
# Economic Outlook Survey

*May 2018*

**HIGHLIGHTS**

## *GDP growth estimated at 7.1% for Q4 of 2017-18 and 7.4% in 2018-19: FICCI's Economic Outlook Survey*

- The latest round of FICCI's Economic Outlook Survey puts forth an ***annual median GDP growth forecast for 2018-19 at 7.4%***, with a minimum and maximum range of 6.9% and 7.5% respectively. The survey was conducted during April/May2018 among economists belonging to the industry, banking and financial services sector.

- The ***median growth forecast for agriculture and allied activities has been put at 3.2% for 2018-19***. The Indian meteorological department has predicted a normal monsoon season which bodes well for agricultural production during the year. ***Industry and services sector are expected to grow by 6.7% and 8.4% respectively in 2018-19***.

- Further, the ***quarterly median forecasts indicate a GDP growth of 7.1% in the fourth quarter of 2017-18; which takes the full year growth estimate for 2017-18 to 6.6%***. The official growth numbers for 2017-18 are expected to be released later this week (May 31, 2018). CSO had also put across an advance annual estimate of 6.6% for the fiscal year 2017-18.

- The ***median growth forecast for IIP has been put at 6.5% for the year 2018-19***, with a minimum and maximum range of 5.0% and 7.0% respectively.

- The ***outlook of the participating economists on inflation remained moderate***. The median forecast for Wholesale Price Index based inflation rate for 2018-19 has been put at 3.5%, with a minimum and maximum range of 2.9% and 3.9% respectively. The ***Consumer Price Index has a median forecast of 4.6% for 2018-19***, with a minimum and maximum range of 4.3% and 5.0% respectively.

- ***Some concerns are visible on external front with median current account deficit forecast pegged at 2.1% of GDP for 2018-19***. Merchandise exports are expected to grow by 9.4% while imports are expected to grow by 11.0% during the year.

## *Views of economists on key topical issues*

### Rising protectionist policies and its impact on India

- The participating economists unanimously felt that brewing trade war can impact India indirectly, if not directly, as the country is deeply integrated with global economy
- A trade war between two major economies will further exacerbate geopolitical strains and could lead to a slowdown in world trade which can have recessionary effects on the global economy.
- Economists opined that exports are likely to bear the brunt and export-oriented industries particularly MSMEs in sectors like iron and steel, machinery and metal products, chemicals and agricultural goods are likely to take a hit. There are possibilities of an unexpected interruption in the global supply chain.
- Participating economists were of the view that more than the absolute results of trade war, the prevailing uncertainties might cause market disruptions and negatively impact the overall sentiment.
- On the positive side, however, the looming trade war has the potential to open up new avenues for India. India should focus on deeper engagement with its key trading partners to insulate itself from the impact of protectionist policies.

## Challenges and Opportunities following introduction of Digital Currency

- The Reserve Bank of India in its First Bi-monthly Monetary Policy announced setting up of an inter-departmental group to assess the feasibility of introducing a central bank digital currency.
- The economists participating in the survey agreed that developing a fiat digital currency framework is a step in right direction.
- Economists said that digital currency will provide an easy and efficient way for instant global electronic transactions, prevent counterfeiting and reduce printing and administrative costs substantially. It will also benefit by bringing about wider financial inclusion, enhancing market stability and providing for better record keeping and monitoring of transactions.
- Nonetheless, economists felt that fiat digital currency carries a threat to privacy and security concerns need to be safeguarded first. They called for careful consideration and discussions before implementing any such arrangement.

## Impending Macro-economic and Financial sector Risks

- Majority of economists opined that despite certain macro-economic parameters (healthier manufacturing growth, investments, demand etc.) pointing towards signs of optimism; risk factors continue to remain on anvil.
- The participating economists pointed out that higher crude oil prices along with uncertainties surrounding greater protectionism and GST related glitches pose as key risk factors and can have an adverse impact on India's external sector going ahead.
- Furthermore, the economists added that with general and state elections due next year, there are increased chances of a fiscal slippage in the current financial year. Higher fuel prices and hike in minimum support prices for farmers are likely to put pressure on the fisc and can fuel inflationary pressures.
- Besides, the participating economists felt that Rupee might continue to remain under pressure during the remaining part of the year. Foreign capital inflows are expected to face risks from tighter global liquidity conditions (with US Federal Reserve withdrawing quantitative easing), introduction of long term capital gain tax and from other global financial developments such as correction in global stock markets and rise in US treasury yields.

