# Economic Outlook Survey

*October 2023*

**HIGHLIGHTS**

***GDP growth estimated at 6.1 percent for Q2 2023-24 & 6.3 percent for 2023-24***

***CPI based inflation rate projected at 5.5 percent for 2023-24***

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2023-24 at 6.3 percent.
- The median growth forecast for agriculture and allied activities has been put at 2.7 percent for 2023-24; while industry and services sector are anticipated to grow by 5.6 percent and 7.3 percent respectively.
- CPI based inflation has a median forecast of 5.5 percent for 2023-24, with a minimum and maximum range of 5.3 percent and 5.7 percent respectively.
- Based on the responses of the participating economists, the median forecast for exports has been put at USD 425.3 billion and for imports at USD 682.3 billion in 2023-24.
- RBI's policy repo rate is projected to be maintained at 6.5 percent until the end of the fiscal year 2023-24.

## Views of Economists

### Outlook on the global economy and its impact on India's growth prospects

- There was a unanimous view among the participants that global growth is poised to slow in the current year vis-à-vis 2022, and this trend is expected to continue in the year 2024 as well.
- Significant downside risks continue to remain on fore that could hamper the momentum in recovery. Inflation continues to remain elevated - food prices, especially, have been a concern and stay much above the pre-Covid levels. Further, the decision by Saudi Arabia and Russia to extend their voluntary oil production cuts until the end of this year and the consequent firming up of energy prices is once again weighing on the global economy.
- The monetary policy continues to remain tight for longer and its lagged effect could further intensify financial sector risks. Any overtightening/transition to higher interest rate regime could further escalate the slowdown in global growth.
- Additionally, the worsening of China's property market crisis, debt driven infrastructure investments and muted demand is casting a shadow on the growth prospects.
- Back home, even though India's economic performance has remained relatively steady amid the recent challenges, the country has not been unscathed from the external shocks. Weak external demand is already reflecting in India's merchandise exports performance and is expected to be a drag on domestic growth.
- The participants were also of the view that the headwinds from the slowdown in advanced economies, as well as volatility in exchange rate could temper the growth of services exports this fiscal year vis-à-vis 2022-23.
- Nonetheless, growth in India is expected to hold ground on back of good health of the financial sector, robust urban demand, uptick in private investment as result of government's front-loading of capex, pick up in real estate/construction sector and the forthcoming festive season.
- Also, the contact-intensive services sector is likely to remain an important factor driving growth.

### Views on India's inflation trajectory

- The participants opined that the course of inflation remains uncertain. The CPI inflation rate may have peaked, but upside risks to prices remain on fore. The price of food segment is a concern and with the El Nino impact playing out the food prices may continue to see some edging up. Furthermore, it also needs to be noted that the cancellation of Black Sea grain deal could impact India as as a major share of its sunflower oil imports comes from Ukraine & Russia.
- Further, the spike in weather related uncertainties have witnessed an increase in recent times and would continue to add to the volatility in food prices. The recent escalation in crude prices, if sustained, could also add to the inflation buildup.

- According to the economists taking part in the latest survey, the CPI inflation rate is expected to remain above the Reserve Bank of India's target level of 4.0 percent for the remaining part of the financial year.
- With respect to policies to tackle rising inflation, participants opined that supply-side management remains key to control price rise. Seamless transportation of perishables to ensure uninterrupted supply remains a critical gap to be filled.
- Moreover, from a medium to long term perspective, de-risking the food supply chains from weather-related disruptions should be a priority. While the Government has taken steps towards promoting sustainable agriculture, going forward, technology and digitalization will have to be more holistically integrated in the agri-value chain to minimize the impact of such shocks on farm activities.
- Given the supply side driven nature of inflation, the economists viewed a limited role of monetary policy.
- Also, a cut in the repo rate is expected to materialise only by end of Q1 or Q2 of the next fiscal year 2024-25.

**Views on strengthening the private investments**

- The participants unanimously cited that at present the government has been doing much of the heavy lifting with respect to capex. The government's thrust on capital expenditure has led to a crowding in of private investments and provided support to growth momentum. However, momentum in private investments has been primarily led by the non-industrial sector. Investments have been concentrated in sectors including roads, railways, iron and steel, cement, chemicals.
- Schemes such as the Production Linked Incentive scheme indicate government's efforts to channelise private investments. Fresh investments are expected to take place in the new age sectors/and sectors where there is a scope for faster green transition.
- The participants opined that a full-fledged momentum in investments will take some more time to build in. It was felt that going forward any further recovery in private investments will be led by a pick-up in consumption activity – both domestic and external.
- The economists emphasised continuing the focus on ease of doing business, physical infrastructure creation, and a stable policy environment to sustain private capital expenditure.
- Streamlining compliances, simplifying tax/legal systems, encouraging export-oriented manufacturing, leveraging on changing global trade patterns/global diversification, establishing industry specific manufacturing hubs with complete eco-systems were some of the other suggestions made by the survey participants in context of supporting private sector investments.

## Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of September 2023 and drew responses from leading economists representing industry, banking and financial services sector. The economists were requested to share their forecast for key macro-economic variables for the year 2023-24 and for the quarters Q2 (July-September) FY24 and Q3 (October-December) FY24.

In addition, the participating economists were also requested to share their views on certain topical subjects. Amid the persistence of global headwinds, the participants were asked to share their outlook on the global economy and its consequent impact on domestic front. Views were also sought on India's inflation trajectory for the remaining part of the current financial year and the current investment scenario in the country.

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

### National Accounts

**GDP and GVA growth at 2011-12 prices**

| | 2023-24 | | | Q2 FY24 | | | Q3 FY24 | | |
|---|---|---|---|---|---|---|---|---|---|
| Growth (in %) | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** |
| **GDP@ market prices** | **6.3** | 6.0 | 6.6 | **6.1** | 4.6 | 7.0 | **6.0** | 4.6 | 6.5 |
| **GVA@ basic prices** | **6.1** | 5.7 | 6.5 | **6.0** | 5.0 | 6.8 | **5.7** | 4.8 | 6.5 |
| Agriculture & Allied activities | **2.7** | 1.9 | 3.5 | **2.6** | 1.0 | 3.5 | **2.0** | 1.3 | 3.1 |
| Industry | **5.6** | 5.1 | 6.8 | **6.0** | 5.0 | 8.1 | **5.4** | 5.0 | 8.6 |
| Services | **7.3** | 6.6 | 7.7 | **6.6** | 6.1 | 7.8 | **6.7** | 5.5 | 7.3 |

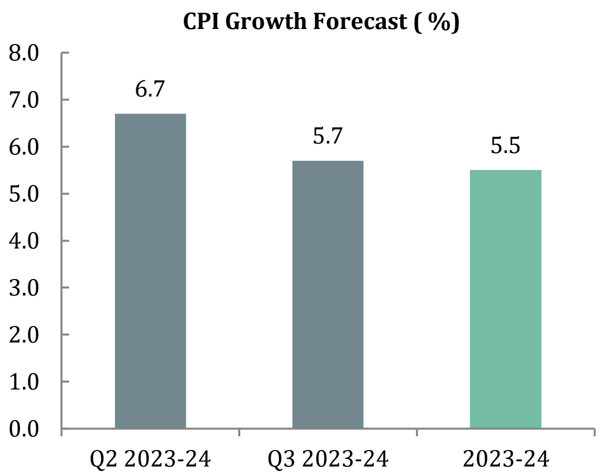
The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for the year 2023-24 at 6.3 percent - with a minimum and maximum growth estimate of 6.0 percent and 6.6 percent respectively. The GDP growth is expected to moderate in 2023-24 - from the 7.2 percent growth number clocked in the year 2022-23. Persisting headwinds on account of geopolitical stress, slowing growth in China, lagged impact of monetary tightening, below normal monsoons pose as downside risks to growth.

The median growth forecast for agriculture and allied activities has been put at 2.7 percent for 2023-24. This marks a moderation vis-à-vis growth of about 4.0 percent reported in the year 2022-23. The El nino effect has had an impact on the spatial distribution of rainfall this monsoon season. Kharif sowing operations were impacted due to delay in rains – the sowing of pulses, oilseeds have been particularly affected.

Industry and services sector, on the other hand, are anticipated to grow by 5.6 percent and 7.3 percent respectively in the current fiscal year. Consumption and investment activity have noticed an improvement. And the contact intensive services sector continues to keep the momentum.

Nonetheless, after a four-quarter high growth of 7.8 percent in Q1 2023-24, the subsequent quarters are likely to witness some moderation. According to the results of the latest round of FICCI's Economic Outlook Survey, median GDP growth is estimated at 6.1 percent and 6.0 percent for Q2 2023-24 and Q3 2023-24, respectively.

