IMF cuts India's FY23 GDP growth forecast to 6.8%

Slashes it by 60 bps; says worst yet to come for world

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The International Monetary Fund (IMF), in its latest World Economic Outlook report, cut its forecast for India's gross domestic product (GDP) growth in financial year 2022-23 (FY23) by 60 basis points (bps) to 6.8 per cent, warning of a long and tough economic winter. "The outlook for India is for growth of 6.8 per cent in 2022, a 0.6 percentage point downgrade since the July forecast, reflecting a weaker-than-expected outturn in the second quarter (April-June) and more subdued external demand," the IMF said.

In IMF parlance, 2022 would denote FY23 in case a nation follows a fiscal year starting April. For the rest, it would denote the current calendar year. In its July World Economic Outlook (WEO) report, the IMF had cut India's FY23 growth forecast by 80 bps to 7.4 per cent.

With this, the IMF has joined other agencies that see India's GDP growing below 7 per cent in this financial year, including the World Bank and State Bank of India. "The global economy continues to face steep challenges, shaped by the lingering effects of three powerful forces: The Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China," said IMF Economic Counsellor Pierre-Olivier Gourinchas.

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DIRE WARNINGS

IMF says

India's FY23 GDP growth forecast cut due to lower-than-expected April-June quarter print

- **2023 could be worse than 2022** for many economies
- **Global monetary tightening** needs to stay on course
- **More than a third** of global economy may contract in 2023
- **Global inflation seen** at 8.8% in 2022

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CURRENT ACCOUNT IMBALANCE HITS INDIA WORSE THAN PEERS

which will begin this week, will give a picture of how rising interest rates and consumer inflation has hit profits.

Investors' caution ahead of the announcement of US inflation data prevented a better-than-expected start to IT earnings from improving market mood," said Vinod Nair, head of research, at Geojit Financial Services.

Russian President Vladimir Putin's threat of further missile attacks on Ukraine, after hitting Kyiv and other cities, worsened investor sentiments. The Russian President's warnings come after the country carried out the most intense strikes since the early days of its war on Ukraine.

The market breadth was weak with 2,408 stocks declining and 1,037 advancing. Barring two, all index constituents declined. Reliance Industries fell 2.02 per cent and contributed the most to Sensex's decline. Infosys fell 2.6 per cent and ICICI Bank by 1.3 per cent.

IMF...

The IMF maintained a forecast of 6.1 per cent for FY24. Gourinchas added that the current global shocks will re-open "economic wounds" that were only partially healed following the pandemic.

The agency kept its global growth forecast for 2022 unchanged at 3.2 per cent, but cut it by 20 bps to 2.7 per cent in 2023, with a 25 per cent chance that it may slip below 2 per cent.

"More than a third of the global economy will contract in 2023, while the three largest economies—the United States, the European Union, and China—will continue to stall. In short, the worst is yet to come, and for many people 2023 will feel like a recession," Gourinchas said.

The IMF said while central banks remained focused on monetary tightening to curb inflation, there are risks to both under-tightening and over-tightening, and, hence, monetary authorities the world over should calibrate tightening and remain focused on taming inflation.

"As the global economy is headed for stormy waters, financial turmoil may well erupt, prompting investors to seek the protection of safe-haven investments, such as US Treasuries, and pushing the dollar even higher. Now is the time for emerging market policymakers to batten down the hatches," the agency said.

The IMF said the global economy's future rests critically on the successful calibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China.

It said global inflation could rise from 4.7 per cent in 2021 to 8.8 per cent in 2022, but predicted that it would decline to 6.5 per cent in 2023 and to 4.1 per cent in 2024. About a third of the world economy faces two consecutive quarters of negative growth this year, the IMF added.

"More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe," it said, warning of more possible headwinds and downsides to its projections. The IMF said that while monetary policy needs to stay aggressive to restore price stability, fiscal policy should also remain tight to support monetary policy, while ensuring the protection of vulnerable groups through targeted near-term support.

"With tightening financial conditions, macroprudential policies should remain on guard against systemic risks. Intensifying structural reforms to improve productivity and economic capacity would ease supply constraints and in doing so support monetary policy in fighting inflation," it said.

RBI...

Besides, in such cases, the incremental capital requirement is a 25 percentage point increase in risk weights, the RBI said.

In the context of the directions, the Ebid for banks has the same meaning as defined for computing the debt service coverage ratio, the RBI said.

Banks must determine the foreign currency exposure of all entities at least on an annual basis, the RBI said, stipulating that the exposures should be computed using relevant accounting standards. For this purpose, banks have to take into account items maturing or having cash flows over the next five years.

"For arriving at the foreign currency exposure of entities, their exposure from all sources including foreign currency borrowings and external commercial borrowings (ECBs) shall be taken into account," the RBI said.

Information on unhedged foreign currency exposures must be audited and certified by statutory auditors at least annually, the RBI said.