Economic Outlook Survey

November 2018

HIGHLIGHTS

FICCI's Economic Outlook Survey: GDP growth estimated at 7.4% for Q2 of 2018-19 Growth for 2018-19 projected at 7.4%; 7.5% for 2019-20

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2018-19 at 7.4% (minimum and maximum between 7.0% and 7.6% respectively) and for 2019-20 at 7.5% (minimum and maximum between 7.2% and 7.8% respectively). The survey was conducted during October/November 2018 among economists belonging to the industry, banking and financial services sectors.
- The median growth forecast for agriculture and allied activities has been put at 3.9% for 2018-19. Industry and services sector are expected to grow by 6.8% and 8.2% respectively during 2018-19.
- Further, the quarterly median forecasts indicate a GDP growth of 7.4% in the second quarter of 2018-19. The official growth numbers for the second quarter are expected to be released later this month (November 30, 2018).
- The median growth forecast for IIP was put at 4.6% for 2018-19 by the participating economists, with a minimum and maximum range of 4.5% and 5.4% respectively.
- The outlook of the participating economists on inflation remained moderate. CPI based inflation has a median forecast of 4.3% for 2018-19, with a minimum and maximum range of 4.0% and 4.8% respectively.
- Concerns seem evident on external front with median current account deficit forecast pegged at 2.7% of GDP for 2018-19.

Views of economists on key topical issues

Views on recent measures to address widening current account deficit and Rupee depreciation

- Participating economists believed that current situation is majorly a result of global spill overs and is not so much due to domestic factors. Global developments such as elevated global crude/commodity prices and significant sell-offs in emerging market have mainly been responsible for this scenario.
- The economists felt that measures announced by the government will only work in the short run and more measures need to be taken to address long-term concerns on external front.
- Participating economists unanimously called for a need to boost exports to safeguard the economy from challenges arising on external front. Economists believed that consistent encouragement and strengthening of the export sector seemed to be a more sustainable strategy to overcome external challenges.
- Furthermore, functioning of special economic zones must be relooked at. Efforts must be taken to enhance the functioning of such zones to provide a boost to exports. Focus must be laid upon addressing domestic bottlenecks.

Views on ways to manage state finances better

- Economists unanimously believed that the slippage in fiscal deficit could be attributed to the deterioration in quality of expenditure with a bias towards the revenue portion - implying that the high fiscal deficit has not translated into enhancing capacity.
- The economists suggested that improving the quality of expenditure was the need of the hour. States must strive to reduce their non-productive spends (such as interest payments, loan waivers) and divert more resources towards productive spending.
- The participants emphasized the need for promoting revenue generating activities such as improving exports and overall production levels. This could be achieved by making efforts to identify potential products for exports from each state by the central government and improving overall infrastructure requirement.
- Economists felt that the economy is still in the transition phase after the introduction of goods and services tax (GST) and that management of state finances will improve manifold once GST stabilizes.

Views on topmost reforms that need to be prioritized on economic front

- Participating economists were of the view that while the current government has initiated many important structural reforms viz. GST, Insolvency & Bankruptcy Code, Power Sector Reforms, Real Estate (Regulation and Development) Act and Jam Trinity for financial inclusion, these reforms are still work in progress and need relentless focus on execution.
- Apart from these, there is a need to urgently focus on several other areas. Reforms in the factor markets (such as land & labour) still need to be addressed. This gains more importance amidst the fact that India is eyeing to be a global manufacturing hub through the Make in India scheme. The agriculture sector, too, is in need for urgent and fast paced reforms, especially at the state level.
- Exports is another area that requires attention. It was suggested that each state be given mandatory targets of export growth in the products and services that the respective state has a comparative advantage in vis-à-vis other major competing states/nations. The states should also be fully supported to help create the right ecosystem for promoting the identified industries. This will go a long way in creating a competitive environment within the country.
- Initiatives must also be taken to preserve and enrich the natural resources of the country. This becomes even more important amidst the occurrences of frequent drought and flood conditions in the country and climate change becoming a real problem. A proper water management policy is the need of the hour to reduce the impact of such calamities. Preservation efforts for resources like minerals, water, petroleum must also be made through policies for better and secured growth of the country. Energy reforms are urgently needed in the country.
- Economists believed that the government must continue with reforms on the social side including health, education. This will ensure empowerment of people at all levels and create a healthy, empowered and knowledge driven workforce.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of October/November 2018 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 years 2018-19 as well as for quarters Q2 (July-September) FY19 and Q3 (October-December) FY19.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their prognosis on recent measures taken to curtail widening current account deficit and Rupee depreciation. Views of economists were also sought on ways in which state finances could be better managed. Finally, with general elections round the corner, economists were asked to list reform measures that need to be prioritized on economic front.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

