OECD raises India's GDP forecast to 6% from 5.9%

Global GDP projected to be 2.7%, the lowest since the global financial crisis

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The Organization for Economic Co-operation and Development (OECD) has marginally raised its 2023-24 (FY24) growth forecast for India to 6 per cent, from 5.9 per cent estimated earlier, while maintaining that "weak global demand and the effect of monetary policy tightening will constrain" growth in the world's fifth-largest economy in the current fiscal year.

"Moderating inflation and monetary policy easing in the second half of 2024 will help discretionary household spending regain momentum. This, along with improved global conditions, will help economic activity to accelerate, with the growth of 7 per cent in real gross domestic product (GDP) in 2024-25," the grouping of advanced economies said in its latest Economic Outlook.

Global GDP growth in 2023 is projected to be 2.7 per cent, the lowest annual rate since the global financial crisis, except for the 2020 pandemic period.

OECD said 2022-23 (FY23) ended on a positive note for India with 7.2 per cent growth, due to higher-than-expected agriculture output and strong government spending.

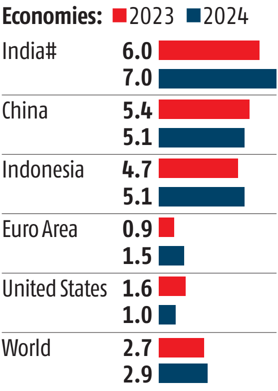
"However, high inflation, in particular for energy and food, and the ensuing monetary tightening to anchor expectations are weighing on purchasing power and household consumption, particularly in urban areas. Tighter financial market conditions are reflected in weakening credit-supported demand for capital goods, a good proxy for business investment," it said.

The grouping of rich nations said most risks to its growth projections for India are tilted towards the downside. "While banks' solvency ratios and financial results have improved and the authorities have enhanced loan-loss provisioning and established a 'bad bank', any deterioration of banks' asset quality could threaten macro-financial stability," it cautioned.

"In the run-up to the 2024 elections, fiscal consolidation may be delayed, and the conclusion of trade agreements may become more difficult. A potentially below-normal monsoon season could also impact growth. Declining geopolitical uncertainty, on the other hand, would boost confidence and benefit all sectors, as would a faster-than-expected conclusion of free-trade agreements with key partners and the incorporation therein of services," it said. OECD said despite an impressive growth and development record, daunting challenges remain for India. "Creating good jobs is the most promising pathway to reduce poverty, which is particularly high in the female population. Increasing investment in education and vocational training, and updating labour laws, would help to achieve this objective. India is particularly vulnerable to extreme heatwaves and must make progress in mobilising resources for investment in the green economy," it said.

GROWTH CHART

Growth projections (YoY%)



For India, 2023 and 2024 stand for financial years 2023-24 and 2024-25 respectively

Source: OECD

"Low labour productivity is affecting the competitiveness of 'Made in India' goods and participation in global value chains. Employment and wage estimates suggest improving labour market conditions in rural areas, while export-oriented service firms report increasing difficulties filling vacancies," it added. OECD said India's macroeconomic policies remain restrictive.

"During the projection period, the priority for fiscal policy is to control government debt, to keep it at sustainable levels, reduce interest payments, and thereby free resources for public investment in physical and human capital and initiatives to adapt to population ageing. The next 25 years until the 2047 centenary of Independence will be crucial for India to fight poverty and the government strategy (so-called Amrit Kaal) will require a large increase in capital investment outlays," it added. The World Bank on Tuesday said India would remain the fastest-growing economy in terms of both aggregate and per capita GDP among the largest emerging market and developing economies while retaining its growth forecast for Asia's third-largest economy at 6.3 per cent for FY24.

The robust FY23 GDP data and encouraging signs of high-frequency indicators led to a spate of upward revisions in FY24 GDP growth forecasts by analysts. While State Bank of India revised its growth projection for FY24 to 6.7 per cent, from 6.2 per cent, JP Morgan revised it to 5.5 per cent, from 5 per cent estimated earlier.