



# **Economic Outlook Survey**

*October 2021*

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**HIGHLIGHTS**

***GDP growth estimated at 7.5% for Q2 of 2021-22  
Growth for 2021-22 projected at 9.1%  
Initial estimates for Q3 2021-22 indicate growth of 6.3%***

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2021-22 at 9.1%. The minimum and maximum growth estimate stood at 8.5% and 9.6% respectively.
- The median growth forecast for agriculture and allied activities has been put at 3.2% for 2021-22. Pick up in monsoon rains and subsequent increase in kharif acreage is likely to keep the growth expectations of the agriculture sector upbeat.
- Industry and services sector are anticipated to grow by 12.9% and 8.6% respectively during the year. Even though a sustained industrial recovery remains elusive (especially due to uncertainty around subsequent pandemic waves) the impact of the pandemic on services, especially contact intensive services, has been quite damaging.
- The survey forecasts median GDP growth at 7.5% in the second quarter of 2021-22. This is lower than 8.0% growth estimated for Q2 in the previous survey round. The official growth numbers for the second quarter will be released at the end of November 2021.
- The median growth forecast for IIP has been put at 11.6% for the year 2021-22 with a minimum and maximum range of 7.5% and 24.6% respectively.
- The outlook of participating economists on inflation was in line with expectations. While WPI based inflation rate is projected at 10.0% in 2021-22, CPI based inflation has a median forecast of 5.6% for 2021-22, with a minimum and maximum range of 5.4% and 5.8% respectively.
- The median growth forecast for exports has been put at 27.0% and for imports at 32.0% in 2021-22. The median current account balance has been pegged at (-) 0.8% of GDP for 2021-22.

***Views of economists on key topical issues***

**Opinion on the forthcoming monetary policy review**

- The participating economists unanimously felt that the Reserve Bank of India will maintain status quo on the repo rate and will continue with an accommodative stance in the forthcoming monetary policy. Growth remains a clear priority for the Central Bank and the same has been clearly communicated in the past rounds of monetary policy announcements.
- The respondents pointed out that the second quarter GDP data and the upcoming festive season should give a clearer idea of where we are headed on the recovery path and how the demand situation is panning out. The demand pulse remains weak for now. Moreover, we will also get clarity on the covid situation, and the possibility of a third wave post the festive season. Until then, the Central Bank could continue to resort to milder liquidity draining policies. Some participants also pointed towards RBI considering narrowing of the policy rate corridor by raising the reverse repo rate.
- With regard to heading back to the process of normalization, it was largely felt that the Central Bank may indicate a change of stance from accommodative to neutral in the February 2022 policy meeting. However, a hike in the repo rate only looks imminent in the next fiscal year (April 2022). Also, the path towards positive real interest rates is expected to be a staggered one. Much would be contingent on the build-up in domestic price levels and the extent of tapering by the Federal Reserve.
- The respondents believed that the Reserve Bank of India has done a commendable job in easing domestic economic and financial situation throughout the pandemic. They pointed out that maintaining adequate liquidity would remain important going ahead even as the Central Bank moves towards normalization.
- A majority of the economists felt that continued support remains especially critical for the MSMEs and the informal sector. Change in Classification Norms of MSMEs for NPAs, reduction in cash margins, change in personal guarantee requirements will go a long in alleviating some of the challenges being faced by these

enterprises. The sector has undergone immense stress due to two consecutive covid-19 waves. It was suggested that the additional backstop facilities for MSMEs and stressed sectors (Kamath Committee) debt should be introduced.

#### **Views on impact of taper risks on India's Economy**

- Economists participating in the survey highlighted that unconventional and aggressive monetary policies by global central banks since the onset of the COVID-19 pandemic has led to influx of foreign capital into emerging markets, including India.
- However, with economic recovery in developed nations gaining strength on the back of massive vaccinations exercises, central banks across the developed world have indicated tightening of their monetary policies.
- A majority of the respondents believed that while policy normalization in advanced economies will weigh on asset prices and currency markets thereby prompting capital outflows from emerging markets, the impact of quantitative tapering on India is likely to be limited this time around.
- High volume of foreign exchange reserves parked with the Reserve Bank of India (which amounts to approximately 14 months of India's import cover) will provide the much-needed resilience to the economy from any headwinds arising from the tapering process this time as compared to 2013 taper tantrum.
- Moreover, comfortable current account position, effective intervention by the RBI in currency forwards market, IPO related flows and likely inclusion of India in global bond indices should help curtail any significant depreciating bias on the India Rupee.
- Finally, economists suggested that enhancing the scope for utilizing domestic currency for trade payments could prove to be beneficial during the tapering process.
- Alongside, the country should continue to encourage stable longer term capital inflows by developing a conducive environment for investments. This will successfully tackle the situation.

