Economic Outlook Survey

November 2016

GDP growth estimated at 7.3% in 2016-17: FICCI's Economic Outlook Survey

HIGHLIGHTS

GDP Growth for FY 17 estimated at 7.3%

Latest round of FICCI's Economic Outlook Survey puts across a median GDP growth forecast of 7.3% for the current fiscal year, with a minimum and maximum range of 7.3% and 7.9% respectively.

	Estimates – Economic Outlook Survey 2016-17	
Growth (in %)	**Present Round**	**Previous Round**
GDP@ market prices	7.3	7.8
GVA@ basic prices	7.5	7.6
Agriculture & Allied activities	3.1	2.9
Industry	7.1	7.3
Services	9.1	9.3

*Median forecast

GDP growth estimate in the latest round is 50 basis points lower than the forecast put forth in the previous round. The momentum in the investment cycle is still weak, which remains a key concern.

The median GFCF to GDP ratio forecast for 2016-17 in the latest round is put at 29.0%, which is about two percentage points lower than the projection in the previous survey.

The median GVA growth projection also indicates a slight moderation vis-a-vis the previous round. Though agricultural growth is expected to remain robust, the industry and services sector growth estimates indicate marginal downward revision.

Quarter 2 FY 17 GDP growth estimated at 7.3%

	Estimates – Economic Outlook Survey	
Growth (in %)	**Q2 2016-17**	**Q3 2016-17**
GDP@ market prices	**7.3**	**7.3**
GVA@ basic prices	**7.7**	**7.7**
Agriculture & Allied activities	**2.8**	**4.0**
Industry	**7.3**	**7.5**
Services	**9.1**	**8.9**

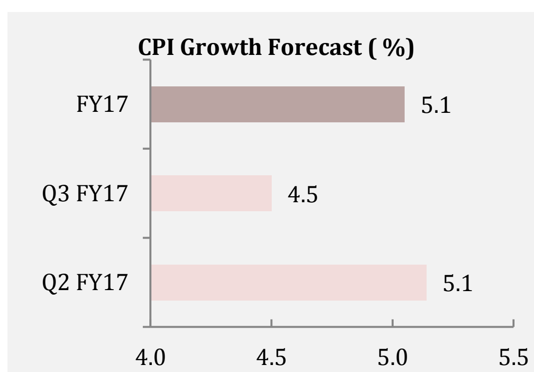
IIP growth @1.7% in 2016-17

The median IIP growth forecast for 2016-17 was put at 1.7% by the participating economists, with a minimum and maximum range of 0.5% and 4.3% respectively. This is significantly lower than the median estimate of 3.5% (for 2016-17) in the previous round.

The industrial activity remains muted and IIP growth has been negative for three out of six months in 2016-17, which is a worrisome trend.

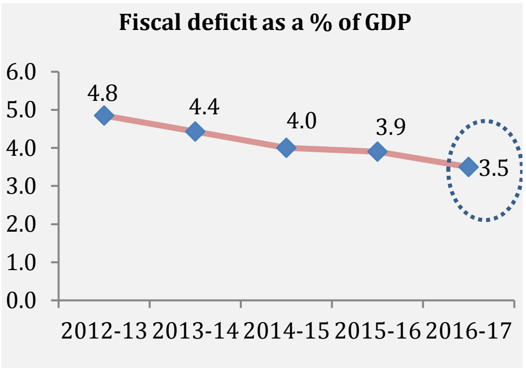
Inflation to remain range bound

Wholesale Price Index based inflation rate is projected at 3.2% in 2016-17, with a minimum and maximum range of 2.2% and 3.7% respectively.



Consumer Price Index (CPI) has a median forecast of 5.1% for 2016-17, with a minimum and maximum range of 4.0% and 5.2% respectively. CPI forecast for Q3 2016-17 was put at 4.5%.

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



VIEWS OF ECONOMISTS

Views on replacing the 'Fixed Number' fiscal deficit target with a 'Range'

The Government had set up a panel under the Chairmanship of Mr. N K Singh to review the FRBM Act. One of the key points for examination by this Committee was to replace the 'fixed number' for fiscal deficit target with a 'range'. The participating economists were asked to share their opinion about this probable shift.

