India is yet to solve fundamental problems on fiscal side: Eswar Prasad, Brookings Institution

ET Now: Global investors see much more enamoured India once again. In fact, even though the macro fundamentals have not really changed sufficiently as to warrant this kind of enthusiasm, is that a danger of hubris overtaking us once again?

Eswar Prasad: There is certainly a risk when international investors pile into one country with so much enthusiasm, but one has to recognise that we are still in a very low interest rate environment in the advanced economies. Although there is some notion of the US beginning to raise interest rates perhaps some time in 2015, but if you think about international investors looking for a place to get better yield, then they can get in the advanced economies.

In China growth is slowing down, and other big emerging markets like Brazil, South Africa and Russia are facing very difficult economic circumstances. So India looks like the one bright spot and certainly with the inflation falling, the current account deficit coming under control and Prime Minister Modi beginning to embark on a fairly broad reform agenda, there is a sense that for India there is nothing but upside.

There is certainly the risk that if a lot of money comes in on the assumption that there is nothing in India but upside and then the Fed starts entering its interest rate tightening cycle, which leads to a pullback from the emerging markets, that is going to make things a little difficult for India. But still with the rupee, where it is right now with a higher level of foreign exchange reserves that was the case about a year ago, and with the economy beginning to generate some momentum, India is a lot less exposed than many other emerging markets.

ET Now: How do you see the economy today? Is the improvement in our macro fundamentals real and sustainable or is it contrived and temporary?

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