



Executive Board Minutes 21/92-1

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India—2021 Article IV Consultation

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Staff: Schipke, APD; Ilyina, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the recent economic recovery and noted that India is projected to be one of the fastest growing major economies for this year and beyond. Directors commended the authorities' response to the pandemic which includes scaled-up support to vulnerable groups, monetary policy easing and liquidity provision, accommodative financial sector and regulatory policies, and continued structural reforms. Directors encouraged the authorities to maintain the scaled-up vaccination momentum, continue with policy accommodation until the recovery is fully entrenched, and accelerate structural reforms to achieve a more inclusive and sustainable growth, while keeping public debt vulnerabilities in check.

Directors agreed that addressing the health crisis remains a near-term policy priority. In that context, they welcomed the recent increase in vaccinations. They also positively noted India's contributions to the global fight against the pandemic as a vaccine producer.

Directors indicated that further fiscal support underpinned by targeted spending on social protection, employment support and health spending is warranted until the recovery is secure. They encouraged the authorities to increase public expenditure in infrastructure, education, health, and social safety nets which can also help achieve the Sustainable Development Goals and boost potential growth. Fiscal space can be enhanced through a credible and clearly communicated medium-term fiscal consolidation strategy, enhancements in expenditure efficiency, improved public financial management and revenue enhancing measures, as well as the privatization agenda.

Directors agreed that maintaining accommodative monetary policy remains appropriate, although elevated inflation pressures need to be closely monitored. Looking ahead, a well-communicated plan for a gradual reduction in monetary policy support as the recovery strengthens would foster orderly market transitions.

Directors also welcomed the authorities' commitment to maintain exchange rate flexibility, which can serve as the main shock absorber, with foreign exchange interventions limited to addressing disorderly market conditions.

Directors agreed that financial sector policies have moderated the adverse impact of the pandemic. While targeted support to viable corporates should continue, they indicated that policies facilitating the exit of non-viable firms are also warranted. Directors observed that ensuring adequate bank capitalization and effective NPL resolution will enable the financial system to further increase its resilience and better support the recovery.

Directors commended the authorities for advancing structural reforms despite the pandemic and stressed the need for their steadfast implementation. Long-standing reform priorities include ongoing labor and land reforms, infrastructure investment, improvements in governance, continued trade and investment liberalization, and improving education outcomes. Such reforms would not only help maximize India's long-term growth and demographic dividend, but also help alleviate poverty and inequality, and deepen the

country's integration into global value chains. India's progress toward transitioning to a greener and more inclusive economy is welcome.

It is expected that the next Article IV consultation with India will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE²

A. Sayeh, Acting Chair

Executive Directors

I. Mannathoko (AE)

S. Chodos (AG)

C. Huh (AP)

A. Bevilaqua (BR)

Z. Jin (CC)

P. Moreno (CE)

J. Stephan (GR)

S. Bhalla (IN)

H. Hosseini (MD)

M. Mahmoud (MI)

P. Hilbers (NE)

M. Poso (NO)

A. Mozhin (RU)

R. Lim (ST)

P. Trabinski (SZ)

S. Riach (UK)

Alternate Executive Directors

Bah, R. (AF), Temporary

R. Cunningham (CO), Temporary

H. Azal (EC)

D. de Waziers (FF), Temporary

M. Massourakis (IT)

M. Kashima (JA)

H. Saeed (SA), Temporary

B. Commaroto-Roverini (US), Temporary

K. Hviding, Acting Secretary

E. Tsounta, Summing Up Officer

A. Lalor, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: R. Agarwal, F. Ahmed, E. Arbatli, L. Breuer Mojoli, N. Choueiri, P. Deb, A. Gulde, C. Rhee, K. Rivas, A. Schipke, N. Singh, J. Turunen, T. Xu.
 Communications Department: A. Kumar, T. Yan. Institute for Capacity Development:

² For countries in each constituency, please see the Constituency Codes in the annex.

P. Cashin. Legal Department: F. Fernando, N. Rendak, N. Stetsenko. Monetary and Capital Markets Department: U. Das. Research Department: M. MacDonald, K. Smuts, D. Unsal Portillo Ocando. Strategy, Policy, and Review Department: M. Binici, A. Ilyina, L. Medina, H. Ward. World Bank Group: J. Ahmad, A. Arnold, P. Illangovan. Executive Director: A. Andrianarivelo (AF), A. Buisse (FF), D. Palotai (EC), E. Shortino (US). Alternate Executive Director: B. Alhomaly (SA), A. Alhosani (MI), M. El Qorchi (MD), A. Guerra (CE), Y. Indraratna (IN), C. Just (EC), F. Mochtar (ST), R. N'Sonde (AF), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), C. Roman (FF), J. Romero (CE), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), R. Goyal (IN), B. Lischinsky (AG), R. Mahabir (BR), M. Maldi (AE), Son T. Nghiem (ST), C. Quaglierini (IT), J. Rojas (CE), C. Sassanpour (MD), N. Thiruvankadam (IN), R. Velloso (BR), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Gonaya Basutli (AE), C. Becker (AP), I. Bustillo (AG), L. Cerami (IT), J. Corvalan (AG), S. Dash (IN), D. Fadhel (MI), D. Hamzah (MI), V. Lankester Campos (CE), G. Meizer (EC), M. Merhi (MI), D. Milutinovic (NE), R. Moral Betere (CE), L. Nankunda (AF), I. Ogihara (JA), B. Piasecki (SZ), D. Shestakov (RU), B. Singh (IN), B. Slettvag (NO), A. Tola (SZ), M. Law (CC), F. Lopez (CE), J. Freeman (UK).

DISCUSSION RECORD³

The Acting Chair (Ms. Sayeh):

Let us take a moment to recall how the pandemic has impacted so many lives both globally and, of course, in India. We note that COVID-19 has created a prolonged health crisis and major social and economic implications in India. The authorities have responded quickly with significant policy measures and structural reforms.

One area the Article IV discussions focused on was on the need to continue a coordinated policy response to fight the impact of the pandemic, including through additional fiscal support and accommodative monetary policy until the recovery is fully entrenched. Policies need to support a strong, inclusive, and green recovery. Here, the discussions about the need for a medium-term fiscal consolidation strategy that outlines the degree of policy support and revenue-enhancing measures were, indeed, fruitful.

Another area of focus was financial sector and regulatory policies that should continue to support the recovery and increase the sector's resilience while allowing nonviable firms to exit. Discussions also covered announced structural reforms to foster India's growth potential, as well as climate change.

Mr. Bhalla:

On behalf of the authorities and ourselves, I want to compliment and thank the staff for the highly congenial, cooperative, and collaborative manner in which the Article IV proceedings have been conducted. I also want to thank my Executive Director colleagues for their astute comments on the report and the buff statement and for their near universal support of the structural reforms undertaken by the authorities and support for the large income support provided by authorities, especially to the poorer two-thirds of the population.

The last 18 months have been a trying and testing period for all of humanity. We all sincerely wish that such a catastrophic event, COVID-19, will never be faced by man, humankind, ever. Because it was such an unprecedented event for all of us, it has also been a tremendous learning experience, experience where the old perspectives and tools of analysis were not completely transferrable. I want to dwell on this learning experience on two important issues that were raised in the report and by the Executive

³ Edited for clarity.

Directors, issues which, as economists I want to say, were mostly in uncharted territory.

Unprecedented fiscal support was provided in every country, and our institution took the lead in providing information on a realtime basis for all the countries. The Fiscal Policy Tracker was a gem of an idea and one appreciated by all. Possibly because of the newness and fast pace of events, we as analysts have not fully appreciated the complexity of all that happened and the need for a deeper dive into the data.

Poverty is a concern in all countries of the world, advanced and developing, and to adjust for relative incomes, absolute poverty lines are also higher in richer countries. Analysis of poverty trends in the pandemic world is instructive. As others have pointed out, the raw data on household income would suggest that poverty increased in the US from 10.5 percent in the pre-pandemic 2019 to 11.8 percent in pandemic 2020. However, after accounting for government benefits, such as stimulus checks, food stamps, and tax credits, absolute poverty in the US is estimated to have declined from 11.8 to 9.1 percent. Regrettably, the staff has not made a parallel correction for Indian data. Not taking the policy support led them to conclude that absolute poverty had increased in India. The IMF assumes that all individuals were affected equally by the 8 1/2 percent per capita GDP decline. However, as noted in our buff statement, targeting was extensive, and food, employment, and income support was given to the needy, which many of the Executive Directors have also noted.

Fiscal support is estimated to have increased incomes of the extreme poor by 15 to 20 percent, much larger than the 8.5 percent decline assumed by the staff. Thus, extreme poverty, rather than increasing from 1.9 percent in 2019 to 3.9 percent in 2020, most likely stayed the same or declined, as in the US.

My second point, our example, relates to the point about the relative deprivation of vaccines to the women in India, a most noted and commented upon subject by the Directors. The figures cited in the report is a high 17 percent. In the update, this 17 percent deficiency has been revised downward to 10 percent. Actually, the correct number, or the correct demographically adjusted number, is a vaccine deficiency of only 8 percent in mid-July, and adjusting for the same, as of now, the vaccine deficiency in India, adjusting again for the demographic data, is a rather low 4 percent.

In the US, one has the opposite but identical problem. Ten percent more women have been vaccinated in the US than men. However, there are 4 percent more women in the US in the age group 19 and above, the people who were the first to get vaccinated. Hence, only 6 percent less men in the US have been vaccinated. Further, there is greater vaccine hesitancy among men than women. A correct interpretation for both US and India that we have to be considerably more careful in the use of, quote-unquote, new data.

The above example suggests a need for deeper analysis of important and sensitive policy issues. I welcome and look forward to the discussion on the Article IV on India, a report that provides considerable food for thought.

The staff representative from the Asia and Pacific Department (Mr. Schipke):

I only have one additional point that I wanted to make for emphasis. We have submitted our responses in the form of a written response, but a lot of Directors were very interested in our discussion on climate change during the Article IV. Here, I am very happy to report that I think for the first time we had comprehensive discussions with the Ministry of Environment, Forestry and Health, with essentially the RBI, and the Ministry of Finance on this issue. The discussions of the Article IV in July took place at the height of the pandemic, so we decided collectively to start the engagement on these issues going forward; and maybe for one's own consideration, at the staff level we put together a draft working paper that looks at certain considerations for India to move toward carbon neutrality, and hopefully that will be distributed soon, and we have had some initial discussions with the authorities and also with the Executive Director on this.

Mr. Buisse:

We issued a gray statement, and I agree with the thrust of the staff appraisal, so I will focus my remarks on only a few points.

First, India has been hit hard by two severe waves of the pandemic, and we commend the authorities for their strong and decisive policy response. In the context of elevated domestic and global uncertainties, we concur with staff that maintaining supportive policy seems warranted in the near-term. We take positive note of the improvements in the latest high frequency economic indicators and the acceleration in India's vaccine rollout, and I listened very carefully to Mr. Bhalla's explanation on the gender gap in the vaccination process.

Second, as many other countries, the COVID crisis has adversely impacted poverty and inequality. We welcome the authorities' significant efforts to mitigate the impact on the most vulnerable, and we encourage further reforms to prevent a longer lasting impact of the pandemic and to boost potential growth. We encourage the authorities to use the recovery to further enhance social safety nets, invest in health infrastructure, improve access to education and labor force participation, particularly for women, and for those in the informal sector. Like Ms. Riach in her gray statement, we believe that reforms to create more and better jobs will help India to maximize the benefit of its strong demographic capital.

Third, we commend the authorities' commitment to fiscal consolidation over the medium-term, which calls for credible and clear communication, supported by enhanced revenue mobilization and implementation of the privatization agenda.

Fourth, considering past financial weaknesses of the banking and financial sector, we strongly encourage strengthening monetary policy transmission and financial stability to support the recovery. Closely monitoring the asset quality, building capital buffers to mitigate the credit risk, and pursuing longstanding reform in line with past FSAP recommendations will be crucial. We would appreciate staff's assessment on India's implementation of the last FSAP recommendations.

Finally, we commend the authorities for their commitment to advance the important reforms in the labor market, agricultural sector, and FDI regulation, and to implement a strong reform agenda despite implementation challenges. We encourage further steps in trade and investment liberalization, strengthening the financial sector, and investing in sustainable infrastructure, and climate resilience.

I fully understand Mr. Schipke's argument on the timing of the mission in the midst of the second wave, but we encourage close collaboration between the authorities and staff for further progress and for more extensive coverage of India's climate-related policies in future staff reports, and I am very much encouraged by what Mr. Schipke said in his introductory remarks.

Ms. Kashima:

We issued a gray statement and broadly agree with staff's appraisal and would like to offer the following remarks for emphasis.

First, we welcome the authorities' broad range of measures to tackle the pandemic, including the recent acceleration of vaccine rollouts. Thanks to such efforts, infection cases have dramatically gone down and recent data shows the economy picking up with industrial production and investment leading the recovery. However, recovery is divergent among sectors, and uncertainty lingers, including new variants in the face of vaccine rollout. We commend the authorities for the decisive measures to support the most vulnerable through food and gas assistance, cash transfers, and expansion of social protection through the effective use of the digital ID network and the one-nation-one-card. We agree that vaccination and efforts to fight the health crisis remains a top priority to mitigate the impact on poverty and scarring of human capital.

Second, as the pandemic subsides, fiscal policy should become more targeted and shift towards raising potential growth. A credible medium-term consolidation plan, fiscal transparency, and proper communication will be essential to reinforce market confidence and lower financing costs. We welcome the authorities' efforts, including next year's budget midterm projections and the revised Fiscal Responsibility and Budget Management Act (FRBM).

In line with their large share in the economy, SOE reforms will also be key, and we welcome the privatization and asset monetization plans, which can also support structural acceleration in key economic sectors.

Third, we welcome that accommodative monetary policy and borrower relief measures have appropriately supported the economy and agree that the accommodative monetary policy stance seem warranted in the face of unprecedented uncertainty. However, the authorities should remain vigilant in light of inflationary pressures and elevated inflation expectations. Targeted support to viable firms in vulnerable sectors and small- and medium-sized enterprises (SMEs) will continue to be essential. However, as support measures expire non-performing loans (NPLs) could further increase. We encourage the authorities to closely monitor developments and to take action as necessary, including through bank recapitalization, the newly established asset reconstruction company, and privatization and governance reforms of PSBs.

Lastly, we welcome that the authorities have advanced various structural reforms, including during the pandemic. Given the risk of scarring, it is essential that sufficient resource is allocated to improve access to education. We welcome the broad range of labor market reforms which will

come into effect next month, and expect such reforms coupled with strengthening of social safety nets will ensure a long-term, sustainable, and inclusive growth. Measures to facilitate trade and foreign direct investment (FDI) will be key to deepen India's integration in global value chains, and we welcome the important steps already taken on this front. We also welcome that a working paper on implications on climate change for India is being prepared.

Mr. Hosseini:

We have cosigned a comprehensive joint gray statement with Mr. Mohieldin and Mr. Alhomaly, so I will limit myself to the following remarks for added emphasis.

First, we commend the Indian authorities for the robust and strong policy response to help economic and social challenge caused by the pandemic. Needless to say, addressing the health issue, overcoming the pandemic, and saving lives remain the highest priority. India has an important role globally in the fight against the virus in its role as a major producer and exporter of vaccines. We welcome the pickup in vaccine production after overcoming the initial supply chain bottlenecks. We are also encouraged by the authorities' progress in vaccination rates and urge them to overcome gender disparities in vaccination. We welcome the current progress on this front.

Second, we agree with staff's assessment of the appropriateness of continued targeted policy in the short-term to support the recovery and protect the vulnerable groups. The economic rebound, in fact, is very impressive, as confirmed by recent data, but the socioeconomic impacts of pandemic are far from over, especially for the vulnerable groups, including migrants, workers in the informal sector, and urban poor. Going forward, adequate and wide-ranging social safety nets should be factored in fiscal plans, investment in health and education, and including the vulnerable groups that would also have high returns in the longer-term.

Third, while closely monitoring inflationary pressures, continued accommodative monetary policy would be warranted to maintain market liquidity and support the viable firms in vulnerable sectors.

Fourth, we welcome the authorities' strong commitment to structural reform, including in labor market and agriculture, to maximize India's growth

prospects, its economy's competitiveness, and its integration in the global value chain.

Mr. Stephan:

We broadly concur with staff conclusions and recommendations. India has been hit in the middle of an economic slowdown while it was also hit by this COVID shock, and we think that the authorities' economic response has really softened the impact and contributed to an ongoing gradual recovery, so we wish the authorities continued success in this endeavor.

On the other hand, we also share staff's concern about the risk of a more persistent crisis impact, which would strain India's medium-term growth; and in this regard, we think it is important to boost high-quality public investment as part of a multiyear strategy, and at the same time a credible fiscal consolidation is of the essence. In the area of fiscal policy, we would like to commend the authorities for the efforts to increase fiscal transparency. We also take positive note of the privatization drive and the newly created National Monetization Pipeline (NMP).

In line with staff, we also emphasize the overarching importance of structural reforms and encourage the authorities to creep up the momentum. We also see that the labor market reforms are of particular importance with regard to labor force participation. This has been trending down for a while, in particular for female participation. We think it might be worthwhile to look into the reasons for it. We also welcome the authorities' attention to macrocriticality of climate change, as well as the respective advice in the staff report.

Finally, I would like to conclude with emphasizing to the lower trade tariffs on intermediate goods as a facilitator to higher export activity because exports have turned out to be an important growth engine.

Mr. Chodos:

We issued a gray statement, which is very much substantive, so I wanted to make a couple of points for emphasis and general reflections.

The first one is I think that we should all commend India, not only for their surprising coming out from the pandemic, but also continued growth during the years. We have to take stock of the fact that India's growth has consistently put India in a path to another entity rather than emerging

economy as one of the major growths and powerhouses of the world and see if we can learn the lessons of such important level of growth and continued growth.

In fact, one of the elements that I think is critical to this is, and one of the lessons, is I think that the focus on the fiscal consolidation being underlined in the income side, and I think that that goes to understanding the dynamics of growth, understanding that the fiscal consolidation should focus on income rather than expenditures. And that goes also together with the fact that the focus is on infrastructure and boosting of domestic industry. So that is not just a random choice of alternatives. That is understanding the dynamics of sustainable growth and understanding where lies the key features. So, for me it is a natural decision, the focusing on income, and a natural decision focusing on the infrastructure as a powerhouse and the kind of mortar of the whole dynamic of growth and domestic industries. I think the authorities deserve a lot of credit on that.

Also, I was thinking on the remarks by Mr. Bhalla pertaining to the fact of how income GDP, GDP per capita, is not necessarily related to an even distribution of that income and how that could affect that the lower levels of society are even more hit, and while we have the perception of continued growth, actually there could be a decline there. What Mr. Stephan just mentioned I think is also related, which is the female participation. Of course, female participation is going to decline in the workforce if there is an increased trend in inequality. And, of course, if we correct and we improve the Gini, that would have a natural effect on female participation because that is at the core of societal inequalities. I think that these concerns show us that it is not only the cold numbers we have to think, but it is people after the numbers, and the granularity of information is critical to understand the right policies for each decile of the population in order to have continued and sustained growth but an equal sustained growth that would support all members of society.

Ms. Bah:

We also appreciate Mr. Bhalla's buff statement and introductory remarks, especially his informative remarks on gender disparity in the vaccine rollout. We have issued a gray statement in which we share staff advice and assessment and would limit ourselves to a few remarks.

First, like other Directors, we note that downside risks related to the evolution of the pandemic remain high. However, we praise the authorities for

the effective response to the health crisis within India, as well as in partner countries for Africa and other parts of the world. The rise in production of COVID-19 vaccines and the higher inoculation rate among the Indian population is giving hopes in low-income countries for a faster resumption of vaccine exports.

Second, we agree that fiscal policies should remain supportive until the recovery takes hold and should be followed by a gradual fiscal consolidation. To this end, we welcome the authorities' commitment to medium-term fiscal strategy, which should be supported by strong revenue mobilization and more efficiency in public spending.

Last, we commend the authorities for their efforts to advance reform agenda and for the ambitious privatization program. We also encourage them to enhance public expenditure in infrastructure, education, health, and social safety nets to achieve the Sustainable Development Goals and promote more inclusive growth in a greener economy.

Ms. Cunningham:

We have issued a gray statement, and we broadly agree with staff's assessment, so I will be brief.

We applaud the authorities' efforts to mitigate poverty and expand coverage of social benefits to disadvantaged groups during the pandemic. While further policy support may be needed in the near-term, a credible medium-term plan for fiscal consolidation is also needed, and as in other countries, inflation risks also bear close monitoring by the central bank.

