



Economic Outlook Survey

October 2022



HIGHLIGHTS

GDP growth estimated at 7.0 percent for 2022-23

CPI outlook retained at 6.7 percent for FY 2022-23

Downside risks from global recessionary headwinds, commodity prices, and aggressive policy rate hikes remain elevated

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2022-23 at 7.0 percent. The growth forecast has been maintained at 7.0 percent from the previous survey round (July 2022).
- The median growth forecast for agriculture and allied activities has been put at 3.3 percent for 2022-23; while industry and services sector are anticipated to grow by 5.8 percent and 8.8 percent respectively.
- CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 6.5 percent and 7.0 percent respectively.
- Based on the responses of the participants, the median forecast for exports has been put at USD 454.5 billion and for imports at USD 742.0 billion in 2022-23. The median forecast for exports has witnessed a marginal downward revision from the USD 460.0 billion estimate put out in the last survey round; while import estimate has been revised upwards from USD 727.5 billion in the previous round.

Views of Economists

Assessment on India's economic recovery

- The economists asserted that unlike many other economies, Indian economy remained relatively stable and resilient amidst the pandemic and the escalation of Russia Ukraine conflict.
- However, a slower-than-expected GDP growth in the first quarter of FY23 highlighted that risks to economy's recovery remain tilted to downside.
- According to the participants, India's GDP growth faces downside risks primarily from global recessionary headwinds, persisting geopolitical concerns, elevated commodity price inflation, aggressive policy rate hikes by major Central Banks, and highly volatile global financial markets. All of these factors are likely to delay economy's full-scale recovery.
- With regard to consumption, the economists opined that domestic urban demand is gradually improving and getting broad-based, with a higher contribution of the services sector to growth.
- Nonetheless, the persistently high inflation levels continue to be a major impediment to private consumption demand recovery. Further, the lagged effect of monetary tightening in the form of higher interest rates is expected to impede consumption demand/private investments over the medium term. Rural demand is also expected to remain under pressure.
- On investment front, the participating economists opined that private investments in India are likely to suffer due to input costs remaining elevated and aggressive monetary tightening by the Central Bank raising borrowing costs.
- However, on the positive side, the participants believed that in some of the core sectors investment demand in the country will be crowded-in by higher capital expenditure from the government's side.
- Notwithstanding, the crowding-in of private investment might take more time than expected due to falling profit margins of businesses because of elevated input costs as well as uncertainties in domestic and global financial markets.
- According to the participating economists, the outlook on trade remains largely subdued at least over the near-term. India's recovery is likely to suffer headwinds from a widening trade deficit owing to a strengthening US Dollar and decelerating exports amid global slowdown in demand.
- Nonetheless, it was felt that in the medium-to-long term, the country's trade position is expected to be bolstered by offshoring, signing of free trade agreements, and extension of the PLI scheme to other sectors beyond the present 14 sectors.

Impact of global monetary policy tightening on India's economy

- Major Central Banks around the world remain on course of unprecedented monetary policy tightening and have clearly indicated managing high inflation levels to remain a priority. Amid this backdrop, the aggressive monetary policy tightening by major Central Banks across the globe is already impacting India.
- The participants pointed out that Indian Rupee is projected to stay under pressure as global financial conditions tighten, reducing capital inflows at a time when India's current account deficit is already high.
- Economists were uncertain on how long the Reserve Bank of India will have to raise interest rates. Such uncertainty on the interest rate outlook is likely to have an adverse impact on private consumption and investment spending. With the price trajectory becoming more unpredictable, the Reserve Bank of India's task of balancing growth and inflation is becoming more challenging.
- The participants expect the Reserve Bank of India to increase the policy repo rate to 6.50 percent by end of the current fiscal year 2022-23.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of September/October 2022 and drew responses from leading economists representing industry, banking and financial services sector. The economists were asked to provide forecast for key macro-economic variables for the year 2022-23 and for the quarters Q2 (July-September) of FY23 and Q3 (October-December) of FY23.

