August 9, 2018 I Economics

IMF's Report on India

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6754 3638

Sushant Hede
Associate Economist
sushant.hede@careratings.com
91-22-6754 3408

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

India has been among the fastest growing economies in the world over the past few years with the government initiating important structural reforms to boost India's presence among the advanced economies. International Monetary Fund (IMF) on 7 August' 18 released its assessment on the Indian economy having kept the near-term macroeconomic outlook broadly favourable with certain economic risks tilted to the downside.

IMF has welcomed the reforms undertaken by the government like

- *inflation-targeting monetary policy framework,*
- *Insolvency and Bankruptcy Code (IBC),*
- *the goods and service tax (GST) and*
- *steps to liberalise FDI flows and improve business climate.*

IMF has retained its growth projections for India at 7.3% in FY19 and 7.5% in FY20. This is in line with the projections of 7.4% arrived at by the Reserve Bank of India (RBI) in its recently concluded Monetary Policy Committee (MPC) meeting on 1 August' 18. CARE Ratings has projected the growth forecast of the Indian economy at 7.5% for FY19.

This report summarises the positives, risks and key policy recommendations from the report released by IMF:

Positives:

- The growth forecast to rise to 7.3% in FY19 compared with the estimated growth numbers of 6.7% in FY18 on the ***back of strengthening investment and robust private consumption***
- Stability- oriented macroeconomic policies and progress on structural reforms continue to improve growth prospects
- **Projected higher investment from 30.6% to in FY18 to 32.2% in FY19 and FY20** indicating a turnaround in investment activity is happening
- Robust growth in exports is projected in FY19 and FY20 relative to growths in imports.

- Welcoming financial sector reforms to address the twin balance sheet problems, which has aided in reviving bank credit and enhance the efficiency of credit provisioning by accelerating the clean-up of bank and corporate balance sheets
- High forex reserve buffers and strong FDI inflows have helped contain vulnerabilities

Risks:

- External side risks of :
  - Further increase in international oil prices
  - Tighter global financial conditions
  - Spill-over risks from a global trade conflict
  - Rising regional geo-political tensions
- Tax revenue shortfalls related to continued GST implementation issues
- Upside inflationary concerns requiring gradual tightening
- Foreign portfolio investments are projected to be lower adversely affecting the balance of payments

Policy recommendations:

- Need for continuing with the prudent macro-economic policies and renewed emphasis on macro-financial structural reforms
- Need for continue fiscal consolidation to reduce public debt with a target of 60% by FY23
- Work towards enhancing goods and service tax (GST) compliance with continuing improvement to simplify the framework
- Emphasis on the importance of modernising labour laws and measures to increase formal employment
- Land reforms remain essential to facilitate and expedite infrastructure development
- Policies to boost inclusive growth and harness demographic dividend
- Further trade liberalisation and investment will expand India's role in world trade

Assessment in Numbers:

Indicators	FY18 (est.)	FY19 (proj.)	FY20 (proj.)
Real GDP (%)	6.7	7.3	7.5
CPI (% change, period avg)	3.6	5.2	4.8
Gross Savings (% of GDP)	28.8	29.6	30
Gross Investments (% of GDP)	30.6	32.2	32.2
Central Government balances (% of GDP)	-4.0	-3.6	-3.5
General Government balances (% of GDP)	-7.0	-6.6	-6.5
General government debt (% of GDP)	70.4	68.7	67.2

Bank credit to private sector	9.8	13.6	13.3
Exports (Annual % change)	10.3	13.2	10.1
Imports (Annual % change)	19.5	16.5	10.1
CAD (% of GDP)	-1.9	-2.6	-2.2
Net FDI Inflows ($ Bn)	30.3	38.7	47.1
Net FPI Inflows ($ Bn)	22.1	0.9	7.3
Gross reserves ($ Bn)	424.5	420.4	434.7
External debt (% of GDP)	19.8	20.2	20.0

Source: IMF

How do these numbers compare with our Prognosis?

We had made our Prognosis earlier this financial year and our take was:

- GDP growth of 7.5% as against IMF's 7.3%
- CPI of 5-5.5% (IMF: 5.2%)
- Credit is 10-12% and IMF is higher at 13.6%
- Our exports projection is 10-12% while IMF is 13.2%. For imports our forecast is 15% and IMF's 16.5%
- Our CAD is lower at 2-2.5% (2.6% for IMF)
- We are optimistic on FPI at $ 10-15 bn and slightly more aggressive on FDI $ 38-40 bn

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings

/company/CARE Ratings