Economic Outlook Survey

January 2017

GDP growth estimated at 6.8% in 2016-17: FICCI's Economic Outlook Survey

HIGHLIGHTS

GDP growth for FY 17 estimated at 6.8%

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

	Median Estimates Economic Outlook Survey: 2016-17		CSO estimates
Growth (in %)	**Present Round**	**Last Round**	
GDP@ market prices	**6.8**	7.3	**7.1**
GVA@ basic prices	**6.7**	7.5	**7.0**
Agriculture & Allied activities	**3.2**	3.1	**4.1**
Industry	**5.7**	7.1	**5.2**
Services	**8.5**	9.1	**8.8**

The Central Statistical Organization had estimated a GDP growth of 7.1% for 2016-17 earlier in January this year.

According to the survey results, agriculture sector is expected to witness an uptick in the fiscal year 2016-17. The monsoons have been good which is expected to support agricultural production.

However, both industry and services sectors are 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 primarily belonging to the informal economy. This is expected to cause some slowdown in industrial and services sector growth.

Retail trade, hospitality, tourism, gems and jewellery have reported a dip in business. Even sectors like automobiles and consumer goods have seen a drop in demand especially in rural areas.

However, once the re-monetization phase is complete and currency is back in circulation, GDP growth would see a recovery.

Quarter 3 and Quarter 4 FY 17 GDP growth

	Median Estimates Economic Outlook Survey	
Growth (in %)	**Q3 2016-17**	**Q4 2016-17**
GDP@ market prices	6.8	6.7
GVA@ basic prices	6.7	6.7
Agriculture & Allied activities	2.9	2.9
Industry	5.3	5.6
Services	7.7	7.8

IIP growth @1.5% in 2016-17

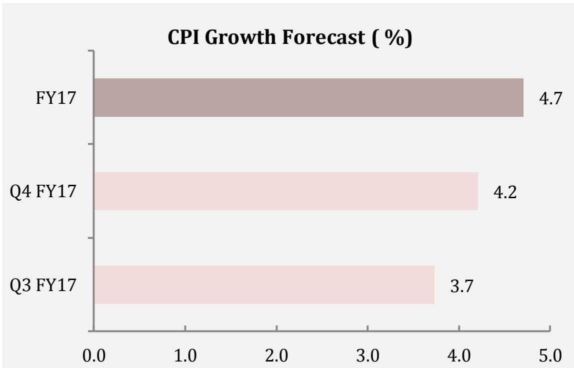
The median growth forecast for IIP has been put at 1.5% for the year 2016-17, with a minimum and maximum range of (-) 2.1% and 2.9% respectively. This is marginally lower than the estimate of 1.7% put across in the last survey round.

Inflation to remain benign

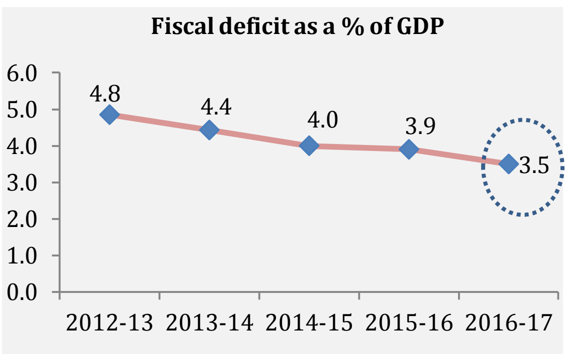
The median forecast for Wholesale Price Index based inflation rate for 2016-17 has been put at 3.4%, with a minimum and maximum range of 3.1% and 3.5% respectively.

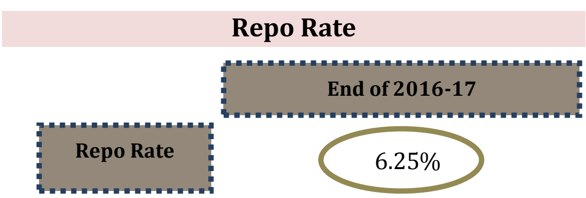
WPI inflation is projected at 3.8% for the fourth quarter of 2016-17.

Consumer Price Index has a median forecast of 4.7% for 2016-17, with a minimum and maximum range of 3.8% and 5.1% respectively. CPI forecast for Q4 2016-17 was put at 4.2% according to our survey results.



