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India's GDP to grow 12.5% this fiscal year: IMF

But the expected high growth rate is on a low base and will likely slow to 6.9% in FY23

ENS ECONOMIC BUREAU

THE IMF on Tuesday revised upwards India's real GDP growth projection to 12.5 per cent in FY22 as against the 11.5 per cent estimated in January.

However, the anticipated high double-digit growth on a low base will likely moderate to 6.9 per cent in FY23. This is higher than the pre-pandemic growth rate of 4 per cent in FY20 and 6.5 per cent in FY19.

In its latest World Economic Outlook, the IMF retained its forecast unchanged for FY21 and the Indian economy may contract by 8 per cent as expected. Still, this is a larger contraction than the government's own projections, with the National Statistics Office pegging a contraction at 7.7 per cent.

In the medium term, real GDP will likely grow at an average of 6.5 per cent up to FY27, but this is lower than the 7.9 per cent seen during 2003-2012. It's also lower than the projected growth rate of Bangladesh, which stands at 7.2 per cent and is perhaps the world's fastest for the period, being even higher than China's 4.9 per cent. For 2021, projections for emerging and developing Asia have also been revised upwards by 0.6 per cent due to a stronger recovery after lockdowns were eased in large countries like India.

The IMF expects India's headline inflation to be target-bound at 4.9 per cent this fiscal and 4.1 per cent next fiscal, which means nominal GDP growth may well be in the double-digits after all.

As for the world's output, the IMF is projecting a stronger recovery in 2021 and 2022 and has revised upwards its projections for 2021 to 6 per cent and 4.4 per cent for FY22, following a contraction of 3.3 per cent in 2020—1.1 per cent smaller than its projections last October—reflecting the higher-than-expected growth in the second half of 2020. In all, global growth is expected to moderate to 3.3 per cent over the medium-term.

Among advanced economies, the US is expected to surpass its pre-Covid GDP level this year, while many others will return to their pre-Covid levels only in 2022. Similarly, among emerging market and developing economies, China had already returned to pre-Covid GDP in 2020, whereas many others are not expected to do so until well into 2023, notes Gita Gopinath, Chief Economist, IMF.

Nonetheless, the outlook presents daunting challenges related to divergences in the speed of recovery, both across and within countries, and the potential for persistent economic damage from the crisis.

The divergent recovery paths are likely to create significantly wider gaps in living standards between developing countries and others, compared to pre-pandemic expectations. The income losses are believed to have reversed gains in poverty reduction, with an additional 95 million expected to have entered the rank of the extreme poor in 2020, while the number of undernourished has grown by 80 million.