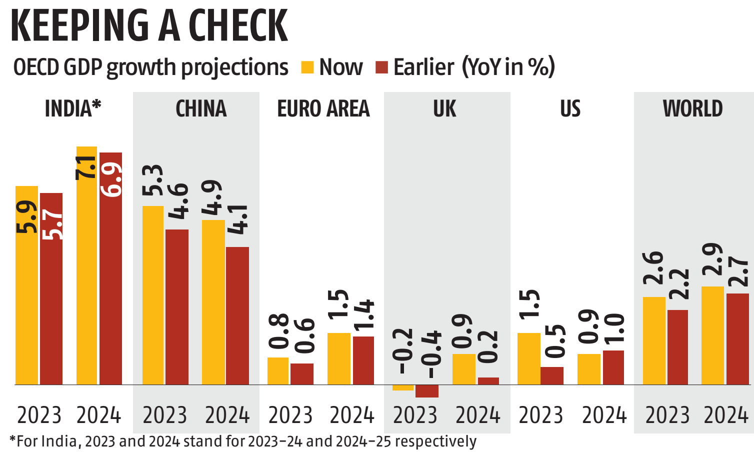
OECD raises India's FY24 growth forecast by 20 bps to 5.9%

'Will pick up to recover to about 7% in FY25'

ASIT RANJAN MISHRA
New Delhi, 17 March



The Organisation for Economic Cooperation and Development (OECD) has revised upwards its growth estimate for India by 20 basis points to 5.9 per cent for FY24.

In its latest interim outlook released on Friday, titled "Fragile Recovery", OECD said, "India's growth is projected to moderate to about 6 per cent in FY2023-24, amid tighter financial conditions before picking up to recover to around 7 per cent in FY 2024-25."

OECD expects India's gross domestic product (GDP) to grow at 6.9 per cent in FY23 against 7 per cent estimated by the Central Statistical Organisation. In the December quarter of FY23, the economy grew 4.4 per cent year-on-year. OECD on Wednesday said India's GDP growth slowed down sequentially to 0.7 per cent in the December quarter compared to 1.7 per cent in the September quarter based on seasonally adjusted quarter-on-quarter data.

Crisil on Thursday projected India's economy to grow at 6 per cent, citing complex interplay of geopolitical events, stubbornly high inflation rate and sharp rate hikes. "On the domestic front, the peak impact of the rate hikes — 250 basis points since May 2022, which pushed interest rates above pre-Covid-19 levels — will play out in the 2024-25 financial year," it added.

The grouping of rich nations said more positive signs have started to appear in the global economy, with business and consumer sentiment starting to improve, food and energy prices falling back, and the full reopening of China. Growth in China is projected to rebound to 5.3 per cent in 2023, before easing to 4.9 per cent in 2024.

"Global growth is projected to remain at below trend rates in 2023 and 2024, at 2.6 per cent and 2.9 per cent, respectively, with policy tightening continuing to take effect. Nonetheless, a gradual improvement is projected through 2023-24 as the drag on incomes from high inflation recedes," the report said.

However, OECD cautioned that improvement in outlook is still fragile. "Risks have become somewhat better-balanced, but remain tilted to the downside. Uncertainty about the course of the war in Ukraine and its broader consequences is a key concern. The strength of the impact from monetary policy changes is difficult to gauge and could continue to expose financial vulnerabilities from high debt and stretched asset valuations, and also in specific financial market segments. Pressures in global energy markets could also reappear, leading to renewed price spikes and higher inflation," it said.

The grouping of rich nations said the major emerging Asian economies are expected to experience low (China) to moderate (India and Indonesia) inflation rates in 2023-24. For India, OECD raised its inflation forecast by 80 basis points to 5.8 per cent.

OECD said sharp changes in market interest rates and in current market value of bond portfolios could further expose duration risks in business models of financial institutions, as highlighted by the failure of the Silicon Valley Bank. "Prompt action to safeguard depositors, while penalising shareholders, and enhanced regulation in the aftermath of the global financial crisis reduce the risk of broad financial contagion from such events," it added.

It cautioned that many emerging-market economies could also face increasing difficulties in servicing elevated debt and deficits as global interest rates rise, especially in commodity-importing economies or ones in which there is a mismatch between the currency composition of liabilities and external revenues. "Low-income economies are particularly at risk of debt distress. IMF debt-sustainability analyses for low-income countries suggest that over half of the 69 economies assessed were either experiencing debt distress or at high risk of distress as of January 2023," it said.