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





VIEWS OF ECONOMISTS

Views on remonetization and the course of economic recovery

On November 8, 2016, the Government decided to demonetize high denomination currency notes in order to unearth black money and counterfeit currency. The economy has been impacted temporarily, however the process of remonetisation is underway and is gradually gaining momentum. Given this backdrop, economists were asked to share their prognosis on the likely course of economic recovery.

The economists had a divided view on the time frame by which the economy would return to normalcy. 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).

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.

Nonetheless, the regulatory bodies have been taking steps to put the economy back on track. The process of remonetisation has started and the RBI and government has taken several measures such as speedy recalibration of ATMs, acceleration in the pace of printing new notes, increase cash withdrawal limits etc. to pump cash into the system. The Government is also on the course of improving the electronic payments infrastructure to move the country to a less cash economy.

The road to remonetisation, thus, will be paved with less dependency on cash and greater focus on digital transactions. This will not only make payments more transparent and consequently boost government's revenue, but will prove to be a boon for the Indian economy in the medium to long run.

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.

In addition, the participating economists opined that the demonetization exercise would lead to a healthy correction in many sectors of the economy, especially in the real estate segment.

Assessment of the forthcoming monetary policy

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.

The economists felt 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 opined 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.

Also, upside risks to inflation remain as the global commodity prices are firming up. The central bank would continue to closely watch the inflation level.

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 to continue with a probable rate cut of 25 bps in first half of the financial year 2017-18.

Expectations from the Union Budget 2017-18

The forthcoming Union Budget will be a budget of many firsts and assumes greater significance in light of the demonetization move of the Government. In fact, 2016 has been a year of some exceptional events – both on the global and domestic fronts. Amidst an environment of persisting uncertainty, it will be important for India to keep the focus on strengthening the domestic economy.

The participating economists were asked to share their top five expectations from the Union Budget 2017-18. The respondents unanimously felt that the budget should revamp the income tax slabs for both individuals and corporates. This will help lend some support to the 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 indicated 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 have a mention in the budget and new schemes and policies to revive the real estate sector and the housing segment - especially affordable housing can 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 of 2017

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 a sense of 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

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
3. Risk of rising trade deficit owing to higher crude prices
4. Higher capital outflows as interest rate differential between US and India narrow
5. Rupee remaining weak and volatile
6. Impact of demonetisation→
   a) liquidity shortage
   b) weak consumption demand

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of December 2016/ January 2017 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 Q3 (September-December) FY17 and Q4 (January- March) FY17.

In addition, economists were asked to share their views on certain contemporary subjects. Views were sought on the top trends to look out for in the year 2017. Economists were also asked to share the prognosis about economy post demonetization and their expectations from the forthcoming Union Budget. The participants were also asked to give their assessment of the forthcoming monetary policy.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

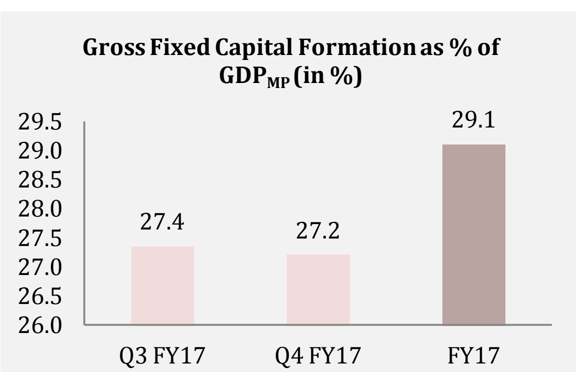
GDP growth at 2011-12 prices

	Annual (2016-17)			Q3 2016-17			Q4 2016-17		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**6.8**	6.6	7.1	**6.8**	5.5	7.0	**6.7**	6.2	7.0
GVA@ basic prices	**6.7**	6.5	7.1	**6.7**	5.9	7.0	**6.7**	5.9	7.1
Agriculture & Allied activities	**3.2**	2.4	4.1	**2.9**	2.2	4.0	**2.9**	2.5	3.8
Industry	**5.7**	4.8	6.9	**5.3**	4.0	6.9	**5.6**	4.4	7.1
Services	**8.5**	7.8	9.3	**7.7**	7.0	9.0	**7.8**	7.4	9.2

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.