#### **Views on India's current inflation trajectory**

- Economists participating in the survey were undivided on the fact that the current rise in prices was driven due to challenges emanating from the supply side constraints, however they were divided on determining the very nature of the inflation trajectory.
- Those economists who felt that the rise in prices is transitory in nature believed that the surge in prices could be attributed to the disruptions caused by the second wave of the pandemic. Rise and fall of coronavirus infections raised uncertainty leading to disturbances in demand and supply dynamics in the economy which ultimately drove inflation. With fresh infection cases now abating along with pick up in monsoon rains in the month of September as well as availability of sufficient capacity in the system, economists felt that inflation levels (particularly food inflation) will continue to moderate, going forward. Greater availability of idle capacity will also keep business away from any significant increase in prices of final goods.
- Other respondents felt that while rising price levels initially had a transitory component from the pandemic induced supply disruptions, the nature of inflation might have turned more lasting over the past few months. Increasing global commodity prices- be it crude oil, industrial inputs, metals, agricultural produce (food and raw materials)- has lifted the overall price levels globally and is also percolating into India's domestic market. This remains a major risk factor on the inflation front. Surging shipping and logistics costs is raising cost of production which is being passed on to the final consumers to some extent. This pass through of costs is likely to gain more steam as domestic demand strengthens further, especially in the second half of the ongoing fiscal year. Some of the participants said that rising concentration of market share has reinstated pricing power of some of the bigger industry players which has resulted in recent price hike announcements by some of them.
- Economists felt that elevated inflationary levels in spite of high base effects contradicts the idea of inflation being transitory in nature and therefore seems to be stickier than what was previously anticipated.



### Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of September 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 Q2(July-September) and Q3 (October-December) of FY22.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their opinion on upcoming monetary policy review and the future path of monetary policy. In addition, views of economists were sought on the global monetary policy tightening and its likely impact on India. Finally, views were also sought on the nature of the current inflation trajectory.

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

#### National Accounts

#### GDP growth at 2011-12 prices

Growth (in %)	Annual 2021-22			Q2 FY22			Q3 FY22		
	Median	Min	Max	Median	Min	Max	Median	Min	Max
GDP@ market prices	9.1	8.5	9.6	7.5	7.0	8.5	6.3	5.5	6.3
GVA@ basic prices	8.7	6.2	9.8	7.2	6.0	9.5	5.5	5.1	6.6
Agriculture & Allied activities	3.2	2.5	4.2	3.0	1.1	4.0	3.0	2.5	3.6
Industry	12.9	7.0	14.0	8.6	3.0	9.2	6.6	1.0	7.3
Services	8.6	7.0	10.0	8.5	7.0	11.7	5.8	2.5	7.5

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2021-22 at 9.1%** - with a minimum and maximum growth estimate of 8.5% and 9.6% respectively. This marks a marginal improvement from the growth projection of 9.0% recorded in the previous survey round (July 2021). Economic recovery post the terrible second wave of the pandemic has been holding ground and the same is also being reflected in the incoming data on various high frequency indicators.

**The median growth forecast for agriculture and allied activities has been put at 3.2% for 2021-22.** Pick up in monsoon rains in the latter part of the season and subsequent increase in kharif acreage is likely to keep the growth expectations of the agriculture sector upbeat.

Outlook of industry improved in the current survey round while services sector witnessed a slight deterioration as compared to the previous round. **Industry and services sector are anticipated to grow by 12.9%** (up from 11.3% growth projected in the previous round) **and 8.6%** (lower than 9.4% growth outlook in the previous survey) **respectively during the year.** Even though a sustained industrial recovery remains elusive (especially due to uncertainty around subsequent pandemic waves) the impact of the pandemic on services, especially contact intensive services, has been quite damaging. However, growth in services is expected to gather pace as is also reflected in the latest data (August 2021) on Purchasing Managers Index (PMI) for Services witnessing stark improvement from the contraction observed in the month of July.

