Economic Outlook Survey

October 2019

HIGHLIGHTS

GDP growth for 2019-20 projected at 6.4%
Growth estimated at 6.2% for Q2 of 2019-20

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 6.4%. The minimum and maximum growth estimate stood at 5.9% and 7.0% respectively for 2019-20. The survey was conducted during September/October 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 5.4% and 7.6% respectively during the year.
- The quarterly median forecasts indicate a GDP growth of 6.2% in the second quarter of 2019-20. The official growth numbers for the second quarter will be released in November 2019.
- The median growth forecast for IIP has been put at 5.0% for 2019-20 by the participating economists, with a minimum and maximum range of 2.8% and 5.1% respectively.
- The outlook of participating economists on inflation remains moderate. WPI based inflation rate is projected at 1.6% in 2019-20, with a minimum and maximum range of 1.5% and 2.2% respectively. On the contrary, CPI based inflation has a median forecast of 3.5% for 2019-20, with a minimum and maximum range of 3.2% and 4.0% respectively.
- The median current account deficit forecast is pegged at 2.1% of GDP for 2019-20.

Views of economists on key topical issues

Views on the nature of economic slowdown

- A majority of participating economists believe that the present slowdown in the economy is mostly on account of cyclical reasons.
- However, economists felt that this time the slowdown was prolonged due to introduction of various structural policy reforms (such as GST, RERA, IBC, Benami Law), liquidity crisis in the NBFC sector coupled with surplus stock in agriculture sector, slower wage and income growth and weaker consumer sentiments.
- Economists highlighted that sector specific regulatory changes have accentuated the current slowdown as the regulations have hit large employment generating sectors including the automobile, textiles & apparels sectors.
- In addition, exogeneous factors such as slowdown in global economic and trade growth on back of persisting trade protectionism has also impacted India's GDP growth.
- While the above factors have caused moderation in GDP growth over past few quarters, economists believed that the government's recent announcements to support growth will bear fruit in the near to medium term.
- Participating economists felt that in addition to countercyclical fiscal measures to improve the private investment cycle and savings rate in the country, structural reforms in the labour and land markets are necessary to support economic growth over the long term.

Top three risks facing the Indian economy

- Participating economists were undivided and cited weak consumption demand as the topmost risk facing an economy. Slowing demand has affected the investment sentiment and overall growth rate of the economy.
- Economists indicated low savings and investments as the second major risk to India's economic prosperity.
- Sluggish investments and manufacturing growth has caused layoffs and rise is unemployment was cited as the third most challenging factor facing the economy.

- On the external front, slowdown in advanced economies was indicated as a major concern by the survey respondents. Persisting trade tensions and lower foreign investments were also raised as concerns by some of the participants.
- Both, the Government as well as the Reserve Bank of India (RBI), are working together to identify and address the challenges facing the economy.
- The government has recently announced a slew of measures to arrest the slowdown while the RBI has cut repo rate by 135 bps in 2019 to bring down the cost of capital in the economy.
- Participating economists felt that most of the measures announced till now majorly address the supply side problems and therefore have not been as effective in reviving GDP growth. Weak demand is not only restricted domestically, but is also being felt around the world. Therefore, addressing just the supply side constraints would not lead to a revival in economic growth in a significant way. India is largely a consumption economy and more measures are needed to boost demand conditions in the economy.
- Apart from providing cheaper loans, efforts must be made to increase incomes, especially in the rural areas by reviving agriculture growth and exports.
- Furthermore, cost of capital needs to be brought down to a level wherein making fresh investments become lucrative for investors. Economists opined that a combination of lower interest rates, lower corporate tax rates and reduction in the relative price of intermediate capital goods can be helpful in bringing down the overall costs on investments in the country.
- On the fiscal policy side, participating economists felt that tax reforms must be taken up on priority.
- Furthermore, economists were of the view that a robust financial system was a prerequisite for a dynamic economy.
- Survey respondents also recommended augmenting public expenditure on social sectors such as education and healthcare as it will improve the state of our human development and their productive capacity.