We share staff's concerns over vulnerabilities in the financial sector, notably the public banks. We do note that authorities are taking measures to address financial vulnerabilities. We encourage them to continue advancing financial reforms since strengthening the financial sector is important for India's potential growth. We agree with some of the other speakers and gray statements that more detail on the implementation of the 2018 FSAP recommendations would be helpful.

India's recovery and financial stability could be impacted by tighter global financial conditions or price volatility, as noted in the report. We agree with staff that the exchange rate should be the primary shock absorber for these and other external shocks. We commend India's continued progress on structural reforms, even during the pandemic. We also welcome their

initiatives to reduce emissions and support greener growth. As several others have suggested, the next Article IV could include more coverage of green growth and climate issues, and we look forward to the staff report on this that was mentioned earlier.

Overall, we wish the authorities and people of India every success in their recovery from the pandemic and in their reform efforts. I will stop there.

Mr. Hilbers:

I would like to first express my deepest sympathies to the Indian people and authorities for the devastating effects they endured during the COVID-19 pandemic. On a related note, we commend the authorities for their broad policy package that mitigated the pandemic's harmful economic effects. We issued a gray statement, so I will only make three brief points for emphasis this morning.

First, it is important to find a balance between continued policy support and fiscal sustainability. Too-early withdrawal of targeted support, especially to the most vulnerable groups and SMEs, would be severely detrimental to the socioeconomic perspective. However, elevated public debt levels and a negative outlook call for a clearer medium-term fiscal consolidation, as staff appropriately suggests. While maintaining policy support and consolidating public finances is challenging, further mobilization of tax revenues and improved tax collection provide a window of opportunity for rebuilding fiscal buffers and financing additional prioritized spending.

Second, advancing structural reforms is crucial for more sustainable and inclusive growth. Accelerating the implementation of reforms to enhance education outcomes, increase social protection and healthcare coverage, liberalize trade, and improve the business climate, would limit scarring and support India's rapid development progress.

Finally, we commend the authorities for their ambitious green transition agenda. We stress the commitment to climate change adaptation policies, especially the investment in renewables, yields threefold benefits to India. It addresses climate-related risks; it improves health outcomes by reducing local air pollution, and it speeds up the recovery. We appreciate Mr. Schipke's point on climate that he made in his introductory comments. On that note, we would like to see India's climate-related policies more extensively covered in future Article IV reports, as also highlighted by Mr. Buisse and other colleagues.

Mr. Poso:

We have issued a comprehensive gray statement, so I will limit my intervention to two points.

First, like others, we noted the different views of staff and the authorities regarding poverty trends and the support provided by the government and found staff's written answers on this issue very informative. It is clear that the authorities have made commendable and significant efforts to support the most vulnerable throughout the pandemic, but with relatively low initial levels of social spending, the complex and largely informal economy, and a myriad of social protection schemes, gaps in coverage have been hard to avoid. With school closures and the dire situation for micro, small and medium enterprises (MSMEs) also weighing heavily on the poorest, we are concerned about the socioeconomic impact of the pandemic and agree with staff that there is a case for additional fiscal support targeted on social protection, education, and health spending. Such spending should not only support spending and economic activity in the short-term but also aim at improving the Indian welfare state and boost potential growth drawing on the lessons from the pandemic. Moving to a more integrated system of social safety nets is a welcome initiative in this regard.

Second, like Mr. Hilbers, we welcome India's progress toward its Paris Agreement targets and the large-scale investments in renewables, energy storage technologies, and climate change adaptation. We agree with Mr. Mozhin in his gray that this makes India well positioned to take advantage of the growing global demand for green tech but also share Ms. Riach's view that more could be done to mobilize private financing for climate investment. We note from staff's written answers and Mr. Schipke's remarks today, that India is on track to meet its ambitious target for renewable capacity next year and would appreciate more information from staff on the progress of the clean energy transition, including the potential for use of carbon pricing or reduction of fuel subsidies.

Mr. Azal:

In view of our detailed gray statement, I will be brief and would like to add the following points.

First, we take positive note that the high frequency indicators point to a robust recovery, and a recent significant pickup in the vaccination is also

encouraging. Nevertheless, to protect hard-won social gains and limit lasting scars of the pandemic, I also agree with Ms. Shortino and Mr. Massourakis and others on the importance of maintaining targeted support to the most vulnerable. Scaling up cash and food assistance to preexisting programs, as well as new measures, such as the implementation of the one-nation-one-card policy, and the greater use of digital platforms have been critical.

We share that a deeper analysis of the socioeconomic effects of the COVID shock would be helpful to support the further calibration of key development policies, and like Mr. Chodos, we also echo Mr. Bhalla's buff statement, according to which careful assessment is required to comprehend the economic dynamics in fast-evolving emerging markets.

While we welcome that the authorities took important steps in improving the coverage of budget data, we also recognize staff's call for further improving PFM and public procurement. We also take positive note that the authorities put a premium on ramping up investment on the growth of the national infrastructure pipeline. We encourage authorities to accelerate efficiency gains and productivity and to move forward with labor market reforms, facilitating trade and foreign direct investment (FDI), strengthening the financial sector, and enhancing public financial management (PFM). We thank staff for providing further insights into the asset monetization of privatization plans, which envision significant undertakings and will fundamentally determine the future growth trajectory of the Indian economy. We also welcome the authorities' commitment to stimulate the shift to renewable energy.

Mr. Massourakis:

We issued a gray statement, so I wish to provide a few additional remarks on structural reform.

Let me start by noting that India had embarked on an ambitious structural reform agenda prior to the pandemic. The authorities deserve every credit for carrying forward even during the pandemic. Having said that, there remain important structural weaknesses to be addressed so as to ensure a more inclusive, green, and sustainable growth that would respond to the aspirations of a young and growing population.

Today I will focus on two key reform areas—the financial sector and human capital. We encourage the authorities to closely monitor nonperforming assets, particularly in public sector banks, and welcome their

plans to streamline insolvency procedures and to set up a professional asset management company with no equity contribution by the government. The experience of other countries, including countries in our constituency, demonstrate that this tool can significantly speed up the resolution of nonperforming assets.

Finally, we want to reiterate our call for steadfast action to promote gender equality and expand access to high-quality education.

Mr. Saeed:

We take note of the pandemic updates along with the associated economic repercussions. However, the recent development is encouraging, for which we appreciate the authorities' response so far, and we encourage them to continue advancing their policy response while proactively accounting for the probable third wave. We have issued a detailed joint gray statement with Mr. Hosseini and Mr. Mohieldin and would like to briefly emphasize four points.

First, a comprehensive health response, including domestic vaccination drive, and investment in healthcare infrastructure remains a priority. We commend the authorities for their commitment to fully vaccinate 60 percent of the population by end of the year and would encourage high pace and equitable coverage of doses. The recent pickup in the uptake is positive, yet the undistributed supply of the vaccines will remain critical for the ongoing recovery in India and abroad.

Second, appropriately supporting the vulnerable segments while carefully monitoring the socioeconomic implications should be the key feature of the authorities' crisis response and reform agenda. We welcome support provided to households, farmers, businesses, nonbank financial companies (NBFCs), and distressed electricity distribution companies. Particularly for household support, we encourage the authorities to put additional emphasis on coverage and adequacy to ensure the social protection programs are more inclusive. The implementation of the new one-nation-one-card policy is a right step in that direction. In contrast, the support for the businesses and other institutions should be more targeted and temporary in nature to support only the viable firms in the strategic and struggling sectors. The authorities should be able to unwind such support as the recovery holds firm. Accordingly, a potential surge in corporate insolvencies should be closely monitored and carefully managed.

Third, restoring medium-term fiscal consolidation following the short-term recovery will be critical for the financial stability and growth. We welcome the authorities' commitment towards further enhancing fiscal transparency, including through the revised Fiscal Responsibility and Budget Management Act and proceeds from privatization. We encourage the authorities to continue enhancing tax administration, reprioritizing expenses, and clearly communicating their fiscal plans and priorities to the stakeholders to maintain the policy credibility.

Finally, we welcome the authorities' drive to continue pursuing the structural reforms despite pandemic-related crisis at hand. We support liberalizing FDI regulations and crowding in private investment, facilitating trade, and improving labor market functioning. We concur that staff should undertake deeper analytical studies on economic transition issues and socioeconomic challenges facing India in the post-pandemic period.

Mr. Huh:

In spite of serious setbacks during the pandemic, India's economic recovery is expected to be well on the way with average 9 percent growth rate during coming two years. However, with the recurrent waves of the COVID, high uncertainty on the sustainability of economic recovery still does not subside with worsening policy challenges. As we have issued a gray statement, I would like to make a few points for emphasis.

First, on the initial structural reform agenda, accessibility, flexibility, and mobility in resource allocation is important given large and diverse range of sectors. Lifting growth and ensuring that this is done in an inclusive equitable manner would also help to limit scarring.

Second, a clear and credible plan for medium-term fiscal consolidation is important to provide confidence in debt sustainability and rebuild the fiscal buffers for the future. At the same time, considering poverty and inequality challenges, the targeted support for vulnerable groups should be maintained with more investment in human capital of vulnerable groups and labor reform of informal sector.

Third, fostering closer integration into global supply chains can boost the potential output but also carries risk. The authorities should carefully consider how to best manage such integration and ensure that there is no overreliance on upstream suppliers.

Mr. Bevilaqua:

India's role in the global economy makes the success of the recovery effort after the substantial decline in growth in 2020, a welcoming outcome. We have issued a gray statement and would just emphasize four points.

First, needed assistance to the population in light of COVID-19 was provided at both central and state levels. This resulted in a wide range of support measures through an easing of tax burdens to food support. We note with concern, however, that perhaps persons in the informal sector and the urban poor may not have been able to fully benefit from governmental assistance. We would encourage the authorities to utilize the country's digital identity database to ensure that targeting of assistance is directed to persons in need. In this regard, we take positive note of Mr. Bhalla and Mr. Goyal's statement that food subsidies became more targeted.

Second, as in most of the world, the pandemic's negative impact has gone beyond economic growth and has threatened the strides the authorities have made in addressing key issues such as poverty, education, and gender equality. Here, we welcome Mr. Bhalla's initial remarks and would like to strongly encourage the authorities to continue their efforts and increasingly shift their attention, as the economy recovers to reclaiming the gains previously made in the development arena. This would not only improve the well-being of hundreds of millions, but also enhance the future growth prospects of the country.

Third, India is a major supplier of pharmaceuticals to the world, particularly for generic drugs. In regard to the pandemic, India produces the WHO-approved Covishield vaccine and is awaiting WHO approval for another vaccine. We have positively noted the reports that indicate that production of these vaccines will be boosted. Hopefully with the increased availability of these vaccines, the vaccination rate, not only in India, but also in many other developing countries, can also quickly increase to necessary levels to reach the right level of immunization.

Finally, I want to commend the authorities for continuing to pursue a comprehensive reform agenda during the pandemic.

Mr. Jin:

We have issued a comprehensive gray statement, and I would like to be brief and make only a few points for emphasis.

First, we commend the authorities' tremendous efforts to control the pandemic and the recovery of the economy. Being a large emerging market economy, India's strong recovery, together with the recovery of some other large emerging market economies, such as the Brazilian economy that we discussed several days ago, has implied a continued trend of rising EMEs as a whole. That said, the top priority remains to put the health crisis to an end at the current stage. The main domestic risk is the continued spread of the virus and difficulties in ramping up vaccinations. In accelerating vaccinations, it will be important to close the gender gap in vaccination.

Second, the pandemic has further weakened India's fiscal position, like in all the other countries. The authorities should complement the short-term recovery spending with the medium-term fiscal consolidation plan. It is not very clear from staff's response on whether the Debt Sustainability Analysis (DSA) has factored in the \$US1 trillion infrastructure plans announced by the authorities and its impact on the fiscal outlook. Staff's further clarification would be appreciated.

Third, we broadly agree with staff that exchange rate flexibility should act as the main shock absorber. We take positive note that the authorities have reiterated their commitment to exchange rate flexibility and indicated that interventions are only intended to smooth out excessive volatility. As advanced economies normalize their monetary policies, emerging markets, including India, are expected to confront capital outflow in the next phase of the crisis. Staff should continue to provide policy advice in line with the Institutional View (IV).

Lastly, to fully unlock India's potential, it is important for India to reduce market rigidities and improve the business environment. We noticed the significant progress in recent years. We also strongly agree with staff on further efforts towards investment liberalization. Rolling back the tariffs in recent years would be an important step to improve the efficiency and the competitiveness of the Indian economy.

Ms. Lim:

We issued a gray statement and would like to offer a few comments for emphasis.

First, we commend the authorities for continuing the accommodative monetary policy stance until the recovery firms up or inflation remains within

target. In this regard, we underscore the role of forward-looking communication to anchor market expectations amid uncertainties.

Second, on financial stability, we note the authorities' plans to contain the increase of nonperforming assets, especially when support measures are withdrawn. We encourage the authorities to implement policy measures for banks to continue building capital buffers. This will not only help deal with the potential increase in corporate insolvencies but also create conditions for the financial system to better support the recovery.

Third, against the backdrop of the pandemic, the authorities' implementation of wide-ranging structural reforms is welcome. We take positive note that labor market reforms, among other things, have been progressing remarkably, which enhance the labor market functioning and help reduce labor market informality. We encourage the authorities to continue their efforts in reform strategy to strengthen social safety net and promote gender equality in India.

Ms. Mannathoko:

We issued a gray statement really supporting staff assessment, but for us really the swift, comprehensive response by the government to the COVID-19 outbreak we thought was really commendable, the way it enabled a quick rebound. I think staff are projecting growth at 9.5 percent in 2021-2022, so we really thought this was quite impressive, supported by the vaccination campaign and the accompanied decline in infection rates. We really wanted to just highlight this.

Just to highlight a couple of other issues, which we had supported the targeted fiscal measures until the pandemic wanes. We think just because of the second wave and the unpredictability of the evolution of the pandemic, it is probably important to try and entrench the recovery first before withdrawing support. Here, we really had wanted to highlight the formal sector just because so much of the labor force is in the informal sector. The focus on this, we really liked the work being done in the context of digital solutions, digital economy, and fintech, and we are hoping that the authorities can really try and enhance and build this bridge more in the informal sector and really help people in recovering their livelihoods in the informal sector.

For the medium-term, we do support looking at a gradual but appropriately timed fiscal consolidation in the medium term. We think that focusing capital spending for where there are the largest growth benefits is a

good strategy. We also note that there are longstanding reform priorities. Beyond infrastructure there is also education, health, as well as the social safety net; so, we think fiscal consolidation will support this.

We wanted to encourage really working on enhancing financial sector resilience and monitoring vulnerabilities, focusing on vulnerabilities closely, and sort of accelerating the work on NBFCs and their linkages to banks and the sort of privatization around public banks. Beyond this, we just want to really commend the wide-ranging structural reforms that happened during the pandemic, including in agriculture and labor reforms and the ambitious privatization that was highlighted in the buff statement. We see this boosting growth potential and really strengthening a rapid growth path.

Mr. Moreno:

Let me at this stage concentrate on three main issues that have concentrated a number of comments by Directors to add our position.

First, I think the concluding statement should reflect clearly the support to the macroeconomic package and the continued reform agenda, which have allowed for a very robust recovery and protect the most vulnerable population. Here, I would just like to echo Mr. Bhalla's call in his buff statement on the complexities of the socioeconomic effects of the pandemic and importance of deepening the staff analysis about it. We also take note of his comments on gender vaccination gap earlier this morning, and we would welcome staff's reaction to it.

Second, on short-term policies, vaccination continues to be the central priority to anchor the recovery. We positively note the target to have 60 percent of the population fully vaccinated by the end of the year. Here, I would like to echo Mr. Hosseini and Mr. Bevilaqua on the central role of India in the COVID-19 as a main producer of vaccines and also as a reference to other countries, which was also highlighted by Ms. Bah.

We support the accommodative fiscal monetary policy for now, and as the recovery consolidates, it will require a gradual transition to greater fiscal consolidation. And like Mr. Poso, we believe that the priorities should be health, education, and social protection, should be among the priorities.

Third, we also think it is important to have him some recognition, or strong recognition, of the authorities' commitment in advancing structural reforms. The buff is also reassuring on future reforms. Here, like Ms. Lim and

Ms. Mannathoko before me, we would underscore the importance of the labor market and informal sector, and like Mr. Hilbers, we would also underscore the positive impact on spillovers of the reforms in climate change also in terms of growth and for the rest of the economy. Also, like Mr. Hilbers, Mr. Buisse and Stephan and others, we look forward for the staff deepening the analysis on climate change in future Article IV reports.

Mr. Mohieldin:

The discussion today on India is very important in its own right, and because of the significance and the many lessons we stand to learn from the Indian experience. We commend the authorities for the wide range of emergency measures and the good coordination between the monetary and fiscal policies to achieve that. We welcome the recent signs of the recovery following the sharp contraction in 2020, and we support maintaining an accommodative fiscal and monetary stance in the short term. I appreciate what Mr. Bhalla shared with us today and the explanation of the vaccination progress, especially the emphasis on the gender dimension, as referred to earlier by Mr. Buisse. Given the significance of the contribution of India in the production of the vaccine, we welcome the recent statement suggesting that India will resume vaccine exports in the near-term. Three points remaining, and I will be very brief given that we issued a gray statement with Mr. Hosseini and Mr. Alhomaly.

One, on the socioeconomic impact, I found really the indicators and data on poverty very much hard to follow. Perhaps, I would like here to support Mr. Bhalla's request for more work on the socioeconomic impact. India normally has very good data in the socioeconomic front, and I wonder why we still use some outdated data, especially on poverty, to trace progress. There is some discrepancy between national figures and international figures that go beyond the usual discrepancy that we know about methodology and all of that, so perhaps some explanation on the way forward as well on how to deal with that and get more information on perceived progress toward SDG 1 would be very helpful.

I would like to commend in this context the excellent progress on digitalization and the very important efforts by India on the local situation, quoting the UN, the PR of India to the UN, the size of India has to go through a localized approach knowing the culture of different jurisdictions, and they are doing very impressive work including in areas related to budgeting for the SDGs at the local level. There are many good examples listening today to the interests of the Fund to do more work on the SDGs. As mentioned by the head

of the Fiscal Affairs Department, Mr. Gaspar, there are many lessons that we can really learn from the Indian example at the subnational level.

We commend the work on the structural reforms, and we see the signal, especially on the privatization on the attraction of FDIs. My final point is on the issue of climate. We welcome the efforts of India very much, especially on the mitigation side and the renewable energy. But we are discussing this report on the very same day that we have two unreported, not really telling us that we are on track to achieve the Paris Agreement, the report coming from the UN Framework Convention on Climate Change; this is not just about India but the whole world. There is a significance of the role of India. Given that it is a G-20 country, there is more expected from India.

Again, as we know, we need to cut emissions by 45 percent in 2030. On the current track of progress, we are increasing the emissions by 16 percent. There is no way to achieve the Paris Agreement. I am not talking here about India, but I am talking about the global perspective on the matter. The other thing that is not very welcome—and that is why we support the India request for more international cooperation in matters related to finance—the famous 100 billion based on an OECD report that was just released today is telling us that we are not on track and 100 billion are not delivered.

Again, I cannot thank the staff more for their excellent work. I am happy that there is very good collaboration with the excellent team working in India. I know them by person, and I know their contribution from the World Bank side. I commend more work and collaboration between the two institutions and with the rest of the multilateral system for better understanding and better advice on the India case.

Mr. Mozhin:

We have issued our own written statement, and I will only make a few additional comments and remarks. The pandemic hit the Indian economy at a very unfortunate moment because in the years immediately preceding the pandemic, the Indian economy had finally taken off and demonstrated very high growth rates, actually the highest growth rates in the world. The pandemic ruthlessly interrupted this massive progress.

Now, addressing the health crisis and ramping up the vaccine production remains the main priority. We take positive note of the fact that vaccine production in India is picking up and see its critical importance for the global efforts to fight the pandemic. This is since the COVAX system relies so

much on production in India. Inside the country, the authorities are well on track to vaccinate over 50 percent of the total population by end-2021. And let me quote from Mr. Agarwal and Ms. Gopinath in their May proposal to end the COVID-19 pandemic where they estimate that 50 percent is the lowest threshold for the herd immunity, with upper threshold at around 75 percent. So Indian vaccine production is critical to attain this level both in India and in many other countries in the world.

We also commend the Indian authorities for facilitating the green recovery. India has achieved great progress towards its Paris Agreement targets and is also on track to meet the 175 gigabytes renewable energy capacity target by December 2022. We concur with staff on the issue of inflation, which seems to be driven mostly by supply-side factors at its peak in October 2020. Now, as the recovery is taking hold, some inflationary pressures might be also seen from the demand side. However, both commodity price increases and supply-side disruptions are persistent enough so that the RBI cannot do much really to address this. For that reason, our position, our belief is that accommodative monetary policy stance remains appropriate in India. However, the use of nonconventional monetary policy instruments, like forward guidance, points to the need to plan monetary tightening early on, and we would encourage the monetary authorities to create contingent plans for earlier tightening in case of upside inflation surprises.

