Survey on ‘Economic Perspective for 2019’

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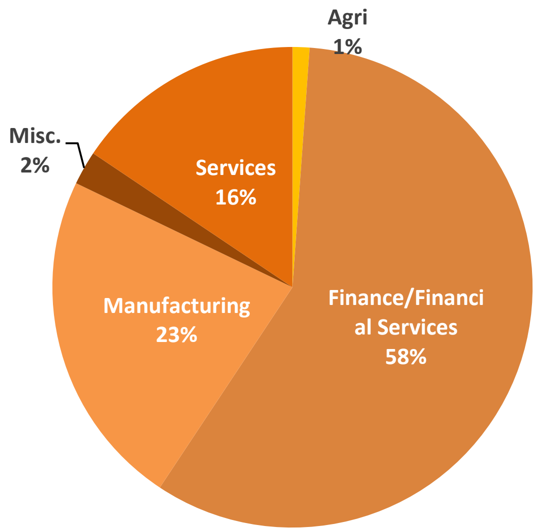
CARE Ratings had launched its Survey on 'Economic Perspective for 2019' and reached out to experts in the various fields like CEOs, CFOs, investors, analysts, economists and other stakeholders and gathered their views on the economic perspective for India in 2019-20. The objective was to assess the opinions on various aspects pertaining to economy in 2019-20. Broadly, the Survey covered,

- General elections and their outcome
- Effectiveness of policies implemented so far
- Macroeconomic perspectives
- Industries as growth drivers
- Banking

285 participants responded to the Survey from various sectors like agriculture and allied, manufacturing, financial services, banking, infrastructure, real estate and services.



Based on 285 responses received for the Survey, the gist of the responses has been summarised below;

Summary of Findings

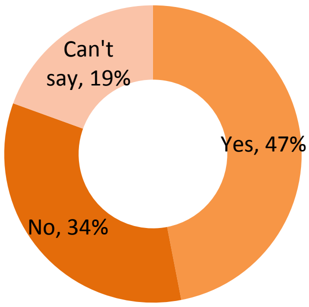
- Most respondents feel that National Democratic Alliance (NDA) government will come back to power in 2019 either with majority or in the form of coalition with new allies.
- Farm loan waivers will pressurise the fiscal situation of the state governments.
- Nearly 1/3rd of respondents feel that implementation of GST and resolution of banking system NPAs has been unsatisfactory while ‘housing for all’, ‘power for all’ and ‘financial inclusion’ have been satisfactory. Therefore, reaching out to the poor has been effective unlike the more complex issues like GST and NPA resolution.
- The economic growth in the upcoming fiscal year could be hindered on account of slowdown in global economy, liquidity pressures in the banking system, Elections and rising crude oil prices.
- While most feel that inflation is likely to remain stable in 2019-20, the upside could emanate from rising crude oil prices, adverse monsoon, fiscal slippage and depreciating rupee. MSPs are not a major concern.
- Main threat for fiscal slippage could arise from loan waivers announced by the government followed by higher social expenditure and lower GST collections.
- The higher bank credit growth could be hampered due to overhang of NPA issue, liquidity pressures and stagnant private investment growth.
- Majority of the respondents are unsure regarding the pick-up in the private investment.
- Hindrances for private investment pick up could be policy constraints, viability of projects, infrastructure bottlenecks and low capacity utilisation.
- Healthcare, retail (including e-commerce), hospitality and tourism and infrastructure are some of the sectors that are likely to witness uptick in the private investment.
- Growth in the industrial output will be driven by consumer durables, pharmaceuticals and drugs, construction, automobiles and electronics.
- Corporate bond markets will be preferred mode for long term fund requirements while for short term requirements, commercial paper would be preferred. Clearly a movement away from bank finance is expected to some extent, albeit limited this year.
- With a view to improve the credit flow in the economy, measures related to enhanced lending to SMEs, low interest rates, flexibility in PCA norms and merger of PSUs are essential.

General Elections in 2019

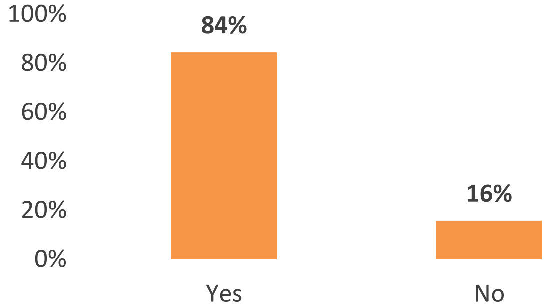
- **Return of NDA government to power with absolute majority:** Nearly 47% of the participants expect that the existing NDA government will come back to power on their own while 34% said that there may not be absolute majority.

