



Economic Outlook Survey

May 2016



GDP growth estimated at 7.7% in 2016-17: FICCI's Economic Outlook Survey

HIGHLIGHTS

GDP Growth for FY 17 estimated at 7.7%

Latest round of FICCI's Economic Outlook Survey puts across a median GDP growth forecast of 7.7% for the current fiscal year.

| Growth (in %) | Estimates - Economic Outlook Survey | | MOSPI |
|---------------------------------|-------------------------------------|----------|------------|
| | 2016-17* | 2015-16* | 2015-16 AE |
| GDP@ market prices | 7.7 | 7.4 | 7.6 |
| GVA@ basic prices | 7.6 | 7.4 | 7.3 |
| Agriculture & Allied activities | 2.8 | 2.0 | 1.1 |
| Industry | 7.1 | 6.9 | 6.5 |
| Services | 9.6 | 9.9 | 8.9 |

*Median forecast

GDP 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.

Quarter 4 FY 16 GDP growth estimated at 7.4%

| Growth (in %) | Estimates - Economic Outlook Survey | |
|---------------------------------|-------------------------------------|------------|
| | Q4 2015-16 | Q1 2016-17 |
| GDP@ market prices | 7.4 | 7.6 |
| GVA@ basic prices | 7.2 | 7.5 |
| Agriculture & Allied activities | 2.1 | 2.0 |
| Industry | 6.2 | 6.8 |
| Services | 9.9 | 9.5 |

GDP growth of 7.4% in Q4 2015-16 would imply 7.5% growth for the fiscal year 2015-16. This is a tad lower than the projected estimate of 7.6% for 2015-16 released by the MOSPI earlier this year.

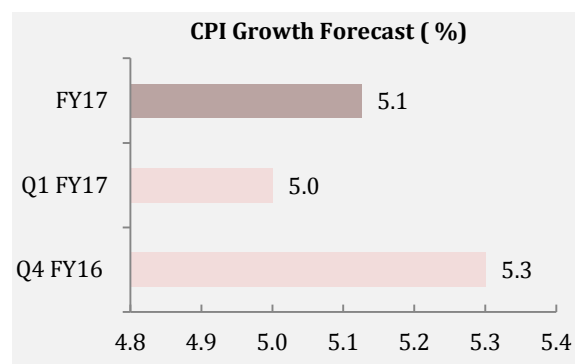
IIP growth @3.5% in 2016-17

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 median growth forecast for Index of Industrial Production for 2015-16 was 4.6%; while actual numbers reported a growth of 2.4%.

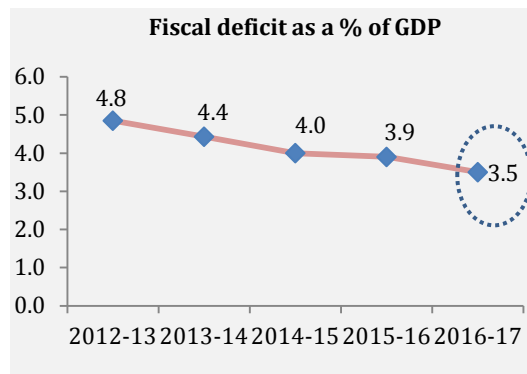
Inflation to remain range bound this year

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.

Fiscal Deficit to GDP ratio for 2016-17 in line with Government's indicative trajectory



VIEWES OF ECONOMISTS

Whether the Fiscal Deficit Target For 2016-17 Is Achievable?

A majority of the participating economists believed that the fiscal deficit target for the year 2016-17 seems achievable. 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 subsidy rationalization. It was also pointed out that it would be important to realize the non-tax revenue target for achieving the target fiscal deficit to GDP ratio.

It was mentioned that the economy will have to achieve a GDP growth rate of 7% - 7.75% to be able to garner the requisite amount of revenue receipts.

Risk could arise from an increase in global crude oil prices and this could possibly change the projected trajectory of fiscal deficit.

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.

By When Is Recovery Expected in the Banking Sector?

Most economists agreed that the government and RBI are working collectively to address the problems in the banking sector and some of the measures undertaken will aid the process of cleaning banks' balance sheet. However, 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 as exit from unviable businesses has been a major challenge in India. 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.

Views on Bank Consolidation

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.** Furthermore, consolidation would enhance the ability of banks to recover bad loans.

However, a majority of the economists said that **we can move forward on the path of consolidation only when the bank 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.

