Economic Outlook Survey

July 2020

HIGHLIGHTS

GDP growth estimated at (-) 14.2% for Q1 of 2020-21
Growth for 2020-21 projected at (-) 4.5%

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2020-21 at (-) 4.5%. The minimum and maximum growth estimate stood at (-) 6.4% and 1.5% respectively for 2020-21. There were already signs of an impending slowdown in the economy, which have been sharply accentuated by the pandemic induced lockdown.
- The spread of the Covid-19 pandemic has severely hit global as well as domestic growth. The World Bank in its latest report projected global GDP growth to contract by 5.2% during 2020, indicating the deepest global recession in decades.
- The median growth forecast for agriculture and allied activities has been put at 2.7% for 2020-21. Agriculture sector is the only sector with a silver lining right now. There is an apparent upside as far as the performance of monsoons is concerned this year. Also, the water reservoir levels in the country stand at good levels.
- However, industry and services sector are expected to contract by 11.4% and 2.8% respectively in 2020-21. Weak demand and subdued capacity utilization rates were already manifesting into a drag on investments and the pandemic has further extended the timeline for recovery.
- Even though activity in sectors like automobile, consumer durables, FMCG is gaining traction, majority of the companies are still operating at capacity utilization rates of less than 50%. Also, labour availability and feeble demand are cropping up as major issues for the companies.
- Therefore, fresh investments will be difficult to come by in the near to medium term. Also, a significant change in consumption patterns is expected on back of uncertainty with regard to jobs and income losses. Expenditure on non-essential goods is likely to remain under check for some time. In fact, the share of private final consumption expenditure in GDP has already reported a decline from 59.9% in Q3 FY20 to 55.9% in Q4 FY20.
- The quarterly median forecasts indicate GDP growth to contract by (-)14.2% in the first quarter of 2020-21. The official growth numbers for the first quarter will be released at the end of August 2020.
- Absence of demand stimulus, a second wave of the pandemic and continuation of social distancing and quarantining measures will weigh heavy on growth prospects. With demand and investment outlook muted, robust government expenditure has been the only saviour. Nonetheless, growth is likely to bottom out post the second quarter of current fiscal year.
- The median growth forecast for IIP has been put at (-) 11.5% for the year 2020-21 with a minimum and maximum range of (-) 15.3% and 1.0% respectively.
- The outlook of participating economists on inflation remains modest. WPI based inflation rate is projected at -0.3% in 2020-21, with a minimum and maximum range of (-) 1.5% and 2.5% respectively. On the other hand, CPI based inflation has a median forecast of 4.4% for 2020-21, with a minimum and maximum range of 3.3% and 6.0% respectively.
- The median growth forecast for exports has been put at (-) 16.0% and for imports at (-) 19.5% in 2020-21. The median current account balance forecast is pegged at (-) 0.3% of GDP for 2020-21.

Views of economists on key topical issues

Opinion on measures undertaken by the RBI and future strategies

- Participating economists unanimously believed that the RBI will undertake further cuts in the repo rate in order to minimize the economic shock and stabilize financial markets.
- However, a majority of the participants were also of the view that cutting interest rates would not pump economic growth as demand conditions remain subdued.
- Manufacturers are sitting on huge idle capacities and have scrapped/ deferred their capex plans for at least 12-18 months.
- Banks, on the other hand, remain risk averse and are more willing to park their funds with the RBI despite receiving lower returns from the reverse repo window.
- Participants felt that while RBI has been proactive in addressing liquidity constraints in the economy, most measures have not yielded expected results. A muted response to TLTRO 2.0, which was designed to help NBFCs was cited as an example.
- Economists stressed that lack of announcements to deal with the associated credit risk was the major reason behind the inefficient results of the scheme.
- Additionally, it was universally felt that (cumulative) measures till now have focussed mostly on easing supply side constraints while the demand side (which is a larger impediment to growth right now), remains broadly unaddressed.
- Additional Suggestions/ Expectations from the RBI include:
    - Announcements related to lending to specific sectors such as NBFC, tourism and aviation
    - A one-time loan restructuring could be brought in when visibility on cash flows, especially for MSMEs, improves
    - RBI should start supporting non-G-sec market by directly buying corporate papers. This should ease funding rates for lower credit rated borrowers.
    - Limits on lending via TLTRO schemes must be set to enable availability of greater proportion of funds towards non-AAA investment grade companies

