



**Economic Outlook Survey**

*May 2019*



**HIGHLIGHTS**

***GDP growth estimated at 6.5% for Q4 of 2018-19***

***Growth for 2019-20 projected at 7.1% and 7.2% for 2020-21***

* The latest round of FICCI’s Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 7.1%. The minimum and maximum growth estimate stood at 6.8% and 7.3% respectively for 2019-20. The survey was conducted during May 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 3.0% for 2019-20. Industry and services sector are expected to grow by 6.9% and 8.0% respectively during the year.
* Further, the quarterly median forecasts indicate a GDP growth of 6.5% in the fourth quarter of 2018-19. The official growth numbers for the fourth quarter will be released on May 31, 2019.
* The GDP growth projection for 2020-21 has been put at 7.2%.
* The median growth forecast for IIP has been put at 4.4% for 2019-20 by the participating economists, with a minimum and maximum range of 3.3% and 5.5% respectively.
* The outlook of participating economists on inflation remained moderate. WPI based inflation rate is projected at 3.1% in 2019-20, with a minimum and maximum range of 2.1% and 4.0% respectively. On the contrary, CPI based inflation has a median forecast of 4.0% for 2019-20, with a minimum and maximum range of 3.5% and 4.1% respectively.
* Concerns remain on external front with median current account deficit forecast pegged at 2.1% of GDP for 2019-20. Median export growth is pegged at 4.0% in 2019-20. Imports, on the other hand, are forecasted to grow at 3.8% in the same year.

***Views of economists on key topical issues***

**Views on India’s export performance in 2019-20**

* Participating economists unanimously felt less sanguine about the export sector’s outlook in the current year. Escalation in trade war tensions has clouded the global trade growth outlook. This is having an impact on overall world economic growth as well.
* The United States’ withdrawal of GSP benefits to India which are likely to come into effect from June 2019 have added to India’s concerns on the export front. Nonetheless, the duty benefits that arose out of this are USD 190 million, implying a minimal impact on India’s export sector.
* Economists felt that greater efforts will be needed in the current global environment to keep up with the current growth momentum.
* Economists were of the view that while greater trade protectionism can harm India’s export growth, it also creates opportunities from re-localization of trade flows. It was recommended that India must be proactive to spot and cease such opportunities to enhance its exports.
* India must focus on diversifying its export basket as well as markets to capture a greater share in world exports. Venturing into new markets in South East Asia, Central Asia, Central America and African subcontinent can help in dealing with the protectionist stance amongst advanced countries.
* In addition, India must relentlessly focus on improving its competitiveness especially in labour intensive sectors.
* Other measures such as ensuring adequate availability of affordable credit, timely refund of GST, providing incentives like interest subsidy to merchant exporters and provision of budgetary support for marketing and exports related infrastructure are some of the important steps that the government must consider.

**Developments in the international oil market**

* A majority of the participating economists believed that the United States’ decision to end waiver granted to countries amidst sanctions imposed on Iran is significant and will affect major oil importing countries including India.
* This becomes a major concern at a time when international prices of crude oil have been on the rise due to other factors such as supply constraints being undertaken by OPEC countries.
* To bridge the supply gap arising out of the discontinuation of waiver on Iran sanctions, India has been in talks with oil producers in other geographies including countries in the Middle East, Mexico and United Sates itself. Economists were of the view that such efforts to increase supply will neutralise any disruptions/ risks arising out of sanctions on Iran. Respondents universally agreed that better policy engagements with other oil suppliers can lead to undisrupted supplies of oil.
* Alongside, measures to curtail crude oil imports such as greater mix of ethanol in fuel and shifting to more renewable sources of energy will also help India reduce its oil imports, thus easing some pressure off the current account.
* However, participants unanimously felt that crude oil prices remain volatile and will continue to pose a risk to India’s macroeconomic stability.
* Also, greater efforts on the policy front to further improve ease of doing business are required to create a conducive environment for investments. Higher foreign direct as well as institutional investments will play a big role in easing the pressure on balance of payments and can be used to fund the deficits arising out of higher oil prices.

