Economic Outlook Survey

January 2022

HIGHLIGHTS

GDP growth estimated at 7.4% for 2022-23, 9.3% for 2021-22
Omicron led wave may undermine recovery, Global inflation a concern
Cautious optimism that recovery will gain a firmer ground in H2 2022
Consumption boost and support to MSMEs should be the focus in the forthcoming Union Budget

- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2021-22 at 9.3%. The minimum and maximum growth estimate stood at 9.0% and 9.5% respectively.
- The median growth forecast for agriculture and allied activities has been put at 3.8% for 2021-22. On the other hand, industry and services sector are anticipated to grow by 11.8% and 8.8% respectively during the year.
- While industry and services activity had noted an uptick especially in Q2 2021-22, signs of moderating growth performance are starting to emerge. The situation is likely to exacerbate in the fourth quarter not only because of waning of favourable base effects, but also due to uncertainty surrounding the third wave of pandemic which has already taken a grip over the country.
- The survey forecasts median GDP growth at 5.6% in the third quarter of 2021-22. The official growth numbers for the third quarter will be released at the end of February 2021.
- The outlook of participating economists on inflation was in line with expectations. While WPI based inflation rate is projected at 11.8% in 2021-22, CPI based inflation has a median forecast of 5.5% for 2021-22, with a minimum and maximum range of 5.3% and 5.6% respectively.
- The median growth forecast for exports has been put at 38% and for imports at 37% in 2021-22. The median current account balance has been pegged at (-) 1.1% of GDP for 2021-22.

Views of economists on key topical issues

Views on Global and Domestic Outlook for 2022

Global Economic Prospects

- While there was some recovery noticed in global growth in 2021, growth had been moderating recently on the back of persisting supply side constraints, rising input prices and gradual withdrawal of policy support. Stimulus from both fiscal and monetary policy is shifting gear towards deficit reduction and gradual monetary tightening.
- Rising inflationary pressures across global economies is a major concern. Higher global commodity prices, shortage of critical inputs, supply chain bottlenecks, increasing consumer demand have all contributed to the spiralling price levels globally.
- Inflationary pressures are not being considered transitory anymore, central banks around the world are finding it increasingly difficult to support economic growth amidst prevailing high price levels.
- The Omicron variant is posing a grave threat to global economic recovery and will particularly prove detrimental for low-income countries where vaccination rates have been extremely low.
- Vaccine inequity is further expected to grow the divergence in economic prospects between countries as another wave of the pandemic holds ground.
- Stagflation along with waning of policy support, heightened financial market volatility has made economists less sanguine about global growth prospects in 2022.

India's Economic Prospects

- A majority of participating economists believed that India's economic recovery is still not on a firm footing. The weakness in economic recovery has been brought to fore by the loss in momentum observed since end of October 2021. The festive push to demand lost some impetus in November which is reflected in some of the high frequency indicators losing momentum on a sequential basis.

- Private consumption, which accounts for the largest share in India's GDP, remains weak. Likewise, services segment is yet to recover to the pre-covid levels. This coupled with fresh concerns over Omicron induced restrictions (already visible throughout the country) will delay recovery and push back growth in these significant segments once again.
- However, there is cautious optimism that India's economic recovery will not only become more durable but also broader based this year especially in the second half. Participants believed that India has the potential to grow at reasonably high levels in the post-pandemic world.

Views on ways to unclog credit flow in the economy

- Even though the latest numbers on credit growth indicate some improvement, a majority of participants felt that companies will look at expanding investments only when there is a more tangible improvement in capacity utilization levels. Unless there are signs of a robust recovery in demand, corporate India would stick to wait and watch approach despite historically low levels of borrowing costs.
- Economists stressed that it was critical for governments – both at the centre as well as states – to enhance their capex spending and continue the virtuous cycle of investments. This would ultimately crowd in private sector investments and drive credit growth.
- In addition, participants felt that while companies with superior credit ratings can easily benefit from raising funds from money markets, many of the smaller manufacturing units get left out from this source. Thus, it is important that the RBI continues its thrust towards channelizing credit to the needy sectors of the economy through credit guarantee programs. Banks could also be encouraged to conduct financial literacy programs at the ground level to enhance outreach to the smaller units.
- Furthermore, resetting of global supply chains has opened ample opportunities in digital and technology sectors. Therefore, banks must direct their lending towards these new areas of strategic importance for the country to benefit. The government has already taken several measures to support the start-up ecosystem in the country, the banks could offer support by providing specific solutions for start-up funding. A portal can be designed to provide integrated services for start-ups.
- Also, the share of export credit of nationalised banks has come down conspicuously in the last four to five years. This may be looked into. The relations between commodity boards, EPCs, banks need to be rejuvenated and these need to focus on giving a thrust to MSME exporters.
- While most of the public sector banks are out of the prompt corrective action framework with strong balance sheets, economists highlighted that recapitalization is still required for some of them.
- RBI must remain watchful on the asset quality given the current times and take necessary steps to timely redress any build-up of stress.

