

## VII. Macroeconomic Outlook

Various surveys indicate that business confidence has started to rebuild, though it still stays weak. Growth in 2013-14 is likely to be somewhat weaker than the earlier projection as signs of pick up are yet to emerge. Improved confidence and actions to support infrastructure projects could translate into a slow-paced recovery in 2014-15 provided these actions are sustained. Inflation has exhibited marked moderation in December and may soften further in Q4 but upside risks remain for 2014-15. The persistence in high inflation continues to pose a challenge to growth over the medium-term, even as its fallout in terms of a wide CAD, on the back of lower savings, has been contained through policy responses over Q3 of 2013-14.

### Surveys show business confidence has improved

VII.1 Business confidence has turned around as indicated by a sharp q-o-q growth in various business indices (Table VII.1). These surveys indicate that better investment prospects, improving sales, new orders and improved export performance have contributed to rising optimism. However, weak demand, political uncertainty and high inflation appear to be among the factors restraining growing optimism. The seasonally adjusted HSBC Markit Purchasing Managers' Index

(PMI) for services continued to be in contraction mode in December 2013, while that for manufacturing showed marginal expansion in activity.

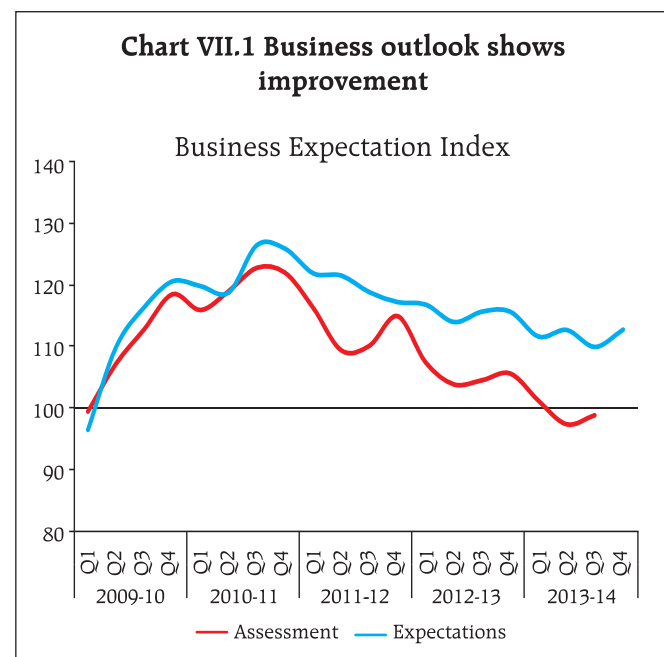
### Industrial Outlook Survey reflects marginal recovery in business outlook

VII.2 The Reserve Bank's 64th round of the Industrial Outlook Survey (<http://www.rbi.org.in/IOS64>) conducted during November-December 2013, showed that in terms of assessment, the Business Expectation Index (BEI) improved marginally for Q3 of 2013-14, but still remained below the threshold level of 100 separating contraction from expansion. Based on expectations, the index showed an improvement in Q4 of 2013-14 over the previous quarter (Chart VII.1).

VII.3 An analysis of the net responses for various components of demand conditions shows marginal improvement in sentiments regarding production, order books, capacity utilisation, exports and imports for Q3 of 2013-14. The demand outlook for Q4 of 2013-14 shows improved optimism as well. Perceptions on overall financial situation were also better for Q4 of 2013-14 (Table VII.2).

