FICCI

Economic Outlook Survey

July 2021

HIGHLIGHTS

Growth for 2021-22 projected at 9.0%
GDP growth estimated at 19.2% for Q1 of 2021-22

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2021-22 at 9.0%. The minimum and maximum growth estimate stood at 8.5% and 9.7% respectively.
- The median growth forecast for agriculture and allied activities has been put at 3.1% for 2021-22. While the sector has been performing consistently amidst the pandemic, expectations of a normal monsoon this year bode well for the sector's growth.
- Industry and services sector are anticipated to grow by 11.3% and 9.4% respectively during the year. While industrial recovery remained fragile since the beginning of the year, onset of the second wave has hampered sustainable growth in industrial activity.
- The survey forecasts median GDP growth at 19.2% in the first quarter of 2021-22. This is lower than 26.5% growth estimated for Q1 in the previous survey round. The official growth numbers for the first quarter will be released at the end of August 2021.
- The median growth forecast for IIP has been put at 12.5% for the year 2021-22 with a minimum and maximum range of 9.4% and 17.1% respectively.
- The outlook of participating economists on inflation was in line with the broad trend. While WPI based inflation rate is projected at 9.4% in 2021-22, CPI based inflation has a median forecast of 5.5% for 2021-22, with a minimum and maximum range of 4.5% and 6.3% respectively.
- The median growth forecast for exports has been put at 23.5% and for imports at 32.0% in 2021-22. The median current account balance has been pegged at (-) 0.9% of GDP for 2021-22.

Views of economists on critical topical issues

Opinion on ways to support consumption and growth

- The impact of the pandemic was disproportionately higher in the informal sector where employees did not have an option of work from home and absence from work resulted in loss of wages. This along with increased health costs and lack of social security benefits have had a bearing on purchasing power of consumers.
- While the government has announced several measures to ease the supply constraints in its latest relief package announced on June 28, 2021, measures to boost demand are still awaited.
- Participating economists, therefore, unanimously called for demand boosting fiscal measures to support consumption.
- Enhanced entitlements under MGNREGA, introduction of an urban employment guarantee scheme, increased employment generation in the public sector by focussing on investments, direct cash transfers to poor households and vulnerable sections of the society, etc. are some of measures that could be considered to boost jobs creation as well as incomes.
- Alongside, the government could consider income tax rebates as well as temporary moderation in GST on end consumption goods. In addition, excise duty as well as state duties on petroleum products must be reviewed urgently given that the retail prices have skyrocketed to historic highs in recent weeks.
- Furthermore, the government could announce certain demand boosting schemes which are operational in other countries. These include distribution of consumption vouchers, 'Eat Out to Help Out' initiative and offering lower interest rate on credit card spending.
- While a higher vaccine coverage will act as a stimulant, a robust fiscal stimulus to spur demand and sustain investments is urgently required to cushion the economy from the effects of the second wave of the pandemic.

Views on how to manage fiscal deficit

- The years 2020 and 2021 brought to fore unprecedented challenges both on economic and health front leading to conspicuous increase in government expenditure. This necessitates augmenting fiscal revenue to limit the impact of pandemic relief on already strained fiscal balances.
- A majority of the participating economists opined that the government's intention to raise funds through aggressive disinvestments and asset monetization, as envisaged in the Union Budget, will be an excellent way to garner revenues in the current times.
- Supportive market conditions and quicker resumption of economic activity (with localized restrictions also being eased as the situation improves) will support the government's endeavour and ensure successful completion.
- Furthermore, the government could consider increasing its borrowings in the current fiscal year, if the need arises, from low-cost external sources. This could be in the form of concessional loans from bilateral development agencies as well as multilateral financial institutions or through issuing tax free Rupee denominated government bonds (COVID Bonds). The latter could be useful in raising funds from both domestic as well as offshore markets.
- State governments could also use Rupee denominated covid bonds to fund their operational and developmental expenditures. In addition, RBI must also continue to ensure adequate liquidity support is available to states.
- Alongside, the government must ensure greater tax compliance to minimize revenue loss from tax evasion.
- While suggesting ways to augment revenue, participating economists opined that fiscal consolidation plans would need to be deferred considering the ongoing health crisis and the enormity of disruption caused by the pandemic. Prolonged government expenditure will be required to get the economy back on track.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of June 2021 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 2021-22 and for the quarters Q1(April-June) and Q2 (July-September) of FY22.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their opinion on ways to support consumption which has been adversely affected during the second wave of the covid-19 pandemic. In addition, suggestions of economists were sought on techniques that could help the government garner revenues in order to manage the fiscal deficit.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2021-22			Q1 FY22			Q2 FY22		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	9.0	8.5	9.7	19.2	14.9	25.0	8.0	7.5	9.7
GVA@ basic prices	9.0	7.3	9.5	18.9	12.9	30.0	7.7	6.9	9.1
Agriculture & Allied activities	3.1	1.0	4.2	3.0	1.0	4.2	3.3	1.3	3.8
Industry	11.3	9.2	14.5	37.7	27.1	50.0	6.8	2.8	9.7
Services	9.4	7.7	10.2	16.7	9.8	25.0	9.3	7.8	12.0

