Economic Outlook Survey

July 2022

HIGHLIGHTS

GDP growth estimated at 7.0 percent for 2022-23

Reserve Bank of India policy repo rate expected to reach 5.65 percent by end of fiscal year 2022-23

Balance between fiscal and monetary policy imperative to manage price levels

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2022-23 at 7.0 percent.
- The median growth forecast for agriculture and allied activities has been put at 3.0 percent for 2022-23; while industry and services sector are anticipated to grow by 6.2 percent and 7.8 percent respectively.
- The growth forecast has been downgraded from the 7.4 percent estimate in previous survey round (April 2022) owing to continuing geopolitical uncertainty and its repercussions on India's economy.
- CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 5.4 percent and 7.0 percent respectively.
- Based on the responses of the participants, the median forecast for exports has been put at USD 460.0 billion and for imports at USD 727.5 billion in 2022-23.
- RBI's policy repo rate is projected at 5.65 percent by the end of the fiscal year 2022-23, with a minimum and maximum range of 5.50 percent and 6.25 percent respectively.

Views of economists

Assessment of the current Global Economic Situation

- With supply side bottlenecks showing signs of easing and pandemic fears waning due to increasing vaccination coverage; there was some optimism in the outlook for global economy earlier this year. However, the escalation of Russia-Ukraine conflict interrupted the recovery process yet again.
- The participating economists were divided in their views on whether the global economy is headed towards a recession.
- Participants who see the possibility of a global recession in 2022 expect it to unfold first in advanced economies followed by emerging markets and developing economies. Early signs of negative growth are expected to emerge by the second quarter of FY 2022-23 in certain European nations, especially those directly impacted by the escalating conflict, as well as in the United States.
- Nonetheless, a majority of economists believed that it is difficult to predict the occurrence of a global recession, at present. The duration of the conflict in Europe will determine whether the present slowdown translates into a recession. Nevertheless, possibility of a prolonged slowdown remains on the horizon. Although the stringent COVID-19 lockdowns in China are gradually being relaxed, it will take time to address the supply chain issues. Disruptions in supply due to the Ukraine Russia conflict have further increased the severity of inflationary pressures which is undermining consumer spending, especially for those in lower income brackets.
- The economists were of the view that the global economy's prognosis in 2023 will be determined by the inflation trajectory, the extent of interest rate hikes required to maintain price stability, and the impact of higher rates on household consumption and investment demand.

Assessment on India's economy in light of the geopolitical uncertainties

- There was a unanimous view among the participants that although the Indian economy is expected to face a slowdown in the near-to-medium term, it will still grow consistently to emerge as the fastest growing economy in the world.
- However, India is not sheltered from global volatilities which is becoming increasingly evident from the escalating inflation levels in the country and increasing uncertainties in the financial markets, which is exerting a visible impact on India's growth outlook.

- The economists were of the opinion that geopolitical tensions, a diminishing global growth outlook, supply-side disruptions, elevated commodity prices, and monetary tightening will remain as key downside risks India's economic growth.
- Slowdown in major economies, particularly in India's major trade partners, is anticipated to impact exports from the country - which had cushioned GDP growth in the face of a lack of effective domestic demand.
- The economist pointed out that the Central and State governments must prevent any considerable reduction in aggregate demand and if necessary, support it through higher revenue expenditure. The government must ensure adequate support for those in the lower income strata and bolster the subdued rural demand.
- The government can aid GDP growth recovery by ensuring that the planned spending target is not curtailed, and higher capital expenditure as outlined in the Union Budget 2022-23 announced earlier this year is realised.