Expectations from the Union Budget, 2022-23

- Participating economists were unanimous in calling for measures to support consumption and employment generation.
- A job guarantee scheme for the urban poor topped the list of expectations in this segment. Economists felt that a MGNREGA like scheme for the urban sector could wean off some pressure in the rural sector caused due to migration of workers during covid.
- For the rural sector itself, economists said that the pace of MGNREGA must be maintained which will not only boost rural jobs but also support overall rural consumption demand.
- Moreover, they felt that the government must continue with the food subsidy/ allocation scheme especially with the third pandemic wave gripping the nation.
- Economists also called for a temporary and marginal increase in tax devolution to states from the 15th Finance Commission recommendation of 41% until state revenues stabilize. This is especially important in the current times.
- Participants of the survey highlighted that the fiscal strategy of the government should reflect support for MSMEs and must focus on creating a conducive environment for smaller businesses to thrive. Ensuring ease of access to finance for MSMEs remains extremely important.
- The government could consider increasing Collateral free loans under CGTMSE from the existing Rs. 2 crores to up to Rs. 5 crores. To ensure timely payments to the MSMEs, it is suggested that there should be

automatic publishing of GST registered MSMEs' invoices on TReDS, and these should be deemed accepted and payable by banks, once the date for acceptance or rejection by the buyer is over.

- Participants of the survey recommended that the government incentivizes retail participation in corporate bonds by abolishing capital gains tax and by standardizing the tax treatment between debt mutual funds and direct holdings. In addition, a need was felt for developing innovative debt instruments to garner public interest.
- Tax incentives may be considered for promotion and adoption of green technology in India.
- The housing and real estate sector can be a force multiplier for growth and for kickstarting investments/ capex cycle. The sector needs to be provided holistic support in the upcoming Union Budget. An interest subsidy of 3-4% on housing loans could also be offered for a period of 3-4 years.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of December 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, 2022-23 and for the quarters Q3(October- December) and Q4 (January- March) of FY22.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their opinion on global and India's growth prospects in the upcoming year. In addition, suggestions of economists were sought on ways to unclog credit flow in the economy. Views of economists were also sought on their expectations from the forthcoming Union Budget 2022-23.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

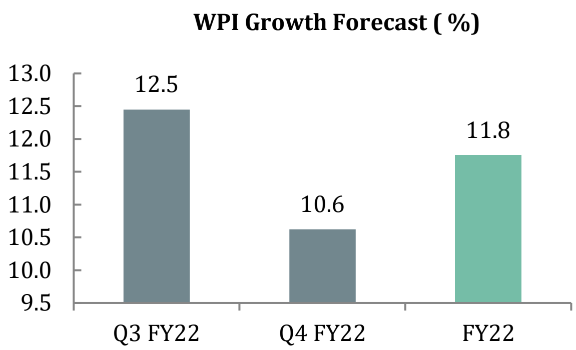
	Annual 2021-22			Q3 FY22			Q4 FY22		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	**9.3**	9.0	9.5	5.5	4.6	6.5	5.0	4.3	6.2
GVA@ basic prices	**8.9**	7.0	9.0	5.2	4.4	8.5	4.8	3.5	6.0
Agriculture & Allied activities	**3.8**	3.0	4.4	3.2	2.0	4.5	3.9	2.6	4.5
Industry	**11.8**	8.0	13.4	5.3	0.8	7.5	2.3	0.3	5.2
Services	**8.8**	7.0	9.4	6.3	5.9	7.0	6.6	4.5	8.6

