

India should continue fiscal consolidation for better prospect

By: PTI | New Delhi | Published: July 28, 2016 3:01 PM

0
SHARES



Other potential policy responses for the economy include, strengthening the new monetary framework, through a strong institutional design of the RBI's Monetary Policy Committee and further reducing impediments to monetary transmission. (PTI)

In order to reduce external vulnerabilities and improve investment prospects, the government should continue with its fiscal consolidation activities including passage of GST Bill, further subsidy reforms and easing domestic supply bottlenecks, says an IMF report.

According to the IMF, India's external sector position in 2015-16 is broadly consistent with medium-term fundamentals and desirable policy settings.

"To reduce external vulnerabilities and reach the authorities' fiscal deficit goal of 3 per cent of GDP by 2017-18, continued fiscal consolidation is needed, including by passage of goods and services tax (Bill) and further subsidy reforms," IMF said in a research note.

Moreover, easing domestic supply bottlenecks would also boost exports and improve investment prospects for the economy, it said.

Other potential policy responses for the economy include, strengthening the new monetary framework, through a strong institutional design of the RBI's Monetary Policy Committee and further reducing impediments to monetary transmission.

Meanwhile, a continued focus on low inflation will be important to keeping gold imports, IMF said.

It further noted that further relaxation of limits on ECB should be implemented "cautiously", given the potential risks to corporate balance sheets, including from significant unhedged FX exposures.

According to the policy paper as of June this year, subsequent developments do not point to a significant change in the external position.

However, despite a reduction in external vulnerabilities, there is need for "vigilance given commodity price volatility and the recent REER appreciation".

IMF noted that the current reserve levels are adequate, the flexible exchange rate policy followed by the Reserve Bank of India is sound, and the current policy at times smoothing exchange rate volatility is appropriate, it added.

PROMOTED STORIES