

Economic Outlook Survey

January 2021

HIGHLIGHTS

GDP growth estimated at (-) 1.3% for Q3 of 2020-21
Growth for 2020-21 projected at (-) 8.0%
Growth for 2021-22 projected at 9.6%

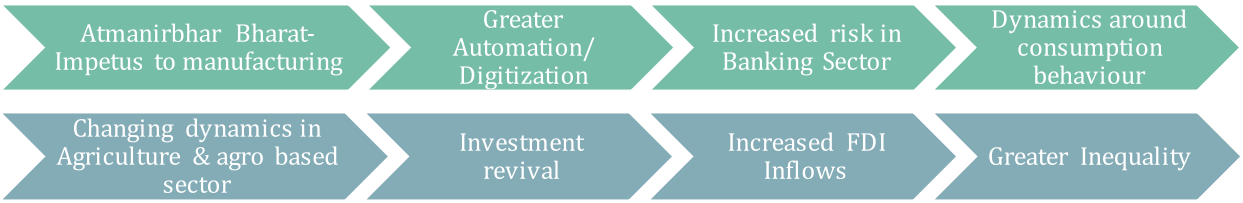
- The latest round of FICCI's Economic Outlook Survey puts forth an annual median GDP growth forecast for 2020-21 at (-) 8.0%. The minimum and maximum growth estimate stood at (-) 8.6% and (-) 4.2% respectively for 2020-21.
- The median growth forecast for agriculture and allied activities has been put at 3.5% for 2020-21. Agriculture sector has exhibited significant resilience in the face of the pandemic. Higher rabi acreage, good monsoons, higher reservoir levels and strong growth in tractor sales indicate buoyancy in the sector.
- However, industry and services sector, on the other hand, are expected to contract by (-) 10.0% and (-) 9.2% respectively during the year. The industrial recovery is gaining traction, but the growth is still not broad based. The consumption activity did spur during the festive season as a result of pent-up demand built during the lockdown but sustaining it is important going ahead.
- The quarterly median forecasts indicate GDP growth to contract by (-) 1.3% in the third quarter of 2020-21. The official growth numbers for the third quarter will be released at the end of February 2021.
- The median growth forecast for IIP has been put at (-) 10.7% for the year 2020-21 with a minimum and maximum range of (-) 12.5% and (-) 9.5% respectively.
- The outlook of participating economists on inflation remains modest. WPI based inflation rate is projected to be flat in 2020-21. On the other hand, CPI based inflation has a median forecast of 6.5% for 2020-21, with a minimum and maximum range of 5.8% and 6.6% respectively.
- The median growth forecast for exports has been put at (-) 10.0% and for imports at (-) 20.7% in 2020-21. The median current account balance forecast is pegged at 1.3% of GDP for 2020-21.

Views of economists on key topical issues

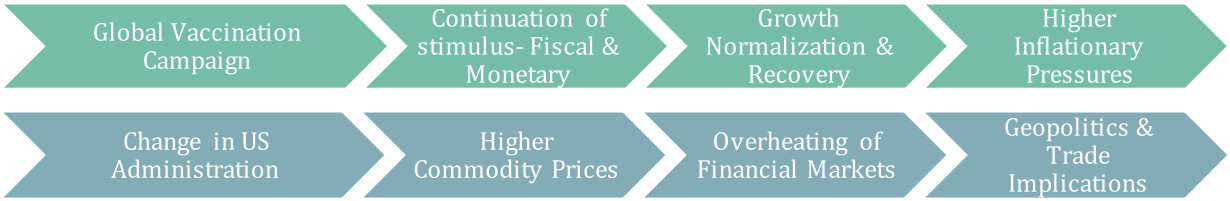
Growth Projections For 2021-22; Major Global & Domestic Trends In 2021

- Participants of the survey expect the economy to perform much better and have forecasted median GDP growth rate of 9.6 percent for the financial year 2021-22.
- The strong rebound in growth will be supported by a favourable base as economic activity normalizes post the sharp pandemic led contraction.
- However, a surge in the number of Covid-19 cases and the appearance of new strains can be a deterrent to the improving growth conditions. It is therefore important that preventive measures continue to be in place. A good vaccine coverage without many cases of adverse reporting will be a pre-requisite for the normalization process.
- While economists expect agriculture to remain the bright spot, manufacturing sector is likely to witness a smart rebound in 2021-22.
- Economists feel that a large part of growth would be supported by massive government spending during the year.

