IMF’s and WB’s Growth Projections for India

What is the issue?

- The IMF and the World Bank have significantly slashed the growth projections for India for the year 2019.
- Sharp cuts in growth forecast underline the economic slowdown’s severity.

What are the observations made?

- **IMF** - The IMF in its latest World Economic Outlook has slashed India’s GDP growth projection for 2019 to 6.1% (Oct 2019).
- This is 1.2% down from its April 2019 projections of 7.3%.
- Corporate and environmental regulatory uncertainty, and concerns on the health of the nonbank financial sector, affected the demand scenario.
- Consequently, in India, growth weakened in 2019.
- Asia’s third-largest economy, India, grew at its slowest pace in 6 years in the June quarter at 5%.
- The IMF now joins a range of multilateral institutions, rating firms and brokerages in cutting economic growth estimates for India.

- **World Bank** - The World Bank in its latest edition of the South Asia Economic Focus said India's growth rate is projected to fall to 6% in 2019 from 6.9% of 2018.

- The World Bank slashed its economic growth forecast for India to 6%.
- It cited a broad-based and severe cyclical slowdown as the reason.

What is the point of contention here?

- A significant issue of debate is over the cause of the malaise.
- The World Bank largely echoes what India’s Centre has been saying.
- It says that the current one is a cyclical slowdown, exacerbated by global influences.
- However, many of the Indian experts surveyed and some rating agencies do not agree with this view.
- E.g. Moody’s Investors Service lowered its 2019-20 growth forecast for India to 5.8% from 6.2% earlier
- It ascribed the slowdown partly to “long-lasting factors”, suggesting the structural factors behind the slowdown.

What are the suggestions made?

- **World Bank** has warned that non-banking financial companies' significant share in total credit and their linkages with banks pose broad-based risks.
- It suggests that financial sector reforms would help India both resolve the sectoral infirmities and put the country back on a rapid growth path.
- The WB also observed that a sharper-than-expected slowdown in major economies such as the U.S. and Eurozone could have severe spillover impacts.
- It thus noted that India was vulnerable to being affected immediately and over a longer duration by real GDP shocks in these advanced economies.
- In the case of a Chinese GDP shock, the onset of the impact on India would likely be delayed but substantially more pronounced.
- **IMF** has urged structural reforms in labour and land laws to boost job and infrastructure creation.

What is to be done?

- Besides the above, there is a widespread view that the dull domestic consumption demand is the biggest drag on the growth momentum.
- It is, therefore, wise to put more money in the hands of consumers, especially those in the rural hinterland, to reinvigorate demand.
- Appropriate policy interventions to address the slowdown are crucial at this juncture.

Source: The Hindu, Livemint