



**International Monetary Fund**  
February 2, 2012



# India

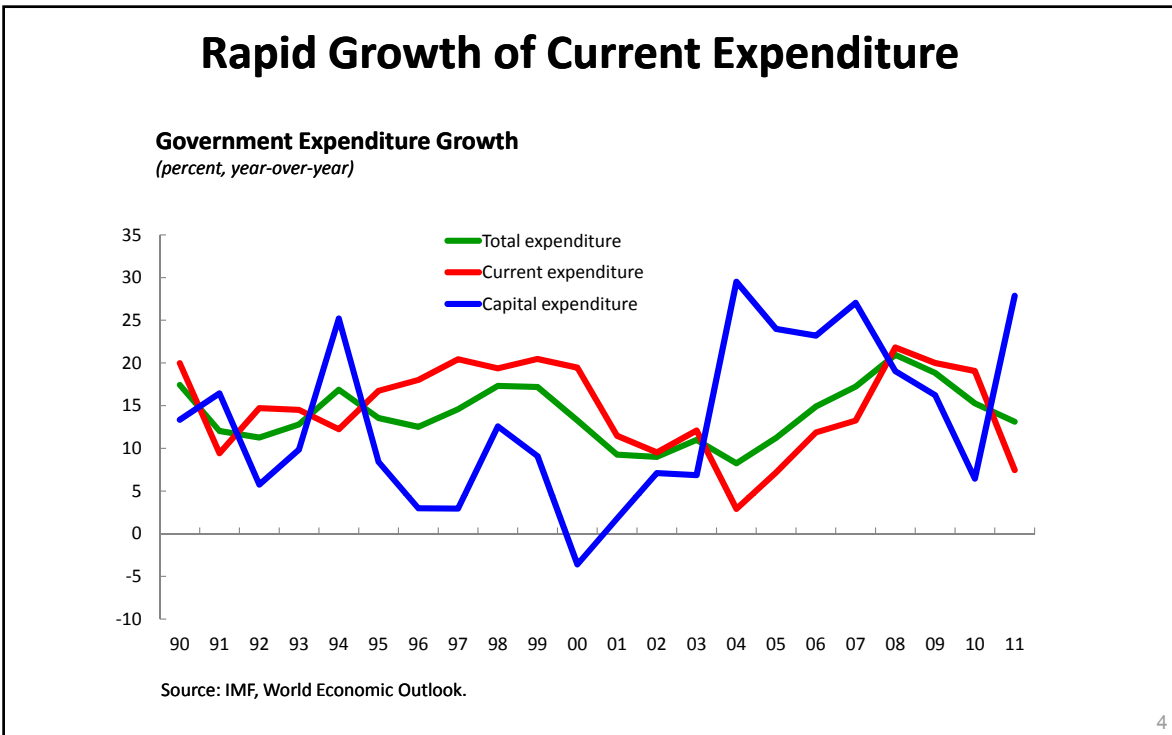
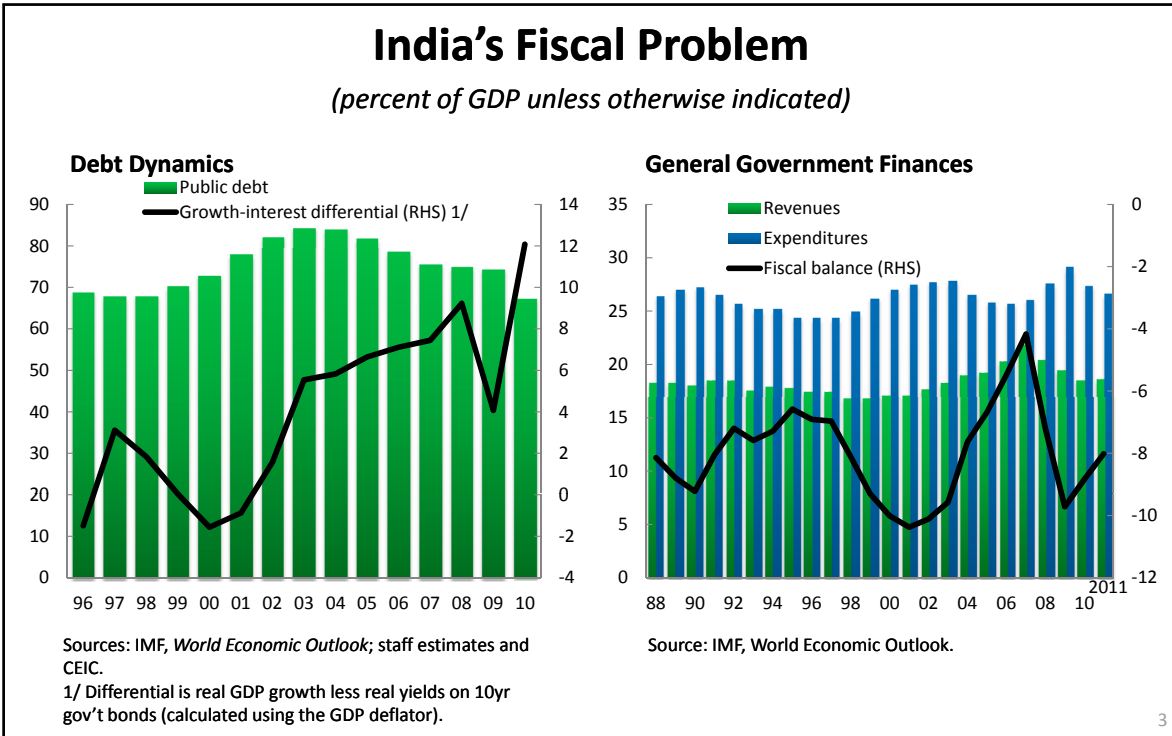
Presented by  
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Research Department

