FICCI

Economic Outlook Survey

February 2019

HIGHLIGHTS

GDP growth estimated at 7.0% for Q3 of 2018-19
Growth for 2018-19 projected at 7.3%; 7.5% for 2019-20: FICCI's Economic Outlook Survey

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2018-19 at 7.3% - this marks a marginal downward revision from the growth estimate of 7.4% in the last survey. The minimum and maximum growth estimate stood at 7.2% and 7.5% respectively for 2018-19. The survey was conducted during January 2019 among economists belonging to the industry, banking and financial services sector.
- The median growth forecast for agriculture and allied activities has been put at 3.7% for 2018-19. Industry and services sector are expected to grow by 7.8% and 7.4% respectively during 2018-19.
- Further, the quarterly median forecasts indicate a GDP growth of 7.0% in the third quarter of 2018-19. The official growth numbers for the third quarter are expected to be released later this month (February 28, 2019).
- The GDP growth projection for 2019-20 has been put at 7.5%.
- The median growth forecast for IIP was put at 5.5% for 2018-19 by the participating economists, with a minimum and maximum range of 4.3% and 7.5% respectively.
- The outlook of the participating economists on inflation remained moderate. WPI based inflation rate is projected at 4.6% in 2018-19, with a minimum and maximum range of 4.0% and 4.9% respectively. CPI based inflation has a median forecast of 3.5% for 2018-19, with a minimum and maximum range of 3.0% and 4.4% respectively.
- Concerns remain on external front with median current account deficit forecast pegged at 2.6% of GDP for 2018-19. Median export growth is pegged at 10.4% and in 2018-19. Imports, on the other hand, are projected to grow at 13.9% in 2018-19.

Views of economists on key topical issues

Views on RBI's stance in February 2019 Monetary Policy Review

- Economists unanimously believed that the repo rate will be kept unchanged in the forthcoming monetary policy review meeting owing to uncertainty with respect to inflation outlook; however, a change in stance from 'calibrated tightening' to 'neutral' is certainly expected from the central bank.
- Economists felt that lower inflationary pressures have created room for shifting the stance especially at a time when growth of industrial sector has under-performed and private capital expenditure is yet to gain momentum.
- However, economists remained cautious about inflation forecast over the short term and therefore did not expect a cut in repo rate in the sixth bi-monthly policy review to be announced on February 7, 2019. CPI core inflation (excluding food and fuel), although showing some signs of softening, remained at elevated levels.
- Economists, however, expect a cut in repo rate in the April 2019 monetary policy review on back of further improvement in liquidity conditions and greater clarity on the inflation path.
- On the regulatory front, participating economists hoped that the regulator will spell out more measures to boost liquidity in the banking system.

Top three trends to watch out for in 2019

- On the global front, participating economists unanimously felt that trade protectionism is a topmost concern for the world economy.
- While on one hand, indications of a more calibrated increase in policy rates from US Federal Reserve bodes well for global markets; on the other, forecast of rate hikes by European Central Bank in the second half of 2019 is worrisome as it will put pressure on currencies of emerging markets.

- Uncertainty around Brexit also poses a serious challenge for the world economy.
- Another concern was felt on the movement of crude oil prices. Although prices have eased over the past few months on back of increase in production from the United States, supply cut hints from the OPEC do pose a risk to the outlook on prices.
- Citing upsides for the Indian economy in 2019, participating economists said that lower inflation (thus aiding an accommodative stance on monetary policy), continued revival of credit and investment growth, possible capital inflows on back of a moderating growth in the US economy, recovery of the banking sector, rising demand and improvement in industrial activity are the major trends to look out for in 2019.
- Major downside risks to the economy include lingering rural and agrarian distress, higher current account deficit owing to increase in oil prices, breach of fiscal deficit target, over dependence on consumption demand for sustaining growth momentum, liquidity crunch in NBFCs and possibility of retaliation from India if it agrees to impose tariffs on imports of steel and aluminium from the US.
- Another major risk cited by the respondents included political uncertainty with general elections in India around the corner.

