



FICCI
Economic Outlook Survey

July 2011

About the Survey

The seventh round of FICCI's Economic Outlook Survey was conducted during the period 7th July and 19th July, 2011. As part of the survey, a structured questionnaire was drawn up and sent to economists and financial analysts with a view to gauge their perception and views on topical economic issues as well as to seek their outlook for key macro-economic variables. A total of 13 economists and financial analysts participated in the present survey. These economists and financial analysts largely come from the banking and financial sector. The sample also includes economists and financial analysts from industry and research institutions.

The survey participants were asked to provide their forecast for key macro economic variables for the year 2011-12 as well as for Quarter 1 (Apr-June) and Quarter 2 (July-Sep) of 2011-12.

In addition to these, views were sought on two topical issues – whether RBI should be prepared to deal with the possibility of another global slowdown and the expected stance of RBI in the forthcoming monetary policy review on July 26th, 2011.

The feedback received from the survey participants was aggregated and analyzed. The results obtained are presented in the following pages.

The findings of the survey represent the views of respondents and do not reflect the views of FICCI.

EXECUTIVE SUMMARY

Annual forecasts for 2011-12

- ♣ GDP growth – 7.9 percent
- ♣ Agriculture & allied activities growth – 3.8 percent
- ♣ Industry growth – 7.3 percent
- ♣ Services growth – 9.4 percent
- ♣ Fiscal Deficit – 5.1 percent of GDP
- ♣ WPI Inflation rate (end March 2012) – 6.6 percent
- ♣ IIP growth – 7.3 percent
- ♣ Trade Balance – (-) 7.5 percent of GDP
- ♣ Current Account Balance – (-) 2.7 percent of GDP
- ♣ USD/INR exchange rate (end March 2012) – Rs. 44/USD

Quarterly forecasts for Q1 and Q2 of 2011-12

- ♣ GDP growth – 7.8 percent (Q1, 2011-12), 7.8 percent (Q2, 2011-12)
- ♣ Agriculture & allied activities growth – 4.5 percent (Q1, 2011-12), 4.5 percent (Q2, 2011-12)
- ♣ Industry growth – 6.9 percent (Q1, 2011-12), 7.2 percent (Q2, 2011-12)
- ♣ Services growth – 8.8 percent (Q1, 2011-12), 9.1 percent (Q2, 2011-12)
- ♣ WPI inflation rate – 9.7 percent (Q2, 2011-12)
- ♣ IIP growth – 6.1 percent (Q1, 2011-12), 7.4 percent (Q2, 2011-12)
- ♣ Trade Balance – (-) 7.2 percent (Q1, 2011-12), (-) 7.6 percent (Q2, 2011-12)
- ♣ Current Account Balance – (-) 3.1 percent (Q1, 2011-12), (-) 4.0 percent (Q2, 2011-12)
- ♣ USD / INR exchange rate – Rs. 44.3/USD (Q2, 2011-12)

EXECUTIVE SUMMARY

Respondents' views on ...

♣ Whether RBI should be prepared to deal with the possibility of another global slowdown

Most of the survey participants feel that it is perhaps too early to say that the current global economic situation could take the form of another global recession. Going with the IMF view, surveyed analysts expect the current problems in the world economy to be transitory. Further, the survey participants feel that at this stage it may not be right for RBI to get deviated by the global demand situation and let that impact its current monetary policy stance.

♣ Expected monetary policy action by RBI on 26th July, 2011

Majority of the survey participants expect RBI to hike the repo rate by 25 bps while leaving CRR unchanged in its forthcoming review of the monetary policy on 26th July, 2011.

