Economic Outlook Survey

November 2020

HIGHLIGHTS

Growth for 2020-21 projected at (-) 10.5%
GDP growth estimated at (-) 12.2% for Q2 of 2020-21

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2020-21 at (-) 10.5%. The minimum and maximum growth estimate stood at (-) 12.3% and (-) 5.0% respectively for 2020-21
- The median growth forecast for agriculture and allied activities has been put at 3.5% for 2020-21. The rural economy looks resilient amidst the pandemic. Better kharif sowing, good monsoon season, improved soil moisture and healthy reservoir levels bode well for the rabi season as well
- However, industry and services sector are expected to contract sharply by 16.4% and 10.8% respectively during the year
- The quarterly median forecasts indicate GDP growth to contract by (-) 12.2% in the second quarter of 2020-21. The official growth numbers for the second quarter will be released end of November 2020.
- The median growth forecast for IIP has been put at (-) 11.1% for the year 2020-21 with a minimum and maximum range of (-) 11.3% and (-) 10.9% respectively
- The outlook of participating economists on inflation remains modest. WPI based inflation rate is projected to be flat in 2020-21. On the other hand, CPI based inflation has a median forecast of 5.8% for 2020-21, with a minimum and maximum range of 4.8% and 6.3% respectively
- The median fiscal deficit to GDP ratio has been put at 7.5% for the fiscal year 2020-21 with a minimum and maximum range of 6.5% and 10.0% respectively
- The median growth forecast for exports has been put at (-) 12.5% and for imports at (-) 21.5% in 2020-21. The median current account balance forecast is pegged at 1.1% of GDP for 2020-21

Views of economists on key topical issues

Suggestions on additional measures that can be undertaken by government/ RBI to support demand

- At present, containment of Covid-19 cases and utilization of all levers to accelerate recovery hold the key to address major issues facing the economy, including weak demand
- Given the situation, a majority of the participating economists said that direct cash transfers to the most vulnerable sections of the society is essential for making them more resilient. These people form a large proportion of consumption pyramid in the country
- In this context, some economists also suggested dispensation of universal basic income to partially compensate for any job/ income loss caused by the pandemic amongst the masses
- Apart from this, economists believed that more income must be left in the hands of the salaried individuals and therefore suggested 'one-time tax sops' to boost spending
- Furthermore, since the pandemic has adversely affected the urban areas and urban poor, participants to the survey suggested an Urban Employment Guarantee Program on the lines of MGNREGA
- Public investment in infrastructure must be the focus area of the government given the high employment elasticity associated with it. Investment ready projects that were stalled/ shelved must be reworked and revived
- In addition, sectors which continue to face the heat (aviation, restaurants, hotels, retail etc.), the government could come up with a scheme that guarantees bank loans of approximately 50% of the salaries of laid off employees (as declared in their ITR) which can be repaid once employment is restored. This could provide further support to consumption, especially during the ongoing festive season

Suggestions on fiscal front

- Commenting on the additional measures that government could consider while planning its next stimulus, participating economists felt additional stress must be laid upon reviving demand. They believed that since the speed of adjustment on demand side was much faster to manifest, pace of adjustment on supply side was slow as supply responses take time

- While the government recently announced some measures to boost consumption (including the LTC cash voucher scheme and festival advances which is likely to benefit central government employees), more still needs to be done
- They recommended undertaking more sustainable measures to push consumption expenditure, one which involves enhancing disposable incomes in the hands of the consumers and also by making semi-luxury commodities more affordable to the middle income group
- Loss of income and jobs are two key factors that have forced the middle class population to reduce spending. The government could, therefore, consider a stimulus tailored on giving benefits to this segment in the form of tax benefits to the lowest two slabs of income tax
- The economists opined that large scale infrastructure projects must be initiated to provide jobs. Greater employment should wane off concerns and uncertainty around income and job safety and thus induce consumption
- Furthermore, economists suggested reducing GST rates as well as compensation cess on items that currently attract a rate greater than 12%. This reduction must come with a sunset clause (ending March 31, 2021), and can be re-evaluated at that time
- In addition, government could consider abolishing long term capital gains tax on equity investments. This could enable a push towards discretionary spending as individuals feel more confident about real wealth creation
- Alongside, the government could provide targeted stimulus to the worst affected sectors of the economy which can be a boon for companies in terms of retaining their employees. This could come in the form of business loans to maintain workforce and/or direct income support to the laggard sectors

