INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/385

INDIA

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.

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

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International Monetary Fund
Washington, D.C.

Press Release No. 19/488
FOR IMMEDIATE RELEASE
December 23, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

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 consultation[1]with 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 Assessment[2]

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.

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 (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.	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.

INTERNATIONAL MONETARY FUND

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.

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

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.

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TABLES

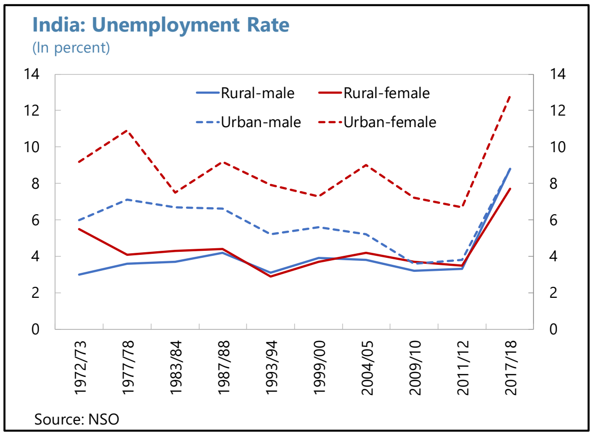
APPENDICES

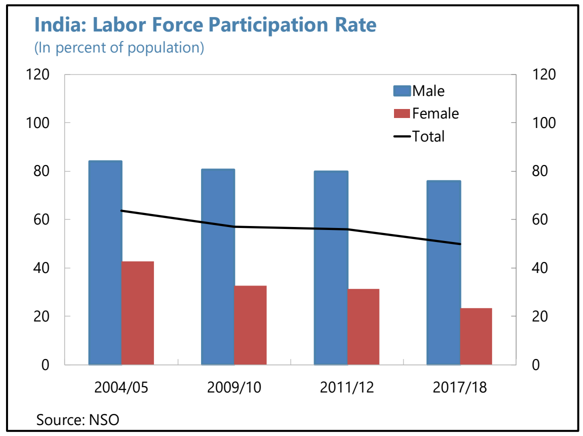
Abbreviations and Acronyms

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

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.





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**.**

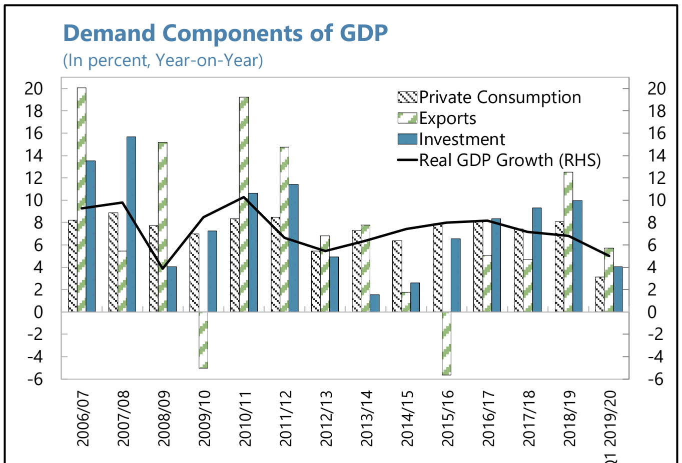
3. **Implementation of past Fund advice has been mixed (Appendix VI).** Monetary and exchange rate policies have been broadly consistent with past Fund advice. But fiscal consolidation was not undertaken at the level of the public sector borrowing requirement, with financing of some obligations shifted 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.

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 5.0 percent amid a sharp deceleration of investment and private consumption owing to weak, especially rural, income growth, stresses in the NBFC sector, and corporate and environmental regulatory uncertainty. The economy was also weighed down by sector-specific weaknesses (e.g., autos and real estate). Accordingly, the output gap has turned negative.



Sources: CEIC, and IMF staff calculations.

- 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.

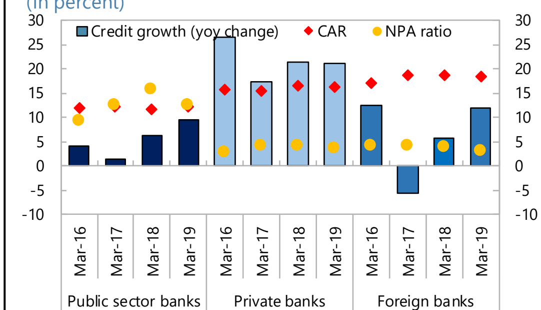
- Based on data and projections through end-2018, India's external position was assessed to be broadly consistent with fundamentals and desirable policy settings. The current account gap for 2018, as assessed by IMF staff, is in the range of -1.0 to +1.0 percent of GDP, with an implied staff-assessed 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 exited the Prompt Corrective Action (PCA) framework launched in April 2017. But in September, one smaller private bank was brought under the PCA due to its high NPA ratio, and the RBI imposed operational restrictions on a small financial institution partly reflecting financial fraud. In July and August 2019, the government announced an 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.

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

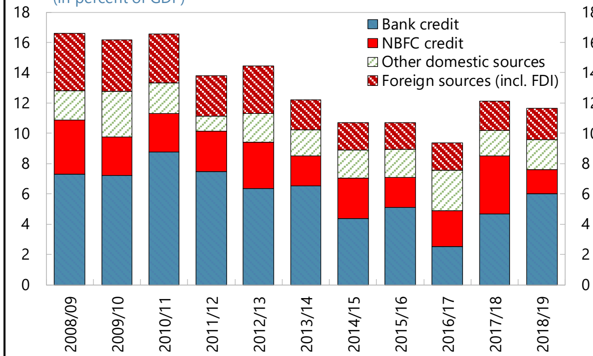


Sources: Reserve Bank of India, and IMF staff estimates.

- 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.

- Liquidity pressures in NBFCs emerged in 2018Q4 owing to a series of defaults by an NBFC group, IL&FS, starting in June 2018, and have been continuing especially for Housing Financing Companies (HFCs), with solvency concerns arising for some. The provision of NBFC credit was affected by investors reassessing the risks of funding them. The sector, with a balance sheet of about one sixth of the banking system and an aggregate CAR and NPA of 19.3 percent and 6.6 percent, respectively, had previously been filling the gap of anemic PSB credit growth.

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



Sources: Reserve Bank of India

- 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. 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.

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[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.

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).

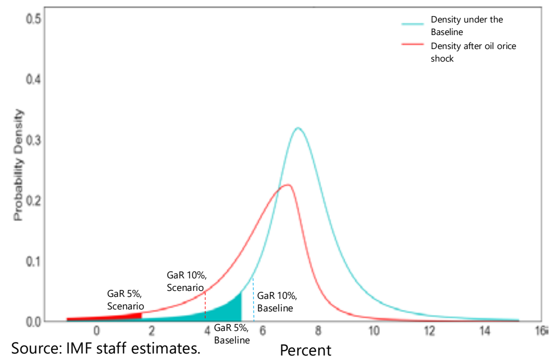
2/ The macroeconomic impact of labor and product market deregulation is based on Anand and Khera (2016). The estimated impacts are derived from a DSGE model with an informal sector and rigidities in the formal labor and product markets characterizing the Indian economy.

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.

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 and weigh on near-term credit growth. External risks pertain to oil price volatility, a sharp rise in risk premia in global financial markets, and rising protectionism. Staff's application of Growth-at-Risk (GaR) analysis indicates that, with a US$10 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).

2019 Real GDP Growth Under Oil Shock Scenario 1/

(Probability, year-on-year groth, 4 quarters ahead, as of FY2018/19Q4)



Source: IMF staff estimates.

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

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).

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	FY 2018/19		FY 2019/20	
	Est.	Budget	Est.	Budget	Proj.
Total Revenues	**8.7**	**9.3**	**8.4**	**9.6**	**8.5**
Net tax revenues	7.3	7.8	6.9	7.9	6.7
Non-tax revenues	1.4	1.5	1.5	1.7	1.7
Total Expenditure	**12.6**	**12.9**	**12.2**	**13.3**	**13.0**
Revenue expenditure	11.0	11.3	10.6	11.7	11.4
Capital expenditure	1.5	1.6	1.7	1.6	1.6
Central Government (CG) Fiscal Deficit	**3.9**	**3.6**	**3.8**	**3.7**	**4.5**
Memo Items					
CG Fiscal Deficit (authorities' definition) 1/	3.5	3.3	3.4	3.3	3.8
IMF Extended CG Deficit 2/	5.1	...	5.4	...	5.9
General Government Fiscal Deficit	6.9	6.6	6.7	6.4	7.4
Public Debt (% of GDP) 3/	69.4	...	69.1	...	69.8

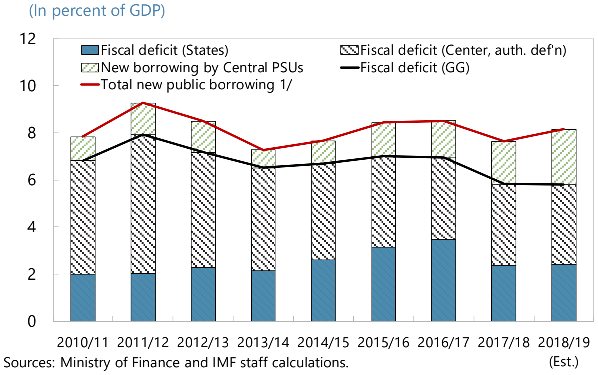
Notes: 1/ Includes asset sales in receipts, and excludes certain non-tax revenue items.
2/ Includes NSSF loans to central gov PSUs (Union budget, Annex 8) and fully serviced bonds (Union budget, statement 27)
3/ Source: RBI Debt statistics, and staff estimates.

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, borrowing by state PSUs and by local governments is not included because of data unavailability). Changes in the PSBR arguably represent a better measure of the fiscal stance and the impact of fiscal policy on the economy. 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.

New Public Borrowing Requirements

(In percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.
1/ Excludes borrowing by state public corporations and debt-rollover requirements.
Note: PSU = Public Sector Undertaking.

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.

- 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).

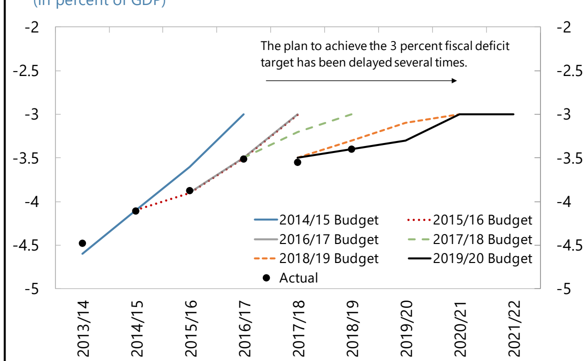
- Increased non-tax revenues are expected to provide more budgetary support than in past years (mainly customs and excise revenues). The RBI's dividend transfer will be broadly in line with the budget estimate (higher by only 0.02 percent of GDP), and the additional excess-capital transfer (about ¼ percent 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 debt target of 40 percent advocated by the FRBM committee—to be achieved by FY2023/24—has been pushed out. Although a central government fiscal deficit of 3.0 percent of GDP (authorities' definition) has been targeted by FY2020/21, optimistic current-year revenue forecasts raise concerns regarding whether this can be achieved, especially with growth weakening. Moreover,

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



Source: Union Budget Documents

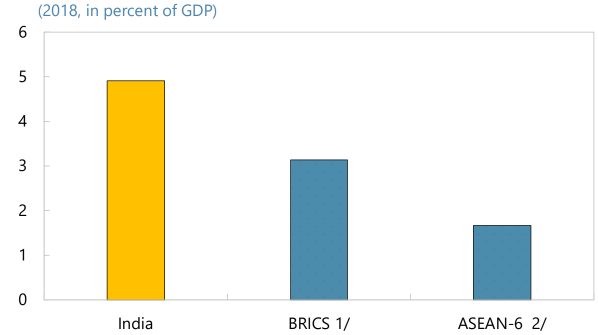
increased use of off-budget financing renders adherence to the headline deficit target less meaningful, entailing also a less-favorable debt-reduction trajectory.

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 percent of GDP in FY2018/19, well above peers (see Text Chart). Starting in FY20/21, the envisaged consolidation would have only a modest negative growth impact, which could be further offset by the pursuit of bold structural reforms to boost medium-term growth and tax revenues, as advocated in staff's reform scenario. Fiscal consolidation would be anchored by the following elements:

Government Interest Payments

(2018, in percent of GDP)



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:

  - 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.

- 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

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[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.

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.

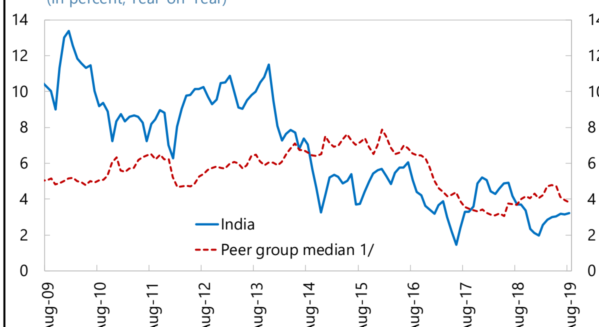
23. The authorities reiterated their commitments in the context of the second phase of the G-20 Data Gaps Initiative. Among the provisions of that commitment, they confirmed their intention to provide general government fiscal data on a quarterly basis by the G20 deadline of 2021.

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 households. Since the foundation was laid for adoption of the IT regime in February 2015, important gains have been made in bringing down inflation and inflation expectations, which reduce risk premia and interest rates. Inflation in India has now broadly converged to the level in G20 peers. Staff analysis suggests that inflation expectations in India have become better anchored since the adoption of IT.

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



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

- 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 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.

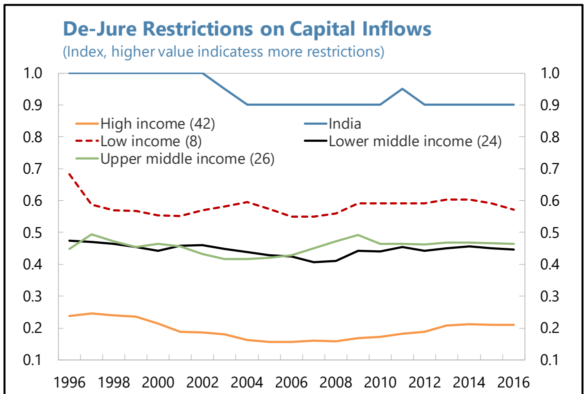
25. Recent monetary loosening has been largely appropriate, and there could be room for additional easing, given domestic and external downside risks. Considering the sharper-than-expected deceleration of economic activity amid subdued global growth and fiscal space at risk, the recent easing in August 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.

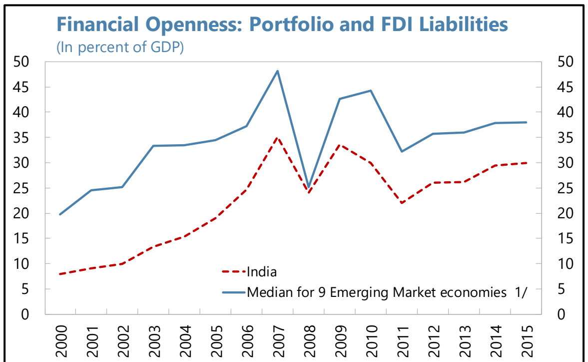
27. The expert panel on the RBI's Economic Capital Framework (the Bimal Jalan Committee) has laid out new guidelines for the transfer of RBI profits and "excess capital." Staff welcomes the report's strong emphasis on the RBI's resilience to support the complex needs of a large emerging market economy. 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.

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.



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 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, 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 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.

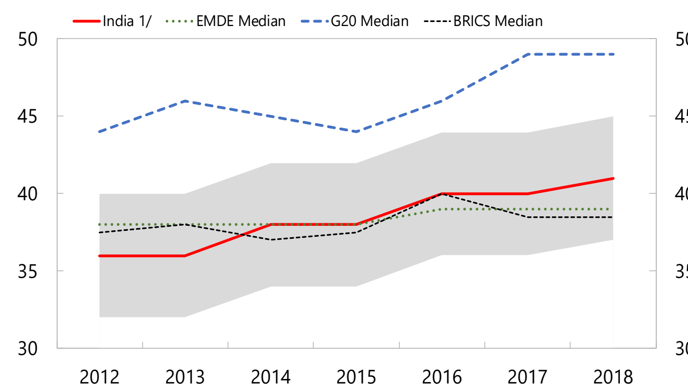
D. Structural Reforms—Boosting Investment and Inclusive Growth

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 compared to G20 countries. According to the 2017 Executives Survey by the World Economic Forum, the private sector still considers corruption in government to be the most problematic factor for doing business. Examples of corruption include widespread bribery at various stages of the investment process.

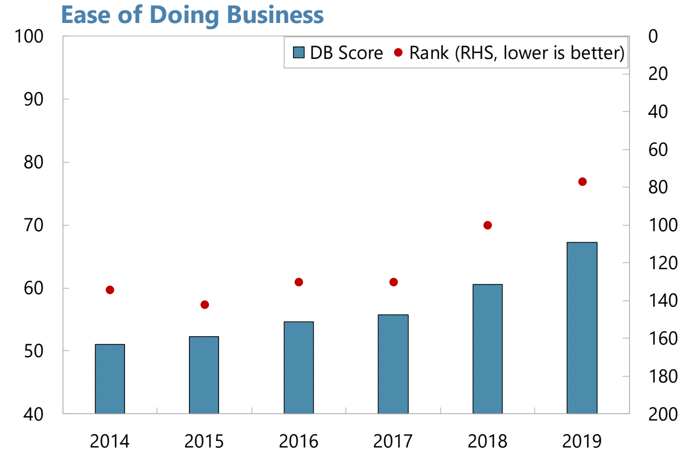
Corruption Perceptions Index
(Index, higher is better)



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

- Reforms to improve the business climate appear to have improved the 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 (as noted in the Ministry of Finance's 2019 *Economic Survey*), and the complicated process of resolving insolvencies—even with the IBC—and land acquisition.

Ease of Doing Business

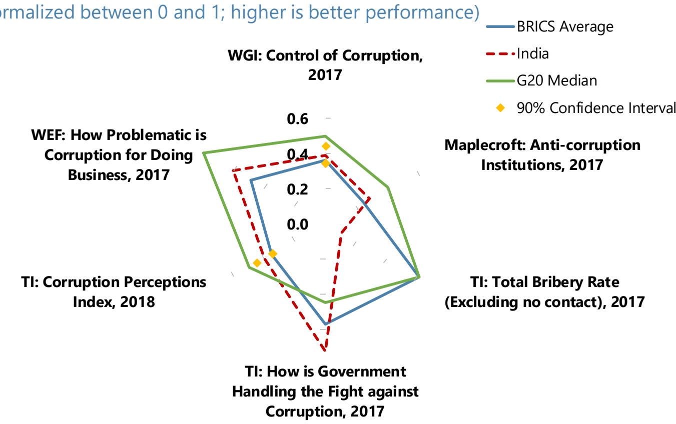


Source: World Bank, *Ease of doing business.*

- 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 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, including regarding paying taxes and trading across borders. In the process, the opportunities for corruption are reduced markedly, such as through faceless assessments in the case of tax payments.

