Economic Outlook Survey

August 2016

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

HIGHLIGHTS

GDP Growth for FY 17 estimated at 7.8%

Latest round of FICCI's Economic Outlook Survey puts across a median GDP growth forecast of 7.8% for the current fiscal year. The survey was conducted during July/August 2016 among eminent economists belonging to the industry, banking and financial services sector.

	Median Estimates Economic Outlook Survey: 2016-17	
Growth (in %)	**Present Round***	**Last Round***
GDP@ market prices	7.8	7.7
GVA@ basic prices	7.6	7.6
Agriculture & Allied activities	2.9	2.8
Industry	7.3	7.1
Services	9.3	9.6

*Median forecast

Growth has witnessed a slight uptick in the present round and is projected at 7.8% in 2016-17, 0.1% higher than the projection made in the previous round. The improvement 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 in July 2016.

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% 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.

Quarter 1 FY 17 GDP growth estimated at 7.7%

	Median Estimates Economic Outlook Survey		
Growth (in %)	**Q1 2016-17 Present Round**	**Q1 2016-17 Last Round**	**Q2 2016-17**
GDP@ market prices	7.7	7.6	7.7
GVA@ basic prices	7.6	7.5	7.6
Agriculture & Allied activities	2.4	2.0	2.7
Industry	7.3	6.8	7.5
Services	8.9	9.5	8.9

IIP growth @3.5% in 2016-17

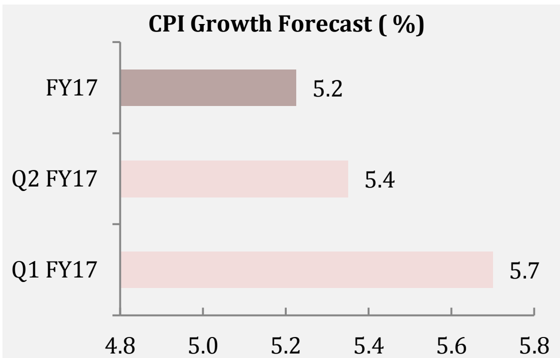
The median growth forecast for IIP has been put at 3.5% for the year 2016-17, with a minimum and maximum range of 2.0% and 4.3% respectively.

Outlook on inflation modest for this year

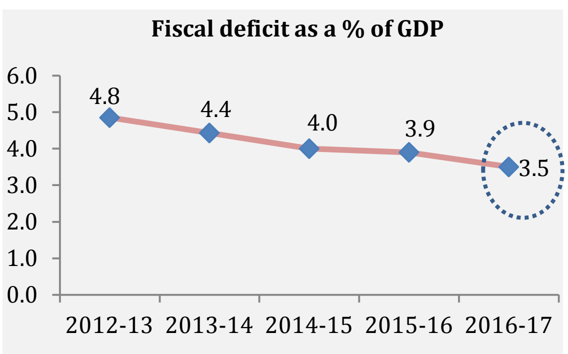
The median forecast for Wholesale Price Index based inflation rate for 2016-17 has been put at 2.4%, with a minimum and maximum range of 1.5% and 2.9% respectively. The Consumer Price Index has a median forecast of 5.2% for 2016-17, with a minimum and maximum range of 4.5% and 5.8% respectively.

The median inflation forecast for 2016-17 has noted a marginal increase vis-a-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.

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



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



VIEWS OF ECONOMISTS

Transmission of Monetary Policy into Lower Lending Rates

The economists opined that while the moves undertaken by the Reserve Bank of India (introduction of MCLR) and Government (cut in small savings rate) 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. Credit cost of banks has increased leaving little space for further reduction in lending rates without having an impact on net earnings.

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. However, 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.

Do we need a more competitive exchange rate?

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.

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.

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.

Whether the output gap has narrowed and can it fuel inflation going ahead?

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.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of July/August 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 Q1 (April-June) FY17 and Q2 (July-September) FY17.

