Economic Outlook Survey

August 2017

GDP growth estimated at 7.3% in 2017-18: FICCI's Economic Outlook Survey

HIGHLIGHTS

GDP Growth for FY 18 estimated at 7.3%

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2017-18 at 7.3%, with a minimum and maximum range of 7.2% and 7.5% respectively.

The median growth forecast for agriculture and allied activities has been put at 3.5% for 2017-18. The normal monsoons will bode well for the overall performance of the agricultural sector. Industry and services sector are expected to grow by 6.1% and 8.5% respectively during the year.

The survey was conducted during July/August 2016 among eminent economists belonging to the industry, banking and financial services sector.

	Median Estimates Economic Outlook Survey:	
Growth (in %)	**2017-18**	**Q1 2017-18**
GDP@ market prices	**7.3**	**6.9**
GVA@ basic prices	**7.0**	**6.6**
Agriculture & Allied activities	**3.5**	**5.0**
Industry	**6.1**	**5.5**
Services	**8.5**	**8.0**

*Median forecast

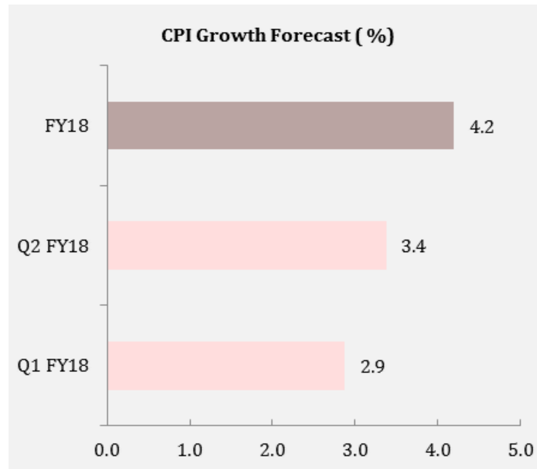
IIP growth at 4.8% in 2017-18

The median growth forecast for IIP was put at 4.8% for 2017-18 by the participating economists, with a minimum and maximum range of 1.5% and 7.1% respectively.

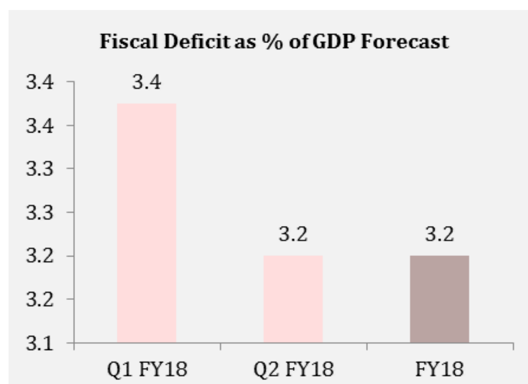
Outlook on inflation modest for this year

Wholesale Price Index based inflation rate is projected at 3.6% in 2017-18, with a minimum and maximum range of 3.0% and 4.8% respectively.

Consumer Price Index has a median forecast of 4.2% for 2017-18, with a minimum and maximum range of 3.0% and 4.9% respectively. CPI forecast for Q2 2017-18 was put at 3.4% according to our survey results.



Fiscal Deficit to GDP ratio for 2017-18 in line with Government's indicative trajectory



VIEWS OF ECONOMISTS

Views on Bank Regulation Act and next steps the Central Bank can take to address the issue of stressed assets

Non-performing assets stand at about Rs 10 lakh crore and continue to pose as one of the key downside risks to India's economy. The twin balance sheet problem – stressed banking sector and highly leveraged corporate sector - is inhibiting fresh investments and is weighing heavy on the nation's growth prospects. Both the Reserve Bank of India and the Government of India have been keeping a close watch on the situation and have undertaken several steps to address the situation in a phased and planned manner.

The Banking Regulation (Amendment) Ordinance, 2017 which was promulgated in May this year gave power to the Reserve Bank of India to issue directions to banks to initiate insolvency resolution.

Almost all the participants taking part in the survey viewed this as a positive move. It was unanimously felt that the ordinance will allow for an effective resolution of stressed assets, particularly in consortium or multiple banking arrangements. Intervention by the Central Bank will allow for a definitive conclusion and will help restore credit supply to the industry.

