January 11, 2022
Approval: 1/19/22

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/94-1

10:55 a.m., November 25, 2019

1. India—2019 Article IV Consultation

Documents: SM/19/244 and Cor. 1, and Cor. 2, and Cor. 3, and Cor. 4, and Sup. 1; SM/19/246 and Cor. 1, and Cor. 2

Staff: Salgado, APD; Panth, SPR

Length: 1 hour and 37 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	K. Obiora (AE)
	F. Sylla (AF)
	J. Di Tata (AG)
N. Ray (AP)	
	B. Saraiva (BR)
	P. Sun (CC)
	A. Guerra (CE)
L. Levonian (CO)	
	S. Benk (EC)
	P. Rozan (FF)
	K. Merk (GR)
S. Bhalla (IN)	
	M. Psalidopoulos (IT)
	K. Harada (JA), Temporary
J. Mojarrad (MD)	
H. Beblawi (MI)	
	L. Voinea (NE), Temporary
T. Ostros (NO)	
	A. Tolstikov (RU), Temporary
	R. Alkhareif (SA)
A. Mahasandana (ST)	
	P. Trabinski (SZ)
	D. Ronicle (UK)
	R. Farber (US), Temporary

G. Tsibouris, Acting Secretary
J. Morco, Summing Up Officer
E. Mannefred, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: F. Ahmed, G. Almekinders, W. Blagrave, A. Gulde, J. Ostry, R. Salgado, N. Singh, P. Sodsriwiboon, K. Svirydzenka, J. Turunen. Fiscal Affairs Department: F. Gonguet. Institute for Capacity Development: N. Feerick. Independent Evaluation Office: S. Balasubramanian. Legal Department: N. Stetsenko. Monetary and Capital Markets Department: S. Ogawa. Strategy, Policy, and Review Department: S. Panth.

Executive Director: M. Mouminah (SA). Alternate Executive Director: F. Fuentes (BR). Senior Advisors to Executive Directors: M. Choueiri (MI), P. Harvan (EC), L. Johnson (AP), Y. Liu (CC), T. Sitima-wina (AE), N. Thiruvenkadam (IN). Advisors to Executive Directors: E. Cartagena Guardado (CE), L. Cerami (IT), S. Evjen (NO), T. Nagase (JA), F. Rawah (SA), J. Freeman (UK).

1. INDIA—2019 ARTICLE IV CONSULTATION

The staff representatives from the Asia and Pacific Department submitted the following statement:

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, but if the current trends were to continue, the growth projections for India in the Staff Report would likely be too optimistic.

2. Recent data releases suggest that the cyclical weakness of the Indian economy may be more pronounced and more prolonged than envisaged in staff projections:

- The staff report projects growth at 6.1 percent in FY2019/20 (April 2019-March 2020). As explained in the staff report, this is predicated on an acceleration of economic growth during the second half of the fiscal year (October-March) supported by the lagged effects of monetary policy easing, the recent reduction in corporate income tax rates, and government policies to support rural incomes and consumption.

- National accounts data for the July-September 2019 quarter will be released on November 29. However, available high-frequency data, including on industrial production, bank credit, and imports and exports, as well as data on sales and profits reported by listed companies indicate that growth remained weak during the quarter.

- Early indicators for the October-December 2019 quarter do not yet point to the onset of a cyclical recovery as envisaged in the staff report projections. The U.S. dollarvalue of non-oil merchandise exports firmed, expanding by 1.4 percent in October (y/y), following a 2.2 percent contraction during the July-September quarter (y/y). However, the continued weakness of domestic demand was exemplified by the deceleration of core inflation (defined as CPI inflation excluding the categories food and beverages, and fuel and light) from 4.2 percent in September (y/y) to a multi-year low of 3.3 percent in October (y/y) as well as a continued weakness of non-oil imports. The U.S. dollar value of non-oil imports declined by 9.2 percent in October (y/y) compared to an 11.3 percent decline during the July-September quarter (y/y).

- The weakness of domestic demand, alongside the relative stability of international oil prices and continued portfolio inflows on global investors' increasing interest in emerging markets assets, have contributed to a further strengthening of India's balance of payments. Since the issuance of the staff report in mid-October, the Indian rupee/U.S. dollar exchange rate has moved within a narrow range and central bank gross reserves rose to a new record high of US$448 billion on November 8.

Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon and Mr. Singh submitted the following statement:

Overview

We thank the IMF India Mission team for their constructive engagement with our authorities during their visit to India and their staff report and selected issues papers. Key points in the staff report and the issues where staff and authorities have divergence in views have been highlighted in this BUFF statement.

India is the fastest-growing major economy in the world, notwithstanding the subdued expansion witnessed in recent quarters. Both the IMF and the Reserve Bank have projected India’s GDP to grow at 6.1 percent in 2019-20 and WEO has projected growth to be at 7.0 percent in 2020-21 and to accelerate further in the subsequent years. We agree with the view that growth will be subdued this year, before recovering. The authorities have taken several growth-supporting measures including a series of policy rate reductions, a large cut in the corporate income tax rate, continued resolution of impaired assets of banking sector and bank recapitalization. These measures are expected to provide a boost to both investment and consumption. Further, India’s continued commitment to fiscal discipline, a sound external position, liberalization of FDI inflows and enhanced emphasis on financial inclusion would provide a solid ground for sustaining robust growth in the years to come.

Headline consumer price inflation is projected to remain within or possibly below the Reserve Bank’s target of 4 per cent during 2019-20. Past seven months (April-Oct) CPI inflation averaged only 3.5 per cent even though food prices seem to have emerged out of negative terrain. However, core CPI inflation has declined from 5.8 per cent in 2018-19 to 4.2 per cent in April-Oct 2019. Core WPI inflation (excluding food and fuels) has witnessed an even larger decline from 4.8 per cent in 2018-19 to 0.4 per cent during April-Oct. 2019. Sensing the policy space in terms of current and projected inflation being both below the inflation target and taking into consideration its assessment of subdued domestic growth and global slowdown, the RBI acted in a welcome forward-looking manner, by cutting policy rates starting February 2019.

Fiscal Issues

On the fiscal front, the authorities agree on medium-term fiscal consolidation and have emphasized on the progress made in recent years in the direction of reducing the fiscal deficit. We would like to suggest that a better way to analyse the fiscal position would be to look at the international norm of cyclically adjusted fiscal deficits i.e. a measure which takes account of the fact that, over the course of the business cycle, revenues are likely to be lower (and such items like social expenditures higher) at the trough of the cycle. Thus, a higher fiscal deficit cannot always be attributed to a loosening of the fiscal stance but may simply reflect the fact that the economy is moving into a trough. The authorities have drawn attention to the fact that the path of fiscal consolidation is outlined in the Fiscal Responsibility and Budget Management (FRBM) Act. Underscoring the cyclical weakness in growth, the government has recently taken massive corporate tax reforms which include reduction in the corporate tax rate from 30 per cent to 22 per cent for existing companies and a reduction from 25 per cent to 15 per cent for fresh investments by new companies – the largest tax cut in a single year by any country, ever.

Taking note of the staff remarks regarding possible difficulty in achieving the budgeted revenue and fiscal deficit targets subsequent to the tax cuts, the authorities are of the view that streamlining the filing and refund mechanism of Goods and Services Tax (GST) along with digitization should enhance both compliance and collection. Corporate tax cuts are expected to not only spur economic activity but also to enhance compliance; both effects will tend to offset short-term revenue losses.

Personal income tax revenue has been buoyant in recent years with improved compliance and a widening of the tax base. In the first five years of the new government (2014/15 to 2018/19) there was a quantum leap of 69 percent in the number of personal income tax returns, a 46 percent increase in the number of firms filing returns and a sizeable increase in the direct tax to GDP ratio (from 5.6 per cent to 6.0 per cent). The overall tax to GDP ratio increased from 9.9 percent to 11.8 percent during the same period. A rationalisation of taxes for personal incomes, like corporate taxes, may provide sustained support to household consumption demand, and economic growth.

The authorities welcome the staff suggestion of targeting subsidy support by way of direct-benefit-transfer (DBT) beneficiaries as in the case of PM-KISAN support to small and marginal farmers (which was an out-of-the-box initiative of the government in December 2018; it has now been extended to all farmers). The authorities are committed to reforming benefit delivery systems by re-engineering the existing process to ensure accurate targeting of beneficiaries. Transfer of benefits has increased from about USD 1.2 billion in

2014-15 to USD 38.4 billion in 2018-19 - with an estimated gain of USD 20.2 billion due to rationalization of the quantum of benefits and removal of duplicate and/or bogus beneficiaries. Notably, the number of DBT beneficiaries expanded six-fold from 228 million to 1376 million during the same period, a tectonic shift in delivering sound social benefits with prudent economics. Thus, we must recognise that rather than looking at total subsidies, it would be more prudent to differentiate between subsidies with strong positive externalities and subsidies that have negative externalities (from perspective of welfare maximisation.)

Several profit-making public sector enterprises (PSEs), wherein majority stake is held by the government, adhere to corporate governance and operate on commercial principles in a manner similar to their counterparts in the private sector. Thus, borrowings by such enterprises do not crowd out private investment. In fact, a considerable part of the public sector borrowings go towards capital formation and, thus, to sustain productivity and economic growth. This aspect needs to be considered for a more appropriate assessment of the fiscal stance.

We agree with the staff view that banks' funding costs can be reduced by a pass through of changes in the policy rates to administered interest rates (e.g., on NSSF certificates). High administered interest rates impart rigidity to overall deposit and lending rates in the economy and keep the cost of capital higher than desired. By keeping the small-savings interest rates on par with rates of market instruments of comparable maturity, the cost of capital can be brought down in the economy. Contextually, the High-Level Advisory Group (2019) constituted by the Minister of Commerce and Industry, Government of India, has recommended that transmission of lower repo rates for consumers is hindered by the operation of interest rates on savings deposits schemes by the government (small savings, special interest rates for senior citizens, etc.) and has urged the need to revisit these schemes.

Monetary Policy

Staff has supported RBI's accommodating monetary stance – a cumulative reduction of 135 bps in the policy rate since February 2019. However, monetary transmission has remained staggered and inadequate. As against the cumulative policy repo rate reduction of 110 bps during February-August 2019, the weighted average lending rate (WALR) on fresh rupee loans of commercial banks declined by only 29 basis points. However, the WALR on outstanding rupee loans increased by 7 basis points during the same period. The authorities have been examining various policy options to improve monetary transmission. From 1st October 2019, banks are required to link their floating rate loans to external benchmarks. Further, RBI has planned a reduction in Statutory Liquidity Ratio (SLR) to 18 per cent by April 2020 to provide a larger space to private players in economic activity. These measures are expected to improve the transmission ahead and bring down the lending rates.

Various high frequency indicators suggest that domestic demand conditions have remained weak. The business expectations index of RBI’s industrial outlook survey shows muted expansion in demand conditions in Q3 of 2019-20. The negative output gap in the economy has widened further. While the recent measures announced by the government are likely to help strengthen private consumption and spur private investment activity, intensified policy efforts will restore the growth momentum. As long as the RBI’s projections of headline inflation affords comfort for its assigned objective of monetary policy to maintain price stability while keeping in mind the objective of growth, RBI can use available policy space by reinvigorating domestic demand. The staff has suggested that there could be room for additional easing.

External Issues

Authorities broadly agree with the staff’s assessment of the external sector. External sector fundamentals remain robust. Staff observed that India follows a flexible exchange rate policy with two-way nature of market intervention. Government has further eased various capital flow management measures including raising limit on FPI investment in government securities, external commercial borrowings and automatic route for more sectors. As per the staff assessment, reserve cover held by RBI is adequate even in case of a sustained 30 per cent increase in oil prices. Notably, India’s current account deficit remained well within the sustainable level estimated at about (-) 2.5 percent of GDP. Regarding the recent use of longer-term foreign exchange swaps, though the staff highlighted the balance sheet risks, authorities feel that the risks remain limited, given the size of the operations.

Financial Sector

Insolvency and Bankruptcy Code, 2016 (IBC) has proved to be a successful path for lenders to recover their loans from defaulting companies. According to the latest data published by the Insolvency and Bankruptcy Board of India, the recovery rate for the financial creditors in 158 cases resolved through IBC by September 2019 is 42 per cent compared with an average recovery rate of 26.5 per cent prior to IBC. The recovered amount is around twice the liquidation value for these 158 cases, which underscores the value maximization possible through the IBC process. Moreover, the revised guidelines on resolution of stressed assets reduce the reliance on court procedures and provide more flexibility for banks to design and implement resolution plans while providing disincentives for resolution delays.

Regarding the staff suggestion for legal changes to formally provide the RBI full supervisory powers over the public sector banks (PSBs), it may be noted that the RBI's supervision is ownership agnostic. Moreover, the Government of India has announced governance reforms for PSBs. The authorities do not at this stage consider the FSAP suggested legal changes as necessary.

Control of Corruption and Ease of Doing Business

In the staff report there is a discussion about corruption perception based on third party indicators. In our view, the discussion and analysis on corruption vis-à-vis similar size of economies in the BRICS and the G20 economies is overplayed. In contrast to the World Economic Forum (WEF) survey, as per the `Control of Corruption' index prepared by the World Bank, India has made significant (and unprecedented) progress since 2014. The percentile rank of India which was much below the world median in 2013 has now jumped to the world median value in 2018, an improvement of 13 ranks. This trend is going to be strongly reinforced in the coming years.

Similarly, if one goes by "The 2019 Edelman Trust Barometer" (Jan 20, 2019), India is among the most trusted nations globally when it comes to government, business, NGOs and media (https://www.edelman.com/trust-barometer). Further, as per the World Bank data, India has emerged as the top improver in the `Ease of Doing Business' for the fourth consecutive year (beginning 2016) among the 43 countries with GDP of US$ 300 billion or more. India has made a leapfrog jump in its rank in 'Ease of Doing Business' in a short span of time from 142 in 2014 to 63 in 2019. The World Bank has also acknowledged that this is a tremendous achievement, especially for an economy that is large and complex. Our authorities' focus is on further improving this trend. There seems to be insufficient appreciation in the staff report on this very important economic reform undertaken by the authorities.

Further on Governance: The government has taken several legislative and administrative steps towards bringing about transparency in governance and improving the public service delivery mechanism. The government's steps for qualitatively improving governance include Aadhar - the national identity document; direct transfers of government subsidies to actual beneficiaries' bank accounts; linking MGNREGA (rural employment generation scheme) to infrastructure development; and digitization of land records. Demonetization of high value currency announced on November 8, 2016 was also aimed at addressing corruption, black money, counterfeit currency and terror financing. The Prevention of Corruption Act was amended in 2018 with the objective to punish corruption. The Government of India has also launched a Digital India Programme with a vision to transform India into a digitally empowered society and knowledge economy by digitally empowering its citizens, and providing seamlessly integrated public services and e-governance. The emphasis of the authorities has been on transparency, accountability and in-time delivery of services.

Employment and Rural Economy

As we show below, the staff's assessment of what has happened to employment and unemployment and gender quality is deficient in nuance. The latest Annual Survey of Industries (ASI) data clearly show that there was an average annual increase of 2.7 % (from 13.4 to 15.6 m) between 2011/12 and 2017/18, the two years with large scale employment surveys.

Estimates based on Employees' Provident Fund Organisation (EPFO) payroll data has also shown similar outcomes regarding job creation and formalization of the economy. As per EPFO payroll data released in October 2019 which is for the period September 2017- August 2019, there was a net addition of 12.4 million payroll subscribers (formal sector employment). During 2018-19, the net addition in payroll subscribers was 6.2 million.

The staff's observation on unemployment in India presents a very preliminary and incomplete assessment. We would have appreciated a granular analysis of the subject to present a comprehensive picture of the employment situation. Based on the Periodic Labour Force Survey (PLFS), using the principal status (permanent job definition) there was an increase of 8 million jobs between 2011/12 and 2017/18. We also find that there has been a significant shift from temporary to more durable employment and hence a greater formalization of the job market.

Also, there has been a notable jump in the educational level of the workforce, particularly for women, and this has an inverse correlation with employment status i.e. a person cannot both be employed and be a full-time student – the two are mutually exclusive categories. Hence, a jump in education enrolment of women means a decline in the unadjusted LFPR (labor force participation rate). If the LFPR has been adjusted for education enrolment, then there is actually an increase in the female LFPR. For the education intensive age-group 15 to 24, the adjusted LFPR for women increases from 48 % in 2004-5 to near 60 % in 2017-18. In other words, nearly two-thirds of the young female population is either attending school or in the labor force. This reflects a strong inclusive growth process in India, something not adequately captured in the Report.

In order to improve the economic well-being of the rural population, the government has undertaken several initiatives. It launched a Pradhan Mantri Fasal Bima Yojana (PMFBY) with an aim of supporting sustainable production in agriculture sector by (i) providing financial support to farmers suffering crop loss/damage, (ii) stabilizing the income of farmers, (iii) encouraging farmers to adopt innovative and modern agricultural practices and (iv) to support improved flow of credit.

Infrastructure Reforms

Authorities fully agree with the staff recommendation about upgrading of infrastructure. With an aim to become 5 trillion dollar economy by 2024-25, government is proceeding with its plans to make US$ 1.4 trillion investment in infrastructure in the next 5-year period to give further impetus to national roads, highways, modernizing ports and creating air connectivity of small towns. These initiatives are aimed at improving logistics and reducing transportation costs so as to enhance competitiveness of domestic manufactured products.

Inclusive Growth

To ensure inclusive growth, authorities have implemented a series of welfare programmes that need appreciation given the unprecedented scale and intensity of these programmes. These include provision of access to toilets, clean cooking fuel, water, electricity, health, education, minimum income, and pension benefits to the rural/vulnerable sections of the population. India has achieved near 100 per cent open-defecation free environment, near 100 percent rural electrification, provided clean cooking gas to 70 million families via Liquified Petroleum Gas (LPG) connections, and steps are being taken to provide piped water supply to all rural households by 2024; and 50 million small and marginal farmers will receive pension benefits in the first three years of the new pension scheme.

Steps have been taken to implement more accessible and affordable health schemes whereby health cover has been provided to 107 million families belonging to the vulnerable sections of society. The unbanked population has been provided affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions under the government’s flagship scheme called Pradhan Mantri Jan Dhan Yojana (PMJDY), which was launched in August 2014. As of 3rd July 2019, there were 192 million bank accounts under the scheme, which is an important step in the direction of inclusive growth.

Mr. Psalidopoulos and Ms. Cerami submitted the following statement:

We thank staff for a very rich set of papers and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their informative Buff statement. We broadly share staff’s appraisal and policy recommendations, which are aptly articulated to manage the cyclical slowdown in the near term and to address the structural needs of the Indian economy over the medium term. We add the following points for emphasis.

Given the cyclical weakness of the economy, which according to the latest indicators may be more pronounced and prolonged than envisaged in staff's projections, the current macroeconomic policy mix is appropriate. The combined effects of the fiscal stimulus and accommodative monetary conditions should help economic growth return to its potential. However, we agree with staff that fiscal consolidation should resume as soon as growth picks up, while monetary policy should maintain an easing bias until inflation remains subdued.

Looking ahead, sustaining the remarkable economic expansion of the recent past will require renewed emphasis on a comprehensive set of structural reforms, to ensure adequate employment opportunities for the growing population and to achieve greater inclusiveness. The well-written selected issues papers provide helpful guidance on key areas for a reform agenda. We fully share the emphasis on improving fiscal transparency, strengthening the banking sector, and reducing barriers to trade and investment, and increasing formal sector employment.

Bringing fiscal reporting in line with best practices by expanding the coverage, ensuring timeliness and higher frequency, and transitioning to accrual accounting would provide a stronger foundation to fiscal policy, reinforce the credibility of the fiscal consolidation path, and reduce borrowing costs. We encourage the authorities to consider the concrete steps to enhance fiscal transparency detailed in one of the SIPs as well as a possible request for a Fiscal Transparency Evaluation, which could provide more detailed recommendations to reform the fiscal reporting framework.

The authorities have recently taken important measures to strengthen the banking sector, including the recapitalization and ongoing consolidation of public sector banks (PBSs), and the implementation of the Insolvency and Bankruptcy Code. However, as well documented in one of the SIPs, the efficiency gap of large Indian banks, particularly PBSs, with respect to peers in other emerging markets has widened, calling for further action to improve governance, risk management, and ultimately credit allocation. Moreover, reducing the still very large presence of the state in the banking sector could further improve efficiency. Historically, PSBs have played an important role in fostering financial inclusion. The rapid adoption of mobile payments among the unbanked population may be an indication of how fintech developments could facilitate access to financial services, thereby reducing the scope for government support to the supply of financial services and expanding its regulatory role. Staff's comments are welcome.

We appreciate the focus of the report on measures to expand labor force participation, especially among women, which remains very low and declining. We welcome the recent government's initiatives to improve gender equality and support staff's recommendation to expand access to digital infrastructure and improve financial literacy to unlock the potential of digitalization.

Mr. Ostros and Mr. Evjen submitted the following statement:

We thank staff for their informative report and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their insightful BUFF statement. India has been among the fastest-growing economies in the world over the past few years. However, growth has slowed markedly, and amid domestic and external headwinds, the outlook for India's growth is more subdued than in recent years. Implementation of past fund advice has been mixed. We broadly support the assessments in the report and would like to offer the following remarks for emphasis.

Monetary policy should maintain an easing bias to address the cyclical weakness, while fiscal stimulus should be avoided due to limited fiscal space. Given the slowdown in growth, a negative output gap, and low inflation, monetary policy should remain accommodative. We note positively that inflation targeting has contributed to macroeconomic stability and better anchored inflation expectations. We encourage the authorities to further improve the monetary transmission mechanism. We agree that India should continue to rely on exchange rate flexibility and that foreign exchange interventions should be limited to disorderly market conditions. Flexibility will help deepen the exchange markets and act as a cushion against shocks. We note positively that India is gradually liberalizing capital flows.

A credible fiscal consolidation path is needed to sustain debt. With revenues falling short of the overly optimistic targets, the government did not achieve its FY 2018-19 fiscal consolidation target as advocated in previous Fund advice. Going forward, we agree that a medium-term fiscal consolidation path should be anchored to reduce government debt toward 60 percent of GDP. Consolidation would reduce crowding out of private investment, lessen the debt burden, and create fiscal space. While the headline general government fiscal deficit has narrowed, the public sector borrowing requirement (PSBR) remains high. The PSBR suggests that fiscal policy has been more accommodative than what is implied by the general government deficit in recent years. We find that the PSBR gives valuable additional information about the fiscal policy stance.

There is scope to improve the efficiency of Indian banks. We positively note that macro financial risks from banking sector weaknesses is assessed to have decreased somewhat. The regulatory and supervisory framework has been strengthened and capital has been injected to public sector banks (PSB). However, the SIP shows that there is scope to improve the efficiency of Indian banks, especially PSB's. The recently announced plan for PSB mergers should be accompanied by deep operational restructuring and governance reform. Merging banks per se will not necessarily reduce inefficiency. Hence, we agree that unless supported by these measures, the merger would not address the underlying need for better risk management and greater efficiency but could instead result in larger and potentially weaker banks.

The government with its renewed parliamentary majority should take the opportunity to reinvigorate the reform agenda. A range of further reforms to trade policy and labor, land and product markets are needed, along with infrastructure investment, to support more inclusive growth. Now – early in the second term – is probably a good time to push structural reforms which typically bear fruits longer ahead. However, we miss an assessment of the government's prioritization of the educational system in India. We believe India's educational system is an important factor when it comes to raising labor participation, growth, and public welfare. Staff's comments are welcome.

