



# INDIA

February 2025

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR INDIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with India, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 21, 2025 consideration of the staff report that concluded the Article IV consultation with India.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 21, 2025, following discussions that ended on December 19, 2024, with the officials of India on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 6, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for India.

The document listed below have been or will be separately released.

Financial Stability System Assessment

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with India

FOR IMMEDIATE RELEASE

**Washington, DC – February 27, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with India.

Despite recent moderation, India's economic growth has remained robust, with GDP growth of 6 percent y/y in the first half of 2024/25. Inflation has broadly declined within the tolerance band, though food price fluctuations have created some volatility. The financial sector has remained resilient, with non-performing loans at multi-year lows. Fiscal consolidation has continued, and the current account deficit has remained well contained, supported by strong growth in service exports.

Real GDP is expected to grow at 6.5 percent in 2024/25 and 2025/26, supported by robust growth in private consumption on the back of sustained macroeconomic and financial stability. Headline inflation is expected to converge to target as food price shocks wane. The current account is expected to widen somewhat but remain moderate at -1.3 percent of GDP in 2025/26. Looking ahead, India's financial sector health, strengthened corporate balance sheets, and strong foundation in digital public infrastructure underscore India's potential for sustained medium-term growth and continued social welfare gains.

Risks to the economic outlook are tilted to the downside. Deepening geoeconomic fragmentation could affect external demand, while deepening regional conflicts could result in oil price volatility, weighing on India's fiscal position. Domestically, the recovery in private consumption and investment may be weaker than expected if real incomes do not recover sufficiently. Weather shocks could adversely impact agricultural output, lifting food prices and weighing on the recovery in rural consumption. On the upside, deeper implementation of structural reforms could boost private investment and employment, raising potential growth.

### Executive Board Assessment<sup>2</sup>

Executive Directors commended the authorities' prudent macroeconomic policies and reforms, which have contributed to making India's economy resilient and once again the fastest growing major economy. Directors stressed that in the face of headwinds from geoeconomic fragmentation and slower domestic demand, continued appropriate policies remain essential to maintain macroeconomic stability. India's strong economic performance provides an opportunity to advance critical and challenging structural reforms to realize India's ambition of becoming an advanced economy by 2047.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors commended the authorities' commitment to fiscal prudence and welcomed the adoption of a debt target as the medium-term fiscal anchor, which has enhanced transparency and accountability. Given significant development and social needs, Directors recommended continued, well-calibrated fiscal consolidation over the medium term to rebuild buffers, ease debt service, and reduce debt. They suggested a greater focus on domestic revenue mobilization, which together with current expenditure rationalization, such as better targeting of subsidies, can create space for growth-enhancing expenditure on infrastructure and health. Notwithstanding fiscal disparities across states, Directors also broadly agreed that a more holistic fiscal framework that includes state and central government, as well as a more detailed fiscal deficit path with sufficient flexibility, could be used as an operational guide.

Directors welcomed the Reserve Bank of India's well-calibrated monetary policy with inflation remaining within the target band. They noted that opportunities could arise to gradually lower the policy rate further, and stressed that monetary policy should remain data-dependent and well communicated. Directors recommended greater exchange rate flexibility as the first line of defense in absorbing external shocks, with foreign exchange interventions limited to addressing disorderly market conditions. A few Directors also saw the need for foreign exchange interventions in other cases noting limitations in the current global financial safety net.

Directors welcomed the 2024 Financial System Stability Assessment, which points to the overall resilience of India's financial system, and encouraged the authorities to use the current favorable environment to further strengthen financial resilience. Noting pockets of vulnerability from the interconnectedness among nonbank financial institutions, banks, and markets, as well as from concentrated exposures to the power and infrastructure sectors, Directors recommended further aligning India's framework of financial sector regulation, supervision, resolution, and safety net with international standards. A number of Directors also suggested greater flexibility in priority sector lending. Directors encouraged the authorities to further improve the AML/CFT framework.