**Table VII.1: Expectations surveys show improvement**  
*Business expectations surveys*

Period Index	NCAER- Business Confidence Index Jan 2014	FICCI Overall Business Confidence Index Q2:2013-14	Dun & Bradstreet Business Optimism Index Q1:2014	CII Business Confidence Index Q3:2013-14
1	2	3	4	5
Current level of the Index	122.3	59.3	157.2	54.9
Index as per previous survey	100.4	49.0	134.9	45.7
Index level one year back	119.7	62.4	146.8	49.9
% change (q-on-q) sequential	21.8	21.0	16.6	20.1
% change (y-on-y)	2.2	-5.0	7.1	10.0



**Table VII.2 Business confidence rises**  
*Reserve Bank's Industrial Outlook Survey*

Parameter	Optimistic Response	Net Response <sup>#</sup>										
		October-December		January-March		April-June		July-September		October-December		January-March
		2012		2013		2013		2013		2013		2014
		E	A	E	A	E	A	E	A	E	A	E
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Overall Business Situation	Better	32.2	17.2	37.5	18.4	29.6	12.8	30.0	7.4	25.7	9.6	31.5
2. Overall Financial Situation	Better	25.8	12.7	27.0	11.8	21.9	9.5	24.1	1.8	17.3	6.4	23.5
3. Production	Increase	35.7	18.6	37.1	18.6	24.4	9.8	28.5	10.8	28.9	11.5	32.1
4. Order Books	Increase	30.3	12.9	29.8	14.0	22.3	9.7	25.3	5.5	21.0	7.0	27.6
5. Capacity Utilisation	Increase	20.0	5.7	21.7	7.8	11.7	2.3	15.9	0.0	14.2	1.3	16.3
6. Exports	Increase	18.0	9.3	18.4	10.8	16.7	8.6	18.6	7.8	16.5	10.9	19.5
7. Imports	Increase	14.0	8.8	13.5	8.3	11.9	8.0	11.2	3.6	7.7	7.0	13.4
8. Employment in the Company	Increase	13.3	6.7	10.3	5.5	8.0	3.2	7.7	-0.2	4.5	0.4	7.0
9. Availability of Finance (from internal accruals)*	Improve				12.1	18.7	10.8	17.2	3.1	14.0	7.6	18.4
10. Availability of Finance (from banks and other sources)*	Improve				13.4	15.3	12.1	15.2	3.9	12.0	8.7	14.2
11. Availability of Finance (from overseas)*	Improve				3.4	6.3	5.0	7.0	-0.1	2.9	3.9	8.1
12. Cost of External Finance	Decrease	-20.6	-24.4	-18.1	-17.6	-14.3	-14.5	-12.4	-32.7	-28.3	-32.0	-26.7
13. Cost of Raw Material	Decrease	-48.6	-50.7	-45.0	-53.5	-45.6	-49.9	-43.4	-62.2	-51.5	-55.3	-46.3
14. Selling Price	Increase	17.3	10.2	15.8	9.1	14.9	7.3	12.1	11.3	13.9	7.8	15.1
15. Profit Margin	Increase	-1.3	-16.7	-2.0	-15.3	-4.9	-18.4	-3.7	-24.1	-9.3	-22.4	-4.0

<sup>#</sup>: Net response is the percentage difference between the optimistic (positive) and pessimistic (negative) responses; responses indicating status quo (no change) are not reckoned. Higher 'net response' indicates higher level of optimism and vice versa.

E: Expectations. A: Assessment.

\*: These questions are newly added by splitting the question on Availability of Finance (both internal and external sources) in the 61st Round (Jan-March 2013).

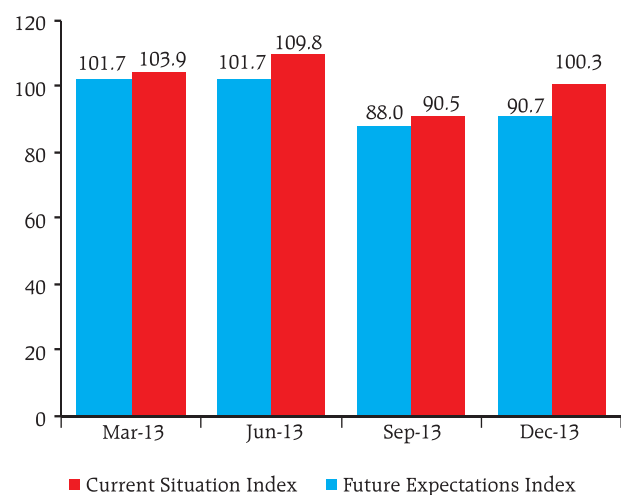
### **Consumer confidence shows signs of improvement**

