

# IMF-Regional Office for Asia and the Pacific (OAP)

INTERNATIONAL MONETARY FUND

## INDIA'S FINANCIAL SYSTEM

Building the Foundation  
for Strong and  
Sustainable Growth

# India's Financial System

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Editors

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国際通貨基金

## インドの金融 システム

力強く持続的な成長の  
基盤づくり

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抜粋

# Roadmap

- India's macro-financial setting
- Changing structure of India's financial system
- Linkages and supporting reforms
- Takeaways

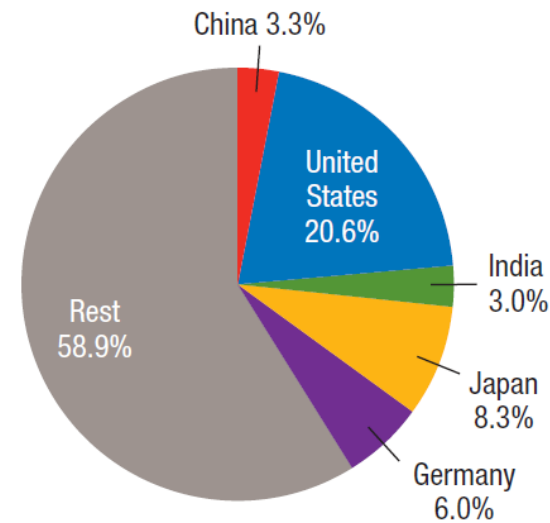
# Macroeconomic and financial setting

# India's increasing global role

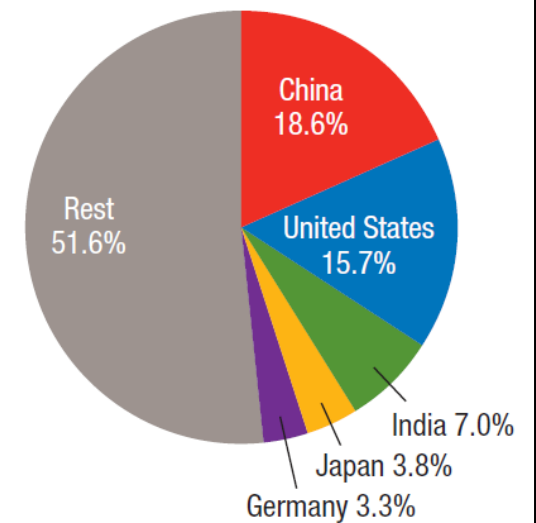
- Most populous country in 2023
- Third largest economy
- 15% of global growth in 2023
- G-20 Presidency in 2023

**Figure 1.1. India's Share of Global GDP**  
(Percent)

1. Share of Global GDP in Purchasing Power Parity, 1990



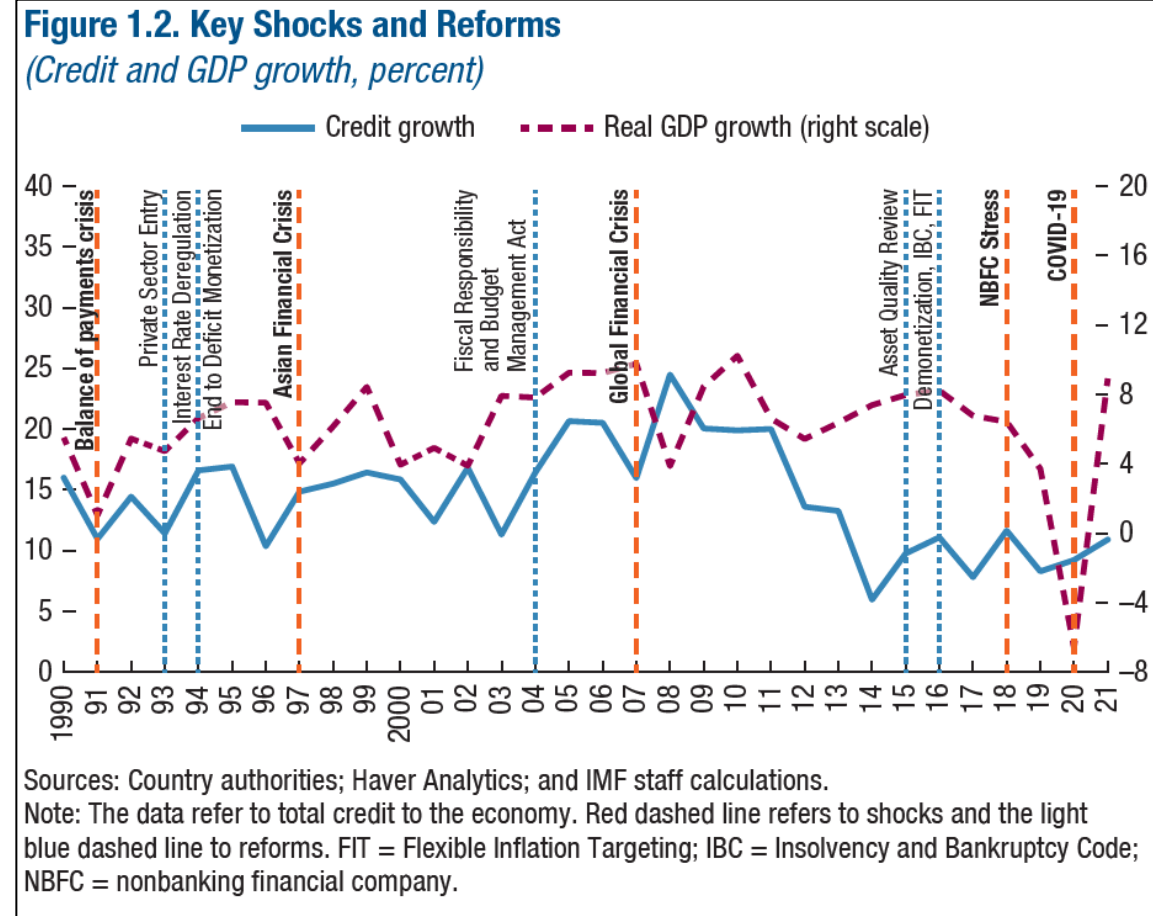
2. Share of Global GDP in Purchasing Power Parity, 2021



Sources: World Economic Outlook database; and IMF staff calculations.