In addition, economists were asked to share their views on certain topical subjects. Given that India's GDP growth is expected to moderate as the base effect weans off, the economists were asked to share their prognosis on the recovery trend in India especially amid the current situation and the outlook on domestic demand, investments, and trade. Further, economists were also asked to share views on how they believe India would be impacted amid the aggressive monetary tightening being undertaken by major central banks across the world.

Survey Results: Part A Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

Growth (in %)	Annual 2022-23			Q2 2022-23			Q3 2022-23		
	Median	Min	Max	Median	Min	Max	Median	Min	Max
GDP@ market prices	7.0	6.5	7.3	6.5	6.1	7.0	5.0	4.0	5.1
GVA@ basic prices	6.7	6.3	7.3	6.5	5.9	6.8	4.9	3.9	5.0
Agriculture & Allied activities	3.3	2.0	4.0	3.5	2.0	4.0	2.9	2.0	4.0
Industry	5.8	4.9	6.0	5.9	5.0	6.0	4.5	1.6	5.5
Services	8.8	8.0	9.3	8.0	6.6	9.3	5.5	4.3	6.6

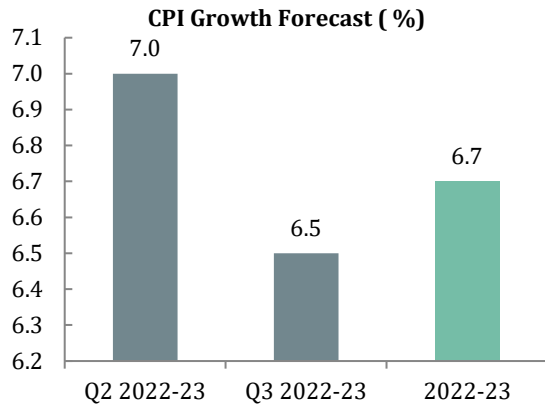
The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2022-23 at 7.0 percent**- with a minimum and maximum growth estimate of 6.5 percent and 7.3 percent respectively.

The median growth forecast for agriculture and allied activities has been put at 3.3 percent for 2022-23. On the other hand, **industry and services sector are anticipated to grow by 5.8 percent and 8.8 percent respectively during the fiscal year.**

Although the annual median GDP growth forecast for 2022-23 is retained from our previous survey round (July 2022), however, downside risks have evolved on account of recessionary conditions in advanced economies, persistence of elevated global commodity prices, more aggressive policy rate hikes by major Central Banks, and a falling Indian Rupee. These factors are expected to dent India's trade and investment prospects over the near-term at least.

Median GDP growth is estimated at 6.5 percent and 5.0 percent for the second and third quarter of 2022-23, respectively.

Consumer Price Index (CPI)

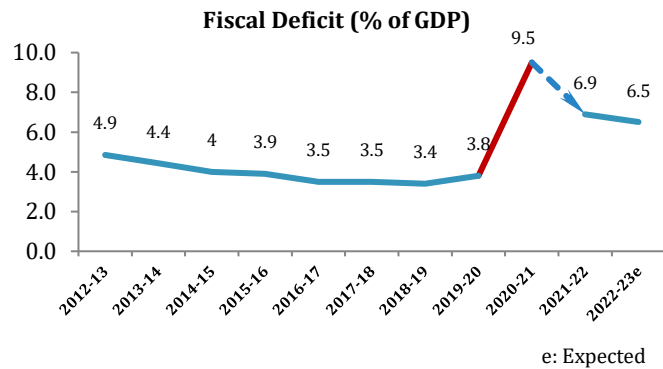


CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 6.5 percent and 7.0 percent respectively. Retail prices are projected at 6.5 percent in Q3 2022-23. This is in line with RBI's indicative trajectory put forth in the recent monetary policy announcement in September 2022.