A majority of participating economists believed that replacing the 'fixed number' with a range for the fiscal deficit target will be a positive step and won't have an unfavourable impact on the economy. Putting in place an acceptable level of range for the fiscal deficit as we have in case of inflation will give additional space to the Government in case of any exigencies and will in fact ensure macro stability.

However, the economists also pointed out that it will be critical to make sure that the overarching objective of fiscal consolidation is strictly adhered to and the band of the range is not kept too wide.

The participants also pointed out that the outlook with regard to fiscal deficit is benign. The implementation of Goods & Services Tax and the recent demonetization move are expected to add to the government exchequer.

Outlook for the oil market and assessment of crude prices

Given the recent developments in the oil market and the decision by OPEC to apply quotas on oil production, the participating economists were asked to share their prognosis for the oil market and assessment about crude oil prices.

Organization of Petroleum Exporting Countries (OPEC) on September 28, 2016 agreed to limit the oil production target within a range of 32.5 million to 33 million barrels a day for the 14 OPEC countries. The decision was taken in light of the slump in the oil prices which has lasted for about two years now and is adversely affecting the oil exporting economies.

The participating economists opined that the spike in the oil prices post the announcement of possible quotas was very much expected. However, one will have to wait and watch as to which all countries actually agree to adhere to the quotas. Also, the non – OPEC countries such as US and Canada will definitely increase production if a shortfall in supply crops up.

The survey participants also indicated that global oil demand is likely to remain muted with major economies witnessing a moderation in growth. The respondents felt that the recent sharp movements have been driven more by market sentiments and not by a change in the underlying fundamentals. Also, oil inventory is high in most countries and with a glut in the global economy, even if OPEC decides to actually cut production, oil supply is expected to comfortably last through the first half of 2017.

Some participants also indicated that the successful implementation of the OPEC strategy is doubtful. The prices are expected to hover around $50-$55 for a barrel this year and the average Brent price is unlikely to cross $60/bbl by end of 2017.

Views on Federal Reserve's expected move in the forthcoming December meeting and likely impact on India

There was a unanimous agreement among the participating economists on the United State's Federal Reserve undertaking an interest rate hike in December policy meeting.

The respondents opined that the Federal Reserve has been looking at correcting the interest rates for some time now and the time is opportune with the US Presidential election result out. Also, inflation is within the Central Bank's indicative trajectory and unemployment rate is levelling off.

As for the likely impact of the interest rate hike on India, the economists felt that the impact would be transitory. The Rupee value is expected to witness depreciation. Also with dollar gaining strength, the global commodity prices are likely to firm up. These two developments can possibly lead to an increase in India's import bill.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of September/October 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 Q2 (July-September) FY17 and Q3 (October-December) FY17.

In addition, we sought views of the economists on certain topical issues, which included-

(i) Views of the economist on replacing 'fixed number' for fiscal deficit target with a 'range'
(ii) Outlook for oil market and assessment on crude oil price
(iii) Prognosis about December rate rise by Federal Reserve and likely impact on India

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

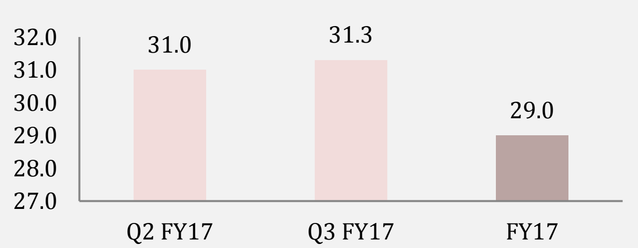
	Annual (2016-17)			Q2 2016-17			Q3 2016-17		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.3**	7.3	7.9	**7.3**	7.2	7.9	**7.3**	7.1	7.4
GVA@ basic prices	**7.5**	7.3	8.0	**7.7**	7.0	8.0	**7.7**	7.1	8.1
Agriculture & Allied activities	**3.1**	1.8	4.5	**2.8**	1.5	3.0	**4.0**	2.5	6.0
Industry	**7.1**	5.4	9.1	**7.3**	6.0	8.0	**7.5**	5.6	8.0
Services	**9.1**	8.4	10.9	**9.1**	8.2	9.9	**8.9**	7.9	9.5

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast of 7.3% for 2016-17, with a minimum and maximum range of 7.3% and 7.9% respectively. The estimate in the latest round is 50 basis points lower than the estimate put across in the previous round.

