

FICCI's Economic Outlook Survey: GDP growth at 7.4% for 2015-16

The results of latest round of FICCI's Economic Outlook Survey put across a median GDP growth forecast of 7.4% for the current fiscal year. This marks no change from the estimated growth in the previous survey round, but is lower than the advance estimate of 7.6% put forth by the Central Statistical Organization recently. The survey was conducted during January/February 2016 among economists belonging to the industry, banking and financial services sector.

Growth (in %)	Estimates for 2015-16 (Median forecasts)		
	Latest Round FICCI's Economic Outlook Survey	Previous Round FICCI's Economic Outlook Survey	CSO Advance Estimate
GDP@ market prices	7.4	7.4	7.6
GVA@ basic prices	7.4	7.4	7.3
Agriculture & Allied activities	1.7	2.0	1.1
Industry	7.1	6.9	7.4
Services	9.7	9.9	9.2

According to the survey results, agriculture sector is expected to record a growth of 1.7% in 2015-16, 0.3 percentage points lower than estimated growth in the previous round. Rabi sowing has been low in many areas owing to relatively warm winter this season. Industrial growth is projected to improve to 7.1% in 2015-16, while services sector growth is estimated at 9.7%.

The median growth forecast for IIP has been put at 4.3% for the year 2015-16, with a minimum and maximum range of 3.0% and 4.5% respectively. The median forecast for IIP in the previous survey was 5.0%.

The outlook of the participating economists on inflation remained moderate. The median forecast for Wholesale Price Index based inflation rate for 2015-16 has been put at (-)1.8%, with a minimum and maximum range of (-)2.8% and (-) 0.4% respectively. The Consumer Price Index based inflation has a median forecast of 5.0% for 2015-16, with a minimum and maximum range of 4.6% and 6.3% respectively.

Further, we sought views of the economists on whether the global economy is heading towards another recession, this time possibly led by China. Global recovery has been tepid and signs of pickup in growth remain scattered across regions. The year 2016 did not start on a very optimistic note with signs of trouble continuing to emanate and the situation remaining particularly worrisome in China.

Most of the economists agreed that the impact of a slowdown in China, which is the second largest economy, on global growth is inevitable. This is expected to cause some volatility in the system, especially on other emerging markets. A deceleration in China has led to a slowdown in countries which form a key base for its raw material supplies namely Indonesia, South Korea and Taiwan. With China's growth model being export driven, it has been one of the largest consumer of commodities. In addition, Foreign Institutional Investors (FIIs) have been vigorously withdrawing from emerging markets and are moving back into developed markets such as the United States. However, **the economists opined that a repeat of the 2008 crisis was unlikely but one can expect continuing divergence in growth rates of developed and emerging economies.**

The surveyed economists also felt that as China tries to rebalance, it will take a few years before the economy is able to get back on track. However, some economists also noted that the extent to which China will slowdown will be limited and that it is unlikely that the growth will fall below 5.5-6.0 percent level. **It was opined that China is likely to emerge out of recession by using its large forex reserves and judicious use of fiscal as well as monetary measures.** As far as impact on India is concerned, economists felt that the

slowdown in China will have limited impact on India as we remain a domestic/consumption oriented economy with sound macro-economic fundamentals.

Top Trends that will define 2016

On being asked to list the top trends that will define the global economy in 2016, majority of the economists indicated the following -

- ✦ Monetary policy decisions by central banks of countries like the United States, Japan, China and Eurozone
- ✦ Movements in the commodity prices, especially oil
- ✦ Japan adopting negative interest rate policy and China further devaluing its currency
- ✦ China's ability to stabilize its economy
- ✦ Ability of developed as well as developing economies to once again initiate investments and aggregate demand

We had also asked the economists to list down their top expectations from the forthcoming Union Budget 2016-17. The participating economists unanimously felt that there is an **urgent need to kick start the domestic capex cycle and it would remain most imperative to give a thrust to investments in infrastructure sector**. Also, taking further measures towards assuring ease of doing business will be important.

Further, the respondents said that they expect **greater efforts towards promotion of MSMEs, especially those based in the rural areas in order to boost employment levels and the rural economy**. It was also suggested that the limit of original investment in plant and machinery/equipment for classification of MSME units needs to be revised.

