



# **Economic Outlook Survey**

*January 2020*



**HIGHLIGHTS**

***GDP growth estimated at 4.7% for Q3 of 2019-20  
Growth for 2019-20 projected at 5.0%; to improve slightly to 5.5% in 2020-21***

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 5.0%. Growth is likely to improve to 5.5% in the year 2020-21. The survey was conducted during December/ January 2019-20 among economists belonging to the industry, banking and financial services sector.
- The median growth forecast for agriculture and allied activities has been put at 2.6% for 2019-20. Industry and services sector are expected to grow by 3.5% and 7.2% respectively during the year.
- The quarterly median forecasts indicate a GDP growth of 4.7% in the third quarter of 2019-20. The official growth numbers for the third quarter will be released at the end of February 2020.
- The median growth forecast for IIP has been put at 2.0% for 2019-20 by the participating economists, with a minimum and maximum range of 0.4% and 4.0% respectively.
- The outlook of participating economists on inflation remains moderate. WPI based inflation rate is projected at 2.0% in 2019-20. On the other hand, CPI based inflation has a median forecast of 4.3% for 2019-20.
- The median current account deficit forecast is pegged at 1.4% of GDP for 2019-20.

***Views of economists on key topical issues  
Domestic and global growth outlook in 2020***

- Economists agreed that the current slowdown has been more prolonged than previously anticipated, however a majority of the participating economists felt that India's GDP growth slowdown has nearly bottomed out.
- Even though growth is likely to remain subdued in Q3 2019-20, data flowing in from several lead indicators has been encouraging.
- However, participants cautioned that despite the promising numbers, a sustained economic recovery will take time to shape up (anything between two to six quarters).
- Participating economists cited various reasons, including higher amount of projects sanctioned by financial institutions, greater deployment of funds in fixed assets by corporates, increase in government capex spending and higher pay outs to support rural income schemes for their optimism about the rebound in India's growth.
- However, continued weak consumer sentiments, lack of trust amongst lenders, worsening of global trade wars and rising geo-political tensions were cited as major downside risks to growth.
- Economists suggested greater focus on addressing the demand side concerns along with simplification of the taxation system to revive the economy.
- Participants were hopeful of an improvement in global growth in 2020.
- They unanimously agreed that positive signals including de-escalation of US-China trade tensions, early resolution and a lower possibility of a no-deal BREXIT, accommodative monetary policy stance by central banks globally and better fiscal stimulus and policy support through 2019 will work together to uplift growth in 2020.
- However, significant downside risks still remain on fore.

### **Ways to augment revenue collections**

- Participating economists were expecting a shortfall in government's revenue collections this year on the back of lower than anticipated nominal growth.
- Therefore, they called for measures to boost nominal GDP growth to generate higher revenues.
- Citing weak consumption demand as a major impediment to India's growth, economists cautioned against any modification in the GST rates to improve revenue collections as it would prove to be counterproductive.
- Economists recommended undertaking expansionary fiscal and monetary policies along with a slew of reforms to tackle the structural problems facing the economy.
- Measures must also be taken to formalize the informal sector by mandating e-payments.
- Given the slower nominal growth rate, economists suggested boosting revenue from non-tax sources.
- Citing the success of the Bharat 22 exchange traded fund, participating economists felt that a structured long-term plan must be prepared to outline the course of action and predict earnings from non-tax sources.
- Aggressive disinvestments and monetization of government assets (real estate, telecom spectrum) was the need of the hour to alleviate stress on fiscal balances.
- The government must also consider rationalizing subsidies to reduce leakages and prevent wasteful expenditure.

### **Expectations from the Union Budget 2020-21**

- A majority of participating economists agreed that the fiscal deficit target be relaxed paving way for a focussed fiscal stimulus as supporting economic growth was increasingly becoming more important.
- Most of the participants felt that this stimulus must be directed towards boosting the rural economy where the propensity to spend was higher than their urban counterparts. Larger allocations to schemes such as MGNREGA, PM-KISAN and direct income transfers must be undertaken to alleviate the prolonged distress in rural sector.
- Economists also called for a broad based plan to support the financial sector with a focus on NBFCs.
- Additional bank recapitalization, hiking FDI limit in public sector banks (from 20% to 49%) and reinstating specialized financial institutions to fund long term projects (development finance institutions) can go a long way in spurring the credit growth in the economy.
- Measures to enhance manufacturing and export competitiveness must also be announced. Concerns must be addressed on the factor markets side on a priority basis, this will further improve the ease as well as cost of doing business in the country. In addition, the government must enter into bilateral trade agreements with key trading economies where we have good complementarities and work towards healthier and sustainable trade balance.
- Moreover, issues related to inverted duty structures for all sectors must be quickly resolved.
- Economists felt that focussing on efficiency of government expenditure was of paramount importance as well. It was therefore suggested that schemes and projects which have attracted allocation over the years without much utilization are reviewed periodically so as to ensure necessary action.
- Additionally, some of the participating economists felt the need for enhanced tax benefits and incentives to home buyers which could provide much needed boost to the real estate sector.