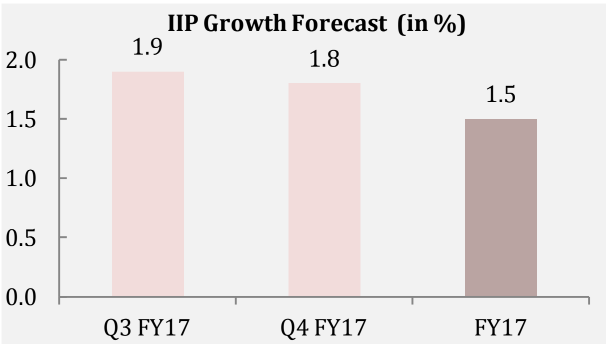
The median growth forecast for agriculture and allied activities has been put at 3.2% for 2016-17, with a minimum and maximum growth estimate of 2.4% and 4.1% respectively. Industry and services sector are expected to grow by 5.7% and 8.5% respectively in 2016-17.

The quarterly median forecasts indicate a GDP growth of 6.8% in Q3 2016-17 and 6.7% in Q4 2016-17.



The ratio of Gross Fixed Capital Formation to GDP for 2016-17 has been estimated at 29.1%. The median growth prediction for Q4 2016-17 is put at 27.2%.

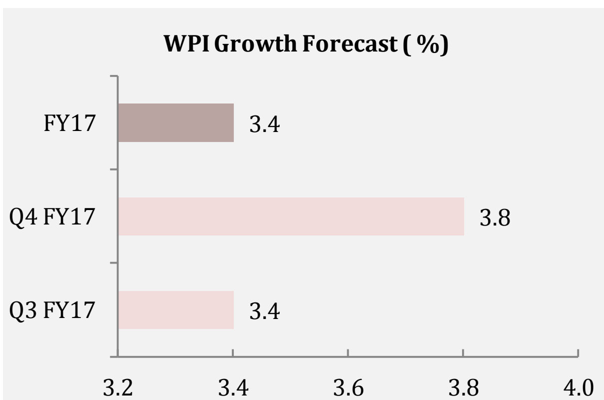
Index of Industrial Production (IIP)

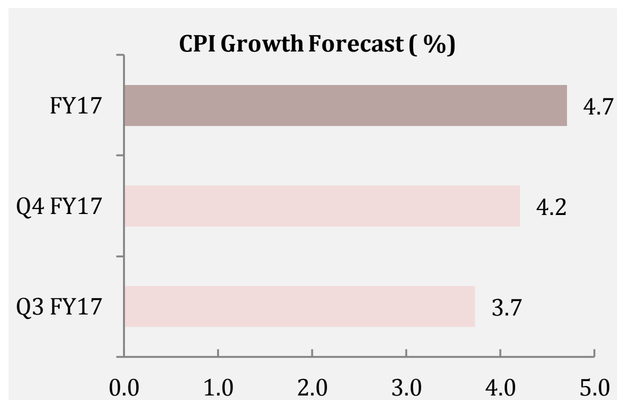


The median growth forecast for IIP was put at 1.5% for 2016-17 by the participating economists, with a minimum and maximum range of (-) 2.1% and 2.9% respectively.

Although industrial production has remained weak for most part of 2016, the latest IIP data reported improvement in growth. The index grew by 5.7% in the month of November 2016 vis-à-vis (-) 1.8% growth in October 2016.

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





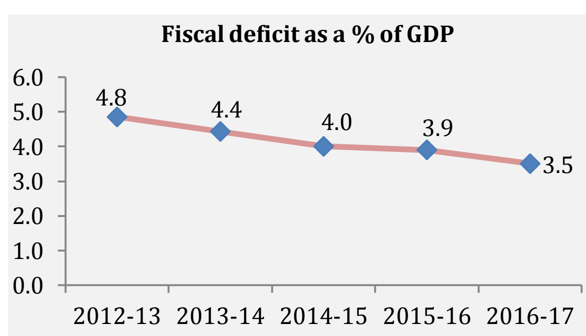
Median Wholesale Price Index based inflation rate is projected at 3.4% in 2016-17, with a minimum and maximum range of 3.1% and 3.5% respectively. The latest actual data on WPI puts across an inflation rate of 3.4% for the month of December 2016, with inflation in the third quarter of 2016-17 at 3.4%.

According to the survey results, the WPI inflation is projected at 3.8% for the fourth quarter of 2016-17.

