

## India in a Strong Position to Tap Global Growth, says New World Bank Report

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Unlike most developing countries, Indias recent growth has been well below potential, which provides space for economic activity to accelerate without building inflationary pressures. Global Economic Prospects 2014, presented in New Delhi today, says growth in India is projected at 5.5% in FY2014-15, accelerating to 6.3% in 2015-16 and 6.6% in 2016-17. This comes at a time when the outlook for most other developing countries is largely flat as they have by now recovered from the crisis and are growing close to potential, says the report. Overall, the global economy is expected to pick up speed as the year progresses and is projected to expand by 2.8% this year, strengthening to 3.4 and 3.5% in 2015 and 2016. High-income economies will contribute to about half of global growth in 2015 and 2016, compared with less than 40% in 2013. Developed economies are projected to inject an additional \$6.3 trillion to global demand over the next three years, which is significantly more than the \$3.9 trillion increase they contributed during the past three years, and more than the expected contribution from developing countries. The momentum will be led largely by continued recovery in the United States and the Euro zone that, as Indias main trading partners, will provide a growing market for the countrys exports. With a rising global demand, we expect that a rebound in domestic investments and a pick-up in manufacturing activity will help India move from two years of sub-5% growth to over 6% in the next year, said Onno Ruhl, World Bank Country Director, India. Removing bottlenecks in energy supply, improving the business climate, and unlocking stalled PPP contracts are some of the key areas that could be addressed in the short term to bring India back to a high growth trajectory. Speaking at the launch, Ruhl suggested short- and medium-term priorities that could help India regain its growth momentum and improve progress in poverty reduction. Removal of immediate bottlenecks to growth will be crucial. Improving the business environment by reducing the regulatory and compliance costs for firms could help remove some of these hurdles. Revitalizing the power sector, by improving the performance of distribution utilities, and ensuring that players in the sector are subjected to financial discipline is another step. Further investments in infrastructure, including re-pricing stranded PPP contracts and developing an integrated logistics strategy could address missing links in the transport system. The GEP 2014 report also points out the need for continued progress on fiscal consolidation to ensure fiscal sustainability and to create space for pro-poor expenditure. Indias general government deficit, despite falling, is still more than 2 percentage points of GDP higher than in 2007, indicating that depleted fiscal buffers have yet to be fully restored. In addition to making more effective use of resources spent on subsidies for fuel, food and fertilizer, India needs to boost revenue generation, said Ruhl. Implementing the GST, targeting subsidies better and broadening the tax base will help create the fiscal space for supporting accelerated growth and poverty reduction. Continued fiscal consolidation will help create additional space for private investment. Efficiency in expenditure is one potential avenue for generating the money to raise the quality of public investments in human capital and physical infrastructure, said Andrew Burns, lead author of the report. Ruhl emphasized the importance of supporting deeper drivers of growth such as urban infrastructure development and empowering of urban local bodies and boosting agricultural productivity by reducing food distribution inefficiencies, simplifying agricultural trade and marketing, and helping farmers insure against crop risks. Improving the quality of education and further investments in skills and workforce training will be critical in positioning India to take full advantage of global opportunities. A key risk to the near-term outlook is weak seasonal monsoon rains, perhaps triggered by El Nino weather conditions. Weaker than average monsoons can reduce GDP growth in South Asia by half a percentage point or more, while stronger El Nino conditions that result in deficient rainfalls or drought can have more significant impacts, the report cautions. Stressed bank loans (including restructured loans), which now exceed 10% of loans in India, represent another source of vulnerability. If left unaddressed, it could result in insufficient financing for resumption of the investment cycle in India, the report warns. For more information on GEP 2014, visit [www.worldbank.org/globaloutlook](http://www.worldbank.org/globaloutlook) to download the report.

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