



Economic Outlook Survey

February 2018



HIGHLIGHTS***GDP growth estimated at 6.6% in 2017-18: FICCI's Economic Outlook Survey***

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2017-18 at 6.6%, with a minimum and maximum range of 6.2% and 6.7% respectively. The survey was conducted during January 2018 among eminent economists belonging to the industry, banking and financial services sector.

The median growth forecast for agriculture and allied activities has been put at 3.0% for 2017-18. The government estimates kharif production to fall by 2.8% in the current fiscal, owing to patchy rains in some parts and floods in certain other parts of the country such as West Bengal, Gujarat, Assam, Rajasthan and Bihar. However, data shows that area sown in the rabi season stood at 609.5 hectares as on January 12, 2018. While pulses and rice witnessed increased acreage, wheat, coarse cereals and oilseeds noted a dip.

According to survey results, industry and services sector are expected to grow by 4.8% and 7.8% respectively during the year.

The median growth forecast for IIP has been put at 3.3% for the year 2017-18, with a minimum and maximum range of 2.9% and 4.4% respectively.

Further, the outlook of the participating economists on inflation remained moderate. The median forecast for Wholesale Price Index based inflation rate for 2017-18 has been put at 3.0%, with a minimum and maximum range of 1.7% and 3.8% respectively. The Consumer Price Index has a median forecast of 3.7% for 2017-18, with a minimum and maximum range of 3.5% and 4.5% respectively.

The government, while announcing Union Budget 2018-19, has acknowledged a slippage in the 2017-18 fiscal deficit target on the back of weak revenue collection. Teething problems arising from the implementation of GST has had an impact on the fiscal math. However, the government has reiterated its commitment to stick to fiscal consolidation and in lieu of the slippage has agreed to bring down central government debt to 40% of GDP.

Keeping in mind the fiscal situation, economists were asked to suggest measures to improve fiscal situation for both, centre as well as the states. Most of the economists felt that to achieve the fiscal targets, the government must continue to focus on expenditure rationalisation, plugging loopholes, and make innovative revenue raising efforts.

A majority of the economists opined that the government must reduce its expenditure towards interest payments and subsidies as they form a major chunk of revenue expenditure. The economists also suggested that all efforts of the government must be directed towards expediting disinvestment and stabilizing the GST regime.

As far as the fiscal situation of states is concerned, economists opined that states must be incentivised to stick to fiscal prudence. Economists believe that empowering state finance commissions will help in improving state finances.

Economists were also asked to share their thoughts about the fair value of the Indian Rupee and the ways in which RBI and the government could work to ensure that value. While the economists unanimously agreed that the Rupee is overvalued, they differed in their assessment of the extent of its overvaluation. Despite indicating difficulty to arrive at a fair value of exchange rate, economists opined that the Rupee US Dollar exchange rate within 66.0 and 66.5 should be acceptable to both exporters as well as importers.

Commenting on ways that the RBI and Government can work towards to maintain the Rupee at its fair value, the participating economists felt that the Government and the RBI would do well to curb any volatility in the exchange rate through clearer communication and need based intervention. Economists suggested that the RBI can nudge the Rupee slightly through intervention in the spot and forward forex market. The government, on

the other hand, should focus on accelerating various programs to promote exports and find innovative ways to reduce over reliance on imports.

Feedback was also sought on the top three global economic trends that would have a bearing on the Indian economy in 2018. The participating economists felt that the major trends that can impact India in 2018 include:

1. **Geopolitical concerns-** arising from tensions between US and China, actions by North Korea, national elections due in some major countries such as Italy, Brazil and Mexico.
2. **Changes in Global Monetary Policy-** Majority of the economists suggested that changes in monetary policies by major central banks towards normalization is expected to have a bearing on global and, therefore, on the Indian economy. As global interest rate scenario turns more hawkish than currently expected, the interest rate differential between US and India is likely to narrow leading to capital flows away from India.
3. **International Crude Oil Prices-** Global crude oil prices have been on an uptick with Europe Brent touching USD 68.60 per barrel on February 2, 2018. Since India is a net importer of crude oil, most of the economists cited rise in crude oil prices as a major concern. Higher oil prices not only lead to higher inflationary pressures, but also stress the balance of payments account. Additionally, it will put further burden on the fiscal front.