Possible avenues through which Government can raise financial resources to support the growth enhancing measures

- The respondents pointed out that the most important component to meet revenue shortfalls arising in the current fiscal year can be met by accelerating planned disinvestment programs assigned for this year
- Furthermore, the government must vigorously carry out additional sales of non-core assets as well as strategic sale of PSUs to meet the requisite financial resources
- Economists also suggested issuance of long term pandemic bonds in both the domestic and the international markets, which could open up additional space for the government to borrow
- Given that large amounts of infrastructure spending is the need of the hour and a major head that will require financing to aid growth, the government can set up development financial institutions to fund long gestation infrastructure projects

Opinion on ways to reinstate bank credit cycle

- In a pandemic struck world, India, as also the rest of the world, is witnessing significant uncertainty. The government and the RBI have been proactive in providing timely stimulus measures to support the economy in such difficult times
- Economists said that despite several efforts, banks have been reluctant to lend to corporate India fearing future defaults that could result in large NPAs, especially once the moratorium window expires. Banks are hence unwilling to bear the increased risk of capital erosion in the current environment
- In such times, government backed guarantees are the best way forward to initiate further lending activity. Furthermore, increased fiscal spending that supports job creation will lend another major support to the economy. Unless India sees a revival in jobs and demand, no amount of monetary accommodation will be useful in prodding private investments and borrowing
- The government must also step up its efforts towards recapitalizing public sector banks so that they are in a better position to lend
- It was highlighted that beyond regulatory forbearance, increased amount of lending in the system would only be possible once the uncertainty around the pandemic and growth prospects dissipated

- Economists were of the view that there was still room available for banks to undertake further transmissions of previous rate cuts
- Reforming the banking sector can also play a major role in improving efficiency and transparency in the system. Most important amongst this is digitization of processes. Introduction of online loan application, automated loan approval process, and creation of a robust online platform will enable banks to accelerate their lending process
- At the same time, a more efficient supervision of public sector banks is required which would entail removal of unnecessary vigilances on bank management and ensuring smooth underwriting process
- Economists also called for more sector specific measures, especially the beleaguered sectors, in the form of allowing temporary regulatory forbearances from the RBI
- Lastly, economists believed that India's financial system is well lubricated and with the latest round of on-tap TLTRO, the banking sector remains strong enough to boost lending as and when the right opportunity arises

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of September/October 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 Q2 (July-September) and Q3 (October-December) of FY21.

In addition, economists were asked to give their views on certain contemporary subjects. Economists were asked to share suggestions on further measures that can be undertaken to support domestic demand, avenues through which government can raise financial resources to support the growth and measures that can be undertaken to prod the banks towards more active lending.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2020-21			Q2 FY21			Q3 FY21		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	-10.5	-12.3	-5.0	-12.2	-15.7	-8.0	-5.5	-8.2	-1.4
GVA@ basic prices	-10.3	-11.9	-4.8	-11.1	-15.1	-7.9	-5.1	-8.4	-1.2
Agriculture & Allied activities	3.5	2.7	4.5	3.5	3.0	4.9	3.5	3.1	3.9
Industry	-16.4	-19.9	-4.0	-17.9	-24.6	-8.0	-10.7	-13.0	-2.5
Services	-10.8	-15.0	-6.4	-11.9	-13.9	-6.3	-5.3	-9.9	-1.1

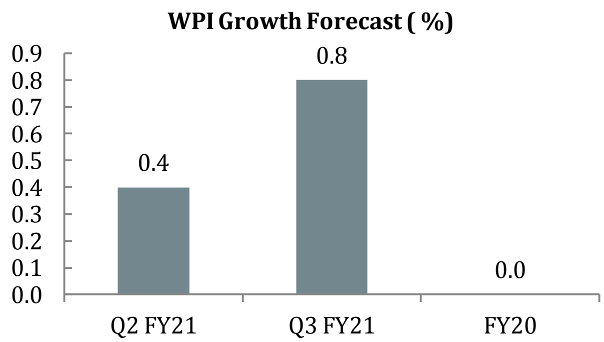
The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2020-21 at (-) 10.5% -** with a minimum and maximum growth estimate of (-) 12.3% and (-) 5.0% respectively for 2020-21.

