IMF trims India's FY27 growth forecast to 6.4%

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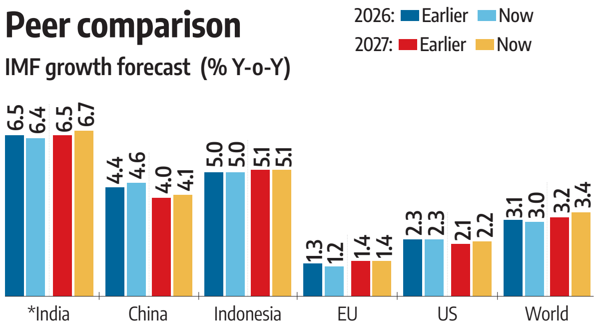
Peer comparison

IMF growth forecast (% Y-o-Y)



*Projections are for FY27 and FY28, respectively

Source: IMF

The International Monetary Fund (IMF) on Wednesday pared its growth forecast for India by 10 basis points (bps) to 6.4 per cent for FY27 (2026-27) from its April forecast, saying higher energy prices may offset the resilience in the country's economic activity.

"High-frequency indicators through April are showing quite a bit of resilience in overall economic activity, but these positive effects are more than offset for 2026 by higher energy prices in our baseline July update, as well as greater pass-through of those prices to the pumps in India," Deniz Igan, deputy chief of the Macro-Financial Division in the IMF's Research Department, told reporters in Washington, DC.

"In 2027, we are expecting strengthening (of growth momentum), with the energy shock dissipating. Medium-term growth is estimated at around 6.5 per cent," Igan said.

For FY28, the multilateral organisation upgraded its growth forecast by 20 bps to 6.7 per cent. "India remains among the fastest-growing major economies, with growth projected at 6.4 per cent, supported by strong momentum in private consumption and services activity," the IMF said in its World Economic Outlook update.

The report said revisions to growth forecasts for emerging market and developing economies were mixed, reflecting differences in commodity dependence, geographic exposure, remittance and tourism receipts, sensitivity to financial conditions, and position in the global technology value chain.

The Fund raised China's 2026 growth forecast by 20 bps to 4.6 per cent while saying the economy is expected to slow from 5 per cent in 2025.

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Foreign banks' leverage key to FCNR(B) inflows

However, the exposure created through the SBLC counts towards the foreign bank's internal exposure limits on both India and the Indian bank issuing the guarantee, which bankers said could eventually constrain mobilisation under the scheme.

Foreign banks are better placed to provide leverage because they can lend at a spread over US Treasury yields. In contrast, overseas branches of Indian banks must first raise funds from foreign lenders at a markup before on-lending, making the economics less viable. As a result, Indian banks are expected to use SBLCs to access such leverage.

"If a foreign bank lends to an NRI who lives and works in its own country, that exposure could arguably be treated as exposure to the country where the borrower resides rather than to India, since the borrower will ultimately repay the loan from income earned there. However, different institutions have different internal policies, so I am not sure how each bank will treat it. Indian banks do not have a large presence in many overseas markets from where a significant portion of these deposits is expected to come, and that is where foreign banks come into the picture," another banker said, adding that $40-50 billion of inflows under the scheme appears achievable at this stage.

A third banker at a mid-sized private sector bank said both country-level and bank-specific exposure limits maintained by foreign banks would come into play. "Ultimately, the extent of mobilisation under the scheme will depend on these limits," the banker said.

Most bankers said interest among NRIs in the scheme remains strong, with inflows expected to gather pace from the third week of July as lenders intensify customer outreach and finalise leverage arrangements. August and September are likely to account for the bulk of the deposits.

"You will see the real momentum building after July 15-20. So far, the leverage component has not really taken off at any bank, and most of the inflows have come from standalone NRI deposits. The real mobilisation through leveraged deposits is expected to begin in the second half of July," said another senior banker at a state-owned bank.