Opinion on fiscal stimulus 2.0 and further measures required

- Participating economists were of the view that government measures in the stimulus 2.0 focussed broadly on saving lives and on undertaking deep structural reforms.
- However, on ground implementation and results will take a long time to work through in the current situation.
- Economists also stressed that India was unlikely to witness a sharp turnaround in economic growth given the limited fiscal support extended till now.
- Participating economists highlighted that the measures announced till now have focussed largely on addressing supply side constraints with negligible support towards creation of demand.
- They strongly felt that the package could provide more measures to boost demand conditions in the economy as reviving demand should currently hold greater importance.
- Therefore, a need for undertaking direct income transfers to the most vulnerable section of population and unemployed poor was felt by a majority of the participants.
- Apart from pure cash transfers, the government could also consider GST reductions especially in the non essential goods segment which has the potential to drive demand.
- Furthermore, some sort of tax waivers could also be undertaken for low income groups.
- Alongside, sector specific measures could also support recovery in a big way. Sectors with high backward and forward linkages such as automobile, construction etc. could be revived without incurring much fiscal strain.
- While listing the above measures, a majority of the economists felt that it was prudent on the part of the government to announce fiscal measures in tranches as and when the situation demanded rather than delivering it all at once.
- The government has time and again demonstrated its willingness and intent to undertake whatever support is required to pump prime the economy which is encouraging.

Opinion on current times being an opportunity for India to leverage foreign investments

- While participating economists were undivided on acknowledging a shift in global supply chains out of China, views about India benefitting from the same were disparate.
- Economists believed that India, at present, is poorly integrated with global supply chains. Several constraints still persist on the ease of doing business front as well as infrastructure facilities.
- Even though labour costs in India are lower as compared to peers, higher logistics and input costs, binding and cumbersome regulatory compliances, labour and land laws etc. pose as major barriers for potential foreign investors.
- The covid pandemic has been a massive blow to the global economy and companies, thereby crippling their ability to spend and tinker with existing supply chains.
- Participating economists suggested that while India was unable to benefit from the opportunities opened by the Sino-US trade war, it must seize the opportunity presented this time.
- For India to benefit from this transition, increasing competitiveness would be the only way forward.
- Efforts towards liberalization of FDI policy must be complemented with improving infrastructure and ease of doing business in the country.
- Well integrated infrastructure like large ports and highways that offer rapid customs clearance, as seen in China, is an important requirement.
- Furthermore, power and logistics costs in India are far higher than in ASEAN economies (India's main competitors in the Asian region) and focus on correcting this is the need of the hour.
- Additionally, India urgently needs to reform its factor markets, most importantly laws governing land and labour. The focus should remain on simplifying laws surrounding these critical areas of production.
- India's huge domestic market as compared to its peers is an asset and a major attraction for potential investors.
- On ground implementation of ease of doing business along with well integrated infrastructure and easier dealings with factor markets will ensure rapid investments inflow in the country, boosting India's potential growth trajectory in the medium to long run.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of June 2020 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 2020-21 and for the quarters Q1 (April-June) and Q2 (July-September) of FY21.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their suggestions on further measures that RBI may consider to address liquidity concerns. In light of the slew of measures announced, opinion of the economists was also sought on the Rs. 20 trillion fiscal stimulus package announced by the government. Further, given the probability of a shift in global supply chains and geo-politics, economists were asked to share their views on measures required to give an impetus to foreign investment inflows in the country.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2020-21			Q1 FY21			Q2 FY21		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	-4.5	-6.4	1.5	-14.2	-25.0	-7.4	-6.0	-9.4	1.5
GVA@ basic prices	-4.3	-6.3	-2.2	-14.1	-25.3	-7.2	-6.1	-9.4	-2.3
Agriculture & Allied activities	2.7	-0.8	4.0	3.5	2.3	5.0	2.6	2.5	4.0
Industry	-11.4	-14.4	-2.3	-23.1	-50.0	-4.5	-13.6	-18.6	-1.6
Services	-2.8	-4.5	0.1	-13.3	-18.8	-7.4	-5.2	-7.3	0.8

