

**INDIA**

**IMF Country Report No. 19/385**

December 2019

**2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT 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 2019 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 November 25, 2019 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 November 25, 2019, following discussions that ended September 3, 2019, 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 October 16, 2019

• An **Informational Annex** prepared by the IMF staff.

• A **Staff Statement** updating information on recent developments. • A **Statement by the Executive Director** for India.

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**IMF Executive Board Concludes 2019 Article IV Consultation with India**

On November 25, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation1with India. The staff report and the macroeconomic projections are based on data available through October 16, 2019.

India has been among the fastest-growing economies in the world over the past few years, lifting millions out of poverty. However, growth slowed to 5.0 percent in the April-June 2019 quarter (y/y), a six-year low. The deceleration of consumption and investment was exacerbated by weaknesses in the non-bank financial sector and corporate and environmental regulatory uncertainty. Weak demand in conjunction with continued low food prices—thanks to successive normal monsoon rainfall and agricultural sector reforms—caused average inflation to moderate to a multi-year low of 3.4 percent in FY2018/19. Through August, inflation remained below the mid-point of the Reserve Bank of India (RBI)’s medium-term inflation target band of 4 percent ± 2 percent.

After rising through late 2018, external vulnerabilities eased in the first three quarters of 2019, on lower oil prices and renewed portfolio inflows. In FY2018/19, the current account deficit (CAD) widened to 2.1 percent of GDP, on a rising oil import bill. Foreign direct investment (FDI) financed about half of the CAD. The rupee depreciated by about 3.4 and 5.9 percent on average in real and nominal effective terms in FY2018/19, also reflecting portfolio outflows in mid-2018. The U.S. dollar value of non-oil merchandise exports expanded by 6.6 percent, broadly maintaining India’s global export market share. Gross reserves declined by US$12 billion during FY2018/19 to US$413 billion (7 months of imports), while the net forward position fell by US$34 billion. Gross reserves rose to US$429 billion by end-August 2019 on renewed portfolio inflows and they remain adequate. India’s external debt remains low at 19 percent of GDP.

Macro-financial risks from banking sector weaknesses have decreased somewhat, and steps have been taken to enhance monitoring of NBFCs and alleviate liquidity pressures faced by some NBFCs. Capital injections from the government budget and the initial results of the implementation of the Insolvency and Bankruptcy Code (IBC) have improved public sector banks (PSBs) capital position and asset quality. The plan to merge several PSBs reduces their number to 12 but does not change the

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. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.



large presence of the government in the banking system. The growth of bank credit decelerated to 10 percent (y/y) in August 2019, from 14 percent (y/y) in December 2018.

Despite a shortfall in revenues relative to ambitious targets, the central government broadly adhered to its headline fiscal deficit objective. As a result, there was a small improvement in the on-budget fiscal balance in FY2018/19 (IMF presentation, see table). This was accomplished through substantial on-budget revenue-expenditure compression, facilitated by financing some obligations off budget. While the headline general government fiscal deficit narrowed meaningfully, thanks in part to a decline in the fiscal deficits of the states, the public sector borrowing requirement (PSBR) remained high. The PSBR includes borrowing by most central public sector undertakings (PSUs, borrowing by state PSUs and by local governments is not included because of data unavailability). The path of the PSBR in recent years suggests that fiscal policy has been more accommodative than what is implied by the path of the general government deficit. This also explains why India’s general government debt has remained high, at about 69 percent of GDP. But India’s debt profile is conducive to debt sustainability, with debt largely held by residents, denominated in domestic currency, and with relatively long maturity. The FY2019/20 central government budget envisages a reduction in the fiscal deficit of 0.1 percent of GDP (a reduction by 0.2 percent of GDP in the structural primary balance, both IMF definition) but is again based on overly optimistic revenue targets, and the recent reduction of corporate income tax rates makes achieving the budget targets increasingly unlikely.

The macroeconomic outlook is more subdued and uncertain than in recent years. Growth is projected at 6.1 percent in FY2019/20. Investment and private consumption are expected to firm in the second half of the fiscal year. This is expected to be supported by the lagged effects of monetary policy easing, recent measures to facilitate monetary policy transmission and address corporate and environmental regulatory uncertainty, and government programs to support rural consumption being rolled out. Over the medium term, growth is projected to gradually rise to its medium-term potential of 7.3 percent on continued commitment to inflation targeting, gradual macro-financial and structural reforms, including implementation of reforms initiated earlier, such as the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC), as well as ongoing steps to liberalize FDI flows and further improve the ease of doing business.

Inflation is projected to remain around 3.4 percent with the effect of subdued demand broadly offsetting dissipating base effects of low food prices. The current account deficit is projected to narrow marginally, to 2.0 percent of GDP. The balance of payments would return to surplus, on returning capital inflows thanks to more accommodative global financial conditions. The rise in protectionism and retreat from multilateralism could affect India directly through the trade channel and indirectly through confidence effects and related effects on financial markets. While there may be trade diversion toward India from the U.S.-China tariff escalation, the macroeconomic impact is expected to be small given India’s relatively low trade openness and less diversified exports base.

Risks to the outlook are tilted to the downside. Key domestic risks include tax revenue shortfalls and delays in structural reforms. Credit growth could also remain subdued, as there is a perception of increased risk aversion among banks and implementation of the recently announced PSB consolidation could divert focus and weigh on near-term credit growth. The main external risks pertain to higher oil prices, a sharp rise in risk premia in global financial markets, and rising protectionism globally.

**Executive Board Assessment2**

They noted that India’s rapid economic expansion in recent years has lifted millions of people out of poverty. However, in the first half of 2019 a combination of factors led to subdued economic growth in India. With risks to the outlook tilted to the downside, Directors called for continued sound macroeconomic management. They saw an opportunity with the strong mandate of the new government to reinvigorate the reform agenda to boost inclusive and sustainable growth.

Directors noted that a credible medium-term fiscal consolidation path driven by subsidy-spending rationalization and tax-base enhancing measures is needed to reduce debt, free up financial resources for private investment, and reduce the interest bill. Some Directors advocated that automatic stabilizers should be allowed to operate in the short run. Directors called for more robust revenue projections and enhanced fiscal transparency and budget coverage.

Directors recommended that near-term policies to address cyclical weakness focus on monetary policy and broad-based macro-structural reforms. In this regard, they welcomed the monetary policy easing undertaken so far this year and recommended that an easing bias be maintained at least until the projected recovery takes hold.

Directors noted that inflation targeting has contributed to macroeconomic stability by better anchoring inflation expectations, thus helping improve the economic well-being of low-income households. Continued action is needed to improve the monetary transmission mechanism to enhance the effectiveness of monetary policy and enable the central bank to achieve the medium-term inflation target on a sustained basis. Directors also welcomed the authorities’ commitment to maintain exchange rate flexibility. They noted that foreign exchange intervention should continue to be two-way and limited to disorderly market conditions.

Directors welcomed the steps taken to tackle the twin bank and corporate balance sheet problem but noted the continued challenges of the financial sector. They recommended that the recently announced public sector bank merger plan be accompanied by deep operational restructuring and far-reaching governance reforms in order to improve efficiency, risk management, and credit allocation. Directors welcomed the strengthened monitoring and regulation of non-bank financial companies and recommended enhancing the availability of timely and granular data to help restore confidence in the sector. Directors urged further follow-up on the FSAP recommendations.

Directors commended the authorities’ concerted efforts to strengthen the business climate. These efforts need to be complemented by continued labor, product market, land, and other reforms aimed at increasing labor market flexibility, enhancing competition, and reducing the scope for corruption. This will help harness India’s demographic dividend by creating more and better jobs for the rapidly-growing labor force and enhancing female labor force participation. Directors also welcomed the important progress that has been made in strengthening the supply side of the economy through large infrastructure investments. They noted that land reform remains essential to raise agriculture

2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

sector productivity and achieve the authorities’ ambitious infrastructure development targets. Directors also encouraged further trade and investment liberalization.

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| --- |
| **Table 1. India: Selected Social and Economic Indicators, 2015/16–2020/21 1/** |
| **I. Social Indicators**  **GDP (2018/19) Poverty (percent of population)** Nominal GDP (in billions of U.S. dollars): 2,719 Headcount ratio at $1.90 a day  21.2  (2011):  GDP per capita (U.S. dollars) (IMF staff est.): 2,038 Undernourished (2015): 15.3 **Population characteristics (2018/19) Income distribution (2011, WDI)** Total (in billions): 1.33 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**  2015/16 2016/17 2017/18 2018/19 2019/20 2020/21  Est. Projections  Growth (in percent)  Real GDP (at market prices) 8.0 8.2 7.2 6.8 6.1 7.0 Prices (percent change, period average)  Consumer prices - Combined 4.9 4.5 3.6 3.4 3.4 4.1 Saving and investment (percent of GDP)  Gross saving 2/ 31.1 29.6 29.1 29.2 29.3 29.5 Gross investment 2/ 32.1 30.2 30.9 31.3 31.3 31.8 Fiscal position (percent of GDP) 3/  Central government overall balance -4.1 -3.7 -3.9 -3.8 -4.5 -4.2 General government overall balance -7.2 -7.1 -6.4 -6.2 -7.4 -7.1 General government debt 4/ 68.8 68.8 69.4 69.1 69.8 69.1 Cyclically adjusted balance (% of potential GDP) -7.2 -7.3 -6.5 -6.2 -7.2 -6.9 Cyclically adjusted primary balance (% of potential GDP) -2.5 -2.6 -1.7 -1.2 -2.2 Money and credit (y/y percent change, end-period)  Broad money 10.1 10.1 9.2 10.5 9.7 11.3 Bank credit to the private sector 10.6 8.0 9.5 12.7 8.4 11.1 Financial indicators (percent, end-period)  91-day treasury bill yield (end-period) 5/ 7.4 7.2 6.2 6.2 5.3 … 10-year government bond yield (end-period) 5/ 7.5 6.7 7.4 7.4 6.7 … Stock market (y/y percent change, end-period) 5/ -9.4 16.9 11.3 17.3 4.9 … External trade (on balance of payments basis)  Merchandise exports (in billions of U.S. dollars) 266.4 280.1 309.0 337.2 346.0 358.9 (Annual percent change) -15.9 5.2 10.3 9.1 2.6 3.7 Merchandise imports (in billions of U.S. dollars) 396.4 392.6 469.0 517.5 534.4 567.7 (Annual percent change) -14.1 -1.0 19.5 10.3 3.3 6.2 Terms of trade (G&S, annual percent change) 5.7 1.4 -2.3 -1.8 0.1 0.9 Balance of payments (in billions of U.S. dollars)  Current account balance -22.1 -14.4 -48.7 -57.2 -57.8 -73.5 (In percent of GDP) -1.0 -0.6 -1.8 -2.1 -2.0 -2.3 Foreign direct investment, net ("-" signifies inflow) -36.0 -35.6 -30.3 -30.7 -36.7 -40.0 Portfolio investment, net (equity and debt, "-" = inflow) 4.1 -7.6 -22.1 2.4 -14.7 -14.4 Overall balance ("-" signifies balance of payments surplus) -17.9 -22.4 -43.6 3.2 -21.1 -15.1 External indicators  Gross reserves (in billions of U.S. dollars, end-period) 360.2 370.0 424.5 412.9 434.0 449.1 (In months of next year's imports (goods and services)) 8.8 7.6 7.9 7.4 7.3 7.0 External debt (in billions of U.S. dollars, end-period) 485.0 471.3 529.3 513.1 560.9 613.6 External debt (percent of GDP, end-period) 23.1 20.6 20.0 18.9 19.1 19.2 *Of which:* Short-term debt 9.2 8.8 8.3 8.1 8.6 8.9 Ratio of gross reserves to short-term debt (end-period) 1.9 1.8 1.9 1.9 1.7 1.6 Debt service ratio 6/ 8.8 7.8 7.9 8.3 8.5 8.3 Real effective exchange rate (annual avg. percent change) 7/ 5.2 1.9 3.0 -3.5 6.1 … Exchange rate (rupee/U.S. dollar, end-period) 8/ 68.3 64.8 65.0 69.2 71.8 … Memorandum item (in percent of GDP)  Fiscal balance under authorities' definition -3.9 -3.5 -3.5 -3.3 -3.7 -3.8  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. 5/ For 2019/20, as of September 2019.  6/ In percent of current account receipts, excluding grants.  7/ For 2019/20: the change in the average for April-August 2019 from April-August 2018.  8/ For 2019/20, as of end-August, 2019. |

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**INDIA**

**STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION**

October 16, 2019

**KEY ISSUES**

**Recent Developments**: India has been among the world’s fastest-growing economies in recent years, lifting millions out of poverty. However, growth slowed to a six-year low in the first half of 2019, with both consumption and investment decelerating owing to weak, especially rural, income growth, stresses in the non-bank financial sector, and corporate and environmental regulatory uncertainty. On the external sector, following a rise in vulnerabilities in 2018, stability has returned, anchored by high foreign reserve buffers and a modest current account deficit.

**Outlook and Risks**: Amid domestic and external headwinds, the outlook for India’s growth in FY2019/20 is more subdued than in recent years. In the staff’s baseline scenario, growth gradually rises to its medium-term potential of 7.3 percent on continued commitment to inflation targeting and gradual macro-financial and structural reforms, including implementation of earlier reforms, such as the Goods and Services Tax and the Insolvency and Bankruptcy Code, as well as ongoing steps to liberalize foreign direct investment flows and further improve the ease of doing business. Risks to the outlook are tilted to the downside. Key domestic risks include tax revenue shortfalls and delays in structural reforms. The main external risks pertain to higher oil prices, a sharp rise in risk premia in global financial markets, and rising protectionism.

**Key Policy Recommendations:** With its strong mandate, the new government has an opportunity to reinvigorate the reform agenda aimed at boosting inclusive and sustainable growth. A comprehensive reform package is needed to guide the economy on a path to the government’s goal of a US$5 trillion economy in five years:

• In the near term, given the cyclical weakness of the economy, monetary policy should maintain an easing bias at least until the projected recovery takes hold. Fiscal stimulus should be avoided given fiscal space at risk and revenue losses from the recent corporate income tax rate cut should be offset. In the event of external pressures, India should continue to rely on exchange rate flexibility. Foreign exchange intervention should be two way and limited to disorderly market conditions.

• For the medium term, a credible fiscal consolidation path is needed to reduce debt, free up financial resources for private investment, and reduce the interest bill. To support the adoption of a necessary medium-term fiscal consolidation, driven by subsidy-spending rationalization and tax-base enhancing measures, revenue projections should be more realistic and fiscal transparency and budget coverage should be enhanced. Governance of public sector banks and the efficiency of their credit allocation needs strengthening, and the public sector’s role in the financial system needs to be reduced. Labor, land, and product market reforms aimed at enhancing competition and governance, along with infrastructure investment, should be priorities to create more and better jobs for India’s rapidly-growing labor force and enhance female labor force participation.

INDIA

Approved By **Anne-Marie Gulde Wolf (APD) and Sanjaya Panth (SPR)**

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Discussions took place in New Delhi and Mumbai during August 20– September 3, 2019. The team comprised Messrs. Salgado (head), Ahmed, Almekinders, and Blagrave (all APD), and Mses. Ogawa (MCM), Sodsriwiboon, and Svirydzenka (both APD). Mr. Gonguet (FAD) contributed to the team’s work in the context of a concurrent capacity development mission. Messrs. Breuer (Senior Resident Representative) and Mohapatra (Resident Representative Office) assisted the mission. Mr. Goyal (OED) also participated in the discussions. The mission met with Finance Secretary Kumar, Economic Affairs Secretary Chakraborty, Chief Economic Advisor Subramanian, RBI Deputy Governor Vishwanathan, RBI Executive Director Patra, other senior government and RBI officials, and representatives of the financial sector, business sector, and nongovernment organizations, including multilateral institutions. Messrs. Rivas and Singh (both APD) assisted in the preparation of this report.

Abbreviations and Acronyms \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 4 **OVERVIEW \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 5 RECENT DEVELOPMENTS, OUTLOOK, AND RISKS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_6**

**KEY POLICY ISSUES \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 11** A. Fiscal Consolidation and Enhanced Transparency and Budgetary Coverage\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 12 B. Monetary and Exchange Rate Policy—Further Consolidating Credibility \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 16 C. Financial and Corporate Sector—Building on Important Reforms \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 19 D. Structural Reforms—Boosting Investment and Inclusive Growth\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 22 E. Statistics and Additional Capacity Development\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 26

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8. Labor Market Developments\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_37 9. Gender Inequality\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_38

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**APPENDICES**

I. Risk Assessment Matrix\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_48 II. Implementation Status of Main Recommendations of the 2017 FSAP\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_49 III. Public Sector Borrowing, Private Savings and Crowding Out \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_54 IV. Enhancing Fiscal Reporting and Fiscal Transparency\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_57 V. Public and External Debt Sustainability Analysis\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_58 VI. Uptake of Previous IMF Advice \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_68 VII. Recent and Planned IMF Capacity Development \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_69 VIII. Growth-at-Risk Analysis\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_70 IX. Key Policy Actions 2018–19\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_74 X. External Sector Assessment \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_82

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**Abbreviations and Acronyms**

CAD Current Account Deficit

CD Capacity Development

CIT Corporate Income Tax

CPI Consumer Price Index

DSA Debt Sustainability Analysis

EBA External Balance Assessment

ES External Sustainability

FAD Fiscal Affairs Department

FDI Foreign Direct Investment

FPI Foreign Portfolio Investment

FRBM Fiscal Responsibility and Budget Management FY Fiscal Year

FSAP Financial Stability Assessment Program

FSGM Flexible System of Global Models

GDP Gross Domestic Product

G-Secs Government Securities

GST Goods and Services Tax

HFC Housing Finance Company

IBC Insolvency and Bankruptcy Code

IRDA Insurance Regulatory and Development Authority INR Indian Rupee

IMF International Monetary Fund

IT Inflation Targeting

LIC Life Insurance Corporation

MCI Monetary Conditions Index

MSME Micro, Small, and Medium-sized Enterprise NBFC Non-Bank Financial Company

NPA Non-performing Asset

OECD Organisation for Economic Co-operation and Development PFM Public Financial Management

PIT Personal Income Tax

PMI Purchasing Manager’s Index

PSB Public Sector Banks

PSBR Public Sector Borrowing Requirement

PSL Priority Sector Lending

PSU Public Sector Undertaking

RBI Reserve Bank of India

SARTTAC South Asia Regional Training and Technical Assistance Center SLR Statutory Liquidity Requirement

UDAY Ujwal Discom Assurance Yojana

US$ U.S. Dollar

WEO World Economic Outlook

WTO World Trade Organization

y/y Year-on-year

**4** INTERNATIONAL MONETARY FUND

INDIA

**OVERVIEW**

**1. Growth has been strong in recent years, but it has not been associated with broad based formal job gains and relatively low food prices have contributed to rural distress.** India has been among the fastest-growing economies in the world over the past few years, lifting millions out of poverty. However, recent labor market data suggests that unemployment is high while labor force participation has decreased, particularly for females. Without more inclusive and sustainable growth, India’s potential demographic dividend over the next few decades, from its young and rapidly-growing labor force, could be wasted.

**India: Unemployment Rate**

(In percent)

14

14

Rural-male Rural-female

**India: Labor Force Participation Rate** (In percent of population)

120

Male

120

12 10 8

6

4

2

0

Urban-male Urban-female

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2004/05 2009/10 2011/12 2017/18

Source: NSO

Source: NSO

Note: The 2017/18 data is based on the Periodic Labour Force Survey and is not strictly comparable to the earlier data which is based on the quinquennial NSSO Survey data**2. The government’s renewed large Parliamentary majority provides an opportunity to reinvigorate the reform agenda to boost inclusive and sustainable growth, building on the**

**steps taken during its first term.** The medium-term vision presented in the July 5 Budget Speech which focuses on boosting investment is appropriate and so is the commitment to support the rural economy, boost infrastructure spending, streamline the Goods and Services Tax (GST), reform direct taxes, and pursue a business-friendly policy agenda. However, in the absence of bolder, front loaded reforms, medium-term growth will be held back**.**

**3. Implementation of past Fund advice has been mixed (Appendix VI).** Monetary and exchange rate policies have been broadly consistent with past Fund advice. But fiscal consolidation was not undertaken at the level of the public sector borrowing requirement, with financing of some obligations shifted off budget, and the important steps taken to address the twin bank and corporate balance sheet problem have yet to be complemented by a decisive improvement in the governance of public sector banks (PSBs) and a reduction of the government’s role in the banking sector. Notwithstanding important advances in transportation infrastructure, electrification, digitization, and the ease of doing business, progress on structural reforms aimed at boosting inclusive and sustainable growth has been slower than advocated in previous Fund advice.

**4. The theme of this consultation is reform priorities to boost inclusive and sustainable growth.** Other priorities include enhancing fiscal transparency and refocusing on fiscal consolidation to avoid crowding out; improving the efficiency of the financial system; further labor, land, and product market reforms; resuming trade and investment liberalization; and strengthening the regulatory framework and the rule of law to reduce the scope for corruption.

INTERNATIONAL MONETARY FUND **5**

INDIA

**RECENT DEVELOPMENTS, OUTLOOK, AND RISKS**

**5. Growth and structural reforms slowed ahead of the recent general elections and investors and consumers have yet to abandon their wait-and-see approach.** Stability-oriented macroeconomic policies and progress with structural reforms in recent years helped weather bouts of external pressures and, in 2018, stresses among non-bank financial companies (NBFCs). However, economic activity weakened in the first half of 2019. Recent macroeconomic developments can be summarized as follows (Table 2):

• GDP growth slowed to a five-year low of 6.8 percent in FY2018/19 (April 2018-March 2019). The

slowdown continued in the first quarter of FY2019/20, with growth slipping to 20

5.0 percent amid a sharp deceleration 18

of investment and private consumption

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owing to weak, especially rural, income

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growth, stresses in the NBFC sector,

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and corporate and environmental 4

regulatory uncertainty. The economy

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was also weighed down by sector

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specific weaknesses (e.g., autos and -6

**Demand Components of GDP**

(In percent, Year-on-Year)

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Private Consumption

18

Exports

16

Investment

14

Real GDP Growth (RHS)

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Sources: CEIC, and IMF staff calculations.

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• Headline inflation averaged 3.4 percent in FY2018/19, an 8-year low. Successive normal

monsoon rainfall, agriculture sector reforms, and food management improvements pushed down food prices. After falling to 2.0 percent (y/y) in January, headline inflation rose to 3.2 percent in August but remains below the medium-term target band mid-point for headline inflation of the Reserve Bank of India (RBI, 4 percent CPI inflation ± 2 percent). CPI inflation excluding food and fuel, at 4.2 percent, is down from a recent peak of 6.4 percent in June 2018 on slowing growth.

• After rising through late 2018, external vulnerabilities fell through August 2019, on lower oil prices and renewed portfolio inflows. In FY2018/19, the current account deficit (CAD) widened to 2.1 percent of GDP, on a rising oil import bill. Foreign direct investment (FDI) financed about half of the CAD. In FY2018/19, the rupee depreciated by about 3.4 and 5.9 percent on average in real and nominal effective terms, also reflecting portfolio outflows. The U.S. dollar value of non-oil merchandise exports expanded by 6.6 percent, broadly maintaining India’s relatively modest global export market share. Gross reserves declined by US$12 billion during FY2018/19 to US$413 billion (7 months of imports), while the net forward position fell by US$34 billion. Gross reserves rose to US$429 billion through end-August on renewed portfolio inflows. They remain adequate at about 149 percent and 187 percent of the standard- and capital flow management measures-adjusted IMF metrics, respectively. External debt remains low at 19 percent of GDP. External financing looks sustainable but could be affected by domestic and external volatility.

**6** INTERNATIONAL MONETARY FUND

INDIA

• Based on data and projections through end-2018, India’s external position was assessed to be broadly consistent with fundamentals and desirable policy settings. The current account gap for 2018, as assessed by IMF staff, is in the range of -1.0 to +1.0 percent of GDP, with an implied staff-assessed REER gap of -6 to +6 percent. These estimates were published for all major countries in the IMF’s *External Sector Report* in mid-July 2019. Appendix X provides an update.

**6. Macro-financial risks from banking sector weaknesses have decreased somewhat, but some financial institutions continue to face difficulties.** Recent pressures involving relatively small institutions have been weighing on market sentiments.

• The RBI has taken steps to improve recognition of non-performing assets (NPAs), especially in PSBs, which account for 61 percent of the banking system’s assets. The regulatory and supervisory framework has also been strengthened. In addition, because of substantial capital injections from the government budget over the past two years and the initial results of the implementation of the Insolvency and Bankruptcy Code (IBC), PSBs are now in a better position to extend credit to the economy.

