

UPSC PREPARATION

Global Economic Prospects

The World Bank has released June 2021 Global Economic Prospects where it has forecasted GDP growth of India as 8.3% for the fiscal year 2021-22. The report also highlighted that the Covid-19 pandemic would have both short term and long term effects on economic growth.

Highlights of the Report:

1. India's economy is expected to grow at 8.3% for the fiscal year 2021-22, 7.5% for 2022-23 and 6.5% for 2023-24.

Year	India's expected GDP growth rate
2021-22	8.3%
2022-23	7.5%
2023-24	6.5%

2. The world economy is expected to grow at 5.6%. It is the fastest post-recession growth rate in eighty years.
3. However, global output will be below pre-pandemic projections by year-end.

OTHER HIGHLIGHTS

- ▶ The World Bank predicts global growth of 5.6% this year, up from 4.1% forecast in January. That will be fueled largely by a 6.8% expansion in the U.S. and 8.5% in China
- ▶ Growth in low-income countries is expected to be the second-

- slowest of the past 20 years at 2.9% – down from the 3.4% forecast in January, held back by lack of access to vaccines
- ▶ Global recovery could falter once policy support is withdrawn
- ▶ Developing nation per-capita income will be slower to recover

Global Data:

1. Global economic output is projected to grow by 4% in 2021 (5% below the pre-pandemic levels), assuming the roll-out of the Covid-19 vaccine throughout the year.
2. The global recovery is uneven. Growth is concentrated in a few major economies, with most emerging market and developing economies (EMDEs) lagging behind.

3. While about 90 per cent of advanced economies are expected to regain their pre-pandemic per capita income levels by 2022, only about one-third of EMDEs is projected to do the same. As a result, per capita income catch-up with advanced economies is expected to slow or even reverse in many poorer countries.
4. The global outlook remains subject to significant downside risks, which include the possibility of additional COVID-19 waves and financial stress amid high EMDE debt levels.
5. The legacies of the pandemic exacerbate the challenges facing policymakers as they balance the need to support the recovery while safeguarding price stability and fiscal sustainability. A comprehensive set of policies will be required to address the long-term scars brought about by the pandemic and steer the recovery onto a green, resilient, and inclusive development path.

Impacts of Covid-19 on Global poverty:

1. Pandemic and lockdowns have hugely impacted the poor around the world, which is unprecedented in modern times.
2. It was estimated that about 60 million people could be pushed into extreme poverty in 2020. These numbers might rise further with the reopening of advanced economies.
3. The economic lockdowns have damaged multiple channels like
 - Lower Investment and innovation.
 - Human capital erosion.
 - Retreat from global trade and supply linkages.
4. EMDEs(Emerging Market and Developing Economies) are most vulnerable and may face a health crisis, external shocks like trade fall down, tourism, commodity prices and capital outflows.

Impacts on EMDEs(Emerging Market and Developing Economies):

- EMDEs are expected to have a 3% to 8% output loss in the short term. But in the long term, these economies will experience a drop in output levels.
- Growth might slow more in commodity-exporting EMDEs than in commodity importing ones.
- EMDEs are expected to witness spillover effects of the USA, the EURO area and China. These countries represent almost half of global output.
- Earlier commercial creditors and G20 countries had agreed to freeze loan repayments for low-income countries (from 1st May to the year-end of 2020). But these creditors had not implemented the same yet. This delay in freezing loan repayment is increasing poverty in the debtor country. (most creditors are in the developed economies like the USA, Europe, Japan etc.)
- Energy exporting EMDEs face dual problems of health crisis and financial issues due to a fall in oil revenues.

Steps taken worldwide:

1. **Greater debt transparency to invite new investment:**

Greater transparency assists borrowers, creditors and the official sector in the ongoing assessment of debt dynamics and debt sustainability.

2. The countries have also fastened their digital connectivity and implemented an expansion of cash safety nets for the poor to limit the damage and build a stronger economy.

India specific data:

1. According to World Bank, India's recovery is being hampered by the largest outbreak of any country since the beginning of the pandemic. In 2020 India's economy is estimated to have contracted by 7.3%. While in 2019, it registered a growth rate of 4%.
2. GDP in the fiscal year 2021/22 starting from April 2021 is expected to expand 8.3 per cent. Activity will benefit from policy support, including rural development, higher spending on infrastructure and health, and a stronger-than-expected recovery in services and manufacturing.
3. The forecast for FY22 factors in expected economic damage from an enormous second COVID-19 wave and localised mobility restrictions since March 2021.
4. Growth in FY 2022-23 is expected to slow to 7.5 per cent, reflecting lingering impacts of COVID-19 on corporate and bank balance sheets, household, possibly low levels of consumer confidence, and heightened uncertainty on the job and income prospects.

Measures taken by GoI:

1. The government announced that the health-related spending would more than double and set out a revised medium-term fiscal path intended to address the economic legacy of the pandemic.
2. The RBI announced measures to support liquidity provision to Micro Small and Medium Enterprises and loosened regulatory requirements on the provisioning for non-performing loans.
3. The fiscal policy of India shifted in the FY 2021/22 budget toward higher expenditure targeted at healthcare and infrastructure to boost the post-pandemic recovery.