By when will Investment Cycle recover?

A majority of the economists were of the view that the **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.

Participating economists added that both Government and the RBI have been working to ensure effective transmission of the repo rate cuts. ***The interest rate scenario was deemed positive by the respondents for a pick-up in credit growth.***

How can Government Double Farmers Income?

The participating economists unanimously agreed that first the basics need to be put 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.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of April/May 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 2016-17 as well as for Q4 (January-March) FY16 and Q1 (April-June) FY17.

In addition, we sought views of the economists on certain topical issues that are confronting the economy. These included-

- (i) Whether the fiscal deficit target for 2016-17 was achievable
- (ii) Expected course of recovery in the banking sector
- (iii) Opinion on bank consolidation
- (iv) Expected recovery course of the investment cycle
- (v) Suggestions on how the government can achieve its ambitious target of doubling farmers income by 2022

Survey Results: Part A Projections – Key Economic Parameters

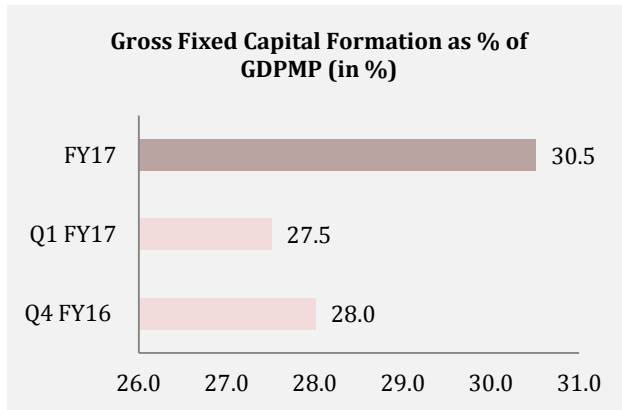
National Accounts

| Growth (in %) | GDP growth at 2011-12 prices | | | | | | | | |
|---------------------------------|------------------------------|-----|------|------------|-----|------|------------|-----|------|
| | Annual (2016-17) | | | Q4 2015-16 | | | Q1 2016-17 | | |
| | Median | Min | Max | Median | Min | Max | Median | Min | Max |
| GDP@ market prices | 7.7 | 7.3 | 7.8 | 7.4 | 7.3 | 7.5 | 7.6 | 7.5 | 7.6 |
| GVA@ basic prices | 7.6 | 7.2 | 7.8 | 7.2 | 6.9 | 7.5 | 7.5 | 6.7 | 7.6 |
| Agriculture & Allied activities | 2.8 | 1.6 | 3.5 | 2.1 | 0.8 | 2.8 | 2.0 | 0.8 | 2.5 |
| Industry | 7.1 | 6.4 | 8.5 | 6.2 | 5.5 | 6.6 | 6.8 | 6.3 | 7.0 |
| Services | 9.6 | 8.5 | 10.5 | 9.9 | 9.1 | 10.5 | 9.5 | 8.2 | 11.0 |

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast of 7.7% for 2016-17. This is in line with the estimated growth range of 7-7.75% for the financial year 2016-17 put out in the latest Economic Survey (2014-15).

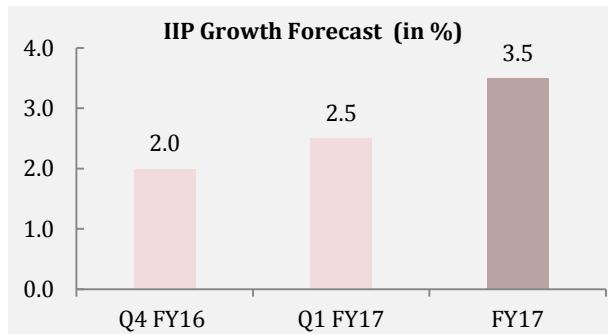
The median growth forecast for agriculture and allied activities has been put at 2.8% for 2016-17, with a minimum and maximum growth estimate of 1.6% and 3.5% respectively. The expected improvement in growth comes on back of good monsoons projected by the meteorological department. Industry and services sector are expected to grow by 7.1% and 9.6% respectively in 2016-17.

The quarterly median forecasts indicate a GDP growth of 7.4% in Q4 2015-16 and 7.6% in Q1 2016-17. The GDP growth estimate of 7.4% in Q4 2015-16 implies 7.5% growth for the entire fiscal year 2015-16. This is a tad lower than the projected growth of 7.6% for 2015-16 released by the MOSPI earlier this year. The numbers for Q4 2015-16 and FY 2015-16 will be announced on May 31, 2016.