• After peaking in March 2018, the banking system’s NPA ratio declined by 2.2 percentage points to 9.3 percent in March 2019. The PSBs’ risk-weighted capital adequacy ratio (CAR) improved to 12.2 percent, with only one PSB remaining

below the 9 percent threshold, in addition to one private bank. In early 2019, five of 11 PSBs

**Banks' Credit, Capital, and Non-Performing Assets** (In percent)

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exited the Prompt Corrective Action (PCA) 20

framework launched in April 2017. But in

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September, one smaller private bank was

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brought under the PCA due to its high NPA -5

ratio, and the RBI imposed operational

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Credit growth (yoy change) CAR NPA ratio

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partly reflecting financial fraud. In July and August 2019, the government announced an

Public sector banks Private banks Foreign banks Sources: Reserve Bank of India, and IMF staff estimates.

additional and front-loaded recapitalization of 0.37 percent of GDP and a plan to merge some PSBs, reducing their number to 12, along with further governance reforms.

• Credit growth remains uneven. Bank credit growth picked up in 2018, peaking at 14.3 percent (y/y) in December 2018 with credit to industry showing signs of a recovery, although some of that growth reflected PSB credit to NBFCs. More recently, credit growth slowed to 10 percent in August. During recent years, private sector banks continued to see rapid credit growth (21 percent, on average, during the past five years), especially to the household sector. While impairment levels are low so far, this could portend a buildup of risks in the future.

INTERNATIONAL MONETARY FUND **7**

INDIA

• Liquidity pressures in NBFCs emerged in 2018Q4 owing to a series of defaults by an

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NBFC group, IL&FS, starting in June 2018, 14

and have been continuing especially for 12

Housing Financing Companies (HFCs), with

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solvency concerns arising for some. The 6

provision of NBFC credit was affected by 4

investors reassessing the risks of funding 2

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them. The sector, with a balance sheet of

**Flow of Financial Resources to the Commercial Sector** (In percent of GDP)

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Bank credit

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NBFC credit

Other domestic sources

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Foreign sources (incl. FDI)

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an aggregate CAR and NPA of 19.3 percent

Sources: Reserve Bank of India

and 6.6 percent, respectively, had previously been filling the gap of anemic PSB credit growth.

• Corporate sector deleveraging has continued at a gradual pace. Debt repayment capacity and profitability—though improving—remain below historical averages.

**7. The macroeconomic outlook is more subdued than in recent years.**

• Reflecting the primarily cyclical slowdown, growth is projected at 6.1 percent in FY2019/20, which would be the lowest in 7 years, and is expected to rebound to 7.0 percent in FY2020/21. Investment and private consumption are expected to firm in the second half of the current fiscal year. This is expected to be supported by the lagged effects of monetary policy easing, recent measures to facilitate monetary policy transmission and address corporate and environmental regulatory uncertainty, the recent reduction in corporate income tax (CIT) rates, and government programs to support rural consumption.

• Headline inflation is projected to remain around 3.4 percent with the effect of subdued demand broadly offsetting dissipating base effects of low food prices.

• The CAD is projected to narrow marginally, to 2.0 percent of GDP, on weaker domestic demand. The balance of payments would return to surplus, on returning capital inflows thanks to more accommodative global financial conditions.

• The rise in protectionism and retreat from multilateralism could affect India directly through the trade channel and indirectly through confidence effects and related financial market effects. Recently, a retaliatory response was taken to decisions by the United States to raise tariffs on steel and aluminum and to remove India from its Generalized System of Preferences lists. While there may be trade diversion toward India from the U.S.-China tariff escalation, the macroeconomic impact is expected to be small.

**8** INTERNATIONAL MONETARY FUND

INDIA

**8. To illustrate the important policy decisions facing the authorities, staff prepared two scenarios (see Table 1).**

• In the baseline scenario, growth rises to its medium-term potential of 7.3 percent on the productivity-enhancing effects of recent reforms, including the introduction of the GST, as well as a continuation of recent fiscal policies and gradual macro-financial and structural reforms.1 Inflation remains within the target band and the CAD at manageable levels. But in this scenario the Fiscal Responsibility and Budget Management (FRBM) fiscal consolidation targets are not achieved and labor market gains remain subdued.2

• The reform scenario illustrates how a comprehensive reform package—with three key pillars— would boost inclusive growth. Structural reforms included in the package would help spur productivity and employment growth and, over the medium term, more than offset the negative growth impact of the proposed fiscal consolidation path that is more ambitious than currently envisaged by the government:

• First, the ongoing cleanup of bank balance sheets should be complemented by a decisive strengthening of PSB governance and regulation and oversight of NBFCs.

• Second, a medium-term fiscal consolidation path should be anchored by the FRBM Review Committee’s recommendation to reduce general government debt toward 60 percent of GDP. As elaborated in the text table, this consolidation would rely upon expenditure savings from rationalizing subsidies as well as revenue gains from expanding the tax base, especially on personal income. Consolidation would address crowding out and financial repression caused by the high public sector borrowing requirement (PSBR), which exceeds net household financial saving (6.6 percent of GDP). Even still, these measures would lower the debt-to-GDP ratio to only 62.4 percent by FY 2024/25—additional measures to offset the estimated revenue loss from the recent CIT rate reduction would also be needed to achieve the current FRBM debt target by FY2024/25. As examples, consideration could be given to expanding property taxation, increasing the coal cess, and enacting equal tax treatment of agricultural income with that from other sources.

• Third, labor, product market, land, and other reforms aimed at (i) increasing labor market flexibility, reducing duality between formal and informal sectors, and improving employment opportunities; and (ii) enhancing competition and reducing the scope for corruption.

1 The almost ½ percentage point reduction in medium-term potential growth compared to the staff report for the 2018 Article IV consultation reflects a structural weakening primarily owing to weakness in investment in recent years, but still assumes some benefit from ongoing structural reforms including the GST and the recent CIT rate cut.

2 Owing to a favorable growth-interest rate differential, debt is projected to remain sustainable, including under stress scenarios (see Debt Sustainability Analysis (DSA, Appendix V). Risks are further mitigated because public debt is primarily denominated in domestic currency and held by residents.

INTERNATIONAL MONETARY FUND **9**

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| **Table 1. India: Medium-Term Macro-Fiscal Outlook** |
| (In percent, unless indicated otherwise)  Est. Proj.  Baseline Fiscal Consolidation and Reform Scenario/3  2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25 2020/21 2021/22 2022/23 2023/24 2024/25  Real GDP growth 6.8 6.1 7.0 7.4 7.4 7.4 7.3 6.7 7.6 7.8 8.0 8.0 Potential output growth 7.1 7.1 7.1 7.2 7.3 7.3 7.3 7.1 7.6 7.8 7.9 8.0 Fiscal deficit (percent of GDP) 6.2 7.4 7.1 6.9 6.8 6.7 6.7 6.7 6.2 5.9 5.7 5.6 Primary balance (percent of GDP) -1.2 -2.2 -2.0 -2.1 -2.1 -2.1 -2.1 -1.7 -1.5 -1.2 -1.2 -1.2 Public debt (percent of GDP) 69.1 69.8 69.1 68.1 67.1 66.3 65.5 68.9 67.4 65.6 63.9 62.4 Investment (percent of GDP) 24.5 24.7 25.3 25.7 26.1 26.6 26.9 25.4 25.9 26.5 27.3 28.0  Memo items:  Growth impacts  Fiscal consolidation 1/ … … … … … … … -0.2 -0.1 -0.1 0.0 0.0 Labor and product market reforms 2/ … … … … … … … -0.2 0.3 0.5 0.6 0.7 Source: IMF staff estimates and projections.  1/ Growth effects of the fiscal consolidation scenario are assessed using the IMF’s Flexible System of Global Models (FSGM). The cumulative GDP level effect of the additional fiscal consolidation (1.1 percent of GDP) is estimated to be about 0.5 percent. The relatively muted implied fiscal multiplier reflects a reduction in monetary policy interest rates which provides some growth support, and the multiplier associated with subsidy expenditures is relatively small, especially since income support to the rural sector is now provided through other central government schemes (e.g. PM-KISAN).  2/ The macroeconomic impact of labor and product market deregulation is based on Anand and Khera (2016). The estimated impacts are derived from a DSGE model with an informal sector and rigidities in the formal labor and product markets characterizing the Indian economy.  3/ A cumulative fiscal consolidation of 1.8 percent of GDP is recommended, from 2020/21 to 2023/24. This compares to a 0.7 consolidation in the baseline fiscal projection, implying a marginal recommended consolidation of 1.1 percent of GDP. The recommended consolidation features additional expenditure savings of about 0.5 percent of GDP from reducing subsidies (food, petroleum, and fertilizers) as well as tax revenue increases (GST = about 0.1 percent of GDP; personal income taxes = about 0.4 percent of GDP). Personal-income-tax revenue gains could be achieved by eliminating exemptions (tax payers currently have no liability on income below about $7,000 USD, or about 3.5 times GDP per capita) and by increasing contributions of top earners—India’s personal income tax system has a top rate of 30 percent, lower than many countries in Asia. Interest savings, attributable to the lower debt stock, account for the remaining 0.1 percentage point. |

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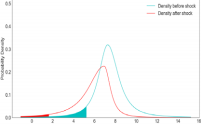
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INDIA

**9. Risks to the outlook are tilted to the downside (Appendix I).** Domestic risks include tax revenue shortfalls beyond those anticipated in the baseline and delays, compared to the gradual pace of reforms assumed in the baseline, in

strengthening the balance sheets of PSBs and corporates, and other structural reforms. Credit growth could also remain subdued, as there is a perception of increased risk aversion among banks and implementation of the recently announced PSB consolidation could divert focus

**2019 Real GDP Growth Under Oil Shock Scenario 1/** (Probability, year-on-year groth, 4 quarters ahead, as of FY2018/19Q4)

Density under the 

Baseline

Density after oil orice

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risks pertain to oil price volatility, a sharp rise in 0

risk premia in global financial markets, and rising

~~GaR 10%,~~  Scenario

~~Baseline~~

projection GaR 10%,

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 GaR 5%,

Scenario

protectionism. Staff’s application of Growth-at

Baseline

GaR 5%,

Source: IMF staff estimates.

Baseline

Percent

Risk (GaR) analysis indicates that, with a US$10

1/ Assume international oil price rises by US$10 per barrel for FY2019/20.

per barrel increase in oil prices, there is about a 17 percent chance that growth would drop below 5 percent in FY2019/20, compared to a 5 percent chance in the baseline (see text chart and Appendix VIII).

***Authorities’ Views***

**10. The authorities were more optimistic than staff on the outlook and risks.** They expected a relatively strong recovery in the second half of FY2019/20 aided by the recent CIT rate reduction and sector-specific measures in support of the automotive, real estate, and export sectors as well as micro, small, and medium-sized enterprises (MSMEs). Lagged effects of monetary easing, support to NBFCs, and front-loaded bank recapitalization were expected to boost credit provision. They also noted that the provisional national accounts estimates for the first quarter of the fiscal year were based on benchmark indicators and may change significantly in the revised estimates, to be released in 2020, that are compiled based on detailed information by industries and institutions. In addition, the authorities were confident that efforts to boost infrastructure investment and reforms to improve the business climate and streamline labor market regulations would support activity and raise India’s potential growth going forward.

**KEY POLICY ISSUES**

**11. Staff’s macroeconomic policy advice. Policies to address cyclical weakness should be focused on monetary policy and broad-based macro-structural reforms.** Fiscal stimulus should be avoided given fiscal space at risk. To support the adoption of a credible medium-term fiscal consolidation path that reduces crowding out and achieves the government’s medium-term 60 percent debt-to-GDP target, the immediate focus should be on making revenue projections more realistic and enhancing fiscal transparency and budgetary coverage. Consolidation would also reduce fiscal dominance, which has led to financial repression and could undermine central bank credibility and operations. Staff’s advice on reforms to improve the efficiency of the financial system is anchored by the 2017 FSAP recommendations (Appendix II).

INTERNATIONAL MONETARY FUND **11**

INDIA

**A. Fiscal Consolidation and Enhanced Transparency and Budgetary Coverage**

**12. Despite a shortfall in revenues relative to ambitious targets, the central government broadly adhered to its headline fiscal deficit objective, implying a small improvement in the**

**on-budget fiscal balance in**

**FY2018/19** (IMF presentation, text table)**.** This was accomplished through substantial on-budget revenue expenditure compression, facilitated by financing some obligations off budget (see Appendix III). As a result, in the government’s own accounting, the debt stock in FY2018/19 was revised upward by ½ percent of GDP in its July budget, relative to its initial ‘revised’ estimate released in February.

**Summary Central Government Fiscal Developments**

(In percent of GDP)

|  |  |  |  |
| --- | --- | --- | --- |
|  | FY 2017/18 Est. | FY 2018/19  Budget Est. | FY 2019/20  Budget Proj. |
| **Total Revenues**  Net tax revenues  Non-tax revenues  **Total Expenditure**  Revenue expenditure  Capital expenditure  **Central Government (CG) Fiscal Deficit** | **8.7**  7.3  1.4  **12.6**  11.0  1.5  **3.9** | **9.3 8.4**  7.8 6.9  1.5 1.5  **12.9 12.2**  11.3 10.6  1.6 1.7  **3.6 3.8** | **9.6 8.5**  7.9 6.7  1.7 1.7  **13.3 13.0**  11.7 11.4  1.6 1.6  **3.7 4.5** |
| **Memo Items**  CG Fiscal Deficit (authorities' definition) 1/ IMF Extended CG Deficit 2/  General Government Fiscal Deficit  Public Debt (% of GDP) 3/ | 3.5  5.1  6.9  69.4 | 3.3 3.4  … 5.4  6.6 6.7  … 69.1 | 3.3 3.8  … 5.9  6.4 7.4  … 69.8 |
| Notes: 1/ Includes asset sales in receipts, and excludes certain non-tax revenue items. 2/ Includes NSSF loans to central gov PSUs (Union budget, Annex 8) and fully serviced bonds (Union budget, statement 27)  3/ Source: RBI Debt statistics, and staff estimates. | | | |

**13. The states’ aggregate fiscal deficit is expected to have improved materially in FY2018/19**—to about 2.4 percent of GDP—due in large part to (capital) expenditure shortfalls vis-à vis budgets. The states’ reduced fiscal deficit marks an improvement from recent years in which aggregate deficits exceeded 3 percent of GDP, reflecting primarily the costs associated with the UDAY scheme under which states took over part of state electricity distribution companies’ debts and losses in return for reforms, along with farm-loan waivers and Pay Commission awards.

**14. While the headline general government fiscal deficit narrowed meaningfully, the PSBR**

**remains high.** The PSBR includes borrowing by most central public sector undertakings (PSUs,

**New Public Borrowing Requirements** (In percent of GDP)

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borrowing by state PSUs and by local

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governments is not included because of data unavailability). Changes in the PSBR arguably

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represent a better measure of the fiscal stance 6

and the impact of fiscal policy on the economy. 4

The path of the PSBR in recent years suggests 2

that fiscal policy has been more

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accommodative than what is implied by the

Fiscal deficit (States) Fiscal deficit (Center, auth. def'n) New borrowing by Central PSUs Fiscal deficit (GG)

Total new public borrowing 1/

2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17 2017/18 2018/19

path of the general government deficit.

Sources: Ministry of Finance and IMF staff calculations.

1/ Excludes borrowing by state public corporations and debt-rollover requirements*.* Note: PSU = Public Sector Undertaking.

(Est.)

**15. The FY2019/20 budget envisages a reduction in the headline central government fiscal deficit of 0.1 percent of GDP (a reduction by 0.2 percent of GDP in the structural primary balance, both IMF definition). But over-optimism regarding revenue targets, further compounded by the recent CIT rate reduction for which no offsetting revenue or expenditure measures have been announced, makes achieving the budget targets increasingly unlikely.**

**12** INTERNATIONAL MONETARY FUND

INDIA

• Relative to provisional actual outturns for FY2018/19, corporate and personal tax revenues are budgeted to increase by 15.4 and 23.2 percent (y/y)—the softness of economic activity in the first five months of the fiscal year along with the recent reduction in CIT rates makes achieving these targets especially challenging. Budgeted GST revenue targets a still-optimistic, but somewhat lower growth rate (14.1 percent) and may garner support from administrative measures to improve GST compliance, including ‘nudge’ techniques (an area where the IMF is providing capacity-development (CD) support).

• Increased non-tax revenues are expected to provide more budgetary support than in past years (mainly customs and excise revenues). The RBI’s dividend transfer will be broadly in line with the budget estimate (higher by only 0.02 percent of GDP), and the additional excess-capital transfer (about ¼ percent of GDP) will be treated below the line in the IMF presentation, consistent with international standards on fiscal reporting.

• The rural farm income support scheme, first announced in February, is expected to add about 0.3 percent of GDP to spending in FY2019/20.

• Staff projects central government net tax revenues at 6.7 percent of GDP in FY2019/20, based on historical buoyancy rates and some additional assumptions, especially relating to the lowering of CIT rates (which depresses revenues by about 0.5 percent of GDP) as compared to 7.9 percent of GDP in the July budget estimates. In addition, staff expects both income tax and GST revenues

to decline (as a share of GDP), relative to FY2018/19 estimated outturns, given weak economic activity and considering monthly outturns to date. As was the case in FY2018/19, staff expects some compression of on-budget expenditure to accommodate the revenue shortfall, though the fiscal deficit target (according to the authorities’ narrow definition) is likely to be missed by 0.5 percentage points. There remains a meaningful chance of a larger fiscal slippage this fiscal year—especially when considering the IMF’s extended notion of the central government deficit—absent additional measures to shore up revenues or curtail expenditures. A possible interim dividend from the RBI, alongside greater disinvestment proceeds, could provide a slight boost to revenues (the latter only in the authorities’ deficit presentation).

**16. Central government fiscal deficit outturns have fallen short of the desired medium term fiscal consolidation path articulated by the**

**FRBM review committee.** Achievement of an interim fiscal-deficit target of 3.0 percent has been delayed several times (text chart), and the initial

**Central Government Fiscal Targets and Slippages** (In percent of GDP)

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The plan to achieve the 3 percent fiscal deficit

-2.5

debt target of 40 percent advocated by the FRBM -3

committee—to be achieved by FY2023/24—has -3.5

been pushed out. Although a central government -4

fiscal deficit of 3.0 percent of GDP (authorities’ -4.5

definition) has been targeted by FY2020/21, -5

optimistic current-year revenue forecasts raise

target has been delayed several times.

2014/15 Budget 2015/16 Budget 2016/17 Budget 2017/18 Budget 2018/19 Budget 2019/20 Budget Actual

-2.5 -3

-3.5 -4

-4.5 -5

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especially with growth weakening. Moreover,

Source: Union Budget Documents

INTERNATIONAL MONETARY FUND **13**

INDIA

increased use of off-budget financing renders adherence to the headline deficit target less meaningful, entailing also a less-favorable debt-reduction trajectory.

**17. India is assessed as having fiscal space at risk. As such, staff sees no scope to provide fiscal stimulus at this juncture.** The recent lowering of CIT rates should be offset with measures to boost revenues or curtail expenditures (see discussion of reform scenario). Considering the overall envelope of central government obligations, in FY2019/20 staff recommends holding constant (at 5.4 percent of GDP) its extended notion of the central government deficit (headline deficit plus NSSF loans to PSUs and fully serviced bonds, see Text Table). Any growth impetus should instead come from other measures (see sections on monetary policy and structural reforms). In the event of a more severe economic slowdown than currently envisaged, any fiscal stimulus should be temporary, focusing on measures to boost near-term growth such as immediate investment expensing, or public infrastructure spending.

**18. Staff recommends a more ambitious medium-term consolidation path.** This need is made more urgent by the recent lowering of CIT rates which, in the absence of offsetting measures, would contribute to pushing general government debt to a 10-year high of 69 percent of GDP by end-March 2020. Consolidation would reduce crowding out of private investment and create fiscal

space (see Appendix III), including by reducing India’s interest bill burden, which stood at 4.9 6

percent of GDP in FY2018/19, well above peers 5

(see Text Chart). Starting in FY20/21, the 4

envisaged consolidation would have only a 3

modest negative growth impact, which could be further offset by the pursuit of bold

2

structural reforms to boost medium-term 1

growth and tax revenues, as advocated in 0

staff’s reform scenario. Fiscal consolidation

**Government Interest Payments**

(2018, in percent of GDP)

India BRICS 1/ ASEAN-6 2/

would be anchored by the following elements:

Sources: IMF estimates, and staff calculations.

1/ Median for Brazil, Russia, China and South Africa.

2/ Median for Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

• A gradual reduction of subsidy spending on food, fuel, and fertilizers, the need for which is lessened by increased economically-less-distortionary direct-benefit-transfers to farmers, including through PM KISAN.

• Increases in revenue collections, through two complementary reforms:

o On GST, staff recommends increasing compliance by streamlining filing and refund mechanisms, broadening the base (e.g., including electricity and petroleum products), and simplifying the rate structure—adopting fewer rates—in line with past Fund advice and analysis (2018 Staff Report and Selected Issues Paper). Staff welcomes the authorities’ efforts underway on these points.

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o Personal income tax collections could be increased by eliminating exemptions, reducing the minimum threshold for tax payers,3 and by increasing contributions of top earners.4 On the latter, the recent surcharge on top earners is a positive step in this direction.

• The consolidation scenario assumes no further additions to off-budget financing of expenditure.

**19. In the context of the increasing significance of fiscal federalism, staff emphasizes the importance of enhancing fiscal reporting and strengthening fiscal transparency (see Appendix IV).** Though documentation provided in the Union Budget is helpful in clarifying that fiscal policy is somewhat more expansionary than suggested by the headline fiscal deficit, more could be done to ease accessibility and interpretability of the budget. Further, the timeliness and comprehensiveness of the fiscal data collected by the central government could be improved to support better fiscal policymaking. The government should invest in public financial management processes and systems which support more timely fiscal data collection at all levels of government, stronger coordination by the Ministry of Finance, and sounder fiscal reporting. For India to comply with its G20 commitment to publish general government fiscal data on a quarterly basis in line with GFSM 2014, the Ministry of Finance should take the lead in the process to collect fiscal data from each state government, according to a shared calendar and template. Building on the extensive support already provided by the South Asia Regional Training and Technical Assistance Center (SARTTAC) and the Fiscal Affairs Department (FAD) on fiscal reporting at both the center and state-levels, the IMF stands ready to provide further CD on the government’s reform endeavors on these topics. Staff also proposes that the government requests FAD to conduct a Fiscal Transparency Evaluation based on the IMF’s Fiscal Transparency Code.

***Authorities’ Views***

**20. The authorities broadly agreed with staff’s fiscal analysis, including on the importance of medium-term fiscal consolidation, noting the progress in recent years towards reducing the central-government fiscal deficit.** They emphasized that the fiscal deficit follows the definition as given by the FRBM Act, which relates to “the deficit in the Consolidated Fund,” whereas government debt also includes liabilities recorded in the Public Account, and financial liabilities of entities owned or controlled by the government which it repays or services. In the current weak economic environment, they indicated that automatic stabilizers should be allowed to function in the near-term, emphasizing the importance of avoiding procyclical fiscal policy.

**21. The authorities argued that current fiscal year revenue projections were achievable.** Regarding direct taxes, the surcharge on top income earners (a 37 percent surcharge levied on the tax liability of those earning more than about US$700,000), levy on share buy-backs of listed companies (20 percent of the difference between issue and buy-back price), the ambitious faceless assessment approach to tax administration and greater use of digitization can all be expected to support revenues. A thorough assessment of whether budget assumptions are on track could only

3 Tax payers currently have no liability on income below about US$7,000, or about 3.5 times GDP per capita. 4 India’s personal income tax system has a top (statutory) rate of 30 percent, lower than many countries in Asia.

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be conducted later in the year using data through September, when a greater portion of direct-tax revenues are generally collected. On the GST, the authorities argued that ongoing efforts to improve compliance should support greater tax buoyancy. Such efforts include the nudge program, which seeks faster business compliance through ongoing interactions with tax officers, as well as the use of real-time tax databases and digitization, including relating to tax-document cross-checking. For indirect tax collection more broadly, the dispute resolution scheme for legacy taxes that were subsumed by the GST can also be expected to boost revenues this fiscal year. The RBI’s surplus capital transfer will be treated above the line in the government accounts, providing an impetus of about ¼ percent of GDP vis-à-vis the July budget estimate.

**22. CIT reductions are expected to boost compliance and spur economic activity.** By encouraging the incorporation of new manufacturing firms, lowering the cost of doing business, and easing the burden of tax compliance for existing domestic firms, lower tax rates are expected to increase the corporate tax base in coming years, broadly offsetting any short-term revenue losses. Thus, the authorities envisioned no need for additional revenue-boosting or expenditure-reducing measures at this time.

**23. The authorities reiterated their commitments in the context of the second phase of the G-20 Data Gaps Initiative.** Among the provisions of that commitment, they confirmed their intention to provide general government fiscal data on a quarterly basis by the G20 deadline of 2021.