More needs to be done to empower women in India. The substantial drop in the labor participation rate over the past 15 years is concerning, and we note in particular India's poor and falling record of female labor force participation. This has led to high and widening gender gaps and significant output losses. The female labor participation rate is declining more rapidly than what can be explained by income effects, growing school attendance, and mismeasurement. Decisive measures are needed to modernize labor laws and reduce labor market rigidities for women, and we encourage the authorities to increase their efforts in this area. We appreciate the SIP's chapter on gender equality which explores several ways on how to improve female labor participation, including through digitalization accompanied by improved digital and financial literacy.

We encourage the authorities to continue to strengthen their efforts in reducing corruption. We note positively India's improved global ranking in ease of doing business, as underscored in the Buff. However, the private sector still considers corruption as the most problematic factor.

Mr. Obiora and Mr. Ismail submitted the following statement:

We appreciate the underlying analyses and conclusions in this report but have some differences in opinion. In light of the fast and sustained economic growth enjoyed by India in the past couple of years, we applaud staff's painstaking efforts to analyze and understand several aspects of the current slowdown. In particular, the exploration of potential policy enhancements covered in the wide-ranging Selected Issues Paper is highly commendable. We also appreciate the matching coverage of these issues in the enlightening Buff Statement by Mr. Bhalla, Mr. Natarajan, Ms. Dhillon, and Mr. Singh. While we acknowledge that India's fiscal space could be larger, we are reluctant to accept staff's conclusion that there is no scope for fiscal stimulus at this time. Relatedly, we think that the report's characterization of the nature of India's slowdown needs further elaboration. We also think that the report could have been better drafted in several instances to enhance readability and comprehension.

Understanding the correct nature of India's slowdown is vital to assigning the right mix of policy measures needed to address the identified difficulties. In this light, we are concerned that staff's designation of the type of slowdown being experienced by the Indian economy appears contrary to the policy prescriptions advocated in the paper. Although paragraph 7 describes the slowdown as "cyclical", a term used to describe economic changes due primarily to the vicissitudes of business cycles, the reform scenario (paragraph 8) promoted as more likely to boost inclusive growth, spur productivity and address unemployment seems like a policy package for a "structural" slowdown. We note too that the 2018-19 Annual Report of the Reserve Bank of India asserts that the economy is undergoing a "cyclical" slowdown but somewhat curiously added that structural issues related to "land, labor, and marketing" have to be addressed to deal with the present downturn. While we have not formed a firm opinion on the real nature of this slowdown, it appears that staff's characterization and view may be inconsistent with its policy recommendations to reverse the trend of growth. Since cyclical downturns can simply be addressed with an adequate mix of fiscal and monetary policies, we wonder why staff's policy advise to boost growth is satiated with calls for broad-based structural reforms. We welcome staff's elaboration on the thinking behind their conclusion that this is cyclical slowdown particularly in light of Paragraph 2 of the Statement by the Staff Representative on India, which suggests that expectations of a cyclical recovery during the October-December 2019 quarter may not be realized.

Subsequent upon greater clarity sought in the foregoing paragraph, and in line with the arguments advanced in the adroit Buff Statement, we think there could be wiggle room for fiscal stimulus if the downturn persists. Given that India's external debt is still low at 19 percent of GDP and the authorities' track record of reducing the fiscal deficit in recent years, we see merit in implementing a targeted package of fiscal stimulus in the near term. We are slightly more upbeat than staff about the potential path of India's fiscal health because it is anchored in the country's Fiscal Responsibility and Budget Management Act, and some countries of larger or similar size have much higher public debt to GDP ratio than India. Nonetheless, we agree with staff's proposal to gradually rationalize subsidy spending on food, fuel, and fertilizers as these could be put to better targeted investment spending. We also see scope for increasing revenues through strengthening tax compliance, broadening the tax base, and simplifying the tax rate structure while utilizing advances in digitalization to support revenue mobilization efforts. Relatedly, we underline the importance of realistic revenue projections and strengthening fiscal reporting and transparency to support consolidation efforts and inform fiscal policymaking. To this end, we encourage the authorities to improve public financial management, publish general government fiscal data on a quarterly basis in line with the GFSM 2014, and conduct a Fiscal Transparency Evaluation based on Fund's Fiscal Transparency Code.

We agree with staff's position that monetary policy should remain accommodative to support economic recovery given that inflation is still below the Reserve Bank of India's (RBI) target. To this end, continued commitment to the Inflation Targeting (IT) regime and clear central bank communications would be important to anchor inflation expectations and strengthen monetary policy credibility while improving the monetary policy transmission, including through reducing the role of public banks in the banking sector. At the same time, continued exchange rate flexibility and further liberalization of capital flows would help to deepen exchange rate markets and facilitate trade and investment. In this light, we welcome the recent easing of capital flow management measures and wonder whether such a relaxation has contributed to the recent surge in portfolio inflows as indicated in Figure 2 on page 31. Staff comments are welcome.

We think that greater efforts are needed in risk management and confidence restoration in the financial sector. While the resolution and recovery of assets under the Insolvency and Bankruptcy Code (IBC) process has helped reduce the non-performing asset (NPA) ratio and improve provisioning coverage, more needs to be done to enhance risk management of public sector banks (PSBs) and improve efficiency of their credit allocation.

We see scope to also build more confidence in non-bank financial companies (NBFCs). To this effect, the authorities should accompany the PSB merger plan with incisive restructuring and governance reforms while addressing potential negative impacts of these reforms on credit growth to priority sectors and underserved segments of population. Further, we see the recent enhancement of the RBI regulatory and supervisory powers over NBFCs and the transfer of regulation of the Housing Finance Company (HFC) to the RBI as steps in the right direction and encourage the authorities to step up efforts towards strengthening the monitoring and regulation of NBFCs to restore buoyancy in the sector.

Improving governance, addressing bottlenecks to infrastructure investment, and pressing ahead with agricultural sector reforms are critical for bolstering sustainable and inclusive growth. In this context, we underline that the currently favorable political environment provides an opportunity to step up structural reforms, including easing land acquisition, simplifying regulatory approval process, and enhancing clarity of regulations to help serve the dual objectives of enhancing agricultural productivity and boosting inclusive growth. At the same time, advancements in digital technology could play a major role in addressing gender gaps and low participation of women in the labor force. Finally, continuing with trade liberalization and reforms will help support growth and employment while expanding India's role in the global trading system.

There are several instances where the drafting of this report could have allowed for easier readership and better comprehension. We found it difficult to internalize some aspects of the report due sometimes to unnecessarily long sentences (e.g., paragraph 3), overly intricate paragraphs (e.g., paragraph 5), and avoidably apocalyptic language, where much more benign outcomes are anticipated. In terms of the latter, for example, the last sentence of paragraph 1 suggests India's potential demographic dividend could be wasted. We think that a better phraseology could have been "…could be in jeopardy" or "…could be diminished". The report could have avoided the appearance of convoluted storylines in certain instances. For example, paragraph 5 begins with the observation that investors continued their "wait-and-see" approach. Yet the same paragraph credits renewed portfolio inflows to the fall in external vulnerabilities and the rise in gross reserves. It also indicates that FDI helped finance about half of the Current Account Deficit. We think that the avoidance of these difficulties would have made the report much more better and clearer.

Mr. Merk and Mr. Blanken submitted the following statement:

We thank the staff for this comprehensive, elaborate set of analyses as well as Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their informative buff that gives valuable insights into the authorities' reform plans. We broadly concur with staff's conclusions and recommendations, offering the following comments for emphasis.

India's economy is about to experience a protracted slowdown. After several years of impressive macroeconomic gains, India's GDP growth has dipped to a multi-year low. This was due to a confluence of negative factors including weak rural income growth, liquidity and solvency problems in the shadow-banking sector (NBFCs), sluggish lending activity of public banks burdened with high NPLs, and regulatory uncertainties, aggravated by a worsening of the international environment. Measures undertaken by the government and central bank (RBI) to route the country back onto a steeper growth trajectory are still to develop to their potential. We concur with staff that the risks to the outlook are tilted to the downside, in particular in the short run. Broadening and deepening the structural reform agenda should be considered as pivotal for revitalizing India's economic dynamics. After considerable leverage increase and decreased net savings relative to their incomes as well as to GDP in recent years, households' may meanwhile have begun to rein in expenditure with a view to deleveraging and to replenishing their savings. Staff comments would be appreciated whether this pattern constitutes a further possible factor for sluggish GDP growth.

We firmly concur with staff's view that the government's stable parliamentary majority gained in May 2019 provides for a strong mandate for bold reforms facilitating inclusive and sustainable growth. To this end, we appreciate staff's thorough description of the most urgent reform areas. In view of the significant growth deceleration, a front-loaded reform approach has the potential to boost sentiment immediately and reinvigorate growth on a medium-term trajectory. Reigniting growth in the short- and long run is paramount for job creation and exploiting the potential of India's demographic dividend. A deeper and broader reform agenda targeting product markets, land acquisition and labor market regulation would raise investment and productivity and diminish the huge gap between organized and not organized (informal) sectors.

We concur with staff's assessment that the lack of fiscal space shifts the burden onto the macro-structural reform drive and – subject to the price stability objective – monetary policy as key instruments to offset cyclical and structural weaknesses and to ward off any further unravelling of growth. We take note of the risks to India's medium-term fiscal consolidation path resulting from weaker than expected revenue buoyancy. The headline deficit is understated by significant off-budget financing, which implies a more accommodative fiscal stance and entails a less favorable debt-reduction trajectory. We side with staff in recommending authorities to pay heed the deficit objective and continue putting public debt on a firmly descending path as anchored in the Fiscal Responsibility and Budget Management (FRBM) Act. Frontloading infrastructure investments and PSB recapitalization plus generating higher revenue by reinforcing privatization would contribute to rekindling growth in the shorter term. We would appreciate further details on how the impact of climate change has been taken into account in staff's fiscal analyses.

We share staff's and authorities' concerns about the subdued transmission of monetary policy impulses to the real economy. The lagged response of the substantial policy easing (cumulative 135 basis points since February) on bank lending rates warrants solutions aimed at enhancing the effectiveness of RBI's key policy instrument. Boosting banks' competition through governance reforms and lessening the role of the government in the banking sector represent particularly promising approaches to accelerate the interest rate pass-through. In this vein, we encourage staff to comment in more detail on the novel external benchmark-based lending mandated from 1st October, linking loan pricing to RBI's repo or a comparable market-based benchmark rate, applicable for new loans to households and micro and small enterprises. We concur with staff that market-based credit risk pricing should be the primary means and objective. Further comments by staff would be appreciated on the role of administered interest rates and national small savings schemes as a virtual floor to bank deposit rates, curbing the efficiency of the new pricing mechanism substituted for the marginal cost-based lending rate (MCLR). To what extent does this impair RBI's easing cycle as banks naturally tend to preserve their interest rate spread by maintaining a safety margin on top of the external benchmark rate, and what solution may be recommendable?

We share the financial stability concerns by staff as regards India's important Non-Bank Financial Companies (NBFC) sector. Credit activity has muted since a series of defaults led to a generalized loss of confidence that has also affecting healthy and solid lenders. Like staff, we would advise to consider an asset quality review (AQR), which could reduce uncertainty and ease NBFC's funding squeeze by making sound NBFCs distinguishable from fragile ones. The AQR on state banks in 2015 could serve as a blueprint since it helped rehabilitate balance sheets and revitalize Public Sector Banks' (PSBs) lending activity. On a related matter, we support staff in their call on authorities to further follow up on the recommendations in the 2017 FSAP and decisively pursue far-reaching governance reforms and PSB privatization.

We thank staff for the insightful Selected Issues. We welcome the recommendations to improve fiscal reporting as well as staff's conclusions on PSB efficiency and gender equality, financial inclusion and agricultural market integration. The latter should ideally be part of a more comprehensive agricultural sector reform package that promotes and boosts rural productivity. The findings on anchoring inflation expectations bear witness to the success of the reformed monetary policy regime since its inception in 2015, as well as the subsequently introduced Monetary Policy Committee framework.

We join staff in emphasizing the importance of trade and investment liberalization as engines for growth and job creation. In particular, increased manufacturing for export might improve employment dynamics and reinforce India's integration into global value chains. In this context, we would appreciate an impact assessment balancing the benefits of joining a Free Trade Agreement (FTA) – in line with empirical evidence – against the perceived costs or risks that have prompted India to refrain from entering the Regional Comprehensive Economic Partnership (RCEP) at the present stage. In staff's view, to what extent might such an FTA membership contribute to lower barriers to investment and trade and higher exports in goods and services?

Mr. Guerra and Mr. Cartagena Guardado submitted the following statement:

We thank staff for its good set of reports and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their comprehensive buff statement. We broadly share the thrust of the staff's appraisal and would like to emphasize the following points.

India remains as one of the fastest growing economies in the world. Although it decelerated in 2019, economic growth continues strong while inflation is low, and the external position is consistent with fundamentals. The reforms and prudent macroeconomic policies that the authorities have implemented have boosted macroeconomic stability and high long-term potential growth. India has also improved significantly in the rank of "Ease of Doing Business," escalating 79 positions between 2014 and 2019. Challenges remain for India to continue the path of economic reforms and policies in a way to promote sustainable and inclusive growth over the long term and to reduce public debt to ensure a sustainable path. As stated by staff, the sustained high growth of the country has been instrumental in lifting millions out of poverty.

On the fiscal front we note, as reported in the buff, that the authorities agree on the need for medium-term fiscal consolidation. Expenditure compression has been helpful, but more needs to be done to achieve revenue targets. Nevertheless, we also highlight that the authorities are taking measures to enhance both compliance and collection. Could staff comment on the authorities' view that corporate tax cuts are expected to not only spur economic activity but also enhance compliance? We agree with staff on the need for a more ambitious consolidation plan in the medium term to reduce public debt and free up financial resources for private investment. Also, fiscal transparency and budget coverage should be enhanced. In this regard, we praise the authorities for their commitment to the G-20 data gaps initiative, including on quarterly fiscal data.

We welcome the implementation of the main recommendations of the financial sector assessment that address vulnerabilities of public sector banks, financial sector oversight and market development. We acknowledge that banking sector weaknesses have decreased from previous reports. We concur with staff that improvement in the governance of public sector banks and reduction of the government's role in the banking sector are needed to continue boosting financial stability, mainly considering the important weight of public banks. Challenges remain with public banks which compare negatively with private and foreign banks in terms of non-performing loans, capital adequacy ratio and credit growth. In this regard, we commend the authorities' measures for front-loaded recapitalization, as well as for the consolidation and governance reforms of public banks.

We commend the authorities for aiming at liberalizing FDI and trade to foster growth through diversification, value chains, job creation and a conducive business environment. We also encourage the authorities to develop further measures in this liberalization process and commend the authorities for the actions already taken. We also acknowledge the gains that the country has achieved with the inflation targeting regime that brought inflation to converge with the levels of its G20 peers. Finally, we applaud the authorities' commitment to ensure inclusive growth by putting in place a series of comprehensive and large-scale welfare programs that target particularly the most vulnerable sections of the population.

Finally, we encourage authorities to consider the publication of the staff report.

Ms. Levonian, Mr. Ray, Ms. Johnson and Mr. Weil submitted the following joint statement:

We thank staff for their comprehensive report and set of selected issues and Mr. Bhalla and colleagues for their insightful Buff statement in which they outline their authorities' commitment to achieving macroeconomic stability and enhancing governance to achieve sustainable growth.

Following years of rapid expansion, growth has slowed to a six-year low. Recently released data indicate that the slowdown in growth was widespread in the second quarter, and PMI indicators reinforce views of continued weaker growth this year. The projected rebound in growth in FY2020-21 will depend in large part on the lagged effects of monetary policy easing and the reduction in corporate income tax rates. Given apparent structural weakness in the financial, manufacturing, and agricultural sectors, we would appreciate staff's views on whether some of the recent slowdown could be attributed to structural rather than cyclical factors, as framed in the staff report. Also, does the demonetisation and/or the disruption caused by the implementation of the GST continue to weigh on the economy?

A reduction in the general government deficit masks an increase in public sector borrowing requirements (PSBR) given the limitations of fiscal reporting. The path of PSBR suggests that fiscal policy has been more accommodative than portrayed by the authorities' headline metric and harms the credibility of the government's fiscal target. In particular, the ability of the government to shift expenses off-budget, for example to SOEs, raises transparency concerns. We support the staff's recommendations to improve fiscal reporting, including by enhancing IT systems, strengthening coordination with subnational governments, and moving to accrual accounting. A useful first step would be for the authorities to request a Fiscal Transparency Evaluation based on the Fund's Fiscal Transparency Code. Such measures would support the implementation of the government finance statistics recommendation of the G20's DGI-2, where India's lags peer countries.

Further efforts are required to right-size the footprint of the state in the financial sector. Public sector banks (PSBs) account for 60 percent of the assets of the banking sector, yet are less efficient than private banks and have required substantial capital injections over the years owing to significant non-performing assets. We encourage the authorities to accelerate ongoing reforms, backed by a comprehensive plan to improve PSB governance, internal controls, and operations to reduce fiscal contingency risks. We agree with staff that PSB mergers need to be accompanied by more far-reaching reforms, such as divestitures, as business combinations do not necessarily address underlying governance and efficiency issues.

The Indian authorities should be commended for their efforts with respect to inflation targeting, which have reduced inflation in line with G20 peers and better anchored inflation expectations. We welcome the authorities' planned improvements to the monetary transmission mechanism to support the ongoing achievement of the medium-term inflation target.

We encourage the Indian authorities to capitalize on the momentum to reinvigorate the reform agenda. Some structural reforms, including those that stimulate investment, can boost short-run output, as well as expand potential output. To aid in prioritization, future staff reports and selected issues papers should focus analysis on those reforms which are expected to generate the largest growth dividend and support broader objectives, such as boosting India's low female labor force participation rate and boosting incomes of the poorest households. Given the authorities' reservations regarding implementing structural reforms in a low growth environment, can staff comment on how the authorities should best prioritize and sequence reforms?

Indian female labor force participation is low in comparison to peer countries and has been declining significantly. The possible reversal of these trends represents a huge macroeconomic opportunity for India, and we encourage the Indian authorities to prioritize measures to enhance women's participation in the labor force. Can staff comment on the potential remedies of low female Indian labor force participation?

Trade liberalization and reforms to facilitate trade and investment would help support economic growth. Staff notes that rising protectionism and the retreat from multilateralism could impact India directly through its trade channel and indirectly through confidence and financial market effects. Given the importance of trade and investment liberalization and to support growth and job creation, we would have welcomed an assessment of the opportunity cost of India's decision to not participate in the Regional Comprehensive Economic Partnership at this time. Perhaps this could be considered as part of a future staff report.

Mr. Mojarrad and Mr. Nadali submitted the following statement:

We thank staff for a well-written set of papers, and Messrs. Bhalla, Goyal, Natarajan, Singh, and Ms. Dhillon for their helpful Buff statement.

Pursuit of sound policies has helped India enjoy rapid economic expansion in recent years, lifting millions out of poverty. In FY 2019/20 growth has continued, albeit at a slower pace, with inflation remaining in the bottom half of the target range. The current account deficit, largely financed by FDI, remains modest, and reserves are adequate. Financial soundness indicators have improved somewhat, reflecting steps taken to address the twin bank and corporate balance sheet problem; and structural reforms have progressed with the implementation of reforms initiated earlier, including the Goods and Services Tax (GST), as well as ongoing steps to liberalize FDI flows. These achievements notwithstanding, fiscal deficit is widening, public debt remains elevated, and little progress has been made in restructuring public sector banks (PSBs) or improving their governance. Given that the risks are tilted to the downside, the authorities are encouraged to continue their efforts to consolidate public finances, strengthen the financial sector, and reinvigorate structural reforms. We concur with the thrust of staff appraisal.

A credible medium-term fiscal retrenchment is necessary to reduce high public sector borrowing requirement, lower debt-to-GDP ratio to the 60 percent target, and create fiscal space for priority social and infrastructure outlays. While staff sees no scope to provide fiscal stimulus at this juncture given fiscal space at risk, automatic stabilizers should be allowed to operate freely if downside risks materialize and growth disappoints. Consolidation requires simplifying the GST rate structure, broadening the GST and PIT bases, and modernizing tax administration, complemented by rationalizing subsidies. We see merit in making revenue projections more realistic and, given the complicated fiscal federalism architecture, agree on the need to strengthen public financial management, including by enhancing fiscal reporting, transparency, and coverage. We wonder if the authorities are open to FAD conducting a fiscal transparency evaluation for a more comprehensive assessment of the state of the public finances? Staff comments are appreciated.

Monetary policy, in the context of an inflation targeting framework, has contributed to low and stable inflation in recent years. The cyclical weakness, negative output gap, below-target inflation, and well-anchored inflation expectations argue for maintaining an easing bias until the projected recovery takes hold. We note staff reservations on the unusual size of the recent 35 basis point cut in the policy rate and agree that forward guidance can be an effective instrument in shaping market expectations. Could staff indicate if policy rate moves by other than 25 basis points or multiples thereof are observed in other dynamic emerging market economies? Work should continue to improve the transmission mechanism, including by the recently mandated linking of banks' lending rates to external benchmarks, to help achieve the medium-term inflation target on a sustained basis. We welcome the authorities' commitment to a flexible exchange rate regime and to a two-way intervention policy limited to addressing disorderly market conditions.

The banking system's capital buffers and asset quality have improved over the past two years, reflecting capital injections to PSBs from the government budget and implementation of the insolvency and bankruptcy code (IBC). However, some banks remain undercapitalized; PSBs have double-digit nonperforming asset (NPA) ratios and continue to incur losses; credit growth remains anemic and uneven; and some nonbank financial companies (NBFCs) face solvency concerns and liquidity pressures. The planned PSB mergers should be accompanied by operational restructuring and governance reforms, in line with FSAP recommendations, to improve risk management and credit allocation and pave the way for reduced government footprint in the banking system through divestment and privatization. We also find merit in strengthening regulation and supervision of the NBFC sector, including by provision of more timely and granular data. Staff may wish to comment if the authorities agree to have an asset quality review for the sector?

Achieving the government's goal of a US$5 trillion economy in five years requires a comprehensive package of trade and investment, labor, land, infrastructure, product market, and governance reforms. Continued trade and investment liberalization could help integrate India into global value chains and increase manufacturing exports. Labor regulations should be modernized to increase formal employment, especially of women. We welcome recent steps taken to help boost female labor force participation (FLFP), including enhanced maternity benefits, childcare subsidies, financial inclusion, and women's education. Could staff indicate if there are any plans to put in place gender budgeting and develop key performance indicators for different ministries? We also appreciate staff comments on Mr. Bhalla's assertion that if FLFP is adjusted for education enrolment, there is indeed an increase in the FLFP. Land reforms remain essential to raise agriculture sector productivity as do infrastructure development to help build more integrated agricultural markets. We welcome the new agriculture export strategy aimed at increasing exports and farmers' income. While reforms to enhance the business climate appear to have improved the ease of doing business, more needs to be done to advance product market reforms to increase competition and strengthen governance.

We wish the authorities continued success in their endeavors.

Mr. Beblawi and Ms. Choueiri submitted the following statement:

We thank staff for the excellent reports and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their helpful Buff statement. India remains one of the world's fastest growing economies, notwithstanding a slowdown in growth in recent quarters, and the share of the population in poverty decreased significantly over the past years. We concur with staff that the new government has an opportunity to reinvigorate the reform agenda aimed at boosting inclusive and sustainable growth and welcome the focus on the article IV discussion on these reform priorities. We appreciate staff's analytical work and the work presented in the Selected Issues Paper on possible further enhancements to economic policies and structural reforms, including to help reap the full benefits of India's potential demographic dividend over the next few decades.