The median growth forecast for agriculture and allied activities has been put at 3.1% for 2016-17, with a minimum and maximum growth estimate of 1.8% and 4.5% respectively. Industry and services sector are expected to grow by 7.1% and 9.1% respectively in 2016-17.

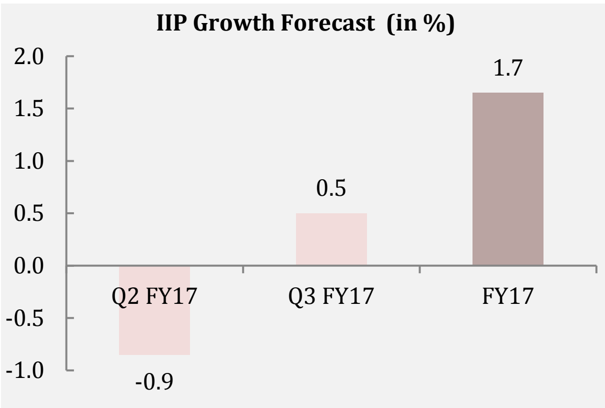
The quarterly median forecasts indicate a GDP growth of 7.3% in both quarter 2 and quarter 3 in 2016-17.

Gross Fixed Capital Formation as % of GDP_{MP} (in %)



The ratio of Gross Fixed Capital Formation to GDP for 2016-17 has been estimated at 29.0%. The median GFCF to GDP ratio prediction for Q2 2016-17 is put at 31.0%, 0.5 percentage point lower than the projection in the previous round.

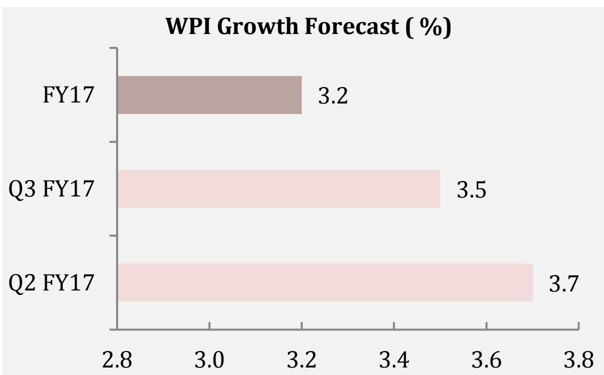
Index of Industrial Production (IIP)

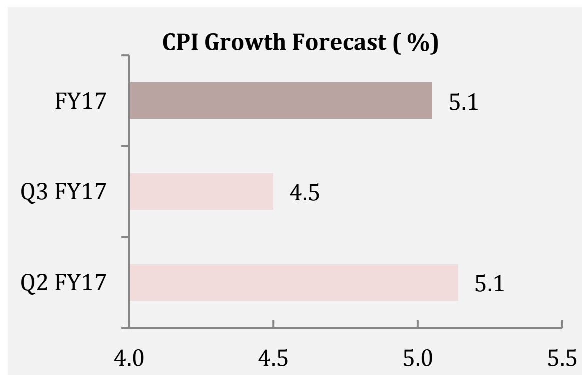


The median growth forecast for IIP was put at 1.7% for 2016-17 by the participating economists, with a minimum and maximum range of 0.5% and 4.3% respectively. This is significantly lower than the estimate of 3.5% (for 2016-17) put across in the previous round.

The industrial activity remains muted and IIP growth has been negative for three out of six months in 2016-17, which is a worrisome trend.

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



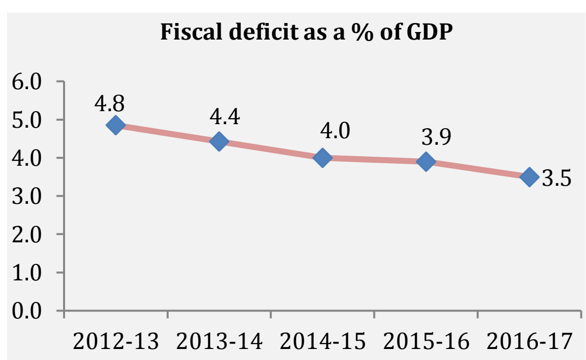


Wholesale Price Index based inflation rate is projected at 3.2% in 2016-17, with a minimum and maximum range of 2.2% and 3.7% respectively.