Forceful fiscal policy response was very appropriate but led to a substantial increase in the public debt level. For that reason, significant fiscal consolidation over the medium-term will be needed. However, high growth, which is expected to come back to India, high growth rates hold the promise to help the Indian economy to grow out of the public debt problem rather soon.

I have to finish and let me ask a question to staff. India is a large country and is a federal state, and I wonder to what extent staff are capable to follow the developments at the Indian state levels. The Fund's chief economist, for example, comes from Kerala state, and her native language is pronounced Malayalam, the word which can be read both ways and will not change at all, so here is my question. Is there anything that staff can tell us regarding apparently diverse developments in different Indian states?

The staff representative from the Asia and Pacific Department (Mr. Schipke):

Maybe, I will go through the points raised. I am going to start out with the issue on poverty, maybe two points, maybe three points.

First of all, we work very closely with our colleagues from the World Bank. In this particular area, the World Bank has particular insights because they just agreed with the Indian government on two development policy operations (DPOs) that speak particularly to the issue of how to close existing shortcomings in the support system and also relied on surveys throughout the design of the DPOs, so I am sure our colleague from the World Bank can highlight that.

The other one is, of course, critically important is having data. I think Mr. Bhalla pointed out that, for example, in the U.S. estimates were made of what the impact was but that benefited significantly from the recently released census data that the US had available. But having said that, as some Executive Directors highlighted, there is a question of the distributional impact both of the support of the government and of the pandemic in general. This is an area where we will continue to do work, especially as we have more data available, so from our side, the offer to look into this more carefully.

Then there was a question on the public investment program, whether that was included in the DSA. Maybe, here the key point to make is that a lot of the financing for the investment actually would come from state-owned enterprises, and the government is also thinking about the utilization of privatization or the monetization of public assets. So only a small amount would ultimately hit the budget, so we have not included that into the DSA.

Then there were quite a number of questions related to climate change and the green transition in India. India's focus in those respects is to develop into a hub for green technology and products by supporting and boosting manufacturing, including manufacturing of high-efficiency solar and batteries. The government is also deepening its adoption of renewables, electric vehicles, improvements in energy efficiency and use of biofuels and a number of technological developments on a number of fronts.

Now, where do we stand in terms of the government's goal to install, I think the target for 2022 is 175 gigawatts in terms of installed renewable? Is that a lot; is it a little? Where are we? We crossed the 100 gigawatts at this juncture, and analysts believe that India is on track to meet the target.

I think there were a couple of questions on the FSAP. The authorities have made progress. Maybe, I could highlight three improvements in the methodologies to undertake stress testing. There have been amendments to the Deposit Insurance Corporation. They have been passed by Parliament but still need to be implemented, and there is also a review of the guidelines of public sector lending. So, despite the pandemic, India continues to advance on those fronts.

There was a question on, in looking at the development of individual states, we do that on a number of fronts, first of all, for analytical work, and we had one study as part of the background work for this exercise that looks at the differences across states, and there are big differences obviously. We also work very closely with states in terms of our own technical assistance through SARTTAC, which is a regional technical assistance center in India that has been providing support, and that, of course, allows us to get unique insights into the operations of states. And, of course, our resident representative office also facilitates us having access to information on the respective state side.

Then, of course, the issue on gender and the number that is quoted in the staff report. I think it is fair to point out that this number actually was published, and it was indicated and highlighted by the Indian authorities themselves, and as we indicated in the technical responses, that number has fallen to 10 percent, and Mr. Bhalla is pointing out that if you take the demographics into consideration, women are still, do not fare as well as men, and we highlighted that also is a phenomenon across the globe.

The staff representative from the World Bank (Mr. Ahmad):

First, I really would like to thank the colleagues from the IMF for the collaboration that we have between the two offices. We are constantly exchanging information, ideas, and it is, I would say, one of the best in my 30 years of practice in the World Bank that I have seen in terms of dialogue and discussion with the IMF, so I want to thank Chair for that.

Second, one quick comment on social protection. India has not been bold enough to tell the world that it is undergoing one of the most amazing transformations on social protection. Originally basically a rural-based social protection, India has pivoted to becoming a pan-India social protection where the social protection is now increasingly portable, increasingly targeted to the urban sector, increasingly dealing with the informal. In addition, it is dealing with a federal system of social protection where the center and the state are

collaborating. It has been a gradual shift over the years, but the pandemic has really forced India to move in a major way.

On that point I would like to add that India has the world's largest direct benefit transfer for women-headed households, direct cash that go directly to women again in the context of a federal system. The data underpinning this is a big challenge, and India has been investing in improving its data system. As we know, that Mahalanobis, the economist who led the full shift of statistical reforms around the world to household reforms, India is the global leader. Today, India is facing the challenge of coordinating administrative data, data in the private sector, and updating its own household survey. The last household survey is under review by the government of India because there were some technical issues around it and we are expecting that to be released. I hope it will be released quickly because we will not be able to deal with global poverty data without India releasing its data. In between we have been using a lot of surveys in the private arena, as well as with the government of India at the state level also to update, but we are looking towards the government of India to come back with the household survey to do what Mr. Mohieldin is suggesting.

Final point: 175 gigawatts is exactly right. It is, again, the world's largest shift to renewable energy, but the honorable Prime Minister has upped the game to 450 gigawatts. If this development transition on the energy transition is done, it will support the world's climate transition in an unbelievable way. India is one of the few countries, if not the only G-20, to stay within its nationally determined contributions (NDCs) as promised in Paris.

Mr. Bhalla:

I want to just address—essentially it has been very informative, very useful, but I want to highlight a couple of things that perhaps were not covered completely or adequately.

First, on poverty, I just wanted to inform everybody here that in the US, the pandemic-adjusted data, or the welfare-adjusted data for the US at 9.5 percent is the lowest poverty rate that the US has ever experienced. Its poverty rate in the US has been hovering around 12 percent since 1965 when the War on Poverty was launched. At that time, it was 1920. I want to give that as an illustration that this special event that happened needs a somewhat more, not exaggerated, involved calculations, that even in the US, in the pandemic year, when every analyst, et cetera, is writing poverty has gone up, in the US it has

gone down, has never reached this level. So, history books will record that the US reached its lowest poverty level in the pandemic which destroyed incomes the most. That is the first point.

The second point, on gender on the calculations for Indian poverty that I have done, I would be submitting to the IMF working paper series, and I hope they will consider it worthy of publication. Now on gender equality, I want to point out two or three important results in India.

First, let us take what has happened to education. There is education parity across the board from primary to college today in India, so that is attainment of education.

Second, wages, which is the other flip side perhaps of education equality, wages of salaried work of college graduates, those who are working, are equal, equal—let me emphasize—for the US, what one gets is that basically there is about 20 percent difference between male wages and female wages, and after one adjusts for experience and various other things, that declines to about 5 percent. In India there is complete parity in the salaried workers in India. The rest of the workers, there is not complete parity because there are educational differences, and as we all know from Becker, from 1960 onwards, education is a prime determinant of incomes.

Therefore, I think on one other issue which some may not be aware, in terms of STEM discipline, India has the fourth largest number of women as a proportion of the women students in college in the world, fourth, and with about 42 percent of the women in college entering STEM disciplines. The corresponding number for the US and most advanced countries is somewhere in the 30-percent range. This also needs to be recognized by all of us who are really primarily and as appropriately concerned with gender equality. That is what India has achieved, and I think the authorities need to be congratulated, and this has been an ongoing system, so that is why I think that the whole analysis of poverty, education, inequality, is somewhat more complex, and transferring it from what we experienced in the US and elsewhere may not be the most appropriate.

In terms of the comment by Mr. Schipke on the vaccination data was available on the authorities' and is correct. At the same time, since I have appealed to all my colleagues over here that we have to be slightly more careful with the data because none of us around the world have dealt with this kind of data before, so adjusting actually in the terms of the sex ratio, which is the abnormal sex ratio in India, where there are more men than women, also in

China and several other countries has been a major aspect of demographic studies for the last 30, 40 years, but economists, this is the first time they are encountering the need to look at it. I do not deny that there are many people in India on female labor force participation rate. On a personal note, I have been working on it substantially, and I will also submit that is a very interesting aspect to the female labor force participation with data in India that came out has been hovering around something like 25 percent of the female population, whereas it was 38 percent or 37 percent in 2004, so then every analyst around the world, most of them without exception, have deduced that female labor force participation rate in India has declined, including staffers at the World Bank, including staffers at the IMF, including many, many research scholars in India. What happened? What happened was that the ILO comes out with some advice, comes out with a circular, comes out with a conference, as to how we should update the labor force statistics. And in 2004, item No. 12 or whatever of the ILO, said that, look, family workers working on the farm need not be considered as part of the labor force. Some countries changed, like India, because it was not mandatory. But other countries, our neighboring countries, including Indonesia, including Bangladesh, with high labor force participation rates of women is there because of this. Once one adjusts for it—and that is what my academic paper is all about—it turns out that the female labor force participation rate in India has been hovering around 35 percent for the last 20 years. We can then argue it should be 45, it should be 50 percent, but really all the neighboring countries are either at that level or below. I think again, my emphasis is on, especially in developing countries, their defines for data and definition, so this paper is on methods and definitions in the measurement of labor force participation rate.

This is very informative for me. That is what I wanted to emphasize. That is not to say, please do not get the impression that everything which I have communicated on the consumption survey of 2017 and 2018, which was not released, and I have been arguing for its release. Well, one of the reasons it was not released, and I have said this in public, in print, is that it is a horrible survey. For example, the survey estimates of consumption of the 2017-18 consumption survey has a ratio of 30 percent to the national account's estimate of consumption, the private consumption expenditure, which is used all over, which is the national accounts, at 30 percent. It turns out in 1,500 surveys done around the world, this is the fourth-lowest estimate of consumption in national accounts. This I also covered in my book in 2002, but obviously this is the latest data. So, there are problems with data. National authorities have to understand it, and interpreters of national data have to understand it. We cannot take data like the West has, which goes through very sophisticated collection methods and verification methods with corresponding

data in developing countries, several developing countries. India is not the only one. Several. In fact, most have problems. We need to be somewhat cognizant that this is a problematical area from the data as rightly emphasized by Junaid, by Alfred, and that is the reality that we live in. That is all I am trying to say.

But my last point I will make to go along with Junaid is that actually in terms of gender and in terms of direct benefit funds there is a genuine big-time revolution in India.

The Acting Chair (Ms. Sayeh):

Let me now bring our meeting to a close by thanking the Indian authorities, Mr. Bhalla, and staff, for a very open and frank discussion and for their hard work, which has ensured a very smooth and effective virtual Article IV consultation. As we have discussed, India has navigated the pandemic with substantial policy measures, but clearly continued efforts are needed. The authorities should continue broad-based policy support until recovery is secure, and as the situation normalizes, focus should be recalibrated to rebuilding buffers, ensuring the implementation of announced structural reforms, and addressing climate challenges.

The Indian economy is now recovering, thanks to the authorities' continued coordinated policy responses and important recent progress in vaccination. I am very much heartened by the authorities' focus and resolve to continue focusing on reforms that can deliver a more prosperous, inclusive, and greener India. As always, we look forward to being close partners with India during its journey.

Let me also highlight and express our appreciation for the continued strong and generous support of the Indian authorities to wide-ranging IMF initiatives, including by hosting our South Asia Regional Training and Technical Assistance Center, or SARTTAC as we call it, in Delhi. SARTTAC has served the region quite well, and we are very pleased with the continued support we have received from India. We are most grateful for the partnership around SARTTAC.

The Acting Chair (Ms. Sayeh) noted that India is an Article VIII member but maintains exchange restrictions subject to Fund approval under Article VIII. Staff is not recommending approval of these exchange restrictions at this time, and, therefore, no decision is proposed.

The Acting Chair (Ms. Sayeh) adjourned the discussion.

ANNEX

- Staff's Statement
- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/21/17

September 14, 2021

**Statement by the Staff Representative on India
Executive Board Meeting
September 17, 2021**

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.
2. The pace of **vaccinations** in India has picked up further in recent weeks. The daily rate of vaccination has increased considerably, averaging more than 6.8 million doses daily in recent weeks, with a total of 180 million doses administered during August alone. If this pace of vaccination is maintained, over 750 million doses could be administered by end-2021, equivalent to 50 percent of the total population (and 70 percent of the 16 and older population) being fully vaccinated. Currently, about 12.5 percent of the total population is fully vaccinated, and 40 percent of the population received at least one dose (as of September 9). At the same time, new daily COVID-19 cases remain around 40,000 (as of September 10), much lower than the peak of 400,000 at the beginning of May.
3. While the **2021Q2 GDP outturn** reflected the negative impact of the second wave of the pandemic, recent high frequency **economic indicators** have continued to gain strength.
 - **2021Q2 GDP release:** Real GDP grew at 20.1 percent in 2021Q2, from a relatively low base. On the supply side, agriculture, and industrial sectors such as construction, manufacturing, mining and quarrying, and electricity, gas, and water supply led the recovery. The recovery in services remains more subdued than in industry after accounting for base effects. On the demand side, recoveries in gross fixed capital formation, exports and imports were quite robust in 2021Q2. Overall, the latest GDP data confirmed a divergent recovery in economic activities with industries outperforming services, and investment outpacing consumption.
 - **Latest data releases including high frequency indicators in 2021Q3:** July industrial production rose 11.5 percent compared with the previous year. On high frequency indicators in 2021Q3, August services PMI recovered to expansionary territory, reaching the highest level since March 2020, at 56.7. August manufacturing PMI remained in expansionary territory at 52.3. The latest mobility data showed a broad-based pickup in 2021Q3, with retail and recreation and workplace components about 15 percent below the pre-pandemic baseline. Other daily high frequency indicators such as electricity consumption and NO2 emissions pointed to a further pickup in August. On the external side, both exports and imports recovered robustly in July, partly reflecting a low base, with a gradual normalization in the current account balance.

BUFF/ED/21/121

September 14, 2021

**Statement by Mr. Bhalla and Mr. Goyal on India
Executive Board Meeting
September 17, 2021**

1. Our Indian Authorities thank staff for the candid and constructive discussions (held virtually) and convey their appreciation to the management and staff for their continued engagement. Our Authorities look forward to continuing this healthy partnership. The authorities broadly agree with staff's assessment and recommendations regarding the economy, although there are some divergences in views on a few issues, as highlighted in this BUFF statement.
2. Like almost every economy, the pandemic has had a significant impact on economic activity. During the first wave in 2020, the economy witnessed a sharp contraction reflecting the impact of strict containment measures, though it recorded a turnaround two quarters later in January-March 2021 with swift and effective measures taken by the Authorities. The recovery, however, moderated with the second wave during the first quarter of the current financial year (April-June 2021). The economy increasingly adapted to the work environment under COVID with enhanced use of digitalization.
3. While the policy package that included fiscal, monetary, and financial measures, provided support to businesses and households at an unprecedented scale, India, in divergence with most other economies, continued its agenda of structural reforms during the pandemic. These wide-ranging structural reforms, including agriculture and labor reforms, and an ambitious program of privatization, are expected to contribute towards a structural acceleration of the economy.
4. India has embarked upon a drive to vaccinate its large population of 1.3 billion; supply constraints had hindered the progress earlier, but at the current pace of more than 10 million a day, the target to fully vaccinate at least 60 percent of its population by the end-December 2021, is on track. Latest (September 10th) figures indicate that 40 % of the population has at least one dose of the vaccine, close to the world average of 41 %.
5. Both IMF and the RBI have projected India's GDP to grow at 9.5 percent in 2021-22 (i.e., April 2021-March 2022) and the IMF expects GDP to grow at 8.5 percent in the next fiscal year. Early indications are (direct and indirect tax collections, export growth, growth in industrial production, PMI indices) that economic targets contained in Budget 2021/22 will be achieved and that India will emerge as the fastest-growing major economy in 2021/22,

and beyond. Structural reforms also suggest that the economy will do better than currently expected beyond 2021/22. The July 2021 IIP data is now above the pre-pandemic level.

6. Headline consumer price inflation is projected at 5.6 percent during 2021-22 and to soften to 5.1 percent by the first quarter of 2022-23 [currently at 5.3 % yoy in August 2021]. Further, after a blip in recent months (supply disruptions, oil prices) inflation is expected to remain within the upper bound of the Reserve Bank's target of 4 (+/- 2) percent. Inflationary trends are being closely monitored, and the monetary authorities have decided to continue with an accommodative stance as long as necessary to sustain output growth on a durable basis.

Structural Reforms

7. Staff supported the wide-ranging structural reforms initiated by the Government. Domestic production-linked incentive schemes, privatization of government enterprises in non-strategic sectors, agriculture and labor market reforms are expected to support sustainable and equitable growth. Labor market reforms are expected to improve labour market functioning, support formalization, and expand social security benefits for workers. Staff also observed that reforms in the agriculture sector would address market distortions, increase efficiency, and enhance productivity growth.

Fiscal Issues

8. The Authorities agree with the Staff for maintaining an accommodative fiscal policy stance in the near term till the recovery is firm and to have a credible medium-term fiscal consolidation plan to maintain market confidence and fiscal space. The central government fiscal deficit is budgeted at 6.8 percent of GDP in the current year and the Authorities are committed to reduce it to 4.5 percent of GDP by 2025-26. Next year's budget will include medium-term macroeconomic projections and the Fiscal Responsibility and Budget Management Act (FRBM) will also be revised to provide more clarity and fiscal transparency. Revenue mobilization would be a key element of medium-term fiscal strategy. Streamlining of Goods and Services (GST) tax with an e-invoice system, GST audits, closer scrutiny of returns, and rate rationalization are expected to augment tax revenues. Similarly, rationalized corporate income tax rates are expected to encourage compliance and result in greater tax buoyancy. Disinvestment with a focus on privatization and monetization of sovereign assets would also support the consolidation process. The thrust on expanded public expenditures, which include expenditures on education, skill development, health, and infrastructure will continue - and these are expected to enhance productivity and potential growth. Further, enhanced public investment in infrastructure is expected to crowd in private investment.

Monetary Policy

9. The staff has supported RBI's accommodating monetary stance – a cumulative reduction of 115 bps in the repo rate (current rate 4 %), in addition to the pre-pandemic easing of 135 bps in the repo and 100 bps reduction in the cash reserve ratio. The staff has also commended liquidity measures including long-term repo operations (TLTRO), operation

twist, and asset purchases. The Authorities have indicated that they would continue their accommodative monetary policy stance as long as necessary to revive and sustain growth on a durable basis while ensuring that inflation remains within the target. To ensure that additional liquidity goes to revive the economic activity, the funds accessed by the banks under TLTRO are required to be invested in corporate bonds, commercial paper and non-convertible debentures issued by entities in agriculture, retail, MSME and drugs sectors. The RBI has indicated that post-pandemic exit policies would be guided by the expiration of time-bound monetary and liquidity measures.

Financial Sector

10. The Authorities concur with the staff that it is important to ensure adequate capitalization of financial intermediaries. To contain the expected increase in NPAs, the Authorities are working to streamline the insolvency process and to bring in reforms to reduce the delays in the Insolvency and Bankruptcy Code (IBC) proceedings. The Authorities have also proposed to start a new structure for resolution of NPAs. It was needed because existing ARCs are thinly capitalised. This will be fashioned as per ARC-AMC model where the ARC will aggregate all the stressed assets and transfer to a professionally managed AMC. It would be set up jointly by the public and private sector banks and government would not make any equity contribution.

11. Stress tests undertaken by RBI (and referred to in the Staff report in the context of NPAs) revealed that “banks remain well-capitalized and able to sustain a severe stress scenario. (page 40, Financial Stability Report, RBI, July 2021)”. Moreover, the government is ready to provide additional capital to public sector banks (PSBs) as and when needed. Therefore, the conclusion in the Staff Report that “*sustained* financial sector weaknesses” would lower India’s *potential* growth from the earlier assumed 7.3 % to the Report’s forecast of 6 % (emphasis added) is analytically inappropriate.

Pandemic and Poverty Alleviation

12. Like the rest of the world, the pandemic led to a decline in economic activity, affected inequality, and hurt the poor the most. Recognizing this, and as part of its strategy to combat the expected poverty increase, my Authorities significantly expanded income support, and especially for those at the bottom of the income pyramid (e.g., food subsidies more than doubled in FY 2020-21 (April-March) from the pre-pandemic 2019-20 level.) In aggregate terms, the share of GDP allocated to direct income support for the poor increased from 2.1% to 2.7%.

