Survey on Economy 26 July 2010

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CARE's Survey on Indian Economy covered three aspects: Expectations from the credit policy to be announced on 27th July 2010 and projections of economic variables and corporate performance in FY11.

Preliminary results based on the majority responses of a set of experts indicate that:

1. Repo and reverse repo rates are to increase by 25 bps.
2. GDP is estimated to grow in the range of 8-8.5% in FY11.
3. Inflation as indicated by the WPI is expected to slow down to 7-9% by March 2011.
4. Industrial growth is expected to be in the range of 8-9%.
   a. Sales of manufacturing sector are to grow by more than 15% Q1-FY11.
   b. Net profit estimated to grow by over 15% in Q1-FY11.
5. An equally divided view on exchange rate ranging between Rs. 45-46 and Rs 46-47/$ by March 2011.
6. The yield on 10yr GSecs would be 7.5-8% by March 2011.
7. The main 'economic drivers' of growth this year would be infrastructure, banking, IT and automobile industries.

There is also a general consensus that the economic environment this year looks better than last year and that the fiscal deficit of the central government will be contained at 5.5% of GDP.

Survey Reponses

The respondents surveyed are experts in the fields of commercial banking, investment banking, manufacturing, asset reconstruction, research and stock market.

A. Credit Policy Actions

Do you expect RBI to increase interest rates in the Credit policy?

- Consensus appears to be that both the Repo and Reverse Repo rates will go up by 25 bps each.
- 92.9% of the respondents expect repo to increase and 85.7% expect reverse repo to also rise this time.
- 14.3% felt that the CRR will be raised by 25 bps while 7.1% expect SLR to be increased by 25 bps.

B. State of the Economy

GDP growth rate for FY11 (Growth of 7.4% in FY10)

- 50% of the experts who provided their views on the State of the Economy expect the GDP to grow between 8-8.5%, while 35.7% feel that the growth rate would be higher between 8.5-9%.

GDP (%)	Opinion (%)
9-10	-
8.5-9	35.7
8-8.5	50.0
7-8	14.3
Less than 7	-
Total	100

Expectation of year-end Inflation for FY11: (Current inflation 11.04%)

- 42.9% of the experts are estimating the Inflation rates to slow down to 7-9% by end of FY11 while 28.6% expect the number to be higher.
- On the other hand, 28.6% experts feel that Inflation will ease down to less than 7% by end of FY11.

Inflation (%)	Opinion (%)
Above 10	7.1
9-10	21.4
7-9	42.9
6-7	21.4
Less than 6	7.1
Total	100

India's Industrial Growth in FY11: (It was 10.4% in FY10)

- Though the Budget assumes an improvement in the Industrial sector growth, the experts surveyed find it difficult for the Industrial growth rate to cross 10%.
- 35.7% are of the opinion that the industrial growth rate for FY11 would be between 9-10%, while the majority estimate the same to be in the range of 8-9%.

Industrial growth (%)	Opinion
Above 10	-
9-10	35.7
8-9	42.9
7-8	14.3
Less than 7	-
Can't Say	7.1
Total	100

Exchange Rate by March 2011 (It was Rs 45.50 in March 2010)

- 42.9 % expect the exchange rate to be Rs. 45-46/$ by March 2011 and another 42.9 % estimate it to be Rs. 46-47/$.

Exchange Rate Rs/$	Opinion (%)
Above Rs. 48	-
Rs. 47-48	7.1
Rs.46-47	42.9
Rs.45-46	42.9
Less than Rs. 45	7.1
Total	100

10 Year G-Sec Yield by March 2011 (Averaged 7.85% in March 2010)

- The yields on 10 yr G-secs are expected to be 8-8.5% by 35.7% of the respondents while 42.9% expect it to be in the 7.5-8% range.

10 Yr G-sec Yield (%)	Opinion (%)
Above 8.5	-
8-8.5	35.7
7.5-8	42.9
7-7.5	21.4
Less than 7	-
Total	100

Will the Fiscal Deficit target of 5.5% be maintained?

