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NCAER lowers GDP growth forecast to 5% for this year

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India's economic recovery is still elusive, according to economic think-tank NCAER, which forecast a slower GDP growth this financial year unlike other forecasts, including that of government.

In its mid-year review of the economy for this financial year, NCAER said GDP growth would be five per cent in 2014-15, which is lower than its earlier forecast of 5.7 per cent made in July this year. It had projected a mere 5.1 per cent growth in April this year.

"NCAER is predicting a slower growth for the economy unlike other forecasts. The fundamentals of the economy remain weak with uncertainties prevailing," it said in a press statement on Monday.

"The only redeeming feature is the weakening of inflation and FDI inflows. Whether that will help us revive our growth prospects will depend on a number of factors including revival of the external economy and the extent of damage on agriculture due to deficit rainfall," it said.

NCAER forecast is much lower than other forecasts including that of World Bank and Asian Development Bank, which ranged between 5.4 to 5.9 per cent this financial year. The government expected a growth pick up this financial year after two years of below 5 per cent growth, the worst since the 1980s. The government projected at least 5.5 per cent growth this financial year and with slightly better performance in agriculture, it could be close to 6 per cent. The NCAER mid-year review covered the performance of the economy during first half of the current year (April – September), and presented the most recent GDP forecasts made by NCAER using its quarterly and annual macro models. Bimal Jalan, former RBI governor and ex-president of NCAER and currently chairman of the government's expenditure management commission, released the NCAER Report from the 2013-14 mid-year review.

NCAER has always been looked as a 'neutral outsider' with an unbiased view of the Indian economy. "Overall, the economy looks weak with uncertain growth prospects. The economy is giving mixed signals," it said.

On one hand, "we had the Sensex reaching record levels partly driven by record foreign institutional investment and FDI. Even the NCAER business confidence index showed rise in sentiments in July 2014. This change in sentiment has been drive by the change in the political climate in the form of a 'stable government'. Another positive sentiment has been the weakening of prices driven by downward movement of food and fuel inflation," it said. On the other hand, agricultural growth is predicted to be lower than last year as there was deficit rainfall with uneven spatial and temporal patterns. After the first quarter, industrial growth has slowed down in the months of July and August with the manufacturing sector leading the downfall.

The power sector was the only redeeming feature in the economy with double-digit growth. The pace of growth shows signs of slowing down in the services sector, it said. Therefore, while inflation has weakened significantly and sentiments have arisen, the fundamentals of the economy continue to be weak, the mid-year review said.

Deficient monsoon is bound to affect agricultural output, especially in rain-fed areas, which account for about 55-60 per cent of the area sown. NCAER's estimates based on its

economic models anticipate a 2 per cent to 4 per cent deficit in overall kharif food.

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