13. The rules of allocation of food subsidies were also changed. The implementation of the new *one nation-one-card* policy meant that the bottom two-thirds of the population eligible for food subsidy could now access it from anywhere in India rather than be restricted to the state of their registration. This change was especially beneficial for the migrant and poor workers.

14. In deriving their conclusions on poverty trends, it appears that the Fund’s Article IV report has not fully appreciated the significant support provided by the government to mitigate the impact of the COVID induced declines in economic activity and their effect on poverty.

15. Emerging Market Economies are evolving and more complex, and it requires greater analytical rigour to comprehend the economic dynamics and the underlying growth impulses. As a fellow economist, I would request the staff for a deeper and more rigorous analysis of the complex issues like the socio-economic effects of the pandemic, the government's multipronged policy response, and their effectiveness in protecting lives, livelihoods and containing poverty.

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GRAY/21/2645

September 15, 2021

**Statement by Mr. O'Brolchain and Ms. Cunningham on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the insightful report and Mr. Bhalla and Mr. Goyal for the helpful Buff statement. We broadly agree with Staff's appraisal and we offer the following comments.

Authorities introduced significant economic policy measures to mitigate the pandemic, and we commend their efforts to improve social benefits for disadvantaged groups. Staff suggest further near-term fiscal support to reduce economic slack, support the recovery, and improve India's social safety net.

Vaccination rates have increased recently, however Staff correctly emphasize that pandemic developments pose the main risk to India's outlook. It is welcome news that health indicators and vaccination rates are improving¹. We note with concern, however, that Staff report nearly 17 percent more men than women in India were vaccinated, as of mid-July. *Could Staff or the authorities comment on why there is such a large gender disparity in India's vaccination rollout, and what can be done to close this gap?*

We agree with Staff's assessment that fiscal vulnerabilities are high. We note that concerns over public finances have prompted some rating agencies to assign a negative outlook to India's sovereign credit ratings. We support Staff's call for a clearer medium-term fiscal consolidation plan. However, the consolidation path may prove difficult to achieve as fiscal gains from reforms to revenues and transfers could be offset by additional spending pressures. Staff expect state spending pressures are also likely to rise, but state budgets will be constrained by a deficit target of 3 percent of GSDP by FY2023/24. *It would be helpful if Staff could provide further details on the state-level fiscal situation, and whether state finances are likely to impact the central government's longer-term fiscal sustainability.*

¹ The report provides some data and comparisons of India's health outcomes and vaccination progress. It may be helpful to provide more context on how India compares to its EME peers.

The monetary policy stance remains appropriate, but close monitoring of inflation developments and inflation expectations is required amid the elevated inflation rates in recent data. Changes in monetary or liquidity support will need to be clearly communicated in forward-looking statements.

We agree that adequate capitalization of the financial sector and timely recognition of problem loans will be important as some policy support for corporate borrowers expires. Indian banks have increased their provisioning to rising NPAs. We note that authorities have announced measures to streamline insolvency processes and indicated they would provide additional support if needed to public sector banks. Staff have revised their estimate of potential growth in India lower, partly due to sustained financial sector weakness. *Could Staff elaborate on these revisions?*

Advancing structural reforms remains critical and we commend authorities for continuing to implement reforms throughout the crisis. In particular, we applaud their efforts to increase female labor force participation. The report notes the negative effect of school closures on potential growth. *Do Staff see the effects of school closures as relatively larger for India than for other EMEs?* Finally, we agree with Staff that authorities should prioritize trade and investment liberalization, especially where such policies can further integrate India into global value chains and help support inclusive and greener growth.

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GRAY/21/2646

September 15, 2021

**Statement by Mr. Hilbers and Mr. Milutinovic 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. We commend the Indian authorities for their swift policy response that softened the pandemic's social and economic impact. Maintaining a supportive policy stance and advancing structural reforms with a focus on human capital accumulation is crucial for rebuilding a more resilient, green, and inclusive economy.

Finding an appropriate balance between targeted policy support and fiscal sustainability is key. Sharp economic contraction combined with increased poverty and high uncertainty calls for continued policy support, especially to the most vulnerable groups. We support the authorities' commitment to fiscal discipline and staff's proposal for credible medium-term consolidation to address the elevated public debt levels. However, we note that staff's suggestion for additional fiscal support was not considered by the authorities. *Could staff elaborate on the adequacy of their proposed additional fiscal support and its effects on growth and public finances?*

While accommodative monetary policy stance remains adequate, elevated inflation pressures call for close monitoring. We support continued targeted liquidity support to viable firms, especially MSMEs, until the recovery is underway. However, we agree with staff that improving policy communication and the monetary transmission mechanism through financial sector reforms would increase efficiency and capacity of the monetary policy. Moreover, increased inflation expectations, especially for households, require close monitoring.

Stepping up structural reforms that promote human capital investment and deeper integration into the global economy are critical for more resilient growth. We therefore encourage the authorities to accelerate the implementation of structural reforms by improving education outcomes and increasing social protection and healthcare coverage. Furthermore, we agree with staff that reducing tariffs on intermediate goods would enhance India's integration in the global value chains and exports competitiveness.

Improving statistics would significantly benefit policy design. We encourage the authorities to use the IMF CDs to enhance data coverage through improving statistical systems. *Staff's update on the progress of the authorities' interest in CD support is welcomed.*

We commend the authorities' commitment to foster a green transition of the economy. We agree with staff that India's progress toward its Paris Agreement targets, investment in renewables, and climate change adaptation policies are welcome steps to address climate change-related risks and reduce the health burden of local pollution. We are therefore eager to see India's climate-related policies more extensively covered in future staff reports. *In addition, staff comments on achieving renewables targets in 2022 as outlined in India's Intended Nationally Determined Commitments are welcome.*

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GRAY/21/2647

September 15, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Mahabir on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for their report and Mr. Bhalla and Mr. Goyal for their statement. India has been severely affected by Covid-19, resulting in a significant contraction in economic activity. Partly due to the policy response and recent acceleration in vaccination rollout, India is bound to a sharp recovery and may emerge as the fastest growing major economy over the medium term. That said, this relatively benign outlook is still subject to risks.

India is an important producer of Covid-19 vaccines and an active player in international vaccine diplomacy program. While supply side disruptions of ingredients have led to a slower than anticipated production of vaccines, we welcome the recent efforts to overcome the hurdles and increase production. We take positive note of Mr. Bhalla and Mr. Goyal's statement that vaccination rollout has picked up steam and the country should reach the landmark of 60 percent of its population fully vaccinated by end of 2021, which given the size of the country's population is a major feat of global scale. Bolstering vaccination and other concerted efforts to fight the pandemic should remain the focus of the authorities.

Both the central and state governments provided varying levels of support to the economy and the vulnerable population during the pandemic. These ranged from cash and food assistance to loan guarantee programs and tax deferrals. By utilizing the information gained from the digital identity database, the country can target the disadvantaged and ensure that they receive the necessary support to become productively integrated to the economy's formal sector. *Can staff provide any information as to the use of digital identity database to improve targeting support?* As in most countries, the pandemic and the policy response, caused the central government fiscal deficit and debt to increase significantly. We note that the FY2021/22 budget continues to be accommodative with prioritized expenditure on health and infrastructure, a stance that seems warranted under the circumstances. That notwithstanding, staff has suggested several measures to improve tax collection and fiscal management and transparency. However, in the case of taxation, such

measures should be adopted after economy recovery has taken hold, and with due regard not to push persons further into poverty.

Monetary policy was accommodative during the pandemic and should remain supportive as appropriate. The Reserve Bank of India (RBI) reduced the policy rates and the cash reserve requirement in line with liquidity needs. We take note of the authorities' views that the rise in inflation is mostly related to supply shocks and that inflation is expected to remain within the upper bound of the target range. However, given the ongoing inflationary pressures, we agree that the RBI should closely monitor the situation and act accordingly. Despite RBI's actions, staff noted that bank credit growth remains subdued. Staff attributes this to lower demand and tightened lending standards. *Can staff tell which lending standards were tightened and whether they were warranted in the current circumstances?* Regulatory forbearance was another measure implemented to support the financial sector. Staff indicated that recently the share of loans overdue has been increasing, suggesting a possible rise of NPLs in the future. While banks have begun to take precautionary actions, we urge the RBI to closely monitor any developments. Staff has also identified a number of measures to aid in easing the transition from the supportive regulatory forbearance to normality. Adoption of these suggestions can assist in maintaining financial stability. That said, we sympathize with Mr. Bhalla's questioning about the analytical soundness of reducing potential growth by 1.3 percentage points due to "sustained financial sector weaknesses". *Could staff explain further the reasons for such substantial reduction in estimated potential growth?*

Despite the travails of coping with the Covid-19 shock, India has continued to pursue wide-ranging structural reforms. In line with past Fund advice, the authorities have undertaken important labor market and agricultural sector reforms. We take positive note of staff's assessment that labor market reform will support formalization and enhance the coverage of the social safety net. Also, reforms in the agricultural sector are expected to improve efficiency and productivity. We encourage the authorities to keep the momentum and continue pushing forward for reforms that will boost potential growth and make it more inclusive.

Notwithstanding the authorities' response, the pandemic negatively affected some of the gains the country had made toward the sustainable development goals. Migrant and daily workers, rural population, and those in the informal sector are among those suffering the most. We take positive note of the information provided by Mr. Bhalla and Mr. Goyal in their statement that income support to the bottom of the pyramid has significantly increased, and that food subsidies became more targeted. However, given the negative impact of the pandemic on education access and gender equality, we agree that improving educational access, in addition to the land and labor reforms, will be key for the future development of the country. We also take note of the statement regarding the effect of pollution and its impact on the health system. Given the tremendous stress that the health sector is facing in light of the pandemic, the government should place increased emphasis on improving this essential infrastructure with direct impact on social well-being.

With these remarks, we wish the Indian authorities and people success in the recovery efforts.

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GRAY/21/2649

September 15, 2021

**Statement by Ms. Lim and Mr. Nghiem on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the comprehensive report and Mr. Bhalla and Mr. Goyal for their insightful Buff statement. We broadly concur with the thrust of the staff's report and offer the following comments for emphasis.

We commend the authorities for introducing a wide range of emergency measures and economic policy responses to contain the pandemic risks and promote economic recovery. As one of the world's largest Covid-19 vaccine producers, India plays a vital role in advancing global vaccination. We are encouraged that vaccinations in India have picked up more recently after a slow start, and expect the authorities will reach their target for the rest of 2021. We agree with staff that the authorities should close the gender gap for vaccination, in addition to accelerating vaccine roll-out in the country.

Given downside risks from the pandemic, we concur with staff that additional fiscal support is appropriate in the near term but the authorities should implement fiscal consolidation in the medium term. As the fiscal deficit has widened significantly due to lower revenue, and pandemic related support measures, we encourage the authorities to revise the Fiscal Responsibility and Budget Management Act (FRBM) to enhance fiscal discipline. At the same time, we underscore the significance of continued public expenditures on education, skill development, health, and infrastructure, which would in turn boost productivity and potential growth in the medium term.

The authorities' implementation of accommodative monetary policy has functioned well, although inflation pressures should be closely monitored. The authorities' supportive measures with lower policy rates and adequate liquidity in commercial banks

should be continued until the economic recovery has taken hold firmly. However, given the rising inflation pressure, the authorities should monitor the situation closely with appropriate communication strategy that helps anchor inflation expectation and bolster market confidence. We see merit in targeting support to viable firms and facilitating the exit of non-viable ones. We agree with staff that supervision should be enhanced to monitor banks closely to ensure proper lending procedures and also to avoid moral hazard issue for firms accessing to the supportive credit.

We welcome the authorities' continued commitment to advancing structural reforms.

As India deeply integrates in global value chains, we are encouraged by several measures that the authorities have taken to facilitate trade and attract FDI. Other reforms on privatization, infrastructure investments, land and labor, and education should be accelerated to maximize the country's long-term growth.

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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.

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GRAY/21/2651
Revised

September 15, 2021

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mrs. Raoilisoa Andrianometiana on
India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the report and Mr. Bhalla and Mr. Goyal for their insightful Buff statement. We agree with the thrust of staff appraisal and policy recommendations and would like to point out the following comments.

The covid-19 pandemic took a heavy toll on India's economy and population. Despite policy supports and wide range of emergency measures, GDP growth contracted sharply in 2020, with severe impact on contact-sensitive services, construction, mining and manufacturing. Moreover, the pandemic has reversed progress in human development and poverty reduction. To combat poverty, we note from the buff that the authorities have expanded income support and changed the rules of allocation of food subsidies. *Staff comments on those strategies are welcome.* Measures implemented by the authorities were instrumental to slow the spread of the virus and mitigate its economic and social impact. Notwithstanding the health crisis, the authorities' efforts to advance structural reforms are commendable. While economic activity is expected to recover gradually, downside risks to the outlook stemming from the evolution of the pandemic, including new waves and variants, remain elevated. In addition, we agree with staff that the reassessment of global market fundamentals may pose significant risk of capital outflows and widespread global risk-off event, given India's large share in global activity.

We believe that the strength and speed of the recovery will depend on vaccine production and rollout. It is encouraging to note that vaccination has further picked up, and that India maybe on track to fully vaccinate 50 percent of the population by end-2021, if the current pace of vaccination is maintained. As the country is among the largest vaccine

producers and is expected to contribute to a global progress towards a solution to the health crisis, we call upon the authorities to address the issues of supply chain bottlenecks which are constraining vaccine production. We also call for continued global cooperation and support to address these challenges. *Could staff provide an update on India's contribution to COVAX initiative?*

The accommodative fiscal stance with emphasis on health and infrastructure is adequate. Although support measures have led to significant widening of the deficit, we stress that fiscal support to vulnerable households and businesses, should be maintained until the recovery is entrenched. We note from Box 2 of the report that about one-third of SOEs are loss-making. *Could staff elaborate on the impact of SOEs on fiscal deficit?* A gradual withdrawal of policy measures and more targeted support should be aligned with the path of the recovery. In this respect, we praise the authorities for their decisive action to reprioritize spending to accommodate the fiscal support and other priority spending. We also take note that fiscal policy is projected to contribute modestly to growth, thus reflecting the compositional shift toward capital expenditure. Over the medium term, we commend the authorities' commitment to fiscal consolidation, which calls for credible and clear communication, supported by strengthened revenue mobilization and further spending efficiency. In this respect, the implementation of a credible medium-term fiscal consolidation strategy is needed. It is also encouraging to note from the DSA that public debt remains broadly stable and is projected to decline over the medium-term. To reach those objectives, we concur with staff that enhanced public financial management and improved fiscal institutions are essential.

We share the view that accommodative monetary stance combined with adequate liquidity management remains appropriate. Continued monetary support to viable businesses in the most vulnerable sectors should be maintained, while staying vigilant to elevated inflation pressures. Looking ahead, we agree that a well-communicated plan for a gradual phase out of exceptional monetary policy measures as the recovery strengthens, would foster an orderly market transition. In addition, we concur that improvements in communication could further enhance the predictability and the effectiveness of the monetary policy and its transmission. A durable improvement in monetary policy transmission through the bank lending channel would require a well-capitalized banking system. We appreciate the authorities' commitment to provide additional capital to PSBs as and when needed. We also welcome their commitment to exchange rate flexibility, with interventions mainly aiming at smoothing excessive volatility.

Advancing structural reforms to promote a strong, inclusive, and sustainable growth is vital. Successful implementation of wide-ranging reforms including labor market reforms and privatization plan could increase India's growth potential. In addition, enhancing public expenditure in infrastructure, education, health, and social safety nets should be a priority to achieve the Sustainable Development Goals and promote inclusive growth. Moreover, India's progress toward transitioning to a greener economy is encouraging.

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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.

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GRAY/21/2653

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.

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GRAY/21/2654

September 15, 2021

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

We thank staff for the comprehensive report and Mr. Bhalla and Mr. Goyal for the insightful Buff statement. The pandemic has had a profound impact on the Indian economy, but the latest mobility data presented by staff point to a broad-based pickup in 2021Q3. Looking ahead, the authorities are facing important challenges. Overcoming the health crisis is the main priority in the short term. A renewed deterioration of the pandemic could create additional pressures, exacerbating pre-pandemic weaknesses. Strengthening macroeconomic resilience would support the domestic recovery and create positive spillover effects on a global scale. Striking the right balance between a continued need for policy accommodation and addressing mounting vulnerabilities would require prudence and clear communication.

A credible medium-term fiscal consolidation strategy would be essential to support growth and reduce debt. India's favorable debt profile and current interest rate-growth differential mitigate risks to debt sustainability. However, weaker growth and/or a sudden tightening of global financing conditions could increase vulnerabilities. Against this background, steadfast implementation of reforms in public financial management could enhance the credibility of the authorities' commitment to fiscal sustainability.

Further improving monetary policy transmission would help to address inflationary pressures. The lingering impact of the last COVID wave on the economy justifies the continuation of an accommodative monetary policy stance. Looking ahead, we agree with staff that as the recovery firms up, a gradual reduction in exceptional monetary policy support would foster orderly market transition and help anchor inflation expectations. In this regard, we welcome the recent steps taken by the Reserve Bank of India to improve the transmission channel of monetary policy. At the same time, we concur with staff that there is room for further improvements, including by strengthening monetary policy transmission through the bank lending channel.

Financial sector policies should encourage adequate bank capitalization and continue to provide support for viable corporates. We share staff's view on the need to develop contingency plans to address a potential increase in insolvencies of non-viable firms that may materialize once the temporary policy support measures are phased out. In addition, a potential transition to “nonperforming” of loans currently classified as “overdue” warrants close monitoring. Another concerning development is the rising exposure of banks to nonbank financial companies. *Could staff elaborate on measures that have been planned to mitigate risks from such exposures?*

We commend the authorities for pursuing their reform agenda through the pandemic but believe that there is room for further progress. Important structural reforms in governance, infrastructure, education, and agriculture are critical in setting the foundation for inclusive and sustainable growth, poverty reduction, and the transition towards a greener economy. The report mentions the important steps taken toward liberalizing policies on FDI. *Could staff elaborate more on these steps and whether further measures would be warranted? Further, could staff provide more details on the progress in reforming the agricultural sector in line with past Fund advice?*

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GRAY/21/2655

September 15, 2021

**Statement by Mr. Moreno and Mr. Cartagena Guardado on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the report, and Mr. Bhalla and Mr. Goyal for their informative Buff statement. We broadly share the thrust of staff's appraisal and would like to emphasize the following points.

The economy is showing a relatively strong recovery after the pandemic shock, bolstered by the authority's response to the crisis. Like most countries, India was hardly hit by the COVID-19 pandemic, including a large human impact and a sharp economic contraction in 2020, with lasting effects through a second wave in part of the second and third quarter of 2021. The authority's macroeconomic package and the continued reform agenda have allowed for a relatively strong recovery, being India one of the fastest-growing major economies, as well as protecting the vulnerable population -here, we echo Mr. Bhalla's call on the complexities of the socio-economic effects of the pandemic and the importance of deepening staff's analysis about it.

Vaccination continues to be the central priority to anchor the recovery. To continue to increase vaccination is instrumental to ensure better prospects for the economic recovery and for the well-being of the Indian people. We positively note the faster vaccination rate in 2021 with around 40 percent of the population having at least one dose, and the country's target to have 60 percent of the population fully vaccinated by the end of this year as highlighted in the Buff statement. We underscore the importance of closing the gender gaps in the vaccination path.

The accommodative fiscal policy remains appropriate. We concur that the fiscal loosening was instrumental to respond to the health and infrastructure needs that the crisis exacerbated and to protect vulnerable segments of the population. Maintaining flexibility in the fiscal policy may still be needed during this year as the pandemic crisis has not subsided. As the recovery consolidates, India will require a gradual transition to a medium-term fiscal consolidation that will need actions both on control and in the prioritization of expenditures (with health, education included among the priorities) and strengthening revenue

mobilization. *We would welcome staff's comments on the scope of using tax and spending big-data reviews to inform this process.* We welcome the authorities' commitment to revising the Fiscal Responsibility and Budget Management Act (FRBM) to improve its transparency.

So does the accommodative monetary policy stance. The easing of interest rates and the accommodative forward guidance policy have been helpful to support growth recovery and see merits in the authorities' views on maintaining it while the inflation remains within targets. We note that there is room for further improvements in the monetary policy transmission and we welcome the authorities' enhancements in this area. We concur that it is instrumental that the authorities continue limiting interventions to address market disorders for the exchange rate to continue to act as a shock absorber.

Strengthening financial stability is crucial for a sound recovery. The temporary measures that authorities adopted to respond to the crisis, including loan moratoria and restructuring, have been effective to protect businesses and households, albeit rising the credit risk in the banking system. Going forward, we underscore the importance of closely monitoring the asset quality and concur with staff that it is instrumental to continue building capital buffers to mitigate the credit risk that the borrower's relief measures arose. Pursuing reforms in the financial sector to ensure the soundness of the public financial institutions remains an important task for the Indian' authorities.