## India achieving USD 5 trillion economy tag by 2025

- Most economists were of the opinion that a vibrant manufacturing sector is needed to achieve impressive growth in GDP.
- However, the sector is grappling with issues related to competitiveness which is contributing to lower export as well as overall growth.
- The economists opined that the government must stand up to the challenge of carrying out the difficult reforms, especially those related to the factor markets (land and labour).
- Participating economists believed that a special focus must be provided to the small and medium enterprises as they form the backbone of India's manufacturing sector. The economists suggested that processes for small and medium enterprises and start-ups must be further simplified including provisions for easier access to credit facilities.
- The participants also called for consistency in long term policy formulations to bring stability and certainty which is a necessary condition for attracting investments.
- Economists felt that the government should consider giving fiscal incentives by reducing the Minimum Alternate Tax (MAT) and Corporate Tax rates.
- Furthermore, the economists pointed out that there is an urgent need for continuous supply of aptly skilled workforce for manufacturing output to expand. This becomes even more important when the world is looking at Industry 4.0 which is expected to open newer opportunities for those with higher value-added skills. Economists reckoned that state of art vocational training institutes must be established around key manufacturing clusters for developing a skilled labour force. They opined that investing in training and retaining labour is essential to ensure higher productivity.

• In addition, economists believe that supply chain agility is crucial to improve the efficiency of the manufacturing ecosystem and this is where the government's spending on infrastructure to improve forward and backward linkages will play a significant role. There must be a conscious effort to reduce wastage along the supply chain. This can be done by seeking locations near prominent industry belts and by leveraging supplier parks.

• Lastly, it was suggested that manufacturing units must ensure world class quality in the products they produce. Economists recommended a zero-tolerance approach to be followed to guarantee process discipline.

## Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of April/May2018 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 2018-19 as well as for Q4 (January-March) FY18 and Q1 (April-June) FY19.

In addition, economists were asked to share their views on certain contemporary subjects. Views of economists were sought on recent global protectionist trends and its impact on India. Economists were also asked to share their thoughts about the opportunities and challenges of having a national digital currency. Further, economists were asked to share their prognosis on the macroeconomic and financial sector risks in the current global scenario. Finally, feedback was also sought on ways for transforming India's manufacturing sector. The government has set up a high level taskforce to chart a roadmap towards making India USD 5 trillion economy over the next 7-8 years and manufacturing sector will have a key role in this journey.

## Survey Results: Part A
## Projections – Key Economic Parameters

### National Accounts

**GDP growth at 2011-12 prices**

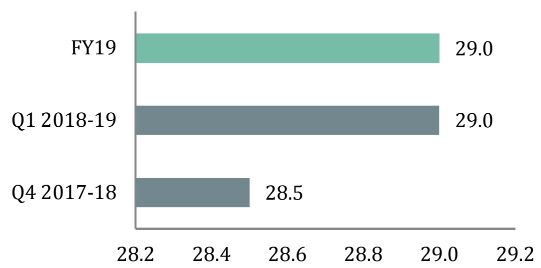
| | Annual (2018-19) | | | Q42017-18 | | | Q1 2018-19 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Growth (in %)** | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** |
| GDP@ market prices | **7.4** | 6.9 | 7.5 | **7.1** | 6.8 | 7.4 | **7.3** | 7.0 | 7.4 |
| GVA@ basic prices | **7.1** | 6.8 | 7.2 | **6.8** | 6.3 | 7.3 | **7.1** | 6.8 | 7.4 |
| Agriculture & Allied activities | **3.2** | 2.6 | 4.0 | **3.0** | 2.0 | 4.2 | **3.0** | 2.9 | 3.9 |
| Industry | **6.7** | 4.6 | 7.0 | **6.5** | 4.5 | 7.5 | **6.8** | 6.3 | 7.7 |
| Services | **8.4** | 8.1 | 8.7 | **8.3** | 7.7 | 8.7 | **8.4** | 8.0 | 8.8 |

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2018-19 at 7.4%. The estimate is in line with RBI's GDP growth projection for the current fiscal year announced in its bi-monthly Monetary Policy statement in April 2018.