Corruption Perception Indicators 1/

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



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.

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.

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 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.

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

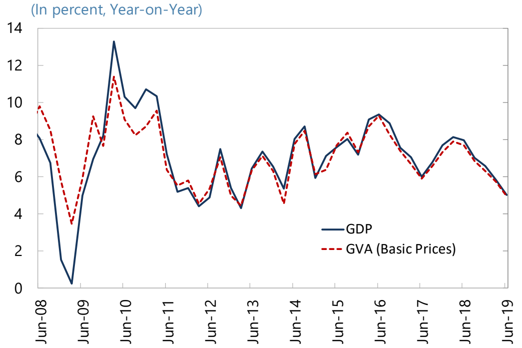
65. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Growth and Investment

Growth and investment have slowed.

Growth has slowed, falling below potential.

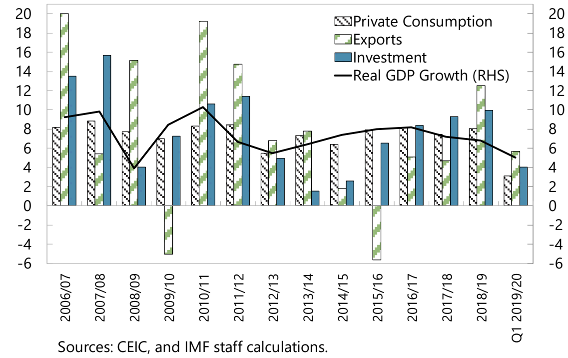
Real GDP Growth
(In percent, Year-on-Year)



Sources: CEIC, and IMF staff calculations.

Private consumption and investment decelerated in the April-June quarter.

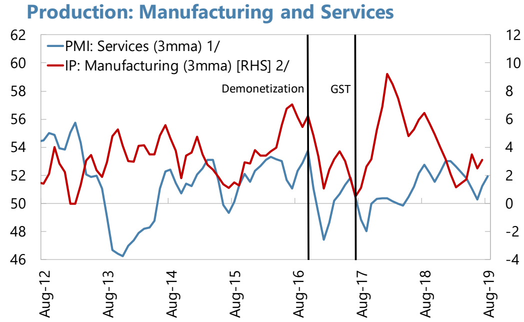
Demand Components of GDP
(In percent, Year-on-Year)



Sources: CEIC, and IMF staff calculations.

Some indicators, such as the monthly manufacturing index suggest a bottoming out of activity.

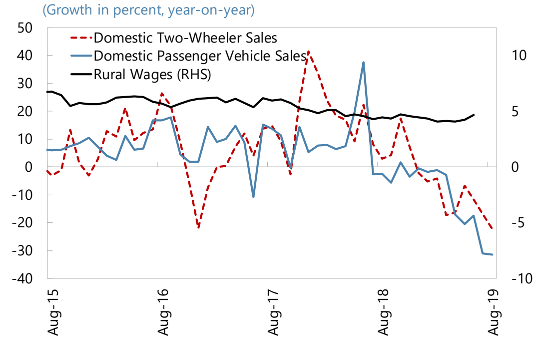
Production: Manufacturing and Services



Sources: Haver Analytics; and IMF staff calculations.
1/ SA, 50+ = Expansion.
2/ YoY percent change.

But sales of cars and two-wheelers have remained weak amid subdued growth of rural wages.

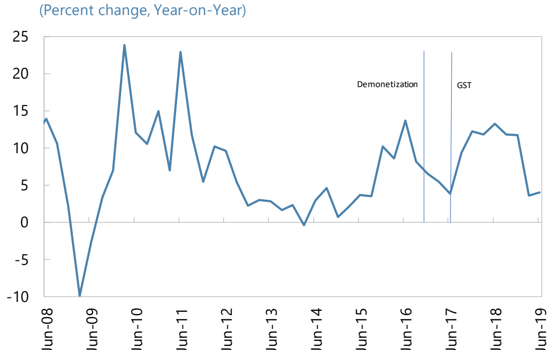
Consumption Indicators
(Growth in percent, year-on-year)



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

Investment growth was weak in the last two quarters.

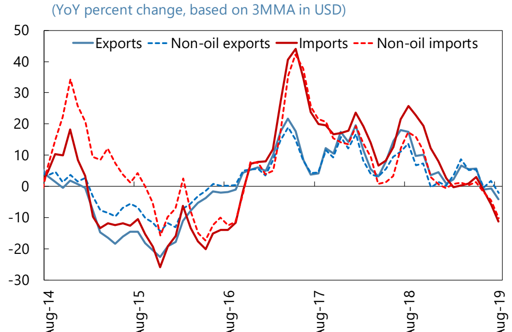
Real Gross Fixed Capital Formation
(Percent change, Year-on-Year)



Source: Haver Analytics.

Domestic demand weakness is reflected in non-oil imports.

Trade in Goods
(YoY percent change, based on 3MMA in USD)



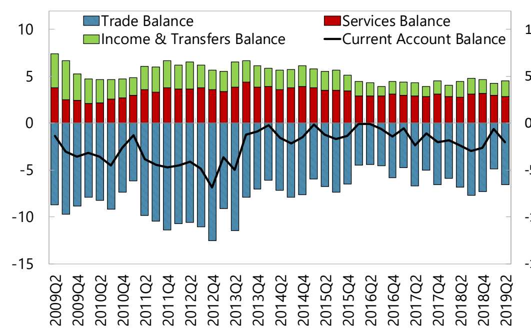
Sources: Haver Analytics, IMF Staff Calculations

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.

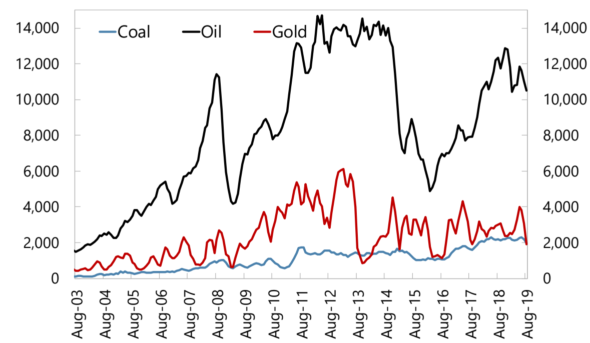
Current Account Balance
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

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

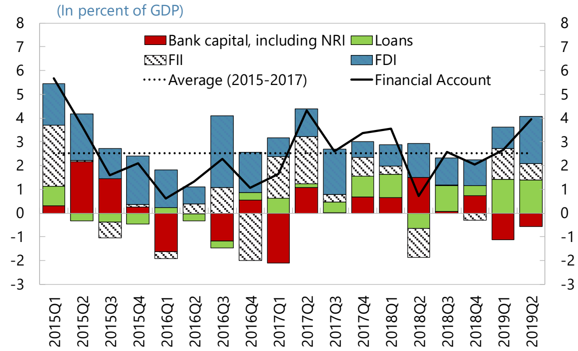
Imports: Principle Commodities
(In millions of U.S. dollars, 3mma)



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.

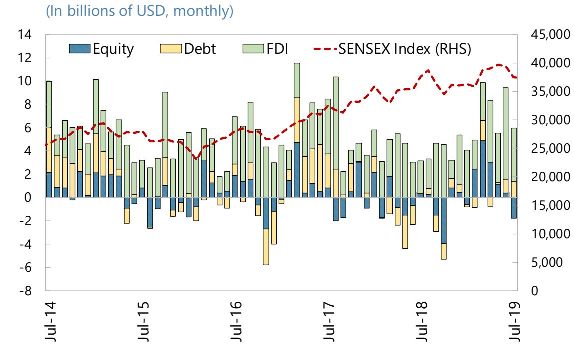
Financial Account
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

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

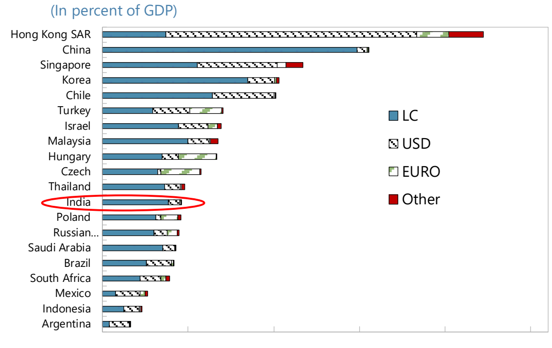
FII Flows - Equity and Debt
(In billions of USD, monthly)



Sources: CEIC and Haver Analytics.

Foreign exchange exposures of corporates are limited.

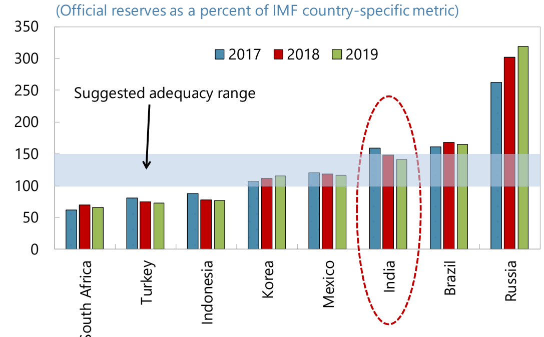
Non-Financial Corporate Debt, 2019 Q1
(In percent of GDP)



Sources: Haver Analytics, and IIF EM Global Debt Monitor.

International reserves remain adequate.

Estimated Reserve Adequacy 1/
(Official reserves as a percent of IMF country-specific metric)



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

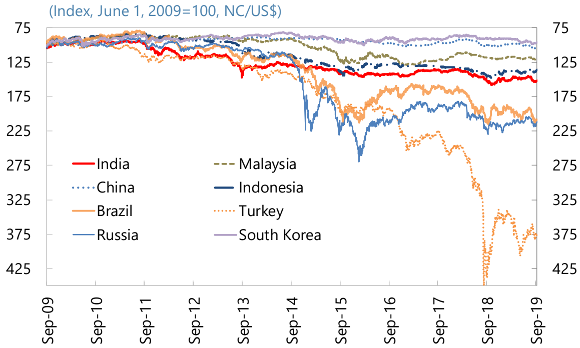
Figure 3. Financial Markets

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$)

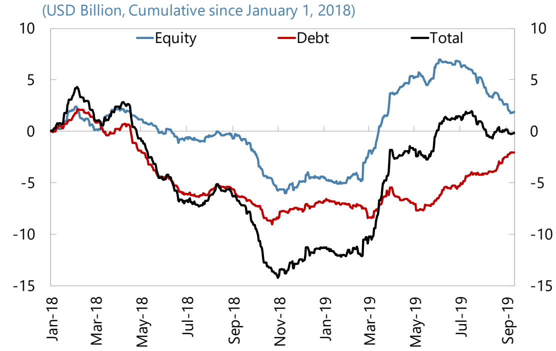


Sources: Bloomberg Financial Markets L.P.; and IMF staff calculations.

…amid volatility of portfolio equity and debt flows.

Portfolio Flows

(USD Billion, Cumulative since January 1, 2018)

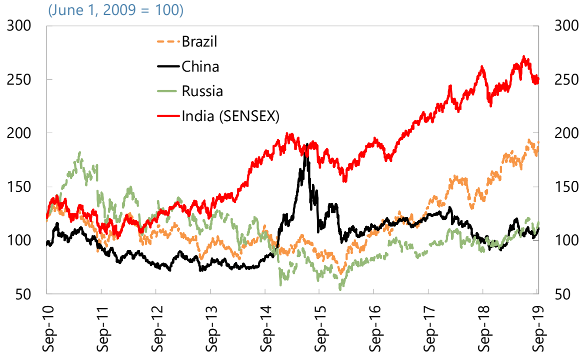


Sources: Bloomberg L.P., and IMF staff calculations

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

Stock Market Indices

(June 1, 2009 = 100)

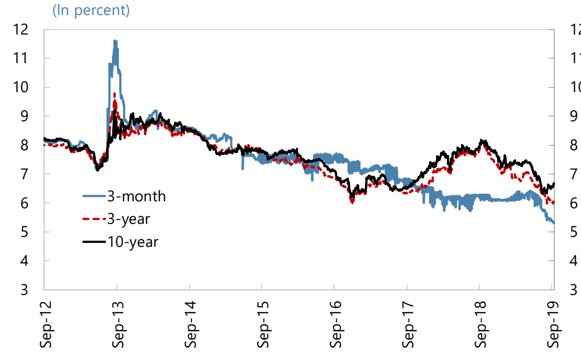


Source: Bloomberg Financial Markets L.P.

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

Government Bond Yields

(In percent)

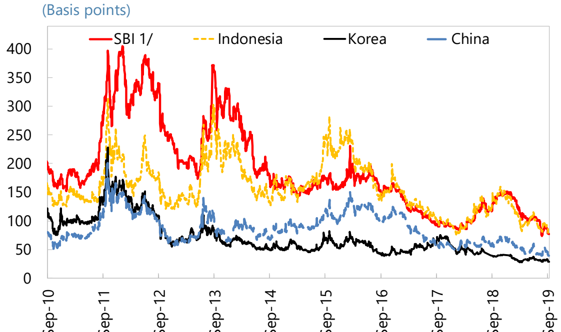


Source: Bloomberg Financial Markets LP.

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)



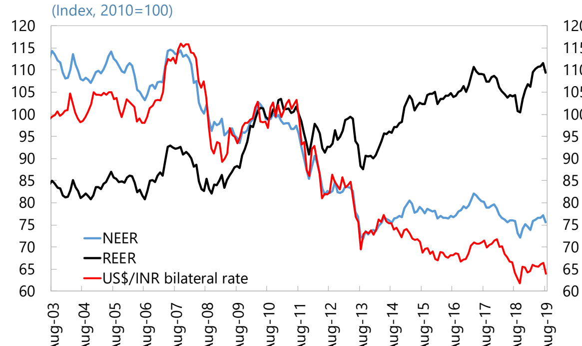
Source: Bloomberg Financial Markets LP.

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

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)



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

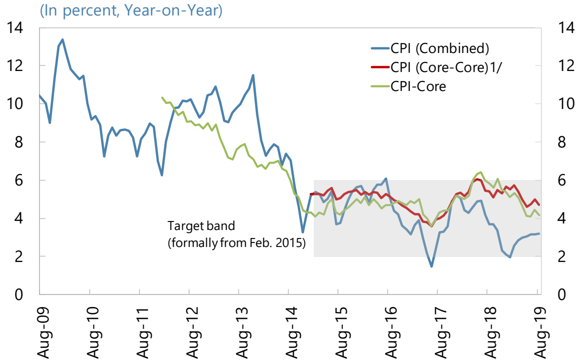
Figure 4. Monetary Developments

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 even as core inflation is easing on softer overall activity.

Inflation

(In percent, Year-on-Year)



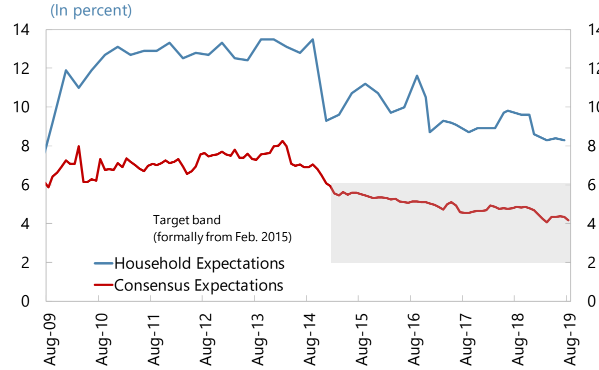
Sources: CEIC; and IMF staff calculations.

1/ Core-Core measure excludes food, energy, petrol and diesel.

Despite recent moderation, household inflation expectations remain elevated.

Inflation Expectations, 1-Year Ahead

(In percent)

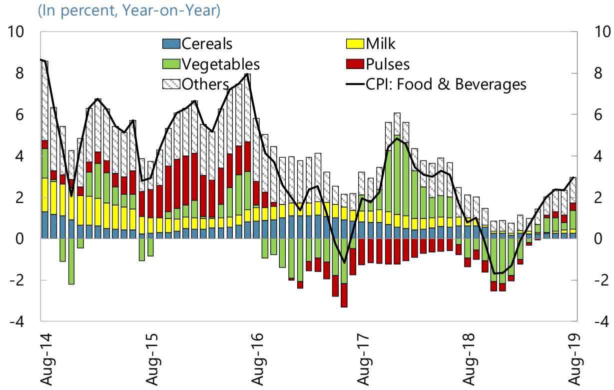


Sources: Haver Analytics, and Consensus Economics.

Prices of food items, which comprise 43 percent of the CPI basket, have risen from their recent lows…

CPI Food Inflation Contributions

(In percent, Year-on-Year)

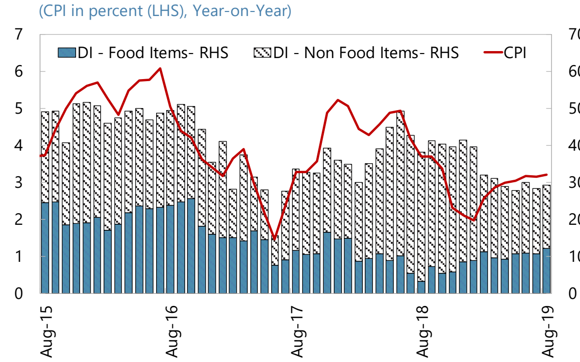


Sources: CEIC, and IMF staff calculations.

…and the share of items in the CPI basket that displays high year-on-year price increases is on the rise due to food prices.

Inflation Diffusion Index (DI) 1/

(CPI in percent (LHS), Year-on-Year)



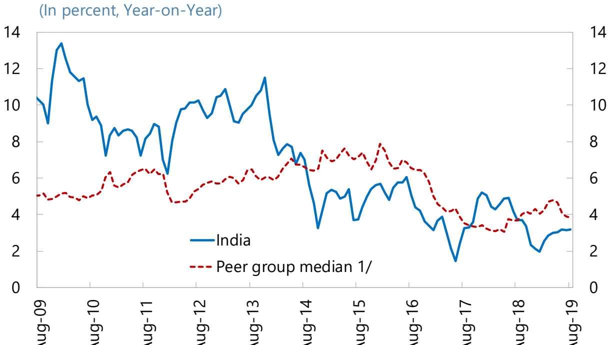
Sources: Haver Analytics, IMF Staff Calculations

1/ Share of items in the CPI basket for which inflation exceeds 5 percent.