## Consumer Price Index (CPI)




CPI based inflation has a median forecast of 5.5 percent for 2023-24, with a minimum and maximum range of 5.3 percent and 5.7 percent respectively. This is in line with RBI's projection - the CPI based inflation rate was forecasted at 5.4 per cent for 2023-24.

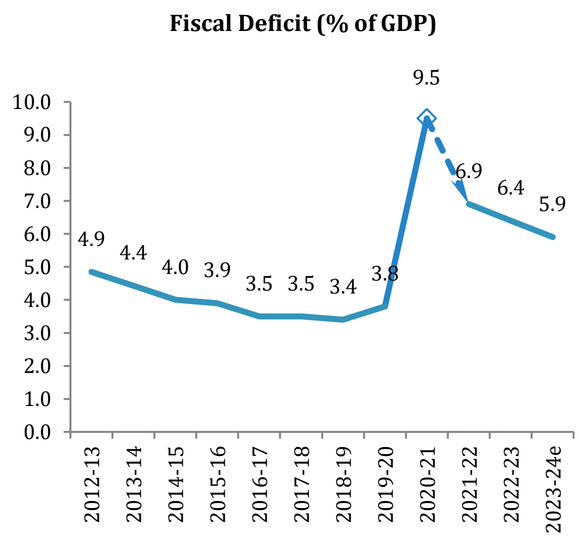
Elevated price levels continue to be a concern. After showing signs of moderation from March to June 2023, CPI soared to a 15-month high of 7.4 percent in July 2023. Although the latest data point for the month of August and September reported a softening in the retail price level (to 6.8 percent and 5.0 percent respectively) – CPI continues to be outside RBI's comfort zone.

## Fiscal Deficit

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

The monthly numbers for current financial year indicate Centre's fiscal deficit at 36.0 percent of the full year target as of end- August 2023. The corresponding number in the similar cumulative period last year (April-August 2022) was 32.6 percent. The increase this year has been led by a stronger growth in both revenue and capital expenditure. Nonetheless, both tax revenues and non-tax revenues have also displayed a robust performance, so far. Government's receipts and expenditure remain on track.

The Government is expected to remain committed on the path of fiscal consolidation.




* e-expected

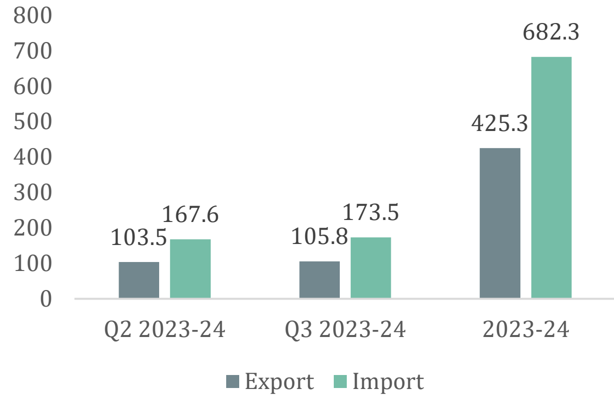
## Money & Banking

Policy repo rate is expected to remain unchanged until the end of the current financial year. The latest survey results forecast repo rate at 6.50 percent as of March end 2024. With the uncertainty around inflation, the Reserve Bank of India is expected to maintain a cautious stance and hold the policy rate.

| | 2023-24 (End, March |
|---|---|
| Repo Rate | 6.50% |

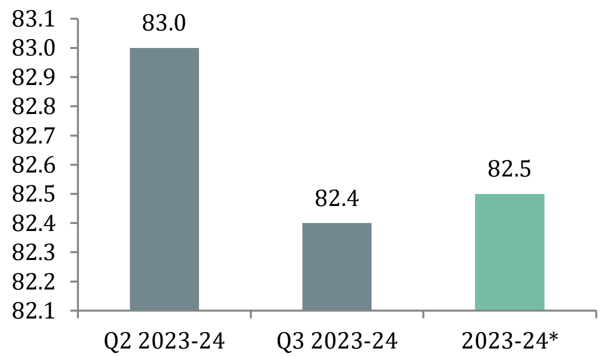
## External Sector

**Export and Import (USD million)**




| | 2023-24 |
|---|---|
| Export (y-o-y growth in %) | -6.4% |
| Import (y-o-y growth in %) | -6.5% |

**USD/INR Exchange Rate**




* end period

| | End of 2023-24 |
|---|---|
| CAD as % of GDP | -1.6% |

India's exports growth has been in the negative terrain since February this year on back of a global slowdown and the ensuing muted external demand. Even though export orders are expected to witness some improvement in the second half of the year supported by Christmas and New Year festivities, the year 2023-24 is likely to end with lower exports vis-à-vis the highest ever annual export value of USD 447.5 billion clocked in 2022-23. Based on the responses of participating economists, the median forecast for exports has been put at USD 425.3 billion and for imports at USD 682.3 billion for the year 2023-24.