We praise authorities for their commitment to advance in structural reforms despite the challenges. We positively note that the government's COVID response included agricultural and labor reforms to support growth and increase efficiency and productivity. The Buff statement is reassuring on the authority's commitment to pursue a strong reform agenda. We underscore that further steps need to be taken in the reforms to increase female labor participation, access to financing and to include a climate change perspective.

With these remarks we wish the authorities success in their future endeavors.

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GRAY/21/2656

September 15, 2021

**Statement by Ms. Mannathoko and Ms. Maidi on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the informative report and Messrs. Bhalla and Goyal for their Buff statement. Notwithstanding the sharp contraction in the Indian economy in 2020, in the wake of the COVID-19 pandemic, and the recent second wave that led to a downgrade of 2021 growth projections, the swift and comprehensive response by the Government to the COVID-19 outbreak has enabled a quick rebound, with GDP growth projected at 9.5 percent in 2021/22. The authorities' impressive vaccination campaign and the accompanying sharp decline in infection rates is noteworthy, and together with the positive high frequency data reported by the Staff Representative on India, auger well for economic recovery. We however note the remaining risks to the outlook, including new virus mutations, which could delay a return to sustained growth and substantive poverty reduction. We are in broad agreement with the staff appraisal and also offer the following comments.

Targeted fiscal policy support remains necessary until the pandemic wanes and recovery is more firmly entrenched. Given the risk of the pandemic reversing significant strides in poverty reduction we encourage a sustained effort to protect those most impacted by the pandemic.² We note the authorities' proactive response with targeted monetary and fiscal policy measures taken to support vulnerable firms and households. This, alongside pent-up demand for consumer and investment goods, helped mitigate the negative impact of the pandemic. However, given the severity of the second wave and its impact on vulnerable groups, it may be too early to phase out support. The informal sector, where the most of India's labor force is employed, has been particularly hard hit, as have youth, women, and migrants. However, incomplete social protection coverage in the informal sector including the above population segments, suggests that many may have seen substantive declines in income and welfare. *Could staff comment on fiscal and financial sector support measures best suited to informality and helping vulnerable populations sustain their livelihoods, such as enhanced use of fintech?*

An appropriately timed, gradual medium-term fiscal consolidation remains critical to support macroeconomic stability and a sustainable debt path while reinforcing market

² World Bank reports that over 90 million people were taken out of extreme poverty in the five years to 2015.

confidence. We encourage building fiscal space that will be targeted at capital spending with long-term benefits. Given the longstanding SDG priorities which require large increases in public expenditure in infrastructure, education, health, and social safety nets; improved revenue mobilization will become necessary once exceptional policy measures have been phased out. In the meantime, we encourage further progress on privatization, enhanced fiscal federalism and broader use of digital technology to support service delivery and the investment climate.

An accommodative monetary policy stance remains appropriate to support the recovery in economic activity. Nonetheless, we urge a careful approach to monetary policy, with close monitoring of elevated inflation pressures and data driven policy decisions. We also encourage the authorities to work on a plan for a gradual reduction in exceptional support once the recovery strengthens. Ensuring that the plan is conveyed widely ahead of implementation and includes appropriate forward-looking communication, will support an orderly market transition, and reduce uncertainties. We note the value of continued exchange rate flexibility at this uncertain time, to act as a shock absorber; and welcome the authorities' intention to limit foreign exchange interventions to the smoothing out of excessive volatility.

Enhancing financial sector resilience and close monitoring of pockets of vulnerabilities remains important to safeguard financial stability. We note that more attention by staff to issues of fintech and digital currencies may be needed, as the authorities embark on work related to the proliferation of cryptocurrencies. Close attention should also be paid to non-bank financial corporations (NBFCs)' growing credit exposure to the corporate sector and MSMEs, to limit potential spillovers given NBFCs linkages to banks. *While banks remain well capitalized and public sector banks (PSBs) have also recently been recapitalized, we do wonder if the slow pace of PSB reform is a concern given the large government footprint in the sector? Staff views are welcome.*

We encourage ongoing implementation of structural reforms to help boost growth potential and set the Indian economy on the path of sustained high growth needed for continued poverty reduction. We commend the wide-ranging structural reforms during the pandemic, including the agriculture and labor reforms, and ambitious program of privatization highlighted in the Buff statement. The boost to growth potential in the wake of these reforms will further entrench recovery and hopefully reverse the decline in growth rates that preceded the pandemic. In this regard, we also look forward to the implementation the approved structural reform bills on land and labor reform alongside other measures to enhance productivity and competitiveness, improve education outcomes, liberalize investment, and privatize SOEs. We also welcome efforts to facilitate trade and FDI and urge the conclusion of World Trade Organization agreements that will advance India's role in the global trading system. We also welcome the commitment to strengthen anticorruption measures and enhance governance and the effectiveness of the AML/CFT framework. Progress on addressing climate change risks and the transition to a green economy is commendable and we encourage ongoing climate change adaptation work.

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GRAY/21/2657

September 15, 2021

**Statement by Mr. Tanaka, Ms. Kashima, and Ms. Ogihara on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the insightful staff report and Mr. Bhalla and Mr. Goyal for their helpful Buff statement. India has been hit hard by two waves of the pandemic, but the authorities' broad range of policy measures have helped contain their economic impact. 2021Q2 GDP as well as recent high frequency indicators show the economy picking up albeit with divergence among sectors. The domestic and international economic environment is still highly uncertain. The path of the pandemic will heavily depend on the spread of new variants and the pace of vaccine rollouts. Inflationary pressures persist, and credit quality deterioration may lead to financial system vulnerabilities. As noted by staff, given the country's large share in the global economy and the potential spillover effects, close monitoring of future developments is warranted. As we broadly concur with the thrust of the staff's analysis and policy advice, we would like to offer the following comments for emphasis.

Fiscal Policy

Enhancing fiscal consolidation is essential for strong and stable growth in the mid- to long-term. Fiscal policies have rightly supported vulnerable groups and sectors through social protection, employment, health care, loan-guarantee programs and tax deferrals, and will need to remain accommodative in the near term to continue to address the health crisis. We welcome the relatively stable tax revenues despite the fluctuating economic activities and the authorities' efforts to prioritize spending. However, the central government's deficit (8.6% of GDP) and debt (63% of GDP) increased in FY2020/21, and is projected to further increase in FY 2021/22. We note that staff projects a stable decline in public debt, but there is much uncertainty in the risk of growth and interest rate outlook. While support measures should be continued in the near term, they should become more targeted as the crisis abates, and policies should shift towards raising potential growth. A credible medium-term consolidation plan, fiscal transparency and proper communication will be essential to reenforce market confidence and lower financing costs. In this regard, we welcome the inclusion of medium-term projections in next year's budget and the revised Fiscal Responsibility and Budget Management Act, which will contribute to fiscal transparency.

Monetary and Financial Policy

We welcome that accommodative monetary policy together with borrower relief measures have softened the impact of the pandemic on the corporate sector. The accommodative monetary stance and credible forward guidance will continue to contribute to market stability in the face of unprecedented uncertainty. The impact of the pandemic is unevenly distributed, and targeted support to viable firms in vulnerable sectors and MSMEs will continue to be essential. At the same time, simplification of the bankruptcy procedure and restructuring schemes will be needed to facilitate the exit of non-viable firms.

Enhanced monitoring of bank and non-bank balance sheets is warranted as policy support measures expire. NPLs could further increase, in particular among PSBs and NBFCs. Monitoring should be enhanced through the collection of granular data, broader analysis of corporate performance, and continuous communication with management. We encourage the authorities to be vigilant towards financial sector developments and take action as necessary, including bank recapitalization and the use of the National Asset Reconstruction Company Ltd. Privatization of PSBs and governance and risk management reforms are important to enhance financial sector efficiency and stability. NBFC regulatory reforms will also be key in reducing systemic vulnerabilities. We note that the authorities and staff have different views regarding the strength of the financial sector and its impact on India's potential growth. *Staff comments are welcome.*

Structural reform

We commend the authorities for advancing structural reforms amidst the pandemic, and encourage further efforts to address long-standing challenges. Given the pandemic's impact on access to education and training, it is essential that sufficient resource is allocated to mitigate scarring in human capital. We positively note that the authorities have moved forward with labor market reforms. *Could staff elaborate on their implications in improving labor force participation, formalization, and expanding social security benefits, and the progress so far?* Measures to facilitate trade and FDI will be key in deepening integration in global value chains. Other structural reforms such as privatization and fostering transparency should also be pursued to achieve robust private-sector led growth. Furthermore, we take note of the staff report's reference to India's climate change adaptation policies. *Staff comments are welcome regarding their economic implications, including on fiscal and financial sector risks.*

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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.

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GRAY/21/2659

September 15, 2021

**Statement by Ms. Riach and Ms. Freeman on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the comprehensive papers, and Mr. Bhalla and Mr. Goyal for their informative buff statement. It has been a challenging year for India and we wish to praise the authorities for a strong response to a devastating second wave of coronavirus, including the welcome extension of social safety nets, the central bank's broad and well-designed policy response and the growing vaccine rollout. The authorities have been rewarded with a strong economic bounce-back, which could be further strengthened if key reforms are implemented and downside headwinds mitigated. We agree with the broad thrust of staff's recommendations.

We congratulate the authorities on the vaccination effort to date and agree that a continued and strengthened vaccination rollout is key to minimise health impacts and to sustain the economic recovery. We congratulate the authorities for their wider therapeutics and diagnostic contribution to the global COVID 19 response.

Trade and investment liberalization. Good progress has been made on facilitating Foreign and Direct Investment and we support the ambition of the authorities to do more. Implementation will be key to encourage growth and to fully integrate India into global value chains. A key consideration should be reducing tariffs on intermediate goods, which would be particularly beneficial for the manufacturing sector. In addition, we agree with staff that concluding new WTO-based agreements and strengthening WTO rules would further open up investment.

Strengthening the financial sector. The central bank has helped to shore up many assets, but we agree with staff that there is a risk that many of these will become stressed as liquidity support is lifted, and that this could be dampening confidence. Credit flows and confidence could be enhanced by sufficient resourcing of financial institutions and improving assessment and reporting on existing borrowers. More widely, unlocking further international capital will help to maximise India's growth potential, and this would be facilitated through removing regulatory barriers such as data localisation.

Delivering on structural reforms. We welcome the authorities' focus on new structural reforms, particularly in labor, privatization, and agriculture. It is key that these are implemented as soon as possible. Reforms to create more and better jobs, particularly for women and for those in the informal sector, will help India to maximise the benefit of its strong demographic capital. In order to support reforms, we encourage the strengthening of institutions (such as increasing transparency of public expenditure and procurement) and streamlining of regulations to catch-up with the pace of policy announcements.

Building resilience for the future. As India looks towards the medium term a number of downside risks remain, which have been highlighted by the impact of COVID-19. Staff also highlight the risks to growth of a potential third wave. Wherever fiscal buffers allow, we encourage further consideration and investment in building resilience in the following four areas:

- I. **Enhancing social protection and reducing poverty and inequality.** As with many countries, the COVID-19 crisis has setback progress on development goals. We are concerned by an increase in poverty in India, particularly for the urban poor, those in the informal sector, and migrant workers. Progress has been made to extend social protection such as food and cash transfers for the most vulnerable, especially the rural poor, but gaps remain. We encourage the authorities to use the recovery to widen social safety provision further and to formalize jobs as far as possible. In the short term, India would gain through better identifying the set of citizens it wants to bring into social safety nets through greater data collection and utilisation of existing unique identification systems such as AADHAR.
- II. **Investing in health infrastructure.** We agree with staff that investment in the availability, sustainability and resilience of health infrastructure will be crucial to preparing for the next crisis. Investing in early warning systems, minimising supply risks, and improving information sharing will support increased healthcare availability for the wider population and mitigate risks of a third wave.
- III. **Improving access to education.** India has a strong demographic to enable growth and a respected private and public education system. The crisis has created a potential missed year for some pupils due to remote learning. Investment in equal access to education, especially for those in rural areas and for girls, is important for human capital and for continuity of education.
- IV. **Investing in sustainable infrastructure and climate resilience as part of a green, resilient and inclusive recovery.** India is a world leader in renewable technology, particularly battery storage and solar. A focus on mobilising more private finance to meet India's sustainable energy needs would help to deliver the ambitions in India's National Infrastructure Plan, to create more jobs, and to deliver health benefits through reducing pollution. We also support the authorities' request for further global technology transfer and increased international climate finance and encourage staff to work with the authorities to explore international opportunities. We welcome the central bank's membership of the Network for Greening the Financial System, and look forward to seeing the fruits of their involvement, both in

strengthening the Network's understanding of emerging market issues and in supporting the central bank to introduce climate policies into its work, particularly through stress testing.

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GRAY/21/2660

September 15, 2021

**Joint Statement by Mr. Hosseini, Mr. Mohieldin, Mr. Alhomaly, Ms. Abdelati, Mr. Saeed, and Mr. Halemi on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

India – Article IV Consultation – Friday Sep 17, 2021

We thank staff for the insightful report, and Mr. Bhalla and Mr. Goyal for the helpful Buff statement. The economy contracted sharply but based on the most recent data a steep recovery is under way. We welcome the recent pick-up in activity as evidenced in the 2021 Q2 release and the 2021 Q3 high frequency indicators reported in the Staff Supplement. *In this regard, we seek staff comments on the possible upgrade, if any of projected GDP growth in 2021-22 in the light of recent data.* Notwithstanding the encouraging signs, the downside risks stemming from the pandemic, including a possible third wave, continue to cloud the outlook. We commend the authorities for their policy response so far and encourage them to stay on course to reduce the risks to the economic recovery. We broadly concur with the staff appraisal and offer the following comments.

- 1. We take note of the authorities' national and state-level containment efforts during the first and the second waves together with the associated economic and social costs.** However, with the 2nd highest number of confirmed cases in the world and concerns about a possible third wave, scaling up domestic vaccination, addressing the relatively low uptake among females), and upgrading the healthcare infrastructure should continue to be the priorities. We commend the authorities for the recent significant pickup in the vaccination with 40 percent of the population receiving at least one dose. We note that the peak of the second wave coincided with the dip in vaccination uptake during May 2021. *Could staff elaborate on the reason behind the low vaccination uptake during that period?* India is one of the largest vaccine producers but production problems due to supply chain bottlenecks have

reduced domestic availability and may impede the achievement of domestic target of fully vaccinating 60 percent of the population by end-2021. *We would welcome staff comments on the authorities' views on balancing India's exports and domestic use of vaccines.*

2. We encourage the authorities to maintain an accommodative fiscal policy in the short-term to safeguard against possible setbacks until the recovery holds firmly.

We take positive note of the support measures introduced by the authorities to cushion the impact on the households, farmers, businesses, NBFCs and distressed electricity distribution companies. We found the composition of support measures to be appropriate and well-balanced, including on healthcare, social protection, employment support, and production incentive schemes. The coverage of income support for migrants, informal workers, and the urban poor, however, should be further strengthened. We welcome the implementation of the new “one-nation-one card” policy targeting the lower third income levels and improving portability of benefits. *Here, we would welcome staff comments on the coverage ratio of the vulnerable population, adequacy of the average payout, as well as ways to improve them.*

3. Indeed, the short-term recovery spending should be followed with a medium-term fiscal consolidation plan.

We welcome the authorities' commitment to reduce the deficit to pre-pandemic levels by 2025-26 and encourage them to ensure clear communication about their fiscal plans and priorities to the stakeholders to maintain the policy credibility. In this regard, we welcome the authorities' commitment towards further enhancing fiscal transparency, including through the revised Fiscal Responsibility and Budget Management Act and receipts from privatization. *Regarding the latter, we would welcome staff's elaboration on the authorities' privatization plan for financial and non-financial state assets.* Going forward, we encourage the authorities to allocate sufficient funds for high-return investments, including in human capital to make-up for the loss of learning and education opportunities due to pandemic and to further leverage India's favorable demographic. In this respect, we find staff's analysis outlined in Box 2 to be very useful.

4. We encourage the authorities to continue the supportive monetary stance coupled with adequate systemic liquidity, while closely monitoring the inflationary pressures.

We encourage sustaining the reform efforts to improve public sector banks' governance, cleanup nonperforming assets, ensure adequate capitalization of the banking system, and support further development of domestic corporate debt. Additionally, further safeguarding the liquidity of the viable firms within the vulnerable sectors is critical while communicating the temporary nature of

the support. As the recovery firms, the authorities should be able to gradually unwind the support. We note that the recovery of transportation and services sectors is behind the industrial sector. Potential increase in corporate insolvencies should be closely monitored, stress-tested and carefully administered in sync with the authorities' contingency plan. In this regard, we welcome the simplification of insolvency process for MSMEs.

5. **We concur with the authorities that the structural reforms already underway are critical for India's medium-term sustained and inclusive growth.** We welcome the authorities' commitment to liberalizing FDI regulations and crowding in private investment, and improving labor market functioning, but note staff concerns about implementation challenges. *We would welcome staff comments on the authorities' plan to address these challenges, particularly on the reform of the agriculture sector.* Furthermore, given the importance of the Indian economy in the global context and its complexities, we endorse Mr. Bhalla's comments on the need for staff to undertake deeper analytical studies on economic transition issues and socio-economic challenges facing India in the post-pandemic period.
6. **Finally, we support the emphasis on achieving India's SDGs through improved coordination across different levels of government.** We note staff's view that the pandemic has likely reversed some of the progress in reducing poverty, although the extent to which this was mitigated by the crisis response measures is yet to be known, as indicated in the Buff. Indeed, [India's Permanent Representative to the UN has emphasized](#) localization is imperative for a country the size of India to achieve the SDGs, and that the approach followed by India has improved measurement and yielded remarkable progress in achieving some crucial goals, namely Goals of Good Health and Well-Being (3), Clean Water and Sanitation (6), Affordable and Clean Energy (7), Sustainable Cities and Communities (11) and Responsible Consumption and Production (12). *We would welcome staff sharing the lessons from the Indian experience for localization, digital governance, cooperation between entities, and monitoring indices?*

With this, we wish the authorities and the people of India all the best.

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GRAY/21/2662

September 15, 2021

**Statement by Ms. Shortino and Mr. Commaroto-Roverini on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the informative report and Mr. Bhalla and Mr. Goyal for their helpful Buff statement detailing the outlook and policy options in the context of still very challenging health and economic circumstances.

Uncertainty and risks around the evolution of the pandemic remain high, and we agree with staff that additional fiscal support, with a focus on targeted support for the most vulnerable, is appropriate to support a durable recovery. We also agree with staff on the importance of establishing a credible medium-term fiscal strategy, including through improvements to administration of the goods and services tax (GST). *Can staff comment on the extent to which India currently has fiscal space and the most effective means to deploy it in support of a strong and inclusive recovery.*

As the acute phase of the pandemic passes, it will be increasingly important to maintain a focus on the health of the banking and financial sector. We find many of India's public sector banks (PSBs) in troubling condition and concur with staff's assessment that implementation of previous Fund advice on PSBs is increasingly urgent to help ensure financial stability and support effective monetary policy transmission. We encourage continued governance and risk management reforms to support the development of a more competitive, efficient banking system. We would have appreciated staff's views on India's implementation of the 2018 FSAP recommendations to complement the authorities' self-assessment in the report.

We commend the authorities for taking steps to move forward with some structural reforms even amidst the pandemic, including in areas such as openness to foreign investment, and we encourage continued focus on growth-enhancing and inclusive economic reforms going forward. Maintaining momentum on structural reforms and improvements to the investment climate will be critical to supporting long-term growth

beyond the immediate post-pandemic rebound. We take note of staff's encouragement to make further progress in areas such as tariff reductions and additional opening to foreign investment. We welcome additional staff commentary on the most critical and productive areas of focus in this regard.

Regarding the external sector, we share staff's skepticism of continued accumulation of reserves, as reserves now clearly exceed the amount needed for precautionary purposes.

We note that at nearly 200 percent of the ARA metric as of December 2020, reserves are well above the top end of the IMF's threshold for reserve adequacy (150 percent of the ARA metric). We do not see a case for further significant reserve accumulation and concur with the recommendation to allow the exchange rate to play a greater role as a shock absorber and to limit intervention to periods of disorderly market conditions. *Could staff provide more detail on the purpose of the Reserve Bank of India's recent operations in the currency markets?*

We take positive note of the authorities' constructive relationship with the Fund on Capacity Development (CD).

We welcome the integration of CD activities in surveillance and IMF policy advice, and we are pleased staff and the authorities leveraged virtual platforms to maintain robust online training and dialogue during the pandemic. We agree with staff that the authorities should pursue improvements to public financial management and fiscal transparency and would welcome additional provision of IMF CD, as needed, to increase publication of procurement contract data and beneficial ownership information.