# High economic growth, reforms, and shocks

- Annual average growth at 6.6 percent during 1991-2019
- Over 400 million people lifted out of poverty in the last 15 years
- Adverse external shocks (GFC, COVID-19, etc.)
- Adverse domestic shocks (e.g. 2018 NBFC crisis)
- Positive domestic reforms (e.g. flexible inflation targeting)

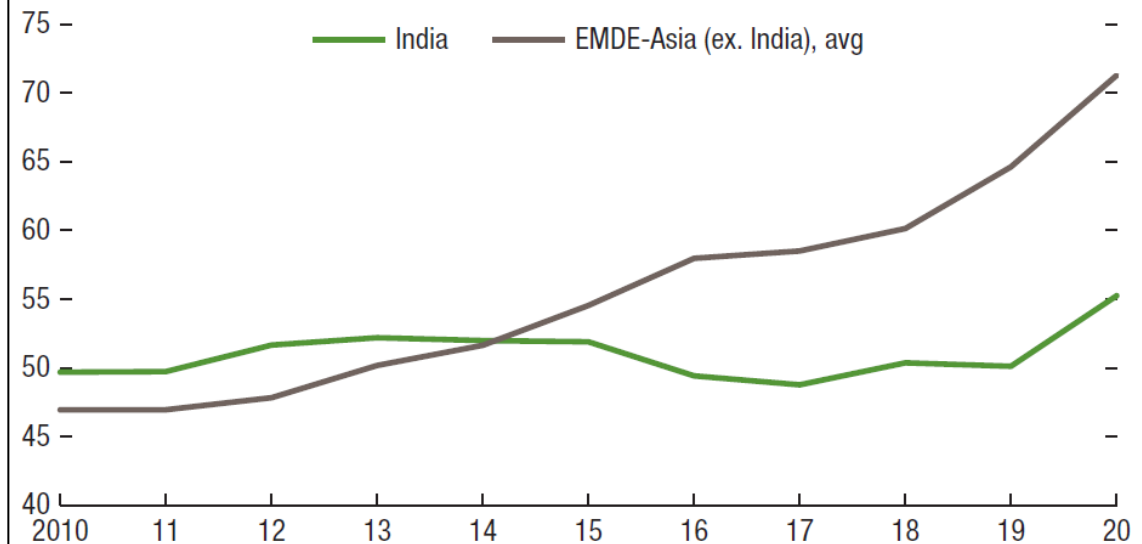


# Changing structure of India's financial system

# Growth and financial sector development

- Further financial sector deepening needed to support growth
- Healthy financial sector critical
  - Efficient credit allocation
  - Financial sector stability and economic stability

**Figure 1.3. Financial Deepening**  
(Credit to GDP, percent)



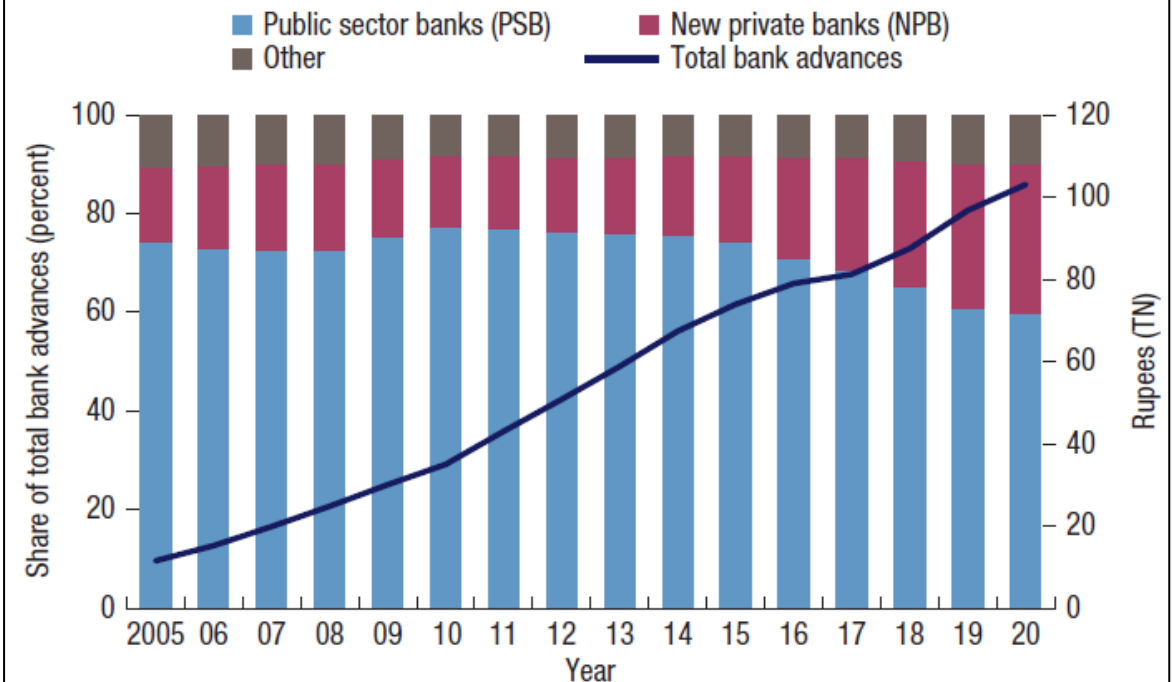
Source: Global Financial Development Database, World Bank.