Views on reviving the concept of Development Finance Institutions

- Participating economists were undivided on the critical role DFIs have played in developing India's infrastructure and strategic sectors and the fact that they definitely called for a re-look.
- They opined that DFIs have been created around the world to promote economic growth and support social development. The purpose of these institutions is to encourage growth in strategic sectors of the economy such as industry, infrastructure, housing, etc by providing long-term credit and a wide-ranging capacity building programs to SMEs and even larger corporations whose financial needs are not sufficiently met by banks. DFIs have ensured that the allocation of investment was moved in directions warranted by larger developmental goals.
- For a stronger and a more balanced support to crucial sectors, economists urged the government to relook at fine tuning the functioning of DFIs to make them more successful. The participants felt that first and foremost, it is of utmost importance to see that the business models of DFIs ensure long-term financial sustainability. Additionally, sound risk management tools and high levels of corporate governance standards are essential to insulate the institutions from any pressures and interference. DFIs need to have well defined mandates and must be regulated and supervised with standards applicable to other financial institutions. Furthermore, the activities of such institutions should be monitored regularly – there is a need to assess their social and economic impact and compare their interventions versus other public policy alternatives.
- Finally, respondents highlighted that DFIs should be redesigned and empowered with professional skills that are in line with the present requirements of the country to remain relevant in the current times.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of January 2019 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 years 2018-19 and 2019-20 as well as for quarters Q3 (October-December) FY19 and Q4 (January-March) FY19.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their prognosis on RBI's stance in the forthcoming monetary policy review and their expectations pertaining to any regulatory changes. Views were also sought on top global and domestic trends that need to be watched in 2019. Finally, economists were asked to share their views on the concept of Development Finance Institutions (DFIs) and their relevance today.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

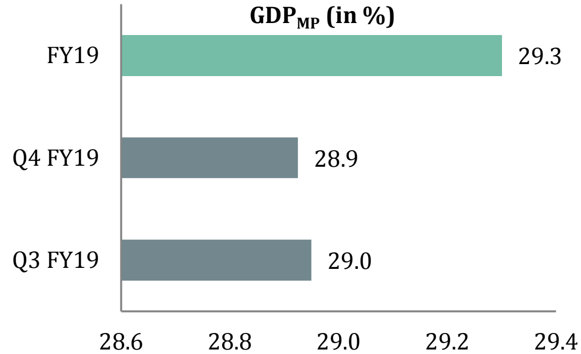
	Annual (2019-20)			Annual (2018-19)			Q3 2018-19			Q4 2018-19		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	7.5	7.1	7.7	7.3	7.2	7.5	7.0	6.5	7.3	7.1	6.8	7.4
GVA@ basic prices	7.3	6.8	7.5	7.0	7.0	7.4	6.8	6.5	7.1	6.9	6.5	7.3
Agriculture & Allied activities	3.2	1.5	4.1	3.7	2.8	3.8	3.1	2.0	4.0	3.1	1.8	3.8
Industry	7.6	6.3	8.1	7.8	5.9	7.8	6.5	3.0	7.0	5.9	3.5	7.1
Services	8.0	7.8	8.4	7.4	7.3	7.9	7.0	6.9	8.7	7.6	6.8	8.1

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2018-19 at 7.3% - this marks a marginal downward revision from the growth estimate of 7.4% in the last survey. The minimum and maximum growth estimate for 2018-19 stood at 7.2% and 7.5% respectively.

The median growth forecast for agriculture and allied activities has been put at 3.7% for 2018-19. Industry and services sector are expected to grow by 7.8% and 7.4% respectively during 2018-19.