- India had projected a budget deficit of 5.5 per cent for the fiscal year that ends in March 2011, down from a 16-year high of 6.9 per cent of GDP in the last fiscal year.
- The survey results yield a positive outlook towards the same, where 78.6% are of the opinion that the fiscal deficit target will be maintained at 5.5% this year, while 7.1% of the expert reveals a negative view of the same. The balance was undecided.

Route of auctioning of 'rights' as in 3G auction the right way to raise funds and bridge the deficit?

- Auctioning of 'rights' to raise funds appears to be the ideal way to bridge the deficit according to majority (50.0%) of the experts polled for the survey.
- Only 21.4% expressed reverse opinions while 28.6% were unable to provide a definite answer to this issue.

Would the government be able to meet its target of raising funds through disinvestment?

- The respondents have a positive view on this prospect. 42.9% believe that the government would partially be able to raise the targeted funds through disinvestment, who are also backed by another 28.6% believing that it is quite likely. Also, 14.3% experts show an optimistic view of Disinvestment policy of India. Only 14.3% are pessimistic of the same.

	Opinion (%)
Yes	14.3
Most Likely	28.6
Partially	42.9
Not Likely	14.3
No	-
Total	100

Economic Confidence Level this year

78.6% of the respondents feel that there is an improvement in the economic Confidence level this year. The balance is cautious in their views.

B. Corporate Performance

Expectations of growth in sales for the manufacturing sector in Q1-FY11 (6% in Q1-FY10)

All the respondents expect corporate (manufacturing) sales to grow at a higher rate than last year. While 42.9% feel that it would be between 10-15%, 21.4% expect it to exceed 25%, while another 35.7% expect it to be between 15-25%.

Sales of Mfg Sector (%)	Opinion (%)
More than 25	21.4
20-25	14.3
15-20	21.4
10-15	42.9
Less than 10	-
Total	100

Expectations of growth in net profits for the manufacturing sector in Q1-FY11 (It was 17% in Q1-FY10)

The Survey shows that an improvement is expected in the net profits of the manufacturing sector. With 28.6% expecting 20-25% growth in Q1 FY11, 35.7% expect 15-20% growth rate in the net profits. The balance, 35.7% expect net profits growth to be less than 15%.

Growth in Investment of Corporate Sector in FY11

The respondents were equally divided on this issue. 50% expect growth of 15-20% in the investment of corporate sector, while another 50% expect growth of between 10-15% in the same.

The sectors that will drive the economy this year

The primary drivers are to be infrastructure, banking and IT, each with 35.7% respondents backing them followed by automobiles with 21.4%. The other sectors identified are: power, telecom, roads, petrochemicals and capital and consumer goods to be the driving forces this financial year.

Expectations of the buoyancy of the Corporate Debt market for long term paper in FY11 relative to FY10

42.9% are optimistic of the debt market being buoyant this year, while 28.6% are pessimistic. The balance 28.6% is undecided.

Impact of Government of India's Borrowing Programme on Interest Rates for Corporate India

64.3% experts expect that there is a positive relation between Government of India's borrowing programme and higher Interest rates for Corporate India while 21.4% argue that there exists no relation between the two variables. The balance is undecided.

Has the new 'base rate' system introduced the right step in terms of transparency and governance

A strong majority of 64.3% of the respondents pronounce that the new base rate system is the right step in terms of transparency and governance while 21.4% experts share a 'Can't Say' opinion. However, 14.3% feel that this does not help in transparency.

Impact of the New Base Rate Scheme on the Banks

71.4 % of the respondents in this poll feel that the new base rate system will not affect costs of credit while 14.3 find that the new base rate will lead to an increase in costs. The balance is undecided.

Impact of DTC on the tax liability of Corporate

From this survey it was found that the tax liabilities of the corporates will increase according to 57.1% experts. Another 14.3% of the experts are of the opinion that the tax liabilities will remain unaffected while 14.3% expect the tax liabilities to decrease. The balance did not provide an opinion.
