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September 15, 2021

**Statement by Mr. Huh and Mr. Becker on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for their informative reports and Mr. Bhalla and Mr. Goyal for their helpful Buff statement.

The pandemic has had a profound impact on the economy and health outcomes for the population. As the government supports economic growth, prioritization of spending to update and expand health care infrastructure could also ensure a more sustainable recovery that is more inclusive and limits scarring. Amongst the poorer sections of society health care is also important in furthering basic human development. Production of vaccines is now an even more important sector, in which India has a comparative advantage in expanding further. While it will remain important to avoid bottle necks and continue to export vaccines, securing sufficient supply to inoculate the domestic population is also vital. Vaccination of 10 million people per day is an important accomplishment and we are encouraged by the momentum.

Ambitions for wide-ranging structural reforms should be carefully prioritized in the overall policy mix. Accessibility and flexibility in resource allocation is important as the economy not only has a large agricultural sector but also has urban pockets of manufacturing and provision of tertiary services. It is important to enshrine mobility of labor resources based on the most productive uses that will support the economic recovery and lift potential output. Caution should be applied to ensure that such reforms are inclusive, and also benefit the more disadvantaged segments of the workforce, such as youth, women, and lower socio-economic groups. Ensuring consistency with improving existing social safety nets is desirable and should have an inter-generational aspect by emphasizing improved education outcomes for all.

Medium-term fiscal consolidation, supported by both revenue and expenditure measures, is crucial for sustainable economic recovery and development. A clearly outlined plan to rebuild fiscal buffers should be carefully timed. While in the near term the response to the pandemic requires the budget to remain stimulatory, medium-term consolidation plans would help to build confidence about the debt outlook. Furthermore, given the high level of uncertainty, it is possible that future economic shocks require another round of policy action and it is prudent to ensure that such flexibility is available in the policy toolkit. Given that the main threat to debt sustainability is assessed to be low economic growth, it will be important to consolidate cautiously and in a well sequenced manner to limit any undesired spillovers.

Trade and investment liberalization are important. We share the staff view that more open trade and removal of tariffs on intermediate goods would assist economic growth and make the recovery more sustainable. Fostering closer integration into global supply chains can be a productive way to encourage growth and boost potential output but also carries some risks. As we have seen during the pandemic, disruptions to the supply chain can have important downstream effects that can be difficult to manage. We therefore encourage the authorities to carefully consider how to best manage such integration and ensure that there is no over-reliance on upstream suppliers that would disrupt domestic production in the event of an unforeseen shock.

Financial sector policies have been supportive during the pandemic and ensured that sufficient liquidity buffers are available. The Reserve Bank of India should continue to carefully monitor markets and financial institutions. This will be more important as some stimulus is eventually wound back and non-performing loans begin to crystalize. While we note that foreign exchange reserves have risen notably and intervention takes place on both sides of the market, we share the staff view that a market-determined exchange rate is appropriate and serves as an important adjustment mechanism. Furthermore, market depth and liquidity tend to be adversely affected when frequent intervention creates uncertainty for market participants.