According to survey results, the median growth forecast for agriculture and allied activities has been put at 3.2% for 2018-19, with a minimum and maximum growth estimate of 2.6% and 4.0% respectively. Industry and services sector are expected to grow by 6.7% and 8.4% respectively during the year.

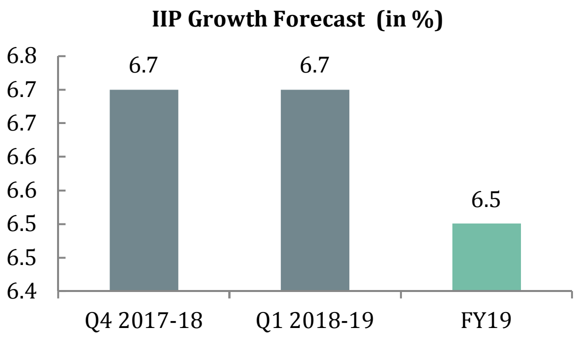
Further, the quarterly median forecasts indicate a GDP growth of 7.1% in the fourth quarter of 2017-18; which takes the full year growth estimate for 2017-18 to 6.6%. The growth numbers for 2017-18 are expected to be released later this week (May 31, 2018) and CSO has also put across an advance annual estimate of 6.6% for the last fiscal year.

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




The ratio of Gross Fixed Capital Formation to GDP for 2018-19 has been projected at 29.0%. The estimate for Q1 2018-19 is put at 29.0%, 0.5 percentage points higher than that projected ratio for Q4 2017-18.

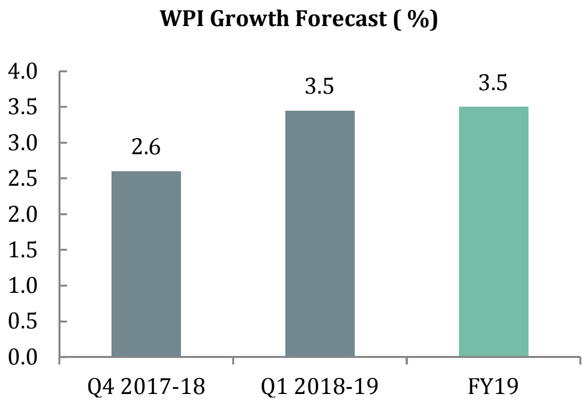
## Index of Industrial Production (IIP)

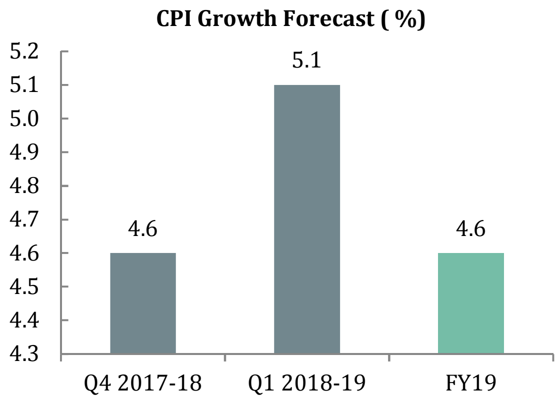



Median growth forecast for IIP for the year 2018-19has been put at 6.5% by the participating economists, with a minimum and maximum range of 5.0% and 7.0% respectively.

The estimate for 2018-19 marks an improvement over 4.4% IIP growth reported in 2017-18. Latest monthly numbers report some recovery in industrial production growth - which is an encouraging sign.

