HIGHLIGHTS

- The latest round of FICCI's Economic Outlook Survey reveals the cautious optimism about the current state of affairs domestically. The forecasted weighted average GDP growth rate figure for FY14 is 6.7%, up from 6.5% in Oct'2012.

- The sentiment is robust owing to a predicted normal monsoon resulting in a pick-up in Agri-GDP, expectation of lowering of interest rates resulting in consumption-led push to the industrial output and also owing to the upbeat global mood, wherein the economists are increasingly bullish on US recovery, though there are increased fears and caution on the EU crisis front.

- The survey forecasts the average value of fiscal deficit for FY14 at close to 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 but we are on the right track.

- The inflation forecast for FY14 veers towards a consensus of ranging between 6.5-7%.

- The current account deficit is predicted to be not less than, on an average, 4% of GDP for FY14

- The surveyed economists expect a repo rate cut of 25-50 bps in the third quarter review of the Indian monetary policy scheduled for announcement on 29 January, 2013. Though the majority felt a reduction of 75bps to100bps through FY14 is likely. A quarter of total respondents expected a CRR rate cut of 25-50bps in TQR.

- The surveyed economists strongly believe that amongst the 4 conflicting Quadraliemma objectives haunting an emerging economy's central bank, financial stability is the most important policy objective, but this is closely followed by need for monetary autonomy for a central bank, particularly in the present Indian context.

- To the question of assigning priorities to varying objectives on the immediate government reform agenda, implementation of GST is on the highest priority, with DTC roll-out falling close. The National Food Security was accorded the last preference by nearly 80% of the respondents.

FICCI Economics and Research Division

Survey Profile

The FICCI Economic Outlook Survey round was conducted between the month of December 2012 and January 2013 and drew responses from Indian economists, about 20 in number, from different sectors with most of the responses coming from the banking and financial services sector.

Detailed Survey Findings

The latest FICCI Economic Outlook Survey indicates clear signs of hope and fear; hope that the eventual interest rate fall will trigger consumption-led recovery to the industrial production, which shall bail the Indian economy out of the present situation of the twin-deficit, and fear that the Euro crisis may play a spoilsport, even though there are positive signals from US economy in terms of improved employment data.

The fact that India today is more correlated with the global dynamics was well reflected in the responses of the surveyed economists.

India, as per the survey forecasts, should do better in the next fiscal as compared to the recent past. With an average GDP growth rate forecast of 6.7% for FY 14 there are clear indications of an economic revival going forward.

Though well on track towards the fiscal consolidation front, the surveyed economists do believe in some level of promises being delivered by getting the Fiscal Deficit (%GDP) target for FY14 to be around 5.1%.

There are mixed responses on the front of WPI inflation figures' expectations in the next fiscal.

In wake of oil prices and global demand uncertainties, adding to similar uncertainties home, the current account deficit is predicted to be no less than 4% in FY14.

When asked on their expectations from the third quarter review (TQR) of the monetary policy due to be announced on the 29 January'13, majority of economists said that they did not expect large "galloping" moves by the RBI but a cautioned move towards a near 75-100 bps reduction in the repo rate spread over the next financial year. Approximately 40% of the respondents expected a repo rate reduction of 25 to 50 bps in the TQR of FY13. Additionally, about a quarter of respondents who believed in the repo rate reduction forecast also expected a CRR reduction of 25-50 bps in this review.

On the government reforms' agenda, the respondents asked for an immediate roll-out of GST, followed by the implementation of DTC.

Economic Outlook :FY13-14

A simple analysis of the survey results shows that for FY14 most of the views subscribe to a growth rate not less than 6.5%. The picture largely is that of cautious optimism across FY13-FY14.

With the recent spate of economic reforms and expectations of fiscal prudence, the WPI inflation figures are expected to ease from an average of 7.4% in FY13 to 6.7% on average for FY 14.

Interestingly, the slippage in fiscal in FY13 may be 50 basis points (5.6% of GDP) 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.

Current account deficit (%GDP) figures show more than 4% for the next fiscal.

Prioritizing price stability

Is prioritizing price stability over economic growth justified?

The opinion regarding the current anti-inflationary stance by the RBI seems to be divided. Nearly 44% of the respondents believe that inflation control should be given precedence, but this is closely followed by the 39% responses which seem to disagree with the "prioritizing inflation"

However, there seems to be a growing consensus that "prioritizing" inflation although may have made good sense earlier, but is not expected to hold ground now, with the Government making a strong pitch for reforms (fiscal consolidation included)

Prioritizing the Quadraliemma objectives

***Monetary autonomy, financial integration, exchange rate flexibility, and financial stability* are the famous 4 Quadraliemma objectives for an economy. The respondents were asked to rank them on priority they accorded to them in accordance to their relevance for a central bank of an emerging economy.**

The opinion regarding this was not very different from what we would expect would be the case for the RBI today. The objective which was given the highest importance, as per our respondents, was "financial stability", and this was closely followed by the monetary autonomy objective.

However, the objective of *financial integration* was ranked the last.

Fall in velocity and consumption…..

In the Survey we asked the respondents to explain the reason for the observed fall in the two very important macroeconomic indicators for the Indian economy, namely: velocity of circulation of money and the propensity of consumption of the Indian economy.

As per the survey responses, erosion of savings and purchasing power of the Indian consumer owing to the ever increasing inflation rates, deceleration of the money supply topped by the slowing growth momentum together explain the downward trend in the two indicators.

Expectations from policy

The survey asked the Indian economists to share their expectations from the to-be-announced third quarter review of the monetary policy, particularly in terms of expectations they had of any upcoming changes in the repo rate and the CRR rate.

Approximately 40% of the respondents expected a repo rate reduction of 25 to 50 bps in the TQR of FY13. Additionally, about a quarter of respondents who believed in the repo reduction forecast also expected a CRR reduction of 25-50 bps in this review.

The perception is unanimous about "incremental" reduction in the repo rate through FY14, leading to a near 75-100 bps correction in the period. It was highlighted by the survey respondents that liquidity will need to be added more aggressively in the times to come; therefore around 16% of the respondents felt that there will be reduction in both CRR and the repo rate in the coming January 2013 review.

Prioritizing Indian government's reform agenda

In the Survey we asked the respondents to rate the reforms which needed immediate attention and implementation by the government.

Interestingly, 71% of the respondents assigned priority to adoption of Goods and services tax

(GST) on an immediate basis. This is closely followed by implementation of the Direct Tax Code (DTC) with nearly 65% assigning it the second rank.