The participating economists said that they **look forward to passage of GST and Bankruptcy Bill in the forthcoming budget session**. In addition, it was suggested that a **clear roadmap for rationalising corporate tax** should be laid down in the Budget.

Also, expanding revenue base and lowering the tax burden on middle class remains vital. More disposable income in hands of people would give a thrust to domestic demand. Higher income tax exemption limits for home loans and infra bonds is also desirable.

It was felt that as the agricultural sector has been under tremendous strain for the past two years **more farmer centric schemes to protect against adversaries** should be announced in the forthcoming Budget.

The economists said that they **look forward to Government sticking on to the path to fiscal consolidation but not at the cost of curtailing productive expenditure**. The economists were of the view that both fiscal and monetary policies are important and we cannot really afford to lose sight of any one of these. **The task of striking a balance between growth, fiscal consolidation and inflation is challenging; but a discerning majority felt that at this juncture it remains imperative to give a thrust to growth.**

It was pointed out that the Government should continue to undertake productive investments even if that means a minor slippage in the fiscal target. Enhanced spending on physical and social infrastructure would have significant backward and forward linkages producing a multiplier effect through various sectors and manifesting in higher overall growth.

The participating economists felt that the Government should continue trimming the revenue expenditure. The Government should focus on raising divestment proceeds and a further rationalisation of subsidies should remain a priority. **This would aid the fiscal consolidation process.**

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of January/February 2016 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 2015-16 as well as for Q3 (October-December) FY16 and Q4 (January-March) FY16.

In addition, economists were asked to share their opinion on the reconfiguration of both fiscal and monetary policies to propel aggregate demand as alluded in the Mid-year Economic Review (December 2015). The economists were also asked to give a prognosis about the possibility of global economy heading towards another downturn led by China and indicate the top five trends that will define global growth in the year 2016. The participants were also asked to share their key expectations from the upcoming Union Budget 2016-17.

Survey Results: Part A Projections – Key Economic Parameters

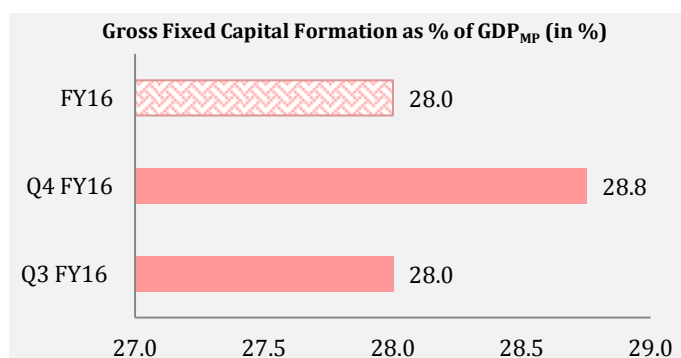
National Accounts

Growth (in %)	Annual (2015-16)			Q3 2015-16			Q4 2015-16		
	Median	Min	Max	Median	Min	Max	Median	Min	Max
GDP@ market prices	7.4	7.4	7.7	7.5	7.1	7.8	7.4	7.0	7.8
GVA@ basic prices	7.4	7.3	7.6	7.5	7.1	7.7	7.6	7.3	7.8
Agriculture & Allied activities	1.7	0.8	2.5	2.4	2.2	2.5	2.6	2.5	2.9
Industry	7.1	5.3	9.5	6.9	6.7	9.5	6.9	6.8	6.9
Services	9.7	9.0	10.9	9.7	9.5	10.3	10.0	9.8	10.5

Based on the responses received for the latest round of FICCI's Economic Outlook Survey, the annual median GDP growth for 2015-16 is estimated at 7.4%. There has been no change in the GDP growth projection for the current fiscal year from the previous round. However, the estimate is marginally lower than the advance estimate of 7.6% for GDP growth put out by Central Statistical Organization recently.