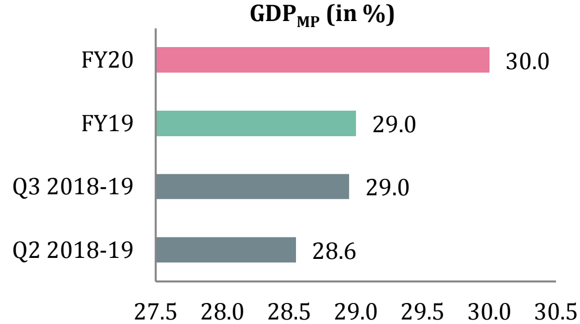
	Annual (2019-20)			Annual (2018-19)			Q2 2018-19			Q3 2018-19		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.5**	7.2	7.8	**7.4**	7.0	7.6	7.4	7.1	7.5	7.2	6.6	7.3
GVA@ basic prices	**7.3**	6.9	7.5	**7.2**	6.7	7.3	7.3	6.8	8.0	6.7	6.2	7.2
Agriculture & Allied activities	**4.3**	4.0	5.1	**3.9**	3.0	4.8	4.0	2.9	5.4	3.4	2.8	4.6
Industry	**6.6**	6.1	8.4	**6.8**	6.3	8.2	6.4	5.5	8.5	6.0	5.5	8.1
Services	**8.1**	7.6	8.7	**8.2**	7.2	8.6	8.0	7.8	9.6	8.1	7.3	8.5

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2018-19 at 7.4% (minimum and maximum between 7.0% and 7.6% respectively) and for 2019-20 at 7.5% (minimum and maximum between 7.2% and 7.8% respectively).

The median growth forecast for agriculture and allied activities has been put at 3.9% for 2018-19, with a minimum and maximum growth of 3.0% and 4.8% respectively. Industry and services sector are expected to grow by 6.8% and 8.2% respectively during 2018-19.

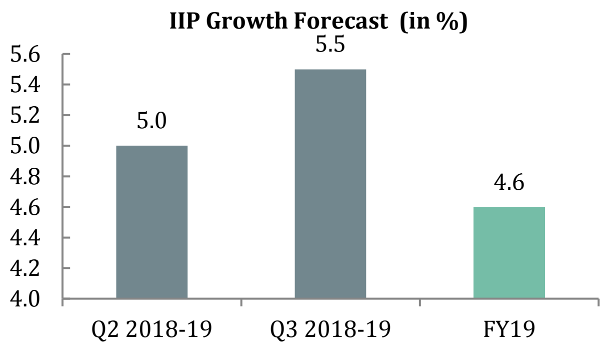
The quarterly median forecasts indicate a GDP growth of 7.4% in the second quarter of 2018-19 and 7.2% in the third quarter of 2018-19.

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



The ratio of Gross Fixed Capital Formation to GDP for 2018-19 has been estimated at 29.0%. The median growth prediction for Q3 2018-19 is put at 29.0%, 0.4 percentage point higher than that projected for Q2 2018-19.

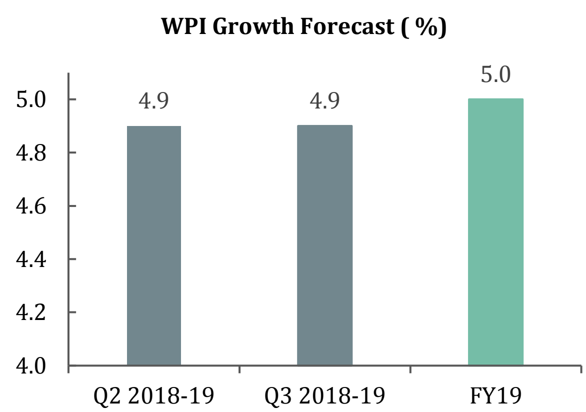
Index of Industrial Production (IIP)

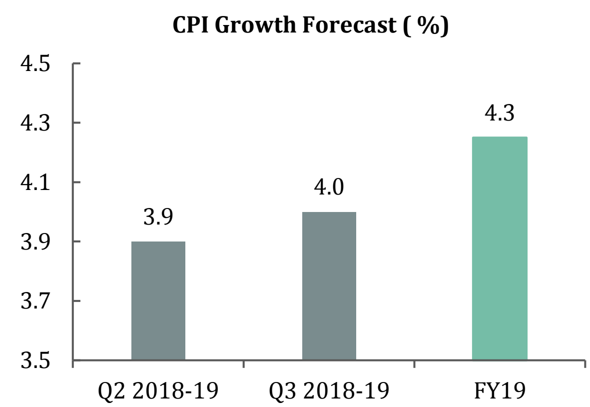


The median growth forecast for IIP was put at 4.6% for 2018-19 by the participating economists, with a minimum and maximum range of 4.5% and 5.4% respectively.

