

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

GRAY/21/2658

September 15, 2021

**Statement by Mr. Palotai, Mr. Azal, and Mr. Meizer on India  
(Preliminary)  
Executive Board Meeting  
September 17, 2021**

We thank staff for the insightful report and Mr. Bhalla and Mr. Goyal for their helpful Buff statement. While the Indian economy's recovery from the pandemic crisis has gathered pace in recent months, uncertainty surrounding the outlook remains elevated. To underpin the economic recovery, the authorities should continue to put a premium on accelerating vaccine rollout, providing targeted support to vulnerable groups, as well as on strengthening financial sector. Steadfast and extensive implementation of announced structural reforms is also critical to boost India's growth potential. We broadly agree with the thrust of the report and offer the following remarks for emphasis.

**Although India's recovery starts to take hold, maintaining supportive policies seems warranted in the near term.** We positively note that, India's vaccine rollout has started to catch up with the world average, and at least half of the population is estimated to be fully vaccinated by the end of this year. We call on the authorities to prioritize the acceleration of inoculation. At the same time, as the world's largest vaccine manufacturer, we appreciate the role India plays in fighting the pandemic globally. We positively note that high frequency indicators and revenue data suggest that the recovery is gaining momentum, with special attention to the recent rise of the service sector. These developments also demonstrate that the economy has started to adapt to a new environment, partly on the grounds of the relatively advanced use of digital technologies. Nevertheless, in order to mitigate the scarring effects of the pandemic, we also see merit in maintaining scaled-up support to vulnerable groups.

**Once the recovery is firmly entrenched, along with the gradual removal of exceptional policy support, the authorities will need to take further steps to reinforce their fiscal consolidation strategy in a growth-friendly way.** In this regard, both revenue mobilization through rate rationalization, and the universal use of the e-invoice system, among others, and greater expenditure efficiency could be key elements of the medium-term fiscal strategy. We also share staff's assessment that improved public financial management can enhance the

credibility of the authorities' fiscal anchor. The findings of the DSA also confirm that there is a need for a credible medium-term plan to ensure fiscal sustainability.

**While maintaining the accommodative monetary policy stance seems warranted at this juncture, elevated inflation pressures require close monitoring.** The RBI will need to stand ready to adjust its monetary policy stance, should inflation developments make it necessary. While we take note that inflation pressures have largely stemmed from food price shocks and supply chain disruptions, and some drivers of inflation can be transitory, the authorities need to prevent the potential de-anchoring of inflation expectations. We welcome the RBI's steps to ensure adequate systemic liquidity through various instruments. However, it is somewhat concerning that credit growth has remained subdued for a prolonged period, especially in the case of micro, small and medium-size enterprises, which have been hit particularly hard by the pandemic. *Can staff share their view on the effectiveness and transmission mechanism of the liquidity support facilities? Could staff also elaborate further on the current role and prospects of the government bond purchase program which was formally announced by the RBI only this spring?* Furthermore, we underscore the importance of ensuring adequate capitalization in the financial system and that particular attention should be given to the public sector banks at this juncture. We also encourage the authorities to take further steps to strengthen insolvency frameworks, including facilitating the exit of non-viable companies.

**Wide-ranging reforms are needed to promote structural transformation of the Indian economy. To this end, we welcome the authorities' commitment to press ahead with their reform agenda.** We particularly welcome the authorities' efforts to improve labor market functioning and promote formal employment. In order to steer the Indian economy towards inclusive and sustainable growth, priority should continue to be accorded to strengthening human capital and fighting poverty. *We note the difference of opinion between staff and the authorities around the progress made in tackling poverty. We would welcome additional information about to what extent the pandemic threatens hard-won social gains and about the related government programs targeting the most vulnerable.* On the basis of reducing trade barriers and boosting export competitiveness, we also see further scope for fostering India's integration into global value chains. *Given that the government's privatization agenda focusing on non-strategy sectors constitutes a significant shift from the past, we would also appreciate if staff could elaborate further on how this plan can support a structural acceleration of the economy, provided that India will be able to reap the benefits of the privatization. Relatedly, we would also be interested to learn more about the asset monetization plans, also considering that SOEs are a significant part of the economy.* In view of the comprehensive reform agenda, the authorities will also need to pay due attention to how to prioritize and sequence the structural measures.