IMF's Projection on India

Why in news?

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International Monetary Fund (IMF) has posited India as the world's growth engine for the next 30 years.

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What are the findings of IMF?

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- IMF has projected a medium-term growth rate of 7.75 per cent on the back of macro-financial and structural policies to help boost inclusive growth.
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- The GST and the insolvency code are rightly expected to go a long way in lifting India's productivity.
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- This will also lead to an uptick in investment activity to 32.2 per cent of GDP in 2018-19 and 2019-20, against 30.6 per cent in 2017-18.
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- IMF has projected a 13.2 per cent increase in exports this year and 10.1 per cent the next.
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- The Fund-Bank combine tends to view India as a counterpoint to China as a market reformer and a country with credible democratic institutions.
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What are the macroeconomic concerns of India?

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- The current account deficit (CAD), or the savings-investment gap, is

estimated at 2.6 per cent this fiscal and 2.2 per cent in the next.
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- The rising oil prices and strong demand for imports offset by a slight increase in remittances.
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- Whether a rising CAD can create situations of volatility on the external account is a moot point.
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- It is not clear on what basis the IMF is banking on an improvement in investment, which has dipped from 34.2 per cent of GDP in 2014-15 to 30.6 per cent now.
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- There isn't convincing evidence of any surge in demand in agriculture, industry and services.
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- Apart from this an area of acute concern is India's poor socio-economic indicators, affecting both labour productivity and technological up gradation.
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What measures needs to be taken?

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- IMF suggests that public dis savings should be curtailed to curb the CAD.
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- In this situation, the reliance on FDI and portfolio flows cannot be underestimated.
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- A projected headline inflation of 5.2 per cent in 2018-19 is way above the Reserve Bank's comfort level, with the IMF hoping for a prudent fiscal policy to keep it in check.
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- Reducing trade documentation requirements, lowering tariffs and generally improving governance may avoid choking of growth.
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- Despite supply-side reforms, which have pushed India up several notches in the 'ease of doing business index', investment needs a demand stimulus.
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Source: Business Line

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