

Survey of Professional Forecasters: Results of the Fifth Round (Q2:2008-09)

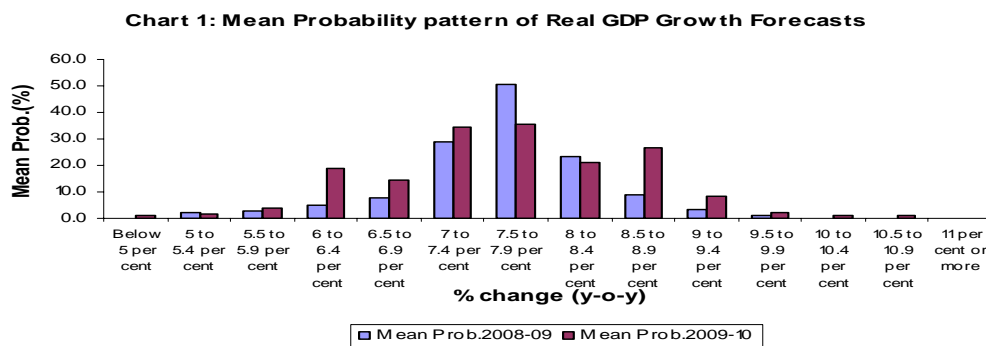
The 'Survey of Professional Forecasters' conducted by the Bank presents short to medium term economic developments on major macroeconomic indicators like component-wise detailed forecasts of GDP growth, inflation, savings, capital formation, consumption expenditure, export, import, interest rates, money supply, credit growth, stock market movements, corporate profit, etc. The survey relating to the second quarter of 2008-09 was launched during the second half of September 2008. The questionnaire was sent to 40 selected forecasters, of which 23 forecasters participated in this round.

Note that the results of the survey represent views of the respondent forecasters and in no way reflect the views or forecasts of the Reserve Bank of India. The forecasts given are the averages of data obtained from the survey.

Some of the salient features are as follows:

Annual Forecasts:

- Forecasters have revised their real GDP growth rate forecast downwards to 7.7 per cent¹ in 2008-09 and further to 7.5 per cent in 2009-10. The forecasters are asked to assign the probabilities to the possibility that year over year real GDP will fall into various growth ranges. The highest 50.8 per cent probability was assigned to growth range of 7.5-7.9 per cent for the year 2008-09. For the year 2009-10, they assign highest 35.4 per cent probability to 7.5-7.9 per cent growth range of GDP and 34.6 per cent probability to 7-7.4 per cent. The chart 1 below shows mean probability pattern of real GDP growth forecasts.



- Real GDP growth originating in industry for the year 2008-09 has been revised downwards to 7.0 per cent from 7.5 per cent in the earlier survey. The growth

¹ Growth rates wherever indicated are the median forecasts.

forecast for agriculture and services sector remains the same as in the last survey at 3 per cent and 9.5 per cent respectively. For the year 2009-10, all the three forecasts have been revised downwards from 3.3 per cent, 7.7 per cent and 9.4 per cent respectively in the last survey to the rate of 3.0, 7.2 and 9.2 per cent, respectively in the current survey.

