Economic Outlook Survey

January 2024

HIGHLIGHTS

GDP growth estimated at 6.5 per cent for 2024-25

GDP expected to grow by 6.0 percent in Q3 2023-24 & 6.7 percent in 2023-24

CPI based inflation rate projected at 5.4 percent for 2023-24

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2023-24 at 6.7 percent.
- The median growth forecast for agriculture and allied activities has been put at 2.0 percent for 2023-24; while industry and services sector are expected to grow by 8.2 percent and 7.4 percent respectively.
- CPI based inflation has a median forecast of 5.4 percent for 2023-24, with a minimum and maximum range of 5.3 percent and 5.5 percent respectively.
- Based on the responses of participating economists, the median forecast for exports has been put at USD 425.5 billion and for imports at USD 678.5 billion in 2023-24.
- RBI's policy repo rate is projected at 6.5 percent by the end of the fiscal year 2023-24.

Views of Economists

2024 : Outlook for Global Economy

- The survey participants asserted that prospects for global economy look weak and growth in 2024 would continue to be lower than the historical average.
- Even though global economy has performed better than anticipated in 2023, the lingering impacts of monetary policy tightening, restrictive financial conditions, reduced public expenditure, and the sluggish pace of trade and investment flows continue to mire global economic prospects with additional downside risks to growth becoming apparent.
- According to some of the participating economists, inflation is expected to fall back on track and within central banks' target levels by 2025. A low growth-low inflation scenario is likely to lead to initiation of rate easing cycle this year. Further, besides slowdown in overall global growth, growth is also becoming increasingly divergent.

2024 : Outlook for Indian Economy

- India has been the fastest growing major economy in 2023, backed by a strong capex push and upswing in the manufacturing sector. However, going forward, majority of the economists expect this momentum to moderate in FY 2024-25.
- On the external front, decelerating global economy with stagnant or falling growth among India's major export destinations will continue to impede exports in coming fiscal. Overall, exports are not expected to contribute significantly to GDP growth in FY25.
- On investment front, economists opined that while public capex may moderate to stick to the fiscal consolidation target, general elections-induced uncertainty and tighter lending conditions would also keep private investments restrained in the first half of 2024. Nevertheless, with the bottoming out of global growth, expected interest rate cuts and post-election clarity, private capex could pick-up in later half of 2024. On the consumption front, participants were less sanguine.
- Taking into account all factors, the participating economists pegged India's GDP growth forecast for fiscal 2024-25 at 6.5 percent.

India's consumption trajectory

- Private final consumption expenditure (PFCE), which captures domestic consumption demand, grew by 3.1 percent in second quarter of FY24. This is the third lowest growth in PFCE witnessed in the past 11 quarters. The revival in consumption since pandemic shock has not been able to maintain a sustained momentum.

- In the current fiscal, while urban consumption demand has remained buoyant as evident from domestic air passenger traffic, passenger vehicle sales and household credit offtake, rural demand has had a sluggish pace due to weak agriculture sector performance and high food inflation, particularly in cereals which is a staple food for many in the rural areas.
- In the coming months, participating economists said that while both upside and downside factors persist, expectations are of a subdued recovery in consumption demand.
- On the upside, expected ease in inflation rates, election-injected income spur and pick-up in private investments bode well for consumption growth. On the downside, in case of rural demand, muted agriculture performance is expected to weigh on consumption and sentiments. In case of urban demand, lagged impact of RBI's policy rate hikes and RBI's recent regulatory measures in terms of increasing the risk weights associated with unsecured retail loans are expected to soften the growth in such loans and hence impact consumption.
- Some of the participating economists opined that FY25 will be characterized by a higher propensity to save instead of spending with urban consumers rebuilding their financial savings.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of December 2023-January 2024 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 Q3 (September-December) and Q4 (January-March) of FY24.

