IMF retains India's GDP forecast for FY26, FY27 at 6.5%

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The International Monetary Fund (IMF) on Friday retained its growth projection for India at 6.5 per cent for FY26 and FY27, holding that it is "in line with potential".

"Growth in India had slowed more than expected, led by a sharper than expected deceleration in industrial activity," the IMF said in its update to the World Economic Outlook (WEO), referring to the surprise 5.4 per cent growth in the September quarter.

The IMF's growth forecast is lower than that of the World Bank, which on Thursday maintained its growth projection for India at 6.7 per cent for FY26 and FY27, asserting that the country would remain the fastest-growing major economy over the next two years.

"India is projected to maintain the fastest growth rate among the world's largest economies, at 6.7 per cent in both FY26 and FY27. The services sector is expected to enjoy sustained expansion, and manufacturing activity is anticipated to strengthen, supported by government initiatives to enhance logistics infrastructure and improve the business environment through tax reforms," the World Bank said in its flagship Global Economic Prospects report.

Meanwhile, the First Advance Estimates of the National Statistics Office (NSO) have projected FY25 growth to slow to a four-year low of 6.4 per cent, which is lower than the Reserve Bank of India's projection of 6.6 per cent growth for the current financial year.

The IMF has forecast global growth to remain steady at 3.3 per cent in 2025 and 2026, broadly aligned with potential growth that has weakened substantially since the pandemic.

"The forecast for 2025 is broadly unchanged from that in the October 2024 WEO, primarily on account of an upward revision in the United States offsetting downward revisions in other major economies," the IMF said.

Growth projections for China in the calendar year 2025 have been revised upwards by 0.1 percentage points to 4.6 per cent. "This revision reflects carryover from 2024 and the fiscal package announced in November, which largely offsets the negative effect on investment from heightened trade policy uncertainty and the property market," the IMF report said.

The IMF cautioned that an intensification of protectionist policies, such as a new wave of tariffs, could exacerbate trade tensions, lower investment, reduce market efficiency, distort trade flows, and disrupt supply chains.

> **"Growth in India had slowed more than expected, led by a sharper than expected deceleration in industrial activity," said IMF in World Economic Outlook update**

"Growth could suffer in both the near and medium term, but at varying degrees across economies," it said.

The report said renewed inflationary pressures could prompt central banks to raise policy rates and intensify monetary policy divergence.

In addition to risks from economic policy shifts, the IMF said geopolitical tensions could intensify, leading to renewed spikes in commodity prices. "The conflicts in the Middle East and Ukraine could worsen, directly affecting trade routes as well as food and energy prices. Commodity-importing countries may be particularly affected, with the stagflationary impact of higher commodity prices compounded by an appreciating dollar," it added.

On the upside, the IMF, however, said global economic activity could benefit if incoming governments can renegotiate existing trade agreements and forge new deals. "Momentum on other policy fronts could also lift growth. Many countries may embrace structural reforms to prevent divergence from their better-performing peers from becoming entrenched. Efforts to increase labor supply, reduce misallocation, enhance competition, and support innovation could raise medium-term growth," the report said.

GROWTH FORECAST

FY26 projections (%)

IMF	6.5
India Ratings	6.6
S&P	6.7
World Bank	6.7
RBI	7