Economic Outlook Survey

January 2023

HIGHLIGHTS

GDP growth estimated at 6.9 percent for 2022-23 & 6.0 percent for 2023-24

Reserve Bank of India policy repo rate at 6.50 percent by end of fiscal year 2022-23

Indian economy resilient in the face of global challenges

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2022-23 at 6.9 percent.
- The median growth forecast for agriculture and allied activities has been put at 4.0 percent for 2022-23; while industry and services sector are anticipated to grow by 4.4 percent and 8.7 percent respectively.
- CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 6.4 percent and 6.9 percent respectively.
- Based on the responses of the participating economists, the median forecast for exports has been put at USD 441.0 billion and for imports at USD 725.0 billion in 2022-23.
- RBI's policy repo rate is projected at 6.50 percent by the end of the fiscal year 2022-23.

Views of Economists

2023 Economic Outlook for India and the Global Economy

Global Outlook

- The participants asserted that a slowdown in major advanced economies seems to be inevitable, with the United States, China, and the EU that together account for about 60 percent of global GDP witnessing a moderation.
- The global economy is facing its worst inflation in decades, a protracted slowdown in GDP growth and trade flows. Skyrocketing commodity prices necessitated synchronous monetary tightening by major central banks across the globe, which is expected to constrain global GDP growth in 2023.
- Nonetheless, some of the participants cited that global crude oil prices are expected to moderate owing to a slowdown in China. The respondents opined that global inflation reached its peak in 2022, and going ahead, it is expected to moderate somewhat from its year-ago level, although remaining over the target band in most economies.

India Outlook

- Majority of the economists believed that India's economy has rebounded from the pandemic-induced disruptions. The economists asserted that the domestic economy grew steadily despite global headwinds. However, they pointed out that muted global growth prospects for the year 2023 do impart uncertainty to India's growth outlook.
- A global growth slowdown is likely to impact India through trade and financial channels, and India's export performance is expected to remain muted during the year.
- Furthermore, while headline inflation in the country is showing signs of moderation, core inflation remains sticky over the RBI's 6.0 percent threshold. This is expected to necessitate additional policy rate hikes by the Reserve Bank which will weigh on growth.
- The participants also pointed out that while the urban economy fares well, rural economy continues to show some distress- in terms of higher inflation, greater unemployment, and lower wage growth- all of which are affecting rural demand sentiment.
- Considering all this, the participating economists have pegged India's GDP growth forecast for fiscal year 2023-24 at 6.0 percent. On a positive note, the government's capex push is expected to support economic recovery. Moderating inflationary pressures, resilience in domestic demand, and improved credit offtake are also likely to lend support to private investments that will enable India's economy to withstand global headwinds.

Expectation from the Union Budget 2023-24

▪ The thrust laid by government on capex over the last few years has aided recovery from the covid pandemic. The economists opined that the Union Budget 2023-24 should continue the spirit of earlier budgets in terms of higher allocation for government capital expenditure.
▪ This is imperative to provide continued impetus to infrastructure and capacity development activities in the country. Participants expect a double-digit increase in government capex and bring it closer to Rs. 10 trillion (from the existing Rs. 7.5 trillion).
▪ Majority of the economists opined that government must continue on its path of fiscal consolidation, without compromising on the quality of spending.
▪ Clean energy was another focus area highlighted by the participating economists. Announcement of a Standardized Taxonomy defining Climate Risk, Categorizing High Risk, Low Risk, Transition Risk, etc was an ask from the Union Budget 2023-24.
▪ It was also proposed that the Centre may also consider earmarking specific Green Energy Hubs (including RE and Hydrogen Clusters) situated at Ports / key Industrial Centres and capturing large-scale industrial and export demand for hydrogen (via Hydrogen SEZs for export).
▪ Economists also anticipated the upcoming Union Budget to focus on supporting growth by strengthening domestic demand. A suggestion towards a higher allocation for the MGNREG Scheme was made for improving rural employment conditions.
▪ On the external front, the participants proposed addition of other high export potential sectors to the Production Linked Incentive Scheme such as specific electrical components, and Contract Development & Manufacturing Organisations/Contract Research & Manufacturing Services within chemicals.
▪ Specific suggestions for the Budget from the industry point of view included:

- The government could consider extending the concessional tax regime for manufacturing operations for at least five years. The Finance Act 2021 had extended the sunset date under concessional tax regime of section 115BAB by only one year to 31 March 2024.
- E-commerce exports can help MSMEs integrate into global value chains and also enhance exports. Establishing dedicated customs clearance lanes will enable faster clearance of time sensitive e-commerce exports shipments.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of December 2022 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 2022-23 and for the quarters Q3 (October-December) of FY23 and Q4 (January-March) of FY23.