Finally, economists were asked to share their prognosis on the changes in the US taxes through the Tax Cuts and Jobs Act. While the participating economists were unanimous on suggesting that the cut in tax rates will make the United States a very attractive investment destination, they were divided on the consequences of the same on Indian economy.

While some economists believed that the changes in taxes will encourage domestic manufacturing in the US and make movement to other destinations by businesses relatively costly thereby impacting India, others believed that the impact on India will be minimal as businesses consider a whole host of factors before taking decisions. Higher growth prospects over a long period for emerging markets like India will remain an attractive proposition for businesses. Moreover, India has extended the reduced corporate tax rate of 25% to companies with a turnover of up to Rs. 250 crores in the Union Budget 2018-19 from the previous Rs. 50 crore turnover cut off, thus covering 99% of the corporates.

It was felt that India's attractiveness depended more on the actions taken by its Asian peers. Participating economists suggest that India must, for now, continue to focus on the supply side aspects, such as infrastructure development (roads, ports, logistics etc.), which would go a long way in reducing production costs for Indian manufacturers.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of January 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 year 2017-18 as well as for Q3 (October-December) FY18 and Q4 (January-March) FY18.

In addition, economists were asked to share their views on certain contemporary subjects. Views of economists were sought on measures to improve fiscal situation for both centre as well as the states. Economists were also asked to share their views on the fair value of Indian Rupee and the steps that can be taken by RBI and the Government to ensure that value. Further, feedback was sought on the top three global economic trends in 2018 that could have a bearing on the Indian economy. The economists were also asked to share their prognosis post change in US tax regime.

Survey Results: Part A Projections – Key Economic Parameters

National Accounts

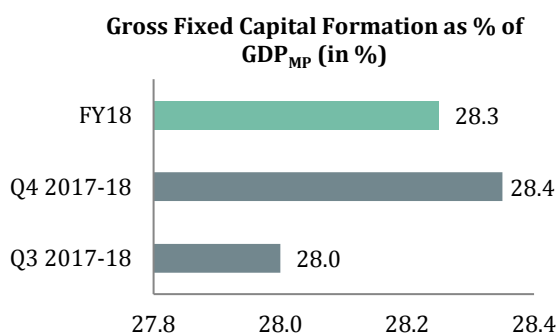
GDP growth at 2011-12 prices

Growth (in %)	Annual (2017-18)			Q3 2017-18			Q4 2017-18		
	Median	Min	Max	Median	Min	Max	Median	Min	Max
GDP@ market prices	6.6	6.2	6.7	6.9	6.4	7.5	7.2	6.3	7.5
GVA@ basic prices	6.2	6.1	6.7	6.5	6.3	6.5	6.5	6.4	7.4
Agriculture & Allied activities	3.0	1.9	4.9	2.2	1.5	4.0	2.8	2.0	3.5
Industry	4.8	4.0	5.9	5.1	4.5	5.9	6.3	6.0	6.5
Services	7.8	6.5	8.8	8.5	7.8	9.2	8.0	6.9	9.5

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2017-18 at 6.6%. This is in line with the CSO forecast for 2017-18 released in January this year.

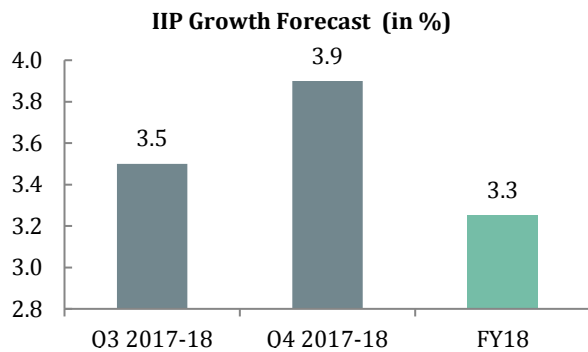
The median growth forecast for agriculture and allied activities has been put at 3.0% for 2017-18, with a minimum and maximum growth estimate of 1.9% and 4.9% respectively. Industry and services sector are expected to grow by 4.8% and 7.8% respectively during the year.

The quarterly median forecasts indicate a GDP growth of 6.9% in the third quarter and 7.2% in the fourth quarter of 2017-18.