We encourage the authorities to take steps to support not only an inclusive recovery, but also a green recovery, and place the Indian economy on a low-emissions path. We welcome India's goal of massively expanding the role of renewable energy in the economy, and we believe supporting reforms and speeding the clean energy transition will also contribute to the sustainable growth needed to help millions more Indians join the middle class. We encourage staff to conduct additional analysis on potential measures to make renewables more competitive, in addition to fiscal, financial, and external sector policies that can speed up India's transition to clean energy.

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GRAY/21/2663

September 15, 2021

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

We thank the staff for this informative report. We would also like to thank Mr. Bhalla and Mr. Goyal for their insightful Buff. We broadly concur with staff's conclusions and recommendations. India had been in the midst of an economic slowdown when it was hit by the unprecedented challenges of the COVID-19 shock, strict lockdowns and million-fold human tragedies in two infection waves. The authorities' economic response has softened the impact and contributed to ongoing gradual recovery. We wish the authorities continued success in their endeavors. The following comments regarding revenue mobilization, lending to MSMEs, fiscal transparency, and structural reforms as well as monetary and trade policies are mainly for emphasis.

We share staff's concern about risks of a more persistent crisis impact straining India's medium-term growth. Boosting high-quality public investment as part of a multi-year strategy while tracking a credible fiscal consolidation path appears warranted, also against the backdrop of dwindled private investment. The authorities are consequently doubling down on revenue mobilization through privatization and asset monetization, which should be underpinned by improving the quality of expenditure and broadening the tax base. We take positive note of the reinvigorated privatization drive and newly created national asset monetization pipeline.

While policy measures have generally mitigated the impact on the corporate sector, smaller companies and service industries seem to bear the brunt of the economic outfall of the Covid-19 pandemic. Micro, Small & Medium Enterprises (MSMEs) still find it difficult to get under the umbrella of these measures, due to banks' reluctance to lend to lower-rated firms or family companies without collateral. Listed corporates, on contrast, have been in a better position to benefit from easier capital market conditions. We acknowledge the necessity for narrowing such cleavages in access to finance. *To this end, we encourage staff to elaborate on the potential merits of the recently rolled-out Account Aggregator (AA)*

network, created through an inter-regulatory decision by RBI and other regulators as a digital intermediation platform to facilitate lending on the mere back of borrowers' credit, payments and cashflow history, regardless of collateral. Insights would be welcome into how this innovation might contribute to improving future credit flow and loan access for individuals and lower-rated MSMEs in India.

We commend the authorities on their efforts to enhance fiscal transparency by shifting off-budget food subsidies into the budget. At the same time, we understand that a transparent and credible medium-term consolidation path is crucial for putting public sector borrowing requirements on a downward trajectory, freeing up resources for private investment and reducing the public interest bill. We consequently encourage the authorities to follow through with their stated goal to gradually reduce the fiscal deficit below 4.5 percent of GDP once the emergency phase of the crisis passes. We also agree with the conclusion that insufficient economic growth is a primary risk for debt sustainability, which buttresses the arguments for continuing the reform drive with a view to boosting India's long-term potential growth in a sustainable manner.

We thank staff for the informative section on RBI's monetary policy and commend the monetary authorities on the broad compendium of measures to reignite growth and maintain financial stability. At the same time, we would like to encourage a more detailed discussion of the challenges posed by above-average inflation pressure, in particular the stickiness of the elevated core inflation in spite of the largest economic downturn ever, marked by a huge quantum of perceived slack. Irrespective of the severe supply-side disruptions as a most important factor, we wonder whether output gaps are eventually lower than believed with SMEs being more impacted by the crisis than supposed. *We would welcome more encompassing inquiries into the nature of actual supply-side disruptions, coupled with a look at the elevated inflation expectations of private households, which have reached a multi-year high. For a future report, we would also be grateful for an elaboration on how the slowdown of total factor productivity (TFP) growth, which has halved over the last 15 years, may have impacted potential growth since the onset of the global financial crisis, and what policy conclusions should be drawn from the findings.*

In line with staff, we underscore the overarching importance of structural reforms and encourage the authorities to keep up the momentum, including implementation of long-warranted labor market reforms. The latter will ease the administrative burden, smoothen job creation and contribute to more labor market formalization. Harnessing India's demographic dividend by putting in place the conditions for more and better jobs for its rapidly growing labor force is becoming an ever more daunting challenge. Labor force participation – in particular the female participation rate – has been trending down for a while and should be the subject of a more thorough inquiry. Reverse labor migration from urban factories to lower-paid farm and other rural non-farm jobs during the pandemic has

contributed to subdued wage bill dynamics, as opposed to buoyant large-enterprise earnings.

We welcome the authorities' concurrence of the macro-criticality of climate change as well as the respective advice in the staff report. Considering the potential of carbon pricing and the reduction of fossil fuel subsidies to reduce GHG emissions and easing public budgets, while recognizing that their introduction can cause strong social opposition due to distributive effects, we recommend to further pursue such approaches in the dialogue with India's authorities. In light of distributive concerns, models with revenue recycling and targeted compensations should be prioritized.

We concur with staff in emphasizing lower trade tariffs on intermediate goods as a facilitator of higher export activity. In line with the recovery of global economic demand, India's exports have turned out to be an important growth engine. We strongly agree that deeper integration into global value chains, supported by continued liberalization, would boost India's export capacity. At the same time, to harbor an ecosystem conducive to export growth, it would be critical to abstain from tariff hikes, which infringe Indian competitiveness through virtually acting as an export tax. We encourage the authorities to maintain their focus on enhancing competitiveness by advancing productivity-enhancing schemes and keeping the real effective exchange rate anchored through containing inflation. While welcoming efforts to ease remaining FDI restrictions, we suggest to further advance policies improving the business climate for international market participants, thereby enhancing India's attractiveness as a trade and investment partner. Trade and investment barriers should be significantly eased. Trade openness paired with investments and efficient financial intermediation would also boost productivity. *Against this background, staff research would be welcome as to how India's economy may benefit from joining free trade agreements.*

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GRAY/21/2664

September 15, 2021

**Statement by Mr. Chodos, Mr. Lischinsky, Ms. Bustillo, and Mr. Corvalan Mendoza on
India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for the informative report and Mr. Bhalla and Mr. Goyal for their insightful Buff statement.

The COVID-19 global pandemic severely hit India's economy, increasing poverty and inequality. The authorities' policy response and economic reforms have facilitated the recovery, which will benefit from the current pace of the vaccination program. Going forward, an accommodative policy stance and building on the reform momentum are critical to enhance prospects for long-term sustainable growth buttressed on timely and appropriate bold fiscal, monetary, and financial policies to avoid the scarring effects of the COVID-19 pandemic.

On the fiscal front, the authorities' medium-term strategy is rightly set to maintain the internal and external resilience of the country, where revenue-based fiscal consolidation would play a central role. In this regard, the authorities' have responded to the evolving demands of the pandemic, consistently expanding income support, particularly for those at the bottom of the income pyramid and will maintain the accommodative policy stance in the near term to support the recovery. As highlighted by Mr. Bhalla and Mr. Goyal in their Buff statement, the authorities are committed to a medium-term fiscal adjustment plan. In this respect, we underscore the importance of ensuring a growth-friendly consolidation strategy and welcome the emphasis on expanded public spending on health, education and infrastructure, which are critical for growth. On the revenue side, we encourage the authorities to continue with their efforts to increase tax revenues.

Monetary policy should maintain an easing bias. With output below its pre-pandemic level, an accommodative stance seems appropriate, while closely monitoring inflationary pressures to ensure that inflation remains within the target going forward. We encourage the authorities to continue improving the monetary transmission mechanism and concur with staff's assessment that improved communication and continued implementation of reforms, including public-sector bank governance, adequate capitalization, and resolution of non-performing loans, could help to accelerate the interest rate pass-through. We welcome the authorities' stand on exchange rate flexibility and interventions to smooth out excessive volatility.

On financial stability, the authorities are committed to ensuring adequate capitalization of financial intermediaries and monitoring credit quality, as noted in the Buff statement. Going forward, further strengthening of public banks' governance and reducing the state's presence in the banking sector are important to enhance financial stability.

Ongoing structural reforms augur well for bolstering India's growth prospects. As pointed out in the Buff statement, "... India, in divergence with most other economies, continued its agenda of structural reforms during the pandemic". The focus on infrastructure investment, privatization, and support of domestic manufacturing should help support the economic recovery and long-term growth. To this end, we also underscore the importance of addressing learning losses due to the pandemic and improving educational outcomes which are critical to increasing productivity and fostering sustainable growth.

Finally, we found paragraph 15 of the Buff statement thought provoking. Emerging Market Economies and India are changing and becoming more and more complex, taking a world scale dimension. Growth of the economy had been important before the pandemic and it is projected to achieve growth rates averaging 9 percent in the coming years; not only growth but the socio-economic drivers of growth are very dynamic. Another effect of this dynamism can be seen in the current calculated quota share (even with the current flaw formula and impelled by GDP PPP) which places the country among the main world players.

With these remarks, we wish the people of India every success in these challenging times.

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GRAY/21/2665

September 15, 2021

**Statement by Mr. Buissé, Mr. Roman, and Ms. de Waziers on India
(Preliminary)
Executive Board Meeting
September 17, 2021**

We thank staff for this comprehensive Article IV report and Mr. Bhalla and Mr. Goyal for their insightful buff statement. We broadly share staff's analysis and policy recommendations and want to offer the following comments.

The country was hit very hard by the Covid crisis, and we commend India for its important contribution to fighting the global pandemic with vaccine production, and we encourage further progress in domestic vaccination. Given the current low ratio of fully vaccinated population, we agree with staff that an acceleration in the pace of domestic vaccination will be needed to meet the authorities' target. We take very positive note of the recent information regarding the considerable increase in the daily rate of vaccination in August and we note from the Buff statement an increase in the authorities' target to fully vaccinating 60 percent of the population by end-2021. We are also very concerned by the gender gap in vaccination rates. Given risks of a potential third wave, we agree with staff that the recovery in domestic demand is expected to be gradual and that uncertainties about the near-term economic outlook are elevated and could have negative global and regional implications.

Like staff, we encourage additional targeted fiscal support on priority spending (social protection, employment support, health spending, education) **until the recovery is fully entrenched and to support the most vulnerable groups. On the medium-term, we agree on the need for a gradual, credible and clearly communicated fiscal consolidation strategy** accompanied by resources mobilization measures and structural reforms to boost potential growth. Such a comprehensive strategy will be essential to achieve a reduction in public debt without cutting necessary public expenditures to support the most vulnerable, sustain the economic recovery and achieve the SDGs. We welcome progress in fiscal

transparency, enhancements in expenditure efficiency and the government's privatization agenda. We also look forward to the implementation of the ambitious national infrastructure pipeline to help close infrastructure gaps and we encourage the authorities to prioritize job-rich green investments.

We concur with staff that accommodative monetary policy remains appropriate in the short term to support the recovery and ensure adequate liquidity support, while very closely monitoring elevated inflation pressures. We highlight the accumulation of risks as regional health uncertainties could create additional supply chain disruptions and put additional pressure on import prices. We are concerned by the impact of elevated inflation pressures on vulnerable households and on inflation expectations and market confidence. As the recovery strengthens, we agree with staff on the importance of transparent and forward-looking communication to guide normalization and foster orderly market transitions.

We agree with staff that exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions. We observe that the precautionary accumulation of reserves by the RBI, RBI's interventions and weak capital account liberalization shielded the rupiah from severe currency crises. *How does staff assess those policy decisions with respect to the IPF? What would be staff's recommendation for India to ensure the optimal liberalization of the capital account?*

We concur that ensuring adequate capitalization in the financial system is critical to deal with the potential surge in corporate insolvencies. We regret the lack of focus on the shadow-banking sector and the persistence of the weaknesses of the banking and financial system, probably worsened by the crisis. Regarding the banking sector, we take positive note of the results of the stress tests undertaken by RBI and that the government is ready to provide additional capital as needed. Nevertheless, the deterioration of banks' balance sheets and liquidity tensions in a highly interconnected environment, especially with the Non-Bank Financial Intermediation (NBFIs), could pose risks to the ability of the financial sector to support the Indian economic recovery in the short to medium term. Increases in NPLs are to be expected as policy support measures expire. In a context of prolonged uncertainties, recapitalization needs may further delay the reactivation of the credit supply. Given that background, we consider that an update of the Financial System Stability Assessment (FSAP) would be useful. In the meantime, we encourage rapid progress in the implementation of long-standing structural reforms to enhance NBFC sector regulation and the resolution management framework and to improve monetary policy transmission through the bank lending channel.

We commend the authorities for advancing structural reforms during the crisis and concur with staff that further progress in implementation will contribute to boost medium-term growth and mitigate adverse impact of the pandemic. We encourage focusing on labor market participation and human development given the negative impact of the pandemic on inequalities, especially on access to education for the most vulnerable groups, and the need to tackle the hysteresis effect of the crisis on the labor force. In addition, the post-crisis economic recovery is an opportunity to build a greener growth. Staff advice is key to help countries integrate mitigation, transition, and adaptation into their macro and financial planning. We welcome India's progress toward its Paris Agreement targets and we encourage close collaboration between the authorities and staff for further progress and for a more extensive coverage of India's climate-related policies in future staff reports.

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GRAY/21/2666

September 15, 2021

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

We thank staff for the informative paper and Mr. Bhalla and Mr. Goyal for the helpful Buff statement. India was among the fastest-growing economies in the world in the decade before the pandemic. The two COVID-19 waves have resulted in a deep and broad-based economic downturn in India. After a sharp contraction last year, the economy is projected to rebound by 9.5 percent this year and 8.5 percent next year. We broadly share staff's appraisal and would like to limit our comments to the following.

The top priority for India remains to put the health crisis to an end. As staff rightly pointed out, the main domestic risk is the continued spread of the virus, the emergence of new variants, potential future waves, as well as difficulties in ramping up vaccinations. However, staff's view that India "may be" on track to vaccinate 40 percent of the population by end-2021 seems overly conservative, given that around 42 percent of the population has already received one dose by now. *Staff's views are welcome.* In addition to accelerating vaccinations, we agree that it will be important to close the gender gap in vaccination.

The authorities need to double down on policies to avoid deeper scarring. We concur with staff that enhancing the size and scope of the health insurance scheme and higher spending on health care and infrastructure are important priorities. We take note that the Buff statement suggests that the authorities consider staff may not have fully appreciated the significant support provided by the authorities. *Staff's response to the authorities' comments would be appreciated.*

The authorities should complement the short-term recovery spending with the medium-term fiscal consolidation plan. The pandemic has further weakened India's fiscal position. While public debt is projected to decline gradually over the medium term, there is uncertainty around the fiscal outlook. We take positive note from the Debt Sustainability Analysis (DSA) that India's public debt remains broadly stable, but the slower-than-projected

pace of fiscal consolidation poses a major risk. The authorities have recently renewed a pledge to spend more than US\$1 trillion on infrastructure. *Has this been factored into the DSA and how does it affect India's fiscal outlook?*

Maintaining accommodative monetary policy remains appropriate, although inflation pressures should be closely monitored. The authorities' supportive measures with lower policy rates and adequate liquidity in commercial banks should be continued until the economic recovery has taken hold firmly. We take note that banks' and nonbank financial companies' non-performing assets (NPA) ratio has been declining since the beginning of the pandemic. *What is staff's estimation on the impact on NPA ratio is non-viable firms were allowed to exit?* As the recovery firms, the authorities should gradually unwind the support to avoid moral hazard.

Regarding the external sector, we broadly agree with staff that exchange rate flexibility should act as the main shock absorber. Staff has assessed that India's foreign reserves are now adequate for precautionary purposes, and we note the authorities have reiterated their commitment to exchange rate flexibility and indicated that interventions are only intended to smooth out excessive volatility. *Could staff elaborate on how the authorities have used CFM/MPMs to manage the capital inflow?* As advanced economies normalize their monetary policies, emerging markets including India are expected to confront capital outflow in the next phase of the crisis. *What are staff's policy advice for the authorities under such circumstances?*

Steadfast implementation of structural reforms is needed to maximize India's growth potential. Endowed with a talented population and a multitude of natural resources, India has great potential for achieving strong, sustainable, and inclusive growth. To fully unlock this potential, it is important to remove market rigidities and improve the business environment, and the current timing seems opportune for a strong structural-reform push. We strongly agree with staff that further efforts toward investment liberalization. Rolling back the tariffs introduced earlier this year could also help deepen India's integration in the global value chains.

With these remarks, we wish the authorities and Indian people all the best during these difficult times.

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GRAY/21/2669

September 15, 2021

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

We thank staff for the informative report and Mr. Bhalla and Mr. Goyal for the insightful BUFF statement. We broadly agree with the thrust of the staff appraisal. The COVID-19 pandemic has taken a heavy toll on the Indian people and the economy. Now, even with recovery underway, uncertainty about the future economic development remains elevated, with a notable downside risk of a third wave of the pandemic.

Addressing the health crisis and ramping up vaccine production is the key priority. We commend the Indian authorities for the timely measures, including the national lockdown during the first wave, and localized state-wide lockdowns during the second wave, as well as for other emergency measures. We also commend India's vaccine production for resolving the supply chain bottlenecks and ramping up the vaccine output. India's vaccine production has critical implications for the global efforts to fight the pandemic, since COVAX relies on production from India. We also take positive note of the authorities' plans to vaccinate more than 50 percent of total population by end-2021.

Expansive fiscal stance should support the recovery, but gradual fiscal consolidation over the medium term would limit debt vulnerabilities. During the pandemic fiscal support from the central and state governments was a lifeline for the vulnerable groups. As the recovery from the pandemic firmly takes hold, the authorities plan to gradually decrease the fiscal deficit, so that the public debt is projected to decline over the medium term. High uncertainty persists over the economic growth rates, and we encourage the authorities to bolster the long-term economic potential with investments in infrastructure, education, health, and social protection, while keeping the fiscal consolidation growth friendly.

Accommodative monetary policy stance is appropriate in the near term, but persistent inflationary pressures point towards a possibility of gradual monetary tightening.

During the pandemic the RBI has provided significant and broad-based monetary easing, which has supported financial markets and the real sector. We agree with staff that implementation of long-standing reforms, including PSB governance, NPL resolution, and adequate capitalization might help to strengthen bank lending channel of transmission mechanism. We note that during the crisis the RBI successfully used the forward guidance, which helped to better anchor market expectations. However, we note that inflationary pressures from supply chain disruptions persist. Therefore, a gradual exit from the accommodative policy stance should be planned early on, since the monetary authorities do not want to lose credibility or to lock themselves into the forward guidance promises they may be unable to deliver. *Given the broad-based price increases, do staff think that some of the fall 2020 price increases reflected improving demand, or that supply-side factors were propagated due to real rigidities in the economy?*

Structural reform agenda would help to sustain inclusive, broad-based, and green recovery over the medium term. We welcome the fact that the authorities initiated many important structural changes during the pandemic, easing administrative bottlenecks on the labor market, improving labor market functioning, and expanding social security benefits. Going forward, increasing public investment in infrastructure, health, and education would advance the Sustainable Development Goals and improve social outcomes. We also note India's progress toward its Paris Agreement targets, as well as investment in renewables and climate change adaptation policies, which position the country well to take advantage of the growing global demand in greentech.

With these remarks, we wish the authorities success in their future endeavors.

India-2021 Article IV Consultation

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/21/92—September 17, 2021

Staff's responses to technical questions are below.

Growth outlook

1. **We welcome the recent pick-up in activity as evidenced in the 2021 Q2 release and the 2021 Q3 high frequency indicators reported in the Staff Supplement. In this regard, we seek staff comments on the possible upgrade, if any of projected GDP growth in 2021-22 in the light of recent data.**
 - The 2021Q2 GDP outturn was slightly below market expectations and the quarterly July WEO projection. At the same time, high frequency indicators continued to gain strength in 2021Q3, suggesting economic recovery after the second wave of the pandemic. Reflecting both the recent Q2 GDP outturn and a pickup in high frequency indicators in 2021Q3, the annual FY 2021/22 growth projection remains broadly in line with the July WEO of 9.5 percent, albeit with a slightly different quarterly path.

2. **Staff have revised their estimate of potential growth in India lower, partly due to sustained financial sector weakness. Could Staff elaborate on these revisions? Could staff explain further the reasons for such substantial reduction in estimated potential growth?**
 - Since the 2019 Art. IV (due to pandemic, the 2020 Art. IV was postponed) India's potential growth has been revised down a number of times (discussed with the authorities during two interim staff visits and reflected in the quarterly *World Economic Outlook*). The revisions were driven by multiple factors, including a more persistent impact of the pandemic and the need to further strengthen the financial sector.
 - Staff commends the wide range of emergency measures and economic policy responses introduced by the authorities to cushion the impact of the pandemic, including fiscal support, monetary easing, liquidity, and regulatory measures for the financial sector, as well as credit and debt relief programs for borrowers. Despite the pandemic, the authorities also have advanced structural reforms, the successful implementation of which will be critical for supporting medium-term growth.