In addition, economists were asked to share their views on certain topical subjects. Given that the global economy remains in a state of flux with persistent downside risk, economists were asked to share their prognosis for the global as well as for the Indian economy for the year 2024. In addition, views were also sought on present consumption demand situation in India and its future trajectory.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2023-24			Q3 FY24			Q4 FY24		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**6.7**	6.4	7.2	**6.0**	5.5	7.1	**5.6**	5.2	6.7
GVA@ basic prices	**6.6**	6.3	7.0	**5.9**	5.5	7.1	**5.3**	5.3	5.7
Agriculture & Allied activities	**2.0**	1.0	3.0	**1.0**	0.4	3.0	**1.3**	-0.6	4.0
Industry	**8.2**	5.0	9.8	**7.3**	4.5	12.7	**5.6**	4.0	9.1
Services	**7.4**	7.0	8.0	**7.0**	6.2	7.3	**6.4**	5.8	7.4

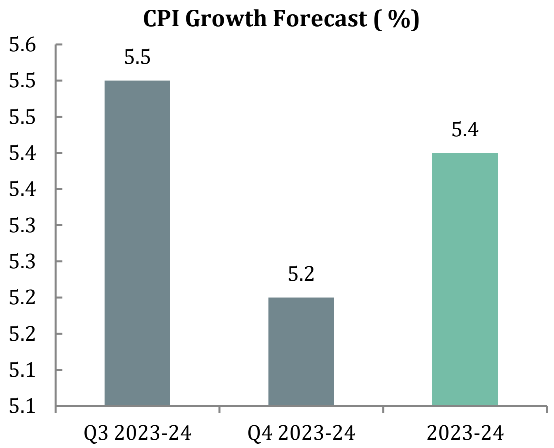
The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2023-24 at 6.7 percent - with a minimum and maximum growth estimate of 6.4 percent and 7.2 percent respectively. This estimate is higher than the forecast of 6.3 percent put across in the previous round of our Economic Outlook Survey. Nonetheless, persisting geo-political stress, moderating domestic investment and consumption momentum pose as downside risks to growth prospects.

The median growth forecast for agriculture and allied activities has been put at 2.0 percent for 2023-24, indicating moderation from a robust 4.0 percent growth registered in the year 2022-23. A fall in kharif production on account of uneven temporal and spatial distribution of the south-west monsoon rainfall along with subdued rabi crop prospects are projected to keep agriculture sector performance muted in the current fiscal year.

On the other hand, industry and services sector are anticipated to grow by 8.2 percent and 7.4 percent respectively during the current fiscal year (2023-24), compared to the respective growth rates of 4.4 percent and 9.5 percent marked in 2022-23. Growth in the industrial sector, particularly manufacturing, has been supported by a moderation in input costs. Meanwhile, services are returning to normalcy after the post-pandemic period of heightened pent-up spending.

The second half of the current financial year could witness moderation in growth - from the 7.3 percent growth rate recorded in the first half. According to the results of the latest round of FICCI's Economic Outlook Survey, median GDP growth is estimated at 6.0 percent and 5.6 percent for Q3 2023-24 and Q4 2023-24 respectively.

Consumer Price Index (CPI)



CPI based inflation has a median forecast of 5.4 percent for 2023-24, with a minimum and maximum range of 5.3 percent and 5.5 percent, respectively. This is in line with RBI's projection indicated in the last monetary policy announcement in December 2023.