According to the survey results, current account deficit as a percent of GDP is projected at 1.6% for the current fiscal year.

Further, the participants expect the USD/INR exchange rate to be around 82.5 by the end of the current financial year.

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

## Outlook on the global economy and its impact on India's growth prospects

India's GDP recorded a robust growth in first quarter of 2023-24. However, weakening manufacturing activity and trade is currently weighing on same. Globally, the risk of inflation remains high on account of further war intensification and extreme weather-related events triggering more restrictive monetary policy. This in turn can provoke financial sector turbulence and sovereign debt distress which could spread to a wider group of economies posing serious risk to growth. Amidst this backdrop, economists were asked to share their outlook for the global economy and its impact on Indian economy for the year 2023-24.

There was a unanimous view among the participants that the global growth is poised to slow in the current year vis-à-vis 2022, and this trend is expected to continue in the year 2024 as well. According to the recent forecasts released by Organization for Economic Co-operation and Development (OECD), global GDP is projected to grow at 3.0 percent in 2023 and 2.7 percent in 2024. The moderation is expected to be concentrated in the advanced economies. The United States economy which was holding up on back of consumer spending is showing signs of slowing. The high interest rates, shrinking pandemic savings and rising household debt has marred the outlook. According to OECD, the growth in the United States is likely to ease to 1.3 percent in 2024 from 2.2 percent in 2023. The European economies have witnessed a slowdown in growth as well.

Significant downside risks continue to remain on fore that could hamper the momentum in recovery. Inflation continues to remain elevated - food prices, especially, have been a concern and stay much above the pre-Covid levels. The continuation of conflict in Ukraine and the possibility of intensification, may further lead to supply shocks elevating food, fuel, and fertilizer prices. The suspension of the Black Sea Grain initiative is a concern in this regard. Further, the decision by Saudi Arabia and Russia to extend their voluntary oil production cuts until the end of this year and the consequent firming up of energy prices is once again weighing on the global economy.

Also, the monetary policy continues to remain tight for longer and its lagged effect could further intensify financial sector risks. Any overtightening/transition to higher interest rate regime could further escalate the slowdown in global growth. Additionally, the support to global growth from China's reopening witnessed earlier this year has gradually waned off. The worsening of China's property market crisis, debt driven infrastructure investments and muted demand is casting a shadow on the growth prospects. A sharper than expected moderation in China is posing a serious risk to global growth.

Back home, even though India's economic performance has remained relatively steady amid the recent challenges, the country has not been unscathed from the external shocks. Weak external demand is already reflecting in India's merchandise exports performance and is expected to be a drag on domestic growth. Moreover, El Nino's impact on domestic agriculture production, continuation of export ban on certain food items are likely to further compress merchandise exports in the year 2023-24. The participants were also of the view that the headwinds from the slowdown in advanced economies, as well as volatility in exchange rate could temper the growth of services exports this fiscal year vis-à-vis 2022-23. Moreover, elevated crude oil prices remain a concern for India as we continue to remain a net importer of this fuel. Any further adverse shock on the critical crude prices could dampen India's growth prospects. Besides, on the domestic front, rural demand has been of concern as well. The key high frequency indicators (including tractor sales, reservoir levels, two-wheeler sales) reflecting the performance of the rural sector remain muted.

Nonetheless, growth in India is expected to hold ground on back of good health of the financial sector, robust urban demand, uptick in private investment as result of government's front-loading of capex, pick up in real estate/construction sector and the forthcoming festive season. Also, the contact-intensive services sector is likely to remain an important factor driving growth. Economists opined that India has a growing middle class and a strong consumer base, this coupled with the continuation of a reform-oriented approach should help attract investments into the country despite uncertainty about the global economic outlook.

**Views on India's inflation trajectory**

The headline inflation shot up to 15-month high of 7.4 percent in the month of July. In addition to domestic disruptions, global uncertainties in the form of termination of Black Sea Grain initiative have also acted as a negative factor. Incidents from recent months have shown that sharp rise in prices of certain food products have been followed by immediate/urgent ban on their exports. Amidst this backdrop, economists were asked to share their outlook for India's inflation trajectory for the remaining part of the current fiscal as well as policy prescriptions to better manage the same.