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2020-21 at (-) 4.5%** - with a minimum and maximum growth estimate of (-) 6.4% and 1.5% respectively for 2020-21.

With the rapid spread of Covid-19 pandemic manifesting into an economic and health care crisis globally, the latest forecast marks a sharp downward revision from the growth estimate of 5.5% reported in the January 2020 survey round.

With lockdowns and social distancing being the only ways to control the pandemic, global as well as domestic economic activity has been severely hit. In fact, the World Bank in its latest Global Economic Prospects report forecasts global GDP growth to contract by 5.2% during 2020 – pointing to a deepest global recession in decades.

The median growth forecast for agriculture and allied activities has been put at 2.7% for 2020-21. Agriculture sector is the only sector for which overall prospects for the current fiscal year seem conducive – unless a significant wave of the pandemic gets hold in the rural areas. There is an apparent upside as far as the performance of monsoons is concerned this year. Also, the water reservoir levels in the country stand at good levels. Furthermore, food-grain production has been at record high. Besides, there has been a significant focus of Stimulus 2.0 on the agriculture sector and the focus has clearly been on bridging the existing gaps while creating the potential for new opportunities.

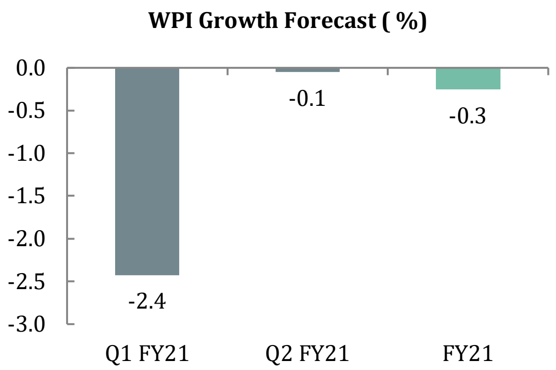
Industry and services sector, on the other hand, are expected to contract sharply by 11.4% and 2.8% respectively during the year.

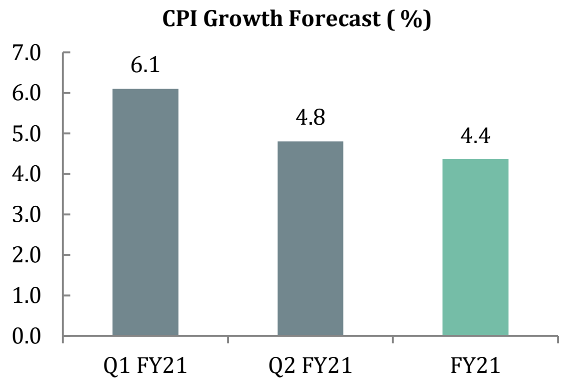
With the calibrated opening of the economy reports do indicate a pickup in production activity in sectors like automobile, electronics, consumer appliances etc, however most of them are working at a capacity utilization rate of under 50 percent and operational challenges continue to remain at fore. Also, though some instances of export inquiries have been reported from US and Europe lately by some companies the situation on the trade horizon is not very encouraging. In addition, a majority of the labour has been migrating and availability of labour is becoming a major concern for enterprises.

Moreover, even if things ease out on the supply side, demand will continue to pose a challenge for a longer duration given the employment and income shock.

The quarterly median forecasts indicate GDP growth to contract by (-) 14.2% in the first quarter of 2020-21, with a minimum estimate of (-) 25.0% and a maximum estimate of (-) 7.4%.