Further, there is a near consensus that the central bank could be nearing the end of the current monetary tightening cycle. With signs of a slowdown in interest rate sensitive sectors now being quiet evident and demand for term loans, which is a proxy for capital expenditure, slackening, the survey respondents feel that RBI could consider changing its stance from aggressive monetary tightening to a neutral one going forward. However, the survey respondents do not expect the central bank to indicate any likely change in stance at least in the upcoming policy statement as it is difficult for the RBI to sound less hawkish at a time when the headline inflation is still hovering near double-digit levels and is likely to move further up in the coming months, reflecting the full impact of the fuel price hike.

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♣ Annual forecasts for 2011-12¹

- ✚ The participants in the present round of FICCI's Economic Outlook Survey (July 2011) expect GDP growth (at factor cost) for fiscal year 2011-12 to be 7.9 percent. This estimate for GDP growth does not vary much from the earlier projection of 8 percent obtained in the previous survey (May 2011). The range for GDP growth forecast varies from a low of 7.5 percent to a high of 8.9 percent.
- ✚ Amongst sectors, we see that while the projected growth for agriculture and services in 2011-12 has improved between our previous survey and the present survey, the projected growth for industry has been revised downwards.
- ✚ According to the survey respondents, agriculture sector is expected to grow by 3.8 percent in 2011-12 compared to a growth estimate of 3.7 percent obtained in the previous survey.
- ✚ The respondents have revised the growth forecast for the services sector in 2011-12 upwards from 9.2 percent in the previous survey to 9.4 percent in the present round.
- ✚ The growth forecast for the industry sector in 2011-12 has seen a dip between our last two surveys. While in the previous survey (May 2011), the survey participants had projected industry to grow by 8 percent in 2011-12, in the present survey this figure stands at 7.3 percent.
- ✚ It is interesting to note that while the finances of the central government continue to remain under strain, the survey respondents have not changed their estimate for fiscal deficit for the current year much. The fiscal deficit is expected to be 5.1 percent of GDP during 2011-12. This is just a tad above the last survey estimate of 5 percent. The forecast for fiscal deficit ranges between 4.8 percent and 7.0 percent.
- ✚ Although at present the inflation rate is hovering close to the double digit mark, the survey respondents anticipate WPI based headline inflation to come down to 6.6 percent by end March 2012. This is marginally lower than the previous estimate of 6.7 percent for the same period. The forecast for WPI based inflation by end March 2012 ranges from a low of 5 percent to a high of 7.5 percent.
- ✚ One of the macro variables that have seen a reasonable revision in their growth forecast between the last and the present survey is IIP. The survey respondents have revised downwards the forecast for IIP growth in 2011-12 from 7.9 percent in the previous round to 7.3 percent in the current round.
- ✚ The survey participants anticipate that India's overall imports will grow at a faster rate than its exports during 2011-12. While imports are expected to grow by 22.6 percent, exports could register a growth of 20.4 percent in 2011-12. The forecast for trade balance as a percent of GDP stands at (-) 7.5 percent.
- ✚ Current account balance as a proportion of GDP is expected to touch (-) 2.7 percent in 2011-12.
- ✚ The exchange rate of Rupee is expected to settle at 44 per US\$ by end March 2012.

¹ All forecast figures indicated are the median forecast of the sample.