**Priorities for the new government**

* Respondents highlighted the distress in agrarian and rural economy as major concern areas. They were undivided on the need for checking the ongoing distress in the sectors through a more structured reform approach that relies on solid policy measures (covering production, warehousing, infrastructural needs, irrigation etc.) rather than the use of quick fix measures (like rolling out doles and farm loan waivers).
* Other major reasons cited for the slowdown were lack of consumption demand and subdued private investments. A majority of participants felt the need for a quick redressal of liquidity crunch and related persistent credit issues (such as high cost of credit, slowing household savings rate etc.) that are inhibiting growth of private investments. Furthermore, it was felt that quicker recapitalization of public sector banks is the need of hour.
* Economist mentioned that lack of jobs in the economy has been a major concern for the aspirational youth of the country. The government must, therefore, take all necessary steps to improve the situation on the jobs front and assist in creation of livelihood opportunities.
* Adhering to fiscal prudence was another major call of the participating economists from the new government. They suggested maintaining a healthy fiscal balance by increasing the tax base, reducing revenue expenditure while maintaining the capital expenditure needs of the country.
* According to the participants, other policy priorities for the new government must include comprehensive trade policies to counter protectionism from the developed world and reforming the factor markets. They also cited an enhanced role of the state government for carrying state level reforms given the federal nature of governance in India, especially in the factor markets.

**Survey Profile**

The present round of FICCI’s Economic Outlook Survey was conducted in the month of May 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 2019-20 and 2020-21 as well as for quarters Q4 (January-March) FY19 and Q1 (April-June) FY20.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their prognosis on India’s anticipated export performance in 2019. Views of economists were also sought on developments in the international oil market and its impact on India. Further, economists were also asked to share what according to them should be the top priorities of the new government at the center.

**Survey Results: Part A**

**Projections – Key Economic Parameters**

**National Accounts**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Annual (2020-21) | | | Annual (2019-20) | | | Q4 2018-19 | | | Q1 2019-20 | | |
| Growth (in %) | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** | **Median** | **Min** | **Max** |
| GDP@ market prices | 7.2 | 7.0 | 7.4 | 7.1 | 6.8 | 7.3 | 6.5 | 6.0 | 7.1 | 6.5 | 6.2 | 6.8 |
| GVA@ basic prices | 7.1 | 6.7 | 7.4 | 7.0 | 6.5 | 7.3 | 6.3 | 5.8 | 6.7 | 6.4 | 6.0 | 6.6 |
| Agriculture & Allied activities | 3.4 | 2.8 | 4.1 | 3.0 | 1.5 | 3.6 | 1.8 | 0.2 | 2.7 | 2.1 | 1.0 | 3.1 |
| Industry | 7.1 | 6.9 | 8.0 | 6.9 | 6.8 | 8.1 | 6.6 | 5.9 | 6.9 | 6.3 | 6.0 | 6.6 |
| Services | 8.1 | 7.5 | 8.4 | 8.0 | 7.3 | 8.3 | 7.6 | 6.9 | 8.1 | 7.5 | 6.7 | 7.8 |

**GDP growth at 2011-12 prices**

The latest round of FICCI’s Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 7.1 - this marks a downward revision of 0.4 percentage points from the growth estimate of 7.5% in the last survey. The minimum and maximum growth estimate stood at 6.8% and 7.3% respectively for 2019-20.

The median growth forecast for agriculture and allied activities has been put at 3.0% for 2019-20. Industry and services sector are expected to grow by 6.9% and 8.0% respectively during 2019-20.

The quarterly median forecasts indicate a GDP growth of 6.5% in the fourth quarter of 2018-19, with a minimum estimate of 6.0% and maximum estimate of 7.1%.

The ratio of Gross Fixed Capital Formation to GDP for 2019-20 has been estimated at 31.0%.

**Index of Industrial Production (IIP)**

The median growth forecast for IIP has been put at 4.4% for 2019-20 by the participating economists, with a minimum and maximum range of 3.3% and 5.5% respectively.

The latest monthly IIP data has reported negative growth in industrial production. The index contracted by 0.1% in the month of March 2019 vis-à-vis 5.3% growth witnessed in the same month previous year.

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

WPI based inflation rate is projected at 3.1% in 2019-20, with a minimum and maximum range of 2.1% and 4.0% respectively. As per actual data, inflation levels continue to remain at moderate levels. The latest data on WPI reported inflation rate of 3.1% for the month of April 2019.