- The proportion of domestic saving to GDP is indicated to be 34.8 per cent in 2008-09 which was 35 per cent in the last survey. Forecasters expect gross domestic capital formation to contribute 36.3 per cent to real GDP in 2008-09 (same as in last survey), while contribution of gross fixed capital formation is expected to be 33.5 per cent (revised downwards from 34.0 per cent). The forecasters have revised the growth rate of private final consumption expenditure in 2008-09 to 7.4 per cent against 7.1 per cent in the last survey.
- The profit growth of corporate sector in 2008-09 has been revised upwards at 18 per cent from 16 per cent in the last survey. The growth is expected to improve to 18.5 per cent in 2009-10.
- Broad money (M3) is expected to slow down to 19 per cent in 2008-09 which is lower than its previous forecast of 19.5 per cent. The bank credit is expected to grow at the rate of 22 per cent in 2008-09 against previous forecast of 20 per cent.
- Proportion of Central Government fiscal deficit in GDP is expected to be 3.5 per cent in 2008-09, whereas the combined gross fiscal deficit is placed at 6.5 per cent. Both these figures have been revised downwards from 3.9 per cent and 6.9 per cent respectively in the last survey.
- Most of the forecasters expect further depreciation in rupee vis-à-vis US dollar and to reach the level of 44.3 vis-à-vis US dollar in 2008-09. In the last survey the rupee was kept at 42 vis-à-vis US dollar for the current financial year. Yield on treasury bills (91 days) is revised to 8.4 per cent by the end of 2008-09 (revised upwards from 8.2 per cent in the last survey) whereas 10-year government securities yield are forecast to be at 8.5 per cent which is lower than the earlier forecast of 8.8 per cent.
- The forecasters expect Repo rate to be at 9 per cent which is revised upwards from 8.9 per cent in the last survey. The reverse repo rate is forecast to be 6 per cent by the end of current financial year, lower than the last survey forecast of 6.4 per cent.

- Forecasters expect overall BoP to be US \$12.4 bn. in 2008-09, down from their earlier forecast of US \$ 23.1 bn. in the last survey. Growth rate in exports has been kept at the same level of 20 per cent as in the last survey. Forecasters revised their imports growth forecasts downwards to 27.2 per cent from 29.5 per cent in the last survey. Forecasters put net surplus under invisibles during 2008-09 to be US \$ 85.5 bn. which is slightly lower than US \$ 86.0 bn. expected three months ago.

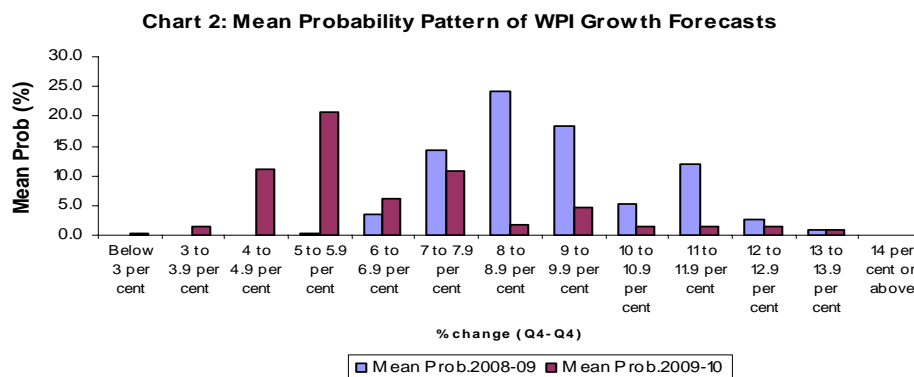
Quarterly Forecasts:

- The real GDP growth in both third and fourth quarters of 2008-09 is projected at 7.6 per cent. During the first quarter of next financial year, the GDP growth is placed at 7.5 per cent.
- Median forecasts for real GDP originating from agriculture, industry and services sectors in third quarter of 2008-09 are projected to be 2.5, 6.9 and 9.5 per cent respectively. For agriculture sector, the forecasts have been revised downwards (3.1 per cent in the last survey). The projection for industry has been revised downwards from 7.4 per cent in the last survey. For the last quarter of current financial year, the forecasters have kept the growth rates at 3.0, 7.5 and 9.3 per cent respectively. Index of Industrial Production growth forecast in third quarter of 2008-09 is kept at 6.8 per cent, revised downwards from the last survey. For the last quarter, the IIP is projected to grow at 7.4 per cent.
- Contribution of gross fixed capital formation to GDP has been forecast at 33.5 per cent in third quarter of current financial year, revised downwards from the last survey. Growth rate of corporate profit have been revised upwards to 17.5 in the third quarter of 2008-09. During the last quarter, the growth rate is kept at 17.8 per cent.
- Forecasters expect repo rate to go up further in the second half of current financial year to 9 per cent. Forecasters also expect CRR to be at 9 per cent in the remaining quarters of 2008-09.

