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GROWTH PANGS: THE HINDU EDITORIAL ON WORLD BANK GROWTH FORECAST FOR INDIA

Relevant for: International Relations | Topic: World Bank and India

The World Bank pared its 2022 growth projections for South Asian economies to 6.6% on Wednesday, from an estimate of 7.6% released in January, emphasising that post-pandemic growth was already uneven and fragile before the Russia-Ukraine conflict triggered fresh challenges. The ripple effect of high oil and food prices that prevailed even before the war and were exacerbated since February 24, are key factors worrying the Bank as people's real incomes take a hit. India's GDP, the Bank reckons, may now grow by 8% in 2022-23, not 8.7% as it had earlier forecast, before dropping further to 7.1% in 2023-24. The Bank's chief economist has said that their overall assessment is that GDP growth could actually be 1.3 percentage points lower, or 7.4%, but they refrained from making an adjustment of that magnitude in their headline projection due to some positive surprises in recent data such as strong digital services exports. The tepid post-COVID recovery in India's household consumption will be further hemmed in by high inflation and the incomplete labour market revival. More importantly, a nowcast of high frequency indicators by the Bank's mandarins suggests India's growth was already experiencing a relative slowdown in the January to March 2022 quarter, compared to previous quarters. India's recovery varies widely across sectors and manufacturing remains troubled due to weak demand and increasing input costs. This is borne out by the latest industrial output data.

The World Bank's prognostications about India's growth prospects seem more sanguine than some others. The Asian Development Bank expects India's GDP for the year to rise 7.5% with retail inflation of around 5.8%. And the RBI reset growth hopes from 7.8% in February to 7.2%, while raising its inflation projection for the year more sharply from 4.5% to 5.7%. Economists expect inflation to trend much higher, even above 7% in the first half of the year, and well over the comfort threshold of 6% over the full year. Monetary and fiscal policy mandarins need to address inflation more aggressively, lest it derails the recovery which the Bank has warned could renew pressure on improving bank and corporate balance sheets. There is a need to rethink growth engines as well — the pursuit of free trade agreements indicates a fresh stance. The shunning of RCEP needs a revisit, as advised by key ally Japan — lest rivals like Vietnam dent India's future exports in job-intensive sectors such as textiles. The farm sector, that has so far been resilient through the pandemic's worst phases and could now gain due to high global food prices, needs careful handling too. While the normal monsoon forecast bodes well for the *kharif* crop and hopefully, rural demand, the cost of inputs — be it fertilizers or chicken feed — is rising sharply for farmers too.

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