

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

GRAY/21/2652

September 15, 2021

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

We thank staff for their informative report and Mr. Bhalla and Mr. Goyal for their insightful BUFF statement. Two severe COVID-19 waves have resulted in a deep economic downturn in India, with the outlook for domestic private demand remaining subdued and uncertain. Despite the authorities' significant efforts to mitigate the impact on the most vulnerable, we are concerned that gaps in the social safety net, school closures, and limited access to credit have put a great strain on the poorest and adversely impacted poverty and inequality. We agree with staff that still supportive fiscal and financial policies, together with the implementation of planned structural reforms, will be important to support the recovery and prevent a longer lasting impact of the pandemic. We broadly support the assessments in the report and would like to offer the following remarks for emphasis.

Further policy measures are needed to ensure continued progress in human development. We welcome the authorities' significant efforts to combat the poverty increase resulting from the pandemic, including expanding income support, but are concerned that support to migrants, informal workers, and the urban poor has faced challenges with sufficient coverage. Moreover, as staff notes, poor and rural households, with limited resources for online learning, have likely been affected the most by the extensive school closures, and we are worried about the large and long-lasting effects on human capital and inequality. We agree with staff that the authorities could do more to facilitate an inclusive and strong recovery, including by allocating additional fiscal resources to enhanced social protection, health, and education. Sustained support for students to make up for lost in-person learning time will be critical to improve education outcomes, and we welcome the authorities' commitments to this end.

Enhanced revenue mobilization and implementation of the privatization agenda will be important to finance priority expenditure. We agree with staff that policy space for priority spending can be enhanced through a medium-term fiscal consolidation strategy anchored on stronger revenue mobilization and increased expenditure efficiency. The authorities have already made notable progress to enhance tax efficiency through the introduction of mandatory e-invoicing in GST,

and we encourage the authorities to take further steps to reduce tax gaps as the recovery takes hold. The recently announced privatization agenda is also commendable and can lead to significant improvements of the public sector balance sheet if implemented successfully. Moreover, we welcome the announcement of the National Monetization Pipeline (NMP) in August, aimed at monetizing the government's brownfield infrastructure. While we understand that the additional revenues will be used for new infrastructure spending rather than fiscal consolidation, we find the strategy to map infrastructure priorities with the funding side encouraging and well aligned with the government's ambition to kick-start capital expenditure. *Staff's assessment of the NMP and the government's target to lease government assets of around INR6 trillion is welcome.*

We are concerned that dried credit channels threaten the existence of viable small businesses. While we agree that policies to facilitate the exit of non-viable firms are warranted, efforts to ensure targeted support to viable corporates, particularly MSMEs, should continue. We note that MSMEs have been hit particularly hard during the pandemic, partly due to limited access to credit, and we encourage the authorities to look closer at the design of the credit guarantee scheme and to consider additional targeted support to firms in vulnerable sectors. MSMEs are a major source for employment in India and ensuring that viable small businesses can access credit and serve their debts during the pandemic will be crucial to protect an important engine for poverty reduction and to prevent that years of gains in financial inclusion is lost.

The RBI should closely monitor elevated inflation pressures. The accommodative monetary policy stance has been important to mitigate the COVID-19 shocks in India, and while the subdued growth outlook calls for continued monetary policy support, recent inflation developments are making the growth-inflation trade off increasingly difficult. As staff notes, the elevated core inflation is driven by broad-based price pressures, and there are significant upside risks from higher global commodity prices and rising input costs. With inflation expectations building, we are concerned that inflation is getting increasingly entrenched even if the current drivers are mainly supply-side in nature. We encourage the RBI to carefully monitor inflation developments and to provide transparent and forward-looking communication to help guide policy normalization and reinforce market confidence.

Implementation of announced reforms and liberalization of trade policies are key for medium-term growth. We welcome announcements of important reforms in the labor market, agricultural sector, and FDI regulation during the pandemic and, while we regret staff's assessment that several reforms face implementation challenges, we take positive note of the authorities' view that strong political and public support for the reforms remains. We encourage the authorities to step-up implementation efforts, while carefully considering the sequencing of reforms and mitigating any adverse impacts on the most vulnerable. Moreover, we agree with staff that India should work actively with other major nations to conclude new WTO-based trade agreements and seek to remove the unnecessary uncertainties caused by frequent change to trade policies and tariffs. We also support staff's view that lower tariffs on intermediate goods could help lift the competitiveness of key export sectors and support the government's objective to increase global value chain integration.