World Bank expects Indian economy to contract 3.2% in FY21

Indian economy is expected to post a negative growth of -3.2% in 2020-21, compared to a positive growth of 4.2% in the previous year, said a recent estimate by World Bank.

The swift and massive shock of the corona virus pandemic and shut down measures to contain it have plunged the global economy into a severe contraction.

World Bank expects spillovers from weaker global growth and balance sheet stress in the financial sector to weigh on economic activity.

World Bank forecasts the global economy to shrink by 5.2% in 2020. That would represent the deepest recession since the Second World War, with the largest fraction of economies experiencing declines in per capita output since 1870, the World Bank noted in its June 2020 Global Economic Prospects.

Economic activity among advanced economies is anticipated to shrink 7% in 2020 as domestic demand and supply, trade and finance have been severely disrupted. Emerging market and developing economies (EMDEs) are expected to shrink by 2.5% this year, their first contraction as a group in at least sixty years. Per capita incomes are expected to decline by 3.6%, which will tip millions of people into extreme poverty this year.

The blow is hitting hardest in countries where the pandemic has been the most severe and where there is heavy reliance on global trade, tourism, commodity exports, and external financing. While the magnitude of disruption will vary from region to region all EMDEs have vulnerabilities that are magnified by external shocks. Moreover, interruptions in schooling and primary health-care access are likely to have lasting impacts on human capital development.
World Bank Group Vice President for Equitable Growth, Finance and Institutions, Ceyla Pazarbasioglu observed that the Bank’s first order of business would be to address the global health and economic emergency. Beyond that, the global community must unite to find ways to rebuild as robust a recovery as possible to prevent more people from falling into poverty and unemployment.

According to World Bank, global growth is forecast to rebound to 4.2% in 2021, as advanced economies grow 3.9% and EMDEs bounce back by 4.6%. However, the outlook is highly uncertain and downside risks are predominant including the possibility of a more protracted pandemic, financial upheaval, and retreat from global trade and supply linkages. A downside scenario could lead the global economy to shrink by as much as % this year, followed by a sluggish recovery in 2021 of just over 1% with output in EMDEs contracting by almost 5% this year.

The US economy is forecast to contract 6.1% this year, reflecting the disruptions associated with pandemic-control measures. Euro area output is expected to shrink 9.1% in 2020 as widespread outbreaks took a heavy toll on activity. Japan’s economy is anticipated to shrink 6.1% as preventive measures have slowed economic activity.

The current episode has already seen by far the fastest and steepest downgrades in global growth forecasts on record. Given the scenario, policy makers may need to be ready to employ additional measures to support activity.

Source: The World Bank
Update on COVID 19

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