IMF ‘corrects’ maths, says India to be $5-trln economy by FY27

CEA disputed IMF's earlier projections that showed goal to be achieved by 2028–29

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New Delhi, 19 May

T
he International Monetary Fund (IMF) has “corrected” an error in its calculations to now project that India would become a $5-trillion economy by 2026-27, which is what the finance ministry has been saying of late. Last month, the data given by the Fund had shown that this could be achieved by only 2028-29, two years after the ministry’s latest projections and a four-year delay over the original goal set by the government.

“IMF staff discovered a data input error that led to an error in calculating India's gross domestic product (GDP) denominated in US dollars, which was corrected,” Luis E Breuer, senior resident representative — India, Nepal, and Bhutan, at the Fund, told Business Standard in an emailed response. He said the data for real and nominal GDP denominated in rupees are not affected.

“More broadly, the Indian economy is recovering well from the pandemic with real GDP estimated to have recovered to above its pre-pandemic level by end-March 2022. The recovery is expected to continue although it is facing downside risks, including from external factors,” Breuer said.

Interestingly, chief economic Chief economic advisor V Anantha Nageswaran had expressed disagreement with IMF projections that were given in its April World Economic Outlook (WEO) database at a function organised by the Centre for Social and Economic Progress (CSEP) earlier this month.

He had said basically GDP in dollar terms boils down to the exchange rate between the rupee and the greenback. “For example, by the end of this financial year, India’s nominal GDP, let us say, is $268 trillion. If you assume the exchange rate of 50 you will be there (at $5 trillion). So, it boils down to the exchange rate,” he had said.

The CEA had said the Fund has taken rupee depreciation against the dollar much sharper than what is implied by the US-India inflation differential that the fund has forecast.

In contrast, China’s nominal GDP is computed differently, he pointed out. The inflation rate in China is projected to be lower than that of the US over the forecasting period. “But the yuan appreciates much more than what is implied by the inflation differential in the fund’s projections. In the case of India, the rupee depreciates much more than what is implied by the inflation differential. As a result, the gap between China’s dollar GDP and India’s dollar GDP widens,” he had said.

To a query sent by Business Standard on Wednesday, CEA said, “I have no additional comments over and above what I said at CSEP.”

In dollar terms, India’s GDP was projected by the IMF in April lagging China’s by $14.42 trillion during 2021 (2021-22 in case of India). The difference was projected to widen to $16.62 trillion the next year and further to $24.21 trillion by 2027 (2027-28 in case of India). However, new numbers put up by the IMF pegged India’s GDP behind China’s by $14.28 trillion in 2021, $16.38 trillion the following year and $23.6 trillion in 2027.

Prime Minister Narendra Modi in 2019 envisioned making India a $5 trillion economy by 2024-25. However, this target was hampered by Covid-induced lockdowns. GDP contracted by 14 per cent in nominal (rupee) terms during 2020-21, marred by the first wave of Covid. It is now officially projected to grow by 19.4 per cent, in nominal terms, during 2021-22 on the low base.