The strengthening of monetary policy and low oil and food prices have supported disinflation in 2015-2019.

Inflation in India and its G20 Peers

(In percent, Year-on-Year)



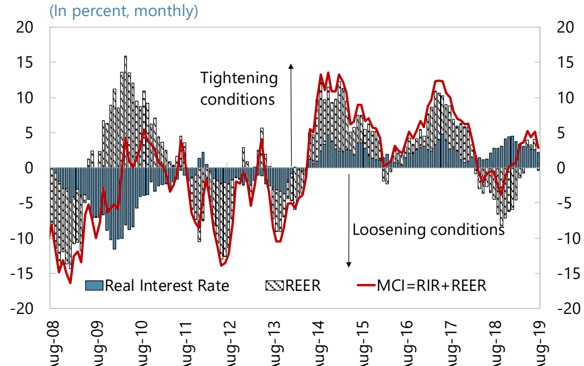
1/ G20 peer group includes Brazil, Russia, China, South Africa, Indonesia, and Turkey.

Sources: Haver Analytics and IMF Staff Calculations

The recent strengthening of the rupee has contributed to a tightening of overall monetary conditions.

Monetary Conditions Index (MCI)

(In percent, monthly)



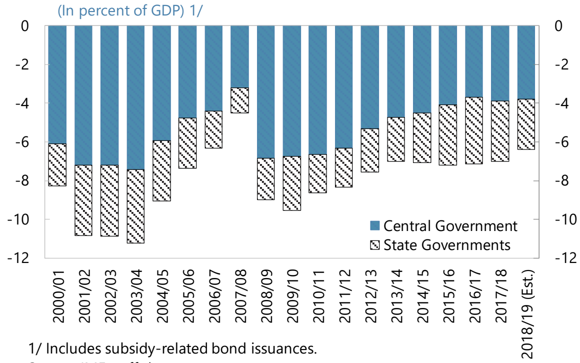
Sources: Haver Analytics, CEIC CDMNext, and IMF staff calculations.

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. But food subsidies were partly effected off-budget.

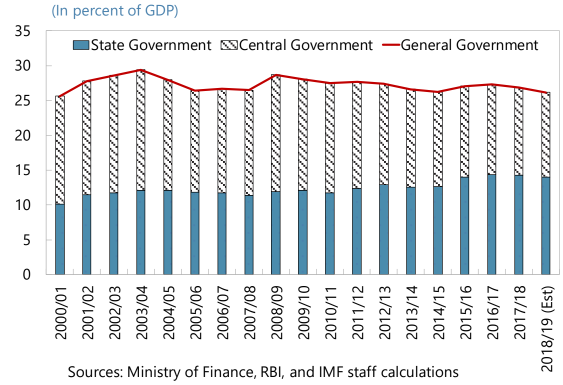
Government Balance
(In percent of GDP) 1/



1/ Includes subsidy-related bond issuances.
Source: IMF staff data.

The revenue to GDP ratio retreated somewhat in FY2018/19.

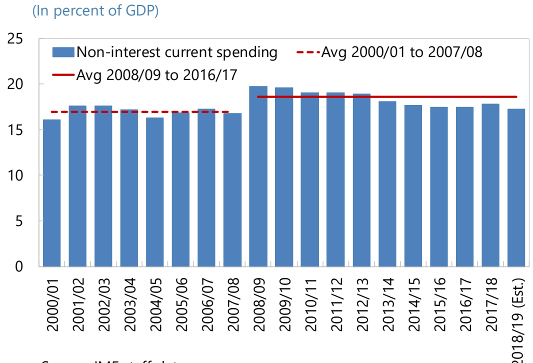
Government Expenditure
(In percent of GDP)



Sources: Ministry of Finance, RBI, and IMF staff calculations

On-budget current spending has been inching down.

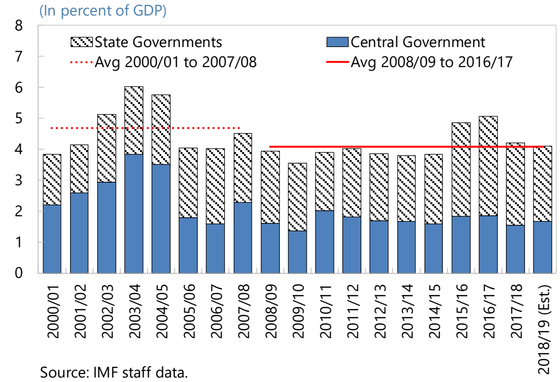
General Government Non-interest Current Spending
(In percent of GDP)



Source: IMF staff data.

Capital spending remains at the post-crisis average.

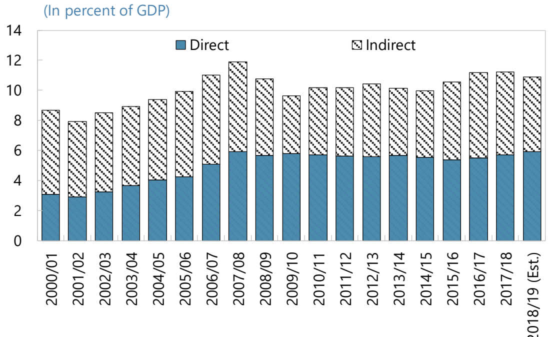
Capital Spending
(In percent of GDP)



Source: IMF staff data.

Efforts to raise direct and indirect taxes have not translated in a rise in the center's revenue to GDP ratio.

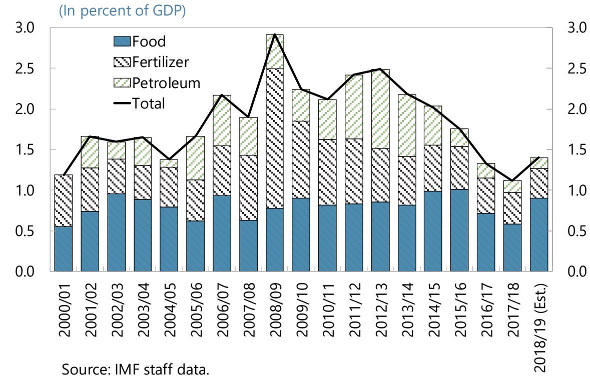
Central Government Revenue
(In percent of GDP)



Source: IMF staff data.

The declining trend in government subsidies of the last several years was reversed in FY2018/19.

Government Subsidies
(In percent of GDP)



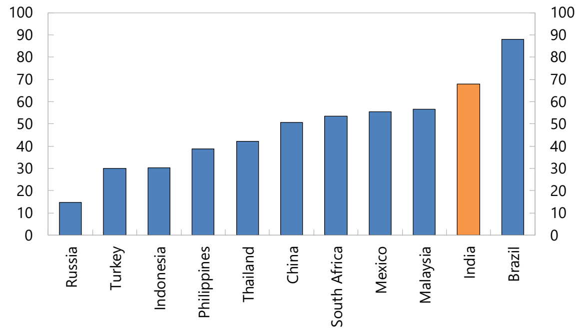
Source: IMF staff data.

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.

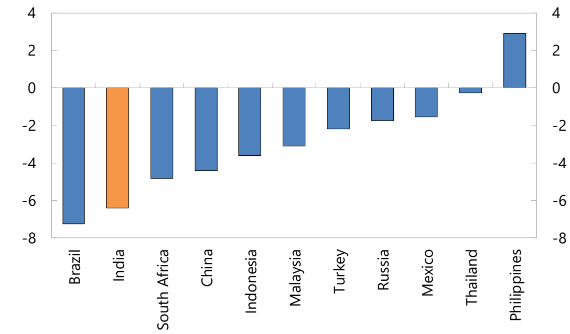
General government gross public debt, 2018
(In percent of GDP)



Source: IMF, *World Economic Outlook.*

The same holds for the general government fiscal deficit.

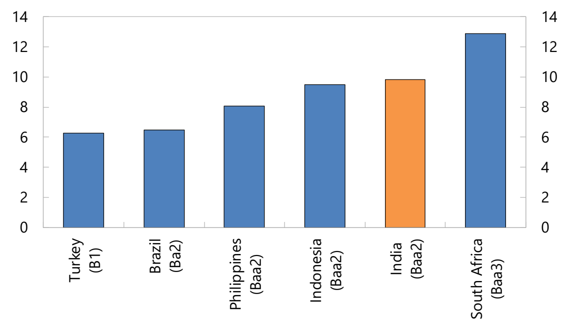
General government fiscal balance, 2018
(In percent of GDP)



Source: IMF, *World Economic Outlook*.

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

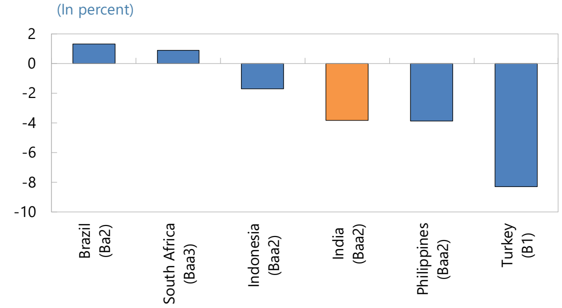
Average government debt maturity 1/
(Years)



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

…and India's debt dynamics are favorable.

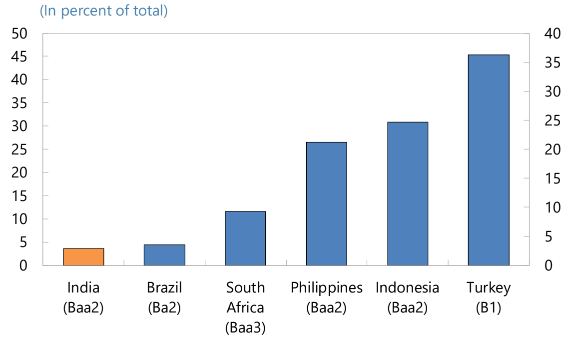
Projected interest-growth differential, 2018-23 1/
(In percent)



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

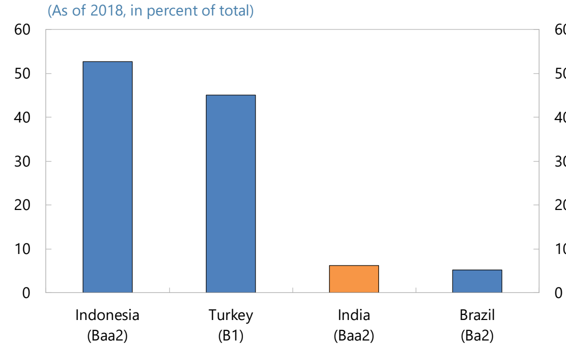
Government Debt in Foreign Currency 1/
(In percent of total)



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

…and exposure to non-resident investors is limited.

Government Debt held by Non-Residents
(As of 2018, in percent of total)



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

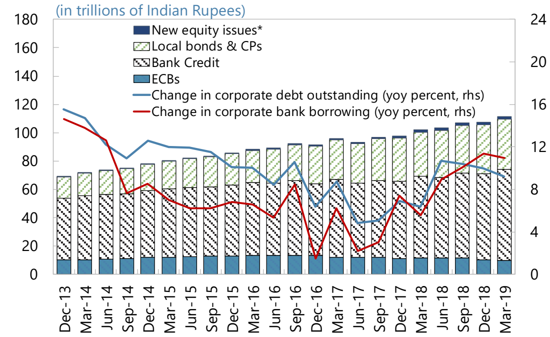
Figure 7. Corporate and Banking Sectors

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 trillions of Indian Rupees)

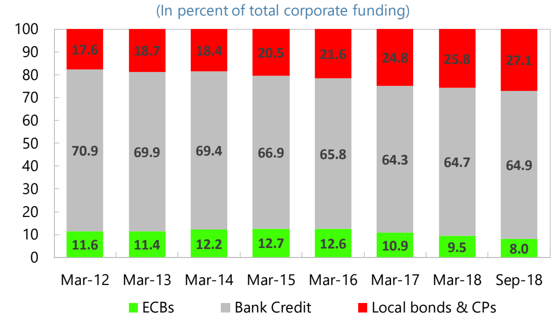


Sources: RBI; Dealogic; and IMF staff estimates.
* Cumulative since 2012.

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

Outstanding Corporate Debt in India

(In percent of total corporate funding)

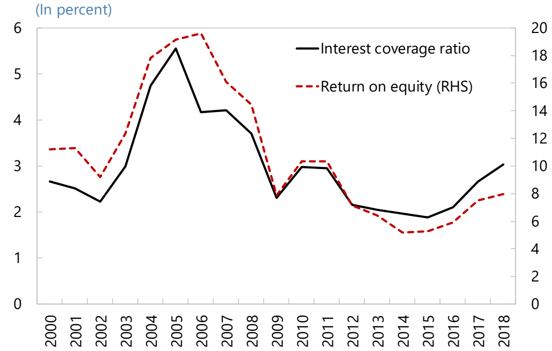


Sources: RBI; BIS; Dealogic; and IMF staff estimates.

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

Corporate Debt Repayment Capacity and Profitability

(In percent)

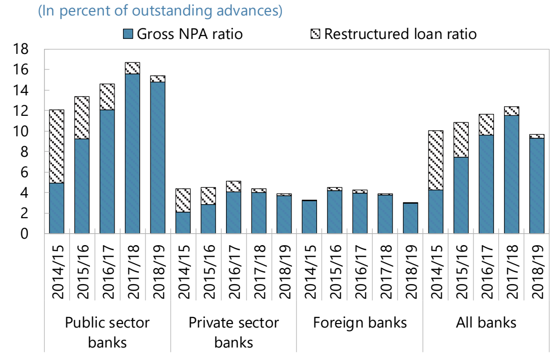


Source: IMF, Corporate Vulnerability Utility.

Banks' asset quality has started to improve…

Banks' Nonperforming and Restructured Assets

(In percent of outstanding advances)

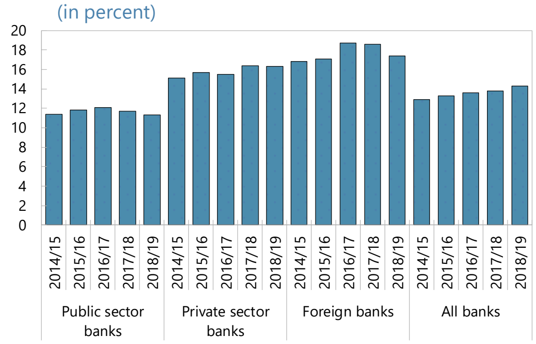


Sources: Reserve Bank of India; and IMF staff estimates

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

Capital Adequacy Ratio

(in percent)

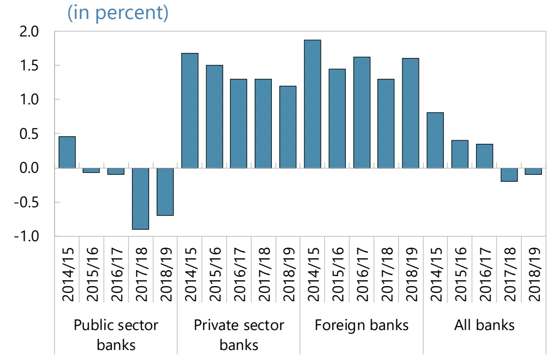


Source: The Reserve Bank of India.

…and profitability.

Return on Assets

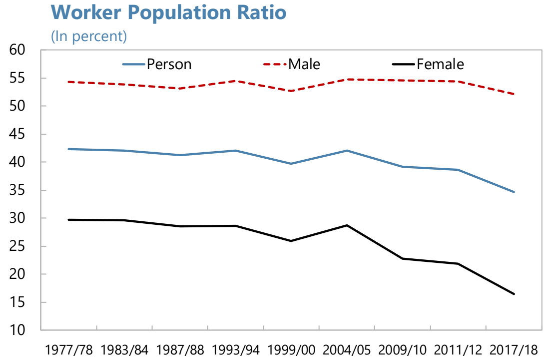
(in percent)



Source: The Reserve Bank of India.

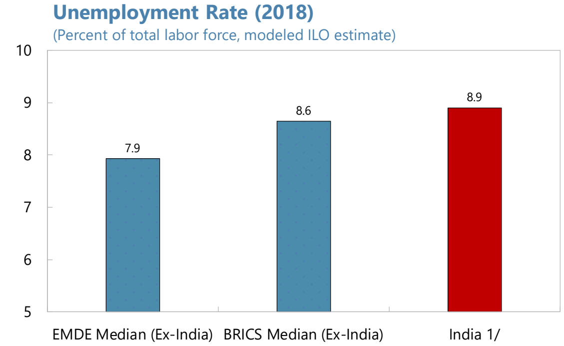
Figure 8. Labor Market Developments

Job generation has lagged population growth.



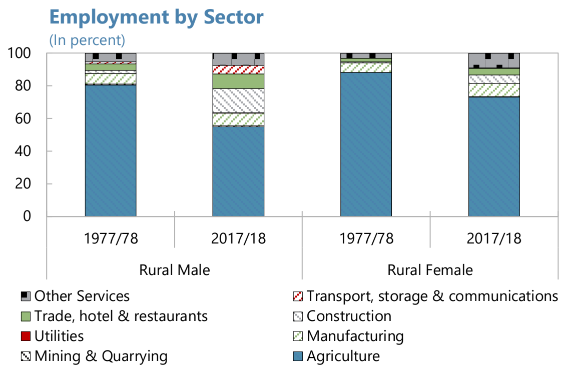
Source: Periodic Labor Force Survey, Ministry of Statistics and Programme Implementation.

The unemployment rate is higher than in peer countries.



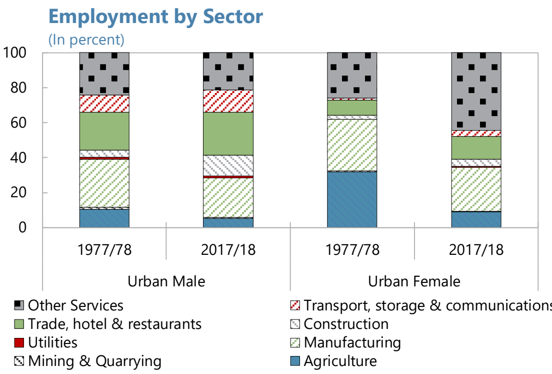
Sources: World Bank, *World Development Indicators*, and IMF staff calculations.
1/ Data for India was as of 2017/18 fiscal year, from annual periodic labor force survey (PLFS) report published by the Ministry of Statistics and Programme Implementation.