- **Coalition of the NDA with new allies to form government:** If no absolute majority, it was asked whether there would be a coalition government of NDA with new allies. 84% agreed on this.

Q1. In the forthcoming General Elections, do you expect the present NDA government to get an absolute majority (more than 272 seats)?



Q2. If No, will there be a coalition of the NDA with new allies?



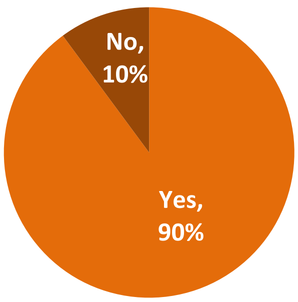
Effectiveness of Policies by state and central government

- **Announcements of farm loan waivers by the states:** Many states have embarked on announcing farm loan waivers despite tight fiscal position. We asked whether these farm loan waivers, once implemented will be a constraint on the state budgets for 2019-20 given that the FRBM norms are stringent. 90% agreed that these announcements will have a bearing on the fiscal situations of the respective states.

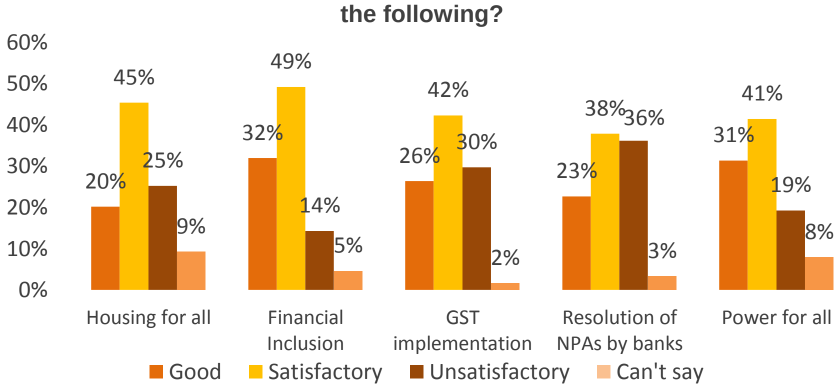
- **Effectiveness of policy implementation:** In the recent past, the government has announced various schemes such as housing for all, financial inclusion, GST, resolution of NPAs by Banks, power for all.

- Participants indicated that implementation of these policies has been satisfactory across various policies.

Q3. As FRBM norms are stringent, will announcement of farm loan waivers by various states be a constraint on the respective state budgets for 2019-



Q4. How effective has been the policy implementation in the following?



- GST implementation has been satisfactory as per 42% of the respondents though 30% are not satisfied. There is a divided opinion with respect to resolution of NPAs in the banking system, 38% opine that implementation of policies is satisfactory whereas 36% feel it is unsatisfactory.

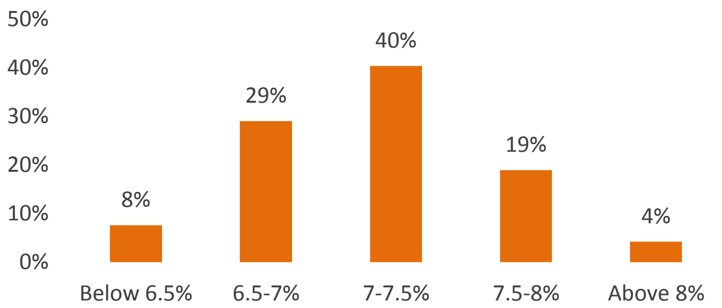
- For the social oriented schemes the response has been very positive with over 2/3 being in favour.

Macroeconomic performance in 2019-20

- **Economic growth:** 40% are expecting the GDP growth for 2019-20 at around 7%-7.5%, while 29% foresee it to be somewhere between 6.5%-7%.

- 23% people suggest that it would be above 7.5%. On the whole a little over 75% expect it to be below 7.5%.

Q5. What do you expect the GDP growth rate to be in 2019-20?