Major Domestic Economic Trends in 2021



Major Global Economic Trends in 2021



Expectations from Union Budget 2021-22

- A majority of the participating economists were of the view that increased public expenditure on building infrastructure was the need of the hour.
- They suggested that the government restructures its expenditure in favour of capital spending (in roads, railways, urban and rural infrastructure, housing) along with providing a clear roadmap and financing plans of the National Infrastructure Pipeline.
- In addition, the government must chart out a credible fiscal math and a detailed medium term fiscal management strategy in the upcoming budget.
- Furthermore, economists suggested that government utilizes the current buoyancy in market sentiments to their favour by pushing for disinvestments.
- A renewed emphasis on polices to make India self-reliant and globally competitive is the need of the hour. This will incentivize expansion of domestic manufacturing, boost innovation and ensure increased foreign investment inflows into the country.
- Moreover, the government must also announce a relief package for the services industry particularly to those who were most impacted/continue to be deeply impacted by the pandemic including, travel & tourism, hospitality, transport, education and healthcare sectors.
- Furthermore, respondents to the survey opined that agriculture and allied activities sector requires continuous focus with consolidation of reforms.
- Spending on creation of agriculture infrastructure must be expedited. Additional funds must also be allocated towards two crucial elements of agriculture sector: food processing schemes and incentivizing agri-exports.
- Economists emphasized that employment creation and consumption revival remain the key areas for ensuring a sustainable turnaround in economic prospects.
- Therefore, economists called upon the government to announce temporary fiscal stimulus to support consumption in the form of income tax breaks or direct income transfers, both of which will ensure more money in the hands of an individual.
- To ease the employment situation in both rural as well as urban areas, economists opined greater budget allocations to MGNREGA along with introduction of an urban employment guarantee scheme similar to its rural equivalent.
- The government should also consider budgetary allocation towards upskilling labour with special focus on labour intensive sectors.

- On the financial front, participating economists are hopeful of announcements of adequate recapitalization of public sector banks amid expectations of a surge in NPAs.
- Additionally, economists recommended scrapping of long-term capital gains tax as well as shifting of dividend distribution tax to shareholders from companies.

Survey Profile

The present round of FICCI's Economic Outlook Survey was conducted in the month of January 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 2020-21 and for the quarters Q3 (October-December) and Q4 (January-March) of FY21.

In addition, economists were asked to share their views on certain contemporary subjects. Economists were asked to share their opinion on major global and domestic trends that will define 2021 and also their expectations from the upcoming Union Budget 2021-22.

Survey Results: Part A
Projections – Key Economic Parameters

National Accounts

GDP growth at 2011-12 prices

	Annual 2020-21			Q3 FY21			Q4 FY21		
Growth (in %)	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**	**Median**	**Min**	**Max**
GDP@ market prices	-8.0	-8.6	-4.2	-1.3	-1.9	0.5	0.5	0.2	1.5
GVA@ basic prices	-7.7	-8.3	-4.8	-1.9	-3.0	-1.3	0.5	0.1	3.0
Agriculture & Allied activities	3.5	2.9	4.0	3.5	3.5	4.0	3.8	1.5	5.0
Industry	-10.0	-15.5	-5.0	-0.2	-0.5	-0.1	1.3	-3.0	5.7
Services	-9.2	-15.0	-8.7	-4.4	-6.1	-3.3	0.3	-1.4	1.7

The latest round of FICCI's Economic Outlook Survey puts forth an **annual median GDP growth forecast for 2020-21 at (-) 8.0%** - with a minimum and maximum growth estimate of (-) 8.6% and (-) 4.2% respectively.