3. **For a future report, we would also be grateful for an elaboration on how the slowdown of total factor productivity (TFP) growth, which has halved over the last 15 years, may have impacted potential growth since the onset of the global financial crisis, and what policy conclusions should be drawn from the findings.**
 - Staff projects potential growth using a production function approach. While the recent moderation in TFP growth (based on estimates from the Penn World Table) contributed to a decline in potential growth, a slowdown in the growth rates of factor inputs (for example, investment and therefore capital stock) also played an important role.

- A successful implementation of the announced wide-ranging structural reforms, including reforms in the agriculture sector, labor markets, education, and infrastructure investments, and privatization, could improve productivity and increase India's growth potential.

Vaccination

4. Could Staff or the authorities comment on why there is such a large gender disparity in India's vaccination rollout, and what can be done to close this gap?

- Data is based on CoWin—an online platform for vaccine registration and data aggregator administered by the Ministry of Health and Family Welfare. The gender gap in vaccination rates has declined to 10 percent (52.4 percent of vaccine doses administered have been given to men and 47.6 percent to women).
- WHO has recognized that gender disparity in vaccination rates is a problem globally. They noted in a recent report that "understanding how gender roles, norms, and relations and gender inequality influence access to, and demand for, vaccines in different contexts is critical for expanding reach. Gender-related barriers must be addressed in the planning and rollout of vaccine distribution to reach everyone, especially those most marginalised."

5. Could staff provide an update on India's contribution to COVAX initiative?

- COVAX, which provides vaccines to low- and middle-income countries, relies on production from India, who is one of the largest manufacturers of WHO-approved safe and effective COVID-19 vaccines. Delays in vaccine production and restrictions in exports since spring-2021 have thus had global implications.
- Statements by the Chairman of National Technical Advisory on Immunization suggested that India will resume vaccine exports in the near term, although no official announcement has been made yet.

6. We note that the peak of the second wave coincided with the dip in vaccination uptake during May 2021. Could staff elaborate on the reason behind the low vaccination uptake during that period?

- The peak of the second COVID wave in India did coincide with a slight decline in vaccine administration from about 3.5 million doses per day at its first peak in April 2021 to about 1.35 million doses per day near the height of the second wave. Since then, the Government of India has rapidly accelerated the pace of vaccination, which reached 7.7 million doses per day last week.
- There are a number of factors that may have contributed to the brief decline in the vaccination rate, including voluntary social distancing and fear of congregating in large groups (as could be the case at vaccination sites), temporary supply shortages and supply chain bottlenecks. Many of these have since been resolved.

7. India is one of the largest vaccine producers but production problems due to supply chain bottlenecks have reduced domestic availability and may impede the achievement of domestic target of fully vaccinating 60 percent of the population by end-2021. We would welcome staff comments on the authorities' views on balancing India's exports and domestic use of vaccines.

- Vaccination Campaign: India is one of the largest manufacturers of WHO-approved safe and effective COVID-19 vaccines and has made great strides in recent weeks in accelerating the pace of vaccination of its citizens. As of Monday, a total of 743.8 million doses have been administered, with a weekly average of 7.7 million last week (up from 7.2 million). About 13.4% of the total population (19.1% of the adult population above 18 years) has been fully vaccinated, while 42.4 percent of the total population has received one dose.
- Domestic Production: The Serum Institute of India, manufacturer of Covishield, has enhanced its capacity to more than 200 million doses per month. The company had supplied 169 million doses in August, significantly higher 124 million doses in July and 97 million in June 2021. The central government has recently placed a purchase order of 660 million doses of Covishield to be supplied by December 2021. In August, India's first mRNA Covid vaccine by Gennova Biopharmaceuticals was granted approval for Phase 2/3 trials. In August the authorities also gave emergency-use authorization to Zydus Cadila's Covid vaccine. This is the first Indian vaccine for children as it can be administered to people aged 12 years or above. The company expects to start supplying the vaccines by end--September and scale up production capacity to 10 million doses per month by October 2021.
- Exports: The Chairman of National Technical Advisory on Immunization indicated that India will resume vaccine exports in the near term.

8. Staff's view that India "may be" on track to vaccinate 40 percent of the population by end-2021 seems overly conservative, given that around 42 percent of the population has already received one dose by now. Staff's views are welcome.

- The pace of vaccinations in India has picked up in recent weeks but there remains a gap between the share of the population fully vaccinated and the share with one dose of the vaccine. The daily rate of vaccination has increased considerably, averaging 7.7 million doses last week (up from 7.2 million the week before), with a total of 180 million doses administered during August alone. As noted in the Staff Statement on September 14, if the pace of vaccination is maintained, over 750 million doses could be administered by end- 2021, equivalent to 50 percent of the total population (and 70 percent of the 16 and older population). Currently, about 12.5 percent of the total population is fully vaccinated, and 40 percent of the population received at least one dose (as of September 9).

Socio-economic impact of COVID-19 and policy response

9. We take note that the Buff statement suggests that the authorities consider staff may not have fully appreciated the significant support provided by the authorities. Staff's response to the authorities' comments would be appreciated. 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. To combat poverty, we note from the buff that the authorities have expanded income support and changed the rules of allocation of food subsidies. Staff comments on those strategies are welcome.

- India has made significant progress over the last decade in reducing absolute poverty. According to the World Bank, between 2011-12 and 2017, India's poverty rate is estimated to have declined from 22.5 percent to values ranging from 8.1 to 11.3 percent.
 - While estimates of the impact of COVID-19 shock on poverty is highly uncertain and existing estimates do not reflect the effects of policy measures, the COVID-19 shock had a deep and broad-based impact on economic activity and reversed some progress in reducing poverty, given India's large share of vulnerable population—nearly half of all households in India are estimated to live between the poverty line and twice the poverty line. Furthermore, the rural focus of the pre-existing safety net and the initial lack of portability of benefits led to increased suffering for urban and migrant informal workers in the early stages of the pandemic. Finally, labor market informality and lack of access to significant savings or workplace based social protection benefits have likely constrained the ability of households to cope with large shocks such as COVID-19.
-
- The authorities quickly scaled up cash and food assistance through pre-existing programs and this has been an important part of the fiscal policy response. The government of India also has a DPO with the World Bank to accelerate India's COVID-19 Social Protection Response Program. The programs had broad reach and effective delivery mechanisms. The authorities also made significant progress with improving the portability of existing benefits, for example, through the One Nation One Ration Card system, as mentioned in the SR. This reduced the risk of poverty, especially for migrant workers. The authorities continue to work with the WB on improving the coverage and responsiveness of the Indian social protection system under a new DPO (Creating a Coordinated and Responsive Indian Social Protection System) which was approved in June 2021 and will focus on improving the coverage and responsiveness of the Indian social protection systems, with an emphasis on acceleration of portable benefits.
 - A deeper analysis of the socio-economic effects of the COVID shock, both in the short-run and in the long-run, and how policies have helped and can help to mitigate these impacts is an important priority. We look forward to engaging with the authorities and all the other relevant official, international, academic, and civil society partners in this area.
- 10. The coverage of income support for migrants, informal workers, and the urban poor, however, should be further strengthened. We welcome the implementation of the new “one-nation-one card” policy targeting the lower third income levels and improving portability of benefits. Here, we would welcome staff comments on the coverage ratio of the vulnerable population, adequacy of the average payout, as well as ways to improve them.**

- India has many social protection schemes with varied coverage. For instance, the Targeted Public Distribution System has near universal coverage, currently targeting 800 million people, and provides subsidized grain through a broad network of shops across the country. At the same time, there are gaps in coverage of many other programs, particularly along gender and urban-rural lines, and there has historically been difficulty in the portability of benefits.
- Coverage is improving in many areas of social benefits in India. The “One Nation One Ration” card developed during COVID was critical to ensure continued ration coverage, especially for migrant workers. A national common digital platform enabled initiative for universal banking coverage has also been launched to ensure that every Indian has a bank account, enabling the government to transfer subsidies and other benefits directly to the target beneficiaries and plug leakages in its welfare programs. The World Bank is working with the authorities to further expand coverage of social benefits through two DPOs “Creating a Coordinated and Responsive Indian Social Protection System (CCRISP)” and “Accelerating India’s COVID-19 Social Protection Response Program”.

11. Can staff provide any information as to the use of digital identity database to improve targeting support?

- India has already made significant progress with the use of digital identity databases and delivery of cash transfers to a large segment of the population (for example through Direct Benefit Transfer Mission and Aadhaar). Authorities’ COVID-19 response relied on India’s near-universal programs, supplemented by digitized Socio-Economic Census data, state level databases and the Aadhaar digital ID network to identify beneficiaries.
- Improvements in the use of digital identity databases going forward can involve moving towards an integrated system for digital innovations for cash delivery and beneficiary identification currently operating as independent schemes under the purview of discrete line ministries. It would also be beneficial for digital identity databases to broaden coverage. The authorities are also creating a National Database of Unorganized Workers (NDUW) seeded with Aadhaar as the unique identifier, which will facilitate delivery of social security schemes implemented by Central and State Governments. Finally, the authorities’ National Digital Urban Mission (also supported by the World Bank’s latest DPO), which aims to improve digital infrastructure in urban local bodies, to help create registries of properties, citizen needs and municipal information, is a welcome step.

12. Could staff comment on fiscal and financial sector support measures best suited to informality and helping vulnerable populations sustain their livelihoods, such as enhanced use of fintech?

- While the impact of COVID19 has been devastating everywhere, it has been particularly severe for individuals in the informal sector who were more likely to lose their jobs, suffer income losses during lockdowns, have less access to health and sanitation facilities, and be excluded from formal social safety nets. It would be important to strengthening safety nets to include these informal workers. In India, and elsewhere, the increased digitalization of support—in particular, digital cash transfers—could be helpful.
- Two of the most influential projects by Government of India, with support from the WB (through their July 2021 DPO) have been:

- Improvements in last mile delivery of cash transfers through the Direct Benefit Transfer Mission (DBTM), which is responsible for digital payments into beneficiary bank accounts, by working with the Ministry of Rural Development on leveraging the Socio-Economic Census to improved transparency of beneficiary identification through use of digitized asset and socio-demographic data.
- The Pradhan Mantri Garib Kalyan Yojana (PMGKY), which provides a package of cash and in-kind social assistance to protect poor and vulnerable households, and relies on India's Aadhaar digital ID network (a biometric digital ID program). All programs under PMGKY use digital modes of targeting and delivery to seamlessly transfer benefits, attempting to minimize leakages through tech-enabled transparent processes. 70% of all food ration delivery is digitized as 85% of Fair Price Shops are using Aadhaar enabled point of sale devices for authenticated and automated delivery. Food supply distribution is also digitized and tracked through geo-coding in many states to check against abuse.
- The World Bank notes that the introduction of these platforms (DBTM, Aadhaar) enabled India to leapfrog from paper-based identification and payments in schemes to end-to-end digitization, which proved critical to quickly and efficiently scaling up social support and ensuring broad coverage of that support during COVID-19. More broadly, as the World Bank also notes, countries will greater adoption of digital financial services will find it easier to ensure continued access not only to financial services and safety nets, but also support for programs like e-commerce, tele-medicine, and e-learning.

Fiscal Policy

13. It would be helpful if Staff could provide further details on the state-level fiscal situation, and whether state finances are likely to impact the central government's longer-term fiscal sustainability.

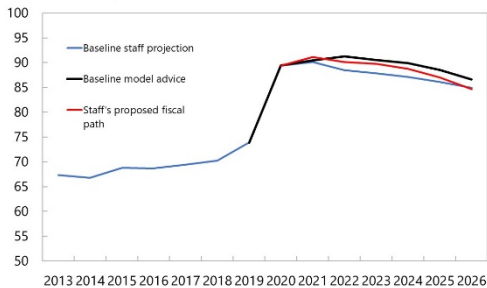
- State governments constitute an important part of the general government fiscal finances. Prior to the onset of COVID-19 pandemic, state government finances have been on an improving trajectory. The state governments' fiscal deficit declined from 3.5 percent of GDP in FY2016/17 to about 2.5 percent of GDP during FY2017/18-FY2019/20.
- A key concern with regards to state finances with implications for general government debt sustainability is contingent liabilities from state-owned electricity distribution companies. Despite earlier efforts to tackle the poor financial performance of DISCOMs, their financial positions have not improved, posing an important fiscal risk. Improvements in fiscal reporting and transparency, PFM reforms, and revenue mobilization remain important policy areas to ensure state finances are on a sustainable path, while ensuring sufficient resources for priority areas. In that context, revenue gains from staff's proposed measures to improve GST revenues are to a large extent projected to benefit state government finances.

14. Could staff elaborate on the adequacy of their proposed additional fiscal support and its effects on growth and public finances?

- Staff's proposed fiscal policy path implies additional fiscal support of about 1 percent of GDP in the current fiscal year, about 0.8 percent of GDP in FY2022/23 and about 0.4

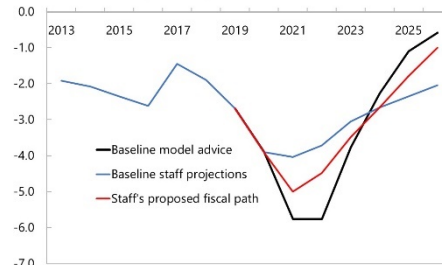
percent of GDP in FY2023/24, but a more ambitious fiscal consolidation later in the medium-term relative to the baseline fiscal path. Staff's proposed fiscal policy path tries to strike a balance between supporting economic activity in the context of the estimated economic slack and potential scarring effects on the one hand and fiscal sustainability and confidence in fiscal sustainability on the other hand. Staff's proposed path would lower the output gap by about 0.5-0.8 percentage points over the near-term and would imply a higher public debt profile in the near term (by about 1-2 percentage points of GDP).

General government gross debt
(Percent of GDP)



Source: IMF staff calculations.

Structural Primary Balance
(General Government, percent of potential GDP)



Sources: IMF staff calculations.

15. Can staff comment on the extent to which India currently has fiscal space and the most effective means to deploy it in support of a strong and inclusive recovery?

- While fiscal space has been reduced by the increase in public deficit and debt staff has identified targeted spending on social protection, employment support and health spending as key areas in the near-term. In the medium-term, fiscal space should be used to expand spending on social protection, health, education, infrastructure, and the transition to a greener economy.

16. The authorities have recently renewed a pledge to spend more than US\$1 trillion on infrastructure. Has this been factored into the DSA and how does it affect India's fiscal outlook?

- Staff welcomes the Indian authorities' renewed pledge to expand spending on infrastructure. The authorities plan under the National Infrastructure Pipeline for the period FY2019-25 entails a pipeline of greenfield and brownfield projects under different stages of implementation. This year's budget announced infrastructure spending under NIP to reach about 111 trillion Rs between 2020-2025. The NIP is planned to be financed jointly by the central and state governments and the private sector. Public spending on infrastructure will be partly financed by higher allocations in the budget and partly through asset monetization.
- Staff projections of on-budget public capital expenditure incorporate a ramping up of investment in the near-term; but assumes a declining public investment to GDP ratio path in the medium-term.

17. Staff's progress report on the reform of fiscal reporting practices would be appreciated.

- The authorities took important steps in improving the coverage of central government budget data by bringing the previously off-budget part of food subsidies into the budget this year. Further improving the coverage, timeliness and comprehensiveness of fiscal data reporting remains a key policy recommendation. The 15th Finance Commission, whose final report was published this year, has also emphasized the need for improvements in fiscal data reporting. IMF stands ready to provide further CD on the government's reform endeavors on these topics.

18. As the recovery consolidates, India will require a gradual transition to a medium-term fiscal consolidation that will need actions both on control and in the prioritization of expenditures (with health, education included among the priorities) and strengthening revenue mobilization. We would welcome staff's comments on the scope of using tax and spending big-data reviews to inform this process.

- The authorities are using artificial intelligence and big data to improve tax compliance and staff welcomes these initiatives and notes the improvements made in recent years in tax enforcement. On the expenditure side, the authorities have undertaken a large expenditure review to get all departments to approve and appraise their schemes.

19. We would welcome staff sharing the lessons from the Indian experience for localization, digital governance, cooperation between entities, and monitoring indices?

- India's approach to achieve its SDGs through improved coordination across different levels of government and emphasis on localization is commendable. The National Institution for Transforming India (NITI Aayog) coordinates India's SDG implementation and has fostered an environment of cooperative and competitive federalism.
- For a country the size of India, and for policies to be effective, localization is critical and in fact most of the functions that have a bearing on SDGs fall within the purview of the sub-national or state governments. Some lessons from India's experience include¹:
 - Institutional mechanisms to embed the "whole-of-government approach" in planning.
 - Importance of preparing the National Indicator Framework which not only tracks progress but also helps identify data gaps.²
 - Importance of aligning accounting and budgeting frameworks to integrate SDGs and the need for an assessment of resource needs and availability of financial resources for implementing SDGs is required at both the central and state government levels.
 - Importance of engaging in continuous advocacy to sustain momentum of localizing the SDGs.
 - Empowering local self-governance institutions, including by community ownership and integration of GDSs at grassroots level.

¹ The lessons shared below are based on Niti Aayog's report titled "Localising SDGs: Early Lessons from India, 2019" (LSDGs_July_8_Web.pdf (niti.gov.in))

² SDG India dashboard (<https://sdgindia2030.gov.in>)—a data repository of the National Indicator Framework on SDGs.

- A robust system to identify those that are vulnerable and marginalized and ensuring their benefits and rights.
- Ensuing effective partnerships, for example between public and private partners.

Asset monetization and privatization

20. Could staff elaborate on the impact of SOEs on fiscal deficit?

- SOEs affect the fiscal deficit through dividend payments and direct government support to SOEs (for example recapitalizing a loss-making SOE). The authorities treat divestment receipts as revenue in their presentation of their fiscal accounts, while staff presentation treats these receipts as below-the-line. Over the past two years, dividend receipts from SOEs (for the central government) was about 0.2 percent of GDP, while the budget support to SOEs was about 1 percent of GDP composed of equity and loans. Data and information on state government SOEs and their impact on fiscal balances.

21. We would also be interested to learn more about the asset monetization plans, also considering that SOEs are a significant part of the economy. Staff's assessment of the NMP and the government's target to lease government assets of around INR6 trillion is welcome.

- The asset monetization pipeline is developed by NITI Aayog, in consultation with infrastructure line ministries, and is estimated to have the potential to generate 6 trillion Rs through core assets of the Central Government, over a four-year period, from FY 2022 to FY 2025. Currently, only assets of central government line ministries and central government owned SOEs in infrastructure sectors have been included. The authorities plan to do prepare an asset pipeline from state governments.
- The pipeline includes selection of de-risked and brownfield assets with stable revenue generation profile and the transactions will be structured around revenue rights, leaving the government as the primary ownership of the assets. The top 5 sectors (by estimated value) constitute about 83% of the aggregate pipeline value. These top 5 sectors include: Roads (27%) followed by Railways (25%), Power (15%), oil & gas pipelines (8%) and Telecom (6%).
- In terms of annual phasing by value, 15% of assets with an indicative value of Rs 0.88 lakh crore are envisaged to be rolled out in the current financial year (FY 2021-22). The assets and transactions identified under the NMP are expected to be rolled out through a range of instruments. These include direct contractual instruments such as public private partnership concessions and capital market instruments such as Infrastructure Investment Trusts (InvIT) among others.

22. 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. We would welcome staff's elaboration on the authorities' privatization plan for financial and non-financial state assets.

- Government's privatization agenda could accelerate efficiency gains and productivity across key sectors with positive knock-on effects for the broader economy. An example

is the financial sector, where potential benefits from a better allocation of domestic savings into productive investments could further boost productivity. Also, privatization can facilitate resources for new public investment in health, education and infrastructure, which is critical for India's growth potential and structural economic transformation. As highlighted in Box II of the staff report, a solid regulatory framework for good governance and transparency during privatization, competitive markets, and ensuring an equitable distribution of privatization rents are important for successful implementation of the privatization program.

- The government's privatization strategy envisions the privatization or closure of all SOEs in nonstrategic sectors, while keeping a bare minimum presence in strategic sectors. Strategic sectors are defined as (i) Atomic energy, Space and Defense; (ii) Transport and Telecommunication; (iii) Power, Petroleum, Coal and other minerals; and (iv) Banking, Insurance and Financial Services. NITI Aayog is tasked with advising the government on the set of SOEs operating in strategic sectors that should be kept under government control, privatized or submitted for closure. There are currently several transactions in the pipeline and this year's budget announced that a number of transactions (including BPCL, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, BEML, Pawan Hans, Neelachal Ispat Nigam limited) would be completed in 2021-22. The budget also proposed privatization of two public sector banks and one general insurance company this year.

