INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/230

INDIA

October 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR INDIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with India, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 17, 2021 consideration of the staff report that concluded the Article IV consultation with India.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 17, 2021, following discussions that ended July 28, 2021, with the officials of India on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 31, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for India.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/299

IMF Executive Board Concludes 2021 Article IV Consultation with India

FOR IMMEDIATE RELEASE

Washington, DC – October 15, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with India.

India was among the fastest-growing economies in the world in the decade before the pandemic, lifting millions out of poverty. While the economy was moderating prior to the COVID-19 shock, the pandemic implied unprecedented challenges. Two COVID-19 waves caused a health and economic crisis however, the economy is gradually recovering. Following the first wave, GDP contracted an unprecedented 7.3 percent in FY2020/21. The second wave resulted in another sharp fall in activity, albeit smaller and shorter, and recent high frequency indicators suggest an ongoing recovery. Inflation pressures have been elevated, yet inflation eased to 5.6 percent in July, returning to within the RBI's inflation target of 4±2 percent, driven by softer food prices and base effects.

The authorities' economic response, which was swift and substantial, has included fiscal support, including scaled-up support to vulnerable groups, monetary policy easing, liquidity provision, and accommodative financial sector and regulatory policies. Despite the pandemic, the authorities have continued to introduce structural reforms, including labor reforms and a privatization plan.

Growth is projected at 9.5 percent in FY2021/22 and 8.5 percent in FY2022/23. Headline inflation is projected at 5.6 percent in FY2021/22, amid elevated price pressures. The contraction in economic activity, lower revenue, and pandemic-related support measures are estimated to have led to a widening of the fiscal deficit to 8.6 and 12.8 percent of GDP in FY2020/21 for the central and general governments, respectively. Fiscal policy continues to support the economy in FY2021/22. Despite policy support, bank credit growth has remained subdued, while large corporates have benefited from easier conditions in capital markets. Net inflows and improvement in the current account have supported an increase in foreign exchange reserves. The current account balance is projected to return to a deficit of about 1 percent of GDP in FY2021/22, due to a gradual recovery in domestic demand and higher oil prices.

The economic outlook remains clouded due to pandemic-related uncertainties contributing to both downside and upside risks. A persistent negative impact of COVID-19 on investment, human capital, and other growth drivers could prolong the recovery and impact medium-term growth. While India benefits from favorable demographics, disruption to access to education and training due to the pandemic could weigh on improvements in human capital. At the same time, the recovery could also be faster than expected. Faster vaccination and better

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. This year's discussions were virtual. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

therapeutics could help contain the spread and limit the impact of the pandemic. In addition, successful implementation of the announced wide-ranging structural reforms could increase India's growth potential.

Executive Board Assessment

They welcomed the recent economic recovery and noted that India is projected to be one of the fastest growing major economies for this year and beyond. Directors commended the authorities' response to the pandemic which includes scaled-up support to vulnerable groups, monetary policy easing and liquidity provision, accommodative financial sector and regulatory policies, and continued structural reforms. Directors encouraged the authorities to maintain the scaled-up vaccination momentum, continue with policy accommodation until the recovery is fully entrenched, and accelerate structural reforms to achieve a more inclusive and sustainable growth, while keeping public debt vulnerabilities in check.

Directors agreed that addressing the health crisis remains a near-term policy priority. In that context, they welcomed the recent increase in vaccinations. They also positively noted India's contributions to the global fight against the pandemic as a vaccine producer.

Directors indicated that further fiscal support underpinned by targeted spending on social protection, employment support and health spending is warranted until the recovery is secure. They encouraged the authorities to increase public expenditure in infrastructure, education, health, and social safety nets which can also help achieve the Sustainable Development Goals and boost potential growth. Fiscal space can be enhanced through a credible and clearly communicated medium-term fiscal consolidation strategy, enhancements in expenditure efficiency, improved public financial management and revenue enhancing measures, as well as the privatization agenda.

Directors agreed that maintaining accommodative monetary policy remains appropriate, although elevated inflation pressures need to be closely monitored. Looking ahead, a well-communicated plan for a gradual reduction in monetary policy support as the recovery strengthens would foster orderly market transitions.

Directors also welcomed the authorities' commitment to maintain exchange rate flexibility, which can serve as the main shock absorber, with foreign exchange interventions limited to addressing disorderly market conditions.

Directors agreed that financial sector policies have moderated the adverse impact of the pandemic. While targeted support to viable corporates should continue, they indicated that policies facilitating the exit of non-viable firms are also warranted. Directors observed that ensuring adequate bank capitalization and effective NPL resolution will enable the financial system to further increase its resilience and better support the recovery.

Directors commended the authorities for advancing structural reforms despite the pandemic and stressed the need for their steadfast implementation. Long-standing reform priorities include ongoing labor and land reforms, infrastructure investment, improvements in governance, continued trade and investment liberalization, and improving education outcomes. Such reforms would not only help maximize India's long-term growth and demographic dividend, but also help alleviate poverty and inequality, and deepen the country's integration into global value chains. India's progress toward transitioning to a greener and more inclusive economy is welcome.

Table 1. India: Selected Social and Economic Indicators, 2017/18-2022/23 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				Est.	Projections	
Growth (in percent)						
Real GDP (at market prices)	6.8	6.5	4.0	-7.3	9.5	8.5
Prices (percent change, period average)						
Consumer prices - Combined	3.6	3.4	4.8	6.2	5.6	4.9
Saving and investment (percent of GDP)						
Gross saving 3/	29.1	30.0	29.8	30.2	29.2	29.5
Gross investment 3/	31.0	32.1	30.7	29.3	30.2	30.8
Fiscal position (percent of GDP) 4/						
Central government overall balance	-3.8	-3.9	-4.8	-8.6	-7.3	-6.2
General government overall balance	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7
General government debt 5/	69.7	70.4	74.1	89.6	90.7	88.9
Cyclically adjusted balance (% of potential GDP)	-6.6	-6.8	-7.4	-8.9	-9.4	-9.1
Cyclically adjusted primary balance (% of potential GDP)	-1.7	-1.9	-2.7	-3.9	-4.0	-3.7
Money and credit (y/y percent change, end-period)						
Broad money	9.2	10.5	8.9	11.7	6.9	8.7
Domestic Credit	7.7	11.8	8.3	8.1	8.2	9.1
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	6.2	6.2	4.4	3.3	…	…
10-year government bond yield (end-period)	7.4	7.4	6.7	6.2	…	…
Stock market (y/y percent change, end-period)	11.3	17.3	-23.8	68.0	…	…
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	309.0	337.2	320.4	296.3	360.8	378.1
(Annual percent change)	10.3	9.1	-5.0	-7.5	21.8	4.8
Merchandise imports (in billions of U.S. dollars)	469.0	517.5	477.9	398.5	520.5	555.3
(Annual percent change)	19.5	10.3	-7.6	-16.6	30.6	6.7
Terms of trade (G&S, annual percent change)	-2.8	-2.1	1.6	1.3	-6.6	0.9
Balance of payments (in billions of U.S. dollars)						
Current account balance	-48.7	-57.2	-24.6	24.0	-29.1	-43.2
(In percent of GDP)	-1.8	-2.1	-0.9	0.9	-1.0	-1.4
Foreign direct investment, net ("-" signifies inflow)	-30.3	-30.7	-43.0	-44.0	-46.4	-51.1
Portfolio investment, net (equity and debt, "-" = inflow)	-22.1	2.4	-1.4	-36.1	-26.1	-34.5
Overall balance ("-" signifies balance of payments surplus)	43.6	-3.3	59.5	87.3	46.6	52.4
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	424.5	412.9	477.8	577.0	641.5	694.0
(In months of next year's imports (goods and services))	7.9	8.2	11.1	10.6	11.0	11.0
External debt (in billions of U.S. dollars, end-period)	529.3	543.1	558.4	570.0	633.5	694.6
External debt (percent of GDP, end-period)	20.0	20.1	19.5	21.4	21.8	21.7
Of which: Short-term debt	8.3	8.8	8.4	9.2	9.5	9.7
Ratio of gross reserves to short-term debt (end-period)	1.9	1.7	2.0	2.4	2.3	2.2
Real effective exchange rate (annual avg. percent change)	3.5	-5.0	3.3	-0.9	…	…
Exchange rate (rupee/U.S. dollar, end-period)	65.0	69.2	75.4	73.5	…	…
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-3.5	-3.4	-4.6	-9.2	-7.0	-5.9

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Data are for April–March fiscal years.

2/ Based on the percentage share of consumption that accrues to subgroups of the population indicated by deciles noted.

3/ Differs from official data, calculated with gross investment and current account. Gross investment includes errors and omissions.

4/ Divestment and license auction proceeds treated as below-the-line financing.

INDIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

August 31, 2021

KEY ISSUES

Context. The ongoing COVID-19 pandemic has created a prolonged health crisis. Economic activity was slowing prior to the pandemic. Two COVID-19 waves have resulted in a deep and broad-based economic downturn with the potential for a longer lasting impact. The authorities have responded with fiscal policy, including scaled-up support to vulnerable groups, monetary policy easing and liquidity provision, and accommodative financial sector and regulatory policies. Despite the pandemic, the authorities have continued to implement structural reforms.

Outlook and risks. Following a sharp contraction in GDP last year, growth is expected to rebound to 9.5 percent this year and 8.5 percent in FY2022/23. The recovery in consumption and investment is expected to be gradual given the second wave and concerns about a third wave, and the need to further strengthen the financial sector. Uncertainty about the economic outlook remains elevated, with pandemic-related uncertainties contributing to both downside and upside risks.

Policy Recommendations.

- **Addressing the ongoing health crisis.** A continued coordinated policy response to fight the virus, including through vaccinations, is critical to overcome the ongoing health crisis. Additional fiscal support is warranted until recovery is fully entrenched, including additional spending on health and to support the most vulnerable groups. Monetary policy should remain accommodative and ensure adequate systemic liquidity and targeted support to viable corporates and borrower relief measures should continue.

- **Policies to support the recovery.** While fiscal space has narrowed, fiscal policy can and should play a key role in facilitating a strong, inclusive, and green economic recovery and help avoid an adverse, longer lasting impact. Policy space can be enhanced through a credible and clearly communicated medium-term fiscal consolidation strategy that outlines a gradual removal of policy support and revenue enhancing measures. While closely monitoring elevated inflation pressures, maintaining accommodative monetary policy remains appropriate until growth begins to firmly recover. Financial sector and regulatory policies should support the recovery, while allowing the exit of non-viable firms and encouraging banks to continue building capital buffers and recognize problem loans. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions. Steadfast implementation of announced structural reforms and further efforts to broaden them are needed. Reduction in tariffs, especially on intermediate goods, and further investment liberalization can foster India's integration into global value chains and maximize India's growth potential. Broad-based, tailored, and sustained support for students will be important to minimize adverse labor market implications and improve education outcomes.

Approved By
Anne-Marie Gulde-Wolf and Anna Ilyina

Remote discussions took place July 12-28, 2021. The team comprised A. Schipke (Head), R. Agarwal, F. Ahmed, E. Arbatli-Saxegaard, J. Turunen, T. Xu (all APD), L. Gornicka (MCM), M. Binici (SPR), M. MacDonald (RES) and L. Breuer (Senior Resident Representative). S. Mohapatra assisted the mission. S. Bhalla and R. Goyal (both OED) also participated in some mission meetings. The mission met with the Economic Affairs Secretary A. Seth, Chief Economic Advisor K. Subramanian, RBI Deputy Governors M. R. Rao and M. D. Patra, and other senior government and RBI officials, along with representatives from the private sector. K. Rivas and N. Singh (both APD) assisted in the preparation of this report.

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COVID-19 PANDEMIC

1. **The spread of COVID-19 caused a prolonged domestic health crisis.** The first wave of the pandemic, which started in March 2020, peaked in September 2020. The second wave started in urban centers in March 2021, but spread to all states, including rural areas with relatively weak health care infrastructure, temporarily overwhelming health facilities. Pandemic-related uncertainties—including from a third wave, risks stemming from variants, and a vaccination rate that needs to increase to meet the authorities' target to vaccinate the adult population by end 2021—continue to cloud the outlook.

2. **The authorities responded with containment measures, including lockdowns.** During the first wave, a strict national lockdown was extended several times, followed by a gradual re-opening, with restrictions implemented in select containment zones. During the second wave, localized state-wide lockdowns have been implemented in most states. State-level empirical analysis for India suggests that social distancing and containment measures have effectively reduced case numbers but have come with economic costs. State characteristics such as health care infrastructure and the share of services in the economy have played an important role in outcomes, highlighting that adequate social spending and better health care infrastructure are crucial in containing health crises.[1]

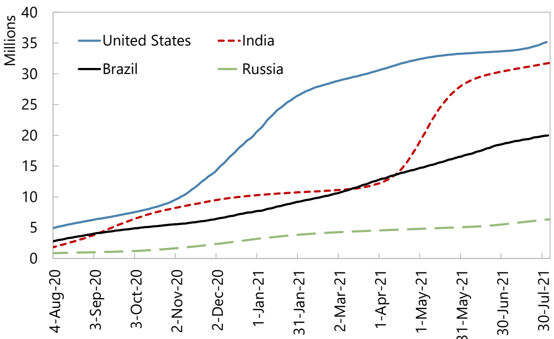
3. **India's vaccine production is expected to contribute to global progress towards a pandemic solution, but production and the domestic vaccination drive face challenges.** The country is among the world's largest vaccine producers, but supply chain bottlenecks—including shortages of critical raw materials—initially constrained scaling up vaccine production. COVAX, which provides vaccines to low- and middle-income countries, relies on production from India. Delays in vaccine production and exports thus have global implications. After a slow start, vaccinations have picked up more recently; if the current pace can be sustained and gradually raised, India may be on track to fully vaccinate 40 percent of the population by end-2021. An increase in vaccinations, however, is needed to meet the authorities' target. In addition to accelerating vaccinations, it will be important to close the gender gap, as nearly 17 percent more men than women have received a vaccine dose (as of mid-July).

[1] Deb and Xu (forthcoming): "State-Level Health and Economic Impact of COVID-19 in India" *IMF Working Paper*.

Figure 1: COVID-19 Developments

India has the second highest number of confirmed cases in the world.

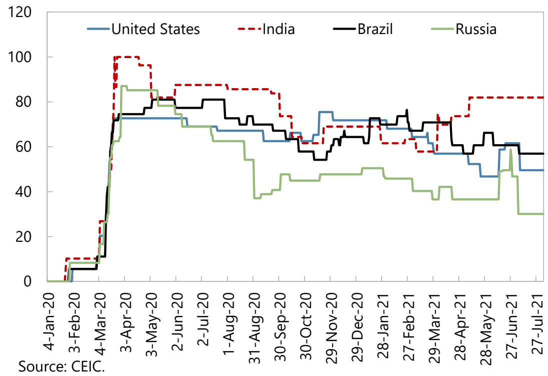
COVID-19: Cumulative Confirmed Cases



Source: CEIC.

Localized lockdown measures were re-introduced following the second wave.

International Comparison of Oxford Stringency Index

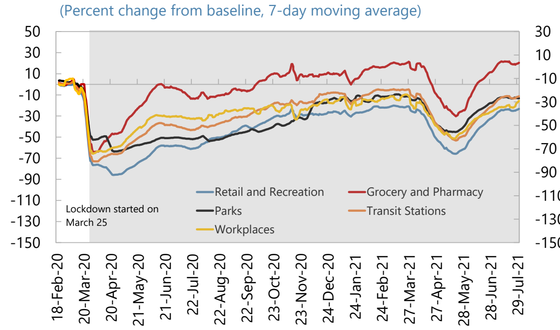


Source: CEIC.

Mobility is gradually recovering from the trough due to the second wave.

India: Community Mobility by Location

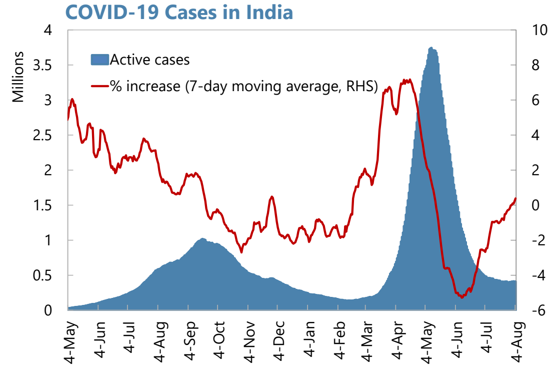
(Percent change from baseline, 7-day moving average)



Source: Google Global Mobility Report.
Note: The Global Mobility report charts movement trends over time by geography, across different categories of places such as retail and recreation, groceries and pharmacies, parks, transit stations, workplaces, and residential.

The second wave has peaked, with case numbers coming down from the early May peak.

COVID-19 Cases in India

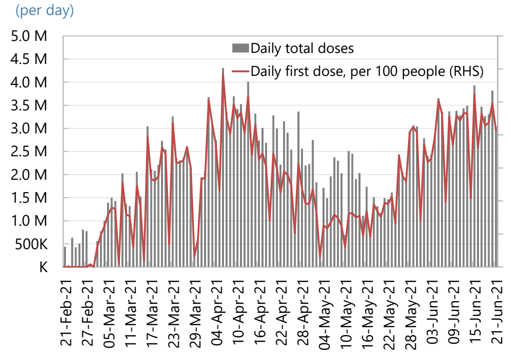


Sources: Ministry of Health and Family Welfare as reported by 5:00 pm, IST

The pace of vaccinations slowed in May, but picked up recently.

Vaccine doses administered

(per day)

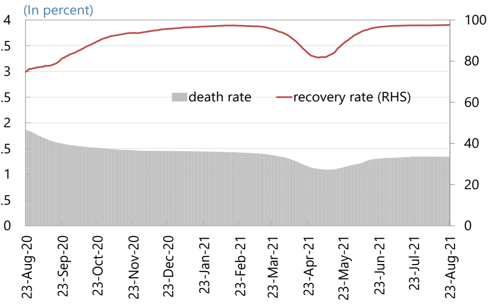


Sources: CEIC, IMF Staff calculations

The case fatality rate stabilized at around 1.3 percent, with a pickup in the recovery rate..

Case fatality and recovery rate

(In percent)



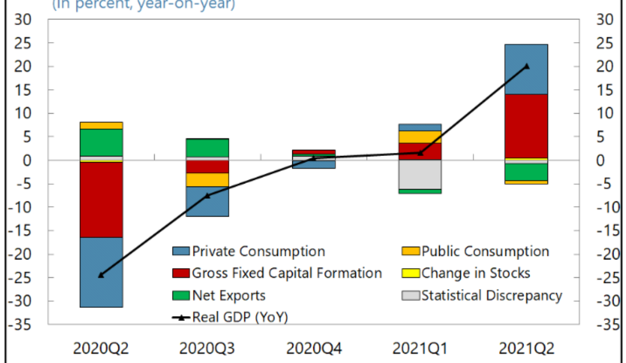
Sources: CEIC, and IMF staff calculations.

DEEP ECONOMIC AND SOCIAL IMPACT

4. Despite policy support, the COVID-19 shock has caused a deep and broad-based economic downturn, followed by a gradual recovery. Economic activity was already slowing prior to the pandemic with growth at 4 percent in fiscal year (FY) FY2019/20 (April to March), reflecting a decline in private domestic demand. Since the start of the pandemic, authorities have introduced a range of emergency measures and economic policy responses, including fiscal support, monetary easing, liquidity, and regulatory measures for the financial sector, as well as credit and debt relief programs for borrowers. Also, despite the pandemic, the authorities have advanced structural reforms.

- **Following the first wave and the strict national lockdown, GDP contracted by an unprecedented 7.3 percent in FY2020/21.** The decline in GDP in 2020Q2 (24.4 percent) was among the sharpest of the G20 countries. After two consecutive quarters of contraction, growth resumed in 2020Q4 (0.5 percent) and 2021Q1 (1.6 percent), accompanied by a recovery in mobility.

Contribution to Real GDP Growth
(In percent, year-on-year)



Sources: Haver Analytics and IMF staff calculations.

- **Contact-sensitive services, construction, mining, and manufacturing were most impacted.** Contact-intensive trade, hotels, transportation, and communication services contracted the most (-18.2 percent), while financial services that likely benefited from digitalization and flexible work practices (such as remote work) experienced a moderate contraction and agriculture was relatively resilient, growing by 3.6 percent.

- **Supply disruptions saw investment and employment fall sharply.** On the demand side, private consumption (-9 percent), gross fixed capital formation (-10.8 percent) and imports (-13.6 percent) contracted sharply. Urban unemployment rose and labor force participation declined during the first wave.

- **The second wave and associated containment measures resulted in another sharp, albeit smaller and shorter, fall in activity**. Initially, mobility declined broadly and traffic congestion in major cities fell and Manufacturing and Services Purchasing Manager Indices (PMIs) entered contractionary territory towards the end of 2021Q2 More recently, high frequency indicators such as industrial production, mobility and electricity consumption have witnessed a recovery.

- **Inflation pressures from food price shocks and supply chain disruptions persist.** Inflation peaked at 7.6 percent in October 2020 and—despite recent moderation—has remained elevated. Inflation eased to 5.6 percent in July, driven by softer food prices and base effects. But core inflation remains elevated at 5.8 percent, reflecting broad-based price pressures. Inflation risks also stem from higher global commodity prices and rising inputs costs, as evidenced by the recent increase in wholesale price inflation.

5. While government policy measures have helped mitigate the impact, the pandemic is likely to have disrupted progress in human development. The pandemic has been associated with an increase in poverty and declines in earnings for workers. Government relief measures have helped mitigate the impact, especially in rural areas through the existing rural employment program. At the same time, social protection coverage is less complete for the informal sector and urban poor. As a result, the pandemic has reversed some progress in reducing poverty, as individuals who rely on daily wage labor and are outside the formal safety net, have faced income losses. Among them, migrant workers who live in cities, far from home, and have less recourse to traditional support networks have been adversely impacted.[2] The pandemic has also reduced access to education and on-the-job skills training for lower-income groups. According to UNICEF, schools have been closed for more than half of instruction days, which has likely impacted groups with less access to resources needed for online learning most, including the poor, rural households, and girls.

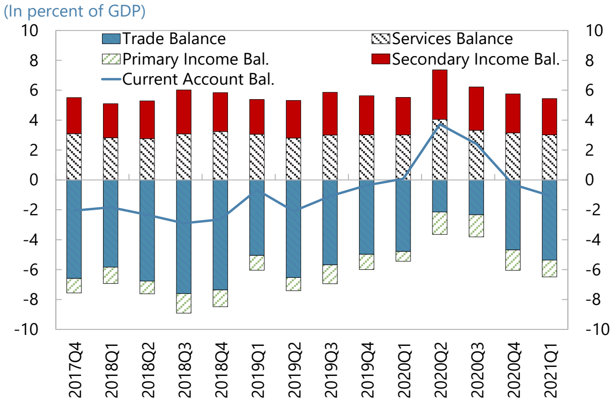
6. Despite policy support, bank credit growth has remained subdued, while large corporates have benefited from easier conditions in capital markets. Bank credit growth was 5.5 percent (year-on-year) in FY2020/21, the lowest rate in the last four financial years, and remained much lower for public than for private sector banks. Bank credit growth initially declined more for the hard-hit micro, small and medium size enterprises (MSMEs). Overall bank credit remains subdued so far this year, amid lower demand and tightened lending standards. Large corporates have benefited from easy conditions in capital markets and Reserve Bank of India (RBI) policies such as the Targeted Long-Term Repo Operation (TLTRO). Despite adequate system-wide liquidity, banks retrenched to safer and more liquid assets, with sovereign debt holdings increasing by almost 19 percent in 2020. Banks' exposure to nonbank financial companies (NBFCs) continued to rise too, supported by the emergency credit line guarantee schemes.

7. The full financial sector impact will be delayed amid borrower relief measures and regulatory forbearance. Nonperforming asset (NPA) ratios of banks and nonbanks improved between March 2020 and March 2021, on the back of borrower relief measures, classification of loans under the restructuring schemes as standard, and the Supreme Court's decision (lifted in March 2021) to temporarily suspend recognition of pandemic-affected loans as nonperforming. However, in recent months the share of loans overdue (but not yet classified as nonperforming) has increased across portfolio segments. At the same time, in anticipation of a potential surge in impaired assets, banks have increased provisioning ratios and raised capital, reflecting new equity issuance and public sector bank (PSB) recapitalization.

[2] Based on the July 2021 WEO update, compared to pre-COVID-19 growth projections, it is estimated that, globally, close to 80 million more people could face extreme poverty (defined as daily income of less the $1.90) due to the pandemic.

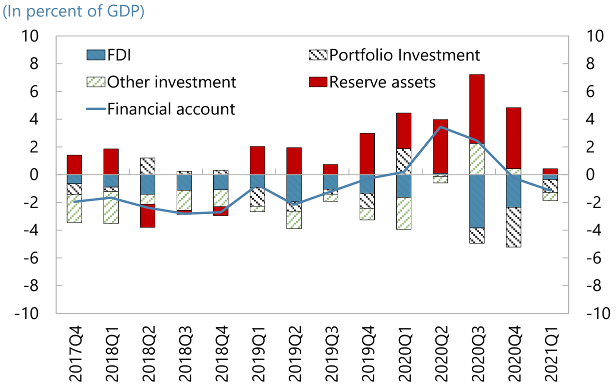
8. The initial COVID-19 shock and lower oil prices resulted in lower imports, contributing to a temporary current account surplus. Reflecting the initial pandemic-related domestic demand shock and lower oil prices, as well as steady service exports and resilient remittance inflows, the current account balance improved to a surplus of 0.9 percent of GDP in FY2020/21. This marks a significant departure from persistent current account deficits over the past two decades. The change in the current account reflected a sharp increase in private savings and fall in private investment, which outweighed the drop in the public sector saving–investment balance. Reflecting the initial recovery in economic activity and higher oil prices, the current account balance returned to a deficit in the second half of FY2020/21.

Current Account Balance
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

Financial Account Balance
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

9. Despite intermittent capital outflow pressures, net inflows and improvement in the current account have supported an increase in foreign exchange reserves. After a sharp decline following the first wave, net foreign direct investment (FDI) inflows recovered significantly and are estimated at 2 percent of GDP in 2020. Similarly, after significant portfolio outflows (0.5 percent of GDP) in March 2020, portfolio inflows gained strong momentum in the second half of FY2020/21. Policy measures to ease debt inflows, including extension of the list of "fully accessible" bonds with no investment limits for foreign investors and the limit for foreign investment in corporate bonds—both capital flow management measures—also supported net inflows.[3] However, portfolio flows have come under renewed pressure this year, first due mainly to the initial rise in U.S. yields and market expectations of future U.S. Federal Reserve policy tightening, and later due to the second wave and concerns about the third wave. Overall, during FY2020/21, the current account surplus and strong net capital inflows supported an increase in foreign exchange reserves, thus mitigating external vulnerabilities.

10. The external position in FY2020/21 was broadly in line with the level implied by medium-term fundamentals and desirable policies (Appendix I: External Sector Assessment). Based on the EBA model, and accounting for transitory impacts of the COVID-19 shock, staff-assessed current account gap was 1 percent of GDP, with positive policy contributions mostly from the increase in foreign exchange reserves and the credit gap. With the current account surplus, the

[3] FDI regulations were also eased in September 2020 (with the limit of FDI on automatic route in the defense sector raised from 49 to 74 percent).

net international investment position has improved marginally. These factors have helped the overall external position to remain stable amid uncertainty over the cyclical position and the outlook for the pandemic.

11. **Reflecting its large share in global activity, India's growth and economic outlook have global and regional implications.** India's GDP accounts for around 7 percent of the world and 80 percent of the South Asia total in purchasing-power party (PPP) terms. A decline in the country's growth therefore has a sizeable negative impact on global growth, with spillovers working primarily through trade linkages and global supply chains. Air travel bubbles and border trade with some of its neighbors (including Bhutan, Bangladesh, Nepal, and Sri Lanka), have supported regional connectivity and trade, and disruptions could result in negative regional spillovers. Furthermore, supply chain disruptions and the re-orientation of vaccines to domestic use due to the second wave have implications for the COVAX vaccine delivery.

GRADUAL ECONOMIC RECOVERY AMID ELEVATED UNCERTAINTY

12. **Following a sharp contraction in GDP, activity is expected to recover gradually.** In the baseline scenario, growth is expected at 9.5 percent in FY2021/22 and 8.5 percent in FY2022/23.[4] The recovery in consumption and investment is expected to be gradual given the second wave, concerns about a third wave, and the need to further strengthen the financial sector, partly offset by the lower base and stronger global growth. Headline inflation is projected at 5.6 percent in FY2021/22, amid elevated price pressures. Domestic credit growth (including credit to the public sector) is expected to remain broadly unchanged at 8 percent in FY2021/22. The current account balance is projected to return to a deficit of about 1 percent of GDP in FY2021/22, due to a gradual recovery in domestic demand and higher oil prices (see text table).

13. **The prolonged pandemic is contributing to lower medium-term growth.** Potential growth is expected at around 6 percent over the medium term, reflecting a more persistent impact from the pandemic and the need to further strengthen the financial sector. Investment fell sharply and the lagged impact of the pandemic on corporate and financial sectors will likely contribute to lower investment and capital accumulation, including in MSMEs. While India benefits from favorable demographics (owing to a relatively young population), reduced access to education and training due to the pandemic could weigh on improvements in human capital, adversely impacting labor markets.[5] The implementation of recently passed structural reforms will be critical for supporting medium-term growth.

[4] Projected growth reflects high statistical carryover effects for both FY2021/22 (10.6 percent) and FY2022/23 (5.2 percent).

[5] Early evidence shows that education losses were larger in economies with gaps in access to electricity and internet, which constrained opportunities for remote learning (2021 April *World Economic Outlook)*.

Text Table 1: Medium Term Outlook, 2017/18-2026/27

FISCAL YEAR 1/	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Est.	Projections					
Output										
Real GDP growth (%)	6.8	6.5	4.0	-7.3	9.5	8.5	6.6	6.3	6.2	6.1
Prices										
Inflation, CPI-Combined (%)	3.6	3.4	4.8	6.2	5.6	4.9	4.3	4.1	4.0	4.0
General government finances										
Revenue (% of GDP)	20.0	20.0	19.7	18.3	19.2	19.5	19.6	19.8	20.0	20.1
Expenditure (% of GDP)	26.2	26.3	27.1	31.1	30.4	29.2	28.4	28.2	28.1	27.9
Fiscal balance (% of GDP)	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7	-8.8	-8.3	-8.1	-7.8
Public debt (% of GDP)	69.7	70.4	74.1	89.6	90.7	88.9	88.2	87.3	86.4	85.2
Money and credit										
Broad money (% change)	9.2	10.5	8.9	11.7	6.9	8.7	8.9	9.0	8.7	8.7
Domestic credit (% change y/y)	7.7	11.8	8.3	8.1	8.2	9.1	9.4	10.0	10.1	10.4
3-month Treasury bill interest rate (%)	6.2	6.2	4.4	...	...	...	...	...	...	...
Balance of payments										
Current account (% of GDP)	-1.8	-2.1	-0.9	0.9	-1.0	-1.4	-1.5	-1.8	-2.3	-2.5
FDI, Net Inflow (% of GDP)	1.1	1.1	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Reserves (months of imports)	7.9	8.2	11.1	10.6	11.0	11.0	10.9	10.6	10.1	9.5
External debt (% of GDP)	20.0	20.1	19.5	21.4	21.8	21.7	22.0	22.3	22.5	22.8
Exchange rate										
REER (% change)	3.5	-5.0	3.3	1.1	...	...	...	...	...	...

