After IMF, World Bank cuts India's FY26 growth forecast to 6.3%

DIM OUTLOOK. Benefits to private investment expected to be offset by global headwinds

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SLOWER GROWTH. The growth projections of the World Bank and the IMF for the current fiscal is lower than the RBI's forecast of 6.5 per cent announced earlier this month REUTERS

The World Bank on Wednesday cut India's growth forecast for the current fiscal year FY26 by 40 basis points (bps) to 6.3 per cent.

"In India, growth is expected to slow from 6.5 per cent in FY25 to 6.3 per cent in FY26 as the benefits to private investment from monetary easing and regulatory streamlining are expected to be offset by global economic weakness and policy uncertainty," the multilateral agency said in its latest South Asia Development Update. In October 2024, the World Bank had projected a higher growth rate of 6.7 per cent.

IMF FORECAST

On Tuesday, citing tariff tension as a key factor, the International Monetary Fund (IMF) lowered the growth forecast for India for FY26 and (FY27 by 30 bps and 20 bps respectively. In January, the IMF had projected a growth rate of 6.5 per cent for both FY26 and FY27. The growth rate is now expected to be 6.2 per cent for the current fiscal and 6.3 per cent for the next fiscal.

The growth projections from the World Bank and the IMF for the current fiscal year are lower than the Reserve Bank of India's (RBI) recent forecast of 6.5 per cent, which itself was revised from 6.7 per cent earlier this month.

However, these projections are close to the lower band of the forecast range (6-3-6.8 per cent) in the Economic Survey.

PRIVATE INVESTMENT

Meanwhile, talking about India, the World Bank highlighted that growth in FY25 fell short of expectations due to slower growth in private investment and public capital expenditure which did not meet government targets.

In its FY25 Budget, the government had announced fiscal consolidation measures alongside tax cuts to support private consumption and regulatory streamlining to spur private investment.

However, during the current fiscal, the benefits to private investment from monetary easing and regulatory streamlining are expected to be offset by global economic weakness and policy uncertainties.

"Private consumption is expected to benefit from tax cuts, and the improving implementation of public investment plans should boost government investment, but export demand will be constrained by shifts in trade policy and slowing global growth," it said.

The report highlighted that the Indian rupee's value in terms of the US dollar held steady between mid-2022 and end-2024, partly supported by foreign exchange market intervention by the central bank. It has fallen about 2 per cent so far this year, more than the average depreciation of the currencies of EMDEs (emerging markets and developing economies) with flexible exchange rates.