Opinion on new monetary policy transmission mechanism

- Respondents to the survey unanimously agreed that the fresh mandate by the RBI to link new retail loans to an external benchmark will lead to better transmission of monetary policy changes.
- Economists highlighted that the new process will not only ease tracking lending rates by borrowers, but will also bring in greater transparency.
- Linking retail loans to external benchmarks could help aid economic recovery as it would enable a quicker pickup in investment and consumption demand as lending rates fall.
- Commenting on the impact of new policy on banks' balance sheet, participating economists felt that the move should not have any immediate threat to banks' balance sheets provided that banks are able to strike the right balance in their deposit and lending rates.
- While some of the participants felt that the impact on banks will be marginal, others believed that the move would undoubtedly hurt bank margins. It was argued that banks significantly rely on long term deposits for raising liabilities. Since only a small portion of deposits get re-priced in the short term (about 25% of total deposits), re-pricing loans in short term intervals would hurt bank margins.
- Economists suggested that to mitigate the impact of a faster reset of loan rates, banks should create a portfolio of deposits and loans with a balanced mix across tenors to ensure that overall asset-liability gaps are well managed.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of September/October 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 year 2019-20 and for the quarters Q2 (July-September) and Q3 (October-December) of FY20.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their prognosis on the nature of India's current economic downturn. Views of economists were also sought on the top three risks facing the Indian economy and ways to reverse the current downturn in GDP growth. Further, economists were also asked to share their opinion on the impact of new monetary policy transmission mechanism mandated by the RBI to link all their fresh retail loans to an external benchmark.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

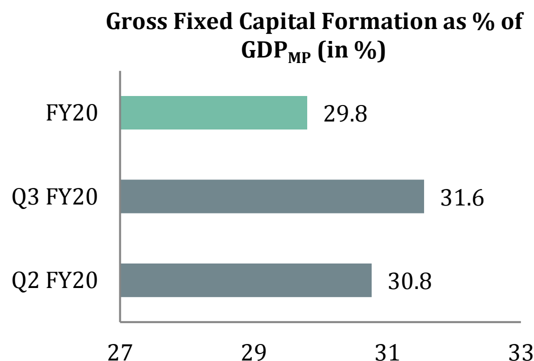
GDP growth at 2011-12 prices

	Annual (2019-20)			Q2 2019-20			Q3 2019-20		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	6.4	5.9	7.0	6.2	5.4	6.6	6.6	5.9	7.1
GVA@ basic prices	6.2	5.7	6.6	6.1	5.2	6.6	6.6	5.7	7.0
Agriculture & Allied activities	3.0	2.4	4.4	2.0	1.5	3.0	3.3	2.6	3.5
Industry	5.4	3.6	7.0	4.1	3.0	6.3	6.0	3.5	6.5
Services	7.6	6.9	8.7	7.1	6.7	7.7	8.2	7.1	8.6

The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 6.4% - this marks a downward revision of 0.5 percentage points from the growth estimate of 6.9% reported in the last survey. The minimum and maximum growth estimate stood at 5.9% and 7.0% respectively for 2019-20.

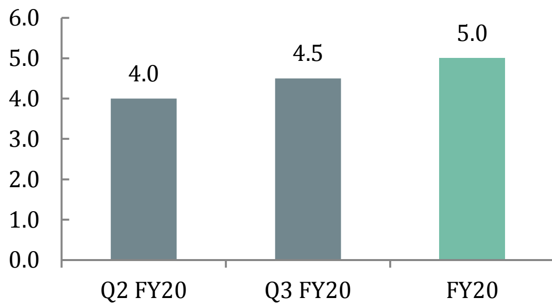
The median growth forecast for agriculture and allied activities has been put at 3.0% for 2019-20. Industry and services sector are expected to grow by 5.4% and 7.6% respectively during 2019-20 - a downward revision from the growth of 6.9% and 8.0% estimated for industry and services sector respectively in the previous survey.

