Syllabus subtopic: Important International institutions, agencies and fora, their structure, mandate.

Prelims and Mains focus: about the remarks made in IMF’s report on India’s economic slowdown and ways to address it; about IMF, its structure and mandate.

News: India is now in the midst of a significant economic slowdown, the International Monetary Fund (IMF) has said, urging the government to take urgent policy actions to address the current prolonged downturn.

Remarks made in IMF’s report

- In its report released on Monday, the IMF Directors noted that India’s rapid economic expansion in recent years has lifted millions of people out of poverty. However, in the first half of 2019, a combination of factors led to subdued economic growth in India.
- The issue in India is the growth slowdown which is mostly cyclical, not structural because of the financial sector issues.
- With risks to the outlook tilted to the downside, the IMF Directors called for continued sound macroeconomic management. They saw an opportunity with the strong mandate of the new government to reinvigorate the reform agenda to boost inclusive and sustainable growth, the report said.
- The staff report was done in August when the IMF was not fully aware of India’s current economic slowdown.

Economic slowdown

Growth in the second quarter of FY 2019-20 came in at a six-year low of 4.5% (year on year), and the composition of growth indicates that private domestic demand expanded by only 1% in the quarter. Most high-frequency indicators suggest that weak economic activity has continued into December.

Reason: The abrupt reduction in nonbanking financial companies’ credit expansion and the associated broad-based tightening of credit conditions appears to be an important factor and weak income growth, especially rural, has been affecting private consumption. Private investment has been hindered by financial sector difficulties (including in public sector banks) and insufficient business confidence. Some implementation issues with important and
appropriate structural reforms, such as the nationwide Goods and Services Tax, may also have played a role.

**Green shoots**

By other measures, India still is doing well:

- Reserves have risen to record level.
- The current account deficit has narrowed.
- Inflation, has been under control for the last few years.

**Conclusion**

Therefore, by other measures, India is doing quite well. The issue is primarily how to address the growth slowdown. The IMF had been taken by surprise by India’s slowdown though this slowdown cannot be described as an economic crisis. The short term, the most critical thing is carrying out reforms in the financial sector.