India's structural transformation involves a falling share of agriculture- and rising share of services sector jobs.



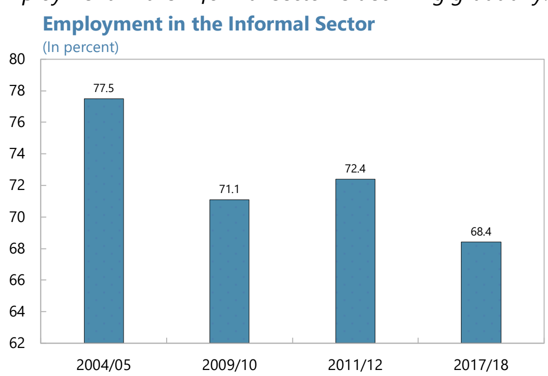
Source: Periodic Labor Force Survey, Ministry of Statistics and Programme Implementation.

But more needs to be done to create manufacturing jobs to absorb the large pool of workers joining the labor force.



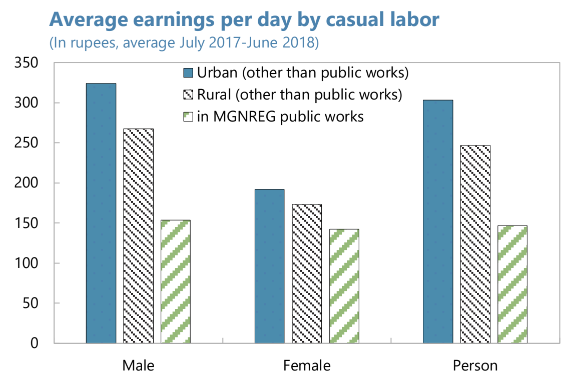
Source: Periodic Labor Force Survey, Ministry of Statistics and Programme Implementation.

Employment in the informal sector is declining gradually.



Source: Periodic Labor Force Survey, Ministry of Statistics and Programme Implementation.

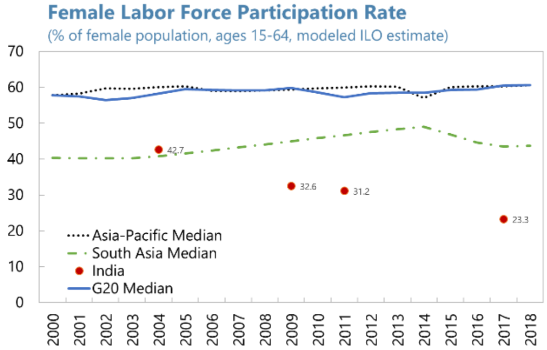
The gender wage gap is still high in India.



Source: Periodic Labor Force Survey, Ministry of Statistics and Programme Implementation.

Figure 9: Gender Inequality

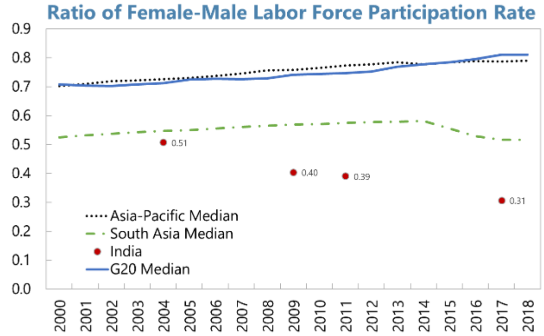
Female labor force participation rate was relatively low and continued to decline.



Sources: World Bank, *World Development Indicators,* Ministry of Statistics and Programme Implementation, Government of India, and IMF staff calculations.
Note: Group medians exclude India.

Note: Data for India are not modeled ILO estimate.

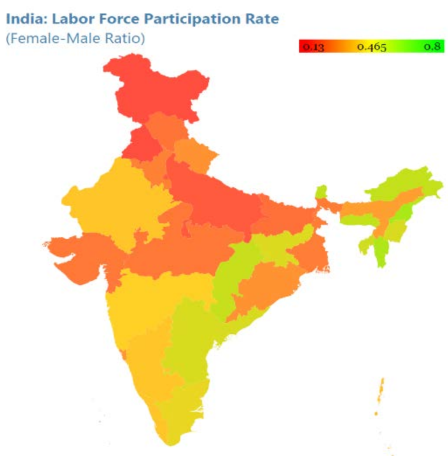
Gender disparity in labor force participation widened further.



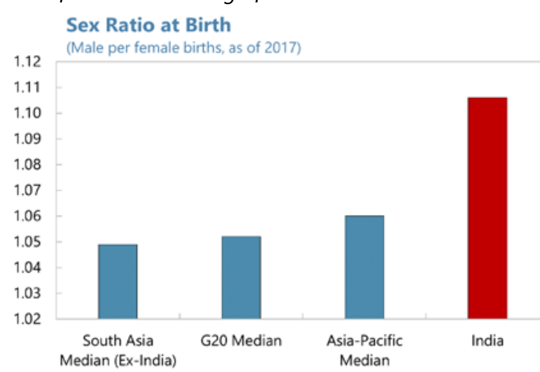
Sources: World Bank, *World Development Indicators,* Ministry of Statistics and Programme Implementation, Government of India, and IMF staff calculations.
Note: Group medians exclude India.

Note: Data for India are not modeled ILO estimate.

Within India, gender disparity is varied across states.

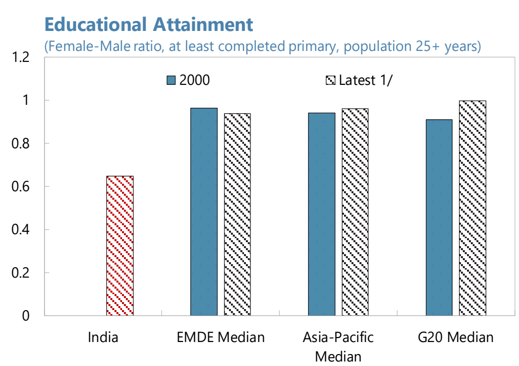


Girl deficits remained significant.



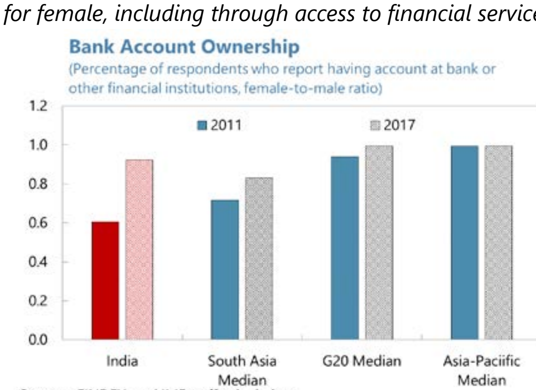
Sources: World Bank, *World Development Indicators,* and IMF staff calculations.

Gender equality in education is lagging peers.



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.

Recent initiative has helped improve economic opportunity for female, including through access to financial services.



Sources: FINDEX, and IMF staff calculations.
Note: Group medians exclude India.

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.

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 Est.	2019/20 Projections	2020/21
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	-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.

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
				Est.	Projections	
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.

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.

Table 5. India: Central Government Operations, 2014/15–2020/21 1/

	2014/15	2015/16	2016/17	2017/18	2018/19 RE	2018/19 Est.	2019/20 BE	2019/20 Projections	2020/21 Projections
	(In percent of GDP)								
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.

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.

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
				Est.	Projections					
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.

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.

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.

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
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
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
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
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	
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
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
Agriculture																																	
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	
Other indicators																																	
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	
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

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

* 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.

Appendix I. Risk Assessment Matrix 1/

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.

Appendix. II Implementation Status of Main Recommendations of the 2017 FSAP Assessment Matrix

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.

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 classification and provisioning rules in the context of IFRS, and with respect to special loan categories. - Amend the legal framework to provide the RBI with full supervisory powers over PSBs and clarify its legal independence.	RBI Government	S M	**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.

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:**

- 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.

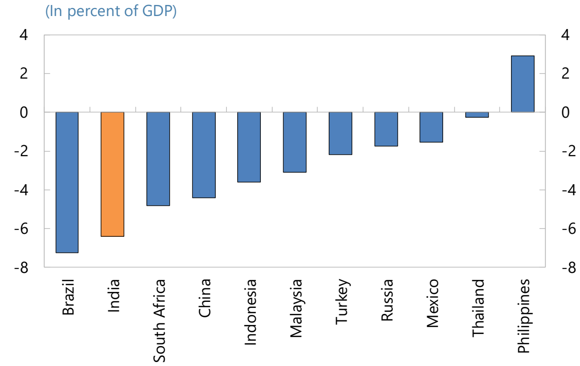
Market integrity - Subject domestic politically-exposed persons to adequate due diligence and qualify domestic tax evasion as predicate offense to money laundering.	MoF	S	**Not implemented:** The definition of politically-exposed persons remains as those who have been entrusted with public functions 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.

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

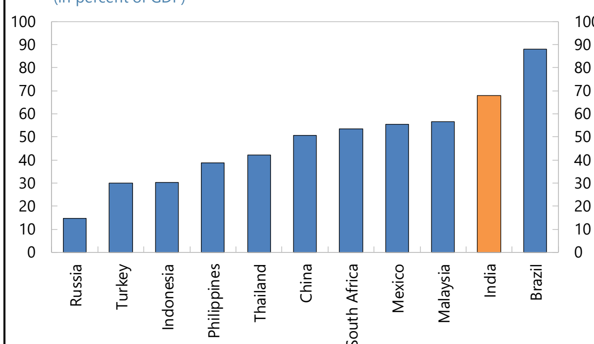
1. **Despite India's rapid economic growth, general government public debt has continued to hover around 68 percent of GDP during the past seven years**. Fiscal consolidation efforts have focused on bringing down the deficit of the central government. However, the reduction of the general government 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)



Source: IMF, *World Economic Outlook*.

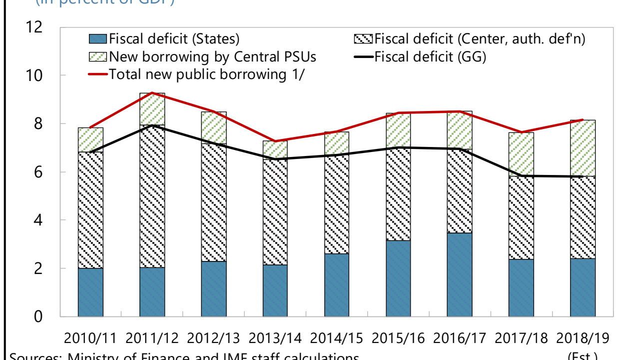
General government gross public debt, 2018
(In percent of GDP)



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 centers mostly around the speed at which the central government deficit as defined in the FRBM Act ("the deficit in the Consolidated Fund") is being reduced to 3 percent of GDP.[1] However, macroeconomically the more relevant indicator of the government's bearing on the economy would be a comprehensive measure of the public sector borrowing

New Public Borrowing Requirements
(In percent of GDP)



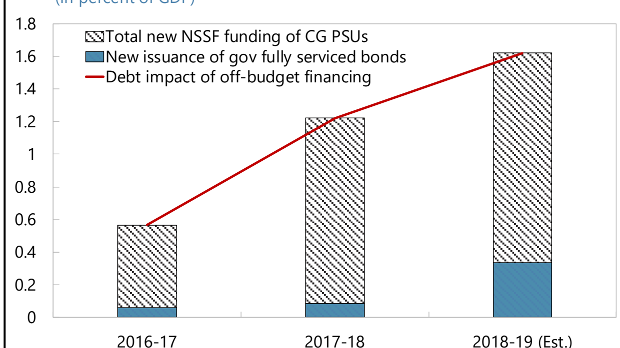
Sources: Ministry of Finance and IMF staff calculations.
1/ Excludes borrowing by state public corporations and debt-rollover requirements.
Note: PSU = Public Sector Undertaking.

[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.

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 autonomous bodies outside of the Consolidated Fund. Staff proposes that the government requests the IMF's Fiscal Affairs Department to conduct a Fiscal Transparency Evaluation based on the IMF's Fiscal Transparency Code. A key deliverable of such an evaluation is a public sector balance sheet which identifies and consolidates all public assets and liabilities of a country.

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



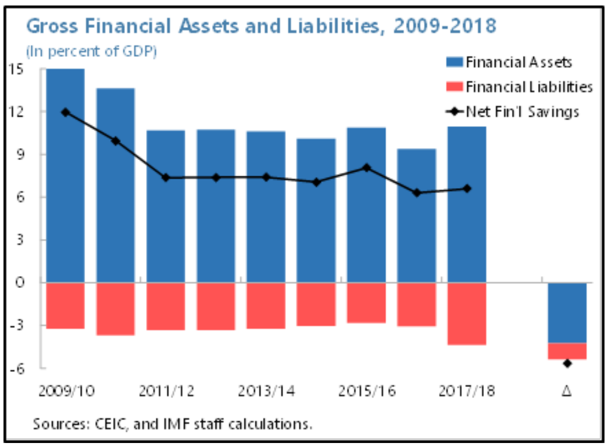
Sources: Union Budget (Annex 8; Statement 27); fci.gov.in; staff calculations.
Notes: Estimates for 2018-19 based on partial information

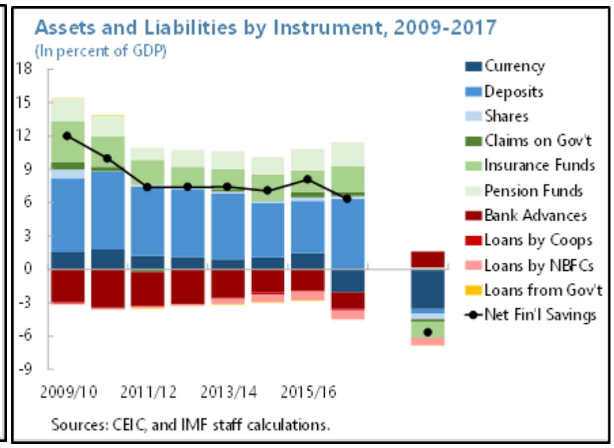
4. The high public sector borrowing requirements hold back India's catch-up with more advanced countries. The high borrowing requirements tie up financial resources that would otherwise be available for private investment ("crowding out"). In addition, the high interest bill reduces the room for government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

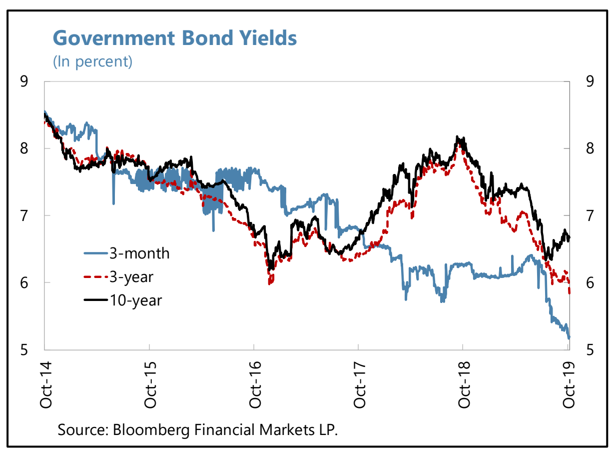
[2] The data for FY2018/19 is an estimate; it relies on partial budget information and additional information from the Food Corporation of India website.

(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 contain public sector borrowing—has been on display on several occasions**. For instance, yields on 10-year government bonds declined considerably in response to the recent budget announcement about a possible foreign sovereign bond issuance. There was a similar decline in yields when a more-backloaded-than-expected borrowing calendar was announced in March 2018.



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.

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 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.

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.

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

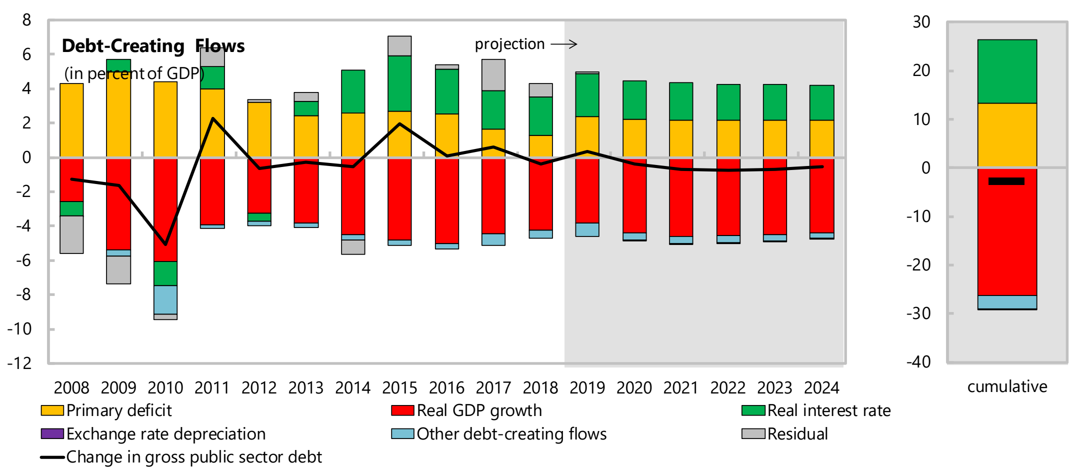
(In percent of GDP unless otherwise indicated)

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 primary balance [9/]
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	-2.7
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 Eur	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	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

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

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

5/ Derived as [(r - 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).