Note: EMDE-Asia (ex. India) includes average of Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, Indonesia, Japan, Malaysia, Maldives, Micronesia, Mongolia, Myanmar, Nepal, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Vanuatu, and Vietnam. 2019 does not include Micronesia, Sri Lanka, and Tonga. 2020 does not include Cambodia, Micronesia, Papua New Guinea, Sri Lanka, and Tonga. avg = average; EMDE = emerging market and developing economies.

# Public sector banks still dominate, but....

- Public sector banks 60 percent of bank assets
- 22 domestic private banks and 46 foreign banks
- Some 100,000 regional rural banks and urban and rural cooperatives
- Productivity of public sector banks' dependent firms lower
- Need for continued reforms (resolution of bad debt, improved governance, privatization, etc.)

Figure 4.1. Outstanding Bank Credit by Bank Ownership Type



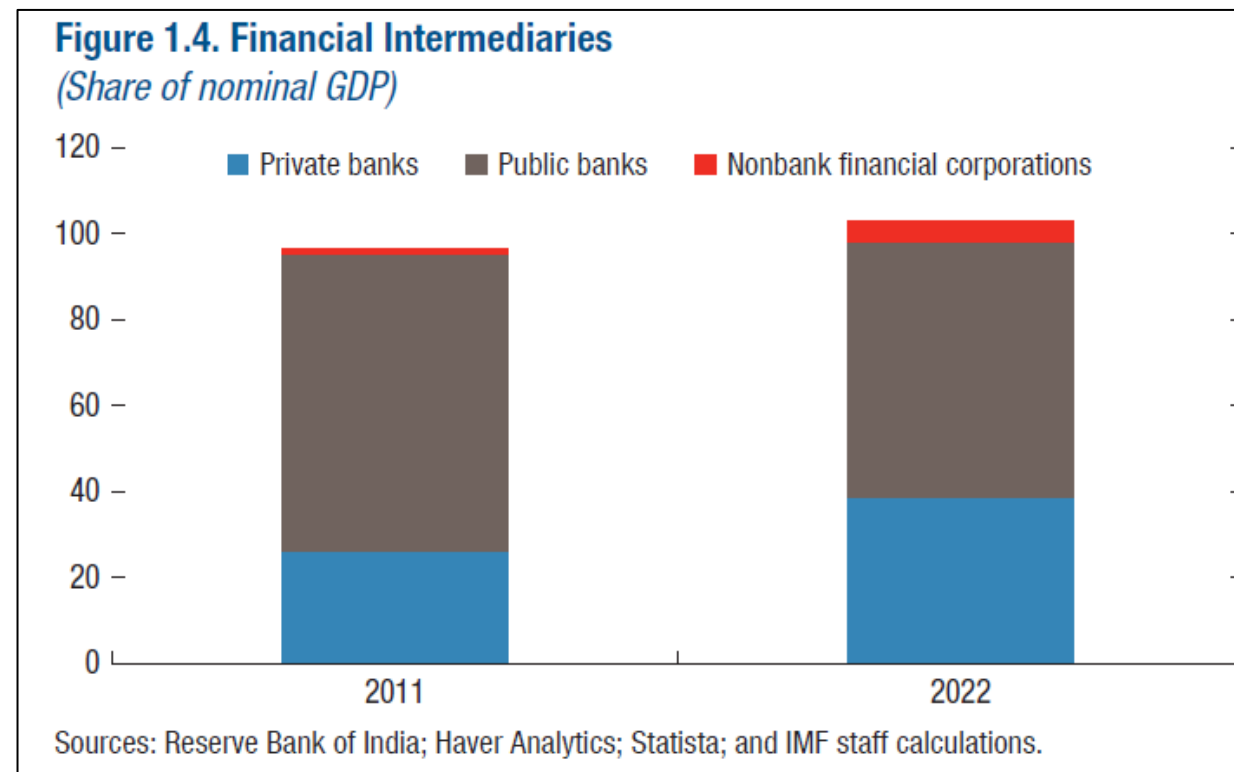
Sources: Reserve Bank of India; and authors' calculations.

Note: This figure shows the share of public sector banks, new private banks, and other banks in the total stock of advances outstanding by year (left-hand axis), as well as the total stock of advances (right-hand axis). TN = trillions.