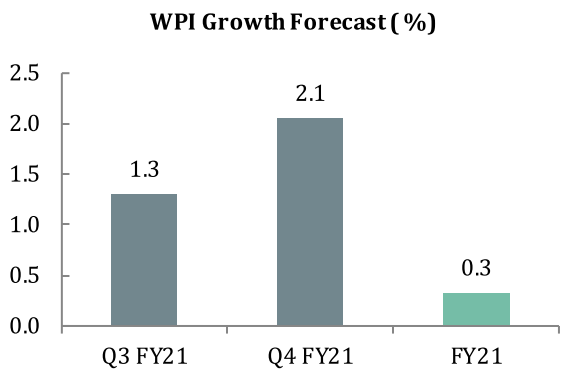
The median growth forecast for agriculture and allied activities has been put at 3.5% for 2020-21. Growth estimate for the sector remained the same as projected in the previous survey round. The sector has exhibited consistent resilience in the face of the pandemic. While kharif sowing surpassed last year's acreage, rabi sowing has also been progressing well- recording nearly 2% y-o-y growth as on January 15, 2021. Good monsoons, higher reservoir levels and strong growth in tractor sales indicate continuance of buoyancy in the agriculture sector, going forward.

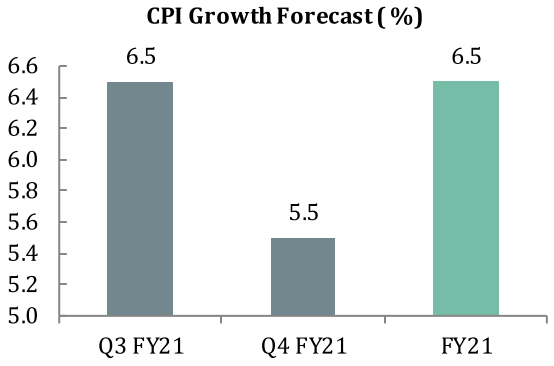
Industry and services sector, on the other hand, are anticipated to contract – by (-) 10.0% and (-) 9.2% respectively – during the year. The industrial recovery is gaining traction but there is still some fragility on fore. While some lead indicators, such as PMI, two-wheeler sales, rail freight etc., indicate a sustained recovery, but the overall demand situation remains a concern. The consumption activity did spur during the festive as a result of pent-up demand built during the lockdown but sustaining it is important going ahead. This necessitates continuation of various support measures from the government as well as the RBI to enable sustained growth in the sector.

The quarterly median forecasts indicate GDP to witness a contraction of (-) 1.3% in the third quarter of 2020-21, before posting a positive 0.5% growth in Q4, 2020-21.

Moreover, the **initial growth estimate for the next financial year 2021-22 is projected at 9.6%** with a minimum and maximum range of 7.5% and 12.5% respectively.

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





WPI based inflation rate is projected to be flat in 2020-21. As per actual data, wholesale inflation levels continue to remain at low levels. Even though the latest data on WPI based inflation stood at 1.2% in the month of December 2020, the cumulative (Apr-Dec 2020-21) wholesale-based inflation rate is reported at (-) 0.13%.

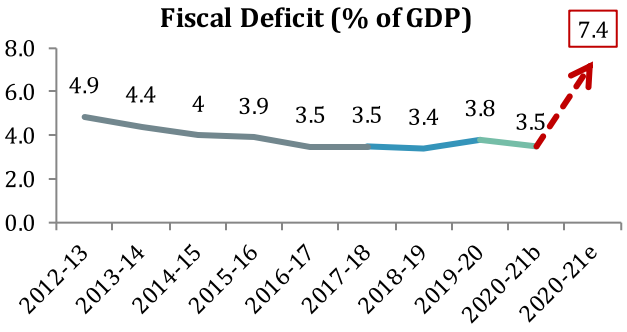
Further, **CPI based inflation has a median forecast of 6.5% for 2020-21,** with a minimum and maximum range of 5.8% and 6.6% respectively.