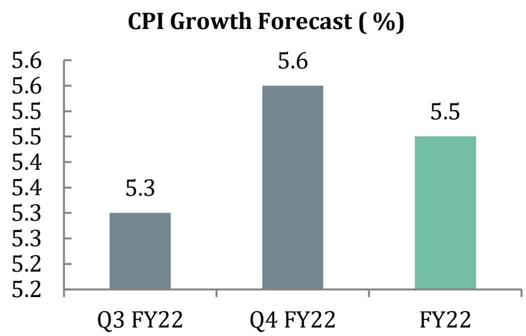
The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2021-22 at 9.3% -** with a minimum and maximum growth estimate of 9.0% and 9.5% respectively. **Furthermore, the Indian economy is estimated to grow at 7.4% in fiscal year 2022-23.**

The median growth forecast for agriculture and allied activities has been put at 3.8% for 2021-22. On the other hand, **industry and services sector are anticipated to grow by 11.8% and 8.8% respectively during the year.** While industry has performed well especially in Q2 2021-22, signs of moderating growth performance are starting to emerge. This is also corroborated by latest incoming data for some high frequency indicators which have been witnessing signs of moderation on a sequential basis. The situation is likely to exacerbate in the fourth quarter not only because of waning of favourable base effects, but also due to uncertainty surrounding the third wave of pandemic which has taken grip over the country.

Median GDP growth is estimated at 5.5% and 5.0% for the third and fourth quarter of 2021-22 respectively.

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





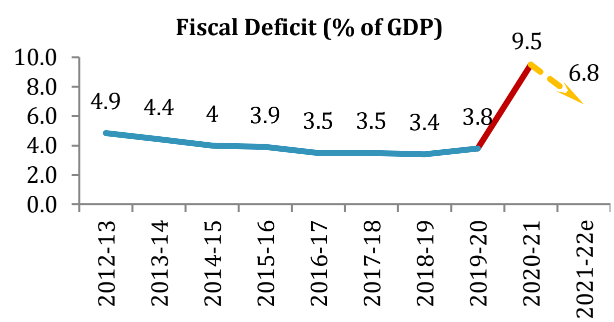
WPI based inflation rate is projected at 11.8% in 2021-22 indicating increase in inflation expectations of the respondents. As per actual data, wholesale inflation levels have been climbing sharply. The latest data revealed continuation of double digit WPI based inflation levels in the month of November 2021 on back of rising input prices. Cumulative (Apr-Nov 2021-22) wholesale-based inflation rate was reported at 12.2% as compared to (-) 0.2% inflation reported in the same period last year.

CPI based inflation has a median forecast of 5.5% for 2021-22, with a minimum and maximum range of 5.3% and 5.6% respectively. Retail prices are projected to rise in Q4 2021-22. Nonetheless, CPI based inflation remains within the targeted range of the RBI.

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 6.5% and 7.0% respectively.

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

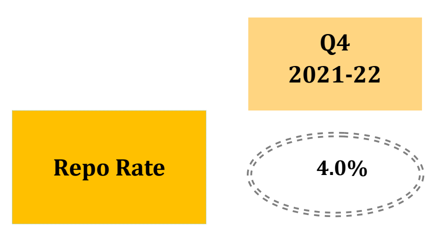


e: Expected

Money & Banking

Bank credit is forecasted to grow by 7.2% in 2021-22 with a minimum and maximum range of 6.8% and 7.8% respectively.

Moreover, while normalization of monetary policy is underway, the repo rate is anticipated to remain unchanged at 4.0% by the end of 2021-22. The commencement of a change in the monetary policy stance to neutral is expected to be deferred to April 2022.



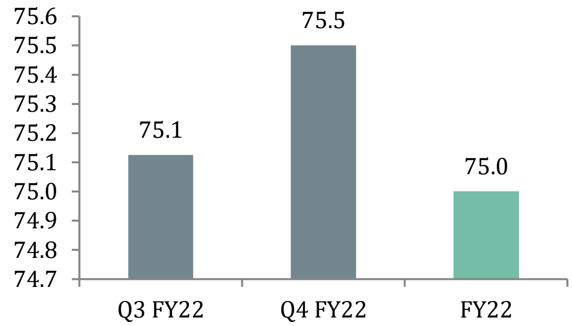
External Sector

2021-22	Export	Import
USD billion	403.0	567.5
Growth (in %)	38.0	37.0

	Q3 2021-22	End of 2021-22
CAD as % of GDP	**0.2%**	**1.1%**

Based on the responses of the participating economists, the **median growth forecast for exports has been put at 38% and for imports at 37% in 2021-22.**