Staff recommends that near-term policies to address cyclical weakness focus on monetary policy and broad-based macro-structural reforms, and fiscal stimulus be avoided given limited policy space. We would appreciate their views on the authorities' suggestion, as conveyed in the Buff, to consider the cyclically adjusted fiscal deficits whereby revenues are likely to be lower at the trough of the cycle. The authorities are confident that the short-term revenue losses resulting from the recent reduction in the Corporate Income Tax rates will be offset by measures aimed at streamlining the filing and refund mechanism of Goods and Services Tax and digitization. Can staff comment on the expected impact of these measures on compliance and collection?

The authorities and staff agree on the importance of medium-term fiscal consolidation, and we take positive note of the progress in reducing the central-government fiscal deficit in recent years. Continued fiscal consolidation is important to bring down the ratio of public debt to GDP, as per the Fiscal Responsibility and Budget Management Review Committee's recommendation. We see merit in staff's view that consolidation driven by subsidy-spending rationalization and tax-base enhancing measures would help reduce debt, free up financial resources for private investment, and reduce the interest bill. We welcome the authorities' stated commitment to continue reforming benefit delivery systems, building on past reforms, through better targeting of beneficiaries.

Inflation targeting has contributed to macroeconomic stability, better anchored inflation expectations, and improved the economic wellbeing of low-income households, as noted by staff. The Reserve Bank of India's (RBI) considerable easing of the monetary policy stance since February 2019 was appropriate, as it supported the economy amid the negative output gap. We also welcome the measures adopted by RBI to improve the monetary transmission mechanism and bring down lending rates, as well as the commitment to further improve monetary transmission, including by linking the bank lending rates to external benchmark rates. Enhancing competition in the banking system, encouraging banks to streamline credit pricing, and reducing banks' funding costs would also help improve transmission.

Important measures have been taken to recapitalize the public-sector banks (PSBs), including through government contributions, and the introduction of a new, simplified framework for the resolution of nonperforming assets, which helped to lower the banking system's gross non-performing assets ratio and improve provisioning coverage. We encourage the authorities to follow-up on the November 2017 FSAP recommendations, including by amending the legal framework to provide the RBI full regulatory powers over PSBs. Building on steps taken to strengthen the monitoring and regulation of non-bank financial companies, we see merit in enhancing the availability of timely and granular data to help restore confidence in the sector.

The authorities should be commended for implementing wide-ranging structural reforms in the past few years, including measures to liberalize FDI flows and improve the business climate. In this connection, India's jump in the Ease of Doing Business rank from 142 in 2014 to 63 in 2019 is most impressive, particularly for a large and complex economy. We share the authorities' skepticism about the use of third-party indicators on corruption perception, which tend to be backward-looking and slow to adjust even when reforms are implemented. We welcome the agreement between the authorities and staff on the need to prioritize the modernization of labor regulations, as well as address infrastructure bottlenecks and agricultural sector reforms.

Mr. Farber, Ms. Pollard and Mr. Shenai submitted the following statement:

We welcome the well-written Article IV staff report and Selected Issues Paper, as well Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh's detailed Buff Statement. We believe that the authorities' renewed political mandate provides a window of opportunity to boldly address India's growth slowdown and to tackle longstanding economic challenges. Further steps to preserve macroeconomic stability and transparency, coupled with ambitious structural reforms, can lay the foundation for broad-based, inclusive growth. We encourage the authorities to take advantage of Fund advice on reforms to help achieve their ambitious goal of turning India into a $5 trillion economy in five years.

Fiscal policy should remain tight given debt risks. Reducing the large public sector borrowing requirement is crucial for putting debt on a downward trajectory. We appreciated Appendix IV in the staff report and the Selected Issues Paper's discussion of the importance of sound fiscal reporting and concur with staff that budgetary transparency can help address chronic fiscal underperformance. Improving budget coverage and fiscal transparency, particularly among state governments, can help anchor investor expectations and reduce risk premia. In this context, we agree that a Fiscal Transparency Evaluation (FTE) could be useful. We also welcome additional steps to improve the transparency and timeliness of publishing states' fiscal positions.

We positively note recent steps to improve the RBI's inflation targeting framework and encourage the authorities to continue to safeguard the operational independence of the RBI. With subdued inflation, limited fiscal space, and indications in the staff update that the cyclical weakness may be more pronounced than expected during the mission, further monetary easing may be necessary. Forward guidance from the RBI will help boost the efficacy of announced rate cuts. Adjusting rates in predictable and internationally consistent increments can help further anchor expectations and support implementation. While remitting valuation gains in the RBI's foreign exchange reserves can help provide a buffer against market risk for fiscal policy, this transfer can reduce the RBI's buffers, potentially limiting the scope of the central bank to respond to shocks. We therefore urge a continued cautious and transparent approach.

Financial sector risks – stemming from banks and non-banks — should urgently be addressed while phasing out state involvement in credit creation. More rigorous implementation of the 2017 FSAP recommendations is needed to restore banking sector health and limit future bank recapitalizations. We agree with staff that giving the RBI full supervisory power over PSBs would send a strong signal about the authorities' commitment to even-handed regulation and urge the authorities to take steps to increase the number of completed insolvencies and aggressively pursue PSB privatizations. We remain concerned about risks among non-bank financial companies (NBFCs), as highlighted by issues faced by NBFC lenders such as Infrastructure Leasing & Financial Services. Given NBFCs' potential maturity mismatches and liquidity risks, we strongly encourage staff to monitor risks in NBFCs in surveillance and urge the authorities to remain vigilant and proactive in addressing liquidity risks in the sector. Can staff elaborate on further on risks to non-bank financial companies and potential additional measures (like an asset quality review) to reduce contagion and liquidity risks among NBFCs?

Persistent labor, land, and product market rigidities continue to hamper growth and limit structural transformation. Efforts to liberalize trade and investment while addressing persistent governance weakness can enhance growth. Further liberalization in goods and services trade and investment will help accelerate technological transfer, facilitate skills acquisition, durably address India's massive infrastructure gap, and cushion the negative growth impulse of consolidation. While we agree with staff's suggested structural reforms, we recognize that sequencing reforms is also critical given tradeoffs in domestic policy space and implementation lags. Moreover, corruption remains macro-critical in India, and we were surprised by the staff report and SIP's relative undertreatment of this issue. We welcome steps to improve governance, as outlined in the authorities' Buff statement, and would have appreciated a more thorough discussion of these issues in staff's work. Could staff provide greater granularity of preferred sequencing of structural reforms, including on how potential high-impact governance reforms can fit into an overall structural reform strategy?

Greater openness can complement structural reforms and enhance macroeconomic stability. As the staff report points out, India has a comparatively lower degree of financial openness. Given resource needs, we believe greater openness could yield growth dividends and urge the authorities to consider raising limits for foreign portfolio investment and reducing other FDI restrictions. We strongly welcome the authorities' commitment to two-way exchange rate flexibility and urge the development of hedging instruments to reduce reliance on spot intervention.

Like Ms. Levonian, Mr. Ray, Ms. Johnson, and Mr. Weil, we stress the importance of reducing gender disparities and agree that a comprehensive strategy to address labor market gender disparities could yield significant macroeconomic dividends. We welcome continued studies on gender inclusiveness in South Asia in subsequent staff analytical work.

Finally, we urge the authorities to consent to publication the staff concluding statement in subsequent Article IV missions.

Mr. de Villeroché, Mr. Rozan and Mr. Sode submitted the following statement:

We thank staff for the quality of their documents et Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their insightful Buff statement. The ongoing growth slowdown of the Indian economy, and the fact that fiscal space is at risk calls for a revived reform agenda. The political space offered by the reelection of the government should provide the impetus for such reforms. While we agree with the thrust of staff appraisal, we would like to make the following points:

The reasons behind the recent growth slowdown, especially on regarding domestic demand, are not entirely clear at this stage casting doubt on staff forecast of a cyclical rebound. Could staff comment on how the most recent data impact their forecast and their policy recommendation?

We thank staff for their efforts to reconcile official public finance statistics with the internationally agreed accounting principles. We strongly encourage the authorities to respect their G20 commitment to report quarterly general government data based on GFSM2014. Strengthening fiscal reporting and transparency at the state and local levels, as well as clarifying the relations between the central government and the states, are crucial to ensure a sound fiscal policy. The work of the 15th Finance Commission could help with the designing of the necessary reforms in these domains. Has staff met with States authorities during its Article IV to discuss fiscal policy?

Given that India fiscal space is at risk, we fully share staff recommendations to pursue a more ambitious medium-term fiscal consolidation. This medium-term fiscal consolidation is notably necessary to gradually reduce financial repression and the crowding out of private investment it generates. While we agree that food, fertilizers and fuel subsidies should be reduced, it is key to carefully sequence these reforms with an increase in social benefits to poorer households. Increasing fiscal revenues should be a priority as well as making the tax system more redistributive.

We commend the authorities for the success of the modernization of the monetary and exchange rate framework. We encourage the authorities to pursue in this direction and to improve their monetary policy communication strategy.

We encourage the authorities to pursue the reform of the Public Sector Banks notably by modernizing their governance framework. We agree with staff that the merger of PSBs is not sufficient and that bolder measures in terms of strategic direction and risk management are necessary to improve the health of the financial sector and the allocation of credit. Given the role of Non-Banking Financial Institutions in the recent growth slowdown, it is crucial that the authorities better regulate these entities. Regarding the new Insolvency Bankruptcy Code, we note the low number of resolution cases revealed by a recent report of the Insolvency and Bankruptcy Board of India. Could staff comment on the implementation of the IBC and potential measures to improve its effectiveness?

While we commend the recent reforms aimed at improving the business climate in India, we agree with staff that more needs to be done regarding labor, product and land markets. Now is clearly the time to develop a strong reform agenda, and we hope that the beginning of this second term for the government will be as productive as the beginning of its first term in power. We also encourage the authorities to consider further trade and capital account liberalization as, coupled with domestic reforms, this could provide a significant boost to short- and medium-term growth prospects.

India lack of improvement in terms of female labor force participation is particularly overwhelming. This presents a huge opportunity cost in terms of growth and considerably limit the inclusiveness of India’s growth model. While the authorities have taken measures to improve the situation, much more can be done. Going forward, further work would be useful on regional inequalities in the countries.

We reiterate our call for a more structured dialogue on climate change mitigation and adaptation. We would notably appreciate that staff build on the work of the Fiscal Monitor to recommend a carbon pricing mechanism as well a package of complementary measures to reinforce the country social protection system.

Mr. Di Tata and Ms. Moreno submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Bhalla, Mr. Gopal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their informative Buff statement.

India has been among the fastest growing economies in recent years. Following a very strong growth performance, economic activity slowed in the first half of 2019 and recent indicators suggest that growth would remain weak in the third quarter, reflecting a sharp deceleration in investment and private consumption. Headline inflation remains below the Reserve Bank’s mid-point target of 4 percent, the external position is broadly consistent with fundamentals, and gross international reserves are adequate. At the same time, the external debt is low and external financing looks sustainable. The macroeconomic outlook has been revised to reflect more subdued growth. Under the staff’s baseline scenario, real GDP growth is expected to recover gradually to the estimated potential of 7.3 percent over the medium term in response to recent reforms and continued gradual progress on the macro-financial and structural fronts. Main external downside risks comprise higher oil prices, a sharp tightening of global financial conditions, and rising protectionism, while key domestic risks include tax revenue shortfalls and delays in structural reforms.

Against this backdrop, we agree with the focus of the consultation discussions on reinvigorating the reform agenda to boost inclusive and sustainable growth. As noted in the report, the government has a good opportunity to make further progress on the structural side, building on the steps taken during its first term. In this regard, we appreciate the reform scenario prepared by staff, which illustrates how a more comprehensive reform package could boost inclusive growth. We regret, however, that the report does not include a discussion on poverty and social issues. Mr. Bhalla's Buff statement enumerates a series of welfare programs that have been implemented in recent years as well as several steps that have been taken to improve access to healthcare and financial services. Could staff provide information on the evolution of poverty and income distribution over the last decade?

Regarding fiscal policy, we concur with the staff's recommendation to adopt a more ambitious medium-term consolidation path to lower the general government debt toward 60 percent of GDP and reduce fiscal dominance. As noted in the report, while the headline general government fiscal deficit has narrowed, the PSBR remains high. In this regard, we encourage the authorities to continue with their efforts to rationalize subsidies, broaden the base of the GST and increase compliance, and expand the base of the personal income tax. With respect to the fiscal deficit for FY2019/20, although fiscal space is limited, we agree with Mr. Bhalla's Buff statement on the need to take into consideration the cyclically adjusted fiscal position when assessing the fiscal stance. At the same time, we concur with staff that in the event of a more severe economic slowdown, any fiscal stimulus should focus entirely on temporary measures to boost infrastructure spending. Could staff comment on the authorities' view that the recent reduction in CIT rates is expected to increase the tax base in coming years, offsetting any short-term revenue losses? Could staff also elaborate on India's tax ratio compared with peer countries, as well as on the adequacy and effectiveness of the government's social programs?

We fully agree with staff on the importance of strengthening fiscal reporting and transparency. Further efforts are necessary to improve the timeliness and comprehensiveness of the fiscal data. Additional CD by the Fund to support the government's reform efforts in this area, together with a Fiscal Transparency Evaluation by FAD, would be very useful. On a related matter, could staff provide an estimate of the magnitude of off-budget spending?

We welcome the progress made since the adoption of inflation targeting in lowering inflation and anchoring inflation expectations, as well as the steps taken recently by the RBI to improve IT implementation. We agree that the recent monetary loosening has been largely appropriate and that there is room for additional easing, if necessary, to help close the output gap. In this connection, it would be important to monitor the lagged impact of the cumulative monetary easing that has already taken place before proceeding with further accommodation. We also agree that the monetary transmission mechanism is inadequate and requires improvements, including by enhancing competition in the banking system, encouraging banks to streamline credit pricing, and lowering banks' funding costs by passing through changes in policy rates to administered rates. The recent linking of bank floating rate loans to external benchmarks constitutes a positive measure. Could staff elaborate further on the extent and implications of India's system of administered rates? We welcome the authorities' commitment to two-way exchange rate flexibility as well as their intention to limit interventions to smooth out excessive volatility. We also support the recent decision to ease various capital flow management measures.

We note that macro-financial risks from banking sector vulnerabilities have declined, although some financial institutions continue to face difficulties. We welcome the progress made in strengthening the regulatory and supervisory framework, improving recognition of non-performing loans in public sector banks (PSBs), and recapitalizing some banking institutions. The Insolvency and Bankruptcy Code (IBC) process has helped reduce the banking system's gross non-performing assets (NPA) ratio significantly, while provisioning coverage has increased. Going forward, we concur with staff on the need to improve the efficiency of banks, especially PSBs. In particular, the government should intensify efforts to enhance credit allocation by PSBs and adopt meaningful restructuring and governance reforms to accompany the recently announced plan for PSB mergers, including by considering privatization. We also take positive note of recent efforts to strengthen regulation and monitoring of non-bank financial companies (NBFC), including the housing finance companies (HFC) sector, and encourage the authorities to build on those steps. Further efforts are also needed to implement pending FSAP recommendations, including strengthening governance in PSBs, establishing a mechanism for the resolution of financial institutions, and improving the frameworks for emergency liquidity assistance, deposit insurance, and crisis preparedness.

Reinvigorating the reform agenda is key to support inclusive growth. As noted in the Buff statement, the authorities have been working on addressing corruption and increasing transparency and accountability. At the same time, India has made substantial progress regarding the "Ease of Doing Business" and the government has undertaken several initiatives to improve the well-being of the rural population. Going forward, main areas for reform include further strengthening the business climate; intensifying the efforts under way to combat corruption; resuming trade liberalization; tackling rigidities in labor, land and product markets; removing infrastructure bottlenecks; and further reducing supply constraints and distortions to raise productivity in the agricultural sector. We take note of the notable improvement that has taken place in the education level of the workforce, particularly for women, which should be considered when assessing female labor force participation. As noted by staff, exploiting the opportunities provided by new digital technologies could help improve female labor force participation and narrow gender gaps.

With these comments, we wish the Indian authorities every success in their future endeavors.

Mr. Saraiva and Mr. Fuentes submitted the following statement:

We thank staff for the papers and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their comprehensive statement. After an extended period of strong growth, the Indian economy has been gradually losing momentum in recent quarters as private consumption and investment decelerated turning the output gap negative. In response, authorities have appropriately fostered a more accommodative policy mix to reinvigorate growth by easing the monetary policy stance and providing some near-term fiscal stimulus. In addition to the cyclical weakening of economic activity amid a complex external environment, the Indian economy faces significant structural challenges that warrant renewed commitment to reform in order to safeguard macroeconomic stability and rekindle inclusive growth. That notwithstanding, India remains the fastest growing large economy in the world, as highlighted by Mr. Bhalla and colleagues.

Recent expenditure restraint has supported consolidation, yet further actions to strengthen fiscal sustainability may be warranted, particularly on the revenue side. Authorities have successfully managed to control the fiscal deficit and the debt-to-GDP ratio despite lower growth and underperforming revenues. According to staff, however, fiscal space remains constrained by the revenue foregone owing to the corporate tax cut and an apparent over-optimism about revenue targets. In this regard, we take note of the package of government measures directed towards enhancing tax compliance and support revenue collection. In any case, we encourage authorities to closely monitor fiscal performance related to targets in order to act proactively and avoid additional budget pressures. Moreover, in the wake of increasing fiscal federalism and decentralization, authorities should maintain emphasis on enhancing fiscal reporting and strengthening transparency.

Enhancing financial efficiency and stability require addressing the shortcomings of the public sector banks (PSBs). PSBs account for a significant share of the banking sector in India and have played an important role in supporting government policies. Nevertheless, their net contribution to investment and growth have lessened in recent years marred by high non-performing loans (NPLs), low operational efficiency and reduced competitiveness vis-à-vis private sector banks and their regional peers. Above all, as highlighted in the selected issues paper, corporate governance stands as the central concern for PSBs, manifested in considerable capital shortfalls and inadequate risk management. In this regard, we see merit in staff recommendation to reduce the state's role in the financial sector over time. Moreover, we encourage authorities to continue pursuing governance reforms to improved risk management and credit allocation.

External sector remains key for growth and development goals. Trade openness and integration to global value chains have accelerated growth and multiply per capita income in the last two decades in India. At this point in time, stronger international competition and changing industrial trends are weighing on India's service export contribution to growth. Considering the landscape, fostering greater trade and investment liberalization can help bolster the service sector role as a driver of growth and job creation. In addition, establishing a more resilient and sustainable manufacturing sector – supporting the share of manufactured goods in exports – will require lowering the cost of doing business, the implementation of a wide-ranging infrastructure investment program and continue promoting human capital development and facilitating labor relocation.

Renewed focus on the structural reform agenda is critical to boost potential output and enhance inclusiveness. As the impulse of the comprehensive reforms of the 1980s and 1990s have waned, a new wave of reforms is required to buttress India's future growth performance and development objectives. In that vein, we welcome authorities' efforts to strengthen the business climate and encourage investment and trade. Nonetheless, despite the substantial liberalization of product markets in India, there is considerable scope for further removing constraints and rigidities in factor markets. In this regard, updating and streamlining labor laws will add more market flexibility and encourage formalization, while specifically aiming at higher female participation. Similarly, reforms to the agricultural sector are important to boost productivity and rural income, and enable better allocation of labor in the economy. Also, removing rigidities and distortions from land and capital markets are essential to support the new government growth strategy.

Mr. Palei and Mr. Tolstikov submitted the following statement:

We thank staff for the informative set of papers and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon and Mr. Singh for their helpful Buff statement. India's economic expansion remains one of the strongest in the world. For 2018-19 growth will be the highest in the G-20 and will rank the third among the economies with GDP over US$ 100 billion. At the same time, despite high growth rates, unemployment is rising, while labor force participation is declining, which indicates the need to implement structural reforms to make growth more job-reach and inclusive, and further improve sustainability and resilience of growth. The large parliamentary majority achieved after the recent general elections provides the authorities an opportunity to further advance their reform agenda.

Some cooling of economic expansion has been observed recently, as growth waned from about 7 percent in 2017-18 to about 5 percent in the early 2019. Taking into account the weakness of domestic demand and bank credit, the authorities implemented monetary policy easing and provided fiscal stimulus in the form of the CIT rate cut and additional support for rural consumption. These measures have supported economic activity, which is expected to re-energize next year.

Overall, India's economy is rather well-balanced internally and externally. Its net external position is assessed to be broadly consistent with fundamentals and desired policy settings. While India may be affected by oil price fluctuations and shocks in the international financial markets, their potential impact is mitigated by high international reserves, low external debt, and exchange rate flexibility, which serves as an additional shock absorber. Therefore, the policy discussions are appropriately focused on domestic reforms to boost resilience and the quality of growth.

Medium-term fiscal consolidation remains a priority. Recent growth slowdown and fiscal stimulus have made the fiscal consolidation goals harder to achieve in 2019/20, prompting staff's concerns about over-optimistic revenue projections for the 2019/20 fiscal year. We note that the authorities expect improvements in GST tax administration along with digitalization to provide additional revenues, which would offset the CIT revenue losses. The authorities may well be correct and there could be a permanent shift in additional revenues. However, until the evidence confirms the authorities' expectations, cautious fiscal stance is advisable. Given the remaining uncertainty about fiscal effects stemming from digitalization and other improvements in tax administration, we encourage the authorities to consider contingent revenue measures in line with staff recommendations.

While the authorities mostly focus on achieving the central government fiscal targets, staff highlight the need to conduct fiscal policy using a broader definition of public sector deficit. Recent compression of on-budget expenditures led to an increase in off-budget financing. We note that the new Article IV report introduced the concept of public sector borrowing requirement (PSBR), which includes borrowing by central public sector undertakings (PSU). It resembles the concept of "augmented deficit" used in Article IV reports on China. In both cases we need better understanding of what is included into the public sector debt perimeter and why. We would welcome staff comments on the use of the PSBR concept in assessing India's fiscal stance. Do staff believe that the size of India's "augmented debt" should feature more prominently in policy discussions with the authorities? Overall, we agree with staff that it is important to enhance fiscal reporting and strengthen fiscal transparency and we encourage further efforts in this respect, including additional CD from the FAD.

CPI inflation has declined to the level marginally below the Reserve Bank (RBI) target of 4 percent. In view of ongoing economic slowdown and declining inflation, some softening of the monetary policy stance has been appropriate. We note that a weak pass-through of the policy rate cut to commercial banks' lending rates highlighted the need to improve the monetary transmission mechanism. We welcome a number of regulatory measures in this area. We also welcome the authorities' efforts to further enhance credibility of the inflation targeting framework. Gradual easing of capital flow management measures seems to be in line with growing resilience of the economy.

India's financial sector is gradually strengthening and becoming more efficient. It is encouraging that the new Insolvency and Bankruptcy Code (IBC) helped reduce the banking system NPL ratio, and public sector banks' (PSB) capital positions improved. Additional PSB recapitalization will further improve their lending capacity. We agree there is scope to improve the efficiency of Indian PSBs through further governance reforms.

We welcome the authorities' efforts to boost inclusive and sustainable growth through structural reforms. India has achieved remarkable progress in improving the living conditions of its population, especially in rural areas. However, labor market developments point to the need for additional measures to improve inclusiveness of growth. One reform track is related to formalization of employment. Informal employment, while declining, remains unusually high – more than 65 percent of workforce (Figure 8, p.37). In addition to labor laws liberalization, to what extent can progress in digitalization improve the situation in this area? Staff comments are welcome.

