Economic Outlook Survey

April 2022

HIGHLIGHTS

GDP growth estimated at 7.4% for 2022-23

Reserve Bank of India could maintain policy rates at current level in forthcoming monetary policy announcement on April 8

Reserve Bank of India to begin rate hike cycle in H2 2022; Expect rate hike of 50-75 bps by end of fiscal year 2022-23,

Rising prices biggest risk from the ongoing Russia Ukraine conflict

Fiscal policy should be on front foot to manage the slowdown in India

- FICCI's latest Economic Outlook Survey puts forth an annual median GDP growth forecast for 2022-23 at 7.4 percent.
- The median growth forecast for agriculture and allied activities has been put at 3.3 percent for 2022-23; while industry and services sector are anticipated to grow by 5.9 percent and 8.5 percent respectively.
- However, downside risks to growth remain escalated. While the threat from the pandemic continues to remain on fore, the Russia-Ukraine conflict is posing a significant challenge to global recovery.
- CPI based inflation has a median forecast of 5.3 percent for 2022-23, with a minimum and maximum range of 5.0 percent and 5.7 percent respectively. Retail price inflation is projected at 6.0 percent in Q4 2021-22 and 5.5 percent in Q1 2022-23. The unsustainably high international commodity prices should level off going forward.
- Based on the responses of the participating economists, the median forecast for exports has been put at USD 434.4 billion and for imports at USD 669.4 billion in 2022-23.
- The median fiscal deficit to GDP ratio has been put at 6.4 percent for the fiscal year 2022-23 - with a minimum and maximum range of 6.2 percent and 6.4 percent respectively.

Views of economists

Assessment of Global Economic Situation in light of the Russia Ukraine Conflict

- The participants opined that while it is difficult to assess the exact impact of the conflict on global economy, much would depend on further continuation of the situation and the ensuing policy responses.
- Overall situation remains volatile, and outlook is uncertain with risks amplified to the downside. According to indicative estimates provided by the participants, global growth could slow down by 50-75 basis points – further moderating post covid recovery.
- The demand situation is yet to move back to pre-pandemic levels and any escalation in the conflict situation could worsen global economic situation further.
- Trade is being disrupted by a relapse in supply side leakages and stress on already high global commodity prices has also aggravated.
- Rising international commodity prices are the biggest risk emanating from the ongoing conflict. Nonetheless, the participants opined that global inflation is likely to peak out in the first half of 2022 and could moderate thereafter. The easing in price levels in the second part of the year will be backed by a slowing in Chinese economy and overall slowdown in global growth momentum, waning pent up demand, and monetary policy normalisation/rate hikes by the United States Federal Reserve.

Assessment on India's economy in light of the Russia Ukraine conflict

- India will not remain unscathed from the consequences of the ongoing conflict and economic repercussions through different channels are bound to become evident as uncertainty levels continues to remain elevated.
- Given that India remains a net importer to meet its energy requirements, the sharp rise in crude prices represents a significant shock to India's macro-economic framework. The participants were of the view that inflation continues to be the most significant risk for India.

- Furthermore, the economists said that private consumption remains the weakest link in the course to recovery. Consumer sentiments have been tepid for most of 2021-22. With escalating inflation, the purchasing power is being further restrained, especially for the low & lower-middle income households.
- Russia-Ukraine crisis has amplified the cost pressures being faced by producers. This will further postpone private investment as average capacity utilization continues to remain below the level that triggers new investments.
- Moreover, exports that were providing a cushion to the loss of domestic output is likely to subside as developed countries witness a moderation. Private demand and investment should remain in focus in FY23.
- The participants opined that recovery would hinge on government's infrastructure-led capital expenditure. The need of the hour is to front-load spending so that the nascent signs of recovery are not derailed.
- The economists opined that at this juncture, fiscal policy should be on front foot and contain inflationary pressures via excise cuts / subsidies. This will be important to safeguard private consumption expenditure from falling off once again as inflation pressures gain strength.
- There is a need to support consumption spending in the immediate term. Priority should be given to enhancing allocation for MGNREGA and plans to kickstart urban employment generation programme.