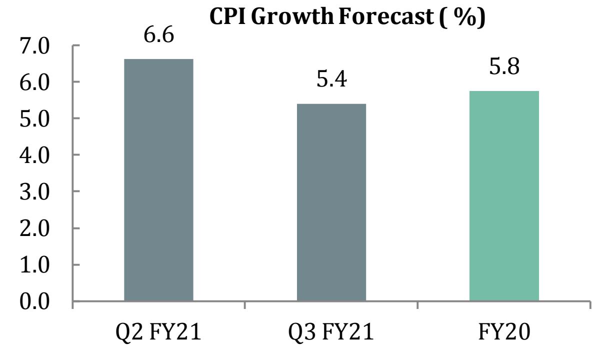
The median growth forecast for agriculture and allied activities has been put at 3.5% for 2020-21. The rural economy has displayed considerable resilience even amid the pandemic shock. Kharif sowing has surpassed last year's acreage as well as the normal sown area. Good monsoon season this year has resulted in improved soil moisture and healthy reservoir levels which bodes well for the rabi season as well. Furthermore, greater fund allocation and job creation under MGNREGA has provided livelihoods in rural areas. Even though these have been encouraging signs, a surge in Covid-19 cases was noted in the rural areas and containment of the virus remains of paramount importance.

Industry and services sector, on the other hand, are expected to contract by 16.4% and 10.8% respectively during the year. While the first half of the year was lost due to the lockdown, there have been some signs of improvement lately. The most recent PMI numbers for the month of September, both manufacturing and services, have noted an uptick on the back of a steep increase in new orders and production. Also, the recent online discounts being offered by major e-commerce platforms indicate a surge in sale in the month of October driven largely by the festive sentiment. The demand stimulus announced by government recently is well timed and is expected to give a push to consumption. This should help the economy gather some traction going ahead.

The quarterly median forecasts indicate GDP growth to contract by (-) 12.2% in the second quarter of 2020-21, with a minimum estimate of (-) 15.7% and a maximum estimate of (-) 8.0%.

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





WPI based inflation rate is projected to be flat in 2020-21. As per actual data too, wholesale inflation rate continues to remain at moderate levels. Although, the latest data on WPI based inflation stood at 1.3% in the month of September 2020 – reporting a seven month high inflation rate on back of higher food prices; however over the cumulative period April-September 2020 the wholesale price index based inflation rate noted a decline by 0.9%.

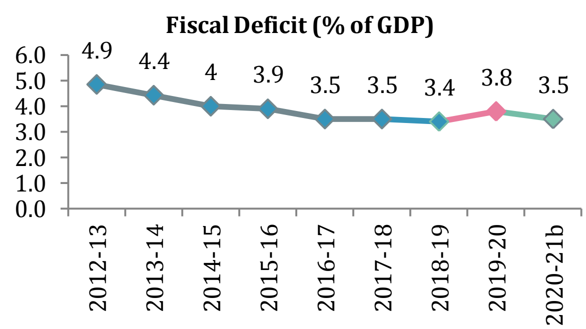
Further, **CPI based inflation has a median forecast of 5.8% for 2020-21,** with a minimum and maximum range of 4.8% and 6.3% respectively. The retail prices continue to remain over RBI's indicative trajectory for inflation.

Retail prices are, however, projected to moderate in the coming quarters. While actual inflation for Q2 2020-21was reported at 6.9%, it is forecasted to ease to 5.4% by the third quarter. This trend is broadly in line with the RBI's inflation forecast as well.

Fiscal Deficit

The median **fiscal deficit to GDP ratio has been put at 7.5% for the fiscal year 2020-21** with a minimum and maximum range of 6.5% and 10.0% respectively.

Fiscal deficit for 2020-21 was budgeted at 3.5% earlier this year. A slippage in fiscal deficit was widely anticipated given the urgency for a stimulus to support the economy in face of an unprecedented shock from the pandemic.