The ratio of Gross Fixed Capital Formation to GDP for 2016-17 has been estimated at 30.5%. The median growth prediction for Q4 2015-16 is put at 28.0% and Q1 2016-17 at 27.5%.

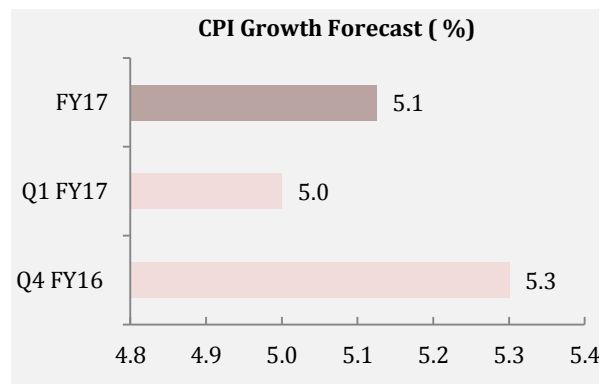
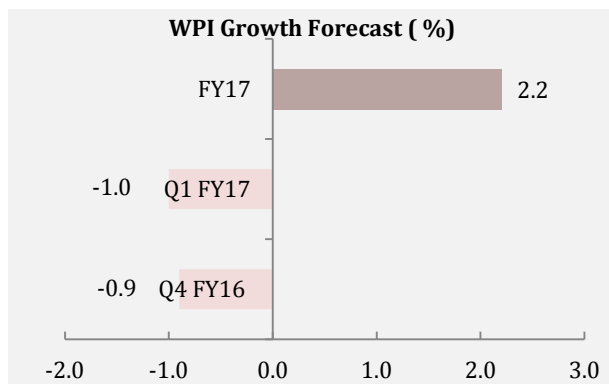
Index of Industrial Production (IIP)



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

The latest IIP data reported almost flat growth (0.1%) in the month of March 2016 vis-à-vis 2.0% growth in February 2016. The actual IIP growth in Q4 FY16 has been reported at 0.2%. This is lower than the estimate of 2.0% according to our survey results.

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



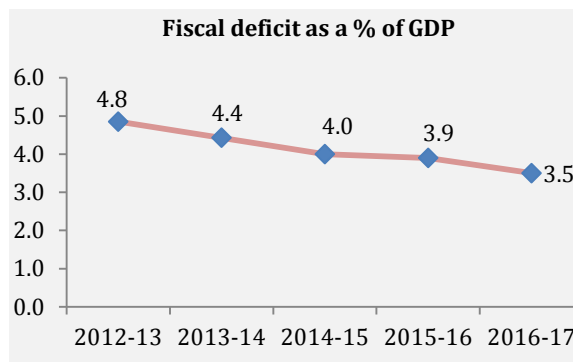
Wholesale Price Index based inflation rate is projected at 2.2% in 2016-17, with a minimum and maximum range of (-) 1.3% and 2.9% respectively.

WPI inflation rate was reported at 0.3% in the month of April 2016, turning positive after seventeen consecutive months of decline.

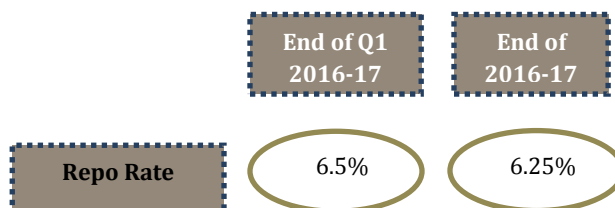
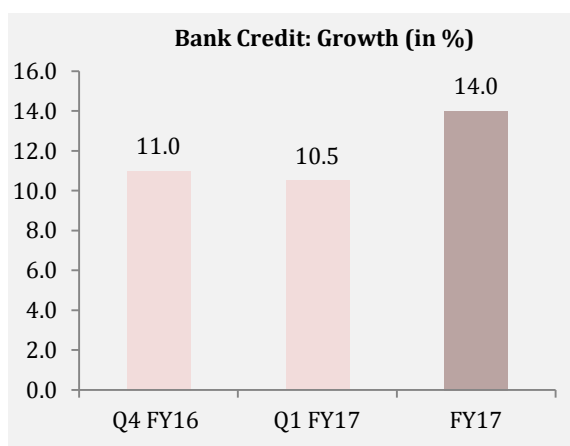
Consumer Price Index has a median forecast of 5.1% for 2016-17, with a minimum and maximum range of 4.5% and 5.5% respectively. CPI forecast for Q1 2016-17 has been put at 5.0% according to our survey results.