**B. Monetary and Exchange Rate Policy—Further Consolidating Credibility**

**24. Inflation targeting (IT) has contributed to macroeconomic stability, better anchored inflation expectations, and improved the economic wellbeing of low-income households.**

• Inflation acts like a regressive tax that is

disproportionately borne by low-income 14

households. Since the foundation was laid for 12

adoption of the IT regime in February 2015, 10

important gains have been made in bringing 8

down inflation and inflation expectations, 6

which reduce risk premia and interest rates. 4

Inflation in India has now broadly converged 2

to the level in G20 peers. Staff analysis 0

**Inflation in India and its G20 Peers**

(In percent, Year-on-Year)

14

12

10

8

6

4

India

2

Peer group median 1/

0

9

0

1

2

3

4

5

6

7

8

9

suggests that inflation expectations in India

0

1

1

1

1

1

1

1

1

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have become better anchored since the

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1/ G20 peer group includes Brazil, Russia, China, South Africa, Indonesia, and Turkey.

Sources: Haver Analytics and IMF Staff Calculations

adoption of IT.

• Experience in other countries shows that building up monetary policy credibility is a gradual and cumulative process. The full benefits of IT therefore take time to materialize. Against this backdrop, staff welcomes the steps taken by the RBI to enhance its capacity to monitor and forecast food prices, which should further improve IT implementation. Further gains in monetary

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policy credibility and stabilizing inflation and inflation expectations can be achieved through continued commitment to the IT regime, underpinned by clear central bank communication as the economy experiences various real and financial shocks.

• In August, the RBI cut the policy rate by 35 basis points (bps), a change from the traditional policy rate moves by 25 bps or its multiples in recent years. While there is nothing sacrosanct about policy rate actions in increments of 25 bps, predictability and a meaningful size of the unit of increment can help market participants form a well-defined distribution of expectations about future monetary policy actions, supporting efficient pricing of financial instruments, market development, and monetary policy credibility. With regards to incremental monetary policy actions, staff observes that, as shown by experience elsewhere, forward guidance accompanied by market development can be an effective instrument in shaping market expectations.

**25. Recent monetary loosening has been largely appropriate, and there could be room for additional easing, given domestic and external downside risks.** Considering the sharper-than expected deceleration of economic activity amid subdued global growth and fiscal space at risk, the recent easing in August has aligned the policy rate closer to the natural rate of interest (staff’s midpoint estimate is 1.2 percent with a range of 0.7 to 1.7 percent reflecting model standard errors), with consensus inflation expectations slightly below 4 percent. In October, the RBI’s Monetary Policy Committee cut the policy rate by 25 bps to 5.15 percent, for a cumulative reduction of 135 bps, since February 2019, a sizeable easing which would support the economy amid the negative output gap but would take some time to play out, given monetary policy lags. As such, monetary policy should maintain an easing bias at least until the projected recovery takes hold.

**26. The monetary transmission mechanism needs to be improved further to enable the RBI to achieve the medium-term inflation target on a sustained basis.** Monetary transmission can be improved by enhancing competition in the banking system, encouraging banks to streamline credit pricing, ensuring that the recently-mandated referencing of lending rates to external benchmarks allows market-based pricing of credit risks, and reducing banks’ funding costs by passing through changes in policy rates to administered interest rates (e.g., on NSSF certificates). Staff welcomes the planned further reduction in the SLR to 18 percent by April 2020. On liquidity management, staff looks forward to the liquidity management framework review findings and recommends managing any balance sheet risks from the long-maturity foreign exchange swaps contracted by the RBI earlier this year.

**27. The expert panel on the RBI's Economic Capital Framework (the Bimal Jalan Committee) has laid out new guidelines for the transfer of RBI profits and “excess capital.”** Staff welcomes the report’s strong emphasis on the RBI’s resilience to support the complex needs of a large emerging market economy. While noting that there is no one universal capital benchmark level, staff welcomes that revaluation balances are considered only as risk buffers against market risks and that these unrealized valuation gains are therefore not distributed. The implementation of the transfer will have implications for the RBI’s balance sheet and liquidity management. These will need to be clearly communicated with market participants.

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**28. India should continue to rely on exchange rate flexibility and gradually liberalize capital flows.**

• De jure and de facto restrictions hold back capital inflows. However, the authorities have recently eased various capital flow management measures (CFMs, see IMF 2018 Taxonomy of Capital Flow Management Measures and Appendix IX), in particular, raising the limits for foreign portfolio investment (FPI) in government securities and external commercial borrowing and expanding the application of the automatic route for FDI to more sectors, among other measures.

**De-Jure Restrictions on Capital Inflows**

(Index, higher value indicatess more restrictions)

50

1.0

1.0

45

0.9

0.9

40

High income (42) India

35

0.8

0.8

Low income (8) Lower middle income (24)

Upper middle income (26)

30

0.7

0.7

25

0.6

0.6

20

0.5

0.5

15

10

0.4

0.4

5

0.3

0.3

0

**Financial Openness: Portfolio and FDI Liabilities** (In percent of GDP)

50

45

40

35

30

25

20

15

10

India

5

Median for 9 Emerging Market economies 1/

0

0.2 0.1

0.2 0.1

0 00

2

1 00

2

2 00

2

3 00

2

4 00

2

5 00

2

6 00

2

7 00

2

8 00

2

9 00

2

0 10

2

1 10

2

2 10

2

3 10

2

4 10

2

5 10

2

1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016 Source: Fernandez et al (2016).

Source: External Wealth of Nations database, Lane and Milesi-Ferretti (2016). 1/ Brazil, China, Indonesia, Israel, Philippines, Russia, Thailand, Turkey, and Vietnam.

• In staff’s projections, reserve coverage would remain adequate even in the event of higher oil prices, but simultaneous capital outflows would pose a test. Faced with external pressures in 2018/19, the RBI allowed the exchange rate to depreciate significantly while also intervening in the spot and forward foreign exchange market (about 1.8 percent of GDP) and easing various CFMs. The intervention sales were of the same magnitude as the net purchases of the previous year, illustrating the two-way nature of exchange rate management. Staff’s simulations suggest that reserve coverage would remain adequate in case of a sustained 30 percent oil price increase. However, in a more severe scenario with higher oil prices accompanied by one year of moderate capital outflows, reserves coverage would fall below 100 percent of the ARA metric by the end of the six-year forecast horizon.

• Continued exchange rate flexibility would support further deepening and broadening of the exchange markets, including the development of hedging instruments. Regarding the intervention strategy, staff recommends that intervention be two-way and limited to disorderly market conditions. In the event of severe external pressures, including from higher oil prices, continued exchange rate flexibility complemented by tighter fiscal and monetary policies would help contain the shock. Based on the DSA and FSAP stress tests, negative balance sheet effects from a rupee depreciation would likely be contained.

• Although the foreign currency issuance of sovereign bonds can help with benchmarking and diversifying the investor base for government securities, associated costs, risks, and benefits need to be assessed along with those of further increases in the FPI limits on nonresident holdings of government securities. About the latter, consideration could be given to entering

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global bond indexes, at least for some bonds, and facilitate clearance and settlement for nonresident investors.

***Authorities’ Views***

**29. The authorities concurred that continued commitment to the IT framework will be important for consolidating monetary policy credibility and preserving macro-stability.** Given the negative output gap and low food prices, inflation pressures are expected to be well-contained and below the RBI’s medium-term inflation target midpoint. The lagged impact of the cumulative easing of 135 basis points this year is being closely monitored to decide on any additional easing to help close the output gap. On the conduct of monetary policy, the authorities indicated that the usefulness of estimates of the natural rate, especially in an emerging market context, is limited by the imprecision of the estimates. They noted that a policy rate adjustment of 25 bps or multiples thereof may not always be consistent with the evolving macroeconomic conditions, giving rise to the need to calibrate the size of the rate adjustment. The authorities agreed on the need to further improve monetary transmission and emphasized that linking the bank lending rates to external benchmark rates would further help transmission.

**30. The authorities shared the view that the external position is broadly consistent with economic fundamentals and policy settings.** They agreed with the assessment of the current account norm of -2.5 percent of GDP and noted that experience at times in 2018 underscored that any higher level of the current account deficit can pose financing challenges. The authorities confirmed their commitment to two-way exchange rate flexibility and pointed out that intervention decisions should take a long view of the capital inflow-outflow cycle and be proactive, as demonstrated by the Indian experience over the past two years. They reiterated that interventions are only intended to smooth out excessive volatility. The authorities noted that the recent use of longer-term foreign exchange swaps was driven by the need to expand durable liquidity management tools beyond open-market operations, and the risks to the RBI balance sheet remain limited, given the size of the operations.

**C. Financial and Corporate Sector—Building on Important Reforms**

**31. Initiatives to address India’s twin balance sheet problem and underpin PSBs’ effective financial intermediation continue to be implemented but governance reforms lag:**

• The resolution and recovery of assets under the IBC process helped lower the banking system’s gross NPA ratio, and provisioning coverage improved to 60.6 percent (without write-off adjustment) in March 2019. PSBs’ capital positions improved following the government’s two year recapitalization program. It is expected to be further enhanced by this fiscal year’s additional recapitalization, planned to be frontloaded to revive lending capacity.

• Implementation of the IBC, supported by CD workshops organized by the Fund, is playing an important role in shifting the balance of power between debtors and creditors. Several rounds of amendments have been made to alleviate issues and clarify the interpretation of the law,

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including the eligibility of bidders and the treatment of secured and unsecured creditors. Around 120 cases have been resolved so far, with an average recovery rate of 43 percent. The backlog of cases and the time it takes for the process to complete remain a challenge, and steps are being taken to increase the capacity of the National Company Law Tribunal. The RBI released new guidelines on the Resolution of Stressed Assets in June 2019 in response to a Supreme Court ruling that the previous circular overreached on the RBI’s legal authority. The new guidelines reduce the reliance on court procedures and provide more flexibility for banks to design and implement resolution plans outside the IBC process, while providing disincentives (additional provisioning requirements) for resolution delays.

**32. Important additional steps need to be taken to build on the progress with PSB reforms so far.** Staff’s cross-country analysis of banks in India and EM peers suggests that there is scope to improve the efficiency of Indian banks, especially PSBs.

• The government adopted a PSB reform plan along metrics such as responsible banking, financial inclusion, credit offtake, and digitization. The first stock take of reform implementation was released in February 2019. The more arm’s-length process of PSB management selection undertaken by the Banks Board Bureau (BBB) and steps taken toward strengthening the governance, functioning, and quality of PSB boards are welcome for enhancing efficiency. The government should step up efforts to improve the risk management and operation of PSBs to improve the efficiency of credit allocation.

• The recently announced plan for PSB mergers should be accompanied by deep operational restructuring and far-reaching governance reform, as well as safeguards to maintain the soundness of the merged institutions. Unless supported by these measures, the merger would not address the underlying need for better risk management and greater efficiency and could result in larger and potentially weaker banks. Furthermore, the process could divert the focus away from the banks’ core businesses and could affect their lending capacity in the immediate future. While the mergers reduce the number of PSBs to 12, the large presence of the government in the banking system will remain unchanged.

**33. Staff welcomes the strengthening of regulation and monitoring of the NBFC, including the HFC sector.** Funding conditions appear to have eased for some NBFCs, and there is greater differentiation by financial market participants based on the underlying performance of firms. Further to the earlier measures to ease liquidity conditions (e.g., asset purchases from NBFCs by banks and the RBI’s liquidity provisions through banks), the government announced a temporary and partial guarantee to PSBs for the purchase of high-quality assets from solvent NBFCs in the July Budget. The RBI has enhanced its monitoring of and reporting from systemically-important NBFCs and introduced more granular liquidity management requirements. Staff welcomes the transfer to the RBI from the National Housing Bank (NHB) of the regulatory authority over HFCs. This can be expected to reduce regulatory arbitrage. In addition, the promotion and financing of housing finance (especially, affordable housing) and the supervision of HFCs, all currently under the NHB, should be separated, given the potential conflict of interest. While the stress in the sector appears to be contained to a few—albeit sometimes large—specific cases, continued vigilance is warranted on

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spillovers to other parts of the financial sector and systemic implications. For this purpose, staff urges the authorities to enhance the availability of more timely and granular data including to the public. The Fund stands ready to support these efforts through CD. An asset quality review for the sector could also be considered.

**34. In line with the 2017 FSAP recommendations, staff recommends that the authorities pursue far-reaching governance reforms that can be expected to lead to improved risk management and more efficient credit allocation.** This would involve continuing to strengthen the quality and independence of banks’ Boards, removing RBI officials from PSB Boards, and more aggressively pursuing PSB privatization and/or letting PSBs operate independently with accountability to the government. Furthermore, legal changes should be made to formally enable the RBI to ensure effective governance of PSBs, and subject PSBs fully to banking and corporate laws that apply to private banks. Regarding other recommendations from the 2017 FSAP, progress has been made on implementing IFRS 9 and strengthening insurance and securities supervision and regulations, while a mechanism for a resolution of financial institutions needs to be established and frameworks for emergency liquidity assistance (ELA), deposit insurance, and crisis preparedness should be improved (see Appendix II).

***Authorities’ Views***

**35. The authorities agreed on the importance of governance reform and improving the risk management of PSBs.** They emphasized the progress made in enhancing PSBs’ governance and operations, including the improvements in capital adequacy and NPA ratios, and the enhanced ability of PSBs’ management to enable a greater functional and technology focus and benefit from economies of scale regarding digitization. A key focus of reforms was now on improving risk management and the recently announced PSB mergers and accompanying reforms, including allowing PSBs to hire chief risk officers at market-based salaries, is expected to lead to efficiency gains and enhanced capacity to lend. The authorities stressed the importance that priority sector lending (PSL) and the PSBs play in the economy, including to reach underserved segments of society. They also noted that the RBI’s supervisory power over banks are agnostic to ownership, and do not agree on the need for legal changes to formally provide the RBI full supervisory powers over PSBs. Regarding the ELA, the authorities value the constructive ambiguity and flexibility provided by the current framework, and do not publish its internal guidelines to avoid moral hazard.

**36. The authorities highlighted the effectiveness of the measures taken to address stress in the NBFC sector.** Measures were implemented to effectively improve the sector’s liquidity conditions and allow asset-liability management issues to be addressed. In addition, the RBI’s regulatory and supervisory powers over NBFCs have been enhanced, and the transfer of regulation of HFCs to the RBI would reduce the potential for regulatory arbitrage.

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**D. Structural Reforms—Boosting Investment and Inclusive Growth**

**37. To support inclusive growth, structural reforms need to be reinvigorated.** Since the 1980s, wide-ranging structural reforms to deregulate, open, and make the economy more competitive have contributed to vastly improved living standards, with the share of the population in poverty decreasing significantly. However, India’s income per capita remains relatively low, and income disparities are widening. Moreover, unlike some other emerging market economies, India‘s manufacturing sector remains relatively small. These reflect rigidities in labor, land, and product markets.

**38. Concerted efforts have been made to strengthen the business climate and encourage investment and trade, but initiatives aimed at reducing corruption and increasing bureaucratic efficiency have had only limited success.**

• Corruption perception has improved and is comparable with emerging

market peers but remains high

50

compared to G20 countries.

According to the 2017 Executives

45

Survey by the World Economic

Forum, the private sector still

40

considers corruption in government 35

to be the most problematic factor for doing business. Examples of

30

corruption include widespread

bribery at various stages of the

**Corruption Perceptions Index**

(Index, higher is better)

India 1/ EMDE Median G20 Median BRICS Median

50

45

40

35

30

2012 2013 2014 2015 2016 2017 2018

investment process.

• Reforms to improve the business climate appear to have improved the

Sources: Transparency International, and IMF staff calculations. 1/ Shaded area represents the confidence interval around India's index value.

**Ease of Doing Business**

ease of doing business, but surveys suggest that the regulatory

framework and contract enforcement remain problematic. Critical issues are related to less competition friendly product market regulations than in peers, the lack of resources and expertise affecting contract enforcement and the judicial process

100 90

80

70

60

50

DB Score Rank (RHS, lower is better)

0

20

40

60

80

100 120 140 160 180

(as noted in the Ministry of Finance’s 2019 *Economic Survey*), and the complicated process of resolving

40 200 2014 2015 2016 2017 2018 2019 Source: World Bank, *Ease of doing business.*

insolvencies—even with the IBC—and land acquisition.

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• There is considerable scope to strengthen the corporate regulatory framework and the rule of law to reduce corruption and improve revenue outcomes. Measures to reduce administrative

and regulatory burdens, strengthen the efficiency of

**Corruption Perception Indicators 1/**

(Normalized between 0 and 1; higher is better performance) BRICS Average

judicial systems, improve

governance, shorten regulatory approval timelines, and

implement single-window clearance more widely would be beneficial. Staff found that considerable efforts are in train to use digitization and digital technology to streamline

processes and enhance efficiency,

**WEF: How Problematic is Corruption for Doing Business, 2017**

**TI: Corruption Perceptions Index, 2018**

**WGI: Control of Corruption, 2017**

**0.6**

**0.4**

**0.2**

**0.0**

**TI: How is Government Handling the Fight against Corruption, 2017**

India

G20 Median

90% Confidence Interval

**Maplecroft: Anti-corruption Institutions, 2017**

**TI: Total Bribery Rate**

**(Excluding no contact), 2017**

including regarding paying taxes and trading across borders. In the

Sources: Worldwide Governance Indicators (WGI); Maplecroft; World Economic Forum (WEF); Transparency International (TI) Corruption Perceptions Index and Global Corruption Barometer; and IMF staff calculations. 1/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

process, the opportunities for corruption are reduced markedly, such as through faceless assessments in the case of tax payments.

***Trade Policy Issues***

**39. There is still ample room to reduce trade barriers further.** Staff welcomes efforts to decrease trade documentation, streamline trade procedures, and expand infrastructure investment focusing on supply-chain logistics, including last-kilometer connectivity. Nevertheless, tariffs are relatively high and being changed frequently. Trade costs and processing times remain relatively high. Reportedly, the main obstacles on services trade are restrictions on foreign entry and on movement of people, barriers to competition, and lack of regulatory transparency.

**40. Resuming trade liberalization and reforms to facilitate trade and investment will help support growth and job creation and expand India’s role in the world trade system.** Further reduction of barriers to goods and services trade—tariffs and non-tariffs—will ultimately benefit India. Staff’s analysis suggests continued trade and investment liberalization could further support India’s trade and economic growth and help integrate India into global value chains (IMF APD Departmental Paper *Is South Asia Ready for Take Off? A Sustainable and Inclusive Growth Agenda*). More openness will help India transform and diversify, thus supporting the creation of more and better-quality jobs with a more substantial boost to employment potentially from increasing manufacturing exports. FDI inflows to India have been robust. The bulk of foreign investments are now allowed to enter most sectors of the Indian economy under the automatic route. Going forward, it is important to continue to put in place policies that create a conducive environment for investment and enhance policy certainty, including on sectoral policies and tariffs.

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***Labor Market Reforms***

**41. An important priority is modernizing labor regulations and other measures to help increase formal employment, especially of women.** Labor laws need to be updated and streamlined, including to reduce restrictive employment protection and not discriminate by enterprise size. By providing disincentives for firms to expand to their optimal size, they stifle productivity growth and formal sector job creation. In this regard, analysis in the latest *Economic Survey* illustrates the benefits of more flexible labor market regulations at the state level. Reforms would also allow India to reap the full benefits from a more integrated national market due to the implementation of the national GST. Past Selected Issues Papers suggests a multi-dimensional approach—using a range of fiscal, legal, and structural measures—could be used to maximize long run economic gains and to promote greater economic participation of women. Considering this, making amendments to and strengthening the implementation of various gender-specific labor laws and investing in gender-targeted skills training programs are needed to increase female employment in better quality jobs in the formal sector. Strengthening the implementation and awareness of females’ land inheritance rights and financial literacy programs could also help address remaining constraints to their usage of financial services.

**42. Staff’s analysis highlights important opportunities to exploit new digital technologies to help improve female labor force participation and narrow gender gaps** Building on the success of the JAM trinity (the initiative to link Jan Dhan (bank) accounts, Mobile numbers, and Aadhaar unique identify numbers), the rapid increase in bank account ownership and mobile phone availability can help enhance access to and lower costs of financial services, thus allowing women to utilize financial services to support their economic activities—saving, borrowing, investing, and making payments. Digital marketing platforms, including through the Mahila e-Haat initiative, can provide access to new markets and revenue opportunities, thus connecting women entrepreneurs in remote areas with limited mobility to markets to sell produce and goods. Job-matching platforms could also help improve labor market information flows, cut time for job search, and improve labor market efficiency. This would have particular benefits for people living in remote areas and those looking for part-time work, thus encouraging women to enter the workforce.

***Infrastructure and Product Market Reforms***

**43. In line with government plans, further emphasis should be put on addressing infrastructure bottlenecks.** In recent years, the supply side of the economy has been strengthened through large investments in airports, roads, telecom, and power generation. Nevertheless, there is a general recognition that getting to sustainably higher growth will require more action on addressing infrastructure bottlenecks. The government has announced ambitious plans in this regard. The new target is to invest Rs. 100 trillion (about US$1.4 trillion) over the next six years. This would involve more than a doubling of infrastructure investment from the pace of the last five years.

**44. To achieve a sustained increase in such investment, it will be important to redouble the efforts that are being made to address the sources of delays in implementing infrastructure projects.** Bottlenecks include delays in land acquisition, environment and forest clearances, stressed

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balance sheet of private companies involved in infrastructure investment, and overdependence on bank lending for financing of infrastructure. Regarding the latter, efforts are being made to promote institutional investment into infrastructure from pension, insurance, and sovereign wealth funds through various modalities, including brownfield asset monetization using vehicles such as Toll Operate Transfer and Infrastructure Investment Trusts.

**45. Sustained inclusive growth requires continued agricultural sector reforms.** This should include reducing supply-side constraints, building more integrated markets, boosting productivity, and addressing market distortions. Improving agricultural productivity is important to support the reallocation of labor resources to other sectors (e.g., manufacturing and services) while improving

living standards in rural areas. The agricultural sector is benefiting from the gains in rural electrification, which help with the post-harvest process (e.g., cold storage), as well as the ongoing expansion of the rural road network. For instance, staff’s analysis indicates that infrastructure development is associated with increased integration of wholesale agriculture markets.

**46. Land acquisition should be eased by reforming the land acquisition law.** There is also a need to step up efforts, especially at the state level, to compile a full digital land registry and simplify the regulatory approval process for environmental and other clearances. States that have advanced in terms of liberalizing land leasing and computerization of land records appear to have benefitted from stronger increases in agricultural productivity.

**47. Staff welcomes the Agricultural Export Strategy approved in late-2018.** There is considerable scope to expand India’s agriculture exports. The planned coordinated approach to improve export quality would be consistent with the government’s objective to raise farmers income. A stable regulatory environment, including regarding tariffs and restrictions will be key.

***Authorities’ Views***

**48. The authorities concurred that comprehensive reforms to make growth stronger and more inclusive and sustainable are needed.** In particular, the authorities recognized the need for continued labor, land, infrastructure, and product-market reforms. While expressing concern about implementing reforms in a weak growth environment, they agreed that politically, the time—early in the government’s second term—is right for a structural-reform push, as was done in the government’s first term. The authorities noted that labor laws are being updated and streamlined.5 While they recognized that the decline in labor force participation rate is worrisome, they underscored that this was partly due to the young population increasingly spending more years in education and skills training, which would likely support India’s economic potential in the future. The authorities noted steps taken to help increase women’s economic participation. This included recent amendments to the Maternity Benefit Act 2017, child-care subsidies, and schemes to support

5 Steps have been taken to draft four Labor Codes. This involves simplifying, amalgamating, and rationalizing the relevant provisions of the existing central labor laws. The Code on Wages Act was notified in August. The Code on Occupational Safety, Health, and Working Conditions was introduced in parliament in July. The other two codes, on industrial relations and on social security and welfare are in the pre-legislative stage.

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education, women’s safety, and infrastructure. On efforts to improve governance, the authorities highlighted the drive to introduce faceless tax assessment and refund processes, which should help limit direct interactions between tax officers and payers, thereby reducing corruption in tax administration. The authorities were pleased that efforts to improve the ease of doing business were now visible in India’s improved global ranking. Further reform efforts were ongoing.

**E. Statistics and Additional Capacity Development**

**49. While macro-economic statistics are adequate for Fund surveillance, further CD is warranted.** On national accounts data, the new producer price index under development could help improve the deflators used to calculate GDP and a recently-conducted survey of services could help the measurement of the informal sector at the time of the next rebasing. The authorities should also re-consider how revisions were made to the back-casted series (for data during 2004/05-2011/12). The Fund stands ready to intensify its support for improving statistical systems through CD.

**50. There is scope to further expand the Fund’s CD activities in priority areas.** The Fund’s CD activities with India have been scaled up in recent years (Appendix VII). As highlighted in earlier parts of this report, recent activities and collaboration with the authorities has improved targeting to country needs.