In addition, economists were asked to share their views on certain topical subjects such as limited transmission of monetary policy. Views of the economists were also sought on whether there is a need to move to a more competitive exchange rate to support ailing exports. Also given the backdrop of RBI's recent paper - 'India's potential output revisited', the economists were asked to share their prognosis on whether a higher growth rate (higher than 8.0%) would fuel inflationary pressures.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

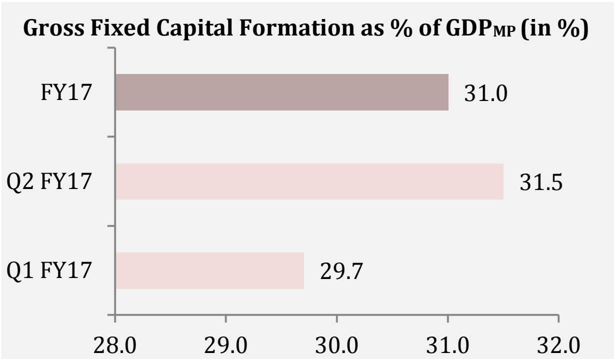
GDP growth at 2011-12 prices

	Annual (2016-17)			Q1 2016-17			Q2 2016-17		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.8**	7.3	8.9	**7.7**	7.3	8.5	**7.7**	7.5	8.0
GVA@ basic prices	**7.6**	7.3	7.7	**7.6**	7.0	7.7	**7.6**	7.2	7.8
Agriculture & Allied activities	**2.9**	1.4	4.3	**2.4**	1.7	3.0	**2.7**	1.9	3.5
Industry	**7.3**	5.2	8.3	**7.3**	6.2	7.9	**7.5**	5.6	8.2
Services	**9.3**	8.4	10.9	**8.9**	8.0	10.0	**8.9**	7.7	9.6

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2016-17 at 7.8%.

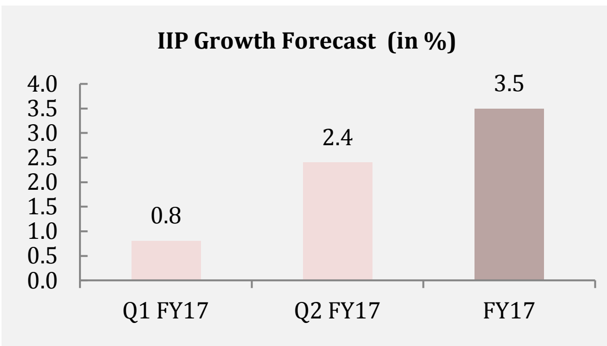
The median growth forecast for agriculture and allied activities has been put at 2.9% for 2016-17, with a minimum and maximum growth estimate of 1.4% and 4.3% respectively. The monsoon season has been good so far which bodes well for the sector's performance, going forward. Industry and services sector are expected to grow by 7.3% and 9.3% respectively in 2016-17.

The quarterly median forecasts indicate a GDP growth of 7.7% in both quarter 1 and quarter 2 in 2016-17.



The ratio of Gross Fixed Capital Formation to GDP for 2016-17 has been estimated at 31.0%. The median growth prediction for Q2 2016-17 is put at 31.5%, 1.8% higher than that projected for Q1 2016-17.

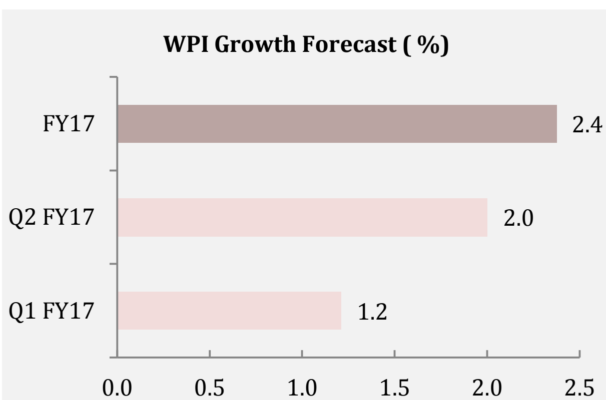
Index of Industrial Production (IIP)

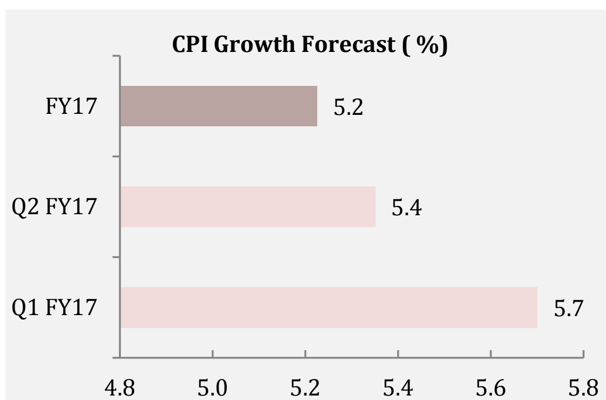


The median growth forecast for IIP was put at 3.5% for 2016-17 by the participating economists, with a minimum and maximum range of 2.0% and 4.3% respectively.