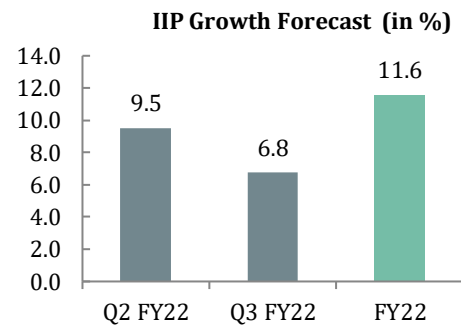
**Median GDP growth is estimated at 7.5% in the second quarter of 2020-21** and the **initial growth estimate for Q3 2021-22 is projected at 6.3%** with a minimum and maximum range of 5.5% and 6.3% respectively.

Index of Industrial Production (IIP)

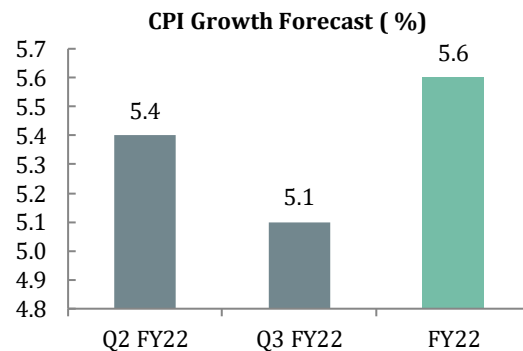
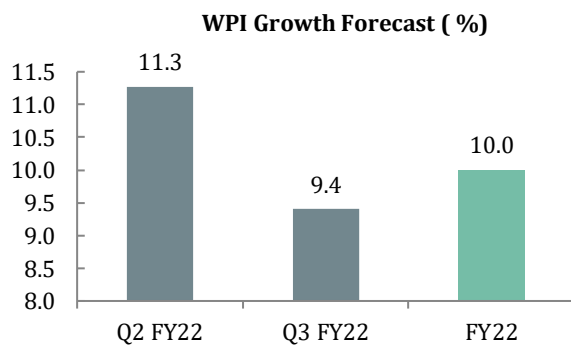
The participating economists have put forth a median growth forecast for IIP at 11.6% for the year 2021-22- with a minimum and maximum range of 7.5% and 24.6% respectively.

The latest data on industrial production continued to report double digit growth in the month of July 2021 on the back of extremely favourable base effects.

The median growth forecast for Q2 2021-22 is 9.5%. Growth is forecasted to mellow down to 6.8% by Q3 2021-22 as the base effect weans off.



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



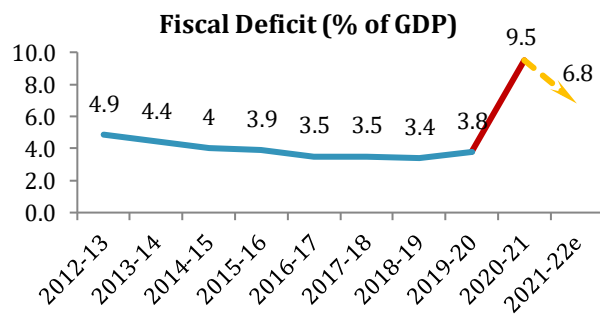
**WPI based inflation rate is projected at 10% in 2021-22.** As per actual data, wholesale inflation levels have climbed sharply. The latest data revealed continuation of double digit WPI based inflation levels in the month of August 2021. Cumulative (Apr-Aug 2021-22) wholesale-based inflation rate was also reported at a high level of 11.7% - as compared to (-) 1.3% inflation reported last year. Significant increase in global commodity prices - industrial inputs, metals, agricultural raw materials, food- have been majorly responsible for the increased price pressures.

**CPI based inflation has a median forecast of 5.6% for 2021-22,** with a minimum and maximum range of 5.4% and 5.8% respectively. Retail prices are projected to ease slightly in Q3 2021-22.

Fiscal Deficit

The median fiscal deficit to GDP ratio was put at 6.8% for the fiscal year 2021-22 by the participants - with a minimum and maximum range of 5.0% and 7.3% respectively.

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

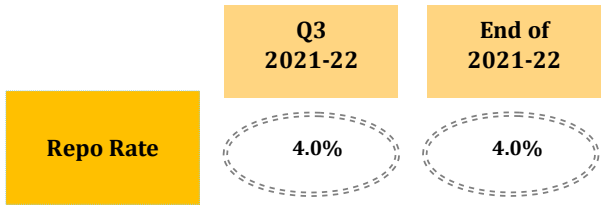


e: Expected

Money & Banking

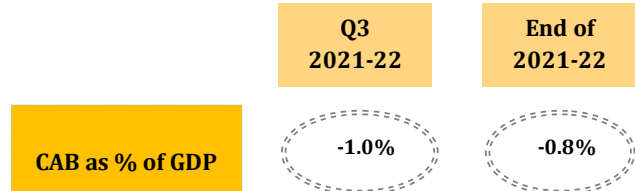
Bank credit is forecasted to grow by 7.8% in 2021-22 with a minimum and maximum range of 6.3% and 9.5% respectively.