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



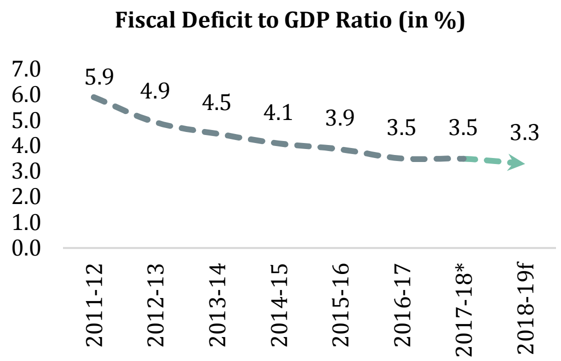




Wholesale Price Index based inflation rate is projected at 3.5% in 2018-19, with a minimum and maximum range of 2.9% and 3.9% respectively. WPI based inflation stood at 2.9% for the entire fiscal year 2017-18.

Consumer Price Index has a median forecast of 4.6% for 2018-19, with a minimum and maximum range of 4.3% and 5.0% respectively.CPI based inflation was reported at 3.6% in 2017-18.CPI forecast for Q1 2018-19 has been put at 5.1% according to our survey results.

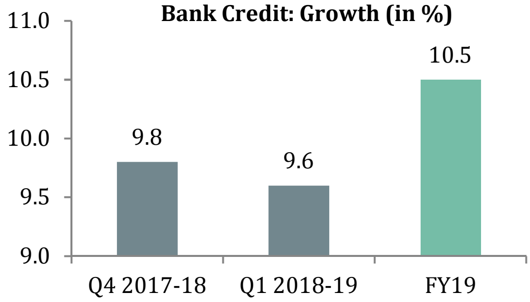
## Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 3.3% for the fiscal year 2018-19 with a minimum and maximum range of 3.3% and 3.7% respectively.



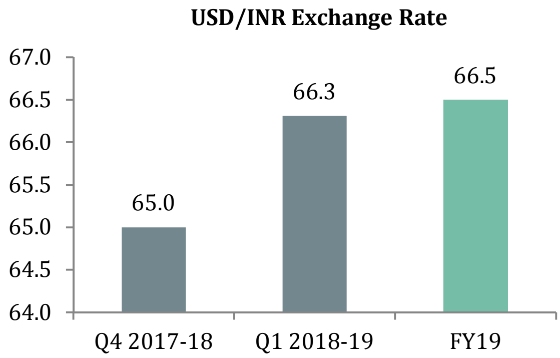

2017-18* Government Projection
2018-19# Budgeted

## Money and Banking




| | End of Q1 2018-19 | End of 2018-19 |
|---|---|---|
| **Repo Rate** | **6.0%** | **6.25%** |

| | End of Q1 2018-19 | End of 2018-19 |
|---|---|---|
| **CAD as % of GDP** | **2.0%** | **2.1%** |



**Survey Results: Part B**
**Views of the Economists**

## RISING PROTECTIONIST POLICIES AND ITS IMPACT ON INDIA

Protectionist tendencies are on rise globally and have the potential to impact global economic and trade growth going ahead. With fresh tariffs being imposed by the United States and retaliatory tariffs being introduced by China, the situation seems to be reaching a delicate ground. Given this backdrop, economists were asked to share their prognosis on these recent global events and its possible impact on India.

The participating economists unanimously felt that the brewing trade war can impact India indirectly, if not directly, as the country is deeply integrated with global economy. A trade war between two major economies will further exacerbate geopolitical strains and could lead to a slowdown in world trade which can have recessionary effects on the global economy.

In fact, some of the most prominent economists across the world have compared the current situation to introduction of Smoot Hawley Tariff Act back in June 1930. The Smoot-Hawley Tariff Act had led to imposition of import tariffs by the US on over 20, 000 imported goods provoking retaliatory measures leading to a severe trade war and worsening of global depression.

The economists believed that such protectionist measures would undermine the multilateral trading system governed by WTO rules.

