Source : www.economictimes.indiatimes.com Date : 2020-04-13

WORLD BANK SEES FY21 INDIA GROWTH AT 1.5-2.8%; SLOWEST SINCE ECONOMIC REFORMS THREE DECADES BACK

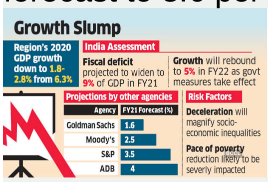
Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

India is likely to record its worst growth performance since the 1991 liberalisation this fiscal year as the coronavirus outbreak severely disrupts the economy, the World Bank said on Sunday. India's economy is expected to grow 1.5 per cent to 2.8 per cent in the 2020-21 fiscal which started on April 1, the World Bank said in its South Asia Economic Focus report. It estimated India will grow 4.8 per cent to 5 per cent in the 2019-20 fiscal that ended on March 31.

The COVID-19 outbreak came at a time when India's economy was already slowing due to persistent financial sector weaknesses, the report said. To contain it, the government imposed a lockdown, shutting factories and businesses, suspending flights, stopping trains and restricting mobility of goods and people. "The resulting domestic supply and demand disruptions (on the back of weak external demand) are expected to result in a sharp growth deceleration in FY21 (April 2020 to March 2021)," it said, adding that the services sector will be particularly impacted.

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 fiscal and monetary policy support pays off with a lag," the World Bank said. The World Bank joins a chorus of international agencies that have made a similar cut in growth estimates in recent days on concerns about the COVID-19 outbreak.

The Asian Development Bank (ADB) sees India's economic growth slipping to 4 per cent in the current fiscal, while S&P Global Ratings has further slashed its GDP growth forecast for the country to 3.5 per cent from a previous downgrade of 5.2 per cent. Fitch Ratings puts its estimate for India growth at 2 per cent, while India Ratings & Research has revised its FY21 forecast to 3.6 per cent from 5.5 per cent earlier.



Moody's Investors Service has slashed its estimate of India's GDP growth during 2020 calendar year to 2.5 per cent, from an earlier estimate of 5.3 per cent. In its report released on Sunday, the World Bank saw the South Asian region, comprising eight countries, growing by 1.8 - 2.8 per cent this year, down from the 6.3 per cent it projected six months ago. Its 2019-20 estimate for India at 4.8 - 5 per cent is lower by 1.2 - 1 per cent of the estimate made in October 2019. The 1.5 - 2.8 per cent growth estimate in 2020-21 is lower than 5.4 - 4.1 per cent estimated in October last year.

"The green shoots of a rebound that were observable at the end of 2019 have been overtaken by the negative impacts of the global crisis," the World Bank report said, adding India has set aside just over 1 per cent of 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. In a conference call with reporters, World Bank Chief Economist for South Asia Hans Timmer said India's "outlook is not good."

And if the domestic lockdown is prolonged, then the economic result can be much worse than what the World Bank has in its baseline range of forecasts.

Among the steps that India can take to address this challenge, Timmer said the first is to focus on mitigating the spread of the disease, and to make sure that everybody has food.

"Then, it is very important to prepare for a rebound and that means there should be a focus on temporary jobs programmes, especially at the local levels. Those initiatives should be supported. And it is important to prevent bankruptcies especially of a small and medium sized enterprise," Timmer said in response to a question.

"In the longer run, this is really an opportunity to bring the Indian economy on sustainable path not just fiscally, but also socially," he said.

The World Bank is working with India to mitigate the challenge posed by COVID-19. It 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, said World Bank Vice President for South Asia Hartwig Schafer.

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 sector.

In its report, the World Bank said that the COVID-19 outbreak has magnified pre-existing risks to India's economic outlook.

The government is undertaking measures to contain the health and economic fallout, and the RBI has begun providing calibrated support in the form of policy rate cuts and regulatory forbearance.

"Given significant uncertainties, there is a wide confidence interval around the baseline estimate. If a large-scale domestic contagion scenario is avoided, early policy measures payoff, and restrictions to the mobility of goods and people can be lifted swiftly, an upside scenario could materialize in FY21, with growth around four per cent," it said.

"However, if domestic contagion is not contained, and the nationwide shutdown is extended, growth projections could be revised downwards to 1.5 per cent, and fiscal slippages would be larger," it said.

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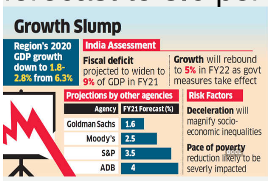

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