***Authorities’ Views***

**51. The authorities expressed satisfaction with the Fund’s support for CD in several areas.** They appreciated assistance through SARTTAC and for the 15th Finance Commission, especially on fiscal issues, and suggested the need to follow up on areas where they agreed with the Fund’s recommendations. The Indian statistical authorities emphasized their commitment to modernize their statistical system. On labor market statistics, they noted that changes to survey and sample selection methodology may affect the comparability of labor market statistics across time.

**STAFF APPRAISAL**

**52. Following rapid economic expansion in recent years, growth slowed to a six-year low in the first half of 2019.** India has been among the fastest-growing economies in the world, lifting millions out of poverty. However, a loss of momentum during the past year in both consumption and investment was exacerbated by weak income growth and stresses in the non-bank financial sector. Corporate and environmental regulatory uncertainty may also have impacted business and investment decisions. Weak demand and continued low food prices contributed to a further moderation of inflation to a multi-year low.

**53. The macroeconomic outlook is more subdued than in recent years.** Investment and private consumption are expected to firm in the second half of the fiscal year**.** This is expected to be supported by the lagged effects of monetary policy easing, recent measures to facilitate monetary policy transmission and to streamline regulations, and government programs to support rural consumption. Over the medium-term, growth is expected to benefit from the productivity-

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enhancing effects of recent reforms, as well as continued gradual macro-financial and structural reforms.

**54. Risks to the outlook are tilted to the downside.** Domestic risks include tax revenue shortfalls and delays in strengthening the balance sheets of PSBs and corporates (which could lead to weak lending) and other structural reforms. External risks pertain to oil price volatility, a sharp rise in risk premia in global financial markets, and rising protectionism.

**55. Near-term policies to address cyclical weakness should focus on monetary policy and broad-based macro-structural reforms.** Fiscal stimulus should be avoided given limited policy space. The FY2019/20 budget envisages a small reduction in the fiscal deficit but the overly optimistic revenue targets and the recent reduction in CIT rates makes achieving the budget targets increasingly unlikely.

**56. With its strong mandate, the new government has an opportunity to reinvigorate the reform agenda aimed at boosting inclusive and sustainable growth.** A comprehensive reform package is needed to guide the economy on a path to the government’s goal of a US$5 trillion economy in five years. Medium-term fiscal consolidation and financial sector reforms should be complemented by continued labor, product market, land, and other reforms aimed at increasing labor market flexibility, enhancing competition, and reducing the scope for corruption. These will help harness India’s demographic dividend by creating more and better jobs for India’s rapidly growing labor force and enhancing female labor force participation.

**57. A credible medium-term fiscal consolidation path that is more ambitious than currently envisaged by the government is needed to reduce debt, free up financial resources for private investment, and reduce the interest bill.** Consolidation would also reduce fiscal dominance, which has led to financial repression and could undermine central bank credibility and operations. A

consolidation path, aimed at bringing general government debt down to the officially-adopted target of 60 percent of GDP, should be driven by subsidy-spending rationalization and tax-base enhancing measures. In support, revenue projections should be more realistic and fiscal transparency and budget coverage should be enhanced. An extended notion of the government’s fiscal envelope—which includes NSSF loans to central government PSUs and fully serviced PSU bonds, in addition to the headline fiscal deficit—should be held constant this fiscal year, and fiscal consolidation on this metric should resume in FY2020/21.

**58. The loosening of monetary policy has been largely appropriate and further easing could be warranted.** The sizeable easing of monetary policy effected so far this year supports the economy amid the negative output gap. Given the cyclical weakness, monetary policy should maintain an easing bias at least until the projected recovery takes hold.

**59. To enable the RBI to achieve the medium-term inflation target on a sustained basis, continued action is needed to improve the monetary transmission mechanism.** Monetary transmission can be improved by enhancing competition in the banking system, including through PSB governance reforms and by reducing the government’s footprint in the banking system,

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encouraging banks to streamline credit pricing, and reducing banks’ funding costs by passing through changes in policy rates to administered interest rates (e.g., on NSSF certificates).

**60. More progress is needed in tackling the twin balance sheet problem, resurrecting PSBs’ effective financial intermediation, and restoring confidence in NBFCs.** Capital injections from the government budget and the initial results of the implementation of the IBC have improved PSBs’ capital position and asset quality. The recently announced PSB merger plan, which could divert focus and weigh on near-term credit growth, should be accompanied by deep operational restructuring and far-reaching governance reforms that can be expected to lead to improved risk management and more efficient credit allocation, including by considering more aggressive disinvestment and privatization. The authorities are encouraged to follow up on the FSAP recommendations, including to amend the legal framework to provide the RBI full regulatory powers over PSBs. Building on steps taken to strengthen the monitoring and regulation of NBFCs, enhancing the availability of timely and granular data could help restore confidence in the sector.

**61. India would benefit from further liberalization and reforms to facilitate trade and investment.** India’s CFM framework is moving in the general direction of capital account liberalization. Most FDI is now allowed to enter sectors of the Indian economy under the automatic route, but there is scope to further reduce administrative and regulatory burdens and improve governance building on gains made in improving the ease of doing business. Further liberalization in portfolio flows could be considered, while remaining vigilant to risks of capital flow reversals. As a strong advocate of the multilateral rules-based trade system, India is encouraged to play a bigger role in the world trade system.

**62. India’s external position is assessed to be broadly consistent with fundamentals and desirable policy settings, with international reserves adequate for precautionary purposes.** Exchange rate flexibility played an important role in helping to weather bouts of external pressures in 2018 and should continue, with foreign exchange intervention being two-way and limited to disorderly market conditions.

**63. Modernizing labor regulations and other measures to help increase formal employment and employment of women is a priority.** In view also of India’s low female labor force participation, further modernizing labor laws would encourage productivity growth and formal sector job creation, as well as reduce labor market rigidities that push down labor force participation.

**64. Achieving sustainably higher inclusive growth will require continuing to address infrastructure bottlenecks and agricultural sector reforms.** In recent years, important progress has been made in strengthening the supply side of the economy through large infrastructure investments. Land reforms remain essential to raise agriculture sector productivity and achieve the new government’s ambitious infrastructure development targets. Similarly, the initiatives to build more integrated markets and address market distortions will raise productivity in the agricultural sector by reducing production risk, increasing competitiveness, and improving transparency in state

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agricultural markets. Important gains can be expected from implementation of the new agriculture export policy.

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

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| **Figure 1. Growth and Investment**  *Growth and investment have slowed.*  *Growth has slowed, falling below potential. Private consumption and investment decelerated in the April-June quarter.*  **Demand Components of GDP**  (In percent, Year-on-Year)  **Real GDP Growth**  20  20  (In percent, Year-on-Year)  Private Consumption  18  18  14  14  Exports  16  16  Investment  14  14  12  12  Real GDP Growth (RHS)  12  12  10  10  10  10  8  8  8  8  6  6  4  4  6  6  2  2  0  0  4  4  -2  -2  GDP  -4  -4  GVA (Basic Prices)  2  2  -6  -6  8  9  7  8  9  0  1  2  3  4  5  6  7  0  0  0  2  1  1  0  0  0  1  1  1  1  1  1  1  1  /  /  /  /  /  /  /  /  /  /  /  /  /  /  7  8  6  7  8  9  0  1  2  3  4  5  6  9  1  1  0  0  0  0  1  1  1  1  1  1  1  1  2  3  4  5  6  7  8  9  0  1  8  9  0  0  0  0  0  0  0  0  0  0  0  0  0  0  2  2  2  2  2  2  2  2  2  2  2  2  2  1  1  1  1  1  1  0  0  1  1  1  1  2    -  -  -  -  -  -  -  -  -  -  -  -  1  n  n  n  n  n  n  n  n  n  n  n  n  Sources: CEIC, and IMF staff calculations.  Q  u  u  u  u  u  u  u  u  u  u  u  u  J  J  J  J  J  J  J  J  J  J  J  J  Sources: CEIC, and IMF staff calculations.  *Some indicators, such as the monthly manufacturing index*  *But sales of cars and two-wheelers have remained weak*  *suggest a bottoming out of activity.*  *amid subdued growth of rural wages.*  **Consumption Indicators**  **Production: Manufacturing and Services**  (Growth in percent, year-on-year)  62  12  50  PMI: Services (3mma) 1/  Domestic Two-Wheeler Sales  60  10  IP: Manufacturing (3mma) [RHS] 2/  40  10  Domestic Passenger Vehicle Sales  Rural Wages (RHS)  Demonetization GST  58  8  30  56  6  20  5  54  4  10  52  2  0  0  50  0  -10  48  -2  -20  -5  46  -4  -30  2  3  4  5  6  7  8  9  -40  -10  1  1  1  1  1  1  1  1  -  -  -  -  -  -  -  -  g  g  g  g  g  g  g  g  5  6  7  8  9  u  u  u  u  u  u  u  u  1  1  1  1  1  A  A  A  A  A  A  A  A  -  -  -  -  -  Sources: Haver Analytics; and IMF staff calculations.  g  g  g  g  g  u  u  u  u  u  A  A  A  A  A  1/ SA, 50+ = Expansion.  Sources: Haver Analytics, CEIC, and IMF staff calculations.  2/ YoY percent change.  *Investment growth was weak in the last two quarters. Domestic demand weakness is reflected in non-oil imports.*  **Real Gross Fixed Capital Formation**  **Trade in Goods**  (Percent change, Year-on-Year)  (YoY percent change, based on 3MMA in USD)  50  25  Exports Non-oil exports Imports Non-oil imports  40  20  Demonetization GST  30  15  20  10  10  5  0  -10  0  -20  -5  -30  -10  4  5  6  7  8  9  1  1  1  1  1  1  8  9  0  1  2  3  4  5  6  7  8  9  -  -  -  -  -  -  g  g  g  g  g  g  0  0  1  1  1  1  1  1  1  1  1  1  -  -  -  -  -  -  -  -  -  -  -  -  u  u  u  u  u  u  n  n  n  n  n  n  n  n  n  n  n  n  A  A  A  A  A  A  Sources: Haver Analytics, IMF Staff Calculations  u  u  u  u  u  u  u  u  u  u  u  u  J  J  J  J  J  J  J  J  J  J  J  J  Source: Haver Analytics. |

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**Figure 2. External Developments**

*India weathered emerging markets sell-offs amid a widening current account deficit but with adequate reserves*

*The current account deficit (CAD) widened to 2.1 percent of GDP in FY2018/19.*

**Current Account Balance**

(In percent of GDP)

*The CAD widening was mostly due to the increase in India’s net oil import bill.*

**Imports: Principle Commodities**

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

Trade Balance Services Balance

10

10

Income & Transfers Balance Current Account Balance

5

5

0

0

-5

-5

-10

-10

-15

-15

14,000 12,000 10,000

8,000 6,000 4,000 2,000 0

Coal Oil Gold

14,000 12,000 10,000 8,000

6,000 4,000 2,000 0

2

Q90

02

4

Q90

02

2

Q01

02

4

Q01

02

2

Q11

02

4

Q11

02

2

Q21

02

4

Q2102

2

Q3102

4

Q3102

2

Q4102

4

Q4102

2

Q5102

4

Q5102

2

Q6102

4

Q6102

2

Q7102

4

Q7102

2

Q81

02

4

Q81

02

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Q91

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Sources: Haver Analytics; and IMF staff calculations.

*Financial flows, led by FDI, have typically been sufficient to finance the CAD. But 2018 saw net portfolio outflows.*

**Financial Account**

(In percent of GDP)

Sources: Haver Analytics; and IMF staff calculations.

*In recent months, inflows of equity and debt capital resumed.*

**FII Flows - Equity and Debt**

(In billions of USD, monthly)

8

8

14

Bank capital, including NRI Loans

7

7

12

FII FDI

6

6

10

Average (2015-2017) Financial Account

5

5

8

4

4

6

3

3

4

2

2

2

1

1

0

0

0

-2

-1

-1

-4

-2

-2

-6

-3

-3

-8

Equity Debt FDI SENSEX Index (RHS)

45,000 40,000 35,000 30,000 25,000 20,000 15,000 10,000 5,000

0

1

Q5

102

2

Q5

102

3

Q5

102

4

Q5

102

1

Q6

102

2

Q6

102

3

Q6

102

4

Q6

102

1

Q7

102

2

Q7

102

3

Q7

102

4

Q7

102

1

Q8

102

2

Q8

102

3

Q8

102

4

Q8

102

1

Q9

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Sources: Haver Analytics; and IMF staff calculations.

Sources: CEIC and Haver Analytics.

*Foreign exchange exposures of corporates are limited. International reserves remain adequate.*

**Non-Financial Corporate Debt, 2019 Q1** (In percent of GDP)

Hong Kong SAR

China

Singapore

Korea

Chile

350 300 250

**Estimated Reserve Adequacy 1/**

(Official reserves as a percent of IMF country-specific metric) 2017 2018 2019

Suggested adequacy range

Turkey

Israel

Malaysia

Hungary

Czech

Thailand

India

Poland

Russian…

Saudi Arabia Brazil

South Africa Mexico

Indonesia

Argentina

LC

USD

EURO Other

200 150 100 50

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0 50 100 150 200 250 Sources: Haver Analytics, and IIF EM Global Debt Monitor.

Sources: IMF, *International Financial Statistics*; and IMF staff calculations. 1/ As of September 2019.

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**Figure 3. Financial Markets**

*Bouts of emerging markets selloffs in 2018 affected financial market conditions and volatility*

*The Indian rupee came under downward pressure but recovered from November 2018…*

**Exchange Rates**

(Index, June 1, 2009=100, NC/US$)

75

75

125

125

175

175

225

225

*...amid volatility of portfolio equity and debt flows.*

**Portfolio Flows**

(USD Billion, Cumulative since January 1, 2018)

10

10

Equity Debt Total

5

5

0

0

275 325 375 425

India Malaysia China Indonesia Brazil Turkey Russia South Korea

275 325 375 425

-5

-10 -15

-5

-10 -15

9

0-

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Sources: Bloomberg Financial Markets L.P.; and IMF staff calculations.

*The stock market maintained its upward momentum through May but the subdued growth is now being felt.*

**Stock Market Indices**

(June 1, 2009 = 100)

Sources: Bloomberg L.P., and IMF staff calculations

*Long-term bond yields recently eased on the resumption of capital inflows and easing of monetary policy.*

**Government Bond Yields**

(In percent)

300 250 200 150 100 50

Brazil

China

Russia

India (SENSEX)

300 250 200 150 100 50

12

11

10

9

8

7

6

5

4

3

2

3-month 3-year

10-year 3

4

5

6

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Source: Bloomberg Financial Markets L.P.

*The U.S. Federal Reserve’s abandonment of monetary policy normalization was associated with narrowing spreads, broadly in line with peers.*

**Credit Default Swap: SBI versus Sovereigns** (Basis points)

Source: Bloomberg Financial Markets LP.

*During FY2018/19, India’s REER was 7 percent more appreciated than the average for 2010-15.*

**Nominal and Real Effective Exchange Rates**

(Index, 2010=100)

120

120

400 350 300 250 200 150 100 50

0

SBI 1/ Indonesia Korea China

115 110 105 100 95

90

85

80

75

70

65

60

NEER

REER

US$/INR bilateral rate

115 110 105 100 95

90

85

80

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Source: Bloomberg Financial Markets LP.

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1/ SBI is used as proxy for Government of India.

Sources: IMF, *Information Notice System*; and IMF staff estimates.

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| **Figure 4. Monetary Developments**  *Inflation has been in the lower half of the RBI’s target band on low food inflation but household expectations remain elevated Headline inflation has begun to rise on firming food inflation*  *Despite recent moderation, household inflation expectations*  *even as core inflation is easing on softer overall activity.*  *remain elevated.*  **Inflation Expectations, 1-Year Ahead**  **Inflation**  (In percent)  (In percent, Year-on-Year)  14  14  14  14  CPI (Combined)  12  12  12  12  CPI (Core-Core)1/  CPI-Core  10  10  10  10  8  8  8  8  6  6  6  6  Target band  4  4  4  4  (formally from Feb. 2015)  Target band  (formally from Feb. 2015)  2  2  Household Expectations  2  2  Consensus Expectations  0  0  0  0  9  0  1  2  3  4  5  6  7  8  9  9  0  1  2  3  4  5  6  7  8  9  0  1  1  1  1  1  1  1  1  1  1  0  1  1  1  1  1  1  1  1  1  1  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  -  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  g  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  u  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  A  Sources: CEIC; and IMF staff calculations.  Sources: Haver Analytics, and Consensus Economics.  1/ Core-Core measure excludes food, energy, petrol and diesel.  *Prices of food items, which comprise 43 percent of the CPI*  *…and the share of items in the CPI basket that displays high*  *basket, have risen from their recent lows…*  *year-on-year price increases is on the rise due to food prices.*  **CPI Food Inflation Contributions**  **Inflation Diffusion Index (DI) 1/**  (In percent, Year-on-Year)  (CPI in percent (LHS), Year-on-Year)  10  10  7  70  Cereals Milk  DI - Food Items- RHS DI - Non Food Items- RHS CPI  Vegetables Pulses  8  8  6  60  Others CPI: Food & Beverages  5  50  6  6  4  40  4  4  3  30  2  2  2  20  0  0  1  10  -2  -2  0  0  -4  -4  5  6  7  8  9  1  1  1  1  1  -  -  -  -  -  4  5  6  7  8  9  g  g  g  g  g  1  1  1  1  1  1  u  u  u  u  u  -  -  -  -  -  -  A  A  A  A  A  Sources: Haver Analytics, IMF Staff Calculations  g  g  g  g  g  g  u  u  u  u  u  u  A  A  A  A  A  A  1/ Share of items in the CPI basket for which inflation exceeds 5 percent.  Sources: CEIC, and IMF staff calculations.  *The strengthening of monetary policy and low oil and food*  *The recent strengthening of the rupee has contributed to a*  *prices have supported disinflation in 2015-2019.*  *tightening of overall monetary conditions.*  **Inflation in India and its G20 Peers**  **Monetary Conditions Index (MCI)**  (In percent, Year-on-Year)  (In percent, monthly)  20  20  14  14  15  15  12  12  Tightening  10  10  conditions  10  10  5  5  8  8  0  0  6  6  -5  -5  4  4  Loosening conditions  -10  -10  India  2  2  Peer group median 1/  -15  -15  Real Interest Rate REER MCI=RIR+REER  0  0  -20  -20  9  0  1  2  3  4  5  6  7  8  9  0  1  1  1  1  1  1  1  1  1  1  -  -  -  -  -  -  -  -  -  -  -  8  9  0  1  2  3  4  5  6  7  8  9  g  g  g  g  g  g  g  g  g  g  g  0  0  1  1  1  1  1  1  1  1  1  1  u  u  u  u  u  u  u  u  u  u  u  -  -  -  -  -  -  -  -  -  -  -  -  A  A  A  A  A  A  A  A  A  A  A  g  g  g  g  g  g  g  g  g  g  g  g  1/ G20 peer group includes Brazil, Russia, China, South Africa, Indonesia, and Turkey.  u  u  u  u  u  u  u  u  u  u  u  u  A  A  A  A  A  A  A  A  A  A  A  A  Sources: Haver Analytics and IMF Staff Calculations  Sources: Haver Analytics, CEIC CDMNext, and IMF staff calculations. |

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INDIA

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| **Figure 5. Fiscal Developments**  *The on-budget general government balance improved in FY2018/19 but some current spending was executed off-budget and general government debt rose to a three-year high of 68.1 percent of GDP.*  *The general government balance improved in 2018/19.*  *The revenue to GDP ratio retreated somewhat in*  *But food subsidies were partly effected off-budget.*  *FY2018/19.*  **Government Balance**  **Government Expenditure**  (In percent of GDP) 1/  (In percent of GDP)  0  0  35  State Government Central Government General Government  -2  -2  30  25  -4  -4  20  -6  -6  15  -8  -8  10  -10  -10  Central Government  5  State Governments  -12  -12  0  )  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  .  t  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1  )  s  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  t  E  0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  (  s  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1    0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  E  9  (  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7    1  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  9  /  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  1  8  1/ Includes subsidy-related bond issuances.  /  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  1  8  0  1  Source: IMF staff data.  2  Sources: Ministry of Finance, RBI, and IMF staff calculations  0  2  *On-budget current spending has been inching down. Capital spending remains at the post-crisis average.* **General Government Non-interest Current Spending**  **Capital Spending**  (In percent of GDP)  (In percent of GDP)  8  25  State Governments Central Government  Non-interest current spending Avg 2000/01 to 2007/08  7  Avg 2000/01 to 2007/08 Avg 2008/09 to 2016/17  Avg 2008/09 to 2016/17  20  6  5  15  4  10  3  2  5  1  0  0  )  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  .  )  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  t  .  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1  t  s  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1  s  E  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  (  E    0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  (  0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1    9  0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  9  1  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  /  1  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  /  8  8  1  Source: IMF staff data.  1  0  Source: IMF staff data.  0  2  2  *Efforts to raise direct and indirect taxes have not*  *The declining trend in government subsidies of the last*  *translated in a rise in the center’s revenue to GDP ratio.*  *several years was reversed in FY2018/19.*  **Government Subsidies**  **Central Government Revenue**  (In percent of GDP)  (In percent of GDP)  3.0  3.0  14  Food  Direct Indirect  Fertilizer  12  2.5  2.5  Petroleum  10  Total  2.0  2.0  8  1.5  1.5  6  4  1.0  1.0  2  0.5  0.5  0  )  0.0  0.0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  .  t  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1  s  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  )  E  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  8  0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  (  .    t  0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  1  s  9  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  /  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  E  1  0  1  2  3  4  5  6  7  8  9  0  1  2  3  4  5  6  7  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  (  /    0  0  0  0  0  0  0  0  0  0  1  1  1  1  1  1  1  1  8  9  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  0  1  1  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  2  /  0  8  2  1  Source: IMF staff data.  Source: IMF staff data.  0  2 |

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INDIA

**Figure 6. Fiscal Vulnerability Indicators**

*India’s public debt is large compared to emerging market peers but the debt profile is favorable.*

*India’s public debt is relatively large in comparison with other major emerging market economies.*

**General government gross public debt, 2018** (In percent of GDP)

*The same holds for the general government fiscal deficit.*

**General government fiscal balance, 2018**

(In percent of GDP)

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80

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60

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Source: IMF, *World Economic Outlook.*

*But debt roll-over risks are mitigated by the long average maturity of Indian debt…*

**Average government debt maturity** 1/

(Years)

S

Source: IMF, *World Economic Outlook*.

*…and India’s debt dynamics are favorable.*

**Projected interest-growth differential, 2018-23** 1/ (In percent)

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Sources: IMF *World Economic Outlook* and Bloomberg Financial Markets LP.

Source: Bloomberg Financial Markets LP. 1/ As of June 2019.

1/ Calculated as the weighted average coupon rate on government debt less the average nominal GDP growth forecast over six years.

*Moreover, currency risk in India’s case is minimal… …and exposure to non-resident investors is limited.*

**Government Debt in Foreign Currency** 1/

(In percent of total)

60

50

40

45

35

50

40

30

35

40

25

30

25

20

30

20

15

15

20

10

10

5

5

10

0

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**Government Debt held by Non-Residents**

(As of 2018, in percent of total)

60

50

40

30

20

10

India (Baa2)

Brazil (Ba2)

South Africa (Baa3)

Philippines (Baa2)

Indonesia (Baa2)

Turkey (B1)

0

Indonesia

(Baa2)

Turkey (B1)

India (Baa2)

0

Brazil

(Ba2)

Source: Bloomberg Financial Markets LP. 1/ As of June 2019

Source: Bloomberg Financial Markets LP, and IMF staff estimates.

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INDIA

**Figure 7. Corporate and Banking Sectors**

*The twin balance sheet problem in the corporate and banking sector is being addressed.*

*The growth of corporate sector bank borrowing has improved from the FY2017/18 low but remains subdued.*

**Outstanding Corporate Debt in India**

*In relative terms, the corporate sector is increasingly relying on local bonds and commercial paper.*

**Outstanding Corporate Debt in India**

(in trillions of Indian Rupees)

180

24

100

New equity issues\*

Local bonds & CPs

160

90

20

Bank Credit

80

140

ECBs

Change in corporate debt outstanding (yoy percent, rhs)

70

120

16

Change in corporate bank borrowing (yoy percent, rhs)

60

100

50

12

80

40

60

8

30

20

40

4

10

20

0

0

0

(In percent of total corporate funding)

**17.6 18.7 18.4 20.5 21.6 24.8 25.8 27.1**

**70.9 69.9 69.4 66.9 65.8 64.3 64.7 64.9**

**11.6 11.4 12.2 12.7 12.6 10.9 9.5 8.0** Mar-12 Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Sep-18

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ECBs Bank Credit Local bonds & CPs

Sources: RBI; BIS; Dealogic; and IMF staff estimates.