Forecasts on prices:

- Forecasters' median estimates for WPI inflation on a year over year basis in the third and fourth quarters of 2008-09 are revised upwards to be 12.3 and 9.7 per cent respectively. Inflation is expected to come down moderately in the first half of 2009-10. The inflation based on CPI-IW in the last two quarters of 2008-09 is forecast at 8.8 per cent and 8.5 per cent, revised downwards from earlier forecasts of 10.5 and 9 per cent respectively.

- The forecasters were asked to assign the probabilities to the possibility that fourth quarter over fourth quarter WPI inflation will fall into various growth ranges. The probabilities for 2008-09 are changed from those assigned in the survey three months ago. They see 24.2 per cent chance that WPI inflation will fall in the range 8-8.9 per cent in 2008-09. However, they expect it to come down to 5-5.9 per cent in 2009-10. The chart 2 below shows mean probability pattern of WPI forecasts.



Long Term Forecasts:

- Long term forecasts for real GDP for the next five years is forecast at 8.0 per cent which is same as in last survey. For the next ten years, the GDP is expected to grow at 8.1 per cent, revised downwards from 8.5 per cent in the last survey (tables A.7 and A.8).

Over the next five years, the forecasters expect WPI inflation to be 6 per cent, which is same as in last survey. CPI-IW inflation has also been revised downwards to 5.9 per cent. Over the next ten years, both WPI and CPI-IW based inflation are expected to be 5 per cent.