Retail prices are, however, projected to moderate in the coming quarters. While inflation is pegged at 6.5% for Q3 2020-21, it is forecasted to ease to 5.5% by the fourth quarter. This trend is also broadly in line with the latest RBI's inflation forecast.

Fiscal Deficit

The median **fiscal deficit to GDP ratio was put at 7.4% for the fiscal year 2020-21** with a minimum and maximum range of 7.0% and 8.5% respectively.

Fiscal deficit for 2020-21 was budgeted at 3.5% earlier this year. A sharp slippage is widely anticipated given the need for fiscal stimulus measures to revive the economy from the pandemic shock.



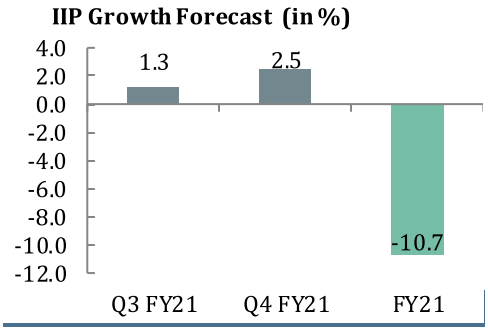
2020-21b: Budgeted,2020-21e: Expected

Index of Industrial Production (IIP)

The participating economists have put forth a median growth forecast for IIP at (-) 10.7% for the year 2020-21- with a minimum and maximum range of (-) 12.5% and (-) 9.5% respectively.

The latest data on industrial production reported contraction once again in November 2020 after posting growth for two consecutive months. The index contracted by 1.9% in November 2020 vis-a-vis 4.2% growth reported in the previous month.

The median growth forecast for quarter 3 of 2020-21 is 1.3%.



Money & Banking

Bank credit is forecasted to grow by 5.8% in 2020-21 with a minimum and maximum range of 5.0% and 7.0% respectively.

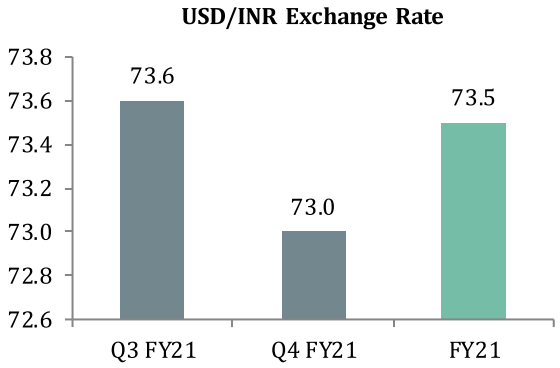
	Q4: End of 2020-21
Repo Rate	4.0%

External Sector

2020-21	Export	Import
USD billion	282.0	379.2
Growth (in %)	-10.0	-20.7

	2020-21
CAB as % of GDP	1.3%

Based on the responses of the participating economists, the **median growth forecast for exports has been put at (-) 10.0% and for imports at (-) 20.7% in 2020-21**.



Survey Results: Part B
Views of the Economists

GROWTH PROJECTIONS FOR 2021-22
MAJOR GLOBAL & DOMESTIC TRENDS IN 2021

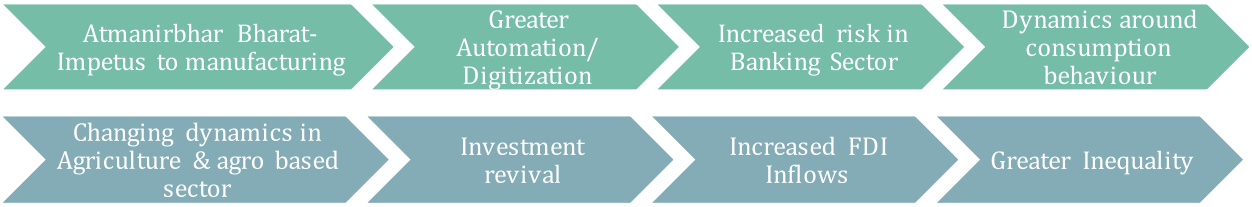
The year 2020 has been unprecedented with the covid-19 pandemic leaving a deep trail of destruction on the health and economic front. While 2020 has been a life altering, the year 2021 brings with it much hope as vaccination drive has gained momentum worldwide. India has also commenced its nationwide immunization programme on January 16, 2021 marking a major step towards return to normalcy.