On the issues of governance and corruption, we note significant divergence of views between staff and the authorities. Staff assessment is partially based on the Corruption Perception Index, which is a notoriously distorted gauge of progress in fighting corruption. As we have emphasized on multiple occasions, staff should avoid relying on perception-based indicators. The Ease of Doing Business, on the other hand, is based on objective criteria, and, in the case of India, it shows very significant improvements in business environment. We welcome the authorities' success and encourage them to continue strengthening governance and improving business environment.

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

Mr. Benk and Mr. Harvan submitted the following statement:

We thank staff for the well-written reports, and Messrs. Bhalla, Goyal, Natarajan, Singh, and Ms. Dhillon for their helpful Buff statement. After a strong performance in previous years, the Indian economy slowed down amid domestic and external headwinds. The authorities should set a more ambitious fiscal strategy over the cycle, decisively address financial sector risks and inefficiencies, as well as reinvigorate the structural reforms agenda to boost inclusive growth. We broadly support the assessments and recommendations in the Staff Report, and would like to offer the following remarks for emphasis.

We concur with staff that a more ambitious fiscal consolidation path than currently envisaged is needed, together with additional efforts to enhance fiscal transparency and governance. Despite buoyant growth, public debt has increased by 2.6 percent of GDP over the last four years, as expenditure increases outpaced revenues. A more ambitious debt reduction strategy over the cycle should aim to bring debt to the government target of 60 percent of GDP, reduce fiscal dominance, and help root out spending inefficiencies in subsidies and grants. Mobilizing revenues to the collection levels achieved by other emerging markets would support the financing of development needs, and should also aim to make the tax system more equitable. We welcome the detailed recommendations on enhancing fiscal reporting and fiscal transparency, documented in Appendix IV and the Selected Issues Paper (SIP). We encourage the authorities to request a Fiscal Transparency Evaluation based on the Fund’s Fiscal Transparency Code to support the credibility of the fiscal framework.

Monetary policy and exchange rate flexibility have positively contributed to India’s macroeconomic stability. Loosening the monetary stance has been largely appropriate in the current environment and exchange rate flexibility should continue to be the primary absorber in case of external shocks. Continued action is needed to improve the monetary transmission mechanism, including by enhancing competition in the banking system.

We encourage the authorities to decisively tackle the inefficiencies of public sector banks (PSBs), address the financial stability concerns with the non-bank financial companies sector, and further follow up on the recommendations in the 2017 Financial Sector Assessment Program. PSBs play a significant role in the Indian economy, but reform efforts have so far not provided an efficient longer-term solution or curtailed fiscal contingencies. As highlighted in the SIP, PSBs compare negatively with private banks in terms of non-performing loans, capital adequacy ratios, and credit growth, with deteriorating performance over the last decade. The PSB mergers need to be accompanied by more far-reaching governance reforms, with an eye on improving risk management, as well as regulatory environment reforms, including by amending the legal framework to provide the Reserve Bank of India with full regulatory powers over PSBs.

A reinvigoration of the structural reform agenda, along with continued trade and investment liberalization, would support inclusive growth and improve the progress in poverty reduction. A comprehensive set of reforms would cover the labor and product markets, agriculture, land, as well as enhance the ease of doing business, and aim at increasing labor market flexibility, boosting competition, and reducing the scope for corruption. Modernizing labor regulations should also aim to help increase formal employment and reverse the declining employment of women.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for the useful Buff statement. A combination of domestic factors has led to a slowdown of India's growth in the first half of 2019, and the growth outlook in FY2019/20 is expected to be more subdued in the face of domestic and external headwinds. Continued sound macroeconomic management and a comprehensive set of reforms are crucial for regaining economic momentum and achieving sustainable and inclusive growth. We broadly share staff's appraisal and would like to limit our comments to the following.

Given the sharper-than-expected deceleration of economic activity and that inflation is expected to remain below target, we share staff's view that the recent monetary easing has been appropriate, and the easing bias should be maintained until the projected recovery takes hold. On the fiscal side, it appears that room for additional fiscal stimulus may be limited. In the medium-term, steadfast fiscal consolidation efforts would be needed to reduce the elevated level of public debt and free up resources for private investment. We encourage the authorities to consider the consolidation measures suggested by staff, including a gradual reduction of subsidy spending and increasing revenue collections through GST and personal income tax reforms. In the meantime, efforts to enhance fiscal reporting and transparency would help further strengthen policymaking, and we welcome the Fund's readiness to provide capacity development assistance to the authorities in this regard.

Building on the progress achieved, the authorities should continue to push ahead with measures to strengthen the financial sector. Implementation of the Insolvency and Bankruptcy Code has helped lower the banking system's gross non-performing asset ratio, and we look forward to further steps to enhance the governance and efficiency of Public Sector Banks. We take positive note of the decisive measures by the authorities to tackle challenges in the non-bank financial company (NBFC) sector and call for continued vigilance on potential spillovers into the broader financial system.

Endowed with a talented population, a multitude of natural resources, and a strategic geographical location, 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 welcome the authorities' commitment in continued labor, land, and product-market reforms. In particular, we see merit in encouraging greater female labor participation, and we appreciate staff's analysis on how digital technologies could potentially help facilitate this. We commend the strong improvement in India's ease of doing business ranking, which has risen to 63rd in 2019. Further steps to strengthen governance, tackle corruption, and raise bureaucratic efficiency would help boost investment. We also encourage the authorities to pursue further trade liberalization and greater regional and international integration, which would be conducive to economic diversification and transformation. To complement the above efforts, a greater emphasis on addressing infrastructure bottlenecks is needed. We note from the Buff statement that the government plans to make US$1.4 trillion investment in infrastructure over the next five years. Could staff shed light on how this investment will be financed, and the impact, if any, on India's public debt level?

Finally, noting the comments in the Buff statement on staff's discussion on corruption perception, we would like to emphasize that care should be exercised when using perception-based third-party indicators in staff's analysis, especially when drawing direct comparisons across countries/country groups.

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

Mr. Trabinski and Mr. Heim submitted the following statement:

India ranks among the fastest-growing economies, not least as a result of the authorities' commitment to key structural reforms. After strong economic performance in recent years, the Indian economy faces a considerable slowdown. The ongoing difficulties in the financial sector have negatively impacted lending and investments. Consumer sentiment has worsened owing to increased unemployment and weak income growth. In this challenging environment, it is key to forcefully address the economic and institutional weaknesses and to enhance policy effectiveness. The current political momentum should be seized to address these challenges and accelerate the reform agenda.

Fiscal consolidation should be more ambitious. We share staff's view that, given the limited room for fiscal policy, further stimulus does not seem appropriate at this stage. Moreover, the recent reduction in the corporate income tax (CIT) rate is likely to exacerbate the already difficult fiscal situation, should the shortfall in tax revenues not be compensated.

What is staff's view on the medium-term effects of the CIT rate cut, considering the likely increase of the corporate tax base? Overall, a more ambitious medium-term fiscal consolidation path would help reduce the relatively high general government debt. Consolidation measures should include an increase in revenue collection and a gradual reduction of subsidy spending, supported by improved revenue projections and fiscal transparency. Such measures need to be carefully designed to avoid pressure on income growth, especially for lower income levels.

The monetary policy stance appears appropriate, and the steps to further improve monetary policy credibility are welcome. We concur with staff that the recent monetary loosening has been appropriate, given that room for fiscal policy is limited and the slowdown of the Indian economy has been more pronounced than expected. We commend the authorities for successfully lowering inflation and inflation expectations since the adoption of the Inflation Targeting (IT) regime in 2015. In this regard, the steps taken by the Reserve Bank of India (RBI) to further improve IT implementation, and hence the overall credibility of monetary policy, are promising. To achieve a sustainable medium-term inflation target, it is important to further improve the monetary transmission mechanism, and we welcome the RBI's work in this direction. Clear central bank communication is also key in this regard.

More efforts are needed to address persistent financial vulnerabilities. We welcome the ongoing initiatives to address the long-lasting twin balance sheet problem, but further reforms are needed. Without a strong reform plan, capital injections from the government budget are not a sustainable approach to address the high level of non-performing assets and the low profitability in Public Sector Banks (PSB). Therefore, we see merit in: i) a deep operational restructuring and governance reform, ii) an improvement in the governance of the PSB and in risk management in general, and iii) a stringent and transparent implementation of the Insolvency and Bankruptcy Code (IBC). Furthermore, we encourage the authorities to follow up on the FSAP recommendations and work towards reducing the state's role in the financial sector.

The structural reform agenda needs to be accelerated to improve the business environment and foster more inclusive growth. We take note that structural reforms aimed at boosting inclusive growth have been slower than advocated by previous Fund advice. While we recognize the progress made by the authorities in promoting a more favorable business environment, additional efforts are needed to address rigidities in labor, land and product markets. Furthermore, corruption and trade barriers remain key constraints to improve competitiveness. From a broader policy perspective, we would appreciate staff's comments on how the envisaged reforms are going to be prioritized by the authorities.

Furthermore, there is a need to address infrastructure bottlenecks and improve resilience to natural disasters. Although India has improved the quality of its infrastructure in recent years, infrastructure bottlenecks continue to impede economic growth. We are reassured by Mr. Bhalla's informative Buff statement that the upgrade of infrastructure remains a key priority of the government. We also take good note of India's leading role in creating the Coalition for Disaster Resilient Infrastructure. Ensuring disaster-resilient infrastructure is of critical importance, given that India is among the countries most vulnerable to climate change and natural disasters. More generally, we note that climate-related risks are not discussed in the papers. We would welcome staff's assessment of climate-related risks, in particular with respect to the medium-term outlook.

Finally, we encourage the authorities to consent to the Fund's publication of the papers.

Mr. Ronicle and Ms. Freeman submitted the following statement:

We thank staff for their informative report and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their helpful buff statement. We welcome the progress that India has made on development in recent decades, lifting millions out of poverty. We note good progress on reform, including the Goods and Services Tax, the Insolvency and Bankruptcy Code, and in the energy and sanitation sectors, and we look forward to their continued and strengthened implementation. The last year has seen challenging financial stresses, but these have been met with welcome monetary easing and further supportive policy measures.

The statement from the resident representative highlights the cyclical challenges India faces, and the urgency of further policy action and reform. The recent slowdown may be predominantly cyclical, with an important role for weak credit growth, but structural factors also weigh on the economic outlook. It is important to re-state that achieving robust, inclusive and sustainable medium-long term growth will depend on financial, corporate and structural reforms, not least to boost female labor participation and make the most of India's demographic dividend by creating the right conditions for investment, job creation and improved human capital.

Financial and corporate sector. We agree that governance of and divestment from public sector banks and the resolution of non-performing assets should be the focus of reforms, given the real risks that remain. Accelerating progress on the implementation of the Insolvency and Bankruptcy Code as well as changes to improve monetary policy transmission will be useful. We also support the further development of the corporate bond market through the possible creation of a Debt Management Office and increased access to pension and insurance products. Consideration could also be given to loosening restrictions on the ability of Indian business to raise finance overseas and relaxing capital controls to generate further investment. We found the Selected Issues Paper on inefficiency and the coverage of the 2017 FSAP recommendations particularly useful. We also welcome the selected issues paper on monetary policy in India and wonder if staff might follow-up with a paper on the transmission of monetary policy for the next Article IV?

Structural reforms. We support staff's focus on labor market, land, and product market reforms. It is positive that India continues to rise up the World Bank's Ease of Doing Business rankings, although we note that foreign companies continue to face challenges on the ground. To further translate this into an improved business environment, measures such as judicial system reform to support contract enforcement, as mentioned in the latest Government of India Economic Survey, would be welcome. We hope the next

World Bank Enterprise Survey may also help identify other priority areas for reform.

We note the recommendations on trade and investment openness, and we encourage a gradual reduction in tariff and non-tariff barriers, continuing the positive steps made this summer on relaxing FDI limits, for example in the reinsurance sector. Reductions in tariffs on intermediate goods could boost economic growth and provide benefits to the poorest, through supporting export growth and manufacturing. With such a strong service sector, India could demonstrate its leadership through further liberalization. India has a strong story to tell on the renewables sector, including at the recent UN Summit in September. With significant infrastructure needs, realizing the substantial green finance opportunities could unlock the investment needed. We encourage the authorities to make further progress in this area, building on recommendations in the staff report and the useful chapter in the October 2019 Regional Economic Outlook.

The selected issues paper on female inclusion through digitalization was a useful case study and highlighted the progress that India has made on financial inclusion. Further investments in "human capital" (India is 115 on the World Bank's Human Capital Index), particularly health and education, are needed to improve India's development trajectory, reduce poverty and inequality, and provide the future jobs, growth and productivity needed to meet India's potential. Staff highlighted the worrying decline in labor participation (from a particularly low level for women) and rising inequality; we note from the Buff the role increased educational enrollment might play in this and would welcome staff comments. Raising female labor participation, including through challenging social norms, will be critical to raising per capita incomes and sustaining convergence.

Monetary and fiscal policy. We agree with staff that monetary policy, should be the preferred marginal instrument for managing demand and inflation, supported by a floating exchange rate to help manage external shocks. We commend India for the successful implementation of inflation targeting and the anchoring of expectations and agree on the need to further build credibility through central bank independence, predictable policymaking and clear communication. On fiscal policy, we note the primary deficit and elevated debt, though agree that low levels of foreign currency issuance and externally held debt help mitigate fiscal risks. We look forward to further progress on the consolidation of the Public Sector Borrowing Requirement and encourage high quality consolidation, especially through base-broadening on taxes, rather than off-balance sheet spending and under-execution of state-level spending plans.

We welcome India's commitment to G20 fiscal reporting standards, as well as continued engagement with the IMF's technical assistance. The

Selected Issues Paper on fiscal reporting was particularly useful and we support the recommendation to do further work on data infrastructure and transparency. Building further credibility in the quality and regularity of statistical reporting will support evidence-based policy making.

Lastly, we welcome the positive support of the IMF to capacity development in India and note that the usefulness of this is also recognized by the authorities.

Mr. Harada and Mr. Nagase submitted the following statement:

We thank staff for the set of informative papers on India and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their helpful Buff statement. Although India has been one of the fastest-growing economies in the world over the past few years, its macroeconomic outlook is subdued. Given the large scale of Indian economy, it would be necessary for us to closely analyze its risks and consider the ways to further intensify its resilience. As we broadly concur with the thrust of the staff's policy advice, we would like to offer the following comments for emphasis.

Economic Outlook

Careful attention may be needed on India's economy. As for the economic outlook and risks on India, the staff estimates the growth rate of India will recover to 7.0 percent in 2020 and the staff report mentions that authorities were more optimistic than staff. However, we note that some issues related to non-banking sectors, including its negative impact on automobile and housing industries, and decrease of saving and investment in India have led to decline of its GDP growth resulting to 6.1% this year. On this point, we would like staff to further elaborate the background and basis of their prospects of India's economy.

Financial Policy

Further financial sector reforms would be a key for India to secure sustainable growth and macroeconomic stability. To address non-banking sectors problem, we support the staff's view that the authorities should enhance the availability of more timely and granular data including to the public. In this context, we would like to know shareholder structure of non-financial sector. We welcome further enhancement of recapitalization program. That said, we wonder why restructured loan ratio is getting smaller while gross non-performing asset ratio remain high in the public sector according to Figure 7. Could the staff elaborate this background? Is there any relationship to non-banking sector problem? In any event, we would ask staff to closely monitor their situation. It would be worth to consider strengthening monitoring measures, including having direct meeting with relevant sectors such as non-banking sectors.

Banking sector's lending should be carried out more on a market-basis. Although the authorities stressed the importance of Priority Sector Lending (PSL) and the Public Sector Banks (PSBs) play in the economy, we have concerns that the ways like forcing the financial sector to lend to specified sectors may bring market distortion and could lead to increase in non-performing loans. We would like staff to explain their view on this matter. Given the PSBs are operated like private banks, is there any discussion on privatization of PSBs?

The insurance sector reform would be also warranted. According to the report, efforts are being made to promote institutional investment into infrastructure from pension, insurance, and sovereign wealth funds through various modalities. On the other hand, the appendix of the report points out that the household net financial savings declined due to the reduction in savings in insurance funds. Could the staff elaborate on this backdrop? In such situation, what is the staff's view on impact on the Indian economy by the insurance sector reform?

Fiscal Policy

Enhancing fiscal consolidation and strengthening fiscal transparency is important. On this point, we agree with the staff's recommendation to secure fiscal discipline and enhancing fiscal reporting, including State-level Public Enterprises.

In addition to liberalizing trade and investment, further tax reform may boost foreign investment. We welcome the effort of the authorities to simplify their tax system such as introduction of the GST and would like them to improve its implementation following the staff's advice. We believe it will help India to expand employment and promote growth. In this context, we wonder whether there is any room to further simplify their tax system, for example, capital gain tax. Staff's comments would be welcome.

Structural Reform

Modernizing labor regulations and other measures are an important priority. We agree the importance to increase the efficiency of vulnerable sectors such as agriculture, but lights should be shed on how to ensure inclusive labor force especially for young people, while there seems to be not much conspicuous progress in MAKE IN INDIA.

Mr. Raghani and Mr. N'Sonde submitted the following statement:

We thank staff for a set of interesting reports, including an insightful Selected Issues paper, as well as Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their comprehensive Buff statement.

We commend the Indian authorities for the continued strong growth achieved in recent years. We are pleased to note that external vulnerabilities detected in 2018 have receded, the current account deficit has narrowed, and foreign reserve buffers are at a comfortable level. However, we note that growth is projected to be subdued in 2019-20 before recovering in 2020-21. In addition, risks to the outlook being tilted to the downside stemming from both domestic and external sources, it is essential that the authorities strengthen the economy's resilience through steadfast implementation of their agenda of macro-financial and structural reforms to enhance fiscal sustainability, address corporate insolvency, and increase foreign direct investment. We also encourage the authorities to ensure that growth is more broad-based and more inclusive. In this regard, the opportunity offered by the new government's solid political mandate should be seized to step up reforms' implementation.

We broadly share staff's policy recommendations and would like to offer the following additional comments for emphasis.

We encourage the authorities to accelerate fiscal consolidation in a growth-friendly manner to increase the fiscal space for poverty-reducing and inclusiveness objectives. A medium-term fiscal consolidation path encompassing measures to streamline subsidies and broaden the tax base is needed to contain public debt and promote private sector investment. Can staff comment on the authorities' contingent measures, if any, in case the recent corporate income tax cuts did not produce its projected effects on compliance and economic activity? We also stress the importance of enhancing the fiscal framework, expanding budget coverage and increasing fiscal transparency. In pushing ahead with fiscal adjustment, social spending such as rural farm income support scheme should be preserved.

Monetary policy should continue to be data-dependent and attentive of cyclical price developments. The inflation targeting framework has been useful in anchoring inflation expectations and preserving macro stability. Further progress is achievable through enhancing the monetary policy transmission mechanism. We agree that the current policy stance is appropriate but would like to caution against a narrative of a cyclical downturn for India. In this regard, can staff elaborate on the durability of the current negative output gap particularly given the expected growth rebound in FY2020-21? Exchange rate flexibility continues to serve Indian economy well, notably in absorbing external shocks, and that Reserve Bank of India's interventions should be symmetrical and restricted to situations of disruptive market volatility.

There are significant gains to be made from improving the governance of public banks and reducing directed credit. We welcome the authorities' commitment to this agenda as well as their plan to improve non-banking financial sector oversight and tackle financial repression. As evidenced by Mr. Bhalla and al. in their helpful Buff statement, the Insolvency and Bankruptcy Code, 2016 (IBC) has been successful in helping lenders recover their loans from default. Banks have also the flexibility to elaborate and implement resolution plans in a timely manner thanks to the revised guidelines on resolution of stressed assets.

We urge the authorities to advance labor, land, and product market reforms. This will help achieve greater competition, increase flexibility and enhance governance, and lay out conditions for job creation to meet the country's fast-growing population needs and increase female labor force participation. The "comprehensive reform package" scenario demonstrates the long-term positive impact on productivity and employment growth of such market reforms. Lowering trade barriers is warranted although we understand the difficulty of such unilateral undertaking in a context of rising protectionist pressures worldwide. We also encourage the authorities to facilitate access to land through appropriate legislation. We greatly appreciate the insights of the chapter in the Selected Issues paper on advancing digitalization and other structural reforms to empower women and reduce labor market rigidities.

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

Ms. Mahasandana and Mr. Anwar submitted the following statement:

We thank staff for the insightful set of reports and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their informative Buff statement.

We commend the authorities for making substantial economic progress over the past few decades, transforming India into one of the world's fastest-growing economies in recent years, and playing their key role in reducing global extreme poverty. We welcome staff projection that growth is expected to rebound in FY2020/21 and gradually rises to its medium-term potential, after reaching the lowest level in the last 7 years in FY2019/20 in the midst of domestic and external headwinds. However, risks to the outlook are tilted to the downside. This calls for well-calibrated macroeconomic policies and well-sequenced structural reforms to raise productivity growth, enhance job creation and promote inclusive and sustainable long-term growth. We broadly share the thrust of staff's reports and offer the following remarks for emphasis.

Strong commitment to continue on the path of more ambitious medium-term fiscal consolidation and fiscal discipline is essential to reduce debt, avoid crowding out private investment, create fiscal space and lessen the interest bill burden. Revenue augmentation and expenditure reprioritization and subsidy-spending rationalization are key priorities. In addition, it is important for the authorities to keep the fiscal deficit in check. Delays in reaching the authorities' medium-term deficit target of 3 percent of GDP could undermine policy credibility and reduce fiscal space in the longer run. Broadening and deepening the direct tax base and reforming the GST are the other policy priorities to create fiscal space. Given limited policy space, we see the merit of being more ambitious on fiscal consolidation, and view that fiscal stimulus should be used only in the event of serious downturn. Staff's elaboration on what circumstances warranted the fiscal stimulus package are welcome. Regarding the recommended temporary fiscal measures, we are wondering whether the investment or public infrastructure spending would be effective to boost growth especially in the short-term as these spending take time to materialize. The authorities' focus on the path of credible fiscal consolidation would help bring down India's elevated public debt to the officially-adopted target of 60 percent of GDP over the medium-term. We notice there are different views between staff and authorities on the revenue projections. In this regard, we would appreciate if staff could elaborate on their suggestions on the realistic revenue projections and measures to enhance fiscal transparency and budget coverage. Given economic environment is likely to remain weak over the coming year, we have a view that undertaking ambitious fiscal consolidation and augmenting revenues will be exceptionally challenging for the authorities. Staff comments are welcome.

Given that inflation remains subdued, monetary policy should remain accommodative to address cyclical weakness, at least until the projected recovery takes hold. We commend the authorities for the implementation of monetary and exchange rate policies which have been broadly consistent with past Fund advice. The recent loosening of monetary policy has been largely appropriate to represent a proper response to cyclical weakness in growth and headline inflation in the bottom half of the target range. The sizeable monetary easing should help support growth momentum given the negative output gap. Monetary policy should remain accommodative at least until the projected recovery takes hold. The lagged effects of this monetary policy easing together with recent measures to facilitate monetary policy transmission are expected to support both investment and private consumption going forward. However, we find different views between staff and authorities in which the authorities are more optimistic than staff on the outlook and risks. Staff comments are welcome. On monetary policy transmission, can staff elaborate more on the forward guidance in the context of Indian economic outlook. Given there is nothing sacrosanct about policy rate actions in increments of 25 bps, we would like staff to provide further analysis on their concerns on the RBI's cut the policy rate by 35 bps.

A strong and stable financial sector and substantial progress on financial and corporate reforms are warranted to address India's twin balance sheet problem. We see merit in staff's recomendation that the necessary measures taken in response to the twin bank and corporate balance sheet matter must go hand in hand with a decisive strengthening of public sector banks (PSBs) governance and regulation and oversight of Non-Bank Financial Companies (NBFCs). We agree with staff that governance of public sector banks and the efficiency of their credit allocation need to be strengthen. In addition, we also share staff view that the government footprint in the financial system needs to be reduced to facilitate banking sector competition and increase financial market efficiency.