## Summary

**G-20 found significant fiscal and private saving imbalances.**

**Fiscal imbalances have been financed at low cost, owing to high private saving and restrictions that channel saving into government bonds.**

**Recommendations: Fiscal consolidation; unwinding financial restrictions.**



## Root Causes of Fiscal Imbalances

India's Social Indicators: G-20 Emerging Economies Perspective			
	Poverty 1/	Malnutrition 2/	Employment 3/
Argentina	0.87	2.3	56.5
Brazil	3.8	2.2	63.9
China	15.92	4.5	71.0
<b>India</b>	<b>41.64</b>	<b>43.5</b>	<b>55.6</b>
Indonesia	19.73	3.4	61.8
Mexico	3.44	5.3	57.1
Russia	0	n.a.	56.7
Saudi Arabia	n.a.	5.3	47.2
Africa	17.35	n.a.	41.1
Turkey	2.72	n.a.	42.3

Source: World Bank.

1/ Percent of population earning less than \$1.25 a day at PPP.

2/ Percent of children malnourished, weight for age (under 5 years).

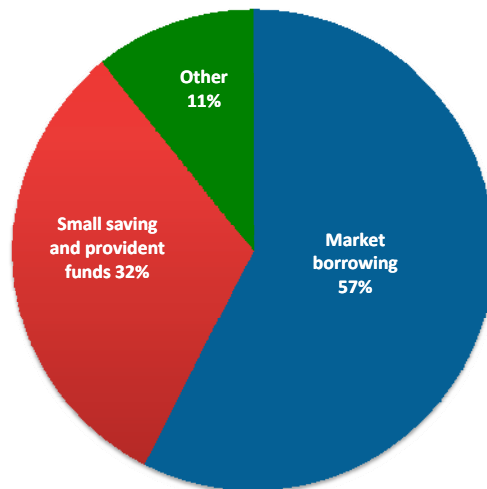
3/ Percent of population aged 15+.

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## Root Causes of Fiscal Imbalances 2/

### Financing Government Deficits

(share; average, Fiscal Years 2000/01 to 2007/08)

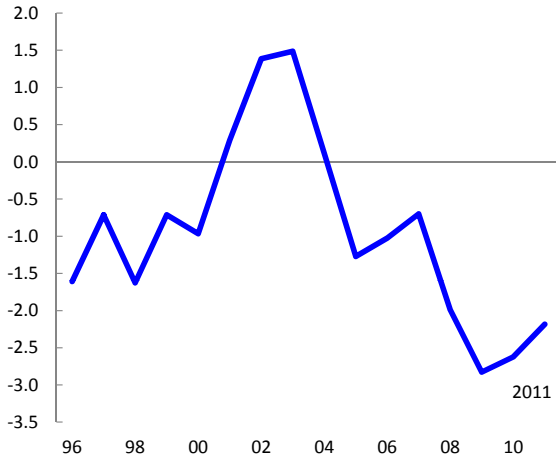


Source: CEIC.

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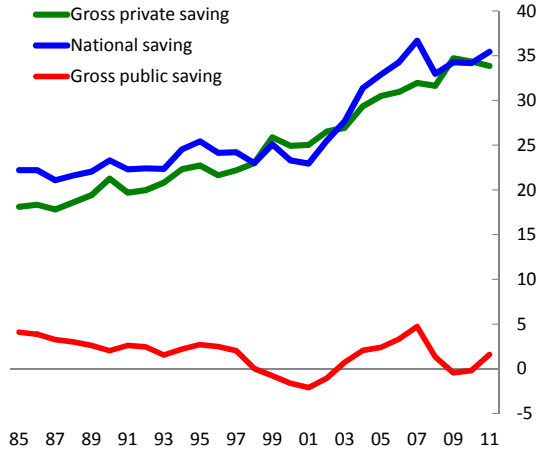
## Are India's Imbalances a Problem?