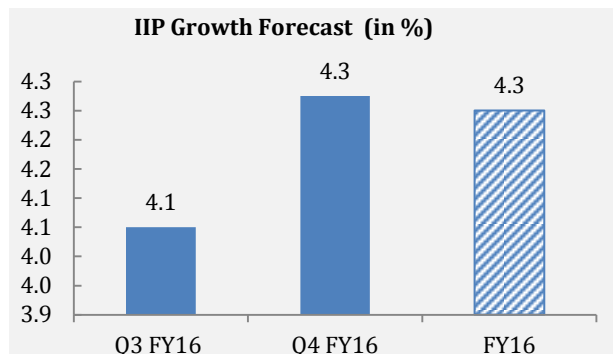
The median growth forecast for agriculture and allied activities has been put at 1.7% for 2015-16, with a minimum and maximum growth estimate of 0.8% and 2.5% respectively. Industry and services sector are expected to grow by 7.1% and 9.7% respectively in the current fiscal year.

The quarterly median forecasts indicate a GDP growth of 7.4% in Q4 2015-16.



The ratio of Gross Fixed Capital Formation to GDP for 2015-16 has been estimated at 28.0%, which is lower than the previous round's forecast by around 1.5 percentage points. The median growth projection for Q4 2015-16 stands at 28.8%.

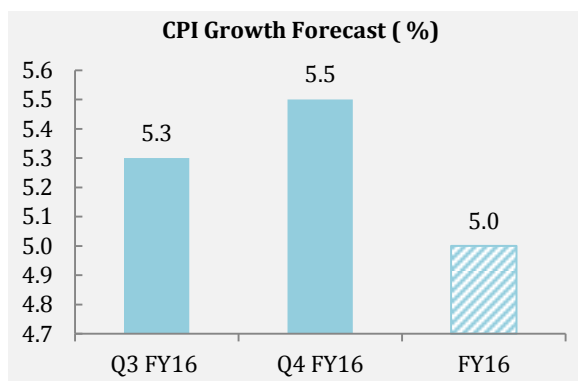
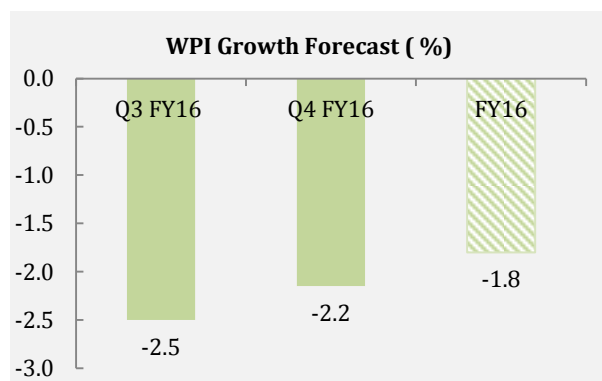
Index of Industrial Production (IIP)



The median growth forecast for IIP was put at 4.3% for 2015-16 by the participating economists, with a minimum and maximum range of 3.0% and 4.5% respectively.

The latest IIP data reported contraction in growth in the month of November and December 2015, after witnessing 9.8% growth in October 2015. The actual IIP growth in Q3 FY16 has been reported at 1.5%. This is much lower than the estimate of 4.1% according to our survey results.

Wholesale Price Index (WPI) & Consumer Price Index (CPI)



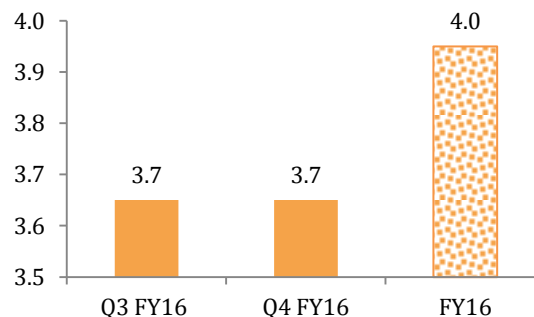
Wholesale Price Index based inflation rate is projected at (-) 1.8% in 2015-16, with a minimum and maximum range of (-) 2.8% and (-) 0.4% respectively. WPI based inflation was forecasted at 0.7% for the entire fiscal 2015-16 in the last survey round.

Consumer Price Index based inflation has a median forecast of 5.0% for 2015-16, with a minimum and maximum range of 4.6% and 6.3% respectively. In the previous survey round, the CPI inflation forecast for this fiscal year was put at 5.1%.