The latest IIP data reported improvement in growth numbers. The index grew by 2.1% in the month of June 2016 vis-à-vis 1.1% growth in May 2016. The actual IIP growth in Q1 FY16 has been reported at 0.6%. This is slightly lower than the estimate of 0.8% according to our survey results.

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



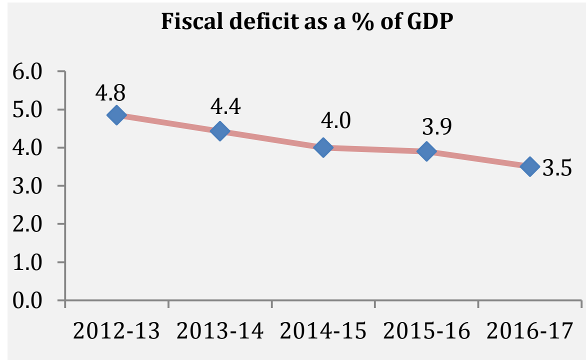


Wholesale Price Index based inflation rate is projected at 2.4% in 2016-17, with a minimum and maximum range of 1.5% and 2.9% respectively. The latest data on WPI based inflation puts across an inflation rate of 3.6% for the month of July 2016, which was a twenty three month high.

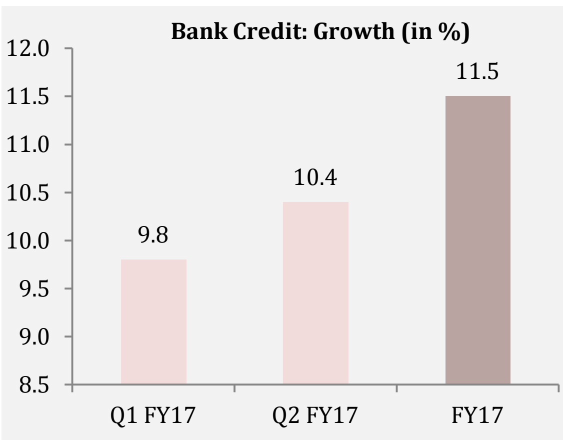
Consumer Price Index has a median forecast of 5.2% for 2016-17, with a minimum and maximum range of 4.5% and 5.8% respectively. CPI forecast for Q2 2016-17 was put at 5.4% according to our survey results.

Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 3.5% for the fiscal year 2016-17 with a minimum and maximum range of 3.3% and 3.7% respectively.



Money and Banking



	End of Q2 2016-17	End of 2016-17
Repo Rate	6.5%	6.25%

External Sector

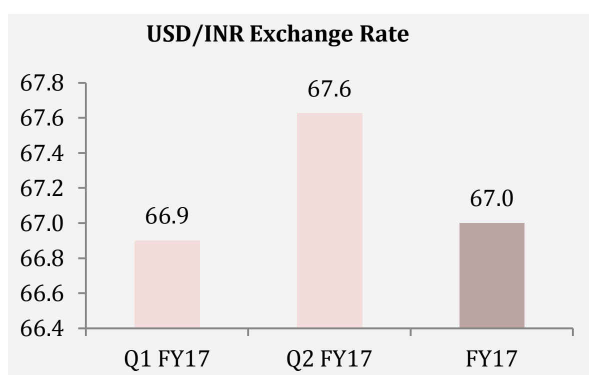
2016-17	Export	Import
USD billion	278.0	404.7
Growth (in %)	4.8	5.0

Export growth has been weak since December 2014. Global commodity prices and demand conditions, both global and domestic, remain muted.

Based on the responses of the participating economists, the median growth forecast for exports has been put at 4.8% for fiscal year 2016-17 and for imports at 5.0%.

2016-17

	Present Round	Last Round
CAD as % of GDP	1.3%	1.4%



Survey Results: Part B
Views of the Economists

VIEWS ON TRANSMISSION OF MONETARY POLICY INTO LOWER LENDING RATES

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, managing both, tight and easy liquidity conditions to allow for an improved transmission. It was expected that the efforts by the Government and the Reserve Bank of India will bring down the lending rates. 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 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. Credit cost of banks has increased leaving little space for further reduction in lending rates without having an impact on net earnings.