Consumer Price Index (CPI) has a median forecast of 5.1% for 2016-17, with a minimum and maximum range of 4.0% and 5.2% respectively. CPI forecast for Q3 2016-17 was put at 4.5%.

Fiscal Deficit

The median forecast for fiscal deficit to GDP ratio has been put at 3.5% for the fiscal year 2016-17.



Money and Banking

Estimate for 2016-17	Present Survey	Last Survev
Bank Credit Growth	11.0%	11.5%

	End of Q3 2016-17	End of 2016-17
Repo Rate	6.25%	6.0%

External Sector

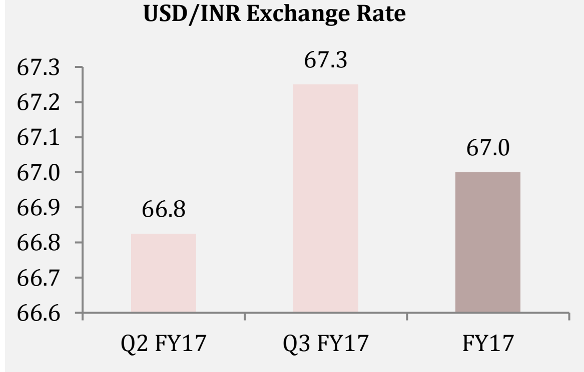
2016-17	Export	Import
USD billion	267.0	374.5
Growth (in %)	2.0	-0.4

2016-17	Present Round	Last Round
CAD as % of GDP	0.8%	1.4%

Based on the responses of the participating economists, the median growth forecast for exports has been put at 2.0% for fiscal year 2016-17 and for imports at (-)0.4%.

Global commodity prices and demand conditions, both global and domestic, remain subdued. However, latest monthly data (for October, 2016) does indicate an uptick in both export and import growth.

USD/INR Exchange Rate



Survey Results: Part B
Views of the Economists

VIEWS ON REPLACING THE 'FIXED NUMBER' FISCAL DEFICIT TARGET WITH A 'RANGE'

The Government had set up a panel under the Chairmanship of Mr. N K Singh to review the FRBM Act. One of the key points for examination by this Committee was to replace the 'fixed number' for fiscal deficit target with a 'range'. The participating economists were asked to share their opinion about this possible move.

A majority of participating economists believed that replacing the 'fixed number' with a range for the fiscal deficit target will be a positive step and won't have an unfavourable impact on the economy. Putting in place an acceptable level of range for the fiscal deficit as we have in case of inflation will give additional space to the Government in case of any exigencies and will in fact ensure macro stability.

However, the economists also pointed out that it will be critical to make sure that the overarching objective of fiscal consolidation is strictly adhered to and the band of the range is not kept too wide.

The participants also pointed out that the outlook with regard to fiscal deficit is benign. The implementation of Goods & Services Tax and the recent demonetization move are expected to add to the government exchequer.

OUTLOOK FOR THE OIL MARKET AND ASSESSMENT OF CRUDE PRICES

Given the recent developments in the oil market and the decision by OPEC to apply quotas on oil production, the participating economists were asked to share their prognosis for the oil market and assessment about crude oil prices.

Organization of Petroleum Exporting Countries (OPEC) on September 28, 2016 agreed to limit the oil production target within a range of 32.5 million to 33 million barrels a day for the 14 OPEC countries. The decision was taken in light of the slump in the oil prices which has now lasted for about two years now and is adversely affecting the oil exporting economies.

Following the announcement, the oil prices surged by almost 5%. While the September meeting did not specify how much cut in production each member country would have to undertake, the detailed execution plan is being looked forward to in the forthcoming meeting at Vienna on November 30, 2016.

The participating economists opined that the spike in oil prices post announcement of the possibility of applying quotas was very much expected. However, one will have to wait and watch as to which all countries actually agree to adhere to the quotas. Also, the non – OPEC countries such as US and Canada will definitely increase production if a shortfall in supply crops up.

The survey participants also indicated that global oil demand is likely to remain muted with major economies witnessing a moderation in growth. The respondents felt that the recent sharp movements have been driven more by market sentiments and not by a change in the underlying fundamentals. Also, oil inventory is high in most countries and with a glut in the global economy, even if OPEC decides to actually cut production, oil supply is expected to comfortably last through the first half of 2017.