Table A.1		Annual Forecasts for 2008-09				Actuals for 2007-08
Key Macroeconomic Indicators		Mean	Median	Max	Min	
1	Real GDP growth rate at factor cost (in per cent)	7.6	7.7	8.0	7.0	9.0 [@]
a	Agriculture & Allied Activities	3.1	3.0	5.0	2.0	4.5 [@]
b	Industry	7.0	7.0	8.0	5.5	8.1 [@]
c	Services	9.3	9.5	10.0	8.0	10.7 [@]
2	Private Final Consumption Expenditure (growth rate in per cent)	7.5	7.4	8.6	6.5	8.3 [@]
3	Gross Domestic Saving (per cent of GDP at current market price)	34.4	34.8	35.6	31.8	34.8*
	of which Private Corporate Sector	7.8	7.5	10.5	6.2	7.8*
4	Gross Domestic Capital Formation (per cent of GDP at current market price)	36.4	36.3	38.3	34.4	35.9*
5	Gross Fixed Capital Formation (per cent of GDP at current market price)	32.2	33.5	36.0	11.0	33.9 [@]
6	Money Supply (M3) (growth rate in per cent)	19.2	19.0	20.5	18.0	20.8
7	Bank Credit (growth rate in per cent)	21.3	22.0	24.0	18.0	22.3
8	Combined Gross Fiscal Deficit (per cent of GDP)	6.6	6.5	8.5	4.6	5.3
9	Central Govt. Fiscal Deficit (per cent of GDP)	3.8	3.5	6.2	2.5	2.8
10	Corporate profit after tax (growth rate in per cent)	19.5	18.0	26.0	15.0	26.2
11	Repo (end period)	9.0	9.0	9.5	7.0	7.75
12	Reverse Repo (end period)	6.0	6.0	6.5	5.5	6.0
13	CRR (end period)	8.9	9.0	9.5	7.0	7.5
14	USD/INR (RBI reference rate-end period)	44.6	44.3	47.0	42.0	39.97
15	T-Bill 91 days Yield (Weighted average cut-off yield)	8.4	8.4	9.0	7.8	7.09
16	10 year Govt. Securities Yield (per cent-average)	8.6	8.5	9.4	7.8	7.91
17	Overall Balance (in US \$ bn.)	17.4	12.4	34.7	9.0	
18	Export (in US \$ bn.)	188.4	189.3	200.6	180.0	158.5 [!]
	Export (growth rate in percent)	19.8	20.0	26.6	13.6	23.7
19	Import (in US \$ bn.)	313.7	315.2	335.5	270.0	248.5 [!]
	Import (Growth rate in percent)	27.6	27.2	35.0	14.7	29.9
20	Trade Balance (% of GDP)	-10.4	-10.0	-9.1	-12.7	
21	Invisible Balance (US \$ bn)	86.7	85.5	100.0	72.9	72.7 [!]
22	Current Account Balance (US \$ bn)	-39.4	-36.8	-24.1	-60.3	-17.4 [!]
23	Current Account Balance (% of GDP)	-2.9	-2.8	-1.8	-4.0	-1.5
24	Capital Account Balance (US \$ bn)	64.8	54.0	100.0	45.5	108 [!]
25	Capital Account Balance (% of GDP)	4.7	3.9	12.1	2.0	
* Figures pertain to 2006-07; @: Revised estimates, *: QE; !: Provisional						
Table A.2		Annual Forecasts for 2009-10				
Key Macroeconomic Indicators		Mean	Median	Max	Min	
1	Real GDP growth rate at factor cost (in per cent)	7.6	7.5	9.0	6.2	
a	Agriculture & Allied Activities	3.3	3.0	5.3	2.5	
b	Industry	7.1	7.2	9.0	5.5	
c	Services	9.2	9.2	12.1	7.0	
2	Private Final Consumption Expenditure (growth rate in per cent)	7.4	7.3	9.2	6.0	
3	Gross Domestic Saving (per cent of GDP at current market price)	34.4	35.0	36.9	30.0	
	of which Private Corporate Sector	7.6	7.4	10.8	6.0	
4	Gross Domestic Capital Formation (per cent of GDP at current market price)	36.3	36.3	39.0	32.9	
5	Gross Fixed Capital Formation (per cent of GDP at current market price)	33.4	33.3	37.0	30.0	
6	Money Supply (M3) (growth rate in per cent)	19.1	19.0	21.0	17.5	
7	Bank Credit (growth rate in per cent)	20.6	20.0	23.0	18.0	
8	Combined Gross Fiscal Deficit (per cent of GDP)	6.2	6.5	8.0	4.3	
9	Central Govt. Fiscal Deficit (per cent of GDP)	3.5	3.2	6.0	2.3	
10	Corporate profit after tax (growth rate in per cent)	18.7	18.5	26.7	12.0	
11	Repo (end period)	8.1	8.3	8.8	6.0	
12	Reverse Repo (end period)	5.9	6.0	6.5	5.0	
13	CRR (end period)	8.0	8.1	9.3	5.0	
14	USD/INR (RBI reference rate-end period)	42.6	42.5	46.0	40.0	
15	T-Bill 91 days Yield (per cent-end period)	7.9	8.0	8.7	6.5	
16	10 year Govt. Securities Yield (per cent-end period)	8.0	8.0	9.0	7.0	
17	Overall Balance (in US \$ bn.)	34.1	36.0	45.9	23.0	
18	Export (in US \$ bn.)	229.4	226.3	279.0	195.0	
	Export (growth rate in percent)	20.7	20.0	26.6	16.0	
19	Import (in US \$ bn.)	370.9	378.5	450.0	290.0	
	Import (Growth rate in percent)	20.7	18.7	35.0	13.2	
20	Trade Balance (% of GDP)	-9.5	-10.0	-7.0	-12.9	
21	Invisible Balance (US \$ bn.)	102.1	100.0	130.0	73.0	
22	Current Account Balance (US \$ bn)	-32.0	-31.9	-15.0	-60.0	
23	Current Account Balance (Growth in per cent)	-2.4	-2.5	-1.4	-5.0	
24	Capital Account Balance (US \$ bn)	76.2	72.0	120.0	50.0	
25	Capital Account Balance (Growth in per cent)	5.1	4.6	12.3	1.5	