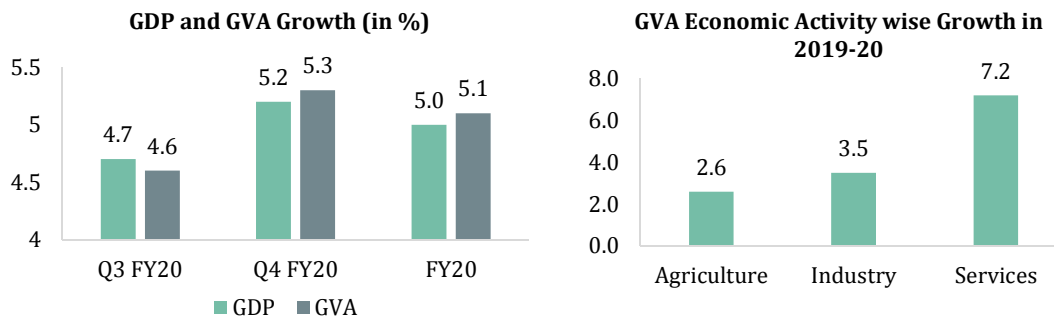
### Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the months of December/ January 2019-20 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 2020-21 and for the quarters Q3 (October-December) and Q4 (January-March) of FY20.

In addition, economists were asked to share their views on certain contemporary subjects. Participants were asked to share their prognosis on global outlook for the year 2020 as well as on India's economic growth. Further, in light of poor tax revenue collections, views of economists were sought on ways to augment overall government revenue collections. Participating economists were also asked to share their expectations from the forthcoming Union Budget 2020-21.

### Survey Results: Part A Projections – Key Economic Parameters

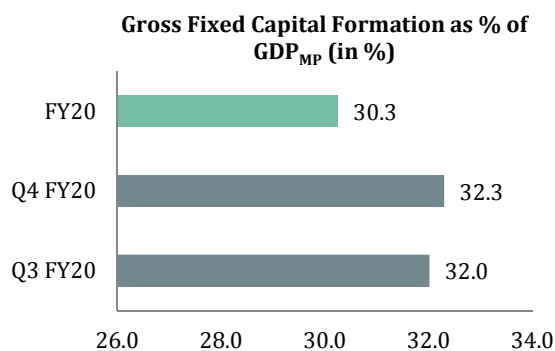
#### National Accounts



**The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2019-20 at 5.0%** - this marks a sharp downward revision of 1.4 percentage points from the growth estimate of 6.4% reported in the last survey. **Growth for 2020-21 is projected at 5.5%.**

The median growth forecast for agriculture and allied activities has been put at 2.6% for 2019-20. Industry and services sector are expected to grow by 3.5% and 7.2% respectively during 2019-20.

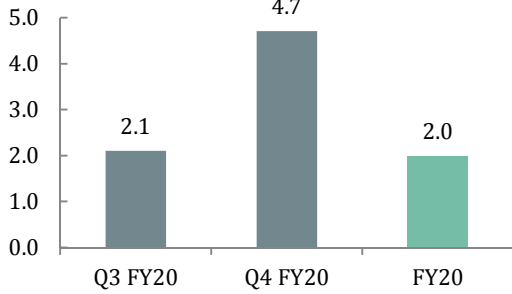
The quarterly median forecasts indicate a GDP growth of 4.7% in the third quarter of 2019-20.



The ratio of Gross Fixed Capital Formation to GDP for 2019-20 has been estimated at 30.3%.