INR/USD Exchange Rate



Survey Results: Part B
Views of Economists

VIEWS ON GLOBAL AND DOMESTIC OUTLOOK FOR 2022

The current global scenario is turning more cautious once again with the rapid spread of the new variant of the virus 'Omicron'. The recovery was just holding ground, however, the renewed uncertainty about the course of the pandemic can be seen as a major downside risk to the economic prospects. In this backdrop, participating economists were asked to share their prognosis on global growth outlook for 2022 as well as outlook for India's economy.

Global Economic Prospects

While there was some recovery being noticed in global growth in 2021 mainly due to the rebound effect from the pandemic in 2020, growth has been moderating recently on the back of persisting supply side constraints, rising input prices and gradual withdrawal of policy support. Stimulus from both fiscal and monetary policy is shifting gear towards deficit reduction and gradual monetary tightening.

Participating economists unanimously cited rising inflationary pressures across global economies as a major concern. Higher global commodity prices, shortage of critical inputs, supply chain bottlenecks, increasing consumer demand are all contributing to the spiralling price levels globally. With inflationary pressures not being considered transitory anymore, central banks around the world are finding it increasingly difficult to support economic growth amidst prevailing high price levels.

While many countries including New Zealand, Korea, Russia, Brazil and Mexico, have already begun monetary tightening, policy normalization by major central banks such as the US Federal Reserve and European Central Bank are being watched closely. This will especially hold more significance amid the rapid spread of the new coronavirus variant "Omicron".

The variant is posing a grave threat to global economic recovery and will particularly prove detrimental for low-income countries where vaccination rates have been extremely low. Vaccine inequity is further expected to increase the divergence in economic prospects between the countries as another wave of the pandemic is holds ground.

Participating economists highlighted that the economic ramifications arising from the Omicron variant would depend on the extent of lockdowns/ restrictions imposed by nations. While citing an increase in Oxford Stringency Index (which measures restrictions imposed by countries), economists said that the fresh bout of restrictions could exacerbate the already high inflationary pressures and cause further damage to global recovery.

Although most countries were heading towards their pre-pandemic level last year, participating economists are worried about slowing economic activity coupled with persisting high inflationary pressures. This along with waning of policy support, heightened financial market volatility has made economists less sanguine about global growth prospects in 2022.

India's Economic Prospects

A majority of the participating economists believed that India's economic recovery is still not on a firm footing. The weakness in economic recovery has been brought to fore by the loss in momentum observed since end of October 2021. The festive push to demand lost some impetus in November which is also corroborated by fall in e-way bills volume during the month. Moreover, retail auto sales were seen at a decadal low along with lower rural and urban consumption levels in the country (which can be attributed to lower real household incomes on the back of high inflation, low wage growth and rising income inequality). Several other high frequency indicators, including PMI manufacturing, consumption of finished steel, two-wheeler sales, air freight and passenger traffic and peak power demand, have already been reporting moderation in growth. This periodic sequential weakness in high frequency indicators point towards unevenness in recovery.

Private consumption, which accounts for the largest share in India's GDP, has still not reached the pre-pandemic level. Likewise, as per economic activity wise classification of GDP, services segment which has the largest share in the economy has been most adversely hit by the pandemic due to the contact-based nature and is yet to touch the pre-covid level. This coupled with fresh concerns over Omicron induced restrictions (already visible in most parts of the country) will delay recovery and push back growth in these segments once again. Moreover, exports segment (which was consistently driving India's growth throughout the ongoing fiscal year) has also started to lose some momentum.

However, economists remained cautiously optimistic that India's economic recovery will not only become more durable but also broader based this year. Consumer and business confidence levels had been witnessing an improvement and should support robust consumption thereby boosting capacity utilization rates once the current wave recedes - setting the stage for expansion in the second half of 2022.

Further, while solid tax collections will allow for continued government spending in building the much needed and growth enhancing capital assets, higher inflation target for the RBI (as compared to other global central banks) will provide some elbow room for justifying growth considerations for some more time.

