IMF flags decelerating pace of reforms in India

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Representational image

Listing out as many as six core areas that need further reforms in India, IMF has warned that headwinds from weaknesses in the country's corporate and bank balance sheets, decelerating pace of reforms and sluggish exports may weigh on its economic growth.

The International Monetary Fund (IMF), which recently lowered its GDP growth projection for India to 7.4 per cent in the current fiscal, said the country's "economy is on a recovery path, helped by lower oil prices, positive policy actions and improved confidence".

"But headwinds from weaknesses in India's corporate and bank balance sheets, a decelerating pace of reforms, and sluggish exports will weigh on growth," the multilateral institution said in a 'Note on Global Prospects and Policy Challenges'.

The note has been prepared for the two-day meeting, ending on Sunday, of the G20 Finance Ministers and Central Bank Governors' Meetings being held in Chengdu, China.

IMF, which has also lowered its global economic growth forecast for 2016 and 2017 by a marginal 0.1 per cent to 3.1 and 3.4 per cent respectively, recommended six 'reform priorities' for India, which is higher than the same for several other emerging markets including China, Brazil and South Africa.

The key areas where IMF has recommended further reforms for India include product market, labour, infrastructure, banking, legal system and property rights, and fiscal structural reforms.

Out of total nine 'reform priorities' taken under consideration by IMF for various countries, India has been found to have done well on three -- innovation, capital market development and trade/FDI liberalisation.

In case of China and South Africa, IMF has recommended further reforms in five key areas each, while it is higher at seven for Russia. For Brazil, IMF has sought reforms in just three core areas.

Among advanced economies, the IMF Note recommends further reforms in five core areas each for the US and the UK.

The IMF further warned there is a risk that emerging economies do not reduce vulnerabilities and rebuild buffers sufficiently before capital flow reversals materialise.

Stating that corporate leverage has increased significantly in some emerging economies, including India, in domestic and foreign currency against the background of ample global liquidity, IMF said a strong pullback of capital flows to emerging economies could tighten financial conditions and weaken their currencies.

This may lead to a possibility of significant adverse corporate balance sheet effects and funding challenges, and significant repercussions for banking systems, it added.