The quarterly median forecasts indicate a GDP growth of 6.2% in the second quarter of 2019-20, with a minimum estimate of 5.4% and a maximum estimate of 6.6%.



The ratio of Gross Fixed Capital Formation to GDP for 2019-20 has been estimated at 29.8%.

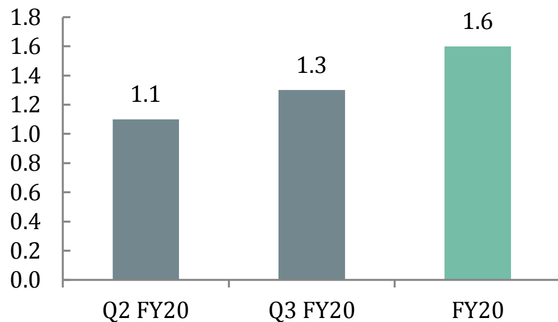
Index of Industrial Production (IIP)

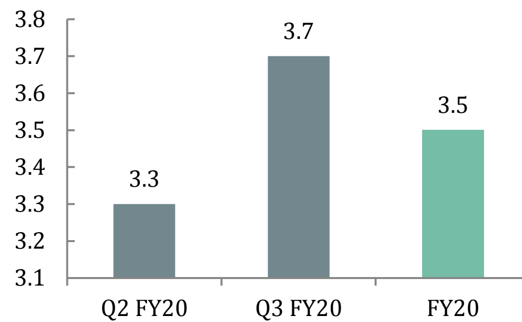


The participating economists have put forth a median growth forecast for IIP at 5.0% for the year 2019-20 - with a minimum and maximum range of 2.8% and 5.1% respectively.

The latest IIP data reported moderation in growth numbers. The index reported 2.5% growth during April-August 2019 vis-à-vis 5.3% growth witnessed over the same period last year. It is hoped that with the recent measures announced by government, there will be some recovery in growth going ahead.

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





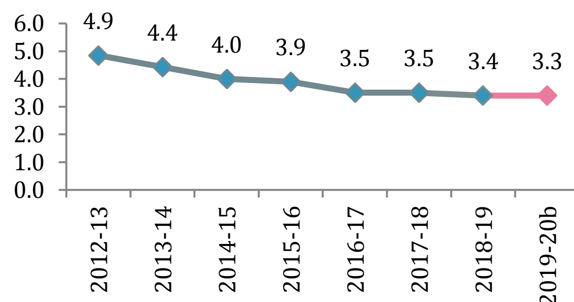
WPI based inflation rate is projected at 1.6% in 2019-20, with a minimum and maximum range of 1.5% and 2.2% respectively. As per actual data, inflation levels continue to remain at moderate levels. The latest data on WPI reported inflation rate of 1.8% over the cumulative period April-September 2019.

Further, CPI based inflation has a median forecast of 3.5% for 2019-20, with a minimum and maximum range of 3.2% and 4.0% respectively. Actual CPI inflation rate was reported at 3.3% over the cumulative period April-September 2019. Further, CPI forecast for Q3 2019-20 has been put at 3.7% according to our survey results.

Fiscal Deficit

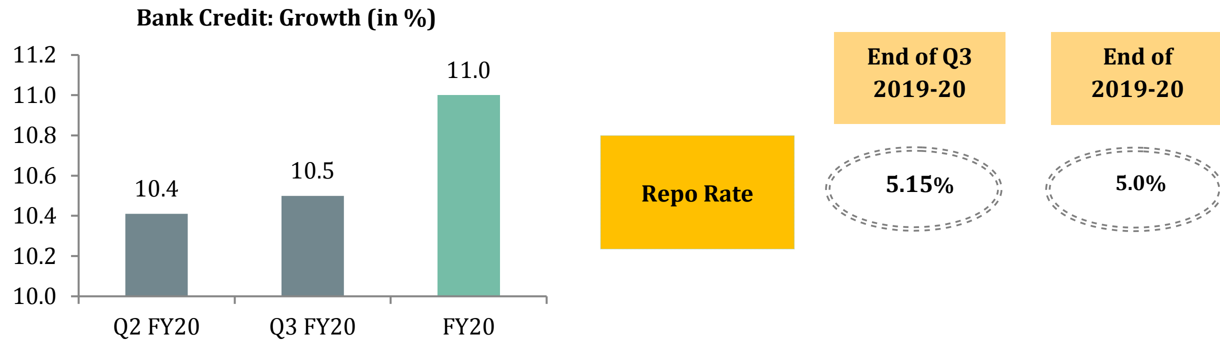
The median fiscal deficit to GDP ratio was put at 3.6% for the fiscal year 2019-20 with a minimum and maximum range of 3.1% and 4.0% respectively.