Directors emphasized that comprehensive structural reforms are crucial to create high-quality jobs, invigorate investment, and unleash higher potential growth. Efforts should focus on implementing labor market reforms, strengthening human capital, and supporting greater participation of women in the labor force. Boosting private investment and FDI is also vital and will require stable policy frameworks, greater ease of doing business, governance reforms, and increased trade integration which should include both tariff and nontariff reduction measures with all parties involved. In this context, Directors welcomed India's recent tariff reductions, noting that these can enhance competitiveness and foster India's role in global value chains. Directors commended India's significant progress in emission intensity reduction and renewable energy deployment and agreed that a balanced climate policy framework, alongside greater access to concessional financing and technology, would be key to achieving net zero emissions by 2070. Directors also welcomed the ongoing capacity development provided to further upgrade the quality, availability, and timeliness of India's macroeconomic and financial statistics.

Table 1. India: Selected Social and Economic Indicators, 2020/21-2025/26 1/

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
				Est.	Projections	
Growth (in percent)						
Real GDP (at market prices)	-5.8	9.7	7.0	8.2	6.5	6.5
Prices (percent change, period average)						
Consumer prices - Combined	6.2	5.5	6.7	5.4	4.8	4.3
Saving and investment (percent of GDP)						
Gross saving 2/	29.8	30.9	31.0	32.6	32.7	32.2
Gross investment 2/	28.9	32.1	33.0	33.3	33.6	33.5
Fiscal position (percent of GDP) 3/						
Central government overall balance	-8.5	-6.7	-6.6	-5.6	-4.8	-4.5
General government overall balance	-12.9	-9.4	-9.0	-8.1	-7.4	-7.0
General government debt 4/	88.4	83.5	82.0	82.7	82.7	81.4
Cyclically adjusted balance (% of potential GDP)	-7.6	-7.7	-8.4	-8.2	-7.4	-7.1
Cyclically adjusted primary balance (% of potential GDP)	-2.5	-2.6	-3.3	-2.8	-2.0	-1.6
Money and credit (y/y percent change, end-period)						
Broad money	12.2	8.8	9.0	11.1	10.0	10.9
Domestic Credit	9.5	9.0	13.1	12.0	11.2	11.9
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	3.3	3.8	6.7	7.0	...	...
10-year government bond yield (end-period)	6.3	6.9	7.3	7.1	...	...
Stock market (y/y percent change, end-period)	68.0	18.3	0.7	24.9	...	...
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	296.3	429.2	456.1	441.4	443.3	458.7
(Annual percent change)	-7.5	44.8	6.3	-3.2	0.4	3.5
Merchandise imports (in billions of U.S. dollars)	398.5	618.6	721.4	686.3	728.8	768.6
(Annual percent change)	-16.6	55.3	16.6	-4.9	6.2	5.5
Terms of trade (G&S, annual percent change)	2.0	-8.7	-2.7	3.2	-1.3	0.2
Balance of payments (in billions of U.S. dollars)						
Current account balance	24.0	-38.7	-67.0	-26.0	-34.7	-53.8
(In percent of GDP)	0.9	-1.2	-2.0	-0.7	-0.9	-1.3
Foreign direct investment, net ("-" signifies inflow)	-44.0	-38.6	-28.0	-10.1	1.9	-6.4
Portfolio investment, net (equity and debt, "-" = inflow)	-36.1	16.8	5.2	-44.1	-4.6	-20.4
Overall balance ("+" signifies balance of payments surplus)	87.3	47.5	-9.1	63.7	2.8	25.0
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	577.0	607.3	578.4	646.4	649.2	674.2
(In months of next year's imports (goods and services))	9.0	8.1	8.0	8.3	7.9	7.8
External debt (in billions of U.S. dollars, end-period)	573.7	619.1	624.1	668.9	726.5	787.3
External debt (percent of GDP, end-period)	21.4	19.5	18.6	18.7	18.9	18.6
Of which: Short-term debt	9.5	8.5	8.2	8.1	8.3	8.1
Ratio of gross reserves to short-term debt (end-period)	2.3	2.3	2.1	2.2	2.0	1.9
Real effective exchange rate (annual avg. percent change)	-0.8	0.3	-0.3	0.3	...	...
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-9.2	-6.7	-6.5	-5.6	-4.8	-4.4

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, World Development Indicators; and IMF staff estimates and projections.

1/ Data are for April–March fiscal years.

2/ Differs from official data, calculated with gross investment and current account. Gross investment includes errors and omissions.

3/ Divestment and license auction proceeds treated as below-the-line financing.

4/ Includes combined domestic liabilities of the center and the states, and external debt at year-end exchange rates.