Sources: RBI; Dealogic; and IMF staff estimates.

\* Cumulative since 2012.

*Debt repayment capacity and profitability appear to have bottomed out but remain below historical averages.*

**Corporate Debt Repayment Capacity and Profitability** (In percent)

*Banks’ asset quality has started to improve…*

**Banks' Nonperforming and Restructured Assets** (In percent of outstanding advances)

6

20

Interest coverage ratio

18

18

16

5

16

Return on equity (RHS)

14

14

12

4

10

12

8

3

10

6

8

4

2

2

6

0

4

Gross NPA ratio Restructured loan ratio

1

0

2 0

5

1/

4102

6

1/

5102

7

1/

6102

8

1/

7102

9

1/

8102

5

1/

4102

6

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5102

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Public sector banks

Private sector banks

Foreign banks All banks

Source: IMF, Corporate Vulnerability Utility.

*…but recognition of non-performing assets has weighed on capitalization…*

**Capital Adequacy Ratio**

(in percent)

20

18

16

14

12

10

8

6

4

2

0

Sources: Reserve Bank of India; and IMF staff estimates *…and profitability.*

**Return on Assets**

(in percent)

2.0

1.5

1.0

0.5

0.0

-0.5

-1.0

5

1/

4102

6

1/

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Public sector banks

Private sector banks

Foreign banks All banks

Public sector banks

Private sector banks

Foreign banks All banks

Source: The Reserve Bank of India.

Source: The Reserve Bank of India.

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INDIA

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| **Figure 8. Labor Market Developments**  *Job generation has lagged population growth. The unemployment rate is higher than in peer countries.* **Worker Population Ratio**  **Unemployment Rate (2018)**  (Percent of total labor force, modeled ILO estimate)  (In percent)  60  10  Person Male Female  55  8.9  9  50  8.6  45  7.9  8  40  35  7  30  25  6  20  15  5  10  EMDE Median (Ex-India) BRICS Median (Ex-India) India 1/  1977/78 1983/84 1987/88 1993/94 1999/00 2004/05 2009/10 2011/12 2017/18  Sources: World Bank, *World Development Indicators*, and IMF staff calculations.  Source: Periodic Labor Force Survey, Ministry of Statistics and Programme  1/ Data for India was as of 2017/18 fiscal year, from annual periodic labor force survey (PLFS) report  published by the Ministry of Statistics and Programme Implementation.  Implementation.  *India’s structural transformation involves a falling share*  *But more needs to be done to create manufacturing jobs*  *of agriculture- and rising share of services sector jobs.*  *to absorb the large pool of workers joining the labor force.*  **Employment by Sector**  **Employment by Sector**  (In percent)  (In percent)  100  100  80  80  60  60  40  40  20  20  0  0  1977/78 2017/18 1977/78 2017/18  1977/78 2017/18 1977/78 2017/18  Rural Male Rural Female  Urban Male Urban Female  Other Services Transport, storage & communications  Other Services Transport, storage & communications  Trade, hotel & restaurants Construction  Trade, hotel & restaurants Construction  Utilities Manufacturing  Utilities Manufacturing  Mining & Quarrying Agriculture  Mining & Quarrying Agriculture  Source: Periodic Labor Force Survey, Ministry of Statistics and Programme  Source: Periodic Labor Force Survey, Ministry of Statistics and Programme  Implementation.  Implementation.  *Employment in the informal sector is declining gradually. The gender wage gap is still high in India.* **Employment in the Informal Sector**  **Average earnings per day by casual labor**  (In percent)  (In rupees, average July 2017-June 2018)  80  350  Urban (other than public works)  77.5  78  Rural (other than public works)  300  76  in MGNREG public works  250  74  72.4  72  200  71.1  70  150  68.4  68  100  66  50  64  62  0  2004/05 2009/10 2011/12 2017/18  Male Female Person  Source: Periodic Labor Force Survey, Ministry of Statistics and Programme  Source: Periodic Labor Force Survey, Ministry of Statistics and Programme  Implementation.  Implementation. |

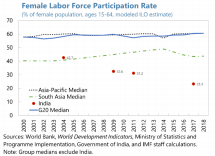
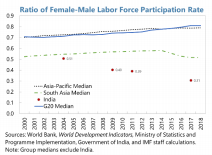
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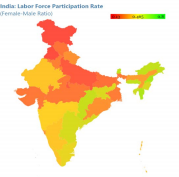
INDIA

**Figure 9: Gender Inequality**

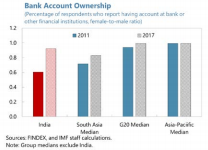
*Female labor force participation rate was relatively low and continued to decline.*

*Gender disparity in labor force participation widened further.*

**Note: Data for India are not modeled ILO estimate. Note: Data for India are not modeled ILO estimate.

*Within India, gender disparity is varied across states. Girl deficits remained significant. Gender equality in education is lagging peers. Recent initiative has helped improve economic opportunity for female, including through access to financial services.*

**Educational Attainment**

(Female-Male ratio, at least completed primary, population 25+ years) 1.2 

2000 Latest 1/

1

0.8

0.6

0.4

0.2

0

India EMDE Median Asia-Pacific Median

G20 Median

Sources: World Bank, *World Development Indicators,* and IMF staff calculations.

1/ 2011 for India, 2017 for EMDE and Asia-Pacific median, and 2015 for G20 median.

*Note: The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory, or any endorsement of such boundaries.*

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**Table 2. India: Selected Social and Economic Indicators, 2015/16–2020/21 1/ I. Social Indicators**

**GDP (2018/19) Poverty (percent of population)** Nominal GDP (in billions of U.S. dollars): 2,719 Headcount ratio at $1.90 a day (2011): 21.2 GDP per capita (U.S. dollars) (IMF staff est.): 2,038 Undernourished (2015): 15.3

**Population characteristics (2018/19) Income distribution (2011, WDI)** Total (in billions): 1.33 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**

2015/16 2016/17 2017/18 2018/19 2019/20 2020/21

Est.

Growth (in percent)

Projections

Real GDP (at market prices) 8.0 8.2 7.2 6.8 6.1 7.0 Prices (percent change, period average)

Consumer prices - Combined 4.9 4.5 3.6 3.4 3.4 4.1 Saving and investment (percent of GDP)

Gross saving 2/ 31.1 29.6 29.1 29.2 29.3 29.5 Gross investment 2/ 32.1 30.2 30.9 31.3 31.3 31.8 Fiscal position (percent of GDP) 3/

Central government overall balance -4.1 -3.7 -3.9 -3.8 -4.5 -4.2 General government overall balance -7.2 -7.1 -6.4 -6.2 -7.4 -7.1 General government debt 4/ 68.8 68.8 69.4 69.1 69.8 69.1 Cyclically adjusted balance (% of potential GDP) -7.2 -7.3 -6.5 -6.2 -7.2 -6.9 Cyclically adjusted primary balance (% of potential GDP) -2.5 -2.6 -1.7 -1.2 -2.2 -2.0 Money and credit (y/y percent change, end-period)

Broad money 10.1 10.1 9.2 10.5 9.7 11.3 Bank credit to the private sector 10.6 8.0 9.5 12.7 8.4 11.1 Financial indicators (percent, end-period)

91-day treasury bill yield (end-period) 5/ 7.4 7.2 6.2 6.2 5.3 … 10-year government bond yield (end-period) 5/ 7.5 6.7 7.4 7.4 6.7 … Stock market (y/y percent change, end-period) 5/ -9.4 16.9 11.3 17.3 4.9 … External trade (on balance of payments basis)

Merchandise exports (in billions of U.S. dollars) 266.4 280.1 309.0 337.2 346.0 358.9 (Annual percent change) -15.9 5.2 10.3 9.1 2.6 3.7 Merchandise imports (in billions of U.S. dollars) 396.4 392.6 469.0 517.5 534.4 567.7 (Annual percent change) -14.1 -1.0 19.5 10.3 3.3 6.2 Terms of trade (G&S, annual percent change) 5.7 1.4 -2.3 -1.8 0.1 0.9 Balance of payments (in billions of U.S. dollars)

Current account balance -22.1 -14.4 -48.7 -57.2 -57.8 -73.5 (In percent of GDP) -1.0 -0.6 -1.8 -2.1 -2.0 -2.3 Foreign direct investment, net ("-" signifies inflow) -36.0 -35.6 -30.3 -30.7 -36.7 -40.0 Portfolio investment, net (equity and debt, "-" = inflow) 4.1 -7.6 -22.1 2.4 -14.7 -14.4 Overall balance ("-" signifies balance of payments surplus) -17.9 -22.4 -43.6 3.2 -21.1 -15.1 External indicators

Gross reserves (in billions of U.S. dollars, end-period) 360.2 370.0 424.5 412.9 434.0 449.1 (In months of next year's imports (goods and services)) 8.8 7.6 7.9 7.4 7.3 7.0 External debt (in billions of U.S. dollars, end-period) 485.0 471.3 529.3 513.1 560.9 613.6 External debt (percent of GDP, end-period) 23.1 20.6 20.0 18.9 19.1 19.2 *Of which:* Short-term debt 9.2 8.8 8.3 8.1 8.6 8.9 Ratio of gross reserves to short-term debt (end-period) 1.9 1.8 1.9 1.9 1.7 1.6 Debt service ratio 6/ 8.8 7.8 7.9 8.3 8.5 8.3 Real effective exchange rate (annual avg. percent change) 7/ 5.2 1.9 3.0 -3.5 6.1 … Exchange rate (rupee/U.S. dollar, end-period) 8/ 68.3 64.8 65.0 69.2 71.8 …

Memorandum item (in percent of GDP)

Fiscal balance under authorities' definition -3.9 -3.5 -3.5 -3.3 -3.7 -3.8

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. 5/ For 2019/20, as of September 2019.

6/ In percent of current account receipts, excluding grants.

7/ For 2019/20: the change in the average for April-August 2019 from April-August 2018.

8/ For 2019/20, as of end-August, 2019.

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INDIA

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| **Table 3. India: Balance of Payments, 2015/16–2020/21 1/** (In billions of U.S. dollars)  2015/16 2016/17 2017/18 2018/19 2019/20 2020/21  Projections  Est.  Current account balance -22.1 -14.4 -48.7 -57.2 -57.8 -73.5 Merchandise trade balance -130.1 -112.4 -160.0 -180.3 -188.4 -208.8 Merchandise exports 266.4 280.1 309.0 337.2 346.0 358.9 Merchandise imports 396.4 392.6 469.0 517.5 534.4 567.7 Oil 82.9 87.0 108.6 140.9 … … Non-oil 313.5 305.6 360.4 376.6 … … Services balance 69.7 68.3 77.6 81.9 89.0 92.6 Credit 154.3 164.2 195.1 208.0 222.7 240.2 *Of which* : software services 74.2 74.4 77.3 83.5 … … Debit 84.6 95.9 117.5 126.1 133.7 147.6 Primary income balance, net -24.4 -26.3 -28.7 -28.9 -33.5 -38.5 Secondary income balance, net 62.7 56.1 62.5 70.0 75.1 81.3  Capital and Financial account balance -23.1 -14.6 -47.8 -57.8 -57.8 -73.4 Direct investment, net -36.0 -35.6 -30.3 -30.7 -36.7 -40.0 *Of which* : Net incurrance of liabilties 44.9 42.2 39.4 43.3 49.9 56.0 Portfolio investment, net 4.1 -7.6 -22.1 2.4 -14.7 -14.4 Financial derivatives, net -0.6 -9.8 2.9 -1.0 -1.1 -1.1 Other investment, net -8.9 16.8 -41.8 -25.2 -26.4 -33.1 Reserve assets, net 17.9 21.6 43.6 -3.3 21.1 15.1  Errors and omissions -1.1 0.4 0.9 -0.5 0.0 0.0 Overall balance 2/ -17.9 -22.4 -43.6 3.2 -21.1 -15.1 Valuation changes 0.6 -12.7 11.0 -8.5 0.0 0.0  Increase in gross reserve stock  (including valuation changes) 18.5 9.8 54.6 -11.7 21.1 15.1 of which: Valuation changes 2/ 0.6 -11.8 11.0 -8.3 0.0 0.0  Memorandum items:  Foreign exchange reserves 360.2 370.0 424.5 412.9 434.0 449.1 In months of next year's imports (goods and services) 8.8 7.6 7.9 7.4 7.3 7.0 Current account balance (percent of GDP) -1.0 -0.6 -1.8 -2.1 -2.0 -2.3 Merchandise trade balance (percent of GDP) -6.2 -4.9 -6.0 -6.6 -6.4 -6.5 Direct investment, net (percent of GDP) -1.7 -1.6 -1.1 -1.1 -1.3 -1.3 Gold Imports (billions U.S. dollars) 31.8 27.5 33.7 32.9 … … GDP in USD 2,103.6 2,289.8 2,652.2 2,718.7 2,935.6 3,202.2  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 the difference between the stock of reserves and the flow changes to net reserve assets. |
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**Table 4. India: Reserve Money and Monetary Survey, 2014/15–2019/20 1/**

2014/15

2015/16 2016/17 2017/18

2018/19 2019/20 Aug.

**Reserve money**

(In billions of rupees, end-period)

Reserve money 19,285 21,023 19,005 24,187 27,705 22,074 Net domestic assets of RBI -1,988 -2,812 -4,967 -3,421 -781 -8,435 Claims on government (net) 3,645 4,250 6,208 4,760 8,020 9,349 Center 3,610 4,246 6,196 4,743 8,005 9,344 States 35 4 12 17 15 6 Claims on commercial sector 148 201 73 140 154 76 Claims on banks 1,877 2,845 -3,166 493 1,375 -1,302 Other items (net) -7,658 -10,107 -8,083 -8,814 -10,329 -16,559 Net foreign assets of RBI 21,273 23,835 23,972 27,608 28,486 30,509

(Contribution to twelve-month reserve money growth)

Reserve money 11.3 9.0 -9.6 27.3 14.5 -10.3 Net domestic assets of RBI -7.4 -4.3 -10.3 8.1 10.9 -19.1 Claims on government (net) -19.3 3.1 9.3 -7.6 13.5 10.2 Net foreign assets of RBI 18.7 13.3 0.7 19.1 3.6 8.8

**Monetary survey**

(In billions of rupees, end-period)

Broad money (M3) 105,502 116,176 127,919 139,626 154,309 156,772 Currency with public 13,862 15,973 12,641 17,597 20,522 20,827 Deposits 91,494 100,049 115,067 121,790 133,469 135,635 Non-bank deposits at RBI 146 154 211 239 317 310

Net domestic assets 82,995 90,839 102,337 110,403 123,600 124,041 Domestic credit 100,571 110,416 122,681 132,151 147,680 150,103 Net credit to government 30,074 32,385 38,566 40,014 43,878 47,206 *Of which:* RBI 3,645 4,250 6,208 4,760 8,020 9,349 Credit to commercial sector 70,497 78,031 84,115 92,137 103,802 102,897 *Of which:* Bank credit (excluding RBI) 70,349 77,830 84,042 91,997 103,648 102,821 Other items (net) -17,576 -19,577 -20,344 -21,748 -24,079 -26,063 Net foreign assets 22,506 25,337 25,582 29,223 30,708 32,732

(Twelve-month percent change)

Broad money (M3) 10.9 10.1 10.1 9.2 10.5 9.9 Net domestic assets 9.3 9.5 12.7 7.9 12.0 9.6 Domestic credit 6.0 9.8 11.1 7.7 11.8 9.1 Net credit to government -1.2 7.7 19.1 3.8 9.7 7.4 Credit to commercial sector 9.4 10.7 7.8 9.5 12.7 9.8 *Of which:* Bank credit (excluding RBI) 9.3 10.6 8.0 9.5 12.7 9.9 Net foreign assets 17.0 12.6 1.0 14.2 5.1 10.7

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.

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INDIA

**Table 5. India: Central Government Operations, 2014/15–2020/21 1/** 2014/15 2015/16 2016/17 2017/18 2018/19 2018/19 2019/20 2019/20 2020/21

RE Est. BE

(In percent of GDP)

Projections

**Revenue 9.1 9.0 9.2 8.7 9.3 8.4 9.6 8.5 8.6** Taxes 7.3 6.9 7.2 7.3 7.8 6.9 7.9 6.7 7.0 Income tax 5.6 5.4 5.5 5.7 6.3 5.9 6.4 5.0 5.2 GST … … … 2.6 3.4 3.1 3.2 3.0 3.1 Excise tax 1.5 2.1 2.5 1.5 1.4 1.2 1.4 1.4 1.4

Service tax 1.3 1.5 1.7 0.5 0.0 0.1 0.0 0.0 0.0 Customs duties 1.5 1.5 1.5 0.8 0.7 0.6 0.7 0.7 0.7 Other taxes 0.0 0.0 0.0 0.2 0.0 0.0 0.0 0.0 0.0 Less: States' share 2.7 3.7 4.0 3.9 4.0 4.0 3.9 3.4 3.6 Grants 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 Other revenue 2/ 1.8 2.1 2.0 1.4 1.5 1.5 1.7 1.7 1.6 Property income 0.9 1.0 0.9 0.6 0.7 0.7 0.8 0.8 0.8 Sale of goods and services 0.3 0.2 0.2 0.3 0.2 0.2 0.2 0.2 0.2 Miscellaneous and unidentified revenue 0.7 0.8 0.9 0.5 0.6 0.6 0.6 0.7 0.5

**Expenditure 13.6 13.0 12.9 12.6 12.9 12.2 13.3 12.9 12.8 Expense 3**/ **12.0 11.2 11.0 11.0 11.3 10.6 11.7 11.4 11.2** Compensation of employees 4/ 1.1 0.8 1.2 1.1 1.1 1.1 1.0 1.0 1.0 Interest 3.2 3.2 3.1 3.1 3.1 3.1 3.2 3.2 3.0 Subsidies 5/ 2.0 1.8 1.3 1.1 1.4 1.4 1.4 1.1 1.1 Food 0.9 1.0 0.7 0.6 0.9 0.9 0.9 0.7 0.7 Fertilizer 0.6 0.5 0.4 0.4 0.4 0.4 0.4 0.3 0.3 Petroleum 0.5 0.2 0.2 0.1 0.1 0.1 0.2 0.1 0.1 Grants and other expense 6/ 5.7 5.4 5.4 5.7 5.7 5.0 6.1 6.1 6.1 Grants 2.7 2.3 2.4 3.0 2.4 2.4 2.4 2.4 2.4 Other expense 6/ 3.0 3.1 3.1 2.7 3.3 2.6 3.7 3.7 3.7 **Net acquisition of nonfinancial assets 1.6 1.8 1.9 1.5 1.7 1.7 1.6 1.6 1.6** Gross Operating Balance -2.9 -2.2 -1.9 -2.3 -2.0 -2.2 -2.1 -2.9 -2.6 **Net lending / borrowing (overall balance) -4.5 -4.1 -3.7 -3.9 -3.6 -3.8 -3.7 -4.5 -4.2** Net financial transactions -4.5 -4.1 -3.7 -3.9 -3.7 -3.8 -3.7 -4.5 -4.2 Net acquisition of financial assets -0.5 -0.7 -0.7 -1.0 -1.1 -1.1 -1.4 -1.5 -0.5 Domestic -0.5 -0.7 -0.7 -1.0 -1.1 -1.1 -1.4 -1.5 -0.5 Currency and deposits -0.4 -0.5 -0.6 -0.4 -0.7 -0.7 -0.7 -0.7 0.0 Loans 0.1 0.0 0.1 0.0 0.1 0.1 0.1 -0.1 -0.1 Share and other equity -0.3 -0.3 -0.3 -0.7 -0.4 -0.4 -0.8 -0.8 -0.4 Net incurrence of liabilities 4.0 3.3 3.0 2.9 2.6 2.7 2.3 2.9 3.7 Domestic 3.9 3.3 2.8 2.8 2.6 2.7 2.4 3.0 3.7 Debt securities 7/ 3.6 3.0 2.2 2.4 2.4 2.4 2.3 3.0 3.7 Other accounts payable 0.3 0.2 0.6 0.4 0.2 0.3 0.1 0.0 0.0 Foreign 0.1 0.1 0.1 0.1 0.0 0.0 0.0 0.0 0.0 Loans 0.1 0.1 0.1 0.1 0.0 0.0 0.0 0.0 0.0 **Memorandum items:**

Balance under authorities' definition -4.1 -3.9 -3.5 -3.5 -3.3 -3.3 -3.1 -3.7 -3.8 Primary balance -1.3 -0.9 -0.6 -0.8 -0.6 -0.7 -0.6 -1.3 -1.2 Central government debt 8/ 50.4 50.4 48.4 48.1 47.4 47.4 47.2 47.2 46.0 Sources: Data provided by the Indian authorities; and Fund staff estimates and projections.

1/ Data for April - March fiscal years

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

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

4/ Pensions are included under expense not otherwise classified.

5/ Includes subsidy-related bond issuance.

6/ Other expense includes purchases of goods and services.

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

8/ External debt measured at historical exchange rates.

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INDIA

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| **Table 6. India: General Government Operations, 2014/15–2020/21 1/**  2014/15 2015/16 2016/17 2017/18 2018/19 2019/20 2019/20 2020/21  Est. BE  Projections  (In percent of GDP)  **Revenue 19.1 19.9 20.2 19.8 19.8 21.1 19.5 19.6** Taxes 16.2 16.7 17.1 17.4 17.1 18.0 16.4 16.8 Grants 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 Other revenue 2.9 3.1 3.0 2.4 2.7 3.1 3.2 2.8  **Expenditure 26.2 27.1 27.3 26.2 26.0 27.4 26.9 26.7** Expense 22.4 22.2 22.2 22.5 22.1 23.4 23.0 22.8 *of which:* interest 4.7 4.7 4.7 4.8 5.0 5.1 5.1 4.9 Net acquisition of nonfinancial assets 3.8 4.9 5.1 3.7 3.8 4.1 3.8 3.8  Gross Operating Balance -3.2 -2.3 -2.1 -2.7 -2.4 -2.2 -3.5 -3.2 **Net lending (+)/borrowing (–) (fiscal balance) -7.1 -7.2 -7.1 -6.4 -6.2 -6.3 -7.4 -7.1** Net financial worth, transactions -7.1 -7.2 -7.1 -6.4 -6.2 -6.3 -7.4 -7.1 Net acquisition of financial assets -0.5 -0.3 -1.0 -1.1 -1.1 -1.4 -1.5 -0.5  Domestic -0.5 -0.3 -1.0 -1.1 -1.1 -1.4 -1.5 -0.5 Currency and deposits -0.3 -0.2 -0.6 -0.4 -0.8 -0.7 -0.7 0.0 Loans 0.1 0.2 -0.1 0.0 0.1 0.1 -0.1 -0.1 Equity and investment fund shares -0.3 -0.3 -0.3 -0.7 -0.4 -0.8 -0.8 -0.4  Net incurrence of liabilities 6.6 6.9 6.1 5.3 5.1 4.9 5.8 **6.5** Domestic 6.5 6.8 6.0 5.2 5.1 4.9 5.9 6.5 Debt securities 5.2 4.9 4.5 4.7 4.3 4.0 5.0 5.7 Other accounts payable 1.2 1.9 1.5 0.5 0.8 0.9 0.9 0.9 Foreign 0.1 0.1 0.1 0.1 0.0 0.0 0.0 0.0 Loans 0.1 0.1 0.1 0.1 0.0 0.0 0.0 0.0 **Memorandum items:**  Primary balance -2.4 -2.5 -2.4 -1.6 -1.2 -1.2 -2.3 -2.1 Nondefence capital expenditure 3.2 4.3 4.5 4.3 3.5 3.5 3.3 3.3 State and union territory governments' balance 2/ -2.6 -3.1 -3.5 -2.4 -2.4 -2.6 -2.9 -2.9 General government debt 3/ 66.8 68.8 68.8 69.4 69.1 69.9 69.8 69.1 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. |
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INDIA