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, World Development Indicators; and IMF staff estimates and projections.
1/ Fiscal Year is April to March (e.g. 2020/21 = Apr-2020 - Mar-2021).

14. **Uncertainty about the economic outlook is elevated, driven by multiple risk factors** (Box 1 and Appendix II: Risk Assessment Matrix).

- **COVID-19 and vaccinations.** Domestically, the main risk is continued spread of the virus, the emergence of new variants, potential future waves, as well as difficulties in ramping up vaccinations. Further outbreaks could prompt additional lockdowns, and virus concerns could dampen consumer and investor confidence and delay the economic recovery and undermine medium-term growth. Furthermore, while government policy measures have helped mitigate the impact so far, a longer lasting pandemic could increase poverty and inequality further and result in social discontent.

- **Corporate and financial sector risks.** A protracted slowdown could adversely impact corporate and financial sectors, with implications for the economic outlook and fiscal sustainability (Box 3).

- **Fiscal risks.** In the absence of a credible medium-term plan, a weaker fiscal position could increase risks stemming from higher financing costs and the realization of contingent liabilities. This in turn could have broader implications for financial conditions and the financial system.

- **External uncertainties.** Externally, a reassessment of global market fundamentals could trigger a widespread global risk-off event and capital outflows from emerging markets, adversely affecting corporate, households, and financial institutions' balance sheets. Bouts of volatility in oil prices could affect India's current account, exchange rates, and inflation. These external uncertainties could in turn impact the economic recovery and pose financial stability risks.

- **Upside risks.** The recovery could also be faster than expected in the baseline. Faster vaccination and better therapeutics could help contain the spread and limit the impact of the pandemic. A faster near-term rebound in demand could help improve the medium-term outlook and a successful implementation of the announced wide-ranging structural reforms could increase India's growth potential.

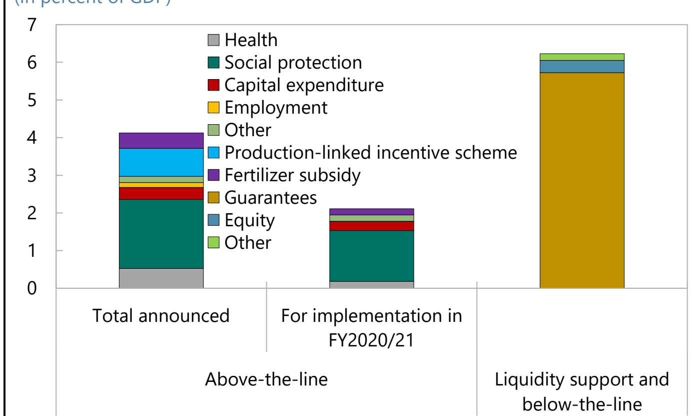
15. The authorities broadly agreed with the staff's assessment of near-term growth but are optimistic about medium-term growth. RBI projected growth at 9.5 percent in FY2021/22, the same as the July WEO forecast. The authorities concurred that the pandemic has hit MSMEs and contact-intensive services hard, but also highlighted that recovery is under way, as evidenced by high frequency indicators, with the formal sector (largest contributor to GDP) coping better with the second wave. Risks of a potential third wave would be mitigated by expected progress in vaccination and a higher seroprevalence rate. Beyond the near-term, the authorities conveyed optimism, expecting a more resilient financial sector and more limited adverse impact from the pandemic on medium-term growth. They emphasized the role of structural reforms, government capital spending, privatization and asset monetization, and growth friendly sectoral strategies in supporting private sector development and growth.

FISCAL POLICY TO SUPPORT THE VULNERABLE AND POST-PANDEMIC RECOVERY

16. Fiscal policy support, including additional support to vulnerable groups, has been important to the authorities' pandemic response. The central government announced a series of fiscal support packages composed of both above-the-line (4.1 percent of GDP) and below-the-line (6.2 percent of GDP) measures. State governments also introduced support packages.

- In the early stages of the pandemic, above-the-line measures rightly focused on social protection, employment support, and health care. The authorities scaled up social protection in March 2020 to provide food, cooking gas, and cash assistance, initially for three months. Food assistance was later extended for an additional five months and reintroduced to cover May-November 2021. The government expanded a rural employment program to deliver income support to the unemployed and provided contributions

Central Government COVID-19 Support
(In percent of GDP)



Sources: IMF estimates based on authorities' public announcements.

to social insurance funds for low-wage workers and emergency in-kind and cash support to migrants through a subnational disaster fund. Some social protection benefits, including food assistance, had broad reach, and cash transfers effectively reached their designated beneficiaries thanks to the well-developed Direct Benefit Transfer system. However, limited coverage and initially lack of portability of the existing safety net implied that support to migrants, informal workers, and the urban poor faced challenges.

- A sizable package of below-the-line measures was announced swiftly and included loan-guarantee programs to support businesses, NBFCs, distressed electricity distribution companies, and farmers. The central government expedited the payment of existing benefits and tax refunds, introduced intra-year tax deferrals, and eased the tax compliance burden. Subsequent measures focused more on demand support through additional public investment, production incentive schemes and other sectoral support measures.

17. The pandemic has further weakened the fiscal position. The central government fiscal deficit is estimated to have increased to 4.8 percent of GDP in FY2019/20, above the budget target of 3.3 percent of GDP. For FY2020/21, the budget had revised deficit targets up from 3 to 3.5 percent of GDP, invoking the flexibility provided under the Fiscal Responsibility and Budget Management (FRBM) Act, which prescribes a central government deficit ceiling of 3 percent by March 2021 and a debt ceiling of 40 percent by FY2024/25. The contraction in economic activity, lower revenue, and pandemic-related support measures are estimated to have led to a significant widening of the fiscal deficit to 8.6 and 12.8 percent of GDP for the central and general government, respectively.[6] Tax revenue rebounded during the second half of FY2020/21, after an initial sharp decline. Revenue from the goods and services tax (GST) was particularly buoyant, reflecting improved revenue administration; the increase in the fuel excise tax also contributed significantly to revenue. The authorities reprioritized spending to accommodate the fiscal support and other priority spending. Central government debt is estimated to have increased from close to 52 percent of GDP in FY2019/20 to 63 percent of GDP in FY2020/21.

India: Summary Central Government Fiscal Developments

(In percent of GDP)

	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	
	Est.	Est.	Proj.	Budget	Proj.
Total Revenues	**8.4**	**8.5**	**8.5**	**8.2**	**8.7**
Net tax revenues	6.9	6.7	7.2	6.9	7.2
Non-tax revenues	1.4	1.8	1.3	1.3	1.5
Total Expenditure	**12.3**	**13.2**	**17.1**	**15.5**	**16.1**
Revenue expenditure 1/	10.6	11.6	14.9	13.1	13.9
Capital expenditure	1.6	1.7	2.2	2.5	2.2
Central Government (CG) Fiscal Deficit	**3.9**	**4.8**	**8.6**	**7.4**	**7.3**
Memo Items					
CG Fiscal Deficit (authorities' definition) 2/	3.4	4.6	9.2	6.7	7.0
IMF Extended CG Deficit 3/	4.8	5.4	8.8	7.4	7.3
General Government Fiscal Deficit	6.4	7.4	12.8	...	11.3
State Government Fiscal Deficit	2.5	2.6	4.2	...	3.9
General Government Debt (% of GDP) 4/	70.4	74.1	89.6	...	90.7

1/ Starting in FY2020/21, includes food subsidies covered by the Food Corporation of India (FCI). For FY2020/21, excludes retroactive payment to FCI for previous years' food subsidy bill.
2/ Includes asset sales in receipts, and excludes certain non-tax revenue items. Includes the retroactive payment to Food corporation of India for previous years' foof subsidy bill.
3/ Includes NSSF loans to central gov PSUs (Union budget, Annex 8) and fully serviced bonds (Union budget, statement 27).
4/ For FY2021/22 reflects the additional SDR allocation of about 0.6 percent of GDP.

18. Individual states' public finances have also been hard hit, with considerable variation across states, reflecting revenue shortfalls and increased expenditure. The state government

[6] Based on the IMF definition of the fiscal balance which treats divestment receipts as below-the-line and includes certain non-tax revenue items. In addition, staff estimates of expenditure for FY2020/21 exclude the retroactive payment to the Food Corporation of India (FCI) for previous years' subsidy bill to ensure comparability.

deficit is estimated to have remained broadly unchanged at 2.6 percent of GDP in FY2019/20 and to have increased to 4.2 percent of GDP in FY2020/21. States faced significant pressure, especially early in the pandemic, with rising social and health care expenditures and a sharp decline in revenue and capital expenditure, with significant variation across states. The central government expedited and increased transfers to states, increased states' borrowing limits from 3 to 5 percent of gross state domestic product (GSDP) and provided additional transfers as part of a GST shortfall compensation scheme. The RBI also increased flexibility allowing states to access temporary financing.

19. The FY2021/22 budget broadly maintains the accommodative fiscal stance from last fiscal year and emphasizes expenditure on health and infrastructure and improved transparency.

- The budget projects the central government fiscal deficit to narrow to 6.7 percent of GDP based on the authorities' definition of the deficit[7], which corresponds to a deficit of 7.4 percent of GDP based on the IMF definition excluding divestment receipts. The budget was formulated before the second wave, but revenue projections remain prudent, reflecting what were conservative growth assumptions at the time of the budget. Staff projections incorporate a considerable increase in capital expenditure—by close to 50 percent relative to FY2019/20, albeit lower than the budget projection, reflecting more conservative assumptions on implementation—and higher current expenditure, in part reflecting the support measures announced after the budget (such as the extension of food transfers, vaccine provision to states, and additional spending on health infrastructure). In terms of financing, the budget envisages large divestment receipts (about 0.8 percent of GDP). State government deficit ceilings were temporarily increased (up to 4 percent of GSDP, with a portion earmarked for capital expenditure), which bodes well for maintaining a supportive general government fiscal stance. The authorities brought previously off-budget food subsidies on budget, contributing to improved fiscal transparency, consistent with past IMF policy advice.[8]

The fiscal stance at the general government level—the change in the cyclically adjusted primary balance as a percent of potential GDP—is projected to be broadly neutral in FY2021/22, maintaining the expansionary fiscal stance relative to the pre-COVID-19 period. Fiscal policy is projected to contribute modestly to growth reflecting the compositional shift toward capital expenditure.

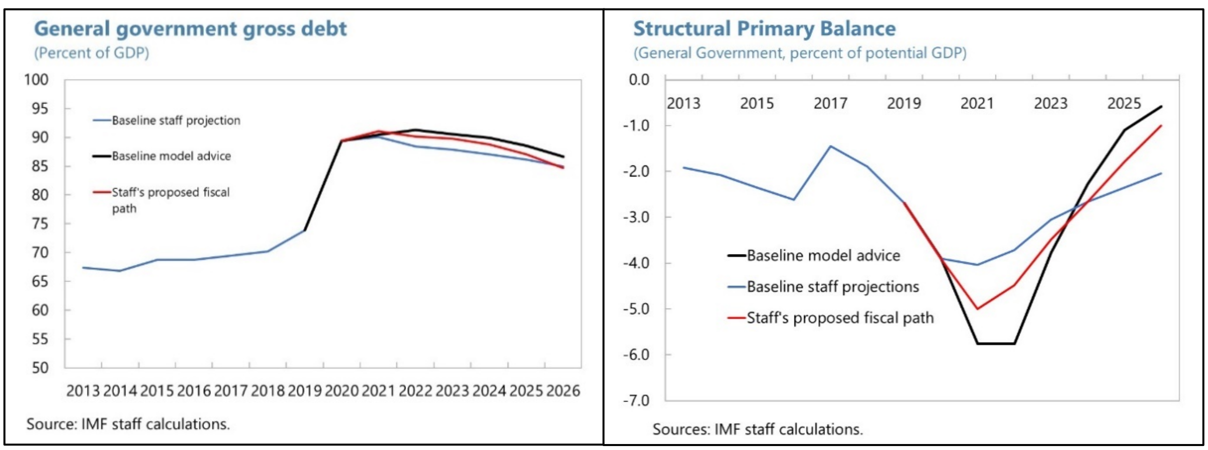
20. Staff's baseline projections reflect a gradual decline in the fiscal deficit over the medium-term, broadly in line with the authorities' targets. The projected decline in the deficit to about 4.9 percent of GDP by FY2026/27 implies a fiscal consolidation of about 2 percent of potential GDP in the medium-term in terms of the cyclically-adjusted primary deficit and reflects a gradual withdrawal of fiscal support and recovery in revenue. On the expenditure side, food subsidies, grants

[7] This corresponds to a deficit of 6.8 percent based on the budget's projection of GDP.

[8] The government also stopped issuing to PSUs or public agencies fully serviced bonds. The previously off-budget component of food subsidies was reflected in the revised estimate for FY2020/21 and the budget estimate for FY2021/22.

to states, and capital expenditure are projected to decline relative to GDP. On the revenue side, GST and income tax buoyancy are assumed to improve modestly and the fuel excise tax increase to be maintained. The authorities have announced that the FRBM Act will be amended to reflect the fiscal deficit target of below 4.5 percent by FY2025/26. Staff's projected fiscal consolidation is slightly smaller (by 0.3 percent of GDP) than the authorities' target. The states are expected to reach a fiscal deficit of 3 percent of GSDP by 2023–24, consistent with the 15th Finance Commission recommendations.

21. **Public debt is projected to decline gradually over the medium-term, but there is uncertainty around the fiscal outlook.** Public debt is projected to decline to 85 percent of GDP by FY2026/27, reflecting lower deficits and a favorable interest rate-growth differential, but debt will remain significantly higher than pre-pandemic levels and gross financing needs are projected to remain elevated. Staff's Public Debt Sustainability Analysis suggests that India's public debt remains broadly stable or declining under most scenarios and stochastic simulations over the medium term, but there are important risks, including from higher contingent liabilities due to weaker corporate and financial sector balance sheets and a slower than projected pace of fiscal consolidation in the medium-term. Significant uncertainty exists around potential growth and interest rates, reinforcing the importance of structural reforms to boost potential growth.



22. **India has fiscal space at risk, but additional fiscal support to address downside risks from the pandemic is appropriate in the near term.** Fiscal space has been reduced by the increase in public deficit and debt, and higher fiscal risks. However, the sizable economic slack projected for the near-term, higher fiscal multipliers, potential adverse impact of the pandemic on output in the medium term and favorable debt dynamics suggest that it is appropriate to provide additional fiscal support in the near term—by about 1 percent of GDP relative to staff's baseline projections, which already reflect the additional support measures announced since the budget. [9]

[9] The tradeoffs between macroeconomic stabilization and debt sustainability are evaluated with a stochastic model, which incorporates permanent output losses stemming from severe downturns. In the model, expansionary fiscal policy dampens recessions but also reduces fiscal buffers as higher public debt increases borrowing costs and the

(continued)

Additional support could be underpinned by targeted spending on social protection, employment support and health spending. Expenditure prioritization will be key to ensure priority spending areas are protected and growth multipliers are maximized.

23. A credible and clearly communicated medium-term fiscal consolidation—anchored on stronger revenue mobilization and greater expenditure efficiency—is critical to enhance policy space, reduce crowding out, and facilitate a private sector led recovery.

- **Medium-term consolidation**. Medium-term fiscal consolidation should be more ambitious than in the staff's baseline projections, targeting a reduction of the general government primary deficit to 1 percent by FY2026/27 to ensure a meaningful reduction in debt.

- **Composition**. The medium-term fiscal consolidation plan should be anchored on stronger revenue mobilization and greater expenditure efficiency, while, protecting spending in key priority areas (see paragraph 25). As the recovery takes hold, tax gaps—estimated to be around 5 percent of GDP—can be reduced through a combination of base expansion, higher rates, and improved revenue collection, mainly under GST and direct taxes. Staff welcomes recent initiatives to enhance tax efficiency, through the gradual phasing-in of mandatory e-invoicing in GST, measures to reduce the compliance burden and improving enforcement. The increase in fuel excise taxes last year provided an important fiscal buffer and should be maintained. On the expenditure side, subsidy reform can generate important savings, while ensuring affected beneficiaries are compensated during the transition. Staff welcomes the authorities' ongoing efforts to improve expenditure efficiency, for example through the rationalization of centrally sponsored schemes and the intention to have universal application of Treasury Single Account.

India: Measures for Medium-term Fiscal Consolidation

Measure	Size (% of GDP)
GST: Measures to improve revenue efficiency through improved compliance, rate rationalization and rationalization of non-food exemptions	1-2.5
Corporate and personal income tax: Eliminating loop-holes and broadening the tax base	0.5
Subsidy reform: Reducing subsidies and replacing them by cash transfers	0.5

- **Communication**. While the authorities have announced a medium-term deficit target, they have not yet detailed how this target will be achieved. The authorities should clearly communicate a medium-term fiscal strategy with credible macroeconomic and fiscal assumptions, alternative

probability of losing market access. The analysis calibrated for India suggests that the fiscal stance should be more accommodative than in the baseline by about ¾–2 percent of potential GDP every year through FY2023/24, or a cumulative additional stimulus of about 5 percent over three years. While more accommodative near-term policy would help close the output gap faster, consolidation should also be faster to reach a lower structural primary deficit relative to the baseline by FY2026/27. See Fournier (2019) and Fournier and Lieberknecht (2020) for model details.

scenarios, and a set of concrete state-dependent measures that can anchor the path for fiscal deficits. This will instill confidence and hence contribute to fiscal space in the short term.

24. Improved public financial management (PFM) and fiscal institutions can enhance the credibility of the authorities' fiscal anchor, commitment to sustainability and spending transparency. The reassessment of the medium-term fiscal targets is welcome. While well-designed fiscal rules and targets are important, accompanying reforms in PFM and fiscal institutions to strengthen the enforcement (central and the state government levels), are essential for enhancing credibility and successful implementation of the rules. Public procurement is subject to PFM oversight processes which contribute to transparency and accountability. Specific measures to enhance the transparency of COVID-19 related spending include, for instance, mandated e-procurement use facilitated by the government's electronic marketplace. The marketplace was used effectively during the pandemic to speed up procurement and enhance transparency, with the entire procurement data provided in the public domain. Further improving PFM and public procurement, including more timely and comprehensive fiscal reporting and transparency (for example by introducing emergency procurement rules, publishing all contract award data including the beneficial ownership information and ex-post validation of delivery), can improve the quality of public expenditure, strengthen fiscal discipline and accountability, address governance, corruption and AML/CFT vulnerabilities, and help reduce the build-up of fiscal risks.

25. Fiscal policy can and should play a key role in facilitating a strong, inclusive, and green economic recovery. Increasing public expenditure in infrastructure, education, health, and social safety nets are long-standing priorities for achieving the Sustainable Development Goals and boosting potential growth. Furthermore, the pandemic has brought new challenges to the fore that require resources and action. The large expenditure needs in these priority areas highlight the importance of revenue mobilization and the authorities' privatization agenda. Staff analysis suggests that the authorities' privatization program, if implemented, can mobilize the public sector balance sheet for high-return investments in infrastructure and human capital (Box 2).

- **Social protection.** Ongoing efforts to improve the delivery of portable benefits, enhance coverage for migrants, the urban poor, and other vulnerable groups, and move to a more integrated system of social safety nets are even more critical now. In that context, staff welcomes steps the authorities have taken in this direction (such as the One Nation, One Ration Card scheme and creating the National Database of Unorganized Workers).[10]

- **Health.** Public spending on health is relatively low, at about 1.5 percent of GDP, and the high out-of-pocket health expenditure for catastrophic health events risks pushing many into poverty. Enhancing the size and scope of the health insurance scheme (PMJAY) and higher spending on health care and infrastructure are important priorities.

[10] The recently approved World Bank development policy operation on a Coordinated and Responsive Indian Social Protection System (CRISP) focuses on strengthening the social safety net.

- **Education.** Given the considerable impact of the pandemic on education, particularly on children from lower-income, rural households and girls, need is clear to allocate resources efficiently to ensure students make up for lost school days and mitigate the negative effects on human capital and inequality.

- **Infrastructure investment.** Higher infrastructure spending is projected to usefully support economic activity and, if maintained in the medium term, help close infrastructure gaps and boost growth potential. In that context, the authorities' National Infrastructure Pipeline outlines an ambitious plan, but implementation will be critical. The authorities can also prioritize environmentally sustainable public investment, which can also help facilitate a job-rich and green recovery.

- **Transition to a greener economy.** India's progress toward its Paris Agreement targets, investment in renewables and climate change adaptation policies suggest that it is well positioned to take further steps towards addressing climate change related risks. Specifically, India is supporting deepening the adoption of renewables (especially solar panels and rechargeable batteries), electric vehicles, and energy efficient and biofuels through policy mandates, government schemes and climate financing.[11] Such steps can also help reduce the large health burden of local pollution. A transition to a greener economy can be achieved by the adoption and transfer of technology, subsidies to lower the cost of renewables, and by increasing the cost of thermal production.

26. Improving fiscal federalism, coordination across different levels of government, and expanding the use of digital technologies can improve service delivery. Enhancing the role of local governments and strengthening fiscal federalism more generally will be critical in improving the efficiency and effectiveness of public services. In addition, steps to enhance India's already relatively advanced use of digital technologies for service and benefit delivery, provide important opportunities.

27. The authorities broadly agreed with the need for fiscal policy to remain accommodative in the near term and additional measures in case of a setback. Authorities expect to achieve their central government deficit target of 6.8 percent of GDP this fiscal year (authorities' definition) and do not see the need for additional fiscal support in the near-term. They highlighted improvements in GST and income tax buoyancy and potential for finding savings in the budget, while protecting capital spending. Authorities expect to fully implement the capital budget and reach their target for disinvestment receipts this fiscal year, despite initial delays due to the second wave. Authorities noted that the government's privatization agenda constitutes a significant shift from the past. In case the economic outlook deteriorates, authorities would be prepared to increase spending.

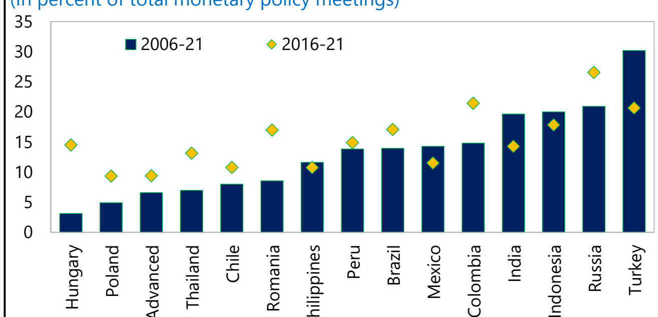
[11] For further details see India's Intended Nationally Determined Commitments submitted to the UN Framework Convention on Climate Change (UNFCCC), the Draft Report on Optimal Generation for Capacity Mix for 2029-30, and the National Electricity Plan.

28. The authorities agreed with staff on medium-term priorities and concurred that a credible medium-term fiscal consolidation plan could reinforce market confidence and enhance near-term fiscal space. They highlighted the continued thrust on capital expenditure, including education and skill development, and emphasis on health and infrastructure spending in the budget. High public investment in infrastructure is expected to crowd in private investment and boost medium-term growth. Authorities also reiterated their firm commitment to fiscal discipline and see their deficit target of 4.5 percent of GDP by FY2025/26 as appropriate. Next year's budget will include medium-term macroeconomic projections and the Fiscal Responsibility and Budget Management Act (FRBM) will be revised at the same time, which would increase clarity on the medium-term fiscal anchor. Authorities concurred that revenue mobilization can and should be an important component of their medium-term fiscal strategy and there is scope to raise about 2 percent of GDP in additional GST revenue in the medium term through universal use of the e-invoice system, reactivating GST audits, implementing closer scrutiny of returns, and rate rationalization. The earlier corporate income tax cut is expected to deliver multiple benefits, including on compliance and increasing investment, and lead to greater tax buoyancy. On the expenditure side, initiatives are under way to improve efficiency, including through adoption of the Treasury Single Account and rationalization of centrally sponsored schemes. As regards COVID-19 related spending, authorities highlighted transparency of the budget process and ongoing PFM reforms.

ACCOMMODATIVE MONETARY POLICY

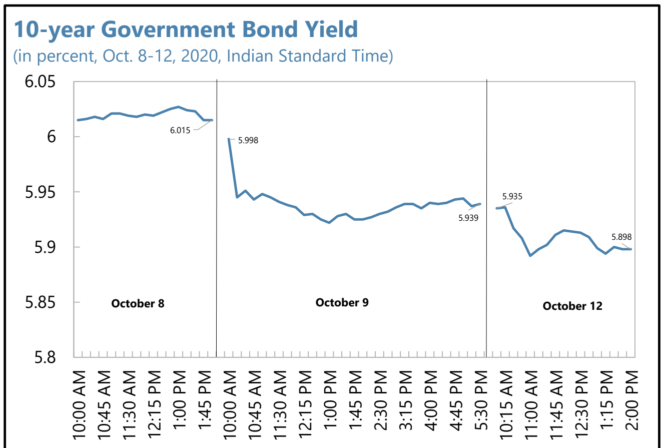
29. The RBI has provided significant, broad-based and appropriate monetary easing through interest rate cuts and accommodative forward guidance. Since the pandemic, repo and reverse repo rates were cut by 115 and 155 basis points (bps) to 4 and 3.35 percent, respectively, building on the pre-pandemic easing of 135 bps; the cash reserve requirement was reduced by 100 bps. The accommodative policy stance was aided by both time- and state-contingent forward guidance on policy rates and, more recently, on asset purchases, to better anchor market expectations amid unprecedented uncertainties. Although building credibility takes time, staff analyses using data on risks-free asset prices indicate that monetary policy communication, including forward guidance, has an impact on both short- and long-term rates and corporate yields. This impact suggests that communication can enhance the RBI's policy toolkit, improve predictability, and reduce uncertainties.

Frequency of Monetary Policy Surprises, 2006-21 1/
(In percent of total monetary policy meetings)



Sources: Bloomberg L.P.; and Authors estimates.
1/ Monetary policy surprise is the difference between the central bank's rate decision and analysts' expected rate
Note: 'Advanced' includes average of Canada, Australia, Czech Republic, Korea, New Zealand, Norway, United Kingdom, and United States.

30. Additional liquidity measures, including long-term repo operations, operation twists, and asset purchases, have supported financial markets and improved market outcomes.



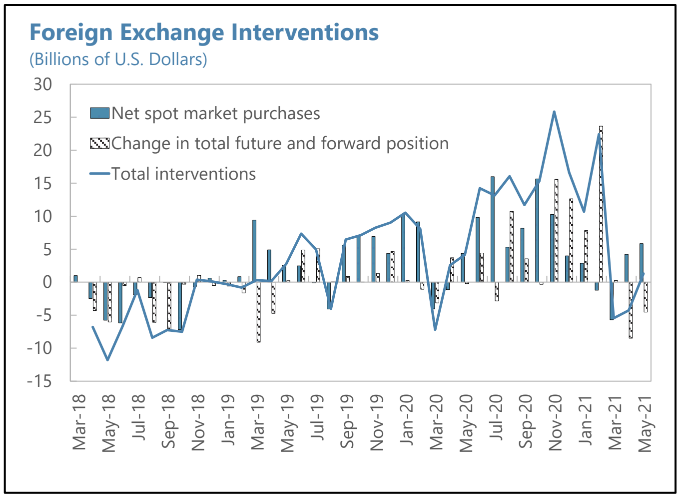
Source: Bloomberg Financial L.P.

Various liquidity measures resulted in a cumulative injection of over 6 percent of GDP during February 2020 – 2021 and helped avoid a broad-based liquidity crunch for both financial and nonfinancial corporates. Targeted liquidity measures have been aimed at MSMEs, and, more recently, companies in health care infrastructure and service sectors. Financial conditions eased, with government securities' yields at a 17-year low amid elevated inflation, a large public borrowing program, and volatile global risk-free yields. The recent formalization and market guidance on asset purchases has helped anchor market expectations amid unprecedented uncertainties. The announcement impact of asset purchases on longer-term yields has been in line with that in other emerging markets. Continued asset purchases should allow market forces to be reflected in prices and to preserve central bank credibility.

31. An accommodative monetary stance coupled with adequate systemic liquidity through various instruments remains appropriate. The negative impact of the second wave on growth calls for continued monetary policy support—while accounting for any additional fiscal policy support—and ensuring that liquidity support reaches viable firms in vulnerable sectors. At the same time, elevated inflationary pressures need to be closely monitored, with implications for the growth-inflation trade-off. Looking forward, a well-communicated plan for a gradual reduction in the exceptional monetary policy support as the recovery strengthens, starting with withdrawal of broad-based liquidity support and adjusting forward-looking communication, would foster orderly market transitions. The RBI's usage of term reverse repos and the phased restoration of the cash reserve ratio to 4 percent are welcome steps toward preparing liquidity management tools for the recovery phase. A continued focus on building further credibility by maintaining transparent and forward-looking communication can help guide normalization in policy interest rates, reinforce market confidence, and support recalibration of RBI's balance sheet over the medium term.

32. Room exists for further measures to improve monetary policy transmission. Despite recent improvements in the transmission of policy rates to market rates aided by shift to external benchmarking, forward guidance and systemic liquidity, durable improvement in monetary transmission through the bank lending channel would require a more competitive, efficient, and well-capitalized banking system. This calls for continued implementation of long-standing reforms, including PSB governance, NPL resolution, and adequate capitalization. Continued communication improvements, including about the policy reaction function, could further increase the predictability and effectiveness of monetary policy and its transmission.

33. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions. With the current account surplus, renewed FDI and portfolio flows, valuation effects, and foreign exchange interventions, foreign exchange reserves reached $599 billion by end-May 2021 and are adequate for precautionary purposes. The Special Drawing Rights (SDR) allocation ($17.8 billion, 0.6 percent of GDP) will support foreign exchange reserves further. Despite the RBI's frequent interventions in both directions, it purchased foreign exchange on net in 11 months of FY2020/21, with total purchases reaching 5.5 percent of GDP. The precautionary accumulation of reserves has mitigated risks due to external vulnerabilities, including potential capital flow volatility and oil price surges. Further accumulation of reserves is less warranted, and foreign exchange intervention should be limited to addressing disorderly market conditions.



34. Authorities highlighted the important role of monetary policy in mitigating COVID-19 shocks. Authorities indicated that they would continue their accommodative monetary policy stance as long as necessary to revive and sustain growth on a durable basis, while ensuring that inflation remains within the target. In case of any future waves, scope exists for additional support through various targeted liquidity measures. They affirmed the role of forward guidance in anchoring market expectations amid uncertainties, as reflected in the decade-low government borrowing costs. Authorities confirmed that asset purchases have not targeted a specific segment of the yield curve and have allowed market-based price discovery. Post-pandemic exit policies and their sequencing will be guided by the expiration of time-bound monetary and liquidity measures followed by a withdrawal of excess systemic liquidity.

35. Authorities concurred with the staff's external sector assessment and highlighted the need for strong external buffers. On the back of net capital inflows in the past fiscal year, they noted that foreign exchange interventions were needed to mitigate the pressures on the rupee. Authorities reiterated their commitment to exchange rate flexibility and indicated that interventions are only intended to smooth out excessive volatility. On foreign exchange reserves, authorities highlighted the need for strong buffers to mitigate risks due to external vulnerabilities, particularly in the case of sudden capital outflows which may arise with policy normalization by advanced economies, given India's increasing global integration and bilateral commitments with regional central banks.