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





WPI based inflation rate is projected (-) 0.3% in 2020-21, with a minimum and maximum range of (-) 1.5% and 2.5% respectively. As per actual data, inflation levels continue to remain at low levels. The latest data on WPI reported deflation to the tune of 3.2% for the month of May 2020 on back of sharp decline in fuel prices and prices of manufactured products.

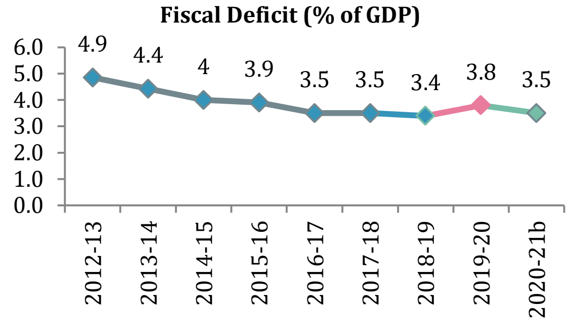
Further, **CPI based inflation has a median forecast of 4.4% for 2020-21,** with a minimum and maximum range of 3.3% and 6.0% respectively. The range is within the RBI's indicative trajectory for inflation.

Trend in wholesale and retail prices have been clearly divergent since the lockdown was imposed in the country indicating increased prices at the retail level given demand supply dynamics. Severe supply constraints during the initial days of the lockdown did have a crippling effect on the retail segments.

Fiscal Deficit

The median **fiscal deficit to GDP ratio was put at 6.9% for the fiscal year 2020-21** with a minimum and maximum range of 5.8% and 8.5% respectively.

Fiscal deficit for 2020-21 was budgeted at 3.5% earlier this year. A slippage is widely anticipated given the measures announced by the government to ease out the current pandemic led crisis situation.



2019-20: Revised; 2020-21 Budgeted

Index of Industrial Production (IIP)

The participating economists have put forth a median growth forecast for IIP at (-) 11.5% for the year 2020-21- with a minimum and maximum range of (-) 15.3% and 1.0% respectively.

The latest IIP data reported steep contraction in growth numbers. The index contracted by 55.5% in April 2020 – which was lower than a decline of 18.3% posted in March, 2020.

The median growth forecast for quarter1 of 2020-21 is (-) 30.5 percent.

Money and Banking

Bank credit is forecasted to grow by 6.5% in 2020-21 with a minimum and maximum range of 5.0% and 7.3% respectively.

	End of Q2 2020-21	End of 2020-21
Repo Rate	**3.75%**	**3.50%**

External Sector

2020-21	Export	Import
USD billion	280	389.7
Growth (in %)	-16.0	-19.5

Based on the responses of the participating economists, the **median growth forecast for exports has been put at (-) 16.0% and for imports at (-) 19.5% in 2020-21**.

	2020-21
CAD as % of GDP	**-0.3%**

Survey Results: Part B
Views of the Economists

OPINION ON FURTHER MEASURES THAT CAN BE UNDERTAKEN BY THE RESERVE BANK OF INDIA

With CoVid-19 pandemic posing a grave economic challenge, the Reserve Bank of India (RBI) preponed its Monetary Policy announcement for the second time in May 2020. The central bank has cumulatively announced a repo rate cut of 115 bps since the country went into a state of lockdown. Given this backdrop, economists were asked to share their suggestions on further monetary policy actions that can be undertaken by the Central Bank to ease out the situation. Additionally, views were also sought on measures required to get the liquidity flowing into the system.

Participating economists unanimously believed that the RBI will undertake further cuts in the repo rate going forward to minimize the economic shock and stabilize financial markets. The potential and extent of the rate cut would depend on the ground situation - as a longer closure/ distortion would entail a steeper economic contraction and possibly a bigger rate cut.

However, a majority of the participants were also of the view that cutting interest rates would not pump economic growth given that the demand conditions have remained subdued from even before the covid pandemic struck the economy. Manufacturers are sitting on huge idle capacities (RBI's December 2019 capacity utilization data showcased a lower utilization rate of 68%) and have scrapped/ deferred their capex plans for at least 12-18 months. With almost no impact on lending, further rate cuts would only steepen the yield curve in a situation of obscure fiscal conditions, economists opined.