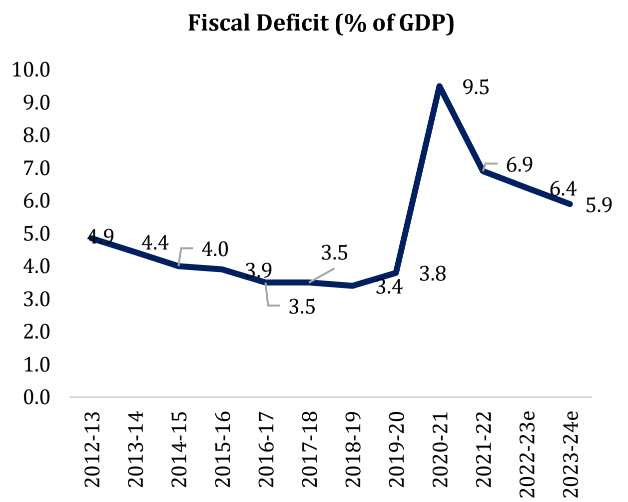
After softening for three months post 15-month high marked in July 2023, CPI is again on a rising course. Weighed by the low kharif crop output with sombre rabi crop outlook, the elevated CPI is expected to prolong the long pause in the stance of monetary policy before a rate cut is introduced.

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.

Fuelled by improving receipts and a control on central government's expenditure, the Centre remains on the path of fiscal consolidation. The government's fiscal deficit at the end of November 2023 stood at ₹9.06 lakh crore or 50.7 per cent of the full-year budget estimate.

Given the current situation, government is expected to meet the budgeted fiscal deficit target for FY24.



* e-expected

Money & Banking

Policy repo rate is forecasted at 6.5 percent by the end of the fiscal year 2023-24. Going forward, the Central Bank is expected to consider a cut in the repo rate only in second half of 2024.

	2023-24 (End, March
Repo Rate	**6.5%**

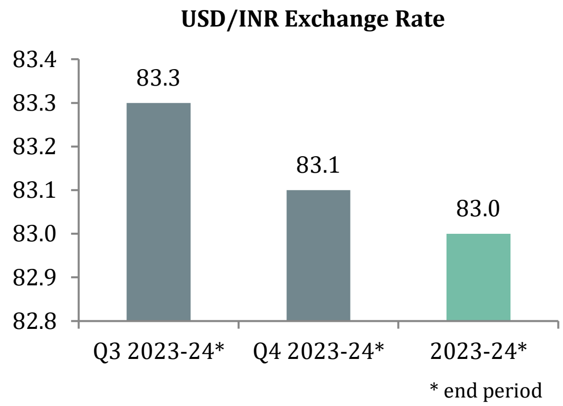
External Sector

2023-24	Export	Import
USD billion	425.5	678.5
Growth (in %)	-5.5	-5.7

	2023-24
CAD as % of GDP	**1.2%**

Based on the responses of the participating economists, the median forecast for exports has been put at USD 425.5 billion and for imports at USD 678.5 billion in 2023-24. CAD as percent of GDP is projected at 1.2 percent for the current fiscal year.

The participating economists expect the USD/INR exchange rate to improve to 83.0 by the end of the current financial year. In 2024, rupee is expected to remain strong on account of anticipated inflows following India's inclusion in the global bond indices.



Survey Results: Part B
Views of Economists

The global economic situation remains uncertain with persistence of downside risks. The current geopolitical situation stands out as a key stress point, while increasing inward-looking trade and investment policies, spill overs from monetary policy tightening, and impact of climate change continue to add to the complexities of growth prospects. Amidst this backdrop, the participating economists were asked about their outlook for the global as well as for the Indian economy for the year 2024. The economists were also asked to share their projection for India's GDP growth for the fiscal year 2024-25.

2024 : Outlook for Global Economy

The participants asserted that prospects for global economy look weak and the growth in 2024 would continue to be lower than the historical average. In fact, according to the World Bank's latest Global Economic Prospects, the global economy is expected to grow at 2.4 percent in 2024 – a decline for the third consecutive year, before clocking a marginal increase to 2.7 percent in 2025. Nonetheless, the growth rate remains below the average of 3.1 percent seen in 2010s.

Even though global economy has performed better than anticipated in 2023, the lingering impacts of monetary policy tightening, restrictive financial conditions, reduced public expenditure, and the sluggish pace of trade and investment flows continue to mire global economic prospects with additional downside risks to growth becoming apparent.