Expectations from forthcoming monetary policy

- There was a unanimous view that the Reserve Bank of India will refrain from undertaking policy reversal in the forthcoming monetary policy to be announced on April 8, 2022.
- RBI is expected to continue to support the ongoing economic recovery by keeping policy repo rate unchanged in April policy.
- Growth impulses are still nascent and consumer confidence has been subdued and is yet to recover to pre-pandemic levels. Also, new investments are yet to come forth in full swing.
- The skyrocketing prices of crude oil and industrial inputs are pressurising prices through imported inflation. Even though the passage to consumers has been limited so far, the economists expect a pass through next fiscal onwards.
- The economists thus were of the view, that the Reserve Bank of India will look at reversing its stance in the second half of the current year (2022) and expect a rate hike between 50-75 bps by end of this fiscal year.
- Given that inflation is supply driven, support from government in terms of fiscal measures such as reduction in excise duty and VAT on petrol/diesel by Centre and States have the potential to address some immediate concern on inflation.
- Also, continuing support to MSMEs remains critical especially amid continued uncertainty on account of Russia Ukraine conflict. It is important that the cash flows of the MSMEs enterprises is in place in order to maintain the operations. There is a need to ensure that additional funds for MSMEs are available and it is suggested that banks reduce the cash margin from 25% to 10-15%.
- Further, the working cycle of MSMEs in many cases extends much beyond 90 days period. It is thus suggested that there is a need to reconsider the provision of 90 days limit for classifying their over dues into NPAs and the limit should be increased to 180 days.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of March 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 Q4 (January- March) of FY22 and Q1(April-June) of FY23.

In addition, economists were asked to share their views on certain topical subjects. Given the recent escalation in geopolitical stress, economists were asked to share their assessment on global and India's economic situation amid the current circumstances and the foreseeable challenges. In addition, expectations of the economists were sought on the forthcoming monetary policy to be announced on April 8, 2022.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2022-23			Q4 FY22			Q1 FY23		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**7.4**	6.0	7.8	4.7	3.2	5.2	13.8	11.3	15.1
GVA@ basic prices	**6.9**	5.0	7.8	4.1	2.3	5.7	13.2	10.0	14.4
Agriculture & Allied activities	**3.3**	2.9	5.5	3.3	2.0	4.7	2.8	2.5	5.1
Industry	**5.9**	3.0	7.4	0.3	-0.4	1.4	13.0	10.5	15.4
Services	**8.5**	7.5	9.6	6.1	4.2	6.4	17.7	15.8	18.9

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2022-23 at 7.4 percent** - with a minimum and maximum growth estimate of 6.0 percent and 7.8 percent respectively.

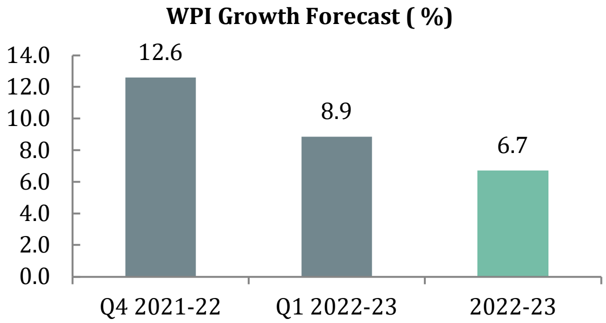
The median growth forecast for agriculture and allied activities has been put at 3.3 percent for 2022-23. On the other hand, **industry and services sector are anticipated to grow by 5.9 percent and 8.5 percent respectively during the fiscal year.**

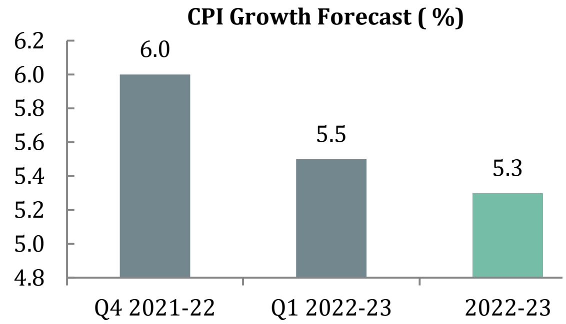
Median GDP growth is estimated at 4.7 percent and 13.8 percent for the fourth quarter of 2021-22 and first quarter of 2022-23 respectively.

However, it may be noted that downside risks to growth remain escalated. While the threat from the pandemic remains on fore, the continuation of Russia -Ukraine conflict is posing a significant challenge to global recovery – which has been scattered. Even though the direct impact on India will be limited, the affect through indirect channels will have to be borne. The skyrocketing commodity prices – including crude oil, industrial inputs, food - is having an adverse impact, especially on commodity importing nations. India being energy dependent is facing the consequence. Also, sectors including automobile, pharmaceuticals, gems & jewellery, fertilizers are facing a brunt to some extent through trade linkages with Russia/Ukraine.