Participants of the survey expect the economy to perform much better and have forecasted a median GDP growth rate of 9.6 percent for the financial year 2021-22. The strong rebound in growth will be supported by a favourable base as economic activity normalizes post the sharp pandemic led contraction. The minimum and maximum growth estimate was forecasted at 7.5 percent and 12.5 percent, respectively. In absolute terms, participating economists anticipate GDP of 2021-22 to be similar to that recorded in the year preceding the pandemic, 2019-20. They, therefore, cautioned that normalization of the economy in 2021-22 must be taken with a pinch of salt and should not be confused with a strong real recovery.

Also, a surge in the number of Covid-19 cases and the appearance of new strains can be a deterrent to the optimism levels. It is therefore important that preventive measures continue to be in place. A good vaccine coverage without many cases of adverse reporting will be a pre-requisite for the normalization process.

While economists expect agriculture to remain the bright spot, manufacturing sector is likely to witness a smart rebound. Outlook for construction sector also looks positive on the back of fresh impetus on creation of infrastructure. Economists felt that a large part of growth would be supported by massive government spending during the year 2021-22. Furthermore, higher rural incomes and continued support from an accommodative monetary policy are likely to provide the much-needed boost to the economy.

Domestic Economic Trends in 2021:



Participating economists listed out a string of important trends that could take shape in 2021. First and foremost, respondents believed that the government's big push to manufacturing in the form of a series of announcements as a part of the Atmanirbhar Bharat Package is likely to bear fruits from 2021 onwards. The Production Linked Incentive Scheme with proposed incentives of around Rs. 1.45 lakh crores for five years is a big development. This along with continuous efforts on improving the business environment, keenness on improving national infrastructure is likely to set the stage for India to become a manufacturing hub. The push to complete Dedicated Freight Corridor Project will provide a major boost to logistics and freight operations.

In addition, economists felt that in the new normal, increased automation will become essential with more businesses adopting the same. Increased levels of digitization is anticipated in 2021 across the economy which would ultimately enhance productivity of firms, thus providing a much needed competitive boost.

Respondents to the survey highlighted that the above-mentioned measures together are expected to result in increased FDI inflows into the country as companies actively look for alternatives to China. India is already

benefitting from the higher fund flows in the financial markets (thereby strengthening the Rupee) and the positive sentiment around India's prospects are likely to spill over in the form of higher foreign investments.

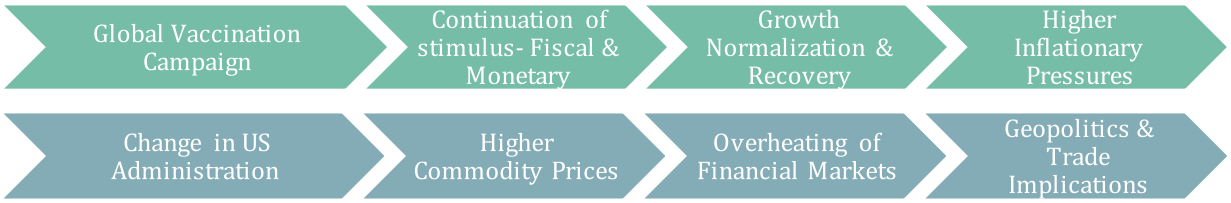
Agriculture and agro-based sectors have also witnessed a plethora of reforms in 2020 and the changing dynamics in this sector will be one to watch out for in 2021. While agriculture has performed well in 2020, the trend is likely to continue in 2021 as well. Rabi sowing has been progressing satisfactorily thereby increasing hopes for a bumper harvest, giving a big push on the exports front. India has done well in export of rice in 2020, and similar efforts must be made to enhance horticulture exports as well.