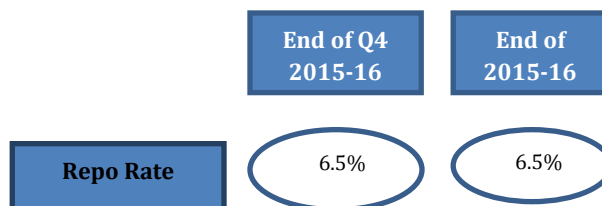
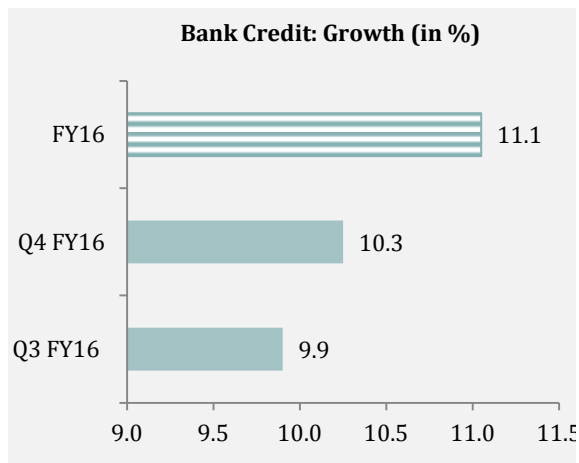
Fiscal Deficit

The median forecast for fiscal deficit to GDP ratio was put at 4.0% for the fiscal year 2015-16. This is slightly higher than the target of 3.9% set by the government for the entire fiscal.

Fiscal Deficit as % of GDP Forecast



Money and Banking

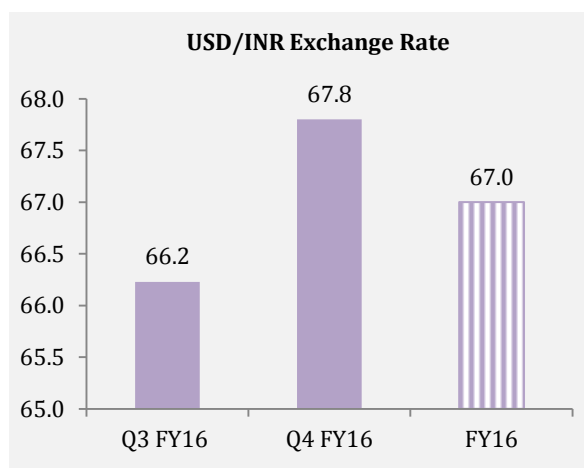
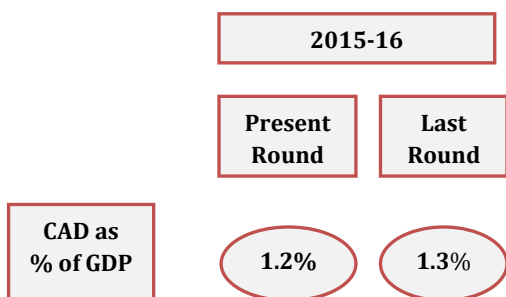


External Sector

2015-16	Export	Import
USD billion	275.0	396.0
Growth (in %)	-8.7	-9.9

Export growth has been on a downtrend for thirteen consecutive months ending December 2015. Global commodity prices and demand conditions continued to be subdued, exerting downward pressure on outbound shipments.

Based on the responses of the participating economists, the median growth forecast for exports has been put at (-) 8.7% for fiscal year 2015-16 and for imports at (-) 9.9%.



Survey Results: Part B
Views of the Economists

NEED FOR RECONFIGURING FISCAL AND MONETARY POLICIES

The domestic economy has been grappling with weak demand for some time now. The Mid-year Economic Review suggests that “higher government expenditure has been a key contributor of growth this fiscal. However, greater public investment which boosts demand was accompanied by fiscal consolidation that detracts from it. The report, thus, calls for a review of the medium term fiscal framework in light of changing macro-economic situation, especially the fall in nominal GDP growth. It also indicates that heavily indebted firms are now set to face even more adverse debt dynamics and hence calls for lower borrowing costs without jeopardising the medium term inflation objective. The report alludes for a more gradual glide path and greater flexibility in interpreting inflation”. Given this backdrop, economists were asked to share their opinions on reconfiguring fiscal and monetary policy objectives.

The economists were of the view that both fiscal and monetary policies are important and we cannot really afford to lose sight of any one of these. The task of striking balance between growth, fiscal consolidation and inflation is challenging; but a majority of the participating economists felt that at this juncture it remains most imperative to give a thrust to growth.

