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IMF Retains India FY19 Growth Outlook at 7.3%

Cites drag from higher crude prices and tightening of the global financial situation for lowering forecast for FY20 to 7.4%

Our Bureau

New Delhi: The International Monetary Fund (IMF) has retained its India growth forecast for the current year and marginally pared it for next fiscal, citing the drag from higher crude prices and tightening of the global financial situation. But it will remain the fastest-growing major economy, well ahead of China, it said.

In its latest World Economic Outlook, the IMF said India will grow 7.3% in FY19 and 7.4% in FY20.

It had in January forecast FY20 growth at 7.5%. China is forecast to grow 6.6% and 6.2% in 2018 and 2019, respectively. The Indian economy grew 6.7% in FY18.

"This acceleration reflects a rebound from transitory shocks (the currency exchange initiative and implementation of the national goods and services tax), with strengthening investment and robust private consumption," the IMF said.

Braving Macro Headwinds

IMF retains India's growth forecast (% annual growth)

	2018	2019	Change from previous forecast 2018	Change from previous forecast 2019
World	3.7	3.7	-0.2	-0.2
US	2.9	2.5	0	-0.1
Euro area	2	1.9	-0.2	0
China	6.6	6.2	0	-0.2
India	7.3	7.4	0	-0.1

WORRIES FOR THE WORLD

1. High fuel prices
2. Tightening financial conditions
3. Higher interest rates
4. Trade-related disputes

REFORMS PRESCRIPTION FOR INDIA

1. Reviving bank credit
2. Accelerating cleanup of bank & corporate books
3. Improving governance of PSBs
4. Focus on debt reduction
5. Lowering subsidies
6. Enhanced compliance with GST

The forecast for investment growth in FY19 is weaker than in April, despite higher capital spending.

India's medium-term growth prospects remain strong at 7.75%, benefiting from ongoing structural reform and a favourable demographic dividend, the report said. The economic recovery is supported by domestic demand-led pickup.

In its monetary policy review on Friday, the RBI had retained its FY19 growth forecast at 7.4%.

The IMF expects the current account deficit to worsen to 3% of GDP in the current fiscal year before improving to 2.5% in FY20.

Inflation is projected at 4.7% in FY19 compared with 3.6% in FY18 amid accelerating demand and rising fuel prices. Core inflation, excluding all food and energy items, has risen to about 6% as a result of a narrowing output gap and pass-through effects from higher energy prices and exchange rate depreciation, the IMF said.

It has called for an increase in policy rates by 25–50 basis points given the outlook on inflation. RBI kept the repo rate unchanged at 6.5% in its monetary policy review last week. A basis point is 0.01 percentage point.

In view of the rupee's depreciation, the IMF has said foreign exchange interventions should be limited to addressing disorderly market conditions while protecting reserve buffers. The rupee has weakened about 13% since the start of 2018.

It recognised important reforms such as GST, the inflation-targeting monetary policy framework, the Insolvency and Bankruptcy Code, and steps to liberalise foreign investment and make it easier to do business. It called for a renewed impetus for reforming labour and land markets, along with further improvements to the business climate.

GLOBAL SLOWDOWN

At the global level, data show weakening in trade, manufacturing, and investment, the IMF said. "Overall, world economic growth is still solid compared with earlier this decade, but it appears to have plateaued," it said. Global growth is seen 0.2 percentage points lower than the previous forecast in both the years to 3.7% each, same as that in 2017.

China's growth is seen lower in 2019 because of the latest round of US tariffs on Chinese imports.

Other risks facing the global economy include the possible failure of Brexit negotiations and tightening financial conditions for emerging market and developing economies.