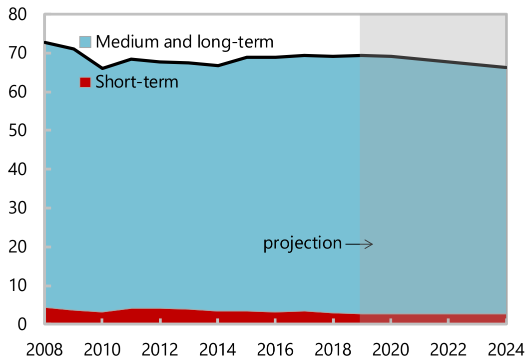
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

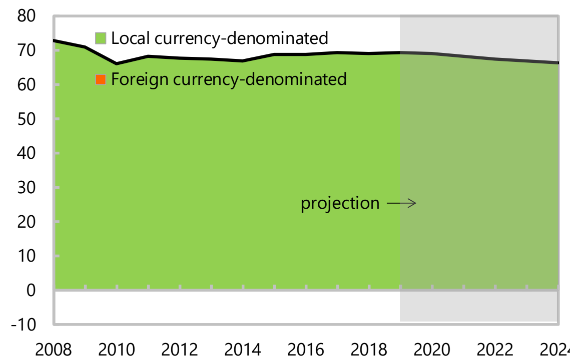
Figure 2. India Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



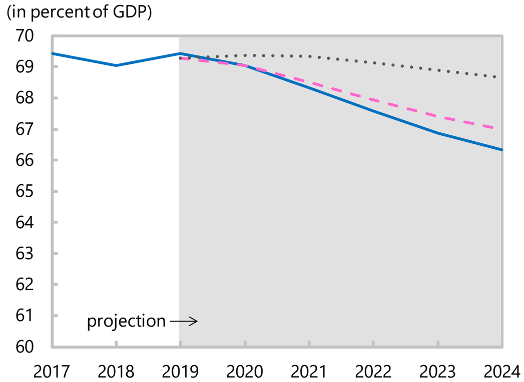
By Currency
(in percent of GDP)



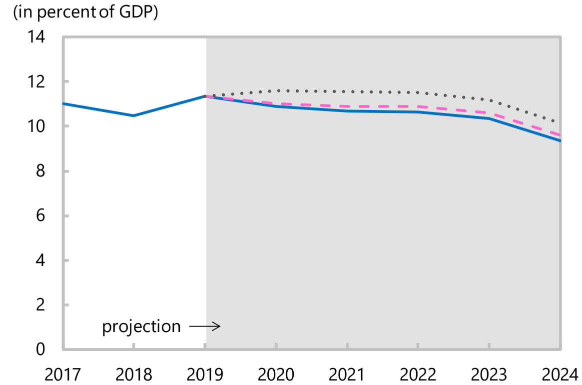
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



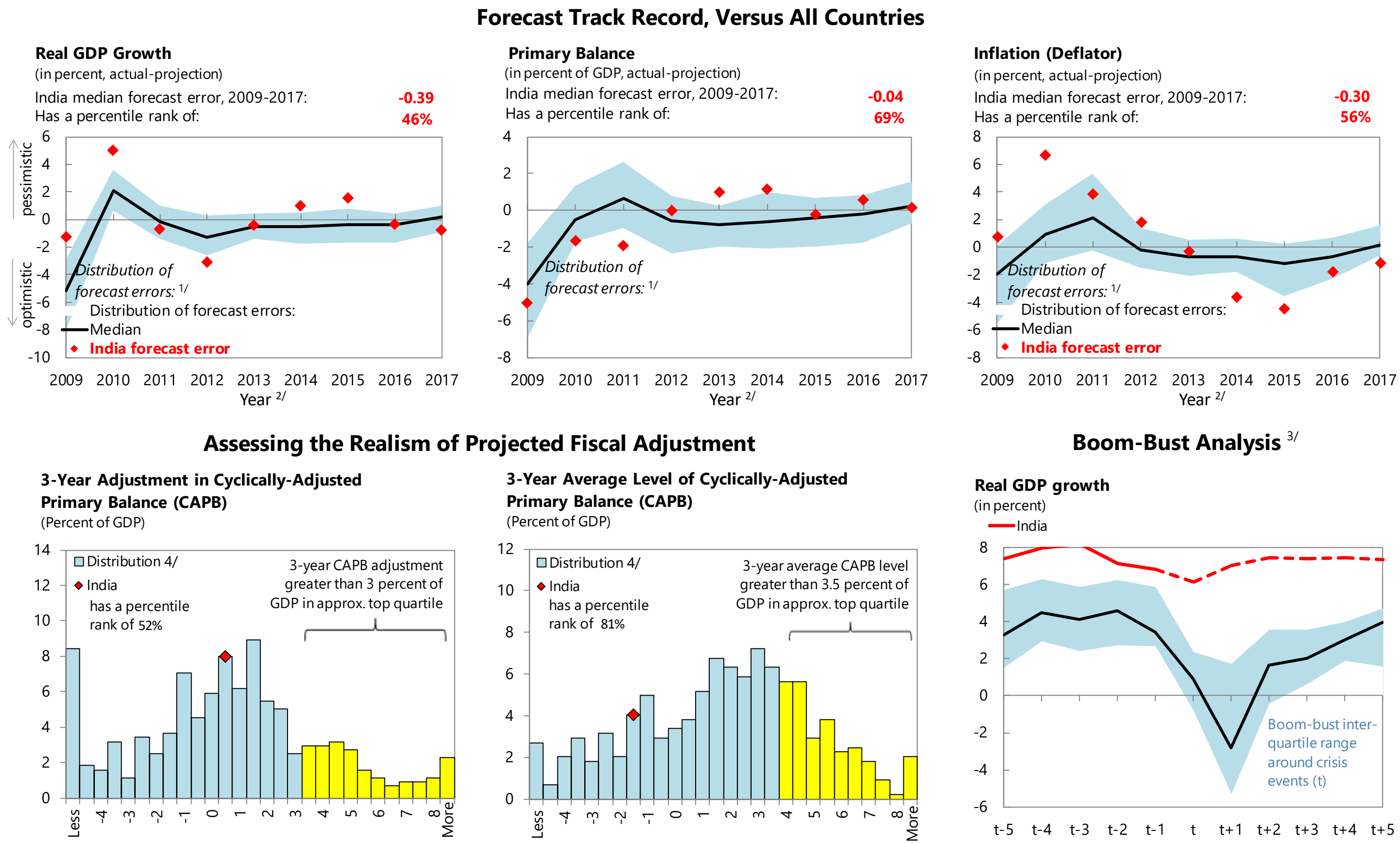
Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
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	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	8.1	7.9	7.7	7.7	7.6	7.6
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

Historical Scenario	2019	2020	2021	2022	2023	2024
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
Primary Balance	-2.4	-3.0	-3.0	-3.0	-3.0	-3.0
Effective interest rate	8.1	7.9	7.5	7.4	7.2	7.1

Source: IMF staff.

Figure 3. India Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes All Countries, percentile rank refers to all countries.

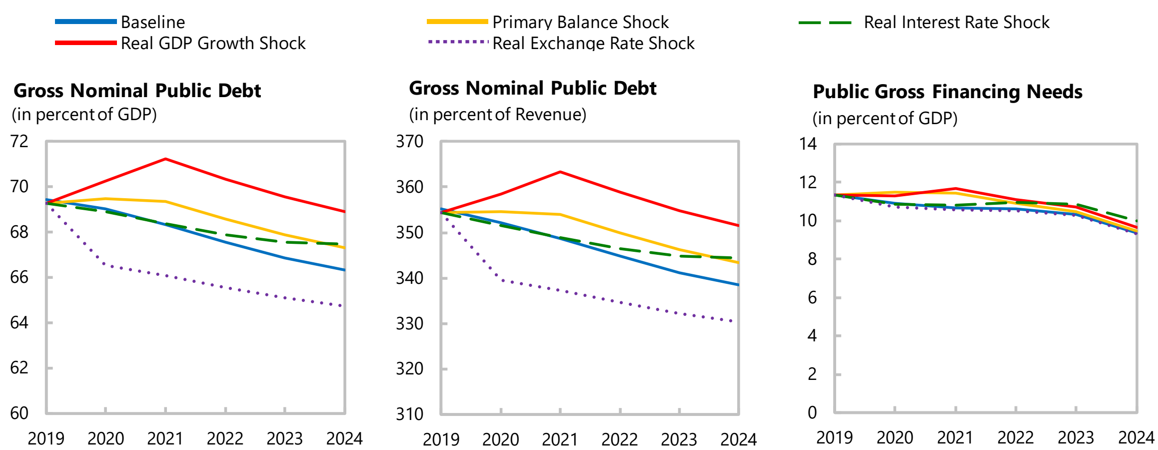
2/ Projections made in the spring WEO vintage of the preceding year.

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.

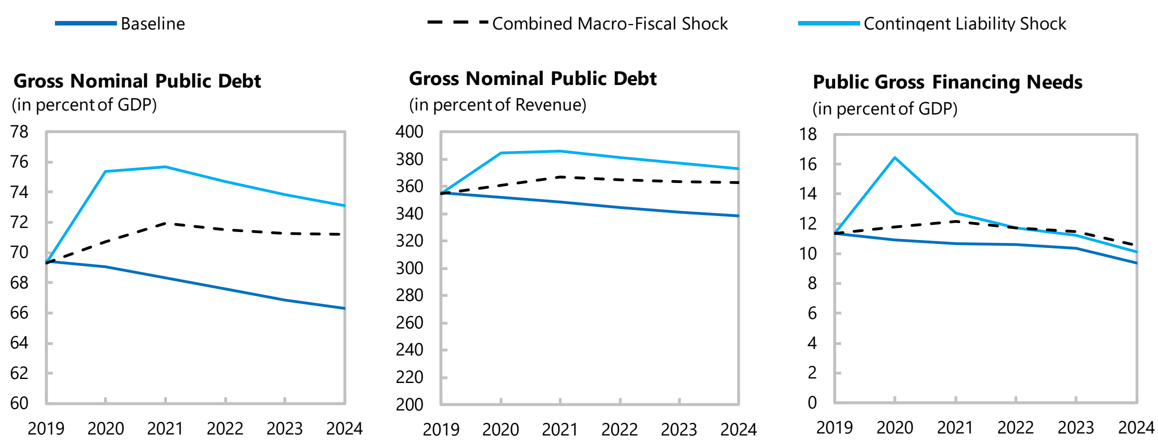
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. India Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
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	-2.8	-2.8	-2.2	-2.2	-2.2
Effective interest rate	8.1	7.9	7.7	7.7	7.7	7.6
Real Interest Rate Shock						
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	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	8.1	7.9	8.0	8.1	8.3	8.4
Combined Shock						
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
Primary balance	-2.4	-2.8	-2.8	-2.2	-2.2	-2.2
Effective interest rate	8.1	8.1	8.2	8.4	8.5	8.6

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
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
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
Real Exchange Rate Shock						
Real GDP growth	6.1	7.0	7.4	7.4	7.4	7.3
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
Effective interest rate	8.1	8.1	8.0	7.9	7.9	7.8
Contingent Liability Shock						
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
Primary balance	-2.4	-7.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	8.1	8.5	7.9	7.8	7.8	7.7

Source: IMF staff.

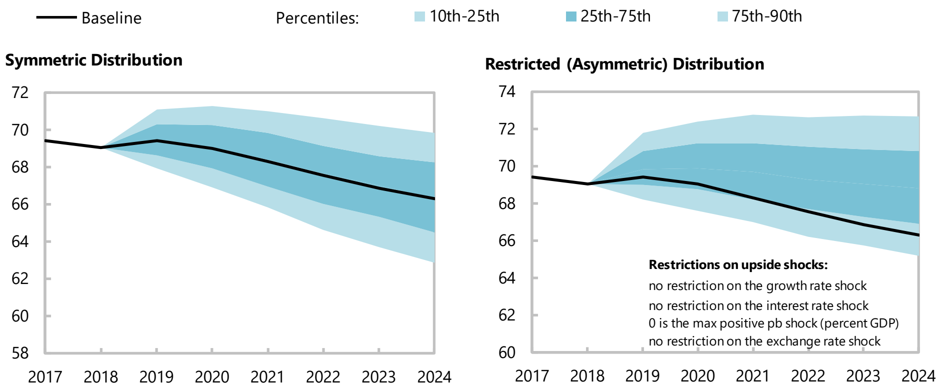
Figure 5. India Public DSA Risk Assessment

Heat Map

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

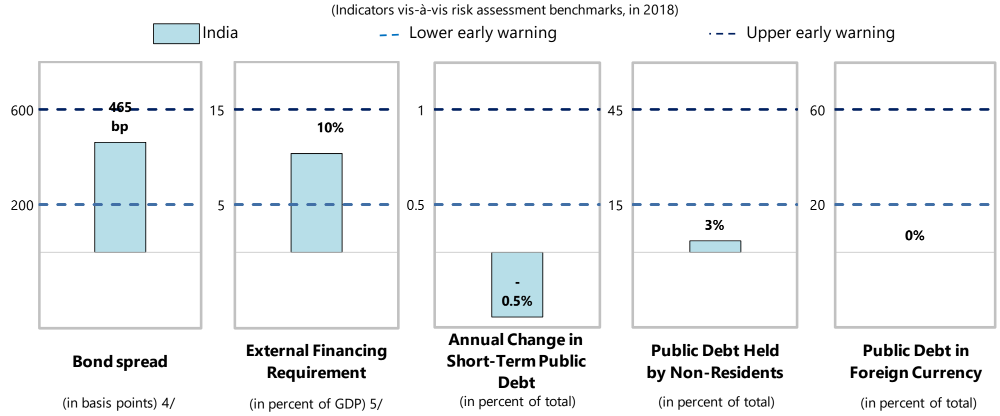
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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:

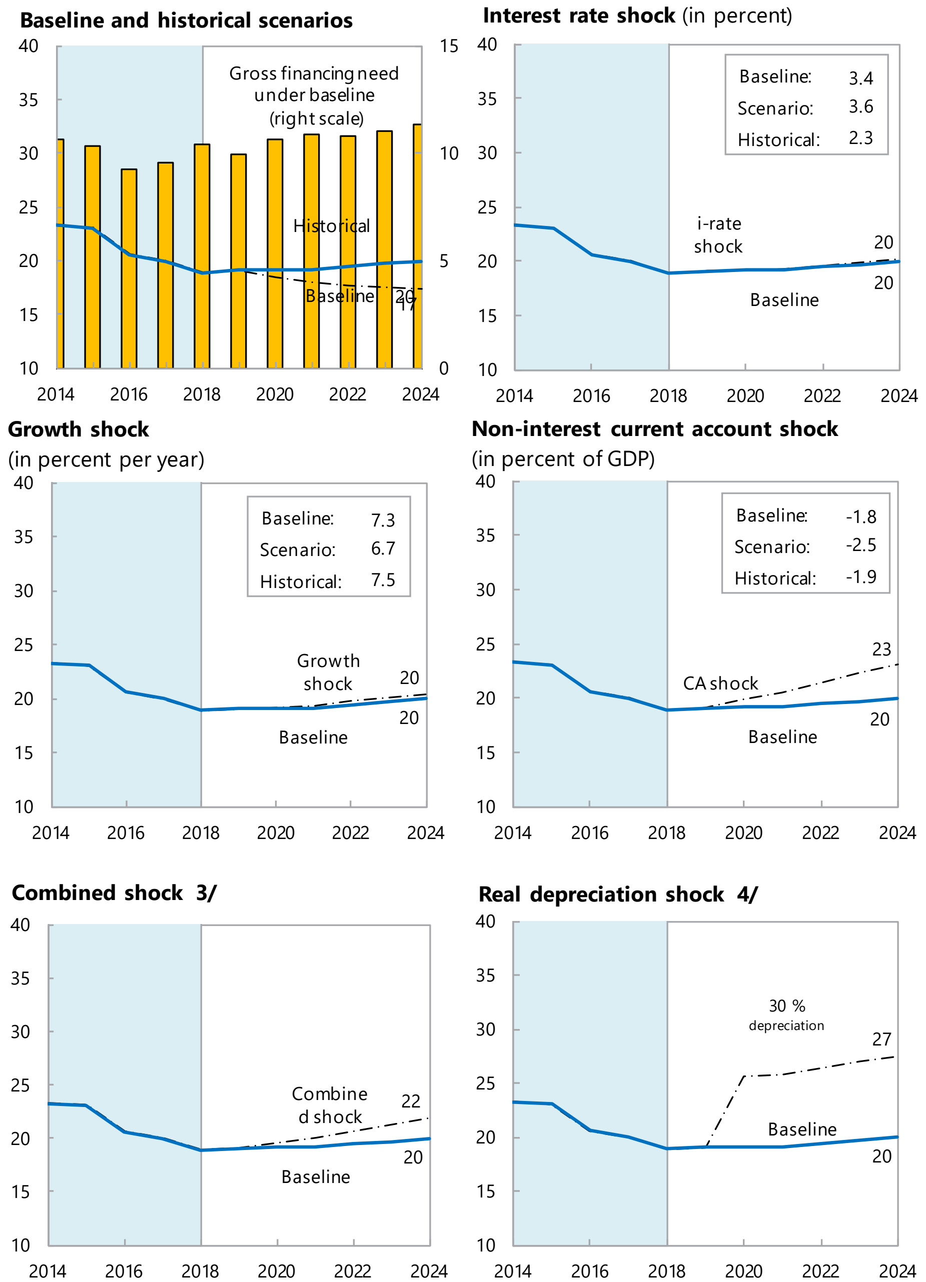
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

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.

Figure 6. India: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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.

Table 1. India: External Debt Sustainability Framework, 2014-2024

(In percent of GDP, unless otherwise indicated)

		Actual					10-Year	10-Year	Projections						
		2014	2015	2016	2017	2018	Historical Average	Standard Deviation	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			10.0	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**
	Key Macroeconomic Assumptions Underlying Baseline														
	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	
	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	

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

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 deflator).

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

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

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.

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 projection year.

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.
  - 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.
  - 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.

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.

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.

Table 1. List of Macro-Financial Variables for India's GaR Analysis 1/

Financial Conditions	Macroeconomic Vulnerabilities
• Private sector credit growth • Repo policy rate • 10-yr government bond yield • Sovereign spreads • Portfolio flows • Exchange rate change	• Oil price • Current account balance • Inflation • Ratio of short-term external debt to foreign reserves

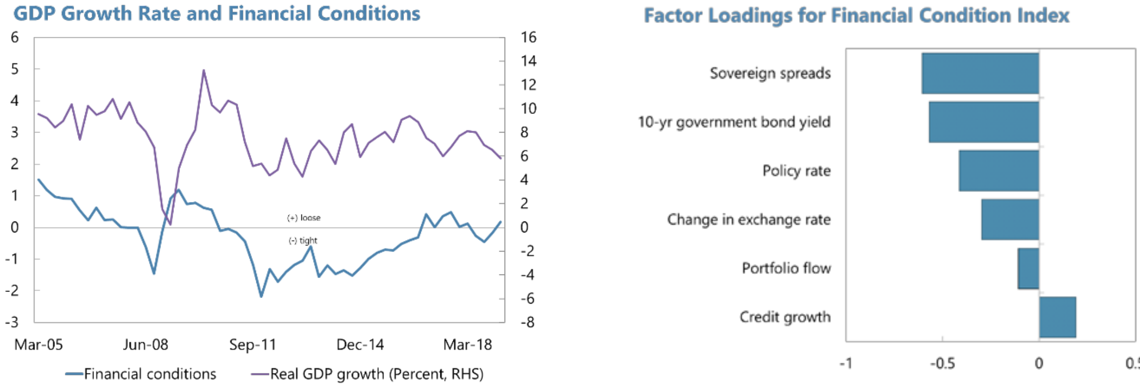
1/ Variable selection largely depends on data availability and macroeconomic importance in the Indian context. Macro-financial variables such as bank capital, non-performing loan ratio, corporate and household vulnerability were considered but excluded from the analysis due to data limitations. Other 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.

