

FICCI Survey on Economic Outlook

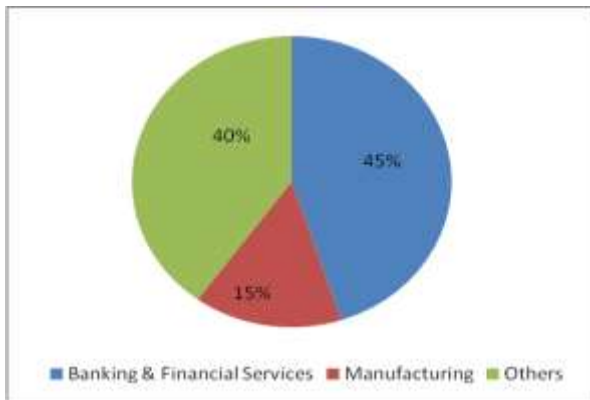
Background

Amidst the global crisis and uncertainty that almost all countries are facing, the fear of a slowdown in growth has gripped India as well. This along with an increasing inflation rate, deteriorating current account deficit (CAD) and a declining rupee has added to the fear, hence, lowering of the confidence in the economy.

It is against the above backdrop that FICCI carried out the present economic outlook survey. This survey is to understand the perception of GDP growth, CAD, Rupee dollar exchange rate and the fiscal deficit in the current and next fiscal.

Survey Profile

For the purpose of this survey a short questionnaire was circulated among member associations of FICCI and amongst individual companies during the month of Dec -January 2012. The survey drew responses from different sectors with most of the responses coming from the banking and financial services sector.



Banking & Financial Services along with manufacturing together accounted for more than half of the total responses.

The respondents were asked to share their views on GDP growth rate, wholesale price index, fiscal deficit, current account deficit, exchange rate for the fiscal years 2011-12 and also 2012-13.

Survey Findings

The fiscal year 2011-12 has the possibility of posting a GDP growth rate of 6.9%

A simple analysis of the survey results shows that 33% of the respondents felt that the economy would grow between 6.5-6.9% in FY 2011-12 with the remaining 67% feel that the growth rate would touch 7%. (refer to the table below). There were no respondents who believed that the economy would log in a growth rate higher than 7.5% in this fiscal.

However, in 2012-13, there are 2 sets of views. While one set of views subscribe to a more optimistic view (35% of the respondents feel that the GDP growth rate to be higher than or equal to 7.5%), almost an equal %age (at 40%) felt that the growth would stutter below 7%.

	2011-12	2012-13
6.5-6.99	33%	40%
7-7.49	67%	25%
>=7.5	0%	35%

Based on the responses, we also estimated the weighted average of the projected GDP growth for the current and the next fiscal (the weights were the responses /likelihood of occurrence in different buckets).

The results show (see table below) GDP growth in current fiscal is 6.9%, while in next fiscal it should be marginally higher at 7.1%.

	2011-12	2012-13
Weighted Average (based on likelihood of occurrence / responses of GDP growth in different intervals)	GDP growth forecast 6.9%	GDP growth forecast 7.1%

...leading to form conjectures as to what might lead to this increase in the growth rate

A quick glance at the respondents' view on the WPI inflation rate shows that more than 50% of the respondents feel that the inflation rate would

be around 7-7.5% in end of March 2012. On the other hand, only 24% of the respondents feel that inflation would still stick around 7.5% in the next fiscal year.

The results show (see table below WPI in current fiscal by end of Mar'12 should be around 7%, while in next fiscal it should decline to 6.5%.

	2011-12	2012-13
Weighted Average (based on likelihood of occurrence / responses for WPI in different intervals)	WPI forecast	WPI forecast
	7%	6.5%

We are staring at a fiscal slippage: fiscal consolidation to be slow in next fiscal

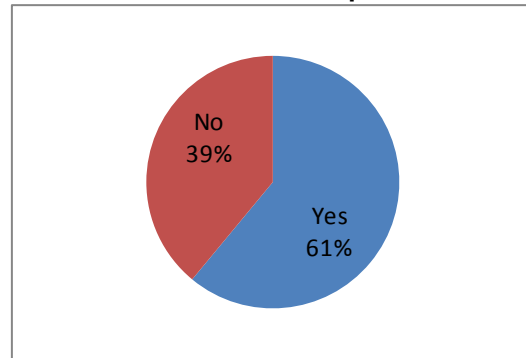
The slippage in fiscal in current may be more than 100 basis points vis-à-vis the budgeted fiscal deficit, going by the estimates. However, more importantly, the consensus fiscal deficit estimate in the next fiscal is 5.1%, indicating that the process of fiscal consolidation will be long and arduous and it may be difficult to plough it back to the levels witnessed prior to the crisis.

