



ECONOMIC OUTLOOK SURVEY

(December, 2019)

(Based on Inputs Received from Member's of Bombay Chamber)

Policy Research & Development (PR & D) Committee

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FOREWORD

The Bombay Chamber conducts Economic Outlook Survey periodically to solicit inputs from member companies on **BUSINESS CHALLENGES, FINANCIAL MARKETS** and **MACROECONOMIC POLICIES**. The survey result highlights some challenges of doing business in India involving economic development generally and industrial development in particular. The same provides inputs for regulatory review. The previous survey was conducted and **submitted to RBI in May 2018**.

A comparison between recent two survey outcomes reveals-

- Business Challenges have become more difficult with respect to- **Energy Prices, Domestic Demand** and **GST related issues**.
- Secondly, problems have increased for factors like access to- **'Non- Cash Limits', 'Guarantees'** and **'Term Lending'** for financial Markets.
- Lastly, majority of the respondents expect **"output prices" to go up** over the next 6-12 months, whereas, expectations in increase in **Repo Rate now is lower than previously**.

However, 64 % (December, 2019) & 33% (May, 2018) of the respondents of this survey belong to senior management. Importantly they represent industries such as, banking and service sector.

More than **54% (December, 2019) & 70% (May, 2018)** of the respondents are organizational heads.

Larger companies consisted of **43.3 % (December, 2019) & 53.0 % (May, 2018)** of the respondents.

The findings are discussed in detail in the enclosed survey result.

Please do not hesitate to get in touch with us if we can be of any further assistance to you.

Vijay Srirangan

Director General

Bombay Chamber of Commerce & Industry

ECONOMIC OUTLOOK SURVEY

1. BUSINESS CHALLENGES

i. What could be the challenges for conducting business over the next 6-12 months?

- **96%:** ‘Increasing Energy Prices’ (84% cited Petrol, 92% Electricity, 74% Natural Gas and 69% Availability of Energies).
- **96%:** ‘Demand Conditions in the Domestic Economy’.
- **89%:** ‘Cost of Capital/Credit to the Industry’.
- **86%:** ‘Availability of Credit for Business’.
- **82%:** ‘GST Issues and Problems with the Same’.
- **81%:** ‘Hardening of Global Metal Prices’.
- **79%:** ‘Changes in Government Policies With Respect to Taxes or Subsidies’.
- **75%:** ‘Higher Costs Due to Higher Interest Rates’.
- **64%:** ‘Issues Related to E-way Bill’.

ii. Is the impact of Global Import (Inverted Duty/Dumping), i.e. imports at a price which is lower than Domestic Price is one of the important business challenges at present?

- **96%** of the respondents believe that this is an important business challenge.

iii. **Is the issue of ‘Competitiveness’ with respect to the export market one of the important business challenges at present?**

- **96%** of the respondents consider it as one of the important business challenges at present.

iv. **The overall level of Capacity Utilization in Business at this Moment?**

- **37%** believe that their **capacity utilization** is greater than 70% and **22.2%** believe that it is greater than 80%.
- **22.2%** believe that their capacity utilization level is less than or equal to 70% of them **18.5%** believe the utilization level is below 60%.

2. FINANCIAL MARKETS

v. **From whom do you access Trade Credit (including for exports & imports) for your business?**

- **72.7%** of the respondents access their trade credit from Banks.
- **4.6%** from NBFCs and **22.7%** from others (including EXIM).

vi. **Have you noticed any change in your lender’s willingness (based on the risk rating of the borrower) to lend additional amount in 2019 compared to a year ago?**

- **95%** of the respondents find it more difficult or the same.

vii. **Which are the instruments/areas where you face difficulties/obstacles from the lenders?**

- **60%** of total respondents are facing top two difficulties, which are '*Non- Cash limits; Guarantee*' and '*Term Lending*'.

3. MACROECONOMIC POLICIES

viii. **Inflation Expectations: Input Price/ Price of Key Products (next 12 months)?**

- **88%** of the respondents expect their '**input prices**' to go up.
- The average input price rise is expected to be **5%**.
- **85%** of the respondents expect their '**output prices**' to go up.
- The average output price rise is expected to be **5%**.

- Expected change in output margin is **0%**. (*While the absolute value of output margin increase, margin as a percentage of output does not change.*)

ix. What are your expectations on the changes in RBI's Repo Rate (next 12 months)?