Participating economists were of the view that more than the absolute results of trade war, the prevailing uncertainties might cause market disruptions and negatively impact the overall sentiment. The respondents felt that imposition of higher import tariffs could trigger inflationary pressure in the US, which in turn can have repercussions on Indian stock and currency markets. In fact, the stock market is already witnessing some correction.

Economists opined that exports are likely to bear the brunt and export-oriented industries particularly MSMEs from sectors like iron and steel, machinery and metal products, chemicals and agricultural goods are likely to take a hit. There are possibilities of an unexpected interruption in the global supply chain.

Nonetheless on the positive side, the looming trade war also has the potential to open up new avenues for India. US and China are major trade destinations for each other. Some of the participating economists were of the view that imposition of tariffs by each country on the other's commodities opens up opportunities for India to boost its exports particularly in the labour-intensive sectors such as clothing, footwear and electronics. India can also focus on deepening bilateral trade with its key trading partners to limit the impact of protectionist policies.

## VIEWS ON OPPORTUNITIES AND CHALLENGES FROM INTRODUCTION OF DIGITAL CURRENCY

The Reserve Bank of India in its First Bi-monthly Monetary Policy announced setting up of an inter-departmental group to assess the feasibility of introducing a central bank digital currency. The group is expected to submit its report by June 2018. Given the fact that several central banks around the world are contemplating to introduce a fiat digital currency, economists were asked to share their views on the opportunities and challenges arising out of the same from India's perspective.

The economists participating in the survey broadly agreed that introduction of a fiat digital currency will be a step in right direction. Citing various advantages, economists said that digital currency will provide an easy and efficient way for instant global electronic transactions, prevent counterfeiting and reduce printing and administrative costs substantially. It will also benefit by bringing about wider financial inclusion, enhancing market stability and providing for better record keeping and monitoring of transactions. Elimination of financial intermediaries in digital transactions will reduce transaction costs. The participants cited examples of some major countries like US, China, Russia, Japan and Sweden as well as of some emerging market economies like Venezuela, Estonia and Uruguay that are already working on a digital currency framework.

Nonetheless, participating economists cautioned that even though the concept of digital currency is promising on several fronts, introduction of the same requires detailed discussion. Economists felt that fiat digital currency could pose a threat to privacy and security concerns need to be safeguarded first. They called for careful consideration and discussions before implementing any such arrangement.

## VIEWS ON MACROECONOMIC AND FINANCIAL SECTOR RISKS

The year 2018 started on a positive note for the Indian economy. However, there are several challenges that remain on horizon such as elevated crude oil prices, increase in protectionism and difficulties that plague the domestic banking system to mention a few. In this scenario, economists were asked to share their assessment of macroeconomic and financial sector risks for remaining part of the year.

Majority of economists opined that despite certain macro-economic parameters (healthier manufacturing growth, investments, demand etc.) pointing towards signs of optimism; risk factors continue to remain on anvil. Economists were broadly in agreement on the listing of major downside risks that envelop the economy.

The participating economists pointed out that higher crude oil prices along with uncertainties surrounding greater protectionism and GST related glitches pose as key risk factors and can have an adverse impact on India's external sector going ahead. India imports a large share of its fuel requirements and high crude oil prices can significantly inflate our current account deficit. Also, our exports have been on the back foot as exporters continue to face uncertainty on account of changing GST rules and pending refunds. Further, rising risks from protectionism has added to this pressure.

Furthermore, the economists added that with general and state elections due next year, there are increased chances of a fiscal slippage in the current financial year. Higher fuel prices and hike in minimum support prices for farmers are likely to put pressure on the fisc and can fuel inflationary pressures.

Besides, the participating economists felt that Rupee might continue to remain under pressure during the remaining part of the year. Foreign capital inflows are expected to face risks from tighter global liquidity conditions (with US Federal Reserve withdrawing quantitative easing), introduction of long term capital gain tax and from other global financial developments such as correction in global stock markets and rise in US treasury yields.

Few participating economists felt that some of the green shoots possibly are a result of favourable base effect and restocking and greater clarity will be possible only after more data comes in. On the inflation front, apart from risks from higher commodity prices, economists believed that while there are predictions of a normal monsoon season, unseasonal rain and hail storms can cause fluctuations in food prices.