The Banking Regulation Amendment Bill was introduced in the monsoon session to replace the ordinance.

Views on Wholesale and Long term Finance Banks

The Reserve Bank of India earlier this year had come out with a discussion paper on 'Wholesale and Long term Finance Banks'. The paper conceptualised wholesale and long term finance banks as a primary lender to infrastructure sector and small, medium and corporate businesses.

In the current round of Economic Outlook Survey, the economists were asked to share their opinion on the concept of wholesale banks.

A majority of the participants in the survey undoubtedly felt a need to create a specialised bank for meeting the long term financial needs of sectors like infrastructure. However, some respondents pointed out that India has had Development Financial Institutions (DFIs) in the past which were based on a similar concept. But the DFIs have not really been successful. This raises some doubt about the efficacy of this model. It was pointed out that one of the biggest challenges for these banks will be raising funds as the bond markets in India are not sufficiently deep. Also, some of participants felt that it will be difficult for such banks to maintain competitive rate of interests.

Nonetheless, the economists felt that it will be important to bridge the existing gaps and the concept is definitely worth an attempt. At present, it is extremely difficult for companies to get long-term financing given the huge asset liability mismatches in the banking system. It was opined that the wholesale and long term finance banks should be developed as an institution which will also have technical expertise for evaluating long-term projects. The specialized banks can support the rest of the banking sector through joint lending, or by simply performing project evaluation for the existing commercial banks. This will enhance competition, which will lead to better allocation of financial resources.

Further, FICCI has also made a submission to the Reserve Bank of India on the aforementioned discussion paper.

Views in Key External and Domestic Developments that would determine India's growth in 2017-18

While the year 2016 was beset with challenges both on account of global and domestic factors; 2017 started on a positive note. However, as the year has rolled by a slew of developments at home and globally have raised concerns about the impending economic situation. The recent geo-political turn of events in the Middle East, with several nations deciding to cut off diplomatic ties with Qatar, is a major development. Also, stress from North Korea has been escalating. Domestically, while GST has been introduced from July 1, 2017 and there is broad agreement on the positive impacts of this in the medium to long term, there is expectation of a phase of uncertainty at least in the initial months before the new taxation system settles down.

Given this backdrop the participating economists were asked to share two key external developments and two key domestic developments that would determine India's growth prospects in 2017-18.

It was interesting to note the consensus in the opinion of the respondents on the key domestic factor that will impact India's prospects in 2017-18. Almost all economists participating in the survey pointed out monsoon to be the single most important factor influencing India's growth prospects.

So far monsoon has been normal in most parts of the country and this will bode well for agricultural production. The food grain production touched a record high last year and the trend is expected to continue this year as well. The respondents opined that this would have a salutary effect on inflation - at least from the food segment. Also, as a result of good monsoons rural consumption activity will get an impetus.

The participating economists also felt that it will be important to watch out for transitionary effects post implementation of the Goods and Services Tax (GST). The GST was successfully implemented on July 1, 2017; however it was opined that some minor glitches and disruptions can emerge going forward.

Further, some respondents were also optimistic in their outlook of industrial sector. It was opined that the government expenditure has been robust and the pickup seen in new projects (especially infrastructure) will crowd in more private investments going ahead. An improvement in private industrial activity is anticipated in the second half of the year, which will also be supported by an anticipated pickup in rural demand on back of good monsoon and upcoming festive season.

On global front, a majority of the economists shared the opinion that India's growth can be impacted by growing protectionist tendencies across countries. Even as some of the major countries in Euro zone, Japan, China are on the course of improvement; protectionism continues to remain a real threat and the trade outlook is not very robust. A potential change the global trade order matrix seems very much on anvil.

In addition, the economists mentioned Fed Reserve's stance on interest rates going forward and any unexpected development in oil market as key global factors to look out for.

Ideas/Proposals for the forthcoming Industrial Policy

The Government is planning to introduce a 'New Industrial Policy' later this year. The policy is expected to focus on employment generation and promotion of domestic value addition. The economists taking part in the survey were requested to recommend proposals, ideas in the realm of trade, investment, and/or fiscal framework that could be looked as a part of the new policy.