2019-20: Revised; 2020-21 Budgeted

Index of Industrial Production (IIP)

The participating economists have put forth a median growth forecast for IIP at (-) 11.1% for the year 2020-21- with a minimum and maximum range of (-) 11.3% and (-) 10.9% respectively.

The latest IIP data continued to report steep contraction in growth numbers, albeit slower than the previous months. The index contracted by 8.0% in August 2020 vis-a-vis 10.8% contraction reported in the previous month.

The median growth forecast for quarter 2 of 2020-21 is (-) 8.6%.

Money and Banking

Bank credit is forecasted to grow by 5.5% in 2020-21 with a minimum and maximum range of 2.0% and 6.5% respectively.

	End of Q3 2020-21	End of 2020-21
Repo Rate	**4.0%**	**4.0%**

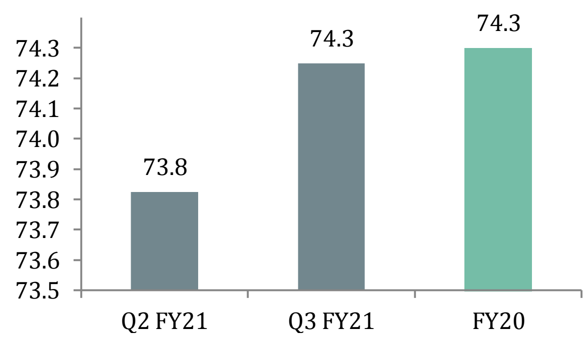
External Sector

2020-21	Export	Import
USD billion	275.5	365.7
Growth (in %)	-12.5	-21.5

	2020-21
CAD as % of GDP	**1.1%**

Based on the responses of the participating economists, the **median growth forecast for exports has been put at (-) 12.5% and for imports at (-) 21.5% in 2020-21**.

USD/INR Exchange Rate



Survey Results: Part B
Views of the Economists

SUGGESTIONS ON ADDITIONAL MEASURES THAT CAN UNDERTAKEN BY GOVERNMENT/ RBI TO SUPPORT DEMAND

India has been among the worst hit countries due to the pandemic. India's Q1 2020-21 GDP growth numbers released by the Central Statistics Office in the month of August 2020 were much worse than anticipated. While negative growth in Q1 was widely anticipated, a steep contraction of 24% did come in as a surprise. Even though the latest data on various lead indicators point towards an improvement; uncertainty continues to remain on fore.

Also, Government of India recently announced measures to stimulate demand by extending LTC cash voucher and some tax benefits to its own employees. The set of measures announced for supporting consumption and investment demand are expected to energize growth over the remaining part of the year. However, we feel that further support to demand would be timely to ensure a sustainable turnaround. Weak consumption has been a concern for over a year now and has become somewhat entrenched.

Therefore, participating economists were asked to share their suggestions on further measures that the government/ RBI could undertake to support subdued demand conditions in the economy.

At present, containment of Covid-19 cases and utilization of all levers to accelerate recovery hold the key to address major issues facing the economy, including weak demand. Increase in the number of cases has prolonged implementation of social distancing norms. This has been one of the major reasons influencing consumer demand. This holds even greater importance given that the virus was seen spreading widely in rural areas as well.

Given the situation, a majority of the participating economists said that direct cash transfers to the most vulnerable sections of the society is essential for making them more resilient. These people form a large proportion of consumption pyramid in the country. Providing income support, given their larger propensity to spend, can create the much needed demand boost in the economy, especially given the onset of festive season.

In this context, some economists also suggested dispensation of universal basic income to partially compensate for any job/ income loss amongst the masses caused by the pandemic. Economists cited introduction of a scheme similar to the one announced during the lockdown wherein Rs. 500 were transferred to Jan Dhan accounts for a short period. Many people belonging to the middle income bracket are in the danger of falling into lower income segment.

Apart from this, economists believed that more income must be left in the hands of the salaried individuals and therefore suggested 'one-time tax sops' to boost spending.