Fiscal Deficit

The estimate for fiscal deficit to GDP ratio was put at 3.5% for the fiscal year 2016-17, which is in line with the target set by the government.



Money and Banking

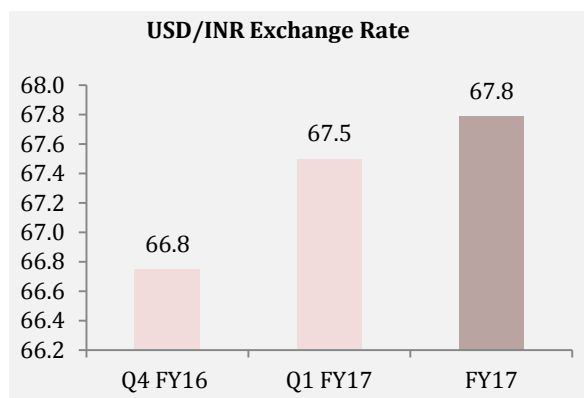
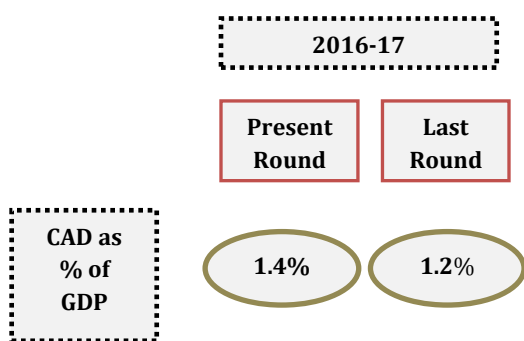


External Sector

| 2016-17 | Export | Import |
|---------------|--------|--------|
| USD billion | 276.9 | 379.7 |
| Growth (in %) | 5.0 | 5.2 |

Export growth has been on a downtrend for seventeen consecutive months ending April 2016. Global commodity prices and demand conditions continued to be subdued, exerting downward pressure on outbound shipments.

Based on the responses received, the median growth forecast for exports has been put at 5.0% for fiscal year 2016-17 and for imports at 5.2%.



Survey Results: Part B
Views of the Economists

VIEWS ON WHETHER THE FISCAL DEFICIT TARGET FOR 2016-17 IS ACHIEVABLE

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. This was achieved despite doubts being fanned by a difficult situation on the global front and a moderate recovery in the domestic economy. While the situation seems to be improving at home, the performance of the industrial sector is yet to see a firm turnaround. Amidst this, the participating economists were asked to assess if the target deficit to GDP ratio of 3.5% for 2016-17 will be attainable.

A majority of the participating economists believed 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.

EXPECTATION ABOUT RECOVERY IN THE BANKING SECTOR

India's banking system is going through a challenging phase given the large accumulation of stressed assets. Non-performing loans have increased for five consecutive years (2011-12 to 2015-16) and the gross non-performing assets ratio of banks stood at 5.1% as of September 2015. Economic slowdown and execution challenges faced primarily in case of infrastructure projects have resulted in a severe deterioration in the financial condition of a large number of companies. Given this backdrop, the economists were asked to share their assessment of an expected recovery timeline in the banking sector.

Most economists agreed that the government and RBI are working collectively to address the problems in the banking sector and some of the measures undertaken will aid the process of cleaning banks' balance sheet. However, the 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 ensures greater availability of credit by freeing up of capital.

With respect to the revival seen in bank lending, the stimulus has come largely from personal borrowings and credit disbursement to the industrial sector has remained sluggish.

VIEWS ON BANK CONSOLIDATION

The Government has been trying to work out a framework for consolidating the public sector banks. At present, the size of the assets owned by banks is relatively small restricting their capacity to raise funds. India is the fastest growing economy and we have a huge funding requirement which primarily gets channelized through banks; thus building economies of scale in banking and allowing scope for greater risk diversification remains vital. Today, none of the Indian banks are listed among the rung of top 10 banks in the Global Rankings.

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.

This is also expected to cut down bank branches, particularly in the urban areas where a cluster of banks operate in the same area, thereby rationalising the costs incurred. In addition to this, respondents pointed out that consolidation is not merely merging one bank with the other. It is more about getting rid of the unproductive portfolios while shifting the focus on areas where the bank has or can develop an expertise.