There was a broad consensus among the survey respondents that one of the primary objectives of the policy should be job creation. Lack of employment opportunities remains a key challenge as India has a huge young and aspirational workforce. It was felt that though the Government has initiated key campaigns like 'Make in India', 'Skill India', these should be made an integral part of industrial policy with clear provisions for their assessment.

It was also pointed out that MSME sector is the backbone of India's industry and has huge potential to create jobs. The new industrial policy should aim at providing greater incentives to this very important sector.

It was mentioned that while the Government has been working hard to promote a culture of innovation and entrepreneurship; that still requires building a strong network of incubation centres.

Also, the Government should reemphasise it focus on zero defect zero effect scheme as India's manufacturing sector should strive for excellence and give strong competition to its global counterparts. A country can maintain its competitive edge only when it is able to consistently innovate. Indian companies/institutions are paying huge sums by way of technical services, fees to foreign technicians to upgrade their products. The new policy should ensure continuation of benefits to units engaged in the business of R&D or contract manufacturing to provide impetus to R&D in India.

The participants said that they also look forward to schemes for enhancing India's exports. The policy could include elaborate policy measures and incentives for improving the standard of our products/exports, including incentives to firms for complying with higher/global standards and technical regulations;

Further, the economists opined that while the focus on manufacturing is critical, the new policy should also fulfil its obligations towards minimising the damage to environment. This is important for treading on the course of sustainable growth.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of June/July 2017 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 2017-18 as well as for Q1 (April-June) FY18 and Q2 (July-September) FY18.

In addition, economists were asked to share their views on certain topical subjects. Views of economists were sought on Banking Regulations Act and RBI's recent discussion paper on 'Wholesale & Long-Term Finance Banks'. Further, opinion of economists was also sought on key external and domestic developments that would determine India's growth in 2017-18. Finally, economists were asked to recommend proposals/ ideas in the realm of trade/ fiscal/ investment framework that could be looked at as part of the new industrial policy likely to be introduced later this year.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

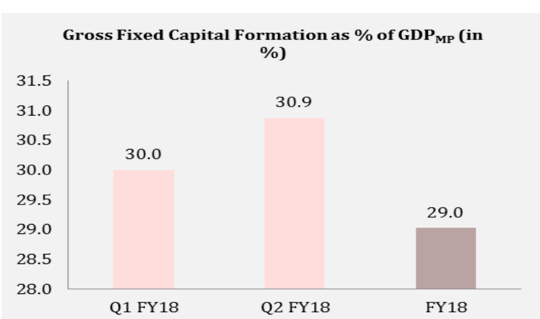
GDP growth at 2011-12 prices

	Annual (2017-18)			Q1 2017-18			Q2 2017-18		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.3**	7.2	7.5	**6.9**	6.5	7.2	**7.0**	6.8	7.2
GVA@ basic prices	**7.0**	6.8	7.3	**6.6**	6.5	6.7	**6.7**	6.6	7.0
Agriculture & Allied activities	**3.5**	2.5	5.3	**5.0**	3.2	5.2	**3.4**	3.0	5.3
Industry	**6.1**	5.8	7.0	**5.5**	5.0	6.2	**6.2**	5.3	7.5
Services	**8.5**	7.8	9.1	**8.0**	7.4	8.0	**8.1**	6.7	8.4

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2017-18 at 7.3%.

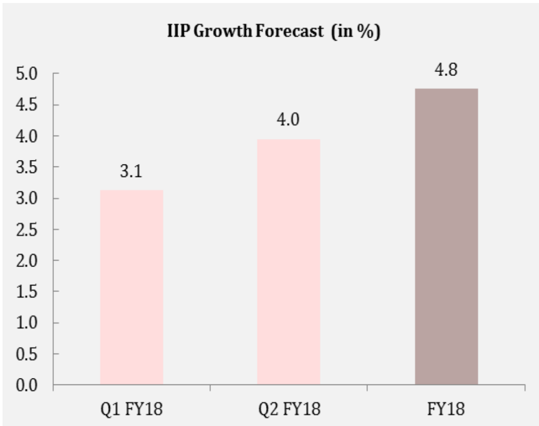
The median growth forecast for agriculture and allied activities has been put at 3.5% for 2017-18, with a minimum and maximum growth estimate of 2.5% and 5.3% respectively. Normal monsoon will bode well for the overall performance of the agricultural sector and is expected to give an impetus to rural consumption activity as well. Industry and services sector are expected to grow by 6.1% and 8.5% respectively during the year.