Furthermore, since the pandemic has adversely affected the urban areas and urban poor, participants to the survey suggested an Urban Employment Guarantee Program on the lines of MGNREGA. While some states have already taken the lead (including Himachal Pradesh's Mukhya Mantri Shahri Ajeevika Guarantee Yojana and Odisha's Urban Wage Employment Initiative), others must also follow the suit to offer some respite to the migrants and urban poor. Public investment in infrastructure must be the focus area of the government given the high employment elasticity associated with it. An infrastructure boost would not only create high employment but also make the economy more future ready by creating efficient supply chains across the country. Investment ready projects that were stalled/ shelved must be reworked and revived.

Participants of the survey also felt that support to industry would be critical for survival and revival of companies and to avoid mass job losses.

In addition, for sectors which continue to face the heat (aviation, restaurants, hotels, retail etc.), the government could come up with a scheme that guarantees bank loans of approximately 50% of the salaries of laid off employees (as declared in their ITR) which can be repaid once employment is restored. This could provide further support to consumption, especially during the ongoing festive season.

Some form of income support for stressed sectors, cheaper borrowing costs and lower import tariffs is necessary in the short term to support the Indian industry. In the medium-long run, solutions such as focusing more on investing in export oriented industries, addressing infrastructure concerns and supply chain bottlenecks (to arrest inflation/ inflationary expectations) and other structural changes (including opening up major sectors to market forces and allowing development of market institutions) will remain important for sustaining growth.

The proposed Production Linked Incentive scheme would allow India to merge with the global value chains if implemented well. The manufacturing sector can then ride on external demand as well. Moreover, the sector would largely benefit from positive externalities that the scheme would bring with it (in the form of better skilled workforce).

SUGGESTIONS ON ADDITIONAL MEASURES ON FISCAL FRONT

The government has shown its intent to announce additional measures on fiscal front to support India's economic growth. Weak economic growth in the current fiscal will have implications on the tax revenues of the government as well. Since the government is already treading a tight rope as far as its balances are concerned, the economists were asked to share their opinion on the additional fiscal measures that can be undertaken to support growth.

Commenting on the additional measures that government could consider while planning its next stimulus, participating economists felt that while the measure have mostly eased supply side constraints, additional stress must be laid upon reviving demand. They believed that since the speed of adjustment on demand side is much faster to manifest, pace of adjustment on supply side is slow as supply responses take time. This assumes even greater significance in the current times when the pandemic has severely impacted personal consumption, and without a revival in demand, supply responses will be slower than usual.

While the government recently announced some measures to prod consumption (including the LTC cash voucher scheme and festival advances which is likely to benefit central government employees), more needs to be done. Economists said that the latest move has only provided a one shot increase in cash in hand and even though some tax benefits have been provided to government employees, a visible increase in disposable income of individuals is not expected. Therefore, they recommended undertaking more sustainable measures to push consumption expenditure, one that involves enhancing disposable incomes in the hands of the consumers and also by making semi-luxury commodities more affordable to the middle income group.

Loss of income and jobs are two key factors that have forced the middle class population to reduce spending. The government could, therefore, consider a stimulus tailored on giving benefits to this segment in the form of tax benefits to the lowest two slabs of income tax.

The economists opined that large scale infrastructure projects must be initiated to provide jobs to those who have become unemployed during and post the pandemic induced lockdown. Greater employment should wane off concerns and uncertainty around income and job safety and thus induce consumption.

Furthermore, economists suggested reducing GST rates as well as compensation cess on items that currently attract a rate greater than 12%. This reduction must come with a sunset clause (ending March 31, 2021), and can be re-evaluated at that time.

In addition, government can consider abolishing long term capital gains tax on equity investments. This could enable a push towards discretionary spending as individuals feel more confident about real wealth creation.

Alongside, the government could provide targeted stimulus to the worst affected sectors of the economy which can be a boon for companies in terms of retaining their employees. This could come in the form of business loans to maintain workforce and/or direct income support to the laggard sectors.

Possible avenues through which Government can raise financial resources to support growth enhancing measures

The participating economists were also asked to share their views on ways through which government can raise funds to support growth in the current environment.

The respondents pointed out that the most important component to meet revenue shortfalls arising in the current fiscal year can be met by accelerating planned disinvestment programs assigned for this year. Furthermore, the government must vigorously carry out additional sales of non-core assets as well as strategic sale of PSUs to meet the requisite financial resources.

