

Governance concerns weakened business sentiment in India: IMF

The International Monetary Fund (IMF) has said governance concerns have weakened business sentiment in India, calling for a revival in the reform process in its regional outlook released on Friday.

Asia-Pacific Regional Economic Outlook said domestic factors have also played a role in India's growth slowdown over the second half of 2011. "Concerns about governance and slow project approvals by the government have weakened business sentiment, which in turn has adversely affected investment, along with cyclical factors such as global uncertainty and policy tightening....," said the IMF.

IMF also emphasised the need for renewed efforts to revive the flagging structural reform agenda. The report said that measures to improve the investment climate, remove infrastructure bottlenecks, and further expand education opportunities are needed to revive reform agenda.

Reducing barriers to trade in order to maximise the potential of its continuing demographic dividend was also important in the face of a growing population.

Apart from some financial reforms and measures to broaden the use of public-private partnerships announced in the 2012-13 budget, the implementation of reforms related to infrastructure is likely to proceed slowly, it noted. It had earlier lowered India's growth forecast to 6.9% for 2012 from 7% projected in January.

"In India, the lowered growth outlook in 2012 owes much to a slowdown of investment which partly reflects structural factors," it said. However, the multilateral agency expects India to grow at 7.3% for 2013. According to the IMF, the national economy grew 7.1% last year.

On price rise, the IMF stressed that fiscal consolidation is the key to containing inflationary pressures and creating space for priority development needs. Headline inflation declined to 6.89% in March, from 6.95% in February.

"Consolidation efforts should focus on limiting non priority spending, including fuel-related subsidies, while providing more room for public investment and health and education," said the report.

The multilateral agency noted that Asia's growth is expected to "pick up this year after slowing in the last quarter of 2011." However, it warned that an escalation of the crisis with a disorderly, large scale, and aggressive trimming of balance sheets could have a serious impact on Asia. Overall Asia is projected to grow at 6% this year, almost the same level as in 2011.

IMF said emerging Asia would remain the fastest growing region in the world, led by China and India, expanding about 8.2% and close to 7% in the current year. But a faltering Europe could result in a sharp fall in exports to advanced economies and a reversal of foreign capital flows would severely hit the region.

(Economic Times)