In addition, economists were asked to share their views on certain topical subjects. Given the continuation of the war in Europe and the prevailing recessionary headwinds, economists were asked to share their prognosis for the global as well as for the Indian economy for the year 2023. In addition, expectations of the economists were sought on the upcoming Union Budget for fiscal year 2023-24 which will be presented on February 1, 2023.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2022-23			Q3 FY23			Q4 FY23		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**6.9**	6.5	7.2	**4.8**	4.0	5.3	**4.1**	3.2	4.9
GVA@ basic prices	**6.6**	6.3	6.8	**4.3**	3.9	7.3	**3.8**	3.2	4.7
Agriculture & Allied activities	**4.0**	3.3	4.4	**3.5**	2.9	4.6	**3.3**	3.0	3.9
Industry	**4.4**	-0.2	5.0	**3.7**	-0.9	4.7	**2.5**	-2.2	4.1
Services	**8.7**	8.0	9.5	**5.7**	4.3	7.1	**5.3**	4.8	8.5

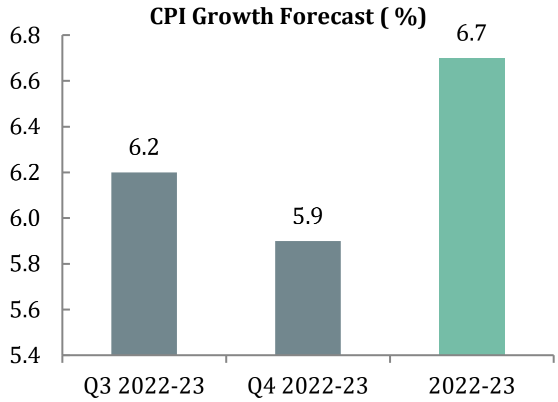
The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2022-23 at 6.9 percent** - with a minimum and maximum growth estimate of 6.5 percent and 7.2 percent respectively.

The median growth forecast for agriculture and allied activities has been put at 4.0 percent for 2022-23. On the other hand, **industry and services sector are anticipated to grow by 4.4 percent and 8.7 percent respectively during the fiscal year.**

Median GDP growth is estimated at 4.8 percent and 4.1 percent for the third and fourth quarter of 2022-23, respectively.

The persisting geopolitical uncertainty, volatility in global financial markets continue to undermine global growth prospects and are imparting ambiguity to India's growth outlook as well. Volatile foreign investments, muted consumption activity and slowing export growth pose as key downside risks. Nonetheless, the government's capex push, moderating inflationary pressures, and rising credit offtake should lend support to the domestic economy.

Consumer Price Index (CPI)

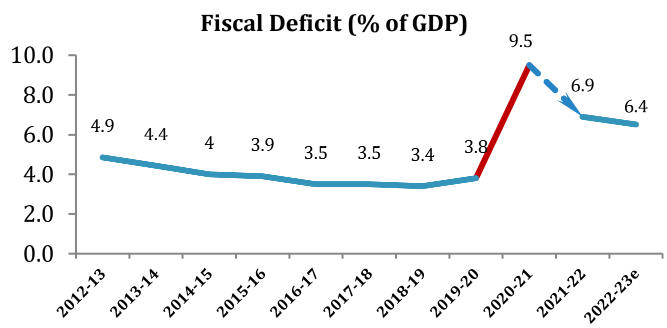


CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 6.4 percent and 6.9 percent respectively. Retail prices are projected at 6.2 percent in Q3 2022-23 and 5.9 percent in Q4 2022-23. This is in line with RBI's indicative trajectory put forth in the recent monetary policy announcement in December 2022.

Retail inflation has exhibited some signs of moderation in recent months; however, it is largely seasonal. Core inflation remains elevated, and prices continue to be beyond the RBI's upper threshold of 6.0 percent. Participating economists have therefore retained their projection of CPI at 6.7 percent at the end of FY23 from the previous survey round.

Fiscal Deficit

The median **fiscal deficit to GDP ratio has been put at 6.4 percent for the fiscal year 2022-23 by the participants** - with a minimum and maximum range of 6.1 percent and 6.5 percent respectively. This is in line with the budgeted fiscal deficit for 2022-23 – which was estimated at 6.4 percent earlier this year.



e: Expected

Money & Banking

Policy repo rate is forecasted at 6.50 percent by the end of the fiscal year 2022-23, implying that another 25 bps rate hike is expected in the upcoming monetary policy committee meeting in February 2023.