On the financial front, economists opined that increased risk might be visible in the banking sector in 2021. The Covid-19 pandemic struck the Indian as well as global economy at an unprecedented scale resulting in severely damaged balance sheets of corporations. Rectification of this damage will depend highly on the extent and the time taken for the country to witness strong growth revival. Until growth firms up on a sustainable basis, banks are likely to remain risk averse, thereby impacting lending. This, in turn, will have implications on personal consumption and private investment.

Economists emphasised the need for continuation of an accommodative stance of monetary policy for some more time. Thereafter, hardening of yields is anticipated towards the end of 2021 as monetary support is withdrawn in a phase wise manner.

Lastly, economists participating in the survey believed that improvement in personal consumption is highly contingent upon successful administration of the covid-19 vaccine. Increased precautionary savings are likely to continue in the meantime. Persistent job losses and salary cuts in some sectors have prodded consumers to remain cautious. A sense of rising inequality at all levels has also come to fore and will need to be watched out for in 2021. In addition, year 2021 is most likely to be characterized by greater healthcare expenditure.

***Global Economic Trends in 2021*:**



Respondents believe that large scale global vaccination programme against Covid-19 and gradual normalization and recovery of the world economy will be the highlight of the year 2021. Greater availability and efficacy of vaccines will ensure that economies function fully once again without the need for further lockdowns, even if the virus is not completely eliminated. This would unleash a new wave of spending, especially in the contact intensive services segments like travel & tourism, hospitality and personal services, thereby leading to an accelerated normalization and real growth across the world beginning in the second half of 2021.

Participants expect a synchronized global growth recovery supported by continued fiscal and monetary stimulus in 2021. While advanced economies have already announced fresh round of stimulus measures for businesses in view of the latest round of nationwide lockdowns, developing nations have limited fiscal space available. Alongside, most central banks around the globe are expected to maintain an accommodative monetary policy stance through a major part of the year before withdrawing gradually towards the end of the year.

Economists participating in the survey were deeply concerned about the global liquidity situation which, at present, is significantly in surplus and is finding ways to enter asset markets. The participants called upon global central banks to remain watchful of the situation and not allow overheating of markets.

Furthermore, the massive amount of support measures since the beginning of the pandemic is fuelling inflationary pressures. Economists expect the situation on the price front to worsen with rising international commodity prices especially for commodity importing nations such as India. Brent crude oil prices have jumped while prices of steel and other industrial inputs are also edging upwards exerting inflationary pressures as the world economy normalizes. In addition to this, food prices have also recorded spikes in the latter half of 2020 and are likely to remain elevated in 2021 as well.

Despite optimism on the growth front, economists cited persistent risks to unemployment and therefore felt the need for continuous monitoring on that front. They believed that strategies followed by various governments across the world could offer important perspectives to fight increasing global unemployment levels.

In addition, respondents to the survey emphasized that geo-politics and the resultant impact on trade flows will be keenly looked at especially given the change in the US administration in January 2021. They believed that global trade and value chains will undergo significant changes with positive economic implications during the year. In the currency markets, economists forecast the US Dollar to remain weak due to increased investor risk tolerance, widening US trade deficit and abundant liquidity in 2021.

Lastly, participating economists indicated that as the world commences mass vaccination drive to fight the pandemic, focus of policy makers will now shift towards the next big challenge at hand, preserving the environment and addressing climate change. US President Joe Biden has vowed to take stronger action beyond commitments made in the Paris Agreement against climate change. More emphasis and policies in this direction are expected from leaders around the globe in 2021.

EXPECTATIONS FROM UNION BUDGET 2021-22

Finance Minister Nirmala Sitharaman has indicated that the Union Budget 2021-22, to be announced on February 1, 2021, will be a transformational one. In this backdrop, participating economists were asked to share their expectations from the Union Budget for driving growth and development of the country.

