Fitch ups medium-term growth forecast to 6.2%

Cites improved employment rate and working-age population forecast

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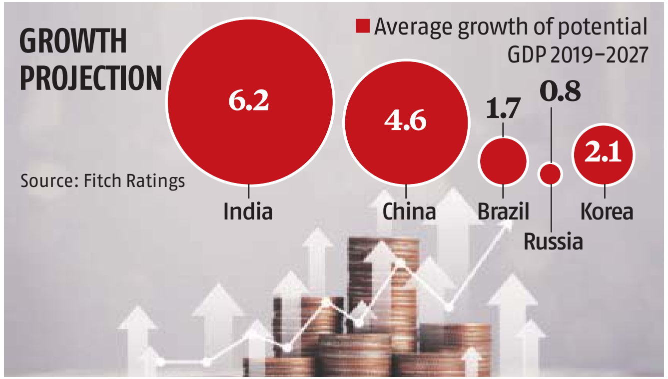
New Delhi, 6 November



The Indian economy has the potential to clock 6.2 per cent annual average growth rate in the medium term during the 2019-27 period, credit rating agency Fitch ratings said in its latest Global Economic Outlook report on Monday.

The agency raised the projection by 0.7 percentage points from 5.7 per cent estimated for 2013-2022, primarily due to improved employment rate and better working-age population forecast. "India's labour productivity forecast is also higher," the report said.

However, the increased potential in the Indian economy comes amid a downward revision by the global credit rating agency of the medium-term growth potential for 10 emerging economies to 4 per cent from 4.3 per cent estimated earlier, primarily driven by a cut in China's growth outlook.

"We have lowered China's supply-side growth potential to 4.6 per cent from 5.3 per cent. China's growth has slowed sharply in recent years, and prospects for capital deepening have deteriorated as the property slump weighs heavily on the investment outlook. The labour supply outlook is also weakening, reflecting demographics and falls in the labour force participation rate," the report said.

The 10 emerging economies include Brazil, China, India, Indonesia, Korea, Mexico, Poland, Russia, South Africa, and Turkey.

Besides, the report notes that relative to pre-pandemic estimates, all 10 emerging market economies, except Brazil and Poland, have had downward revisions due to a general deterioration in demographic trends as growth in the working-age population continues to slow over time and due to negative impacts on supply-side potential from the huge economic disruptions caused by the pandemic.

"The 2020 pandemic-caused recession was severe in some emerging economies, with very large GDP declines in Mexico, South Africa, and India but only a mild contraction in Korea and moderately positive growth in Turkey and China. The subsequent economic recovery was strong in most economies as governments increased fiscal spending, global trade recovered and private consumption rebounded following the re-opening of economic activity," the report notes.

Oil at $110 could prompt RBI to hike rates again, says Morgan Stanley

India's central bank could restart its rate increases if Brent crude oil rises and stays above $110 per barrel, widening the country's current account deficit and hurting the rupee, Morgan Stanley said. "Sustained higher oil prices would mean that the current account deficit would likely widen to beyond 2.5 per cent of GDP — the comfort zone," economists at Morgan Stanley said. Morgan Stanley estimates that every $10 rise in oil prices pushes up India's inflation by 50 basis points, assuming the higher costs are passed on to consumers, and widens the current account deficit by 30 basis points. India's interest rate-setting panel hiked the policy repo rate by 250 basis points between May 2022 and February 2023 to combat inflationary pressures in the economy.

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