

## 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.
- 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.
- $\bullet$  Infrastructure spending should improve the business climate and attract investment in the near-term.  $\mbox{\sc h}$
- The 'Make in India' campaign may support India's manufacturing sector, backed by domestic demand and further regulatory reforms.
- 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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**Category: Mains | GS - III | Economics** 

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Source: The Hindu

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