A majority of the participating economists were of the view that increased public expenditure on building infrastructure was the need of the hour. They suggested that the government restructures its expenditure in favour of capital spending (in roads, railways, urban and rural infrastructure, housing) along with providing a clear roadmap and financing plans of the National Infrastructure Pipeline announced in the latter part of 2019. Given that the pandemic heavily skewed the government's focus towards greater revenue expenditure (to fight the health and humanitarian crises at hand), the rectification in the proportional mix between revenue and capital expenditure has now become necessary as the economy normalizes.

In addition, the government must also reset its fiscal deficit and debt trajectory basis the challenges at hand. A credible fiscal math and a detailed medium term fiscal management strategy will be keenly watched upon by one and all in the upcoming Union Budget presentation.

Furthermore, to enhance revenue collections in a year that was marked by lower economic activity, economists suggested that government utilizes the current buoyancy in market sentiments to their favour by pushing for disinvestments. This would help the government maximize its overall revenue in the current financial year given the weak tax collections witnessed during most part of the year.

Participating economists highlighted that while a significant dose of reform measures for various sectors of the economy has already been administered ahead of the budget as a part of the Atmanirbhar Bharat Package, there are still a series of measures that are necessary to create an enabling environment. This includes continuous focus towards ease of doing business while simultaneously reducing the cost of doing business in India. A renewed emphasis on polices to make India self-reliant and globally competitive is the need of the hour. These steps will incentivize expansion of domestic manufacturing, boost innovation and ensure increased foreign investment inflows into the country.

Moreover, the government must also announce a relief package for the services industry particularly to those who were most impacted/continues to be deeply impacted by the pandemic including, travel & tourism, hospitality, transport, education and healthcare sectors. Economists participating in the survey have called for increased budget allocation for critical social sectors such as health and education given the current situation. While enhanced expenditure on healthcare is essential to strengthen India's health ecosystem, policy focus on dissemination of education to the lower strata of the society who lack access to internet/ computer/ smart phones too requires urgent attention.

Furthermore, respondents to the survey opined that agriculture and allied activities sector requires continuous focus with consolidation of reforms. Spending on creation of agriculture infrastructure must be expedited which would result in enhanced capacity of cold storage and warehousing facilities in the country. Economists believed additional funds must also be allocated towards food processing schemes along with incentives for agri-exports in the upcoming budget given the good performance of these two crucial elements of agriculture sector in the current financial year.

In addition, economists emphasized that employment creation and consumption revival remain the key areas for ensuring a sustainable turnaround in economic prospects. The pandemic led to widespread job losses in the economy which gravely impacted the already weak demand conditions prevailing in the economy.

Economists believed that the recovery in consumption spending on the back of pent-up demand from the lockdown period as well as festive season witnessed during the last few months must not be mistaken for a complete revival in aggregate demand. Therefore, they call upon the government to announce temporary fiscal stimulus to support consumption in the form of income tax breaks or direct income transfers, both of which will ensure more money in the hands of an individual. It was pointed out that average income levels in 2020-21 have slipped and this must be taken into consideration while formulating the fiscal policy.

To ease the employment situation in both rural as well as urban areas, economists opined greater budget allocations to MGNREGA along with introduction of an urban employment guarantee scheme similar to its rural equivalent. The government should also consider budgetary allocation towards upskilling labour with special focus on labour intensive sectors to arrest significant unemployment problems that have arisen due to the pandemic led crisis (especially in MSMEs).

In addition, infrastructure projects nearing completion must be fast tracked which will provide a major fillip to employment generation and in turn spur demand. Moreover, interest subvention on housing loans could also be considered as the same would not only incentivise demand but also have a multiplier effect on other linked industries.

On the financial front, participating economists are hopeful of announcements of adequate recapitalization of public sector banks in the upcoming budget amid expectations of a surge in NPAs on the back of pandemic led economic crisis. Additionally, economists recommended scrapping of long-term capital gains tax as well as shifting of dividend distribution tax to shareholders from companies.

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