❁ Quarterly Forecasts for Q1 (Apr- June) and Q2 (July- Sep) of 2011-12²

- ✚ The survey participants anticipate that GDP (at factor cost) will grow at 7.8 percent in the first quarter (Apr-June) of 2011-12. This is less than the estimate of 8.1 percent obtained in the previous survey. It may be noted that experts feel that the economy will grow at the same pace of 7.8 percent in the second quarter (July- Sep) of 2011-12 also. The forecasts vary between a minimum of 7.4 percent and a maximum of 8 percent for the first quarter and between 7.1 percent and 8.4 percent for the second quarter.
- ✚ During both the first and the second quarter of 2011-12, agriculture sector is expected to clock a growth rate of 4.5 percent.
- ✚ Industrial growth for Q1 of 2011-12 is pegged at 6.9 percent and then expected to improve slightly to 7.2 percent in the Q2. The growth forecast for industry sector for the first quarter ranges from a minimum of 6.1 percent to a maximum of 8 percent. The projections for second quarter vary from 6.3 percent to 9 percent.
- ✚ Performance of the services sector is also expected to improve from 8.8 percent in Q1, 2011-12 to 9.1 percent in Q2, 2011-12.
- ✚ Survey participants feel that WPI based inflation will hover close to the double digit level at 9.7 percent during the second quarter of 2011-12. Projections for WPI for the second quarter 2011-12 vary from a low of 8 percent to a high of 10.2 percent.
- ✚ The survey participants have lowered the projected growth for IIP for quarter one of 2011-12 to 6.1 percent in the current survey from 6.8 percent in the previous survey. However, they feel that in the second quarter of 2011-12, IIP will pick up to register a growth of 7.4 percent.
- ✚ While exports are expected to show a buoyant growth of 38.5 percent in the first quarter of 2011-12, imports will clock a growth of 30 percent during the same period. In the second quarter of 2011-12, while exports would maintain a robust growth of 35 percent, import growth could slip to 15 percent.
- ✚ The survey participants have projected current account balance for quarter 1 of 2011-12 at (-) 3.1 percent of GDP. In quarter 2, 2011-12, current account balance is expected to widen to (-) 4 percent.
- ✚ The median forecast exchange rate of the Rupee in the second quarter of 2011-12 stands at 44.3 per USD.

² All forecast figures indicated are the median forecast of the sample. Sample size varies as not all participants provided quarterly projections and for all variables.

♣ Respondents' views on whether RBI should be prepared to deal with the possibility of another global slowdown

Over the last few months, there has been a general slowdown in the Western economies and the Asian economies. As mentioned earlier, the IMF in its latest World Economic Outlook Update also acknowledged that global economic activity is slowing down and downside risks have increased. Greater than anticipated weakness in economic activity in U.S. and renewed financial volatility in the Euro area has brought forth greater downside risks in the Western economies. For Asian economies, fiscal stress, higher inflation and tightening of monetary policy measures pose challenge to expanding economic activities.

The case of India is no different. Continuous policy rate hikes by RBI to tame inflation have taken a toll on the growth of several sectors, eventually leading to a drop in IIP and GDP growth estimates. Presently, RBI is facing a dilemma of dealing with high level of inflation and the slowdown of the economy.

It is in this backdrop that FICCI sought views of the participating economists and financial analysts on whether RBI should be prepared to deal with the possibility of another global slowdown and should this element be reflected in its forthcoming monetary policy review.

Most of the survey participants feel that it is perhaps too early to say that the current global economic situation could take the form of another global recession. Going with the IMF view, surveyed analysts expect the current problems in the world economy to be transitory. Further, the survey participants feel that at this stage it may not be right for RBI to get deviated by the global demand situation and let that impact its current monetary policy stance.

♣ Respondents' views on the expected monetary policy action by RBI on 26th July, 2011

In its recent mid-term review of monetary policy (16 June, 2011), RBI firmly stated the need to persist with its anti-inflationary stance considering the high global commodity prices and oil prices. The central bank also agreed that some short-run deceleration in growth may be unavoidable as it attempts to bring inflation under control.

Over the last 15 months, the RBI has increased its key policy rate 10 times. Despite 275 basis points hike in the repo rate, the headline inflation continues to hover near double digit level. In March 2010, when the RBI started to raise policy rates in the current rate hike cycle, the WPI based inflation stood at 10.4%. Even after RBI's significantly hawkish stance and substantial monetary tightening, inflation rate for June 2011 stands at 9.4%.

In view of the evolving growth-inflation scenario, FICCI asked the survey respondents about their view on RBI's likely stance in the forth coming monetary policy review on July 26, 2011.

Majority of the survey participants expect headline inflation to hit the double digit mark in the month of June when final numbers are announced and there is a strong consensus on the possibility of it staying above 9 percent till November this year. Therefore, majority of the respondents expect RBI to continue with its focus on managing inflationary concerns.