Economists felt that banks, on the other hand, remained risk averse. Data shows that bank lending has decreased by about Rs. 1.3 lakh crore during March 27, 2020 and June 19, 2020. Banks are more willing to park their funds with the RBI despite receiving lower returns from the reverse repo window. Banks parked approximately Rs. 5.3 lakh crores (reverse repo-average daily turnover) in June 2020 as compared to only Rs. 22,571.45 crore in the corresponding period previous year.

Participants said that while the RBI has been proactive in addressing liquidity constraints in the economy, most measures have not yielded expected results. A muted response to TLTRO 2.0, which was designed to help NBFCs, is one example. The scheme has only benefitted AAA rated companies, while many NBFCs and in turn MSMEs have been left out. Economists stressed that lack of announcements to deal with the associated credit risk was the major reason behind the inefficient results of the scheme. Businesses, especially smaller ones, will continue to face challenges in some form or another even though the country is now in an 'Unlock' phase.

Additionally, it was universally felt that (cumulative) measures till now have mostly focussed on easing supply side constraints while the demand side (which is a larger impediment to growth right now), remains broadly unattended. It is essential that measures to support demand are announced sooner rather than later.

Additional Suggestions/ Expectations from the RBI

- Announcements related to lending to specific sectors such as NBFC, tourism and aviation are the need of the hour
- A one-time loan restructuring could be brought in when visibility on cash flows, especially for MSMEs, improves
- Widen the policy corridor further by reducing Reverse repo rate more aggressively
- Further increase the refinancing window for SIDBI/NHB/NABARD to facilitate lending to low rated companies. The government's guarantees announced recently would help with associated credit risks this time around.
- RBI should also relax end use restrictions for refinancing facilities of NABARD, SIDBI and NHB.

- Given that these are extraordinary times, the RBI should start supporting non-G-sec market by directly buying corporate papers. This should ease funding rates for lower credit rated borrowers.
- Limits on lending via TLTRO schemes must be set to enable availability of greater proportion of funds towards non-AAA investment grade companies

OPINION ON FISCAL STIMULUS 2.0 AND FURTHER MEASURES REQUIRED

The government announced second round of fiscal stimulus in mid May 2020 (which was an extension of the stimulus 1.0) offering further support to MSMEs, farmers, migrant workers etc. However, a slew of measures announced have already been provisioned for in the Union Budget 2020-21. Most of the additional cost to the government seems conditional which can be attributed to a large quasi-fiscal support. Keeping this in mind, economists were asked to share their views on the fiscal stimulus package 2.0 and any additional measures that can be undertaken.

Participating economists were of the view that government measures in Stimulus 2.0 focussed broadly on saving lives and on undertaking deep structural reforms. They, therefore, felt that while the quasi fiscal measures and structural reforms announced were undoubtedly steps in the right direction, on ground implementation and results will take a long time to work through in the present environment.

Economists also emphasized that India was unlikely to witness a sharp turnaround in economic growth given the limited fiscal support extended till now. A majority of the economists believed that the government could have undertaken a more aggressive fiscal stance than what has been announced in the two packages combined. A greater probability of sovereign rating downgrade and significant erosion in revenue collections hindered the government from announcing a larger package.

On the other hand, it is also important to note that the pandemic induced lockdown has deeply impacted both demand and supply sides of economic activity. Participating economists highlighted that the measures announced by both, RBI and the government, focussed largely on addressing supply side constraints with limited support for creation of demand. They strongly felt that the package could provide more measures to boost demand conditions in the economy. Reviving demand in the economy currently holds greater importance not only because India is broadly a consumption driven economy but also because investments driven growth is unlikely to gather momentum despite all the right measures as corporate India is reeling with excess idle capacity.

