

Economic Outlook for India and Pakistan

Divya Murali and Diego Maiorano

Summary

The latest World Economic Outlook update paints a gloomy, uncertain future. This brief looks at the short-term economic prospects for India and Pakistan. While the latter's growth prospects are hampered by several economic and political reasons, India, on the other hand, is predicted to be one of the fastest growing economies in the world, despite a perceptible slowdown in growth.

Introduction

The International Monetary Fund (IMF) updated its [World Economic Outlook](#) (WEO) forecasts on 26 July 2022. Executed as a partial exercise between its major updates published in April and October, this July's update paints an uncertain and gloomy prospect. The global output has contracted in the current quarter from April 2022 due to multiple shocks. As a result, the growth projections for 2022 and 2023 are revised to 3.2 per cent and 2.9 per cent respectively – a downgrade of 0.4 and 0.7 percentage points respectively, from its April 2022 projections.

The global economy, still reeling from the after-effects of the pandemic, is looking at very uncertain prospects due to the following reasons: a) a sharp economic downturn in China due to its strict zero COVID-19 policy as well as instability in their property market; b) slowdown in Russia due to sanctions and cross-border trade spill-over effects; and c) rising inflationary pressures globally.

Compared to the April 2022 forecast, the output projections for the advanced economies are 2.5 per cent and 1.4 per cent for 2022 and 2023 – a downward revision of 0.8 and one percentage point respectively. Similarly, the growth prospect for emerging markets and developing economies too has been cut back by 0.2 and 0.5 percentage points to stand at 3.6 per cent for 2022 and 3.9 per cent for 2023.

Growth Prospects for India and Pakistan

After the severe contraction in 2020 owing to the pandemic, growth rebounded in 2021 (Table 1), due to the re-opening of economies and the base effect from a severe contraction in 2020.

India's WEO gross domestic product (GDP) projections for 2022 and 2023 are 7.4 per cent and 6.1 per cent, respectively – a downward revision by 0.8 per cent for both the years from the April 2022 projections. This forecast is marginally higher by 0.2 per cent of the Reserve Bank of India's June 2022 downgraded forecast of [7.2 per cent](#), owing to the Russia-Ukraine conflict.

Pakistan’s WEO GDP projections for 2022 and 2023 are six per cent and 3.5 per cent, respectively, with an upward revision of 2 percentage points for 2022 and a downward revision of 0.7 percentage points for 2023. The WEOs forecast for the current fiscal is higher than the State Bank of Pakistan’s projection range of [three to four per cent as of July 2022](#).

Table 1: Real GDP growth(Per cent points)

	2020 (A)	2021 (A)	2022 (P)	2023 (P)
World	-3.1	6.1	3.2	2.9
India	-6.6	8.7	7.4	6.1
Pakistan	-0.9	5.7	6	3.5

Source: World Economic Outlook, July 2022 Update;

Note: A – Actuals, P – Projections. For India and Pakistan, the projections are based on the fiscal year.

Risks to Growth

With global growth prospects remaining gloomy, emerging economies are particularly susceptible to a number of risks. High inflation levels globally, particularly in the United States (US) and the Euro Zone, where inflation is in the 7.3-7.7 per cent range, led to central banks tightening monetary policy. Measures taken by the Federal Reserve will have a spill-over effect globally. High inflation will have a pronounced effect on the emerging markets and developing economies more than the advanced economies, as seen in Table 2 below.

Table 2: Inflation Rates (Percentage)

Consumer Prices	2020 (A)	2021 (A)	2022 (P)	2023 (P)
World	3.2	4.7	8.3	5.7
Advanced Economies	0.7	3.1	6.6	3.3
Emerging Markets and Developing Economies	5.2	5.9	9.5	7.3

Source: World Economic Outlook, July 2022 Update

Note: A – Actuals, P-Projections

With symptoms pointing to recession – high inflation and low growth rates – there has been a net outflow of funds by foreign investors from emerging markets and developing economies in the past five months, amounting to [US\\$38 billion](#) (\$52.49 billion). This also risks perpetuating a financial crisis in many emerging markets and developing economies, including Sri Lanka, Bangladesh and Pakistan who have approached the IMF for bailouts from debt defaults and to manage their widening current account balance.

For [India](#), slow and low growth prospects for the US and China (India’s largest trade partners) are expected to impact its external trade. Further, a continuously falling rupee against the US dollar (the rupee lost over [seven per cent](#) of its value since the start of 2022) will negatively impact India’s trade balance and foreign reserves. Inflation and monetary tightening will also impact its future growth.

Certainly, [Pakistan](#) is in a much more [concerning](#) situation with high double-digit inflation, a mounting current account deficit owing to high import bills, a devaluing currency and an uncertain domestic [political situation](#), all of which impact its growth prospects.

Conclusion

Overall, the global slowdown and uncertainty are triggered more due to output contraction in the advanced economies, where a revision to the extent of one percentage point has been done for 2023. Pakistan's growth prospect for 2023 looks unpromising, and it is one of the many South Asian countries troubled by a poor economic outlook. The country recently reached a [deal with the IMF](#) to revive a US\$6 billion (S\$8.29 billion) bailout package to help with its economic crisis. Despite continuous year-on-year growth contraction, India remains one of the fastest growing economies in the world and among the emerging markets and developing economies – even higher than China's projections which stand at 3.3 per cent and 4.6 per cent for 2022 and 2023 respectively.

.....

Ms Divya Murali is a Research Analyst at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). She can be contacted at divya.m@nus.edu.sg. Dr Diego Maiorano is a Visiting Research Fellow at ISAS. He can be contacted at dmaiorano@nus.edu.sg. The authors bear full responsibility for the facts cited and opinions expressed in this paper.