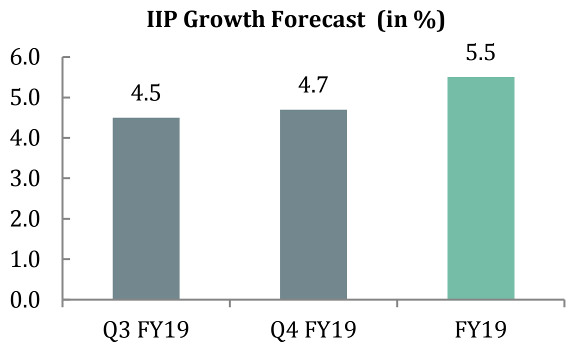
The quarterly median forecasts indicate a GDP growth of 7.0% in the third quarter of 2018-19 and 7.1% in the fourth quarter of 2018-19. Also, the growth projection for 2019-20 has been put at 7.5%.

Gross Fixed Capital Formation as % of GDP_{MP} (in %)



The ratio of Gross Fixed Capital Formation to GDP for 2018-19 has been estimated at 29.3% and the ratio is expected to improve to 29.8% in 2019-20.

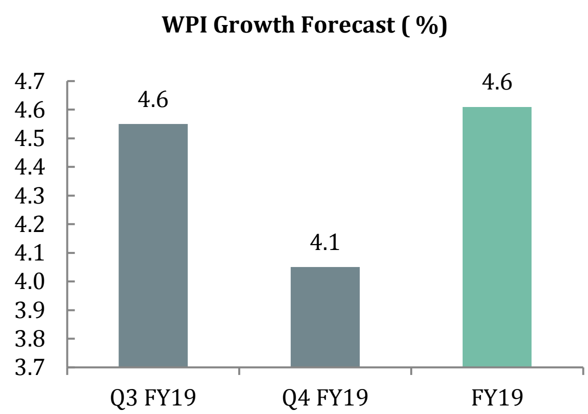
Index of Industrial Production (IIP)

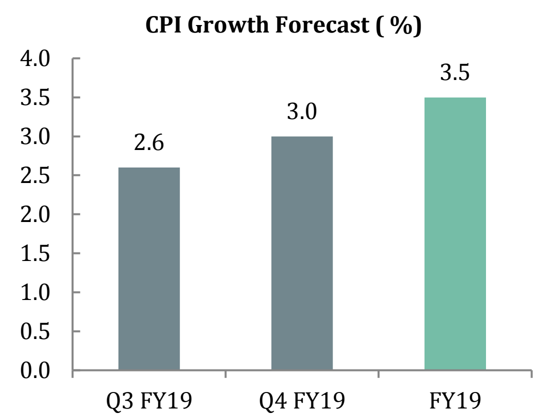


The median growth forecast for IIP was put at 5.5% for 2018-19 by the participating economists, with a minimum and maximum range of 4.3% and 7.5% respectively.

However, the latest monthly data has reported flat growth in industrial production. The index grew by just 0.5% in the month of November 2018 vis-à-vis 8.4% growth witnessed in the month of October. To some extent, the slowdown can be attributed to post festivities effect.

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





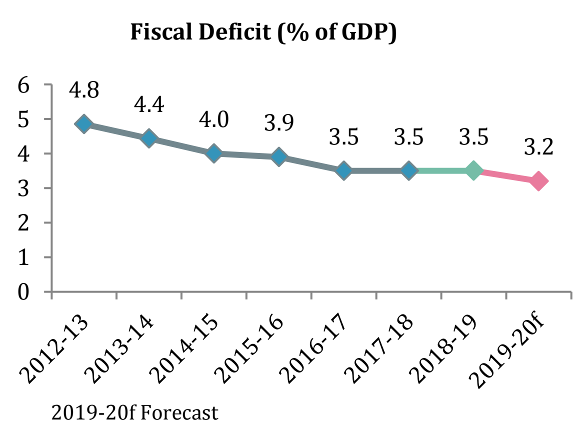
WPI based inflation rate is projected at 4.6% in 2018-19, with a minimum and maximum range of 4.0% and 4.9% respectively. The latest data on WPI reported an inflation rate of 4.8% over the cumulative period April-December 2018. Price levels have noted moderation in the month of December 2018.

