FICCI's Economic Outlook Survey projects GDP growth of 6.8% for 2016-17

Economists polled expect status quo in forthcoming monetary policy but rate cut likely in first half of FY 2017-18; Union Budget 2017-18 to be expansionary with fiscal stimulus to counter effects of demonetisation

NEW DELHI, January 30, 2017: ***The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast of 6.8% for 2016-17***. This is 0.5 percentage points lower than the estimate of 7.3% put across in the last round. The Central Statistical Organization had projected a GDP growth of 7.1% for 2016-17 earlier this year.

The survey was conducted in the months of December 2016 and January 2017 and drew responses from leading economists representing industry, banking and financial services sector.

According to the survey results, ***agriculture sector is expected to witness an uptick in the fiscal year 2016-17***. The monsoon has been good which is expected to support agricultural production.***However, growth in both industry and services sector is anticipated to moderate***. Industry and services sector are expected to grow by 5.7% and 8.5% respectively in 2016-17.

The decision of the Government to demonetize high value currency notes has had an impact on the cash dependent sectors and is expected to cause a slowdown in industrial and services sector growth, according to the participating economists.

The survey results also brought to fore the divided view amongst economists on the time frame for normalcy to return in the economy following the demonetisation move. Although ***some believed that things will start rolling back to the way they were in the pre-demonetization days by the end of the current quarter (March 2017), others felt that it could take at least two more quarters for things to fully settle (June 2017***). Once the re-monetization phase is complete and currency is back in circulation, GDP growth would see a recovery.

Economists pointed out that India's economic growth was being propelled by government spending and private consumption and the latter has been hit due to the demonetization move. This will affect recovery in investments and overall growth. Economists felt that the government will continue the focus on additional spending especially in infrastructure projects to give a push to the economy.

With regard to digitization, economists felt that the transition from cash to digital payments will be harder in the rural areas. It was suggested that instead of promoting plastic currency, the Aadhar enabled payment system would facilitate a smooth transition in the rural areas and should be the focus for government efforts.

Further, on the price front, ***inflation is expected to remain benign. Consumer Price Index based inflation has a median forecast of 4.7% for 2016-17***, with a minimum and maximum range of 3.8% and 5.1% respectively.

Economists were also asked to share their assessment about the bi-monthly monetary policy to be announced in the first week of February 2017. A ***majority of the respondents expected the Reserve***

Bank of India to maintain status quo with regard to repo rate on account of domestic and global factors. It was felt that upside risks to inflation remain as the global commodity prices are firming up and the central bank would continue to closely watch the inflation level.

The economists opined that the forthcoming Union Budget 2017-18 is likely to be expansionary and some fiscal stimulus is on the way from Government's side. It was pointed out that the ***Reserve Bank would like to take a detailed account of the stimulus and the borrowing targets before taking a decision to cut the repo rate***.

Further, some major banks have recently revised down their lending rate which has given room to the Reserve Bank to undertake a halt. On the global front, policy stance of developed nations such as the United States will be critical.

However, ***economists anticipate the accommodative stance of the RBI to continue with a probable rate cut of 25 bps in first half of the financial year 2017-18***.

The participating economists were asked to share their top expectations from the Union Budget 2017-18. The respondents unanimously felt that the ***budget should revamp the income tax framework for both individuals and corporates***. This will help lend some support to consumer spending which has been hit post demonetisation.

Also, allocations towards agriculture in form of increased expenditure on irrigation and higher spend on MNREGA are seen, which will give a thrust to rural demand.

A majority of respondents i***ndicated more incentives being announced for promoting digital transactions***. It was also suggested that additional benefits should be bestowed upon Fintech companies in a bid to move towards a cashless economy. ***Respondents also hoped that the budget would look at addressing the impact of demonetisation on the informal sector which is largely cash dependent***. It is important to ensure that there are enough incentives for the informal setups to move into the formal system.

Government is also expected to continue the focus on infrastructure, MSME, real estate and housing sector. Real estate sector has been displaying a muted performance and has been further affected by demonetisation. The sector is likely to get special focus in the budget and new schemes and policies to revive the real estate sector and the housing segment - especially affordable housing may be on the anvil.

Some of the other expectations indicated by the participating economists were - greater infusion of capital in public sector banks and announcement of further measures to strengthen asset quality of the public sector banks.

The economists opined that the forthcoming budget would focus on giving an impetus to growth (which is inclusive) and provide fillip to gross fixed capital formation by enhancing complementarities between public and private investment.

Steps would also be taken towards reviving and deepening of the corporate bond market.

Also, they expect the government to further boost its efforts to increase employment through its flagship programmes such as 'Make in India' and 'Skill India'. ***Economists also expect the government to unveil incentives to promote exports.***

Majority of the economists also believed that guidelines will be laid for the roll out of the Goods and Services Tax.

Top Global Trends for 2017 as indicated by participating economists

Upsides

1. Fiscal incentives to stimulate consumption demand
2. Pick up in investment demand
3. Higher global growth with US economy expected to pickup
4. Higher trade growth

Downside Risks

1. Policy uncertainty in major advanced economies and growing protectionist sentiment
2. Rising global commodity prices
3. Tightening of Monetary Policy by Federal Reserve
4. BREXIT and further weakening of Europe
5. Continued economic slowdown in China and other emerging market economies

Key upside and downside risks for India as indicated by participating economists

Upsides

1. Stable macroeconomic fundamentals – moderate inflation, range bound current account deficit and fiscal deficit
2. Structural reforms such as GST and law on Insolvency & Bankruptcy
3. Shift towards digitization
4. Effective policy reform towards a transparent tax structure
5. Continued government spending on infrastructure investments

Downside Risks

1. Weak domestic investments
2. High Non Performing Assets of Public Sector Banks
3. Risk of rising trade deficit owing to higher crude prices
4. Higher capital outflows as interest rate differential between US and India narrows

5. Rupee remaining weak and volatile
6. Impact of demonetisation→
    a) liquidity shortage
    b) weak consumption demand

Weblink: http://ficci.in/Sedocument/20386/FICCI-EOS-January-2017-Jan-28.pdf

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