# INDIA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

February 6, 2025

### KEY ISSUES

**Context.** Prudent macroeconomic policies have supported India's economic resilience, with growth expected to recover from a recent softening and inflation expected to converge to target. Risks to the outlook include deepening geoeconomic fragmentation and a slower pace of domestic demand recovery.

**Policy Recommendations.** Policy priorities include continued rebuilding of fiscal buffers, gradual and data-dependent easing of monetary policy, further strengthening of financial resilience, and advancing comprehensive structural policies to invigorate investment, boost the quantity and quality of employment, and raise potential growth.

- **Fiscal Policy.** The planned near-term fiscal consolidation is appropriate. Continued rebuilding of fiscal buffers is needed through the medium term, with ongoing focus on raising domestic revenue to meet India's significant needs for capital and other development spending.
- **Monetary Policy.** Monetary policy has been broadly appropriate. With inflation likely to converge to target and a broadly closed output gap, room should arise for gradual monetary policy rate cuts, with timing and pace remaining data dependent. India's successful flexible inflation targeting regime should be supported by allowing for greater exchange rate flexibility.
- **Financial Sector Policy.** Systemic financial risks are broadly contained but further reform and vigilant supervision are needed to address remaining pockets of vulnerability. Efforts to strengthen the oversight framework, monitor system interconnectedness, and improve crisis management tools can help further enhance financial stability.
- **Structural Policies.** Broad structural reforms are needed to support private investment, job creation, and medium-term growth. Near-term priorities include labor market reform, further reductions in trade restrictions, continuing the public investment push, and providing strong policy frameworks for a stable economic environment. Other priorities include pursuing agricultural, land, and judicial reforms; strengthening education, skilling, public health, and social safety nets; reducing the public sector footprint in credit markets and other obstacles to investment and creation of high-quality jobs; and implementing climate policies.

Approved By  
**Sanjaya Panth (APD)**  
**and Anna Ilyina (SPR)**

Discussions took place in New Delhi, Hyderabad, and Mumbai during December 4–19, 2024. The team comprised H. Finger (Mission Chief), C. Alonso, D. Prihardini, N. Suphaphiphat, N. Wang (all APD), M. Gorbanyov (SPR), M. Martins (STA), P. Schneider (MCM), R. M. Salgado (Senior Resident Representative), S. Mohapatra, and G. Dang (both Resident Representative office). S. Panth (APD), H. Oura (MCM), K. V. Subramanian (Executive Director), and S. Hansda (OED) attended selected mission meetings. The mission met with Economic Affairs Secretary A. Seth, Chief Economic Advisor A. Nageswaran, Finance Secretary T.K. Pandey, Reserve Bank of India (RBI) Deputy Governor T. R. Sankar, other senior government and RBI officials, along with representatives from the private sector and other organizations. J. Flinner, F. Li, and A. Sinjar (all APD) assisted in the preparation of this report.

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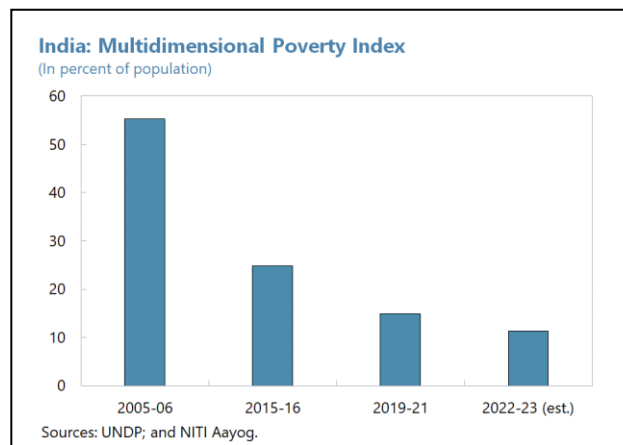
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## CONTEXT

**1. India has benefited from strong growth and made inroads toward its development goals.** Post-pandemic real GDP growth has averaged over 8 percent, supported by prudent macroeconomic policies (Annex I). Financial sector health has improved significantly following stress episodes in the 2010s, and inflation has come down from 2022 highs. Progress towards meeting the SDGs continues, with the multidimensional poverty index expected to halve from 2016 levels well before the 2030 target. Landmark structural reforms over the last decade included implementing inflation targeting, introducing the goods and services tax (GST), and revamping the regulatory framework for non-bank financial companies (NBFCs). The digital public infrastructure provides the necessary building blocks for interacting in the digital economy (identity, payments, and data exchange), unlocking innovation and supporting financial inclusion.



