



World Bank on India's Growth

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Why in News

The **World Bank** has released the **South Asia Economic Focus report**. The report saw **India's growth at 1.5-2.8% in 2020-21** which is the **slowest since 1991 economic reforms**.

Key Points

- The **South Asian region** has been estimated to **grow by 1.8-2.8% in 2020**, down from the 6.3%, projected six months ago.
- For 2020-21, for India, estimated growth (1.5-2.8%) is lower than 4.1-5.4% estimated in October, 2019.
- It estimated that **India will grow 4.8% to 5% in the 2019-20** fiscal year that ended on March 31, 2020.
This is lower by 1.2-1% of the estimate made in October 2019.
- India is **likely to record its worst growth performance in 2020-21 since the 1991 liberalisation** as the coronavirus outbreak severely disrupts the economy.
Growth recovery estimated at the end of 2019 have been overtaken by the negative impacts of the global crisis.
- **Disruptions due to Coronavirus:**
 - The Covid-19 outbreak came at a time when **India's economy was already slowing** due to persistent financial sector weaknesses.
 - To contain it, the government imposed a lockdown, shutting factories and businesses, suspending flights, stopping trains and restricting mobility of goods and people.
 - This resulted in **domestic supply and demand disruptions**.

- **Impact :**
 - A sharp growth deceleration in FY21 (April 2020 to March 2021).
 - The **services sector** will be particularly hit.
 - A revival in domestic investment is likely to be delayed given enhanced risk aversion on a global scale, and renewed concerns about financial sector resilience.
- Growth is expected to rebound to 5% in Fiscal 2022 (2021-22) as the impact of **Covid-19** dissipates, and due to fiscal and monetary policy support.

India has set aside **just over 1% of Gross Domestic Product (GDP)** for programs to increase health sector spending and compensate the unemployed, with the bulk of the money going towards cash transfers, free food and gas cylinders, and interest-free loans.
- **Suggestions by the World Bank:**
 - India should focus on mitigating the spread of the disease, and to make sure that everybody has food.
 - It should also focus on temporary jobs programmes, especially at the local levels. These initiatives should be supported.
 - It should prevent bankruptcies, especially of a small and medium sized enterprise.
- **World Bank's Support to India**
 - The World Bank has **approved USD 1 billion to India**, of which the first tranche has already been released to deal with the emergency in the health care sector.
 - The first tranche aims at delivering civilian diagnostic equipment, put in place additional capacity to deal with testing and make testing available that benefits the entire population.
 - It is also working with India on two additional operations, which is anticipated to be ready in a matter of weeks.

These include, employment, banking and micro, small and medium enterprises sectors.
- **Other international agencies that have made a similar growth estimates:**
 - **The Asian Development Bank (ADB)** sees India's economic growth decrease to 4% in the current fiscal.
 - **S&P Global Ratings** has estimated the GDP growth forecast for the country to 3.5% from a previous downgrade of 5.2%.
 - **Moody's Investors Service** has slashed its estimate of India's GDP growth during the 2020 calendar year to 2.5%, from an earlier estimate of 5.3%.

1991 Economic Reforms

- **Year 1990-1991** Indian economy faced several uncertainties and strains. Inflation had increased to an annual rate of 17%.

- The fiscal deficit reached a peak of 8.2% of GDP while revenue deficit reached to a height of 2.6% of GDP, **growth rate decelerated to about 1%** showing symptoms of recession and industrial production falling at low level.
- The foreign exchange reserves of the **Reserve Bank of India (RBI)** had fallen to less than USD \$1 billion resulting in an unprecedented external debt crisis.
- Hence, the **New Economic Policy** was introduced, which consisted of a gradual process of **easing out government controls of industrial deregulations and some import liberalization.**

Significant changes in national policy with regards to Taxation, Industrial Licensing, Imports, Technology and Investment priorities were made.

South Asia Economic Focus

- The South Asia Economic Focus is a **biannual economic update** presenting recent **economic developments and a near-term economic outlook for South Asia.**
- It aims at providing important **background information and timely analysis of key indicators and economic and financial developments** of relevance to **World Bank Group operations** and interaction with counterparts in the region, particularly during annual and spring meetings.
- This biannual series is prepared by the **Office of the Chief Economist for the South Asia region.**
- It includes a Focus section presenting more in-depth analysis of an economic topic of relevance for stability, growth, and prosperity in the region as well as country briefs covering **Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.**
- It concludes with a data section providing key economic indicators for South Asia "at a glance."

Source :IE