Fiscal deficit for 2019-20 has been budgeted at 3.3%.



2019-20b Budgeted

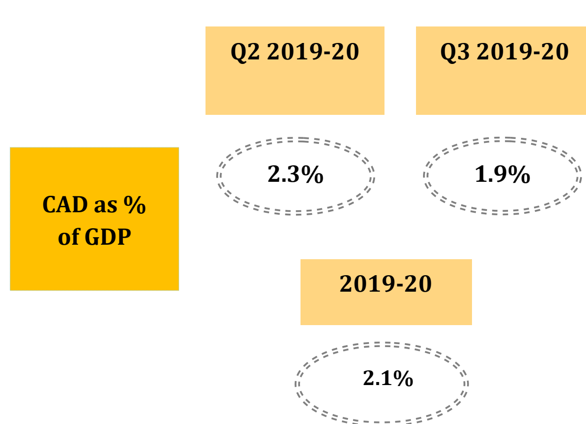
Money and Banking

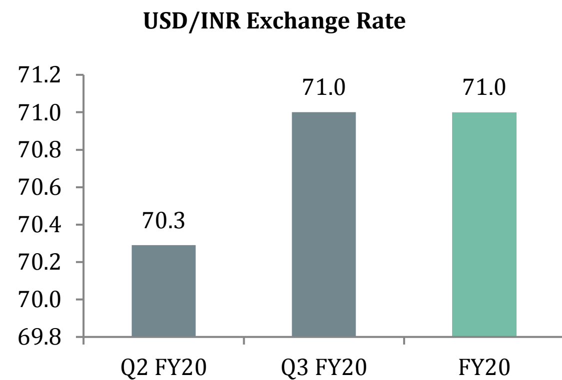


External Sector

2019-20	Export	Import
USD billion	343.0	512.7
Growth (in %)	2.2	0.6
Q3 2019-20		
USD billion	84.2	136.7
Growth (in %)	2.1	-1.7

Based on the responses of the participating economists, the median growth forecast for exports has been put at 2.2% for 2019-20 and for imports at 0.6%.





Survey Results: Part B
Views of the Economists

VIEWS ON THE NATURE OF CURRENT ECONOMIC SLOWDOWN

The Indian economy is going through a phase of slowdown with the latest GDP growth number for Q1 2019-20 being reported at a six year low of 5.0%. Lower consumption demand has led to cut in production activity as sales numbers reflect noticeable weakening. This is already impacting growth in the manufacturing sector. Keeping this in mind, economists were asked to share their opinion on the nature of the current slowdown in India's economy.

A majority of participating economists believed that the present slowdown in the economy is mostly on account of cyclical reasons and lesser due to structural issues. The Indian economy experiences similar events of slowdown every five to eight years and bounces to its potential trajectory within two to three quarters. Citing the 2011-2013 period as the most recent phase of economic slowdown when the impact on private consumption was particularly deep compared to the present times, economists stressed that the Indian economy revived without undertaking any specific structural measures.

However, economists felt that this time the slowdown was prolonged due to introduction of various structural policy reforms (such as GST, RERA, IBC, Benami Law), liquidity crisis in the NBFC sector coupled with surplus stock in agriculture sector, slower wage growth, and weaker consumer sentiments. Furthermore, the government's resolve to stick to fiscal consolidation with a cut back in spending during the 2019 general elections limited government's expenditure.

