

Business Standard

India's GDP to contribute 22% to global growth, says Morgan Stanley

The Indian economy, they said, is set for its best run in over a decade as pent-up demand is unleashed

Puneet Wadhwa | New Delhi August 10, 2022 Last Updated at 23:31 IST



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to deliver domestic demand alpha, which will be particularly important as developed market growth weakness percolates into Asia's external demand," wrote Chetan Ahya, chief Asia economist at Morgan Stanley, in a recent co-authored note.

The key change in India's structural story, according to Ahya, lies in the clear shift in policy focus towards lifting the productive capacity of the economy.

Policymakers, he wrote, have taken up a series of reforms which will catalyse an upswing in the private capital expenditure cycle, helping unleash a powerful productivity dynamic, leading to the onset of a virtuous cycle.

A large part of this optimism has stemmed from a drop in commodity prices, especially crude oil. With a 23–37 per cent decline in oil/commodity prices since the March peak, Morgan Stanley expects macro stability indicators to head back towards the comfort zone and that the Reserve Bank of India (RBI) may not have to hike rates aggressively.

"We project that the RBI does not need to lift rates deeply into the restrictive territory. In other words, the RBI will not need to slow domestic demand growth meaningfully to control macro stability indicators. From a medium-term perspective, the key risk is if policymakers make a shift towards redistribution rather than focusing on boosting private investment. In the near term, India is still exposed to global supply shocks like a renewed spike in oil/commodity prices," said Ahya.

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Besides a fall in the prices of commodities, reopening of the economy earlier this year has also aided economic recovery. Demand, according to Morgan Stanley, has been on an uptick as mobility increased and remained above pre-Covid levels over the past few months.

"The strength of recovery provides a comforting backdrop and represents the strongest performance of the economy in almost a decade. What's more, it is the breadth of recovery where we are seeing growth firing on almost all cylinders, which is very encouraging — even though exports will slow in India just as we expect them to elsewhere in the region. Even in this instance, we expect services exports to hold up better than goods exports, acting as a mitigating factor," added Morgan Stanley.

India is likely to be the fastest-growing Asian economy in 2022-23, according to analysts at Morgan Stanley. They expect India's gross domestic product growth to average 7 per cent during this period — the strongest among the largest economies — and contributing 28 per cent and 22 per cent to Asian and global growth, respectively.

The Indian economy, they said, is set for its best run in over a decade as pent-up demand is unleashed.

"We have been constructive on India's outlook, both from a cyclical and structural perspective, for some time. The recent strong run of data increases our confidence that India is well positioned