World Bank lifts India's FY25 growth forecast to 6.6%

Cautions that South Asia risks 'squandering' its demographic dividend

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The World Bank on Tuesday upgraded its FY25 economic growth forecast for India by 20 basis points (20 bps) to 6.6 per cent, primarily because of "upward revisions to investment growth".

In its latest bi-annual South Asia Development Update, the multilateral lender pegged India's FY24 growth rate at 7.5 per cent, a tad lower than 7.6 per cent estimated by the National Statistical Office.

"South Asia's growth outlook is somewhat stronger than in the previous edition of this report, by 0.4 percentage points for 2024 and 0.3 percentage points for 2025. This primarily reflects upward revisions to investment growth in India and somewhat faster-than-anticipated rebounds from last year's recessions in Pakistan and Sri Lanka...Growth (in India) is expected to moderate to 6.6 per cent in FY25 before picking up in subsequent years as a decade of robust public investment yields growth dividends," the April update notes.

The World Bank said growth in services and industry was expected to remain robust in India, with the latter aided by strong construction and real estate activity, while inflationary pressure was expected to subside, creating more policy space for easing financial conditions.

"Over the medium term, the fiscal deficit and government debt are projected to decline, supported by robust output growth and consolidation efforts by the central government," the update notes.

However, the report pointed out that India's growth pickup in the near term is reliant on the public sector whereas private investment, in particular, continues to be weak. "Efforts to rein in elevated debt, borrowing costs, and fiscal deficits may eventually weigh on growth and limit the government's ability to respond to increasingly frequent climate shocks," it cautioned.

For the South Asian region, the report said that historically, sustained accelerations in private investment were most likely to occur when institutional quality was strong, the real exchange rate was competitive, and economies were more open to trade and capital flows.

The World Bank said unless revenues can be raised substantially by South Asian countries, government spending will be severely constrained, including on public goods. "The growth slowdown expected in advanced economies in 2024 and the heightened risks to the outlook will make it harder for South Asian governments to implement policies needed to address risks and long-standing development challenges," it said.

However, the April update warned that South Asia is currently on a path that risks "squandering" its demographic dividend of growth.

"The region does not create jobs nearly fast enough to provide employment for its growing population. Despite rapid economic growth, employment in South Asia has grown by only 1.7 per cent per year since 2000 — less than the 1.9 per cent per year growth of the working-age population," it noted.

The report said vibrant, competitive firms were key to unlocking the demographic dividend, robust private investment, and workers' ability to move out of agriculture.

PEER COMPARISON

FY25 forecasts (in %)

	Earlier	Revised
Fitch	6.5	**7.0**
CRISIL	6.4	**6.8**
Moody's *	6.1	**6.8**
Citibank	6.5	**6.8**
SBI	7	**8.0**
World Bank	6.4	**6.6**
Standard Chartered	6.3	**7.0**

*For CY24 Source: BS Research