After showing some signs of moderation in recent months, retail inflation in the country once again crossed the 7.0 percent level in September 2022. However, participating economists have retained their projection of CPI from the July 2022 round of the Survey; averaging to 6.7 percent at the end of the current fiscal.

Fiscal Deficit

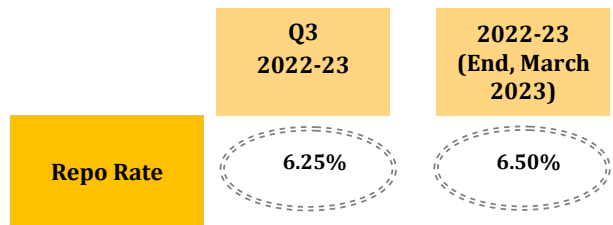
The median **fiscal deficit to GDP ratio has been put at 6.5 percent for the fiscal year 2022-23 by the participants** - with a minimum and maximum range of 6.4 percent and 6.7 percent respectively. This is marginally higher than the budgeted fiscal deficit for 2022-23 - which was estimated at 6.4 percent earlier this year.



Money & Banking

Policy repo rate is forecasted at 6.50 percent by end of the fiscal year 2022-23.

The repo rate has already been hiked to 5.90 percent in RBI's September 2022 MPC meeting (from 4.00 percent in May 2022); and is anticipated to reach 6.25 percent by the end of the third quarter of 2022-23.

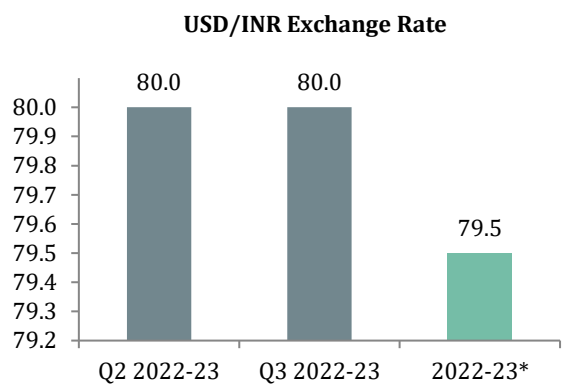
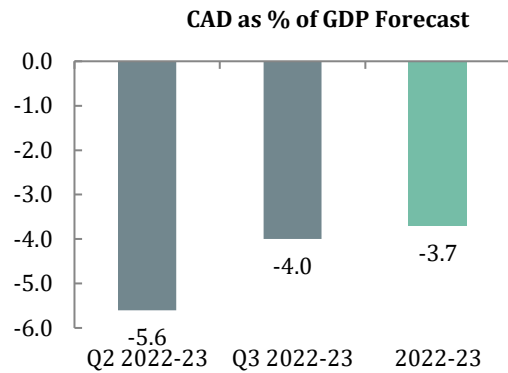


External Sector

2022-23	Export	Import
USD billion	454.5	742.0
Growth (in %)	6.0	20.0

Based on the responses of the participating economists, the **median forecast for exports has been put at USD 454.5 billion and for imports at USD 742.0 billion in 2022-23.**

Aggressive monetary tightening in advanced nations and a strengthening US Dollar are leading to persistent fall in the value of the Indian Rupee vis-à-vis the US Dollar. The INR breached the 80 mark vis-à-vis the USD once again in September 2022 and has been trading at beyond this level since. The participants expect the USD/INR exchange rate to be around 79.5 by the end of the current financial year.



* end period
the actual average INR/USD exchange rate stood at 79.6 in Q2 2022-23

**Survey Results: Part B
Views of Economists**

Assessment on India's economic recovery in view of domestic demand, investments, and exports

GDP growth for the first quarter of 2022-23 at 13.5 percent has been below expectation and growth is expected to witness moderation in the near-term as the base effect weans off. Even though the private final consumption expenditure and capital formation reported an uptick on an annual basis; on a sequential basis a contraction has been noted. Amidst this backdrop, economists were asked to share their prognosis and outlook on the Indian economy particularly with regard to domestic demand, investments, and exports.