Economists highlighted that they were optimistic about the overall general economic situation in the country, going forward. They believed that India has the potential to grow at reasonably high levels in the post-pandemic world.

VIEWS ON WAYS TO UNCLOG CREDIT FLOW IN THE ECONOMY

Data from Reserve Bank of India indicates that credit flow to industry grew by a meagre 1.6%, while the corresponding number for the non-industrial sectors was 12.4% between FY15 and FY21. While factors such as weak demand, bank hesitancy, rising NPAs had been at play, the pandemic made the situation worse. Nonetheless, the aspiration to move to a higher growth tangent would require that we have a seamless credit flow ecosystem in place. In this regard, economists were asked to share their views on ways to unclog credit flow especially in the productive sectors of the economy.

Even though the latest numbers on credit growth indicate some improvement, a majority of participants felt that companies will look at expanding investments only when there is a more tangible improvement in capacity utilization levels. The capacity utilization rates have been low persistently over the past few quarters which has resulted in tepid credit demand from the industry. Unless there are signs of a robust recovery in demand, corporate India would stick to wait and watch approach despite historically low levels of borrowing costs.

Moreover, sectors that are suffering from shortages of critical inputs are also facing challenges in production and will wait for supply constraints to ease before planning on expanding production. In fact, credit demand for working capital loans also seems to have tapered on the back of improvement in efficiency gains in the supply chain (better infrastructure, improved inventory management and greater digitization).

Economists stressed that it was critical for governments – both at the centre as well as states – to enhance their capex spending and continue the virtuous cycle of investments. This would ultimately crowd in private sector investments and drive credit growth. Economists cited examples of visible increase in capex spending by cement and other core sector industries on the back of increased government spending on infrastructure projects.

In addition, participants of the survey felt that while companies with superior credit ratings can easily benefit from raising funds from money markets, many of the smaller manufacturing units get left out from this source. Thus, it is important that the RBI continues its thrust towards channelizing credit to the needy sectors of the economy through credit guarantee programs. Banks could also be encouraged to conduct financial literacy programs at the ground level to enhance outreach to the smaller units.

Furthermore, resetting of global supply chains has opened ample opportunities in digital and technology sectors. Therefore, banks must direct their lending towards these new areas of strategic importance for the country to benefit. The government has already taken several measures to support the startup ecosystem in the country, the banks could offer support by providing solutions for startup funding. A portal can be designed to provide integrated services for start-ups.

Also, the share of export credit of nationalised banks has come down conspicuously in the last four to five years. This may be looked into. The commodity boards, EPCs, banks need to be rejuvenated and these should come together to give a thrust to MSME exporters.

While most of the public sector banks are out of the prompt corrective action framework with strong balance sheets, economists highlighted that recapitalization is still required for some of them. Furthermore, the RBI must remain watchful on the asset quality given the current times and take necessary steps to timely redress any build-up of stress.

Going forward, credit growth trajectory is likely to be dependent upon the sustenance of conducive demand environment as resolution of stressed assets has ensured that most of corporate India has much stronger balance sheets, making them in a better position to borrow and invest. However, sustained improvement in consumer sentiments will be vital for any recovery in private investments cycle.

EXPECTATIONS FROM THE UNION BUDGET, 2022-23

The budget session is on the horizon and the government will present Union Budget 2022-23 next month. Considering this, participating economists were asked to share their expectations from the Union Budget. Given the experience over the past year and a half, it was felt that a state of preparedness to meet any adversity on the health and economic front will be necessary. Some of the key focus areas for the forthcoming Union Budget suggested by the participants were:

Consumption

The impact of the pandemic on private consumption demand has been disproportionate and has intensified income inequality. Moreover, unemployment rate has remained high despite recovery in economic activity post the second wave. In view of this, participating economists were unanimous in calling for measures to support consumption and employment generation.

A job guarantee scheme for the urban poor topped the list of expectations. Economists felt that a MGNREGA like scheme for the urban sector could wane off some pressure in the rural sector caused due to migration of workers during covid. Several states already have such a scheme in place including Odisha (MUKTA Yojana), Jharkhand (Mukhyamantri Shramik Rojgar Yojana), Himachal Pradesh (Mukhyamantri Shahri Aajeevika Guarantee Yojana) and Kerala (Ayyankali Urban Employment Guarantee Scheme).