Table A.3									
Quarterly Forecasts									
Key Macroeconomic Indicators	08-09: Q1	08-09:Q2				08-09:Q3			
	Actuals	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GDP growth rate at factor cost (per cent)	7.9	7.7	7.7	8.1	7.1	7.6	7.6	8.5	6.8
Agriculture & Allied Activities	3.0	2.9	3.0	3.7	2.0	2.6	2.5	3.4	1.7
Industry	5.2	6.5	6.9	7.2	4.8	6.8	6.9	8.5	4.6
Services	10.5	9.6	9.5	10.3	8.7	9.6	9.5	10.2	8.7
IIP growth rate (per cent)	5.2	6.5	6.7	7.1	4.9	6.8	6.8	8.5	4.5
Private Final Consumption Expenditure (growth rate in per cent)	8.0	7.7	7.5	11.0	6.4	7.6	7.4	11.0	5.5
Gross Domestic Capital Formation (per cent of GDP at current market price)		36.2	36.3	37.5	34.5	35.9	36.2	37.5	33.6
Gross Fixed Capital Formation (per cent of GDP at current market price)		33.6	33.0	36.9	32.4	32.9	33.5	33.9	31.1
Corporate profit after tax (growth rate in per cent)		17.4	17.4	25.0	10.0	17.3	17.5	20.0	14.0
USD/INR (RBI reference rate- end period)	42.95	45.7	46.0	47.0	43.0	45.6	45.5	48.0	43.1
Repo Rate (end period)	9.0	8.9	9.0	9.3	8.5	9.1	9.0	9.3	9.0
Reverse Repo Rate (end period)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
CRR (end period)	8.25	8.9	9.0	9.0	8.3	9.1	9.0	9.5	8.5
BSE INDEX (end period)	13462.0	13552.2	13461.0	14500.0	12500.0	13620.0	13100.0	16000.0	11500.0
Export (US \$ bn.)		46.9	46.0	50.8	44.0	47.5	46.7	52.7	45.0
Import (US \$ bn.)		76.5	78.4	80.0	69.6	79.3	80.5	90.0	73.0
Trade Balance (US \$ bn.)		-30.5	-31.0	-23.6	-36.0	-32.2	-31.0	-25.0	-44.0

Table A.3 (Contd.)

Key Macroeconomic Indicators	Quarterly Forecasts											
	08-09:Q4				09-10:Q1				09-10:Q2			
	Mean	Median	Max	Min	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GDP growth rate at factor cost (per cent)	7.5	7.6	8.5	6.2	7.5	7.5	8.3	6.6	7.7	7.8	8.6	7.0
Agriculture & Allied Activities	3.3	3.0	4.5	2.4	3.2	3.0	4.8	2.8	3.3	3.0	4.8	2.8
Industry	7.0	7.5	8.1	4.7	7.1	7.3	8.6	5.2	7.1	7.0	8.3	5.4
Services	9.3	9.3	10.6	8.0	9.4	9.4	10.8	8.0	9.4	9.5	11.0	8.0
IIP growth rate (per cent)	7.1	7.4	8.5	4.9	7.4	7.6	8.6	5.2	7.2	7.2	8.0	5.6
Private Final Consumption Expenditure (%growth)	7.8	7.7	10.5	6.5	7.5	7.6	10.5	5.5	7.2	7.3	8.3	5.5
Gross Domestic Capital Formation (% of GDP at current market price)	36.0	36.0	37.9	33.9	36.7	36.0	40.3	34.3	36.8	35.8	40.5	35.0
Gross Fixed Capital Formation (% of GDP at current market price)	33.2	33.9	34.6	31.2	32.9	33.7	35.0	30.0	34.3	33.8	37.8	31.4
Corporate profit after tax (growth rate in per cent)	16.4	17.8	20.0	10.0	16.5	18.0	20.0	10.0	20.7	19.0	25.0	18.0
USD/INR (RBI reference rate- end period)	45.0	44.6	47.5	43.0	44.0	43.8	45.8	42.0	43.0	43.0	45.0	42.0
Repo Rate (end period)	9.0	9.0	9.5	8.5	8.8	9.0	9.5	8.5	8.5	8.5	9.0	8.0
Reverse Repo Rate (end period)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.5	6.0	6.0	6.5	5.5
CRR (end period)	9.1	9.0	9.5	8.5	8.8	8.9	9.5	8.0	8.6	8.5	9.3	8.0
BSE INDEX (end period)	13720.0	13000.0	17000.0	10500.0	15412.5	15825.0	18500.0	11500.0	18266.7	17800.0	20000.0	17000.0
Export (US \$ bn.)	51.6	53.0	55.0	45.0	51.8	51.8	55.0	49.0	54.9	55.2	60.8	46.0
Import (US \$ bn.)	81.2	80.7	90.1	75.0	85.7	85.0	95.3	79.9	86.8	86.0	102.3	75.0
Trade Balance (US \$ bn.)	-29.7	-29.0	-24.0	-36.9	-33.6	-32.0	-27.0	-41.7	-31.9	-30.4	-27.9	-41.5