**Index of Industrial Production (IIP)**

**IIP Growth Forecast (in %)**

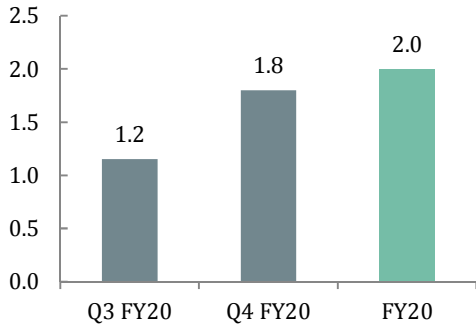


The participating economists have put forth a median growth forecast for IIP at 2.0% for the year 2019-20 - with a minimum and maximum range of 0.4% and 4.0% respectively.

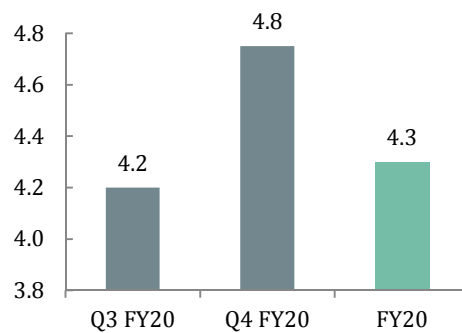
The latest IIP data reported moderation in growth numbers. The index reported 0.6% growth during April-October 2019 vis-à-vis 5.7% growth witnessed over the same period last year.

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

**WPI Growth Forecast (%)**



**CPI Growth Forecast (%)**



WPI based inflation rate is projected at 2.0% in 2019-20. Further, WPI forecast for Q4 2019-20 has been put at 1.8% according to our survey results.

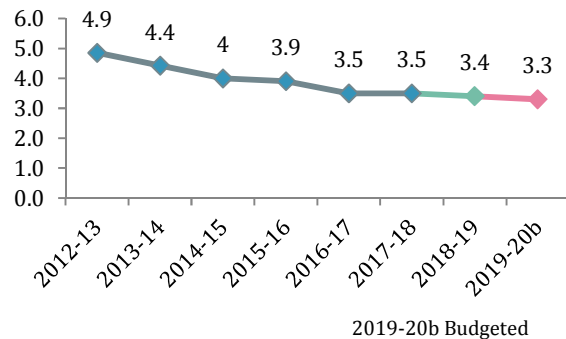
CPI based inflation has a median forecast of 4.3% for 2019-20. Further, CPI forecast for Q4 2019-20 has been put at 4.8% according to our survey results.

**Fiscal Deficit**

**Fiscal Deficit (% of GDP)**

The median fiscal deficit to GDP ratio was put at 3.7% for the fiscal year 2019-20 with a minimum and maximum range of 3.5% and 4.0% respectively.

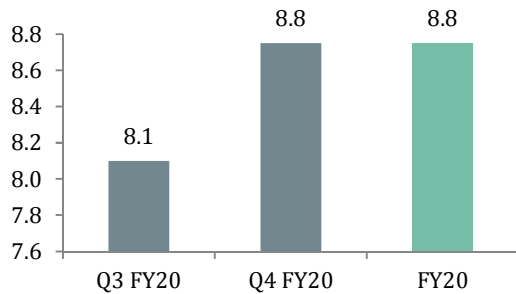
Fiscal deficit for 2019-20 has been budgeted at 3.3%.



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### Money and Banking

**Bank Credit: Growth (in %)**



**Repo Rate**

**End of Q4  
2019-20**

5.0%

**End of  
2020-21**

5.0%

### External Sector

	2019-20	Export	Import
<b>USD billion</b>		328.7	500.0
<b>Growth (in %)</b>		-2.1	-5.5
<b>Q4 2019-20</b>			
<b>USD billion</b>		85.4	123.8
<b>Growth (in %)</b>		-0.7	-5.0

Based on the responses of the participating economists, the median growth forecast for exports has been put at (-) 2.1% for 2019-20 and for imports at (-) 5.5%.

**CAD as %  
of GDP**

**Q3 2019-20**

1.1%

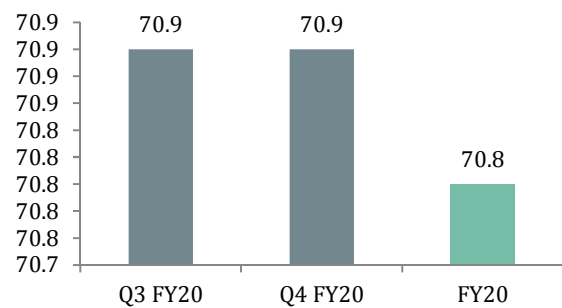
**Q4 2019-20**

1.5%

**2019-20**

1.4%

**USD/INR Exchange Rate**



**Survey Results: Part B  
Views of the Economists****OUTLOOK ON ECONOMIC GROWTH**

GDP growth has been on a slide with the latest numbers for Q2 of 2019-20 dipping to a six year low of 4.5%. The slowing growth on back of both domestic and external factors is becoming worrisome now. Given the current state of affairs, economists were asked to share their outlook on India's economic growth as well as global growth prospects.