The repo rate was hiked by 35 bps to 6.25 percent in RBI's most recent December 2022 MPC meeting.

	2022-23 (End, March 2023)
Repo Rate	**6.50%**

External Sector

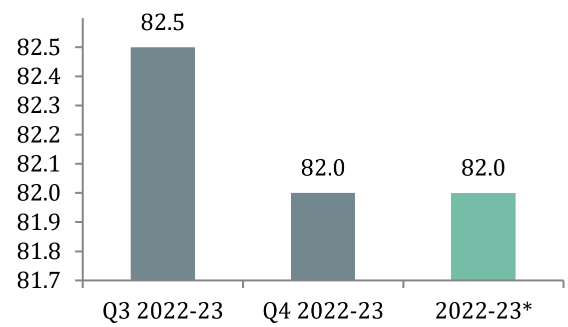
2022-23	Export	Import
USD billion	441.0	725.0
Growth (in %)	3.0	18.8

	End of 2022-23
CAD as % of GDP	**3.3%**

Based on the responses of the participating economists, the **median forecast for exports has been put at USD 441.0 billion and for imports at USD 725.0 billion in 2022-23**. CAD is expected to be close to 3.3 percent of the GDP.

Aggressive monetary tightening in advanced nations and a strengthening US Dollar are leading to persistent fall in the value of the Indian Rupee vis-à-vis the US Dollar. The INR is expected to prevail at an average of 82.0 vis-à-vis the US Dollar by the end of the current financial year.

USD/INR Exchange Rate



* end period

Survey Results: Part B
Views of Economists

Prognosis for the year 2023

The world economy continues to reel under the impact of the Russia-Ukraine war. Headwinds remain on fore and several key multilateral institutions have revised the growth forecast for global growth downwards. Even though prices of some commodities have softened on a sequential basis, energy supply shortages across Europe pose a concern. Also, the fresh spurt in Covid cases across countries including China, Korea, Japan, Brazil, and United States of America is worrisome. Amidst this backdrop, the participating economists were asked about their outlook for the global as well as for the Indian economy for the year 2023. The economists were also asked to share their projection for India's GDP growth for the fiscal year 2023-24.

Assessment of the Global Economy in light of the prevailing headwinds

The participants asserted that a slowdown in major advanced economies seems to be inevitable, with the United States, China, and the EU that together account for about 60 percent of global GDP witnessing a moderation. Further, the situation in the United Kingdom and Euro Zone nations continues to be grave.

The global economy is facing its worst inflation in decades, a protracted slowdown in GDP growth and trade flows. Concerns regarding a possible recession remain on fore, while a deteriorating food and energy security situation is aggravating the challenges to global growth recovery. Skyrocketing commodity prices necessitated synchronous monetary tightening by major central banks across the globe, which is expected to constrain global GDP growth in 2023. The world is also witnessing a realignment of global supply chains and policy-induced de-globalisation – which is adding to the uncertainty.

Nonetheless, some of the survey participants cited that global crude oil prices are expected to moderate owing to a slowdown in China. The respondents opined that global inflation reached its peak in 2022, and going ahead, it is expected to moderate somewhat from its year-ago level, although remaining over the target band in most economies.

Assessment of the Indian Economy in light of global challenges

Majority of the economists believed that India's economy has rebounded from the pandemic-induced disruptions. The economists asserted that the domestic economy grew steadily despite global headwinds - the ongoing geopolitical crisis, as well as highly volatile global financial markets. However, they pointed out that muted global growth prospects for the year 2023 do impart uncertainty to India's growth outlook.

A global growth slowdown is likely to impact India through trade and financial channels, and India's export performance is expected to remain muted during the year. US, China and EU - India's major trading partners are witnessing a moderation. Further, India also remains heavily integrated with the world in terms of capital flows, and thus, volatility in FPI inflows continues to remain a cause of concern. Moreover, a realignment of supply chains and policy-induced de-globalization also add to uncertainty on the trade front over medium-term. Nonetheless, consistency in domestic demand conditions can act as a cushion amid the persisting global headwinds.

Furthermore, while headline inflation in the country is showing signs of moderation, core inflation remains sticky over the RBI's 6.0 percent threshold. This is expected to necessitate additional policy rate hikes by the Reserve Bank which will weigh on growth.

The participants also pointed out that while the urban economy fares well, rural economy continues to show distress- in terms of higher inflation, greater unemployment, and lower wage growth- all of which are affecting rural demand sentiment. Rising prices can impact vulnerable groups. Further, a gradual correction in commodity prices should help contain deterioration in current account deficit, although it is expected to remain significant in 2023.

