

IMF sees India recovering in H2 led by govt capex, rural demand

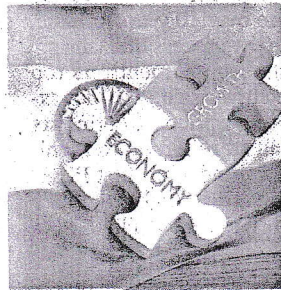
Shishir Sinha
New Delhi

The International Monetary Fund on Thursday said India's economic growth is expected to recover from its recent moderation, with inflation set to decline. However, the IMF also cautioned that domestic demand may not recover as expected.

"Growth is expected to accelerate in the second half of the fiscal year, supported by a catch-up in government capital spending and continued strengthening of rural demand. Overall, growth for 2024-25 is projected at 6.5 per cent, with the output gap estimated to be broadly closed," said an IMF report prepared on the basis of 2024 Article IV consultation with India. The report came a day before the official announcement of growth numbers for the October-December quarter (Q3) of FY25.

INFLATION TO DECLINE

Further, the report said in the next fiscal, robust domestic demand is expected to sustain growth at 6.5 per cent. Over the medium term, growth is projected to continue aligning with its potential at 6.5 per cent. "Inflation



is projected to decline to 4.8 per cent and 4.3 per cent in 2024-25 and 2025-26 respectively, broadly converging to the target," it said.

About the external sector, the report said the current account deficit is projected to widen to 0.9 per cent of GDP in 2024-25 from 0.7 per cent in 2023-24 and gradually converge to its norm of 2.2 per cent of GDP in the medium term. Subdued demand

in trading partners will contain export growth, with services exports outpacing merchandise trade. The pick-up in domestic consumption and investment will support imports. Net FDI has declined to almost zero, with repatriation and outward investments offsetting steady gross inflows.

DIP IN FOREX RESERVES

Taking note of the forex reserves dipping to \$640 billion in December, the report said it remained above the end-2023 levels. "Reserves cover is adequate at about 8 months of prospective imports and about 105 per cent of the ARA (Assessing Reserve Adequacy) metric, providing a comfortable cushion against adverse external shocks."

GDP may have grown 6.3-6.5% in Q3

Shishir Sinha
New Delhi

The Indian economy is expected to have recovered in the October-December quarter (Q3) of FY25 between 6.3 per cent and 6.5 per cent. However, a research firm sees growth at 5.8 per cent. The

government will release the GDP growth data on Friday.

GDP growth was 8.6 per cent in Q3 of FY24. Since then, it has been declining, slipping to 5.4 per cent in Q2, which was the lowest second-quarter growth. A key reason for this was a slowdown in consumption, especially in the urban areas. p3