POLICIES TO SUPPORT GROWTH AND MAINTAIN FINANCIAL STABILITY

36. While policy measures have softened the impact on corporates, the pandemic has hit transport, services, and MSMEs particularly hard. A higher pre-pandemic interest rate burden, lower profitability, limited access to credit have contributed to the larger impact of the COVID-19 shock on MSMEs compared to large companies. At the same time, monetary easing and borrower relief measures have softened the impact.

- Broad-based monetary easing helped avoid a sharp tightening of financial conditions and ensured adequate systemic liquidity throughout the pandemic. Borrower relief measures included a six-month moratorium on loan repayments and credit guarantee schemes for MSME loans and bonds issued by NBFCs. In response to the second wave, the MSME credit guarantee scheme was expanded, the loan restructuring scheme for COVID-19-affected borrowers was reintroduced and banks were allowed to readjust conditions of loans restructured under a similar scheme last year. The reintroduction of the restructuring scheme is likely to delay provisioning and recognition of problem assets.
- A corporate sector sensitivity analysis indicates that, while borrower relief measures and monetary easing effectively supported corporate liquidity, the impact on corporate solvency has likely been less pronounced (Box 3).

37. Credit quality indicators are expected to worsen as policy support measures expire. Although the recently extended credit guarantee scheme and loan restructuring schemes will postpone recognition of asset-quality problems, stress tests suggest potential for increases in NPAs on bank and nonbank balance sheets going forward.[12] PSBs are likely to be hit harder by COVID-19-related borrower defaults. With larger exposures to the most affected borrowers and lower (albeit improved since FY2019/20) capital adequacy, PSBs' ability to intermediate credit may continue to be constrained. Since the NBFCs are frequently less diversified than banks and more exposed to the corporate sector and MSMEs, the impact of delinquencies on some segments of the NBFC sector is likely to be more pronounced. Growing exposure of banks to the NBFC sector has increased spillover risks.

38. Targeted support to viable corporates should continue, but policies facilitating the exit of non-viable firms are also warranted. The second wave and concerns about a third wave, calls for additional targeted support to viable firms in the most vulnerable sectors, including through additional relief measures (e.g., subsidies to help cover interest costs and government guarantees on principal payments). To ensure lenders follow appropriate standards when assessing borrowers' viability, supervisors should apply enhanced monitoring, including through collection of more

[12] RBI stress tests from July 2021 show an increase in system-wide bank NPAs from 7.5 in March 2021 to 9.8 in March 2022 under a "baseline scenario". The public sector banks would see the largest increase in NPAs, to over 12.5 percent.

granular data, analysis of a broad range of corporate performance indicators, and continuous communication with management of supervised institutions. Authorities should also proactively develop a contingency plan to address a potential increase in insolvencies. In this context, the recent lifting of the suspension of the corporate insolvency and bankruptcy process and simplification of the insolvency process for MSMEs ("pre-pack" reform) are welcome. At the same time, further reforms can reduce costs and time of exit of non-viable firms. For example, introducing hybrid restructuring schemes, simpler out-of-court restructuring process for MSMEs and reforms in the treatment of the insolvency of individuals could facilitate timely resolution of stressed assets. After the pandemic, large firms should continue to reduce their leverage, while low profitability remains a concern for MSMEs. Structural issues—such as existing gaps in access to finance for MSMEs—may need to be addressed in the medium term to maximize growth.

39. Policies should encourage banks to further build capital buffers and to recognize problem loans:

- To avoid loan evergreening, financial regulators should ensure that the loans benefiting from COVID-19-related restructuring schemes continue to be closely monitored and properly provisioned for. The RBI should continuously monitor bank and NBFC health, their restructuring practices, treatment of accrued interest, and take prompt action where institutions struggle to meet minimum capital requirements.

- Ensuring adequate capitalization in the financial system is critical to deal with the potential surge in corporate insolvencies. The recent recapitalization of PSBs is welcome and further strengthening of common equity ratios is desirable. In February 2021, the authorities announced the setup of the National Asset Reconstruction Company Ltd (NARCL) to deal with distressed PSB assets. The design should follow best international practice, including in governance, operational independence, and asset valuation, to ensure effective loan loss recoveries and limit costs to taxpayers.

- Once the recovery is under way, policies should shift to encouraging lenders to assess post-pandemic viability of borrowers in making lending decisions, and to ensure that post-restructuring asset classification and provisioning is risk-based and reflected accordingly in regulatory capital calculations. Raising capital and avoiding lender risk aversion are critically important to achieving healthy credit growth that will allow the financial system to support the recovery and maximize long-term growth.

40. Structural reforms in the financial sector are important to support a speedy post-pandemic recovery and maximize medium-term growth. Recently announced plans to privatize two PSBs and a state-owned insurance company are welcome. They should be used to pave the way for more substantial reduction in the government's presence in the sector. Implementation of the governance and risk management reforms in PSBs remains a challenge and a priority. The planned reform of the NBFC sector regulations should help reduce systemic vulnerabilities through tighter capital, provisioning, and large exposure requirements for the systemic nonbank institutions. Efforts to support further development of domestic corporate debt markets should continue. It remains critical to continue enhancing the resolution and crisis management framework through introduction of the Financial Resolution and Deposit Insurance Bill, as recommended by the 2017 FSAP.

41. Authorities acknowledged credit risks from the pandemic and agreed with the importance of ensuring adequate capitalization. They emphasized actions taken to streamline the insolvency process for MSMEs, and that further reforms to reduce delays in the IBC proceedings and to enhance the personal bankruptcy process are under consideration. Authorities see improving bank capital adequacy, recovering credit growth to MSMEs, and lower-than-expected increase in NPA ratios as evidence of effective policy interventions and a smaller-than-expected impact of the pandemic on the financial sector. RBI's stress tests show that banks remain well capitalized and able to sustain a severe stress scenario. Moreover, the government is ready to provide additional capital to PSBs as and when needed. By freeing banks from hard-to-resolve problem assets, the NARCL (proposed "bad bank") should further enhance banks' lending capabilities. Authorities expressed their commitment to reducing the state's presence in the banking sector and that the strategic disinvestment of the IDBI bank will provide important lessons for the next privatization round, expected to commence in 2022. Authorities view the risks from increased interconnectedness to remain contained as bank exposures are largely limited to the larger and well-rated NBFCs. Ongoing NBFC regulatory reforms are expected to enhance resilience and limit regulatory arbitrage.

STRUCTURAL REFORMS FOR INCLUSIVE GROWTH

42. Advancing structural reforms has been an important component of the authorities' policy response. The government's COVID-19 response contained wide-ranging structural reforms Labor market reforms mark a significant step forward and will likely ease administrative bottlenecks, improve labor market functioning, support formalization, and expand social security benefits for workers. Implementation of structural reforms and a continued push to broaden the reform agenda are essential to support the recovery and ensure the highest sustainable growth in the future. Reforms should be mindful of sequencing and be accompanied by a strengthening of social safety nets to minimize any adverse impact during the transition.[13] In line with past IMF advice, reforming the agricultural sector is critical to increase efficiency, productivity, and to address market distortions.

43. Looking ahead, addressing long-standing reform priorities and improving education outcomes could minimize any adverse medium-term impact and further boost long-term growth. Priorities include infrastructure investments, land reforms, labor reforms—such as reforms aimed at increasing female labor force participation and access to finance to create more and better jobs, and reforms to reduce informality (also to increase the tax base). These reforms should be complemented by reforms to strengthen governance, the regulatory framework and the rule of law to reduce the scope for corruption, and to foster transparency and safeguard public accountability,

[13] For a broader discussion of optimal timing of structural reforms, particularly during crisis times, see the October 2019 and April 2021 IMF World Economic Outlooks.

also in the context of COVID-19 related fiscal measures.[14] COVID-19-related school closures are likely to have led to substantial losses in learning and exacerbated inequalities in access and outcomes. Innovative uses of digital learning in certain regions is welcome but more widespread, tailored and sustained support for students will be needed to improve education outcomes.

44. Further efforts toward trade and investment liberalization aided by structural reforms could help deepen integration in global value chains and post-pandemic recovery. India should work actively with other major nations to conclude new WTO-based agreements and to strengthen WTO rules. Several welcome measures have been taken to facilitate trade and FDI, but further measures are warranted. In line with the government's objective to increase global value chain integration, lowering tariffs (customs duties) on intermediate goods would strengthen backward linkages and lift the competitiveness of exports such as autos, chemicals, electronics, and industrial machinery. Important steps have been taken recently to liberalize policies on FDI, for instance, in agriculture, defense, telecommunications services, and the insurance sector. Further liberalization will be important to attract FDI flows and to improve the current account financing mix. Structural reforms, along with the domestic production-linked incentive schemes and privatization of enterprises in non-strategic sectors, may also support greater FDI.

45. Authorities concurred that the implementation of recently passed structural reform bills will be critical for medium-term growth. Authorities highlighted that strong political and public support will help push reforms forward. On efforts to limit a prolonged impact to productivity and growth from the pandemic, authorities agreed that ensuring widespread support for students to make up for lost in-person learning time and improving education outcomes is critical. Authorities were confident that progress on liberalization of investment, the production-linked incentive scheme, and privatization will help make Indian companies globally competitive, more integrated into global supply chains, and boost FDI. They concurred that climate issues were macro-relevant, emphasizing the importance of the multilateral approach taking into account the principles of equity and common but differentiated responsibilities and capabilities, in light if different national circumstances as enshrined in the UNFCCC and its Paris Agreement. They called for additional support for technology transfer and climate finance from the developed countries, taking into account their obligations and responsibility for historical emissions.

OTHER ISSUES

46. Although macroeconomic statistics are adequate for Fund surveillance. Timely availability of quarterly general government fiscal data and expansion of its coverage, labor market data, and updated CPI weights would foster transparency and help policy formulation. The IMF stands ready to intensify its support for improving statistical systems through capacity development. IMF capacity development has adjusted to the COVID-19 shock by recalibrating the delivery channels (e.g., online) and focus areas (e.g., loan moratorium and loan framework) that would

[14] For more discussion of structural reforms, including recommendations to address governance weaknesses, see Staff Report for the 2019 Article IV Consultation.

support the recovery. The IMF stands ready to provide further capacity development, including through the South Asia Technical Assistance and Training Center (SARTTAC), also at the state level and with cohorts of civil servants.

47. Authorities reiterated their interest in technical and analytical collaboration. Authorities conveyed their appreciation for ongoing CD support, including through SARTTAC, and expressed interest in collaborating with staff on select thematic issues, including fintech, digital currency, climate change and monetary policy design. They also highlighted that improving data coverage remains a priority.

STAFF APPRAISAL

48. The COVID-19 pandemic has created a prolonged health crisis. Two COVID-19 waves have resulted in a deep and broad-based economic downturn with potential for an adverse longer-term impact. While government policy measures have helped mitigate the impact, the pandemic is likely to have resulted in an increase in poverty and inequality, and disrupted progress in human development. In addition to prompt containment measures, authorities have responded with fiscal policy, including scaled-up support to vulnerable groups, monetary policy easing and liquidity provision, accommodative financial sector and regulatory policies, and continued structural reforms.

49. Despite policy support, the COVID-19 shock has caused a sharp reduction in economic activity, followed by a gradual recovery. Economic activity was slowing prior to the pandemic. Following a sharp contraction in GDP last year, growth is expected to rebound to 9.5 percent this year and 8.5 percent in FY2022/23. The recovery in consumption and investment is expected to be gradual given the second wave, concerns about a third wave, and the need to further strengthen the financial sector, partly offset by the lower base and stronger global growth. The prolonged pandemic is contributing to lower medium-term growth. Uncertainty about the economic outlook remains elevated, with pandemic-related uncertainties contributing to both downside and upside risks.

50. Addressing the health crisis remains a near-term policy priority. A continued coordinated policy response to fight the virus, including through accelerating vaccinations, is critical Further fiscal support is warranted until the recovery is fully entrenched. Additional fiscal support in the near term—by about 1 percent of GDP relative to staff's baseline projections—could be underpinned by targeted spending on social protection, employment support and health spending. Monetary policy should remain accommodative and ensure adequate systemic liquidity, and targeted support to viable corporates and borrower relief measures should continue.

51. While fiscal space has narrowed, fiscal policy can and should play a key role in facilitating a strong, inclusive, and green economic recovery. Public debt is projected to decline gradually to 85 percent over the medium-term, reflecting lower deficits and a favorable interest rate-growth differential. Policy space can be enhanced through a credible and clearly communicated medium-term fiscal consolidation strategy that outlines a gradual removal of exceptional policy support and revenue enhancing measures. Increasing public expenditure in infrastructure, education, health, and social safety nets are long-standing priorities for achieving the Sustainable Development Goals and boosting potential growth. The large expenditure needs in these priority areas highlight the importance of revenue mobilization and the authorities' privatization agenda. Improving fiscal federalism, coordination across different levels of government, and expanding the use of digital technologies can improve service delivery.

52. While closely monitoring elevated inflation pressures, maintaining accommodative monetary policy remains appropriate until growth begins to firmly recover. The negative impact of the second wave on growth and concerns about a third wave calls for continued monetary policy support and ensuring that liquidity support reaches viable firms in vulnerable sectors. Looking forward, a well-communicated plan for a gradual reduction in exceptional monetary policy support as the recovery strengthens, starting with withdrawal of broad-based liquidity support and adjusting forward-looking communication, would foster orderly market transitions.

53. The external position in FY2020/21 was broadly in line with the level implied by medium-term fundamentals and desirable policies. With the current account surplus, renewed FDI and portfolio flows, valuation effects, and foreign exchange interventions, foreign exchange reserves are adequate for precautionary purposes. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions.

54. Financial sector policies should support the recovery while allowing the exit of non-viable firms and encouraging banks to continue building capital buffers and recognize problem loans. While policy measures have softened the impact on corporates, the pandemic has hit the transport and services sectors, as well as MSMEs particularly hard. Targeted support to viable corporates should therefore continue, but policies facilitating the exit of non-viable firms are also warranted. Credit quality indicators are expected to worsen as policy support measures expire, calling for continued close monitoring. Policies should encourage banks to further build capital buffers and to recognize problem loans. Ensuring adequate capitalization is critical to deal with the potential increase in corporate insolvencies and to create conditions for the financial system to better support the recovery, including through credit growth, and maximize long-term growth. The design of the newly established NARCL should follow best international practice to ensure effective loan loss recoveries and limit costs to taxpayers. Structural reforms in the financial sector are important to maximize medium term growth.

55. Steadfast implementation of announced structural reforms as well as further efforts to broaden them are needed to maximize India's growth potential. Advancing structural reforms has been an important component of the authorities' policy response. Looking forward, addressing long-standing reform priorities, including improvements in governance, infrastructure investments, land and labor reforms, and improving education outcomes will maximize long-term growth. Further efforts toward investment liberalization and a reduction in tariffs, especially on intermediate goods, aided by structural reforms could help deepen integration in global value chains.

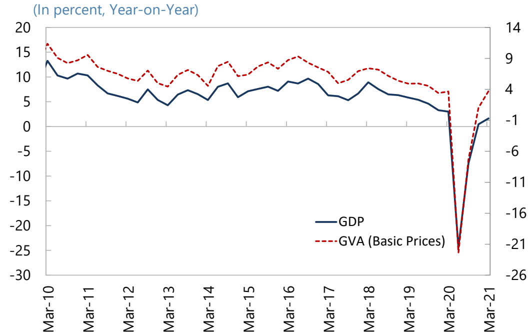
56. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 2. Recent Macroeconomic Developments

The pandemic led to a broad-based contraction in economic activity last year, and—prior to the second wave— a gradual recovery in the first few months of 2021.

Real GDP growth contracted sharply in 2020Q2, followed by a gradual recovery.

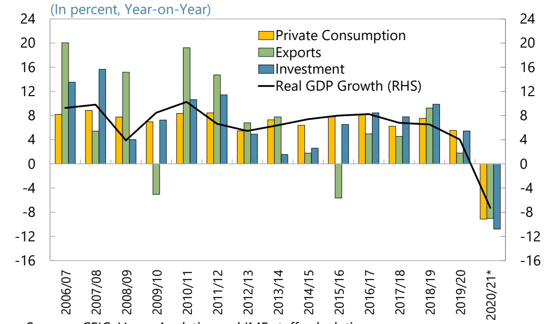
Real GDP Growth
(In percent, Year-on-Year)



Sources: CEIC, and IMF staff calculations.

Private consumption, investment and exports contracted sharply in FY2020/21.

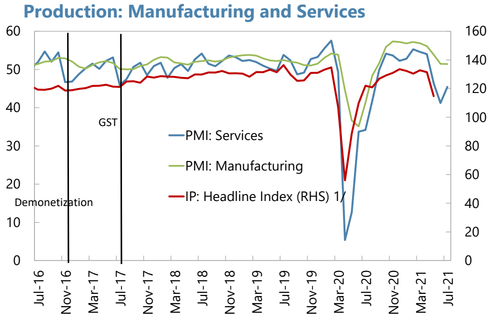
Demand Components of GDP
(In percent, Year-on-Year)



Sources: CEIC, Haver Analytics and IMF staff calculations.
*2020/21 data are provisional estimates.

Industrial production, manufacturing and services PMIs all declined sharply in 2020Q2, before recovering gradually.

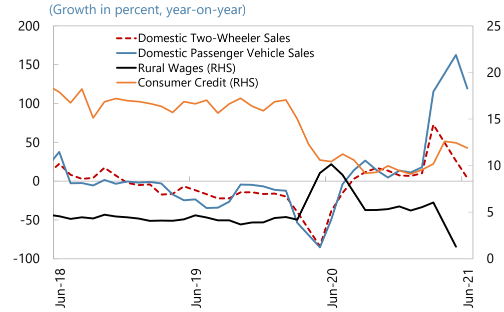
Production: Manufacturing and Services



Source: Haver Analytics.
1/ Index, April 2011-March 2012 = 100.

Motor vehicle sales have recovered from the trough last year, but consumer credit remains subdued.

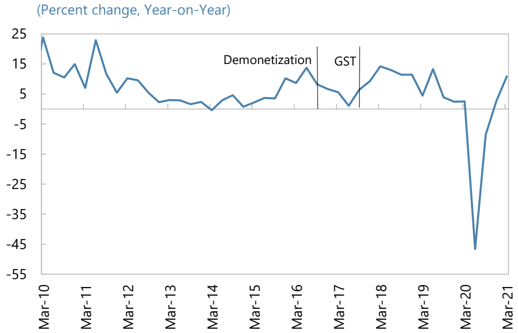
Consumption Indicators
(Growth in percent, year-on-year)



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

Investment contracted sharply during the first wave of the pandemic but saw a strong rebound.

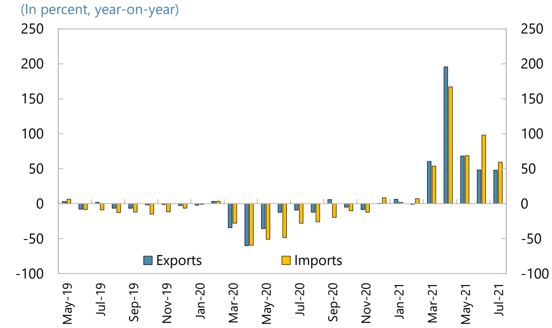
Real Gross Fixed Capital Formation
(Percent change, Year-on-Year)



Source: Haver Analytics.

Goods exports and imports saw a strong rebound from the trough last year.

Merchandise Export and Import Growth
(In percent, year-on-year)



Sources: CEIC, and IMF staff calculations.

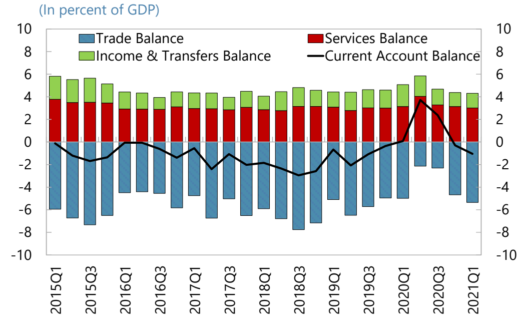
Figure 3. External Sector Developments

Temporary current account surplus and renewed net capital inflows, despite intermittent outflow pressures, have supported an increase in foreign exchange reserves.

Current account balance improved significantly in FY2020/21…

Current Account Balance 1/

(In percent of GDP)

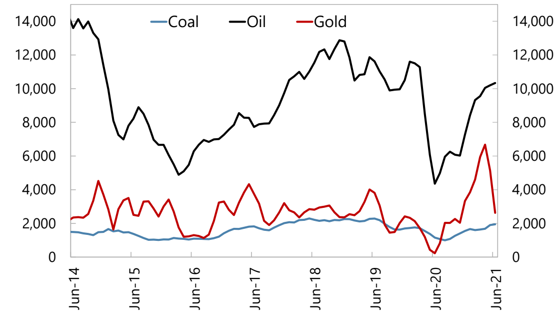


Sources: Haver Analytics; and IMF staff calculations.
1/ Data is presented in calendar year format, where 2020Q4 = Dec-20.

…mainly due to temporary contraction in imports, and lower oil prices.

Imports: Principle Commodities

(In millions of U.S. dollars, 3mma)

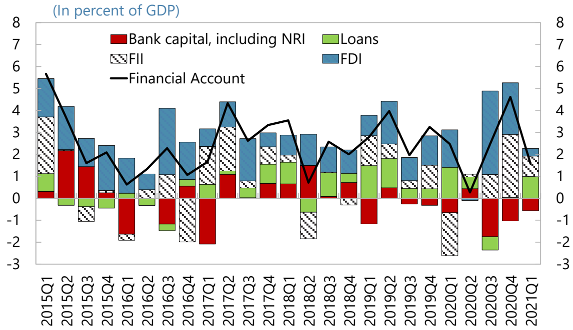


Sources: Haver Analytics; and IMF staff calculations.

After initial COVID-19 shocks, both FDI and portfolio flows rebounded…

Financial Account

(In percent of GDP)

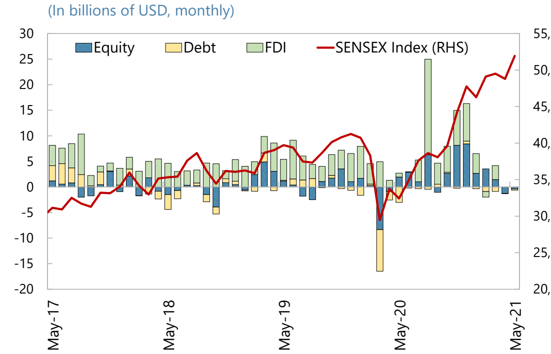


Sources: Haver Analytics; and IMF staff calculations.
1/ Data is presented in calendar year format, where 2020Q4 = Dec-20.

… while debt flows remained under pressure during the fiscal year.

FII Flows - Equity and Debt

(In billions of USD, monthly)

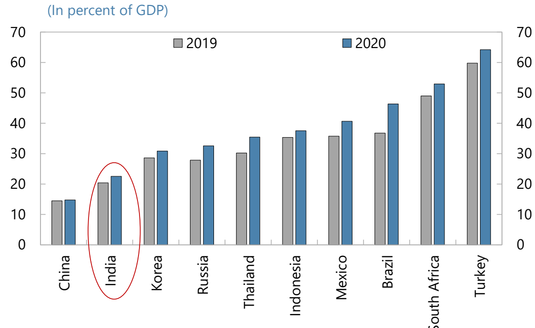


Sources: CEIC and Haver Analytics.

Lower level of external debt, compared to the peer economies…

Total External Debt

(In percent of GDP)

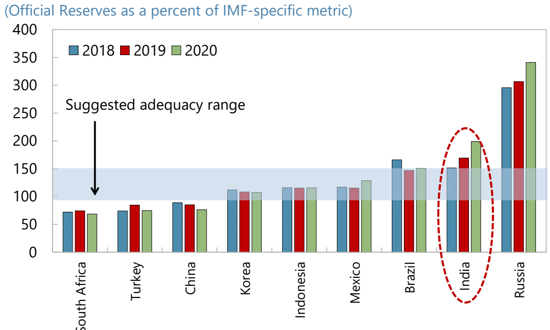


Source: IMF, *World Economic Outlook, April 2021*.

… and adequate foreign exchange reserves support mitigating external vulnerabilities.

Estimated Reserve Adequacy 1/

(Official Reserves as a percent of IMF-specific metric)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.
1/ As of March 2021

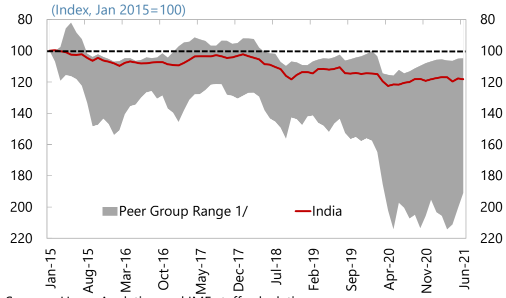
Figure 4. Financial Market Developments

The initial COVID-19 shock, the second wave, and policy reactions by advanced economies affected financial market conditions and volatility.

The Indian rupee came under downward pressure in March 2020 but recovered afterwards...

Exchange Rates

(Index, Jan 2015=100)



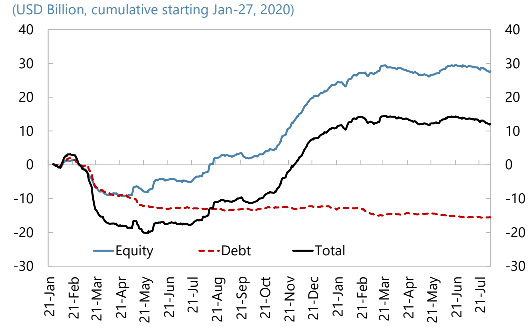
Sources: Haver Analytics, and IMF staff calculations.

1/ Peer group includes China, Malaysia, Indonesia, Sri Lanka, Braziil, Mexico, and Russia.

...amid heightened volatility and the rebound of total portfolio flows.

India: Foreign Portfolio Investment Flows (Net)

(USD Billion, cumulative starting Jan-27, 2020)

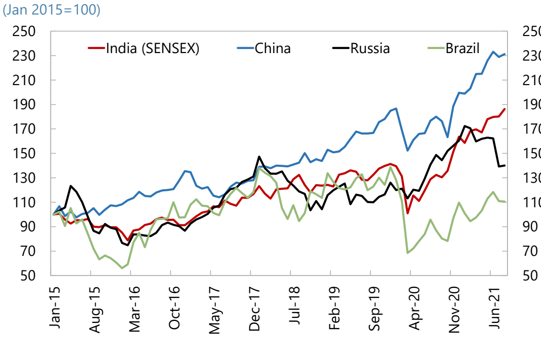


Sources: CEIC, and IMF staff calculations.

Stock market gained strong momentum in the second half of 2020...

Stock Market Indices

(Jan 2015=100)

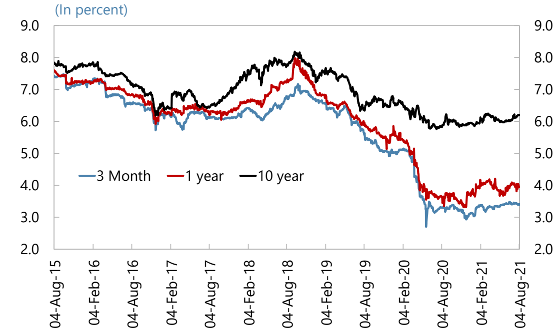


Sources: Thomson Reuters EIKON, and IMF staff calculations.

...and both short and long-term yields eased aided by monetary policy easing.

Government Bond Yields

(In percent)

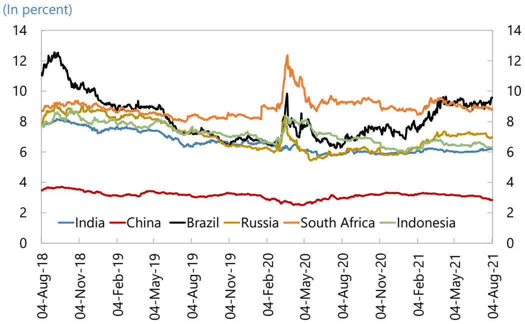


Sources: Thomson Reuters EIKON.

Long-term bond yields remain relatively low among the BRICS.

BRICS: 10-year Government Bond Yields

(In percent)

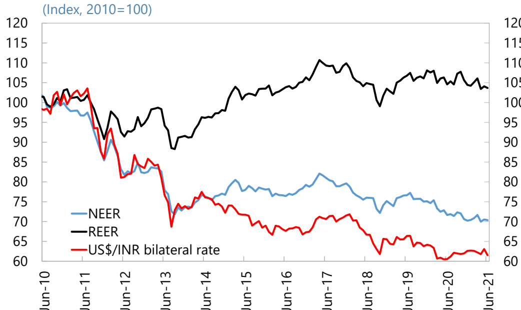


Sources: Thomson Reuters EIKON.

The REER in FY2020/21 appreciated by about 0.5 percent from its 2015-2019 average.

Nominal and Real Effective Exchange Rates

(Index, 2010=100)



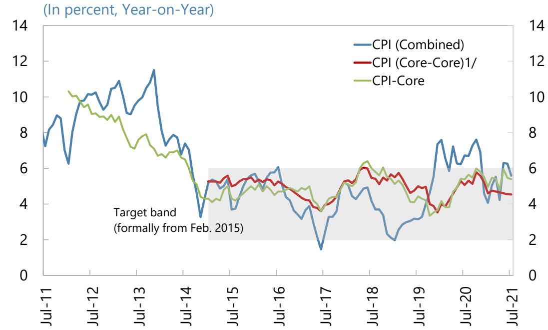
Sources: IMF, *Information Notice System*; and Haver Analytics.

Figure 5. Monetary Sector Developments

Inflation pressures, reflecting food price shocks and supply disruptions, persist

Inflation has remained above or near the RBI's upper band, with sticky core ...

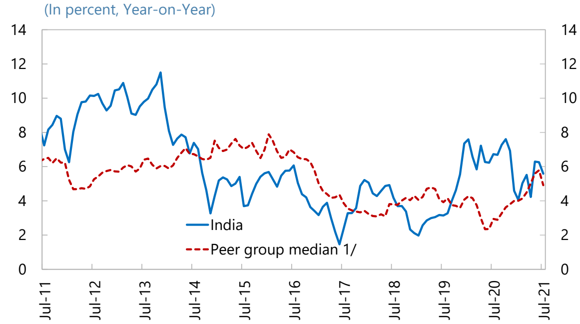
Inflation
(In percent, Year-on-Year)



Sources: CEIC; and IMF staff calculations.
1/ Core-Core measure excludes food, energy, petrol and diesel.

...and inflation remains above the level of G-20 peers.

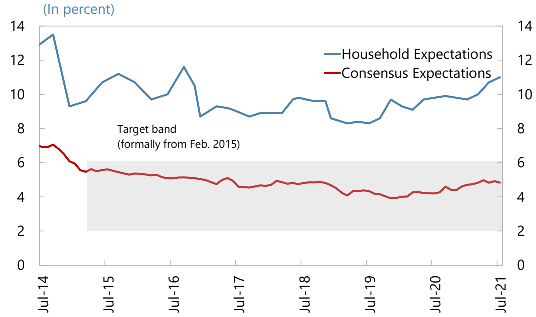
Inflation in India and its G20 Peers
(In percent, Year-on-Year)



1/ G20 peer group includes Brazil, Russia, China, South Africa, Indonesia, and Turkey.
Sources: Haver Analytics and IMF Staff Calculations

Inflation expectations remain elevated...