The latest monthly data has reported slight moderation in industrial production. The index grew by 4.5% in the month of September 2018 vis-à-vis 4.7% growth witnessed in the month of August. The cumulative growth between April-September 2018 stood at 5.2%,

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



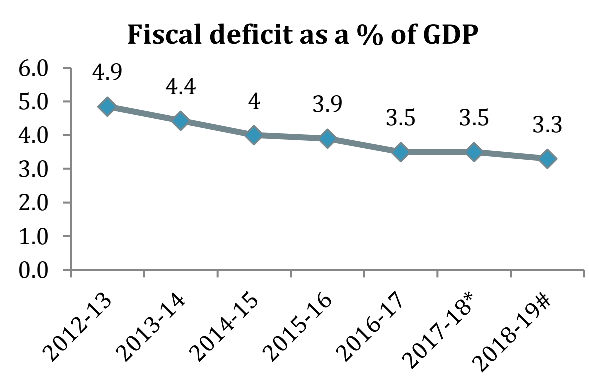


WPI based inflation rate is projected at 5.0% in 2018-19, with a minimum and maximum range of 4.7% and 5.3% respectively. The cumulative WPI over the period April-Oct 2018 stood at about 4.9%.

On the contrary, CPI based inflation has a median forecast of 4.3% for 2018-19, with a minimum and maximum range of 4.0% and 4.8% respectively. CPI forecast for Q3 2018-19 was put at 4.0% according to our survey results.

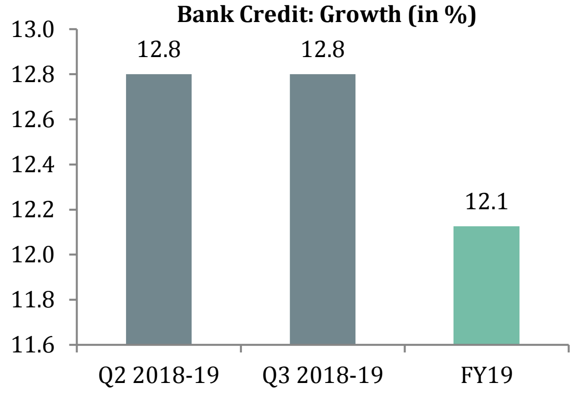
Fiscal Deficit

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 3.2% and 3.6% respectively.



2017-18* Government Projection
2018-19# Budgeted

Money and Banking



	End of Q3 2018-19	End of 2018-19
Repo Rate	**6.50%**	**6.75%**

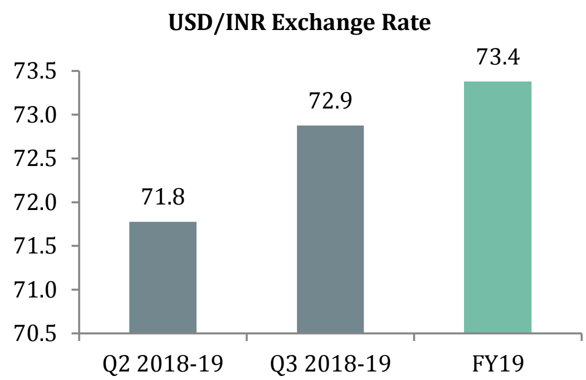
External Sector

2018-19	Export	Import
USD billion	337.4	537.6
Growth (in %)	11.1	16.2
2019-20		
USD billion	366.4	575.5
Growth (in %)	9.9	12.2

Based on the responses of the participating economists, the median growth forecast for exports has been put at 9.5% for Q3 2018-19 and for imports at 18.5%.

The economists put across median export growth at 11.1% and 9.9% in 2018-19 and 2019-20 respectively. Imports, on the other hand, are forecasted to grow at 16.2% and 12.2% respectively for 2018-19 and 2019-20.