For the rural sector itself, economists said that the pace of MGNREGA must be maintained which will not only boost jobs but also support overall consumption demand in the sector. Moreover, they felt that the government must continue with the food subsidy/ allocation scheme especially with the third pandemic wave already gripping the nation.

On the taxation front, some of the participating economists believed that no major changes must be made especially in the indirect taxation rates. They said that even though GST rates are not within the ambit of the budget, raising rates with a sole purpose of increasing revenue could prove counterproductive. On direct taxation, respondents to the survey felt that a small increase in the threshold income limit of zero taxation could provide some relief to the those falling in the low-income bracket.

Public Finance

Economists called for a temporary and marginal increase in tax devolution to states from the 15th Finance Commission recommendation of 41% until state revenues stabilize. This is important in the current times as bulk of public spending on crucial areas such as healthcare and education are being borne by states.

In addition, respondents of the survey opined that they do not foresee significant contraction in the fiscal deficit target for the next financial year (2022-23). While both the Central Bank and the Government have done an incredible job in maintaining economic and financial stability, withdrawal of monetary policy support looks imminent. At this juncture, the role of government expenditure remains critical.

Moreover, lack of domestic demand along with some delay expected in normalization of global growth is likely to keep private investments at bay for some more time. Thus, there is continued requirement of government capital expenditure to keep the investment cycle going. Focus of the government must remain on building hard and soft infrastructure. Health and education infrastructure in the country needs to be beefed up, and therefore a clear roadmap of achieving the same must be laid out in the budget.

Specifically on healthcare, economists felt that the expenditure needs to increase substantially over the next ten years with focus on providing easily accessible and affordable health care services (both primary and secondary). This can be achieved through faster adoption of technology and telehealth services.

On the revenue side, while expectation of nominal growth of about 12% should help in revenue generation, the government will need to start implementing asset monetization to boost revenues and supplement disinvestment targets.

MSMEs

Participants of the survey highlighted that the fiscal strategy of the government should reflect support for MSMEs and must focus on creating a conducive environment for smaller businesses to thrive. Faster clearance of pending dues to MSMEs, rationalisation of compliance requirements and a tailor-made fiscal package for first-time MSME borrowers to encourage entrepreneurship will go a long way in supporting entrepreneurship and small businesses.

Ensuring ease of access to finance for MSMEs remains extremely important. The government could consider increasing Collateral free loans under CGTMSE from the existing Rs. 2 crores to up to Rs. 5 crores. To ensure timely payments to the MSMEs, it is suggested that there should be automatic publishing of GST registered MSMEs' invoices on TReDS, and these should be deemed accepted and payable by banks, once the date for acceptance or rejection by the buyer is over.

Capital Markets

Economists suggested that the government must permit active participation of domestic institutional investors for deepening the derivatives market. Moreover, they proposed increasing the equity investment limit of EPFO.

In debt markets, participants recommended that the government incentivizes retail participation in corporate bonds by abolishing capital gains tax and by standardizing the tax treatment between debt mutual funds and direct holdings. Economists believed that these measures would deepen the investor base and liquidity in corporate bond markets. In addition, a need was felt for developing innovative debt instruments to garner public interest. These could include exchange-traded bond (ETFs) or thematic funds in sectors like infrastructure.

Promote development of Green Technologies across sectors

Hon'ble PM has played a leadership role at the global level in giving a push to renewables, waste management etc. To further give impetus to realizing his vision, it is important to create a facilitating environment for green technology. China incentivized companies in developing green technology in solar etc. by providing free land, concessional power cost and funding at low interest cost. Many other countries which have emerged as hubs of solar modules, components etc like Taiwan, Malaysia, Vietnam did so on back of huge government incentives. Tax incentives may be considered for promotion and adoption of green technology in India. For instance, a concessional tax rate of 15% to companies which invest in Green technologies on or after a specified date can be extended.

Boost to housing sector

The housing and real estate sector can be a force multiplier for growth and for kickstarting investments/ capex cycle. Housing and construction sectors have forward and backward linkages and impact nearly 200 sectors. The sector needs to be provided holistic support in the upcoming Union Budget. An interest subsidy of 3-4% on housing loans could also be offered for a period of 3-4 years.

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