Along with accommodative monetary policy stance, the authorities should opt for broad-based structural reforms to achieve sustainable and more inclusive growth. The authorities' reforms on transportation infrastructure, electrification, digitization, and the ease of doing business are commendable. Nevertheless, reforms to hiring and dismissal regulations should be prioritized to help incentivize job creation for India's rapidly-growing labor force, enhance female labor force participation and absorb the country's large demographic dividend. Land reforms should also be enhanced to encourage and expedite infrastructure development and raise agriculture sector productivity. Product market reforms aimed at enhancing competition should also be prioritized. Like the authorities, we are also confident that efforts to boost infrastructure investment and reforms to improve the business climate and streamline labor market regulations would support activity and raise India's potential growth going forward. In addition, steadfast implementation of the other necessary structural reforms advised by staff such as initiatives aimed at reducing corruption and increasing bureaucratic efficiency is critical for the authorities to promoting inclusive and sustainable long-term growth. In this regard, we would like to invite staff to comment on the potential delay of these reform measures.

With these remarks, we wish India and its people every success in their future endeavors.

Mr. Mouminah, Mr. Alkhareif and Mr. Rawah submitted the following statement:

We thank staff for the well-focused reports and Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their helpful Buff statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

We commend the authorities for the strong economic performance in recent years, where the Indian economy has been among the world's fastest-growing economies, lifting millions out of poverty. However, growth has slowed with a deceleration in both consumption and investment. To address this slowdown, we encourage the authorities to reinvigorate their reform agenda, which rightly focuses on boosting inclusive and sustainable growth. Indeed, advancing a comprehensive reform package would help in realizing the authorities' goal of reaching the US$5 trillion economy in five years.

We agree on importance of pursuing fiscal consolidation over the medium-term to support debt reduction and create more space for priority spending. Here, we take positive note of the progress made towards reducing the fiscal deficit in recent years. Also, we welcome the authorities' ongoing efforts to further enhance revenue measures. In this context, these reforms should be complemented by continued efforts to further promote fiscal transparency and budget coverage, as rightly noted by staff. Here, we commend the authorities for their commitment towards the G20 data gaps initiative. Looking ahead, it is important to ensure a sustainable fiscal path towards achieving the authorities' fiscal objectives and meeting the ambitious revenue targets. We see merit in developing contingency measures to ensure achieving the fiscal targets. Given the current economic context, we note the authorities' view that automatic stabilizers should be allowed to function in the near term to avoid procyclical fiscal policy. Could staff comment on the short-term tradeoffs between the need to proceed with fiscal consolidation on one hand vs the procyclicality risks associated with more ambitious fiscal consolidation?

We agree that continued commitment to the inflation targeting (IT) framework will serve in further consolidating monetary policy credibility. In this context, it is encouraging to note that IT has contributed to macroeconomic stability and better anchored inflation expectations. In this regard, we take positive note of the authorities' efforts to improve IT implementation, which should be underpinned by clear central bank communication and further improved monetary transmission mechanism. We take note of staff's assessment that recent loosening of monetary policy stance has been largely appropriate. In this vein, RBI's vigilance is essential going forward and the RBI should stand ready to use available space if warranted.

Building on important progress, the financial sector structural reforms should be sustained to address remaining issues. In particular, we encourage the authorities to continue their reform efforts to accelerate the cleanup of non-performing assets (NPAs), improve the governance of public sector banks (PSBs), restore confidence in NBFCs, and, more generally, follow-up on the 2017 FSAP recommendations. As rightly noted by staff, PSB mergers should be accompanied by deep operational restructuring and the implementation of far-reaching reforms, leading to improved risk management and credit allocation.

Finally, accelerating structural reforms to support economic growth is important. We take positive note of the reforms that the authorities have embarked to strengthen growth potential. We commend the authorities for the strong performance in ease of doing business ranking, as highlighted in the Buff. We also note the efforts to tackle corruption. Furthermore, we welcome the focus to close the gender gaps, including through proactive labor market policies to encourage greater female labor force participation.

With these remarks, we wish the authorities further success.

Mr. Doornbosch and Mr. Voinea submitted the following statement:

We would like to thank Mr. Bhalla, Mr. Goyal, Mr. Natarajan, Ms. Dhillon, and Mr. Singh for their insightful Buff statement and commend Mr. Salgado and his team for an excellent Staff Report and very detailed and enlightening Selected Papers.

Outlook

Growth is at a 5-years low, but many countries would prefer such low figures as 6.8%. Moreover, potential GDP at above 7% says a lot about the growing role of India in international trade, as well as about the growing structural strains that are inherent when the domestic economy needs to accommodate large growth – basically, the economy would double its size within the next decade.

On the upside, inflation is within the target band and debt is sustainable. On the downside, tax revenues are very low, particularly central government’s revenues below 10% of GDP, and the share of interest rate payments in central government’s expenditures is way too high.

Fiscal

We fully support the proposed measures to increase tax revenues by eliminating exemptions, reducing the minimum threshold for taxpayers and increasing tax progressivity.

Data collection, reporting and comparability needs further improvement. Improved fiscal reporting would help higher tax revenues, while a higher coverage of public debt statistics would probably enhance the scope of non-performing assets.

Monetary

As opposed to the expectations in the last year's staff report, the tightening cycle was reversed while output gap remained negative.

The report stresses the fact that the growth rate is projected to stay above the interest rate, which is beneficial for debt service. Nevertheless, we would like to point out that the interest rate remains substantially above the inflation rate, which makes India one of the few countries with a real positive interest rate. In a world in which many of its competitors have real negative interest rates, Indian firms are hurt and are losing competitiveness.

Regarding inflation, there is a surprising result in the technical paper. The fact that there is no impact of imported price inflation on domestic inflation is at odds with the important role played by oil price and oil imports among macroeconomic vulnerabilities. As for the better anchored inflationary expectations, this phenomenon has been widespread around the globe, in advance and emerging economies alike, and may not necessarily be the consequence of domestic factors alone.

Structural

We recommend for the next year Article IV consultation to put more focus on macro-critical issues such as: income inequality, climate change, pollution, disasters prevention and mitigation.

In this regard, we would like to end on another positive note, by quoting from the report, on page 16: "Inflation targeting has contributed to macroeconomic stability, better anchored inflation expectations, and improved the economic wellbeing of low-income households. Inflation acts like a regressive tax that is disproportionately borne by low-income households."

The emphasis on the positive impact of lower inflation on the low-income households is well-put and the IMF should strive to systematically analyze the impact of public policies on reducing inequality and promoting a more inclusive growth.

The Acting Chair (Mr. Zhang) made the following statement:

India has been among the fastest growing economies in the world during the last couple years. It contributed to lifting millions of people out of poverty, so that is a great achievement.

As reflected in your gray statements, you pointed out the importance of reinvigorating the reform agenda because economic growth has slowed in recent years. You note the government's objectives to make the Indian economy a $5 trillion economy. It is a challenging task, but if we all work together, we can get there.

The staff representative from the Asia and Pacific Department (Mr. Salgado) made the following statement:[1]

We addressed most of the questions in our written responses, other than those related to staff's views on the outlook, to what extent the authorities disagree with those views, and the nature of India's slowdown. I will address those now along with comments on topics we are tentatively planning to cover next year, given some questions related to that by chairs.

As a reminder, staff projections assume a relatively strong rebound in growth during the second half of India's fiscal year—essentially that starts in October—based on the steps the authorities have already taken. The staff projections were mostly completed other than a few changes during the mission, which ended in early September, and finalized ahead of the fall World Economic Outlook (WEO) and issuance of the staff report.

As we noted in the staff written statement, since that time, data have remained weak. Our team still believes that GDP growth in the September quarter is on track for what we expected in our World Economic Outlook (WEO) projections, but others, namely investment bank analysts, have already penciled in weaker growth for the quarter and have been downgrading their projections over the past month. We are waiting for the September quarter National Accounts data release, which comes out at the end of this week, before deciding whether we want to reconsider our forecast. We now believe

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

the rebound in the second half of the fiscal year may not be as strong as we had expected. That is why we have noted that if current trends were to continue in the written statement, our growth projections would likely be too optimistic.

Regarding the authorities' views on the outlook in the staff report, this is what they generally expressed during the concluding meeting, though I am not sure it was unanimous on their side. I would note subsequently that the RBI in their monetary policy statement in early October also projected growth at 6.1 percent for the current fiscal year.

On the nature of the slowdown, we believe it is primarily cyclical, although there are structural constraints, which we highlight in the staff report. As also noted in the report, we have downgraded staff estimates of potential growth by about a half percentage point since the last Article IV staff report and even more over the past couple of years. Investment has been constrained in recent years, partly due to stresses in the financial sector. What we saw during the June quarter was also a sharp deceleration in consumption, which has been supporting growth in recent years. As at least one chair noted in their gray, this may reflect a weakening in household confidence, which led them to rein in expenditure and replenish household savings, which have fallen in recent years.

We think it is premature to downgrade potential growth further, as growth has been below 7 1/4 percent for only the past 18 months or so. That said, we will revisit this ahead of the next Article IV.

On the impact of demonetization and implementation of Goods and Services Tax (GST), there was a rebound in growth after those two events; however, both have led to structural changes that may be impacting the economy when other factors are also constraining growth. Let me highlight a few possibilities, though these are mainly anecdotal.

First, although the implementation of GST has created much more of a national market, as confirmed by our discussions with corporate India, in the short term this could lead to weaker growth, particularly when demand remains weak. An example was given by a firm that sells nondurable consumer goods. The national market allowed them to rationalize and reduce their distribution warehouses, and they are also considering the same for their production facilities. While the improvements in efficiency will likely allow them to grow faster once demand rebounds, in the short run, these steps lead to lower investment.

Second, both demonetization and GST were partly intended to formalize the Indian economy, an important goal. However, they disrupted the informal economy, including supply chains within, and these may be taking longer to heal.

Third, demonetization increased liquidity in the banking and financial system, which seemed to be channel partly to the Nonbanking Financial Company (NBFC) sector, either through bank on lending or via the wholesale funding markets. While this supported growth earlier, it may be a factor in the stresses faced by the sector today.

On policies, as noted in the staff report, we believe that countercyclical policies should focus on monetary policy, including the need to improve monetary policy transmission, as we assess fiscal space is at risk and fiscal policy is not as tight when one considers the extended fiscal deficit. We believe the focus on structural policies is also warranted both given the structural constraints on the Indian economy and as we are early in the new government's term.

Lastly, topics that we are tentatively planning for the next Article IV consultation and a broader project on South Asia are consistent with comments made by a few chairs. These include climate change and environment, monetary policy transmission, including communications, the costing of Sustainable Development Goals, and structural reforms. We will also see what we can do on inequality, perhaps on regional differences. A more comprehensive analysis on inequality will need to wait for the next consumption expenditure survey, the last one being in 2011-12. We will, of course, discuss these plans with the authorities during the forthcoming staff visit.

On a final note, we are still in discussions with the authorities on correction requests regarding some of the figures in the selected issues papers. We will address those in line with the transparency policy. Thank you.

Mr. Ostros made the following statement:

I think there has been some very important progress in the management of the Indian economy, and that has also resulted in a few years with very strong growth, but I do think that the intervention this morning by staff on potential growth is important, and we had a very good discussion on that during the outreach to our office. It seems like India is not affected by the slowdown in trade and the trade tensions, but there are also idiosyncratic effects in the Indian economy that I think begs the question whether the estimation of potential growth is still a bit too. I welcome a deeper dive into that going forward.

I think the Selected Issues Paper points out very interesting and important topics. What I miss is a deeper dive into the issue of the education system in India. If you look at potential growth, I would say that that is probably the most important part in the medium and long term, and I would encourage staff to look at that, not least when it comes to inequality issues, and perhaps make a peer review study on the efficiency of the education system and the resources invested in education.

I would also like to highlight the point that Mr. de Villeroche and Mr. Rosen had in their gray on climate change. This year's excellent Fiscal Monitor emphasized the case for using carbon taxes to implement climate mitigation strategies, and India is among the top carbon dioxide emitters, and emissions are more responsive to pricing in India than in many other countries. This is a topic that it will be interesting to look further into going forward. Using carbon dioxide taxes is probably a very efficient method in expanding revenues and dealing with emissions going forward. I congratulate staff for an interesting set of reports.

Mr. Alkhareif made the following statement:

India has been among the world's fastest growing economies in recent years with that growth lifting millions of people out of poverty. Looking ahead, we encourage the authorities to reinvigorate their reform agenda, which rightly focused on boosting inclusiveness. We also encourage the authorities to continue their fiscal consolidation efforts in a growth-friendly manner. Ensuring adequate and efficient social spending is important to strengthen the inclusiveness of growth.

We commend the authorities for their strong financial sector reforms. We encourage them to continue their efforts in accelerating the cleanup of nonperforming loans (NPLs). Improving the governance of public sector banks are important. Here we missed any reference to Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) framework discussion, both in this year's Article IV and last year's Article IV, and we welcome staff comments on this issue. The AML/CFT issue is a global phenomenon, and I am glad to point that Saudi Arabia's G20 presidency will cover this issue in 2020.

We are encouraged by the authorities' efforts in implementing structural reforms. We commend the authorities for the strong performance in the ranking of Ease of Doing Business. We also note the efforts to tackle corruption, and we encourage the authorities to continue their efforts in this area. We appreciate staff's work on the Selected Issues Papers, as highlighted by Mr. Ostros. We particularly appreciate staff's work on the subject of gender gaps. In particular, the role of digitalization in addressing gender inequality is important, not only to India but to many countries around the world. We encourage staff to apply this method to other countries.

While on Selected Issues Papers, I would like to note to staff that on page 9, Saudi Arabia was mentioned as one of the countries when it comes to the G20 data gap initiatives. I would encourage staff to consult with the MCD colleagues about the accuracy of the data for Saudi Arabia on that table.

Finally, I notice from staff's written answers and the mission chief's opening remarks that climate change will be examined more closely in the context of the 2020 Article IV consultation. I agree with Mr. Ostros that this topic is extremely important, not only to India, but to the global economy. I encourage staff to work closely with the World Bank and all relevant international organizations that have the comparative advantage on climate change issues.

More importantly, we urge staff to take into account the social and economic implications from adopting different climate change measures. Focusing excessively on single instruments such as carbon taxation could lead to social and economic implications beyond the intended consequences. With these remarks, we wish the authorities and the Indian people a continued success.

Ms. Levonian made the following statement:

I also want to commend staff for their choice of Selected Issues Papers for this Article IV consultation. We issued a joint gray with Mr. Ray, and so I just want to highlight or underscore one point from that statement in regard to female labor force participation. In the Selected Issues Paper on digitization, staff highlighted that female labor force participation has fallen from around 43 percent in 2004-05 to 23 percent in 2017-18, and that is a staggering decline. As staff have outlined, digitization represents a tremendous opportunity for Indian women and girls. It can facilitate information dissemination, promote entrepreneurship, and reduce transaction costs. The authorities' ambitious Digital India Programme will certainly help in this regard, but as previous Article IV consultations have stressed, the path to meaningfully reducing gender disparities in India is going to require addressing legal and structural barriers. This includes investing in girls' education, in health, utilities, and transportation, and amending gender-specific labor laws. With that, I wish the authorities well.

Mr. Sun made the following statement:

In addition to our gray, I would like to limit myself to only one issue today, governance and corruption. I would like to echo the concerns raised by the authorities and Mr. Palei and Mr. Tolstikov on the use of perception-based third-party indicators (TPIs) in the discussion of governance and corruption in the staff report.

While we understand the use of these third-party indicators is in line with the Fund's guidelines, we wonder if the selection and the presentation of the indicators could have been more balanced. We are concerned that an eye-catching spider chart of entirely perception-based indicators may have diverted attention away from the concrete efforts that the authorities have made in fighting corruption. We would have appreciated a more balanced presentation that also features more objective indicators, like the Doing Business Indicators, in the discussion of strengthening India's business climate.

As a broader issue, the Fund's TPI guidelines recognize that although these TPIs can use valuable insights, there are some potential pitfalls that need to be avoided. As such, we reiterate the importance of exercising care when using perception-based TPIs. In particular, we believe the Fund should consider whether there should be additional guidance on the way perception based TPIs are used in staff analysis, as well as how they are presented in staff reports, to avoid overreliance on these indicators and facilitate a more balanced and constructive discussion. This, in turn, would also be conducive to gaining traction. With that, we wish the authorities continued success.

Mr. Trabinski made the following statement:

We commend the authorities for their continued liberalization efforts and the significant progress in economic development, which led a significant part of society out of poverty. At the same time, given the persistent downside risks and structural challenges, further reforms are essential to realize India's full economic potential. The current political cycle seems to provide the momentum to accelerate the broad reform agenda. In my remarks I would like to stress these following three points.

First, as we stated in our gray, a more ambitious medium-term fiscal consolidation path is important to reduce the relatively high general government debt. Specifically, we support measures to improve tax revenues, an example by eliminating tax exemptions and tax reforms aimed at increasing progressivity. Over-optimistic revenue projections or significant off-budget financing put a premium on enhanced fiscal transparency governance and reporting. As Mr. Obiora and Ms. Levonian and other chairs, we encourage the authorities to request a fiscal transparency evaluation based on the Fund's Fiscal Transparency Code.

Second, on financial inclusion, we welcome the progress achieved in promoting the use of digital payments. As digitalization is emerging rapidly in India, the policy challenge is to balance the expansion of the digital economy against the risks associated with data and technology misuse so that public confidence and trust is sustained and the efficiency and soundness of the payment and settlement system is ensured.

Third, we raised the issue of climate change-related risk in our gray. We understand from staff's answer that the 2020 Article IV consultation will cover in more detail how India is adapting to climate change. Given that India is among the countries most vulnerable to climate change and natural disasters, we would appreciate staff's current assessment of climate-related risks, in particular with respect to the medium-term outlook. Let me stop here and wish the authorities all the best in their endeavors.

Mr. Harada made the following statement:

We recognize that the Indian economy has been facing significant economic challenges in recent years. It will be necessary for us to closely monitor the Indian economy as it is a globally influential economy.

We believe that financial sector reforms will be a key for India to secure sustainable growth and macroeconomic stability. Especially addressing the non-banking sector's problems should be prioritized. From our experience in the 1990s, such problem is not an easy task, but the authorities should tackle it. We are concerned that the Indian economy would enter into vicious circle once its financial sector will lose market confidence. On this point, we encourage the authorities to enhance transparency and availability of timely and granular data. Also, the bank regulation framework such as recapitalization is in place, and therefore we encourage the authorities to continue to take remedial action in a swift and timely manner if necessary.

In relation to this, we believe that banking sector lending should be carried out more on the market basis, and we would like to point out the risk of priority sector lending policy which may bring market distortion and could lead to increasing nonperforming loans.

Mr. Obiora made the following statement:

I would like to make two comments, one on the general policy advice we provide to countries and then a specific one on India itself. A wise man once said that if the only tool you have in your hand is a hammer, then everything you see looks like a nail. I open my comments this morning with this because of overwhelming leaning towards fiscal consolidation in many cases. Indeed, apart from Germany, I actually cannot recall another Article IV program report we considered in this Board that did not advocate for one form of fiscal consolidation or the other, and I wonder whether there might be a case of one-size-fits-all that we need to interrogate here. Is it really possible that in over 90 percent of the countries we deal with, there is always a case for fiscal consolidation? Are we fully taking into cognizance country specificities, timing, sequencing, and sociopolitical circumstances? I obviously do not have answers to these questions, but the seeming monotonicity of policy advice is something we need to think through a bit more carefully.

Specifically on India, I understand staff's point with respect to using public sector borrowing requirements as an alternative measure of India's fiscal health, but it is not clear from the report how much this has become the new barometer for India. I am concerned that this concept is not widely used for other countries, calling into question the issue of evenhandedness. I think Mr. Palei and Mr. Tolstikov raised similar concerns about this concept. Given that this is an economy whose fiscal deficit is less than 4 percent, external debt-to-GDP is about 19 percent. I do not disregard the total debt-to-GDP, but the other one is more manageable since it is issued in its own currency. Inflation is only 3.4 percent. The country has robust reserves. Some of my colleagues, including Mr. Ostros, have talked about the progress India has made in recent years; but this is a country that has roots trending downwards. If this economy cannot be allowed some flexibility for fiscal stimulus, as staff seemed to point out in the paper, then what scenario would give us the option to introduce such flexibility?

I note total debt is much higher than the ratio of standard debt-to-GDP, but we must not exclusively be concerned with total debt. We also have to look at the ability of the country to service its debt. I wonder whether this might be one of the reasons we have issues with traction in such economies, whether it might be good for us to focus more on sustainability rather than consolidation. Of course, the two issues or concepts might look alike, but I think focusing on sustainability may give us more flexibility and options in the package of advice we give to countries.

Mr. Rozan made the following statement:

We congratulate the authorities for their very strong economic performance, which has allowed the country to lift millions out of poverty. As highlighted by others, as India's growth is slowing down, the call for reforms expressed in the Article IV becomes even stronger. As many highlighted, there is also a strong political economy argument that now is the best time to launch ambitious structural reform. While we agree with the thrust of the staff appraisal, I would like to highlight a few points for emphasis.

First, public finance statistics, it would be useful to have them improved to ensure the proper conduct of fiscal policy. I think it would be useful for India to respect the G20 commitment to publish general government data in line with the Global Financial Safety Net (GFSN) 2014 standards. We encourage the authorities to undertake the fiscal transparency evaluation, as others have said, as it would provide a valuable base for further reform.

Second, we would see benefit in reforming the fiscal relationship between the central government and state government to improve coordination and reduce fiscal slippages. I think that the Selected Issues Paper in this regard was particularly useful. The 15th Finance Commission could provide guidelines for such a reform. We also think it could be useful if the Fund could interact directly with state governments during the conduct of future Article IV missions.

Third, reforming the governance of public sector banks (PSBs) remains a key step to ensure the proper financing of the economy and unleash India's growth potential. Staff's selected issues paper on the efficiency of PSBs demonstrates the costs associated with poorly managed institutions.

Fourth, regarding structural reforms, we remain convinced that India could benefit a lot from a reform push aiming at strengthening the functioning of the labor, product, and land markets. We encourage the authorities to pursue their efforts to combat corruption and increase female labor force participation.

Finally, we welcome the fact that next year we are going to look into climate change policies. India has shown great leadership in this fight over the last few years, and I think it could very much benefit from Fund advice in this area going forward.

Mr. Sylla made the following statement:

The remarkable progress made by India in the past year in growing the economy and bringing a large segment of population out of poverty is impressive, as mentioned by the Chair in opening comments. These deserve to be sustained. To this effect, it will be important for the authorities to put emphasis on job creation to meet the need of a fast-growing population. The political environment offers an opportunity to advance labor, land, and products markets reform, strengthen governance, increase competition and flexibility, and enhance female labor force participation.

Many of my colleagues, including Mr. Alkhareif, Ms. Levonian and Mr. Rosen, have mentioned female participation. If you go to the paragraph at the graph on page 5 of the report, you will understand why we are putting emphasis on this. This graph is very instructive of the gap between the female and male participation in the labor market, so thank you for that illustration.

On the second point, Mr. Obiora. We are of the view that it is important to improve the financial viability of the public banks, and that is the cornerstone to strengthening the macroeconomic stability and sustaining the recovery. The progress made with the insolvency and bankruptcy court in allowing lenders to recover loans should be pursued. Non-banking financial sector oversight also warrants the full attention of the authorities. We are encouraged by their commitment to this agenda. With these remarks, I wish to thank the authorities and wish them good endeavor.