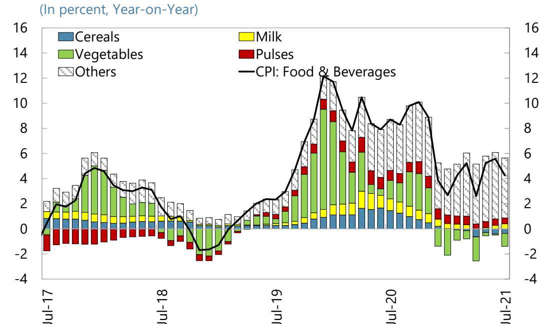
Inflation Expectations, 1-Year Ahead
(In percent)



Sources: Haver Analytics, and Consensus Economics.

...in part, reflecting lagged impact of the high food inflation during 2020.

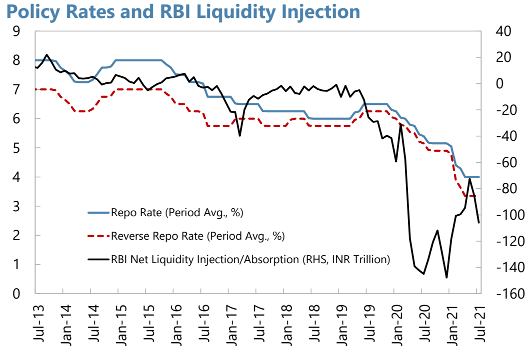
CPI Food Inflation Contributions
(In percent, Year-on-Year)



Sources: CEIC, and IMF staff calculations.

Significant policy rate easing and liquidity measures led to sizeable liquidity injections...

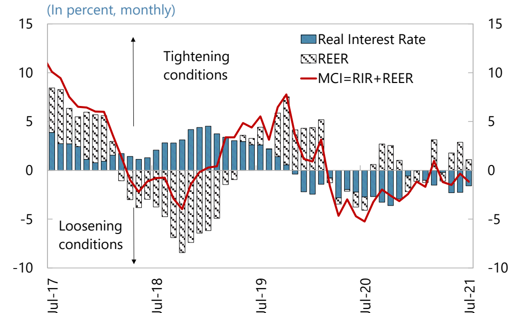
Policy Rates and RBI Liquidity Injection



Sources: Haver Analytics, and CEIC CDMNext.

...resulting in easing of monetary conditions soon after the COVID-19 shock.

Monetary Conditions Index (MCI)
(In percent, monthly)



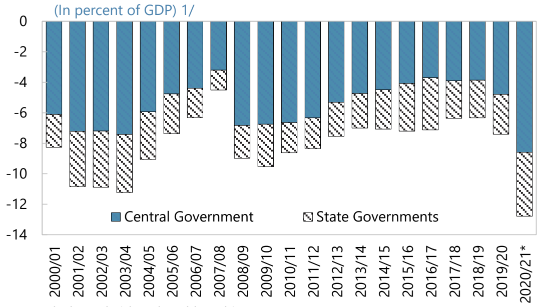
Sources: Haver Analytics, CEIC CDMNext, and IMF staff calculations.

Figure 6. Fiscal Sector Developments

The COVID-19 shock led to a considerable increase in the fiscal deficit at both the central and state government levels.

The COVID-19 shock led to a sharp widening in the fiscal deficit…

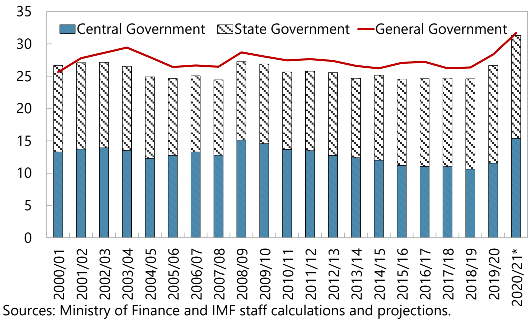
Government Balance
(In percent of GDP) 1/



1/ Includes subsidy-related bond issuance.
Sources: Haver Analytics, and IMF staff data.
*IMF staff projection.

…driven in part by higher expenditure…

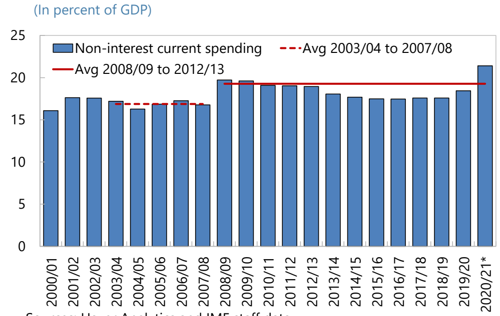
Government Expenditure
(In percent of GDP)



Sources: Ministry of Finance and IMF staff calculations and projections.
*IMF staff projection

The increased expenditure mostly reflects higher current spending…

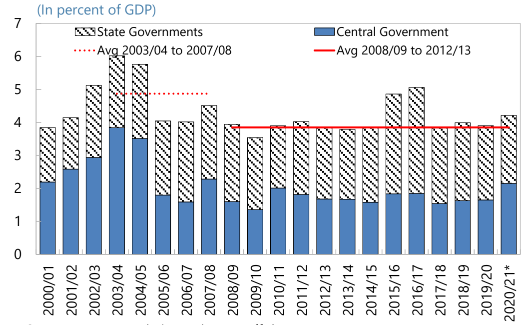
General Government Non-interest Current Spending
(In percent of GDP)



Sources: Haver Analytics and IMF staff data.
*IMF staff projection.

…while capital spending was held back, including by constraints at the state level.

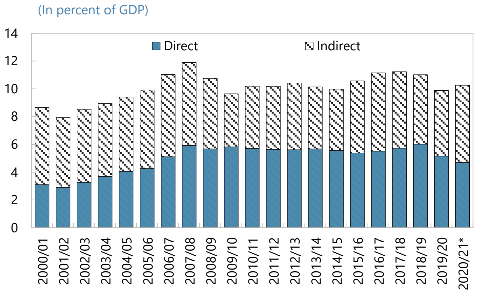
Capital Spending
(In percent of GDP)



Sources: Haver Analytics and IMF staff data.
*IMF staff projection.

Tax revenues relative to GDP declined in FY2019/20 reflecting the corporate tax rate cut and remained flat in FY2020/21…

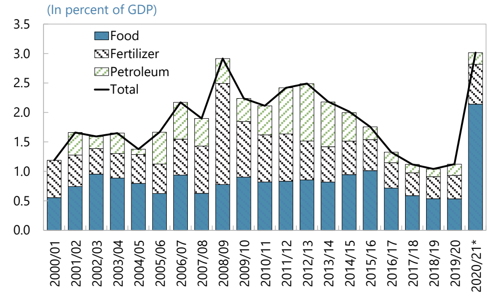
Central Government Revenue
(In percent of GDP)



Source: IMF staff data.
*IMF staff projection.

…while subsidies increased considerably in FY2020/21 reflecting additional food subsidies to vulnerable households.

Government Subsidies
(In percent of GDP)



Source: IMF staff data.
*IMF staff projection.

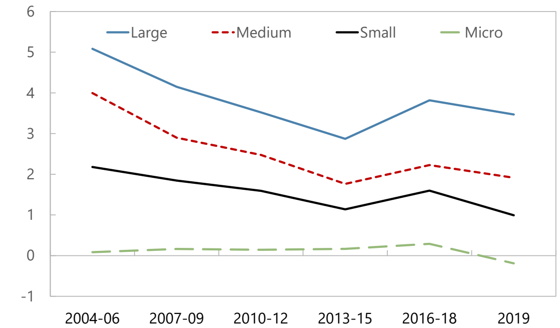
Figure 7. Corporate and Banking Sectors

The COVID-19 shock has halted ongoing progress in repair of corporate and financial balance sheets.

Corporate profitability was slowly recovering pre-pandemic…

Return on Assets

(In percent, median)

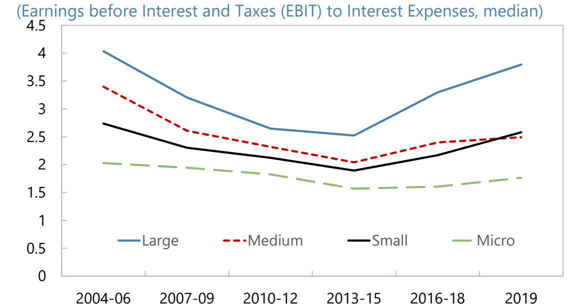


Sources: CMIE Prowess and IMF staff calculations.

And deleveraging was progressing too, particularly at larger firms.

Interest Coverage Ratio1/

(Earnings before Interest and Taxes (EBIT) to Interest Expenses, median)



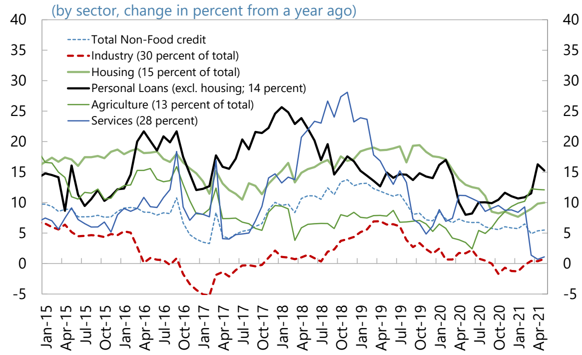
Sources: CMIE Prowess and IMF staff calculations.

1/ Data presented for fiscal years, where 2004 = 2004/05, beginning April 1, 2004, anding March 31, 2005

Bank credit growth remains subdued…

India: Bank Credit Growth

(by sector, change in percent from a year ago)

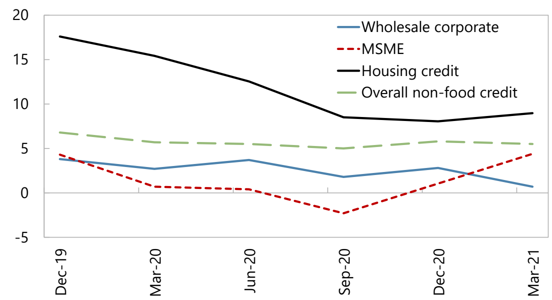


Sources: RBI, and IMF staff calculations.

…with growth in credit to MSMEs only recently recovering from negative territory

Credit growth by borrower type 1/

(Yoy growth, in percent)



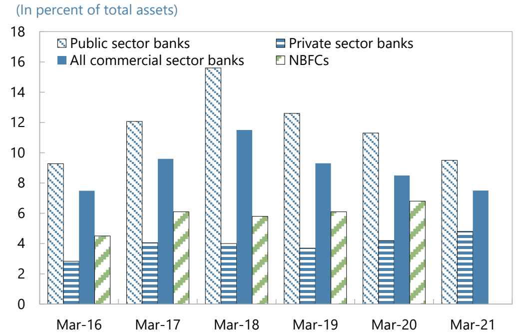
Sources: RBI, IMF staff calculations.

1/ IMF Staff estimates for MSME credit growth for December 2020 and March 2021.

Bank and NBFC NPA ratios declined since March 2020but are expected to increase going forward.

Non-Performing Assets of Financial Institutions

(In percent of total assets)

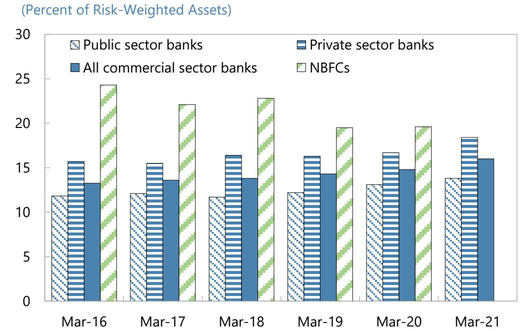


Sources: RBI, IMF staff calculations.

Bank capital adequacy improved too, reflecting new equity issuance and PSB recapitalization.

Capital Adequacy Ratio of Financial Institutions

(Percent of Risk-Weighted Assets)



Sources: RBI, IMF staff calculations.

Table 1. India: Selected Social and Economic Indicators, 2017/18-2022/23 1/

I. Social Indicators

GDP (2018/19)		**Poverty (percent of population)**	
Nominal GDP (in billions of U.S. dollars):	2,701	Headcount ratio at $1.90 a day (2011):	21.2
GDP per capita (U.S. dollars) (IMF staff est.):	1,997	Undernourished (2015):	15.3
Population characteristics (2018/19)		**Income distribution (2011, WDI)**	
Total (in billions):	1.35	Richest 10 percent of households:	30.1
Urban population (percent of total):	34.0	Poorest 20 percent of households:	8.1
Life expectancy at birth (years, 2015/16):	68.3	Gini index (2011):	35.7

II. Economic Indicators

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				Est.	Projections	
Growth (in percent)						
Real GDP (at market prices)	6.8	6.5	4.0	-7.3	9.5	8.5
Prices (percent change, period average)						
Consumer prices - Combined	3.6	3.4	4.8	6.2	5.6	4.9
Saving and investment (percent of GDP)						
Gross saving 2/	29.1	30.0	29.8	30.2	29.2	29.5
Gross investment 2/	31.0	32.1	30.7	29.3	30.2	30.8
Fiscal position (percent of GDP) 3/						
Central government overall balance	-3.8	-3.9	-4.8	-8.6	-7.3	-6.2
General government overall balance	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7
General government debt 4/	69.7	70.4	74.1	89.6	90.7	88.9
Cyclically adjusted balance (% of potential GDP)	-6.6	-6.8	-7.4	-8.9	-9.4	-9.1
Cyclically adjusted primary balance (% of potential GDP)	-1.7	-1.9	-2.7	-3.9	-4.0	-3.7
Money and credit (y/y percent change, end-period)						
Broad money	9.2	10.5	8.9	11.7	6.9	8.7
Domestic Credit	7.7	11.8	8.3	8.1	8.2	9.1
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	6.2	6.2	4.4	3.3	...	...
10-year government bond yield (end-period)	7.4	7.4	6.7	6.2	...	...
Stock market (y/y percent change, end-period)	11.3	17.3	-23.8	68.0	...	...
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	309.0	337.2	320.4	296.3	360.8	378.1
(Annual percent change)	10.3	9.1	-5.0	-7.5	21.8	4.8
Merchandise imports (in billions of U.S. dollars)	469.0	517.5	477.9	398.5	520.5	555.3
(Annual percent change)	19.5	10.3	-7.6	-16.6	30.6	6.7
Terms of trade (G&S, annual percent change)	-2.8	-2.1	1.6	1.3	-6.6	0.9
Balance of payments (in billions of U.S. dollars)						
Current account balance	-48.7	-57.2	-24.6	24.0	-29.1	-43.2
(In percent of GDP)	-1.8	-2.1	-0.9	0.9	-1.0	-1.4
Foreign direct investment, net ("-" signifies inflow)	-30.3	-30.7	-43.0	-44.0	-46.4	-51.1
Portfolio investment, net (equity and debt, "-" = inflow)	-22.1	2.4	-1.4	-36.1	-26.1	-34.5
Overall balance ("-" signifies balance of payments surplus)	43.6	-3.3	59.5	87.3	46.6	52.4
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	424.5	412.9	477.8	577.0	641.5	694.0
(In months of next year's imports (goods and services))	7.9	8.2	11.1	10.6	11.0	11.0
External debt (in billions of U.S. dollars, end-period)	529.3	543.1	558.4	570.0	633.5	694.6
External debt (percent of GDP, end-period)	20.0	20.1	19.5	21.4	21.8	21.7
Of which: Short-term debt	8.3	8.8	8.4	9.2	9.5	9.7
Ratio of gross reserves to short-term debt (end-period)	1.9	1.7	2.0	2.4	2.3	2.2
Real effective exchange rate (annual avg. percent change)	3.5	-5.0	3.3	-0.9	...	...
Exchange rate (rupee/U.S. dollar, end-period)	65.0	69.2	75.4	73.5	...	...
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-3.5	-3.4	-4.6	-9.2	-7.0	-5.9

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Data are for April–March fiscal years.

2/ Differs from official data, calculated with gross investment and current account. Gross investment includes errors and omissions.

3/ Divestment and license auction proceeds treated as below-the-line financing.

4/ Includes combined domestic liabilities of the center and the states, and external debt at year-end exchange rates.

Table 2. India: Balance of Payments, 2017/18-2022/23 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				Est.	Projections	
	(In billions of U.S. dollars)					
Current account balance	-48.7	-57.2	-24.6	24.0	-29.1	-43.2
Merchandise trade balance	-160.0	-180.3	-157.5	-102.2	-159.7	-177.2
Merchandise exports	309.0	337.2	320.4	296.3	360.8	378.1
Merchandise imports	469.0	517.5	477.9	398.5	520.5	555.3
Oil	108.6	140.9	130.6	82.6	135.6	144.5
Non-oil	360.4	376.6	347.4	315.8	384.9	410.8
Services balance	77.6	81.9	84.9	88.6	98.7	104.3
Credit	195.1	208.0	213.2	206.1	228.4	247.3
Debit	117.5	126.1	128.3	117.5	129.7	143.0
Primary income balance, net	-28.7	-28.9	-27.3	-36.0	-43.5	-46.9
Secondary income balance, net	62.5	70.0	75.3	73.6	75.4	76.6
Capital and Financial account balance	-47.8	-57.7	-23.6	23.7	-30.0	-44.0
Direct investment, net	-30.3	-30.7	-43.0	-44.0	-46.4	-51.1
Of which : Net incurrence of liabilities	39.4	43.3	56.0	54.9	58.0	67.1
Portfolio investment, net	-22.1	2.4	-1.4	-36.1	-26.1	-34.5
Financial derivatives, net	2.9	-1.0	-4.1	4.8	0.3	0.3
Other Investment, net	-41.8	-25.2	-35.6	10.6	-22.3	-11.2
Reserve Assets, net	43.6	-3.3	59.5	87.3	64.6	52.4
Errors and omissions	0.9	-0.5	1.0	-0.3	0.0	0.0
Overall balance	-43.6	3.3	-59.5	-87.3	-64.6	-52.4
Valuation changes	11.0	-8.3	5.4	11.9	0.0	0.0
Increase in gross reserve stock						
(including valuation changes)	54.6	-11.7	64.9	99.2	64.6	52.4
Memorandum items:						
Foreign exchange reserves	424.5	412.9	477.8	577.0	641.5	694.0
In months of next year's imports (goods and services)	7.9	8.2	11.1	10.6	11.0	11.0
Current account balance (percent of GDP)	-1.8	-2.1	-0.9	0.9	-1.0	-1.4
Merchandise trade balance (percent of GDP)	-6.0	-6.7	-5.5	-3.8	-5.5	-5.5
Direct investment in India (percent of GDP)	1.5	1.6	2.0	2.1	2.0	2.1
Overall balance (percent of GDP)	-1.6	0.1	-2.1	-3.3	-2.2	-1.6
Gold Imports (billions of U.S. dollars)	33.7	32.9	28.2	34.6	...	...
Gross Domestic Product (billions of U.S. dollars)	2,651	2,701	2,871	2,660	2,901	3,195

Sources: CEIC Data Company Ltd; Haver Analytics; and IMF staff estimates and projections.

1/ Data are for April-March fiscal years, based on BPM6, including sign conventions.

2/ Calculated as difference between the stock of reserves and the overall balance of BOP.

Table 3. India: Reserve Money and Monetary Survey, 2014/15- June 2021/22 1/

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 June
Reserve money	(In billions of rupees, end-period)							
Reserve money	19,285	21,807	19,005	24,187	27,705	30,297	36,000	36,990
Net domestic assets of RBI	-1,988	-2,027	-4,967	-3,421	-781	-5,607	-5,994	-7,690
Claims on government (net)	3,645	4,250	6,208	4,760	8,020	9,922	10,997	10,172
Center	3,610	4,246	6,196	4,743	8,005	9,897	10,963	10,107
States	35	4	12	17	15	25	33	65
Claims on commercial sector	148	201	73	140	154	132	87	60
Claims on banks	1,877	2,845	-3,166	493	1,374	-2,141	-3,781	-4,527
Other items (net)	-7,658	-9,323	-8,083	-8,814	-10,329	-13,520	-13,520	-13,395
Net foreign assets of RBI	21,273	23,835	23,972	27,608	28,486	35,904	41,994	44,679
	(Contribution to twelve-month reserve money growth)							
Reserve money	11.3	13.1	-12.9	27.3	14.5	9.4	18.8	16.9
Net domestic assets of RBI	-7.4	-0.2	-13.5	8.1	10.9	-17.4	-1.3	-3.8
Claims on government (net)	-19.3	3.1	9.0	-7.6	13.5	6.9	3.5	-3.7
Net foreign assets of RBI	18.7	13.3	0.6	19.1	3.6	26.8	20.1	20.7
Monetary survey	(In billions of rupees, end-period)							
Broad money (M3)	105,502	116,176	127,919	139,626	154,321	168,000	188,446	191,670
Currency with public	13,862	15,973	12,641	17,597	20,522	23,497	27,518	28,860
Deposits	91,494	100,049	115,067	121,790	133,481	144,117	160,454	162,308
Non-bank deposits at RBI	146	155	211	239	317	385	474	502
Net domestic assets	82,995	90,839	102,337	110,403	123,612	129,989	142,657	143,530
Domestic credit	100,571	110,416	122,681	132,151	147,712	159,990	175,188	174,709
Net credit to government	30,074	32,385	38,566	40,014	43,885	49,604	58,504	59,195
Of which: RBI	3,645	4,250	6,208	4,760	8,020	9,922	10,997	10,495
Credit to commercial sector	70,497	78,031	84,115	92,137	103,827	110,386	116,685	115,514
Of which: Bank credit (excluding RBI)	70,349	77,830	84,042	91,997	103,674	110,255	116,598	115,456
Other items (net)	-17,576	-19,577	-20,344	-21,748	-24,100	-30,001	-32,531	-31,179
Net foreign assets	22,506	25,337	25,582	29,223	30,708	38,010	45,788	48,140
	(Twelve-month percent change)							
Broad money (M3)	10.9	10.1	10.1	9.2	10.5	8.9	12.2	10.7
Net domestic assets	9.3	9.5	12.7	7.9	12.0	5.2	9.7	8.4
Domestic credit	6.0	9.8	11.1	7.7	11.8	8.3	9.5	6.5
Net credit to government	-1.2	7.7	19.1	3.8	9.7	13.0	17.9	7.6
Credit to commercial sector	9.4	10.7	7.8	9.5	12.7	6.3	5.7	6.0
Of which: Bank credit (excluding RBI)	9.3	10.6	8.0	9.5	12.7	6.3	5.8	6.0
Net foreign assets	17.0	12.6	1.0	14.2	5.1	23.8	20.5	18.1

Sources: CEIC Data Company Ltd.; Reserve Bank of India WSS; IMF IFS, and Fund staff calculations.
1/ Data are for April–March fiscal years, unless indicated otherwise.

Table 4. India: Central Government Operations 1/, 2017/18-2022/23

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
					Projections	
			(In percent of GDP)			
Revenue	**8.8**	**8.4**	**8.5**	**8.5**	**8.7**	**8.9**
Taxes 2/	7.4	6.9	6.7	7.2	7.2	7.3
Income tax	5.9	6.0	5.2	4.7	4.9	5.0
GST	2.6	3.1	3.0	2.8	2.9	3.0
Excise tax	1.5	1.2	1.2	2.0	1.7	1.7
Customs duties	0.8	0.6	0.5	0.7	0.7	0.8
Other taxes	0.2	0.0	0.0	0.1	0.0	0.0
Less: States' share	3.9	4.0	3.2	3.0	3.1	3.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue 3/	1.4	1.4	1.8	1.3	1.5	1.6
Property income	0.6	0.7	1.0	0.6	0.7	0.8
Sale of goods and services	0.3	0.2	0.2	0.2	0.2	0.2
Miscellaneous and unidentified revenue	0.5	0.6	0.6	0.5	0.6	0.7
Expenditure	**12.6**	**12.3**	**13.2**	**17.1**	**16.1**	**15.2**
Expense 4/	**11.0**	**10.6**	**11.6**	**14.9**	**13.9**	**13.1**
Compensation of employees 5/	1.1	1.1	1.1	1.0	1.1	1.1
Interest	3.1	3.1	3.0	3.5	3.6	3.6
Subsidies 6/	1.1	1.0	1.1	2.7	2.1	1.8
Food 7/	0.6	0.5	0.5	1.9	1.5	1.1
Fertilizer	0.4	0.4	0.4	0.6	0.4	0.4
Petroleum	0.1	0.1	0.2	0.2	0.2	0.2
Grants and other expense 8/	5.7	5.4	6.3	7.7	7.0	6.7
Grants	2.3	2.2	2.3	3.7	3.1	2.9
Other expense 8/	3.4	3.3	4.0	4.0	4.0	3.8
Net acquisition of nonfinancial assets	**1.5**	**1.6**	**1.6**	**2.2**	**2.2**	**2.1**
Gross Operating Balance	-2.2	-2.3	-3.1	-6.4	-5.1	-4.1
Net lending / borrowing (overall balance)	**-3.7**	**-3.9**	**-4.8**	**-8.6**	**-7.3**	**-6.2**
Net financial transactions	-3.8	-3.9	-4.8	-8.6	-7.3	-6.2
Net acquisition of financial assets	-1.2	-1.2	-1.5	-1.2	-1.7	-1.8
Domestic	-1.2	-1.2	-1.5	-1.2	-1.7	-1.8
Currency and deposits	-0.7	-0.7	-1.2	-1.8	-1.6	-1.3
Loans	0.0	0.1	0.0	0.8	0.4	0.1
Share and other equity	-0.6	-0.5	-0.2	-0.2	-0.5	-0.5
Net incurrence of liabilities	2.5	2.7	3.3	7.4	5.7	4.5
Domestic	2.5	2.7	3.3	7.1	5.7	4.5
Debt securities 9/	2.7	2.3	3.1	6.7	5.2	4.0
Other accounts payable	-0.2	0.4	0.2	0.4	0.5	0.4
Foreign	0.0	0.0	0.0	0.4	0.0	0.0
Loans	0.0	0.0	0.0	0.4	0.0	0.0
Memorandum items:						
Balance under authorities' definition /10	-3.5	-3.4	-4.6	-9.2	-7.0	-5.9
Primary balance	-0.6	-0.8	-1.8	-5.1	-3.7	-2.7
Central government debt /11	49.5	49.4	51.7	63.0	63.5	61.5

Sources: Data provided by the Indian authorities; and Fund staff estimates and projections.

1/ Data for April - March fiscal years

2/ Net tax revenue, defined as gross tax revenue collected by the central government minus state governments' share.

3/ Auctions for wireless spectrum are classified as non-tax revenues.

4/ Includes the surcharge on Union duties transferred to the National Calamity Contingency Fund.

5/ Pensions are included under expense not otherwise classified.

6/ Includes subsidy-related bond issuance.

7/ Starting in FY2020/21, includes food subsidies covered by the Food Corporation of India. For FY2020/21, excludes retroactive payment to Food Corporation of India for previous years' food subsidy bill.

8/ Other expense includes purchases of goods and services.

9/ Debt securities include bonds and short-term bills, as well as loans.

10/ Includes asset sales in receipts, and excludes certain non-tax revenue items. Includes the retroactive payment to Food corporation of India for previous years' foof subsidy bill.

11/ Central government debt includes SDR, and for FY2021/22 reflects the additional SDR allocation of about 0.6 percent of GDP.

Table 5. India: General Government Operations, 2017/18-2022/23 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				Projections		
			(In percent of GDP)			
Revenue	**20.0**	**20.0**	**19.7**	**18.3**	**19.2**	**19.5**
Taxes	17.6	17.4	16.7	16.1	16.6	16.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.3	2.5	2.9	2.2	2.6	2.7
Expenditure	**26.2**	**26.3**	**27.1**	**31.1**	**30.4**	**29.2**
Expense	22.4	22.4	23.1	26.9	26.1	25.0
of which: interest	4.8	4.8	4.7	5.5	5.6	5.6
Net acquisition of nonfinancial assets	3.8	4.0	3.9	4.2	4.4	4.2
Gross Operating Balance	-2.4	-2.4	-3.5	-8.6	-6.9	-5.5
Net lending (+)/borrowing (–) (fiscal balance)	**-6.2**	**-6.4**	**-7.4**	**-12.8**	**-11.3**	**-9.7**
Net financial worth, transactions	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7
Net acquisition of financial assets	-1.3	-1.1	-1.9	-1.2	-1.7	-1.8
Domestic	-1.3	-1.1	-1.9	-1.2	-1.7	-1.8
Currency and deposits	-0.7	-0.8	-1.6	-1.8	-1.6	-1.3
Loans	0.0	0.1	-0.1	0.8	0.4	0.1
Equity and investment fund shares	-0.6	-0.5	-0.2	-0.2	-0.5	-0.5
Net incurrence of liabilities	4.9	5.3	5.5	11.6	9.6	8.0
Domestic	4.9	5.3	5.4	11.3	9.6	7.9
Debt securities	4.7	4.6	3.7	9.9	8.1	6.5
Other accounts payable	0.2	0.7	1.7	1.4	1.5	1.4
Foreign	0.0	0.0	0.0	0.4	0.0	0.0
Loans	0.0	0.0	0.0	0.4	0.0	0.0
Memorandum items:						
Primary balance	-1.4	-1.6	-2.7	-7.3	-5.6	-4.2
Nondefence capital expenditure	4.3	4.5	3.3	3.5	3.7	3.6
State and union territory governments' balance 2/	-2.4	-2.5	-2.6	-4.2	-3.9	-3.5
General government debt 3/	69.7	70.4	74.1	89.6	90.7	88.9

Sources: Data provided by the Indian authorities; state level data from the RBI Study on State Finances; and Fund staff estimates and projections.

1/ The consolidated general government comprises the central government (CG) and state governments. It does not include lower tiers of government (districts, municipalities), contrary to GFSM 2014 standards. Data for April-March fiscal years.

2/ The authorities treat states' divestment proceeds, including land sales, above-the-line as miscellaneous capital receipts. IMF Staff definition treats divestment receipts as a below-the-line financing item.

3/ Includes combined domestic liabilities of CG and states governments, inclusive of MSS bonds, and sovereign external debt at year-end exchange rates. For FY2021/22 reflects the additional SDR allocation of about 0.6 percent of GDP.