On the other hand, CPI based inflation has a median forecast of 3.5% for 2018-19, with a minimum and maximum range of 3.0% and 4.4% respectively. The actual CPI inflation rate over the cumulative period April-December 2018 has been reported at 3.7%. The CPI forecast for Q4 2018-19 has been put at 3.0% according to the survey results.

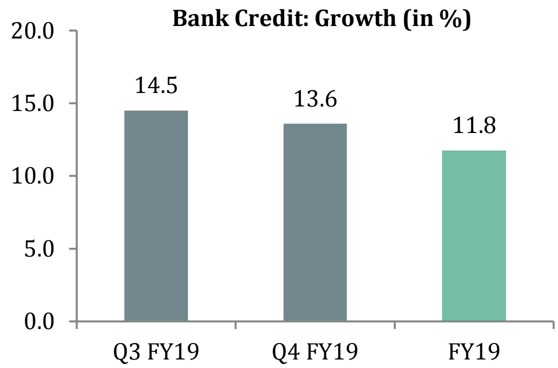
Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 3.5% for the fiscal year 2018-19 with a minimum and maximum range of 3.3% and 3.5% respectively.

Fiscal deficit for 2018-19 has been budgeted at 3.3%.



Money and Banking



Repo Rate

End of Q4 2018-19	End of 2018-19	End of 2019-20
6.50%	6.50%	6.25%

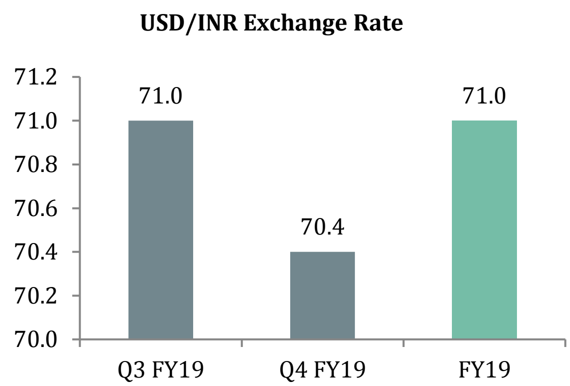
External Sector

2018-19	Export	Import
USD billion	335.0	523.5
Growth (in %)	10.4	13.9
Q4 2018-19		
USD billion	83.0	124.0

Based on the responses of the participating economists, the median growth forecast for exports has been put at 10.4% for 2018-19 and for imports at 13.9%.

CAD as % of GDP

End of Q4 2018-19	End of 2018-19	End of 2019-20
2.7%	2.6%	2.4%



Survey Results: Part B
Views of the Economists

VIEWS ON RBI'S STANCE IN THE FORTHCOMING MONETARY POLICY REVIEW

The Reserve Bank of India (RBI) in its fifth bi-monthly monetary policy announced on December 5, 2018 maintained the stance of calibrated tightening and kept the repo rate unchanged at 6.5 percent. Further, even though the inflation projections were scaled down, the central bank cited upside risks to prices. With the headline inflation data moderating continuously over the past few months, economists were asked to share their view on RBI's stance in the forthcoming monetary policy review due on February 7, 2019.

Economists unanimously believed that the repo rate will be kept unchanged in the forthcoming monetary policy review meeting, owing to uncertainty with respect to inflation outlook; however a change in stance from 'calibrated tightening' to 'neutral' is certainly expected from the central bank. This should pave way for future cuts in the policy rate.

Economists felt that lower inflationary pressures have created room for shifting the stance especially at a time when growth of industrial sector has under-performed and private capital expenditure is yet to gain momentum. GDP growth in the second quarter of 2018-19 also reported moderation.

Nonetheless, participating economists believed that the Central Bank would remain cautious about inflation forecast over short term and therefore did not expect a cut in repo rate in the last policy review for the current fiscal year. CPI core inflation (excluding food and fuel), although showing some signs of softening, remains at elevated levels. Factors such as possibility of reversal in declining food prices, probable rebound in crude oil prices on back of supply constraints and a possible slippage in fiscal deficit would contribute to a cautionary stance.