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.

EXPECTED RECOVERY COURSE OF THE INVESTMENT CYCLE

The investment cycle remains lackadaisical and a firm turnaround in the domestic capex cycle is yet to shape up. The Government has of course given an impetus to public sector investments and that has also been a thrust area in the Union Budgets announced so far. Some of the pending projects especially in the infrastructure space have taken off. Nonetheless, what remains a concern is the recovery in the private sector investments. The highly leveraged corporate sector balance sheets and the rise in non-performing loans of banks have led to a worrisome situation. There has been a persistent weakness in global and domestic demand conditions and consequently companies have been operating at suboptimal capacity levels.

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.

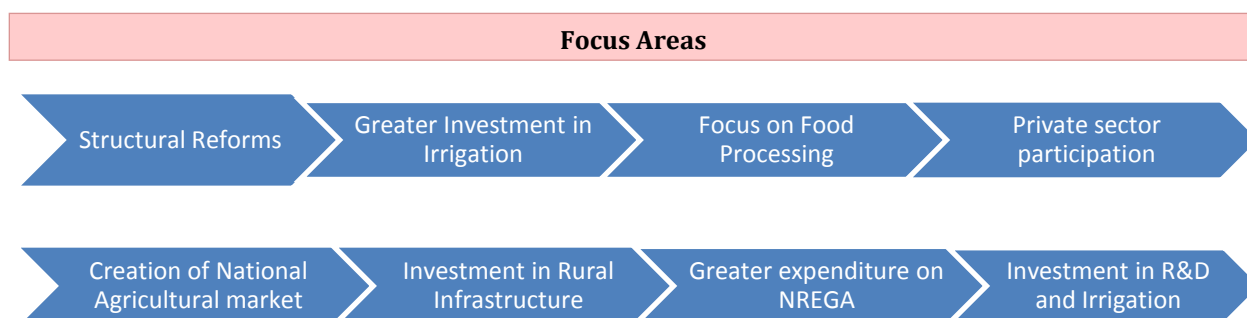
Participating economists added that both Government and the RBI have been working to ensure effective transmission of the repo rate cuts. The interest rate scenario was deemed positive by the respondents for a pick-up in credit growth.

SUGGESTIONS ON HOW THE GOVERNMENT CAN DOUBLE FARMER'S INCOME BY 2022

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. While the Government has taken some very important steps (crop insurance, introduction of soil cards, push to irrigation, delisting of fruits and vegetable from APMC) over the course of last two years to give an impetus to the agriculture sector, however doubling of farmers income would entail a very comprehensive turnaround strategy. 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.

| | | | | | | | | | | | | |
|--|-------|-------|-------|-------|------|------|------|------|------|------|------|------|
| Bank credit growth (%) | 13.5 | 14.0 | 12.0 | 14.5 | 11.0 | 11.0 | 11.0 | 11.0 | 10.5 | 10.5 | 9.0 | 12.0 |
| Repo Rate (end period) | 6.25 | 6.25 | 6.25 | 6.5 | 6.5 | 6.5 | 6.5 | 6.75 | 6.5 | 6.5 | 6.25 | 6.5 |
| Merchandise Export | | | | | | | | | | | | |
| Value in USD billion | 276.9 | 276.9 | 273.7 | 280.0 | - | - | - | - | - | - | - | - |
| Growth (%) | 4.9 | 5.0 | 0.6 | 8.0 | - | - | - | - | - | - | - | - |
| Merchandise Import | | | | | | | | | | | | |
| Value in USD billion | 379.7 | 379.7 | 360.0 | 399.3 | - | - | - | - | - | - | - | - |
| Growth (%) | 5.2 | 5.2 | 2.2 | 7.5 | - | - | - | - | - | - | - | - |
| Trade Balance (% to GDP) | -3.9 | -3.9 | -5.7 | -2.0 | - | - | - | - | - | - | - | - |
| CAD | | | | | | | | | | | | |
| as % of GDP at current price | 1.4 | 1.4 | 1.0 | 1.7 | - | - | - | - | - | - | - | - |
| US\$ / INR exchange rate (end period) | 67.9 | 67.8 | 66.5 | 70.0 | 66.8 | 66.8 | 66.5 | 67.0 | 67.8 | 67.5 | 66.9 | 69.0 |

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Note: All views in this report are those of the participating economists.