Table 6. India: Macroeconomic Framework, 2017/18-2026/27 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
					Est.	Projections				
Growth (percent change)										
Real GDP (at market prices)	6.8	6.5	4.0	-7.3	9.5	8.5	6.6	6.3	6.2	6.1
Non-agricultural sector (at basic prices)	6.2	6.5	4.1	-7.9	10.9	9.5	7.1	6.8	6.6	6.5
Potential GDP	6.4	6.2	5.9	0.8	5.2	5.6	5.7	5.8	5.9	6.0
Output gap (in percent of potential GDP)	1.4	1.7	0.0	-8.0	-4.3	-1.7	-0.8	-0.4	-0.1	0.0
Prices (percent change, period average)										
Consumer prices	3.6	3.4	4.8	6.2	5.6	4.9	4.3	4.1	4.0	4.0
Saving and investment (percent of GDP)										
Gross saving 2/	29.1	30.0	29.8	30.2	29.2	29.5	29.7	29.5	29.2	29.0
Gross investment 3/	31.0	32.1	30.7	29.3	30.2	30.8	31.2	31.3	31.4	31.6
Money and credit (y/y percent change, end-period)										
Broad money	9.2	10.5	8.9	11.7	6.9	8.7	8.9	9.0	8.7	8.7
Bank credit to the private sector	9.5	12.7	6.3	5.2	6.1	11.1	11.5	12.4	12.5	12.8
Fiscal position (percent of GDP)										
Central government balance 4/	-3.8	-3.9	-4.8	-8.6	-7.3	-6.2	-5.8	-5.4	-5.1	-4.9
General government balance 4/	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7	-8.8	-8.3	-8.1	-7.8
General government debt 5/	69.7	70.4	74.1	89.6	90.7	88.9	88.2	87.3	86.4	85.2
External trade (percent change, balance of payments basis)										
Merchandise exports (in U.S. dollars terms)	10.3	9.1	-5.0	-7.5	21.8	4.8	6.4	7.1	7.3	6.8
Merchandise imports (in U.S. dollars terms)	19.5	10.3	-7.6	-16.6	30.6	6.7	7.9	8.8	9.1	8.9
Balance of payments (in billions of U.S. dollars, BMP6 (including sign conventions))										
Current account balance	-48.7	-57.2	-24.6	24.0	-29.1	-43.2	-50.3	-68.6	-91.4	-110.8
(in percent of GDP)	-1.8	-2.1	-0.9	0.9	-1.0	-1.4	-1.5	-1.8	-2.3	-2.5
Foreign direct investment, net ("-" sign is net FDI inflow)	-30.3	-30.7	-43.0	-44.0	-46.4	-51.1	-55.3	-59.9	-64.8	-70.0
Portfolio investment, net ("-" sign denotes capital inflow)	-22.1	2.4	-1.4	-36.1	-26.1	-34.5	-37.4	-40.4	-43.7	-47.3
Overall balance ("-" sign denotes surplus)	43.6	-3.3	59.5	87.3	46.6	52.4	53.5	44.1	30.8	21.7
External indicators										
Gross reserves (in billions of U.S. dollars, end-period)	424.5	412.9	477.8	577.0	641.5	694.0	747.5	791.6	822.4	844.1
(in months of imports) 6/	7.9	8.2	11.1	10.6	11.0	11.0	10.9	10.6	10.1	9.5
External debt (in billions of U.S. dollars, end-period)	529.3	543.1	558.4	570.0	633.5	694.6	761.0	833.2	911.9	997.4
External debt (percent of GDP, end-period)	20.0	20.1	19.5	21.4	21.8	21.7	22.0	22.3	22.5	22.8
Of which : short-term debt 7/	8.3	8.8	8.4	9.2	9.5	9.7	10.1	10.4	10.7	10.9
Ratio of gross reserves to short-term debt (end-period) 7/	1.9	1.7	2.0	2.4	2.3	2.2	2.2	2.0	1.9	1.8
GDP in billions of U.S. dollars	2,651	2,701	2,871	2,660	2,901	3,195	3,459	3,743	4,049	4,376

Sources: Data provided by the Indian authorities; CEIC Data Company Ltd; and IMF staff estimates and projections.

1/ Data are for April-March fiscal years unless otherwise mentioned.

2/ Differs from official data, calculated with gross investment and current account.

3/ Statistical discrepancy adjusted.

4/ Divestment and license auction proceeds are treated as financing; includes subsidy related bond issuance.

5/ Includes combined domestic liabilities of the center and the states, inclusive of MSS bonds, and sovereign external debt at year-end exchange rates.

6/ Imports of goods and services projected over the following twelve months.

7/ Including short-term debt on contracted maturity basis, all NRI deposits, and medium and long-term debt on residual maturity basis, different from authorities' definition.

Table 7. India: Indicators of External Vulnerability, 2013/14-2020/21 1/

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Financial indicators								
General government debt (percent of GDP)	67.7	67.1	69.0	68.9	69.7	70.4	74.1	89.6
Broad money (percent change, 12-month basis)	13.4	10.9	10.1	10.1	9.2	10.5	8.9	11.7
Private sector credit (percent change, 12-month basis)	13.7	9.4	10.7	7.8	9.5	12.7	6.3	5.2
91 day T-bill yield (percent; end-period)	8.9	8.3	7.4	7.2	6.2	6.2	4.4	3.3
91 day T-bill yield (real, percent; end-period) 2/	-0.5	2.5	2.5	2.7	2.5	2.7	-0.4	-2.9
External indicators								
Exports (percent change, 12-month basis in US$) 3/	3.9	-0.6	-15.9	5.2	10.3	9.1	-5.0	-7.5
Export volume (percent change, 12-month basis) 3/	4.7	4.0	-5.0	6.8	9.9	4.7	-1.9	-5.8
Imports (percent change, 12-month basis in US$) 3/	-7.2	-1.0	-14.1	-1.0	19.5	10.3	-7.6	-16.6
Import volume (percent change, 12-month basis) 3/	-3.4	6.2	1.3	4.3	13.2	4.0	-4.1	-13.7
Terms of trade (percent change, 12 month basis) 3/	2.7	3.4	6.7	1.6	-2.8	-2.1	1.6	1.3
Current account balance (percent of GDP)	-1.7	-1.3	-1.1	-0.6	-1.8	-2.1	-0.9	0.9
Capital and financial account balance (percent of GDP, "-" sign for inflow)	-1.8	-1.4	-1.1	-0.6	-1.8	-2.1	-0.8	0.9
Of which : Net portfolio investment (debt and equity, "-" sign for inflow)	-0.3	-2.0	0.2	-0.3	-0.8	0.1	0.0	-1.4
Other investment (loans, trade credits, etc., "-" sign for inflow)	-1.1	-0.9	-0.4	0.7	-1.6	-0.9	-1.2	0.4
Net foreign direct investment ("-" sign denotes inflow)	-1.2	-1.5	-1.7	-1.6	-1.1	-1.1	-1.5	-1.7
Foreign currency reserves (in billions of U.S. dollars)	304.2	341.6	360.2	370.0	424.5	412.9	477.8	577.0
Official reserves (in months of prospective imports of goods and services)	6.7	8.5	8.8	7.6	7.9	8.2	11.1	10.6
Ratio of foreign currency reserves to broad money (percent)	19.5	20.2	20.8	19.1	19.8	18.6	21.1	21.5
Total short-term external debt to reserves (percent) 4/	60.1	53.8	53.5	54.2	51.6	57.3	50.3	42.3
Total external debt (percent of GDP)	24.0	23.3	23.1	20.5	20.0	20.1	19.5	21.4
Of which: public sector debt	3.7	3.5	4.3	4.0	3.6	3.6	3.5	4.2
Total external debt to exports of goods and services (percent)	94.8	100.0	115.3	106.1	105.0	99.6	104.7	113.5
External interest payments to exports of goods and services (percent)	1.7	1.8	2.4	2.9	2.4	3.2	2.8	1.7
External amortization payments to exports of goods and services (percent)	18.9	20.3	25.5	25.6	23.1	23.6	25.3	28.9
Exchange rate (Indian rupees per U.S. dollar, annual average)	60.5	61.1	65.5	67.1	64.5	69.9	70.9	74.2
REER (percent change; based on annual average level)	-2.3	6.0	4.5	2.3	3.5	-5.0	3.3	-0.9
Financial market indicators								
Stock market index (end-period)	22,386	27,957	25,342	29,621	32,969	38,673	29,468	49,509
Foreign currency debt rating								
Moody's Investor Services	Baa3	Baa3	Baa3	Baa3	Baa2	Baa2	Baa2	Baa3
Standard and Poor's	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch Ratings	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Spread of benchmark bonds (basis points, end of period) 5/	608.5	581.4	569.6	429.3	466.0	494.6	547.0	443.3

Sources: Data provided by the Indian authorities; Bloomberg L.P.; CEIC Data Company Ltd.; IMF, *Information Notice System* and staff estimates and projections.

1/ Data for April-March fiscal years.

2/ Equals nominal yield minus actual CPI inflation.

3/ Terms of trade including goods and services. Goods volumes are derived from partner country trade price deflators, and services volumes are derived using U.S. CPI from the WEO database.

4/ Including short-term debt on contracted maturity basis, all NRI deposits, and medium and long-term debt on residual maturity basis, different from authorities' definition.

5/ 10-year sovereign bond spread over U.S. bond.

Table 8. India: Financial Soundness Indicators, 2014/15-2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(In percent, unless indicated otherwise)						
I. Scheduled commercial banks							
Risk-weighted capital adequacy ratio (CAR)	**12.9**	**13.3**	**13.6**	**13.8**	**14.3**	**14.7**	**16.0**
Public sector banks	11.4	11.8	12.1	11.7	12.2	12.9	13.8
Private sector banks	15.1	15.7	15.5	16.4	16.3	16.5	18.4
Foreign banks	16.8	17.1	18.7	18.6	18.5	17.7	18.5
Number of institutions not meeting 9 percent CAR	**0**	**1**	**1**	**1**	**1**	**3**	…
Public sector banks	0	0	1	1	0	1	…
Private sector banks	0	1	0	0	1	2	…
Foreign banks	0	0	0	0	0	0	…
Net nonperforming assets (percent of outstanding net advances) 1/	**2.4**	**4.4**	**5.3**	**6.1**	**3.8**	**2.9**	**2.4**
Public sector banks	3.0	5.7	6.9	8.6	5.2	4.0	3.1
Private sector banks	0.8	1.4	2.2	2.0	1.6	1.4	1.5
Foreign banks	0.5	0.8	0.6	0.4	0.5	0.5	0.6
Gross nonperforming assets (percent of outstanding advances)	**4.3**	**7.5**	**9.6**	**11.5**	**9.3**	**8.4**	**7.5**
Public sector banks	5.0	9.3	12.5	15.6	12.6	10.8	9.5
Private sector banks	2.1	2.8	4.1	4.0	3.7	5.1	4.8
Foreign banks	3.2	4.2	4.0	3.8	3.0	2.3	2.4
Restructured loans (percent of outstanding loans)	**5.8**	**3.4**	**2.5**	**0.9**	**0.4**	…	**0.9**
Public sector banks	7.1	4.1	3.1	1.1	0.5	…	0.9
Private sector banks	2.4	1.8	1.1	0.4	0.2	…	0.8
Foreign banks	0.1	0.3	0.3	0.1	0.0	…	1.1
Return on assets 2/	**0.8**	**0.4**	**0.4**	**-0.2**	**-0.1**	**0.2**	**0.7**
Public sector banks	0.5	-0.1	-0.1	-0.9	-0.9	-0.2	0.3
Private sector banks	1.7	1.5	1.3	1.3	1.2	0.7	1.2
Foreign banks	1.9	1.5	1.6	1.3	1.6	1.4	1.5
Balance sheet structure of all scheduled banks							
Total assets (in percent of GDP)	96.5	95.3	92.3	89.2	87.3	88.6	N/A
Loan/deposit ratio	78.3	78.2	73.0	74.2	75.3	73.7	71.5
Investment in government securities/deposit ratio	25.9	26.8	26.3	27.9	26.5	27.8	29.5
II. Non-Banking Financial Companies 3/							
Total assets (in percent of GDP) /4	…	…	13.5	14.3	15.1	16.6	17.6
Risk-weighted capital adequacy ratio (CAR)	26.2	24.3	22.1	22.8	20.1	23.7	25.0
Gross nonperforming assets (percent of outstanding advances)	4.1	4.5	6.1	5.8	6.1	6.8	6.4
Net nonperforming assets (percent of outstanding net advances) 1/	2.5	2.5	4.4	3.8	3.3	3.4	2.7
Return on assets 2/	2.2	2.1	1.8	1.7	1.7	1.3	1.2

Source: Reserve Bank of India; Bankscope; and IMF staff estimates.

1/ Gross nonperforming assets less provisions.

2/ Net profit (+)/loss (-) in percent of total assets. Data for 2020/21 for NBFCs is as of September 2020

3/ There were 9659 NBFCs registered with the RBI as on March 31, 2019. Of these, 88 deposit-accepting and 263 systemically-important non-deposit accepting NBFCs (assets larger than INR 5 billion). All NBFCs are subject to prudential regulations and reporting requirements.

4/ Data for 2020/21 is as of September 2020.

Table 9. India: High Frequency Economic Activity Indicators

	% y-o-y	2020 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2021 Jan	Feb	Mar	Apr	May
Consumption																		
Urban	Domestic passenger vehicle sales	-11.2	-12.3	-53.7		-85.2	-49.6	-3.9	14.2	26.5	14.2	4.6	13.6	11.1	17.9	115.2		162.5
	Aviation: Passenger traffic	1.5	10.0	-32.9	-100.0	-97.4	-83.5	-82.6	-75.8	-65.1	-56.8	-50.2	-42.9	-38.7	-35.9	2.5	105896.5	
	Consumer durables	-3.7	-6.2	-36.8	-95.7	-70.3	-34.8	-23.7	-10.2	5.3	18.1	-3.2	6.5	-0.1	6.6	55.0	1943.6	
	Unemployment: Urban[1][2]	9.7	8.7	9.4	25.0	23.1	11.7	9.4	9.8	8.5	7.2	7.1	8.8	8.1	7.0	7.3	9.8	14.7
Rural	Domestic two-wheeler sales	-16.1	-19.8	-39.8		-83.8	-38.6	-15.2	3.0	11.6	16.9	13.4	7.4	6.6	10.2	72.7		26.1
	Tractor sales	3.3	19.6	-50.2	-80.1	0.5	20.2	35.9	64.8	26.7	9.0	48.3	41.2	47.5	30.4	170.4	480.8	-2.4
	Cosumer non-durables	-0.6	-0.3	-22.3	-48.1	-9.7	6.9	1.8	-3.0	2.4	7.3	-0.7	1.9	-5.4	-4.5	31.2	95.7	
	Unemployment: Rural[1][2]	6.1	7.3	8.4	22.9	21.1	9.5	6.5	7.7	5.9	7.0	6.2	9.2	5.8	6.9	6.2	7.1	10.6
Overall	Consumer credit	16.9	17.0	15.0	12.1	10.6	10.5	11.2	10.6	9.2	9.3	10.0	9.5	9.1	9.6	10.2		
	Consumer confidence[3]	83.7		85.6		63.7		53.8		49.9		52.3		55.5		53.1		48.5
Investment																		
	Production of capital goods	-4.4	-9.6	-38.8	-92.7	-65.9	-37.4	-22.8	-14.4	-1.2	3.2	-7.5	2.2	-9.0	-3.8	48.3	1077.1	
	Railway traffic: Net tonne km	-3.1	3.7	-18.9	-40.1	-28.1	-11.6	-7.7	1.4	17.9	11.0	8.4	13.5	11.1	7.8	33.0	86.9	55.7
	Government Capex (YTD)	-31.8	-20.4	-16.0	-13.9	-5.4	6.4	-5.4	-7.3	-13.1	-6.5	3.9	10.9	335.1	96.0	44.7	50.4	
External sector																		
	Merchandise exports	-2.1	3.3	-34.3	-61.0	-36.2	-12.2	-9.5	-12.2	6.0	-5.0	-8.5	0.4	6.6	-0.8	60.3	201.5	69.4
	Merchandise exports (ex-oil)	-2.3	2.2	-34.8	-60.3	-30.1	-10.5	-3.5	-8.2	6.5	2.5	0.3	6.0	12.2	3.2	62.7	202.8	54.6
	Merchandise imports	-0.7	3.6	-28.0	-59.7	-52.4	-48.0	-29.6	-26.0	-19.6	-10.6	-12.4	8.2	1.9	7.0	53.7	167.6	73.6
	Merchandise imports (ex-oil, ex-gold)	-4.8	0.7	-29.4	-54.1	-36.7	-42.2	-30.8	-29.6	-12.6	-3.6	-0.2	8.9	7.4	6.1	46.7	130.4	52.5
	Services exports	7.0	6.9	1.2	-8.9	-10.2	-8.4	-10.8	-9.9	-1.4	-6.3	-5.1	-6.4	-10.1	-1.0	12.6	6.7	
	Services imports	8.8	12.8	-2.2	-18.4	-20.4	-15.3	-21.7	-20.1	-8.7	-12.3	-11.8	-8.4	-15.9	-4.1	12.8	6.4	
	Change in FX reserves (USDbn)	10.4	9.1	-4.1	1.1	11.7	10.8	25.0	8.1	3.3	15.4	15.9	8.7	5.1	-4.6	-4.7	8.1	7.5
	Manufacturing new export orders PMI[3]	54.5	54.2	46.9	10.3	11.8	38.9	43.3	47.8	53.8	55.2	54.8	51.8	53.9	52.0	53.8	54.9	53.6
	Service new export orders PMI[3]	48.9	52.1	43.9	0.0	3.0	17.9	23.1	27.9	32.8	35.3	35.7	37.1	38.5	41.3	46.6	44.0	37.0
Inflation																		
	CPI	7.6	6.6	5.8	7.2	6.3	6.2	6.7	6.7	7.3	7.6	6.9	4.6	4.1	5.0	5.5	4.2	6.3
	Food	13.6	10.8	8.8	11.7	9.2	8.7	9.3	9.1	10.7	11.0	9.5	3.4	2.0	3.9	4.9	2.0	4.9
	Core	4.3	3.9	3.9	4.8	4.9	5.4	5.6	5.6	5.4	5.9	5.7	5.6	5.5	6.0	5.9	5.3	6.6
	Rural	7.7	6.7	6.1	7.2	6.2	6.3	6.8	6.7	7.4	7.8	7.2	4.1	3.2	4.2	4.6	3.8	6.5
	Urban	7.4	6.6	5.6	7.3	6.4	6.1	6.7	6.8	7.3	7.3	6.7	5.2	5.1	6.0	6.5	4.7	5.9
	WPI	3.5	2.3	0.4	-1.6	-3.4	-1.8	-0.2	0.4	1.3	1.3	2.3	2.0	2.5	4.8	7.9	10.7	13.1
Industry																		
	Industrial production	2.2	5.2	-18.7	-57.3	-33.4	-16.6	-10.5	-7.1	1.0	4.5	-1.6	2.2	-0.6	-3.4	24.1	134.4	
	Manufacturing PMI[3]	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8
	New orders[3]	57.9	57.5	52.5	12.4	21.4	46.4	45.6	54.3	62.2	65.5	61.0	60.8	63.4	62.8	59.3	58.1	50.4
	Core industries	2.2	6.4	-8.6	-37.9	-21.4	-12.4	-7.6	-6.9	0.6	-0.5	-1.1	0.4	1.3	-3.8	11.4	56.1	
	Coal output	8.0	11.3	4.0	-15.5	-14.0	-15.5	-5.7	3.6	21.0	11.7	3.3	2.2	-1.9	-4.4	0.3	9.5	
	Steel output	1.6	2.9	-21.9	-82.8	-40.4	-23.2	-6.5	0.5	6.2	5.9	0.7	3.5	8.2	1.3	27.3	400.0	
	Cement output	5.1	7.8	-25.1	-85.2	-21.4	-6.8	-13.5	-14.5	-3.4	3.2	-7.3	-7.2	-5.8	-5.6	32.7	548.8	
	Electricity generation	3.2	11.5	-8.2	-22.9	-14.8	-10.0	-2.4	-1.8	4.8	11.2	3.5	5.1	5.5	0.2	22.5	38.7	
	Corporate (industry) credit	5.3	3.5	3.7	6.0	5.9	6.0	5.0	4.2	4.2	3.4	3.7	3.4	3.2	4.2	0.9		
	Business expectation[3]			105.0			108.8			99.5			111.4			114.1		
Services																		
	Services PMI[3]	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.3	54.6	54.0	46.4
	New business[3]	56.1	55.8	48.5	3.5	12.5	34.0	34.3	41.3	47.8	53.8	53.4	52.2	52.6	54.5	54.3	54.3	46.4
	Railway traffic: passenger	-1.7	4.6	-38.7	-101.2	-100.4	-99.4	-98.0	-96.8	-94.3	-91.2	-82.6	-72.6	-66.6	-57.4	-27.6	-2773.4	-3462.5
	Port traffic[1]	1.1	4.6	-5.1	-2.9	-23.2	-14.8	-13.2	-10.4	-1.9	-1.2	2.8	4.4	-7.4	1.9	16.4	7.0	33.0
	Railway freight traffic	2.6	6.5	-13.9	-35.3	-21.3	-7.7	-4.6	3.9	15.5	15.4	9.0	8.7	8.7	5.5	26.6	70.7	39.1
	Airline: cargo traffic	-1.4	-1.2	-31.9	-82.5	-67.7	-40.6	-34.6	-29.4	-16.2	-13.9	-12.9	-8.9	-11.0	-8.5	34.2	445.3	
	Deposits	11.6	10.6	8.3	10.3	11.0	10.0	12.3	11.2	10.7	11.3	10.9	10.6	10.9	11.8	11.2	11.0	8.6
	Bank credit	8.3	7.2	6.6	7.0	5.8	5.9	6.7	5.9	5.5	5.9	6.2	6.2	5.9	6.6	5.5	6.2	5.8
	Services credit	8.9	6.9	7.4	11.2	11.2	10.7	10.1	8.6	9.1	9.5	8.8	8.8	8.4	9.3	1.4		
Agriculture																		
	Agricultural production	14.2	30.1	32.8	16.0	21.0	18.6	15.3	10.0	4.3	3.4	4.3	10.6	13.4	6.3	7.3	25.3	
	Rice stock	20.4	17.4	9.7	-1.9	-0.5	-4.4	-8.0	-15.1	-22.7	-27.3	-31.7	-21.3	-11.3	-8.8	-9.7	7.0	
	Wheat stock	26.9	36.9	45.4	7.9	19.9	20.0	17.8	15.3	11.2	7.8	4.5	4.6	4.8	7.3	10.5	47.0	
Other indicators																		
	Service Taxes (YTD)	565.9	380.0	335.8	257.6	185.1	219.8	206.8	217.7	230.0	261.8	260.3	177.6	-61.4	-80.4	-62.0	-64.1	
	Gross tax (ex-service tax) (YTD)	6.2	9.0	-5.0	-11.1	-13.9	-15.5	-16.1	-14.4	-14.7	-12.3	-9.9	-3.8	21.0	12.4	10.3	24.2	
	BSE Sensex (Period Change %)	0.75	-1.66	-20.70	-3.99	1.06	9.49	8.08	3.55	0.08	4.52	7.22	7.44	5.13	4.53	-1.34	-2.44	
	US economic policy uncertainty index[1][3]	131.4	160.5	283.1	268.6	350.5	231.3	306.0	224.4	218.1	249.2	246.7	246.1	207.9	151.9	139.8	125.0	147.6
	India economic policy uncertainty index[1][3]	48.1	92.6	110.1	160.8	167.8	75.1	107.8	115.1	82.3	95.5	69.5	69.9	83.7	51.8	40.9	79.0	75.9

Sources: Bombay Stock Exchange(BSE), CEIC, Center for Monitoring Indian Economy (CMIE), Haver Analytics, Indian Ports Association, Ministry of Agriculture, Ministry of Commerce and Industry, Ministry of Railways, Ministry of Statistics and Program Implementation (MOSPI), OECD, Reserve Bank of India (RBI), Society of Indian Automobile Manufacturers; Baker, Bloom, and Davis (2012, 2015); and IMF staff estimates.

Notes: The cell is highlighted in dark green if the growth is above average. The cell is highlighted in dark red if the growth is below average. The average for each data series covers data points since 2012 H1 to latest month.

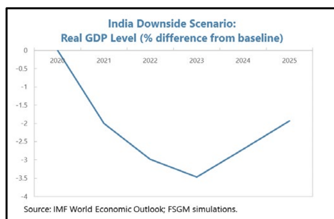
[1] Data from sources other than official sources. [2] Percent. [3] Index values.

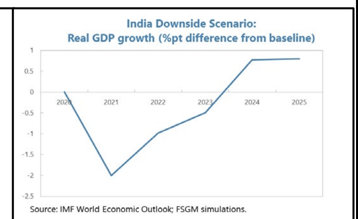
Box 1. Downside Scenario

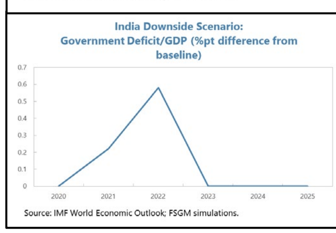
Given significant COVID-19 related uncertainties, a downside scenario with a prolonged period of lower growth is used to illustrate risks and discuss alternative policies. Should the downside scenario materialize, additional fiscal policy support.

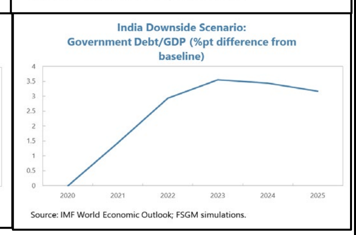
A possible downside scenario combines the impact of COVID-19 related uncertainties, tightening financial conditions, and adverse longer-term implications. Relative to the baseline, uncertainties about the path of the pandemic and the speed of vaccinations, could reduce current and expected income of firms and households, further damaging confidence and delaying the recovery in investment and demand for contact-intensive sectors. A slower recovery, in turn, could increase risk aversion, leading to tighter financial conditions for vulnerable businesses. Increasing corporate stress could trigger an adverse macro-financial feedback loop, further weakening bank and NBFC balance sheets, leading to a reduction in lending to the real sector. As a result, the recovery would be more prolonged leading to lower growth for several years after the initial pandemic shock.

In this scenario, GDP growth would be about 2 percentage points lower than the baseline in FY2021/22, and a further 0.5 to 1 percentage point lower in the subsequent two years.[1] Given limited monetary policy space amid elevated inflation and rising global rates, the monetary policy response is limited to an additional cut in policy rates by 50 basis points. Given the impact of lower growth on revenue, the fiscal deficit would increase by about 0.6 percent of GDP and public debt by close to 3.6 percentage of GDP compared to the baseline. Financial sector stress leads to a rise in corporate interest rates by up to 250 basis points compared with the baseline. The slower recovery leads to additional adverse longer-term implications, and combined with tighter financial conditions, results in an output level roughly 3½ percent below baseline by the end of FY2023/24.









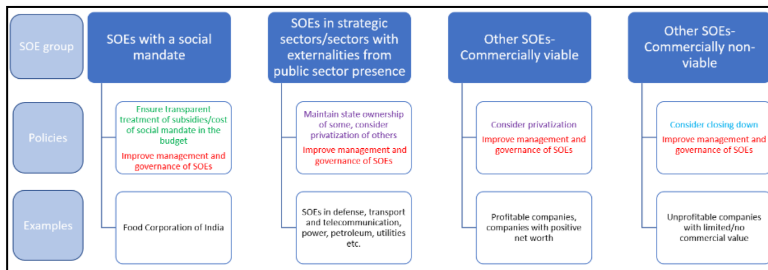
Risks stemming from this downside scenario call for further policy support. Additional fiscal support (of about 2 percent of GDP), focused on vulnerable households and firms, should play a key role in the policy response. The authorities should also fully deploy below-the-line measures announced at the onset of the pandemic, targeting affected and viable firms, while facilitating the exit of non-viable firms. Additional fiscal support is likely also needed to further recapitalize PSBs. While space for additional monetary policy support is limited, downside risks would call for additional easing through targeted liquidity support to viable firms in vulnerable sectors. Finally, the announcement of credible structural reforms and subsequent strong implementation would support medium-term potential growth.

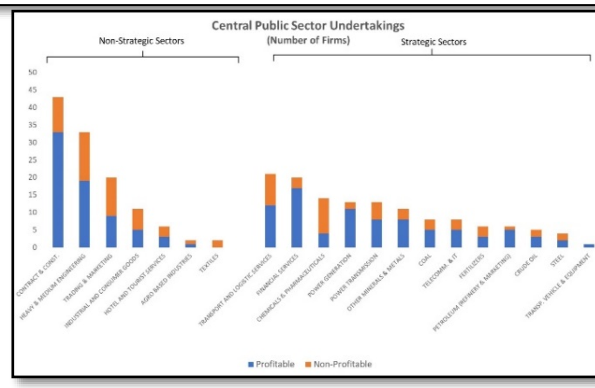
[1] The downside scenario is estimated using the Flexible System of Global Models, which considers a combination of domestic COVID-related real shocks, corporate and financial sector stress, and adverse longer-term implications from the pandemic. See Andrle et al. (2015): "The Flexible System of Global Models – FSGM", *IMF Working Paper*.

Box 2. India's State-Owned Enterprises

India's recently announced privatization strategy can facilitate a change in the composition of the public sector balance sheet toward high-return public sector investments in infrastructure and human capital where there is a clear role for government, leaving commercially viable companies for the private sector.

India's state-owned enterprises (SOEs) account for 22 percent of GDP in total assets (excluding public sector banks and insurance companies). A considerable share of SOEs are listed, and several are large and have global operations. SOEs operate in a broad set of sectors with considerable variation in profitability—about one-third are loss-making, while total losses are concentrated in a handful of SOEs. The Indian government has recently stated a strong commitment to privatization, selected several firms to be privatized, and, to facilitate the process, moved the Department of Public Enterprises to the Ministry of Finance. The government's new privatization strategy envisions the privatization or closure of all SOEs in nonstrategic sectors, while keeping a bare minimum presence in strategic sectors.[1]





A framework for assessing policy options for different types of SOEs is mapped to the universe of SOEs. It differentiates SOEs by their mandate and sector of operation and by their commercial viability. Using this framework, SOEs are split along a 2x2 dimension: (1) profitable vs. nonprofitable, and (2) strategic vs. nonstrategic sectors. This analysis suggests scope for privatization (or closing down) of SOEs by focusing on several nonprofitable firms in the nonstrategic sectors, especially firms operating in the contract and construction, heavy and medium engineering, and trading and marketing sectors.

International experience highlights several prerequisites for reaping the benefits of privatization and may be relevant for India: a medium-term privatization plan, a solid regulatory framework for good governance and transparency during privatization, competitive markets, and ensuring an equitable distribution of privatization rents, for example by compensating affected workers. Because privatization often takes time, governments should also invest in governance and oversight of SOEs, which can increase efficiency, reduce cost to governments, and facilitate future privatization. In that context, and also for SOEs that will remain state-owned, a medium-term perspective, better coordination across ministries and a clear financial oversight role for the Ministry of Finance, greater transparency, and a better accountability framework are key factors to build a stronger public sector balance sheet.

[1] Strategic sectors are defined as (i) Atomic energy, Space and Defense; (ii) Transport and Telecommunication; (iii) Power, Petroleum, Coal and other minerals; and (iv) Banking, Insurance and Financial Services.

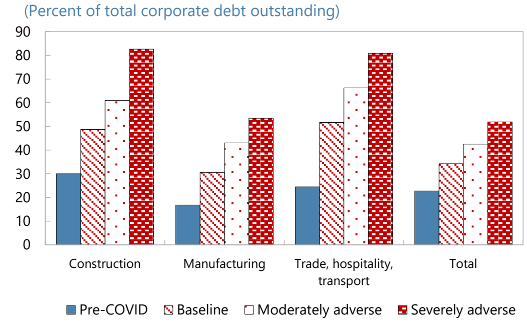
Box 3. Corporate Sector Resilience[1]

Policy measures have effectively softened the impact of the COVID-19 shock on corporate liquidity. The medium-term impact on corporate solvency, however, will crucially depend on the speed of economic recovery.

