

WORLD BANK PARES FY23 GROWTH PROJECTION TO 6.5%

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

The economies that are more services-led (India, Nepal, and Maldives) are expected to “maintain a reasonable recovery trend despite headwinds”.

Afghanistan, Sri Lanka and Pakistan are more at risk and will see poverty increase in 2022.

The slowing in India’s growth during the current fiscal year, relative to the previous one, was because most of the COVID recovery happened last year, the report said. The impact of the Russia-Ukraine war, global monetary tightening, high commodity prices and interest rates impacting domestic demand, contributing to this slowing.

Manufacturing and services have been expanding in India since January, and growing at a rate faster than the rest of the world. With a relaxing of COVID restrictions, economic activity had picked up, as had demand in contact-intensive sectors.

Output had grown at an estimated 13.5% (year on year) in the April –June period this year, a contraction however, relative to the preceding quarter. Services and construction had expanded the fastest on the production side, the report said, and private demand had grown year on year, but this was largely due to a low base effect from the second quarter of 2021 when the economy was reeling under the delta wave of COVID.

Employment and supply chains

Although India growth estimates are above the South Asian average, there is weakness in employment and supply chains, the report says, with supply chain delays having improved only marginally since June this year. While India’s economy-wide employment index is improving on a monthly basis, it is doing so at speeds slower than the rest of the world (barring Asia). While private consumption in India increased overall in quarter 2 of 2022, the recovery across income groups has been uneven, as per the World Bank. High income households’ consumption of contact-intensive services and consumer goods recovered, but for rural and low income households, consumption was weak. Return of migrant workers to their places of work has also been slow, impacting household incomes in cases where migrants are sending money home.

“Pandemics, sudden swings in global liquidity and commodity prices, and extreme weather disasters were once tail-end risks. But all three have arrived in rapid succession over the past two years and are testing South Asia’s economies,” said Martin Raiser, World Bank Vice President for the South Asian region.

“In the face of these shocks, countries need to build stronger fiscal and monetary buffers, and reorient scarce resources towards strengthening resilience to protect their people,” he said.

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