The quarterly median forecasts indicate a GDP growth of 6.9% in the first quarter and 7.0% in the second quarter of 2017-18.



The ratio of Gross Fixed Capital Formation to GDP for 2017-18 has been estimated at 29.0%. The median ratio for Q2 2017-18 has been estimated at 30.9%, 0.9 percentage points higher than the projected ratio for Q1 2017-18.

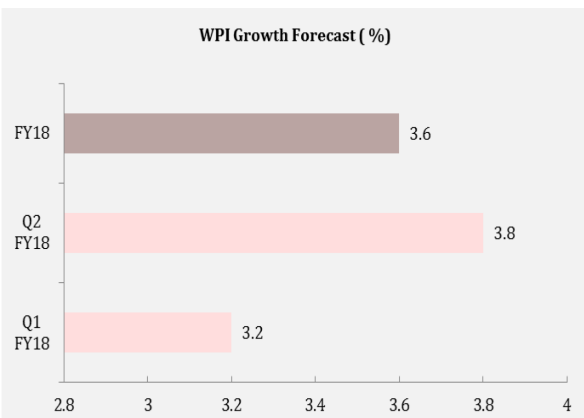
Index of Industrial Production (IIP)

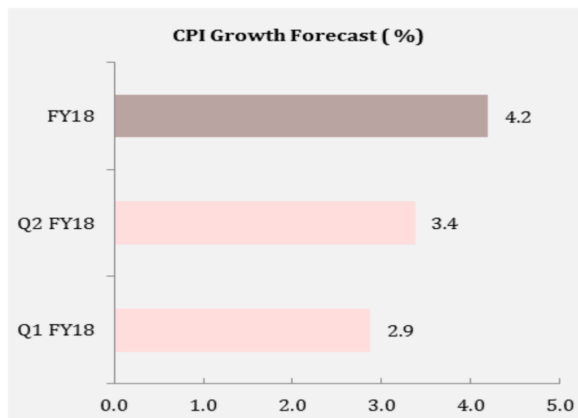


The median growth forecast for IIP was put at 4.8% for 2017-18 by the participating economists, with a minimum and maximum range of 1.5% and 7.1% respectively.

The latest IIP data reported moderation in growth for the second consecutive month. The index grew by 1.7% in the month of May 2017 vis-à-vis 2.8% growth reported in the previous month. However, growth is expected to pickup in latter part of the year.

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





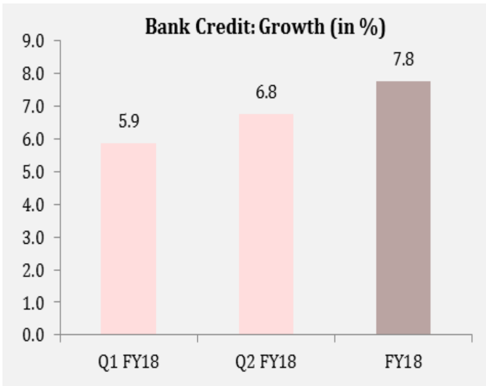
Wholesale Price Index based inflation rate is projected at 3.6% in 2017-18, with a minimum and maximum range of 3.0% and 4.8% respectively.

Consumer Price Index has a median forecast of 4.2% for 2017-18, with a minimum and maximum range of 3.0% and 4.9% respectively. CPI forecast for Q2 2017-18 was put at 3.4% according to the survey results.

Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 3.2% for the fiscal year 2017-18 with a minimum and maximum range of 3.2% and 3.5% respectively.