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. However, 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.

VIEWS ON THE NEED FOR A MORE COMPETITIVE EXCHANGE RATE

Merchandise exports, after reporting a recovery in June 2016, have contracted again in July. 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 such as transport equipment, metals, electronic goods etc. It will cause the import bill to inflate. Also, India remains heavily dependent on crude oil imports to meet its energy demand.

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. Alongside, exporters should work towards tapping alternative markets (other than US and EU).

The respondents suggested that it is important to focus on long term solutions than looking at short term remedies. 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.

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.

VIEWS ON WHETER THE OUTPUT GAP HAS NARROWED AND CAN IT FUEL INFLATION GOING AHEAD?

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, impetus to public investments, Insolvency & Bankruptcy Code - are steps in the right direction.

Appendix

Key Macroeconomic variables	Outlook 2016-17				Outlook Q1 2016-17				Outlook Q2 2016-17			
	Mean	Median	Min	Max	Mean	Median	Min	Max	Mean	Median	Min	Max
GDP growth rate at market prices (%)	7.9	7.8	7.3	8.9	7.7	7.7	7.3	8.5	7.7	7.7	7.5	8.0
GVA growth rate at basic prices(%)	7.6	7.6	7.3	7.7	7.4	7.6	7.0	7.7	7.5	7.6	7.2	7.8
Agriculture & Allied	2.8	2.9	1.4	4.3	2.3	2.4	1.7	3.0	2.6	2.7	1.9	3.5
Industry	7.1	7.3	5.2	8.3	7.2	7.3	6.2	7.9	7.2	7.5	5.6	8.2
Services	9.4	9.3	8.4	10.9	9.0	8.9	8.0	10.0	8.8	8.9	7.7	9.6
Gross Domestic Savings (% of GDP at market prices)	31.6	31.5	30.1	33.0	30.3	30.2	29.5	31.2	31.0	31.0	30.5	31.6
Gross Fixed Capital Formation (% of GDP at market prices)	30.9	31.0	30.0	32.0	30.1	29.7	29.0	32.1	31.3	31.5	30.1	31.6
Fiscal Deficit (as % to GDP) Centre	3.5	3.5	3.3	3.7	-	-	-		-	-	-	-
Growth in IIP (%)	3.3	3.5	2.0	4.3	1.2	0.8	0.6	2.5	2.2	2.4	1.3	2.5
WPI Inflation rate (%)	2.2	2.4	1.5	2.9	1.1	1.2	0.0	1.5	2.2	2.0	1.2	3.5
CPI combined new inflation rate (%)	5.2	5.2	4.5	5.8	5.5	5.7	5.0	5.7	5.4	5.4	5.2	6.1
Money supply growth M3 (%) (end period)	11.6	11.8	10.8	12.3	10.1	10.0	9.9	10.4	10.8	10.8	10.0	11.5
Bank credit growth (%)	11.6	11.5	10.7	12.5	9.8	9.8	9.7	9.9	10.5	10.4	10.1	11.0

Repo Rate (end period)	6.25	6.25	6.25	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.25	6.5
Merchandise Export												
Value in USD billion	280.0	278.0	268.0	299.1	66.0	65.7	65.3	66.0	69.5	69.5	69.0	70.0
Growth (%)	4.8	4.8	0.0	9.0	-2.2	-2.1	-2.3	-2.1	2.5	4.5	-2.8	5.7
Merchandise Import												
Value in USD billion	400.5	404.7	360.0	435.0	84.0	84.2	83.9	84.5	92.2	92.2	89.3	95
Growth (%)	5.0	5.0	-2.0	10.7	-14.1	-14.5	-14.5	-13.2	-6.3	-6.9	-14.5	2.5
Trade Balance (% to GDP)	-6.0	-6.2	-4.5	6.9	-	-	-	-	-	-	-	-
CAD as % of GDP at current price	1.3	1.3	1.0	1.6	0.7	0.7	0.4	0.9	1.5	1.5	1.2	1.7
US$ / INR exchange rate (end period)	67.3	67.0	66.0	69.0	66.7	66.9	66.0	66.9	67.7	67.6	66.5	69.5

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