The ratio of Gross Fixed Capital Formation to GDP for 2017-18 has been estimated at 28.3%. The median growth prediction for Q4 2017-18 is put at 28.4%.

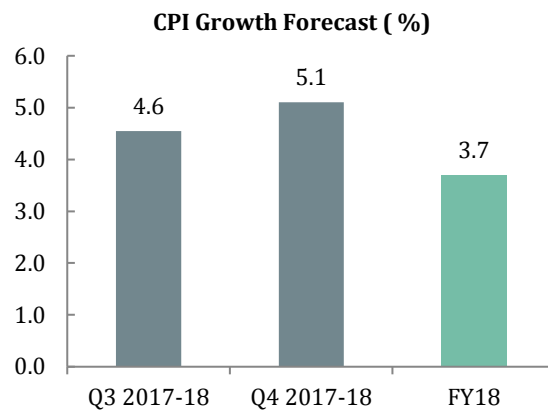
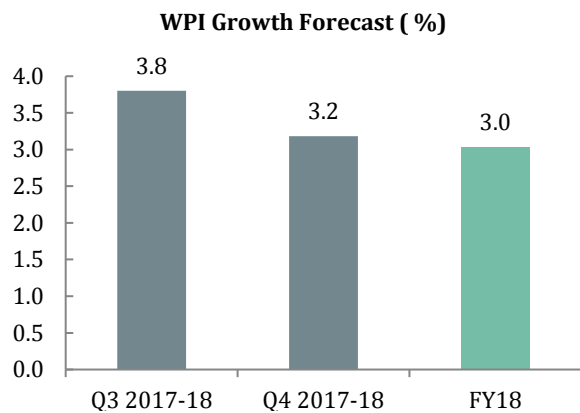
Index of Industrial Production (IIP)



The median growth forecast for IIP has been put at 3.3% for 2017-18 by the participating economists, with a minimum and maximum range of 2.9% and 4.4% respectively.

The latest data has reported a pickup in industrial growth numbers. The IIP index grew by 8.4% in the month of November 2017 vis-à-vis 2.0% growth reported in the month of October.

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



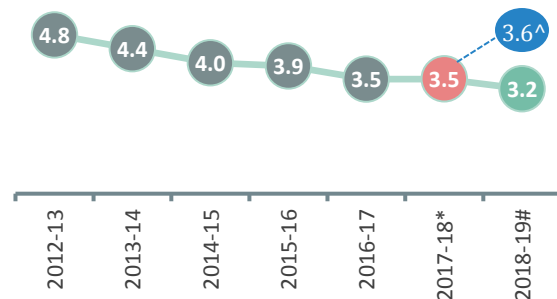
Wholesale Price Index based inflation rate is projected at 3.0% in 2017-18, with a minimum and maximum range of 1.7% and 3.8% respectively.

Consumer Price Index has a median forecast of 3.7% for 2017-18, with a minimum and maximum range of 3.5% and 4.5% respectively. CPI forecast for Q4 2017-18 was put at 5.1% according to the survey results.

Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 3.6% for the fiscal year 2017-18 with a minimum and maximum range of 3.4% and 3.7% respectively. This is 0.1% higher than the government's revised estimate of 3.5% for 2017-18.