A series of stress tests assess the resilience of India's corporates against COVID-19-related shocks using a comprehensive firm-level dataset (Prowess) for over 20,000 firms in India. First, we consider single-year baseline, moderately adverse, and severely adverse scenarios, where the sectoral decline in corporate net sales is proportional to the change in gross value added in FY2020/21 (baseline) and 2020Q2 (severely adverse), respectively. Second, we consider two forward-looking multi-year scenarios: one follows the 2021 July *World Economic Outlook* projections, and another one where the recovery is more protracted.

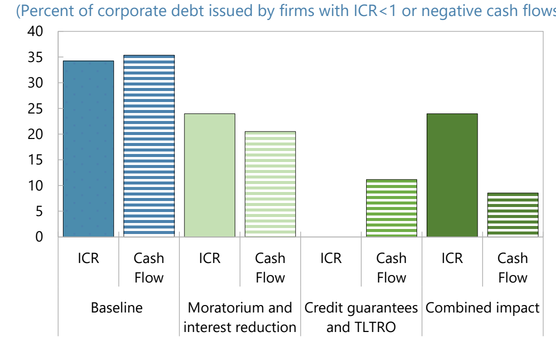
The stress tests highlight that without borrower relief measures and monetary easing, the COVID-19 shock could lead to an increase in the share of corporate debt issued by firms with earnings insufficient to cover their debt interest payments (i.e., with an interest coverage ratio (ICR) below 1), from 23 to over 34 percent under the baseline scenario, and to about 52 percent under the severely adverse scenario. Sectors most affected include construction, manufacturing and contact-intensive trade, transport, and hospitality services. Consistent with their weaker pre-pandemic liquidity position, the share of micro, small and medium enterprise (MSME) debt by firms with an ICR below one increases more than large firms under baseline and two adverse scenarios.

Firms with ICR<1
(Percent of total corporate debt outstanding)



Sources: Prowess Database, authors' calculations.

Impact of Policies on Firm Liquidity: Baseline
(Percent of corporate debt issued by firms with ICR<1 or negative cash flows)



Sources: Prowess Database, authors' calculations

Borrower relief measures and monetary easing provided to firms in 2020 are found to be effective in mitigating the liquidity impact of the COVID shock. For example, the share of debt issued by firms with an ICR below one in the baseline scenario falls to 24 percent from 34 percent, and the share of debt issued by firms with negative cashflows goes down from around 35 to 8.6 percent. At the same time, the effects of policy measures on corporate solvency are found to be less pronounced, reflecting the focus of the implemented policy measures on supporting corporate liquidity. Corporate stress could have a sizable impact on bank and NBFCs' balance sheets, particularly on public sector banks (PSBs) due to their relatively weak starting position, although the policy support measures also play an important role in mitigating the impact.

Finally, the forward-looking multi-period corporate stress tests suggest that the impact of the COVID-19 shock will crucially depend on the speed of the economic recovery. Overall corporate performance improves gradually to close to pre-COVID levels by the end of 2023 under the baseline growth path. However, a slower pace of recovery could lead to persistently high levels of debt at risk and persistent impact, especially in contact-intensive services, construction, and manufacturing sectors.

[1] Gornicka, Ogawa and Xu (forthcoming): "Corporate Sector Resilience in India in the Wake of the COVID-19 shock", *IMF Working Paper*.

Appendix I. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable policies. India's low per capita income, favorable growth prospects, demographic trends, and development needs justify running current account deficits. External vulnerabilities remain, stemming from volatility in global financial conditions and an oil price surge, as well as a retreat from cross-border integration. Progress has been made on FDI and portfolio flow liberalization, but the basic tariff structure remains unchanged.

Potential Policy Responses: Policy responses to the ongoing pandemic have appropriately prioritized support to vulnerable households and firms, through fiscal, monetary, and financial sector policies, and structural reforms. Fiscal policy should remain accommodative in the near term, but a concrete medium-term fiscal consolidation is critical to ensure credibility and continued market confidence. Fiscal policy should be accompanied by efforts to further strengthen the financial sector. Improving the business climate, easing domestic supply bottlenecks, and liberalizing trade and investment will be important to help attract FDI, improve the current account financing mix, and contain external vulnerabilities. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. As of the end of 2020 India's NIIP improved to −13.1 percent of GDP from −15.0 percent of GDP at the end of 2019 on the back of a temporarily positive current account balance and reserve asset accumulation. Gross foreign assets and liabilities were 32.7 and 45.7 percent of GDP, respectively. The bulk of assets are in the form of official reserves and FDI, whereas liabilities include mostly other investments and FDI. External debt amounted to some 21.6 percent of GDP, of which about 51.9 percent was denominated in US dollars and another 33.1 percent in Indian rupees. Short-term external debt on a residual maturity basis stood at 44.8 percent of total external debt and 43.1 percent of FX reserves.

Assessment. With current account deficits projected to widen in the medium term, the NIIP-to-GDP ratio is expected to weaken marginally. India's external debt is moderate compared to that of other emerging market economies, and rollover risks are limited in the short term. The moderate level of foreign liabilities reflects India's gradual approach to capital account liberalization, which has focused primarily on attracting FDI.</td></tr>
<tr><td>2020 (% GDP)</td><td colspan="2">NIIP: −13.1</td><td>Gross Assets: 32.7</td><td>Res. Assets: 22.5</td><td colspan="2">Gross Liab.: 45.7</td><td>Debt Liab.: 21.6</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. The current account balance improved to 0.9 percent of GDP surplus in fiscal year 2020/21 from 0.9 percent deficit in the previous year. The improvement in the current account balance was largely driven by a sharp decline in imports caused by the negative domestic demand shock amid the COVID-19 pandemic and lower oil prices in the first half of fiscal year. Exports of both good and services decelerated less than imports owing to a relatively smaller decline in key trading partners' demand. From the saving–investment perspective, the change in the current account reflects a sharp increase in private savings and fall in private investment, which outweighed the drop in the public sector saving–investment balance. The current account balance is projected to return toward a deficit over the 2021/22 fiscal year due to recovery in domestic demand and higher oil prices, in the context of unusually high uncertainty over the cyclical position of the economy and the outlook for the pandemic.

Assessment. The EBA cyclically adjusted current account balance stood at −0.8 percent of GDP in fiscal year 2020/21. The EBA current account regression estimates a norm of −2.4 percent of GDP, with a standard error of 1.3 percent, thus implying a current account gap of 1.7 percent. In the IMF staff's judgment, a current account deficit of 2½ percent of GDP is financeable over time. FDI flows are not yet sufficient to cover protracted and large current account deficits; portfolio flows are volatile and susceptible to changes in global risk appetite. Additional cyclical considerations are given to factor in the transitory impacts of the COVID-19 crisis on oil (−0.6 percent of GDP) and tourism (0.2 percent of GDP) balances, and on trade in medical products (−0.1 percent of GDP). Thus, with the IMF staff-assessed current account norm and additional cyclical considerations, the IMF staff-assessed current account gap is assessed to be 1 percent of GDP, with a range of 0 to 2 percent of GDP. Positive policy contributions to the current account gap stem mostly from increase in FX reserves, credit gap, and capital controls, and partly offset by a larger-than-desirable domestic fiscal deficit (while it is narrower than the world average).</td></tr>
<tr><td>2020 (% GDP)</td><td>CA: 0.9</td><td>Cycl. Adj. CA: −0.8</td><td>EBA Norm: −2.4</td><td>EBA Gap: 1.7</td><td>COVID-19 Adj.: −0.6</td><td>Other Adj.: 0.0</td><td>Staff Gap: 1.0</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. The average REER in 2020 appreciated by about 0.4 percent from its 2019 average. As of end-May 2021, the rupee depreciated by about 1.8 percent in real terms compared to the 2020 average.

Assessment. The IMF staff current account gap implies a REER gap of −6.3 percent (applying an estimated elasticity of 0.17). The EBA REER index and REER level models suggest an overvaluation of 10.9 and 6.6 percent, respectively. Consistent with the IMF staff current account gap, the IMF staff assesses the REER to be in the range of −12.8 to 0.2 percent, with a midpoint of −6.3 percent for fiscal year 2020/21.</td></tr>
</table>

Capital and Financial Accounts: Flows and Policy Measures	**Background.** The sum of FDI, portfolio, and financial derivative flows, on a net basis, is estimated at 2.7 percent of GDP in 2020, remaining at a similar level as in 2019. Capital inflows have been supported by investor-friendly reforms in recent years. After a sharp decline in the first half of 2020, net FDI inflows recovered significantly from the third quarter onward and are estimated at 2.0 percent of GDP in 2020 as a whole. Similarly, India faced significant portfolio outflows (0.5 percent of GDP) in the first quarter of 2020 amid the COVID-19 shock. However, portfolio inflows returned after the second quarter, aided by loose global financial conditions and policy measures to ease debt inflows. **Assessment.** Yearly capital inflows are relatively small but, given the modest scale of FDI, flows of portfolio and other investments are critical to finance the current account in the medium term. As evidenced by the episodes of external pressures, portfolio debt flows have been volatile, and the exchange rate has been sensitive to these flows and changes in global risk aversion. Attracting more stable sources of financing is needed to reduce vulnerabilities.
FX Intervention and Reserves Level	**Background.** With the current account surplus, renewed FDI and portfolio flows, in the context of interventions mostly with net purchases, foreign reserves reached a record high ($585.8 billion) in 2020, which has improved the external position. The precautionary accumulation of reserves is aimed at building buffers to mitigate risks due to external vulnerabilities and an associated adverse feedback loop with corporate and financial sectors. Net spot FX purchases were $88 billion (3.3 percent of GDP) and net forwards purchases were $43 billion (1.6 percent of GDP) in 2020. Reserve coverage currently is about 22.5 percent of GDP and about 12 months of prospective imports of goods and services. **Assessment.** Reserve levels are adequate for precautionary purposes, relative to various criteria, and represent about 236 percent of short-term debt on residual maturity and 197 percent of the IMF's composite metric as of the end of 2020. In this context, further accumulation of reserves is less warranted, and FX intervention should be limited to addressing disorderly market conditions.

Appendix II. Risk Assessment Matrix

Source of Risk 1/	Location of Source	Relative Likelihood	Time Horizon	Expected Impact	Direction of Impact	*Main Impacts* → Recommended Policy Actions
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth	Domestic	H	ST, MT	H	↓	*Further outbreaks could prompt additional lockdowns and virus concerns could dampen consumer confidence and delay the economic recovery. Policy response to cushion the economic impact could be constrained by limited policy space. Persistent impact of the COVID-19 shock could adversely impact the growth outlook.* → Increase public expenditure in health infrastructure, education, and social safety nets to mitigate the immediate impact of the pandemic and boost potential growth.
Corporate and financial sector vulnerabilities	Domestic	M	ST, MT	M	↓	*Corporate insolvency could rise significantly, weakening bank (including public sector banks) and NBFC asset quality, amplifying the stress on the financial sector balance sheets, limiting credit provision, and minimize longer-term growth implications.* → Provide targeted support to viable corporates and facilitate the exit of non-viable firms. Encourage banks to build capital buffers and to recognize problem loans. Implement governance reforms in the PSB sector.
Weak fiscal position and fiscal risks	Domestic	M	ST, MT	M	↓	*A weaker fiscal position could increase the risk of a sharp increase in financing costs and the realization of contingent liabilities, which could have broader implications for financial conditions and the financial system.* → Enhance fiscal policy space through a credible medium-term fiscal consolidation strategy plan, anchored on stronger revenue mobilization, increased expenditure efficiency and clear communication.
Widespread social discontent	Domestic	M	ST, MT	M	↓	*Social discontent could increase as the pandemic and lockdowns exacerbate pre-existing inequalities, causing socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials).* → Additional spending on vulnerable households, social protection, health, and education are warranted to mitigate the impact of the pandemic and minimize adverse longer-term growth implications.
Higher frequency and severity of natural disasters related to climate change	Domestic	M	ST, MT	M/L	↓	*Higher frequency and severity of natural disasters related to climate change could hit key infrastructure and affect the economy and livelihoods of those affected.* → Increase spending on vulnerable households, social protection, and infrastructure to mitigate the impact of the natural disasters. Continue transitioning to a carbon-neutral green economy.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Global resurgence of the COVID-10 pandemic	External	M	ST	M	↓	*Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.* → Increase public expenditure in health infrastructure, education, and social safety nets to mitigate the immediate impact of the pandemic and boost potential growth. Maintain exchange rate flexibility to absorb external shocks.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia	External	M	ST	M	↓	*A fast recovery in demand combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected, leading to a front-loaded tightening of financial conditions and higher risk premia.* → Enhance the environment for attracting stable non-debt creating capital flows, particularly FDI. Maintain exchange rate flexibility to absorb external shocks.
Rising commodity prices amid bouts of volatility	External	M	ST, MT	M	↓	*Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Volatility in oil prices could affect India's current account, exchange rates and inflation.* → Improve targeting of transfers to shelter the most vulnerable; accelerate reform of remaining fuel subsidies; intervene to prevent disorderly currency movements.
Intensified geopolitical tensions and security risks.	External	H	ST, MT	M	↓	*A rise in cross-border tensions could cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence. It could also trigger financial market pressure, reduce capital inflows, and cause general tightening of financial conditions.* →Exchange rate flexibility should continue to be the main shock absorber. With adequate reserves, provide FX liquidity to prevent disorderly currency movements.

Appendix III. Debt Sustainability Analysis

India's debt and gross financing needs are high and are projected to remain elevated over the medium term. Under the baseline, the public debt-to-GDP ratio [1] would decline from about 89 percent in FY2020/21 to about 85 percent of GDP by FY2026/27, while gross financing needs would remain elevated at around 15-16 percent of GDP in the medium term. Medium-term debt dynamics are uncertain and fiscal risks have increased. Favorable debt dynamics support a sustainable debt path, but a gradual fiscal consolidation starting in the medium term will be critical for meaningful reduction in public debt, which is crucial to regaining fiscal space, enhancing macroeconomic stability, lowering the interest bill, and reducing crowding out. Risks are mitigated because public debt is denominated in domestic currency and predominantly held by residents, while the statutory liquidity requirement creates a captive domestic market for debt, limiting interest costs. Long-term debt dynamics depend on India's growth potential and maintaining fiscal discipline.

1. **India's debt-to-GDP ratio increased significantly and is projected to remain elevated over the medium term.** General government debt was already high before the COVID-19 pandemic and is projected to increase to about 89 percent of GDP in FY2020/21, reflecting the significant contraction in output and the increase in the fiscal deficit. In the medium term, debt is projected to decline to around 85 percent of GDP, driven by favorable debt dynamics. After declining in FY2020/21, nominal GDP growth is projected to increase to about 13.7 percent in FY2021/22 and remain at around 11 percent over the medium term. Effective interest rates are projected to remain at around 7-7.5 percent. Inflation is forecast to be stable at around 4 percent in the medium term. India's debt stabilizing primary deficit is calculated at 2.9 percent of GDP.

2. **India's public debt sustainability analysis is based on the following macroeconomic assumptions:**

- **Growth assumptions.** Growth is projected to be 9.5 percent on FY2021/22 and decline to about 6 percent by FY2026/27. Staff's projection of India's potential growth in the medium- to long-term has been revised down relative to the previous DSA—from 7.3 percent to 6 percent—reflecting a more persistent impact from the pandemic and sustained financial sector weaknesses.

- **Fiscal assumptions.** The general government fiscal deficit is projected to decline modestly in FY2021/22 to about 11.3 percent of GDP and continue to decline over the medium-term to about 7.8 percent of GDP reflecting a gradual withdrawal of fiscal support and recovery in revenue. Revenues are projected to increase by about 12 percent in the medium term and expenditure growth is projected to be about 10 percent. The primary deficit is projected to

[1] Public debt figures reported in the DSA reflect the consolidated liabilities of the central and state governments (general government). It excludes Special Drawing Rights and therefore are lower than the figures reported in the main text and staff report tables.

decline to about 2 percent of GDP by FY2026/27, similar to its medium-term level projected in the previous DSA.

3. **While gross financing needs are sizable, a large share of debt is held by residents, helping reduce financing risks**. The interest bill is substantial, owing to the large stock of government debt with gross financing needs equivalent to about 15-16 percent of GDP in the medium-term. Foreign-currency-denominated debt is negligible, and non-resident holdings of government debt are relatively low (about 2 percent of total market borrowing). As of December 2020, average maturity of central government debt securities was about 11 years and about 3.6 percent of market debt had outstanding maturity less than one year. The statutory liquidity requirement, which creates a captive domestic market for debt, has historically helped keep interest costs low. Low policy rates and expanded central bank purchases of government debt has recently contributed to lower interest costs. The composition of debt is set to remain the same over the projection period, with the bulk of financing needs met by the issuance of medium and long-term debt denominated in domestic currency and held by residents.

4. **Debt dynamics over the medium term are subject to significant uncertainty.**

- **Realism of baseline assumptions**. Assumptions on fiscal consolidation are within the median for surveillance countries and are expected to be met. Past forecast errors in projecting real GDP growth and the primary balance are reasonable, with a percentile rank around 50 percent for each.

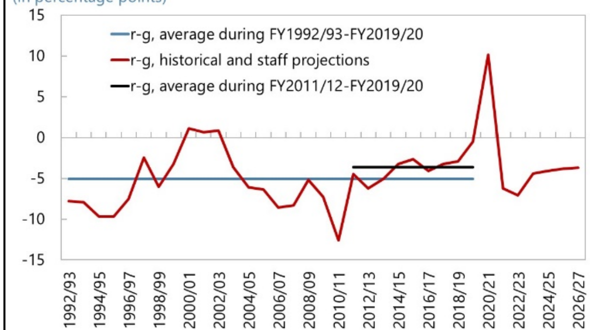
- **Risks to debt sustainability**. The primary risk to India's debt sustainability is low growth. The stress test corresponding to a growth shock, in which output growth is 3.4 percentage points lower in FY2022/23 and FY2023/24, yields a deteriorating debt path with debt-to-GDP peaking at about 97 percent of GDP and gross financing needs reaching a peak of about 17.5 percent of GDP. The combined macro-fiscal shock incorporates a similar growth shock, a primary balance shock in which none of the planned adjustment is implemented in FY2021/22 and the medium-term fiscal adjustment is delayed (with a cumulative impact on the primary deficit of about 3.6 percent of GDP relative to baseline), and an interest rate shock which leads to a 270 basis points increase in interest rate relative to baseline through the medium-term. In this adverse scenario, debt increases to 100 percent of GDP in the medium-term. Fiscal risks are assessed to have increased, reflecting higher macroeconomic uncertainty and contingent liabilities from the financial sector and losses of electricity generation corporations for state governments. The stress test corresponding to a contingent liability shock of about 5.5 percent of GDP in FY2022/23 suggests that debt would peak at above 100 percent of GDP and would decline very gradually in the medium term.

5. **Vulnerabilities are high in the heat map, reflecting the high baseline debt-to-GDP ratio**. Under all shocks, debt sustainability metrics signal high risks, reflecting the breach of the debt and gross financing risk thresholds in 2020 and constitutes a significant increase in risks related to debt sustainability metrics relative to staff's previous assessment (2019 India Article IV Report). Risks stemming from market perception (measured by bond spreads), external financing

requirements (defined as the current account balance and amortization of short-term external debt), and change in the share of short-term debt are within the low and the high-risk thresholds and signal a medium level of vulnerabilities.

6. **A gradual fiscal consolidation starting in the medium term and structural reforms to boost potential growth will be critical to achieving a meaningful reduction in public debt.** Under a constant primary deficit of -2 percent of GDP (its projected level at the end of staff's medium-term horizon) and the assumption of an interest-rate-growth differential of about -3.5 percent (similar to its historical average level), debt would decline to 70 percent of GDP (its average level before the pandemic) in about 20 years. A primary balance of about -0.5 percent, on the other hand, would bring the debt-to-GDP ratio to 70 percent in about 6 years under the same interest rate-growth differential. This highlights the importance of further fiscal consolidation and fiscal discipline in the medium term to achieve a meaningful reduction in public debt. Long-term debt dynamics also depend critically on the economy's growth potential. The interest rate-growth differential will likely be higher in the medium- to long-term, relative to its historical average, and is subject to considerable uncertainty. If the interest rate-growth differential is higher by 1 percentage point relative to the pre-pandemic average, bringing debt down to 70 percent in 6 years, would require a considerably larger fiscal consolidation (a primary balance of about 0.2 percent of GDP).

Interest rate-growth differential in India
(In percentage points)



Sources: IMF *World Economic Outlook*, and staff calculations.

Figure 1. India Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

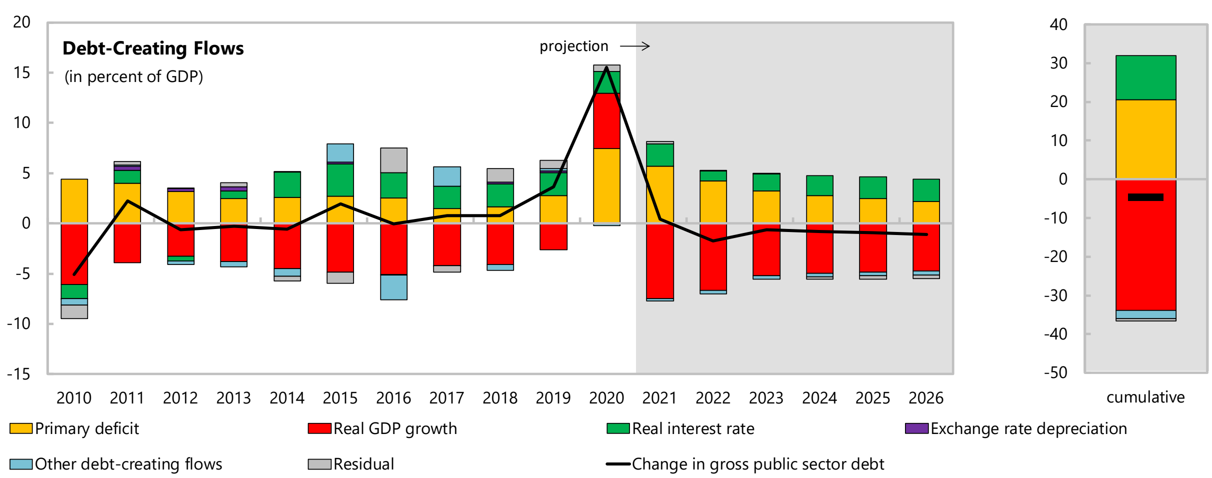
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2010-2018 [2]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	68.2	73.9	89.4	89.8	88.1	87.5	86.7	85.8	84.7
Public gross financing needs	11.9	11.6	17.2	16.5	15.2	14.4	15.0	14.8	15.8
Real GDP growth (in percent)	7.3	4.0	-7.3	9.5	8.5	6.6	6.3	6.2	6.1
Inflation (GDP deflator, in percent)	5.5	3.6	4.6	3.9	5.3	4.7	4.3	4.2	4.2
Nominal GDP growth (in percent)	12.7	7.8	-3.0	13.7	14.2	11.6	11.2	11.1	11.1
Effective interest rate (in percent) [4]	7.7	7.2	7.2	7.2	7.1	7.1	7.2	7.3	7.4

As of August 20, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		498
5Y CDS (bp)		80
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.1	3.7	15.5	0.4	-1.7	-0.6	-0.8	-0.9	-1.1	-4.7	
Identified debt-creating flows	-0.2	2.8	14.9	0.2	-1.8	-0.6	-0.6	-0.6	-0.7	-4.1	
Primary deficit	2.8	2.7	7.4	5.7	4.2	3.2	2.8	2.4	2.2	20.5	-2.9
Primary (noninterest) revenue and grants	19.5	19.6	18.2	19.1	19.4	19.6	19.8	19.9	20.1	117.9	
Primary (noninterest) expenditure	22.2	22.3	25.6	24.8	23.6	22.8	22.5	22.4	22.2	138.4	
Automatic debt dynamics [5]	-2.8	-0.2	7.7	-5.2	-5.6	-3.5	-3.0	-2.7	-2.5	-22.5	
Interest rate/growth differential [6]	-3.0	-0.3	7.7	-5.2	-5.6	-3.5	-3.0	-2.7	-2.5	-22.5	
Of which: real interest rate	1.4	2.3	2.2	2.2	1.0	1.7	2.0	2.2	2.3	11.4	
Of which: real GDP growth	-4.4	-2.6	5.5	-7.5	-6.7	-5.2	-5.0	-4.8	-4.7	-33.9	
Exchange rate depreciation [7]	0.1	0.2	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.3	-0.2	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-2.1	
Consolidated General Govt - Domestic Financing: Privatization Receipts (negative)	-0.5	-0.2	-0.2	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-2.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual liabilities to NSSF	0.3	0.5	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.7	
Residual, including asset changes [8]	0.1	0.8	0.6	0.2	0.1	0.0	-0.3	-0.3	-0.4	-0.7	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

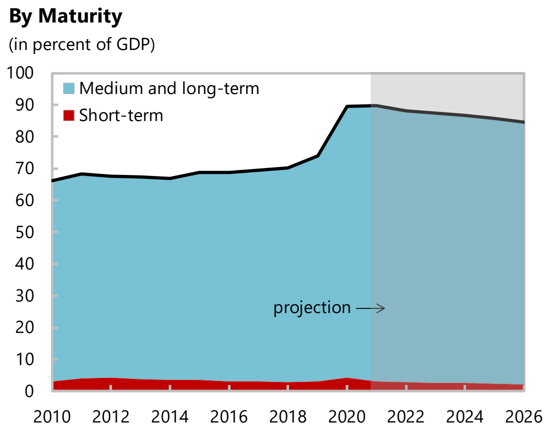
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

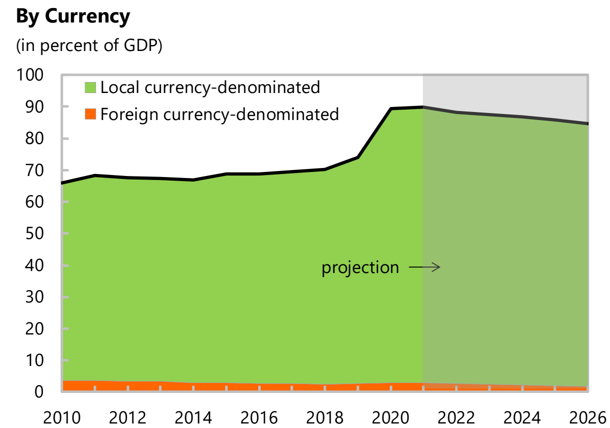
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

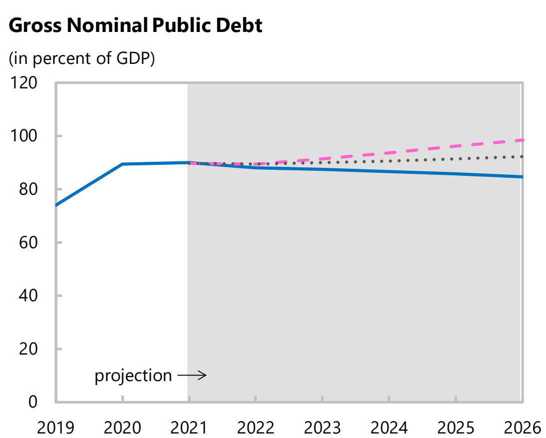
Figure 2. India Public DSA - Composition of Public Debt and Alternative Scenarios

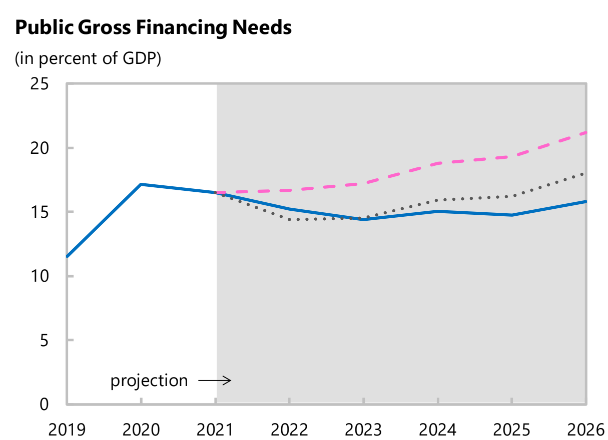
Composition of Public Debt





Alternative Scenarios





Underlying Assumptions

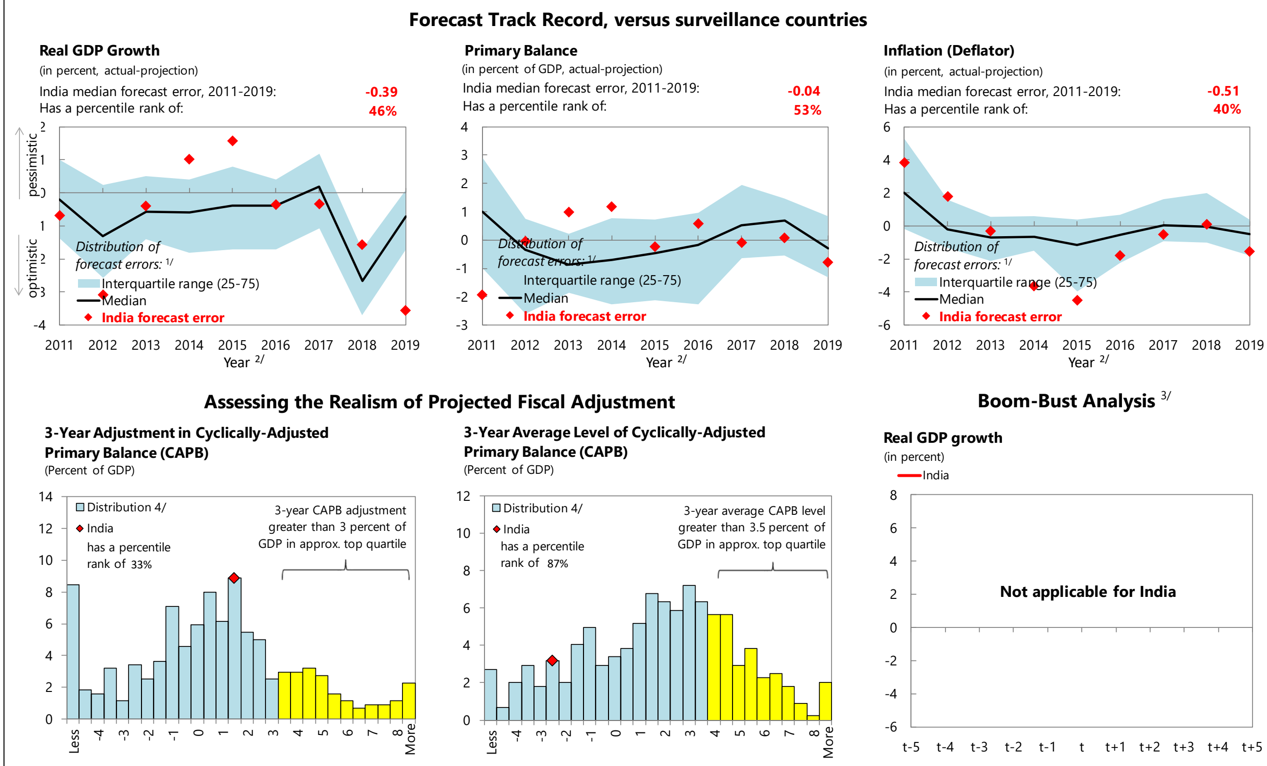
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	9.5	8.5	6.6	6.3	6.2	6.1
Inflation	3.9	5.3	4.7	4.3	4.2	4.2
Primary Balance	-5.7	-4.2	-3.2	-2.8	-2.4	-2.2
Effective interest rate	7.2	7.1	7.1	7.2	7.3	7.4
Constant Primary Balance Scenario						
Real GDP growth	9.5	8.5	6.6	6.3	6.2	6.1
Inflation	3.9	5.3	4.7	4.3	4.2	4.2
Primary Balance	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7
Effective interest rate	7.2	7.1	7.1	7.1	7.3	7.4

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	9.5	5.2	5.2	5.2	5.2	5.2
Inflation	3.9	5.3	4.7	4.3	4.2	4.2
Primary Balance	-5.7	-3.1	-3.1	-3.1	-3.1	-3.1
Effective interest rate	7.2	7.1	7.2	7.3	7.5	7.6

Source: IMF staff.

