

IMF raises India's growth forecast for FY22 to 12.5%

India is the only country expected to register a double-digit growth this fiscal.

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International Monetary Fund (IMF) on Tuesday raised its growth forecast for Indian economy by 100 basis points to 12.5 per cent for fiscal year 2021-22.

In its latest edition of World Economic Outlook, IMF said it expects India's GDP to grow 12.5 per cent in FY22, the highest among emerging and advanced economies. GDP growth for FY23 is pegged at 6.9 per cent.

"For the emerging and developing Asia regional group, projections for 2021 have been revised up by 0.6 percentage point, reflecting a stronger recovery than initially expected after lockdowns were eased in some large countries (for example, India)," IMF said.

After an estimated contraction of -3.3 per cent in 2020, the global economy is projected to grow at 6 per cent in 2021, moderating to 4.4 per cent in 2022. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook, reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased and as economies adapted to new ways of working, IMF said.

The contraction could have been three times as large if not for extraordinary policy support. "Thanks to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses," the report said.

IMF chief economist Gita Gopinath said the upgrades in global growth for 2021 and 2022 are mainly due to upgrades for advanced economies,

particularly a sizeable upgrade for the United States (1.3 percentage points) that is expected to grow at 6.4 per cent this year.

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"Other advanced economies, including the euro area, will also rebound this year but at a slower pace. Among emerging markets and developing economies, China is projected to grow this year at 8.4 per cent. While China's economy had already returned to pre-pandemic GDP in 2020, many other countries are not expected to do so until 2023," Gopinath said.

A high degree of uncertainty surrounds IMF's projections, she said, adding that faster progress with vaccinations can uplift the forecast, while a more prolonged pandemic with virus variants that evade vaccines can lead to a sharp downgrade.

Gopinath said countries need to work together to ensure universal vaccination. "While some countries will get to widespread vaccinations by this summer, most, especially low-income countries will likely have to wait until end-2022. Speeding up vaccinations will require ramping up vaccine production and distribution, avoiding export controls, fully funding the COVAX facility on which many low-income countries rely for doses, and ensuring equitable global transfers of excess doses."

Policymakers will need to continue supporting their economies while dealing with more limited policy space and higher debt levels than prior to the pandemic. "Right now, the emphasis should be on escaping the health crisis by prioritising healthcare spending-on vaccinations, treatments, and healthcare infrastructure. Fiscal support should be well targeted to affected households and firms. Monetary policy should remain accommodative (where inflation is well behaved), while proactively addressing financial stability risks using macroprudential tools," she added.