VII.4 The Reserve Bank's 15th round of the Consumer Confidence Survey (<http://www.rbi.org.in/CCS15>) conducted in December 2013 shows improvement in consumer confidence as indicated by the Current Situation Index (CSI) and Future Expectations Index (FEI) (Chart VII.2).

### **Downward revision in India's growth projections by external agencies**

VII.5 Various external agencies have reduced India's growth projections further. However, the World Bank and the IMF revised it moderately upwards (Table VII.3). The IMF projects India's 2014-15 growth at 5.4 per cent, while the World Bank places its forecast at 6.2 per cent.

**Chart VII.2: Consumer confidence goes up**  
Current Situation Index and Future Expectations Index



**Table VII.3: Growth projections revised downwards  
Agencies' projections for 2013-14**

Agency	Latest Projection		Earlier Projection	
	GDP Growth (Per cent)	Month/Year	GDP Growth (Per cent)	Month/Year
1	2	3	4	5
Finance Ministry	5.0-5.5	Sept. 2013	6.1-6.7	Feb. 2013
PMEAC	5.3	Sept. 2013	6.4	Apr. 2013
IMF*	4.6	Jan. 2014	4.3	Oct. 2013
World Bank	4.8	Jan. 2014	4.7	Oct. 2013
OECD**	3.4	Nov. 2013	5.3	May. 2013
ADB	4.7	Dec. 2013	4.7	Oct. 2013
NCAER	4.8-5.3	Nov. 2013	5.9	Aug. 2013

\*: IMF's projection in factor cost corresponding to 4.4 per cent in market prices.  
\*\*: GDP at market prices.

**Survey shows professional forecasters expect modest recovery in 2014-15<sup>1</sup>**

VII.6 The Reserve Bank's 26th round of the Survey of Professional Forecasters outside the Reserve Bank (<http://www.rbi.org.in/SPF26>) indicated growth bottoming out in 2013-14, and a modest recovery in

2014-15 with growth pegged at 5.6 per cent. CPI inflation is expected to exhibit persistence and decline slowly averaging 8.9 in Q2 of 2014-15 and average 8.5 per cent for the full year. Growth expectations for 2013-14 have remained unchanged, while expected WPI inflation is higher. There has been a significant downward revision in the forecast for CAD for 2013-14 to 2.7 per cent from 3.5 per cent forecasted earlier (Table VII.4).

**Households' near term inflation expectations go down marginally**

VII.7 The latest round (October-December 2013) of Inflation Expectations Survey of Households (IESH Round 34) (<http://www.rbi.org.in/IESH34>) indicates that the perception of three-month ahead median inflation expectations of households moved down whereas that for the one-year ahead period, remained at the same level as compared to the previous quarter (Chart VII.3).

**Table VII.4: Forecasters outside the Reserve Bank expect modest growth recovery and inflation persistence in 2014-15  
Median forecasts of select macroeconomic indicators by professional forecasters 2013-14 and 2014-15**