Mr. Farber made the following statement:

I was reminded on Friday that I have not introduced myself to the Board, so allow me to remedy that situation. My name is Richard Farber, and my responsibilities include performing the duties of the Alternate Executive Director for the United States. I would like to say it is a great privilege to be part of this august body. In order to make a good impression, I will keep my comments brief.

I would like to start by thanking staff for the well-written and detailed report, as well as the Selected Issues Paper. We particularly enjoyed the presentation in the report regarding the upside scenario of deepened structural reforms.

It is important to remember that almost one out of five people on the planet reside in India. They have the second largest labor force. We all have a vested interest in a fast-growing, inclusive, and macroeconomically stable country. India's rapid growth over the past three decades has resulted in significant improvements in social conditions and reductions in poverty, yet the growth slowdown this year illustrates that India continues to grapple with longstanding challenges. Fund advice on reforms can help the authorities achieve their ambitious goal of turning India into a 5 trillion U.S. dollar economy in five years.

India is a quintessential example of a country that has experienced great success but still has tremendous potential. In this context, we encourage continued action by the authorities to manage fiscal risks and continue with fiscal consolidation. We urge the authorities to continue with improvements in tax collection and compliance to offset this revenue loss and safeguard fiscal sustainability. Like our colleagues, Mr. Merk and Mr. Blanken, we remain concerned about financial vulnerabilities among public sector banks and nonbank financial companies. Reducing liquidity risks in this sector while enhancing transparency, for instance, via an asset quality review of NBFCs, can help the authorities achieve their goals of enhanced financial access and improved monetary policy transmission. We also wonder whether a comprehensive privatization plan for PSBs could increase financial sector competition and facilitate structural transformation in the sector. We continue to encourage staff to engage on this issue.

The structural reform agenda in India is incomplete, and we continue to believe that continued trade and investment liberalization can be engines for growth and job creation. Greater economic openness can complement structural reforms and allow India to take advantage of its labor abundance to facilitate structural change in the economy.

On Fund communication, we would like to encourage the authorities to consent to publication of the staff concluding statement in subsequent Article IV missions. As we understand it, India is the only member of the G20 that does not agree to publish these statements, and we believe improved transparency in Fund communications benefits the membership.

Finally, this chair would like to thank the Indian authorities for their excellent hospitality earlier this month during Treasury Secretary Steve Mnuchin's visit to India. We greatly appreciated the opportunity to hold a meeting of our economic and financial partnership and reiterate our commitment to greater cooperation on global economic issues. With that we issue the authorities well.

Mr. Di Tata made the following statement:

India has been among the fastest growing economies in recent years, but economic activity slowed in the first three quarters of 2019. Headline inflation remains below the Reserve Bank's midpoint target of 4 percent, the external position is broadly consistent with fundamentals, and gross international reserves are adequate. Under the staff's baseline scenario, real GDP growth is expected to recover gradually to its estimated potential of above 7 percent a year over the medium term in response to continued gradual progress on the macrofinancial and structural fronts.

We agree with the focus of the consultation discussions on reinvigorating the reform agenda to boost inclusive and sustainable growth and appreciate the reform scenario prepared by staff, which illustrates how a more comprehensive reform package could boost growth. We would like to emphasize a few points.

Regarding fiscal policy, we concur with the staff's recommendation to pursue medium-term consolidation to lower the general government debt and reduce fiscal dominance. As noted in the report, while the headline general government fiscal deficit has narrowed, the public sector borrowing requirement remains high. In this regard, we encourage the authorities to continue with their efforts to rationalize subsidies, broaden the base of the GST and increase compliance, and expand the base of the personal income tax. At the same time, given the deceleration in economic activity, we believe that in the short run procyclicality should be avoided, and automatic stabilizers should be allowed to function. We fully concur with the staff on the importance of strengthening fiscal reporting and transparency. Additional CD by the Fund to support the government's reform effort in this area, together with a Fiscal Transparency Evaluation by FAD, would be very useful.

Recent monetary loosening has been largely appropriate, and there is room for additional easing, if necessary, to help close the output gap. The monetary transmission mechanism is inadequate and requires improvements, including by enhancing competition in the banking system and lowering banks' funding costs by improving the passthrough of changes in policy rates to administered rates.

Regarding the financial system, we welcome the progress made in strengthening the regulatory and supervisory framework and improving recognition of nonperforming loans (NPLs) in public sector banks. Going forward, efforts should be intensified to enhance credit allocation by public sector banks and adopt meaningful restructuring and governance reforms to accompany the recently announced plan for public sector bank mergers.

We take positive note of recent efforts at strengthened regulation and monitoring of nonbank financial companies, including the housing finance companies (HFC) sector, and encourage the authorities to build on those steps.

Lastly, we welcome that the latest data on poverty and income distribution show a substantial improvement. At the same time, we regret that the data are as of 2011. We believe that efforts should be made to strengthen the availability of information in this area. Staff recognizes that the government has prioritized social spending in recent budgets, but we would have appreciated a more detailed discussion of the adequacy and effectiveness of the government's social programs.

Mr. Bhalla's buff statement enumerates a series of welfare programs that have been implemented in recent years, as well as several steps that have been taken to improve access to healthcare and financial services.

Mr. Mojarrad made the following statement:

India has enjoyed a period of rapid economic expansion in recent years, lifting millions out of poverty, thanks to the authorities' pursuit of sound macroeconomic and structural reforms. We commend the authorities for the skillful economic management and encourage them to strengthen their efforts, particularly by reinvigorating structural reforms in the face of the recent slowdown of the economy and short-term downside risks.

Fiscal consolidation is essential to reduce high public sector borrowing and lower the debt ratio sufficiently over the medium term. We also underscore the importance of realistic revenue projection and the need to enhance fiscal transparency and coverage. Monetary policy should remain accommodative until economic recovery takes hold, and the exchange rate should remain flexible. Given vulnerabilities in the financial system, the planned merger of public sector banks should be accompanied by reforms to improve risk management and credit allocation.

Finally, and probably most importantly, a comprehensive package of structural reforms in a host of areas, including trade and investment, labor, land, infrastructure, product market and governance, is required to realize the authorities' goal of 5 trillion U.S. dollar economy in five years. We note the concerns expressed about implementing reforms in a weak growth environment but welcome the authorities' assertion that given the government's renewed strong political mandate, the time is right to press ahead with reform implementation. With this, we wish the Indian authorities continued success.

Ms. Mahasandana made the following statement:

Like other Directors, we commend the authorities in pursuing sound macroeconomic policy over the past decade to transform India into one of the world's fastest growing economies and lift millions out of poverty. However, the recent headwinds and challenges are likely to bring down this year's economic growth to its lowest level in many years. The Indian authorities have taken several growth-supporting measures to boost economic activity and preserve financial stability during the difficult time. We positively note that these policies are expected to result in a noticeable rebound in the economic growth next year. However, recognizing the potential downside risks and structural impediments, more needs to be done in the years to come to effectively address the remaining issues to ensure fiscal sustainability, financial sector stability, and sound external positions, sustainable and inclusive growth. We issued a detailed gray statement and broadly agree with staff on the policy recommendations and key priorities and would like to offer three general comments.

First, we underscore the need to maintain easy monetary policy stance with by astute further accommodating, while continuing enhancing fiscal consolidation and reducing public debt to its 60 percent target to ensure macroeconomic stability and sustainable growth in the medium term. We also encourage the authorities to continue efforts to reinvigorate the comprehensive structural reform package to guide the economy on a path to government's goal of the 5 trillion U.S. dollar economy in the next five years.

Second, we reiterate the need for the Indian authorities to further implement reform measures to strengthen its financial sectors, including action to address balance sheet problems, bringing down the NPLs, enhancing the public sector banks' regulatory reform, and strengthen the regulations and monitoring of the nonbank financial companies.

Third, we encourage the authorities to further implement the liberalization and reform in various sectors of the economy and to promote the competitive and sustainable growth. Trade and investment liberalization as more active engagement in the regional trade negotiations would help support growth and support jobs in the medium term. Gradual and well-sequenced capital account and financial liberalization would facilitate foreign direct investment (FDI) and long-term foreign capital flows and promote ease of doing business.

With these comments, we wish the Indian authorities every success in their future endeavors.

Mr. Guerra made the following statement:

We acknowledge India's strong growth, macroeconomic stability, and significant improvement in policies. Challenges remain for India to continue promoting a sustainable and inclusive growth over the long-term and to reduce public debt to ensure a sustainable path, particularly in the context of a very complex external environment.

On the fiscal front, we agree with staff on the need for a more ambitious consolidation plan in the medium term to reduce public debt and free up financial resources for private investment and agree with Mr. Di Tata's comment on the need to let the automatic fiscal stabilizers work.

On the financial sector, we welcome the implementation of the main recommendations of the financial sector assessment that address vulnerabilities of public sector banks, financial sector oversight, and market development. We acknowledge the banking sector weakness has increased from previous reports, and we concur that improvements are still needed in the governance of public sector banks to build financial stability. Nevertheless, and in this regard, we commend the authorities' measures for frontloaded recapitalization, as well as for the consolidation and governance reform of public banks.

On monetary policy, we acknowledge the gains that the country has achieved with the inflation targeting regime. That has brought inflation to converge in particular with the levels of the G20 peers.

Finally, we commend the authorities' commitment to ensure inclusive growth by putting in place a series of comprehensive and large-scale welfare programs that target particularly the most vulnerable sections of the population. We concur with Mr. Di Tata on the need to make further analysis by staff on the issues of the efficiency of these large-impact programs.

Last, on two issues, we also support Ms. Levonian's comments on the need for more work related to female labor participation. Finally, we praise the authorities for their commitment to the G20 data gaps initiative under the agreed timeline.

With this, we wish the authorities the best in their endeavors.

Mr. Saraiva made the following statement:

I heard the staff's opening remarks this morning, and I pretty much agree with the nature of the slowdown as presented here as a primarily cyclical slowdown facing also structural concerns. Given this assessment, the general policy recommendations are mostly warranted, with monetary policy playing the role of providing the countercyclical stimulus, while structural reform would pursue the removal of the obstacles to potential growth.

Regarding the fiscal policy, I hear Mr. Bhalla's point on the need to adjust the balance to the cycle and let also the workings of the automatic fiscal stabilizers and also Mr. Obiora's comments on the risk for one-size-fits-all type of recommendation, but I still have a sense that the impact of the corporate income tax (CIT) rate cut, as the staff presented here, will be negative in terms of revenue collection. Given the fact that the fiscal situation is not in an emergency state, I think the right procedure would be to closely monitor the fiscal performance, especially related to the revenue targets, and act accordingly as needed if the targets are too optimistic, as some have raised, in order to fill that gap.

The other point I have is that I was a little disappointed with the answer to question 46 on the assessment of the initiatives targeted on poverty reduction. Part of it is due to the fact that we do not have timely data, and this is something that is extremely needed at this point. On the other hand, I would like to side myself to Mr. Di Tata and Mr. Guerra on reinforcing the need for deeper analysis of the many initiatives that have been taken by the authorities to fight poverty and reduce inequality. We know that the performance in the economy has been stellar in a sense, and even with this cyclical slowdown, we are still seeing a very high rate of growth in India; and, of course, if we think globally, much of the action in terms of poverty reduction may be taking place in India at this point, so it would be very important to have this more granular analysis of the different initiatives and their effectiveness.

Finally, still regarding this issue of the speed of the economic growth, I wonder if staff is concerned with some specific stall speed for the Indian economy or they are just looking at the slowdown and measures to boost it.

With that, I wish the authorities well in their endeavors.

Mr. Voinea made the following statement:

First, we fully support the proposed measures to increase tax revenues by eliminating exemptions and increasing tax progressivity. Data collection, reporting, and comparability needs further improvement. Improved fiscal reporting would help higher tax revenues, while broader coverage of public debt statistics would probably enhance the scope of nonperforming assets as well.

On the monetary stance, a second comment, the report stresses the fact that the growth rate is projected to stay above the interest rate, which is beneficial for debt service. Nevertheless, we would like to point out that the interest rate remains substantially above the inflation rate, which makes India one of the few countries with a real positive interest rate, which has implications for its external competitiveness.

As for the recommendation, we recommend for the next year's Article IV consultation to put more focus on macrocritical issues, in particular income inequality, health, and education systems, as well as climate change, pollution, and disaster prevention and mitigation. In this regard, we would like to commend staff by quoting from the staff report where at page 16 you say, and I quote, "Inflation targeting has contributed to macroeconomic stability, better anchored inflation expectations, and improved the economic well-being of low-income households. Inflation acts like a regressive tax that is disproportionately borne by low-income households", end of quote.

We encourage staff to systematically analyze the impact of public policies on reducing inequality and promoting a more inclusive growth.

Mr. Merk made the following statement:

Broadening and deepening the structural reform agenda should be considered pivotal for revitalizing India's economic dynamics. In view of the significant growth deceleration, a frontloaded reform approach could boost sentiment and reinvigorate growth on a medium-term trajectory.

On fiscal policy, we recommend complying with the deficit objective and continue to put public debt on a descending path as anchored in the Fiscal Responsibility and Budget Management Act (FRBMA). In line with the joint statement by Ms. Levonian and Mr. Ray, we are of the view that prioritizing efforts to enhance women's participation in the labor force would yield significant macroeconomic benefits for India. In that regard, we commend the insightful SIP on gender equality and digitalization.

Mr. Ray made the following statement:

I issued a joint gray with Ms. Levonian, so I just wanted to make a couple of remarks this morning. In part because like Mr. Obiora in his very thoughtful intervention this morning, I have been wondering about how the Fund can assist the Indian authorities. A first step might be greater alignment between staff and the authorities on what the facts are. The degree of disagreement that comes through in the buff statement is quite striking, and it is quite normal for authorities and staff to disagree on policy paths, but it is troubling when they are disagreeing so much on what the facts are, and I would encourage staff to think about how they can close that gap.

As Mr. Farber stressed, with a large young population, India's economy has huge untapped potential. With more than a sixth of the world's population, India only produces around 7 1/2 percent of the world's output. India's progress is not going to be linear. It is going to be subject to structural shifts, and it is going to be shaped by technological and environmental disruptions. Structural drivers, such as the urbanization of the world's largest rural population, the shifts from the informal labor market to a more formal labor market, and a young demographic—the mean age of the Indian population, I think, is about 27, which is still very young—is going to keep India on a relatively strong growth path.

In order to achieve sustainable growth in the coming decades, India is going to need to maintain strong investment while preserving macro stability and ensuring structural and governance reforms. I do not envy the policymakers in such a large, diverse country with a federal system. I come from a country with a federal system. Reforms are difficult, and they are probably going to proceed incrementally and be politically opportunistic.

On macro policy, a mix, it is to have an overall accommodative stance but proceed with medium-term fiscal consolidation, but that relies on monetary policy and in particular a strong monetary transmission mechanism. Given India's weak monetary transmission mechanism, I do wonder a little bit about the recommendations on the policy mix. If fiscal targets are being missed because the economy is weaker than expected, it seems to me that those arguing against letting that flow through to the budget bottom line need to make a very strong case. I welcome staff's indication this morning that they are going to focus on the monetary policy transmission mechanism next year. I do wonder that maybe that could have been done earlier.

Making the most of India's demographic advantages are going to require labor market reforms, measures to improve education and skills, and as we stressed in our gray, significantly improving women's participation in the economy. How can staff help do that? Possibly providing deeper analysis to assist the authorities to determine the best sequencing for reforms given staff's assessment that the fiscal space is likely to remain limited for some time. Here it is about helping the authorities do what they already know are the policy objectives, and so I would encourage staff to think how they can assist the Indian authorities a little bit more in that regard. Thank you.

Mr. Beblawi made the following statement:

We issued a gray in which we noted that India remains one of the world's fastest growing economies notwithstanding a slowdown in growth in recent quarters. We also welcome that the shares of population in poverty decreased significantly over the past years. We concur with the staff that the new government has an opportunity to reinvigorate the reform agenda aimed at boosting inclusive and sustainable growth and welcome the focus on Article IV discussion on these reform priorities.

We appreciate the staff analytical work in the Selected Issues Paper, particularly on ways to help reap the full benefits of India's potential demographic dividends over the next few decades. Like other colleagues, we would like to see additional work on climate-related risks and the climate change mitigation and adaptation. We welcome Mr. Salgado's announcement that this will be added next year.

With these remarks, we wish the Indian authorities well in their reform efforts.

Mr. Ronicle made the following statement:

India faces a challenging conjuncture. The downgrades to growth in 2019 were amongst the largest in the World Economic Outlook, and the pickup in growth in 2020 is large and fraught with downside risks. As the statement from the resident representative and staff this morning make clear, India is far from out of the woods in the cyclical weakness, making it more pronounced and persistent than initially thought. The authorities have already taken extensive policy action, most notably monetary easing and corporation tax cuts, but I would urge them to stand ready to ease monetary policy further if need be. I noted Mr. Bhalla's concerns about the monetary transmission mechanism and the authorities' actions to strengthen it. I am pleased to note staff proposed covering this issue in the next Article IV.

We would also encourage the authorities to stand ready to act in the financial sector, which is the root cause of much of the recent slowdown, and I thought staff and Mr. Farber had good suggestions in this area.

Second, I wanted to underline a few points on structural reform. India has scored some notable successes in this area. As Mr. Bhalla notes in his buff statement, India has risen sharply up the rankings in terms of Ease of Doing Business; and the way India has managed to combine fintech and traditional banking to improve financial inclusion is, frankly, extraordinary. Reform needs to go further to sustain income convergence. I know from the buff statement that there has been some debate about the precisely whether labor market participation is rising or falling, but we should not let that draw attention way from the low absolute level of female participation. The entry of women into the workforce has transformed economies and lives across the world, so I would encourage the Indian authorities to make the most of the skills of all its citizens and prioritize further reforms in this area.

Trade is a powerful force for raising productivity and incomes. I think it is a shame the authorities did not feel they could participate in RCEP at this stage, but I would encourage them to keep pursuing greater openness to trade and capital flows and hope they will be in a position to enter RCEP in the not-too-distant future.

Finally, on structural reform, let me a say I thought Mr. Ray's point about the sequencing of reforms is an excellent one and something I would encourage you to think about. The last point I want to make is about climate. We look forward to the coverage of climate planned in the next Article IV and hope that that will help the Indian authorities revise their Paris Climate Agreements as part of COP26.

The staff representative from the Asia and Pacific Department (Mr. Salgado), in response to questions and comments from Executive Directors, made the following statement:

Let me start by mentioning AML/CFT. In the last couple of Article IVs we have not really addressed it. It was covered in more depth during the Financial Sector Assessment Program (FSAP) that was in 2017. The FSAP noted strengthening in the framework, but risks remain on domestic tax evasion and related governance corruption issues. In particular, there remains room on strengthening the framework related to domestic politically exposed persons and the designation of domestic tax evasion. That was the assessment we had in the FSAP. In terms of the accuracy in the fiscal reporting, we will confirm that as well.

On climate, I saw that you want an assessment right now. I feel a bit uncomfortable making an assessment until we go through it fully. I would note that in previous Article IVs a few years back there was some work on energy subsidies and the overall impact on India through some of the climate changes, and this was going back two or three Article IVs.

In terms of the issue about us looking at this new or extended fiscal deficit as well as what we call the public sector borrowing requirement, we are using information actually provided by the authorities, and partly you can think what we are using as a better flow measure of what is going into the authorities' own calculation of general government debt. That is a way to think of the public sector borrowing requirement. It is broadly that, as well as what we say in the extended central government deficit. There is an inconsistency in India's own laws regarding what is included in debt versus what is included in the deficit, and partly that is why we are emphasizing that, is what you have seen in India over the recent years is that although deficits have been falling, particularly at the center and even recently at the state level, general government debt has stayed at 70 percent roughly. It is even under India's own objective to reduce general government debt to 60 percent in the next few years, so we are seeing limited progress in the reduction in general government debt when it is in their own goals to reduce general government debt. We agree it is not really an issue of external sustainability because India is a relatively closed financial economy. However, we do believe it leads to pre-empting household savings, and that is the concern over the longer term for India, which has implications for growth, investment, et cetera.

On the questions regarding the topics, we will take those into consideration. Some of them that were mentioned in the grays I already noted we are thinking of doing some work on. We need to discuss this before finalizing those topics will happen with the authorities themselves. We have the staff visit in December, so we hope to do that.

One of the difficulties in assessing the effectiveness of some of the social spending is right now we do not have the household data to do that assessment. I think that covers the questions. Thank you.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Panth), in response to questions and comments from Executive Directors, made the following statement:

Regarding third-party indicators and the statement that what is done in the report was consistent with the existing guidelines, and as Directors know, as part of surveillance, as part of review, we keep these guidance notes under consideration, and we will continue to do that. We have learned from experience. There was a commitment made earlier to come back and look at this at some point, and we will keep that in mind.

Mr. Bhalla made the following concluding statement:

On behalf of my Indian authorities, I would like to thank Mr. Salgado and the mission team for the constructive engagement during the visit in July and subsequently. As Mr. Farber, I also want to make an impression with my first intervention. I apologize in advance for going possibly above four minutes. I can speak fast, but slow and steady might be best for transmission of information.

I would like to thank all the Executive Directors for their grays, and I will communicate their views to the authorities. We appreciate their recognition in support of India's growth reality and potential. There are several common themes and concerns in the Article IV and the comments received, and I would like to devote my comments today on these larger concerns. Incidentally, we fully agree with the need for emphasis on climate change issues and conforming to the fiscal transparency. These additional concerns that I will now speak about pertain to the broad theme of fiscal responsibility and inclusive growth.

First, fiscal responsibility. The Directors, while recognizing India is one of the fastest growing economies, have cautioned on meeting the fiscal targets and fiscal consolidation. Let me thank our Directors here for bringing out the divergence in the report between fiscal deficits per se and fiscal deficits affected by cyclical concerns. We especially want to thank Mr. Obiora, Mr. Ray, Mr. Saraiva, for highlighting the issue that one size does not fit all.

We have all noted that GDP growth this fiscal year has been subdued. This suggests that the fiscal deficit for the current year should be expansionary as opposed to disciplined and contractionary. We cannot conclude both that short-term fiscal deficits be reined in and that short-term subdued growth needs to be corrected. Nevertheless, the government is fully committed to fiscal discipline and intends to broadly meet the targets set out in the budget. The subdued growth has led to tax revenue going below budget, but net total revenue, including transfers from the central bank, have grown at 18 percent. It is in this cyclical context that the structural reform recently announced last week in the form of strategic disinvestment needs to be fully understood and fully appreciated. The government is committed to large strategic sales of public sector units. This is a big structural change. The goal is ambitious and realizable. The budget had envisaged 1 trillion from disinvestment, and an additional half trillion is likely, which will go some distance towards meeting the original fiscal deficit target of 3.3 percent of GDP.

The Article IV report and some grays point to the unhealthy expansion in the BSBR over the last few years. This expansion has taken place without an increase in inflation, indeed, a decline. May I suggest that a selected topic for the next Article IV mission is to investigate as to why inflation has not followed the fiscal expansion. Does that mean we have more room for countercyclical fiscal policy? And if this decline in inflation has taken place due to inflation targeting, as the report seems to suggest, then an additional investigation could be differentiation of domestic inflation decline from low global inflation. We should note that the inflation gap between advanced economies, the median inflation, and the median inflation in emerging economies, is now less than 1 percent, a historical low for the last 40 years.

Now, I move to inclusive growth and electoral mandate. The grays have noted that the Modi government won reelection by historic margins. It is correctly surmised that this affords the government considerable leeway to usher in economic reforms. Before delving into the future, it is important to delve into certain aspects of the last five years in order to understand what made the historic election victory possible. What needs discussion and emphasis is the unprecedented inclusive growth and female empowerment. This perhaps is a subject for the next Article IV to explore.