**Current Account Balance**  
(percent of GDP)



Source: IMF, *World Economic Outlook*.

**Saving**  
(percent of GDP)

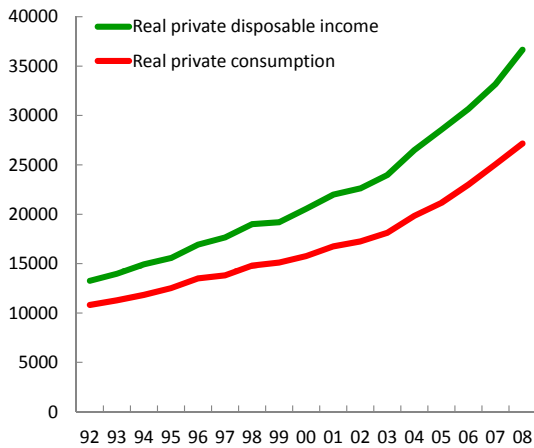


Source: IMF, *World Economic Outlook*.

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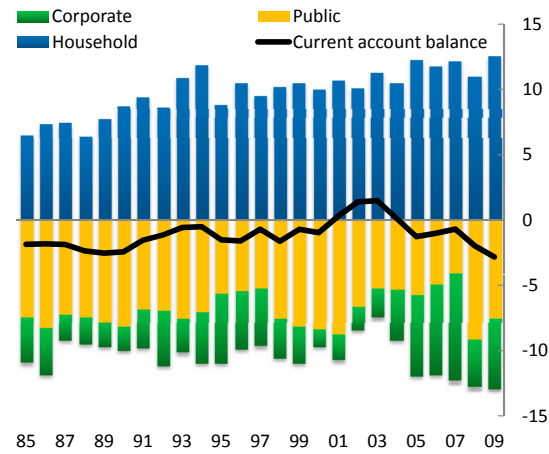
## Are India's Imbalances a Problem? 2/

**Private Disposable Income and Consumption**  
(billions of 2005 INR)



Sources: IMF, *World Economic Outlook*; staff estimates and CEIC.

**Sectoral Financial Surplus**  
(percent of GDP)

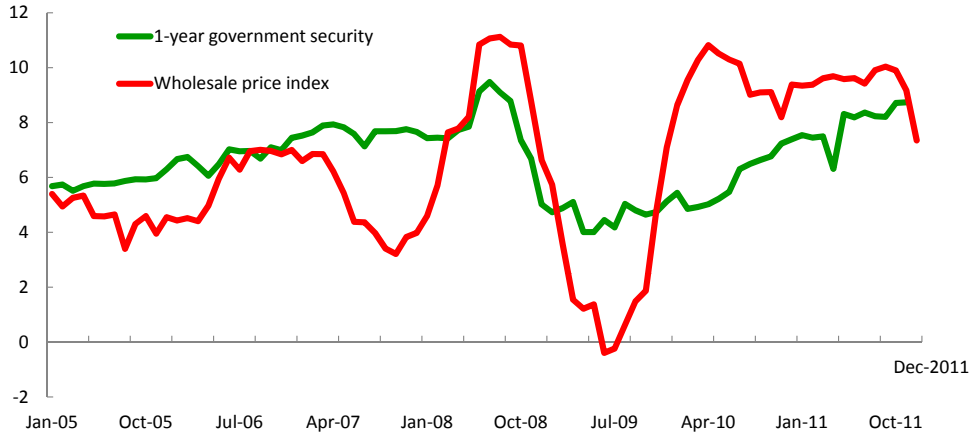


Sources: IMF, *World Economic Outlook* and CEIC.

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### Are India's Imbalances a Problem? 3/

**Interest Rates and Inflation**  
*(rates in percent, inflation in year-over-year percent change)*



Source: Haver Analytics.

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### Are India's Imbalances a Problem? /4

**Financial Controls Constrain Growth**

**Fiscal Imbalances Erode Fiscal Space**

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## Addressing Fiscal Imbalances

### Objective:

- Reduce Deficit to 4½ percent of GDP, while raising capital expenditure.
- (Fiscal Commission medium-term targets)

### Spending Reforms

- Shift expenditure from subsidies to infrastructure.
- Ensure expansion of social spending is well designed and targeted.

### Tax Reforms

- Introduce Goods and Services Tax (GST) and new Direct Tax Code (DTC).
- Improve Compliance.

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## Reforming the Financial Sector

**Gradually scale back SLR**

**Develop bond market**

**Further develop hedging instruments**

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