Assessment of inflation in the context of the Indian Economy

- The participants opined that inflation in India is unlikely to moderate in the near-term. The supply-side disruptions brought on first by the COVID-19 pandemic and further worsened by the Russia-Ukraine conflict, as well as the recent strict lockdowns in China have been the major reasons for the spike in inflation levels in the country.
- Since January 2022, the CPI-based retail inflation rate has exceeded the RBI's upper target range for five consecutive months. Although economists opined that high price of commodities with seasonal elements, such as vegetables and fruits, are expected to reverse course as soon as the new harvest enters the market; global supply-side disruptions are a major cause of concern.
- Geopolitical tensions and possible risks from the emergence of new COVID-19 variants render India's inflation outlook uncertain. However, the government's fiscal actions (including the recent ban on wheat and sugar exports and the removal of import duties on certain essential commodities), and respite from a normal monsoon, may restrain the upward surge in food prices to some extent.
- According to the participating economists, the CPI is anticipated to remain above the RBI's tolerance band till the third quarter of FY 2022-23 and may come within the tolerance level only after the fourth quarter of the current fiscal. Moreover, in the medium-term, high inflation is expected to have an unfavourable impact on consumer demand.
- Inflation levels are expected to slow down starting September 2022 and fall back into the 4 percent range only by June 2023.

Managing the current high inflation levels in India

- Both the Government and the Reserve Bank of India have been keeping a close watch on the price situation and have undertaken proactive measures to manage the situation at hand. The participants cited that going ahead it will be critical that both the Central Bank and the Government continue to work in tandem - an appropriate mix/ balance between the fiscal and monetary policies will remain crucial.
- There was a unanimous view that the Reserve Bank of India will continue to take a hawkish stance in its forthcoming monetary policy meetings for the rest of the year, and thereafter it may resort to a neutral stance.
- With upside risks to inflation remaining on fore, the government should work out a comprehensive roadmap which may require action at multiple levels. Some suggestions in this regard are made below:

Near to Medium term Measures

- Nudging states to undertake cut in VAT on Petrol/Diesel
- Inclusion of petroleum & natural gas under Goods & Services Tax
- Need for Revision of Household Consumption Expenditure Survey data
- Need for upgrading Agri data collection mechanisms

Long term Measures

- Better forecasting for supply and demand for agri-commodities and better import planning
- Seamless transportation for perishable commodities
- Climate proofing agriculture

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of June 2022 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 2022-23 and for the quarters Q1 (April-June) of FY23 and Q2 (July-September) of FY23.

In addition, economists were asked to share their views on certain topical subjects. Given the highly volatile geopolitical environment, economists were asked to share their assessment on the current global economic scenario, the possibility of a recession, along with their perception on India's position amid the prevailing global uncertainty. In addition, expectations of the economists were sought on the current trend of inflation in the Indian economy as well as their policy recommendations to manage rising prices.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2022-23			Q1 FY23			Q2 FY23		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.0**	6.5	7.3	14.0	4.1	15.2	6.2	6.0	7.0
GVA@ basic prices	**6.8**	6.4	7.0	13.3	4.8	14.4	6.1	5.9	6.7
Agriculture & Allied activities	**3.0**	2.2	4.0	2.5	2.0	3.9	3.0	3.0	4.5
Industry	**6.2**	6.0	8.0	14.0	5.0	15.4	5.8	4.0	9.0
Services	**7.8**	7.0	8.8	17.3	7.0	18.0	7.0	6.6	7.0

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2022-23 at 7.0 percent** - with a minimum and maximum growth estimate of 6.5 percent and 7.3 percent respectively.

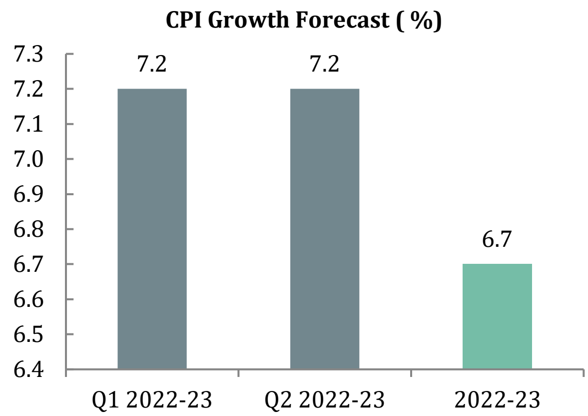
The median growth forecast for agriculture and allied activities has been put at 3.0 percent for 2022-23. On the other hand, **industry and services sector are anticipated to grow by 6.2 percent and 7.8 percent respectively during the fiscal year.**

Median GDP growth is estimated at 14.0 percent and 6.2 percent for the first and second quarter of 2022-23, respectively.