Considering all this, the participating economists have pegged India's GDP growth forecast for fiscal year 2023-24 at 6.0 percent. On a positive note, the government's capex push is expected to support economic recovery. Moderating inflationary pressures, resilience in domestic demand, and improved credit offtake are also likely to lend support to private investments that will enable India's economy to withstand global headwinds. Recovery in the urban services sector and strong urban job growth is expected to encourage consumption of households in urban areas. Moreover, India's growth potential can further improve through the wide-ranging reforms process and advancement in digitization.

<u>Expectations from the forthcoming Union Budget 2023-24</u>

The budget season is on the horizon and the government will present the Union Budget for fiscal year 2023-24 on February 1, 2023. The Union Budget 2023-24 will be presented amidst prevailing global headwinds. Given this backdrop, the participating economists were asked to share their expectations from the upcoming Union Budget 2023-24.

Capital Expenditure

The thrust laid by government on capex over the last few years has aided quick recovery from the covid pandemic and ensured the growth momentum. The economists opined that the Union Budget 2023-24 should continue the spirit of earlier budgets in terms of higher allocation for government capital expenditure.

Given the current global geo-political developments and associated headwinds, a thrust on public capex including in the upcoming budget (on physical, social and digital infrastructure) will also give a stimulus to private investments.

This is imperative to provide continued impetus to infrastructure and capacity development activities in the country. Participants expect a double-digit increase in government capex and bring it closer to Rs. 10 trillion (from the existing Rs. 7.5 trillion).

Specifically, certain economists suggested that the Centre may increase the allocation of funds to the Ministry of Road Transport & Highways (MoRTH) by as much as 30 percent in order to speed up the construction of national highways.

The Central government is expected to garner robust gross tax collections over the previous year's budget estimates. Some participants suggested further rationalisation of the GST structure and easing of GST burden- both in terms of cost and compliance.

Majority of the economists opined that government must continue on its path of fiscal consolidation, without compromising on the quality of spending. Further, the Centre must expedite disinvestment in Public Sector Enterprises and lay greater emphasis on the National Monetization Pipeline in order to generate additional revenues and support infrastructure investment.

Clean Energy

Clean energy was another focus area highlighted by the participating economists. Majority believed that the government is likely to further its ambition in the renewable energy space, wherein it may announce a variety of incentives to strengthen India's transition to green energy.

Announcement of a Standardized Taxonomy defining Climate Risk, Categorizing High Risk, Low Risk, Transition Risk, etc was an ask from the Union Budget 2023-24.

The Centre may also consider earmarking specific Green Energy Hubs (including RE and Hydrogen Clusters) situated at Ports / key Industrial Centres and capturing large-scale industrial and export demand for hydrogen (via Hydrogen SEZs for export). Such clusters would include players along the entire hydrogen value chain (production, storage, pipeline distribution, refuelling) to optimize costs and kick-start large scale adoption.

Domestic demand/ consumption

The participating economists also anticipated the upcoming Union Budget to focus on supporting growth by strengthening domestic demand.

On direct taxation, certain participants suggested that the government must try to boost consumer demand through a moderation in income taxes. Emphasis must also be laid on increasing disposable income for the middle- and lower-income groups.

Further, economists were also in favour of support to social sector schemes which could give a thrust India's rural economy- where a demand recovery was said to be lagging. A suggestion towards a higher allocation for the MGNREG Scheme was made for improving rural employment conditions.

External Sector

On the external front, the participants proposed addition of other high export potential sectors to the Production Linked Incentive Scheme such as specific electrical components, and Contract Development & Manufacturing Organisations/Contract Research & Manufacturing Services within chemicals.

It was further recommended to develop block chain platforms integrating Customs, DGFT, ports, banks and shipping companies under one portal - to reduce cost and time, bring more transparency and visibility on a real time basis. At present, the businesses have to visit multiple portals from DGFT, Customs, multiple PGAs, shipping lines, logistics providers, etc.

Industry

Major emphasis was laid by the economists on enhancing and simplifying the procedures related to Ease of Doing Business in India. The government's focus on strengthening local manufacturing and exports, especially through MSMEs must also continue.

Specific suggestions for the Budget from the industry point of view include:

a) The government could consider extending the concessional tax regime for manufacturing operations for at least five years. The Finance Act 2021 had extended the sunset date under concessional tax regime of section 115BAB by only one year to 31 March 2024.
b) E-commerce exports can help MSMEs integrate into global value chains and also enhance exports. Establishing dedicated customs clearance lanes will enable faster clearance of time sensitive e-commerce exports shipments.

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

Follow us on