**India growth outlook**

The Indian economy has been undergoing a protracted slowdown as stress in financial and real sector fed into each other. While economists agreed that the current slowdown has been more prolonged than previously anticipated, a majority of the participants felt that India's growth slowdown has nearly bottomed out. Even though growth is likely to remain subdued in Q3 2019-20, data flowing in from several lead indicators (including sales of passenger and commercial vehicles, sale of two wheelers, stronger manufacturing PMI, improved rail freight movement, rise in GST collections in November and December and higher retail sales to mention a few) have been encouraging indicating a possible reversal in the downtrend in growth over the near term.

However, participants cautioned that despite some optimism in numbers, a sustained economic recovery will take time to shape up. A timeline of anything between two to six quarters has been outlined for the economy to witness a sustainable uptick in growth. Economists felt that the economy is more likely to follow a U-shaped recovery and growth is fast approaching the flattish part of the curve.

**Upsides to growth outlook**

Participating economists cited various reasons for their optimism about the rebound in India's growth. On the investment front, amount of projects sanctioned by banks and financial institutions has almost doubled by September 2019 as compared to June 2019 led by a pick-up in mega projects. Alongside, corporates have been deploying more funds (close to 50%) in fixed assets including work in progress. This marks a big positive for the economy's growth prospects. Moreover, increase in government's capex spending September onwards, normal rains for the rabi crop and good sowing activity translating in to higher rural/farm incomes, impact of repo rate cuts and more pay outs to support rural income schemes such as PM-KISAN and MGNREGA will positively impact growth outcomes.

**Downsides to growth outlook**

Economists believed that continued weak consumer sentiments, lack of trust amongst lenders, worsening of global trade wars and rising geo-political tensions especially possible escalation in US-Iran tensions were major downside risks to growth.

**Key suggestions**

While the government and the RBI are continuously working in tandem to revive the economy, more needs to be done to ensure a sustained turnaround. To begin with, the government must focus its attention to address the demand side contraction in the economy. As rural segment has higher propensity to consume, all efforts must be made to enhance rural incomes. Increased rural outlays will boost liquidity, create demand and incentivise corporate India to undertake more investments. Furthermore, the government needs to simplify the GST regime on priority and must refrain from making frequent changes like rate revisions as it increases compliance cost and creates unnecessary hurdles. There is also a growing need for simplifying direct tax laws.

**Global growth outlook and key risks**

While global economy is slated to grow at its slowest pace in a decade in 2019, participating economists seemed more hopeful of witnessing some recovery in global growth conditions in 2020. Economists unanimously agreed that positive signals including de-escalation in US-China trade tensions, early resolution and a lower possibility of a no-deal BREXIT, accommodative monetary policy stance by central banks globally and better fiscal stimulus and policy support through 2019 will work together to uplift growth in 2020.

While participating economists were a little sanguine about global growth prospects, they continued to remain apprehensive about a whole host of risks including a possible reversal in the positive developments that have emerged in recent past. They feared that any disruption in phase one of the US-China trade deal could again send the global economy in a tailspin. Furthermore, volatility in international crude oil prices amidst rising geopolitical tensions along with aggressive supply cuts announced by OPEC plus countries during the March quarter can adversely impact the growth prospects of oil importing nations, including India.

Possibility of a synchronous slowdown in emerging markets and a steeper than anticipated slowdown of the Indian economy further dents the optimism surrounding a recovery. Other global events such as US elections, possibility of a hard BREXIT, unsustainable levels of public and private debt and increased risk of further disruptive trade barriers including areas of technology and foreign investment could depress investor sentiment and in turn global growth. Alongside, likelihood of a build-up in financial vulnerabilities amid low interest rates and policy support regime could trigger a chaos in the financial sector especially in light of sudden tightening of financial conditions.