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| **Table 7. India: Macroeconomic Framework, 2015/16–2024/25 1/**  2015/16 2016/17 2017/18 2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25  Projections  Est.  Growth (percent change)  Real GDP (at market prices) 8.0 8.2 7.2 6.8 6.1 7.0 7.4 7.4 7.4 7.3 Non-agricultural sector (at basic prices) 9.5 8.2 7.3 7.3 6.7 7.7 8.1 8.1 8.1 7.9 Potential GDP 7.3 7.3 7.2 7.1 7.1 7.1 7.2 7.3 7.3 7.3 Output gap (in percent of potential GDP) -0.1 0.7 0.6 0.4 -0.5 -0.5 -0.4 -0.2 -0.1 0.0  Prices (percent change, period average)  Consumer prices 4.9 4.5 3.6 3.4 3.4 4.1 4.1 4.0 4.0 4.0  Saving and investment (percent of GDP)  Gross saving 2/ 31.1 29.6 29.1 29.2 29.3 29.5 29.8 30.0 30.5 30.8 Gross investment 3/ 32.1 30.2 30.9 31.3 31.3 31.8 32.1 32.5 32.9 33.3  Money and credit (y/y percent change, end-period)  Broad money 10.1 10.1 9.2 10.5 9.7 11.3 11.6 11.7 11.7 11.6 Bank credit to the private sector 10.6 8.0 9.5 12.7 8.4 11.1 12.2 12.7 12.9 12.9  Fiscal position (percent of GDP)  Central government balance 4/ -4.1 -3.7 -3.9 -3.8 -4.5 -4.2 -4.1 -4.0 -3.9 -3.8 General government balance 4/ -7.2 -7.1 -6.4 -6.2 -7.4 -7.1 -6.9 -6.8 -6.7 -6.7 General government debt 5/ 68.8 68.8 69.4 69.1 69.8 69.1 68.1 67.1 66.3 65.5  External trade (percent change, balance of payments basis)  Merchandise exports (in U.S. dollars terms) -15.9 5.2 10.3 9.1 2.6 3.7 6.2 8.8 9.8 10.2 Merchandise imports (in U.S. dollars terms) -14.1 -1.0 19.5 10.3 3.3 6.2 7.0 9.6 9.9 10.3  Balance of payments (in billions of U.S. dollars, BMP6  (including sign conventions))  Current account balance -22.1 -14.4 -48.7 -57.2 -57.8 -73.5 -80.4 -93.1 -102.6 -116.2 (in percent of GDP) -1.0 -0.6 -1.8 -2.1 -2.0 -2.3 -2.3 -2.4 -2.4 -2.5 Foreign direct investment, net ("-" sign is net FDI inflow) -36.0 -35.6 -30.3 -30.7 -36.7 -40.0 -45.6 -50.0 -54.9 -60.2 Portfolio investment, net ("-" sign denotes capital inflow) 4.5 -7.6 -22.1 2.4 -14.7 -14.4 -17.5 -27.7 -30.4 -33.3 Overall balance ("-" sign denotes surplus) -17.9 -22.4 -43.6 3.2 -21.1 -15.1 -25.3 -31.4 -34.1 -33.9  External indicators  Gross reserves (in billions of U.S. dollars, end-period) 360.2 370.0 424.5 412.9 434.0 449.1 474.5 505.9 540.0 573.9 (in months of imports) 6/ 8.8 7.6 7.9 7.4 7.3 7.0 6.7 6.5 6.3 6.1 External debt (in billions of U.S. dollars, end-period) 485.0 471.3 529.3 513.1 560.9 613.6 672.8 749.0 833.2 926.3 External debt (percent of GDP, end-period) 23.1 20.6 20.0 18.9 19.1 19.2 19.2 19.5 19.7 20.0  *Of which* : short-term debt 7/ 9.2 8.8 8.3 8.1 8.6 8.9 9.2 9.4 9.7 9.9 Ratio of gross reserves to short-term debt (end-period) 7/ 1.9 1.8 1.9 1.9 1.7 1.6 1.5 1.4 1.3 1.2  GDP in billions of U.S. dollars 2,103.6 2,289.8 2,652.2 2,718.7 2,935.6 3,202.2 3,509.7 3,848.0 4,223.9 4,631.8  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. |
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INDIA

**Table 8. India: Indicators of External Vulnerability, 2013/14–2018/19 1/** 2013/14 2014/15 2015/16 2016/17 2017/18 2018/19

**Financial indicators**

General government debt (percent of GDP) 67.4 66.8 68.8 68.8 69.4 69.1 Broad money (percent change, 12-month basis) 13.4 10.9 10.1 10.1 9.2 10.5 Private sector credit (percent change, 12-month basis) 13.7 9.3 10.6 8.0 9.5 12.7 91 day T-bill yield (percent; end-period) 8.9 8.3 7.4 7.2 6.2 6.2 91 day T-bill yield (real, percent; end-period) 2/ -0.5 2.5 2.5 2.7 2.5 2.7

**External indicators**

Exports (percent change, 12-month basis in US$) 3/ 3.9 -0.6 -15.9 5.2 10.3 9.1 Export volume (percent change, 12-month basis) 3/ 5.3 3.9 -5.3 6.7 10.0 4.7 Imports (percent change, 12-month basis in US$) 3/ -7.2 -1.0 -14.1 -1.0 19.5 10.3 Import volume (percent change, 12-month basis) 3/ -3.4 5.5 0.0 4.0 13.8 4.3 Terms of trade (percent change, 12 month basis) 3/ 2.1 2.8 5.7 1.4 -2.3 -1.8 Current account balance (percent of GDP) -1.7 -1.3 -1.0 -0.6 -1.8 -2.1 Capital and financial account balance (percent of GDP, "-" sign for inflow) -1.8 -1.4 -1.1 -0.6 -1.8 -2.1

*Of which*: Net portfolio investment (debt and equity, "-" sign for inflow) -0.3 -2.0 0.2 -0.3 -0.8 0.1 Other investment (loans, trade credits, etc., "-" sign for inflow 1.2 0.8 0.4 -0.3 1.5 0.9 Net foreign direct investment ("-" sign denotes inflow) -1.2 -1.5 -1.7 -1.6 -1.1 -1.1

Foreign currency reserves (in billions of U.S. dollars) 304.2 341.6 360.2 370.0 424.5 412.9 Official reserves (in months of prospective imports of goods and services) 6.7 8.5 8.8 7.6 7.9 7.4 Ratio of foreign currency reserves to broad money (percent) 19.5 20.2 20.8 19.1 19.8 18.6 Total short-term external debt to reserves (percent) 4/ 60.5 54.2 53.7 54.3 51.7 53.2 Total external debt (percent of GDP) 24.0 23.3 23.1 20.6 20.0 18.9

*Of which:* public sector debt 3.7 3.5 3.4 3.2 2.9 2.9 Total external debt to exports of goods and services (percent) 94.8 100.0 115.3 106.1 105.0 94.1 External interest payments to exports of goods and services (percent) 1.7 1.8 2.4 2.9 2.4 3.2 External amortization payments to exports of goods and services (percent) 19.2 20.6 25.9 25.7 23.2 22.7 Exchange rate (Indian rupees per U.S. dollar, annual average) 60.5 61.1 65.5 67.1 64.5 69.9 REER (percent change; based on annual average level) -2.7 6.3 5.2 1.9 3.0 -3.5

**Financial market indicators**

Stock market index (end-period) 22,386 27,957 25,342 29,621 32,969 38,673 Foreign currency debt rating

Moody's Investor Services Baa3 Baa3 Baa3 Baa3 Baa2 Baa2 Standard and Poor's BBB- BBB- BBB- BBB- BBB- BBB Fitch Ratings 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

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.

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INDIA

**Table 9. India: Financial Soundness Indicators, 2014/15–2018/19** 2014/15 2015/16 2016/17 2017/18 2018/19

(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** Public sector banks 11.4 11.8 12.1 11.7 12.2 Private sector banks 15.1 15.7 15.5 16.4 16.3 Foreign banks 16.8 17.1 18.7 18.6 18.5

**Number of institutions not meeting 9 percent CAR 0 1 1 1** … Public sector banks 0 0 1 1 … Private sector banks 0 1 0 0 … Foreign banks 0 0 0 0 …

**Net nonperforming assets (percent of outstanding net advances) 1/ 2.4 4.4 5.3 6.1 3.8** Public sector banks 3.0 5.7 6.9 8.6 5.2 Private sector banks 0.8 1.4 2.2 2.0 1.6 Foreign banks 0.5 0.8 0.6 0.4 0.5

**Gross nonperforming assets (percent of outstanding advances) 4.3 7.5 9.6 11.5 9.3** Public sector banks 5.0 9.3 12.5 15.6 12.6 Private sector banks 2.1 2.8 4.1 4.0 3.7 Foreign banks 3.2 4.2 4.0 3.8 3.0

**Restructured loans (percent of outstanding loans) 5.8 3.4 2.5 0.9 0.4** Public sector banks 7.1 4.1 3.1 1.1 0.5 Private sector banks 2.4 1.8 1.1 0.4 0.2 Foreign banks 0.1 0.3 0.3 0.1 0.0

**Return on assets 2/ 0.8 0.4 0.4 -0.2 -0.1** Public sector banks 0.5 -0.1 -0.1 -0.9 -0.9 Private sector banks 1.7 1.5 1.3 1.3 1.2 Foreign banks 1.9 1.5 1.6 1.3 1.6

**Balance sheet structure of all scheduled banks**

Total assets (in percent of GDP) 96.5 95.3 92.3 89.2 … Loan/deposit ratio 78.3 78.2 73.0 74.2 … Investment in government securities/deposit ratio 25.9 26.8 26.3 27.9 …

**II. Non-Banking Financial Companies** 3/

Total assets (in percent of GDP) … … 13.5 14.3 15.1 Risk-weighted capital adequacy ratio (CAR) 26.2 24.3 22.1 22.9 19.3 Gross nonperforming assets (percent of outstanding advances) 4.1 4.5 6.1 5.8 6.6 Net nonperforming assets (percent of outstanding net advances) 1/ 2.5 2.5 4.4 3.8 3.7 Return on assets 2/ 2.2 2.1 1.8 1.7 1.7

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.

3/ There were 9,659 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) are subject to prudential regulations and reporting requirements.

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**Table 10. India: High Frequency Economic Activity Indicators**

**% y-o-y**

**2017 2018 2019**

**Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Consumption**

Domestic passenger vehicle sales 14.4 9.1 10.0 14.7 8.7 -10.9 15.1 13.8 11.4 -0.3 14.3 5.2 7.6 7.8 6.4 7.5 19.7 37.5 -2.7 -2.5 -5.6 1.6 -3.4 -0.4 -1.9 -1.1 -3.0 -17.1 -20.5 -17.5 -31.0 -31.6 -23.7 Aviation: Passenger traffic 25.6 15.4 14.4 14.8 17.4 20.0 12.2 15.6 16.3 19.9 16.5 17.4 18.2 23.3 26.9 25.0 16.1 17.8 21.6 16.9 18.0 13.1 10.4 12.3 9.1 4.2 -1.5 -6.4 -0.3 4.6 1.2 3.2 Cellular subscribers 20.0 20.8 19.1 22.1 22.2 22.7 22.6 21.4 20.9 22.2 22.4 22.2 9.1 10.3 13.9 12.7 4.4 5.2 6.4 8.2 8.4 6.7 5.4 4.1

Consumer credit 12.9 17.3 16.4 14.4 13.7 14.1 15.0 15.7 16.8 16.0 17.3 18.9 20.0 15.0 17.8 19.1 18.6 17.9 16.7 18.2 15.1 16.8 17.2 17.0 16.9 16.7 16.4 15.7 16.9 16.6 17.0 15.6 Rural wages (male) 6.2 6.2 5.8 6.1 5.7 5.4 6.2 5.9 6.1 5.7 5.3 5.1 4.8 5.1 5.1 4.6 4.7 4.6 4.3 4.5 4.3 4.7 4.5 4.5 4.3 4.1 4.1 4.1 4.2 4.7 4.4 Domestic two-wheeler sales -7.4 0.0 0.3 7.3 11.9 4.0 13.8 14.7 9.1 -2.7 23.5 41.5 33.5 23.8 18.4 17.0 9.2 22.3 8.2 2.9 4.1 17.2 7.1 -2.2 -5.2 -4.2 -17.3 -16.4 -6.7 -11.7 -16.8 -22.2 -22.1 Consumer confidence\* 98.7 100.0 96.8 95.5 91.1 96.9 95.1 94.2 98.3 94.8 93.9 96.7 104.6 97.3 95.7 89.4 **Investment**

Railway traffic: Net tonne km -3.4 -0.7 3.4 3.1 4.5 2.5 4.0 6.1 4.9 6.8 6.6 12.3 8.7 6.0 7.5 11.8 7.4 5.5 5.7 8.7 6.5 8.8 5.6 2.7 5.5 4.4 7.2 1.9 0.7 0.0 -1.3 -8.7 -11.2 Government Capex (YTD) 7.2 12.8 62.0 56.1 60.7 52.3 47.1 37.5 25.9 41.1 39.6 39.0 22.3 78.4 -75.4 -45.9 -43.2 -35.0 -31.6 -26.5 -25.1 -24.3 -24.9 -30.5 -35.0 2.0 252.2 67.7 54.8 36.6 44.8 43.8 **External sector**

Visitor arrivals 14.2 9.7 9.5 21.3 18.0 21.3 6.2 10.3 18.4 16.9 13.6 14.3 8.7 12.7 15.3 3.8 -2.6 3.1 3.5 9.3 -0.1 1.7 1.4 2.0 5.3 3.7 -4.8 3.5 0.7 5.4 1.4 1.6 Exports value 5.5 18.6 27.9 17.8 6.9 1.6 2.8 8.1 25.5 -2.0 31.0 15.7 13.6 5.3 -0.5 5.6 20.5 17.9 15.5 19.1 -2.4 16.5 -0.8 0.1 3.9 3.2 12.2 0.6 3.9 -7.9 2.2 -6.0 -6.6 Export (ex-oil) value 2.6 17.3 23.3 15.5 6.1 3.9 2.6 7.1 24.3 -3.6 28.7 13.9 9.3 2.3 1.2 6.5 10.1 11.7 11.7 17.8 -5.8 13.0 -5.8 -1.3 8.2 4.7 12.6 -2.6 5.5 -3.9 4.0 -5.3 -4.5 Imports (ex-oil, gold) value 5.5 8.7 20.9 47.0 22.8 17.9 13.3 23.3 21.4 6.4 28.8 13.4 24.1 7.5 12.1 -2.4 12.9 12.1 19.9 14.3 4.1 13.7 -4.1 2.9 1.9 -0.6 -1.8 -3.3 -2.8 -10.4 -2.2 -9.3 -8.9 **Industry**

Industrial production 3.5 1.2 4.4 3.2 2.9 -0.3 1.0 4.8 4.1 1.8 8.5 7.3 7.5 6.9 5.3 4.5 3.8 7.0 6.5 4.8 4.6 8.4 0.2 2.5 1.6 0.2 2.7 3.2 4.5 1.2 4.6 -1.1 Manufacturing PMI\* 50.4 50.7 52.5 52.5 51.6 50.9 47.9 51.2 51.2 50.3 52.6 54.7 52.4 52.1 51.0 51.6 51.2 53.1 52.3 51.7 52.2 53.1 54.0 53.2 53.9 54.3 52.6 51.8 52.7 52.1 52.5 51.4 51.4 Corporate (industry) credit -0.4 0.5 4.9 0.6 0.2 1.1 1.6 1.7 2.4 3.4 5.9 6.9 5.7 4.7 6.0 8.6 9.3 9.5 9.0 11.5 11.0 13.2 13.7 12.1 12.8 13.0 11.6 11.2 10.0 9.3 10.0 8.0 Coal output 3.5 6.6 10.6 -3.3 -3.2 -6.7 0.6 15.4 10.4 3.9 0.7 0.4 3.8 1.3 9.1 15.2 12.0 11.5 9.8 2.4 6.4 11.3 3.7 1.1 2.0 7.4 9.1 3.2 1.7 3.2 -1.6 -8.6 Steel output 11.3 8.7 11.0 9.0 3.8 6.0 9.4 2.2 3.7 8.6 14.5 0.4 1.7 5.0 4.7 3.0 -0.1 4.2 6.9 4.0 3.2 2.4 5.3 10.1 5.5 4.9 11.5 13.3 13.3 8.4 8.9 5.0 Cement output -13.3 -15.8 -6.8 -5.2 -1.4 -3.3 1.0 0.7 0.1 -1.3 16.9 17.7 19.6 23.0 13.5 21.9 13.0 14.2 11.2 14.6 11.8 18.4 8.8 11.6 11.0 8.0 15.7 2.3 2.8 -1.7 7.9 -4.9 Electricity generation 5.2 1.2 6.2 5.3 8.2 2.2 6.6 8.3 3.4 3.2 3.9 4.4 7.7 4.6 6.0 2.1 4.1 8.4 6.7 7.6 8.2 10.9 5.1 4.4 0.8 1.2 2.1 5.9 7.4 8.1 4.7 -2.9 Core industries index 3.4 0.5 5.2 2.6 3.9 1.0 2.9 4.4 4.7 5.1 6.9 3.8 6.2 5.4 4.5 4.7 4.0 7.8 7.3 4.7 4.3 4.7 3.4 2.1 1.5 2.2 5.8 5.1 3.9 0.7 2.7 -0.5 Business expectation\* 111.1 114.2 113.3 115.0 115.8 114.6 114.1 115.0 116.2 113.5 112.8 Capacity utilization 74.6 71.2 71.8 74.1 75.2 73.8 74.8 75.9 76.1 73.6 **Services**

Services PMI\* 48.7 50.3 51.5 50.2 52.2 53.1 45.9 47.5 50.7 51.7 48.5 50.9 51.7 47.8 50.3 51.4 49.6 52.6 54.2 51.5 50.9 52.2 53.7 53.2 52.2 52.5 52.0 51.0 50.2 49.6 53.8 52.4 48.7

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Light commercial vehicles 0.0 -0.6 3.6 -7.9 1.0 1.0 20.3 5.8 10.3 10.9 26.3 34.0 44.9 34.0 32.0 62.7 35.0 43.0 28.3 42.4 31.8 38.6 1.3 -4.2 5.2 1.4 1.6 -6.8 -4.8 -25.1 -19.7 -31.5 -26.6 N

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Medium & heavy commercial vehicles -1.2 -9.9 1.7 -55.9 -58.0 -20.8 1.3 11.1 23.9 16.6 3.6 50.1 12.0 26.4 15.8 180.4 176.6 46.1 28.0 33.9 54.7 49.6 5.6 -12.5 4.4 -7.7 -2.7 -13.9 -18.1 -20.6 -37.8 -58.6 -72.1 E

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Railway traffic: passenger 1.4 -0.7 2.2 2.4 3.2 1.4 1.7 -2.1 -1.4 4.9 -4.6 1.4 1.1 1.0 2.1 0.9 -1.3 0.1 0.9 4.6 4.5 2.1 3.1 3.1 3.2 -0.7 0.5 0.6 -2.9 0.5 -0.5 -3.9 -1.8 N

Airline: cargo traffic 13.7 9.4 18.3 17.4 17.2 13.9 10.9 16.3 18.6 5.2 19.6 13.2 9.7 9.6 3.9 6.1 6.8 6.8 10.5 7.2 4.1 14.2 3.0 4.7 4.2 3.1 2.0 -3.2 -4.0 -7.9 -3.2 -5.3 A

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Deposits 12.8 12.0 15.4 10.9 10.3 12.7 9.5 8.9 8.2 8.7 2.9 3.6 4.5 5.4 6.2 7.7 8.1 6.8 8.6 9.7 8.0 8.8 10.6 8.7 9.5 9.8 10.0 9.6 11.1 10.4 9.7 9.9 9.5 I

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Bank Credit 4.3 3.7 8.2 4.9 4.8 8.1 5.6 6.3 6.6 6.8 9.3 10.5 10.2 10.8 9.9 12.2 12.7 10.9 12.3 13.9 12.4 14.4 17.4 13.8 14.7 14.5 13.2 12.9 13.4 11.8 12.1 10.2 8.7 N

**Agriculture**

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Agricultural production -15.4 -9.1 -11.9 -1.2 3.9 6.7 7.3 11.8 15.8 14.9 17.2 19.0 24.7 13.7 11.2 8.7 15.6 16.2 20.8 25.8 27.1 14.7 19.8 19.0 25.6 27.0 35.0 12.5 13.6 18.6 17.6 18.6

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**Other indicators**

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Gross tax (ex-service tax) (YTD) 11.2 15.4 17.9 19.7 20.0 16.6 17.8 21.5 23.0 24.9 24.6 25.6 47.5 33.6 19.3 26.2 26.4 27.4 24.5 21.5 19.1 16.8 16.4 14.7 15.9 15.6 12.6 11.8 9.6 8.4 10.2 8.6 N

BSE Sensex (Monthly Change %) 3.01 4.76 2.85 1.46 2.44 2.38 2.36 -0.34 0.36 1.60 3.08 0.09 4.68 -2.01 -2.81 2.47 2.73 0.93 2.83 4.55 -1.74 -7.70 2.26 1.61 0.51 0.24 4.14 3.26 -0.74 2.50 -2.25 -3.88 1.07

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Sources: CEIC Data Company Ltd., Haver Analytics, OECD, and IMF staff estimates.

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\* Index values. Note: 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.

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| **Source of Risk** | **Location**  **of Source** | **Relative**  **Likelihood** | **Time**  **Horizon** | **Expected**  **Impact** | **Direction**  **of Impact** | ***Main Impacts***  **→ Recommended Policy Actions** |
| Fiscal revenue  shortfalls related to  the GST | Domestic | **H** | ST, MT | **M** |  | *Protracted GST implementation issues could jeopardize the FY2019/20 deficit target. This would support growth in the near term but would raise borrowing needs and market interest rates and crowd out private investment.* →Enhance GST compliance including through further rate structure simplification, streamlining filing and refund mechanisms and strengthening tax administration. |
| Public banks (PSBs), corporates, and NBFCs remain weak for longer | Domestic | **M** | ST, MT | **M** |  | *Protracted processes in dealing with asset quality problems, maintaining the pace of lending in the newly-merged PSBs, repairing corporate balance sheets, and straightening out NBFC may hamper investment and growth.* →NPL resolution processes should be sped up, PSBs’ governance improved—with a reduced role of the public sector—and NBFC’s oversight strengthened. |
| Setbacks in the  structural reform  process | Domestic | **H** | ST, MT | **M** |  | *Slow progress in reforming labor, land, and product markets, including agriculture, could weigh on investment and growth, and wane investor sentiment.*  →Continue to facilitate state-led reform initiatives, address long-standing supply bottlenecks, and strengthen the business climate. |
| Rising protectionism and retreat from  multilateralism | External | **H** | ST, MT | **M** |  | *The United States may further tighten imports from trading partners, including India. India’s own protectionism measures could be broadly contractionary and reduce incentives for businesses to compete and improve efficiency.* →Enhance integration into global value chains by facilitating trade liberalization, reducing barriers to trade, and  advancing export sophistication and quality. Broader structural reforms (e.g., labor, land, and product market reforms would increase the benefits from trade liberalization. |
| Sharp tightening of  global financial  conditions | External | **M** | ST | **M** |  | *An abrupt deterioration in market sentiment (e.g., prompted by policy surprises, renewed stresses in emerging markets, or a disorderly Brexit) could trigger capital account pressures, creating funding pressures for the current account (CA) deficit. Economic growth could fall, reinforced by asset price corrections and confidence effects of rupee depreciation*.  → Enhance the environment for attracting stable non-debt creating capital flows, particularly FDI. Rupee flexibility and monetary policy tightening. |
| Large swings in energy prices | External | **M** | ST, MT | **M** |  | *As a large net energy importer, India’s current account is highly sensitive to volatility in oil prices. Resulting exchange rate movements can exacerbate inflationary effects.*  → Improve targeting of transfers to shelter the most vulnerable; accelerate reform of remaining fuel subsidies; intervene to prevent disorderly currency movements. |
| Intensification of  security risks | External | **H** | ST, MT | **M** |  | *A rise in cross-border tensions could 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 foreign exchange liquidity to prevent disorderly currency movements. |
| 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. | | | | | | |

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| **Recommendations** | **Authority** | **Time**  **frame** | **Status** |
| **Policies to Address Vulnerabilities** | | |  |
| Improve the governance and financial operations of PSBs and develop a strategic plan for their consolidation, divestment, and privatization. | MoF | S | **Under Implementation:**  • The January 2018 Banking Reforms Roadmap lists six “reform themes”, including strengthening 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 (BBB), 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 programmes for management personnel in PSBs.  • Plans announced in August 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 will be reduced from 21 to 12. Three PSBs were merged in March. A majority stake in a PSB was sold to the state-owned Life Insurance Corporation of India. Finally, in August, it was announced that 10 PSBs would be merged into 4 PSBs. |
| Conduct granular assessments of banks’ capital needs and require additional provisions and swift recapitalization and  restructuring. | RBI, MoF | S | **Under Implementation:**  A recapitalization plan was announced in October 2017, with a view to clean up legacy NPAs, support credit growth, and have PSBs meet regulatory capital requirement. INR 881 billion was infused in FY2017/18. The capital injection in FY2018/19 was raised from INR 650 billion to INR 1.06 trillion. An additional INR 700 billion is budgeted for FY2019/20, of which bank-wise capital infusion for 10 PSBs, totaling INR 552.5 billion, has already been announced based on granular assessment of capital requirements. Since the third quarter of 2018, the BBB conducts quarterly assessments of PSB capital requirements. These are reported to the Government and the RBI. |

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| Redesign the corporate debt restructuring mechanisms to make them more flexible. | RBI | S | **Implemented:**  The Prudential Framework for Resolution of Stressed Assets issued by the RBI on Jun 7, 2019 lays out the principles underlying the new regulatory approach, 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), but puts the onus on banks 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. |
| **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 classifi  cation 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 | **Under Implementation:**  Indian Accounting Standards (Ind AS) was planned to be implemented by Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs) from April 1, 2018, vide RBI Circular dated February 11, 2016. However, the implementation was deferred for the second time in March 2019, till 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. |

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| *Insurance supervision*  - Introduce a risk-based solvency regime and  risk-based supervision. | IRDAI | S | **Under Implementation:**  10-member Steering committee was formed in Sep 2017 to implement risk-based capital (RBC) regime. Consultancy Evaluation Committee (CEC) 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 (CPoC) 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  SEBI and introduce a  risk-based review of  company disclosures.  - Adopt a strategy to unify regulation of  commodities trading  markets. | Government, SEBI | M  S | **Under implementation:**  The Companies Act 2013 (CA-13) provides minimum requirements for 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 (NFRA) 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 (MCA) 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 market and derivatives market 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* |  | S | **Implemented:** |

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| - Improve stress testing  scenarios and  methodologies. | Clearing  Corporation of India  (CCIL) |  | 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. |
| *Crisis management framework* - 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. | Government  RBI,  Government | S  M | **In Process**:  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.  **Not Implemented:**  *Emergency liquidity assistance.* The RBI has a Board-approved lender of last resort (LOLR) policy in place, that incorporates constructive ambiguity and flexibility that would help limit risk of moral hazard.  *Deposit Insurance.* At present DICGC functions primarily as a pay box entity. The FRDI Bill 2017 contained a provision of government grants, in addition to the Resolution Corporation’s (RC) power to charge a premium for providing deposit insurance.  **Under Implementation:**  *Crisis preparedness*. Under the Financial Stability and Development Council framework, it has recently been decided to further strengthen the ‘Early Warning Group (EWG)’ and the frequency of EWG meetings has also been increased from once in three months to at least every two months. |

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| *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 18.75 percent currently. A further reduction is planned to reach 18 percent by April 2020. The RBI intends to continue its reduction in a calibrated manner to align the SLR with the Liquidity Coverage Ratio (LCR). |
| 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 | **In Process:**  The PSL program is being reviewed regularly and is still considered important to provide finance to the underserved. |
| S = short term, M = medium term. | | | |

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**Appendix III. Public Sector Borrowing, Private Savings and Crowding Out**

**1. Despite India’s rapid economic growth, general government public debt has continued to hover around 68 percent of GDP during the past seven years**. Fiscal consolidation efforts have focused on bringing down the deficit of the central government. However, the reduction of the general government deficit has been hampered by India’s complicated fiscal federalism architecture, intricate central and state governments’ PFM systems, as well as the government’s large role in many sectors of the economy, including through public enterprises whose costly operations, losses, and bailouts often fall on the government. As a result, India’s general government deficit and debt are among the highest in emerging market economies.

