

India: The Current Downturn Presents an Opportunity to Push Ahead With Reforms to Accelerate Growth, Says World Bank

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Expects GDP to expand 4.7% in 2014 and 6.2% in 2015; pace of poverty reduction faster, especially in low income states
Recent global market turmoil is unlikely to have major adverse effects on India and instead provides an opportunity to regain growth momentum through further progress on reforms, says the latest India Development Update of the World Bank.
According to the Update, a twice yearly report on the Indian economy and its prospects, global investors have focused more intensely on large emerging economies with greater current account and fiscal deficits as they withdrew funds from emerging markets in anticipation of an early end to the US Federal Reserves quantitative easing program. In this risk-averse environment, Indias large twin deficits and slowing growth momentum added to investors fears.
Recovering the higher rates of growth in India is critical to achieving the global goal of ending extreme poverty by 2030, said Martin Rama, chief economist for the South Asia Region at the World Bank. "While the reform momentum has accelerated in the last few months, the current situation offers an opportunity to further strengthen the business environment and enhance fiscal space.
The report expects real GDP to expand by 4.7% this fiscal year (FY2014) before accelerating to 6.2% in FY2015. Although output growth in the first quarter of the current fiscal year fell to 4.4%, growth is expected to rebound strongly in the second half of FY2014 with core inflation trending down, a bumper crop expected in agriculture (where a 5% increase in area sown is expected to raise agricultural growth to 3.4% from 1.9% a year ago), and exports likely to benefit substantially from the rupees depreciation. Growth is expected to improve further in the medium term as strengthening exports support a recovery in industrial activity and new investment projects come on stream.
The report's projections assume an improvement in the global macroeconomic environment, with global growth accelerating to above 3% in 2014 from around 2% in calendar 2013. The recent depreciation in the rupee positions India well to take advantage of the global recovery. Fully tapping these opportunities, however, will require policy efforts to narrow the infrastructure gap, buttress the financial sector via capitalization and broader banking
financial sector reforms, ease the restrictive regulatory environment which creates strong incentives for Indian firms to remain small, and strengthen fiscal balances.
Indias growth potential remains high but its macroeconomic vulnerabilities-high headline inflation, an elevated current account deficit, and rising pressure on fiscal balances from the depreciation of the rupee-could impact the speed of economic recovery, said Denis Medvedev, senior country economist, World Bank, India. "While market sentiment improved in the last few weeks, the underlying challenges remain, underscoring the importance of prudent macroeconomic policies and continued progress on reforms to set strong foundations for accelerated growth in the future".
The report also notes that while decline in poverty accelerated, vulnerability remains high. Between 2005 and 2012, India lifted 137 million people out of poverty and reduced the poverty rate to 22%. India has also improved its performance on shared prosperity, with consumption growth of the bottom 40% accelerating significantly since 2005. At the same time, however, more than half of Indias population remains vulnerable-living between one and two poverty lines-and growth in the bottom 40% continues to lag slightly behind average growth. "The pace of poverty reduction in India has become faster over the years, growth has become more effective in reducing poverty, and a much larger fraction of the decline is taking place in low-income states. added Medvedev.
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