Given this view, majority of the survey participants expect RBI to hike the repo rate by 25 bps while leaving CRR unchanged in its forthcoming review of the monetary policy to be announced on 26th July, 2011.

Even as a majority feels that RBI would tighten the monetary screws further on July 26, 2011, there is a near consensus that the central bank could be nearing the end of the current monetary tightening cycle. With signs of a slowdown in interest rate sensitive sectors now being quiet evident and demand for term loans, which is a proxy for capital expenditure, slackening, the survey respondents feel that RBI could consider changing its stance from aggressive monetary tightening to a neutral one going forward. However, the respondents do not expect the central bank to indicate any likely change in stance at least in the upcoming policy statement as it is difficult for RBI to sound less hawkish at a time when the headline inflation is still hovering near double-digit levels and is likely to move further up in the coming months, reflecting the full impact of the fuel price hike.

It is expected that revisions in data for macroeconomic variables like inflation, growth and IIP during the course of the remaining fiscal year will determine the quantum and timing of further rate hikes by the central bank.

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♣ Annual forecasts for 2011-12

	Key Macroeconomic Variables	Annual Forecast 2011-12			
		Mean	Median	Max	Min
1	GDP growth rate at factor cost (%)	8.0	7.9	8.9	7.5
	<i>Agriculture & Allied</i>	3.9	3.8	7.0	2.5
	<i>Industry</i>	7.5	7.3	9.0	6.1
	<i>Services</i>	9.7	9.4	15.0	8.3
2	Fiscal Deficit (as % to GDP) Centre (end March 2012)	5.3	5.1	7.0	4.8
3	WPI Inflation rate (% , end March 2012)	6.6	6.6	7.5	5.0
4	Growth in IIP (%)	7.2	7.3	8.9	4.4
5	Merchandise Export growth (%)	21.9	20.4	41.0	11.8
6	Merchandise Import growth (%)	23.3	22.6	39.0	11.6
7	Trade Balance (% to GDP)	-7.5	-7.5	-6.3	-9.1
8	Current Account Balance (%)	-2.9	-2.7	-2.0	-5.0
9	US\$ / INR exchange rate (end March 2012)	44.2	44.0	45.5	42.8

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♣ Quarterly Forecasts for Q1 (Apr-June) and Q2 (July- Sep) of 2011-12

	Key Macroeconomic Variables	Apr - June (Q1 2011-12)				July - Sep (Q2 2011-12)			
		Mean	Median	Max	Min	Mean	Median	Max	Min
1	GDP growth rate at factor cost (%)	7.7	7.8	8.0	7.4	7.7	7.8	8.4	7.1
	<i>Agriculture & Allied</i>	5.1	4.5	7.9	3.5	4.8	4.5	10.0	3.0
	<i>Industry</i>	6.9	6.9	8.0	6.1	7.4	7.2	9.0	6.3
	<i>Services</i>	9.4	8.8	15.0	8.3	9.4	9.1	15.0	7.3
2	WPI Inflation rate (%)	-	-	-	-	9.5	9.7	10.2	8.0
3	Growth in IIP (%)	6.7	6.1	9.1	5.5	7.2	7.4	9.4	4.7
4	Merchandise Export growth (%)	38.5	38.5	44.0	33.0	29.0	35.0	40.0	12.0
5	Merchandise Import growth (%)	30.0	30.0	40.0	20.0	23.0	15.0	39.0	15.0
6	Trade Balance (% to GDP)	-7.2	-7.2	-6.2	-8.2	-7.6	-7.6	-6.5	-8.6
7	Current Account Balance (%)	-3.5	-3.1	-2.4	-5.0	-3.8	-4.0	-2.3	-5.0
8	US\$ / INR exchange rate	-	-	-	-	44.3	44.3	45.3	43.5

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