OECD raises India's FY25 GDP growth projection to 6.6%

On the global front, GDP growth is projected to be 3.1% in 2024, unchanged from 2023

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BETTING BIG

FY25 forecasts (%)

OECD	6.6
Fitch	7.0
SBI	8.0
World Bank	6.6
Standard Chartered	7.0

Source: BS research bureau

The Organisation for Economic Co-operation and Development (OECD) on Thursday raised its growth forecast for India by 40 basis points to 6.6 per cent for 2024-25, holding that buoyant public investment and improved business confidence are expected to propel India's gross domestic product (GDP) growth.

"Domestic demand will be driven by gross capital formation, particularly in the public sector, with private consumption growth remaining sluggish. Exports will continue to grow, especially of services such as information technology and consulting, where India will continue to increase its global market share, supported by foreign investment," the inter-governmental group of 38 high-income economies said in its latest Economic Outlook.

Meanwhile, the agency also noted that private consumption has been less vigorous, confirming the preliminary findings from the latest household consumption expenditure survey.

"Some high-frequency indicators, including on e-way bills, toll collections, and new vehicle and scooter sales are suggesting increasing activity. Other indicators, such as digital payment transactions and cement output, remain relatively flat," the outlook observed.

OECD said that more needed to be done to address indebtedness by increasing revenues, improving spending efficiency, and stronger fiscal rules. The outlook also mentions that fiscal consolidation is appropriate in the current context, given the high level of public debt, which holds back private investment.

"Fiscal consolidation, while necessary, will weigh on public investment, and be offset only partially by stronger private investment as business confidence improves. Household consumption (in particular, consumers' discretionary demand) is not expected to accelerate, amid disappointing job creation, lukewarm rural performance, and still tight financial conditions," the outlook noted. On the global front, GDP growth is projected to be 3.1 per cent in 2024, unchanged from 2023, before edging up to 3.2 per cent in 2025, helped by stronger real income growth and lower policy interest rates.

The developments continue to diverge across countries, with softer outcomes in Europe and most low-income countries, offset by strong growth in the US and many large emerging-market economies. The report said a normal monsoon season and no other supply shocks that may de-anchor inflation expectations may lead to first cut of the policy rate by the Reserve Bank of India in late 2024, with cumulative cuts of up to 125 basis points implemented before March 2026.

Highlighting downside risks for the growth prospects for India, the outlook notes new supply chain disruptions generated by geopolitical turmoil, food inflation stickiness due to extreme weather episodes, and negative spillovers from fluctuations in global financial markets present downside risks. However, on the upside, growth may be faster than projected if ongoing disinflation strengthens consumers' purchasing power, lifting household consumption, business investment and job creation, it adds.