India's GDP forecasted to grow at 6.0% in 2019 and 6.9% in 2020: World Bank

According to South Asia Economic Focus: Making (De)centralization Work, World Bank's twice-a-year regional economic update, global GDP growth is decelerating, while trade and industrial production are stagnating. The slowdown started early 2018 and is strongest in investments and other cyclical components of GDP. Uncertainty caused by trade tensions, Brexit, and oil supply is weighing on global confidence.

In line with a global downward trend, growth in South Asia is projected to slow to 5.9% in 2019, down 1.1 percentage points from April 2019 estimates, casting uncertainty about a rebound in the short term. Strong domestic demand, which propped high growth in the past, has weakened, driving a slowdown across the region. Imports have declined severely across South Asia. In India, domestic demand has slipped, with private consumption growing 3.1% in the last quarter from 7.3% a year ago, while manufacturing growth plummeted to below 1% in the second quarter of 2019 compared to over 10% a year ago.

Real GDP growth in South Asia (in %)

	2019 (E)	2020 (F)	2021 (F)
Afghanistan (CY)	2.5	3.0	3.5
Bangladesh (FY)	8.1	7.2	7.3
Bhutan (FY)	5.0	7.4	5.9
India (FY)	**6.0**	**6.9**	**7.2**
Maldives (CY)	5.2	5.5	5.6
Nepal (FY)	7.1	6.4	6.5

Sri Lanka (CY)	2.7	3.3	3.7

Source; PHD Research Bureau, PHDCCI compiled from World Bank.
Note: GDP: Gross Domestic Product, CY: Calendar Year, FY: Fiscal Year, E: Estimate F: Forecast; in Bangladesh, Bhutan, Nepal, and Pakistan, 2019 refers to FY2018/19 and ended in June 2019. For India, 2019 refers to FY2019/20 and will end in March 2020.

- In Afghanistan, with improved farming conditions and assuming political stability after the elections, growth is expected to recover and reach 3% in 2020 and 3.5% in 2021. However, the outlook is highly vulnerable and may be affected by deteriorating confidence due to uncertainty around international security assistance, election-related violence, and peace negotiations with the Taliban.
- In Bangladesh, GDP is projected to moderate to 7.2% this fiscal year and 7.3% the following one. The outlook is clouded by rising financial sector vulnerability, but the economy is likely to maintain growth above 7%, supported by a robust macroeconomic framework, political stability, and strong public investments.
- In Bhutan, GDP growth is expected to jump to 7.4% this fiscal year with the commissioning of Mangdechhu, a new hydropower plant, and the completion of the maintenance of Tala, another one. Growth in fiscal year 2021 is forecast just below 6% on the base of strong tourism growth and increased revenue from the existing power plants.
- In Maldives, growth is expected to reach 5.2% in 2019, due to a slowdown in construction following the completion of the international airport and a connecting bridge. However, with support from new infrastructure investment and the expansion of tourism, growth is expected to pick up again to an average of 5.6% over the forecast horizon.
- In Nepal, GDP growth is projected to average 6.5% over this and next fiscal year, backed by strong services and construction activity due to rising tourist arrivals and higher public spending.
- In Sri Lanka, growth is expected to soften to 2.7% in 2019. However, supported by recovering investment and exports, as the security challenges and political uncertainty of last year dissipate, it is projected to reach 3.3% in 2020 and 3.7% in 2021.

Highlight on India:

- In India, after the broad-based deceleration in the first quarters of this fiscal year, growth is projected to fall to 6.0% this fiscal year. Growth is then expected to gradually recover to 6.9% in fiscal year 2020/21 and to 7.2% in the following year.
- India's cyclical slowdown is severe. Quarterly GDP growth slowed for 5 quarters in a row, declining from a peak of 8.1% in the first quarter of 2018 to only 5.0% in the second quarter of this year.
- Manufacturing growth fell from over 10% a year ago to below 1% in the second quarter of 2019. This drop follows the global trend but is more pronounced.
- Services and construction also started decelerating over the last quarters, suggesting that the slowdown is not related to idiosyncratic factors related to a specific sector. Export growth recently declined – in line with slowing world growth and weak external demand – but cannot alone explain India's sharp downturn.
- Private consumption and investment both grew slower than overall GDP in the second quarter of this year. Investment grew 4.0% (y-o-y) in the second quarter, compared to 13.3% a year ago, while private consumption grew 3.1%, compared to 7.3% a year ago.
- This critical situation demands decisive policy actions, and initial government steps point in the right direction. Both monetary and fiscal policy measures are needed to contain the downturn, and both the RBI and the government of India have already reacted.

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Regards,

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