Going ahead, maintaining a close watch on the ground situation will be critical. The existing external situation can be a dampener and impede domestic prospects. It remains important that we continue with the massive capex plan laid out by the government in the Union Budget 2022-23 and continue to give due consideration to growth in the monetary policy.

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



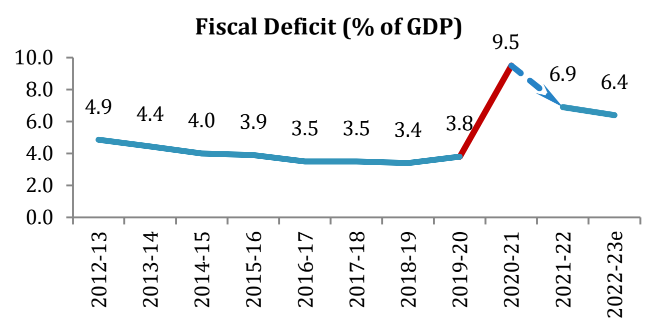


Wholesale inflation has been at double digit levels since April 2021 in sync with the already surging commodity prices. The current conflict between Russia and Ukraine is expected to further aggravate the price rise through imported commodities. The estimate for average wholesale-based inflation in Q4 of 2021-22 has been put at 12.6 percent. However, some respite is expected further ahead in the year. **The assessment for wholesale price index-based inflation rate for 2022-23 is forecasted at 6.7 percent.**

CPI based inflation has a median forecast of 5.3 percent for 2022-23, with a minimum and maximum range of 5.0 percent and 5.7 percent respectively. Retail prices are projected at 6.0 percent in Q4 2021-22 and 5.5 percent in Q1 2022-23. CPI based inflation has been treading above the targeted range of the RBI in Jan/Feb 2022 and should see some respite in the forthcoming fiscal year. The unsustainably high international commodity prices hopefully should level off going forward.

Fiscal Deficit

The median **fiscal deficit to GDP ratio has been put at 6.4 percent for the fiscal year 2022-23 by the participants -** with a minimum and maximum range of 6.2 percent and 6.4 percent respectively. This is line with the budgeted fiscal deficit for 2022-23 – which has also been estimated at 6.4 percent earlier this year.



e: Expected

Money & Banking

Bank credit is forecasted to grow by 8.5 percent in 2022-23, with a minimum and maximum range of 7.0 percent and 10.0 percent respectively.

Moreover, while normalization of monetary policy is underway, the repo rate is anticipated to remain unchanged at 4.0 percent in the first quarter of 2022-23. However, the respondents expect the repo rate to increase by 50 bps by end of the fiscal year 2022-23.

	Q1 2022-23	2022-23 (End, March 2023)
Repo Rate	**4.0%**	**4.5%**

External Sector

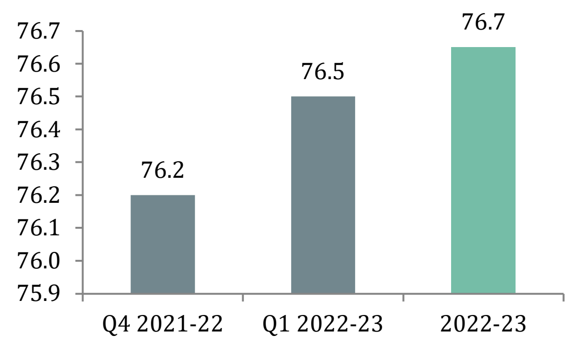
2022-23	Export	Import
USD billion	434.4	669.4
Growth (in %)	5.0	10.0

End of 2022-23

CAD as % of GDP **2.7%**

Based on the responses of the participating economists, the **median forecast for exports has been put at USD 434.4 billion and for imports at USD 669.4 billion in 2022-23.**

USD/INR Exchange Rate



Survey Results: Part B
Views of Economists

The global situation continues to remain under weather. While risks on account of Covid-19 pandemic very much remain on fore, the escalation of geo-political stress with the ongoing Russia Ukraine conflict has significantly added to the uncertainty levels.

Assessment of Global Economic Situation in light of the Russia Ukraine Conflict

Even though countries have been recovering at different speeds as a consequence of the pandemic, the global growth did witness a rebound in the year 2021. However, the significant escalation of the Russia-Ukraine conflict, in addition to the persisting threat from pandemic is likely to undermine growth prospects this year (2022).

The participants opined that while it is difficult to assess the exact impact of the conflict on global economy, much would depend on further continuation of the conflict and the ensuing policy responses. The sanctions imposed on Russia by European countries and the United States is having spill overs in both the real and the financial sectors. Although the impact is being felt across countries, the impact on European economies is likely to be felt the most, while the United States and Asia should be able to hold their stead. Also, the major commodity importing emerging economies will have to bear the consequences.