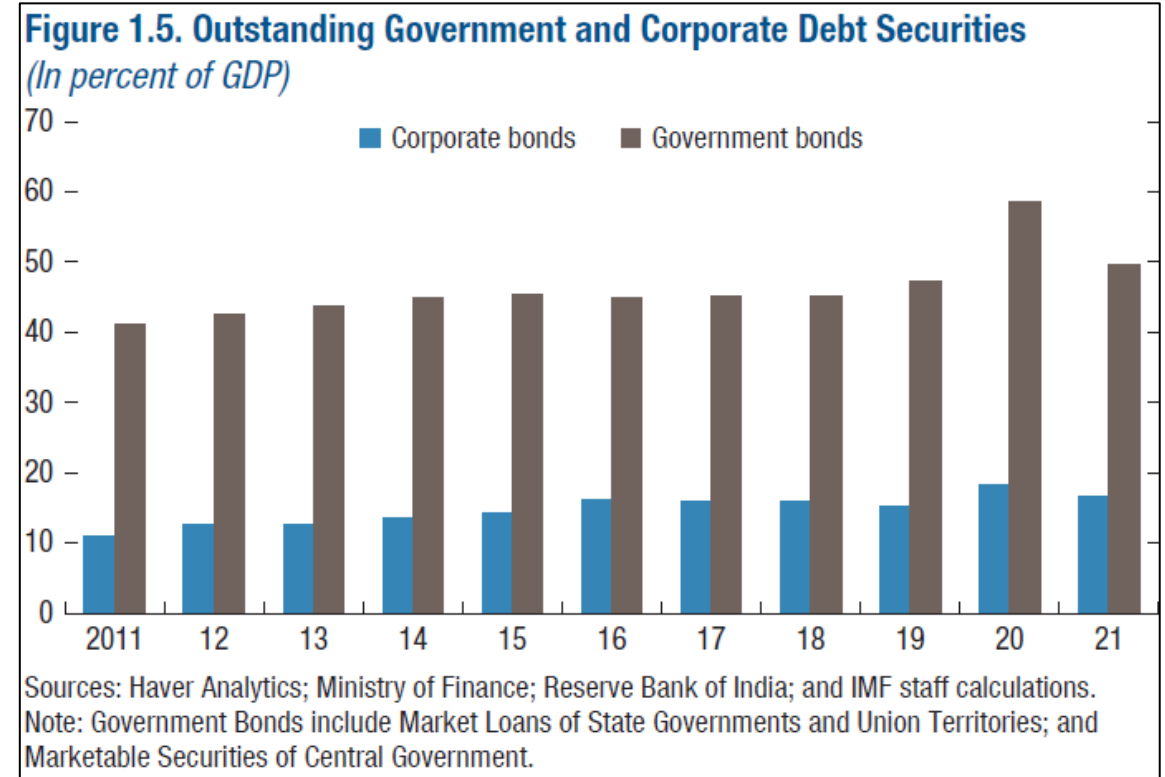
# ...(i) growing importance of non-banking financial companies (NBFC) and...

- Sharp rise in NBFC
  - e.g. Micro, small, and medium enterprises have benefited
  - Regulatory arbitrage
- Default of systemically important NBFCs in 2018
  - Spillovers into banking sector
  - Adverse impact on economy and feedback loop
- NBFC regulatory reform
  - Large NBFC (capital, provisioning, regulatory convergence, etc.)
  - Non-systematic NBFC less onerous
- Reform areas
  - e.g. diversification of NBFC funding sources; limits on bank borrowing



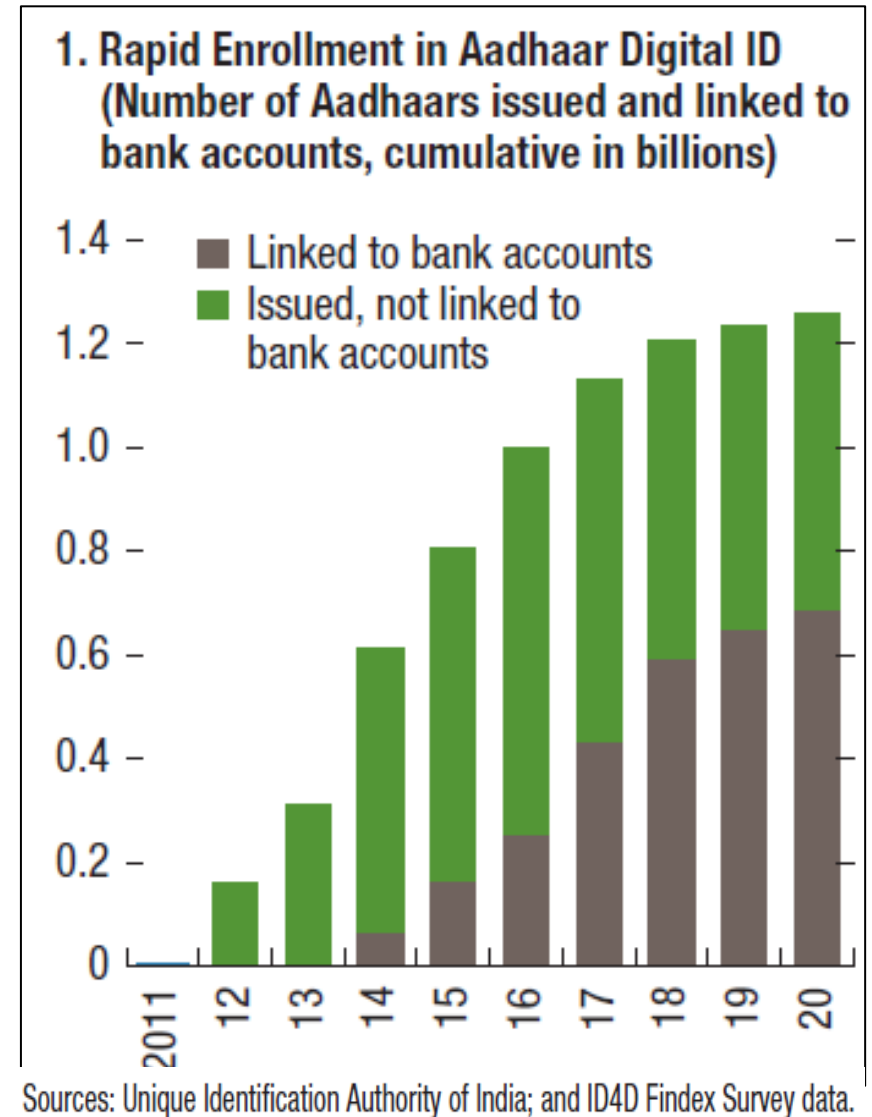
# ...(ii) increased reliance on market-based financing...