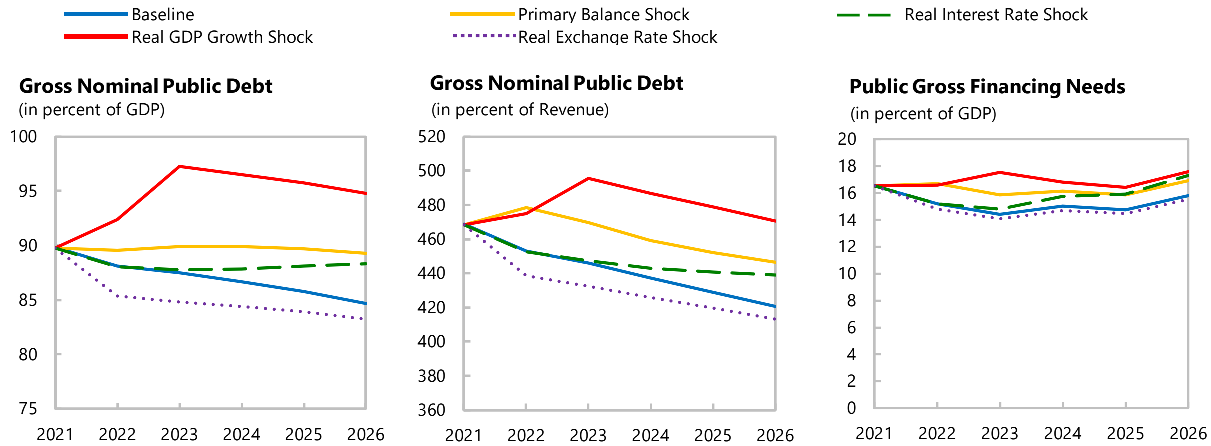
Figure 3. India Public DSA - Realism of Baseline Assumptions



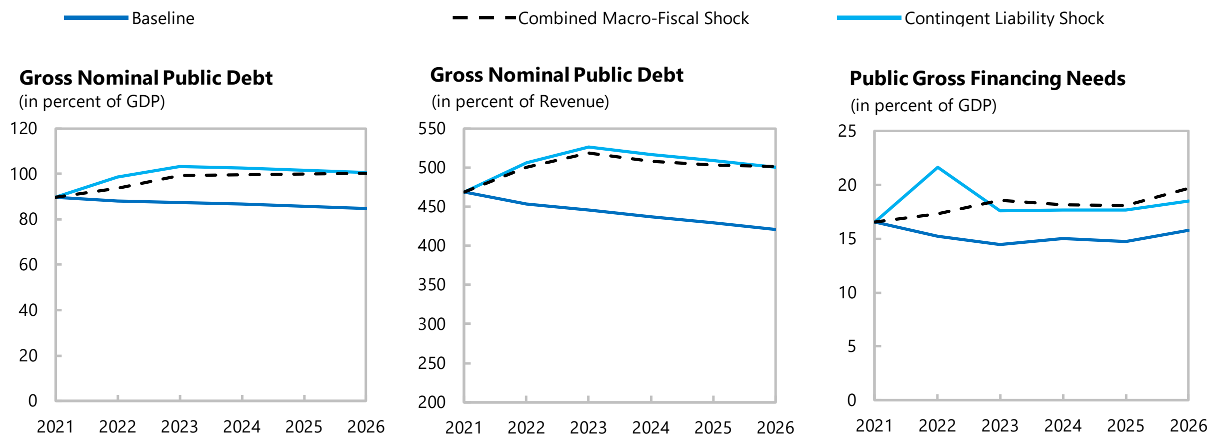
Source : IMF Staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for India, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. India Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	9.5	8.5	6.6	6.3	6.2	6.1
Inflation	3.9	5.3	4.7	4.3	4.2	4.2
Primary balance	-5.7	-5.7	-4.2	-3.2	-2.8	-2.4
Effective interest rate	7.2	7.1	7.3	7.3	7.5	7.6
Real Interest Rate Shock						
Real GDP growth	9.5	8.5	6.6	6.3	6.2	6.1
Inflation	3.9	5.3	4.7	4.3	4.2	4.2
Primary balance	-5.7	-4.2	-3.2	-2.8	-2.4	-2.2
Effective interest rate	7.2	7.1	7.6	7.9	8.4	8.7
Combined Shock						
Real GDP growth	9.5	5.1	3.2	6.3	6.2	6.1
Inflation	3.9	4.5	3.8	4.3	4.2	4.2
Primary balance	-5.7	-5.9	-5.6	-3.2	-2.8	-2.4
Effective interest rate	7.2	7.1	7.6	8.0	8.4	8.8

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	9.5	5.1	3.2	6.3	6.2	6.1
Inflation	3.9	4.5	3.8	4.3	4.2	4.2
Primary balance	-5.7	-5.1	-5.1	-2.8	-2.4	-2.2
Effective interest rate	7.2	7.1	7.2	7.4	7.4	7.5
Real Exchange Rate Shock						
Real GDP growth	9.5	8.5	6.6	6.3	6.2	6.1
Inflation	3.9	9.4	4.7	4.3	4.2	4.2
Primary balance	-5.7	-4.2	-3.2	-2.8	-2.4	-2.2
Effective interest rate	7.2	7.1	7.1	7.1	7.3	7.4
Contingent Liability Shock						
Real GDP growth	9.5	3.9	2.0	6.3	6.2	6.1
Inflation	3.9	4.2	3.5	4.3	4.2	4.2
Primary balance	-5.7	-9.7	-3.2	-2.8	-2.4	-2.2
Effective interest rate	7.2	7.5	7.7	7.6	7.6	7.7

Source: IMF staff.

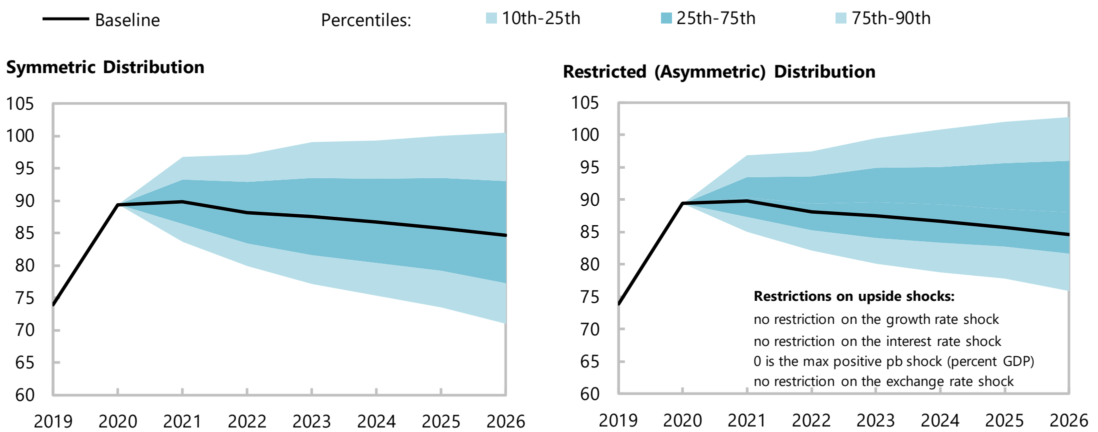
Figure 5. India Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

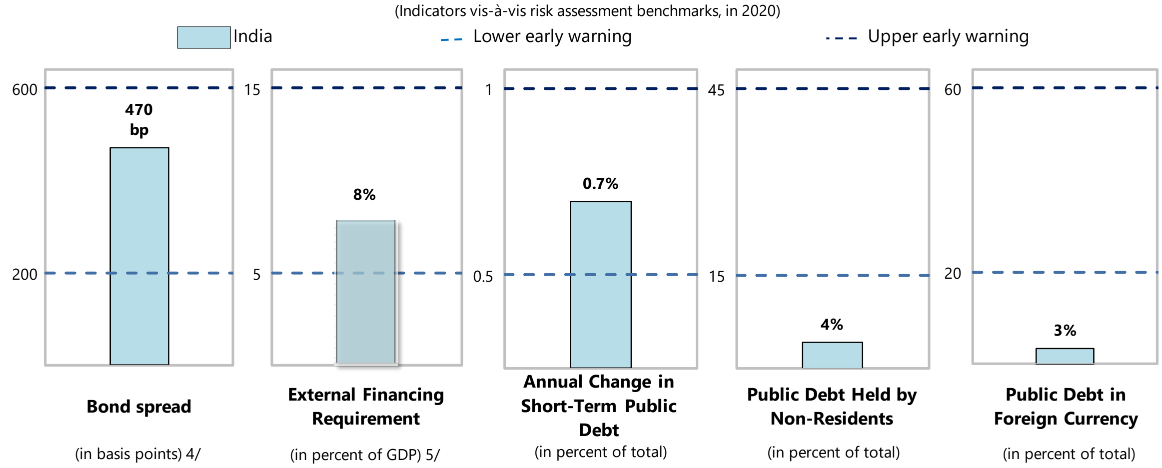
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 22-May-21 through 20-Aug-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Recommendations[1]	Authority	Time frame	Status
Policies to Address Vulnerabilities			
Improve the governance and financial operations of public sector banks (PSBs) and develop a strategic plan for their consolidation, divestment, and privatization.	Ministry of Finance (MoF)	S	**In process:** • The January 2018 Banking Reforms Roadmap lists six "reform themes", including strengthening public sector banks (PSBs); increasing credit supply; and deepening financial inclusion and digitalization. A first assessment of reform progress was released in February 2019. • More recently, more leadership posts were created at PSBs by separately appointing non-Executive Chairpersons alongside the post of CEO/Managing Director. The Banks Board Bureau, established by the government in 2016 as an autonomous recommendatory body, is now responsible for advising the government, including on the selection and appointment of Board of Directors in PSBs; matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors, and suitable training and development programs for management personnel in PSBs. • Plans announced in August 2019 involve enhancing PSBs' management accountability to the Board. PSBs can now recruit Chief Risk Officers from the market. The terms of directors on the Board's Management Committee will be extended to strengthen their contributions, the loan sanction thresholds for approval by Management Committee of Board (MCB) were raised to enable more focused attention to higher-value loan proposals, and a mandate was given to Boards for training directors and evaluate their performances annually. • The number of PSBs as of March 2021 stands at 12, reduced via consolidation within PSBs space. A majority stake in a PSB (classified as other- PSB) was sold to the state-owned Life Insurance Corporation of India and the bank has been classified as private sector bank since January 21, 2019, for regulatory purpose.

[1] This annex contains the Indian authorities' self-assessment of the status of implementation of the recommendations of the 2018 FSAP and is not necessarily the assessment of IMF staff.

			• In the recent budget speech, Finance Minister of India has announced that in addition to IDBI Bank, two Public Sector Banks will be privatized. Government of India and RBI are discussing the modalities.
Conduct granular assessments of banks' capital needs and require additional provisions and swift recapitalization and restructuring.	Reserve Bank of India (RBI), MoF	S	**In process:** A recapitalization plan was announced in October 2017 to clean up legacy nonperforming assets (NPAs), support credit growth, and have PSBs meet regulatory capital requirement. Indian rupee (INR) 881 billion was infused in FY2017/18 (excluding INR 19 billion injected during the year before the announcement of the Plan). The capital injection in FY2018/19 was raised from INR 650 billion to INR 1.06 trillion. An additional INR 700 billion in FY2019/20 and INR 200 billion in FY2020/21 has been infused. For the FY2021/22, INR 200 billion has been budgeted. Since the third quarter of 2018, the Banks Board Bureau conducts quarterly assessments of PSB capital requirements. These are reported to the government and the RBI.
Redesign the corporate debt restructuring mechanisms to make them more flexible.	RBI	S	**In process:** The Prudential Framework for Resolution of Stressed Assets issued by the RBI on Jun 7, 2019 (replacing the erstwhile guidelines issued on Feb 12, 2018) lays out the principles underlying the new regulatory approach for resolution of stressed assets, including early recognition and reporting of default; discretion of lenders to design and implement resolution plans (RPs); and a system of disincentives for delays in implementation of RPs. It eliminated mandatory referral (under the previous circular of February 2018) of stressed accounts under the Insolvency and Bankruptcy Code (IBC), with a system of disincentives in the form of additional provisions in case of delayed resolution, and puts the onus on lenders to devise a suitable RP. RPs can be tailored to specific requirements of the borrower and the respective commercial considerations of the lenders, subject to certain boundary conditions to establish implementation of a resolution plan as well as certain prudential requirements to ensure that only viable resolution plans are implemented. Wherever necessary, the RBI will issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults. The in-built flexibility of the Prudential Framework was demonstrated during the COVID-19 pandemic where the RBI could open a window for resolution under the framework with only a few tweaks rather than having to put in place a totally new framework for COVID-19 related stress.
Financial Sector Oversight Framework			

System-wide oversight and macroprudential policies - Retain regulators' role in collecting firm-level data.	MoF	M	**Implemented:** The provision of direct collection of data from regulated entities has been dropped from the draft Financial Data Management Centre (FDMC) Bill, and the regulators' role in collecting data from the regulated entities has been retained. However, data may be collected directly by FDMC only when regulators are not able to provide data.
Banking supervision - Review loan classification and provisioning rules in the context of IFRS, and with respect to special loan categories. - Amend the legal framework to provide the RBI with full supervisory powers over PSBs and clarify its legal independence.	RBI Government	S M	**In process:** Indian Accounting Standards (Ind AS) was planned to be implemented by Scheduled Commercial Banks (SCBs), excluding regional rural banks from April 1, 2018, vide RBI Circular dated February 11, 2016. However, the implementation was deferred for the second time in March 2019, until further notice, pending necessary legislative amendments. Once amendment is carried out, loan classification and provisioning requirements under the Ind-AS norms are planned to follow. **Not implemented:** No amendments have been made to the legal framework.
Insurance supervision - Introduce a risk-based solvency regime and risk-based supervision.	IRDAI	S	**In process:** 10-member steering committee was formed in September 2017 to implement risk-based capital regime. Consultancy Evaluation Committee has been formed and is in process of finalizing request for proposal document to be issued to the consultants shortlisted. A project committee of IRDAI to study and develop an appropriate framework for risk-based supervision (RBS) submitted a report in November 2017. An Implementation Committee was formed in January 2018, which submitted its interim report in June 2018. IRDAI circulated its intention of moving towards RBS Framework circulated to insurance companies in October 2018. Central Points of Contact were designated for 5 insurance companies on a pilot basis in November 2018, and expression of interest was released in March 2019 for consultancy services for development and implementation of RBS Framework.

Securities regulation - Transfer legal authority over public-listed company reporting to the Securities and Exchange Board of India and introduce a risk-based review of company disclosures. - Adopt a strategy to unify regulation of commodities trading markets.	Government, SEBI	M S	**In process:** The Companies Act 2013 (CA-13) provides minimum requirements for a company with respect to preparation, circulation, filing and review of various disclosures through specified reports/returns. It provides for constitution of National Financial Reporting Authority as an independent regulator for audit to ensure complete independence, thoroughness, and accountability on the part of auditors. Arrangements for information sharing between the Ministry of Corporate Affairs and SEBI exist, which is simultaneous, and timely disclosure of information is required on the exchange platforms by the companies. SEBI has specified additional sectoral requirements for listed companies through various regulations. SEBI issued a circular in May 2018 to further streamline the procedures relating to non-compliance with all relevant provisions of Listing Obligations and Disclosure Requirements (LODR) and a dedicated division monitors the compliance. SEBI is also in the process of developing a smart aggregator of financial and other publicly available information filed by listed companies. **Under Consideration:** An Expert Committee to study and promote creation of an operational and legal framework to integrate spot and derivatives markets for commodities trading was set up on June 13, 2017. It submitted its report along with recommendations on February 12, 2018, many of which have already been implemented by RBI/SEBI.
Financial markets infrastructure oversight - Improve stress testing scenarios and methodologies.	Clearing Corporation of India (CCIL)	S	**Implemented:** CCIL revised its credit stress test model in July 2017 to include some hypothetical scenarios along with the historical scenarios. CCIL has revised its reverse stress test model since December 2018 to incorporate more realistic scenarios. The stress testing scenarios and methodologies are reviewed by CCIL on an ongoing basis. In addition, a comprehensive review of the stress testing processes and methodologies in CCIL is done every year by external experts. **Implemented:** CCIL has made the following revisions to its Stress testing and Default Fund sizing approaches since July 2018:

			• Since July 2018, stress losses are assessed more conservatively by assuming that the members will default in their incremental MTM margin and Volatility margin requirements. • Since Feb 2019, any downward revision in Default Fund at the time of month-end evaluation is subject to a floor of 85% of the prevailing default fund. This ensures that there is no sudden drop in default handling resources and adequate coverage is maintained most of the times. • Since Sep 2019, in Forex Forwards and Rupee Derivatives segments, CCIL is maintaining the Default Funds as per the Cover 2 criterion, i.e. the sum of the highest stress loss on account of a member and its affiliates and the second highest stress loss on account of a member and its affiliates in the past six months, plus stress losses on account of five weak entities. Consequently, CCIL's contribution towards default waterfall, which is linked to the member contributed default fund, has also increased significantly. • Also since Sep 2019, a 25% weightage is given to the highest stress loss of a member while determining the member's default fund requirement. This is in addition to the existing parameters, gross position and initial margin, carrying the weightages of 50% and 25% respectively. • Stress testing methodology has been adequately modified to incorporate clearing member structure in Securities, Forex Forwards and Rupee derivatives segments. In these segments, client level losses (ignoring gains) under a given stress scenario are aggregated with their respective clearing member's gains or losses. • Since Oct 2020, the threshold for intra-month revision in default fund is lowered and made equal to the prevailing level of default fund. This means that in an event, the highest Cover 1/Cover2 stress loss exceeds the prevailing level of Default Fund, additional default fund contributions are called from the members of the segment. Earlier the threshold was set equal to 95% of total prefunded resources (i.e. default fund plus CCIL's SIG). • Since Feb 2021, with implementation of auction-based default handling in derivatives segments, the Stress Period of Risk (SPOR), associated with the shifts in risk factors used for generating stress scenarios, has been increased from two days to five days in Forex Forwards segment and from three days to five days in Rupee Derivatives segment for trades linked to MIBOR benchmark. • The stress testing scenarios and methodologies are reviewed by CCIL on an ongoing basis. In addition, a comprehensive review of the stress testing processes and methodologies in CCIL is done every year by external experts.
Crisis management framework	Government	S	**In Process:**

- Resolution legislation should preserve RBI's full supervisory authority over going concern banks, and promote equal treatment of domestic and foreign creditors. - Improve the frameworks for emergency liquidity assistance, deposit insurance, and crisis preparedness.	RBI, Government	M	The Financial Resolution and Deposit Insurance (FRDI) Bill, which would accommodate the recommendations on crisis management framework, was introduced in the Lok Sabha in August 2017 and subsequently referred to a Joint Committee of Parliament. However, the Bill was withdrawn from Parliament in August 2018. It is under examination and reconsideration. **In Process:** The issues relating to duplication of supervisory authority in the pre-resolution phase, strengthening of resolution tools and safeguards, recovery and resolution plans, treatment of domestic and foreign liability holders, and matter of crisis preparedness are expected to be adequately accommodated in the ongoing reconsideration of the Bill, in consultation with the RBI. **In Process:** The Parliament has passed the Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021 on August 9, 2021. As per draft Bill, the Act shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint. At present Deposit Insurance Credit Guarantee Corporation (DICGC) functions primarily as a pay box entity. The average period for settlement of main claims by DICGC after receipt from the liquidators was reduced to 3 days during the year 2019-20 from 11 days during 2018-19 and has remained within 2 months, the period stipulated in the DICGC Act, 1961. With a view to providing a greater measure of protection to depositors in banks the DICGC, a wholly owned subsidiary of the Reserve Bank of India, has raised the limit of insurance cover for depositors in insured banks from the present level of Rs. 1 lakh to Rs. 5 lakh per depositor with effect from February 4, 2020 with the approval of Government of India. The increase in premium rate to 12 paise per Rs.100 of deposits was also effected from April 1, 2020 from the earlier level of 10 paise of per Rs.100 of deposits with the previous approval of the Reserve Bank to mitigate the impact of claim liability of deposit insurance fund in case of failure of banks. **In Process:** Crisis preparedness. Under the Financial Stability and Development Council framework, it has recently been decided to further strengthen the 'Early Warning Group' and the frequency of its meetings has been increased from once in three months to at least every two months.

			Implemented: Emergency liquidity assistance. The RBI has a board-approved lender of last resort policy in place that incorporates constructive ambiguity and flexibility that would help limit risk of moral hazard.
Market integrity - Subject domestic politically-exposed persons to adequate due diligence and qualify domestic tax evasion as predicate offense to money laundering.	MoF	S	**Not implemented:** The definition of politically-exposed persons remains as those who have been entrusted with public functions in a foreign country, including Indians serving in high positions in a foreign country. Tax evasion through foreign income and assets is a predicate offence to money laundering (Section 51 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015). While domestic tax evasion qualifies as a tax crime in the Indian context, it has not yet been made a predicate offence to money laundering.
Market Development			
Progressively reduce the SLR to help deepen markets and encourage lending.	RBI	S	**Implemented:** The SLR has been reduced from 22.5 percent in June 2014 to 18 percent as of April 2021. The RBI intends to continue its reduction in a calibrated manner to align the SLR with the Liquidity Coverage Ratio.
Undertake a cost-benefit and gap diagnostic of the PSL program and develop a plan to reduce its scope and ensure it targets underserved segments.	RBI, MoF	M	**Implemented**: A review of the PSL guidelines was carried out and revised guidelines were issued to banks on September 4, 2020. Significant changes brought out under the revised guidelines include financing of start-ups; increased limits for renewable energy, including solar power and compressed bio gas plants; higher limits for health infrastructure, increasing the targets for lending to 'Small and Marginal Farmers' and 'Weaker Sections' in a phased manner. Further, to address the regional disparities in the flow of priority sector credit, an incentive framework has been put in place for banks whereby higher weight are assigned for incremental priority sector credit in the identified districts where credit flow is comparatively lower and lower weights are assigned for incremental priority sector credit in identified districts where the credit flow is comparatively higher. Overall, the revised guidelines aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs).

S = short term, M = medium term.

Appendix V. Recent and Planned Capacity Development

1. **The Fund's capacity development (CD) activities with India have deepened in recent years.** Since the pandemic, the CD engagement has been recalibrated toward online delivery for both the central and state levels and supported areas (e.g., loan moratorium and resolution framework) that would support the recovery. The online delivery (e.g., PFM Seminar for Indian State Finance Secretaries; virtual seminars on insolvency issues by LEG; a customized training in macroeconomic issues for experienced civil servants) and engagement (e.g., with 15th Finance Commission and the Insolvency and Bankruptcy Board of India) allowed high-level and cross-country participations and dialogue.

2. **Upon its inauguration in February 2017, the SARTTAC has become the focal point for CD delivery in the region.** SARTTAC continued to play an important role during the pandemic. As highlighted in its FY2020 Annual Report, SARTTAC provided extensive training and TA in the Fund's core areas of expertise such as training on macro-fiscal forecasting, financial programming, national accounts, and public financial management. A total of 496 Indian officials received training in FY2020 through SARTTAC. Ongoing workplans have included asset and liability management at the state level (including cash flow forecasting), fiscal reporting, budget execution and control, and compilation and dissemination of macroeconomic and financial data at the state level.

3. **In line with the Fund's CD strategy:**

- **Recent activities and collaboration with Indian authorities has helped with customization for country needs**. The online delivery since the pandemic facilitated wider and higher-level participation among the stakeholders in the training of the civil servants, provided by ICD. APD and FAD have worked with the 15th Finance Commission in developing approaches to handle issues related to fiscal federalism.

- **CD activities have been further integrated with surveillance and IMF policy advice**. In addition to the regular CD delivery, APD and functional departments (e.g., MCM) have worked with the authorities on specific queries that can aid policy formulation amid pandemic-related uncertainties. Ongoing SARTTAC work at the sub-national level places strong emphasis on addressing the sizeable capacity building needs among the states. Key vehicles include courses on macro-fiscal policy analysis, TADAT and GFS, tailored for the Indian states, and ICD's training in financial programming and macroeconomics for cohorts of Indian civil servants (Indian Economic Service and Indian Administrative Service officers).

Appendix VI. Uptake of Previous IMF Advice

1. **The COVID-19 shock has presented new challenges, including in policy implementation, but policies have been broadly consistent with previous advice.** Monetary, fiscal and exchange rate policies since the last Article IV have been broadly consistent with IMF advice, against the backdrop of the COVID-19 shock, while the challenges of financial sector reforms and medium-term fiscal consolidation have increased. The government's economic relief package announced last year in response to COVID-19 included wide-ranging structural reforms, which face implementation challenges.

2. **The stance of monetary policy since the pandemic was appropriate.**

- The significant monetary easing (115 basis points of repo rates since March 2020), and liquidity support through various measures have helped avoid liquidity crunch and supported the economy.
- An accommodative stance along with forward guidance on policy rates and asset purchases have supported financial markets. The introduction of forward guidance in 2019 and the review and reaffirmation of the RBI's inflation target in 2021, consistent with staff advice, have widened policy tools and contributed to the buildup of credibility.

3. **The pandemic has delayed fiscal consolidation target as advocated in the last Article IV.** Fiscal policy has since appropriately focused on supporting the vulnerable and the economy amid the unprecedented shock. The accommodative fiscal stance, with emphasis on health and infrastructure and increased transparency, has been in the direction of staff advice.

4. **The regulatory forbearance and borrower relief measures have eased immediate macro-financial risks.** However, they are likely to have increased pre-existing vulnerabilities and medium-term risks in the financial sector. Staff past advice on financial sector reforms, including on the PSBs, is now increasingly urgent.

5. **Progress on further liberalization to facilitate trade and investment has been mixed.** Some important steps have been taken on further liberalization foreign portfolio and direct investment inflows, but uncertainties from frequent changes to the tariff rates and trade policies persist.

6. **The authorities' response to external sector developments during the pandemic was broadly in line with past Fund advice**. The response has involved a mix of some exchange rate flexibility and intervention in the foreign exchange market.

7. **Structural reforms face implementation challenges.** Significant efforts to make progress in multiple areas – e.g., labor market, the agriculture sector, FDI regulations – which are key to boosting inclusive and sustainable growth, broadly in line with staff advice, were announced last year, but face implementation challenges. The labor bills mark an important step forward toward formalization and the proposed agricultural reforms can help improve productivity.

Appendix VI. Key Policy Actions

Monetary Policy	
Mar 27, 2020	**Policy rate:** Reduction in the repo rate by 75 bps to 4.40%, reverse repo rate by 90 bps to 4% and continued with an accommodative stance. **Marginal standing facility:** Banks permitted to borrow under the facility up to 3% of Statutory Liquidity Ratio (SLR) from 2% earlier until June 30, 2020. **Cash reserve ratio (CRR):** Reduced CRR by 100 bps to 3% for one-year period and daily minimum CRR balance reduced from 90% to 80% up to June 26, 2020. **Targeted Long-Term Repos Operations:** RBI to auction ₹1 trillion long-term repo operations up to three years tenor to be tied to deployment in investment grade corporate bonds, commercial paper, and non-convertible debentures.
April 1, 2020	**Limits for ways and means advances (WMA) of states/union territories** increased by 30% for all states/union territories.
April 7, 2020	**RBI relaxed norms for overdraft facilities for states/union territories:** Increase the number of days for which states can be in overdraft continuously to 21 working days from 14 working days (for states, in any quarter, from 36 to 50 working days).
Apr 17, 2020	**Reverse repo rate** reduced by 25 bps to 3.75%. **Targeted long-term repo operations (TLTRO 2.0)** of ₹500 billion to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50% going to small and mid-sized NBFCs and microfinance institutions. **Special refinance facilities** of ₹500 billion to the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) to meet sectoral credit needs of regional rural banks, cooperative banks, MFIs and housing finance companies (HFCs).
Apr 17, 2020	**State Finance:** The WMA limit of states increased by 60% over and above the level as on March 31, 2020.
Apr 20, 2020	**Central Finance:** The limit for WMA for the central government raised by ₹800 billion to ₹2,000 billion. **Special liquidity facility for mutual funds (SLF-MF):** RBI opened a special liquidity facility for mutual funds of ₹500 billion.
May 22, 2020	**Policy repo rate** reduced 40 bps to 4.0% and the reverse repo rate to 3.35% from 3.75%.
Aug 31, 2020	**Special open market operation:** RBI to conduct additional OMO of ₹200 billion. **Term repo operations:** RBI to conduct term repo operation of ₹1 trillion. **Held to maturity (HTM) limits:** Banks allowed HTM up to a limit of 22% of NDTL up to March 31, 2021.

Oct 09, 2020	**On tap TLTRO:** RBI to conduct on tap TLTRO for ₹1 trillion. The funds were initially available for five sectors: agriculture, infrastructure, secured retail, MSMEs, and drugs, pharmaceuticals and healthcare until March 31, 2021. **SLR holdings in HTM category:** RBI extended the enhanced HTM limits of 22% up to March 31, 2022. **Open market operations (OMOs) in State Developments Loans (SDLs)** introduced to improve liquidity and facilitate efficient pricing.
Dec 4, 2020	**On tap TLTRO:** RBI added 26 more stressed sectors under on tap TLTRO.
Feb 5, 2021	**On tap TLTRO for NBFCs** introduced. **Restoration of CRR in two phases:** 3.5% of NDTL effective March 27, 2021 and 4.0% effective May 22, 2021. **HTM:** The higher limits at 22% extended until March 31, 2023.
April 7, 2021	**On tap TLTRO:** Extended until September 30, 2021. **G-SAP 1.0:** A secondary market G-sec acquisition program of ₹1 trillion. **WMA limit for States/UTs:** RBI enhanced the aggregate WMA limit of states and UTs to ₹470 billion, an increase of about 46% from the current limit of ₹322 billion.
May 5, 2021	**On-tap liquidity support to COVID related health care infrastructure and services:** An on-tap liquidity window of ₹500 billion to increase capacity and improve healthcare infrastructure for the pandemic. **Special Long-Term Repo Operations (SLTRO) for Small Finance Banks (SFBs)** of ₹100 billion at repo rate for the SFBs, to be deployed for fresh lending of up to ₹1 million per borrower.
June 4, 2021	**On tap TLTRO for contact-intensive sectors** of ₹150 billion for contact-intensive sectors. **Special refinance facilities** of an additional ₹500 billion refinances to NABARD, SIDBI and NHB to meet sectoral credit needs of regional rural banks, cooperative banks, MFIs and housing finance companies (HFCs). **G-SAP 2.0:** RBI committed upfront purchases of government securities of ₹1.2 trillion.
July 8, 2021	**Roadmap for LIBOR Transition** by December 31, 2021.
Aug 6, 2021	**On tap TLTRO:** Extended until December 31, 2021. **Marginal Standing Facility (MSF):** Relaxation extended until December 31, 2021. **Variable rate reverse repo (VRRR) auctions:** RBI to raise fortnightly VRRR auctions by additional ₹2.0 trillion to a total of ₹4.0 trillion by September 24, 2021.
	Financial Sector
Mar 4, 2020	**Public sector bank consolidation:** Government approved merger of 10 PSBs into four bigger banks, effective April 1, 2020.
Mar 13, 2020	**Yes Bank:** Government notified a new reconstruction plan for Yes Bank.
Mar 27, 2020	**Moratorium on Term Loans:** All banks permitted to allow 3-months moratorium on instalments of all term loans outstanding as on March 1, 2020. **Deferment of interest on working capital loan:** 3-month deferment of interest on working capital loan. **Asset classification:** The above moratorium, deferment and relaxations would not result in asset classification downgrade.
Mar 27, 2020	**Net stable funding ratio (NSFR):** The implementation of NSFR deferred by six months to October 1, 2020. **Capital conservation buffer (CCB):** RBI deferred the implementation of the last tranche of 0.625% of the CCB from March 31 to September 30, 2020.
April 1, 2020	**Countercyclical capital buffer** activation delayed by one year.

