FICCI's Economic Outlook Survey shows GDP Growth Estimate Scaled Down to 5% in FY14;

Rupee Seen to Hover Between 62-65 Range in the Near Term

Economists expect slowing economy to put pressure on banks as NPAs rise and more loans come up for restructuring

New Delhi, 0ctober 10, 2013: Results of FICCI's latest Economic Outlook Survey show that economic growth in the current year would be restrained and we should be prepared for another year of slow growth. The median forecast for GDP growth in 2013-14 by the participating economists stands at 5%. This is a downward revision from the 6.0% growth that was projected in the previous round of the FICCI Economic Outlook Survey. In fact, PMEAC also recently revised down its GDP growth estimate for 2013-14 to 5.3%.

According to majority of the participating economists, the overall economic situation in the country continues to remain weak. Though some positive developments like good monsoons, better performance of agricultural sector, improvement in exports and clearances granted to infrastructure projects make the case for recovery a little stronger, it will still take some more time to witness any firm signs of a turn around.

The survey results also indicate that inflation risks have resurfaced and the participating economists expect headline inflation rate to be around 6.0% by end March 2014. Elevated food prices and the sharp fall in the Rupee value continue to put pressure on prices.
Further, expectations with regard to performance of the industrial sector have also taken a hit. The participating economists expect Index of Industrial Production to grow by 1.7% in FY14; this is half of the 3.5% growth that was projected in the previous round of the survey.

On the external front, CAD to GDP ratio is expected to witness an improvement in the second half of the fiscal. This ratio is estimated at 4.5% for Q3 FY14 and at 4.0% for the year 2013-14. Taking a long term view of the situation, it will be important to look at both export and import side of the trade equation if CAD is to be brought under control, according to many economists who contributed to this survey.

To rationalize the gold demand, economists felt that Indian investors should be given alternatives of gold as a hedge against inflation. New and stable financial products that are lucrative enough for the households to shift their savings away from gold should be provided. Further, government should come up with more financial products like Inflation Indexed Bonds (IIBs), Gold Accumulation Plan (GAP), Gold ETFs to normalise the demand for gold.

With regard to outlook on the exchange rate, participating economists felt that Rupee is expected to remain weak in immediate future before recovering modestly. It is expected to remain in the range of 62-65 against the US dollar in near term. The expectation of reduced foreign capital inflows and still high (though moderating) current account deficit has shaped this view on the Rupee movement.

The participating economists were also asked about their outlook on the provisioning requirements for non-performing assets in the banking sector in the current year. And the results show that a majority of the participating economists feel that provisioning requirement of NPAs is likely to increase by end of FY14. The participants were of the view that if the current weak economic situation persists it will have a significant impact on the asset quality of the banks which will substantially increase the provisioning requirement in the current financial year. It was also indicated that besides bad loans, restructured advances also pose a risk to the banking system.

The respondents indicated that non-performing assets would go up across a wide array of sectors, which include iron & steel, textiles, power generation, automobiles and ancillaries, telecommunication, aviation, construction, real estate, infrastructure, steel and cement.

The recent announcements on liberalising the FDI policy framework in various sectors have been welcomed by the participating economists. However, majority of the respondents felt that these announcements will have a little impact in near term. It was said that these could have a positive impact in the medium to long term provided the implementation of these policies on the ground happens smoothly and in the manner intended.

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