Economic Outlook Survey

May 2023

HIGHLIGHTS

GDP growth estimated at 6.7 percent for Q1 2023-24 & 6.0 percent for 2023-24

A lowering in repo rate expected by December 2023/February 2024

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2023-24 at 6.0 percent.
- The median growth forecast for agriculture and allied activities has been put at 3.0 percent for 2023-24; while industry and services sector are anticipated to grow by 5.0 percent and 7.1 percent respectively.
- CPI based inflation has a median forecast of 5.3 percent for 2023-24, with a minimum and maximum range of 4.8 percent and 5.5 percent respectively.
- Based on the responses of the participating economists, the median forecast for exports has been put at USD 435.0 billion and for imports at USD 694 billion in 2023-24.
- RBI's policy repo rate is projected at 6.25 percent by the end of the fiscal year 2023-24.

Views of Economists

Views on the course of monetary policy action

- There was a unanimous view among the participants that RBI would maintain its stance in the upcoming monetary policy meeting despite headline inflation softening.
- However, regarding their assessment on when the RBI would start reversing the rate hike, a majority of the participating economists expected the Central Bank to maintain its stance throughout this calendar year and lower the interest rate only by end of the year or early next year (December 2023/February 2024 round).
- The primary factors that would determine RBI's trajectory as per economists included El Nino induced resurrection in food inflation, further rate hikes by Fed, delays in normalisation of supply side disruptions and uncertain crude oil price outlook.

Views on the demand situation in rural India

- Most of the economists participating in the survey indicated nascent signs of optimism with regard to rural demand.
- Factors including moderating inflation, normal monsoons, good rabi production/harvest, uptick in construction activity, increase in daily wages under MGNREGA bode well for rural demand.
- Moreover, it was also opined that an increasing contribution of non-farm sectors to rural income can offset income losses from farming, and thus help sustain rural demand.
- Nonetheless, downside risks continue to remain on fore especially with the likelihood around development of El Nino conditions that can impact the crop output, food prices and farm incomes going forward. Additionally, it was indicated that the recent improvement in rural demand reflects the base effect and does not necessarily reflect a qualitative improvement. A solid momentum is yet to build in.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of May 2023 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 2023-24 and for the quarters Q4 (January-March) of FY23 and Q1 (April-June) of FY24.

In addition, economists were asked to share their views on certain topical subjects. Considering subsiding global inflationary trends, economists were asked to share their prognosis about the probable timeline for reversal of rate hike by RBI. In addition, the participants were asked to share their outlook on demand in rural India and the factors that need to be looked out for in the remaining part of this year which could have a bearing on rural demand.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

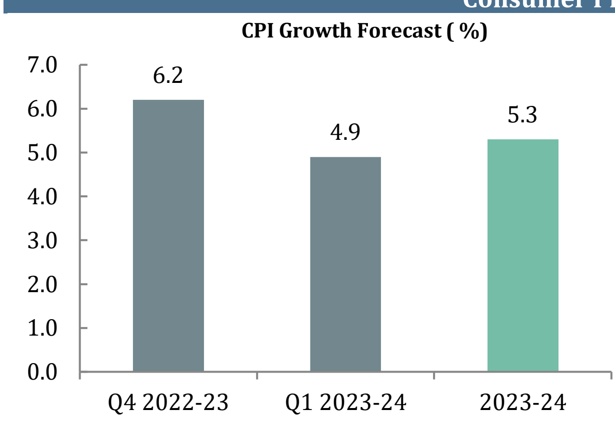
	Annual 2023-24			Q4 FY23			Q1 FY24		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**6.0**	6.0	6.3	**4.9**	4.4	5.4	**6.7**	5.2	8.5
GVA@ basic prices	**5.8**	5.5	6.2	**5.1**	4.4	5.3	**6.6**	6.3	8.1
Agriculture & Allied activities	**3.0**	2.0	4.2	**4.3**	3.0	4.3	**3.0**	2.5	5.5
Industry	**5.0**	4.6	5.9	**3.2**	1.5	3.6	**5.4**	4.5	7.5
Services	**7.1**	6.9	7.3	**6.5**	6.0	7.0	**8.5**	7.2	10.1

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2023-24 at 6.0 percent - with a minimum and maximum growth estimate of 6.0 percent and 6.3 percent respectively. The median growth forecast for agriculture and allied activities has been put at 3.0 percent for 2023-24. On the other hand, industry and services sector are anticipated to grow by 5.0 percent and 7.1 percent respectively during the fiscal year.

Median GDP growth is estimated at 4.9 percent and 6.7 percent for Q4 2022-23 and Q1 2023-24, respectively.

India is not immune to global volatility - weak global demand and the effect of monetary policy tightening are expected to have a moderating impact on India's growth prospects.

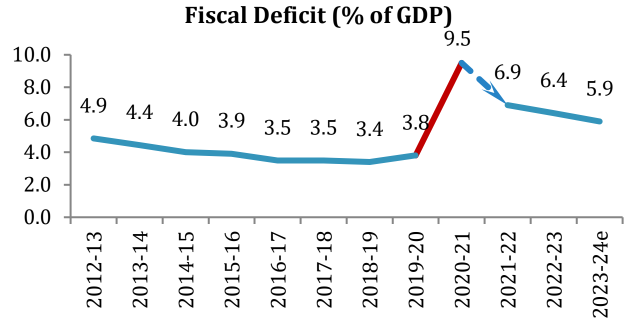
Consumer Price Index (CPI)



CPI based inflation has a median forecast of 5.3 percent for 2023-24, with a minimum and maximum range of 4.8 percent and 5.5 percent respectively. This is in line with RBI's projection indicated in the last monetary policy announcement in April 2023 -CPI based inflation rate was projected at 5.2 per cent for 2023-24. After treading way over RBI's upper threshold of 6.0 percent since January 2022 (except for Nov 2022-Dec 2022), CPI growth has shown signs of moderation in March and April 2023.