Money and Banking



	End of Q2 2017-18	End of 2017-18
Repo Rate	6.0%	6.0%

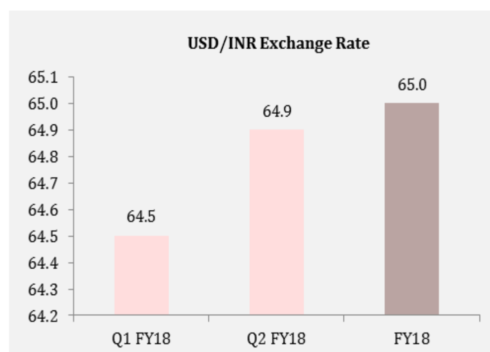
External Sector

2017-18	Export	Import
USD billion	295.0	410.0
Growth (in %)	7.1	7.6

Exports have been rising for eleven consecutive months ending June 2017. Exports grew by 4.0% in June 2017 vis-à-vis 1.5% growth reported in the corresponding month last year.

Based on the responses of the participating economists, the median growth forecast for exports has been put at 10.8% for Q2 2017-18 and for imports at 12.3%.

	2017-18	Q1 2017-18
CAD as % of GDP	1.2%	1.4%



Survey Results: Part B
Views of the Economists

VIEWS ON BANK REGULATION ACT AND NEXT STEPS THE CENTRAL BANK CAN TAKE TO ADDRESS THE ISSUE OF STRESSED ASSETS

Non-performing assets stand at about Rs 10 lakh crore and continue to pose as one of the key downside risks to India's economy. The twin balance sheet problem – stressed banking sector and highly leveraged corporate sector - is inhibiting fresh investments and is weighing heavy on nation's growth prospects. Both Reserve Bank of India and the Government of India have been keeping a close watch on the situation and have undertaken several steps to address the situation in a phased and planned manner.

Banking Regulation (Amendment) Ordinance, 2017 which was promulgated in May this year gave power to the Reserve Bank of India to issue directions to banks to initiate insolvency resolution.

All the participants taking part in the survey viewed this as a positive move. It was unanimously felt that the ordinance will allow for an effective resolution of stressed assets, particularly in consortium or multiple banking arrangements. Intervention by the Central Bank will allow for a definitive conclusion and will help restore credit supply to the industry.

The Banking Regulation Amendment Bill was introduced in the monsoon session to replace the ordinance.

Respondents emphasized that the Insolvency and Bankruptcy Code is a step in right direction. It would allow keeping track of big defaulters and would enable faster initiation of recovery process that will be backed by law.

VIEWS ON WHOLESALE AND LONG TERM FINANCE BANKS

Infrastructure sector with significant backward and forward linkages is one of the key drivers of economic growth. While the sector has been a priority for the government; one of the major impediments to timely progress in the sector is the lacuna in infrastructure financing. Even though there are various funding avenues like commercial banks, external commercial borrowings, foreign equity participation etc; these have been inadequate to meet the massive investment requirements of the sector.

The Reserve Bank of India earlier this year had come out with a discussion paper on 'Wholesale and Long term Finance Banks'. The paper conceptualised 'Wholesale and Long term Finance Banks' as a primary lender to infrastructure sector and small, medium and corporate businesses. The paper cited that the major sources of funds for these banks could be a combination of wholesale and long term deposits (above a large threshold), debt/equity capital raised from primary market issues or private placement, and term borrowings from banks and other financial institutions.

In the current round of Economic Outlook Survey, economists were asked to share their opinion on the concept of wholesale banks.

A majority of participants in the survey undoubtedly felt a need to create a specialised bank for meeting long term financing needs of sectors like infrastructure. However, some respondents pointed out that India has had Development Financial Institutions (DFIs) in the past which were based on a similar concept. But the DFIs have not really been successful. This raises some doubt about the efficacy of this model. It was pointed out that one of the biggest challenges for these banks will be raising funds as the bond markets in India are not sufficiently deep. Also, some of participants felt that it will be difficult for such banks to maintain competitive rate of interests.

Nonetheless, economists felt that it will be important to bridge the existing gaps and the concept is definitely worth an attempt. At present, it is extremely difficult for companies to get long-term financing given the huge asset liability mismatches in the banking system. It was opined that the wholesale and long term finance banks should be developed as institutions which will have technical expertise for evaluating long-term projects. The specialized banks can support the rest of the banking sector through joint lending, or by simply performing project evaluation for the existing commercial banks. This will enhance competition, which will lead to better allocation of financial resources.