Economists, however, expect a cut in the repo rate in April 2019 monetary policy review on back of a further improvement in liquidity conditions and greater clarity on the inflation path.

On the regulatory front, participating economists earnestly hoped that the regulator will spell out more measures to boost liquidity in the overall banking system. Alongside, they call for provision of a special liquidity window for the non-banking financial companies (NBFCs) to ease the credit crunch being faced by key growth sectors such as MSMEs and real estate. Additionally, it was felt that RBI must reduce the risk weight for loans given to the NBFC sector to facilitate easier borrowing.

TOP THREE TRENDS TO WATCH OUT FOR IN 2019

The participating economists were asked to share top three trends that need to be watched with respect to the global economy in 2019. They were also asked to list the key upsides as well as downside risks for the Indian economy that may arise over the course of year.

On the global front, participating economists unanimously felt that trade protectionism is a topmost concern for the world economy. They were of the view that even though trade tensions between the two giants- US and China- was easing amidst talks, a status quo or a contrary view might escalate tensions between the countries which will directly impact emerging market economies such as India.

Tighter global monetary conditions were also cited as a major impediment to global growth prospects. While on one hand, indications of a more calibrated increase in policy rates from US Federal Reserve bodes well for global markets; on the other forecast of rate hikes by European Central Bank in the second half of 2019 is worrisome as it will put pressure on currencies of emerging markets. Also, with global debt to GDP ratio touching an all-time high, owing to big borrowers such as US government and Chinese corporations, an invisible ceiling has emerged which will limit the extent and speed of interest rate hikes by central banks across the globe.

Uncertainty around Brexit also continues to pose a serious challenge for the world economy. A substantial vote against Brexit in the British parliament on January 15 puts the whole deal at a halt, adding to the confusion over the fate of the deal.

Another concern that was cited was on the movement of crude oil prices. Although prices have eased in the past few months on back of increased production from the United States; supply cut hints from the OPEC do pose as a risk to the outlook on prices. Higher oil prices have a direct consequence on India's inflation, current account deficit and exchange rate given the country's huge import dependence.

Citing upsides for the Indian economy in 2019, participating economists said that lower inflation (thus aiding an accommodative stance on monetary policy), continued revival of credit and investment growth, possible capital inflows on back of a moderating growth in the US economy, recovery of the banking sector, rising demand and improvement in industrial activity are the major trends to look out for in 2019.

Major downside risks to the economy include lingering rural and agrarian distress, higher current account deficit owing to increase in oil prices, breach of fiscal deficit target, over dependence on consumption demand for sustaining growth momentum, liquidity crunch in NBFCs and possibility of retaliation from India if it agrees to impose tariffs on imports of steel and aluminium from the US.

Another major risk cited by the respondents included political uncertainty with general elections in India around the corner. The outcome of the elections will have a clear bearing on the reform agenda, business climate and economic growth.

VIEWS ON REVIVING THE CONCEPT OF DEVELOPMENT FINANCE INSTITUTIONS

Development finance institutions (DFIs) have made an important contribution in the growth journey of India's industrial sector post-independence. However, their role started to diminish after liberalization. In this context, economists were asked to share their opinion on the role of DFIs and whether India should revisit the concept and ensure their success.

Participating economists were undivided on the critical role DFIs have played in developing India's infrastructure and strategic sectors and the fact that they definitely called for a re-look.

They opined that DFIs have been created around the world to promote economic growth and support social development. The purpose of these institutions is to encourage growth in strategic sectors of the economy such as agriculture, infrastructure, housing, trade etc by providing long-term credit and a wide-ranging capacity building programs to SMEs and even larger corporations whose financial needs are not sufficiently met by private banks. DFIs have ensured that the allocation of investment was moved in directions warranted by larger developmental goals.