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2021-22 at 9.0%** - with a minimum and maximum growth estimate of 8.5% and 9.7% respectively. This is a percent lower than the growth projection of 10% in the previous survey round. Sharp surge in covid-19 infections in the second wave of the pandemic led to a nationwide health crisis during the months of April/May 2021. Nonetheless, the disruption to economic activity was limited this time around with states imposing local containment measures - thereby leaving less affected regions to function normally with strict covid safety protocols in place. However, some disruptions were reported due to different protocols being followed by states. This did have an impact on business/& services thereby leading to a downward revision in the growth forecast.

The median growth forecast for agriculture and allied activities has been put at 3.1% for 2021-22. While the sector has been the most resilient amidst the pandemic, **e**xpectations of a normal monsoon this year bodes well for the sector's growth.

Industry and services sector are anticipated to grow by 11.3% and 9.4% respectively during the year. A sustained industrial recovery seems a bit distant as is also seen in the mixed signals being witnessed in sequential growth of several high frequency indicators. IHS Markit Manufacturing Purchasing Managers Index for India entered the contractionary zone (to 48.1 in June from 50.8 in May 2021) for the first time in eleven months. Likewise, muted performance in sales of passenger cars as well as two wheelers in the month of May has been discouraging.

Median GDP growth for the first quarter of 2020-21 is estimated at 19.2%. This is lower than 26.5% growth estimated for Q1 in the previous survey round.

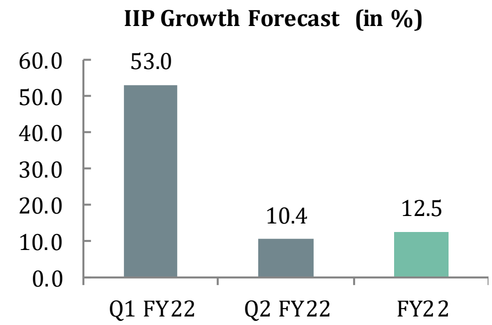
The **initial growth estimate for Q2 2021-22 is projected at 8.0%,** with a minimum and maximum range of 7.5% and 9.7% respectively.

Index of Industrial Production (IIP)

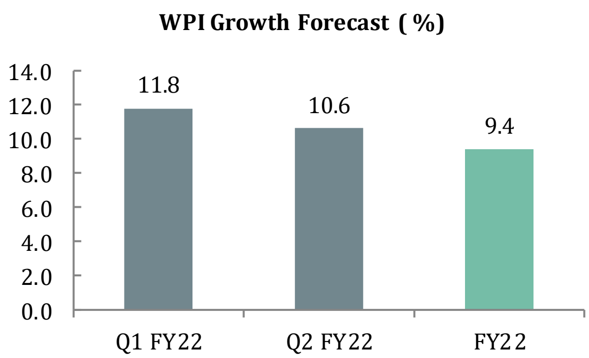
The participating economists have put forth a median growth forecast for IIP at 12.5% for the year 2021-22 - with a minimum and maximum range of 9.4% and 17.1% respectively.

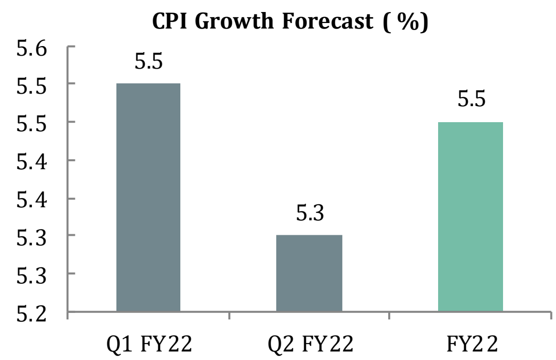
The latest data on industrial production reported strong growth in the month of April 2021 on the back of extremely favourable base effects.