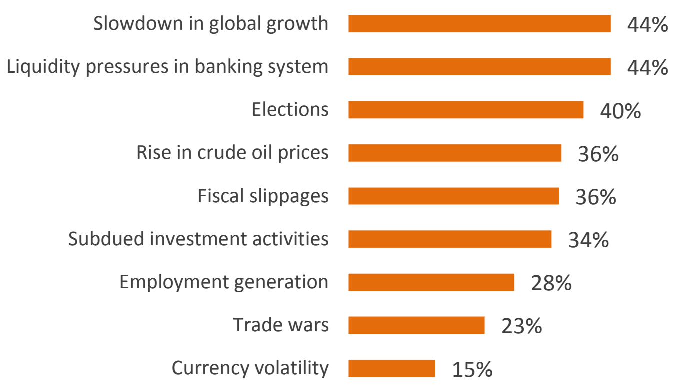


- **Risks to economic growth:** More than 40% of participants think that liquidity pressures in the banking system, slowdown in global growth and Elections would be risks for economic growth of India in 2019-20.

- More than 36% indicate that rising crude oil prices and fiscal slippages might pose another threat for high economic growth.

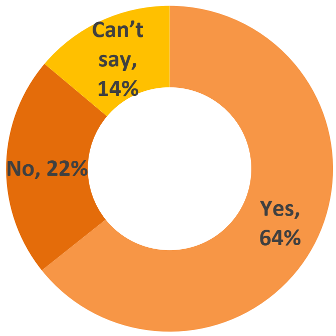
- As per respondents other risks pertain to employment generation (28%), trade wars (23%) and currency volatility (15%).

Q6. In your opinion, what could be the top 3 risks to economic growth for the Indian economy in 2019-20?



- **Inflation:** Nearly 64% are of the opinion that retail inflation based on consumer price index will remain stable (at around 3.5-4%) in 2019-20.

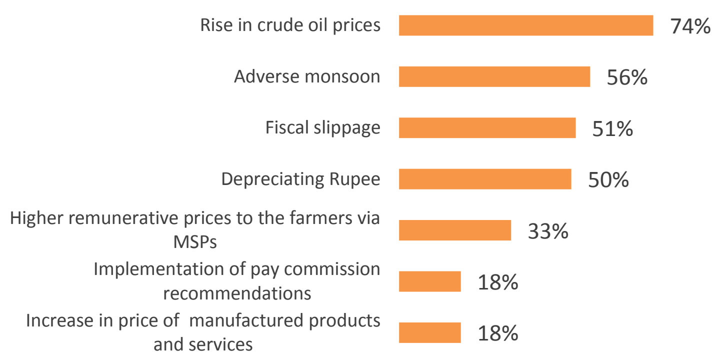
Q7. Do you expect retail inflation (consumer price inflation) to remain stable in 2019-20?



- **Upside risks to inflation:** 74% feel that rising crude oil prices would pressurise the inflation going ahead. More than 50% opine that adverse monsoons leading to lower agriculture production (56%), fiscal slippages (51%) and weakness in the rupee (50%) could result in higher inflationary pressures.

- 33% expect increase in MSP can be another risk while implementation of pay commission recommendations (18%) and increase in prices of manufactured products and services (18%) would also be the factors associated with high inflation.

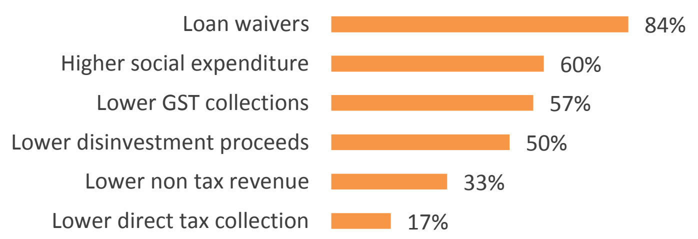
Q8: According to you, choose any 3 upside risks to inflation in 2019-20?



- **Risks for fiscal slippages:** 84% of the participants perceive loan waivers as a major risk for fiscal slippage.

- While 60% attribute to higher social expenditure, lower GST collections (57%) and lower disinvestment proceeds (50%) are the other choices by the respondents.

Q9: Choose the top 3 risks associated with fiscal slippage in 2019-20?