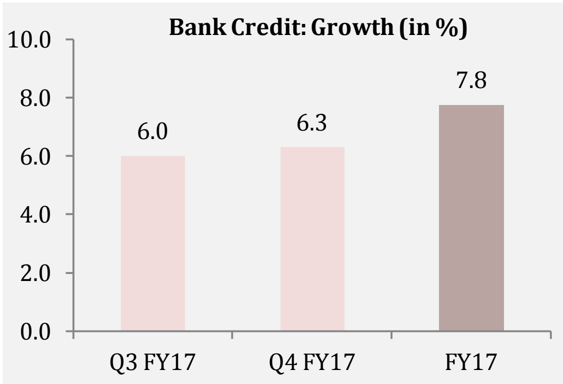
Consumer Price Index has a median forecast of 4.7% for 2016-17, with a minimum and maximum range of 3.8% and 5.1% respectively. CPI forecast for Q4 2016-17 was put at 4.2% according to our survey results.

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 3.5% and 3.6% respectively.



Money and Banking



	End of 2016-17
Repo Rate	6.25%

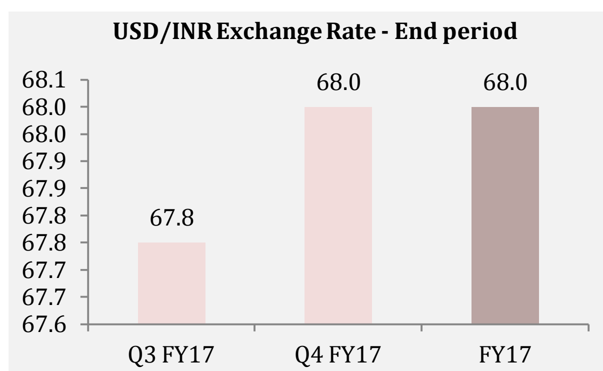
External Sector

2016-17	Exports	Imports
USD billion	268.2	380.2
Growth (in %)	2.2	-2.5

Growth in exports has picked up and has remained in the positive zone for four consecutive months ending December 2016. However going forward, weak external demand and inward looking policies by major economies can pose a risk.

Based on the responses of the participating economists, the median growth forecast for exports has been put at 2.2% for fiscal year 2016-17 and for imports at (-) 2.5%.

2016-17	Present Round	Last Round
CAD as % of GDP	0.7%	0.8%



Survey Results: Part B
Views of the Economists

VIEWS ON REMONETIZATION AND THE COURSE OF ECONOMIC RECOVERY

The Government decision to demonetize high denomination currency notes in order to unearth black money and counterfeit currency has been a historic one. The move led to an immediate squeeze in liquidity and the economy has been impacted temporarily; however the process of remonetisation is underway and is gradually gaining momentum. Given this backdrop, economists were asked to share their prognosis on the likely course of recovery.

The economists had a divided view on the time frame by which the economy would return to normalcy. 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).

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. The impact on the informal sector has been significant and is expected to take more time to normalise. Economists felt that the government will continue the focus on additional spending especially in infrastructure projects to give a push to the economy.

The regulatory bodies have taking steps to put the economy back on track. The process of remonetisation has started and the RBI and government have taken several measures such as speedy recalibration of ATMs, accelerating the pace of printing new notes, increase cash withdrawal limits etc. to pump cash into the system. The Government is also on the course of improving the electronic payments infrastructure to move the country to a less cash economy.

The road to remonetisation, thus, will be paved with less dependency on cash and greater focus on digital transactions. This will not only make payments more transparent and consequently boost government revenue, but will prove to be a boon for the Indian economy in the medium to long run.

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.

In addition, the participating economists opined that the demonetization exercise would lead to a healthy correction in many sectors of the economy, especially in the real estate segment.

ASSESSMENT OF THE FORTHCOMING MONETARY POLICY

Economists were also asked to share their assessment about 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.

The economists felt 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 opined 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.

Also, upside risks to inflation remain as the global commodity prices are firming up. The central bank would continue to closely watch the inflation level, both overall as well as core inflation, alongside focusing on growth considerations. This stance has also been indicated in its previous policy report.

Further, some major banks have recently revised down their lending rate which has given some 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. The prevailing global economic conditions and volatility in the financial markets are also expected to act as deterrents.

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

EXPECTATIONS FROM THE UNION BUDGET 2017-18

The forthcoming Union Budget will be a budget of many firsts and assumes greater significance in light of the demonetization move of the Government. In fact, 2016 has been a year of some exceptional events – both on global and domestic fronts. Amidst an environment of persisting uncertainty, it will be important for India to keep the focus on strengthening the domestic economy.