The median growth forecast for Q1 2021-22 is 53%. The index is forecasted to grow by 10.4% in Q2 2021-22.



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





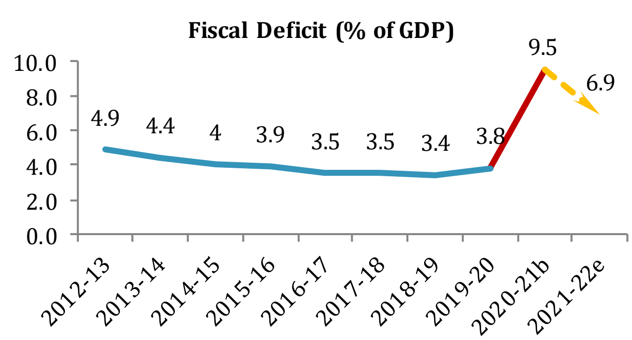
WPI based inflation rate is projected at 9.4% in 2021-22. The wholesale inflation levels have been on the boil. The latest data on WPI based inflation revealed extremely high inflationary pressures in the month of May 2021 (at 12.9%) – which was the highest in almost three decades. Cumulative (Apr-May 2021-22) wholesale-based inflation rate was also reported at double digit levels, 11.7%, as compared to much softer levels witnessed in the last few years. Surge in international commodity prices have been majorly fuelling price pressures.

CPI based inflation has a median forecast of 5.5% for 2021-22, with a minimum and maximum range of 4.5% and 6.3% respectively. The upper bound is slightly above RBI's trajectory for inflation targeting. Retail prices are projected to firm in Q1 2021-22 before easing slightly in Q2 2021-22. Retail inflation is forecasted at 5.3% for Q2 2021-22 with a minimum and maximum range of 4.8% and 6.5% respectively.

Fiscal Deficit

The median **fiscal deficit to GDP ratio was put at 6.9% for the fiscal year 2021-22 by the participants** - with a minimum and maximum range of 6.5% and 9.0% respectively.

Fiscal deficit for 2021-22 was budgeted at 6.8% earlier this year.



b: Budgeted (RE); e: Expected

Money & Banking

Bank credit is forecasted to grow by 6.8% in 2021-22 with a minimum and maximum range of 6.2% and 9.0% respectively.

This is lower than 7.5% growth forecasted in the previous survey round.

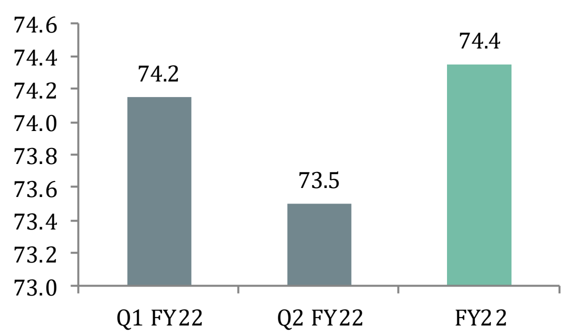
	Q2 2021-22	End of 2021-22
Repo Rate	**4.0%**	**4.25%**

External Sector

2021-22	Export	Import
USD billion	363.5	503.5
Growth (in %)	23.5	32.0

	Q2 2021-22	End of 2021-22
CAB as % of GDP	**-0.9%**	**-0.9%**

USD/INR Exchange Rate



Based on the responses of the participating economists, the **median growth forecast for exports has been put at 23.5% and for imports at 32.0% in 2021-22**.

Survey Results: Part B
Views of Economists

OPINION ON WAYS TO SUPPORT CONSUMPTION AND OVERALL GROWTH

India had to grapple hard with the devastating second wave of the coronavirus pandemic. An exponential surge in daily cases of infections left the health system of the country overburdened. With a lot of families encountering loss of income and savings on the back of job losses and significant increase in health expenditure, an impact on consumption demand was imminent. The situation is, in fact, likely to be exacerbated by the increased fear of a looming third wave in the minds of the consumers. Since personal consumption is a major driver of the Indian economy (contributing nearly 56% to total GDP), participating economists were asked to share their opinion on targeted ways to support personal demand and overall growth in the country at this juncture.

As India prepares for a looming third wave of Covid-19, while still emerging from the shocks of the second wave, participating economists unanimously called for demand boosting fiscal measures to support consumption. The impact of the pandemic was felt disproportionately higher in the informal sector where employees did not have an option of work from home and absence from work resulted in loss of wages. This along with increased health costs and lack of social security benefits have had a bearing on purchasing power of consumers.