The economists opined that in order to meet the ambition of placing India on a higher growth trajectory on a sustainable basis, there is an urgent need to revive the investment cycle. It was pointed out that the Government should continue to undertake productive investments even if that means a minor slippage in the fiscal target. Enhanced spending on physical and social infrastructure would have significant backward and forward linkages producing a multiplier effect through various sectors and manifesting in higher overall growth.

The participating economists felt that Government should continue trimming revenue expenditure. The focus should remain on increasing divestment proceeds and further rationalisation of subsidies should also remain a priority. This would aid the fiscal consolidation process.

On inflation front, it was pointed out that though CPI based retail inflation has been edging up it is expected to remain within RBI’s indicative trajectory. Off late, food prices have been a key pressure point on the overall inflation. However, it was felt that food prices are linked to increases in minimum support prices. So as long as minimum support prices are range bound, food inflation would remain tamed. Some of the participating economists felt that inflation should not be made the only target of monetary policy especially at the cost of growth considerations.

PROGNOSIS ABOUT WORLD ECONOMY AND TOP TRENDS IN 2016

Global economy continued to slow down in the year 2015 and we are yet to see signs of a sustained recovery. The growth prospects of emerging and developing economies have taken a beating given the subdued demand conditions, low commodity prices and moderation in global trade.

According to Global Economic Prospects (January 2016) World Bank report, world output grew by 2.4 percent in 2015, 0.2 percentage points lower than the growth observed in 2014. The moderation in growth was primarily due to a slowdown observed in prominent emerging market economies, such as China, Brazil, South Africa, in addition to moderation in large economies that are net commodity exporters. However, some major high income countries gained traction in 2015 driven by strong domestic demand.

Further, the year 2016 has not started on a very optimistic note with signs of trouble continuing to emanate on account of above factors and the situation in China becoming particularly worrisome. Given the above

backdrop, we sought views of the economists on whether the global economy is heading towards another recession, this time possibly led by China.

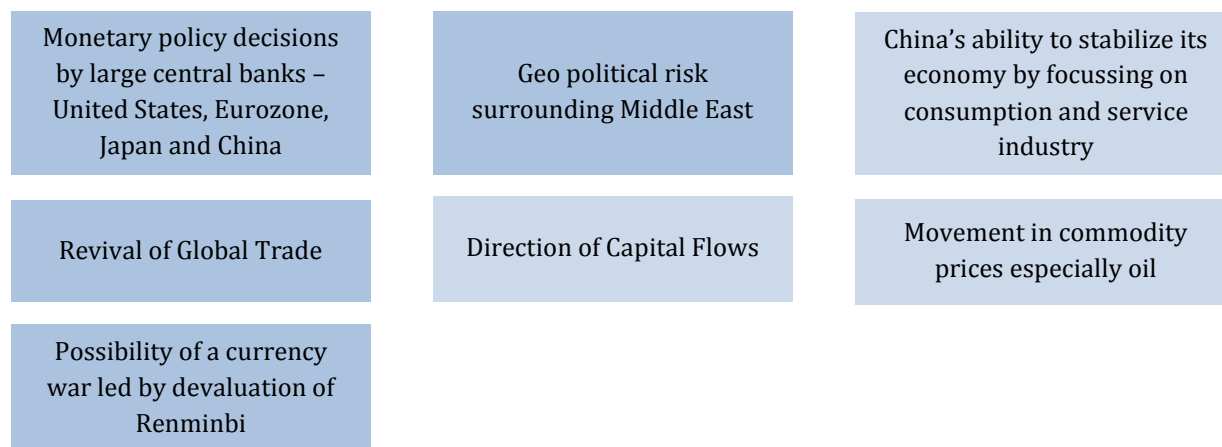
Most of the economists agreed that the impact of a slowdown in China on global growth is inevitable as China is the world's second largest economy. This is expected to cause some volatility in the system, especially on other emerging markets. A deceleration in China has caused a subsequent slowdown in countries which form a key base for its raw material supplies namely Indonesia, South Korea and Taiwan. With China's growth model being export driven, it has been one of the largest consumer of commodities. In addition, Foreign Institutional Investors (FIIs) have been vigorously withdrawing from emerging markets and are moving back into developed markets such as the United States. However, the economists opined that a repeat of the 2008 crisis was unlikely but one can expect to see continuing divergence in growth rates of developed and emerging economies.