	Actual 2012-13	Annual forecasts				Quarterly Forecast									
		2013-14		2014-15		2013-14				2014-15					
						Q3		Q4		Q1		Q2		Q3	
		E	L	E	L	E	L	E	L	E	L	E	L	E	L
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Real GDP growth rate at factor cost (%)	5.0	4.8	4.8	5.8	5.6	5.0	5.0	5.0	5.2	5.6	5.3	5.8	5.6	-	5.6
a. Agriculture and Allied Activities	1.9	3.7	4.1	3.0	2.9	4.1	5.0	4.4	4.8	3.0	3.4	3.0	3.0	-	3.0
b. Industry	1.2	1.3	1.5	3.8	3.6	1.4	1.5	2.1	2.0	3.4	3.0	3.3	3.2	-	3.7
c. Services	6.8	6.2	6.2	7.0	7.0	6.5	6.2	6.5	6.3	6.9	6.5	7.0	6.8	-	7.2
2. Gross Domestic Saving (% of GDP at current market price)	-	30.0	30.5	31.0	31.0	-	-	-	-	-	-	-	-	-	-
3. Average WPI-Inflation	7.4	6.0	6.4	5.5	6.0	6.5	-	6.5	6.6	6.5	6.8	5.8	6.0	-	5.5
4. Average CPI-Combined Inflation*	10.2	-	9.9	-	8.5	-	-	-	9.7	-	9.5	-	8.9	-	8.0
5. Exchange Rate (₹/US\$ end period)	54.4	-	-	-	-	62.0	-	60.8	61.9	60.9	61.5	61.0	61.5	-	61.0
6. YTM of Central Govt. Securities with term to maturity of 10-years (%-end period)	8.0	8.3	8.5	7.9	8.1	-	-	-	-	-	-	-	-	-	-
7. Merchandise Export (growth rate in %)!	-1.0	3.8	6.3	8.9	8.9	-	-	-	-	-	-	-	-	-	-
8. Merchandise Import (growth rate in %)!	0.5	-1.9	-3.7	6.4	7.6	-	-	-	-	-	-	-	-	-	-
9. Trade Balance (US\$ billion)	-195.7	-	-	-	-	-45.6	-36.3	-42.5	-36.9	-46.0	-41.7	-47.6	-38.3	-	-41.6
10. Current Account Deficit (% of GDP)	4.8	3.5	2.7	3.3	2.8	-	-	-	-	-	-	-	-	-	-
11. Central Government Fiscal Deficit (% of GDP)	4.9	5.0	5.0	4.7	4.7	-	-	-	-	-	-	-	-	-	-

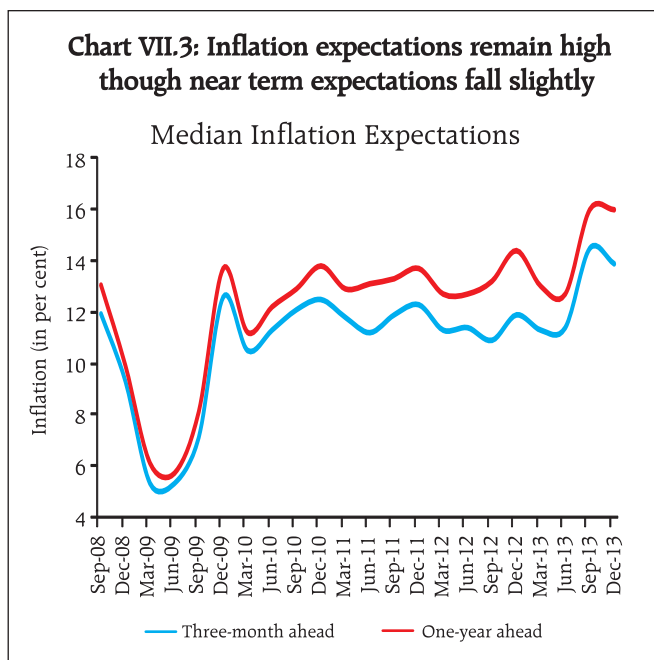
E: Previous Round Projection. L: Latest Round Projection. -: Not Available. !: US\$ on BoP basis.

\*: The forecast for CPI-Combined has been incorporated from 26th round only i.e. the current round.

Note: The latest round refers to 26th round for the quarter ended December 2013, while previous round refers to 25th round for the quarter ended September 2013.

Source: Survey of Professional Forecasters, Third Quarter 2013-14.