The economists asserted that India's economy has remained relatively stable amid the pandemic and the escalation of Russia Ukraine conflict. Although India's quarterly GDP numbers reflected a double-digit growth due to a favourable base effect, nonetheless, factors such as growth in the core sectors, release of pent-up demand in real estate/retail & hospitality sectors, as well as enhanced personal mobility also aided GDP growth recovery.

The participants emphasized that the measures undertaken by the Reserve Bank of India and Government of India has supported India's economic performance - which is seen to be better than most of its peers both in terms of robust growth numbers and a controlled rise in inflation levels. Inflation in India has been moderate vis-à-vis other economies.

However, a slower-than-expected GDP growth in the first quarter of FY23 highlights the risks to economic recovery. An adverse balance of trade (owing to higher imports) and lower government consumption expenditure have impacted GDP numbers during the quarter.

According to the participants, India's GDP growth continues to face downside risks primarily from global recessionary headwinds, persisting geopolitical concerns, elevated commodity price inflation, aggressive policy rate hikes by major Central Banks, and highly volatile global financial markets.

Slowing global growth is negatively impacting India's export prospects and is creating uncertainty in capex plans of private companies. Elevated international commodity prices, coupled with a weakening Indian Rupee are increasing India's import bill. Further, the impact of monetary tightening by the Reserve Bank of India is expected to manifest with a lag and hamper consumption impulses, and private investments. These factors are likely to delay the economy's full-scale recovery.

Outlook on Domestic Demand

The economists opined that domestic urban demand is gradually improving and getting broad-based, with a higher contribution of the services sector to growth. Participating economists expect a one-time boost to growth this fiscal from full recovery in the contact-intensive services which was lagging until now. Moreover, the festive season, high vaccine coverage and a complete removal of COVID-19 restrictions have boded well for consumption demand in the near-term. The trend is corroborated by the RBI's September 2022 round of the Consumer Confidence Survey, which indicates a gradual improvement in consumer sentiments.

Nonetheless, persistently high inflation levels continue to be a major impediment to private consumption recovery. Further, the lagged effect of monetary tightening in the form of higher interest rates is expected to impede demand over the medium term.

Furthermore, while the agricultural sector has recently shown signs of improvement as evident from a fall in the demand for jobs under MGNREGA, rural wages continue to remain negative in real terms, which is likely to have a detrimental effect on rural consumption. Key indicators of rural demand, such as tractor and two-wheeler sales have been exhibiting a mixed trend. Further, uneven distribution of south-west monsoon across

major crop-producing states has impacted the production of important crops resulting in a fall in kharif acreage. This will require monitoring as it will have an impact on agricultural incomes.

Outlook on Investment

On investment front, the participating economists opined that private investments in India are likely to suffer due to input costs remaining elevated and aggressive monetary tightening by the Central Bank raising borrowing costs.

On the positive side, however, the participants also believed that investment demand in the country in core sectors will be crowded-in by higher capital expenditure from the government's side. Realization of the government's ambitious capex target will offer support to the private sector. Encouraging signs on investment front seem to be on horizon being reflected in the rising capacity utilization rates and healthy growth in government capital expenditure.

Notwithstanding, the crowding-in of private investment might take more time than expected due to falling profit margins of businesses as a result of elevated input costs as well as because of persisting uncertainties in domestic and global financial markets.

Outlook on Trade

According to the participating economists, the outlook on trade remains largely subdued at least in the near-term, as India's recovery is likely to suffer headwinds from a widening trade deficit owing to strengthening of the US Dollar and decelerating exports amid a slowing global demand.

Nonetheless, it was felt that in the medium-to-long term, the country's trade position is expected to be bolstered by offshoring, signing of free trade agreements, and extension of the PLI scheme to other sectors beyond the present 14 sectors.