For the last decade, India has emerged as the third largest economy in the world in purchasing power parity (PPP) terms. Given the lowered expectations for world growth, what happens in India takes on increased importance, and it is thus imperative that we all work together towards understanding what is happening in India as it targets to become a 5 trillion U.S. dollar economy over the next five years.

Before going further, an important point of difference with the staff report. The report points to corruption perception requiring improvement. As pointed out in the buff and supported by several Directors, India's record on corruption reduction is in conformity with its other inclusive growth achievements. This is based on objective assessment by the World Bank rather than third-party corruption perception indicators (CPI).

All the evidence points to unprecedented progress on inclusive growth, growth that helped improve the well-being of the bottom 50 to 70 percent of the population. In the buff statement, we pointed out that from sanitation, to cooking with liquified petroleum gas, to housing for the poor, and now piped water to every household over the next five years, the lot of the common woman has improved at a pace never seen before.

Let's move to education of females. The sine qua non of inclusive growth has proceeded at a fast and unprecedented pace. In his maiden speech On August 15, 2014, Prime Minister Modi appointed a program to end open defecation in India and the policy of Beti Bachao, Beti Padhao, Save the Daughter and Educate the Daughter. Sanitation affects all and particularly the women. The much talked about unprecedented electoral mandates owes a lot to inclusive growth policies of the government.

Let us look at some of the recent evidence that has emerged, which has yet to be thoroughly analyzed. A recent World Bank tabulation ranks India with 44 percent of the recent STEM graduates being women, amongst the highest, if not the highest in the world, and higher than that obtained in the advanced economies. This is education of women in STEM. The gender parity ratio in college education in India reached unity in 2018-2019. Last year for the first time in its thousand-year history, Oxford University had more female undergraduates than male entrants. This year, 2019-2020, India will very likely have more female undergraduates than male, undergraduate entrants again.

There has been much talk on the decline of female labor force participation rate in India. The staff reports that the female labor force participation rate of 23 percent in 2017-2018 is almost half the level reported just 13 years ago in 2005. This has shocked many, and many have pointed out the very unhealthy trend that this portends. We pointed out in the buff statement that female labor force participation and male labor force participation rates need to be adjusted for the sharp increase in education involvement for those aged 15 to 24. The ILO data reported in the staff report does report that the education adjusted data for 2005 and 2012, and this does show a decline to 33 percent in 2012 from 42 percent in 2005. I want to really emphasize, because there is a lot of misunderstanding on this, potential misunderstanding. Now, what happens is that the ILO data adjustments are not reported for 2017-2018. When you do that, it turns out that the female labor force participation rate in India, as the report shows and reports it for the ILO adjusted data for the previous years, that the female labor force participation rate in India has stayed the same as 2011-2012, stabilized for the moment at 33 percent. That is a long distance away from 22 percent. Why has this rate stabilized close to the mid-30s? The median for South Asia is around 40, so India is not that far off. In addition, there is likely a Tiger Mom syndrome in operation. Middle-class parents, especially lower middle class, are devoting extra time, effort, and investment so that their children emerge with better education and jobs. This burden of adjustment, for whatever it is worth, falls mainly on the women. Hence the labor force participation rate has stabilized at 33.

Three other issues related to inclusive growth between 2012 and 2018. Job growth. If less-than-half-time jobs are ignored and only full-time jobs considered, which is principal status in the household service, which the staff knows about, then there has been an increase of 8 million jobs over the last 6 years compared to an increase of 12 million jobs over the previous 7 years, 2004-2011. This is a very creditable job performance in the context of an economy undergoing structural changes in the form of demonetization and GST. A common concern is whether India will be able to provide jobs for a young and growing population. Here again an important structural transformation needs to be noted. As discussed in the economic survey of July 2019, India may have achieved replacement fertility level much prior to 2017-2018. The latest World Population Council Data, 2019 revision—and this came too late for the staff to incorporate it. I understand that—nevertheless, it is worth emphasizing that population under the age of 15 in India peaked in 2011-2012 at 380 million and has declined to 366 million in 2018, a decline in the population ages zero to 14 in India. This is expected to further decline to 354 million in 2023. This has implications for job requirements. Until recently it was believed that India needed 8 million jobs to support a growing youthful population, and some had even conjectured that the need was at 12 million a year. That number is now down to less than 5 million.

Real wage growth, under the sign of inclusive growth, as revealed by the recent Periodic Labour Force Survey (PLFS) data, is that real wages of casual, that is unskilled workers, increased at more than a 2 percent annual rate between 2012 and 2018. Real wages of skilled, which are salaried workers, showed zero growth. This is on inequality improving in India on the basis of household survey data.

On structural reform, we are investing in our people and enhancing inclusive growth. Here we feel that the common assumptions need to be revisited from time to time to evolve fresh perspectives. This is especially true for topics such as the demographic dividend. All of this is suggestive of fundamental and long-lasting economic reforms being undertaken with a commitment to inclusive growth. We agree with the report and the grays for the emphasis on the electoral mandate providing the government with an unprecedented opportunity to undertake fundamental reforms, and all we are saying is that the facts on inclusive growth, the reforms that have been undertaken, and the reforms presently underway need to be recognized and given due credit for.

Finally, a word on the Selected Issues Papers. We would like to point out that in the interesting studies on India's services exports, digitization, and financial inclusion, we have some concern about the representation made in the maps. Use of color scheme in the maps needs to be amended to avoid ambiguity.

Lastly, before I conclude, I would like to suggest that in view of my observations with regard to structural reforms, government efforts towards structural reforms, raising higher disinvestment revenue, and lowering the public sector borrowing requirement (PSBR), the press release proposed by the staff needs to be amended. With that request, I conclude.

Thank you, Chair, for this, at least for me, an unprecedented opportunity to present the Board India's inclusive growth story. Thank you.

The Acting Chair (Mr. Zhang) 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 following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They noted that India's rapid economic expansion in recent years has lifted millions of people out of poverty. However, in the first half of 2019 a combination of domestic factors led to a slowdown in India's economic growth. With risks to the outlook tilted to the downside, Directors called for continued sound macroeconomic management. They saw an opportunity with the strong mandate of the new government to reinvigorate the reform agenda to boost inclusive and sustainable growth.

Directors noted that a credible medium-term fiscal consolidation path driven by subsidy-spending rationalization and tax-base enhancing measures is needed to reduce debt, free up financial resources for private investment, and reduce the interest bill. Some Directors advocated that automatic stabilizers should be allowed to operate in the short run. Directors called for more robust revenue projections and enhanced fiscal transparency and budget coverage.

Directors recommended that near-term policies to address cyclical weakness focus on monetary policy and broad-based macro-structural reforms. In this regard, they welcomed the monetary policy easing undertaken so far this year and recommended that an easing bias be maintained at least until the projected recovery takes hold.

Directors noted that inflation targeting has contributed to macroeconomic stability by better anchoring inflation expectations, thus helping improve the economic wellbeing of low-income households. Continued action is needed to improve the monetary transmission mechanism to enhance the effectiveness of monetary policy and enable the central bank to achieve the medium-term inflation target on a sustained basis. Directors also welcomed the authorities' commitment to maintain exchange rate flexibility. They noted that foreign exchange intervention should continue to be two-way and limited to disorderly market conditions.

Directors welcomed the steps taken to tackle the twin bank and corporate balance sheet problem but noted the continued challenges of the financial sector. They recommended that the recently announced public sector bank merger plan be accompanied by deep operational restructuring and far-reaching governance reforms in order to improve efficiency, risk management, and credit allocation. Directors welcomed the strengthened monitoring and regulation of non-bank financial companies and recommended enhancing the availability of timely and granular data to help restore confidence in the sector. Directors urged further follow-up on the FSAP recommendations.

Directors commended the authorities' concerted efforts to strengthen the business climate. These efforts need to be complemented by continued labor, product market, land, and other reforms aimed at increasing labor market flexibility, enhancing competition, and reducing the scope for corruption. This will help harness India's demographic dividend by creating more and better jobs for the rapidly-growing labor force and enhancing female labor force participation. Directors also welcomed the important progress that has been made in strengthening the supply side of the economy through large infrastructure investments. They noted that land reform remains essential to raise agriculture sector productivity and achieve the authorities' ambitious infrastructure development targets. Directors also encouraged further trade and investment liberalization.

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

APPROVAL: January 19, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook/Risks

1. ***Understanding the correct nature of India's slowdown is vital to assigning the right mix of policy measures needed to address the identified difficulties. In this light, we are concerned that staff's designation of the type of slowdown being experienced by the Indian economy appears contrary to the policy prescriptions advocated in the paper. Although paragraph 7 describes the slowdown as "cyclical", a term used to describe economic changes due primarily to the vicissitudes of business cycles, the reform scenario (paragraph 8) promoted as more likely to boost inclusive growth, spur productivity and address unemployment seems like a policy package for a "structural" slowdown. We note too that the 2018-19 Annual Report of the Reserve Bank of India asserts that the economy is undergoing a "cyclical" slowdown but somewhat curiously added that structural issues related to "land, labor, and marketing" have to be addressed to deal with the present downturn. While we have not formed a firm opinion on the real nature of this slowdown, it appears that staff's characterization and view may be inconsistent with its policy recommendations to reverse the trend of growth. Since cyclical downturns can simply be addressed with an adequate mix of fiscal and monetary policies, we wonder why staff's policy advise to boost growth is satiated with calls for broad-based structural reforms. We welcome staff's elaboration on the thinking behind their conclusion that this is cyclical slowdown particularly in light of Paragraph 2 of the Statement by the Staff Representative on India, which suggests that expectations of a cyclical recovery during the October-December 2019 quarter may not be realized.***

2. ***Given apparent structural weakness in the financial, manufacturing, and agricultural sectors, we would appreciate staff's views on whether some of the recent slowdown could be attributed to structural rather than cyclical factors, as framed in the staff report. Also, does the demonetization and/or the disruption caused by the implementation of the GST continue to weigh on the economy?***

3. ***The reasons behind the recent growth slowdown, especially on regarding domestic demand, are not entirely clear at this stage casting doubt on staff forecast of a cyclical rebound. Could staff comment on how the most recent data impact their forecast and their policy recommendation?***

4. ***After considerable leverage increase and decreased net savings relative to their incomes as well as to GDP in recent years, households' may meanwhile have begun to rein in expenditure with a view to deleveraging and to replenishing their savings. Staff comments would be appreciated whether this pattern constitutes a further possible factor for sluggish GDP growth.***

5. ***As for the economic outlook and risks on India, the staff estimates the growth rate of India will recover to 7.0 percent in 2020 and the staff report mentions that authorities***

were more optimistic than staff. However, we note that some issues related to non-banking sectors, including its negative impact on automobile and housing industries, and decrease of saving and investment in India have led to decline of its GDP growth resulting to 6.1% this year. On this point, we would like staff to further elaborate the background and basis of their prospects of India's economy.

6. ***We find different views between staff and authorities in which the authorities are more optimistic than staff on the outlook and risks. Staff comments are welcome.***

- Staff will respond to these questions during the Board meeting.

Fiscal Policy

7. ***We would appreciate further details on how the impact of climate change has been taken into account in staff's fiscal analyses.***

8. ***We note that climate-related risks are not discussed in the papers. We would welcome staff's assessment of climate-related risks, in particular with respect to the medium-term outlook.***

- Staff projections of expenditure needs are primarily based on the authorities' budget documents, which reflect current policies. Staff's revenue projections take these budget documents as a starting point, but are adjusted based on staff's assessment of incoming monthly outturns, and assumptions on the buoyancy of revenues to the macroeconomic conjuncture and policy decisions. Regarding climate change specifically, the Government of India has taken a number of initiatives in recent years under the umbrella of the National Action Plan on Climate Change—one specific climate-related item covered in the budget is the Pradhan Mantri Ujjwala Yojana (for access to clean cooking fuel). The long-term impact of climate change on India's fiscal position is highly uncertain and not captured in staff's projections (which in any event go only through FY2024/25). India's role in mitigating emissions and adapting to climate change will be examined more closely in the context of the 2020 Article IV consultation.

9. ***We highlight that the authorities are taking measures to enhance both compliance and collection. Could staff comment on the authorities' view that corporate tax cuts are expected to not only spur economic activity but also enhance compliance?***

10. ***The authorities are confident that the short-term revenue losses resulting from the recent reduction in the Corporate Income Tax rates will be offset by measures aimed at streamlining the filing and refund mechanism of Goods and Services Tax and digitization. Can staff comment on the expected impact of these measures on compliance and collection?***

11. ***Could staff comment on the authorities' view that the recent reduction in CIT rates is expected to increase the tax base in coming years, offsetting any short-term revenue losses?***

- There is a Laffer-curve argument which suggests that lowering tax rates can increase compliance, for countries where both tax rates and evasion are high. However, staff's assessment is that the empirical magnitude of any such effect in India will very likely be outweighed by the expected revenue loss from lower CIT rates. The tax cut is expected to provide a modest boost to growth in coming years, but staff does not expect the tax reduction to be self-financing.

12. ***We wonder if the authorities are open to FAD conducting a fiscal transparency evaluation for a more comprehensive assessment of the state of the public finances? Staff comments are appreciated.***

- The idea to conduct a Fiscal Transparency Evaluation and the benefits it could yield, especially to support the government's intention to produce quarterly general government data, were evoked with the authorities during the Article IV mission. On top of providing a comprehensive assessment of fiscal transparency practices by the Union government, an FTE would provide a quantification of the scale of current fiscal vulnerabilities, an estimation of the public sector balance sheet, and a sequenced action plan to address the main shortcomings in the short to medium term. We sincerely hope that on that basis, the authorities make a formal FTE request soon.

13. ***Staff recommends that near-term policies to address cyclical weakness focus on monetary policy and broad-based macro-structural reforms, and fiscal stimulus be avoided given limited policy space. We would appreciate their views on the authorities' suggestion, as conveyed in the Buff, to consider the cyclically adjusted fiscal deficits whereby revenues are likely to be lower at the trough of the cycle.***

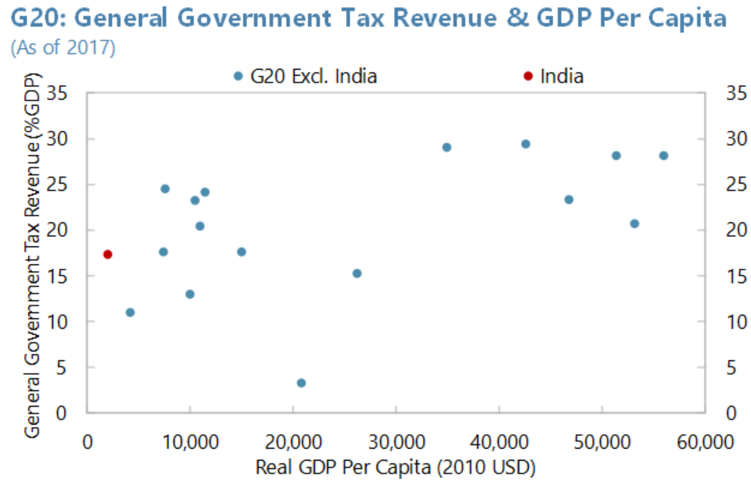
- Staff's estimate that the output gap has turned negative this FY does imply estimates of cyclically adjusted fiscal deficits which are slightly smaller than the headline figures suggest, in FY2019/20 and FY2020/21. However, the magnitude of this adjustment—which assumes a unitary elasticity of central and state tax revenues to the output gap—is quite modest, implying an adjustment to the headline general government fiscal deficit of 0.2 percentage points or less this FY and next.

14. ***Strengthening fiscal reporting and transparency at the state and local levels, as well as clarifying the relations between the central government and the states, are crucial to ensure a sound fiscal policy. The work of the 15th Finance Commission could help with the designing of the necessary reforms in these domains. Has staff met with States authorities during its Article IV to discuss fiscal policy?***

- Article IV missions to India met with states authorities during 2010-2014. Staff requests for such meetings have been declined in recent years.

15. ***Could staff also elaborate on India's tax ratio compared with peer countries, as well as on the adequacy and effectiveness of the government's social programs?***

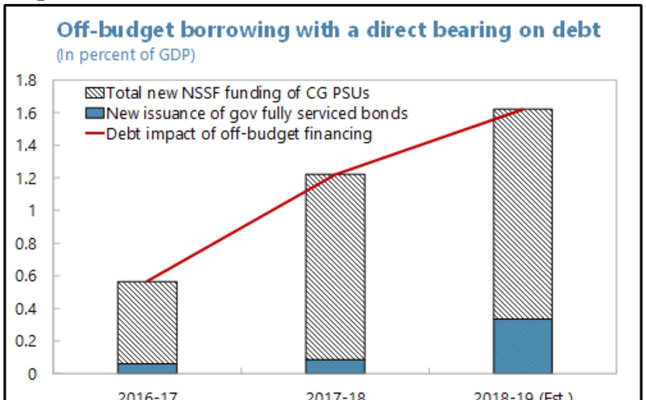
- Relative to G20 countries, India's tax-to-GDP ratio is low. However, this partly reflects India's stage of development (see chart). The government has prioritized social spending in recent budgets, despite revenue shortfalls.



Sources: World Bank *World Development Indicators*, IMF *World Economic Outlook*, and staff calculations.

16. ***Further efforts are necessary to improve the timeliness and comprehensiveness of the fiscal data. Additional CD by the Fund to support the government's reform efforts in this area, together with a Fiscal Transparency Evaluation by FAD, would be very useful. On a related matter, could staff provide an estimate of the magnitude of off-budget spending?***

- As discussed in Appendix III of the staff report, off-budget borrowing with a direct bearing on the debt is estimated to have increased from about 0.6 percent of GDP in FY2016/17 to about 1.6 percent of GDP in FY2018/19.



Sources: Union Budget (Annex 8; Statement 27); fci.gov.in; staff calculations.
Notes: Estimates for 2018-19 based on partial information

17. ***While the authorities mostly focus on achieving the central government fiscal targets, staff highlight the need to conduct fiscal policy using a broader definition of public sector deficit. Recent compression of on-budget expenditures led to an increase in off-budget financing. We note that the new Article IV report introduced the concept of public sector borrowing requirement (PSBR), which includes borrowing by central public sector undertakings (PSU). It resembles the concept of "augmented deficit" used in Article IV reports on China. In both cases we need better understanding of what is included into the public sector debt perimeter and why. We would welcome staff comments on the use of the PSBR concept in assessing India's fiscal stance. Do staff believe that the size of India's "augmented debt" should feature more prominently in policy discussions with the authorities?***

- As discussed in the staff report (in particular ¶14, and Appendix III), staff view the headline fiscal deficit as providing only limited information regarding the stance of fiscal policy in India. In staff's view, the PSBR and extended-deficit concepts introduced in the staff report are more informative measures of the stance of fiscal policy, and staff would indeed recommend framing future policy discussions with authorities regarding the stance of fiscal policy in these terms.

18. ***What is staff's view on the medium-term effects of the CIT rate cut, considering the likely increase of the corporate tax base?***

- India's substantial reduction of statutory corporate income tax rates is expected to put Indian businesses on a more competitive tax footing vis-à-vis other countries, and thereby boost economic activity, though staff's assessment is that these gains will take time to materialize and would be enhanced by complementary reforms which further ease doing business in India. Model simulations suggest a growth boost of about 0.1-0.2 percentage points per year for several years, likely starting in FY2020/21. Nevertheless, there will likely be a meaningful revenue loss associated with the CIT rate reduction, even once growth and possible tax-base-enhancing impacts of the reform are accounted for, which renders the achievement of India's medium-term fiscal target (60 percent debt-to-GDP ratio) more challenging.

19. ***We welcome the effort of the authorities to simplify their tax system such as introduction of the GST and would like them to improve its implementation following the staff's advice. We believe it will help India to expand employment and promote growth. In this context, we wonder whether there is any room to further simplify their tax system, for example, capital gain tax. Staff's comments would be welcome*.**

- The recent corporate income tax reform—which eliminates exemptions for companies which choose to avail the lower tax rate—represents a step towards simplification. However, staff have not conducted a detailed analysis regarding how the complexity of India's tax system compares to peer countries. From a revenue-generation perspective, some measures which could be considered are discussed in the staff report (¶18), though other measures could also be considered by authorities.

20. ***Can staff comment on the authorities' contingent measures, if any, in case the recent corporate income tax cuts did not produce its projected effects on compliance and economic activity?***

- Staff are not aware of any contingent measures being planned by authorities in case the recent CIT rate cuts do not enhance compliance and boost economic activity. Some measures which could generate additional tax revenues are discussed in the staff report (¶18), though other measures could also be considered by authorities.

21. ***Staff's elaboration on what circumstances warranted the fiscal stimulus package are welcome. Regarding the recommended temporary fiscal measures, we are wondering whether the investment or public infrastructure spending would be effective to boost growth especially in the short-term as these spending take time to materialize.***

- The authorities' decision to lower corporate income tax rates is likely partly a response to weak economic activity, but also represents a step toward a broader reform of direct tax policies—however, the benefits from this reform will take time to materialize, likely implying little counter-cyclical boost this fiscal year. As emphasized in the staff report, staff's estimate of the stance of fiscal policy which has a bearing on economic activity (the public sector borrowing requirement) is estimated to have become more accommodative in FY2018/19. Furthermore, staff's extended notion of the central government's fiscal deficit, which adds off-budget spending and government issuances of fully serviced bonds to the headline central government fiscal deficit, is projected to expand by 0.5 percent of GDP in FY2019/20, following an expansion of 0.3 percent of GDP in FY2018/19 (text table, page 12, and further discussion in Annex III). As such, staff's view is that there is considerable fiscal stimulus being deployed.

22. ***We notice there are different views between staff and authorities on the revenue projections. In this regard, we would appreciate if staff could elaborate on their suggestions on the realistic revenue projections and measures to enhance fiscal transparency and budget coverage. Given economic environment is likely to remain weak over the coming year, we have a view that undertaking ambitious fiscal consolidation and augmenting revenues will be exceptionally challenging for the authorities. Staff comments are welcome.***

- Staff's tax revenue projections are based on three factors: (i) monthly outturns through the first half of FY2019/20, when gross tax revenues grew at only 1.5 percent over the same period in FY2018/19; (ii) assumptions regarding tax buoyancies, derived from recent historical data in India; and (iii) an assumption regarding the revenue loss from CIT rate reductions, which Indian authorities initially publicly indicated would be on the order of 0.7 percent of GDP, at the general government level, this FY.

- Staff largely take non-tax revenue projections as given in the Union budget. In particular, we note that disinvestment proceeds in excess of 1 trillion rupees were expected in the budget. Progress towards this target to date has been limited, although the government has announced significant further disinvestment this FY. Even if the ambitious target can be achieved, these proceeds would not counteract likely substantial shortfalls in tax revenues relative to budget estimates. Furthermore, disinvestment proceeds are in any event treated below the line in the IMF's fiscal presentation.
- The topic of fiscal transparency and budget coverage, and measures for the improvement thereof, is covered in the selected issues paper 'Enhancing Fiscal Reporting in India.'

