GDP growth estimated at 7.8% in 2016-17: FICCI's Economic Outlook Survey

Q1 FY17 GVA growth estimate put at 7.6%

Greater focus on investing required to build capacities such as infrastructure to augment growth without fuelling inflation say economists

MUMBAI, 30 August 2016: Latest round of FICCI's Economic Outlook Survey puts across a median GDP growth forecast of 7.8% for the current fiscal year. Further, the estimated median GVA growth for Q1 FY17 has been put at 7.6%.

The latest survey round was conducted during July/August 2016 among leading 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 Q1 (April-June) FY17 and Q2 (July-September) FY17.

There has been a marginal improvement in the growth estimate for 2016-17 vis-à-vis the previous round and this comes at the back of better performance of the agriculture and industry sector. The monsoon season has been good this year which is expected to support agricultural production.

According to latest data, kharif crop sowing stood at 992.8 lakh hectares as on August 19, 2016 as compared to 938.6 lakh hectares in the same period previous year. The area under acreage for pulses, rice, coarse cereals and oil seeds has noted an increase. In addition, reservoir levels, have also noted an improvement.

The improvement in rural demand on the back of a pickup in farm sector is likely to give an impetus to industrial growth. Industry is projected to grow by 7.3% in 2016-17, 0.2 percent points higher than the projection as per our previous survey round.

However, the survey results indicate a marginal decline in the service sector growth this year vis-à-vis the estimated growth in the previous survey round.

The median growth forecast for IIP has been put at 3.5% for the year 2016-17, with a minimum and maximum range of 2.0% and 4.3% respectively.

The median inflation forecast for 2016-17 has noted a marginal increase vis-à-vis the previous round. The estimate for wholesale price index based inflation rate is 0.2 percent points higher and consumer price based inflation rate 0.1 percent points higher.

The median forecast for Wholesale Price Index based inflation rate for 2016-17 has been put at 2.4%, with a minimum and maximum range of 1.5% and 2.9% respectively. The Consumer Price Index has a median forecast of 5.2% for 2016-17, with a minimum and maximum range of 4.5% and 5.8% respectively.

Recent data points indicate an increase in inflation on the back of elevated food prices. Nonetheless, prices are expected to remain range bound going ahead given good monsoons and an improved acreage.

In addition to the forecast for key macro variables, the economists were asked to share their views on certain topical issues.

The Government, earlier in 2016, decided to cut interest rates on small savings. Additionally, the Reserve Bank of India implemented the Marginal Cost Lending Rate (MCLR) Framework with effect from April 1, 2016. Alongside, refinements were seen in the liquidity management by the Reserve Bank of India to allow for an improved transmission. ***However, transmission of monetary policy still remains an issue. Given this backdrop, the economists were asked to share their views on this***.

The economists opined that while the moves undertaken by the Reserve Bank of India and Government are likely to reduce the banks' operational cost; however, the high stock of non-performing assets and provisions for public sector banks is posing a major challenge as far as transmission is concerned.

In addition, a majority of the participating economists said that for most Indian banks, time deposits remain the most important source of bank funding as compared to other sources of funding (such as market borrowing) as it is cheaper and allows banks to enjoy higher interest spreads.

It was pointed out that the growth of time deposits was seen at a 53 year low of 9.9% in 2015-16. Given this scenario, economists felt that it will take time for the banks to make any further reductions in deposit rates, which will consequently lead to reduction in MCLR and lending rates thereof. Slowdown in time deposits has slowed the growth of bank credit as well.

Further India's exports performance has been worrisome for almost two years now. Although structural and institutional factors determine the competitiveness of exports, participating economists were asked to ***share their views on whether we need to move to a more competitive exchange rate to cushion the fall in exports.***

Majority of the economist felt that a change (devaluation) in the exchange rate can only help in the short run. In the long run, it would be ineffective as other countries would follow suit. Furthermore, economists believed that both imports and exports are essential to boost economic activity and domestic growth. Devaluing the currency to favour exporters will negatively impact importers and eventually hurt the growth prospects of the industries that depend on imported raw materials.

Economists believed that the present Rupee US Dollar exchange rate in the band of 65-68 is fair and is consistent with current macro fundamentals. They felt that the current exchange rate is at an appropriate level to support exports and keep the import bill at manageable levels.

Further, it was also pointed out that India now exports fewer price sensitive items and more income elastic items such as chemicals, engineering goods and petroleum products. This calls for much higher quality competitiveness to boost exports, as Indian export basket has now become more income elastic and less price elastic.

Economists felt that the Government should focus on increasing competitiveness of Indian goods and reduce dependency on international markets by boosting production of goods that India imports.

It remains most imperative to make correct policy moves and ensure their timely implementation. In this regard, efforts should continue to build skills among the working class to enhance productivity and emphasis has to continue on improving ease of doing business and addressing infrastructure bottlenecks.

Lastly, Reserve Bank of India released a paper titled 'India's Potential Output Revisited' in April 2016. According to the paper, India's potential growth has increased steadily from around 5.0% in 1980s to about 6.0% during 1992-2002 and then accelerated to around 8.0% during 2003-2008. However, post 2008 the potential growth has declined to around 7.0% during 2009-2015. These numbers indicate that the output gap has narrowed over the recent years. Given this backdrop, ***economists were asked to share their prognosis on whether achieving a higher growth (i.e. higher than 8%) over the next couple of years will fuel inflationary pressures.***

Economists unanimously agreed that to attain a higher level of growth, focus should be laid on investing more on building capacities through infrastructure development. India lags behind in terms of technological institutional development and quality infrastructure. It was pointed out that India's growth until 2009 was predominantly due to higher contribution of savings. Since 2009, this share has gone down leading to lower growth numbers.

Economists believed that India needs investment led growth which will augment potential output while simultaneously keep inflation under check. Higher growth should be achieved by pushing the growth curve itself. Thus emphasis should be on pursuing continuous structural reforms. The most recent reform measures - Goods & Services Tax, push to public investments and Insolvency & Bankruptcy Code- are steps in the right direction.

Weblink:
http://ficci.in/SEDocument/20377/FICCI-EOS-Aug-2016_SA.pdf

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