IMF Forecast on Global Economy

Why in news?

The International Monetary Fund (IMF) estimates the global economy to contract by -4.9% in 2020.

How the Indian economy could be revamped?

- As for the Indian economy, **growth has been decelerating** for the past eight quarters.
- The recently announced economic package provides near-term liquidity support and long-pending structural reforms.
- As the economy begins to reopen, there is a need to aid **demand recovery**.
- For aggregate demand to increase, at least one of the **components of GDP needs to expand**.
- Growth in the Indian economy has been dominated by consumption, investments, government expenditure and net exports.
- However, consumption and investment demand have been subdued for the past few quarters, dragging down overall growth.

How are the demands subdued?

- **Consumption demand** - The Non-Banking Financial Company sector suffered from funding crunches.
- This led to a further squeeze in credit supply, thereby affecting consumption demand.
- Moreover, the industry-wide job/pay-cuts with a growing uncertainty over the future may limit spending to non-discretionary items.

- **Investment demand** - Broad-based utilization levels dropped to 68.6% in Q3FY20.
- This is well below the 75% benchmark for new capacity addition, implying suboptimal levels of fresh investments.
- A higher investments is essential for sustainable economic growth.
- The deteriorating economic scenario and increasing levels of debt with rating downgrades for industries may aggravate the existing problems.

- **Export demand** - India’s limited share in global trade along with a battered domestic and global outlook provides little room for exports to contribute towards growth.

Where should the push come from?

- There is limited room for consumption, trade or investments to expand significantly.
- Therefore, the positive push required to aid a demand recovery has to come through the **government**.
- However, with sparse resources that India has, it must deploy funds that yield a higher return.
- One key area that can provide the necessary support is **infrastructure investment**.

How will infrastructure investment help?

- A study by S&P Global estimates 1% of GDP spend on infrastructure can boost real growth by 2% while creating 1.3 million direct jobs.
- Historically, countries have used infrastructure to provide counter-cyclical support to the economy.
- Notably, infrastructure has strong links to growth.
- With both supply and demand-side features, infrastructure helps **generate employment** and **long-term assets**.
- For India, front-loading key projects with greater visibility from the National Infrastructure Pipeline (NIP) could aid in a quicker recovery.

How could India do this?

- India has several institutions for infrastructure development purposes.
- They are India Infrastructure Finance Company Ltd (IIFCL), Indian Railway Finance Corporation (IRFC), National Investment and Infrastructure Fund (NIIF), etc.
- These institutions should be restructured into **one large development institution.**
- This could help reduce inefficiencies and allow for greater advantage.
- Floating **special infrastructure bonds** through this organisation to accelerate the funding of the NIP could aid a speedier recovery.

Source: The Indian Express