Economists felt that as China tries to rebalance, it will take a few years before the economy is able to get back on track. However, some economists noted that the extent to which China will slowdown will be limited and that it is unlikely that its growth will fall below 5.5-6.0 percent level. It was opined that China is likely to emerge out of this phase of slowing growth by using its large forex reserves as well as judicious use of fiscal and monetary measures.

As far as impact on India is concerned, economists felt that the slowdown in China will have limited impact on India as we remain a domestic/consumption driven economy with sound macro-economic fundamentals. The respondents were confident that though there will be spill overs of the global as well as Chinese slowdown, there will be no major impact on the Indian economy. In fact, it was felt that global investors might find India more attractive. A stable government, cheap oil and conducive demand conditions are major positives for the country.

On being asked to list the top trends that will define the global economy in 2016, majority of the economists viewed monetary policy decisions by central banks of countries such as the United States, Japan, China and Eurozone and movements in the commodity prices (especially oil) as the major determinants of the course of global growth. It is feared that with Japan adopting negative interest rate policy and China further devaluing its currency, a currency war might erupt among other emerging market economies. Other defining trends for this year indicated by the participants were developments in the Chinese economy and its ability to stabilize, and ability of developed as well as developing economies to initiate aggregate demand and investment cycle.

Key Trends Likely To Define Global Growth in 2016



EXPECTATIONS FROM THE UNION BUDGET 2016-17

With the Budget around the corner, we had asked the economists on their top expectations from the Union Budget 2016-17.

The participating economists unanimously felt that there is an urgent need to kick start the domestic capex cycle and it would remain most imperative to give a thrust to investments in infrastructure sector. Also, taking more steps towards assuring ease of doing business will be important.

Further, the respondents said that they expect greater efforts towards promotion of MSMEs, especially those based in the rural areas so as to boost the employment level and the rural economy. It was suggested that the limit of original investment in plant and machinery/equipment for classification of MSME units need to be revised.

The participating economists said that they look forward to passage of GST and Bankruptcy Bill in the budget session. In addition, it was suggested that a clear roadmap for rationalising corporate tax should be laid down in the Budget.

Expanding revenue base and lowering the tax burden on middle class remains vital. More disposable income in hands of people should give a thrust to domestic demand. Also, higher income tax exemption limits for home loans and infra bonds is desirable. The move will not only push demand, but also cushion the already cash strapped real estate and infrastructure projects.

It was felt, given that the agricultural sector has been under tremendous strain for the past two years more farmer centric schemes to protect against adversaries should be announced in the forthcoming Budget.

The economists said that they look forward to Government sticking on the path to fiscal consolidation but this should not come at the cost of curtailing productive investments.

The participating economists also mentioned that with banks reeling under the pressure of non-performing assets, the budget is also expected to chalk out the allocations for bank capitalisation for public sector banks for the next fiscal year.

In order to assist the ailing export sector, economists felt that the exporters too should be given some incentives in the forthcoming budget.

Economic Outlook Survey
February 2016



Bank credit growth (%)	11.4	11.1	10.5	12.8	9.9	9.9	8.5	11.3	10.3	10.3	9.0	11.5
Repo Rate (end period)	6.5	6.5	6.5	6.5	6.75	6.75	6.75	6.75	6.5	6.5	6.5	6.5
Merchandise Export												
Value in USD billion	274.9	275.0	254.9	294.7	-	-	-	-	-	-	-	-
Growth (%)	-10.5	-8.7	-19.5	-5.0	-	-	-	-	-	-	-	-
Merchandise Import												
Value in USD billion	396.7	396.0	373.0	421.1	-	-	-	-	-	-	-	-
Growth (%)	-11.2	-9.9	-19.1	-5.9	-	-	-	-	-	-	-	-
Trade Deficit (% to GDP)	4.6	4.7	2.9	6.0	-	-	-	-	-	-	-	-
CAD												
as % of GDP at current price	1.3	1.2	0.8	1.8	-	-	-	-	-	-	-	-
US\$ / INR exchange rate (end period)	66.8	67.0	65.2	67.8	66.3	66.2	66.2	66.5	67.7	67.8	67.3	67.9