FICCI has also made a submission to the Reserve Bank of India on the aforementioned discussion paper. Some of the suggestions included were:

-Easy access to equity capital which could lead to a long term funding source available for Wholesale and Long-term Finance Banks (WLTFBs). To this end, it may be considered to provide certain relaxation from compliance and other requirements /listing norms laid down by SEBI for capital raising by WLTFBs.

-Permit WLTFBs to raise long term bonds from retail investors. In order to facilitate augmenting of long term funds by WLTFBs, RBI may recommend to Government to provide tax benefit to investors for investment and interest income from such bonds.

-Development of the bond markets - WLTFBs participation in bond market would be of great assistance to raise long term funds from the insurance and pension funds, other institutional investors, and other formal channels of funding.

-Permit the WLTFBs to tap international market for sourcing funds. Give benefits like permitting the WLTF Banks to source ECB funding, relaxation from LIBOR norms for all-in-cost ceiling, lower / nil tax on interest income for investors participating in WLTFBs international borrowings, Government / EXIM bank guarantee for the fund sourced by WLTFBs etc. may be considered.

-Government guarantee for bonds issued by WLTFBs will be a must for them to access funds for long tenor at reasonable costs.

-Formal securitisation platform for the infrastructure projects receivable / assets may be considered. This will provide liquidity for the WLTFB and ensure that the projects yield desirable results in the longer term.

-Another effective way to generate long term credit would be to include in the current directed lending (PSL) of existing universal banks a small percentage of minimum 7/10 year lending.

-RBI to recommend to Government to permit Pension Funds, Annuity Fund, Provident Funds, Government owned Infrastructure funds etc. to have dedicated allocation of their deposits for deployment in WLTFBs.

VIEWS ON KEY EXTERNAL AND DOMESTIC DEVELOPMENTS THAT WOULD DETERMINE INDIA's GROWTH IN 2017-18

While the year 2016 was beset with challenges both on account of global and domestic factors; 2017 started on a positive note. However, as the year has rolled by a slew of developments at home and globally have raised concerns about the impending economic situation. The recent geo-political turn of events in the Middle East, with several nations deciding to cut off diplomatic ties with Qatar, is a major development. Also, stress from North Korea has been escalating. Domestically, while GST is on track and was introducted from July 1, 2017 and there is broad agreement on the positive impacts of this in the medium to long term, there is expectation of a phase of uncertainty at least in the initial months before the new taxation system settles down.

Given this backdrop the participating economists were asked to share two key external developments and two key domestic developments that would determine India's growth prospects in 2017-18.

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The participating economists also felt that it will be important to watch out for transitionary effects post implementation of the Goods and Services Tax (GST). The GST was successfully implemented on July 1, 2017; however it was opined that some minor glitches and disruptions can emerge going forward.

Further, some respondents were also optimistic in their outlook of industrial sector. It was opined that the government expenditure has been robust and the pickup seen in new projects (especially infrastructure) will crowd in more private investments going ahead. An improvement in private industrial activity is anticipated in the second half of the year, which will also be supported by a pickup in rural demand on back of good monsoon and upcoming festive season.

On global front, a majority of the economists shared the opinion that India's growth can be impacted by growing protectionist tendencies across countries especially in the West. Even as some of the major countries in Euro zone, Japan, China are on the course of improvement; protectionism continues to remain a real threat and the trade outlook is not very robust. A potential change in the global trade order seems on anvil and could impact India's trade.

In addition, the economists mentioned Fed Reserve's stance on interest rates going forward and any unexpected developments in oil market as key global factors to look out for.

IDEAS/PROPOSALS FOR THE FORTHCOMING INDUSTRIAL POLICY

The Government is planning to introduce a 'New Industrial Policy' later this year. The policy is expected to focus on employment generation and promotion of domestic value addition. The economists taking part in the survey were requested to recommend proposals, ideas in the realm of trade, investment, and/or fiscal framework that could be looked as a part of the new policy.

