GDP Growth Estimated at 7.7% for 2016-17 - FICCI's Economic Outlook Survey

New Delhi, 30 May 2016: The results of latest round of FICCI's Economic Outlook Survey puts across a median GDP growth forecast of 7.7% for the fiscal year 2016-17. The growth in 2016-17 is expected to be supported by an improvement in the agricultural and industrial sector performance. Prediction of a good monsoon after two consecutive years of sub-optimal rainfall backs the improved outlook in the current fiscal.

According to the survey results, agriculture sector is expected to record a median growth of 2.8% in 2016-17, with a minimum and maximum range of 1.6% and 3.5% respectively. Industrial growth is anticipated to grow by 7.1% in 2016-17, while services sector growth is estimated at 9.6%.

The survey was conducted during April/May 2016 among economists belonging to the industry, banking and financial services sector. The economists were asked to provide forecast for key macro-economic variables for the year 2016-17 as well as for Q4 (January-March) FY16 and Q1 (April-June) FY17.

The median growth forecast for IIP has been put at 3.5% for the year 2016-17, with a minimum and maximum range of 3.0% and 4.5% respectively.

The outlook of the participating economists on inflation remained moderate. The median forecast for Wholesale Price Index based inflation rate for 2016-17 has been put at 2.2%, with a minimum and maximum range of (-)1.3% and 2.9% respectively. The Consumer Price Index has a median forecast of 5.1% for 2016-17, with a minimum and maximum range of 4.5% and 5.5% respectively.

Views of the economists were sought on whether the government will be able to achieve the fiscal deficit target of 3.5% in 2016-17. The government has been serious about treading on the path of fiscal consolidation and maintained its credibility by meeting the targeted fiscal deficit of 3.9% for the financial year 2015-16.

A majority of the participating economists believe that the fiscal deficit target for the year 2016-17 seems achievable. It was pointed out that some of the enabling factors would include expectation of a normal rainfall, improved buoyancy in domestic growth leading to higher revenue collection through direct and indirect tax collections and government continuing with subsidy rationalization. However, it was also pointed out that ***it would be important to realize the non-tax revenue target for achieving the targeted fiscal deficit to GDP ratio***. Realising the targeted receipts from disinvestment and spectrum sales would be a critical factor. Furthermore, it was mentioned that the economy will have to achieve a GDP growth rate between 7% - 7.75% this fiscal year (as also projected in the Economic Survey) to be able to garner the requisite amount of revenue receipts.

It was also felt that going ahead, risk could arise from an increase in global crude oil prices and this could possibly change the projected trajectory of fiscal deficit this year. A few economists also pointed out that continuing productive capital expenditure like infrastructure will be important as that will remain a major driving factor to push the economy forward.

Further, on being asked about ***expectations for recovery of the banking system***, majority of the economists felt that while the government and the RBI are working together to address the issues at hand,***recovery will take time***. ***It was unanimously felt that a turnaround in this fiscal year looks unlikely and an improvement in numbers would not come until next financial year.*** It was also mentioned that the passage of Insolvency and Bankruptcy Code Bill, 2015 is a very positive step to deal with the challenging issue of exiting unviable businesses. Easy exit for a business would help in speedy winding up, productive redeployment of capital and ensure greater availability of credit by freeing up of capital.

In the current round, the participating economists were asked to share their thoughts on bank consolidation. ***A majority of participating economists said that bank consolidation will be the way forward as it will improve capital efficiency significantly.*** Further, consolidation would enhance the ability of banks to recover bad loans.

A majority of the economists said that we can move forward on the path of consolidation only when the banks' balance sheets are cleaned. It would be imperative to ensure that issues related to asset quality of banks and capital shortfalls are addressed. It is essential to empower banks by allowing them greater operational flexibility. Most of the participating economists felt that overhauling the banking industry through consolidation is one of the most challenging tasks in hands of the Bank Board Bureau.

In addition, economists also shared their prognosis about the expected recovery in the investment cycle. A ***majority of the economists were of the view that investment cycle will take at least two more quarters to witness a pickup. It was further opined that an uptick is likely post monsoons*** as good monsoons will give an impetus to rural demand. Also, urban demand is expected to strengthen once the pay and pension hikes are rolled out. An improvement in demand conditions would be a key driving factor for investments to gain strength. Furthermore, much would also be contingent upon greater infrastructure spending by the government. **The interest rate scenario was deemed positive by the respondents for a pick-up in credit growth.**

In the Union Budget 2016-17, the Hon'ble Finance Minister announced that the government will reorient its interventions in the agriculture sector to double the income of farmers by 2022. This is an ambitious target; nonetheless an important one given that a majority of our population is still dependent on agriculture. In the current survey, the respondents were asked to indicate the way forward to achieve this target.

The participating economists unanimously felt that first and foremost the basics have to be in place. For instance, setting up proper irrigation facilities is definitely a prerequisite. Along with this, encouraging water harvesting, promoting crop insurance schemes with greater vigour and creating a unified agricultural market that would ensure appropriate price for the agricultural produce by eliminating middlemen, will be most critical.

Economists were of the opinion that a structural change in the sector is required to invigorate the sector's growth potential. ***It was recommended that research and development in agriculture sector should be encouraged along with strengthening of extension services at the ground level to make the farmers aware of the available technology and its usage***.

It was also proposed that greater investments are needed towards building necessary rural infrastructure (such as warehouses, roads) and rural supply chain infrastructure. This will not only lead to seamless movement of agricultural commodities across the country but will also be the key to generate greater income for farmers. Besides ensuring higher public spending on rural infrastructure, economists believed that increasing expenditure on NREGA will also help increasing farmer incomes especially during distress in the agriculture sector.

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