Economists also highlighted that sector specific regulatory changes have accentuated the current slowdown as the regulations have broadly hit large employment generating sectors including the automobile and textiles & apparels sectors. In addition, exogeneous factors such as slowdown in global economic and trade growth on the back of persisting trade protectionism has also impacted India's GDP growth. India's overall export share to GDP has taken a beating and stood at around 20.8% in 2018-19 as compared to 25.2% of GDP just about five years back.

While the above factors have caused moderation, economists believed that the government's recent announcements to support growth will bear fruit over the near to medium term. They are optimistic about the impact of various measures including liberalised FDI policy, reduction in corporate taxes, easier credit access to MSMEs, mergers of public sector banks, and measures to boost exports on the Indian economy in the medium to long term.

Furthermore, participating economists felt that in addition to countercyclical measures to improve the private investment cycle and savings rate in the country, structural reforms in the labour and land markets remain most critical to support economic growth over the long term. FICCI, too, has been advocating for addressing the long pending structural issues that are limiting India's economic growth.

The issue of land availability has been a major concern for industry for a long time. The Land Acquisition Act (Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013) though brought in with noble objectives, imposes some challenges for the industry. These relate to time delays, increased cost burden and some implementation related concerns.

To address these issues related to land availability, a specified task force should focus on land acquisition, land bank and land use policy to ensure availability of land across various sectors such as solar / renewable power installations, reforestation projects, agri and food processing zones, tourism, low cost worker housing, mineral blocks, infrastructure, etc. All States should be encouraged to accelerate digitisation of land records and amend their land laws aligned to their development requirements.

Also, with regard to labour and employment, there is a need to expedite the work on consolidation of labour laws into 4 Codes on (i) wages; (ii) industrial relations; (iii) social security and welfare; and (iv) safety and working conditions.

TOP THREE RISKS FACING THE INDIAN ECONOMY

With GDP growth taking a beating in the first quarter of 2019-20, participating economists were asked to share the top three risks facing the Indian economy in the coming twelve months and recommend additional measures to reverse the current downturn in GDP growth.

Participating economists were undivided and cited weak consumption demand as the topmost risk facing the economy. In fact, several important indicators including growth in automobile sales, retail loans, agricultural wages and non-oil imports continue to show signs of weakness. Slowing demand has affected the investment sentiment and overall growth rate of the economy.

Economists indicated low savings and investments as the second major risk to India's economic prosperity. Lower household savings and investments poses a serious challenge on the growth outlook and can affect the country's macroeconomic stability going ahead.

Sluggish investments and manufacturing growth has caused layoffs and rise in unemployment - which was cited as the third most challenging factor facing India's economy. Greater levels of unemployment will lead to further weakening in consumption demand leading to a vicious cycle of low growth. Some of the economists opined that fiscal austerity may also pose a risk in such times.

On the external front, slowdown in advanced economies was indicated as a major concern by the respondents of the survey. Persisting trade tensions and lower foreign investments were raised as concerns by some of the participants.

The Government as well as the Reserve Bank of India (RBI) have been closely watching the situation and both are working in tandem to identify and alleviate the challenges facing the economy. The government has recently announced a slew of measures including reduction in corporate taxes, easing the liquidity and cost of borrowing situation, easier credit access to MSMEs, support to exporters and consolidation of public sector banks to aid a slowing economy. On the other hand, RBI has cut repo rate by 135 bps in 2019 to bring down the cost of capital in the economy. While these measures are commendable, economists believe that more needs to be done to revive consumer sentiments, business sentiments and the overall economy.

Participating economists felt that most of the measures announced till now majorly address the supply side problems and are therefore have not be as effective in reviving GDP growth. Weak demand is not only restricted domestically, but is also being felt around the world. Therefore, addressing just the supply side constraints would not lead to a revival in economic growth in a significant way.

India is largely a consumption driven economy and more measures are needed to boost the demand. Apart from providing cheaper loans, efforts must be made to increase incomes, especially in the rural areas by reviving agriculture growth and exports. This will require a substantial increase in public spending in agriculture to make the sector more competitive and profitable.