**VIEWS ON INDIA ACHIEVING FIVE TRILLION DOLLAR ECONOMY TAG BY 2025**

The government has set up a high-level task force to chart out a roadmap towards making India a USD 5 trillion economy over the next 7-8 years. The manufacturing sector will have to play a key role in this journey. Given this backdrop, economists were asked to share their prognosis on the ways government can adopt to support and promote rapid growth in the manufacturing sector.

Most economists were of the opinion that a vibrant manufacturing sector is needed to achieve impressive growth in GDP. The government has set a target of increasing the share of manufacturing in GDP to 25 percent by 2022 as against the current position of 16 percent. Many participating economists feel that this is an ambitious target given a whole host of issues facing the sector. The sector is presently grappling with issues related to competitiveness which is contributing to lower export as well as overall growth. While the government has taken steps to improve the business environment and removed several bottlenecks, the economists participating in the survey felt that a lot more needs to be done increase the share of manufacturing in GDP. They opined that the government must stand up to the challenge carrying out the difficult reforms, especially those related to the factor market (land and labour). Further, timely implementation of proposed reforms in the infrastructure and logistics space like the Bharatmala Project and power sector must be ensured to improve competitiveness of the Indian manufacturing sector.

Participating economists believed that a special focus must be provided to the small and medium enterprises as they form the backbone of India's manufacturing sector. The SMEs are the real job creators in India's economy with some of them engaged in highly export-oriented/labour intensive manufacturing (such as readymade garments and the leather industry). Since they form such an important part of our country's industrial structure, the economists suggested that processes for small and medium enterprises and start-ups must be further simplified including provisions for easier access to credit facilities. The participants also called for consistency in long term policy formulations to bring about stability which is conducive for investments.

Economists felt that the government should consider giving fiscal incentives by reducing the Minimum Alternate Tax (MAT) and Corporate Tax rates.

Furthermore, the economists pointed out that there is an urgent need for continuous supply of aptly skilled workforce for manufacturing output to expand. This becomes even more important when the world is looking at Industry 4.0 which is expected to open newer opportunities for those with higher value-added skills. Economists reckoned that state of art vocational training institutes must be established around key manufacturing clusters for developing skilled labour force. They opined that investing in training and retaining labour is essential to ensure higher productivity.

In addition, economists believe that supply chain agility is crucial to improve the efficiency of the manufacturing ecosystem and this is where the government's spending on infrastructure to improve forward and backward linkages will play a significant role. There must be a conscious effort to reduce wastage along the supply chain. This can be done by seeking locations near prominent industry belts and by leveraging supplier parks. Supply chains and production lines must be continuously tracked and managed for which appropriate tools can be designed by employing IT professionals.

Lastly, it was suggested that manufacturing units must ensure world class quality in the products they produce. Economists recommended a zero-tolerance approach to be followed to guarantee process discipline. In a world with endless substitutable products, economists cautioned against trading of quality for lower costs. This will go a long way in safeguarding India's interest in becoming a global manufacturing hub.