Another avenue for raising money could be financing of deficit by the RBI, even though the government has indicated that this route for raising finances is not on the radar as of now. Alongside, tapping deeper into RBIs reserves could be one area that the government might look into.

Economists also felt that issuance of long term pandemic bonds in both the domestic and the international markets could open up additional space for the government to borrow.

Economists opined that the government can raise funds from multilateral agencies and external private market borrowing but must keep this option as a last resort unless the loan is financed in Indian Rupees.

Finally, given that large amounts of infrastructure spending is the need of the hour and a major head that will require financing to aid growth, the government can set up development financial institutions to fund long gestation infrastructure projects.

OPINION ON WAYS TO REINSTATE BANK CREDIT CYCLE

The health of the Indian banks has been a concern for some time now. Burdened with non-performing assets, banks have become extremely cautious and risk averse, especially towards corporate lending. While the demand for credit has remained muted amid the current state of affairs, reports suggest that banks have been rejecting loan applications and tightening their lending standards. In this backdrop, economists were asked to share suggestions that could be adopted to reinstate the credit cycle and prod the bankers towards more active lending.

In a pandemic struck world, India, as also the rest of the world, is witnessing significant uncertainty. The government and the RBI have been proactive in providing timely stimulus measures to support the economy in such difficult times. Steps such as moratorium on loans, permitting one-time restructuring of loans and significant liquidity infusion by the RBI since the beginning of the crisis have all served well to mitigate any serious risks and panic that could have arisen in the money market. While these measures have allowed banks and corporate balance sheets to withstand the pandemic induced shock, it has not exhorted banks to lend more, especially when the banking system was just emerging out of the previous asset quality issues.

Economists said that despite several efforts, banks have been reluctant to lend to corporate India fearing future defaults that could result in large NPAs, especially once the moratorium window expires. Banks are hence unwilling to bear the increased risk of capital erosion in the current environment.

In such times, government backed guarantees are the best way forward to initiate further lending activity. Furthermore, increased fiscal spending that supports job creation will lend another major support to the economy. Unless India sees a revival in jobs and demand, no amount of monetary accommodation will be useful in prodding private investments and borrowing.

Simultaneously, the government must also step up its efforts towards recapitalizing public sector banks so that they are in a better position to lend.

At the same time reckless decision making could only add to the woes of the economy in an atmosphere of very weak and uncertain growth cycle. Therefore, economists suggested that working with patience was the need of the hour. They highlighted that beyond regulatory forbearance, increased amount of lending in the system would only be possible once the uncertainty around the pandemic and growth prospects dissipated. This makes sustaining the current growth upturn even more important as it would go a long way in raising expectations of a recovery.

As far as any liquidity concerns and lending rates are concerned, a majority of economists felt that the RBI has already done enough to ensure adequate liquidity in the system and the promise of maintaining it is very encouraging. Moreover, economists were of the view that there was still room available for banks to undertake further transmissions of previous rate cuts if needed.

Reforming the banking sector can also play a major role in improving efficiency and transparency in the system. Most important amongst this is digitization of processes. Introduction of online loan application, automated loan approval process, and creation of a robust online platform will enable banks to accelerate their lending process. At the same time, a more efficient supervision of public sector banks is required which would entail removal of unnecessary vigilances on bank management and ensuring smooth underwriting process.

Economists also called for more sector specific measures, especially the beleaguered sectors, in the form of allowing temporary regulatory forbearances from the RBI. This will not only enable a more robust recovery of sectors that were most impacted from the pandemic led shock, but also lead to a stronger financial system.

In addition, MSME sector requires a more flexible approach towards loan restructuring. Participating economists highlighted that banks/ lenders must be incentivised to encourage them to promptly undertake any such loan restructuring. A one-time policy intervention, as announced recently, will not be enough for such restructuring exercises. Such issues can only be resolved with continuous mutual involvement of RBI and banks. For fresh loan disbursement to this sector, economists recommended the need for more proactive behaviour from banks in terms of extending a helping hand to early stage SMEs in the form of providing value-added services, mentorship, guidance and support system.

Lastly, economists believed that India's financial system is well lubricated and with the latest round of on-tap TLTRO, the banking sector remains strong enough to boost lending as and when the right opportunity arises.

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