Furthermore, cost of capital needs to be brought down to a level wherein making fresh investments becomes more lucrative for investors. Even a 135 bps cut in the repo rate has been unable to spur the investment cycle due to a low transmission rate. With inflation at benign levels, the RBI must continue with its accommodative stance and continue monetary easing as the real repo rate is still high.

Economists opined that a combination of lower interest rates, lower corporate tax rates and reduction in the relative price of intermediate capital goods can be helpful in bringing down the overall costs on investments in the country.

On the fiscal policy side, participating economists felt that tax reforms must be taken up on a priority. The government is fiscally constrained on the back of constitutional commitments to provide for public goods as well as run welfare schemes. This necessitates increasing revenues to undertake further expenditure activity, especially capital spending which has taken a hit in the current fiscal year. With a large unorganised sector and all of agricultural income out of the tax net, economists felt the need for undertaking some serious reforms on the taxation front. To increase revenue collection, economists recommend bringing agricultural income above a certain threshold into the tax ambit. This will also ease some pressure off the excessively taxed salaried class.

Furthermore, economists were of the view that a robust financial system was a prerequisite for a dynamic economy. They indicated the need for specialist financial agencies that could allocate capital efficiently. Such agencies, along with an active corporate bond market, must focus on funding large projects.

Commercial banks, on the other hand, must be let free to disburse loans to small and medium enterprises. Since MSMEs form a large chunk of the manufacturing space, their performance should be monitored closely. Timely measures must be put in place to ensure that the sector performs well as it holds great potential for employment generation. A poor performance will have a direct impact on the banking sector's lending capabilities as enhanced credit is disbursed to the such enterprises under priority sector lending norms.

Finally, respondents to the survey recommended augmenting public expenditure on social sectors such as education and healthcare as it will improve the state of human development in the country and improve their productive capacity. Investment in social overhead capitals is necessary at this juncture and it will also lead to enormous increases in employment opportunities in educational institutions, public hospitals and healthcare centres.

OPINION ON NEW MONETARY POLICY TRANSMISSION MECHANISM

The Reserve Bank of India has mandated banks to link all their fresh retail loans to an external benchmark from October 1, 2019 to improve the rate of transmission of monetary policy. The central bank proposed three external benchmarks for this purpose- policy repo rate, government of India's three months and six months treasury bills and other benchmark market interest rates published by Financial Benchmarks India Pvt. Ltd. (FBIL). Given this backdrop, economists were asked to share their prognosis on the impact the new policy announcement will have on transmission, economic recovery and banks' balance sheets.

Respondents to the survey unanimously agreed that the fresh mandate by the RBI to link new retail loans to an external benchmark will lead to better transmission of monetary policy changes. Economists highlighted that the new process will not only ease tracking lending rates by borrowers, but will also bring in greater transparency.

Currently, out of a total of 135 bps cut in the repo rate in 2019, only about 30 bps has been transmitted so far. Participating economists believed that since inflation has been well anchored, addressing slowdown in growth held greater significance and are therefore optimistic about continuation of an accommodative policy in near future as well. In this context, they felt that linking retail loans to external benchmarks could help in a faster economic recovery as it would enable a quicker pickup in investment and consumption demand as lending rates fall. However, economists cautioned of being mindful in calibrating the monetary policy decisions and its consequences when the current cuts in interest rates bottoms out and the repo rate cycle turns upwards.

Commenting on the impact of the new policy on banks' balance sheet, participating economists highlighted that the new rule applied only for fresh loans in the personal, home and MSMEs segment. Other customers of banks will remain in the MCLR based lending standards, thus reducing the impact of the move on the balance sheet of banks. While some of the participants felt that the impact on banks will be marginal, others believed that the move would undoubtedly hurt bank margins. They argued that banks significantly rely on long term deposits for raising liabilities. Since only a small portion of deposits get re-priced in the short term (about 25% of total deposits), re-pricing loans in short term intervals would hurt bank margins. In addition,

they cautioned that while most loans, especially retail credit, tend to be floating rates (not adequately captured by benchmarks), lack of flexibility to lenders in setting their own rates could lead to interest rate risks.