The participants opined that the course of inflation remains uncertain. The CPI inflation rate may have peaked, but upside risks to prices remain on fore. The price of food segment is a concern and with the El Nino impact playing out the food prices may continue to see some edging up. Even though vegetable prices have softened, the prices of cereals and pulses remain sticky. Despite the pickup in monsoons during September, the uneven spatial distribution and low reservoir levels could impact kharif yields and rabi sowing. The acreage coverage of pulses and oilseeds under kharif crops has reported a contraction (as of September 30, 2023). Furthermore, it also needs to be noted that the cancellation of Black Sea grain deal could impact India as as a major share of its sunflower oil imports comes from Ukraine & Russia.

The spike in weather related uncertainties have witnessed an increase in recent times and would continue to add to the volatility in food prices. The recent escalation in crude prices, if sustained, could also add to the inflation buildup. According to the economists taking part in the latest survey, the CPI inflation rate is expected to remain above the Reserve Bank of India's target level of 4.0 percent for the remaining part of the financial year.

With respect to policies to tackle rising inflation, participants opined that supply-side management remains key to control price rise. Government intervention over the past few months via release of stocks, facilitation of imports have helped contain inflation from cereals and pulses to some extent. Seamless transportation of perishables to ensure uninterrupted supply remains a critical gap to be filled for management of food inflation.

There is a need for a comprehensive roadmap and coordinated action at multiple levels - monetary and fiscal policies, centre and states, multiple departments/agencies etc – to manage the price situation given the highly dynamic times.

Also, from a medium to long term perspective, de-risking the food supply chains from weather-related disruptions should be a priority. Such weather events are posing a serious challenge and will undermine our national food security going ahead. While the Government has taken steps towards promoting sustainable agriculture, going forward, technology and digitalization will have to be more holistically integrated in the agri-value chain to minimize the impact of such shocks on farm activities.

Given the supply side driven nature of inflation, the economists viewed a limited role of monetary policy. Even though the Reserve Bank of India is likely to maintain a cautious eye on the price levels, it was expected that instead of interest rates, the Central Bank will continue to focus on using liquidity management as an instrument to withdraw excess liquidity, facilitate policy transmission and maintain price stability.

Also, a cut in the repo rate is expected to materialise only by end of Q1or Q2 of the next fiscal year 2024-25.

**Views on strengthening the private investments**

Given the emphasis on capex, the share of the Union Government's capital expenditure in total expenditure has increased significantly since FY18. Besides, States and CPSEs are also raising their capital expenditure. Early signs of rising private capital expenditure because of crowding-in effect are visible. Nonetheless, a firm momentum in private investments remains elusive. Consequently, the participants were asked to share views on the current investment scenario and the measures that could strengthen the private investment cycle.

The participants unanimously cited that at present the government has been doing much of the heavy lifting with respect to capex. The government increased the capital outlay by over 30.0% in the Union Budget 2023-24 and the share of capital expenditure in total expenditure has increased by almost 10 percentage points from 12.3% in FY18 to 22.4% in FY24 (BE) – clearly prioritising infrastructure development in the country.

The government's thrust on capital expenditure has led to a crowding in of private investments and provided support to growth momentum. However, momentum in private investments has been primarily led by the non-industrial sector, that is, the infrastructure sector (driven by government capex). Investments have been concentrated in sectors including roads, railways, iron and steel, cement, chemicals.

Schemes such as the Production Linked Incentive scheme indicate government's efforts to channelise private investments. The 14 PLI sectors along with the new upcoming sectors like green hydrogen, space tech, defence, semiconductors are expected to draw interest from the private investors. The fresh investments are expected to take place in these new age sectors and sectors where there is a scope for faster green transition.

The participants opined that a full-fledged momentum in investments will take some more time to build in. It was felt that going forward any further recovery in private investments will be led by a pick in consumption activity – both domestic and external.

The economists felt that from a policy perspective, continuing the focus on ease of doing business, physical infrastructure creation, and a stable policy environment will support and help sustain private capital expenditure. Further streamlining compliances, simplifying tax/legal systems, encouraging export-oriented manufacturing, leveraging on changing global trade patterns/global diversification, establishing industry specific manufacturing hubs with complete eco-systems were some of the other suggestions made by the participants.

It was also put across that the government should continue to increase the capex allocation in the Union Budget 2024-25. Also, with schemes such as PM Gati Shakti and National Infrastructure Pipeline in place, the public private partnership modes should be leveraged better.

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