It may be noted that climate induced risks are increasingly becoming real. Also, the surge in energy prices triggered by the escalation of conflict in the Middle East, heightened debt levels, and elevated borrowing costs, alongside the sticky core inflation, collectively pose as risks to global economic growth. According to some of the participating economists, inflation is expected to fall back on track and within central banks' target levels by 2025. A low growth-low inflation scenario is likely to lead to most central banks initiating rate easing cycle later this year.

Furthermore, besides the trajectorial slowdown, global growth is also becoming increasingly divergent. While the growth in advanced economies like US and Europe are likely to remain muted with little or no uptick on account of high interest rates, prospects are relatively brighter for emerging market and developing economies (EMDEs) with strong fundamentals. Compared to some of the strong EMDEs, China is expected to witness moderate growth due to subdued consumption, lowered industrial production and property market challenges.

2024 : Outlook for Indian Economy

Despite significant global headwinds, Indian economy has remained the fastest growing major economy in 2023, backed by strong capex push and upswing in the manufacturing sector. However, going forward, majority of the economists expect this momentum to moderate in FY 2024-25.

On the external front, unlike in FY22 and FY23, where exports contributed noticeably to the growth print, decelerating global economy with stagnant or falling growth among India's major export destinations will continue to impede exports prospects in coming fiscal. Overall, exports are not expected to contribute significantly to GDP growth in FY25.

On the investment front, economists opined that while public capex may witness moderation to stick to the fiscal consolidation target, general election- induced uncertainty and tighter lending conditions would also keep private investments restrained in the first half of 2024. Nevertheless, with the bottoming out of global growth, expected interest rate cuts and post-election clarity, private capex could pick up in later half of 2024. This optimism is bolstered by factors such as elevated capacity utilization levels, sizable order books, and cleaner corporate and bank balance sheets.

On the consumption front, participating economists expressed their concerns and were less sanguine about the near-term prospects. Considering all this, the participating economists have pegged India's GDP growth forecast for fiscal year 2024-25 at 6.5 percent.

India's consumption trajectory

Following a strong performance in the first quarter, GDP in Q2 FY24 recorded a robust growth of 7.6 per cent. However, private final consumption expenditure (PFCE) which contributes significantly to India's GDP noted a moderation in growth the second quarter. A strong rebound in consumption expenditure remains elusive. Against this backdrop participating economists were asked to share their assessment of current demand situation and its future course.

Private final consumption expenditure (PFCE), which captures domestic consumption demand, grew by 3.1 per cent in second quarter of FY24. This is the third lowest growth in PFCE witnessed in the past 11 quarters. Consequently, the share of PFCE in GDP shrunk to 56.8 per cent in quarter ending Sep'2023 from 59.8 per cent in quarter ending Dec'2020. The fall in consumption growth has not been linear; periods of upswing were witnessed between April-Dec 2021 and April-June 2022. The revival in consumption since pandemic shock has not been able to maintain a sustained momentum.

In the current fiscal, while urban consumption demand has remained buoyant as evident from domestic air passenger traffic, passenger vehicle sales and household credit offtake, rural demand has had a sluggish pace due to weak agriculture sector performance and high food inflation, particularly in cereals which are a staple food for many people in the rural areas.

In the coming months, participating economists said that while both upside and downside factors persist, expectations are of a subdued recovery in consumption demand.

On the upside, expected ease in inflation rates, election-injected income spur and pick-up in private investments bode well for consumption growth. On the downside, in case of rural demand, muted agriculture performance is expected to weigh on consumption and sentiments. In case of urban demand, lagged impact of RBI's policy rate hikes and RBI's recent regulatory measures in terms of increasing the risk weights associated with unsecured retail loans are expected to soften the growth in such loans and hence impact consumption.

Some of the participating economists opined that FY25 will be characterized by a higher propensity to save instead of spending with urban consumers rebuilding their financial savings.

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