The IMF expects energy prices to remain above pre-war assumptions. It projected the average petroleum spot price index at $89 per barrel, 9 per cent higher than assumed in the April 2026 WEO reference forecast. Natural gas prices, based on Dutch Title Transfer Facility futures, are projected to be 15.5 per cent higher than the April reference forecast.

"This corresponds to an increase of 32 per cent in crude oil prices and 22 per cent in natural gas prices in 2026, relative to 2025. Fertiliser prices are projected to rise by 26 per cent. Reflecting higher energy and fertiliser costs and more expensive transport, food prices are expected to increase by 8 per cent," it added.

In emerging market and developing economies, fiscal policy is expected to tighten gradually, it said. "In crude-oil-importing Asian emerging markets, deterioration in the terms of trade has worsened the inflation outlook and put pressure on exchange rates, prompting a sharper upward repricing of expected policy paths," it said.

"Rebuilding fiscal space remains essential given elevated debt, higher borrowing costs, and heightened external uncertainty. Credible medium-term consolidation should rest on durable revenue measures, stronger tax administration, greater spending efficiency, and reallocation towards growth-enhancing priorities such as infrastructure, skills, and well-targeted social protection. In high-debt economies, adjustment may also require deeper spending rationalisation and active management of interest rate and refinancing risks," the IMF said.

The IMF said the risks are more balanced than in April but remain tilted to the downside. "Re-escalation of geopolitical tensions (in West Asia) would hurt growth and compound inflationary pressures. That said, if the reopening of the Strait of Hormuz goes more smoothly than assumed and commodity prices turn out to be lower than in the baseline, growth could be higher and inflation lower," it said.

The Fund said activity could also surprise on the upside in the short term if AI-related capital spending remains exceptionally strong or financial conditions ease further, continuing to offset the headwinds from geopolitical tensions, trade fragmentation and weak policy buffers. "But AI hype and exuberant financial markets could, at the same time, sow the seeds of macro-financial instability," it added.

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It said higher global oil prices, prolonged uncertainty, and structural headwinds weigh on economic activity in China.

Global growth is projected at 3 per cent in 2026, down from its April estimate of 3.1 per cent. "The modest slowdown reflects the effects of the war in the Middle East (West Asia), partly offset by accelerated demand-driven momentum in the global technology cycle, driven by advances in artificial intelligence (AI) and its adoption," the IMF said.

The IMF said the impact would vary widely depending on countries' exposure to the conflict and their position in the global technology value chain.

"Energy exporters outside the conflict zone benefit from favourable terms of trade, whereas economies plugged into the technology-led upturn experience stronger activity even if they are energy importers. In contrast, activity weakens for energy importers with limited participation in the technology value chain, a group that includes many low-income countries," it said.

The Reserve Bank of India (RBI) last month revised its FY27 growth projection to 6.6 per cent from 6.9 per cent, citing risks stemming from the West Asia conflict, elevated crude oil prices, and weather-related uncertainties.

SAIL CMD : High taxes, royalty will make iron ore costlier

Outlining the challenges facing the steel industry as the country expands steel-making capacity to 300 million tonne in near future, Panda said India was increasing mining capacity to make more iron ore available for steel production but the cost of the raw material was changing.

Iron ore miners are currently charged a uniform ad valorem royalty rate of 15 percent of the average sale price (ASP) of the ore across the country. Proceeds of this go to the state government where the mine is located. The actual amount of royalty paid per tonne varies from state-to-state because the calculation is based on the ASP declared for each region. Also, miners pay an extra 10 per cent of their royalty to the District Mineral Foundation (DMF) for local area development in case of auctioned mines and 30 per cent in case of non-actioned mines. Miners are required to contribute 2 percent of the royalty paid to the National Mineral Exploration Trust.

Panda had flagged the burden of these levies in an earlier occasion as well. Speaking as director (finance) of the company during its Q1 FY26 earnings call in July last year, he had said SAIL's other expenses were higher during the quarter "primarily because