However, it may be noted that India is not immune to global volatility, as is evident from the deepening inflationary pressures and increasing uncertainty in financial markets. These are exerting downward pressure on India's economic prospects and is likely to prolong the economy's recovery.

Major risks to India's economic recovery include rising commodity prices, supply-side disruptions, bleak global growth prospects with war prolonging in Europe. A slowdown in the Chinese economy is also expected to have an impact on India's GDP. Increased input cost is impairing discretionary spending as these get passed on to the final consumer through higher selling prices.

Consumer Price Index (CPI)

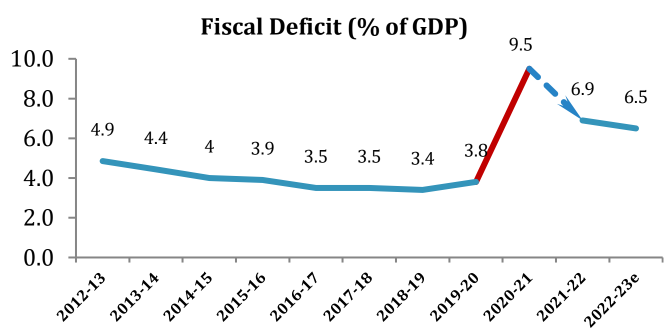


CPI based inflation has a median forecast of 6.7 percent for 2022-23, with a minimum and maximum range of 5.4 percent and 7.0 percent respectively. This is in line with RBI's indicative trajectory put forth in the recent monetary policy announcement in June 2022.

Retail prices are projected at 7.2 percent in Q1 2022-23 and 7.2 percent in Q2 2022-23. After treading way over RBI's upper threshold of 6.0 percent since January 2022 and reaching an eight-year high of 7.8 percent in April 2022, CPI growth has shown signs of moderation in May 2022, and is expected to level-off to an average 6.7 percent at the end of the current fiscal.

Fiscal Deficit

The median **fiscal deficit to GDP ratio has been put at 6.5 percent for the fiscal year 2022-23 by the participants** - with a minimum and maximum range of 6.4 percent and 6.5 percent respectively. This is marginally higher than the budgeted fiscal deficit for 2022-23 – which was estimated at 6.4 percent earlier this year.



e: Expected

Money & Banking

Policy repo rate is forecasted at 5.65 percent by the end of the fiscal year 2022-23, with a minimum and maximum range of 5.50 percent and 6.25 percent respectively.

Moreover, the Central Bank is expected to maintain its hawkish stance throughout the calendar year 2022. The repo rate has already been hiked to 4.90 percent and is anticipated to reach 5.20 percent by the second quarter of 2022-23.

	Q2 2022-23	2022-23 (End, March 2023)
Repo Rate	**5.20%**	**5.65%**

External Sector

2022-23	Export	Import
USD billion	460.0	727.5
Growth (in %)	10.5	17.6

CAD as % of GDP

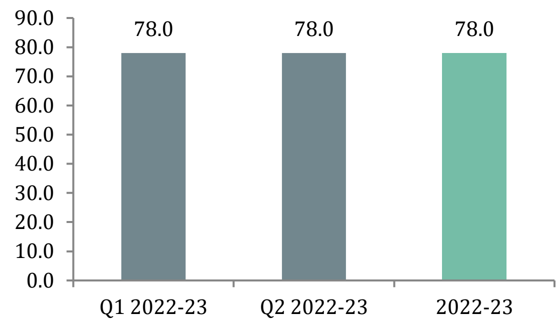
End of 2022-23

-3.0%

Based on the responses of the participating economists, the **median forecast for exports has been put at USD 460.0 billion and for imports at USD 727.5 billion in 2022-23.**

Higher interest rates in advanced nations are leading to consistent FII outflows from the domestic financial markets which is causing a drastic fall in the value of the Indian Rupee vis-à-vis the US Dollar. The participants expect the USD/INR exchange rate to be around 78.0 by the end of the current financial year.