Moreover, while there are talks about monetary policy tightening, the repo rate is anticipated to remain unchanged at 4.0% by the end of 2021-22.

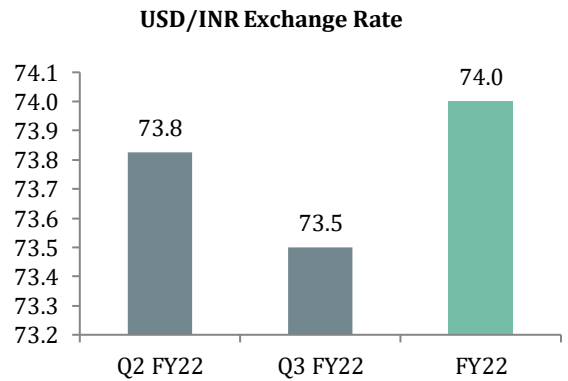


External Sector

2021-22	Export	Import
USD billion	378.5	522.1
Growth (in %)	27.0	32.0



Based on the responses of the participating economists, the **median growth forecast for exports has been put at 27.0% and for imports at 32.0% in 2021-22.**



**Survey Results: Part B  
Views of Economists**

**OPINION ON THE FORTHCOMING MONETARY POLICY REVIEW**

The participating economists unanimously felt that the Reserve Bank of India will maintain status quo on the repo rate and will continue with an accommodative stance in the forthcoming monetary policy. Growth remains a clear priority for the Central Bank and the same has been clearly communicated in the past rounds of monetary policy announcements. The latest GDP numbers for Q1 of 2021-22 did report a robust y-o-y growth which was backed by a low base. However, on a sequential basis a contraction was reported in the GDP growth in the first quarter. Also, inflation - which is being seen as a major concern - has reported some easing over the last two months. Thus, an accommodative stance is widely expected to be maintained over the near term.

The respondents pointed out that the second quarter GDP data and the upcoming festive season should give a clearer idea of where we are headed on the recovery path and how the demand situation is panning out. The demand pulse remains weak for now. Moreover, we will also get clarity on the covid situation, and the possibility of a third wave post the festive season. Until then, the Central Bank could continue to resort to milder liquidity draining policies. Some participants also pointed towards RBI considering narrowing of the policy rate corridor by raising the reverse repo rate.

With regard to heading back to the process of normalization, it was largely felt that the Central Bank may indicate a change of stance from accommodative to neutral in the February 2022 policy meeting. However, a hike in the repo rate only looks imminent in the next fiscal year (April 2022). Also, the path towards positive real interest rates is expected to be a staggered one. Much would be contingent on the build-up in domestic price levels and the extent of tapering by the Federal Reserve. The surge in global commodity prices and global supply chain bottlenecks can persist to put pressure on domestic prices.

Besides, the fresh concerns that have risen over China's growth with an impending crisis in the energy and real sector can undermine global recovery to some extent.

Furthermore, the participants were also asked to share their thoughts on the further steps that can be undertaken by the Central Bank to support growth.

The respondents believed that the Reserve Bank of India has done a commendable job in easing domestic economic and financial situation throughout the pandemic. They pointed out that maintaining adequate liquidity would remain important going ahead even as the Central Bank moves towards normalization.

A majority of the economists felt that continued support remains especially critical for the MSMEs and the informal sector. Change in Classification Norms of MSMEs for NPAs, reduction in cash margins, change in personal guarantee requirements will go a long in alleviating some of the challenges being faced by these enterprises. The sector has undergone immense stress due to two consecutive covid-19 waves. It was suggested that the additional backstop facilities for MSMEs and stressed sectors (Kamath Committee) debt should be introduced.

Lastly from a long-term perspective, it was recommended that extreme weather events have become crucial component in policymaking. Thus, RBI should look at integrating climate related risks into financial stability monitoring and generating awareness of climate related risks among regulated entities.