Further, CPI based inflation has a median forecast of 4.0% for 2019-20, with a minimum and maximum range of 3.5% and 4.1% respectively. Actual CPI inflation rate was reported at 2.9% for the month of April 2019. Further, CPI forecast for Q1 2019-20 has been put at 3.1% according to our survey results.

**Fiscal Deficit**

The median fiscal deficit to GDP ratio was put at 3.4% for the fiscal year 2019-20 with a minimum and maximum range of 3.3% and 3.6% respectively.

Fiscal deficit for 2019-20 has been budgeted at 3.4% as well.

2019-20f Forecast

**Money and Banking**

**End of 2019-20**

**End of Q1 2019-20**

**Repo Rate**

**External Sector**

Based on the responses of the participating economists, the median growth forecast for exports has been put at 4.0% for 2019-20 and for imports at 3.8%.

|  |  |  |
| --- | --- | --- |
| 2019-20 | Export | Import |
| USD billion | 347.0 | 532.0 |
| Growth (in %) | 4.0 | 3.8 |
| Q1 2019-20 |  |  |
| USD billion | 82.0 | 127.0 |

**Q1 2019-20**

**Q4 2018-19**

**CAD as % of GDP**

**2019-20**

**Survey Results: Part B**

**Views of the Economists**

**VIEWS ON INDIA’S EXPORT PERFORMANCE IN 2019-20**

In the wake of growing protectionism and economic uncertainty, the World Trade Organisation (WTO) has downwardly revised the global trade growth projection for the year 2019 to 2.6% from an earlier estimate of 3.7%. In addition, the decision of United States to withdraw Generalised System of Preferences (GSP) benefits to India has emerged as a fresh concern. Given this backdrop, economists were asked to share their prognosis about India’s exports performance in the current year and steps to deal with these developments in the external market.

Participating economists unanimously felt less sanguine about the export sector’s outlook for the current year. Escalation in trade war tensions has clouded the global trade growth outlook which is corroborated by a significant reduction in trade growth projections by WTO for the year 2019. This is impacting the overall world economic growth as well.

Apart from global concerns, United States’ withdrawal of GSP benefits to India, which will is likely to come into effect from June 2019, has added to the country’s woes on export front. Estimates indicate that India enjoyed duty free access to US markets for export of goods worth USD 5.6 billion. Further, the duty benefits that arise out of this is about USD 190 million only - implying a minimal impact on the India’s export sector.

While Indian products might see some substitution by cheaper alternatives, exporters need to be more cautious about the quality of the products. Maintaining quality will add value to the products and will help in overcoming any such concerns like the withdrawal of GSP.

Economists participating in the survey felt that greater efforts will be needed in the prevailing global environment to keep up with the growth momentum. Indian exports registered a growth of about 8.8% during 2018-19 exporting goods worth USD 331 billion. Economists were of the view that while greater trade protectionism can harm India’s export growth, it can also create opportunities from re-localization of trade flows. They recommended that India must be proactive to spot and cease opportunities to enhance its exports. India must focus on diversifying its export basket as well as markets to capture a greater share in world exports. Venturing into new markets in South East Asia, Central Asia, South Asia, Central America and African subcontinent can help in dealing with the persisting protectionist stance amongst advanced countries.

Other measures such as ensuring adequate availability of affordable credit, timely refund of GST, providing incentives like interest subsidy to merchant exporters and provision of budgetary support for marketing and exports related infrastructure are some important steps that the government must examine to give a thrust to Indian exports. India must also relentlessly focus on improving its competitiveness especially in labour intensive sectors such as textiles & apparels, leather & leather products, gems & jewellery, agriculture etc. A focussed approach by the government is needed to support and enhance exports from these industries.

**DEVELOPMENTS IN THE INTERNATIONAL OIL MARKET**

The US administration decided to end waivers granted to some countries for oil exports from Iran. This will have a bearing on India as Iran was one of its key sources for oil imports. Crude oil prices in the global market are already firming up and India needs to look for alternate sources to make up for the crude supplies sourced from Iran. Keeping this in mind, economists were asked to share their opinion on the developments in the international oil market and its impact on India’s macroeconomic fundamentals.

A majority of participating economists believed that United States decision to end waiver granted to countries amidst sanctions imposed on Iran is significant and will affect oil importing countries such as India, China, and Japan. Also, this becomes a major concern at a time when the international prices of crude oil have been on rise due to other factors such as supply constraints being undertaken by OPEC countries. India has been the second largest buyer of Iranian crude oil after China and supports about 10 percent of India’s oil requirements.

