



Press Release

The Business Confidence Index, Quarter 3, 2013-14, NCAER

The Business Confidence Improves

- Business Confidence Index (BCI) rose by about 21.8 percentage points in January 2014.
- All four indicators of BCI and the four regions of the country show improved level of optimism.
- Political Confidence Index (PCI) improves by 9.8 percentage points in January 2014.

New Delhi, Monday, 24 February 2014: Amidst concerns of slower growth and persistent inflation there was a continuous slide in business sentiments through 2012-13. However, 2013-14 witnessed some fluctuations in business conditions as exports improved, agricultural output grew combined with signs of moderation of inflation rate. The Business Confidence Index (BCI) compiled by the **National Council of Applied Economic Research (NCAER)** reflects these fluctuations as it shows significant improvement in its latest survey for the third quarter of FY13-14 following a decline in the previous quarter.

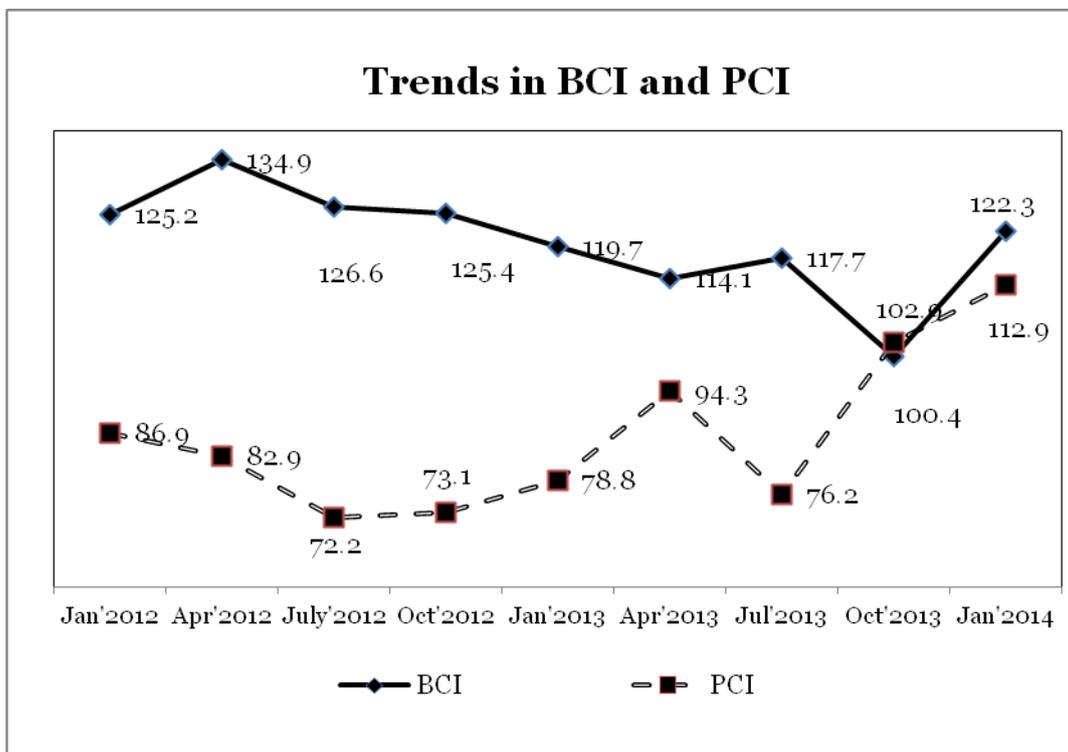
The BCI rose by about 21.8 percentage points in January 2014 survey over the previous quarter. Another measure of related business sector perceptions, the Political Confidence Index (PCI), increased for the second successive quarter.

The current survey was conducted at a time when the Assembly Elections were held in five states. Besides the business and financial data the business sentiments may also be affected by the election process. The survey is based on a sample of 529 respondents.

The highlights of the latest round of the quarterly Business Expectations Survey are:

- The index of business confidence measures business confidence for four equal indicators—overall economic conditions six months ahead, financial position of firms six months ahead, the investment climate and the level of current capacity utilisation. All four components of the BCI show improved level of optimism. The highest improvement is registered in the ratings for investment climate, followed by expectations of improved financial position of the firms in the short run.
- Sector-wise responses reveal that firms in the manufacturing sector are more optimistic than services sector firms. Among all major sectors, the highest growth is recorded in the intermediate goods sector followed by the consumer non-durables sector.

- The regional distribution of responses reflects uniformity in the pattern of changes. All four regions register an improved level of optimism in the current round. The survey shows that the BCI is the highest in South followed by North and East.
- Although the disaggregation of responses by firm size reflects improved optimism for all size categories of firms, there is a clear divergence in the pattern between larger and smaller sized firms. The level of optimism is higher in larger firms than in the smaller firms. The distribution of responses by ownership type reveals that the level of business confidence is higher in public sector firms than in private sector firms.
- The firm level indicators reveal expectations of improved domestic sales, production, imports, exports and pre-tax profits in the next six months compared with the previous quarter.
- The survey shows that both input cost and ex-factory prices are likely to increase in the next six months. Within input cost, only the cost of electricity per unit of output is likely to moderate. Employment for all types of labour is also likely to improve in the short run along with wage rates.
- The Political Confidence Index (PCI) that provides a measure of the confidence of the business sector in the political management of economic policies has improved by 9.8 per cent, from 102.9 points in October 2013 to 112.9 points in January 2014.
- The present round of the survey may have captured gains made by the government in tackling the widening current account deficit and currency volatility. Improvements in these factors have contributed to the overall improvement in the political confidence level among business units in January 2014. The growth in agricultural output and exports may also have had positive spill over on perceptions of policy environment.
- The survey also tried to examine whether the credit availability or investment finance a constraint in the present conditions for the businesses. The results reveal that compared to the situation in April 2013, the availability of working capital and investment finance has remained the same for nearly 55 per cent of the respondent firms in the sample.
- Although a large percentage of firms in both the services sector and manufacturing reported no change in the credit availability situation compared with April 2013, this proportion is higher in the case of the services sector than in manufacturing.
- The largest sized firms perceive credit availability situation better than others.
- More than half of the respondent firms reported that credit for investment activities is available but at higher interest rates. For other business activities such as exports and imports, this proportion is slightly less than 50 per cent,



About NCAER

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offering of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of a few independent think-tanks world-wide that combines rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body chaired by Mr Nandan M. Nilekani.

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