- From a low base, market-based financing more important
- Prospect of global indices inclusion
- Bond market development (competition and increased access to long-term financing, better risk management, lending to innovative sectors)
- Reform areas:
  - Better creditor rights
  - Market and rating infrastructure
  - Broaden investor base, etc.



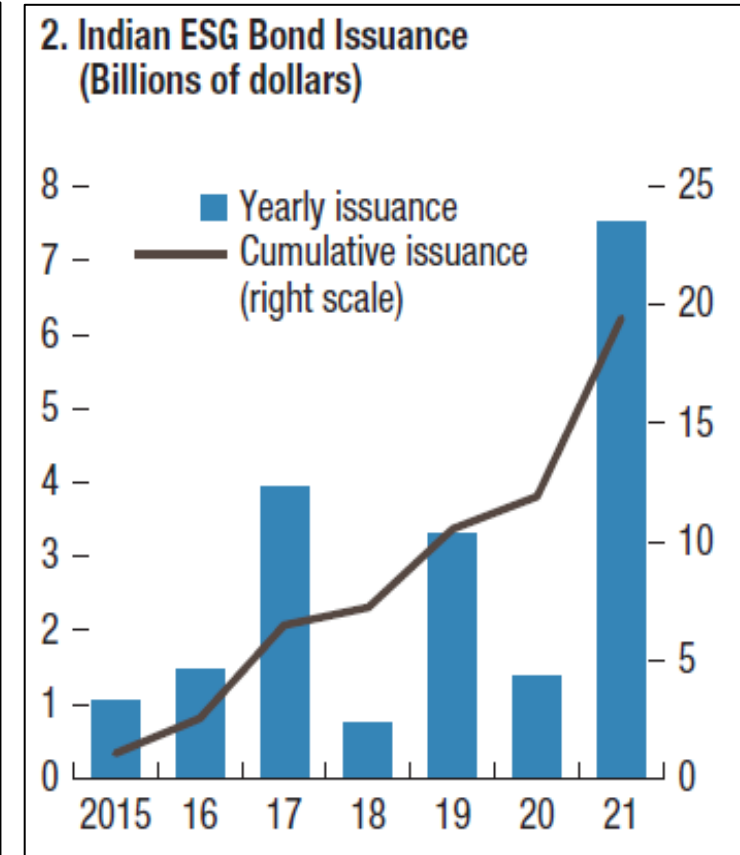
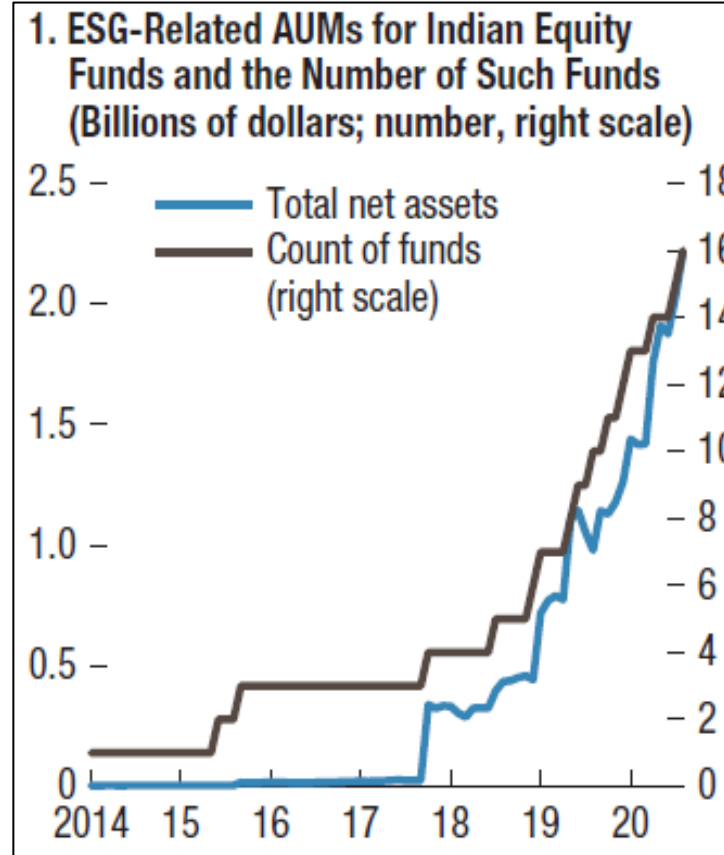
# ...(iii) leveraging digitalization to foster financial inclusion...

- India's effort in fostering financial inclusion leveraging digitalization—spectacular
- In 2011 only 35 percent access to bank accounts
- Three-pronged approach (India stack)
  - Biometrical digital identification (Aadhar)
  - Debit cards linked to Aadhar
  - Unified Payment Interface (connecting various platforms)
- Residual obstacles (e.g. financial and digital literacy)



# ...(iv) green finance: India's Environment, Social, and Government (ESG) markets

- Vulnerable to climate change with large economic/social costs
- Climate events can undermine financial sector stability
- India's commitment to reduce carbon intensity; carbon neutrality by 2070
- ESG market surged but still small (2 percent of total bond issuance)
- Reform areas (e.g.):
  - Availability of data for financial sector stakeholders to assess financial sector risks
  - Securities and Exchange Board of India likely to address issues related to discloses



