

The contents of this document are preliminary and subject to change.

GRAY/21/2650

September 15, 2021

**Statement by Mr. Massourakis, Ms. Quagliarini, and Ms. Cerami on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for an insightful report and Mr. Bhalla and Mr. Goyal for their helpful Buff statement. The Indian economy suffered a severe contraction in 2020 due to the coronavirus pandemic, which hit the country at a time when growth was already weakening. Recent economic data suggest a strong rebound for this year and the next, on the back of a decisive policy response and the significant slowdown in contagion. Sustaining the current pace of vaccinations, maintaining policy support, and accelerating structural reforms will be key to ensuring a durable recovery and a more inclusive and sustainable growth, while keeping public debt vulnerabilities in check. We agree with the thrust of the staff appraisal and provide some additional remarks.

- **The current accommodative fiscal stance remains appropriate but a credible and clearly communicated medium-term fiscal consolidation strategy is needed for promoting a strong, inclusive, and green economic recovery, while ensuring debt sustainability.** Fiscal support has been instrumental in containing the economic impact of the pandemic and further support targeted to the most vulnerable remains critical. At the same time, a credible fiscal consolidation plan is needed to finance the large infrastructure, social, and green spending needs, while ensuring a sustainable debt path. To this end, we welcome the authorities' plan for improving expenditure efficiency and enhancing revenue mobilization, including through the privatization of public enterprises in non-strategic sectors. In addition, we underscore the importance of improving fiscal transparency and reporting practices, also through a stronger central-local coordination and a gradual transition to accrual accounting, as recommended by staff in the past. *Staff's progress report on the reform of fiscal reporting practices would be appreciated.*

- **The central bank's policy response has been effective but monetary policy transmission needs strengthening.** The Reserve Bank of India has provided substantial support through conventional and unconventional monetary measures. Enhanced forward guidance, in particular, has been key in reducing policy uncertainty and improving effectiveness, but inflation pressures from food price shocks and supply disruptions persist and require close monitoring. *The authorities have recently enacted important agriculture reforms to promote liberalization and boost productivity in the sector. Can staff provide a preliminary assessment of the impact of these reforms on food prices dynamics?* Furthermore, we agree with staff that there is scope for improving monetary transmission through the banking channel. This will require a determined continuation of implementing long-standing reforms on public sector banks governance and privatization, NPL resolution, and adequate capitalization, in line with the 2017 FSAP recommendations
- **Further efforts are urgently needed to reduce the gender gap and expand access to high-quality education.** We strongly welcome and support the authorities' measures to alleviate the impact of the pandemic on the poor and, more generally, their focus on inclusive growth. However, the pandemic has further widened gender and youth inequalities, most notably in health and education, which can have significant scarring effects. We, hence, call on the authorities to step up their efforts to provide better opportunities for the whole population, with the view of boosting potential growth.