Some participants also indicated that the successful implementation of the OPEC strategy is doubtful. The prices are expected to hover around $50-$55 for a barrel this year and the average Brent price is unlikely to cross $60/bbl by end of 2017.

VIEWS ON FEDERAL RESERVE'S EXPECTED MOVE IN THE DECEMBER MEETING AND LIKELY IMPACT ON INDIA

There was a unanimous agreement among the participating economists on the United States Federal Reserve undertaking an interest rate hike in December policy meeting. The respondents opined that the Federal Reserve has been looking at correcting the interest rates for some time now and the time is opportune with the US Presidential election result out. Also, inflation is within the Central Bank's indicative trajectory and unemployment rate is levelling off.

As for the likely impact of the interest rate hike on India, the economists felt that the impact would be transitory. The Rupee value is expected to witness depreciation. Also with dollar gaining strength, the global commodity prices are likely to firm up. These two developments can possibly lead to an increase in India's import bill.

Appendix

	Outlook 2016-17				Outlook Q2 2016-17				Outlook Q3 2016-17			
Key Macroeconomic variables	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**
GDP growth rate at market prices (%)	7.5	7.3	7.3	7.9	7.5	7.3	7.2	7.9	7.3	7.3	7.1	7.4
GVA growth rate at basic prices (%)	7.6	7.5	7.3	8.0	7.5	7.7	7.0	8.0	7.6	7.7	7.1	8.1
Agriculture & Allied	3.1	3.1	1.8	4.5	2.5	2.8	1.5	3.0	4.2	4.0	2.5	4.4
Industry	7.2	7.1	5.4	9.1	7.0	7.3	6.0	8.0	7.2	7.5	5.6	8.0
Services	9.2	9.1	8.4	10.9	9.0	9.1	8.2	9.9	8.8	8.9	7.9	9.5
Gross Domestic Savings (% of GDP at market prices)	31.5	31.7	30.0	32.5	-	-	-	-	-	-	-	-
Gross Fixed Capital Formation (% of GDP at market prices)	29.7	29.0	27.5	32.5	31.0	31.0	30.0	31.0	31.3	31.3	31.0	31.3
Fiscal Deficit (as % to GDP) Centre	3.5	3.5	3.5	3.5	-	-	-	-	-	-	-	-
Growth in IIP (%)	2.2	1.7	0.5	4.3	-0.4	-0.8	-1.0	1.3	0.7	0.5	-1.0	2.7
WPI Inflation rate (%)	3.1	3.2	2.2	3.7	3.7	3.7	3.6	3.7	3.1	3.5	1.5	3.8
CPI combined new inflation rate (%)	4.9	5.1	4.0	5.2	5.1	5.1	5.0	5.2	4.6	4.5	4.0	5.2
Money supply growth M3 (%) (end period)	11.4	11.5	11.3	11.5	-	-	-	-	-	-	-	-

Bank credit growth (%)	11.3	11.0	9.8	13.4	-	-	-	-	-	-	-	-
Repo Rate (end period)	6.0	6.0	6.0	6.25	6.25	6.25	6.25	6.5	6.25	6.25	6.0	6.25
Merchandise Export												
Value in USD billion	271.4	267.0	265.4	287.0	66.0	66.0	65.5	66.0	68.1	67.5	66.9	70.0
Growth (%)	2.4	2.0	0.0	6.0	-0.8	-0.8	-1.2	-0.3	4.6	6.1	1.4	6.3
Merchandise Import												
Value in USD billion	384.7	374.5	365.0	430.0	89.9	89.9	89.7	89.9	97.8	96.8	94.3	102.2
Growth (%)	0.1	-0.4	-7.8	9.0	-12.0	-11.9	-12.3	-11.7	1.4	2.1	-0.8	2.8
Trade Balance (% to GDP)	-5.2	-5.1	-6.3	-4.4	-	-	-	-	-	-	-	-
CAB												
as % of GDP at current price	-0.7	-0.8	-1.1	0.0	-	-	-	-	-0.6	-0.6	0.0	1.2
US$ / INR exchange rate (end period)	67.3	67.0	65.7	69.0	66.8	66.8	66.7	67.0	67.7	68.0	66.5	68.5

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