	End of Q3 2018-19	End of 2018-19
CAD as % of GDP	**2.9%**	**2.7%**



Survey Results: Part B
Views of the Economists

VIEWS ON RECENT MEASURES TO ADDRESS WIDENING CURRENT ACCOUNT DEFICIT AND RUPEE DEPRECIATION

Taking stock of the widening current account deficit (CAD) caused by trade imbalances and other external factors such as rising commodity prices, Government of India recently announced a slew of measures- which included easing external commercial borrowing norms for manufacturing companies, renewing of limits of foreign portfolio investment exposure and mandatory hedging conditions on infrastructure bonds etc. Furthermore, the government has also announced measures to reduce trade imbalances by curbing imports of certain non-essential items. Views of economists were sought on the efficacy of these measures. They were also asked to share any additional measures that are required to have a desirable impact on Rupee value/ CAD position.

The participating economists opined that the current situation is majorly a result of global spill overs and not so much due to domestic factors. Global developments such as elevated global crude/commodity prices and significant sell-offs in emerging market have mainly been responsible for this scenario.

However, the economists felt that the measures announced will only work in the short run and more measures need to be taken to address long-term concerns on the external front.

Participating economists unanimously called for a need to boost exports to safeguard the economy from challenges arising on the external front. Citing the example of agricultural sector, it was explained that our trade surplus in agriculture has come down drastically over the past five or six years. A need was therefore felt for developing a sustainable export model wherein India finds a permanent market for its products on a long-term basis. India must also proactively look for newer product mix and markets for its products, thereby expanding the export basket as well as the country/ region base.

Furthermore, it was opined that functioning of special economic zones must be relooked at. Efforts must be made to enhance the functioning of such zones to provide a boost to exports. Focus must be laid on addressing domestic bottlenecks, uninterrupted domestic supply of raw materials (such as coal which has recently seen a spurt in imports) and adequate timely policy responses to achieve the intended results. Additionally, it was felt that appropriate progress in the Make in India Policy will pump up domestic production and exports and, therefore, lower vulnerability to such external instances.

VIEWS ON WAYS TO MANAGE STATE FINANCES BETTER

The Reserve Bank of India report on 'State Finances: A Study of Budgets of 2017-18 and 2018-19' released in July 2018 highlights the fiscal stress being faced by states- attributing it to a host of factors including farm loan waivers/state governments undertaking the debt of power distribution companies etc. The state fiscal deficit as percent of GDP missed the 3.0% target for the third consecutive year in 2017-18. Fiscal consolidation at the state level is extremely important for attracting investments and charting out on a sustainable growth path. Given this backdrop, economists were asked to share ways in which state finances could be better managed.

Economists unanimously believed that the slippage in fiscal deficit could be attributed to the deterioration in quality of expenditure with a bias towards the revenue portion - implying that the high fiscal deficit has not translated into enhancing capacity. In fact, it was pointed out that the ratio of revenue to capital expenditure has been worsening since 2016-17.

The economists suggested that improving the quality of expenditure was the need of hour. States must strive to reduce their non-productive spends (such as interest payments, loan waivers) and divert more resources towards productive spending. This would improve the efficacy of public spending. It was felt that populist measures such as loan waivers hamstrings states' potential capital expenditure which will eventually have a bearing on their long-term growth and finances.

Furthermore, economists highlighted the need for improving revenue mobilization by assuring tax compliance in order to become revenue surplus. Economists were of the view that the Centre must formulate a new policy that prevents states from offering subsidies which adversely affect their exchequer.

The participants emphasized the need for promoting revenue generating activities such as improving exports and overall production levels. This could be achieved by making efforts to identify potential products for exports from each state by the central government and improving overall infrastructure requirements.

Finally, economists felt that the economy is still in the transition phase after the introduction of goods and services tax (GST) and that management of state finances will improve manifold once GST stabilizes.

VIEWS ON TOPMOST REFORMS THAT NEED TO BE PRIORITIZED ON ECONOMIC FRONT

As we approach the general elections in 2019, various political parties will soon be spelling out their agendas for the next five years. Keeping this in mind, economists were asked to list reform measures that need to be prioritized on economic front.

Participating economists were of the view that while the current government has initiated many important structural reforms viz. GST, Insolvency & Bankruptcy Code, Power Sector Reforms, Real Estate (Regulation and Development) Act and Jam Trinity for financial inclusion, these reforms are still work in progress and need relentless focus on execution.

Apart from these, there is a need to urgently focus on several other areas. Reforms in the factor markets (such as land & labour) still need to be addressed. This gains more importance amidst the fact that India is eyeing to be a global manufacturing hub through the Make in India scheme. The agriculture sector, too, is in need for urgent and fast paced reforms, especially at the state level.