The overall situation remains volatile, and outlook is uncertain with risks amplified to the downside. According to indicative estimates provided by the participants, global growth could slow down by 50-75 basis points – further moderating the prospects of post covid recovery. The demand situation is yet to move back to pre-pandemic levels and any further spread of the conflict situation could worsen global economic situation. Trade is already being disrupted by a relapse in supply side leakages and stress on already high global commodity prices has also aggravated.

Russia and Ukraine are global suppliers of key commodities like neon, palladium, wheat, edible oil and corn. Disruptions in the supply chain of these commodities is already edging up their prices. Russia is also one of the world's largest oil producers and energy exporters - causing a massive surge in crude oil prices in the global market. As on March 7, 2022, the crude oil prices came close to USD 130 for a barrel – which was the highest in about 13 years and marking an increase by 50.0% over the average prices of USD 86.5 for barrel in January this year.

Rising international commodity prices are the biggest risk emanating from the ongoing conflict. Prolonging of this conflict will further hit supplies of major raw materials, including crude oil, natural gas, food, fertilizers, and metals. Price shocks have an adverse impact worldwide, especially on the poor households as food and fuel form a significant proportion of their expenses.

Nonetheless, participants opined that global inflation is likely to peak out in the first half of 2022 and moderate thereafter. The easing in price levels in the second part of the year will be backed by a slowing Chinese economy and overall moderation in global growth momentum, waning pent up demand, and monetary policy normalisation/rate hikes by the United States Federal Reserve.

Also, the economists were of the view that new alliances may be on fore having economic and geostrategic implications.

Assessment on India's economy in light of the Russia Ukraine conflict

India will not remain unscathed from the consequences of the ongoing conflict and economic repercussions through different channels are becoming evident as uncertainty levels continue to remain elevated. Given that India remains a net importer to meet its energy requirements, the sharp rise in crude prices represents a significant shock to India's macro-economic framework. Moreover, the impact on economy is expected to be more serious if the conflict prolongs.

Even though India does not have a considerable trade exposure to Russia and despite the limited exposure through other channels, the prevalent terms of trade shock accompanied with supply side disruptions are likely to dampen India's growth prospects.

Although the Economic Survey 2021-22 had put forth India's GDP growth forecast between 8.0 percent and 8.5 percent for 2022-23 earlier this year, risks to downsides have intensified since then.

The participants were of the view that inflation continues to be the most significant risk for India. Surging crude oil prices are likely to adversely impact India's macros - including GDP, inflation, current account, and Rupee. Increase in oil-prices coupled with the sharp fall in Rupee value is inflating India's import bill adding to the stress on current account.

Inflationary pressures accentuated by worsening CAD will be major concern for India. Capital outflow will keep financial markets in India on the edge with higher liquidity pressures for Indian corporates. Foreign portfolio investors (FPIs) have remained net sellers in the Indian capital market for six consecutive months ending March 2022. Therefore, the key challenge at hand for India is to manage inflation and the Rupee.

Furthermore, the economists said that private consumption has been the weakest link in the course to recovery. Consumer sentiments have been tepid for most of 2021-22. With escalating inflation, the purchasing power is being further constricted, especially for the low & lower-middle income households - who account for a majority of the population in India and are primary drivers to aggregate consumption.

Russia-Ukraine crisis has amplified the cost pressures being faced by producers. This will further postpone private investment as average capacity utilization remains below the level that could trigger new investments. Limited ability to pass on rising cost of inputs is eroding profitability of businesses. The cost escalation may hit the cash flow going ahead and is weighing heavy on their capex plans.

Moreover, exports that were providing a cushion to the loss of domestic output are likely to be subdued as the developed countries are also witnessing a slowdown and have been moving towards withdrawal of fiscal stimulus. Private demand and investment should be the focus in 2022-23 to steer growth.

Amidst the global developments, some suggestions were put forth to support growth

Despite the challenges, India has the potential to remain among fastest growing major economies in the world. Indian economy remains well placed over the medium term.

The participants said as inflation concerns ease, public capex will crowd in private capex. Recovery would hinge on government's infrastructure-led capital expenditure. The need of the hour is to front-load spending so that the nascent recovery signs are not derailed.

Also, boost to domestic manufacturing activity via Atma Nirbhar Bharat and PLI scheme should enhance India's resilience to supply-chain disruptions.

The economists opined that at this juncture, fiscal policy should be on front foot and inflation pressures could be contained via excise cuts / subsidies. This will be important to safeguard private consumption expenditure as inflation pressures gain strength.