To bridge the supply gap arising out of discontinuation of waiver on Iran sanctions, India has been in talks with oil producers in other geographies including countries in the Middle East, Mexico and United Sates itself. India’s long-term suppliers like Saudi Arabia, United Arab Emirates and Kuwait have assured their support in meeting the supply gap.

In fact, economists were hopeful that these countries might pump in more oil at the old terms and conditions at behest of their diplomatic relations with India. Economists were of the view that such efforts to increase supply will neutralise any disruptions/ risks arising out of sanctions on Iran.

However, the participants unanimously felt that crude oil prices remain volatile and will continue to pose a risk to India’s macroeconomic stability through the ripple effect on trade deficit, current account deficit, inflation, Rupee exchange rate. A recent paper by Reserve Bank of India estimates that every USD 10/barrel increase in crude price shoots up the CAD/GDP ratio by 43 bps.

The respondents agreed that better policy engagements with other oil suppliers can lead to undisrupted supplies of oil. Alongside, measures to curtail crude oil imports such as greater mix of ethanol in fuel and shifting to more renewable sources of energy will also help India reduce its oil imports, thereby easing some pressure off the current account.

Also, greater efforts on the policy front to further improve ease of doing business are required to create a conducive environment for investments. Higher foreign direct as well as institutional investments will play a big role in easing the pressure on balance of payments and can be used to fund the deficits arising out of higher oil prices.

**PRIORITIES FOR THE NEW GOVERNMENT**

The people’s mandate in favour of the Modi led government reflects their hope to see a New India. Respondents to the survey have cited some major areas which require the new government’s immediate attention for India to restore its growth momentum.

India’s economic growth has taken a beating over the previous two quarters which can be corroborated by slowing GDP growth numbers. Respondents highlighted the distress in agrarian and rural economy as the major concern areas. They were unanimous on the need for correcting the ongoing distress in the sectors through a more structured reform approach that relies on solid policy measures (covering production, warehousing, infrastructural needs, irrigation etc.) rather than the use of quick fix measures (like rolling out doles and farm loan waivers).

A multi-tiered rural infrastructural development scheme with higher private sector representation was recommended by some of the participants. It was felt that structural measures would leave a permanent positive impact on farming community and would help in achieving the goal of doubling farmers’ incomes.

Other major reasons cited for the slowdown were lack of consumption demand and subdued private investments. A majority of participants felt the need for a quick redressal of the liquidity crunch and related persistent credit issues (such as high cost of credit, slowing household savings rate etc.) that are inhibiting growth of private investments. Economists highlighted that lending rates in the market are influenced by the fiscal overhang and called for the need to address this issue. Furthermore, it was felt that quicker recapitalization of public sector banks is the need of hour.

Participants emphasized that better economic growth would lead to greater generation of employment opportunities. Lack of jobs in the economy has been a major concern for the aspirational youth of the country. The government must, therefore, take all necessary steps to improve the situation on the jobs front and assist in creation of livelihood opportunities.

Additionally, the government must continue to create a more conducive environment and infuse confidence amongst investors for businesses to evolve. This will help in kick starting the growth cycle.

Adhering to fiscal prudence was another major call of the participating economists from the new government. They suggested maintaining a healthy fiscal balance by increasing the tax base, reducing revenue expenditure while maintaining the capital expenditure needs of the country. Some economists argued that a fiscal stimulus at this time to boost consumption will only weaken the medium-term growth outlook of the country.

Other policy priorities for the new government included comprehensive trade policies to counter protectionism from the developed world and reforming the factor markets. They also cited the need to enhance the role of state government for carrying state level reforms given the federal nature of governance in India, especially in the factor markets.

Finally, economists suggested enhancing India’s defence expenditure given the dire need of the defence forces to upgrade their equipment.