**PROGNOSIS ON IMPACT OF TAPER RISKS ON INDIA'S ECONOMY**

World over, central banks and governments had resorted to unprecedented fiscal, monetary, and regulatory responses to overcome the economic stress caused by the pandemic. However, off late, talks around evaluating exit strategies from these policy excesses and regulatory easing have begun. The Federal Reserve has started signalling initiation of quantitative easing withdrawal by year-end. This could have an



impact on currencies and asset markets, particularly in those emerging markets which are susceptible to capital withdrawals. In light of this, views of economists were sought on the impact of imminent taper risks on the Indian economy and ways in which India could limit the headwinds arising thereof.

Economists participating in the survey highlighted that unconventional and aggressive monetary policies by global central banks since the onset of the COVID-19 pandemic has led to influx of foreign capital into emerging markets, including India. Foreign institutional investors have pumped in about USD 15.8 billion in debt and equity combined in 2020 and another USD 7.2 billion in 2021 (January-July) so far. With economic recovery in developed nations gaining strength on the back of massive vaccinations exercises, central banks across the developed world have indicated tightening of their monetary policies.

A majority of the respondents believed that while policy normalization in advanced economies will weigh on asset prices and currency markets thereby prompting capital outflows from emerging markets, the impact of quantitative tapering on India is likely to be limited this time around. Economists cited that the taper chances are being well appreciated by market participants this time which will act as a cushion for emerging market economies.

As for India, participating economists highlighted that high volume of foreign exchange reserves parked with the Reserve Bank of India (which amounts to approximately 14 months of India's import cover) will provide the much-needed resilience to the economy from any headwinds arising from the tapering process this time as compared to 2013 taper tantrum. Moreover, comfortable current account position, effective intervention by the RBI in currency forwards market, IPO related flows and likely inclusion of India in global bond indices should help curtail any significant depreciating bias on the India Rupee. With India's external position much stronger than in 2013, the country's vulnerability to external shocks has reduced visibly. However, economists cautioned that uncertainties revolving around the Chinese economy as well as surging global inflationary levels are some of the external risks to watch out for.

Finally, economists suggested while forex reserves could provide a cushion to extreme volatilities in the currency market, the country should continue to encourage stable longer term capital inflows while discouraging volatile short-term flows. For this, developing a conducive environment for investments is of utmost importance which will aid in successfully tackling of the situation. Moreover, enhancing the scope for utilizing domestic currency for trade payments could also prove to be beneficial during the process.

### **VIEWS ON THE CURRENT INFLATION TRAJECTORY IN INDIA**

Rising inflationary pressures has emerged as one of the key macroeconomic concerns in the recent times. While the Reserve Bank of India maintains that the rising price levels are transitory in nature, we asked participating economists to share their views on the subject.

While economists participating in the survey were undivided on the fact that the current rise in prices was driven due to challenges emanating from the supply side constraints, they were divided on determining the very nature of the inflation trajectory. Those economists who felt that the rise in prices is transitory in nature believed that the surge in prices could be attributed to the disruptions caused by the second wave of the pandemic. Rise and fall of coronavirus infections raised uncertainty leading to disturbances in demand and supply dynamics in the economy which ultimately drove inflation. With fresh infection cases now abating along with pick up in monsoon rains in the month of September as well as availability of sufficient capacity in the system, economists felt that inflation levels (particularly food inflation) will continue to moderate, going forward. Greater availability of idle capacity will also keep business away from any significant increase in prices of final goods.

Other respondents felt that while rising price levels initially had a transitory component from the pandemic induced supply disruptions, the nature of inflation might have turned more lasting over the past few months. Increasing global commodity prices- be it crude oil, industrial inputs, metals, agricultural produce (food and raw materials)- has lifted the overall price levels globally and is also percolating into India's domestic market. This remains a major risk factor on the inflation front. Surging shipping and logistics costs is raising cost of production which is being passed on to the final consumers to some extent. This pass through of costs

is likely to gain more steam as domestic demand strengthens further, especially in the second half of the ongoing fiscal year. Some of the participants said that rising concentration of market share has reinstated pricing power of some of the bigger industry players which has resulted in recent price hike announcements by some of them.

In addition, while improved expectations of kharif crop output is likely to keep food inflation under check, increase in global food prices has also been putting some pressure on Indian retail prices. This was particularly visible in the edible oils segment which has noted steep increase in price over the past one year and continues to tread higher. This is a worrisome trend. Economists felt that elevated inflationary levels in spite of high base effects contradicts the idea of inflation being transitory in nature and therefore seems to be stickier than what was previously anticipated.

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