For instance, the Pradhan Mantri Ujjwala Yojana (PMUY) is a transformative scheme contributing towards improved living of poor households, better health of women and also contributing towards a cleaner environment. The subsidy component under the scheme has focused more on providing new gas connections, free first refills, free hotplates, etc., rather than regular subsidies on every refill. During the first wave of Covid pandemic, three free cylinder refills were offered to PMUY recipients. However, with increase in gas prices lately, affordability has become a major challenge for such households for using cooking gas. Various reports show that monthly expenditure of such households has risen significantly due to increased gas prices. It is thus suggested that the government should subsidise the usage of 6 -7 cylinders in a year for such households.

The need to support consumption spending remains. Priority should be to enhancing allocation for MGNREGA, PMEGP and plans to kickstart urban employment generation programme.

Also, coordination between Government and the RBI remains vital to achieve the necessary growth-inflation outcomes.

Expectations from forthcoming monetary policy

There was a unanimous view that the Reserve Bank of India will refrain from undertaking policy reversal in the forthcoming monetary policy to be announced on April 8, 2022.

Even though upside risks to inflation have magnified with the escalation of Russia and Ukraine conflict and the growth-inflation dynamics has also come under lens, the monetary policy committee is expected to look through temporary inflation spikes in the near term.

RBI is expected to continue to support the ongoing economic recovery by keeping policy repo rate unchanged in April announcement while slowly absorbing excess liquidity from the system. Growth impulses are still nascent and consumer confidence has been subdued and is yet to get back to pre-pandemic levels. New investments are yet to come forth in full swing.

RBI may pursue an interest rate environment that is conducive for macro-economy and price stability to maintain growth momentum.

The skyrocketing prices of crude oil and industrial inputs is pressurising prices through imported inflation. Even though the passage to consumers has been limited so far, the economists expect a pass through next fiscal onwards. Also, Federal Reserve has embarked on a rate hike cycle and so have central banks of some other European countries. The economists were of the view, that the Reserve Bank of India will look at reversing its stance in the second half of the current year (2022) and one can expect a rate hike between 50-75 bps by end of this fiscal year.

Given that inflation in India has been supply driven, support from government in terms of fiscal measures such as reduction in excise duty and VAT on petrol/diesel by Centre and states have the potential to mitigate some immediate concern on inflation.

Also, continuing support to MSMEs remains critical especially given the impact of the ongoing conflict on smaller enterprises.

It is important that the cash flows of MSMEs is in place in order to maintain the operations, payment to creditors, support non-moving inventory etc. There is a need to ensure that additional funds for MSMEs are available. Hence, it is suggested that banks should be asked by the RBI to reduce the cash margin from 25% to 10-15%. This would immediately provide liquidity relief to MSMEs having credit line with banks.

Also, the working cycle of MSMEs in many cases extends much beyond 90 days period as from the date of purchase of raw materials till the date of making sales which spreads over a period of 90 days and thereafter, it takes another 30 to 90 days to realize the bills and receivables. Hence, the working capital cycle of MSMEs keeps prolonging due to delays in realization of sales receivables. Due to such delays, MSMEs find it extremely difficult to service their debt instalments or interest obligations in time, as a result of which, many of them default and their dues become irregular and overdue, leading to their classification into NPAs. There is a need to reconsider the provision of 90 days limit for classifying their over dues into NPAs.

It is, thus, recommended that the 90 days limit fixed by RBI for classifying overdue of MSMEs should be increased to 180 days so that MSMEs are not constrained to divert their working capital towards servicing of their loan-instalments and clearing of their over dues at the cost of normal business operations.

Furthermore, it is suggested that a special purpose credit scheme for setting digital infrastructure for micro enterprises be put in place. The results of a survey conducted by TransUnion CIBIL showed that for around

61 per cent of very small borrowers with exposure less than Rs 10 lakh, it wasn't easy for them to avail credit under ECLGS.

The government has set-up a Digital MSME scheme which aims to improve the digital penetration of MSMEs and provides relevant subsidies. However, to increase the credit offtake within micro enterprises and further provide a thrust to their digital adaptation, it is suggested to come up with a scheme on special purpose credit for digitisation of a micro enterprise. Any small business with turnover of up to INR 5 crore should be able to avail a special purpose loan from financial institutes to set-up or scale up its digital infrastructure. Loans for this objective can be promoted under PSL.

Federation of Indian Chambers of Commerce and Industry
Federation House
Tansen Marg, New Delhi 110001

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