- **42%** of the respondents expect repo rate to increase.
- Of the above **60%** believe 25 bps rate hikes and **40%** indicated greater than 25 bps hike.

x. What is the prevailing average Money Market Rate in the unorganized sector and with NBFCs with special reference to wholesalers/semi wholesalers?

- The weighted average of money market rate in the unorganized sector for Wholesalers/Semi Wholesalers is **15%** (range 8.5% to 36%).

APPENDIX

A. ILLUSTRATIVE COMMENTS RELATED TO RESPONSES

1. BUSINESS CHALLENGES

i. What could be the challenges for conducting business over the next 6-12 months?

- The slowdown effect can be seen on the default rates of small ticket size loans, which would ultimately affect the borrowing rates.
- Availability of credit is the biggest challenge, especially for MSMEs given the NBFC crisis and Banks are also cautious in lending.
- Low Demand for output products & higher Interest Rates.
- Slowdown in capital investment and lower debt off take and bank lending.

2. FINANCIAL MARKETS

i. Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount in 2019 compared to a year ago?

- Due to prevailing situation in the economy default rates are increasing, affecting credit ratings.
- Real Estate sector struggling with financing issues.
- The banks are cautious.
- Lot of documents and securities being asked.
- With resolution of NBFC issues in the coming year and adequate liquidity in the system, this could ease in the coming year.

ii. Which are the instruments/areas where you face difficulties/obstacles from the lenders?

- Banks are insisting on Collateral Guarantees.
- Banks are not willing to give Credit Guarantee Fund Trust for Micro and Small Enterprise up to 2 crores.
- Lower drawing power due to high leverage.

3. MACROECONOMIC POLICIES

i. Inflation Expectations: Input Price/ Price of Key Products (next 12 months)?

- High labour cost, fuel cost & crop damage due to unseasonal rains.
- Cost of capital is going up; increasing retail inflation will have its effect on overall Inflation.
- Most input prices are based on petroleum products.
- With Good Rabi season Agriculture sector will show revival & Demand side will pick up.
- Lack of purchasing power.
- According to the data released by the National Statistical Office (NSO), costlier vegetables, pulses and protein rich items pushed the consumer price index (CPI) based retail inflation to a 40-month high in November. Largely due to more expensive food and beverages, which, as a category, account for over half of the weight of India's consumer price basket India's November inflation has surged to 40-month high of 5.54 per cent, that is a 130 bps higher than RBI's medium term target of 4 per cent. This is mainly due to substantial increase in food prices.
- Considering the inflation rate over all prices of input & output will fluctuate in the range of 1%-5%.
- Increase in USD/INR leads to imported goods becoming costlier. Excess supply and sluggish demand will lead to erosion of final prices.
- General industrial sector inflation.
- Iran-US tension will increase oil prices more which will increase the prices.
- Food inflation due to mismanagement market arrivals and consumption; fuel prices in the wake of tension in the Middle East following the reckless drone attack carried out by the US.
- Global macro will push up prices in India in agriculture and fuel sectors.
- Government push to increase farmer's income and likely increase in FRP for sugarcane price. As regards output (sugar) the price is likely to increase due to steep shortage (~50% yoy) this year in sugar production level in Maharashtra.

ii. What are your expectations on the changes in RBI's Repo Rate?

- To support the projected growth & revival in investment Growth numbers are not in good shape.
- There is an expectation that RBI may hike the Repo Rate in 2020, If inflation continues to rise.
- Should stay in a range + / - 10 - 15 bps from current levels.

iii. What is the prevailing average Money Market Rate in the unorganized sector and with NBFCs with special reference to wholesalers as well as semi wholesalers?

- Due to reduction in repo rate corresponding effect will reflect in soft lending rates.
- Cost of borrowing for NBFC's is going up.
- Actual market.
- Bank charge around 14% -15 % ROI on OD Facilities.
- Prevailing Hundi Loan Rate.
- Secured will be on the lower end of the range and unsecured on the higher end.
- Bench-marked to MFIs.
- It's an estimate and do not have specific evidence for the unorganized sector.
- Higher end of range above for unsecured lending to the unorganized sector.
- Highly unstable rates ranging from 12% to 18%.
- Increase in risk index.

