World Bank raises FY27 India growth forecast to 6.5%

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The World Bank on Tuesday upgraded its FY27 growth forecast for India to 6.5 per cent from 6.3 per cent projected in October last year on the back of firmer domestic demand and export performance, which has proved more resilient than earlier expected.

Compared to its forecast in June last year, however, the growth projection for FY27 has remained unchanged.

"India is expected to maintain the fastest growth rate among the world's largest economies. Despite higher tariffs on certain exports to the United States — which accounts for about 12 per cent of India's merchandise exports — the growth forecast has remained unchanged relative to June projections, primarily because adverse impacts of higher tariffs will be offset by stronger momentum in domestic demand and more resilient exports than previously anticipated," the World Bank said in its latest "Global Economic Prospects" report.

Talking about the upside risks to the forecast, the report points to a possible resolution of trade disputes, including a partial reversal of American tariffs in several economies, including India. Bilateral negotiations to lower trade barriers and restrictions could lead to faster export growth and attract more foreign capital than assumed in the baseline, the World Bank said.

"Business and consumer confidence could also be boosted, which would support stronger-than-expected increases in investment and consumption," it added.

Another upside risk flagged is stronger investment in new technologies, including artificial intelligence, in India, which could lift productivity and employment growth faster than expected.

Such gains are projected to raise India's potential growth and enhance the economy's resilience to external shocks.

The international lending organisation expects growth to inch up to 6.6 per cent in FY28, underpinned by robust services activity, a recovery in exports and a pickup in investment.

The report highlights that despite easier global financial conditions, growth in credit to the private sector has been restrained in several economies in the South Asian region, including India either by policies designed to contain financial risks or on account of weakened demand.

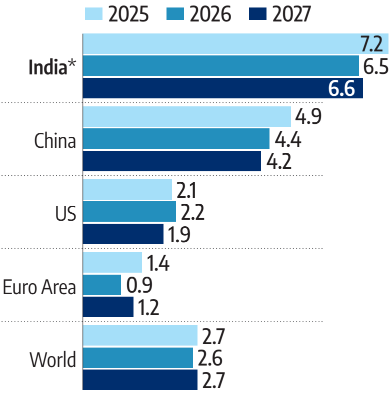
"Credit growth has continued to be moderated in India by macroprudential policies aimed at containing banking sector risks, despite increases in financing from non-bank sources," it added.

Fiscal consolidation is projected to continue in India over the forecast horizon, with the effects of tax cuts outweighing by a decline in current spending, resulting in a gradual reduction in the public debt-to-gross domestic product ratio. In India, surpluses in trade in services are expected to partly offset deficits in merchandise trade, while the inflation rate is expected to converge to the target for FY27 set by the Reserve Bank of India, assuming stable seasonal conditions contain food prices.

The global economy is projected to expand 2.6 per cent in FY27, down from 2.7 per cent in FY26, as front-loading fades and tariffs intensify, dampening trade and manufacturing. In particular, trade growth is set to weaken as firms scale back the accumulation of inventories.

Growth prediction

Real GDP (Y-o-Y %)



*For India, growth forecasts are for FY26, FY27, and FY28

Source: World Bank