There was a broad consensus among the survey respondents that one of the primary objectives of the policy should be job creation. Lack of employment opportunities remains a key challenge for India, given our huge young and aspirational workforce. It was felt that though the Government has initiated key campaigns like

'Make in India', 'Skill India', these should be made an integral part of industrial policy with clear provisions for their assessment.

It was also pointed out that MSME sector is the backbone of Indian industry and has huge potential to create jobs. The new industrial policy should aim at providing greater incentives to this very important sector.

It was mentioned that while the Government has been working hard to promote a culture of innovation and entrepreneurship; that still requires building a strong network of incubation centres.

Also, the Government should reemphasise it focus on zero defect zero effect scheme as India's manufacturing sector should strive for excellence to give a strong competition to its global counterparts.

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The participants said that they also look forward to schemes for enhancing India's exports. The policy could include elaborate policy measures and incentives for improving the standard of our products/exports, including incentives to firms for complying with higher/global standards and technical regulations.

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Appendix

	Outlook 2017-18				Outlook Q1 2017-18				Outlook Q2 2017-18			
Key Macroeconomic variables	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**
GDP growth rate at market prices (%)	7.3	7.3	7.2	7.5	6.9	6.9	6.5	7.2	7.0	7.0	6.8	7.2
GVA growth rate at basic prices(%)	7.0	7.0	6.8	7.3	6.6	6.6	6.5	6.7	6.8	6.7	6.6	7.0
Agriculture & Allied	3.6	3.5	2.5	5.3	4.5	5.0	3.2	5.2	3.9	3.4	3.0	5.3
Industry	6.3	6.1	5.8	7.0	5.6	5.5	5.0	6.2	6.3	6.2	5.3	7.5
Services	8.5	8.5	7.8	9.1	7.8	8.0	7.4	8.0	7.7	8.1	6.7	8.4
Gross Domestic Savings (% of GDP at market prices)	32.1	32.4	30.8	33.0	31.5	31.5	30.5	32.5	31.5	31.5	30.5	32.5
Gross Fixed Capital Formation (% of GDP at market prices)	29.5	29.0	26.0	34.0	30.0	30.0	27.0	33.0	30.9	30.9	27.8	34.0
Fiscal Deficit (as % to GDP) Centre	3.3	3.2	3.2	3.5	-	-	-	-	-	-	-	-
Growth in IIP (%)	4.5	4.8	1.5	7.1	3.1	3.1	2.8	3.5	4.0	4.0	3.9	4.0
WPI Inflation rate (%)	3.9	3.6	3.0	4.8	-	-	-	-	3.9	3.8	3.0	5.0
CPI combined new inflation rate (%)	4.1	4.2	3.0	4.9	-	-	-	-	3.4	3.4	2.4	4.5
Money supply growth M3 (%) (end period)	10.9	11.0	9.5	12.3	-	-	-	-	9.8	9.8	7.5	12.0
Bank credit growth (%)	7.4	7.8	6.0	8.0	5.9	5.9	5.3	6.5	6.8	6.8	6.5	7.0

Repo Rate (end period)	6.0	6.0	6.0	6.25	6.25	6.25	6.25	6.25	6.0	6.0	6.0	6.25
Merchandise Export												
Value in USD billion	297.2	295.0	290.2	312.5	-	-	-	-	81.8	81.8	73.5	90.0
Growth (%)	8.4	7.1	5.9	15.0	-	-	-	-	10.8	10.8	9.5	12.0
Merchandise Import												
Value in USD billion	406.6	410.0	390.0	412.8	-	-	-	-	109.0	109.0	98.0	120.0
Growth (%)	9.9	7.6	7.1	17.5	-	-	-	-	12.3	12.3	9.5	15.0
Trade Balance (% to GDP)	-3.9	-4.4	-5.3	-1.5	-2.6	-2.6	-3.5	-1.7	-2.8	-2.8	-4.0	-1.6
CAB as % of GDP at current price	-1.2	-1.2	-1.3	-1.0	-1.4	-1.4	-1.5	-1.3	-1.2	-1.2	-1.3	-1.2
US$ / INR exchange rate (end period)	65.1	65.0	64.3	66.5	64.4	64.5	64.0	64.5	64.7	64.9	63.5	65.5

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Federation House
Tansen Marg, New Delhi 110001

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