23. ***Given the current economic context, we note the authorities' view that automatic stabilizers should be allowed to function in the near term to avoid procyclical fiscal policy. Could staff comment on the short-term tradeoffs between the need to proceed with fiscal consolidation on one hand vs the procyclicality risks associated with more ambitious fiscal consolidation?***

- As emphasized in the staff report, staff's estimate of the stance of fiscal policy which has a bearing on economic activity (the public sector borrowing requirement) is estimated to have become more accommodative in FY2018/19. Furthermore, staff's extended notion of the central government's fiscal deficit, which adds off-budget spending and government issuances of fully serviced bonds to the headline central government fiscal deficit, is projected to expand by 0.5 percent of GDP in FY2019/20, following an expansion of 0.3 percent of GDP in FY2018/19 (text table, page 12, and further discussion in Annex III). As such, staff's view is that there is already considerable fiscal stimulus being deployed. India's high debt-to-GDP ratio entails a substantial annual debt-service cost of about 5 percent of GDP, which deprives the government of budgetary resources which could be deployed towards important economic development and social objectives. This consideration underpins staff's emphasis on the need for renewed effort on medium-term fiscal consolidation.

Monetary and exchange rate policies

24. ***We welcome the recent easing of capital flow management measures and wonder whether such a relaxation has contributed to the recent surge in portfolio inflows as indicated in Figure 2 on page 31. Staff comments are welcome***.

- Portfolio flows to India are strongly correlated with portfolio flows to other emerging market economies. Movements in international oil prices often also play an important role as investors anticipate their effect on the U.S. dollar/Indian rupee exchange rate. In the short-term, these effects have typically outweighed the impact of the easing of capital flow management measures. For instance, as indicated in last year's Article IV staff report, in the second quarter of 2018 India experience relatively large portfolio outflows triggered by the runup in international oil prices and tighter global financial conditions. The impact of these global factors outweighed the effect of easing foreign investment limits for borrowings. The recent surge in portfolio inflows was also mostly due to global factors (easing interest rates in advanced economies amid stable international oil prices).

25. ***We share staff's and authorities' concerns about the subdued transmission of monetary policy impulses to the real economy. The lagged response of the substantial policy easing (cumulative 135 basis points since February) on bank lending rates warrants solutions aimed at enhancing the effectiveness of RBI's key policy instrument. Boosting banks' competition through governance reforms and lessening the role of the government in the banking sector represent particularly promising approaches to accelerate the interest rate pass-through. In this vein, we encourage staff to comment in more detail on the novel external benchmark-based lending mandated from 1st October, linking loan pricing to RBI's repo or a comparable market-based benchmark rate, applicable for new loans to households and micro and small enterprises.***

- Under the new policy, the RBI has mandated to link interest rates for new retail and MSME loans to the RBI's benchmark repo rate, the 3-month or 6-month treasury yield, or any other benchmark market interest rate published by Financial Benchmarks India Private (FBIL).
- Banks are free to decide on the spread over the external benchmark. However, the credit risk premium may undergo change only when the borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract. Other components of spread, including operating cost, could be altered once in three years. The interest rate under the external benchmark should be reset at least once every three months. The effect of the new benchmarking rule will be observed in the incremental loan book since only new loans will be linked to the external benchmark. The outstanding loans will still be governed by existing rules.

26. ***We concur with staff that market-based credit risk pricing should be the primary means and objective. Further comments by staff would be appreciated on the role of administered interest rates and national small savings schemes as a virtual floor to bank deposit rates, curbing the efficiency of the new pricing mechanism substituted for the marginal cost-based lending rate (MCLR). To what extent does this impair RBI's easing cycle as banks naturally tend to preserve their interest rate spread by maintaining a safety margin on top of the external benchmark rate, and what solution may be recommendable***?

- High administered interest rates exert downward rigidity to both deposit and lending rates, introducing a friction to the monetary transmission channel. As acknowledged by the BUFF, the High-Level Advisory Group (2019) constituted by the Minister of Commerce and Industry, Government of India, has observed that transmission of lower repo rates for consumers is weakened by the operation of interest rates on savings deposits schemes by the government (small savings, special interest rates for senior citizens, etc.) and recommended the need to revisit the scheme.
- Lowering rates on the small savings schemes and increasing bank competition, including through allowing the lending rates to reflect market forces would improve monetary transmission. Furthermore, the planned reduction in Statutory Liquidity Ratio (SLR) to 18 percent by 2020 would better allow the policy easing cycle to be reflected in the interest rates.

27. ***We note staff reservations on the unusual size of the recent 35 basis point cut in the policy rate and agree that forward guidance can be an effective instrument in shaping market expectations. Could staff indicate if policy rate moves by other than 25 basis points or multiples thereof are observed in other dynamic emerging market economies?***

- Monetary policy actions in most of the dynamic emerging market economies have generally been taken in the increments of 25 basis points or its multiples. That said, there is precedence of monetary policy actions of different increments. For example, China recently cut its seven-day reverse repo rates by 5 bps from 2.55 percent to 2.50 percent on November 18, 2019.

28. ***Could staff elaborate further on the extent and implications of India's system of administered rates?***

- There are several types of small savings schemes, including National Savings Certificate (NSSC), Public Provident Fund (PPF), Sukanya Samridhhi Yojana (SSY) and others, which offer higher interest rates than the risk-free government security yields of comparable maturities. The interest rates on these small savings schemes have been left unchanged since the beginning of FY2019/20. As noted in response to a similar question, this system of administered rates introduces downward rigidity in both deposit and lending rates and erodes the effectiveness of the monetary transmission mechanism, especially the bank lending channel.

29. ***We also welcome the selected issues paper on monetary policy in India and wonder if staff might follow-up with a paper on the transmission of monetary policy for the next Article IV?***

- We would like to take the opportunity to inform that staff is planning to follow-up with a selected issues paper on monetary policy transmission mechanism for the next Article IV. Staff would take advantage of the upcoming staff visit in December 2019 to discuss with the authorities the suggested topic.

30. ***On monetary policy transmission, can staff elaborate more on the forward guidance in the context of Indian economic outlook. Given there is nothing sacrosanct about policy rate actions in increments of 25 bps, we would like staff to provide further analysis on their concerns on the RBI's cut the policy rate by 35 bps.***

- As the staff report notes, forward guidance accompanied by clear central bank communication and market development can help improve the effectiveness of monetary policy. The staff report highlighted how a well-defined distribution of expectations about future monetary policy actions can facilitate efficient pricing of financial instruments, market development, and monetary policy credibility. In this context, it should be noted that in its October 2019 MPC meeting, the RBI reduced its policy rate by 25 bps and provided a forward guidance to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target, which was well-received by the markets.

Financial sector issues

31. ***Historically, PSBs have played an important role in fostering financial inclusion. The rapid adoption of mobile payments among the unbanked population may be an indication of how fintech developments could facilitate access to financial services, thereby reducing the scope for government support to the supply of financial services and expanding its regulatory role. Staff's comments are welcome***.

- We agree on the potential fintech offers to improve access to financial services, and are encouraged by anecdotal evidence of fintech companies facilitating access to payments services and credit for small businesses. The authorities have successfully improved financial inclusion, such as through the Jan-Dhan Yojana (basic bank account program), for which PSBs have played an important role. The emerging digital financial services could provide a complementary way to promote financial inclusion, as the government's footprint in the financial sector is rationalized and priority sector lending requirements are streamlined. In depth analysis would be important, however, to understand where these digital financial services are reaching, so that access to financial services can be ensured for both urban and rural areas. For this, efforts for collecting relevant data should be strengthened. Furthermore, regulatory frameworks should be developed in response to evolving fintech activities to ensure financial stability.

32. ***We also find merit in strengthening regulation and supervision of the NBFC sector, including by provision of more timely and granular data. Staff may wish to comment if the authorities agree to have an asset quality review for the sector****?*

33. ***We remain concerned about risks among non-bank financial companies (NBFCs), as highlighted by issues faced by NBFC lenders such as Infrastructure Leasing & Financial Services. Given NBFCs' potential maturity mismatches and liquidity risks, we strongly encourage staff to monitor risks in NBFCs in surveillance and urge the authorities to remain vigilant and proactive in addressing liquidity risks in the sector. Can staff elaborate on further on risks to non-bank financial companies and potential additional measures (like an asset quality review) to reduce contagion and liquidity risks among NBFCs****?*

- NBFCs and HFCs source a substantial part of their funding from banks and asset management companies/mutual funds. While the stress in the sector so far has been largely related to liquidity and solvency issues and limited to a small number of cases, failures of NBFCs/HFCs could have spillovers to the rest of the financial sector. The RBI's Financial Stability Report (June 2019) analyzes contagion from the NBFC/HFC sector to the banking sector. It finds that the impact of losses caused by a failure of HFCs are most dominant, but that the banking sector's resilience to such a shock has improved thanks to the improved capital positions.
- Staff supports strengthening of the risk-based approach to oversight of the more than 11,000 NBFCs, which has led to the RBI revoking over 2,000 licenses since March 2018. We especially welcome actions taken and further plans to bolster the RBI's authority by transferring more of the shadow lenders under the oversight of the RBI. We urge the RBI to continue with its assertive oversight of the NBFCs, including through targeted diagnostics as needed, bolstering capital and strengthening governance.

34. ***Regarding the new Insolvency Bankruptcy Code, we note the low number of resolution cases revealed by a recent report of the Insolvency and Bankrutcy Board of India. Could staff comment on the implementation of the IBC and potential measures to improve its effectiveness****?*

- The low number of resolution cases and the longer-than-expected time they are taking reflect in part the capacity constraints at the National Company Law Tribunal (NCLT) as well as the legacy cases where companies had been out of operation for a long time and the residual value had declined significantly. The impact of legacy cases is expected to wane over time, and the authorities are taking measures to increase administrative capacity including by adding new members to the NCLT and training programs. In addition, legal amendments have been made to address issues and clarify the interpretation of the law (e.g., the eligibility of bidders), some of which were behind the delays in resolutions especially of high-value cases. Relatedly, the government recently announced a change to the insolvency rules, allowing insolvency proceedings against financial service providers to be commenced with an application presented by the appropriate regulator. While staff recognizes that this would be the only available solution right now to address failures of NBFCs, as noted by the FSAP, a more comprehensive resolution framework for financial institutions is needed. In this regard, the ongoing re-examination and reconsideration of the Financial Resolution and Deposit Insurance Bill should be completed, and the draft bill should be submitted for consideration by Parliament.

35. ***Further financial sector reforms would be a key for India to secure sustainable growth and macroeconomic stability. To address non-banking sectors problem, we support the staff's view that the authorities should enhance the availability of more timely and granular data including to the public. In this context, we would like to know the shareholder structure of the non-financial sector.***

- There are over 11,000 NBFCs in India, about 250 of which have assets larger than INR 5 billion (about US$70 million). The majority of these are private companies, with government-owned NBFCs accounting for about 1/3 of the sector's assets. Some of the NBFCs are subsidiaries and affiliates of real sector companies (e.g., auto manufacturer) and financial institutions. There are about 100 housing finance companies (HFCs), of which 6-7 are government owned.

36. ***We wonder why the restructured loan ratio is getting smaller while the gross non-performing asset ratio remain high in the public sector according to Figure 7. Could the staff elaborate this background? Is there any relationship to non-banking sector problem****?*

- Restructured loans are loans that have at some point been restructured under various (now- terminated) schemes but are classified as standard. Following the AQR in 2015, the recognition of non-performing assets (NPAs) has been strengthened, resulting in the migration of restructured loans to NPAs and the increase in the NPA ratio.
- If the stresses in the NBFC sector lead to defaults, these exposures should be in principle classified as NPAs taking into account the relevant periods set by the RBI regulations.

37. ***Banking sector's lending should be carried out more on a market-basis. Although the authorities stressed the importance of Priority Sector Lending (PSL) and the Public Sector Banks (PSBs) play in the economy, we have concerns that the ways like forcing the financial sector to lend to specified sectors may bring market distortion and could lead to increase in non-performing loans. We would like staff to explain their view on this matter. Given the PSBs are operated like private banks, is there any discussion on privatization of PSBs?***

- We agree that there should be a level playing field between PSBs and other commercial banks, including on regulation and supervision, given that they compete in the same market. While the PSL requirement applies to all banks, it would distort credit allocation and affect risk assessment and management. In line with the FSAP, we recommend reforming the governance of PSBs so that they will be operated more on a commercial basis, and to reduce the government's role in the financial sector and to rationalize the PSL over time. The authorities' efforts have so far been focused on mergers of PSBs, with the sale of majority ownership limited to one case.

38. ***The insurance sector reform would be also warranted. According to the report, efforts are being made to promote institutional investment into infrastructure from pension, insurance, and sovereign wealth funds through various modalities. On the other hand, the appendix of the report points out that the household net financial savings declined due to the reduction in savings in insurance funds. Could the staff elaborate on this backdrop? In such situation, what is the staff's view on impact on the Indian economy by the insurance sector reform?***

- The decline in household savings in insurance funds is part of the general structural decline in the net financial savings of households, as documented in Appendix III. While to some extent these developments can be driven by demographics, with younger persons less prone to save, and greater financial development and inclusion, it also suggests that steps need to be taken to channel more of the national savings to be intermediated by the financial system into productive investment. The 2017 FSAP recommended to introduce a risk-based solvency regime and risk-based supervision in order to strengthen the insurance sector oversight framework. While some progress has been made, a mechanism for a resolution of financial institutions still needs to be established. On broader aspects of insurance sector reform and its impact on the economy, further analysis would be needed to provide a definite answer.
- More broadly, promoting further development of savings instruments for household and fostering participation of domestic institutional investors in infrastructure finance would be beneficial for promoting household savings and investments.

Structural issues

39. ***We miss an assessment of the government's prioritization of the educational system in India. We believe India's educational system is an important factor when it comes to raising labor participation, growth, and public welfare. Staff's comments are welcome.***

- Improving India's human capital is a reform priority. It requires boosting health and education spending and improving spending efficiency. The recently-published IMF APD Departmental Paper *Is South Asia Ready for Take Off? A Sustainable and Inclusive Growth Agenda* highlights that investing in human capital has a strong growth payoff. Evidently, India's investment in tertiary education has been associated with strong growth in the high-skilled services sector. Nevertheless, there is scope to improve the coverage and quality of spending in education—from primary education to vocational training, including by an increase in spending directed at primary education to broaden access to quality education and boost literacy across the country particularly for young girls.

40. ***We join staff in emphasizing the importance of trade and investment liberalization as engines for growth and job creation. In particular, increased manufacturing for export might improve employment dynamics and reinforce India's integration into global value chains. In this context, we would appreciate an impact assessment balancing the benefits of joining a Free Trade Agreement (FTA) – in line with empirical evidence – against the perceived costs or risks that have prompted India to refrain from entering the Regional Comprehensive Economic Partnership (RCEP) at the present stage. In staff's view, to what extent might such an FTA membership contribute to lower barriers to investment and trade and higher exports in goods and services?***

- Further trade liberalization and reforms to facilitate trade and investment will benefit India. Staff's analysis shows more openness will help India transform and diversify, thus supporting the creation of more and better-quality jobs and boosting growth (see SIP and the above-mentioned IMF APD Departmental Paper "Is South Asia Ready for Take Off" A Sustainable and Inclusive Growth Agenda"). Trade reforms could also complement and augment the benefits of other structural reforms. While the Fund in general supports an open trading system, plurilateral trade agreements can also play a role where further regional cooperation could increase market access, as well as the opportunity for foreign direct investment and technological transfers.

41. ***Given the authorities' reservations regarding implementing structural reforms in a low growth environment, can staff comment on how the authorities should best prioritize and sequence reforms?***

42. ***While we recognize the progress made by the authorities in promoting a more favorable business environment, additional efforts are needed to address rigidities in labor, land and product markets. Furthermore, corruption and trade barriers remain key constraints to improve competitiveness. From a broader policy perspective, we would appreciate staff's comments on how the envisaged reforms are going to be prioritized by the authorities.***

43. ***While we agree with staff's suggested structural reforms, we recognize that sequencing reforms is also critical given tradeoffs in domestic policy space and implementation lags. Moreover, corruption remains macro-critical in India, and we were surprised by the staff report and SIP's relative undertreatment of this issue. We welcome steps to improve governance, as outlined in the authorities' Buff statement, and would have appreciated a more thorough discussion of these issues in staff's work. Could staff provide greater granularity of preferred sequencing of structural reforms, including on how potential high-impact governance reforms can fit into an overall structural reform strategy?***

- India’s tightly-regulated labor and product markets have constrained the expansion of the formal sector of the economy and have resulted in a sub-optimal level of employment, resource misallocation, and low productivity (SIP 2017, 2018a). In the context of India’s large informal sector, staff analysis (SIP 2017) suggests that in terms of maximizing macroeconomic gains and minimizing short-run economic costs, beginning with labor market reform is preferable. Building on recent progress with product market deregulation, further labor market reforms are therefore urgently needed to enhance the impact of product market reforms and facilitate greater and better-quality job creation. In addition, staff analysis finds both product and labor market reforms can be complementary, resulting in the relatively low costs of transition and leads to a steady and faster increase in output, investment, exports, and formality. These results suggest that prioritizing and sequencing such reforms can be particularly important for optimizing their impacts in the current environment and limited policy space in India. Alongside, reforms to improve governance and reduce corruption will help enhance bureaucratic efficiency and encourage investment particularly foreign direct investment (SIP 2018b).
- SIP (2017), *Optimal Reform Strategy in Labor and Product Markets: Isolated, Sequential or Simultaneous?*, IMF Country Report No.17/55.
- SIP (2018a), *Resource Misallocation and the Role of Labor Market Reform*, IMF Country Report No.18/255.
- SIP (2018b), *Rising FDI: Some Considerations*, IMF Country Report No.18/255.

44. ***Indian female labor force participation is low in comparison to peer countries and has been declining significantly. The possible reversal of these trends represents a huge macroeconomic opportunity for India, and we encourage the Indian authorities to prioritize measures to enhance women’s participation in the labor force. Can staff comment on the potential remedies of low female Indian labor force participation?***

- As noted in the SIP, a multi-dimensional approach—using a range of fiscal, legal, and structural measures—should be used to promote gender equity, including in education and health, and greater economic participation of women so as to maximize long-run economic gains. These include making amendments to strengthening implementation of various gender-specific labor laws and investing in gender-targeted skills training programs to increase female employment in better quality jobs in the formal sector. Staff research also shows that an increase in female entrepreneurs’ access to formal finance can increase employment and entrepreneurship, improve competitiveness, and boost potential growth.

45. ***Could staff indicate if there are any plans to put in place gender budgeting and develop key performance indicators for different ministries?***

- Stotsky and Zaman (2016) document that Indian states have introduced gender budgeting at various times over the past 15 years with varying degrees of intensity, complementing central government initiatives. The FY2019/20 Budget proposes to form a broad-based Committee with government and private stakeholders to evaluate and suggest action for moving forward on this issue.

- Stotsky, J. and A. Zaman, 2016, The Influence of Gender Budgeting in Indian States on Gender Inequality and Fiscal Spending, IMF Working Paper WP/16/227.

46. ***We regret, however, that the report does not include a discussion on poverty and social issues. Mr. Bhalla's Buff statement enumerates a series of welfare programs that have been implemented in recent years as well as several steps that have been taken to improve access to healthcare and financial services. Could staff provide information on the evolution of poverty and income distribution over the last decade?***

- The latest data on poverty and income distribution are as of 2011. The poverty ratio using the national poverty line was 21.9 percent of the population in 2011, down from 45.3 percent in 1993. The Gini index registered at 35.7 in 2011, up from 31.7 in 1993.

47. ***We welcome the authorities' efforts to boost inclusive and sustainable growth through structural reforms. India has achieved remarkable progress in improving the living conditions of its population, especially in rural areas. However, labor market developments point to the need for additional measures to improve inclusiveness of growth. One reform track is related to formalization of employment. Informal employment, while declining, remains unusually high – more than 65 percent of workforce (Figure 8, p.37). In addition to labor laws liberalization, to what extent can progress in digitalization improve the situation in this area? Staff comments are welcome.***

- To help increase formal employment, modernizing labor regulations is a priority. Alongside the needed modernization of labor regulations, digitalization has the potential to facilitate the formalization process. For instance, to enable the job search, digital technology can serve as a job-matching platform which could improve labor market information flows, cut time for job search, and improve labor market efficiency. Mobile and digital financial services could, in addition, help lower the costs of money transfers and financial services and improve access to credit, supporting self-employed entrepreneurs.

48. ***We note from the Buff statement that the government plans to make US$1.4 trillion investment in infrastructure over the next five years. Could staff shed light on how this investment will be financed, and the impact, if any, on India's public debt level?***

- Infrastructure investment is an important expenditure imperative for the Indian government. Staff welcomes recent initiatives to boost infrastructure financing such as FDI/FPI liberalization related to infrastructure investment financing, as well as the establishment of National Investment and Infrastructure Fund (NIIF) and Infrastructure Investment Trusts (InvITs).

- Regarding infrastructure financing from the budget, staff's expenditure projections are primarily based on Union and state budget documents, which show details regarding expenditures (and financing thereof) through FY2019/20—details regarding medium-term projections and related financing are not provided. For FY2019/20, budget documents show capital expenditures of about US$50 billion at the central-government level, and about US$75 billion at the state-government level. Staff's expectation is that government spending on capital expenditure will remain at about 3.8 percent of GDP through FY2020/21 (staff report, Table 6).

49. *We also appreciate staff comments on Mr. Bhalla's assertion that if FLFP is adjusted for education enrolment, there is indeed an increase in the FLFP.*
50. *Staff highlighted the worrying decline in labor participation (from a particularly low level for women) and rising inequality; we note from the Buff the role increased educational enrollment might play in this and would welcome staff comments.*

- As noted in the SIP, female labor force participation (FLFP) may fall over the course of an economy's development, where higher earnings allow more women to opt out from the labor market and stay at home. Alongside, growing school attendance of young girls and the lack of child support may contribute to the decline. Moreover, the large share of economic activity taking place in the informal and agriculture sector hampers the compilation of reliable job statistics in India, leading to potential mismeasurement or misclassification.
- Nonetheless, despite an increase in education-adjusted LFPR for women at the education intensive age-group 15-24 (reference to Buff's), the group accounts for about 27 percent of female of all-ages in the survey sample. The decline in India's FLFP rate therefore appears to be more rapid than what can be explained by growing school attendance alone, or else, this could entail the FLFP rate of women of 30 years and above declined extremely sharply. In this regard, some studies have identified that the most pressing factor driving the decline in FLFP has been the scarcity of suitable jobs for women (e.g., Chatterjee, et al. (2015) among others).

	2 004/05	PLFS(2017/18)
FLFP rate—15-29 years	37.1%	16.4%
FLFP rate—15-24 years adjusted for education (Buff)	48%	60%
Share of women 15-29 years to total all-ages women		27%
FLFP rate—15 years and above	42.7%	23.3%

51. ***Along with accommodative monetary policy stance, the authorities should opt for broad-based structural reforms to achieve sustainable and more inclusive growth. The authorities' reforms on transportation infrastructure, electrification, digitization, and the ease of doing business are commendable. Nevertheless, reforms to hiring and dismissal regulations should be prioritized to help incentivize job creation for India's rapidly-growing labor force, enhance female labor force participation and absorb the country's large demographic dividend. Land reforms should also be enhanced to encourage and expedite infrastructure development and raise agriculture sector productivity. Product market reforms aimed at enhancing competition should also be prioritized. Like the authorities, we are also confident that efforts to boost infrastructure investment and reforms to improve the business climate and streamline labor market regulations would support activity and raise India's potential growth going forward. In addition, steadfast implementation of the other necessary structural reforms advised by staff such as initiatives aimed at reducing corruption and increasing bureaucratic efficiency is critical for the authorities to promoting inclusive and sustainable long-term growth. In this regard, we would like to invite staff to comment on the potential delay of these reform measures.***

- Several factors may contribute to the delays of implementing governance reforms. For instance, as noted in the Ministry of Finance's 2019 Economic Survey, the lack of resources and capacity could affect judicial processes. In addition, the complexity of center-states relations may further complicate reform implementation under the fiscal federalism structure.