<sup>1</sup> The forecasts reflect the views of professional forecasters and not of the Reserve Bank.



**Growth Outlook: Economy poised for gradual recovery in 2014-15**

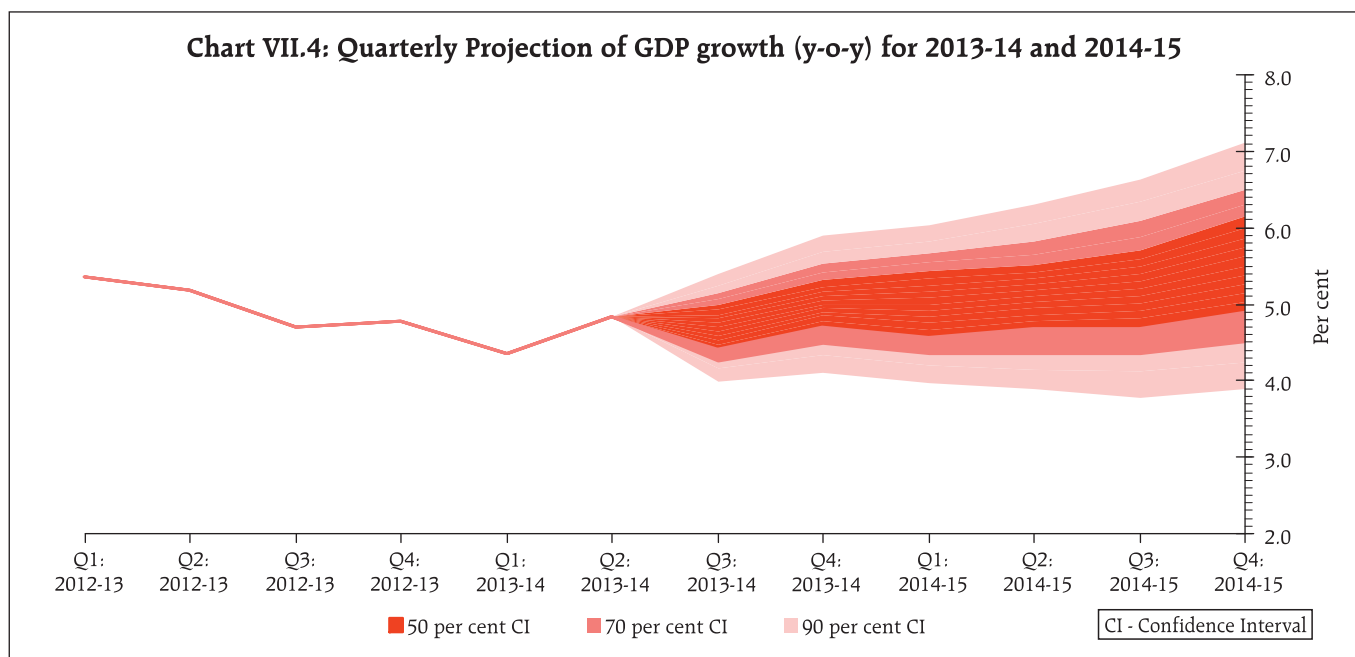
VII.8 Prospects of a pick-up in real GDP growth in the second half of 2013-14, have been dampened by negative growth in industrial production over two consecutive months, sluggishness in services sector activity and the weakening in private consumption

