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Morgan Stanley trims India's GDP growth forecast to 7.9% for fiscal 2022-23

Indian long-denominated rupee notes **(PTI)**

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US investment bank and financial services company, Morgan Stanley has trimmed India's economic growth forecast by 50 basis points to 7.9% for the fiscal year 2022-23. Furthermore, Stanley raised the country's retail inflation estimate to 6%, meanwhile, current account deficits are seen to widen by 3% of GDP.

Despite expecting a cyclical recovery trend to continue, Stanley expects it to be softer than the earlier projection. In a report, Stanley pointed out that ongoing geopolitical tensions exacerbate external risks and impart a stagflationary impulse to the economy.

As per Stanley, India is impacted through three key channels such as higher prices for oil and other commodities; trade, and tighter financial conditions, influencing business/investment sentiment. Thereby, the American financial services provider said, "Building in higher oil prices, we trim our F23 GDP growth forecast 50bps, to 7.9%, lift our CPI inflation forecast to 6%, and expect the current account deficit to widen to a 10-year high of 3% of GDP."

Noteworthy, India's 85% of imports are dependent on meeting oil demand, and considering the recent wild uptick in international crude oil prices that drove rates to a 14-year high of $140 per barrel before correcting - is expected to result in the country paying more for the commodity. The rise in oil prices is also inflationary pressure and India's consumer price has already neared RBI's comfort range of 6%.

Stanley highlighted that a key channel of impact for the Indian economy would be higher cost-push inflation, feeding into broader price pressures, which will weigh on all economic agents -- households, businesses, and government.

Furthermore, Stanley said even as macro stability indicators are expected to worsen, lack of domestic imbalances and focus on improving the productivity dynamic will help to mitigate risks.

In regards to RBI's upcoming monetary policy outcomes, Stanley expects a repo rate hike in the June meeting of the Monetary Policy Committee. However, for April policy, Stanley expects it to mark the process of policy normalization with a reverse repo rate hike.

Moreover, Stanley also said, "if the RBI were to delay its normalization process, the risk of disruptive policy rate hikes would rise. We see less room for fiscal policy stimulus to support growth given high deficit and debt levels - we see a possibility of a modest fuel tax cut and reliance on the national rural employment program as an automatic stabilizer."