There was a unanimous view that the pace of economic recovery in the country will depend on reduction in global economic and financial market uncertainties, reduction in domestic inflation, (especially food inflation), as well as stability in the interest rate environment.

Impact of global monetary policy tightening on India's economy

Major Central Banks around the world, especially the Federal Reserve and the European Central Bank, remain on the course of unprecedented monetary policy tightening and have clearly indicated managing high inflation levels to remain a priority. Moreover, economists expect the Federal Reserve and European Central Bank to hike interest rates by a higher quantum, at least over the near-term, despite growing signs of an impending recession in their respective economies. Amid this backdrop, the participating economists were asked how they see India being impacted.

The aggressive monetary policy tightening by major Central Banks globally is already impacting India. The participants pointed out that the Indian Rupee is projected to stay under pressure as global financial conditions tighten, reducing capital inflows at a time when India's current account deficit is already high.

Ever since the Federal Reserve embarked on its monetary tightening cycle, the Indian Rupee has been trading at record lows. In order to avert large decline in the INR, the RBI has been using the forex reserves to a great extent. Moreover, the Reserve Bank has been drawing down its foreign exchange reserves at a much faster pace than it did during the taper tantrum of 2013-14. Approximately USD 12.8 billion worth of reserves were sold in August 2022 alone while USD 19.4 billion were sold in July 2022. In contrast, the RBI had sold a net of USD 14 billion in the June-September period in 2013. Nonetheless, India is in a better position presently in terms of the corpus of foreign currency reserves than it was during 2013-14. India's forex reserves stood in the range of USD 275-300 billion during 2013-14, while presently these are being maintained in the range of USD 500-550 billion.

Furthermore, some participants opined that monetary tightening in the country will have to keep pace with the key advanced nations. This will help limit foreign portfolio outflows from India, preserve interest rate differentials with the US, and control imported inflation in the country. However, economists were uncertain on how long the RBI will have to raise interest rates in tandem with the Fed to bring inflation levels within its tolerance band. The Central Banks have been actively working to establish credibility to anchor inflation expectations and contain inflationary pressures. Such uncertainty on the interest rate outlook is likely to have an adverse impact on private consumption and investment spending.

The Reserve Bank of India had remained at forefront in supporting economic and business activity throughout the Covid-19 period. The Central Bank adopted an accommodative stance recalibrating the policy repo rate from 5.15 percent (prevailing since October 2019) to 4.40 percent in March 2020, which was further revised down to 4.0 percent in May 2020 and maintained at this level thereafter. However, in 2022, global developments and inflationary pressures in India prompted the Central Bank to reverse its stance in an off-cycle policy meeting in May 2022. Since then, the RBI has revised its policy repo rate upwards by 190 bps till September 2022.

With higher interest rates and elevated commodity prices, the advanced economies of the United States and Europe are on the verge of an economic recession. India's largest export market, the United States is witnessing moderation in growth and erosion in purchasing power.

Data on India's recent export performance is already reflecting the repercussions of economic slowdown in its major trading partners. As per the Ministry of Commerce and Industry, merchandise exports have declined for six of the top 10 markets and 18 of the top 30 major commodities in September 2022.

A few of the economists did voice that inflationary pressures are gradually reducing with easing of global supply chain disruptions and weakening of global demand. Prices of staples are moderating, and globally, suppliers are improving their delivery times. Retailers are lowering prices to move inventory after accumulating stocks in response to supply chain pressures.

However, given the nature of the ongoing rate hike cycle globally, the Reserve Bank is also likely to continue with its policy of monetary tightening. Alongside, the Reserve Bank is expected to prudently utilize its corpus of foreign exchange reserves in order to manage currency volatility.

The participants expect the Reserve Bank of India to increase the policy repo rate by up to 35 bps in its forthcoming monetary policy in December 2022.

Certain participants reiterated that the RBI should opt for less aggressive rate hikes going forward so that the economy's recovery does not get further hampered.