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Asian Development Bank retains India's GDP forecast for FY23 at 7.5%

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Asit Ranjan Mishra | New Delhi April 07, 2022 Last Updated at 03:24 IST

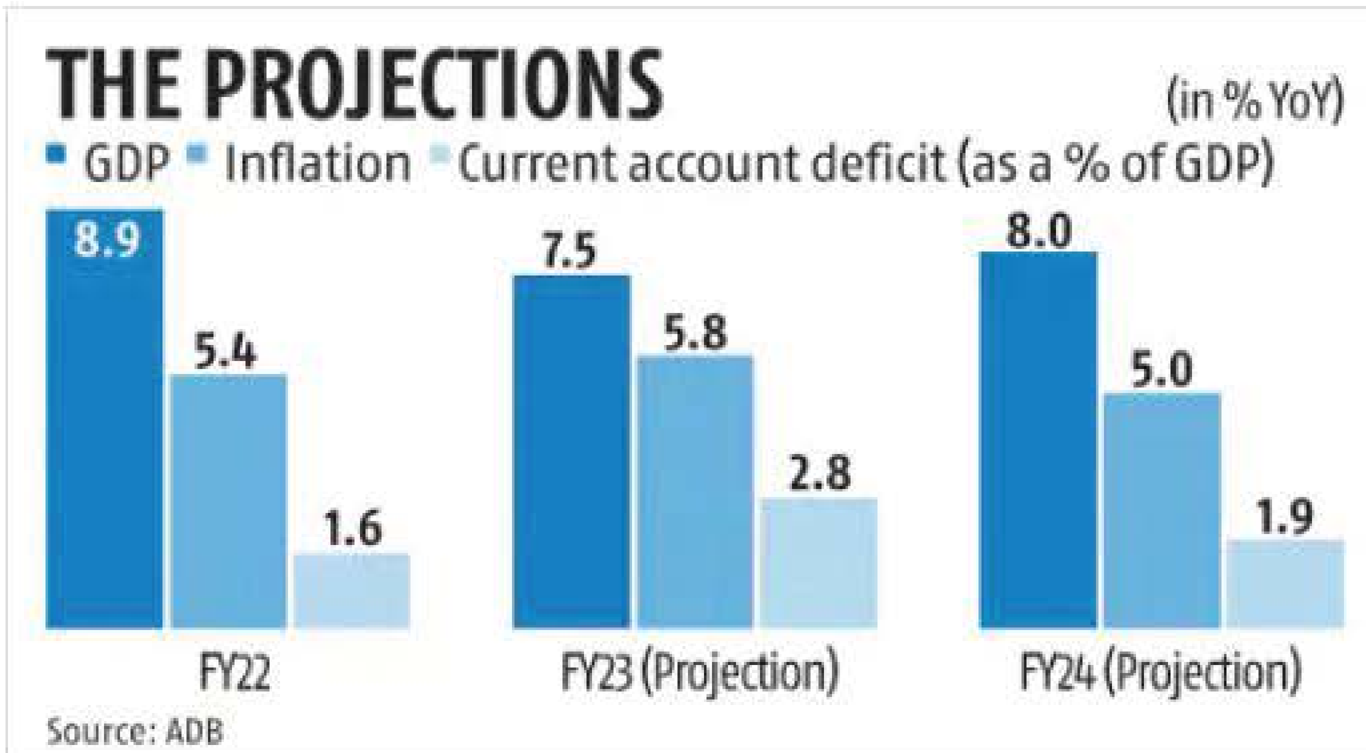
The Asian Development Bank (ADB) on Wednesday projected the Indian economy to grow at 7.5 per cent in FY23 on the back of strong investment growth.

The projection factors in the impact of the Russian invasion of Ukraine, which will be largely felt indirectly through higher oil prices. It also assumes that the severity of the Covid-19 pandemic will subside and vaccination rates will further rise in the country.

In its latest Asian Development Outlook released on Wednesday, ADB retained its earlier growth forecast for India while other agencies have been paring down their growth projections, possibly because its estimate for India is already conservative.

Last week, rating agency ICRA slashed its growth forecast for FY23 to 7.2 per cent fro 8 per cent projected earlier, citing elevated commodity prices and supply chain disruptions caused by Russia's invasion of Ukraine and lockdowns in China.

ADB said fiscal policy is expected to be supportive of growth. The higher capital spending is likely to improve the efficiency of India's logistics infrastructure, among others, crowd-in private investment, generate jobs in construction, and sustain growth. Economic activity in FY23 will be driven by investment, with public investmen playing a catalytic role.



In particular, to facilitate investment projects, the government plans to improv logistics infrastructure and reduce logistics costs through its PM Gati Shakti initiative, a national master plan that brings together 16 ministries, including railways and roads, for the integrated planning and coordination of infrastructure connectivity projects.

However, ADB acknowledged risks to its outlook are tilted to the downside. "The main risks are the uncertain global economic conditions, renewed Covid-19 outbreaks and new variants, monetary policy tightening in the US, and unexpected and sharp rises in commodity prices. The Russian invasion of Ukraine could lead to even higher oil prices and supply disruptions, pushing up prices of commodities and further raising the inflation rate," it said.

ADB believes oil price increases will exert upward pressure on prices, but the impact on inflation will be moderated by fuel subsidies and oil refineries stocking up on cheap cru from the Russian Federation.

"With oil prices expected to average over $100/barrel in 2022, firms may readjust their prices as profitability falls, which will create further upward pressure on consumer prices. Food prices are expected to rise in tandem with increasing commodity prices. On balance, the inflation rate is forecast to average 5.8 per cent in FY22 and 5 per cent in FY23, within RBI's target range," it added.

Monetary policy is expected to remain accommodative given the global uncertainties, ADB said. "The central bank will strive to keep the policy rate unchanged to sustain economic growth, but a tightening in the federal funds rate and rising oil prices may put pressure on it to increase policy rates in the later part of the current fiscal year," it said.

Increases in fertiliser prices are particularly of concern for India, since it is the world's largest nitrogen fertiliser importer and food accounts for 46 per cent of its consumer basket. "Besides fertilisers, elevated oil prices also make farming costlier, which will further kindle food inflation. The impact of these restrictions, coupled with the geopolitical fallout from the Russian invasion of Ukraine, may marginally lower growth in the last quarter (January–March) of this fiscal year," ADB said.