**General government fiscal balance, 2018**

(In percent of GDP)

100

4

4

90

2

2

80

70

0

0

60

50

-2

-2

40

-4

-4

30

20

-6

-6

10

0

-8

-8

**General government gross public debt, 2018** (In percent of GDP)

100

90

80

70

60

50

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Source: IMF, *World Economic Outlook*.

Source: IMF, *World Economic Outlook.*

**2. High general government deficits and debt give rise to a large government borrowing**

**requirement and interest bill**. Understandably, the fiscal policy debate

**New Public Borrowing Requirements** (In percent of GDP)

12

centers mostly around the speed at which 10

the central government deficit as defined in the FRBM Act (“the deficit in the

8

Consolidated Fund”) is being reduced to 3 6

percent of GDP.1 However,

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macroeconomically the more relevant 2

indicator of the government’s bearing on 0

the economy would be a comprehensive

Fiscal deficit (States) Fiscal deficit (Center, auth. def'n) New borrowing by Central PSUs Fiscal deficit (GG)

Total new public borrowing 1/

2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17 2017/18 2018/19

measure of the public sector borrowing

Sources: Ministry of Finance and IMF staff calculations.

1/ Excludes borrowing by state public corporations and debt-rollover requirements*.* Note: PSU = Public Sector Undertaking.

(Est.)

1 The definitions currently used by the authorities for fiscal deficit and for debt create the potential to misread the central government’s fiscal stance. As per the FRBM Act, the central government debt and deficit concepts cover different scopes of fiscal operations. The deficit is limited to flows recorded under the Consolidated Fund, while the debt, on top of the accumulation of deficits over time, also includes liabilities recorded in the Public Account, as well as financial liabilities of entities owned or controlled by the central government which it repays or services. As a result, while the headline deficit has been declining in recent years, the decline in central government debt has not kept pace.

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requirement (PSBR). Staff’s preliminary estimates suggest that the PSBR has risen to about 8.5 percent of GDP. The resulting high debt causes India’s interest bill to be around 5 percent of GDP which is considerably higher than in BRICs and ASEAN peers.

**3. Staff encourages the authorities to broaden efforts to collect data on government finances with a view to arrive at comprehensive estimate of the PSBR**. Ideally, one entity in the government should be tasked with compiling comprehensive data on public sector debt. Staff welcomes the additional information provided in Statement 27 of the FY2019/20 budget and the authorities’ confirmation of their intention to work toward compiling quarterly data, in line with GFSM 2014, on the general government fiscal balance in the context of the *G20 Data Gaps Initiative*. Staff’s estimate of the PSBR uses information from Statement 25 (*Resources of Public Enterprises*), excluding the “internal resources” component, as a proxy for the total off-budget borrowing of PSUs. A subset of this estimate pertains directly to the government’s debt stock and is shown below—this estimate comprises information from Statement 27 (*Statement of Extra-budgetary Resources (Govt Fully Serviced Bonds)*) and Annex 8 (*Sources and Application of National Small Savings Fund*).2 Yet some elements are missing from this calculation. To arrive at a more comprehensive estimate of the PSBR, data on several additional components is needed, most notably on the borrowing of state-level public enterprises and on the fiscal balance of lower tiers of government. Furthermore, it is likely that the central government deficit under GFS standards will

cover a broader definition and include the

balances of operations of funds and

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autonomous bodies outside of the

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Consolidated Fund. Staff proposes that the 1.4

government requests the IMF’s Fiscal Affairs 1.2

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Department to conduct a Fiscal Transparency 0.8

Evaluation based on the IMF’s Fiscal

0.6

Transparency Code. A key deliverable of such 0.4

an evaluation is a public sector balance sheet 0.2

which identifies and consolidates all public 0

assets and liabilities of a country.

**Off-budget borrowing with a direct bearing on debt** (In percent of GDP)

Total new NSSF funding of CG PSUs

New issuance of gov fully serviced bonds

Debt impact of off-budget financing

2016-17 2017-18 2018-19 (Est.)

Sources: Union Budget (Annex 8; Statement 27); fci.gov.in; staff calculations.

Notes: Estimates for 2018-19 based on partial information

**4. The high public sector borrowing requirements hold back India’s catch-up with more advanced countries**. The high borrowing requirements tie up financial resources that would otherwise be available for private investment (“crowding out”). In addition, the high interest bill reduces the room for government social and infrastructure spending.

**5. At the same time, household net financial savings declined below the PSBR**. Since FY2009/10, net financial savings almost halved, falling by 5.4 percent of GDP, from 12 percent of GDP in FY2009/10 to 6.6 percent of GDP in FY2017/18. As shown in the bar on the right-hand side, eighty percent of this decline came from the reduction in gross financial savings. As of FY2016/17

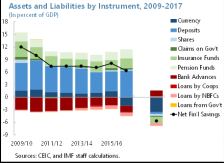
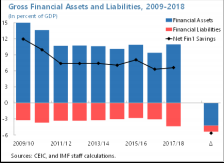
2 The data for FY2018/19 is an estimate; it relies on partial budget information and additional information from the Food Corporation of India website.

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(the latest available data point with a breakdown in the national accounts data), the largest decline in gross financial savings came from the reduction in currency holdings following demonetization, recording a drop of 3.6 percent of GDP. It is possible that some of the currency holdings recovered

in FY2017/18, given the improvement in gross financial savings by 2 percent of GDP. The second largest decline came from the 1.4 percent of GDP reduction in savings in insurance funds. Savings in shares, deposits, and claims on government dropped by 0.5, 0.4, and 0.3 percent of GDP, respectively. While to some extent these developments can be driven by demographics, with younger persons less prone to save, and greater financial development and inclusion, it also suggests that steps need to be taken to improve the confidence in the financial system so that more of the national savings can be intermediated into productive investment.

**6. The sensitivity of interest rates to changes in public sector borrowing in the domestic**

**market—and hence the likely growth enhancing crowding-in effects of efforts to** 9

**contain public sector borrowing—has been on display on several occasions**. For 8

instance, yields on 10-year government bonds declined considerably in response to the

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recent budget announcement about a 6

possible foreign sovereign bond issuance. There was a similar decline in yields when a 5

**Government Bond Yields**

(In percent)

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7

3-month

3-year

6

10-year

5

more-backloaded-than-expected borrowing

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calendar was announced in March 2018.

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Source: Bloomberg Financial Markets LP.

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**Appendix IV. Enhancing Fiscal Reporting and Fiscal Transparency**

**1. Staff recommends improving coverage and comprehensiveness of India’s fiscal reports**. Although states are responsible for more than half of total expenditure, there is currently no reporting of intra-year fiscal data at the general government level. In this regard staff welcomes the authorities’ confirmation of their intention to start compiling and disseminating such data on a quarterly basis, in line with GFSM 2014, by 2021 in the context of the G20 Data Gaps Initiative. Very little fiscal information is collected about state-level PSUs or about lower tiers of government (municipalities, panchayats). And despite clear efforts at both Union and State government levels to strengthen reporting on assets and liabilities, India mostly operates under a cash accounting basis, which provides a limited view of the government’s fiscal performance and use of resources. The absence of nonfinancial asset registers and the limited monitoring of multiyear commitments are among the most significant gaps in this regard. These shortcomings place India behind the majority of G20 economies in terms of institutional coverage, frequency and comprehensiveness of fiscal reports.

**2. Staff recommends that the government invest in processes and systems which support sounder fiscal reporting in the context of fiscal federalism**. This includes establishing clear obligations for States to report fiscal data to the Union regularly, according to a shared calendar set by the center, and possibly setting financial incentives for states to report on a timely basis; fully aligning the Chart of Accounts across all tiers of government to facilitate the consolidation of information at the central level; further integrating central and state-level IT financial management systems to facilitate timely data exchanges; and setting a medium-term strategy for the shift to accrual accounting at both the Union and state levels, anchored by explicit objectives and milestones. These public financial management reform areas are part of the scope of the work of the 15th Finance Commission, as set by its terms of reference.

**3. Fiscal reports should allow investors, markets and the general public to better understand the government’s actual fiscal stance**. A growing amount of information on the fiscal position of entities other than the budgetary central government is available to the public, including details on extra-budgetary resources alongside the Union Budget, or the report on state finances published by the RBI. Yet, the release of more data does not necessarily imply more transparency. Information is scattered across many documents and websites, making it difficult for economic agents to obtain a full account of the use of public resources on which to base their decisions and choices. Further, there are very few published forward-looking analyses of the fiscal risks borne by the Union and state governments, respectively, in many cases due to the absence of proper monitoring processes in the first place. The recent assumption by the state governments of liabilities from the DISCOM highlights the need for deeper oversight of state-level PSUs both by the Union and state governments. Overall, instead of leaving that task to the media and analysts in financial institutions and think tanks, the Union and state governments should consider providing more user friendly and forward-looking information and narratives, alongside or ahead of their budgets, for example as part of a fiscal strategy statement. And the contents of the budget documents should be standardized across the Union and state governments, in order to ensure that citizens in all states have equal access to fiscal information.

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**Appendix V. Public and External Debt Sustainability Analysis**

*India’s debt is high, but favorable debt dynamics and financial repression make the debt path sustainable—the statutory liquidity requirement creates a captive domestic market for debt which limits the interest cost of debt. Risks are further mitigated because public debt is denominated in domestic currency and predominantly held by residents. Under the baseline, the public debt-to-GDP ratio would decline from about 69 percent in 2018/19 to about 66 percent of GDP by 2024/25, while gross financing needs would decline from 11.4 percent to 9.4 percent of GDP. The primary risk to debt sustainability stems from shocks to real GDP growth and fiscal slippages. India’s external debt, at about 19 percent of GDP, remains sustainable.*

***Public Debt Sustainability***

**1. India’s debt-to-GDP ratio is high at about 69 percent of GDP**. Over the medium term debt is projected to decline to around 66 percent of GDP driven by favorable debt dynamics. Nominal GDP growth is projected to increase from about 10 percent to just below 12 percent over the medium term and effective interest rates are projected to remain close to 8 percent. Inflation over the medium term is forecast to be stable around 4 percent. India’s debt-stabilizing primary deficit is calculated at 2.6 percent of GDP.

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

• **Growth assumptions**. Growth is projected to be 6.1 percent in 2019/20 and rise gradually to 7.3 percent in the medium term. Robust medium-term growth will be driven by a moderate pickup in investment associated with the recent CIT rate cut, and increases in intra-Indian trade because of efficiency gains from the GST. The medium-term growth forecast has been revised downward compared to the last DSA because of somewhat slower than projected complementary land and labor reforms which are needed for a sustained rise in investment and a further acceleration in growth.

• **Fiscal Assumptions**. The central government fiscal deficit was estimated to be 3.8 percent in FY 2018/19 (IMF presentation), as on-budget revenue expenditure was curtailed (moved off budget) to accommodate a shortfall in both direct tax and GST revenues. This value was unchanged in the IMF presentation, relative to the previous FY. A deterioration (0.7 percentage points) is expected in FY 2019/20 amidst substantial economic weakness and the recently announced CIT rate reduction.

**3. Fiscal Risks**.

• The center has committed to fill the gap potentially arising from GST-related revenue shortfalls in states. Specifically, the center has guaranteed states’ annual revenue growth at 14 percent for a period of 5 years from the implementation of GST. Because of this, GST

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revenue slippages would affect the central government budget through higher transfers to the states.

• State fiscal deficits have frequently breached the 3 percent limit recommended by the 14th Finance Commission, largely due to the assumption of electricity distribution company (DISCOM) debt. Going forward, risks remain substantial and stem from announcements of farm loan waivers in several states, and the taking on of operating losses from electricity generation corporations as stipulated in the UDAY scheme. Assessing these risks is complicated by the lag in the availability of data on states’ fiscal positions.

**4. India’s debt profile is conducive to debt stability**. Nearly 95 percent of debt—covering the central and state governments’ debt— has a medium and long-term maturity, and debt is largely held by residents. Foreign-currency-denominated debt is negligible. 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. The interest bill is substantial with gross financing needs equivalent to about 11.4 percent of GDP. As fiscal consolidation resumes, these needs will decline by around 2 percent of GDP over the medium term. The statutory liquidity requirement creates a captive domestic market for debt which limits the interest cost of debt.

**5. Projections over the medium term are reasonable according to the assessment in the template**. 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. Relative to past projections, the debt-to-GDP ratio is expected to decline more slowly, owing to weaker tax revenue collections.

**6. The primary risk to India’s debt sustainability is low growth, though the risks remain contained**. The stress test corresponding to a growth shock yields a deteriorating debt path with debt-to-GDP reaching a peak of about 71 percent of GDP and gross financing needs reaching a peak of about 12 percent of GDP. The combined macro-fiscal shock pushes debt up to 72 percent of GDP, though its path would stabilize by 2022—the growth impact (5.7 percent in FY 20/21) in this scenario broadly mimics the tail risk growth outcome (with 10 percent probability) discussed in the GaR analysis (Appendix VIII).

**7. Vulnerabilities well-contained in the heat map despite high baseline debt-to-GDP ratio**. Under most shocks, debt sustainability metrics are contained, thanks largely to relatively strong nominal GDP growth in the baseline scenario. Risks stemming from market perception (measured by EMBI global spreads), external financing requirements (defined as the current account balance and amortization of short-term external debt) are the lone cases where the 70 percent threshold is breached, under the shock and baseline scenarios, respectively.

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***External Debt Sustainability***

**8. India’s external debt has stabilized at a moderate level.** External debt declined to 19 percent of GDP at end-FY2018/19. Of which, about a half was denominated in US dollars and another 36 percent in Indian rupees. Long-term external debt accounted for about 80 percent of the total. Short-term external debt on a residual maturity basis stood at 43 percent of total external debt and 55.8 percent of foreign exchange reserves. Compared with other emerging market economies, India’s external debt remains moderate.

**9. External debt sustainability is robust to interest rate and GDP shocks, but is more sensitive to current account and exchange rate shocks** (Figure 6 and Table 1). A widening of the current account deficit would cause external debt to rise moderately, where a permanent ¼ standard deviation shock to the non-interest current account balance would increase external debt to about 23 percent of GDP by FY2024/25. The shock related to real exchange rate depreciation appears to have the largest impact. In the scenario analysis, a 30 percent depreciation in FY2020/21 would raise external debt to around 26 percent of GDP followed by a gradual increase to 27 percent of GDP by FY2024/25.

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**Figure 1. India Public Debt Sustainability Analysis (DSA) – Baseline Scenario** (In percent of GDP unless otherwise indicated)

**Debt, Economic and Market Indicators** 1/

Actual

Projections

**As of June 20, 2019**

2008-2016

2/ 2017 2018 2019 2020 2021 2022 2023 2024 Sovereign Spreads

Nominal gross public debt 68.6 69.4 69.1 69.4 69.0 68.3 67.6 66.9 66.3 EMBIG (bp) 3/ 460 Public gross financing needs 12.7 11.0 10.5 11.4 10.9 10.7 10.6 10.4 9.4 5Y CDS (bp) 106

Real GDP growth (in percent) 7.2 7.2 6.8 6.1 7.0 7.4 7.4 7.4 7.3 Ratings Foreign Local Inflation (GDP deflator, in percent) 5.8 3.8 4.1 3.8 4.0 3.9 3.9 3.9 3.9 Moody's Baa2 Baa2 Nominal GDP growth (in percent) 13.3 11.3 11.2 9.9 11.3 11.6 11.7 11.7 11.6 S&Ps BBB- BBB Effective interest rate (in percent) 4/ 7.7 7.8 7.9 8.1 7.9 7.7 7.7 7.6 7.6 Fitch BBB- BBB

**Contribution to Changes in Public Debt**

Actual

Projections

2008-2016

2017 2018 2019 2020 2021 2022 2023 2024 cumulative

debt-stabilizing

Change in gross public sector debt -0.6 0.6 -0.4 0.4 -0.4 -0.7 -0.8 -0.7 -0.5 -2.7 Identified debt-creating flows -0.4 -1.2 -1.2 0.3 -0.3 -0.6 -0.7 -0.6 -0.5 -2.5 Primary deficit 3.5 1.6 1.3 2.4 2.2 2.2 2.2 2.2 2.2 13.3 Primary (noninterest) revenue and gr 19.2 19.7 19.7 19.5 19.5 19.5 19.5 19.5 19.5 117.1

Primary (noninterest) expenditure 22.7 21.4 21.0 21.8 21.7 21.7 21.7 21.7 21.7 130.4 Automatic debt dynamics 5/ -3.4 -2.2 -2.0 -1.3 -2.1 -2.4 -2.4 -2.4 -2.4 -13.1 Interest rate/growth differential 6/ -3.4 -2.2 -2.0 -1.3 -2.1 -2.4 -2.4 -2.4 -2.4 -13.1 Of which: real interest rate 0.9 2.3 2.2 2.5 2.3 2.2 2.1 2.1 2.0 13.2 Of which: real GDP growth -4.4 -4.4 -4.3 -3.8 -4.4 -4.6 -4.6 -4.5 -4.4 -26.3

Exchange rate depreciation 7/ 0.0 0.0 0.0 … … … … … … … Other identified debt-creating flows -0.4 -0.7 -0.4 -0.8 -0.4 -0.4 -0.4 -0.4 -0.3 -2.7 Consolidated General Govt - Domes -0.4 -0.7 -0.4 -0.8 -0.4 -0.4 -0.4 -0.4 -0.3 -2.7 Contingent liabilities 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 Please specify (2) (e.g., ESM and Euro 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 Residual, including asset changes 8/ -0.2 1.8 0.8 0.1 -0.1 -0.1 -0.1 -0.1 -0.1 -0.2

8

30

primary balance 9/ -2.7

6

4

2

0

-2

-4

-6

-8

-10 -12

**Debt-Creating Flows** (in percent of GDP)

projection

20

10

0

-10

-20

-30

-40

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 Primary deficit Real GDP growth Real interest rate Exchange rate depreciation Other debt-creating flows Residual Change in gross public sector debt

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.

cumulative

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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.

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| **Figure 2. India Public DSA - Composition of Public Debt and Alternative Scenarios Composition of Public Debt**  **By Currency**  **By Maturity**  (in percent of GDP)  (in percent of GDP)  80  80  Local currency-denominated  Medium and long-term  70  70  Foreign currency-denominated  Short-term  60  60  50  50  40  40  30  projection  30  20  projection  20  10  10  0  0  -10  2008 2010 2012 2014 2016 2018 2020 2022 2024  2008 2010 2012 2014 2016 2018 2020 2022 2024  **Alternative Scenarios**  Baseline Historical Constant Primary Balance  **Gross Nominal Public Debt**  **Public Gross Financing Needs**  (in percent of GDP)  (in percent of GDP)  70  14  69  12  68  10  67  66  8  65  6  64  63  4  62  2  61  projection  projection  60  0  2017 2018 2019 2020 2021 2022 2023 2024  2017 2018 2019 2020 2021 2022 2023 2024  **Underlying Assumptions**  (in percent)  **Baseline Scenario** 2019 2020 2021 2022 2023 2024 **Historical Scenario** 2019 2020 2021 2022 2023 2024 Real GDP growth 6.1 7.0 7.4 7.4 7.4 7.3 Real GDP growth 6.1 7.5 7.5 7.5 7.5 7.5 Inflation 3.8 4.0 3.9 3.9 3.9 3.9 Inflation 3.8 4.0 3.9 3.9 3.9 3.9 Primary Balance -2.4 -2.2 -2.2 -2.2 -2.2 -2.2 Primary Balance -2.4 -3.0 -3.0 -3.0 -3.0 -3.0 Effective interest rate 8.1 7.9 7.7 7.7 7.6 7.6 Effective interest rate 8.1 7.9 7.5 7.4 7.2 7.1  **Constant Primary Balance Scenario**  Real GDP growth 6.1 7.0 7.4 7.4 7.4 7.3  Inflation 3.8 4.0 3.9 3.9 3.9 3.9  Primary Balance -2.4 -2.4 -2.4 -2.4 -2.4 -2.4  Effective interest rate 8.1 7.9 7.7 7.7 7.6 7.6  Source: IMF staff. |

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| **Figure 3. India Public DSA - Realism of Baseline Assumptions**  **Forecast Track Record, Versus All Countries**  **Real GDP Growth**  **Primary Balance**  **Inflation (Deflator)**  (in percent of GDP, actual-projection)  (in percent, actual-projection)  (in percent, actual-projection)  India median forecast error, 2009-2017:  **-0.04**  **-0.30**  India median forecast error, 2009-2017:  India median forecast error, 2009-2017:  **-0.39**  Has a percentile rank of: **69%**  Has a percentile rank of: **46%**  Has a percentile rank of: **56%**  6  8  4  c  i  4  6  t  2  s  i  2  4  m  i  s  0  s  e  0  2  p  -2  -2  0  *Distribution of*  *Distribution of*  *Distribution of*  -4  -2  c  i  -4  *forecast errors:* 1/  t  *forecast errors:* 1/  *forecast errors:* 1/  s  i  -6  -4  Distribution of forecast errors:  Distribution of forecast errors:  m  i  -6  t  Median  Median  -8  -6  p  o  **India forecast error**  **India forecast error**  -10  -8  -8  2009 2010 2011 2012 2013 2014 2015 2016 2017  2009 2010 2011 2012 2013 2014 2015 2016 2017  2009 2010 2011 2012 2013 2014 2015 2016 2017  Year 2/  Year 2/  Year 2/  **Boom-Bust Analysis** 3/ **Assessing the Realism of Projected Fiscal Adjustment 3-Year Average Level of Cyclically-Adjusted**  **3-Year Adjustment in Cyclically-Adjusted**  **Real GDP growth**  **Primary Balance (CAPB)**  **Primary Balance (CAPB)**  (in percent)  (Percent of GDP)  (Percent of GDP)  India  8  12  14  Distribution 4/  Distribution 4/  3-year CAPB adjustment  3-year average CAPB level  greater than 3 percent of  6  greater than 3.5 percent of  12  India  India  10  has a percentile GDP in approx. top quartile  has a percentile GDP in approx. top quartile  10  4  rank of 81%  rank of 52%  8  8  2  6  6  0  4  Boom-bust inter-  4  -2  quartile range  2  2  around crisis  -4  events (t)  0  0  -6  e  e  s  s  01  2345678  4  3  2  1  r  012345678  4  3  2  1  t-5 t-4 t-3 t-2 t-1t t+1 t+2 t+3 t+4 t+5  r  s  s  -  -  -  -  o  -  -  -  -  o  e  e  L  M  L  M  Source : IMF Staff.  1/ Plotted distribution includes All Countries, percentile rank refers to all countries.  2/ Projections made in the spring WEO vintage of the preceding year.  3/ India has had a positive output gap for 3 consecutive years, 2016-2018. For India, t corresponds to 2019; for the distribution, t corresponds to the first year of the crisis.  4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. |