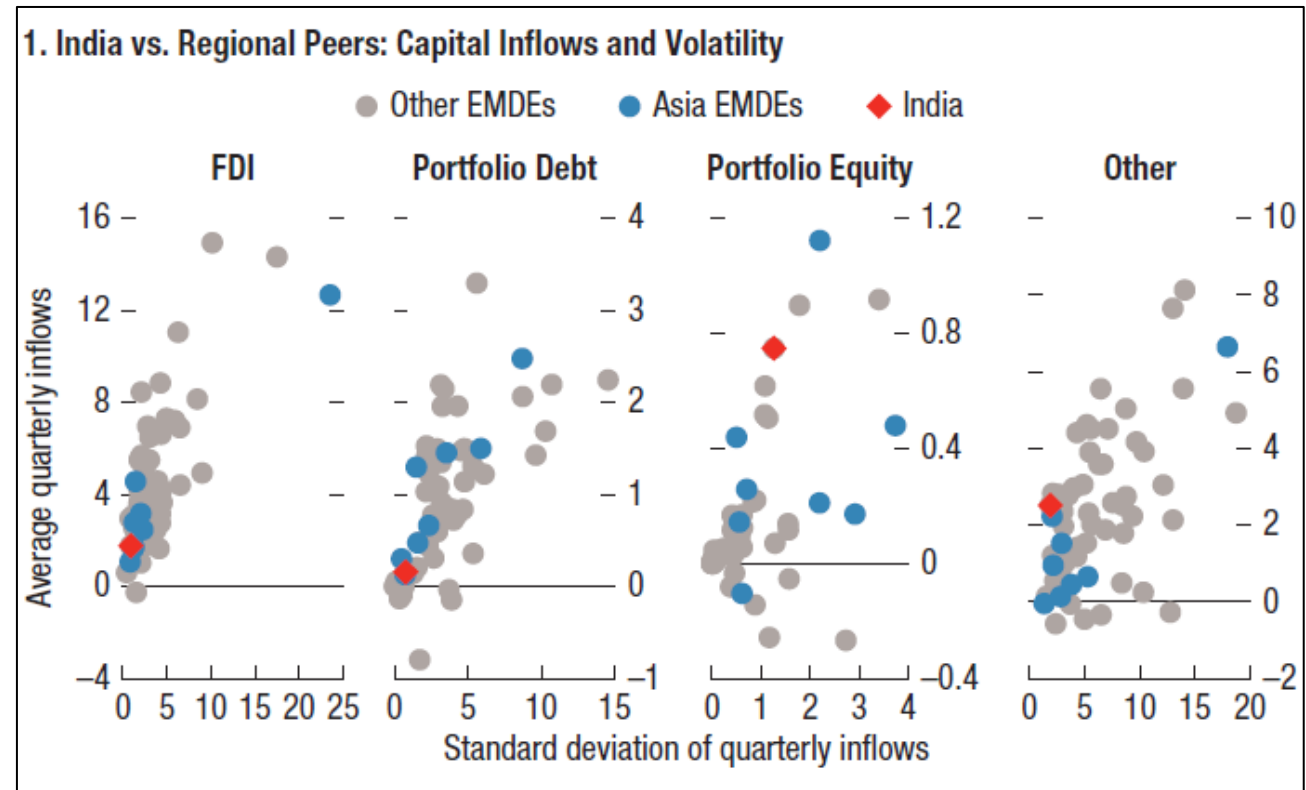
Sources: Bloomberg; and authors' calculations.

Note: AUM = assets under management; ESG = environmental, social, and governance;

# Linkages and supporting reforms

# Capital flows: trends, risks, and new investor base

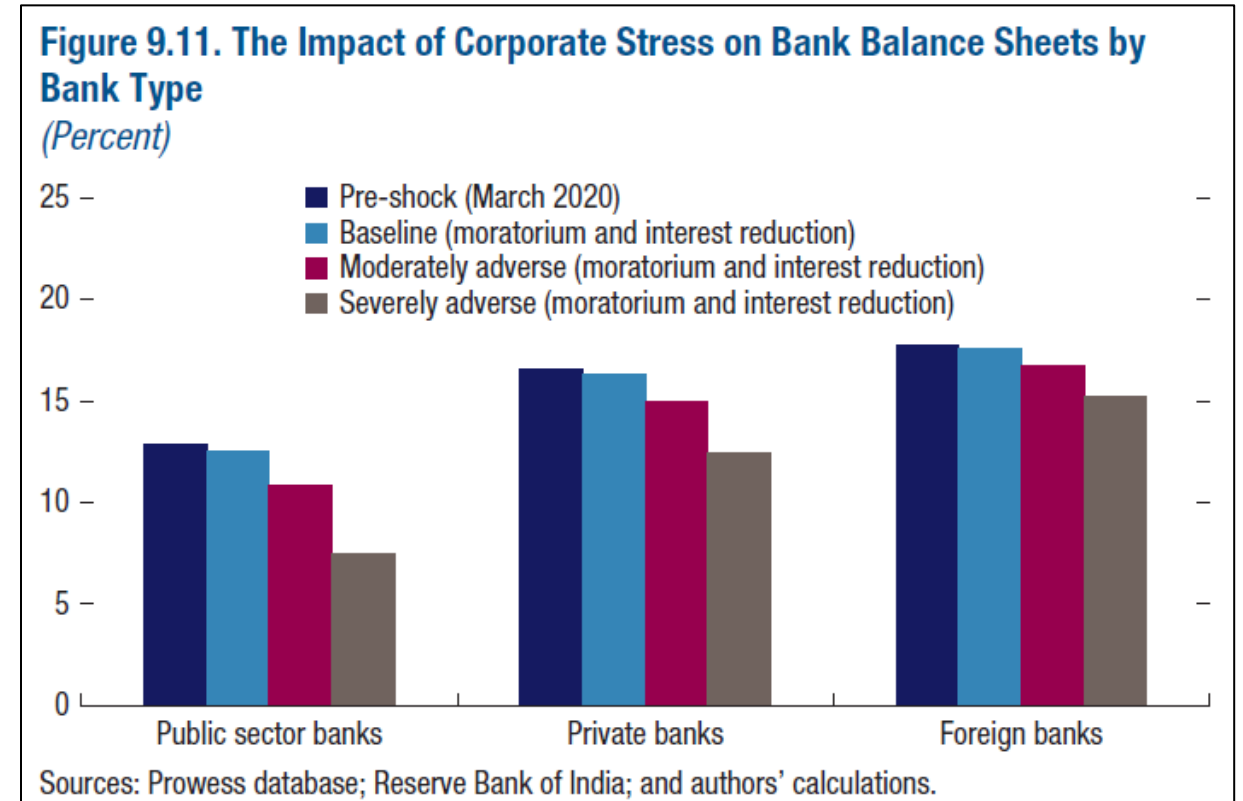
- Capital inflows beneficial
- Current account deficit of 2.5 percent financeable
- India's gradual capital account liberalization (FDI, equity)
- Gradual easing of restrictions on debt flows
- Portfolio flows more volatile (GFC, taper tantrum, COVID-19)
- Capital flow cycles shorter and greater volatility
- Reforms areas: strengthening of policy frameworks, e.g. medium-term fiscal framework, communication)