B. COMPARISON BETWEEN 2018 & 2019 DATA

1. BUSINESS CHALLENGES

- i. What could be the challenges for conducting business over the next 6-12 months?

Sr.No	Challenges	May 2018	December 2019
1	Cost of Capital/Credit to the Industry	91%	89%
2	Higher Costs Due to Higher Interest Rates	89%	75%
3	Availability of Credit for Business	87%	86%
4	Increasing Energy Prices	87% (87% cited petrol, 84% electricity, 76% Natural gas, 61% availability of energies)	96% (84% cited petrol, 92% electricity, 74% Natural gas, 69% availability of energies)
5	Demand Conditions in the Domestic Economy	84%	96%
6	Changes in Government Policies With Respect to Taxes or Subsidies	83%	79%
7	Hardening of Global Metal Prices	79%	81%
8	GST issues and problems with the same	76%	82%

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9	Issues related to E-way Bill	71%	64%
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ii. Is the impact of Global Import, i.e. imports at a price which is lower than Domestic Price is one of the important business challenges at present?

Sr No	Challenges	May 2018	December 2019
1	Availability of lower priced import	77%	96%

iii. Is the issue of 'Competitiveness' with respect to the export market is one of the important business challenges at present?

Sr No	Challenges	May 2018	December 2019
1	Issue of 'Competitiveness' with respect to the export market	88%	96%

iv. The overall level of Capacity Utilization in Business at this Moment?

Level of Capacity	May 2018	December 2019
<60	20%	18.5%
60-70	51%	22.2%
70-80	49%	37%
>80	-	22.2%

2. FINANCIAL MARKETS

- i. From whom do you access Trade Credit (including for exports & imports) for your business?

Trade Credit	May 2018	December 2019
Banks (public sector/private sector)	86%	72.7%
NBFCs	-	4.6%
Others	14%	22.7%

- ii. Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount?

- In 2018 compared to a year ago?

May, 2018

- 88% of the respondents find it more difficult or the same.

- In 2019 compared to a year ago?

December, 2019

- 95% of the respondents find it more difficult or the same.

- iii. Which are the instruments/areas where you face difficulties/obstacles from the lenders?

Instruments/Areas	May 2018	December 2019
Cash Credit	58%	-
Non- Cash limits; guarantees	-	60%
Term Lending	-	60%

Foreign Exchange Operations	58%	-
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3. MACROECONOMIC POLICIES

i. Inflation Expectations: Input Price/ Price of Key Products (next 12 months)?

Instruments/Areas	May 2018	December 2019
Input Price Rise	90%	88%
Output Price	82%	85%
Average of Price Rise of Input Prices	5.7%	5%
Average of Price Rise of Output Prices	5%	5%

ii. What are your expectations on the changes in RBI's Repo Rate?

Instruments/Areas	May 2018	December 2019
Repo Rate to increase in coming days	64%	42%
25bps	60%	60%
More than 25bps	40%	40%

iii. What is the prevailing average Money Market Rate in the unorganized sector and with NBFCs with special reference to wholesalers as well as semi wholesalers?

Instruments/Areas	May 2018	December 2019
The weighted Average of Money Market Rate	14% (Range 4% to 28%)	15 % (Range 8.5% to 36%)

FINDINGS

With respect to **BUSINESS CHALLENGES** a comparison between these two periods reveals

❖ *Condition worsened for factors like*

- *Energy Prices (electricity, petrol, availability of energies)*
- *Domestic Demand*
- *GST issues and problems with the same*
- *Availability of lower priced import*
- *Issue of 'Competitiveness' with respect to the export market*

As far as **FINANCIAL MARKETS** are concerned a comparison between these two periods reveals

- ❖ *Problems have **increased** with respect to access to 'Non- Cash Limits', 'Guarantees' and 'Term lending'.*
- ❖ *It has remained **same or become more difficult** with respect to lender's willingness (based on the risk rating of the borrower) to lend additional amount in compared to a year ago.*

With respect to **MACROECONOMIC POLICIES** a comparison between these two periods reveals

- ❖ *Majority of the respondents expect "output prices" **to go up** in December 2019.*
- ❖ *Majority of the respondents have **lower expectations** for increase in Repo Rate in December 2019.*
- ❖ *Lastly, the weighted average of money market has **increased** between these two periods by 1%.*

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