**Appendix**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Outlook  2019-20 | | | | Outlook  Q4 2018-19 | | | | Outlook  Q1 2019-20 | | | |
| Key Macroeconomic variables | **Mean** | **Median** | **Min** | **Max** | **Mean** | **Median** | **Min** | **Max** | **Mean** | **Median** | **Min** | **Max** |
| GDP growth rate at market prices (%) | 7.1 | 7.1 | 6.8 | 7.3 | 6.5 | 6.5 | 6.0 | 7.1 | 6.5 | 6.5 | 6.2 | 6.8 |
| GVA growth rate at basic prices(%) | 6.9 | 7.0 | 6.5 | 7.3 | 6.3 | 6.3 | 5.8 | 6.7 | 6.3 | 6.4 | 6.0 | 6.6 |
| *Agriculture & Allied* | 2.7 | 3.0 | 1.5 | 3.6 | 1.7 | 1.8 | 0.2 | 2.7 | 2.1 | 2.1 | 1.0 | 3.1 |
| *Industry* | 7.1 | 6.9 | 6.8 | 8.1 | 6.5 | 6.6 | 5.9 | 6.9 | 6.3 | 6.3 | 6.0 | 6.6 |
| *Services* | 7.8 | 8.0 | 7.3 | 8.3 | 7.5 | 7.6 | 6.9 | 8.1 | 7.4 | 7.5 | 6.7 | 7.8 |
| Gross Domestic Savings (% of GDP at market prices) | 30.7 | 31.0 | 30.0 | 31.0 | 31.3 | 31.3 | 30.5 | 32.0 | 30.8 | 30.8 | 30.5 | 31.0 |
| Gross Fixed Capital Formation (% of GDP at market prices) | 30.8 | 31.0 | 29.0 | 32.1 | 30.3 | 30.3 | 29.0 | 31.6 | 31.1 | 31.1 | 29.5 | 32.6 |
| Fiscal Deficit (as % to GDP) Centre | 3.4 | 3.4 | 3.3 | 3.6 | - | - | - | - | - | - | - | - |
| Growth in IIP (%) | 4.4 | 4.4 | 3.3 | 5.5 | 3.2 | 3.6 | 2.2 | 3.7 | 3.1 | 3.8 | 1.2 | 4.4 |
| WPI Inflation rate (%) | 3.0 | 3.1 | 2.1 | 4.0 | 3.3 | 3.1 | 2.9 | 4.3 | 2.8 | 2.9 | 2.2 | 3.2 |
| CPI combined new inflation rate (%) | 3.9 | 4.0 | 3.5 | 4.1 | 2.8 | 2.5 | 2.5 | 3.6 | 3.1 | 3.1 | 3.0 | 3.2 |
| Money supply growth M3 (%) (end period) | 11.0 | 11.0 | 10.8 | 11.3 | 10.4 | 10.4 | 10.2 | 10.5 | 11.0 | 11.0 | 10.8 | 11.2 |
| Bank credit growth (%) | 12.1 | 12.1 | 10.8 | 13.5 | 13.5 | 13.5 | 13.4 | 13.6 | 13.1 | 13.1 | 12.8 | 13.4 |
| Repo Rate (end period) | 6.0 | 6.0 | 6.0 | 6.0 | - | - | - | - | 6.0 | 6.0 | 6.0 | 6.0 |
| Merchandise Export |  |  |  |  |  |  |  |  |  |  |  |  |
| *Value in USD billion* | 328.6 | 347.0 | 245.0 | 361.2 | 85.7 | 85.6 | 85.6 | 86.0 | 83.9 | 82.0 | 81.8 | 88.0 |
| *Growth (%)* | 4.2 | 4.0 | 1.6 | 7.2 | - | - | - | - | - | - | - | - |
| Merchandise Import |  |  |  |  |  |  |  |  |  |  |  |  |
| *Value in USD billion* | 505.9 | 532.0 | 400.0 | 556.3 | 120.8 | 120.8 | 120.7 | 121.0 | 126.9 | 127.0 | 123.7 | 130.0 |
| *Growth (%)* | 3.0 | 3.8 | -0.7 | 5.4 | - | - | - | - | - | - | - | - |
| CAD as % of GDP at current price | 2.1 | 2.1 | 1.7 | 2.5 | 1.8 | 1.5 | 1.1 | 2.7 | 2.4 | 2.7 | 1.6 | 2.8 |
| US$ / INR exchange rate (end period) | 71.2 | 71.0 | 70.9 | 72.0 | 70.5 | 70.5 | 70.5 | 70.5 | 70.1 | 70.2 | 69.5 | 70.5 |

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

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