Sources: CEIC; Haver Analytics; and IMF staff calculations.

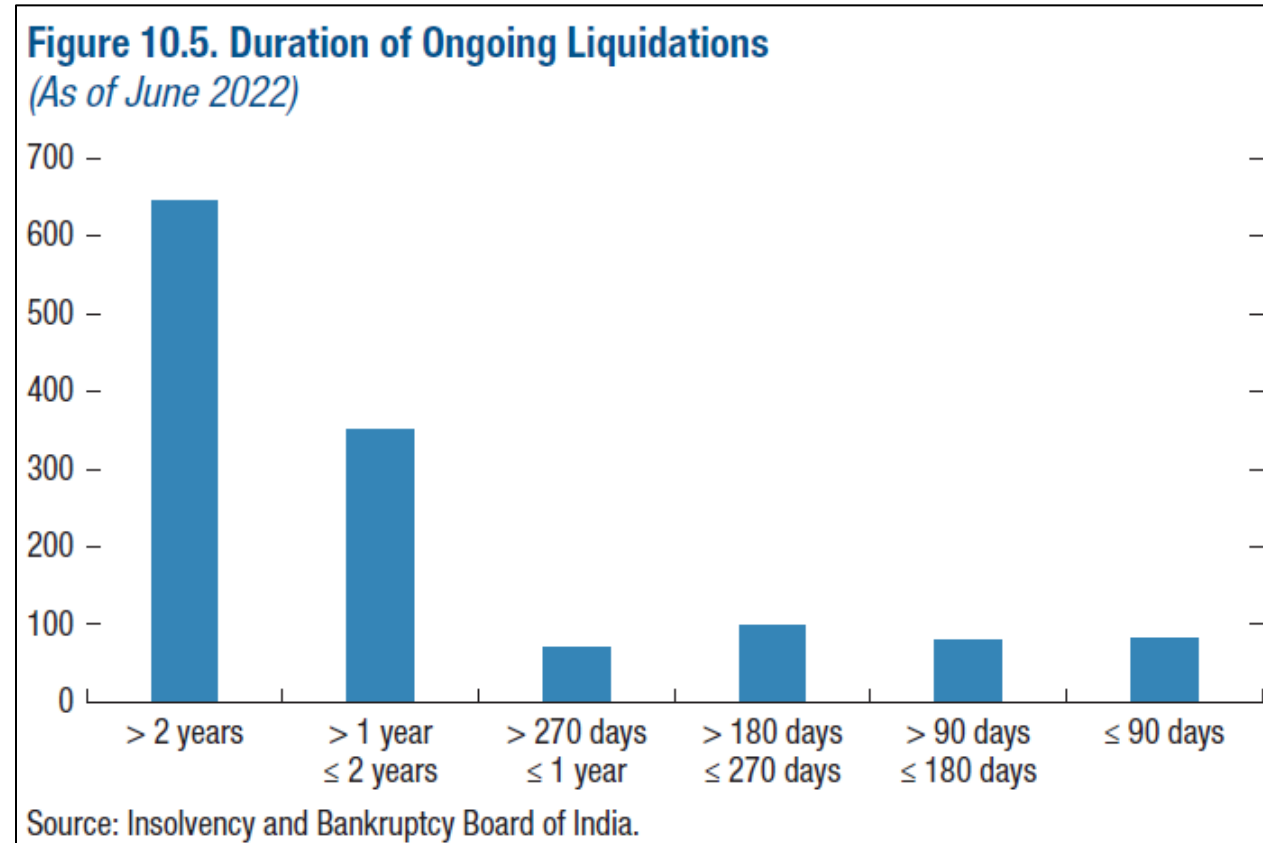
# Addressing corporate sector vulnerabilities

- Prior to COVID-19, corporate sector deleveraging
- Micro-firm profits persistently low
- Stress testing the corporate sector can identify risks for the financial sector and evaluate policies
- In severe adverse scenario, capital of public sector banks below regulatory requirement
- Authorities' relief measures and monetary policy easing during COVID-19 effective