	WPI				WPI-MP				CPI-IW			
	Mean	Median	Max	Min	Mean	Median	Max	Min	Mean	Median	Max	Min
Q3-08-09	12.2	12.3	13.0	11.4	11.2	11.0	15.0	9.4	9.1	8.8	10.9	7.0
Q4-08-09	9.6	9.7	11.8	7.5	8.9	8.4	13.0	6.8	8.5	8.5	10.4	6.5
Q1-09-10	7.3	6.7	10.5	4.5	6.9	6.3	12.0	3.8	7.3	7.0	9.2	5.5
Q2-09-10	5.2	5.5	6.2	3.0	5.1	5.0	6.5	4.5	6.4	6.8	7.0	5.5

Table A.5

Growth Range	Forecasts for 2008-09	Forecasts for 2009-10
11 per cent or more		
10.5 to 10.9 per cent		1.0
10 to 10.4 per cent		1.0
9.5 to 9.9 per cent	1.0	2.0
9 to 9.4 per cent	3.3	8.4
8.5 to 8.9 per cent	9.0	26.4
8 to 8.4 per cent	23.4	21.3
7.5 to 7.9 per cent	50.8	35.4
7 to 7.4 per cent	28.9	34.6
6.5 to 6.9 per cent	7.8	14.6
6 to 6.4 per cent	4.9	19.1
5.5 to 5.9 per cent	3.0	4.0
5.0 to 5.4 per cent	2.0	1.5
Below 5 per cent		1.0

Mean probabilities attached to possible outcomes of WPI		
Growth Range	Forecasts for 2008-09	Forecasts for 2009-10
14 per cent and above	0.1	
13 to 13.9 per cent	1.0	0.8
12 to 12.9 per cent	2.5	1.5
11 to 11.9 per cent	11.8	1.6
10 to 10.9 per cent	5.1	1.4
9 to 9.9 per cent	18.3	4.7
8 to 8.9 per cent	24.2	1.8
7 to 7.9 per cent	14.2	10.8
6 to 6.9 per cent	3.4	6.0
5 to 5.9 per cent	0.3	20.6
4 to 4.9 per cent		11.0
3 to 3.9 per cent		1.4
Below 3 per cent		0.4

Annual average percentage change over the next five years			
	Real GDP	WPI Inflation	CPI-IW Inflation
Minimum	7.5	4.5	4.5
Lower Quartile	7.9	5.5	5.5
Median	8.0	6.0	5.9
Upper Quartile	8.0	6.5	6.0
Maximum	8.8	7.2	6.5
S.D	0.3	0.7	0.6

Annual average percentage change over the next ten years			
	Real GDP	WPI Inflation	CPI-IW Inflation
Minimum	7.0	4.0	4.5
Lower Quartile	7.5	4.5	4.9
Median	8.1	5.0	5.0
Upper Quartile	8.5	5.3	5.2
Maximum	9.3	6.3	5.8
S.D	0.7	0.6	0.4