Fiscal deficit as a % of GDP

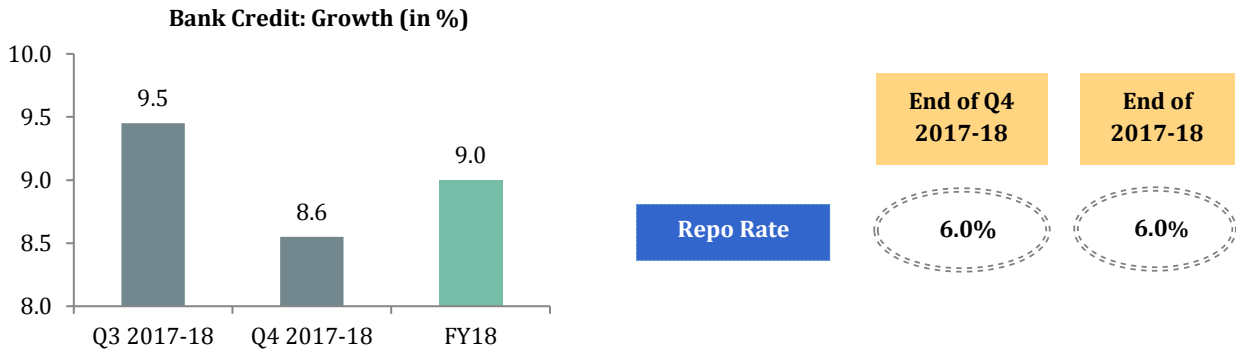


2017-18* Government Estimate

2018-19# Budgeted

^ FICCI's Economic Outlook Survey Forecast

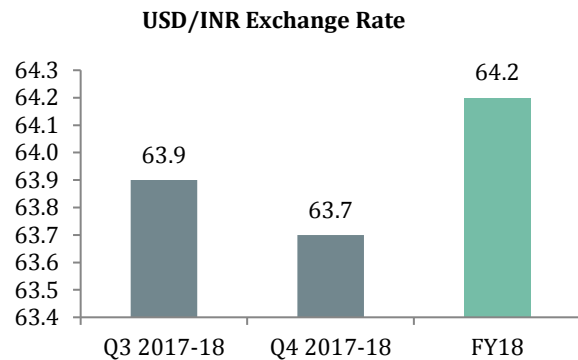
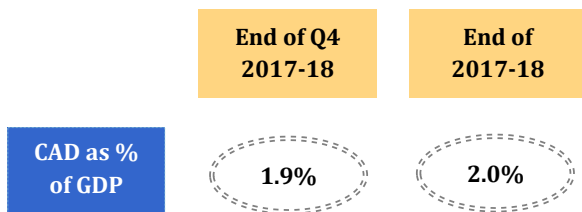
Money and Banking



External Sector

2017-18	Export	Import
USD billion	300	449
Growth (in %)	10.6	18.5

Based on the responses of participating economists, the median growth forecast for exports has been put at 10.6% for 2017-18 and for imports at 18.5%.



Survey Results: Part B
Views of the Economists**MEASURES TO IMPROVE FISCAL POSITION**

The Government approved setting up of Fifteenth Finance Commission in November last year under the chairmanship of Mr. N. K. Singh, Member of Parliament and Former Secretary to the Government of India. The commission has been tasked to look at a whole host of concerns facing both central and state government finances. Given this backdrop, the economists were asked to share recommendations on ways the centre and state governments could improve their revenues and curtail expenditure and keep a check on the fiscal situation.

Economists felt that to achieve the fiscal targets, the government must continue to focus on expenditure rationalisation, plugging loopholes, and undertaking innovative revenue raising efforts.

A majority of the economists opined that the government must reduce its expenditure towards interest payments and subsidies as they form a major chunk of revenue expenditure. To reduce the obligation of servicing its loans, the Government must make conscious efforts to reduce its borrowing.

The participating economists unanimously felt that while subsidies are important, wasteful expenditure must be curbed by plugging loopholes and by ensuring that the actual beneficiary of a subsidy benefits from it. It was suggested that the government should consider moving all pilot projects under the direct benefits transfer scheme to nation-wide implementation. This would significantly improve the quality of government expenditure.

The participating economists also suggested disposal/ or privatisation of sick public sector undertakings; adding that this would reduce government overhead expenses and help the government save valuable resources. Privatisation of sick public sector units will also add revenues to the government's kitty. The economists unanimously opined that disinvestments efforts by the government must be enhanced.

The economists added that even though the impact of the new taxation regime –GST- on public finances has so far been unclear; the long run impact will be positive as efficiency gains and higher tax base will lead to higher revenues as the regime stabilizes and is fully absorbed.

Some of the economists taking part in the survey felt that the Finance Commission must look at ways in which some portions of agricultural income could be brought under the tax net.

On the fiscal situation of states, the economists opined that states must be incentivised to stick to fiscal prudence. The terms of reference of the finance commission has already linked transfers to states to a range of parameters such as implementation of flagship schemes of the government, progress made in increasing capital expenditure, eliminating losses of power sector etc. - making them more responsible in keeping a track of their fiscal situation. It was recommended that states must reduce losses in power sector and urgently implement electricity tariff structures in line with production costs. Economists believed that empowering state finance commissions will help in improving state finances.