Exports is another area that requires a lift. It was suggested that each state be given mandatory targets of export growth in the products and services that the respective state has a comparative advantage in vis-à-vis other major competing states/nations. The states should also be fully supported to help create the right ecosystem for promoting the identified industries. This will go a long way in creating a competitive environment within the country.

Alongside, economists emphasized on the need for further improving infrastructure facilities in the country which in turn will attract overseas investors while simultaneously improving the productive capacity of the economy. The initiatives to boost infrastructure will have a direct impact on employment generation. In the context of creation of jobs, economists suggested that policies could be formulated at ground level through active support from the panchayats for successful implementation of various employment related and other projects.

Initiatives must also be taken to preserve and enrich the natural resources of the country. This becomes even more important amidst the occurrences of frequent drought and flood conditions in the country and climate change becoming a real problem. A proper water management policy is the need of the hour to reduce the impact of such calamities. Preservation efforts for resources like minerals, water, petroleum must also be made through policies for better and secured growth of the country. Energy reforms are urgently needed in the country.

Finally, economists believed that the government must continue with reforms on the social side including health, education. This will ensure empowerment of people at all levels and create a healthy, empowered and knowledge driven workforce.

Appendix

Key Macroeconomic variables	Outlook 2018-19				Outlook Q2 2018-19				Outlook Q3 2018-19			
	Mean	Median	Min	Max	Mean	Median	Min	Max	Mean	Median	Min	Max
GDP growth rate at market prices (%)	7.4	7.4	7.0	7.6	7.4	7.4	7.1	7.5	7.1	7.2	6.6	7.3
GVA growth rate at basic prices(%)	7.1	7.2	6.7	7.3	7.3	7.3	6.8	8.0	6.7	6.7	6.2	7.2
Agriculture & Allied	4.0	3.9	3.0	4.8	4.1	4.0	2.9	5.4	3.7	3.4	2.8	4.6
Industry	7.0	6.8	6.3	8.2	6.8	6.4	5.5	8.5	6.5	6.0	5.5	8.1
Services	8.1	8.2	7.2	8.6	8.4	8.0	7.8	9.6	8.0	8.1	7.3	8.5
Gross Domestic Savings (% of GDP at market prices)	30.0	30.5	28.1	30.7	-	-	-	-	-	-	-	-
Gross Fixed Capital Formation (% of GDP at market prices)	28.4	29.0	23.7	30.5	28.8	28.6	28.5	29.5	29.2	29.0	28.2	30.5
Fiscal Deficit (as % to GDP) Centre	3.4	3.3	3.3	3.5	-	-	-	-	-	-	-	-
Growth in IIP (%)	4.8	4.6	4.5	5.4	5.6	5.0	5.0	6.7	5.6	5.5	4.3	7.1
WPI Inflation rate (%)	5.0	5.0	4.7	5.3	4.9	4.9	4.6	5.0	4.9	4.9	4.5	5.5
CPI combined new inflation rate (%)	4.4	4.3	4.0	4.8	4.0	3.9	3.8	4.3	4.1	4.0	3.4	4.7
Money supply growth M3 (%) (end period)	10.6	10.6	10.5	10.8	9.7	9.7	9.4	10.0	10.1	10.1	9.6	10.5

Bank credit growth (%)	12.3	12.1	11.0	14.0	12.8	12.8	12.5	13.0	12.6	12.8	12.0	13.0
Repo Rate (end period)	6.75	6.75	6.5	6.75	6.5	6.5	6.5	6.5	6.6	6.5	6.5	6.75
Merchandise Export												
Value in USD billion	336.5	337.4	320.0	352.8	81.8	81.8	81.6	82.0	84.5	83.5	82.5	87.5
Growth (%)	11.4	11.1	9.5	14.2	9.9	10.2	9.0	10.5	10.2	9.5	8.5	12.5
Merchandise Import												
Value in USD billion	525.6	537.6	462.5	553.0	131.0	131.0	130.9	131.0	136.7	140.0	128.5	141.5
Growth (%)	17.9	16.2	13.0	24.0	21.5	21.6	21.0	22.0	20.2	18.5	17.0	25.0
Trade Balance (% to GDP)	-7.3	-7.5	-7.0	-7.5	-	-	-	-	-	-	-	-
CAD as % of GDP at current price	2.6	2.7	2.2	2.9	2.5	2.5	1.9	3.1	2.9	2.9	2.4	3.4
US$ / INR exchange rate (end period)	72.3	73.4	68.5	74.0	71.8	71.8	71.0	72.6	72.9	72.9	72.0	73.8

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