USD/INR Exchange Rate*



* end period

Survey Results: Part B
Views of Economists

Assessment of the current Global Economic Situation

With supply side bottlenecks showing signs of easing and pandemic fears waning due to increasing vaccination coverage; there was some optimism in the outlook for global economy earlier this year. However, the escalation of Russia-Ukraine conflict interrupted the recovery process yet again. Amid the current situation of continuing distress, the participating economists were asked to share their views on the possibility of global economy entering a recession.

The participating economists were divided in their views on whether the global economy is headed towards a recession.

Participants who see the possibility of a global recession in 2022 expect it to unfold first in advanced economies followed by emerging markets and developing economies. Early signs of negative growth are expected to emerge by the second quarter of FY 2022-23 in certain European nations, especially those directly impacted by the escalating conflict, as well as in the United States. The three largest economies US, EU, and China are experiencing downturns at the same time - with the US economy contracting and the economies of China and EU slowing down in the first quarter of FY 2022-23.

Major global institutions, such as the World Bank and IMF have downgraded their latest projections for global GDP growth in 2022, particularly for the three economies. Downward revision of growth projections has also been carried out for other emerging nations, including India. Rapidly escalating inflation, policy tightening in major advanced economies, geopolitical risks, and a slowdown of the Chinese economy are likely to majorly contribute to the global economic slowdown in 2022.

Nonetheless, a majority of economists believed that it is difficult to predict the occurrence of a global recession, at present. The duration of the conflict in Europe will determine whether the present slowdown translates into a recession. Nevertheless, possibility of a prolonged slowdown remains on the horizon. Although the stringent COVID-19 lockdowns in China are gradually being relaxed, it will take time to address the supply chain issues and return economic activity to pre-pandemic levels. Disruptions in supply due to the Ukraine Russia conflict have further increased the severity of inflationary pressures which is undermining consumer spending, especially for those in lower income brackets. Due to the rising inflationary expectations, further monetary tightening by Central Banks is expected globally, which is likely to increase the vulnerability of low-income economies that have not yet fully recovered to their pre-pandemic levels. The governments in these economies have little room to provide fiscal stimulus.

Also, the economists were of the view that the global economy's prognosis in 2023 will be determined by the inflation trajectory, the extent of interest rate hikes required to maintain price stability, and the impact of higher rates on household consumption and investment demand. Moreover, with downside risks to growth building up, and substantial uncertainty regarding the Federal Reserve's ability to anchor inflation levels, the occurrence of a recession in the medium-term cannot be totally overruled.

Assessment of India's economy in light of the geopolitical uncertainties

There was a unanimous view among the participants that although the Indian economy is expected to face a slowdown in the near-to-medium term, it will still grow consistently to emerge as the fastest growing economy in the world.

That said, India is not sheltered from global volatilities which is becoming increasingly evident from the escalating inflation levels in the country and increasing uncertainties in the financial markets, which is exerting a visible impact on India's growth outlook. This is expected to prolong the economy's recovery from COVID-19 pandemic.

The economists were of the opinion that geopolitical tensions, a diminishing global growth outlook, supply-side disruptions, elevated commodity prices, and monetary tightening will remain as the key downside risks to the growth of the Indian economy. Downturn in the Chinese economy is also likely to have a negative impact on India's GDP through trade channels, while higher input prices would be transmitted to selling prices and, thereby affect discretionary spending.

Slowdown in major economies, particularly in India's major trade partners, is anticipated to impact India's exports, which had cushioned GDP growth in the face of a lack of effective domestic demand. Additionally, while healthy corporate and bank balance sheets is an encouraging sign for the domestic investment climate; declining global demand, muted consumer sentiments, increasing interest rates, and margin pressures are impeding private consumption and investment growth.

The RBI will need to address liquidity constraints, particularly for businesses with lower credit ratings and MSMEs while ensuring that India's financial system is not subjected to additional strain in the form of increased NPAs. Further, the Central and State governments must prevent any considerable reduction in aggregate demand and if necessary, support it through higher revenue expenditure. The government must ensure adequate support for those in the lower income strata and bolster the subdued rural demand.

