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Think tank NCAER sees economy slowing

RBI estimates GDP growth for 2014-15 will be 5.5%, NCAER expects GDP growth would be 5% for 2014-15

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The mid-year review of the economy by the National Council of Applied Economic Research (NCAER), released here on Saturday, paints a sobering picture, with the outlook for 2014-15 worsening from the beginning of the financial year.

After growing at 5.7 per cent in the first quarter, the NCAER estimates the gross domestic product will grow at 5 per cent in 2014-15, down from the 5.7 per cent forecast in July, implying a significant deceleration in the coming quarters.

But with the quarterly model forecasting growth of 6.1 per cent for the current fiscal year), it also underlines uncertainty in the economy.

The Baseline and Professional Forecasters' Median Projections of the Reserve Bank of India estimates GDP growth for 2014-15 will be 5.5 per cent, while the World Bank and the IMF are predicting 5.6 per cent.

Expectations of a slowdown are largely on account of agriculture and industry. Rainfall this year has not only been deficient at 17.1 per cent on a year-on-year basis, but has also been unevenly distributed. According to the ministry of agriculture's estimates, the output of kharif grain in 2014-15 is likely to be 120 million tonnes, 7 per cent lower than the previous year's 129 million tonnes. The NCAER expects agricultural growth to slow down to 2 per cent for the entire year from 4 per cent in 2013-14.

Industry is expected to grow at 2.3 per cent. What is puzzling is that the improvement in business sentiment does not seem to be translating into growth. Bank credit to the commercial sector continues to remain low, with the gap between deposits and credit offtake widening.

While bank profits have been rising, this is driven partly by retail loans, which suggests a rise in household demand for consumer durables. But this has not translated to investments, probably because, given how low capacity utilisation rates are, companies can meet the demand without having to invest.

A troubling aspect of the past few years is the rise in the incremental capital-output ratio (ICOR). With gross fixed capital formation at roughly 30 per cent, an ICOR of four should translate to GDP growth of 7-7.5 per cent. That growth has plunged to 5-odd per cent suggests either productivity has fallen or other factors are at play.

The services sector, which accounts for over 60 per cent of the GDP, is expected to grow at 6.9 per cent. Pick-up is being seen in tourism, cargo handled at major ports and telephone subscribers.

For the current fiscal year, the NCAER's forecasts for current account deficit, fiscal deficit and inflation (Wholesale Price Index) are 2.6 per cent, 4.3 per cent and 4.5 per cent, respectively.

VARYING NUMBERS

- RBI estimates GDP growth for 2014-15 will be 5.5%
- The World Bank and the IMF are predicting 5.6% growth
- NCAER expects GDP growth would be 5% for 2014-15
- Industry is expected to grow at 2.3%
- Services sector is expected to grow at 6.9 %