FAIR VALUE OF INDIAN RUPEE

The Indian Rupee has been appreciating even when most of the other emerging market currencies witnessed depreciation vis-à-vis the US Dollar. Although an appreciating Rupee benefits importers, the exporters are hit, and at times, significantly. The economists were asked to share their views on the fair value of the Rupee and the steps that the RBI and the Government can take to ensure that the Rupee is maintained at its fair value.

While the economists unanimously agreed that the Rupee is overvalued, they differed in their assessment of the extent of overvaluation. Despite indicating difficulty to arrive at a fair value of exchange rate, economists opined that the Rupee US Dollar exchange rate within 66.0 and 66.5 should be acceptable to both exporters as well as importers. The exchange rate within this range is likely to balance concerns in all areas.

The participating economists felt that the government and the RBI would do well to curb any volatility in the exchange rate through clearer communication and need based intervention. The RBI can nudge the Rupee slightly through intervention in the spot and forward forex market. The government, on the other hand, should focus on accelerating various programs to promote exports and find innovative ways to reduce over reliance on imports.

TOP THREE GLOBAL ECONOMIC TRENDS THAT COULD IMPACT THE INDIAN ECONOMY

2017 witnessed a significant improvement in global economic growth and trade situation. The assessments with regard to advanced as well as emerging economies were positive even though certain downside risks continued to prevail. Given this backdrop, economists were asked to share top three global economic trends that could impact the Indian economy in 2018.

Economists were of the view that the current situation is encouraging as far as the global economy is concerned with both developed as well as developing economies recovering simultaneously. It was also pointed out that there would be a shift from advanced economies led growth experienced in 2017 to emerging market led growth in 2018. Major trends that could impact India include:

Geopolitical Factors

This formed the topmost concern of the economists. They opined that certain external developments have high potential to impact India economically, as India is deeply entwined in the global economic landscape.

Geopolitical tensions between US and China was a major cause of concern as strenuous relations between the two could weigh down global trade. It was opined that disagreements between US and China are expected to increase as US deepens its role in the geopolitical affairs of the Indian Ocean Region along with Japan and India. Further, US relationship with rest of the world (especially China, Russia and West Asia) is still evolving under the new leadership and therefore China's positioning will be keenly watched. Recent trends suggest that China will try and fill any leadership gaps left by the US.

Some of the economists felt that actions by North Korea will also determine stability in the global markets. It was indicated that any significant aggression by North Korea (calling reactions from South Korea, US, China etc.) will have an effect on the global as well as Indian equity markets and commodity prices.

With national elections due in major countries such as Italy, Brazil, Mexico, the direction of reforms and stability in the democratic institutions will be of concern to global investors.

Monetary Policy

Majority of economists suggest that a change in monetary policies by key central banks towards normalization is expected to have a bearing on the global economy. Further, differences in monetary policy stance by some countries (such as Japan and European Central Bank which are still following an accommodative policy stance) could also have implications on global financial flows and exchange rate. The participating economists felt that the pace of hiking of interest rates by US Federal Reserve will have an impact on the Indian economy. As global interest rate scenario turns more hawkish, the interest rate differential between US and India is likely to narrow leading to capital flows away from India. Moreover, continuation of solid growth in the US in 2018, on the back of a strong fiscal stimulus (tax cuts and easy financial conditions), will imply a stronger US currency which might further encourage a shift in capital flows from India.

International Crude Oil Prices

Global crude oil prices have been on an uptick with Europe Brent touching USD 68.60 per barrel on February 2, 2018. Since India is a net importer of crude oil, most of the economists ranked rise in crude oil prices as a major concern for the Indian economy in the future and more so as it is currently hovering around the upper limit of the comfort zone. Higher oil prices will not only lead to inflationary pressures, but will also stress the balance of payments account. It will also burden the fiscal front, thereby moderating growth prospects. In this context, the upcoming meeting of OPEC countries in June 2018 will be crucial and will decide the course of oil price movements. Geopolitical tensions and developments in the Middle East can also impact prices.