**VIEWS ON WAYS TO AUGMENT REVENUE COLLECTIONS**

Tax collections have fallen short of the budgeted target which is straining the fiscal situation. Urgent measures are needed to augment the government's revenue collections in order to sustain government's much needed capital spending. Given this backdrop, economists were asked to recommend ways that could help enhance overall revenue collections.

Participating economists were not surprised with the tax shortfall given the moderate level of economic activity being reported. With all the parameters down, along with moderate inflation levels, tax revenues were bound to be lower. Therefore, the participants called for measures to boost nominal GDP growth to generate higher revenues.

While suggesting ways to augment both tax and non-tax revenue collections, economists pointed out to persistent weak demand conditions as a major impediment that was inhibiting India's growth. Economists were therefore cautious about the recent recommendations on raising GST rates to garner higher revenues. They felt that such a move risked depressing private consumption further which would ultimately weigh on economic growth as well as future tax revenue collection.

Economists highlighted the need for improving the nominal growth in the economy to improve fiscal balances. This meant pushing growth rate higher by undertaking expansionary fiscal and monetary policies along with a slew of reforms to tackle the structural problems facing the economy. At the same time, a need was felt to simplify and ease the taxation regime prevailing in the country while making it more broad based.

In addition, it was recommended that data and analytics must be used more extensively to plug leakages and non-compliance with tax laws. Anti-evasion measures must be put in place to enhance compliance but before that the difficulties in tax filing and administration must be reduced and overtime eliminated to improve voluntary compliance. Moreover, the government should start mapping the income stream in agriculture sector and ponder ways in which the chunk of agricultural income can be brought under the tax net. Measures must also be taken to formalize the informal sector by mandating e-payments.

Given the slower nominal growth rate, economists suggested boosting revenue from non-tax sources. Citing the success of the Bharat 22 exchange traded fund, participating economists felt that a structured long-term plan must be prepared to outline the course of action and predict earnings from non-tax sources. They said that aggressive disinvestments and monetization of government assets (real estate, telecom spectrum) was the need of hour to alleviate stress on fiscal balances. Some economists also suggested a fund on the lines of a sovereign wealth fund where in the government can invest in areas that can generate good returns.

The government must also consider rationalizing subsidies to reduce leakages and prevent wasteful expenditure. Furthermore, sale of huge food stocks with the Food Corporation of India in the open market can also generate good revenues for the government.

**EXPECTATIONS FROM THE UNION BUDGET 2020-21**

The government will present the Union Budget 2020-21 on February 1, 2020. Keeping this in mind, economists were asked to share their key expectations from the budget and the reforms the government could focus on to promote growth.

A majority of the participating economists agreed that the fiscal deficit target be relaxed paving way for a focussed fiscal stimulus as supporting economic growth was increasingly becoming more important. Most of the participants felt that the stimulus must be directed towards boosting the rural economy where the propensity to spend was higher than their urban counterparts. Larger allocations to schemes such as MGNREGA, PM-KISAN and direct income transfers, must be undertaken to alleviate the prolonged distress in rural sector by augmenting incomes and thus demand. Alongside, the government must pursue agrarian reforms that focus on sustainable farming practices.

Moreover, economists called for a broad based plan to support the financial sector with a focus on NBFCs. Additional bank recapitalization, hiking FDI limit in public sector banks (from 20% to 49%) and reinstating specialized financial institutions to fund long term projects (development finance institutions) can go a long way in spurring credit growth in the economy. A sufficiently healthy financial system is a pre-requisite to sustain recovery of any economy. The government and the RBI should therefore continue to work in tandem to expedite redressal of the pain points in banks and NBFCs.

Measures to enhance manufacturing and export competitiveness must also be announced. Concerns must be addressed on the factor markets side on a priority basis, this will further improve the ease as well as cost of doing business in the country. In addition, the government must enter into bilateral trade agreements with key trading economies where we have complementarities and work towards healthier and sustainable trade balance. Issues related to inverted duty structures for all sectors must be quickly resolved.

The government must also ensure a more active corporate bond market to ensure adequate funds for long term investments.

Economists felt that focussing on efficiency of government expenditure was of paramount importance as well. It was therefore suggested that schemes and projects which have attracted allocation over the years without much utilization be reviewed periodically so as to ensure necessary action.

Additionally, some participants felt the need for enhanced tax benefits and incentives for home buyers which could provide the much needed boost to the real estate sector.

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