# Debt resolution frameworks

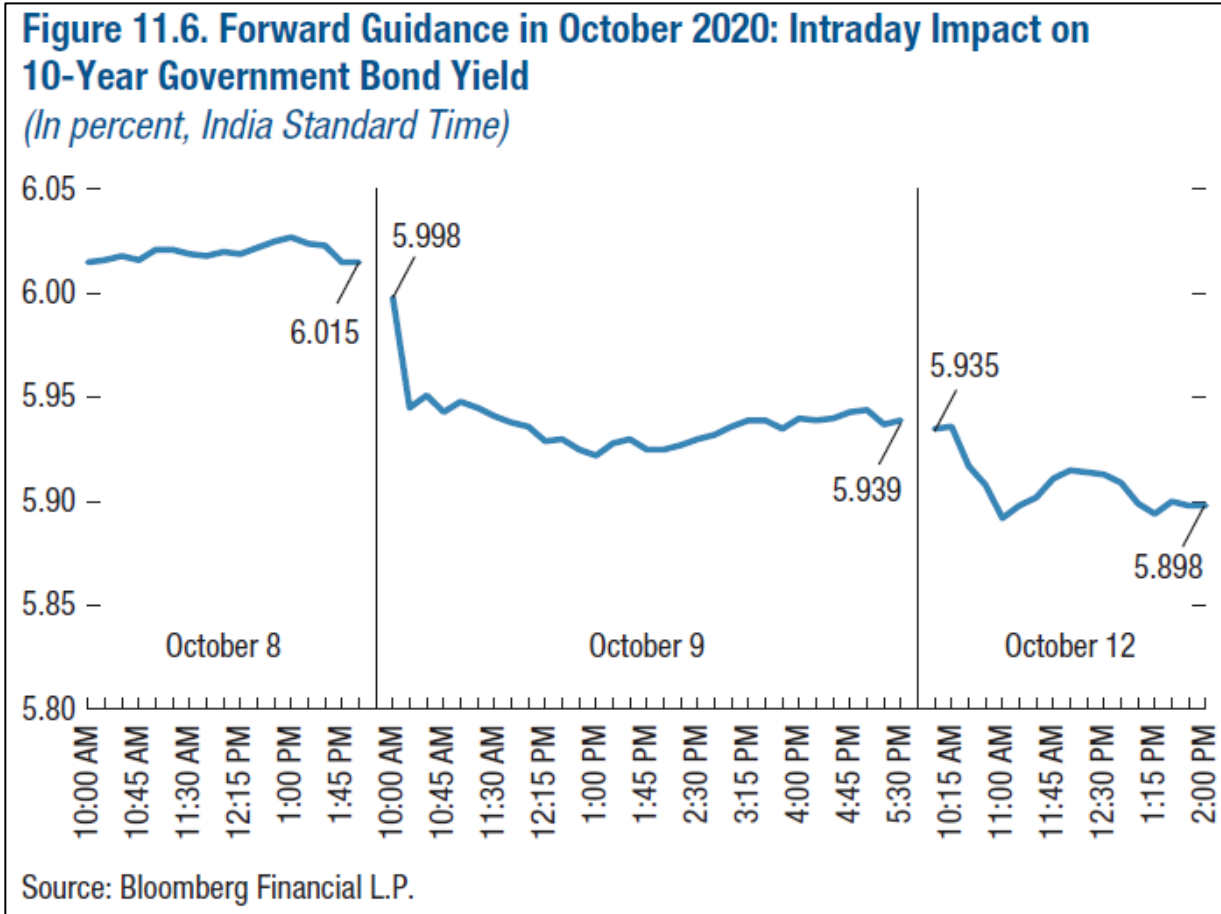
- Resolving over indebtedness of corporates allows financial system to allocate resources efficiently
- Insolvency and Bankruptcy Code in 2016 milestone
- Resolution frameworks (in-and out-of-court, and hybrid)
- Reform areas:
  - Encourage out-of-court processes
  - In-court restructurings timelines too ambitious, need for additional resources
  - Staffing and capacity development





# Monetary policy communication

- Institutional reforms that reduce market volatility makes financial markets more attractive for savers/investors
- Monetary policy communication important
- RBI's flexible inflation targetting (2016) has improved anchoring of inflation expectations
- RBI's forward guidance moderated uncertainty and supported assets prices during pandemic
- Reform areas: refining tools (e.g. forward-looking communication about economic outlook and RBI's policy reaction function)



# Takeaways

- Increased global economic importance
- India has recovered well from the pandemic and appears to be entering a period of macroeconomic stability—albeit not without risks
- Long-term outlook positive: catch-up and demographic dividend
- Long run potential can be enhanced— additional investment will be key
- Financial sector critical to allocate resources efficiently
- Public banks to continue to dominate, but non-banking financial companies, capital markets, leveraging digital finance, and the ESG market have changed the system.

# Takeaways—continued

## Key reform areas:

- Reducing the share of public banks and strengthened PSB governance
- NBFC important role but more funding diversification and reduced bank-linkages
- Corporate bond and ESG market further development (e.g. broaden investor base and ESG data)
- Continued digitalization to foster financial inclusion; digital and financial literacy critical

## Supporting reforms:

- Continued gradual capital account liberalization can bring benefits but key is to strengthen frameworks (medium-term fiscal frameworks, etc.)
- Improving debt resolution frameworks (latest draft bill encouraging; resources and capacity development critical)
- Continued institutional reforms that reduce market volatility. Building on the success in monetary policy communication, further refining tools (e.g. on economic outlook and policy reaction function)

# Excerpt languages

QR code and link to the excerpts



Visit: [India's Financial System: Building the Foundation for Strong and Sustainable Growth | imfsg](#)

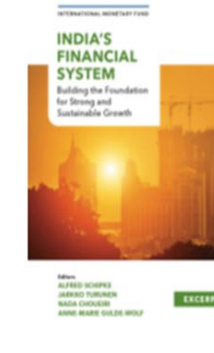
ARABIC



CHINESE



ENGLISH



FRENCH



HINDI



JAPANESE



RUSSIAN



SPANISH



**THANK YOU**