The government can aid GDP growth recovery by ensuring that the planned spending target is not curtailed, and higher capital expenditure as outlined in the Union Budget 2022-23 announced earlier this year is realised. Expansionary fiscal measures must complement monetary policy tightening in order to ensure that the latter does not stall the economic recovery from the pandemic.

Assessment of India's inflation trajectory

The present surge in prices is global in nature, and central banks world-over are battling the persistently high inflation levels in their respective economies. The participants opined that inflation in the Indian economy is unlikely to moderate in the near-term.

The supply-side disruptions brought on first by the COVID-19 pandemic and further worsened by the Russia-Ukraine conflict, as well as the recent strict lockdowns in China have been the major reasons for the spike in inflation levels in India.

Since January 2022, the CPI-based retail inflation rate has exceeded the RBI's upper target range for five consecutive months, owing to rising prices of edible oil, petrol, and food- particularly for vegetables, spices, as well as household goods & services. Although economists opined that high price of commodities with seasonal elements, such as vegetables and fruits, are expected to reverse course as soon as the new harvest enters the market; global supply-side disruptions are a major cause of concern. Rising energy costs are exerting strong upward pressure on the domestic prices of fuel and food.

According to recent surveys released by Reserve Bank of India, businesses in the manufacturing and services sectors anticipate input cost pressures to remain elevated from Q1 to Q3 of FY 2022-23. This will most likely be passed on to consumers in the form of higher selling prices, thereby pushing inflation even higher. Further, household inflation expectations have continued to remain high relative to the pre-pandemic period, wage growth is comparatively lower, indicating that the inflationary conditions present in India are not demand-led.

While there may be some relief from the prevailing output gap, which is unlikely to be closed this year, a gradual rebound in contact-intensive services is expected to keep core inflation elevated. However, the government's fiscal actions (including the recent ban on wheat and sugar exports and the removal of import duties on certain essential commodities), and respite from a normal monsoon, may restrain the upward surge in food prices to some extent.

Geopolitical tensions and possible risks from the emergence of new COVID-19 variants render India's inflation outlook uncertain.

According to the participating economists, the CPI is anticipated to remain above the RBI's tolerance band till the third quarter of FY 2022-23 and may come within the tolerance level only after the fourth quarter of the current fiscal. Moreover, in the medium-term, high inflation is expected to have an unfavourable impact on consumer demand.

Inflation levels are expected to slow down starting September 2022 and fall back into the 4 percent range only by June 2023.

Managing the current high inflation levels in India

Both the Government and the Reserve Bank of India have been keeping a close watch on the price situation and have undertaken proactive measures to manage the situation at hand. Some of the recent policy announcements made to this end were the need of the hour and will have a salutary impact on the price levels going ahead. The participants cited that going ahead it will be critical that both the Central Bank and the Government continue to work in tandem - an appropriate mix/ balance between the fiscal and monetary policies will remain crucial.

There was a unanimous view that the Reserve Bank of India will continue to take a hawkish stance in its forthcoming monetary policy meetings for the rest of the year, and thereafter it may resort to a neutral stance. The RBI has already hiked the policy rates by 90 bps in the current financial year. The policy repo rate may average between 5.50 to 5.75 percent in 2022, after which the RBI may switch to a neutral stance. Growth dynamics are likely to determine the policy trajectory in 2023, and any further policy tightening may be contingent on the growth-inflation mix.

With upside risks to inflation remaining on fore, the government should work out a comprehensive roadmap which may require action at multiple levels. Some suggestions in this regard are made below:

Near to Medium term Measures

- **Nudging States to Undertake Cut in VAT on Petrol/Diesel**: The Central Government recently announced a cut in the excise duty for petrol and diesel by Rs 8/ litre and Rs 6/litre respectively – marking a second cut in the excise duty rates since November 2021. Central Government has also requested State Governments to undertake downward revision of VAT on petrol/diesel. While some States have done the needful, most are yet to take any action on this front. Cooperative federalism, which has been mantra of the current Government, is the need of hour.