Economists cited that aggregate consumption declined by 9.1% in 2020-21 vis-à-vis 2019-20 and 4.1% as compared to 2018-19. In addition, per capita real private consumption was reported at a level seen about three years ago. As uncertainty regarding jobs and future income remains on the fore, consumers have moved into precautionary mode. India's out of pocket spending to total health expenses are amongst the highest in the world, at approximately 65% vis-à-vis about 30% in China and less than 10% in developed nations. Fear of higher health expenses and a looming third wave implies that consumers will remain cautious in the near future as well.

In this backdrop, participating economists unanimously suggested to expand entitlements under MGNREGA. While some economists recommended an increase in wages, other suggested enhancing the number of employment days under the scheme as well. Likewise, an urban employment guarantee program was also called upon by the participating economists to address unemployment concerns in the urban areas. In addition, the government must create more employment opportunities in public sector as well as through continued focus on building physical infrastructure. In fact, the government must front load its expenditure to ensure multiplier effects on jobs and growth in core infrastructure sectors.

Furthermore, the government must consider cash support schemes for poor households (of approx. Rs.5000 per household) through direct benefit transfers for a minimum of three months. PM-KISAN scheme could be utilized to carry out cash transfers to poor farmers.

On tax front, the government could consider income tax rebates as well as temporary moderation in GST on end consumption goods. This could significantly boost purchasing power in the hands of the consumers. Alongside, moderation in excise duty as well as state duties on petroleum products, prices of which have been skyrocketing in the recent weeks.

Additionally, the government could announce certain demand boosting schemes which are operational in other countries as well. These include Consumption Voucher Scheme (as seen in China wherein local governments in 42 cities handed out about USD 916 million in vouchers), 'Eat Out to Help Out' initiative (restaurant discount in the United Kingdom) and lower interest rates on credit card spending. Such measures can help support consumer sentiments and demand conditions amid pandemic anxiety.

The government has already announced extension of free distribution of food grains to poor households till November 2021. Recent announcements by the Hon'ble Finance Minister on June 28, 2021, has reiterated the government's intentions on reviving the economy through credit guarantee schemes, supporting MSMEs and employment generation, extension of support to covid impacted sectors and building robust health infrastructure. While these measures will address supply side constraints, measures to boost demand are still awaited. Although a higher vaccine coverage will act as a stimulant, a robust fiscal stimulus to spur demand and sustain investments is required to cushion the economy from the grave aftereffects of the second wave of the pandemic.

VIEWS ON TECHNIQUES TO MANAGE FISCAL DEFICIT

The years 2020 and 2021 brought to fore unprecedented challenges both on economic and health front. This has implied a conspicuous increase in the government expenditure and a significant deviation from the path of fiscal consolidation. Given the current exceptional times, views of economists were sought on the ways government could raise sufficient resources to manage the pressure on fiscal deficit.

A majority of the participating economists opined that the government's intention to raise funds through aggressive disinvestments and asset monetization, as envisaged in the Union Budget, will be an excellent way to garner revenues in the current times. Supportive market conditions and quicker resumption of economic activity (with localized restrictions also being eased as the situation improves) will ensure a successful disinvestment and asset monetization drive of the government and the same must be expedited to reap the benefits.

In addition, economists were of the view that the government could consider increasing its borrowings in the current fiscal year, if the need arises. While there is abundant liquidity available with the RBI which can be used as a buffer, the government must raise low cost funds from abroad to ensure costs of borrowing in the domestic market remains lower for households and businesses.

Moreover, the government could also seek concessional loans from bilateral development agencies as well as multilateral financial institutions to finance health and social protection expenditure programs. Alongside, the central government can consider raising additional funds by issuing tax free Rupee denominated government bonds (COVID Bonds) both in domestic as well as offshore markets. State governments could also issue Rupee denominated bonds to meet operational and developmental expenditures. Ensuring availability of all liquidity channels from the RBI, specifically to states, will be essential.

In addition, special attention must be laid on ensuring greater tax compliance.

Lastly, the government must continue to re-prioritize its expenditure pattern with renewed focus on capex spending as the same will provide an impetus to growth.

Economists were of the view that plans for fiscal consolidation would need to be deferred considering the ongoing health crisis and the enormity of disruption the pandemic has caused. Prolonged government expenditure will be required to get the economy back on track. Additionally, expansion of the ongoing vaccination program would provide the surest way to return to normalcy and the same must be aggressively pursued.

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