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.

Figure 1. Financial Conditions and GDP Growth

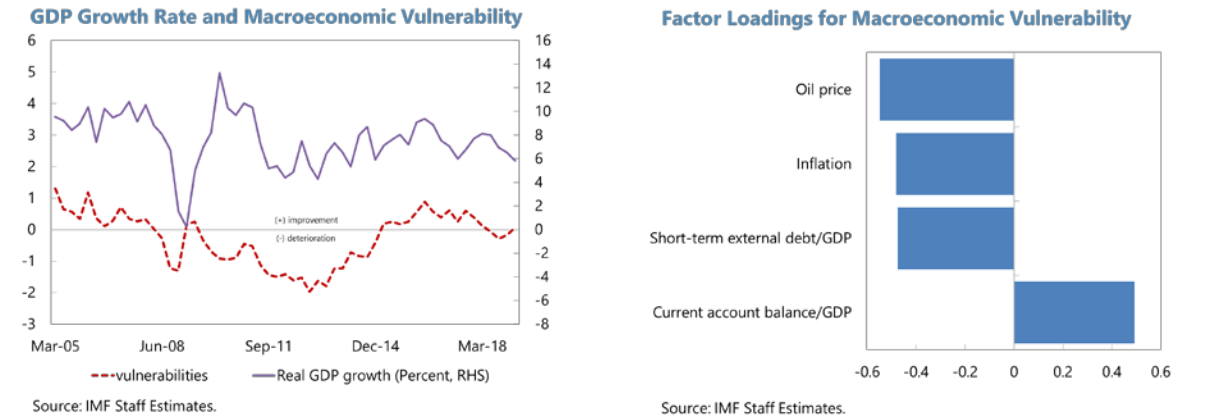


Source: IMF Staff Estimates.

Source: IMF Staff Estimates.

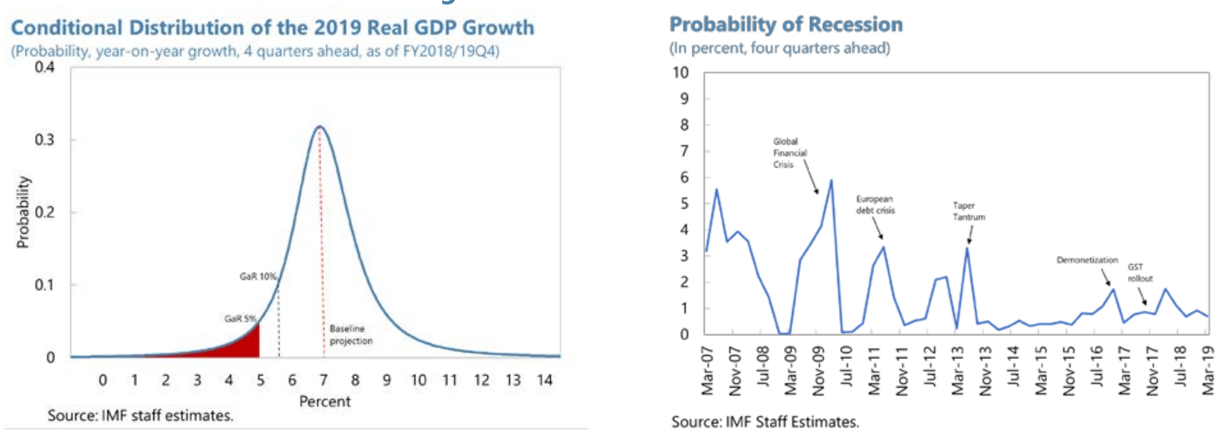
4. Variations in macroeconomic vulnerabilities drive financial flows and growth prospects. In particular, the Indian economy depends heavily on imported oil. The net oil import bill amounted to about US$94 billion in FY2018/19, equivalent to about 3½ percent of GDP or a fifth of merchandise imports. 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).

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.

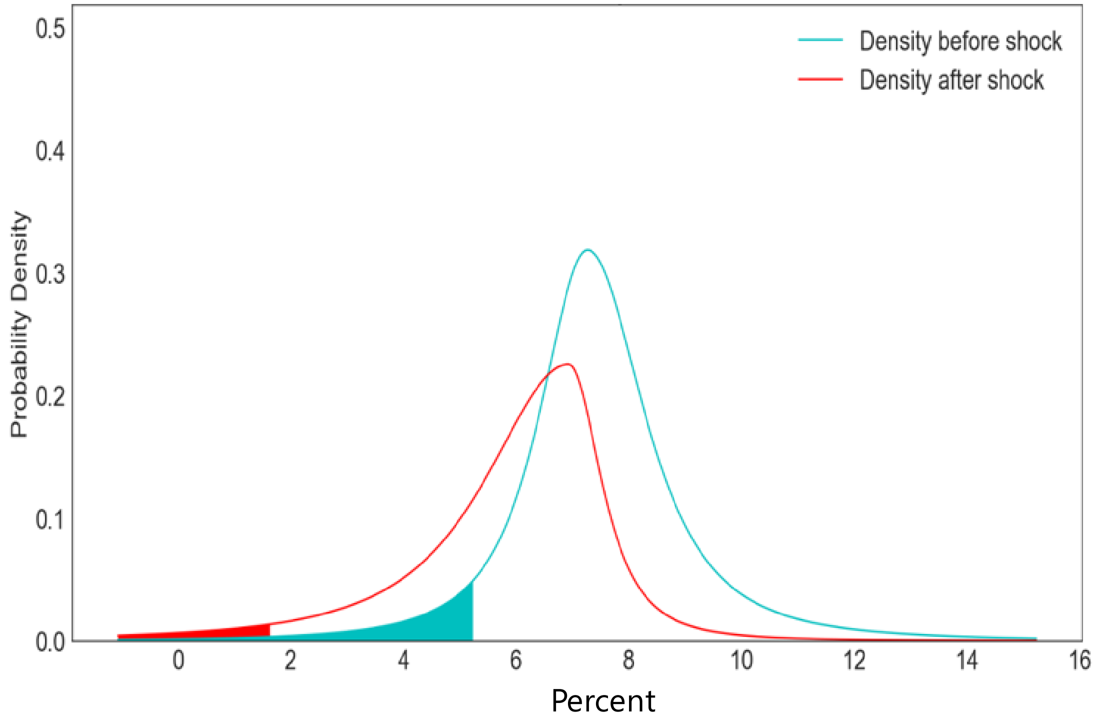
Figure 3. Growth Distribution



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.

Figure 4. Growth Under Oil Shock Scenario

(Probability, year-on-year growth, 4 quarters ahead, as of FY2018/19Q4)



Source: IMF staff estimates.

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

Appendix IX. Key Policy Actions 2018–19

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.

Financial Sector	
April 5, 2018	**Deferment of Indian Accounting Standards (Ind AS) implementation:** The RBI notified the delay in implementation of Indian Accounting Standards (Ind AS) by one year. The delay was necessary as the government was yet to make required legislative amendments to the Banking Regulation Act 1949. Commercial Banks were required to implement Ind AS from April 1, 2018 according to an earlier RBI notification (February 11, 2016). On March 22, 2019, the RBI decided to defer the implementation of Ind AS till further notice.
April 6, 2018	**Prohibition on dealing with Virtual Currencies (VCs):** The RBI directed banks and other entities regulated by it to refrain from dealing with virtual currencies (VCs) or provide services for facilitating any person or entity in dealing with or settling VCs.
April 27, 2018	**External Commercial Borrowings (ECB) Policy Rationalization and Liberalization:** the RBI stipulated a uniform all-in-cost ceiling of 450 basis points over the benchmark rate for all ECBs (both foreign currency and Rupee). In addition, RBI permitted housing finance companies (HFCs), Port Trusts to avail of ECBs under all tracks. The central bank also permitted companies engaged in the business of maintenance, repair and overhaul and freight forwarding to raise ECBs in INR only.
April 27, 2018	**Investment by Foreign Portfolio Investors (FPI) in Debt:** the cap on aggregate FPI investments in any central government security was raised to 30 percent from 20 percent of the outstanding stock of that security. The RBI prescribed fresh concentration limits in each of the three categories of debt, viz., G-secs, SDLs and corporate debt, and single/group investor-wise limit in corporate bonds introduced/tightened.
May 1, 2018	**Investment by Foreign Portfolio Investors (FPI) in Debt:** the RBI permitted FPIs to invest in corporate bonds with residual maturity below one year, subject to the condition that it would not exceed 20 percent of the total investment of that FPI in corporate bonds. FPIs are permitted to invest in treasury bills issued by the Central Government.
May 31, 2018	**Withdrawal of Exemptions Granted to Government-Owned NBFCs:** the RBI withdrew special dispensations granted earlier for NBFCs owned by the government. It has specified a roadmap, stretching till 2021/22, for these lenders to meet the norms on capital adequacy, provisioning and corporate governance. Among the entities affected are IFCI, Power Finance Corporation, India Infrastructure Finance Company, Indian Railway Finance Corporation, Indian Renewable Energy Development Agency and Housing & Urban Development Corporation.
June 6, 2018	**The RBI relaxes NPA classification norms for MSMEs:** the RBI extended a temporary relaxation in NPA classification norms to 180 days instead of 90 days for MSMEs, whose aggregate exposure of banks and NBFCs does not exceed INR 250 million as on May 31, 2018.
June 14, 2018	**Interest Rate Options:** the RBI permits Interest Rate Swaptions in Rupees to allow more flexibility for the market participants in hedging their interest rate risks.
Oct. 3, 2018	**ECB:** public oil companies are allowed to raise ECB for working capital with a minimum maturity of 3-5 years (previously prohibited); manufacturing sector companies are allowed to raise ECBs with minimum average maturity of 1 year.
Oct. 19, 2018	**Banks' exposure to NBFCs:** the RBI raised the single borrower limit for banks' lending to NBFCs (not financing infrastructure) from 10 percent to 15 percent of capital funds till December 31, 2018.

Nov. 6, 2018	**ECB:** the minimum average maturity requirement for ECBs in the infrastructure space was reduced from 5 to 3 years; the average maturity requirement for exemption from mandatory hedging provision was reduced from 10 to 5 years; the mandatory hedging requirement was reduced from 100 percent to 70 percent for ECBs under Track I with an average maturity between 3 and 5 years.
Nov. 29, 2018	**Basel III Framework**: the RBI notified the Net Stable Funding Ratio (NSFR) guidelines issued on May 17, 2018 would come into effect from April 1, 2020.
Jan. 1, 2019	**Restructuring of advances to MSMEs**: the RBI permitted a one-time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification.
Jan. 16, 2019	**ECB:** the ECB framework was rationalized, and access widened.
Feb. 6, 2019	**ECB:** the concentration limits for each FPI in corporate bonds were lifted.
March 1, 2019	**Voluntary Retention Route' (VRR) for FPIs investment:** the RBI introduced a new route for FPI investment in debt markets named Voluntary Retention Route' (VRR) which will be free of the macro-prudential and other regulatory norms applicable to such investments.
March 27, 2019	**Rupee interest rate derivatives markets**: the RBI permitted non-resident participation in the rupee interest rate derivatives markets to hedge exposures to rupee interest rate risk.
April 25, 2019	**FPI investment in Municipality Bonds:** the RBI permitted foreign portfolio investors (FPI) to invest in municipal bonds within the limits set for FPI investment in State Development Loans (SDLs).
June 7, 2019	**Prudential Framework for Resolution of Stressed Assets:** the RBI released a revised framework guideline for resolution of stressed assets, in which lenders should review borrower's account within 30 days from such default. During this Review Period of 30 days, lenders should decide on the resolution plan to be implemented within 180 days from the end of the Review Period.
June 20, 2019	**Foreign Exchange Trading Platform for Retail Participants:** the RBI permitted an electronic trading platform for buying/selling foreign exchange by retail customers of banks (Small and Medium Enterprise (SME) exporters and importers, individuals). The platform, FX-Retail, is being operationalized by the Clearing Corporation of India Limited (CCIL).
June 26, 2019	**Financial Benchmark Administrators Directions, 2019:** the RBI introduced a fresh regulatory framework for financial benchmarks which will apply to benchmarks issued by the Financial Benchmarks of India Ltd. (FBIL)
June 26, 2019	**Rupee Interest Rate Derivatives Directions, 2019:** the RBI issued revised guidelines on Rupee interest rate derivatives that merge the facilities for residents and non-residents into a single unified facility for all users, allow users having valid underlying exposure to hedge flexibly using any instrument of their choice, introduce the ability to hedge anticipated exposure to foreign exchange risk, and simplify the procedures for authorized dealers to offer foreign exchange derivatives.
June 28, 2019	**Leverage Ratio:** the RBI reduced the minimum Leverage Ratio (LR) under Basel III capital regulations to 4 percent for domestic systemically important banks (DSIBs) and 3.5 percent for other banks (from 4.5 percent earlier).
June 28, 2019	**Asset Reconstruction Companies (ARCs):** the RBI permitted ARCs to acquire financial asset from other ARCs based on its new guidelines.
Aug. 2, 2019	**Liquidity support to Housing Finance Companies (HFCs):** the National Housing Bank (NHB) extended a liquidity infusion facility of INR 100 billion for HFCs to support individual housing loans under affordable housing scheme.
Aug. 10, 2019	**Government to extend partial credit guarantee to banks:** the government approved a one-time six months partial credit guarantee to PSBs for the first loss of up to 10 percent to enable them to purchase pooled assets of financially-sound NBFCs amounting to INR 1 trillion to ease the liquidity stress in the NBFC sector.

Aug. 13, 2019	**Priority Sector Lending:** the RBI permitted bank credit to NBFCs (other than MFIs) for on-lending to be classified as priority sector lending.
Aug 30, 2019	**Bank merger:** the government announced the merger of ten public sector banks into four bigger banks.
Sept. 12, 2019	**Banks' exposure to NBFC:** the RBI raised banks' exposure limit to a single NBFC to 20 percent of Tier-I capital from 15 percent earlier.
Sept. 12, 2019	**Risk weight for consumer credit lowered:** the RBI reduced the risk weight for consumer credit, including personal loans, but excluding credit card receivables, to 100 percent from 125 percent earlier.
Sept. 20, 2019	**Priority Sector Lending:** the RBI raised the sanctioned limit for classification of export credit under Priority Sector Lending (PSL) from INR 250 million per borrower to INR 400 million per borrower.
Fiscal Policy	
April 1, 2018	**e-Way Bill system for inter-State movement:** the nationwide e-Way Bill system for inter-state movement of goods is rolled out.
April 15- May 24, 2018	**e-Way Bill system for intra-State movement:** the GST Council notified the rollout of the e-Way Bill system for intra-state movement of goods for 18 states.
June 27, 2018	**Capital infusion in Export Credit Guarantee Corporation:** the government approved a capital infusion of INR 20 billion for strengthening the Export Credit Guarantee Corporation.
July 21, 2018	**GST rate reduction:** the GST council announced reductions in tax rates with a view to further rationalization: (i) 13 categories reduced from 28 percent to 18 percent; (ii) one category rates reduced from 28 percent to 12 percent; (iii) eight categories from 18 percent, 12 percent, and 5 percent to nil; (iv) four categories from 12 percent to 5 percent; (v) four categories from 18 percent to 12 percent; and (vi) two categories from 18 percent to 5 percent.
August 7, 2018	**Four GST Amendment Bills passed by Parliament:** the Central Goods and Services Tax (Amendment) Bill, 2018, the Integrated Goods and Services Tax (Amendment) Bill, 2018, the Union Territory Goods and Services Tax (Amendment) Bill, 2018, and the Goods and Services Tax (Compensation to States) Amendment Bill, 2018 were passed by Parliament. The Bills amend four central and state GST laws.
December 22, 2018	**GST rate reduction:** the GST council announced reduction in tax rates and rationalization: (i) six categories reduced from 28 to 18 percent; (ii) one category rates redubbed from 28 to 5 percent; (iii) three categories from 18 to 12 percent; (iv) one category from 18 to 5 percent; (v) three categories from 12 to 5 percent ; (vi) one category from 12 percent to nil; and (vii) one category from 5 percent to nil.
January 10, 2019	**Kerala to levy cess to generate funds for calamities:** the GST Council allowed Kerala to levy a cess on intra-state supply of goods and services to finance relief measures required to be taken due to natural calamities. The cess will be levied at a rate not exceeding 1 percent for a period of up to two years**.**
January 23, 2019	**Goods and Services Tax Appellate Tribunal (GSTAT):** The government approved the creation of the National Bench of the Goods and Services Tax Appellate Tribunal (GSTAT) which will hear appeals against orders passed by the appellate authorities constituted under the central and state GST laws.
February 2, 2019	**Interim Union Budget 2019-20:** • **PM-KISAN scheme:** the PM-KISAN scheme launched under which INR 6,000 per year will be directly transferred to farmers with cultivable land up to two hectares. This amount will be paid in three instalments of INR 2,000 each. The scheme was to take effect from December 2018. INR 200 billion was allocated in 2018/19 and INR 750 billion in 2019/20. • **The Pradhan Mantri Shram-Yogi Maan-dhan scheme:** the government to provide social security coverage to workers in the unorganised sector with a monthly income of up to INR

	15,000. Under the scheme a monthly pension of INR 3,000 to be provided from the age of 60 years. The monthly contribution of the worker will be matched by the central government. • **Major tax changes:** (i) Deductions: For salaried individuals, standard tax deduction increased from INR 40,000 to INR 50,000. Individuals earning an annual income of up to INR 0.5 million will not have to pay any tax.
February 6, 2019	**Agri-Market Infrastructure Fund:** the government approved the creation of an Agri-Market Infrastructure Fund of INR 20 billion to be used for development and up-gradation of infrastructure in 10,000 gramin agricultural markets and 585 regulated wholesale markets.
February 19, 2019	**Kisan Urja Suraksha evam Utthaan Mahabhiyan:** the government approved the launch of Kisan Urja Suraksha evam Utthaan Mahabhiyan (KUSUM). The scheme seeks to provide financial and water security to farmers by adding solar capacity of 25,750 MW by 2022. The total central financial support provided under the scheme would be INR 344 billion.
March 19, 2019	**GST on Housing:** the GST council decided GST shall be levied at effective GST rate of 5 percent without ITC on residential properties outside affordable segment; and at effective GST of 1 percent without ITC on affordable housing properties.
May 31, 2019	**PM-KISAN Scheme extension:** the government extended the ambit of the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) to include all land holding farmers, irrespective of their size of land holdings. The revised Scheme is expected to cover around 20 million more farmers, increasing the coverage of PM-KISAN to 145 million beneficiaries, with central government spending of about INR 872 bn in FY2019/20.
May 31, 2019	**PM Kisan Pension Yojana for small and marginal farmers:** Government approved a new the pension scheme with following salient features: • A voluntary and contributory pension scheme for all Small and Marginal Farmers (SMF). • Entry age of 18 to 40 years with a provision of minimum fixed pension of INR 3,000 per month on attaining the age of 60 years. • The government contribute to the Fund an equal amount as contributed by the eligible farmer. It is estimated that 50 million small and marginal farmers will benefit in the first three years itself. The central government would spend INR 107.75 billion for a period of 3 years towards its contribution (matching share) for providing social security cover as envisaged under the scheme.
May 31, 2019	**Pension scheme for traders and shop keepers:** Government approved a voluntary minimum pension scheme for traders and shopkeepers that would benefit an estimated 30 million small shopkeepers and traders. Key features of the scheme include: • **Minimum assured pension:** Each beneficiary under the scheme shall receive a minimum assured pension of INR 3,000 per month after reaching the age of 60 years. • **Eligibility:** The Scheme will apply to shopkeepers, self-employed persons, and retail traders with a GST turnover of less than INR 15 million, between the ages of 18 and 40 years. • Government will make **matching contribution** in the subscribers' account.
July 5, 2019	**Budget 2019/20:** • Corporate tax rate reduced to 25 percent for companies with annual turnover up to INR 4 bn; • Surcharge increased on individuals having taxable income from INR 20 million to INR 50 million and INR 50 million and above; • Present policy of retaining 51 percent government stake to be modified to retaining 51 percent stake inclusive of the stake of government-controlled institutions; • Government to consider going to an appropriate level below 51 percent in PSUs where the government control is still to be retained, on a case by case basis; • Government to raise part of its gross borrowing in external markets in external currencies; and • Credit Guarantee Enhancement Corporation to be set up in 2019/20.