Fiscal Deficit

The median fiscal deficit to GDP ratio has been put at 5.9 percent for the fiscal year 2023-24 by the participants. This is in line with the budgeted fiscal deficit for 2023-24.



* e-expected

Money & Banking

Policy repo rate is forecasted at 6.25 percent by the end of the fiscal year 2023-24, with a minimum and maximum range of 6.00 percent and 6.50 percent respectively. Going forward, the Central Bank is anticipated to consider a cut in the repo rate.

	2023-24 (End, March 2024)
Repo Rate	6.25%

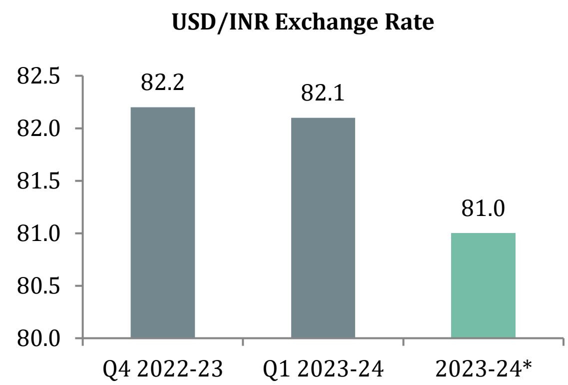
External Sector

2023-24	Export	Import
USD billion	435.0	694.0
Growth (in %)	-3.4	-3.1

	End of 2023-24
CAD as % of	2.1%

Based on the responses of the participating economists, the median forecast for exports has been put at USD 435 billion and for imports at USD 694.0 billion in 2023-24. CAD as percent of GDP is projected at 2.1% for the current fiscal year.

The participants expect the USD/INR exchange rate to be around 81.0 by the end of the current financial year.



* end period

Survey Results: Part B
Views of Economists

Views on the course of monetary policy action

After having raised interest rates quite substantially, Central banks in developed economies are now indicating signs of a pause or slowdown in rate hikes. Global inflationary trends are also receding and unless a major adverse shock is seen, we may see inflationary pressure ease in the months ahead. In India, while RBI opted for a 'pause' with regard to policy rate in the monetary policy review announced in April 2023, the participants were requested for their views on the future course of monetary policy action by the RBI - particularly their assessment with regard to a reversal of the rate hike cycle/and the factors that could delay this reversal/ cuts in policy rate.

There was a unanimous view among the participants that RBI would maintain its stance in the upcoming Monetary Policy meeting despite headline inflation softening during the months of March 2023 and April 2023. The CPI based inflation rate moderated to 4.7 percent in April 2023-an 18-month low. The underlying reason behind this consensus lies in the fact that in addition to moderation in the food, fuel, clothing and services prices, the headline inflation rate stayed within the Reserve Bank of India's (RBI's) upper tolerance limit primarily due to base effect. As the base effect would wean off going forward, the survey participants felt that inflation could climb back in the coming months.

However, regarding their assessment on when the RBI would start reversing the rate hike, majority of the participating economists expected the RBI to maintain its stance throughout this calendar year and lower the interest rate only by end of the year or early next year (December 2023/February 2024 round). Nonetheless, a few participants expected a reversal in interest hike as early as October 2023.

Overall, the primary factors that would determine RBI's trajectory as per economists included El Nino induced resurrection in food inflation, further rate hikes by Fed, delays in normalisation of supply side disruptions and uncertain crude oil price outlook.

The participants opined that while El Nino could lead to further interest hike depending upon the degree of the impact on crop output and rural demand, and the corresponding effect on the GDP growth, however, the impact is unlikely to be too overwhelming. Factors such as improved supplies of foodgrains, timely government interventions have contributed towards containing the surge in food inflation levels. Also, the impact this time around too can be managed through timely planning and intervention from the government.

Views on the demand situation in rural India

Indicators of demand from rural areas of India are showing mixed results. While tractor sales are growing, sales of two wheelers have been on a slow lane. FMCG companies are also reporting differing views on the demand trends in the rural areas. Amidst this backdrop, economists were asked to share their assessment on the outlook on rural demand.

Most of the economists participating in the survey indicated nascent signs of optimism with regard to rural demand. Factors including moderating inflation, normal monsoons, good rabi production/harvest, uptick in construction activity, increase in daily wages under MGNREGA bode well for rural demand. In fact, work demanded under MGNREGA has witnessed a contraction indicating signs of ebbing in rural distress and pointing towards urban migration. Moreover, it was also opined that an increasing contribution of non-farm sectors to rural income can offset income losses from farming, and thus help sustain rural demand.

Nonetheless, downside risks continue to remain on fore especially with the likelihood around development of El Nino conditions that can impact the crop output, food prices and farm incomes going forward. Additionally, it was indicated that the recent improvement in rural demand reflects the base effect and does not necessarily reflect a qualitative improvement. A solid momentum is yet to build in.

Federation of Indian Chambers of Commerce and Industry
Federation House
Tansen Marg, New Delhi 110001