Inflation developments and monetary policy

23. 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?

- In addition to significant policy rate easing since the pandemic (reduction in repo and reverse rates by 115 and 155 basis points), the RBI implemented various liquidity measures, including long-term repo operations, operation twists, and asset purchases, which resulted in a cumulative liquidity injections of around 6 percent of GDP. These liquidity measures eased financial conditions and improved monetary transmission to money market, government bond market and to bank loans. It should be noted that the improvement in monetary transmission during the easing cycle was also aided by the RBI's introduction of external benchmarking of banks loan and forward guidance on policy rate in 2019 and asset purchases in 2021.
- The formalization of the government asset purchase program in the secondary market announced by the RBI helped improve communication, provided more clarity on the timing and the volume of asset purchases, supported market confidence and outcome. The total volume of asset purchases under the program during the first two quarters of the current fiscal year is around 1 percent of GDP. Recent market prices in the government securities market suggest that asset purchases have been flexible and allowed price discovery, which is important for market confidence and central bank credibility.

24. We would welcome more encompassing inquiries into the nature of actual supply-side disruptions, coupled with a look at the elevated inflation expectations of private households, which have reached a multi-year high.

- During the two waves of the pandemic, restrictions imposed by Indian states (national lockdown during the first wave) to curb a rapid surge in coronavirus cases disrupted production (factory closures), caused labor shortages, especially in the small and medium-size companies, hit freight networks, affected transportation and other distribution-related and contact-intensive services. It should be added that the targeted nature of the lockdown during the second wave moderated the disruption relative to the first round.
- Household inflation expectations in India remains elevated. A recent RBI study has found that household inflation expectations in India have generally been above those of the professional forecasters (which have become more anchored around 4-5 percent since the introduction of the flexible inflation targeting in India). The recent increases in household expectations, which are often backward looking and heavily impacted by the food price dynamics, reflected the food prices shocks in late 2019 and 2020, when food inflation reached double digits. In recent months, food inflation has moderated (3.1 percent in August 2021) and will likely have a moderating impact on the household expectations over the coming months.

25. We note that inflationary pressures from supply chain disruptions persist. Therefore, a gradual exit from the accommodative policy stance should be planned early on, since the monetary authorities do not want to lose credibility or to lock themselves into the forward guidance promises they may be unable to deliver. Given the broad-based price increases, do staff think that some of the fall 2020 price increases reflected improving demand, or that supply-side factors were propagated due to real rigidities in the economy?

- Higher inflation in the fall of 2020, when food inflation reached 11 percent (October 2020), reflected some supply shocks in select food commodities (e.g., vegetable, pulses), including from unfavorable weather, and the pandemic-related supply disruptions, including in distribution, transportation and other services. Overall demand, amid the large negative output gap of the economy in fall 2020, did not seem to have played a decisive role in the inflation dynamics in the fall of 2020.

Financial sector and policies

26. Despite RBI's actions, staff noted that bank credit growth remains subdued. Staff attributes this to lower demand and tightened lending standards. Can staff tell which lending standards were tightened and whether they were warranted in the current circumstances?

- According to surveys of bankers (1, 2, 3) a large share of banks in India reported tightening of credit standards prior to COVID and in the early months of the pandemic (April-June 2020). Reasons cited for tightening included rising NPAs, weak economic growth, and increasing cost of funding. Then, after recording sequential rises in loan demand and an easing of the terms and conditions of loans since Q2:2020-21, demand declined and restraint in easing rose again during Q1:2021-22 in the face of major

disruptions to economic activity during the second wave of the pandemic. Despite the second wave, there have been some broad-based improvement in banker's sentiment and expectations for upcoming quarters as banks anticipate further easing of loan terms and conditions. This is partly driven by policy interventions aimed at encouraging bank lending throughout the pandemic—for example the credit guarantee scheme for MSMEs discussed in the staff report. Staff note the broad-based lending trends are consistent with the economic circumstances.

- Staff would also note, a low demand has also contributed to the dampening credit trends. For instance, significantly lower rates on market instruments may have allowed the private corporate sector to reduce its aggregate banking sector exposure by accessing capital markets.

27. We note that the authorities and staff have different views regarding the strength of the financial sector and its impact on India's potential growth. Staff comments are welcome.

- Financial markets are one driver of potential growth in India. Since the 2019 Art. IV (due to pandemic, the 2020 Art. IV was postponed) India's potential growth has been revised down a number of times (discussed with the authorities during two interim staff visits and reflected in the quarterly World Economic Outlook). The revisions were driven by multiple factors, including a more persistent impact of the pandemic and the need to further strengthen the financial sector. Following the onset of the pandemic, investment fell sharply and the prolonged impact of the pandemic on corporate and financial sectors could be contributing to lower investment and capital accumulation, including in MSMEs. Raising capital and avoiding lender risk aversion are critically important to achieving healthy credit growth that will allow the financial system to support the recovery and maximize long-term growth.

28. While banks remain well capitalized and public sector banks (PSBs) have also recently been recapitalized, we do wonder if the slow pace of PSB reform is a concern given the large government footprint in the sector? Staff views are welcome.

- Ensuring adequate capitalization in the financial system is critical to deal with the potential surge in corporate insolvencies. The recent recapitalization of PSBs is welcome and further strengthening of common equity ratios is desirable. Given the likelihood of PSBs to be hit harder by the COVID-19 related borrower defaults once policy support measures are withdrawn, their ability to intermediate credit may remain constrained and this could hold back the recovery given their large footprint. That said, staff welcome the recently announced plans to privatize two mid-sized PSBs and a state-owned insurance company. We are hopeful this will pave the way for further reforms and a substantial reduction in the government's footprint in the sector.

29. To this end, we encourage staff to elaborate on the potential merits of the recently rolled-out Account Aggregator (AA) network, created through an inter-regulatory decision by RBI and other regulators as a digital intermediation platform to facilitate lending on the mere back of borrowers' credit, payments and cashflow history,

regardless of collateral. Insights would be welcome into how this innovation might contribute to improving future credit flow and loan access for individuals and lower-rated MSMEs in India.

- Staff welcome the recently rolled-out Account Aggregator (AA) network which is a financial data-sharing system. AAs are RBI regulated entities (licensed as non-bank financial companies) that act as intermediaries between financial information providers (banks, tax authorities, insurers, etc.) and financial information users (entities registered with and regulated by financial sector regulators). Data cannot be shared without the consent of the individual to whom it belongs and is not stored by the AA. These AAs will allow financial institutions to better understand their potential customers, make informed decisions, and ensure more efficient transactions.
- According to the RBI and the Ministry of Finance the two key services that will be improved are access to loans and access to money management. Before AA, access to loans was an inefficient, manual process and money management was difficult as data was stored in multiple locations. Through the AA, a company can access data quickly and cheaply, and fast track loan evaluation processes. Customers may also be able to access loans without physical collateral, by sharing trusted information on a future invoice or cash flow directly from a government system like GST or Government e-Market (GeM).
- The new AA system could increase efficiency in lending and may thus increase credit provision and help boost economic growth. The system may also spur increased competition in the banking sector as new financial-technology entities that are more digitally agile can gain market share from traditional financial institutions by offering competitive pricing through increased efficiency, ultimately benefiting individual customers. That said, as the RBI has acknowledged, the AA system faces certain risks and staff encourage the authorities to continue to be mindful of these. These include financial privacy and data security; cybersecurity and operational risk; compliance risk as open banking expands the traditional banking offers alongside a need for continued compliance with applicable prudential regulations; and grievance redress as it becomes more difficult to assign liabilities with more parties and intermediaries involved in the provision of financial services.

30. We take note that banks' and nonbank financial companies' non-performing assets (NPA) ratio has been declining since the beginning of the pandemic. What is staff's estimation on the impact on NPA ratio if non-viable firms were allowed to exit?

- The decline of NPAs over the last year is largely attributable to the borrower relief measures and classification of loans under the restructuring schemes as standard. However, in recent months the share of loans overdue (but not yet classified as nonperforming) has increased across portfolio segments. Staff expect NPAs to rise as policy support measures expire. Although the recently extended credit guarantee scheme and loan restructuring schemes will postpone recognition of asset-quality problems, stress tests suggest potential for increases in NPAs on bank and nonbank balance sheets going forward. The authorities should proactively develop a contingency plan to address a potential increase in insolvencies. In this context, the recent lifting of the suspension of the corporate insolvency and bankruptcy process and simplification of the insolvency process for MSMEs ("pre-pack" reform) are welcome. At the same time, further reforms can reduce costs and time of exit of non-viable firms. In addition, policies should encourage banks to further build capital buffers and to recognize problem loans

and ensure adequate capitalization to deal with the potential surge in corporate insolvencies. In this regard, Staff welcome the recent increase in provisioning ratios and raised capital by banks, reflecting new equity, issuance and public sector bank (PSB) recapitalization.

External sector

31. We do not see a case for further significant reserve accumulation and concur with the recommendation to allow the exchange rate to play a greater role as a shock absorber and to limit intervention to periods of disorderly market conditions. Could staff provide more detail on the purpose of the Reserve Bank of India's recent operations in the currency markets?

- On the back of a favorable current account balance, compared to the historical trend, and strong capital inflows (mostly FDI and also portfolio flows), reserves increased. Concerns around potential Fed tapering, the sharp escalation in the Delta variant and idiosyncratic factors in selected EMs and their spillovers to the others, external vulnerabilities have been on the rise. This has prompted an expectation of a potential change in the quality of capital inflows and alongside relatively larger current account deficit in near term.

32. Trade openness paired with investments and efficient financial intermediation would also boost productivity. Against this background, staff research would be welcome as to how India's economy may benefit from joining free trade agreements.

- Modern free trade agreements (FTA) often go beyond conventional trade policy matters like import tariffs and into areas like services trade, investment, and digital trade. Because these provisions are typically implemented on a non-preferential basis, they bring the benefits of additional economic integration without disadvantaging those countries outside the agreement. Accordingly, the research on FTAs is broadly supportive of participation in FTAs with ambitious and non-preferential provisions. However, modern free trade agreements do still involve preferential / discriminatory policies including preferential tariff reductions, and the debate over trade creation and trade diversion effects. The net trade creation likely when the FTA involves a larger share of trade; preferential tariff reductions are accompanied by reductions in MFN tariff rates. This coincides with the staff advice on broadly reducing tariffs, especially on intermediate goods, and further investment liberalization, which can foster India's integration into global value chains and maximize India's growth potential.

33. Staff has assessed that India's foreign reserves are now adequate for precautionary purposes, and we note the authorities have reiterated their commitment to exchange rate flexibility and indicated that interventions are only intended to smooth out excessive volatility. Could staff elaborate on how the authorities have used CFM/MPMs to manage the capital inflow?

- To the best of staff's knowledge, the authorities have not introduced any measure that may constitute CFM/MPM to alleviate capital inflow surges. On the contrary, at the height of COVID-19 crisis, the authorities have eased CFMs on portfolio inflows including the limit for foreign investment in corporate bonds which was raised from 9 to

15 percent of the outstanding stock for FY 2020-21, and removed the restriction on non-resident investments in specified central government securities. Additionally, restrictions on FDI inflows into several sectors such as defense, insurance, and civil aviation were also eased in 2020.

34. As advanced economies normalize their monetary policies, emerging markets including India are expected to confront capital outflow in the next phase of the crisis. What are staff's policy advice for the authorities under such circumstances?

- In line with the Fund's Institutional View on capital flows (IV), currently under review drawing on the findings of the IPF and the IEO report, staff's advice would be that macroeconomic policies should be used primarily to manage capital flows. These include exchange rate adjustment, FX intervention in the case of disorderly market conditions, and monetary and fiscal policy adjustment (if warranted). Capital flow management measures (CFMs) can play a role in (imminent) crisis circumstances, as part of a broad policy package. In imminent crisis-situations, CFMs on outflows can play a role in preventing or reducing the severity of crises, by limiting currency depreciation, preventing reserve depletion, preserving financial sector stability, and providing breathing space while a broad policy package that addresses underlying macroeconomic imbalances is implemented and becomes effective. Outflow CFMs should be phased out once economic stability is restored.

35. We observe that the precautionary accumulation of reserves by the RBI, RBI's interventions and weak capital account liberalization shielded the rupiah from severe currency crises. How does staff assess those policy decisions with respect to the IPF? What would be staff's recommendation for India to ensure the optimal liberalization of the capital account?

- An economy with flexible exchange rate and inflation targeting regime, but with the presence of frictions and vulnerabilities, India responded to capital flow swings in 2020 through a combination of policies. While India continued to rely on exchange rate flexibility, it also intervened in the FX market, lowered policy interest rates, eased macroprudential policy stance, and used other unconventional policies (domestic asset purchases, and liquidity support and extended lending). At the height of the COVID-19 crisis, India relaxed capital flow management measures (CFMs) on inflows, but did not resort to CFMs on outflows. For instance, in March 2020, the RBI introduced a 'fully accessible' list of bonds with no investment limits for foreigners. As the crisis condition subsided, aided by vaccine optimism and loose global financial conditions, India started attracting both FDI and portfolio flows, especially in the second half of 2020, as such it resorted to precautionary reserve accumulation to create buffers for bad times.
- On the liberalization of the capital account, as recommended in the 2019 staff report, India should continue to rely on exchange rate flexibility and gradually liberalize capital flows. Continued exchange rate flexibility would support further deepening and broadening of the exchange markets, including the development of hedging instruments. These efforts should be supplemented by further liberalization of FDI, and followed by a greater liberalization along the lines of the "integrated approach" in the Fund's Institutional view on the liberalization and management of capital flows.

Structural Policies

36. The report notes the negative effect of school closures on potential growth. Do Staff see the effects of school closures as relatively larger for India than for other EMEs?

- The extent of school closures and their impact on children was substantial in India. According to UNICEF, schools were closed for more than half of instruction days. This likely led to substantial learning losses for all children, but even more so for those children from poor or rural households without access to alternative learning (e.g. internet access for e-learning).
- Lost schooling is a concern globally, especially in EMs where many families may not have sufficient resources to support distance learning. According to data from UNESCO, schools in India were closed for a total of 69 weeks versus an average closure duration of 51.1 weeks for G20 EMs.
- According to the World Bank, while India has made significant strides in improving access to education and achieving gender parity in enrolment in primary education (between 2004-05 and 2020, the number of children going to school increased from 219 million to around 300 million), learning outcomes across all age groups remained below par and many students continue to leave school at the secondary level. Based on results from the OECD's PISA test on education outcomes across countries, India ranked 72nd out of 73 countries.³ According to India's Ministry for Human Resource Development the persistent deficiencies in retention and outcomes are linked to a limited focus on foundational learning, teacher shortages in key geographic locations and subject areas, and overall weaknesses in teacher preparation and accountability. In India, COVID-19-related school closures were imposed on this already strained education system.

37. 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?

- The agriculture reforms are broadly in line with past IMF advice and have the potential to represent a significant step forward for agricultural reforms by enabling farmers to directly contract with sellers and thereby enhancing productivity and efficiency, which in turn could improve food price dynamics. At the same time, it is important that social safety nets are sufficiently robust to adequately protect those who might be adversely impacted during the transition under these laws. Given the review of the farm bills (hence they have not yet been implemented), there is not yet any substantive impact of the reforms on food prices. Separately, August inflation data saw food inflation decline to a seven-month low of 3.11 percent compared to 3.96 percent in July.

38. The report mentions the important steps taken toward liberalizing policies on FDI. Could staff elaborate more on these steps and whether further measures would be warranted?

³ Data from 2009, which is the only year historically that India has participated in the PISA study. However, as noted by the World Bank the Government of India has chosen to participate in the PISA 2021 round.

- Changes to the FDI policy in recent years include permitting up to 100% foreign-equity ownership in a larger number of agricultural activities through the automatic route, automatic FDI of up to 100% in the broadcasting carriage services, and telecommunications services and in business-to-business electronic commerce activities. In addition, FDI investment are fully liberalized (up to 100% FDI through the automatic route) for insurance intermediaries, and up to 49% in insurance companies. FDI policy on civil aviation has also been revised to allow up to 100% through the automatic route other air services, and non-scheduled air transport services, and up to 49% in scheduled air transport services. Select industries that remains to have restriction, while not substantive, are biotechnology, defense, digital media, healthcare, pharmaceuticals, and telecom services.⁴

39. Could staff provide more details on the progress in reforming the agricultural sector in line with past Fund advice?

- The agriculture reforms are broadly in line with past IMF advice and will be critical to increase efficiency, productivity, and to address market distortions. These bills would allow farmers to directly contract with sellers, allow farmers to retain a greater share of the surplus by reducing the role of middlemen, enhance efficiency, and support rural growth. The farm bills are currently reviewed and have not been implemented yet. At the same time, it is important that social safety nets are sufficiently robust to adequately protect those who might be adversely impact during the transition under these laws.

40. We positively note that the authorities have moved forward with labor market reforms. Could staff elaborate on their implications in improving labor force participation, formalization, and expanding social security benefits, and the progress so far?

- The labor bills would replace 24 central labor laws. The key changes in the new bills include (1) easing administrative bottlenecks in hiring and firing (by allowing firms with up to 300 workers—compared to only 100 workers in the old law—to wind up businesses or fire workers without central government approval, and reducing administrative steps for layoff and retrenchment of workers); (2) revising the structure for labor union negotiations and union strikes, which is likely to reduce disruption of production; and (3) expanding social security benefits for fixed-term and migrant workers, which is likely to speed up formalization of the labor force. These laws are set to come into effect on October 1, 2021. Successful implementation of these reforms will be essential to support the recovery and ensure the highest sustainable growth in the future. It will be important to remain mindful that the implementation of reforms be accompanied by a strengthening of social safety nets to minimize any adverse impact during the transition.

41. We welcome the authorities' commitment to liberalizing FDI regulations and crowding in private investment, and improving labor market functioning, but note staff concerns about implementation challenges. We would welcome staff comments

⁴ For more details on the FDI policy changes, please refer to <https://dpiit.gov.in/policies-rules-and-acts/press-notes-fdi-circular>

on the authorities' plan to address these challenges, particularly on the reform of the agriculture sector.

- Staff note the broad spectrum of structural reforms that the authorities have implemented in the last year, which will be important in supporting the recovery. In particular, the labor and agriculture sector reforms, which are broadly in line with past IMF advice. The authorities emphasized that there is strong political will to implement them.

Climate change and policies

42. In addition, staff comments on achieving renewables targets in 2022 as outlined in India's Intended Nationally Determined Commitments are welcome.

- The Government of India has set a target of installing 175 GW of renewable energy capacity by the year 2022, which includes 100 GW from solar, 60 GW from wind, 10 GW from bio-power and 5 GW from small hydro-power. The installed capacity has already crossed 100GW, and authorities recently announced that India is on track to meet the 175 GW renewable energy capacity target by December 2022.

43. Furthermore, we take note of the staff report's reference to India's climate change adaptation policies. Staff comments are welcome regarding their economic implications, including on fiscal and financial sector risks.

- In the near-term fiscal and financial sector risks from adaptation to climate change is judged to be relatively contained, while there is recognition that it may become more important going forward. In this context, the July 2021 Financial Stability Report, RBI stated "A top-down impact assessment of technology-related transition costs in India's iron and steel sector, based on sales turnover and incorporating the goals and the cost estimates envisaged by the Ministry of Steel, shows that the operating profit coverage ratio (operating profit / interest cost) of the entire sector reduced from 3.8 to 3.5." Further the report stated "A cross industry cross disciplinary forum is required to launch a comprehensive climate risk assessment exercise for India. A key prerequisite is to develop emission reduction pathways for energy intensive sectors and map them onto macroeconomic and financial variables and integrate them with quantitative climate risk related disclosures to develop a holistic approach to addressing the financial stability risks arising out of climate change."
- Going forward India will be important to increase its financing of adaptation activities, assess vulnerabilities and improve resilience and adaptation capacity. For meeting its NDC targets, it is estimated that between 2015 and 2030 adaptation (excluding strengthening resilience and disaster management) will require at least USD 206 billion (at 2014-15 prices).

Other issues

44. Staff's update on the progress of the authorities' interest in CD support is welcomed.

- The authorities continue to work closely with the IMF on CD delivery, including through SARTTAC. During the pandemic, as noted in the staff report, virtual engagement aided

CD delivery at both the central and state levels. During the Article IV discussion, authorities expressed their interest in technical and analytical collaboration, including on select thematic issues such as fintech, digital currency, climate change and monetary policy design. Authorities also highlighted that improving data coverage that reflects the evolving structure of the Indian economy is an important priority.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

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