

India to grow 7% in '10: OECD

BS Reporter / New Delhi November 20, 2009, 0:37 IST

Global growth forecast increased to 3.4 per cent.

The Organisation for Economic Co-operation and Development (OECD) has in its latest report applauded the Indian economy's resilience and has projected a growth rate of 7 per cent in 2010 and 7.5 per cent for 2011. However, it says that India's central bank must tighten its monetary policy fairly soon to contain the rising inflation.

"Given the speed at which inflation has bounced back, monetary policy will need to be tightened fairly soon," the Paris-based OECD said about India in its Economic Outlook report released today. OECD expects headline inflation to be at 5.4 per cent in 2010, while it expects the fiscal deficit to be at 10 per cent in 2009 and 9 per cent in 2010.

The OECD outlook is in line with finance minister Pranab Mukherjee's recent statement that the country could expect to go back to a growth rate of 9-10 per cent in 2012-13 and a 7 per cent growth rate in 2010-11.

More cheer from biz confidence index

Adding to the positive outlook, the business confidence index (BCI) released jointly by NCAER and MasterCard Worldwide also brings good tidings.

The BCI has surged by 21 points in October 2009 over the previous survey in July, primarily due to an increase in industrial activity, which is reflected by the recent rise in the Index of Industrial Production (IIP) in the backdrop of the festival season. Confidence levels are now almost equal with what had been registered in the pre-downturn period.

The recovery of economic growth appears to be more robust in view of the continuing consolidation of business confidence. The current survey has registered improvement in all the four indicators, which include corporate financial condition, investment climate, capacity utilisation and overall economic conditions, compared with the previous quarter.

A majority 67.4 per cent and 68.7 per cent of the respondents surveyed said they expected domestic sales and production levels to increase respectively in the next six months. However, only 36.9 per cent of the respondents expect exports to pick up in the coming six months. Prices of industrial inputs are also expected to rise but companies will hold their prices down over the next six months, the survey said.

Reuters adds:

Meanwhile, the OECD also said in its report that Asia is leading the global economy out of the deepest downturn in decades, but the recovery will be marred by high unemployment and huge government debt across the industrialised countries.

Central banks and governments in major western economies should prepare for a gradual upward shift in ultra-low interest rates and for fiscal consolidation once recovery is stronger, but they will only need to move in late 2010 at the earliest, given that inflation is so low, it said.

The Paris-based OECD raised its global growth forecast for next year to 3.4 per cent from the 2.3 per cent it was predicting as recently as June, after an estimated contraction of 1.7 per cent in 2009.