Apr 20, 2020	**RBI eases regulatory measures:** Moratorium or deferment to all loans and an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. **Resolution plan** period extended by 90 days. Banks required to hold an additional provision of 20% if a resolution plan for a defaulting account has not been implemented within 210 days. **Liquidity Coverage Ratio:** Requirement for banks brought down to 80% from 100%.
May 13, 2020	**Government to provide ₹3 trillion emergency working capital facility for businesses, including MSMEs.**
May 22, 2020	**Moratorium on term loan** extended till August 31, 2020. **Deferment of Interest on working capital facilities** till August 31, 2020. **Payment of interest on deferred working capital loan:** Lending institutions permitted to convert the accumulated interest on working capital into a funded interest term loan, repayable by March 31, 2021. **Asset classification** standstill during moratorium. **Easing of working capital financing:** Lending institutions permitted to reassess the working capital cycle of a borrowing entity up to an extended period till March 31, 2021, and standstill in asset classification. **Extension of resolution timeline:** Lending institutions permitted to exclude the entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the calculation of 30-day review period or 180-day resolution period, if the Review/Resolution Period had not expired as on March 1, 2020. **Limit on group exposures under the large exposure framework**: increased from 25% to 30% of the eligible capital base of the bank (applicable up to June 30, 2021). **Refinancing facility for SIDBI** to roll over its special refinance facility extended to borrowers by another 90 days. **Export credit:** RBI raised the maximum permissible period of pre-shipment and post-shipment export credit from the existing one year to 15 months, for disbursements made up to July 31, 2020
May 23, 2020	**Emergency Credit Line Guarantee Scheme (ECLGS 1.0):** 100% guarantee to additional working capital/term loans by MSMEs/individuals from banks and NBFCs up to 20% of their outstanding loans as on February 29, 2020.
Jun 21, 2020	**Risk weight:** Banks to assign zero percent risk weight under ECLGS.
July 1, 2020	**Special liquidity scheme for NBFCs/HFCs** to purchase short-term papers from eligible NBFCs/HFCs.
Aug 6, 2020	**Additional standing liquidity facility (ASLF)** of ₹50 billion to NHB for HFCs and ₹50 billion to NABARD. **Restructuring MEME debts** permitted under the existing framework, provided the borrower's account was classified as standard with the lender as on March 1, 2020. **Loan to value ratio (LTV)** for loans against pledge of gold ornaments and jewellery for non-agricultural purposes raised from 75% to 90%.
Sept 29, 2020	**Capital Conservation Buffer (CCB)** implementation of last tranche of 0.625% deferred till April 1, 2021. **NSFR** implementation by another six months.
Nov 25, 2020	**The Lakshmi Vilas Bank (LVB)'s** amalgamation with DBS Bank India Limited (DBIL) effective November 27, 2020.
Nov 26, 2020	**Emergency Credit Line Guarantee Scheme (ECLGS 2.0)** extended to loans to 26 sectors.
Dec 22, 2020	**Suspension of IBC** till March 31, 2021.

Feb 5, 2021	**NSFR:** Deferred implementation of NSFR to October 1, 2021.
Mar 31, 2021	**Emergency Credit Line Guarantee Scheme (ECLGS 3.0)** extended to loans to the Hospitality, Travel & Tourism, Leisure & Sporting sectors (tenor of 6 years, including moratorium for 2 years). **ECLGS 1.0, ECLGS 2.0 & ECLGS 3.0** extended up to June 30, 2021 or till guarantees for an amount of Rs. 3 trillion are issued. Last date of disbursement extended to September 30, 2021.
May 5, 2021	**Lending by Small Finance Banks (SFBs) to MFIs for on-lending to be classified as priority sector lending** (available till March 31, 2022). **Resolution Framework 2.0 f**or COVID related stressed assets of individuals, small businesses and MSMEs. **Relaxation under Resolution Framework 1.0:** The moratorium period and/or the residual tenor extended up to a total of 2 years for loans restructured under Framework 1.0 for of individual borrowers and small businesses.
May 5, 2021	**Utilization of Floating Provisions and Countercyclical Provisioning Buffer:** 100% of floating provisions/countercyclical provisioning buffer held by banks as on December 31, 2020 for making specific provisions for nonperforming assets with prior approval of their Boards. **Relaxation in Overdraft (OD) facility for states governments:** The maximum number of days of OD in a quarter for states is being increased from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days till September 30, 2021.
May 30, 2021	**Emergency Credit Line Guarantee Scheme (ECLGS 4.0)** of loans up to ₹20 million to hospitals/nursing homes/clinics/medical colleges for setting up on-site oxygen generation plants. The validity extended until September 30, 2021 or till guarantees of ₹3 trillion are issued. Disbursement till December 31, 2021.
Aug 3, 2021	**Pre-Packaged Insolvency Resolution Process (PIRP)** introduced an alternate insolvency resolution process (PIRP) for micro, small, and medium enterprises (MSMEs).
Aug 9, 2021	**Deposit Insurance** and Credit Guarantee Corporation (DICGC) Act amended to allow depositors to claim insurance up to Rs. 0.5 million within 90 days of liquidation or imposition of moratorium by the RBI.
Fiscal Policy	
Mar 26, 2020	**Insurance scheme for health workers:** ₹0.5 million per health worker fighting COVID-19. **PM Garib Kalyan Ann Yojana:** Provide 5 kg wheat or rice and 1 kg of pulses for free for three months 800 million poor people. To give ₹500 per month for three months to 204 million women Jan Dhan account holders. **MNREGA wages:** Increase MNREGA wage to ₹202 a day. **Ex-grata payment:** to pay ex-gratia of ₹1,000 to 30 million poor senior citizens, widows and disabled. **PM Garib Kalyan Yojana**: Free gas cylinders to 80 million poor families for three months. **Low wage earners in organized sectors:** 24% of the monthly wages into PF accounts of workers earning below ₹15,000 per month (in businesses having less than 100 workers) for three months. **Self-Help groups:** Limit of collateral free lending to be increased from ₹1 million to ₹2 million for 6.3 million women Self Help Groups (SHGs). **Employees' Provident Fund Regulations** amended regulation to allow workers to withdraw 75% provident fund.

	Building and Other Construction Workers Welfare Fund: State governments directed to utilize the fund to provide assistance and support to workers. **District Mineral Fund** to supplement and augment facilities of medical testing, screening and as well as treat COVID-19 patients.
May 13, 2020	**Relief measure:** Employees provident fund support for business and organized workers extended by another 3 months. Employee provident fund contribution to be reduced for 3 months to 10% from 12% for all establishments covered by EPFO.
May 14, 2020	**One Nation one Ration Card:** Technology-enabled system to access ration public distribution system from any fair price shops in India by March 2021; Free food grains supply to migrants for 2 months; Scheme for affordable rental housing complexes for migrant workers and urban Poor to be launched; Rs 50 billion credit facility for street vendors; ₹700 billion boost to housing sector and middle income group through extension of credit linked subsidy scheme under PMAY(Urban); ₹60 billion for creating employment using Compensatory Afforestation Fund Management and Planning Authority funds; ₹300 billion additional emergency working capital for farmers through NABARD; ₹2 trillion credit boost to 25 million farmers under Kisan Credit Card Scheme.
May 17, 2020	**MNREGA** of an additional ₹400 billion.
May 17, 2020	**Center allows states to borrow up to 5% of gross state domestic product for 2020–21**, linked to specific reforms (including recommendations of Finance Commission.
Jun 20, 2020	**Garib Kalyan Rojgar Abhiyaan:** This ₹500 billion program to run for 125 days, to generate employment in 116 districts.
Jun 24, 2020	**Distressed Assets Fund–Sub-ordinate Debt for MSMEs** to extend guarantee cover worth Rs. 200 billion to the promoters for further investing in their stressed MSMEs as equity.
Jun 30, 2020	**Pradhan Mantri Garib Kalyan Anna Yojana** of ₹900 billion to extend the scheme to provide free 5 kg wheat or rice along with 1 kg pulses to more than 800 million people until November 2020.
Sept 08, 2020	**Asset monetization of subsidiaries of Power Grid Corporation of India** (₹70 billion assets, transmission lines and substations).
Oct 04, 2020	**Government decides to waive interest on loans up to ₹20 million** by MSME and personal loans up for six-months.
Oct 16, 2020	**GST compensation shortfall.** The Centre announced to borrow up to ₹1.1 trillion, the estimated revenue shortfall, and lend the same amount to states.
Feb 1, 2021	**Budget FY22: Increased fiscal transparency in off-budget expenditure:** Loans to Food Corporation of India (FCI) for food subsidy and provision are reflected on budget. **Fiscal consolidation path revised for center and states** to reach fiscal deficit level below 4.5% of GDP by FY26. **Asset Reconstruction Company** proposed for the banking system **Privatization of two public sector banks** and one general insurance company. **Recapitalization public sector banks** by ₹200 billion in FY22. **FDI limit on Insurance company** raised to 745 from 49%. **Development Finance Institution** with a capital of ₹200 billion with a target of lending portfolio of ₹5 trillion in 3 years. **A revamped reforms-based result-linked power distribution sector scheme** to be launched with an outlay of ₹3.1 trillion over 5 years to aid DISCOMS.

	A "National Monetization Pipeline" of potential brownfield infrastructure assets to be launched. Monetization of non-core assets like land through a Special Purpose Vehicle (SPV). **Mega Investment Textiles Parks (MITRA)** to be launched in addition to the PLI scheme. Seven textile parks to be established over 3 years.
Apr 23, 2021	**Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY):** Government to give 5 kg free (rice or wheat) to 800 million people for two months (May and June 2021).
June 8, 2021	**Pradhan Mantri Garib Kalyan Anna Yojana extended:** The government extended its free food program (PM-GKAY) until November 2021.
Aug 5, 2021	**Retroactive tax** to be removed (introduced since May 28, 2012).
Structural Reforms	
Mar 21, 2020	**Production linked incentive (PLI) scheme for medical devices**.
Apr 1, 2020	**PLI scheme for large scale electronics manufacturing** (an incentive of 4% to 6% on incremental sales of goods manufactured in India for a period of five years).
May 16, 2020	**Private participation in coal sector:** Govt to introduce competition, transparency and private sector participation in coal sector through a revenue sharing mechanism. **Mining & mineral sector reforms:** 500 mining blocks to be offered to private sector through an open and transparent auction process. **Electricity tariff policy reform:** Progressive reduction in cross subsidies and time-bound grant of open access; introduction DBT for subsidy payment; and privatization of power distribution in UTs. **'Make in India' for defense production:** FDI limit in defense manufacturing under automatic route raised to 74% and corporatization of Ordnance Factory Board. **Airport privatization:** Six more airports to be auctioned under a PPE model and another six airports to be put out for the third round of bidding.
May 17, 2020	**Privatization PSEs.** All PSEs in non-strategic sector to be privatized. **Ease of doing business for MSMEs:** Minimum threshold to initiate insolvency proceedings raised to ₹10 million from 0.1 million for MSMEs and a special insolvency resolution framework for MSMEs; Suspension of fresh initiation of insolvency proceedings up to one year; Empowering central government to exclude COVID-19-related debt from the definition of "default". **Decriminalization of Companies Act defaults** involving minor technical and procedural defaults (shortcomings in CSR reporting, inadequacies in board report, filing defaults, delay in holding AGM). **Ease of Doing Business for Corporates**, including direct listing of securities by Indian public companies in permissible foreign jurisdictions. **Health Reforms & Initiatives:** Infectious Diseases Hospital Blocks to be set up in all districts and lab network and surveillance to be strengthened. **National Digital Health Mission:** Implementation of National Digital Health Blueprint.
June 26, 2020	**Definition of micro, small and medium enterprises (MSMEs)** revised by significantly raising the limits in investment in plant and machinery or equipment and turnover for each category, effective July 1, 2020.
Sept 17, 2020	**The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020** to increases choices for farmers and traders. **The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020** to provide a national framework on farming agreements.

Sept 22, 2020	**Essential Commodities (Amendment) Act, 2020** to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities and allow their free movement across states.
Sept 22, 2020	**Labor code:** Government passed three labor codes (i) Industrial Relations Code, 2020 (ii) Occupational Safety, Health & Working Conditions Code, 2020 and (iii) Social Security Code, 2020.
Nov 11, 2020	**Production-Linked Incentive (PLI) Scheme:** The government extended PLI scheme in 10 key sectors

INDIA

August 31, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of July 31, 2021)

Membership Status:

Joined December 27, 1945; Article VIII.

General Resources Account

	SDR Million	% Quota
Quota	13,114.40	100.00
Fund Holdings of Currency (Holdings Rate)	9517.12	72.57
Reserve Tranche Position	3,608.81	27.52
Lending to the Fund		
New Arrangements to Borrow	127.06	

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	3,978.26	100.00
Holdings	1,086.95	27.32

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	10/31/91	06/30/93	1,656.00	1,656.00
Stand-By	01/18/91	04/17/91	551.93	551.93
EFF	11/9/81	05/01/84	5,000.00	3,900.00

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.73	1.51	1.51	1.51	1.51
Total	0.73	1.51	1.51	1.51	1.51

Exchange Rate Arrangement:

The exchange rate in India is classified as floating. The exchange rate of the rupee is determined in the interbank market, where the Reserve Bank of India (RBI) intervenes at times. The RBI's role is to modulate excessive volatility so as to maintain orderly conditions. On August 20, 1994, India accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement. India maintains the following restrictions on the making of payments and transfers for current international transactions, which are subject to Fund approval under Article VIII, Section 2(a): restrictions related to the non-transferability of balances under the India-Russia debt agreement; restrictions arising from unsettled balances under inoperative bilateral payments arrangements with two Eastern European countries; and a restriction on the transfer of amortization payments on loans by non-resident relatives. The Executive Board has not approved these restrictions.

Article IV Consultation:

The previous Article IV consultation discussions were held in August-September 2019. The Staff Report (IMF Country Report No. 19/385) was discussed by the Executive Board on November 25, 2019.

FSAP Participation:

Concluding meetings for the latest FSAP Update were held in Delhi and Mumbai in July 2017—the FSSA Update report was published in December 2017 (Country Report No. 17/390). A Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision was issued in January 2018 and published as Country Reports No. 18/4.

Capacity Development (Technical Assistance and Training):

Recent and planned IMF capacity development and training activities with India are discussed in Appendix V of the staff report.

Resident Representative:

A resident representative's office was opened in November 1991. Mr. Luis Breuer has been the Senior Resident Representative since July 2019.

INFORMATION ON THE ACTIVITIES OF OTHER IFIS

Information on the activities of other IFIs in India can be found at:

- World Bank: http://www.worldbank.org/en/country/india/overview
- Asian Development Bank: https://www.adb.org/sites/default/files/publication/27768/ind-2018.pdf

STATISTICAL ISSUES

1. **General:** Data provision is broadly adequate for surveillance. However, weaknesses remain in the timeliness and coverage of certain statistical series. India has an intricate system for compiling economic and financial statistics and produces a vast quantity of data covering most sectors of the economy. India subscribed to the Special Data Dissemination Standards (SDDS) on December 27, 1996 and started posting its metadata on the Dissemination Standards Bulletin Board on October 30, 1997. It uses flexibility options for timeliness of data on general government operations and on the periodicity and timeliness of labor market data. The data module of the Report on Observance of Standards and Codes (ROSC, IMF Country Report No. 04/96) was published in April 2004. It assesses India's data dissemination practices against the SDDS requirements and assesses the quality of six datasets based on the Data Quality Assessment Framework (DQAF) developed by the IMF's Statistics Department (STA).

2. **National accounts and employment statistics:** In January 2015 the Central Statistical Office (CSO) released a new series of national accounts, with base year 2011/12. In addition to the shift in the base year for measuring growth, the revisions reflected a review of source data and compilation methods, and implementation of the 2008 System of National Accounts. For current price estimates, the data sources provide adequate coverage of economic activities, and the methodology is broadly consistent with international standards and best practices. Nonetheless, a sales-tax-based extrapolation of trade turnover value from the base year does not provide an accurate gauge of growth of economy-wide value added from trade. The supply-side data are deemed to be of better quality than expenditure-side data. There are still some weaknesses in the deflation method used to derive value added. Also, the compilation of constant price GDP deviate from the conceptual requirements of the national accounts, in part due to the use of the Wholesale Price Index (WPI) as a deflator for many economic activities. The appropriate price to deflate GDP by type of activity is the Producer Price Index (PPI), which is under development. Large revisions to historical series, the relatively short time span of the revised series, and major discrepancies between GDP by activity and GDP by expenditure complicate analysis. There are long-standing deficiencies in employment data: they only cover the formal sector, which accounts for a small segment of the labor market, and are available only with a substantial lag.

3. **Price statistics:** An all-India Consumer Price Index (CPI) with a base year of 2012 is published. As well, separate corresponding urban and rural CPI series are published. As well, separate corresponding urban and rural CPI series are published. The CPIs are published with a lag of about one month. In early 2015, the CPI weights were updated using 2011/12 expenditure data and the CPI series has been revised from January 2015. Since January 2006, the Labour Bureau has published a CPI for industrial workers with a 2001 base year. Presently, there also remain four CPIs, each based on the consumption basket of a narrow category of consumers (namely industrial workers, urban and non-manual employees, agricultural laborers, and rural laborers). With the exception of the industrial workers' CPI, these other indices are based on weights that are over ten years old. The WPI has been rebased to the 2011/12 base year. The authorities are in the process of developing a PPI to replace the WPI. A new RBI price series on residential property price indexes

have helped surveillance in this area, though geographic coverage remains limited, and price data for commercial real estate are not available. The RBI has started producing a series covering rural wage data, which helps surveillance, but economy-wide wage data are scant.

4. Government finance statistics: The Ministry of Finance (MoF) is responsible for compiling and disseminating the Government Financial Statistics (GFS). Data on the general government operations in India cover only budgetary operations of the central government and state governments There is also scope to improve the analytical usefulness of the presentation of the fiscal accounts from which GFS are derived, such as the classification of government expenditure between developmental/non-developmental and plan/non-plan spending. The authorities are reviewing how they could meet their commitment, under the G-20 Data Gaps Initiative, on reporting quarterly consolidated general government data later in 2021.

5. Monetary and financial statistics: The RBI web site and the RBI *Bulletin* publish a wide array of monetary and financial statistics, including reserve money and its components, the RBI's survey, the monetary survey, liquidity aggregates (outstanding amounts), interest rates, exchange rates, foreign reserves, and results of government securities auctions. In 2011, the RBI started publishing a weighted-average lending interest rate and other lending rates at annual frequency. The frequency and quality of data dissemination have improved substantially in recent years. The RBI reports data on several series of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

6. The RBI reports monetary data to STA in non-standard format. The RBI also provides "test" data using the standardized reporting forms. However, the test data do not contain sufficient details (e.g., instrument, currency and counterparty sector breakdowns) to construct a complete and analytically useful picture of India's financial sector that is also consistent with the guidelines provided in the *Monetary and Financial Statistics Manual*. In addition, data reported cover depository corporations only, and data on other financial corporations such as insurance corporations, pension funds, and investment funds are not covered.

7. Financial sector statistics: As for reporting of financial soundness indicators (FSIs), all 12 core and 11 encouraged FSIs for deposit takers as well as three FSIs for real estate markets are reported on a quarterly basis. FSIs for other financial corporations, nonfinancial corporations, and households are not reported.

8. External sector statistics: The concepts and definitions used to compile balance of payments statistics are broadly in line with the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6). However, trade data have valuation, timing, and coverage problems. Data on imports of goods in the balance of payments are registered in c.i.f. prices while the *BPM6* requires the f.o.b. pricing. Data on trade in goods prices, volumes, and composition are not regularly available on a timely basis. External debt statistics are available on a quarterly basis with a one quarter lag. Estimates of short-term external debt are presented on an original maturity basis. The short-term maturity attribution on a residual maturity basis is only available annually (and excludes residual maturity of medium- and long-term nonresident Indian accounts). The international investment position (IIP) statistics cover the sectors prescribed in the *BPM6* and these data are disseminated within three months of the reference period in respect of quarterly data.[1] Coverage of direct investment positions data is hampered by the absence of appropriate legal or institutional authority. India disseminates monthly the Data Template on International Reserves and Foreign Currency Liquidity as prescribed under the SDDS. More up-to-date information on certain variables, such as total foreign reserve assets, foreign currency assets, gold, and SDRs, are available on a weekly basis and are disseminated as part of a weekly statistical supplement on the RBI web site.

[1] The IIP as published by the RBI values equity liabilities at acquisition cost, while the Fund uses market prices, resulting in substantial differences.

India: Table of Common Indicators Required for Surveillance

(As of August 10, 2021)

Indicator	Date of latest observation	Date received	Frequency of data 1/	Frequency of reporting 1/	Frequency of publication 1/
Exchange rates	10-Aug-21	10-Aug-21	D	D	D
International reserve assets and reserve liabilities of the monetary authorities 2/	31-Jul-21	6-Aug-21	W	W	W
Reserve/Base money	31-Jul-21	6-Aug-21	W	W	W
Broad money	16-Jul-21	6-Aug-21	BW	BW	BW
Central bank balance sheet	31-Jul-21	6-Aug-21	W	W	W
Consolidated balance sheet of the banking system	16-Jul-21	6-Aug-21	BW	BW	BW
Interest rates 3/	10-Aug-21	10-Aug-21	D	D	D
Consumer price index	Jun-21	Jul-21	M	M	M
Revenue, expenditure, balance, and composition of financing - General government 4/ 5/ 6/	2019/20	Oct-20	A	A	A
Revenue, expenditure, balance, and composition of financing - Central government 4/ 5/	Jun-21	Jul-21	M	M	M
Stocks of central government and central government-guaranteed debt 7/	Jan-Mar 2021	Jun-21	Q	Q	Q
External current account balance	Jan-Mar 2021	Jun-21	Q	Q	Q
Export and imports of goods and services	Jun-21	Jul-21	M	M	M
GDP/GNP	Jan-Mar 2021	May-21	Q	Q	Q
Gross external debt	Jan-Mar 2021	Jun-21	Q	Q	Q
International investment position	Jan-Mar 2021	Jun-21	Q	Q	Q

1/ Daily (D), Weekly (W), Biweekly (BW), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

2/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency, but settled by other means.

3/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

4/ Foreign domestic bank, and domestic non-bank financing.

5/ The general government in India consists of the budgetary central government and state governments. It does not include Extrabudgetary Units, Social Security Funds, and local Government.

6/ Data for a few states is missing.

7/ Including currency and maturity composition.

Statement by Mr. Bhalla and Mr. Goyal on India
September 17, 2021

1. Our Indian Authorities thank staff for the candid and constructive discussions (held virtually) and convey their appreciation to the management and staff for their continued engagement. Our Authorities look forward to continuing this healthy partnership. The authorities broadly agree with staff's assessment and recommendations regarding the economy, although there are some divergences in views on a few issues, as highlighted in this BUFF statement.

2. Like almost every economy, the pandemic has had a significant impact on economic activity. During the first wave in 2020, the economy witnessed a sharp contraction reflecting the impact of strict containment measures, though it recorded a turnaround two quarters later in January-March 2021 with swift and effective measures taken by the Authorities. The recovery, however, moderated with the second wave during the first quarter of the current financial year (April-June 2021). The economy increasingly adapted to the work environment under COVID with enhanced use of digitalization.

3. While the policy package that included fiscal, monetary, and financial measures, provided support to businesses and households at an unprecedented scale, India, in divergence with most other economies, continued its agenda of structural reforms during the pandemic. These wide-ranging structural reforms, including agriculture and labor reforms, and an ambitious program of privatization, are expected to contribute towards a structural acceleration of the economy.

4. India has embarked upon a drive to vaccinate its large population of 1.3 billion; supply constraints had hindered the progress earlier, but at the current pace of more than 10 million a day, the target to fully vaccinate at least 60 percent of its population by the end-December 2021, is on track. Latest (September 10^{th}) figures indicate that 40 % of the population has at least one dose of the vaccine, close to the world average of 41 %.

5. Both IMF and the RBI have projected India's GDP to grow at 9.5 percent in 2021-22 (i.e., April 2021-March 2022) and the IMF expects GDP to grow at 8.5 percent in the next fiscal year. Early indications are (direct and indirect tax collections, export growth, growth in

industrial production, PMI indices) that economic targets contained in Budget 2021/22 will be achieved and that India will emerge as the fastest-growing major economy in 2021/22, and beyond. Structural reforms also suggest that the economy will do better than currently expected beyond 2021/22. The July 2021 IIP data is now above the pre-pandemic level.

6. Headline consumer price inflation is projected at 5.6 percent during 2021-22 and to soften to 5.1 percent by the first quarter of 2022-23 [currently at 5.3 % yoy in August 2021]. Further, after a blip in recent months (supply disruptions, oil prices) inflation is expected to remain within the upper bound of the Reserve Bank's target of 4 (+/- 2) percent. Inflationary trends are being closely monitored, and the monetary authorities have decided to continue with an accommodative stance as long as necessary to sustain output growth on a durable basis.

Structural Reforms

7. Staff supported the wide-ranging structural reforms initiated by the Government. Domestic production-linked incentive schemes, privatization of government enterprises in non-strategic sectors, agriculture and labor market reforms are expected to support sustainable and equitable growth. Labor market reforms are expected to improve labour market functioning, support formalization, and expand social security benefits for workers. Staff also observed that reforms in the agriculture sector would address market distortions, increase efficiency, and enhance productivity growth.

Fiscal Issues

8. The Authorities agree with the Staff for maintaining an accommodative fiscal policy stance in the near term till the recovery is firm and to have a credible medium-term fiscal consolidation plan to maintain market confidence and fiscal space. The central government fiscal deficit is budgeted at 6.8 percent of GDP in the current year and the Authorities are committed to reduce it to 4.5 percent of GDP by 2025-26. Next year’s budget will include medium-term macroeconomic projections and the Fiscal Responsibility and Budget Management Act (FRBM) will also be revised to provide more clarity and fiscal transparency. Revenue mobilization would be a key element of medium-term fiscal strategy. Streamlining of Goods and Services (GST) tax with an e-invoice system, GST audits, closer scrutiny of returns, and rate rationalization are expected to augment tax revenues. Similarly, rationalized corporate income tax rates are expected to encourage compliance and result in greater tax buoyancy. Disinvestment with a focus on privatization and monetization of sovereign assets would also support the consolidation process. The thrust on expanded public expenditures, which include expenditures on education, skill development, health, and infrastructure will continue - and these are expected to enhance productivity and potential growth. Further, enhanced public investment in infrastructure is expected to crowd in private investment.

Monetary Policy

9. The staff has supported RBI's accommodating monetary stance – a cumulative reduction of 115 bps in the repo rate (current rate 4 %), in addition to the pre-pandemic

easing of 135 bps in the repo and 100 bps reduction in the cash reserve ratio. The staff has also commended liquidity measures including long-term repo operations (TLTRO), operation twist, and asset purchases. The Authorities have indicated that they would continue their accommodative monetary policy stance as long as necessary to revive and sustain growth on a durable basis while ensuring that inflation remains within the target. To ensure that additional liquidity goes to revive the economic activity, the funds accessed by the banks under TLTRO are required to be invested in corporate bonds, commercial paper and non-convertible debentures issued by entities in agriculture, retail, MSME and drugs sectors. The RBI has indicated that post-pandemic exit policies would be guided by the expiration of time-bound monetary and liquidity measures.

Financial Sector

10. The Authorities concur with the staff that it is important to ensure adequate capitalization of financial intermediaries. To contain the expected increase in NPAs, the Authorities are working to streamline the insolvency process and to bring in reforms to reduce the delays in the Insolvency and Bankruptcy Code (IBC) proceedings. The Authorities have also proposed to start a new structure for resolution of NPAs. It was needed because existing ARCs are thinly capitalised. This will be fashioned as per ARC-AMC model where the ARC will aggregate all the stressed assets and transfer to a professionally managed AMC. It would be set up jointly by the public and private sector banks and government would not make any equity contribution.

11. Stress tests undertaken by RBI (and referred to in the Staff report in the context of NPAs) revealed that “banks remain well-capitalized and able to sustain a severe stress scenario. (page 40, Financial Stability Report, RBI, July 2021)”. Moreover, the government is ready to provide additional capital to public sector banks (PSBs) as and when needed. Therefore, the conclusion in the Staff Report that “*sustained* financial sector weaknesses” would lower India’s *potential* growth from the earlier assumed 7.3 % to the Report’s forecast of 6 % (emphasis added) is analytically inappropriate.

Pandemic and Poverty Alleviation

12. Like the rest of the world, the pandemic led to a decline in economic activity, affected inequality, and hurt the poor the most. Recognizing this, and as part of its strategy to combat the expected poverty increase, my Authorities significantly expanded income support, and especially for those at the bottom of the income pyramid (e.g., food subsidies more than doubled in FY 2020-21 (April-March) from the pre-pandemic 2019-20 level.) In aggregate terms, the share of GDP allocated to direct income support for the poor increased from 2.1% to 2.7%.

13. The rules of allocation of food subsidies were also changed. The implementation of the new *one nation-one-card* policy meant that the bottom two-thirds of the population eligible for food subsidy could now access it from anywhere in India rather than be restricted to the state of their registration. This change was especially beneficial for the migrant and poor workers.

14. In deriving their conclusions on poverty trends, it appears that the Fund’s Article IV report has not fully appreciated the significant support provided by the government to

mitigate the impact of the COVID induced declines in economic activity and their effect on poverty.

15. Emerging Market Economies are evolving and more complex, and it requires greater analytical rigour to comprehend the economic dynamics and the underlying growth impulses. As a fellow economist, I would request the staff for a deeper and more rigorous analysis of the complex issues like the socio-economic effects of the pandemic, the government's multipronged policy response, and their effectiveness in protecting lives, livelihoods and containing poverty.