	2011-12	2012-13
Weighted Average (based on likelihood of occurrence / responses for Fiscal Deficit in different intervals)	FD forecast	FD forecast
	5.7%	5.1%

FOCUS: DETERIORATING CAD

There is now an increasing consensus that the recent decline in rupee value (the good news is that the rupee has ploughed back recently on the back of currency supportive measures by RBI and portfolio inflows in the first fortnight of 2012) is because of the huge Current Account Deficit (CAD). A majority of the respondents share this view (see graph below). In this context, it may be noted that India is only country with a CAD among Asian peers.

Do you believe widening CAD is the primary reason behind the fall in rupee value?

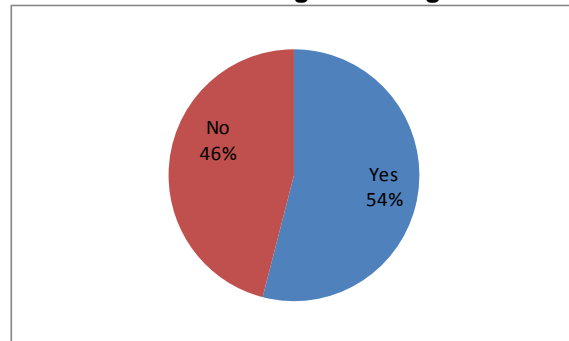


Interestingly, 39% of the respondents also believe that the decline in rupee value was the direct result of weak growth outlook, global risk aversion and subsequent decline in capital inflows.

It may be noted that, that the ability of the RBI to intervene in the foreign exchange market is constrained by the fact that (a) India's short-term debt is now nearly 44% of India's foreign exchange reserves in terms of residual maturity (b) The gap between India's external debt and foreign exchange reserves has narrowed down significantly, as opposed to Pre-Lehman days.

Even though the widening CAD is cited as one of the primary reasons for weakening rupee, a majority of the respondents (54%) believed that perhaps an earlier RBI indirect intervention in foreign exchange market (for example, through open-mouth and currency supportive measures) may have helped to pull back the rupee.

Do you believe RBI may have intervened a little earlier in the foreign exchange market?

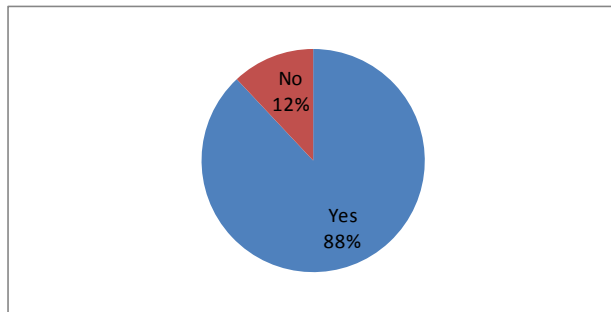


As far CAD forecast is concerned, the projection for the current fiscal is at 3.4%, while for the next fiscal it is at 3.1% The projected CAD for this fiscal is 2.6%.

	2011-12	2012-13
Weighted Average (based on likelihood of occurrence / responses for CAD in different intervals)	CAD forecast 3.4%	CAD forecast 3.1%

Interestingly, 88% of the respondents believed that in the event of continued decline in capital inflows, the Govt of India in co-ordination with RBI may look at some sort of bond issue like India Millennium Bonds, as it did during the Asian crisis.

Do you support the launch of a bond issue in the event of capital inflows declining in 2012?



However, the good news is that the exchange rate should continue to appreciate from current levels and settle at around 51 by the end of March 2012, and might settle at 48 by 2012-13.

Repo rate cut not likely before April 2012, limited window for CRR cut too

Notwithstanding the decline in inflation a majority of the respondents still believe that RBI may not go for cut in repo rate on Jan 24 monetary policy announcement. As far as CRR cut is concerned, the consensus is the RBI may continue to take recourse to OMO for any liquidity mismatch, even though greater no of respondents believe CRR cut may be a better option as compared to repo rate cut.