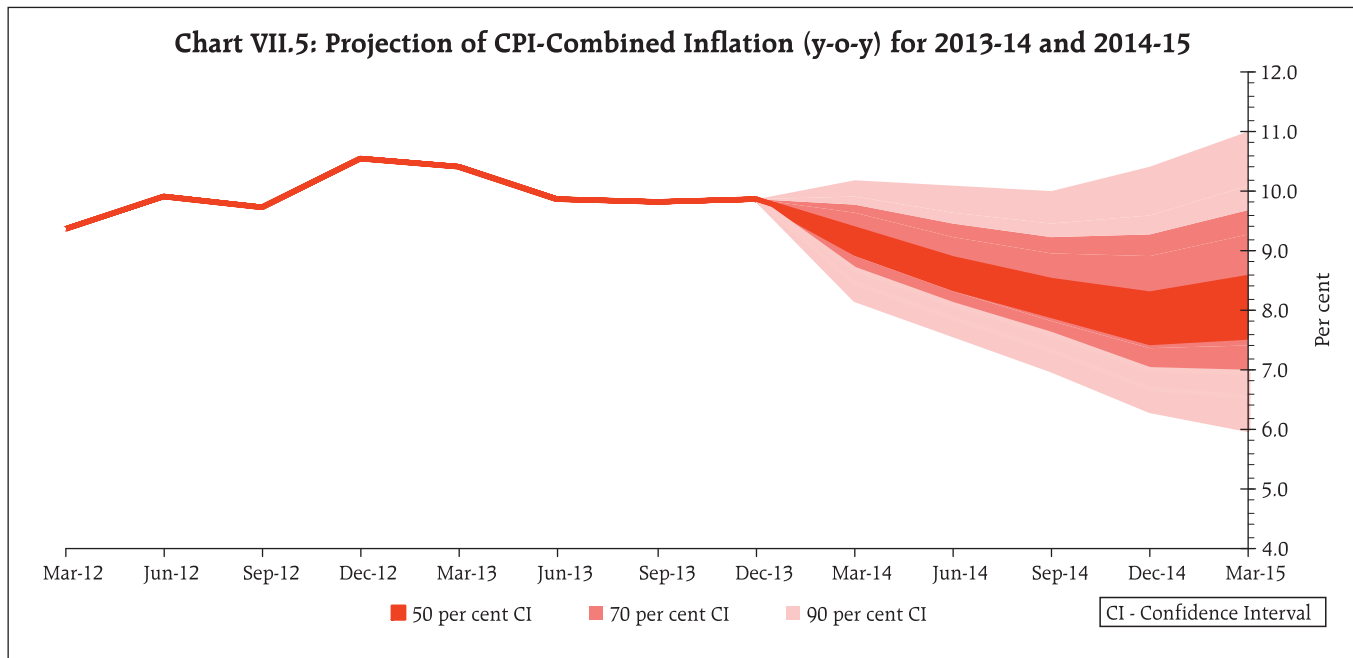
and investment demand. Notwithstanding the improved export performance and buoyant outlook for agricultural production, GDP growth for 2013-14 could be somewhat lower than the central estimate of 5 per cent projected at the time of the Second Quarter Review.

VII.9 For 2014-15, the Reserve Bank’s assessment is that a gradual recovery could set in, though further actions will be needed to secure it. The GDP growth is likely to be in the range of 5 to 6 per cent, with risks balanced around the central estimate of 5.5 per cent (Chart VII.4). As projects cleared by the CCI so far translate into investment, global growth outlook improves, and inflation softens, real GDP growth in 2014-15 could turn up into the higher reaches of this forecast range.

**Inflation Outlook: Inflation anticipated to moderate further but remain above comfort zone**

VII.10 Retail inflation measured by the CPI is expected to moderate from current levels, driven down by further seasonal softening in vegetables and fruits prices in Q4 of 2013-14. However, CPI excluding food and fuel inflation is expected to remain elevated,





imparting persistence to the headline. Accordingly, headline CPI inflation could still remain above 9 per cent in the rest of 2013-14.

VII.11 In 2014-15, a slow paced inflation moderation amidst sticky prices could continue. Based on the assumptions of the normal rainfall, some cost

pressures from administered fuel price increases, elevated rural wages, supply chain bottlenecks and still heightened inflation expectations, CPI inflation is expected to range between 7.5 and 8.5 per cent in Q4 of 2014-15, *albeit*, with the balance of risk tilted to the upside (Chart VII.5).