The participating economists were asked to share their top five expectations from the Union Budget 2017-18. The respondents unanimously felt that the budget should revamp the income tax slabs for both individuals as well as corporates. This will help lend some support to the 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 indicated 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 affected by demonetisation and has been displaying a muted performance. The sector is likely to have a mention in the budget and new schemes and policies to revive the real estate sector and the housing segment - especially affordable housing can 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 be taken towards reviving and deepening of the corporate bond market and a time frame for disposal of SARFAESI cases will be indicated.

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 OF 2017

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

1. Policy uncertainty in major advanced economies and a sense of 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

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. Additional government spending on infrastructure investments

1. Weak domestic investments
2. High Non Performing Assets
3. Risk of rising trade deficit owing to higher crude prices
4. Higher capital outflows as interest rate differential between US and India narrow
5. Rupee remaining weak and volatile
6. Impact of demonetisation→
    a) liquidity shortage
    b) weak consumption demand

Appendix

	Outlook 2016-17				Outlook Q3 2016-17				Outlook Q4 2016-17			
Key Macroeconomic Variables	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**
GDP growth rate at market prices (%)	6.8	6.8	6.6	7.1	6.4	6.8	5.5	7.0	6.6	6.7	6.2	7.0
GVA growth rate at basic prices (%)	6.8	6.7	6.5	7.1	6.5	6.7	5.9	7.0	6.6	6.7	5.9	7.1
Agriculture & Allied	3.2	3.2	2.4	4.1	3.0	2.9	2.2	4.0	3.0	2.9	2.5	3.8
Industry	5.8	5.7	4.8	6.9	5.4	5.3	4.0	6.9	5.7	5.6	4.4	7.1
Services	8.5	8.5	7.8	9.3	7.9	7.7	7.0	9.0	8.1	7.8	7.4	9.2
Gross Domestic Savings (% of GDP at market prices)	30.6	30.5	29.0	32.3	30.1	31.0	27.9	31.3	30.2	31.5	27.5	31.5
Gross Fixed Capital Formation (% of GDP at market prices)	29.8	29.1	26.6	35.8	28.2	27.4	25.7	32.2	28.1	27.2	25.3	32.5
Fiscal Deficit (as % to GDP) Centre	3.5	3.5	3.5	3.6	-	-	-	-	-	-	-	-
Growth in IIP (%)	1.0	1.5	-2.1	2.9	2.2	1.9	-0.7	5.7	2.5	1.8	0.3	5.9
WPI Inflation rate (%)	3.4	3.4	3.1	3.5	3.4	3.4	3.1	3.5	4.1	3.8	3.4	4.8
CPI combined new inflation rate (%)	4.5	4.7	3.8	5.1	3.8	3.7	3.4	4.4	4.2	4.2	3.7	4.8
Money supply growth M3 (%) (end period)	11.5	11.4	11.2	12.0	9.6	10.1	6.5	11.9	11.9	12.0	11.2	12.5
Bank credit growth (%)	8.1	7.8	5.5	11.0	6.2	6.0	5.1	8.1	7.2	6.3	5.7	10.0

Repo Rate (end period)	-	6.25	6.00	6.25	-	-	-	-	-	-	-	-
Merchandise Export												
Value in USD billion	266.9	268.2	260.0	270.5	66.3	67.1	63.0	67.9	68.6	69.7	65.0	70.0
Growth (%)	2.5	2.2	-0.5	6.5	2.4	3.3	-3.1	6.6	3.1	3.6	-2.8	7.9
Merchandise Import												
Value in USD billion	374.8	380.2	364.0	383.4	99.8	101.0	95.0	102.4	98.5	97.9	92.0	106.0
Growth (%)	-1.5	-2.5	-4.1	3.5	2.0	2.0	-2.1	6.1	10.1	5.8	-2.5	27.1
Trade Balance (% to GDP)	-4.8	-4.9	-6.0	-4.0	-4.4	-4.5	-4.0	-4.8	-4.9	-4.9	-4.2	-5.6
CAB as % of GDP at current price	-0.8	-0.7	-0.1	-2.0	-0.7	-0.8	-1.0	-0.2	-0.5	-0.3	-0.1	-1.1
US$ / INR exchange rate (end period)	68.1	68.0	67.0	69.3	67.7	67.8	67.2	68.2	68.1	68.0	67.0	69.3

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