Economists suggested that to mitigate the impact of a faster reset of loan rates, banks should create a portfolio of deposits and loans with a balanced mix across tenors to ensure that overall asset-liability gaps are well managed. This would enable banks to reduce liquidity mismatches and reduce volatility in earnings.

In addition, the recent cut in corporate tax rates have reduced taxes on banks' profits as well, leaving them with additional money to minimize the impact of linking retail loans to external benchmarks. Overall, participants of the survey felt that the move should not have any immediate threat to banks' balance sheets provided that banks are able to strike the right balance in their deposit and lending rates.

Appendix

	Outlook 2019-20				Outlook Q2 2019-20				Outlook Q3 2019-20			
Key Macroeconomic variables	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**	**Mean**	**Median**	**Min**	**Max**
GDP growth rate at market prices (%)	6.4	6.4	5.9	7.0	6.1	6.2	5.4	6.6	6.6	6.6	5.9	7.1
GVA growth rate at basic prices (%)	6.2	6.2	5.7	6.6	5.9	6.1	5.2	6.6	6.5	6.6	5.7	7.0
Agriculture & Allied	3.1	3.0	2.4	4.4	2.1	2.0	1.5	3.0	3.1	3.3	2.6	3.5
Industry	5.4	5.4	3.6	7.0	4.6	4.1	3.0	6.3	5.3	6.0	3.5	6.5
Services	7.7	7.6	6.9	8.7	7.1	7.1	6.7	7.7	8.0	8.2	7.1	8.6
Gross Domestic Savings (% of GDP at market prices)	29.4	29.4	29.0	30.0	-	-	-	-	-	-	-	-
Gross Fixed Capital Formation (% of GDP at market prices)	30.4	29.8	29.5	32.4	30.8	30.8	29.0	32.5	31.6	31.6	29.5	33.6
Fiscal Deficit (as % to GDP) Centre	3.6	3.6	3.1	4.0	-	-	-	-	-	-	-	-
Growth in IIP (%)	4.3	5.0	2.8	5.1	3.7	4.0	2.9	4.3	3.9	4.5	2.4	4.7
WPI Inflation rate (%)	1.7	1.6	1.5	2.2	1.4	1.1	0.9	2.3	1.4	1.3	0.8	2.5
CPI combined new inflation rate (%)	3.6	3.5	3.2	4.0	3.3	3.3	3.2	3.5	3.6	3.7	3.1	4.1
Money supply growth M3 (%) (end period)	10.4	10.3	10.3	10.5	10.1	10.1	9.9	10.3	10.4	10.3	10.2	10.6
Bank credit growth (%)	11.2	11.0	10.4	12.4	10.8	10.4	10.3	11.7	10.8	10.5	10.1	11.9

Repo Rate (end period)	5.0	5.0	4.75	5.15	-	-	-	-	5.15	5.15	5.0	5.15
Merchandise Export												
Value in USD billion	336.0	343.0	315.8	353.0	82.7	82.7	80.0	85.4	84.2	84.2	81.0	87.5
Growth (%)	0.8	2.2	-6.3	5.4	1.4	1.5	-2.0	4.6	3.1	2.1	-1.5	8.8
Merchandise Import												
Value in USD billion	515.1	512.7	490.7	547.0	130.6	130.6	130.0	131.2	136.7	136.7	128.5	145.0
Growth (%)	0.4	0.6	-5.2	5.9	-4.3	-1.5	-10.3	-1.0	-0.1	-1.7	-3.5	5.0
CAD as % of GDP at current price	2.2	2.1	1.4	2.8	2.2	2.3	1.7	2.7	1.9	1.9	1.2	2.7
US$ / INR exchange rate (end period)	70.7	71.0	69.6	71.5	70.1	70.3	69.0	71.2	70.8	71.0	69.0	72.5

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

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