Other Factors

Economists indicated that trends in global economic and trade growth will also impact the Indian economy. As far as economic growth is concerned, economists felt that a steady pace is expected to continue in 2018. However, economists expect China to grow relatively slower in 2018 after witnessing a good growth in 2017. This has also been indicated by Chinese policymakers during the 19th Party Congress last year- the new normal for China would be slower but high quality growth. China has been repeatedly stating that it will aim to reduce financial risk, deleverage parts of the financial system and focus more on green growth investments. Weaker growth in China might cause a downward spiral in global demand. Additionally, deceleration in capital spending in China as well as advanced economies could constrain growth in industrial output levels.

Global trade growth, on the other hand, is likely to moderate in 2018 (3.2% growth in 2018 vis-à-vis 3.6% growth in 2017) as indicated by WTO in its World Trade forecast update. Economists have indicated that the nations are increasingly looking inwards, giving rise to protectionist strategies – this can have implications on Indian exports.

Also, the final Brexit deal will be another huge event in 2018 to watch out for and which will have implications for labour market as well as capital flows. It was felt that India should use the opportunity to proactively negotiate a trade deal with the United Kingdom.

OPINION ON US TAX CHANGES AND ITS IMPACT ON INDIA

The House of Representatives and the Senate passed the Tax Cuts and Jobs Act in December 2017 which entails a major fiscal push to the economy in the form of USD 1.5 trillion in tax cuts. A major step was to slash the corporate tax rate to 21% with effect from January 1, 2018. Several other changes for businesses, such as introduction of excise tax, allowing deduction of dividends and profit repatriation tax, have also come through with the passage of the Act. Given this backdrop, economists were asked to share their prognosis on the impact of this new legislation on the Indian economy.

While the participating economists unanimously felt that the cut in tax rates will make the United States a very attractive investment destination, they were divided on the consequences of the same on Indian economy.

It was indicated that the tax cuts would prompt many multinational companies (MNCs) to relocate back to the US. Further, subsidiaries of Indian MNCs may also choose to retain their profits in the US to minimize their overall tax burden. This would create a significant cash pool available to US entities. Reduction of cost arbitrage, writing off the cost of equipment purchased and one-time tax on profit repatriation will encourage domestic manufacturing in the United States and will make movement of businesses to other destinations relatively costly. Sectors that are likely to be impacted by the move include IT/ ITES, pharmaceutical, contract manufacturing operations and textiles.

Even though the probable impact of the US tax policy on its domestic economy is largely positive, many economists believe that the impact on India will be minimal. They believed that while reduction in corporate tax rate is a big step, it is not the only determinant that businesses consider while setting up their units. The participants felt that emerging markets like India will remain attractive simply because of higher growth prospects over a long period.

It was felt that India's attractiveness depended on its Asian peers. India stands to gain compared to other Asian economies in respect of factors like cost of labour, other input costs and particularly the government's commitment towards business-friendly policies. Moreover, India has extended the reduced corporate tax rate of 25% to companies with a turnover of up to Rs. 250 crores in the Union Budget 2018-19 from the previous Rs. 50 crore turnover cut off. However, if other Asian countries reduce their taxes, India will be compelled to reduce its tax rates further in a phased manner to be in line with competitive economies.

Participating economists suggest that India must, for now, continue to focus on the supply side aspects, such as infrastructure development (roads, ports, logistics etc.), which would go a long way in reducing cost of production for Indian manufacturers.

Value in USD billion	298.1	300.0	275.4	312.5	75.4	75.3	74.6	76.3	83.6	82.6	81.5	87.6
Growth (%)	12.0	10.6	5.0	25.0	12.9	13.0	10.6	15.0	11.2	11.0	7.0	16.0
Merchandise Import												
Value in USD billion	438.1	449.0	381.4	460.5	116.2	117.8	110.0	119.1	121.4	120.3	118.4	126.5
Growth (%)	19.0	18.5	10.6	33.0	15.1	15.0	14.3	16.0	12.4	13.3	6.0	17.0
Trade Balance (% to GDP)	-5.5	-5.2	-7.6	-3.7	-5.4	-5.0	-8.0	-3.3	-5.7	-5.5	-7.7	-3.8
CAD as % of GDP at current price	1.8	2.0	0.7	2.2	1.9	1.9	1.2	2.4	1.8	1.9	1.5	2.0
US\$ / INR exchange rate (end period)	64.1	64.2	63.5	64.6	64.1	63.9	63.5	64.7	64.1	63.7	63.5	65.1

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