

World Bank raises India's FY25 growth forecast to 7%

SILVER LINING. Improvement in monsoon, private consumption boost prospects

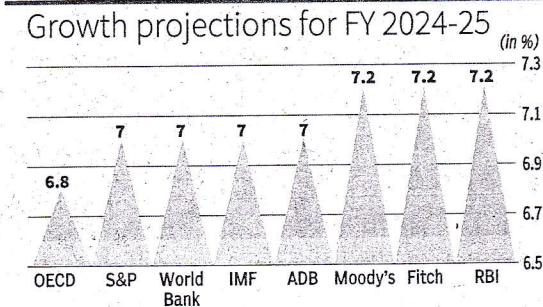
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Noticing an improvement in monsoon and private consumption, the World Bank on Tuesday upped India's growth forecast for 2024-25 by 40 basis points to 7 per cent. Its previous forecast was 6.6 per cent.

"Growth is forecast to reach 7 per cent in FY24-25 and remain strong in FY25-26 and FY26-27," the multilateral agency said in the India Development Update (IDU). Further, it said that with robust revenue growth and further fiscal consolidation, the debt-to-GDP ratio is projected to decline from 83.9 per cent in FY23-24 to 82 per cent by FY26-27. The current account deficit is expected to remain at around 1-1.6 per cent of GDP up to FY26-27.

'REMARKABLE' GROWTH

The report highlighted India's status as the fastest-growing major economy, with a "remarkable" growth rate of 8.2 per cent in FY23-24. This growth was primarily driven by significant public infrastructure investments and a surge in household investments in



the real estate sector. On the supply side, a buoyant manufacturing sector, which expanded by 9.9 per cent, and resilient services activity played crucial roles in offsetting the underperformance of the agriculture sector.

Urban unemployment rates have also seen gradual improvement, particularly among female workers, whose unemployment rate fell to 8.5 per cent in early FY24-25.

However, the report notes that urban youth unemployment remains high at 17 per cent.

On the external front, India's foreign exchange reserves reached a record high of \$670.1 billion in early August, equivalent to over 11 months of import cover, bolstered by a narrowing current account deficit and

strong foreign portfolio investment inflows

The IDU also highlights the critical role of trade for boosting growth.

The global trade landscape has witnessed increased protectionism in recent years. The post pandemic reconfiguration of global value chains, triggered by the pandemic, has created opportunities for India.

The report emphasises that India has boosted its competitiveness through the National Logistics Policy and digital initiatives that are reducing trade costs.

However, it also notes that tariff and non-tariff barriers have increased and could limit the potential for trade focused investments.

"India's robust growth prospects along with declining inflation will help reduce

extreme poverty," said Auguste Tano Kouame, World Bank's Country Director in India. "India can boost its growth further by harnessing its global trade potential. In addition to IT, business services and pharma where it excels, India can diversify its export basket with increased exports in the textiles, apparel, and footwear sectors, as well as electronics and green technology products," he said.

3-PRONGED APPROACH

The IDU recommends a three-pronged approach towards achieving the \$1 trillion merchandise export target by reducing trade costs further, lowering trade barriers, and deepening trade integration.

"With rising costs of production and declining productivity, India's share in global apparel exports has declined from 4 per cent in 2018 to 3 per cent in 2022," said Nora Dihel and Ran Li, Senior Economists, co-authors of the report.

"To create more trade-related jobs, India can integrate more deeply into global value chains, which will also create opportunities for innovation and productivity growth."