Therefore, a need for undertaking direct income transfers via Jan Dhan Accounts to the most vulnerable section of population and unemployed poor was felt by a majority of the participants. These accounts comprise both rural and urban poor, and given that rural poor are relatively better cushioned from the crisis owing to PM Kisan payments, crop procurements, MGNREGA and claims settled under PM Fasal Bima Yojana, it is the urban poor that need more attention.

Apart from pure cash transfers, the government could also consider GST reductions especially in the non-essential goods segment which has the potential to drive demand. Furthermore, some sort of tax waivers could also be undertaken for low income groups. Alongside, sector specific measures could also support recovery in a big way. Sectors with high backward and forward linkages such as automobile, construction, housing etc. could be revived without incurring fiscal strain. Steps such as announcing of vehicle scrappage policy coupled with cash rebates which could be funded by additional GST revenue flowing from higher production, providing sovereign guarantee on incomplete housing projects would be steps in the right direction.

In addition, some of the economists felt that while a lot of good steps were taken to support MSMEs, the government could also consider entering into a wage sharing agreement. This would not only help save livelihoods, but would also ensure a demand impetus in the economy.

Economists strongly believed that the government was cognizant of the prevailing demand situation of the country. They were hopeful that the government would announce steps soon to ensure maximum impact on demand.

While listing the above measures, a majority of the economists felt that it was prudent on the part of the government to announce fiscal measures in tranches as and when the situation demanded rather than delivering it all at once. The government has time and again demonstrated its willingness and intent to undertake whatever support is required to pump prime the economy which is very encouraging.

OPINION ON CURRENT TIMES BEING AN OPPORTUNITY FOR INDIA TO LEVERAGE FOREIGN INVESTMENTS

Apart from announcing a slew of measures to support the economy, the government is simultaneously focusing on leveraging the opportunity of attracting greater foreign investments in the country. The recent amendment in the FDI policy, the changes in the labour laws, creation of land banks are all steps in that direction. Given this, economists were asked to suggest ways with which India could best utilize the opportunity to expand its presence in the global value chains.

While participating economists were undivided on acknowledging a shift in global supply chains out of China, views about India benefitting from the same were disparate.

Economists believed that India, at present, is poorly integrated with global supply chains. Several constraints still persist on the ease of doing business front as well as infrastructure facilities. Even though labour costs in India are lower as compared to peers, higher logistics and input costs, binding and cumbersome regulatory compliances, labour and land laws etc. pose as major barriers for potential foreign investors.

In addition, the covid pandemic has dealt a massive blow to the global economy and companies, thereby crippling their ability to spend and tinker with existing supply chains. Moreover, China is already witnessing a faster turnaround from the pandemic induced economic and health problems than other countries. Some of the economists felt that this left little choice to the rest of the world but to continue with status quo for some time.

Some of the participating economists suggested that while India was unable to benefit from the opportunities opened by the Sino-US trade war, it must seize the opportunity presented this time. The world is increasingly looking to relocate their supply chains away from China.

For India to benefit from this transition, increasing competitiveness would be the only way forward. Efforts towards liberalization of FDI policy must be complemented with improving infrastructure and ease of doing business in the country. The former requires investing hugely in creating world class physical infrastructure. Well integrated infrastructure like large ports and highways that offer rapid customs clearance, as seen in China, is an important requirement. Furthermore, power and logistics costs in India are far higher than in ASEAN economies (India's main competitors in the Asian region) and focus on correcting this is the need of the hour. Simultaneously, assurance in terms of steady policy formulation and avoidance of flip-flops in government policies will be of essence in attracting investors.

Additionally, India urgently needs to reform its factor markets, most importantly laws governing land and labour issues. The focus should ideally be on simplifying laws surrounding these critical areas of production to ensure greater worker and capital productivity, thereby enhancing competitiveness of the final produce. India's huge domestic market as compared to its peers is an asset and a major attraction for potential investors. On ground implementation of easing regulatory hurdles and the business environment along with integrated infrastructure and easier dealings with factor markets will ensure rapid investments into the country and go a long way in boosting India's potential growth trajectory in the medium to long run.

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