World Bank Growth forecast

Why in news?

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- The **World Bank has cut its 2016-17 economic growth forecast for India to 7% from 7.6%,** citing a slowdown in consumption and manufacturing due to demonetisation, an ongoing decline in private investment and credit constraints due to impaired bank balance sheets.
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What is the reason for the downgrade?

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- **Unexpected demonetisation** has weighed on growth in the third quarter of FY2017.
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- Weak industrial production and manufacturing and services purchasing managers' indexes (PMI), further suggest a setback to activity in the fourth quarter of FY2017.
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- This was further accentuated by other economic factors, leading to a slump in the entire year's growth rate.
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- A retrenchment of private investment, reflecting excess capacity, corporate deleveraging, and credit constraints due to impaired commercial banks' balance sheets, also had an adverse effect on activity.
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What are the reforms that can bring about growth rebound?

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- The passage of the bankruptcy and insolvency code, the liberalization of FDI norms across sectors, the passage of the **Goods and Services Tax (GST)**

Amendment Bill.
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- The agreement between the government and the Reserve Bank of India on a monetary policy framework that included the setting up of a monetary policy committee and agreement on a flexible inflation target.
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- Infrastructure spending should improve the business climate and attract investment in the near-term.
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- The 'Make in India' campaign may support India's manufacturing sector, backed by domestic demand and further regulatory reforms.
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- Moderate inflation and a civil service pay hike should support real incomes and consumption, assisted by bumper harvests after favorable monsoon rains.
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- A benefit of 'demonetisation' in the medium term may be liquidity expansion in the banking system, helping to lower lending rates and lift economic activity
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Conclusion

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The Indian economy is, however, set to recover its momentum subsequently, with growth projected to accelerate to 7.6% in FY18 and further strengthen to 7.8% in FY20, according to the World Bank's Global Economic Prospects – January 2017 report.

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Source: The Hindu

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