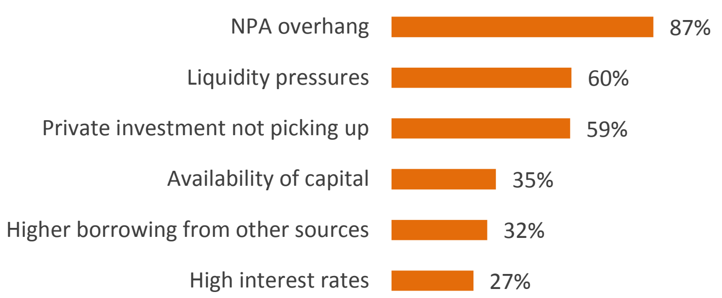


- **Risks for bank credit growth:** Highest 87% of respondents attribute NPA overhand as a main risk for the bank credit growth going forward.

- It has been followed by liquidity pressures (60%) and private investment not picking up (59%).

- Other reasons pertain to availability of capital (35%), higher borrowing from other sources like debt market, CPs and ECBs (32%) and high interest rates (27%).

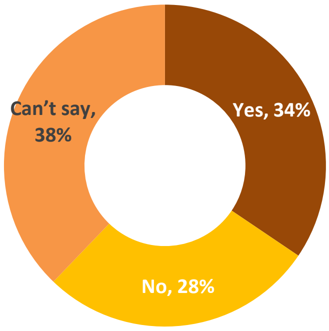
Q10: What could be the top 3 risks associated with bank credit growth in 2019-20?



- **Private investment picks up:** 38% of the respondents are unsure regarding the pickup in private investment in 2019-20 while 28% are sure this will not happen.

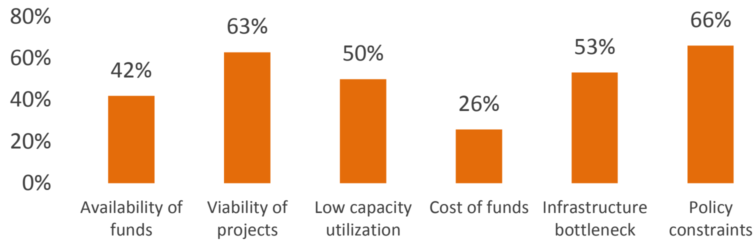
- Around 34% felt that there would be pickup.

Q11: In 2019-20, will private sector investment pick up?



- **Factors hindering private investment:** Respondents, who do not foresee any pick up in private investment attribute it to policy constraints (66%), viability of project (63%), infrastructure bottlenecks (53%) and low capacity utilisation (50%) among others.

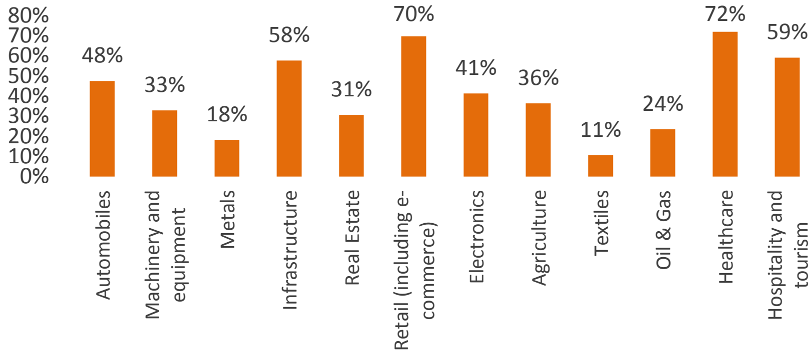
Q12: If No, please choose top 3 factors which could hinder private investments?



Industries as drivers of economic growth

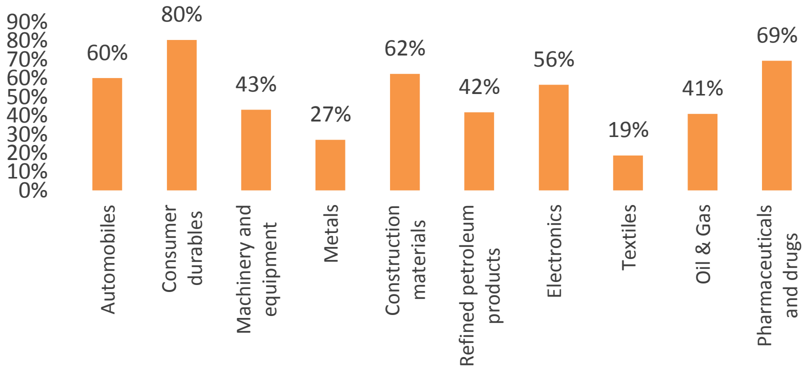
- **Sectors to witness pick up in private investment:** As per the responses the top 5 sectors, which are likely to see pick up in private investment are
  - Healthcare (72%),
  - Retail (incl. e-commerce) (70%),
  - Hospitality and tourism (59%),
  - Infrastructure (58%),
  - Automobiles (48%).