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| **Figure 4. India Public DSA—Stress Tests**  **Macro-Fiscal Stress Tests**  Baseline Primary Balance Shock  Real Interest Rate Shock  Real GDP Growth Shock  Real Exchange Rate Shock  **Gross Nominal Public Debt**  **Gross Nominal Public Debt**  **Public Gross Financing Needs**  (in percent of GDP)  (in percent of Revenue)  (in percent of GDP)  72  370  14  12  70  360  10  68  350  8  66  340  6  64  330  4  62  320  2  0  60  310  2019 2020 2021 2022 2023 2024  2019 2020 2021 2022 2023 2024  2019 2020 2021 2022 2023 2024  **Additional Stress Tests**  Baseline  Contingent Liability Shock  Combined Macro-Fiscal Shock  **Gross Nominal Public Debt**  **Gross Nominal Public Debt**  **Public Gross Financing Needs**  (in percent of Revenue)  (in percent of GDP)  (in percent of GDP)  400  78  18  380  76  16  360  74  14  340  72  12  320  70  10  300  68  8  280  66  6  260  64  4  240  2  62  220  0  60  200  2019 2020 2021 2022 2023 2024  2019 2020 2021 2022 2023 2024  2019 2020 2021 2022 2023 2024  **Underlying Assumptions**  (in percent)  **Primary Balance Shock** 2019 2020 2021 2022 2023 2024 **Real GDP Growth Shock** 2019 2020 2021 2022 2023 2024 Real GDP growth 6.1 7.0 7.4 7.4 7.4 7.3 Real GDP growth 6.1 5.7 6.1 7.4 7.4 7.3 Inflation 3.8 4.0 3.9 3.9 3.9 3.9 Inflation 3.8 3.6 3.5 3.9 3.9 3.9 Primary balance -2.4 -2.8 -2.8 -2.2 -2.2 -2.2 Primary balance -2.4 -2.5 -2.8 -2.2 -2.2 -2.2 Effective interest rate 8.1 7.9 7.7 7.7 7.7 7.6 Effective interest rate 8.1 7.9 7.7 7.7 7.7 7.6  **Real Interest Rate Shock Real Exchange Rate Shock**  Real GDP growth 6.1 7.0 7.4 7.4 7.4 7.3 Real GDP growth 6.1 7.0 7.4 7.4 7.4 7.3 Inflation 3.8 4.0 3.9 3.9 3.9 3.9 Inflation 3.8 8.0 3.9 3.9 3.9 3.9 Primary balance -2.4 -2.2 -2.2 -2.2 -2.2 -2.2 Primary balance -2.4 -2.2 -2.2 -2.2 -2.2 -2.2 Effective interest rate 8.1 7.9 8.0 8.1 8.3 8.4 Effective interest rate 8.1 8.1 8.0 7.9 7.9 7.8  **Combined Shock Contingent Liability Shock**  Real GDP growth 6.1 5.7 6.1 7.4 7.4 7.3 Real GDP growth 6.1 5.7 6.1 7.4 7.4 7.3 Inflation 3.8 3.6 3.5 3.9 3.9 3.9 Inflation 3.8 3.6 3.5 3.9 3.9 3.9 Primary balance -2.4 -2.8 -2.8 -2.2 -2.2 -2.2 Primary balance -2.4 -7.2 -2.2 -2.2 -2.2 -2.2 Effective interest rate 8.1 8.1 8.2 8.4 8.5 8.6 Effective interest rate 8.1 8.5 7.9 7.8 7.8 7.7  Source: IMF staff. |

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| **Figure 5. India Public DSA Risk Assessment**  **Heat Map**  Debt level 1/ Real GDP  Primary  Real Interest  Exchange Rate  Contingent  Growth Shock  Balance Shock  Rate Shock  Shock  Liability shock  Real GDP  Primary  Real Interest  Exchange Rate  Contingent  Gross financing needs 2/  Growth Shock  Shock  Liability Shock  Balance Shock  Rate Shock  Public Debt  Foreign  External  Change in the  Market  Debt profile 3/  Held by Non  Currency  Financing  Share of Short  Perception  Requirements  Term Debt  Residents  Debt  **Evolution of Predictive Densities of Gross Nominal Public Debt**  (in percent of GDP)  Baseline Percentiles: 10th-25th 25th-75th 75th-90th  **Symmetric Distribution**  **Restricted (Asymmetric) Distribution**  74  72  72  70  70  68  68  66  66  64  **Restrictions on upside shocks:**  64  62  no restriction on the growth rate shock  no restriction on the interest rate shock  62  60  0 is the max positive pb shock (percent GDP)  no restriction on the exchange rate shock  60  58  2017 2018 2019 2020 2021 2022 2023 2024  2017 2018 2019 2020 2021 2022 2023 2024  **Debt Profile Vulnerabilities**  (Indicators vis-à-vis risk assessment benchmarks, in 2018)  India  Lower early warning  Upper early warning  600 **465**  1  60  15  45  **bp**  **10%**  0.5  20  15  200  5  **3%**  **0%**  1 2  1 2  1 2  1 2  1 2  **-**  **0.5%**  **Annual Change in**  **Public Debt Held**  **Bond spread External Financing**  **Public Debt in**  **Short-Term Public**  **by Non-Residents**  **Foreign Currency**  **Requirement**  **Debt**  (in basis points) 4/ (in percent of GDP) 5/ (in percent of total) (in percent of total) (in percent of total)  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-Mar-19 through 20-Jun-19.  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. |

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**Figure 6. India: External Debt Sustainability: Bound Tests 1/ 2/** (External debt in percent of GDP)

**Baseline and historical scenarios** 40

15

Gross financing need

**Interest rate shock** (in percent) 40

Baseline:

3.4

35 30 25

under baseline (right scale)

10

35 30 25

Scenario:

Historical:

i-rate

3.6 2.3

Historical

20

5

20

17 Baseline 20

15

15

10

0

10

2014 2016 2018 2020 2022 2024

shock 20

Baseline20

2014 2016 2018 2020 2022 2024

**Growth shock**

(in percent per year)

40

Baseline:

7.3

**Non-interest current account shock** (in percent of GDP)

40

Baseline:

-1.8

35 30 25

Scenario:

Historical: Growth

6.7 7.5

35 30 25

Scenario: Historical:

-2.5

-1.9

23

shock 20

20

20

20

Baseline

15

15

10

10

2014 2016 2018 2020 2022 2024

CA shock

Baseline20

2014 2016 2018 2020 2022 2024

**Combined shock 3/** 40

35

**Real depreciation shock 4/** 40

35

30 %

30

30

25

25

Combine

d shock 22

20

20

20

Baseline

15

15

10

10

2014 2016 2018 2020 2022 2024

depreciation27

Baseline

20

2014 2016 2018 2020 2022 2024

Sources: International Monetary Fund, Country desk data, and staff estimates. 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown. 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2020.

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**Table 1. India: External Debt Sustainability Framework, 2014-2024** (In percent of GDP, unless otherwise indicated)

**Actual**

**Projections**

2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 **Debt-stabilizing**

**non-interest**

**current account 6/**

1 **Baseline: External debt** 23.3 23.1 20.6 20.0 18.9 **19.1 19.1 19.1 19.4 19.7 20.0 -2.7**

2 Change in external debt -0.8 -0.2 -2.5 -0.6 -1.1 0.2 0.1 0.0 0.3 0.3 0.3

3 Identified external debt-creating flows (4+8+9) -4.4 -1.6 -3.3 -2.7 0.0 -0.4 -0.3 -0.5 -0.4 -0.4 -0.4

4 Current account deficit, excluding interest payments 0.9 0.6 0.1 1.4 1.5 1.4 1.8 1.8 1.9 1.7 1.8

5 Deficit in balance of goods and services 3.4 2.9 1.9 3.1 3.6 3.4 3.6 3.6 3.7 3.8 3.8

6 Exports 23.3 20.0 19.4 19.0 20.1 19.3 18.7 18.3 18.3 18.3 18.5

7 Imports 26.6 22.9 21.3 22.1 23.7 22.7 22.3 21.9 22.0 22.1 22.3

8 Net non-debt creating capital inflows (negative) -3.5 -1.5 -1.9 -2.0 -1.0 -1.3 -1.4 -1.5 -1.5 -1.5 -1.6

9 Automatic debt dynamics 1/ -1.8 -0.7 -1.5 -2.1 -0.4 -0.5 -0.7 -0.8 -0.8 -0.6 -0.6

10 Contribution from nominal interest rate 0.4 0.5 0.6 0.5 0.6 0.5 0.5 0.5 0.5 0.7 0.7

11 Contribution from real GDP growth -1.6 -1.8 -1.7 -1.3 -1.3 -1.1 -1.2 -1.3 -1.3 -1.3 -1.3

12 Contribution from price and exchange rate changes 2/ -0.6 0.7 -0.3 -1.3 0.3 ... ... ... ... ... ...

13 Residual, incl. change in gross foreign assets (2-3) 3/ 3.7 1.4 0.8 2.1 -1.1 0.6 0.4 0.5 0.7 0.7 0.6

External debt-to-exports ratio (in percent) 100.0 115.3 106.1 105.0 94.1 98.6 102.4 104.5 106.3 107.4 108.1

**Gross external financing need (in billions of US dollars) 4/** 216.1 216.5 212.1 254.0 282.9 292.9 340.9 382.4 416.4 466.7 524.8

in percent of GDP 10.6 10.3 9.3 9.6 10.4 10-Year 10-Year 10.0 10.6 10.9 10.8 11.0 11.3

**Scenario with key variables at their historical averages 5/ 19.1 18.4 17.9 17.7 17.5 17.3 -3.3** Historical Standard

**Key Macroeconomic Assumptions Underlying Baseline** Average Deviation

Real GDP growth (in percent) 7.4 8.0 8.2 7.2 6.8 7.5 1.3 6.1 7.0 7.4 7.4 7.4 7.3

GDP deflator in US dollars (change in percent) 2.2 -4.5 0.6 8.1 -4.0 0.9 6.1 2.0 1.9 2.0 2.1 2.2 2.2

Nominal external interest rate (in percent) 1.9 2.1 2.6 2.6 3.3 2.3 0.4 3.1 2.9 3.0 3.0 4.0 4.0

Growth of exports (US dollar terms, in percent) 0.9 -11.4 5.6 13.4 8.2 7.1 13.6 4.3 5.3 7.5 9.5 10.0 10.5

Growth of imports (US dollar terms, in percent) -0.3 -11.4 1.5 20.1 9.7 6.7 13.5 3.8 7.1 7.7 10.0 10.3 10.6

Current account balance, excluding interest payments -0.9 -0.6 -0.1 -1.4 -1.5 -1.9 1.4 -1.4 -1.8 -1.8 -1.9 -1.7 -1.8

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Net non-debt creating capital inflows 3.5 1.5 1.9 2.0 1.0 2.2 0.8 1.3 1.4 1.5 1.5 1.5 1.6

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1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = N

nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP I

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deflator).

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3/ For projection, line includes the impact of price and exchange rate changes.

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4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last N

projection year.

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**Appendix VI. Uptake of Previous IMF Advice**

**Implementation of past Fund advice has been mixed. Monetary and exchange rate policies have been broadly consistent with past Fund advice but fiscal consolidation was not undertaken at the level of the public sector borrowing requirement, with financing of some obligations shifted off budget, and the important steps taken to address the twin bank and corporate balance sheet problem have yet to be complemented by a decisive improvement in public sector banks’ (PSBs) governance and a reduction of the government’s role in the banking sector. Notwithstanding important advances in transportation infrastructure, electrification, digitization, and the ease of doing business, progress on structural reforms aimed at boosting inclusive and sustainable growth has on the whole been slower than advocated in previous Fund advice.**

• The stance of monetary policy over the past 12 months was appropriate. o The two policy rate hikes in the summer of 2018, amid elevated core inflation and future inflation risks were consistent with the Fund’s call to aim monetary policy at anchoring inflation expectations and building monetary policy credibility. o Recent steps to loosen monetary policy, represent a proper response to cyclical weakness in growth and headline inflation in the bottom half of the target range. • With revenues falling short of the overly optimistic targets, the government did not achieve its FY2018/19 fiscal consolidation target as advocated in previous Fund advice. The slippage is larger if the increasing reliance on off-budget spending is taken into account. As a result, general government debt rose despite favorable debt dynamics. • Important steps are being taken to address the bank and corporate balance sheet problems and revive credit. Progress has continued on recognizing and resolving non performing assets, as well as on recapitalizing the public sector banks (PSBs). However, little progress has been made in restructuring PSBs or improving their governance, including by reducing the government’s role in the banking sector, as advocated in previous Fund advice.

• Progress on further liberalization of trade and reforms to facilitate trade and investment has been mixed. Various capital flow management measures (CFMs) have recently been eased, allowing for more foreign portfolio and direct investment inflows, as well as external commercial borrowing. On the other hand, trade tariffs were raised on selected items.

• The authorities’ response to episodes of capital outflows in the spring and fall of 2018 was broadly in line with past Fund advice. This involved a combination of exchange rate flexibility, intervention sales in the spot and forward foreign exchange market, as well as the easing of CFMs mentioned above. The authorities only tightened monetary policy due to inflation pressures and not additionally in the face of substantial capital outflows.

• Progress made in areas that are key to boosting inclusive and sustainable growth have on the whole been slower than advocated in previous Fund advice. Important advances in transportation infrastructure, electrification, digitization, and the ease of doing business go in the direction of past Fund advice. However, these efforts and reforms have not been complemented by labor and product market reforms advocated in previous Fund advice.

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**Appendix VII. Recent and Planned IMF Capacity Development**

**1. The Fund’s capacity development (CD) activities with India have been scaled up in recent years. IMF technical assistance (TA) and training have supported the authorities’ efforts to enhance the formulation and implementation of sound macroeconomic and financial policies as well as build institutions and capacity, including at the sub-national level. Examples include the introduction of the inflation targeting framework, banking sector stress testing, the modernization of the insolvency regime, the design of the Goods and Services Tax (GST) and the fiscal responsibility framework, and the strengthening of macroeconomic statistics.**

**2. Upon its inauguration in February 2017, the South Asia Regional Training and Technical Assistance Center (SARTTAC) has become the focal point for the delivery of IMF CD services to India and South Asian countries. As highlighted in its** FY2019 Annual Report**, SARTTAC extensively provided training and TA in the Fund’s core areas of expertise such as training on national accounts, BOP/IIP statistics, and public financial management. A course on supervision of market and operations risks was delivered at the RBI in January 2019. A government finance statistics/public sector debt statistics program is evolving mainly at the subnational level in collaboration with the Office of the Comptroller and Auditor General. A total of 678 Indian officials received training in FY2019 through SARTTAC, up from 377 in FY2018.**

**3. In line with the Fund’s CD strategy,**

• **Recent activities and collaboration with Indian authorities has improved targeting to country needs**. At the request of the 15th Finance Commission, APD and FAD have delivered on a pipeline of TA missions to provide the Fund’s analysis and assistance in developing approaches to handle issues on fiscal federalism. These issues included assisting on constraints on state budgets, achieving vertical fiscal balance, and incentivizing greater fiscal discipline among states, including through market discipline. In addition, an APD/SARTTAC monetary policy workshop was held in September 2018 to provide a forum for knowledge sharing on evolving monetary policy frameworks in India, Nepal, and Bhutan.

• **CD activities have been further integrated with surveillance and IMF policy advice**. To improve the policy orientation of budget documents, SARTTAC has assisted the budget office in India’s Ministry of Finance in preparing a draft fiscal strategy statement. SARTTAC’s work at the sub-national level in India is addressing the sizeable capacity building needs among the states, which carry out more than half of total government spending and hence play an important role in efforts to enhance fiscal transparency and budget coverage. Key vehicles include courses on macro-fiscal policy analysis tailored for the Indian states, delivered during November 2018, January 2019 and April 2019. Considerable work has also been done regarding training for state officials on fiscal reporting and on TADAT, a tax administration diagnostic tool.

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**Appendix VIII. Growth-at-Risk Analysis**

**1. The Growth-at-Risk (GaR) framework is a macro-financial surveillance tool.** The evolution of macro-financial vulnerabilities and changes in the domestic and external financial conditions can provide important signals about evolving risks to future economic activity (Prasad et al, 2019). The GaR analysis helps to quantify macro-financial risks to growth, assess the relative importance of the macro-financial factors that impact the entire probability distribution of future GDP growth—rather than only the central forecast, and monitor how risks to economic activity may evolve over time. The analysis thus provides a basis for preemptive policies to mitigate downside risks.

**2. The GaR analysis for India focuses on the likely impact of financial conditions and macroeconomic vulnerabilities on future growth**. Macroeconomic and financial variables are categorized into three partitions: financial conditions, macroeconomic vulnerabilities, and other

factors (Table 1).1 Financial conditions capture both the domestic and global price of risks embedded in asset prices, the cost of funding, and the degree of domestic and global financial stress. The second partition is of relevance in the Indian context where economic vulnerabilities have largely driven historical growth and other macroeconomic conditions. Other factors include variables affecting external demand such as global growth and trading partners’ imports. The analysis is based on quarterly from April 2001 to March 2019.

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| **Table 1. List of Macro-Financial Variables for India’s GaR Analysis 1/**  Financial Conditions Macroeconomic Vulnerabilities • Private sector credit growth  • Oil price  • Repo policy rate  • Current account balance  • 10-yr government bond yield  • Inflation  • Sovereign spreads  • Ratio of short-term external debt to  foreign reserves  • Portfolio flows  • Exchange rate change  1/ Variable selection largely depends on data availability and macroeconomic importance in the Indian context. Macro-financial variables such as bank capital, non-performing loan ratio, corporate and household vulnerability were considered but excluded from the analysis due to data limitations. Other factors that are likely to influence future growth such as external demand and external financing conditions are also included. |

**3. Tightening financial conditions are found to be a meaningful predictor for downside risks to growth.** Using principal component analysis, the financial conditions index (FCI) is constructed by extracting the first principal component from a collection of six financial

1 By using partitions instead of individual variables, common trends among relevant macro-financial variables can be extracted and idiosyncratic noise removed.

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variables. As shown in Figure 1, the FCI is found to be a good leading indicator of GDP. The sharp tightening of financial conditions during the 2008 global financial crisis, 2011 European debt crisis, as well as 2013 Taper tantrum preceded episodes of economic slowdown in India (Figure 1). More recently, financial conditions tightened in the first half of 2018 related to an Emerging Market sell-off and concerns over increased public borrowing. Since then, financial conditions have gradually eased.

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| **Figure 1. Financial Conditions and GDP Growth** |

**4. Variations in macroeconomic vulnerabilities drive financial flows and growth prospects.** In particular, the Indian economy depends heavily on imported oil. The net oil import bill amounted to about US$94 billion in FY2018/19, equivalent to about 3½ percent of GDP or a fifth of merchandise imports. An increase in international oil prices, therefore, directly affects the economic outlook, with a widening current account deficit raising concerns over external financing and rising inflation affecting real disposable income and private consumption, and ultimately growth. The macroeconomic vulnerability index constructed by extracting the first principal component from a collection of four variables appears to capture the level of systemic risk in India as it is closely correlated with growth outcomes. Importantly, the international oil price is identified as a factor that strongly influences India’s future growth with higher prices exacerbating vulnerabilities (Figure 2).

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| **Figure 2. Macroeconomic Vulnerabilities and GDP Growth** |

**5. Given improved financial conditions and macroeconomic vulnerabilities, India’s real GDP growth in FY2019/20 is projected to recover gradually to 7 percent under the baseline**. The GaR result suggests there is a 5 percent chance that the Indian economy will grow by at most 5 percent, and there is a 10 percent chance that growth will fall below 5.7 percent in FY2019/20 (Figure 3). Risks to the outlook are slightly tilted to the downside, although the probability of a recession is less than 1 percent in FY2019/20.

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| **Figure 3. Growth Distribution** |

**6. Scenario analysis suggests a rise in oil prices could drive growth below the baseline projection and downside risks to growth would rise** (Figure 4). The scenario assumes a US$10 per barrel increase in the oil price compared to the baseline. The scenario analysis suggests growth would likely slow to 6.8 in FY2019/20. In addition, the distribution of expected growth outcomes in FY2019/20 is markedly skewed to the left, indicating significantly higher downside risks to growth. For instance, there is a 5 percent chance that growth drops below 1.5 percent in FY2019/20, compared to a 5 percent chance of it dropping below 5 percent in the baseline.

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| **Figure 4. Growth Under Oil Shock Scenario**    (Probability, year-on-year growth, 4 quarters ahead, as of FY2018/19Q4)  0.4  0.3  y  t  i  l  i  0.2  b  a  b  o  r  P  0.1  0  ~~Baseline~~  projection  0 1 2 3 4 5 6 7 8 9 10 11 12 13 14  Percent  Source: IMF staff estimates.      1/ Assume international oil price rises by US$10 per barrel for FY2019/20. |

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**Appendix IX. Key Policy Actions 2018–19**

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| **Monetary Policy** | |
| **June 2018-**  **Sept. 2019** | **Monetary policy decisions by the RBI**:  Jun. 6, 2018: policy repo rate raised by 25 bps to 6.25 percent; maintained neutral policy stance. Aug. 1, 2018: policy repo rate raised by 25 bps to 6.50 percent; maintained neutral policy stance. Oct. 5, 2018: policy repo rate maintained at 6.50 percent; changed policy stance to calibrated tightening. Feb. 7, 2019: policy repo rate cut by 25 bps to 6.25 percent; changed policy stance to neutral. Apr. 4, 2019: policy repo rate cut by 25 bps to 6 percent; maintained neutral policy stance. Jun. 6, 2019: policy repo rate cut by 25 bps to 5.75 percent; changed policy stance to accommodative. Aug. 7, 2019: policy repo rate cut by 35 bps to 5.40 percent; maintained accommodative policy stance. Oct. 4, 2019: policy repo rate cut by 25 bps to 5.10 percent; maintained accommodative policy stance. |
| **Dec. 5, 2018** | **Statutory Liquidity Ratio (SLR):** The RBI announced a reduction in banks’ SLR requirement by 25 basis points every calendar quarter from 19.5 percent of their Net Demand and Time Liabilities (NDTL) to 18 percent from April 1, 2020. |
| **Mar. 13, 2019** | **RBI to inject Rupee liquidity through long-term USD/INR Buy/Sell Swap auction:** The RBI introduced a new window to meet the financial system’s durable liquidity needs. The central bank will inject Rupee liquidity for longer duration through long-term foreign exchange Buy/Sell swaps in terms of its extant Liquidity Management Framework. |
| **April 4, 2019** | **Liquidity Coverage Ratio (LCR):** The RBI permitted banks to count an additional 2 percent of government securities held by them under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement as Level 1 HQLA for computing LCR, in a phased manner. |
| **Aug. 26, 2019** | **Expert Committee recommendations on the RBI’s Economic Capital Framework:** • RBI to maintain a Contingent Risk Buffer (CRB) within the range of 5.5-6.5 percent of its balance sheet, comprising 4.5-5.5 percent for monetary and financial stability risks and 1 percent for credit and operational risks over the five-year period of 2018/19-2022/23; • The RBI accepted the recommendations and decided to maintain the CRB at 5.5 percent of the balance sheet (out of the available realized equity of 6.8 percent), resulting in an excess provision of INR 526 billion which would be transferred to the government;  • Unrealized valuation gains will be used as risk buffer against market risks and will not be transferred;  • RBI accounting year (currently July to June) to be brought in line with the fiscal year (April to March) from financial year 2020/21; and payment of any interim dividend to be restricted to exceptional circumstances; and  • The framework to be reviewed every five years, barring any changes in the RBI’s risks and operating environment that warrant an intermediate review. |
| **Sept. 4, 2019** | **External benchmark-based lending:** To ensure faster monetary policy transmission the RBI directed banks to link all new floating rate personal and retail loans (housing, auto, etc.) and loans to micro and small enterprises to one of the four external benchmarks, effective October 1, 2019, e.g., (i) RBI policy repo rate; (ii) 3-months Treasury Bill yield published by Financial Benchmarks India Private Ltd (FBIL); (iii) 6-months Treasury Bill yield published by the FBIL; and (iv) any other benchmark market interest rate published by the FBIL. |

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