# India's GDP to grow at 5.9% in FY 2019 and at 6.3% in FY 2020: OECD Interim Economic Outlook

According to OECD Interim Economic Outlook, September 2019, the global outlook has become increasingly fragile and uncertain. Global growth is projected to slow to 2.9% in 2019 and 3% in 2020. These would be the weakest annual growth rates since the financial crisis, with downside risks continuing to mount. Escalating trade policy tensions are taking an increasing toll on confidence and investments, adding to policy uncertainty, weighing on risk sentiments in financial markets, and endangering future growth prospects.

Growth has been revised down in almost all G20 economies in 2019 and 2020, particularly those most exposed to the decline in global trade and investment that has set in this year. The disruption to trade and cross-border supply chains is a drag on demand, but also has longer-term growth costs by reducing productivity and incentives to invest. Service sector output has so far held up due to solid consumer demand, but persistent weakness in manufacturing sectors will weaken labour demand, household incomes and spending.

**OECD Interim Economic Outlook Forecasts September 2019**
**Real GDP growth; Year-on-year % change**

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| **World**[1] | 3.6 | 2.9 | 3.0 |
| **G20**[1 2] | 3.8 | 3.1 | 3.2 |
| Australia | 2.7 | 1.7 | 2.0 |
| Canada | 1.9 | 1.5 | 1.6 |
| Euro Area | 1.9 | 1.1 | 1.0 |
| Germany | 1.5 | 0.5 | 0.6 |

| | | | |
|---|---|---|---|
| France | 1.7 | 1.3 | 1.2 |
| Italy | 0.7 | 0.0 | 0.4 |
| Japan | 0.8 | 1.0 | 0.6 |
| Korea | 2.7 | 2.1 | 2.3 |
| Mexico | 2.0 | 0.5 | 1.5 |
| Turkey | 2.8 | -0.3 | 1.6 |
| United Kingdom | 1.4 | 1.0 | 0.9 |
| United States | 2.9 | 2.4 | 2.0 |
| Argentina | -2.5 | -2.7 | -1.8 |
| Brazil | 1.1 | 0.8 | 1.7 |
| China | 6.6 | 6.1 | 5.7 |
| **India[3]** | **6.8** | **5.9** | **6.3** |
| Indonesia | 5.2 | 5.0 | 5.0 |
| Russia | 2.3 | 0.9 | 1.6 |
| Saudi Arabia | 2.2 | 1.5 | 1.5 |
| South Africa | 0.8 | 0.5 | 1.1 |

Source: PHD Research Bureau, PHDCCI compiled from OECD
[1] Aggregate using moving nominal GDP w eights at purchasing power parities.
[2] The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
[3] Fiscal years, starting in April.

GDP growth in the United States is projected to moderate to around 2% in 2020 as the support from fiscal easing slowly fades. Solid labour market outcomes and supportive financial conditions continue to underpin household spending, but higher tariffs continue to add to business costs, and the growth of business investment and exports has moderated.

In Japan, GDP growth is set to slow from 1% in 2019 to 0.6% in 2020. Labour shortages and capacity constraints continue to stimulate investment, but confidence has eased and export growth has weakened. Stronger social spending should support demand following the increase in the consumption tax rate in October, but fiscal consolidation efforts are set to resume in 2020.

GDP growth in the euro area is projected to remain subdued, at around 1% in 2019 and 2020. Wage growth and accommodative macroeconomic policies, including modest fiscal easing, are supporting household spending, but policy uncertainty, weak external demand

and low confidence continue to weigh on investment and exports. Outcomes in Germany and Italy are set to remain much weaker than in the rest of the euro area, reflecting their stronger exposure to the downturn in global trade and the relative size of their manufacturing sectors. Growth in France is projected to remain relatively resilient helped by the support for household incomes from tax cuts and other fiscal measures.

GDP growth in China is projected to continue to moderate to around 5.7% in 2020. Escalating trade tensions are weighing on investment and adding to uncertainty, but new fiscal and quasi-fiscal stimulus measures and the easing of monetary policy should help to cushion credit growth and demand.

A gradual recovery is set to continue in Brazil, with GDP growth projected to pick up from 0.8% this year to around 1.7% in 2020. Lower real interest rates provide support for private consumption, and progress towards implementing reforms should help to support sentiment and investment.

Collective effort is urgent to halt the build-up of trade-distorting tariffs and subsidies and to restore a transparent and predictable rules-based system that encourages businesses to invest. Monetary policy should remain highly accommodative in the advanced economies, but the effectiveness of accommodative monetary policy could be enhanced if accompanied by stronger fiscal and structural policy support. Fiscal policy needs to assume a bigger role in supporting growth in the advanced economies. Exceptionally low interest rates provide an opportunity to invest in infrastructure that supports near term demand and offers benefits for the future. Greater structural reform ambition is required in all economies to help offset the impact of the negative supply shocks from rising restrictions on trade and cross-border investment and enhance medium-term living standards and opportunities.

**OECD Outlook for India**

GDP growth in India has proved surprisingly weak in recent quarters, with consumer spending having slowed and tight financial conditions restraining investment. Growth is expected to strengthen from around 5.9% in FY 2019 to just over 6.3% in FY 2020. Lower interest rates and stronger benefits from reform efforts should all help private sector demand to strengthen.

Reviving investment is key to boosting growth in India. This will require improving further the ease of doing business and bringing banks back to health. Investing more in education and training, combined with a modernisation of labour laws, would help creating more and better jobs. More investments in public services, such as health care and infrastructure are needed to provide all Indians with greater access to these facilities.

**Recommendations for India**

- Reduce barriers to formal employment further by introducing a simpler and more flexible labour law, which does not discriminate by size of enterprise or gender. Foster competition among states in the ease of creating jobs.
- Simplify further administrative and regulatory procedures. In particular, impose maximum timelines and "silent is consent" rules to regulatory approval processes and implement single-window clearance experiments more widely.
- Continue improving access to education, especially at the secondary level and improve the quality of education. Provide vocational training earlier in the curriculum. Train more doctors and nurses. Launch communication campaigns on lifestyle diseases, including those related to smoking and excess consumption of fat and sugar.
- Improve the governance of public banks to avoid a new build-up of non-performing loans. Give public banks the ability to attract and retain talent, including through more freedom in setting employee compensation. Establish a plan to phase out priority lending.
- Upgrade electricity and water infrastructure and pursue efforts to provide access to all. Set energy and water prices high enough to cover economic costs for investors and replace price subsidies by better targeted household financial support. Rely more on road pricing and parking fees to restrain private car usage and reduce pollution.

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