- **Inclusion of Petroleum & Natural Gas under Goods & Services Tax**: Until the time petroleum products are brought within GST net, suitable amendment in the excise laws be made to allow credit of GST paid on inputs/input services and capital goods against payment of excise duty to the manufacturers of petroleum products.

- **Need for Revision of Household Consumption Expenditure Survey data**: Basing monetary policy on an inflation anchor that is not revised in nearly a decade may undermine the inflation targeting framework. Any food driven rise in inflation would end up overestimating the underlying inflation in the period ahead (as weight of food should be lower than what it was in 2011-12). It may be noted that household consumption pattern has changed over the years – this is particularly reflected in the sharp decline in the share of food items over the last few decades. Similarly, disinflation on account of food items would tend to underestimate the headline number. A cursory glance at India's current CPI basket shows that it accounts for a number of outdated items. These need to be dropped and new relevant items (such as OTT platforms) need to be added. The revised weights and revamped inflation indices need to be made available.

- **Need for upgrading Agri data collection mechanisms**: The system to determine yield estimates still relies on centuries old Patwari system. The officials often record data without visiting the field and just a fraction of crop-cutting experiments (CCEs) for yield estimation happens on ground. The Centre is currently using two projects, FASAL (Forecasting Agricultural output using Space, Agro- meteorology and Land-based observations) and CHAMAN (Coordinated Horticulture Assessment and Management using geo-informatics), for more reliable estimates.

If there is a periodicity ensured across at least 10-12 key agri states for CCEs and their data is used in conjunction with FASAL & CHAMAN platforms and / or digital Agri-stack and uses technologies like drones, remote sensing, artificial intelligence and machine learning at its disposal then the entire ecosystem will have a relatively more reliable data.

Long term Measures

▪ **Better forecasting and import planning for agri-commodities**: A piecemeal approach in managing price surges only adds to the uncertainty by sending distorted signals to the producers. These days information about weather, crops, prices and agricultural policies in different parts of the world is available almost instantly and this often has far reaching implications on the markets. If the government can forecast a situation of supply shortages much before others, imports can be planned in advance. This would avoid international price spikes resulting from sudden large import requirements. Government should be proactive on taking positions in international commodity exchanges like CBOT to augment imports. Also, the government can enter into long term MoUs with countries to ensure predictable supplies of commodities. For instance, the government has signed a five-year MoU with Myanmar for annual import of 2.5 LMT of Urad and 1 LMT of Tur. More such MoUs can be explored for other commodities like fertilizers, edible oil.

▪ **Seamless Transportation for Perishable Commodities:** The issues related to inter-state movement of agriculture produce have largely been addressed with amendment of the Essential Commodities Act. However, problems related to frequent checks at borders and multiple toll taxes remain. Hence, it is important to facilitate hassle free movement of perishables in the country. This can be done as follows:

a) Special Green Permits for Perishables: Special status could be accorded for transport of perishables and special green permits can be given to move perishables swiftly across state borders with minimal inspections.

b) Single Point Levy: The road tax and other levies to be paid by the companies operating green permits could be collected at a single point. This would ensure that vehicles carrying perishables would not loose time at multiple toll plazas.

▪ **Climate Proofing Agriculture**: Extreme weather events induced by climate change have gone up significantly in the past few years and agriculture is one sector which is extremely vulnerable to it. In fact, the impact of changing weather patterns has been visible on several crops in India this year.

Such weather events are posing a serious challenge and will undermine our national food security going ahead. Studies predict significant negative impact of climate change, envisaging yield reduction by 4.5% to 9.0%, depending on the magnitude and distribution of warming. Further, according to estimates put out in Economic Survey 2017-18, climate change could reduce annual agricultural incomes in the range of 15 percent to 18 percent on average, and up to 20 percent to 25 percent for unirrigated areas.

While the government has taken steps towards promoting sustainable agriculture, technology and digitalization will have to be more holistically integrated in the agri-value chain to minimize the impact of such shocks on farm activities.

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