July 27, 2019	**GST rate on all electric vehicles reduced:** the GST rate on all electric vehicles be reduced from 12 percent to 5 percent. The GST rate on charger or charging stations for Electric vehicles be reduced from 18 percent to 5 percent. Hiring of electric buses by local authorities be exempted from GST.
Aug. 23, 2019	**Measures announced to boost the economy and growth:** (i) withdrew enhanced surcharge on long- and short-term capital gains for FPIs as well as domestic portfolio investors; (ii) withdrew "angel tax" provisions for start-ups; (iii) upfront release of INR 700 bn capital infusion into public sector banks; (iv) additional liquidity support of INR 200 bn to housing finance companies (HFCs) by the National Housing Bank (NHB); (v) GST refund due to MSMEs to be sped up; and (vi) violation of corporate social responsibility (CSR) obligation to be treated as civil liability, not criminal offence.
Sept. 20, 2019	**Corporate income tax (CIT) rate reduced:** the CIT rate on existing corporations is reduced from 30 to 22 percent, starting FY2019/20, subject to foregoing exemptions/incentives. The effective tax rate for these companies will be 25.17 percent inclusive of surcharge and cess. For new companies incorporated on or after 1st October 2019 and planning to commence their production on or before 31st March 2023, the tax rate will be 15 percent (effective tax rate: 17.01 percent inclusive of surcharge and cess). Further, such companies will not have to pay the minimum alternative tax (MAT).
FDI Policy	
	Revised Guidelines for FDI in e-commerce: • A vendor or seller having equity participation by a marketplace model e-commerce platform or its group companies will not be permitted to sell its products on the concerned platform. • A marketplace model platform cannot mandate any vendor to sell a product exclusively on its platform. • A marketplace model platform cannot exercise ownership or control over the inventory of a vendor, as this will render the platform into an inventory-based model. The inventory of the vendor will be deemed to be controlled or owned by the e-commerce platform if more than 25 percent of the vendor's sales accrue to that platform or its group companies. • A marketplace model e-commerce platform has to ensure that it provides services (such as logistics, warehousing and payment collection, among others) to different vendors in a non-discriminatory and fair manner. The same is applicable for cashback benefits provided to customers for purchases from various vendors. • A marketplace model e-commerce platform is allowed to have a vendor or its group companies contributing to more than 25 percent of its sales.
Aug. 28, 2019	• Permit 100 percent FDI under automatic route for sale of coal and coal mining activities; • Allowed 100 percent FDI under automatic route in contract manufacturing; • Further flexibility on local sourcing conditions for FDI in Single Brand Retail Trading (SBRT).
Trade Policy	
April 9, 2018	An anti-dumping duty was imposed on import of phosphorus pentoxide from China.
May 20, 2018	**India notified the WTO of proposed suspension of concessions and other obligations in connection with** the imposition of additional customs duty of 25 percent on steel products and 10 percent on aluminum products by the United States.
May 23, 2018	**Import Duty on Wheat:** the government raised the import duty from 20 percent to 30 percent on wheat to protect domestic growers from sourcing cheaper imports from Ukraine, Russia and Australia.
June 22, 2018	**India to imposed tariffs on 29 US items:** India imposed higher tariff rates on 29 import items from the United States. New rates would kick in from August 4, 2018.
July 1, 2018	**Import duty:** the government imposed a levy of 10 percent basic customs duty (BCD) on cellular mobile phone, specified parts and certain electronic goods.

Dec. 6, 2018	**New Agriculture Export Policy:** the aim is to double agricultural exports to US$ 60 bn by 2022.
April 18, 2019	**Suspension of trade with Pakistan** along the Line of Control in Jammu and Kashmir.
May 14, 2019	**Delay of imposition of tariffs on 29 US items:** The deadline to impose retaliatory import duties on 29 US products, including almond, walnut and pulses, was extended till June 16, 2019.
Structural Policy/ Real Sector	
June 6, 2018	**Guidelines on time bound closure of sick or loss making Central Public Sector Enterprises:** new guidelines stipulate that the land obtained from the closure of such public sector enterprises will be prioritized to provide affordable housing as per the guidelines of Ministry of Housing and Urban Affairs.
July 23, 2018	**The Insolvency and Bankruptcy (Second Amendment) Bill, 2018:** The Insolvency and Bankruptcy Code (Second Amendment) Bill, 2018 was passed by Parliament. It replaces the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 promulgated on June 6, 2018. Key features of the Bill: • **Financial creditors:** The Bill clarifies that an allottee under a real estate project is to be considered a financial creditor. An allottee includes any person to whom a plot, apartment, or building has been allotted, sold, or transferred by a promoter (real estate developer or development authority). These allottees are to be represented on the committee of creditors by an authorized representative. • **Applicability of the Code to Micro, Small and Medium Enterprises (MSMEs):** The Code prohibits certain persons from bidding for the company in the resolution process. This includes a person whose account has been classified as a Non-Performing Asset (NPA) for a year, and any guarantor for a defaulting debtor. The Bill provides that the ineligibility criteria for resolution applicants regarding NPAs and guarantors will not be applicable to persons applying for resolution of MSMEs. The central government may modify or remove other provisions of the Code while applying them to MSMEs. • **Voting threshold of committee of creditors:** The Code specifies that all decisions of the committee of creditors be taken by a majority of at least 75 percent of the financial creditors. The Bill lowers this threshold to 51 percent. For certain key decisions, the voting threshold has been reduced from 75 to 66 percent. These include: (i) appointment and replacement of the resolution professional, and (ii) approval of the resolution plan.
August 1, 2018	**LIC acquires IDBI bank:** the government approved acquisition of a controlling stake by the Life Insurance Corporation of India (LIC) as promoter in IDBI bank through preferential allotment/open offer of equity, and relinquishment of management control by the government in the bank.
Sep. 12, 2018	**PM-AASHA scheme for procurement of crops from farmers:** approval of the Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA) scheme for procurement of crops from farmers. Under the scheme, states can adopt one of these procurement mechanisms: (i) Price Support Scheme (PSS), (ii) Price Deficiency Payment Scheme (PDPS), and (iii) Private Procurement and Stockist Scheme (PPSS).
Nov. 8, 2018	**Leasing out six airports through PPP:** The government gave in-principle approval for leasing out six airports for operation, management and development under public private partnership (PPP) through a Public Private Partnership Appraisal Committee (PPPAC). These airports are currently operated by the Airports Authority of India. These airports are Ahmedabad, Jaipur, Lucknow, Guwahati, Thiruvananthapuram and Mangaluru. Currently, five airports are being managed under the PPP model. These are Delhi, Mumbai, Bangalore, Hyderabad, and Cochin.
Nov. 8, 2018	**Strategic disinvestment:** the government approved 100 percent divestment of equity in Dredging Corporation of India Ltd (DCIL). The shares will be sold to a consortium of four ports -Vishakhapatnam Port Trust, Paradeep Port Trust, Jawahar Lal Nehru Port Trust, and Kandla Port Trust.
Jan. 2, 2019	**Merger of Vijaya Bank and Dena Bank with Bank of Baroda:** the three public sector banks were merged with effect from April 1, 2019.

June 13, 2019	**Government Reduced the Rate of ESI Contribution from 6.5 to 4 percent:** The Government has reduced the rate of contribution under the Employees' State Insurance Act 1948 from 6.5 to 4 percent (employers' contribution being reduced from 4.75 to 3.25 percent and employees' contribution being reduced from 1.75 to 0.75 percent), effective July 1, 2019. The reduction will reduce the financial liability of the establishments leading to improved viability and enhanced ease of doing business.
Aug. 2, 2019	**The Code on Wages Bill, 2019:** Parliament passed the Code on Wages Bill, 2019 which would give statutory protection for minimum wages and timely payment of wages to approximately 500 million workers of organized as well as unorganized sector.
Aug. 6, 2019	**The Insolvency and Bankruptcy Code (Amendment) Bill, 2019**, gazetted on August 6, 2019, extends the time period for the resolution process of a corporate debtor from 270 to 330 days. However, extensions granted for the completion of the resolution process or the time taken in legal proceedings are to be included in the 330 days. If not completed within 330 days, an order requiring the corporate debtor to be liquidated under section 33(1)(a) will be made. If the corporate insolvency resolution process is not completed within 330 days, the resolution should be completed within an additional 90 days from the date of the commencement of the bill. Another change is the incorporation of the liquidation test as a safeguard in resolution plans (i.e., creditors must receive at least what they would have received in a liquidation).
Sept. 7, 2019	**National Infrastructure Pipeline:** a task force was constituted under the chairmanship of Secretary (DEA), ministry of finance to draw up a National Infrastructure Pipeline for each of the years from FY2019/20 to FY2024/25 to spend about $1.4 trillion (INR 100 trillion) over these years.
Others	
May 23, 2019	**Merger of CSO and NSSO:** The Ministry of Statistics and Programme Implementation approved merging of the Central Statistics Office (CSO) and National Sample Survey Office (NSSO) into a single statistics wing, which will be known as the National Statistical Office (NSO).

Appendix X. External Sector Assessment

<table>
<tr><td colspan="7"> Overall Assessment: The external sector position in 2018 was broadly in line with the level implied by fundamentals and desirable policies. India's low per capita income, favorable growth prospects, demographic trends, and development needs justify running CA deficits. External vulnerabilities remain, as highlighted by bouts of turbulence in 2018. India's economic risks stem from volatility in global financial conditions and an oil price surge, as well as a retreat from cross-border integration. Progress has been made on FDI liberalization, whereas portfolio flows remain controlled. India's trade barriers remain significant. Potential Policy Responses: Whereas the external position is broadly in line with fundamentals, measures to rein in fiscal deficits should be accompanied by efforts to enhance credit provision through faster cleanup of bank and corporate balance sheets and strengthening the governance of public banks. Improving the business climate, easing domestic supply bottlenecks, and liberalizing trade and investment will be important to help attract FDI, improve the CA financing mix, and contain external vulnerabilities. Gradual liberalization of portfolio flows should be considered, while monitoring risks of portfolio flows' reversals. Exchange rate flexibility should remain the main shock absorber, with intervention limited to addressing disorderly market conditions. </td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6"> Background. As of end-2018, India's NIIP improved to –15.9 percent of GDP, from –17.3 percent of GDP at end-2017. Gross foreign assets and liabilities were 22.2 and 38.1 percent of GDP, respectively. The bulk of assets are in the form of official reserves and FDI, whereas liabilities include mostly other investments and FDI. External debt amounted to some 20 percent of GDP, of which about 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 FX reserves. Assessment. With CA deficits projected to continue in the medium term, the NIIP-to-GDP ratio is expected to weaken marginally. The moderate level of foreign liabilities reflects India's gradual approach to capital account liberalization, which has focused mostly on attracting FDI. India's external debt is moderate compared with other emerging market economies, but rollover risks remain elevated in the short term. </td></tr>
<tr><td>2018 (% GDP)</td><td>NIIP: –15.9</td><td>Gross Assets: 22.2</td><td colspan="2">Res. Assets: 14.5</td><td>Gross Liab.: 38.1</td><td>Debt Liab.: 18.3</td></tr>
<tr><td>Current Account</td><td colspan="6"> Background. The CA deficit increased to 2.1 percent of GDP in fiscal year 2018/19 from 1.8 percent of GDP in the previous year, due to rising oil import bill. The CAD is expected to narrow marginally to 2 percent of GDP in fiscal year 2019/20, on weaker domestic demand. Robust export growth continued, supported by partners' strengthening demand and rupee depreciation. Over the medium term, the CA deficit is expected to remain about 2½ percent of GDP. Assessment. The EBA cyclically adjusted CA deficit stood at 2.0 percent of GDP in fiscal year 2018/19. The EBA CA regression estimates a norm of –3.4 percent of GDP for India in fiscal year 2018/19, with a standard error of 1.4 percent, thus implying an EBA gap of 1.4 percent. In staff's judgment, a CA deficit of about 2½ percent of GDP is financeable over time. Based on India's historical cash flow and capital inflow restrictions, global financial markets cannot be counted on to reliably finance a CA deficit above 3 percent of GDP. FDI flows are not yet sufficient to cover protracted and large CA deficits; portfolio flows are volatile and susceptible to changes in global risk appetite, as demonstrated in the taper tantrum episode and again in fall 2018. Based on the staff-assessed CA norm, the CA is in line with fundamentals and desired policies, with a CA gap range from –0.5 to 1.5 percent of GDP. Positive policy contributions to the CA gap stem from a negative credit gap and a relatively closed capital account, partly offset by a larger-than-desirable domestic fiscal deficit and a large decline in FX reserves. Preliminary estimates suggest the 2019 assessment is likely to remain broadly in line with fundamentals and desirable policies. </td></tr>
<tr><td>2018 (% GDP)</td><td>Actual CA: –2.1</td><td>Cycl. Adj. CA: –2.0</td><td>EBA CA Norm: –3.4</td><td>EBA CA Gap: 1.4</td><td>Staff Adj.: –0.9</td><td>Staff CA Gap: 0.5</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6"> Background. The average REER in 2018 depreciated by about 3.8 percent from its 2017 average. As of May 2019, the rupee had appreciated by about 7.7 percent in real terms compared with the average REER in 2018. Assessment. The EBA REER Index and REER level models estimate a REER gap of 5.4 and 2.5 percent, respectively, for 2018. Meanwhile, the external stability approach estimates a REER gap of about –2.0 percent. Based on the staff-assessed CA gap, the REER gap is assessed to be in the range of –8 to 3 percent for fiscal year 2018/19.* </td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6"> Background. The sum of FDI, portfolio, and financial derivative flows on a net basis is estimated at 0.8 percent of GDP in fiscal year 2018/19, down from 2 percent in fiscal year 2017/18. Net FDI inflows remained unchanged at 1.3 percent of GDP in fiscal year 2018/19, despite investor-friendly reform efforts that could have attracted more investment. Bouts of both equity and debt outflows, especially in the spring and fall of 2018, brought net portfolio flows into negative territory (by 0.5 percent of GDP) in fiscal year 2018/19. Assessment. Yearly capital inflows are relatively small, but, given the modest scale of FDI, flows of portfolio and other investments are critical to finance the CA. As evidenced by the episodes of external pressures, portfolio debt flows have been volatile, and the exchange rate has been sensitive to these flows and changes in global risk aversion. Attracting more stable sources of financing is needed to reduce vulnerabilities. </td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6"> Background. The authorities responded to market pressure in fall 2018 with a combination of exchange rate flexibility and FX intervention. Spot foreign exchange sales were US$26 billion (1 percent of GDP) and net forwards decreased by US$31.5 billion in 2018. International reserves stood at $411.9 billion at end-March 2019, down by about $12.5 billion from March 2018. Reserve coverage currently is about 15.2 percent of GDP and about 6.7 months of prospective imports of goods and services. Assessment. Reserve levels are adequate for precautionary purposes relative to various criteria. International reserves represent about 155 percent of short-term debt and 149 percent of the IMF's composite metric. </td></tr>
<tr><td colspan="7">*The midpoint of the staff assessed REER gap is within the (± 5 percent) interval generally described as broadly in line with fundament</td></tr>
</table>

INTERNATIONAL MONETARY FUND

INDIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 17, 2019

Prepared By: Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of August 31, 2019)

Membership Status:

Joined December 27, 1945; Article VIII.

General Resources Account

	SDR Million	% Quota
Quota	13,114.40	100.00
Fund Holdings of Currency (Holdings Rate)	10,472.61	79.86
Reserve Tranche Position	2,643.21	20.16
Lending to the Fund		
New Arrangements to Borrow	290.71	

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	3,978.26	100.00
Holdings	1,046.31	26.30

Outstanding Purchases and Loans: None

Financial Arrangements:

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

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	6.84	27.05	27.02	27.04	27.04
Total	6.84	27.05	27.02	27.04	27.04

Exchange Rate Arrangement:

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

Article IV Consultation:

The previous Article IV consultation discussions were held in May 2018. The Staff Report (IMF Country Report No. 18/254) and associated Selected Issues (IMF Country Report No. 18/255) were discussed by the Executive Board on July 18, 2018.