Q13: Choose top 5 sectors which are likely to see a pick-up in private investment in 2019-20?



- **Industries to drive industrial output:** Consumer durables (80%) will be driver for industrial output as per the majority of the respondents. Other contributing industries would be
  - Pharmaceuticals and drugs (69%),
  - Construction materials (62%),
  - Automobiles (60%),
  - Electronics (56%).

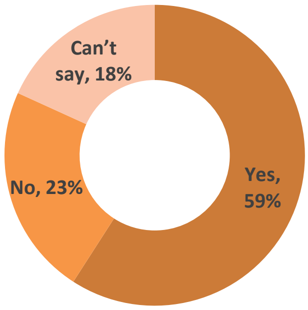
Q14: Choose top 5 industries which are expected to drive the industrial output in FY20?



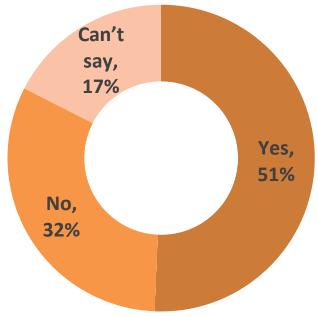
Banking

Sources of borrowing preference for funding requirement: Nearly 59% are of the opinion that corporate bond market would be a preferred avenue for raising long term funds over bank borrowings while for the short term borrowings commercial paper would be preferred (51%).

Q15: Will companies prefer to raise long term funds through corporate bonds over borrowings from banks?

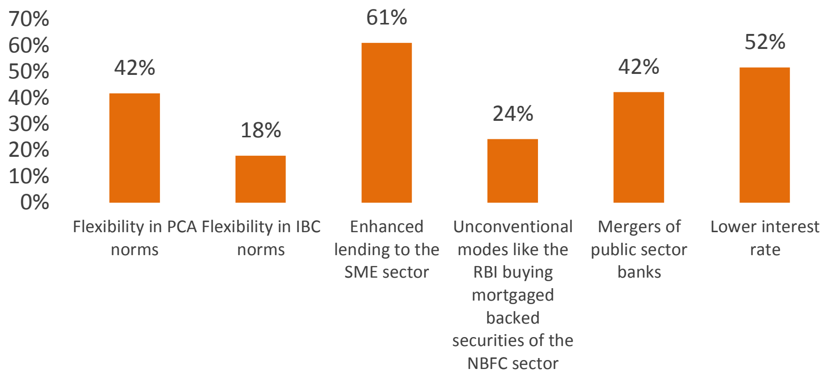


Q16: Will companies prefer to raise short term funds through commercial paper over borrowings from banks?



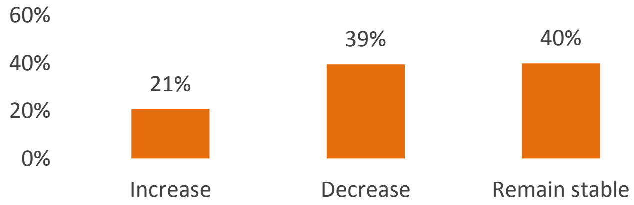
- **Banking sector measures to improve credit flow in the economy:** Enhanced lending to SME sector will improve credit flow in the economy, opine highest 61% of respondents followed by lower interest rates (52%), flexibility in PCA norms (42%) and mergers of public sector banks (42%).

Q17: In order to improve the credit flow in the economy, which of the following banking sector measures will you recommend?



- **Monetary policy:** With respect to monetary policy, 40% expect that the repo rate will remain stable while 39% suggest that there would be a cut in the repo rate. The remaining 21% suggest that repo rate will be increased in 2019-20.

Q18: In FY20, do you expect the repo rate to



Policy reform expectations

Q19: Expectations of any policy reforms in your industry in 2019-20? Please specify.

These include

- Merger of PSUs,
- Rationalisation of GST rates
- Effective implementation of IBC
- Strengthening of liquidity norms
- Non-performing asset performance provisioning requirements
- Agriculture reforms
- Easy liquidity of credit to NBFCs
- Relaxation of PCA norms
- Employment generation
- Enhanced lending to MSMEs
- Faster clearances for businesses etc.

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