## Appendix

| | Outlook 2018-19 | | | | Outlook Q4 2017-18 | | | | Outlook Q12018-19 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Key Macroeconomic variables** | **Mean** | **Median** | **Min** | **Max** | **Mean** | **Median** | **Min** | **Max** | **Mean** | **Median** | **Min** | **Max** |
| **GDP growth rate at market prices (%)** | 7.3 | 7.4 | 6.9 | 7.5 | 7.1 | 7.1 | 6.8 | 7.4 | 7.3 | 7.3 | 7.0 | 7.4 |
| **GVA growth rate at basic prices (%)** | 7.0 | 7.1 | 6.8 | 7.2 | 6.8 | 6.8 | 6.3 | 7.3 | 7.1 | 7.1 | 6.8 | 7.4 |
| ***Agriculture & Allied*** | 3.2 | 3.2 | 2.6 | 4.0 | 3.2 | 3.0 | 2.0 | 4.2 | 3.2 | 3.0 | 2.9 | 3.9 |
| ***Industry*** | 6.3 | 6.7 | 4.6 | 7.0 | 6.2 | 6.5 | 4.5 | 7.5 | 6.9 | 6.8 | 6.3 | 7.7 |
| ***Services*** | 8.4 | 8.4 | 8.1 | 8.7 | 8.3 | 8.3 | 7.7 | 8.7 | 8.4 | 8.4 | 8.0 | 8.8 |
| **Gross Domestic Savings (% of GDP at market prices)** | 30.9 | 30.6 | 30.5 | 32.0 | 30.6 | 30.5 | 30.2 | 31.0 | 30.8 | 30.5 | 30.0 | 32.0 |
| **Gross Fixed Capital Formation (% of GDP at market prices)** | 29.7 | 29.0 | 28.2 | 33.7 | 29.0 | 28.5 | 27.0 | 32.9 | 30.1 | 29.0 | 28.4 | 34.2 |
| **Fiscal Deficit (as % to GDP) Centre** | 3.4 | 3.3 | 3.3 | 3.7 | - | - | - | - | - | - | - | - |
| **Growth in IIP (%)** | 6.1 | 6.5 | 5.0 | 7.0 | 6.6 | 6.7 | 5.8 | 7.0 | 6.6 | 6.7 | 6.2 | 7.0 |
| **WPI Inflation rate (%)** | 3.5 | 3.5 | 2.9 | 3.9 | 2.6 | 2.6 | 2.6 | 2.7 | 3.4 | 3.5 | 3.0 | 3.8 |
| **CPI combined inflation rate (%)** | 4.6 | 4.6 | 4.3 | 5.0 | 4.5 | 4.6 | 3.9 | 4.7 | 5.0 | 5.1 | 4.4 | 5.3 |
| **Money supply growth M3 (%) (end period)** | 9.0 | 9.0 | 7.4 | 10.8 | 11.4 | 11.4 | 10.5 | 12.2 | 11.5 | 11.5 | 11.0 | 12.0 |
| **Bank credit growth (%)** | 10.0 | 10.5 | 7.5 | 11.5 | 9.8 | 9.8 | 8.5 | 11.0 | 9.6 | 9.6 | 8.1 | 11.0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Repo Rate (end period)** | 6.25 | 6.25 | 6.0 | 6.25 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| **Merchandise Export** | | | | | | | | | | | | |
| **Value in USD billion** | 328.4 | 327.0 | 312.5 | 358.7 | 78.3 | 79.2 | 75.0 | 80.0 | 79.9 | 80.0 | 77.2 | 82.5 |
| **Growth (%)** | 9.7 | 9.4 | 4.6 | 15.0 | 5.9 | 4.4 | 1.8 | 14.0 | 8.3 | 7.5 | 2.0 | 16.0 |
| **Merchandise Import** | | | | | | | | | | | | |
| **Value in USD billion** | 494.2 | 510.0 | 437.5 | 560.1 | 118.2 | 119.4 | 110.0 | 124.0 | 121.8 | 121.1 | 120.0 | 125.0 |
| **Growth (%)** | 11.6 | 11.0 | 5.7 | 18.0 | 11.9 | 14.5 | 1.8 | 16.0 | 8.8 | 7.8 | 2.5 | 17.0 |
| **Trade Balance (% to GDP)** | -5.0 | -5.8 | -2.1 | -7.1 | -3.4 | -3.5 | -0.7 | -6.0 | -4.4 | -4.2 | -2.2 | -6.8 |
| **CAD as % of GDP at current price** | 2.1 | 2.1 | 1.6 | 2.5 | 1.7 | 1.8 | 1.5 | 2.0 | 2.0 | 2.0 | 1.5 | 2.4 |
| **US$ / INR exchange rate (end period)** | 66.7 | 66.5 | 63.5 | 69.0 | 64.8 | 65.0 | 63.5 | 66.0 | 65.9 | 66.3 | 63.5 | 67.5 |

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