FSAP Participation:

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

Capacity Development (Technical Assistance and Training):

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

Resident Representative:

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

INFORMATION ON THE ACTIVITIES OF OTHER IFIS

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

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

STATISTICAL ISSUES

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

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

3. **Price statistics:** A revised all-India Consumer Price Index (CPI) with new weights was released in early 2011, which covers combined rural and urban India, with 2009/10 as a base year. As well, separate corresponding urban and rural CPI series are published. The CPIs are published with a lag of about one month. In early 2015, the CPI weights were updated using 2011/12 expenditure data and the CPI series has been revised from January 2015. Since January 2006, the Labour Bureau has published a CPI for industrial workers with a 2001 base year. Presently, there also remain four CPIs, each based on the consumption basket of a narrow category of consumers (namely industrial workers, urban and non-manual employees, agricultural laborers, and rural laborers). With the exception of the industrial workers' CPI, these other indices are based on weights that are over ten years old. The WPI has been rebased to the 2011/12 base year. The authorities are in the process of developing a PPI to replace the WPI. A new RBI price series on residential property price indexes

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

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

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

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

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

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

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

India: Table of Common Indicators Required for Surveillance

(As of October 2, 2019)

	Date of latest observation	Date received	Frequency of Data 1/	Frequency of Reporting 1/	Frequency of Publication 1/
Exchange Rates	10/02/19	10/02/19	D	D	D
International reserve assets and reserve liabilities of the monetary authorities 2/	09/20/19	09/27/19	W	W	W
Reserve/base money	09/20/19	09/27/19	W	W	W
Broad money	09/13/19	09/27/19	BW	BW	BW
Central bank balance sheet	09/20/19	09/27/19	M	M	M
Consolidated balance sheet of the banking system	09/13/19	09/27/19	BW	BW	BW
Interest rates 3/	10/02/19	10/02/19	D	D	D
Consumer price index	August 2019	9/12/19	M	M	M
Revenue, expenditure, balance and composition of financing - General Government 4/ 5/ 6/	2018/19	09/30/19	A	A	A
Revenue, expenditure, balance and composition of financing - Central Government 4/ 5/ 7/	August 2019	10/01/19	M	M	M
Stocks of central government and central government-guaranteed debt 8/	June 2019	09/27/19	Q	Q	Q
External current account balance	Apr-Jun 2019	09/30/19	Q	Q	Q
Exports and imports of goods and services	August 2019	9/13/19	M	M	M
GDP/GNP	Apr-Jun 2019	8/30/19	Q	Q	Q
Gross external debt	June 2019	09/30/19	Q	Q	Q
International Investment Position	June 2019	09/30/19	Q	Q	Q

1/ Daily (D), Weekly (W), Biweekly (BW), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA)
2/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
3/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
4/ Foreign, domestic bank, and domestic nonbank financing.
5/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state governments.
6/ For the states, limited details regarding the provisional accounts for FY2018/19 are available. Data for a few states is missing.
7/ Details on central government expenditures for FY2018/19 and recent months is not yet available.
8/ Including currency and maturity composition.

Statement by the IMF Staff Representative
November 25, 2019

1. This statement contains information that has become available since the staff report was circulated. This information does not alter the thrust of the staff appraisal, but if the current trends were to continue, the growth projections for India in the Staff Report would likely be too optimistic.

2. Recent data releases suggest that the cyclical weakness of the Indian economy may be more pronounced and more prolonged than envisaged in staff projections:

- The staff report projects growth at 6.1 percent in FY2019/20 (April 2019-March 2020). As explained in the staff report, this is predicated on an acceleration of economic growth during the second half of the fiscal year (October-March) supported by the lagged effects of monetary policy easing, the recent reduction in corporate income tax rates, and government policies to support rural incomes and consumption.

- National accounts data for the July-September 2019 quarter will be released on November 29. However, available high-frequency data, including on industrial production, bank credit, and imports and exports, as well as data on sales and profits reported by listed companies indicate that growth remained weak during the quarter.

- Early indicators for the October-December 2019 quarter do not yet point to the onset of a cyclical recovery as envisaged in the staff report projections. The U.S. dollar-value of non-oil merchandise exports firmed, expanding by 1.4 percent in October (y/y), following a 2.2 percent contraction during the July-September quarter (y/y). However, the continued weakness of domestic demand was exemplified by the deceleration of core inflation (defined as CPI inflation excluding the categories food and beverages, and fuel and light) from 4.2 percent in September (y/y) to a multi-year low of 3.3 percent in October (y/y) as well as a continued weakness of non-oil imports. The U.S. dollar value of non-oil imports declined by 9.2 percent in October (y/y) compared to an 11.3 percent decline during the July-September quarter (y/y).

- The weakness of domestic demand, alongside the relative stability of international oil prices and continued portfolio inflows on global investors' increasing interest in emerging markets assets, have contributed to a further strengthening of India's balance of payments. Since the issuance of the staff report in mid-October, the Indian rupee/U.S. dollar exchange rate has moved within a narrow range and central bank gross reserves rose to a new record high of US$448 billion on November 8.

Statement by Surijit Bhalla, Executive Diretor for India, Rajan Goyal, Senior Advisor to the Executive Director, Thiruvenkadam Natrajan, Senior Advisor to the Executive Director, Petal Dhillon, Advisor to the Executive Director, and Bhupal Singh, Advisor to the Executive Director
November 25, 2019

Overview

We thank the IMF India Mission team for their constructive engagement with our authorities during their visit to India and their staff report. Key points in the staff report and the issues where staff and authorities have divergence in views have been highlighted in this BUFF statement.

India is the fastest-growing major economy in the world, notwithstanding the subdued expansion witnessed in recent quarters. Both the IMF and the Reserve Bank have projected India's GDP to grow at 6.1 percent in 2019-20 and WEO has projected growth to be at 7.0 percent in 2020-21 and to accelerate further in the subsequent years. We agree with the view that growth will be subdued this year, before recovering. The authorities have taken several growth-supporting measures including a series of policy rate reductions, a large cut in the corporate income tax rate, continued resolution of impaired assets of banking sector and bank recapitalization. These measures are expected to provide a boost to both investment and consumption. Further, India's continued commitment to fiscal discipline, a sound external position, liberalization of FDI inflows and enhanced emphasis on financial inclusion would provide a solid ground for sustaining robust growth in the years to come.

Headline consumer price inflation is projected to remain within or possibly below the Reserve Bank's target of 4 per cent during 2019-20. Past seven months (April-Oct) CPI inflation averaged only 3.5 per cent even though food prices seem to have emerged out of negative terrain. However, core CPI inflation has declined from 5.8 per cent in 2018-19 to 4.2 per cent in April-Oct 2019. Core WPI inflation (excluding food and fuels) has witnessed an even larger decline from 4.8 per cent in 2018-19 to 0.4 per cent during April-Oct. 2019. Sensing the policy space in terms of current and projected inflation being both below the inflation target and taking into consideration its assessment of subdued domestic growth and global slowdown, the RBI acted in a welcome forward-looking manner, by cutting policy rates starting February 2019.

Fiscal Issues

On the fiscal front, the authorities agree on medium-term fiscal consolidation and have emphasized on the progress made in recent years in the direction of reducing the fiscal deficit. We would like to suggest that a better way to analyse the fiscal position would be to look at the international norm of cyclically adjusted fiscal deficits i.e. a measure which takes account of the fact that, over the course of the business cycle, revenues are likely to be *lower* (and such items like social expenditures *higher*) at the trough of the cycle. Thus, a higher fiscal deficit cannot always be attributed to a loosening of the fiscal stance but may simply reflect the fact that the economy is moving into a trough.

The authorities have drawn attention to the fact that the path of fiscal consolidation is outlined in the Fiscal Responsibility and Budget Management (FRBM) Act. Underscoring the cyclical weakness in growth, the government has recently taken massive corporate tax reforms which include reduction in the corporate tax rate from 30 per cent to 22 per cent for existing companies and a reduction from 25 per cent to 15 per cent for fresh investments by new companies – the largest tax cut in a single year by any country, ever.

Taking note of the staff remarks regarding possible difficulty in achieving the budgeted revenue and fiscal deficit targets subsequent to the tax cuts, the authorities are of the view that streamlining the filing and refund mechanism of Goods and Services Tax (GST) along with digitization should enhance both compliance and collection. Corporate tax cuts are expected to not only spur economic activity but also to enhance compliance; both effects will tend to offset short-term revenue losses.

Personal income tax revenue has been buoyant in recent years with improved compliance and a widening of the tax base. In the first five years of the new government (2014/15 to 2018/19) there was a quantum leap of 69 percent in the number of personal income tax returns, a 46 percent increase in the number of firms filing returns and a sizeable increase in the direct tax to GDP ratio (from 5.6 per cent to 6.0 per cent). The overall tax to GDP ratio increased from 9.9 percent to 11.8 percent during the same period. A rationalisation of taxes for personal incomes, like corporate taxes, may provide sustained support to household consumption demand, and economic growth.

The authorities welcome the staff suggestion of targeting subsidy support by way of direct-benefit-transfer (DBT) beneficiaries as in the case of PM-KISAN support to small and marginal farmers (which was an out-of-the-box initiative of the government in December 2018; it has now been extended to all farmers). The authorities are committed to reforming benefit delivery systems by re-engineering the existing process to ensure accurate targeting of beneficiaries. Transfer of benefits has increased from about USD 1.2 billion in 2014-15 to USD 38.4 billion in 2018-19 - with an estimated gain of USD 20.2 billion due to rationalization of the quantum of benefits and removal of duplicate and/or bogus beneficiaries. Notably, the number of DBT beneficiaries expanded six-fold from 228 million to 1376 million during the same period, a tectonic shift in delivering sound social benefits with prudent economics. Thus, we must recognise that rather than looking at total subsidies, it would be more prudent to differentiate between subsidies with strong positive externalities and subsidies that have negative externalities (from perspective of welfare maximisation.)

Several profit-making public sector enterprises (PSEs), wherein majority stake is held by the government, adhere to corporate governance and operate on commercial principles in a manner similar to their counterparts in the private sector. Thus, borrowings by such enterprises do *not* crowd out private investment. In fact, a considerable part of the public sector borrowings go towards capital formation and, thus, to sustain productivity and economic growth. This aspect needs to be considered for a more appropriate assessment of the fiscal stance.

We agree with the staff view that banks' funding costs can be reduced by a pass through of changes in the policy rates to administered interest rates (e.g., on NSSF certificates). High administered interest rates impart rigidity to overall deposit and lending rates in the economy and keep the cost of capital higher than desired. By keeping the small-savings interest rates on par with rates of market instruments of comparable maturity, the cost of capital can be brought down in the economy. Contextually, the High-Level Advisory Group (2019) constituted by the Minister of Commerce and Industry, Government of India, has recommended that transmission of lower repo rates for consumers is hindered by the operation of interest rates on savings deposits schemes by the government (small savings, special interest rates for senior citizens, etc.) and has urged the need to revisit these schemes.

Monetary Policy

Staff has supported RBI's accommodating monetary stance – a cumulative reduction of 135 bps in the policy rate since February 2019. However, monetary transmission has remained staggered and inadequate. As against the cumulative policy repo rate reduction of 110 bps during February-August 2019, the weighted average lending rate (WALR) on fresh rupee loans of commercial banks declined by only 29 basis points. However, the WALR on outstanding rupee loans increased by 7 basis points during the same period. The authorities have been examining various policy options to improve monetary transmission. From 1st October 2019, banks are required to link their floating rate loans to external benchmarks. Further, RBI has planned a reduction in Statutory Liquidity Ratio (SLR) to 18 per cent by April 2020 to provide a larger space to private players in economic activity. These measures are expected to improve the transmission ahead and bring down the lending rates.

Various high frequency indicators suggest that domestic demand conditions have remained weak. The business expectations index of RBI's industrial outlook survey shows muted expansion in demand conditions in Q3 of 2019-20. The negative output gap in the economy has widened further. While the recent measures announced by the government are likely to help strengthen private consumption and spur private investment activity, intensified policy efforts will restore the growth momentum. As long as the RBI's projections of headline inflation affords comfort for its assigned objective of monetary policy to maintain price stability while keeping in mind the objective of growth, RBI can use available policy space by reinvigorating domestic demand. The staff has suggested that there could be room for additional easing.

External Issues

Authorities broadly agree with the staff's assessment of the external sector. External sector fundamentals remain robust. Staff observed that India follows a flexible exchange rate policy with two-way nature of market intervention. Government has further eased various capital flow management measures including raising limit on FPI investment in government securities, external commercial borrowings and automatic route for more sectors. As per the staff assessment, reserve cover held by RBI is adequate even in case of a sustained 30 per cent increase in oil prices. Notably, India's current account deficit remained well within the sustainable level estimated at about (-) 2.5 percent of GDP. Regarding the recent use of longer-term foreign exchange swaps, though the staff highlighted the balance sheet risks, authorities feel that the risks remain limited, given the size of the operations.

Financial Sector

Insolvency and Bankruptcy Code, 2016 (IBC) has proved to be a successful path for lenders to recover their loans from defaulting companies. According to the latest data published by the Insolvency and Bankruptcy Board of India, the recovery rate for the financial creditors in 158 cases resolved through IBC by September 2019 is 42 per cent compared with an average recovery rate of 26.5 per cent prior to IBC. The recovered amount is around twice the liquidation value for these 158 cases, which underscores the value maximization possible through the IBC process. Moreover, the revised guidelines on resolution of stressed assets reduce the reliance on court procedures and provide more flexibility for banks to design and implement resolution plans while providing disincentives for resolution delays.

Regarding the staff suggestion for legal changes to formally provide the RBI full supervisory powers over the public sector banks (PSBs), it may be noted that the RBI's supervision is ownership agnostic. Moreover, the Government of India has announced governance reforms for PSBs. The authorities do not at this stage consider the FSAP suggested legal changes as necessary.

Control of Corruption and Ease of Doing Business

In the staff report there is a discussion about corruption perception based on third party indicators. In our view, the discussion and analysis on corruption vis-à-vis similar size of economies in the BRICS and the G20 economies is overplayed. In contrast to the World Economic Forum (WEF) survey, as per the `Control of Corruption' index prepared by the World Bank, India has made significant (and unprecedented) progress since 2014. The percentile rank of India which was much below the world median in 2013 has now jumped to the world median value in 2018, an improvement of 13 ranks. This trend is going to be strongly reinforced in the coming years.

Similarly, if one goes by "The 2019 Edelman Trust Barometer" (Jan 20, 2019), India is among the most trusted nations globally when it comes to government, business, NGOs and media (https://www.edelman.com/trust-barometer). Further, as per the World Bank data, India has emerged as the top improver in the `Ease of Doing Business' for the fourth consecutive year (beginning 2016) among the 43 countries with GDP of US$ 300 billion or more. India has made a leapfrog jump in its rank in 'Ease of Doing Business' in a short span of time from 142 in 2014 to 63 in 2019. The World Bank has also acknowledged that this is a tremendous achievement, especially for an economy that is large and complex. Our authorities' focus is on further improving this trend.

There seems to be insufficient appreciation in the staff report on this very important economic reform undertaken by the authorities.

Further on Governance: The government has taken several legislative and administrative steps towards bringing about transparency in governance and improving the public service delivery mechanism. The government's steps for qualitatively improving governance include Aadhar - the national identity document; direct transfers of government subsidies to actual beneficiaries' bank accounts; linking MGNREGA (rural employment generation scheme) to infrastructure development; and digitization of land records. Demonetization of high value currency announced on November 8, 2016 was also aimed at addressing corruption, black money, counterfeit currency and terror financing. The Prevention of Corruption Act was amended in 2018 with the objective to punish corruption. The Government of India has also launched a Digital India Programme with a vision to transform India into a digitally empowered society and knowledge economy by digitally empowering its citizens, and providing seamlessly integrated public services and e-governance. The emphasis of the authorities has been on transparency, accountability and in-time delivery of services.

Employment and Rural Economy

As we show below, the staff's assessment of what has happened to employment and unemployment and gender quality is deficient in nuance. The latest Annual Survey of Industries (ASI) data clearly show that there was an average annual increase of 2.7 % (from 13.4 to 15.6 m) between 2011/12 and 2017/18, the two years with large scale employment surveys.

Estimates based on Employees' Provident Fund Organisation (EPFO) payroll data has also shown similar outcomes regarding job creation and formalization of the economy. As per EPFO payroll data released in October 2019 which is for the period September 2017- August 2019, there was a net addition of 12.4 million payroll subscribers (formal sector employment). During 2018-19, the net addition in payroll subscribers was 6.2 million.

The staff's observation on unemployment in India presents a very preliminary and incomplete assessment. We would have appreciated a granular analysis of the subject to present a comprehensive picture of the employment situation. Based on the Periodic Labour Force Survey (PLFS), using the principal status (permanent job definition) there was an increase of 8 million jobs between 2011/12 and 2017/18. We also find that there has been a significant shift from temporary to more durable employment and hence a greater formalization of the job market.

Also, there has been a notable jump in the educational level of the workforce, particularly for women, and this has an inverse correlation with employment status i.e.

a person cannot both be employed and be a full-time student – the two are mutually exclusive categories. Hence, a jump in education enrolment of women means a decline in the unadjusted LFPR (labor force participation rate). If the LFPR has been adjusted for education enrolment, then there is actually an increase in the female LFPR. For the education intensive age-group 15 to 24, the adjusted LFPR for women increases from 48 % in 2004-5 to near 60 % in 2017-18. In other words, nearly two-thirds of the young female population is either attending school or in the labor force. This reflects a strong inclusive growth process in India, something not adequately captured in the Report.

In order to improve the economic well-being of the rural population, the government has undertaken several initiatives. It launched a Pradhan Mantri Fasal Bima Yojana (PMFBY) with an aim of supporting sustainable production in agriculture sector by (i) providing financial support to farmers suffering crop loss/damage, (ii) stabilizing the income of farmers, (iii) encouraging farmers to adopt innovative and modern agricultural practices and (iv) to support improved flow of credit.

Infrastructure Reforms

Authorities fully agree with the staff recommendation about upgrading of infrastructure. With an aim to become 5 trillion dollar economy by 2024-25, government is proceeding with its plans to make US$ 1.4 trillion investment in infrastructure in the next 5-year period to give further impetus to national roads, highways, modernizing ports and creating air connectivity of small towns. These initiatives are aimed at improving logistics and reducing transportation costs so as to enhance competitiveness of domestic manufactured products.

Inclusive Growth

To ensure inclusive growth, authorities have implemented a series of welfare programmes that need appreciation given the unprecedented scale and intensity of these programmes. These include provision of access to toilets, clean cooking fuel, water, electricity, health, education, minimum income, and pension benefits to the rural/vulnerable sections of the population. India has achieved near 100 per cent open-defecation free environment, near 100 percent rural electrification, provided clean cooking gas to 70 million families via Liquified Petroleum Gas (LPG) connections, and steps are being taken to provide piped water supply to all rural households by 2024; and 50 million small and marginal farmers will receive pension benefits in the first three years of the new pension scheme.

Steps have been taken to implement more accessible and affordable health schemes whereby health cover has been provided to 107 million families belonging to the vulnerable sections of society. The unbanked population has been provided affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions under the government's flagship scheme called Pradhan Mantri Jan Dhan Yojana (PMJDY), which was launched in August 2014. As of 3rd July 2019, there were 192 million bank accounts under the scheme, which is an important step in the direction of inclusive growth.