Liberalization of the Indian economy saw the downfall of these developmental finance institutions with two major institutions, ICICI and IDBI being transformed into commercial banks. This had a bearing on the flow of credit to crucial investment projects.

Therefore, for a stronger and a more balanced support to crucial sectors, economists urged the government to relook at fine tuning the functioning of DFIs to make them more successful. The participants felt that first and foremost, it is of utmost importance to see that the business models of DFIs ensure long-term financial sustainability. Additionally, sound risk management tools and high levels of corporate governance standards are essential to insulate the institutions from any pressures and interference. DFIs need to have well defined mandates and must be regulated and supervised with standards applicable to other financial institutions. Furthermore, the activities of such institutions should be monitored regularly – there is a need to assess their social and economic impact and compare their interventions versus other public policy alternatives.

Finally, respondents highlighted that DFIs should be redesigned and empowered with professional skills that are in line with the present requirements of the country to remain relevant in the current times.

Appendix

	Outlook 2018-19				Outlook Q3 2018-19				Outlook Q4 2018-19			
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	7.0	6.5	7.3	7.1	7.1	6.8	7.4
GVA growth rate at basic prices (%)	7.1	7.0	7.0	7.4	6.7	6.8	6.5	7.1	6.9	6.9	6.5	7.3
Agriculture & Allied	4.1	3.7	2.8	3.8	3.0	3.1	2.0	4.0	3.8	3.1	1.8	3.8
Industry	7.4	7.8	5.9	7.8	5.5	6.5	3.0	7.0	5.6	5.9	3.5	7.1
Services	7.4	7.4	7.3	7.9	7.4	7.0	6.9	8.7	7.4	7.6	6.8	8.1
Gross Domestic Savings (% of GDP at market prices)	30.8	30.8	30.5	31.0	30.8	30.8	30.5	31.0	31.3	31.3	30.5	32.0
Gross Fixed Capital Formation (% of GDP at market prices)	27.2	29.3	28.5	32.9	29.0	29.0	28.9	29.0	28.9	28.9	28.4	29.5
Fiscal Deficit (as % to GDP) Centre	3.4	3.5	3.3	3.5	-	-	-	-	-	-	-	-
Growth in IIP (%)	5.5	5.5	4.3	7.5	4.3	4.5	2.6	5.8	4.7	4.7	3.2	6.2
WPI Inflation rate (%)	4.6	4.6	4.0	4.9	4.4	4.6	3.8	4.8	4.1	4.1	4.0	4.2
CPI combined new inflation rate (%)	3.6	3.5	3.0	4.4	2.6	2.6	2.6	2.7	3.1	3.0	2.8	3.4
Money supply growth M3 (%) (end period)	10.8	10.8	10.5	11.1	-	-	-	-	10.9	10.8	10.5	11.3

Bank credit growth (%)	12.2	11.8	10.5	15.0	14.3	14.5	13.2	15.1	13.0	13.6	10.5	15.0
Repo Rate (end period)	6.5	6.5	6.25	6.5	-	-	-	-	6.25	6.5	6.25	6.5
Merchandise Export												
Value in USD billion	334.0	335.0	326.0	340.0	81.2	81.4	80.8	81.5	83.2	83.0	81.7	85.0
Growth (%)	10.4	10.4	7.4	12.0	-	-	-	-	-	-	-	-
Merchandise Import												
Value in USD billion	521.3	523.5	505.9	532.4	128.0	128.0	127.7	128.3	124.2	124.0	118.6	130.0
Growth (%)	13.3	13.9	8.7	15.0	-	-	-	-	-	-	-	-
Trade Balance (% to GDP)	-	-	-	-	-	-	-	-	-	-	-	
CAD as % of GDP at current price	2.5	2.6	2.1	2.9	2.7	2.7	2.2	3.1	2.2	2.7	0.8	3.0
US$ / INR exchange rate (end period)	71.0	71.0	70.0	72.0	71.0	71.0	70.0	72.0	70.4	70.4	69.8	71.0

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

Follow us on