the Q1 2013-14 is also anticipated to improve as compared to previous quarter data. The Q1 FY14 GDP growth forecast is 5.0%.

The respondents indicated that the position with regard to inflation will remain favorable going ahead as price levels are expected to remain subdued. Currency volatility could have an adverse impact though.

Some grave concerns remain and these would have to be handled promptly to get economy back on growth trajectory. Passive industrial performance, elevated current account deficit and a depreciating rupee might dampen growth prospects if adequate supportive action is not taken.

However, the performance of the industrial sector is expected to see some uptick and a somewhat better performance than last year is foreseen. Respondents expect IIP to grow at a moderately faster pace of 3.3% in FY14 vis-à-vis 1.1% growth witnessed last year.

Further, the survey results indicate that a cut in key policy rate would be crucial for getting growth back on track. A majority of the participating economists anticipated a 50-75 bps cut in repo rate by end of this fiscal year. The respondents would like to see repo rate by end of this fiscal at 6.50-6.75%.

The participants said a fall in repo rate will give elbow room for banks to reduce deposits as well as lending rates. It was pointed out that though 125 bps worth of rate cuts has already taken place since April 2012 but lending rates have not come down commensurately. It is imperative to reinforce monetary transmission.

Further, on the divergence between WPI and CPI, it was felt that this could be bridged only by creating efficient supply chains and monetary policy has little do with it.

On the current account deficit (CAD), it was reported that depreciating rupee will add to the burden and even out steps taken by the government to curb gold import demand. The CAD to GDP ratio would remain above the comfort zone, though it is likely to be slightly better than 4.8% figure in FY13.

For Q1 of FY14, CAD to GDP ratio is projected at 5.0% and this is likely to temper in the second half of the fiscal. The estimated figure for FY14 is 4.5%. Financing CAD will be the real challenge this year as global liquidity will be under pressure.
The Rupee/USD exchange rate is expected to touch 56 by end of March 2014. The economists were of the view that RBI has taken intervention measures off late and these are expected to

check rupee volatility to some extent. On the possibility of issuance of Sovereign Bonds for the purpose, participant economists have mentioned need for deliberation on time period and the rate of these bonds.

Other measures suggested by respondents include NRI Bonds, off shore rupee bonds and tailor made attractive schemes to raise FDI in real estate as well as infrastructure sectors.

The participants were also asked to share their view on food security bill. A majority of respondents cited that the proposed Food Security Bill will impose an additional pressure on the fiscal situation and would make fiscal sustainability plan of the country difficult to achieve. As a result, the expected fiscal deficit to GDP ratio is 5.0% for 2013-14, which is slightly above the budgeted 4.8%.

They are also of the view that allocating food through public distribution system is plagued with inefficiencies and ensuring efficiency in the delivery system is required.

On the Land Acquisition Bill it was said that acquisition of land for economic activity has been a major constraint for investment as it involves a number of complex issues. As per industry estimates, the new bill would likely increase the land acquisition cost by 3-3.5 times, severely affecting the industrial project viability and hurting the competitiveness of Indian manufacturing sector.

Weblink: http://ficci.com/SEDocument/20253/FICCI-EOS_Q1_FY14_v1.pdf

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