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Global Economic Prospects: World Bank

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Why in News

Recently, the **World Bank** has released its **June 2021 Global Economic Prospects** where it has **forecast India's GDP growth to be 8.3% for the year 2021-22.**

Key Points

GDP Estimate:

- **For India:**

India's economy is expected to grow **at 8.3%** for Fiscal Year **2021-22**, **7.5%** for **2022-23** and **6.5%** for **2023-24**.

- **For World:**

- The world economy is expected to expand **5.6%**, the **fastest post-recession growth rate in eighty years**.
- However, **global output will still be 2% 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- ▶ Global recovery could falter once policy support is withdrawn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

- **Cause:**
 - **For FY 2020-21:**
 - The projected growth **compares to the worst ever contraction of 7.3% in FY 2020-21 and 4% expansion in 2019-20.**
 - India's recovery is **being hampered by the largest outbreak of any country** since the beginning of the pandemic.
 - **For FY 2021-22:**

The forecast for FY22 (8.3%) factors in **expected economic damage from an enormous second Covid-19 wave** and localised mobility restrictions since March 2021.
 - **For FY 2022-23:**

Growth is expected to slow to 7.5% as a result of the pandemic's lingering effects on the financial position of households, companies and banks and possibly low levels of consumer confidence and heightened uncertainty around job and incomes.
- **Steps Taken by India:**
 - The **Reserve Bank of India (RBI)** announced measures to provide liquidity to Micro, Small and Medium firms (MSMEs), and loosened regulatory requirements on the provisioning for non-performing assets.
 - Fiscal policy shifted in the **FY 2021/22 budget** toward higher expenditure targeted at healthcare and infrastructure to boost the post-pandemic recovery.
- **Suggestions:**
 - Globally **coordinated efforts are essential** to accelerate **vaccine distribution and debt relief**, particularly for low-income countries.
 - As the health crisis eases, policymakers will **need to address the pandemic's lasting effects** and take steps to **spur green, resilient, and inclusive growth** while safeguarding **macroeconomic stability**.
 - For low-income countries, **policies focusing on scaling up social safety net programs, improving logistics and climate resilience of local food supply** would be more helpful.

Key Terms

- **Gross Domestic Product**
 - GDP is a **measure of economic activity** in a country. It is the total value of a country's annual output of goods and services. It gives the economic output from the **consumers' side**.
 - $GDP = \text{Private consumption} + \text{Gross investment} + \text{Government investment} + \text{Government spending} + (\text{exports} - \text{imports})$.

- **Recession and Depression**
 - **Recession:** It is a macroeconomic term that refers to a **slowdown or a massive contraction** in economic activities for a long enough period, or it can be said that when a recession sustains for long enough, it is called a recession.
 - **Depression:** It is a deep and long-lasting period of **negative economic growth**, with output falling for at **least 12 months** and GDP falling by **over 10%** or it can be referred to as a **severe and prolonged recession**.
- **Fiscal Policy**
 - Fiscal policy refers to the **use of government spending and tax policies to influence economic conditions**.
 - During a recession, the government may employ **expansionary fiscal policy** by lowering **tax rates** to increase aggregate demand and **fuel economic growth**.
 - In the face of mounting **inflation** and other **expansionary symptoms**, a government may pursue **contractionary fiscal policy**.

World Bank

- **About:**
 - The **Bretton Woods Conference held in 1944**, created the International Bank for Reconstruction and Development (IBRD) along with the **International Monetary Fund (IMF)**.
The **IBRD later became the World Bank**.
 - The World Bank Group is a **unique global partnership of five institutions** working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.
- **Members:**

It has **189 member countries**. **India is also a member country**.
- **Its Five Development Institutions:**
 - **International Bank for Reconstruction and Development (IBRD):** Provides loans, credits, and grants.
 - **International Development Association (IDA):** Provides low- or no-interest loans to low-income countries.
 - **International Finance Corporation (IFC):** Provides investment, advice, and asset management to companies and governments.
 - **Multilateral Guarantee Agency (MIGA):** Insures lenders and investors against political risk such as war.
 - **International Centre for the Settlement of Investment Disputes (ICSID):** Settles investment-disputes between investors and countries.
India is **not a member of ICSID**.

Source: TH