

Economic outlook appears bright despite global challenges: FinMin report

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The outlook for the Indian economy is bright although some impact is apprehended on export prospects due to the Red Sea crisis and higher inflation in the developed world, said a Monthly Economic Review released by the Finance Ministry on Tuesday.

The report took note of the 7 per cent growth estimate for FY2024-25 by the RBI. Various other agencies, including the IMF, have projected growth between 6.3 per cent and 6.5 per cent although the prospect is turning more optimistic now. The report highlighted that the IMF's medium-term growth forecast for India is strong, supported as it is by improving macroeconomic fundamentals and resilient domestic demand.

"As per the IMF estimate, India will become the third-largest economy in 2027 at market exchange rates, with its contribution to global growth increasing by 200 basis points in the next five years," the Ministry report said.

On the RBI's projection, the report listed prospects of a healthy rabi harvest, sustained manufacturing profitability and underlying service resilience as boost-

MONTHLY REVIEW

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ers to economic activity in FY25.

On the demand side, household consumption is expected to improve. Prospects for capital formation were cited as bright owing to a host of factors including an upturn in the private capex cycle, improved business sentiments, healthy balance-sheets of banks and corporates, and the government's continued thrust on capital expenditure. Improvement in the outlook for global trade and rising integration in the global supply chain will support net external demand, the report said.

HEADWINDS AHEAD

But the report flagged headwinds from geopolitical tensions including supply chain disruptions and higher logistics costs, volatility in international financial markets and geo-economic fragmentation. Downside

risks to trade include a spike in new commodity prices from geopolitical shocks including continued attacks in the Red Sea and supply disruptions or more persistent underlying inflation in the developed world which could extend tight monetary conditions. "This could impact the expected recovery in global demand, thereby affecting the prospects for India's exports," it said.

MONSOON OPTIMISM

On inflation, the report said that food and core inflation came down in January and the trend is likely to continue in February, too. "The recent measures announced by the government to control food prices, are likely to reduce inflation further. The expectations of the fading away of El Nino and the forecast of a normal monsoon bodes well for a better-than-normal kharif sowing," it said.