**2. This favorable setting provides an opportunity to advance challenging structural reforms, supporting sustainable and inclusive growth.** While India's growth is expected to remain resilient, private investment has not yet risen markedly, and there is a pressing need to create quality jobs for India's growing population. Advancing difficult factor and product market reforms, complemented by continuing efforts to streamline regulations and address skill mismatches, could reinvigorate private investment and increase formal employment. Providing a policy strategy for openness to international trade and investment could help increase India's role in global value chains (GVCs).

## RECENT DEVELOPMENTS

**3. Growth moderated in recent quarters with some signs of economic recovery.** After strong growth of 8.2 percent in 2023/24, real GDP growth moderated to 6 percent in the first half of 2024/25 (Figure 1).<sup>1</sup> Investment slowed in the first half of 2024/25, in part linked to a moderation in the execution of public capital spending due to the national elections. While private corporate investment has increased, it has been less dynamic than expected, including investments in machinery and equipment. By contrast, private consumption growth, which was relatively low in 2023/24 at 4 percent, has recovered to 6.7 percent in the first half of 2024/25, reflecting strengthening rural demand driven by a more favorable monsoon supporting yields in the recent kharif harvest. Good prospects for the upcoming rabi harvest, including high reservoir levels and good progress in sowing, suggest continued strong momentum in rural demand, which, coupled

<sup>1</sup> India's fiscal year runs from April to March.



with an acceleration of public capital expenditure in November/December, points to a recovery in economic activity in the second half of the fiscal year.

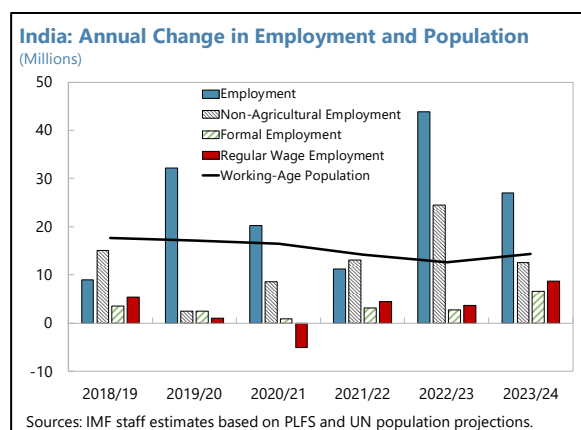
**4. Headline inflation has, on average, declined despite volatility from food prices.**

Headline inflation has broadly declined within the RBI's tolerance band (2-6 percent) but has fluctuated significantly due to vegetable prices. Excluding vegetable prices, inflation has eased from last year, hovering between 3 and 4 percent. Core inflation increased to 3.6 percent in December from a low of 3.1 percent in April-June 2024, as commodity and wholesale price inflation normalized.

**5. Fiscal consolidation has continued.** In 2023/24, the fiscal deficit narrowed, while capital expenditure continued to increase, supported by robust revenue growth, subsidy reduction on declining commodity prices, and restraint in central government recurrent expenditure. For 2024/25, high RBI dividends, buoyant personal income tax revenue, and continued commodity price declines will allow the central government to narrow the deficit while introducing measures to support job creation. For states, growth in own-tax revenue in 2024/25 has slowed but remains robust, while grants-in-aid from the central government contracted.<sup>2</sup> A slow start to state-level capital expenditure at the beginning of the fiscal year has coincided with a pickup in recurrent spending, with the overall balance for states expected to remain at around 3 percent of GDP.

**6. While headline labor market indicators continue improving, quality jobs are needed for a growing labor force.**

The labor force participation rate (LFPR) continued to rise to 56.4 percent in 2023/24, compared to 54.6 percent in 2022/23 and 48.4 percent in 2017/18 (Figure 2).<sup>3</sup> However, much of this increase has been driven by own-account and unpaid family workers. An observed increase in agricultural employment since the COVID-19 period diverges from traditional development paths, whereby workers tend to relocate from agriculture to industry and services, and India's own historical experience. Compared to an increase of working age population (WAP) of 14 million in 2023/24, employment rose by 27 million, including creation of a record-high 9 million regular-wage jobs. While these are overall positive trends, the high degree of informality in the job market highlights the continued need for formal sector job creation.

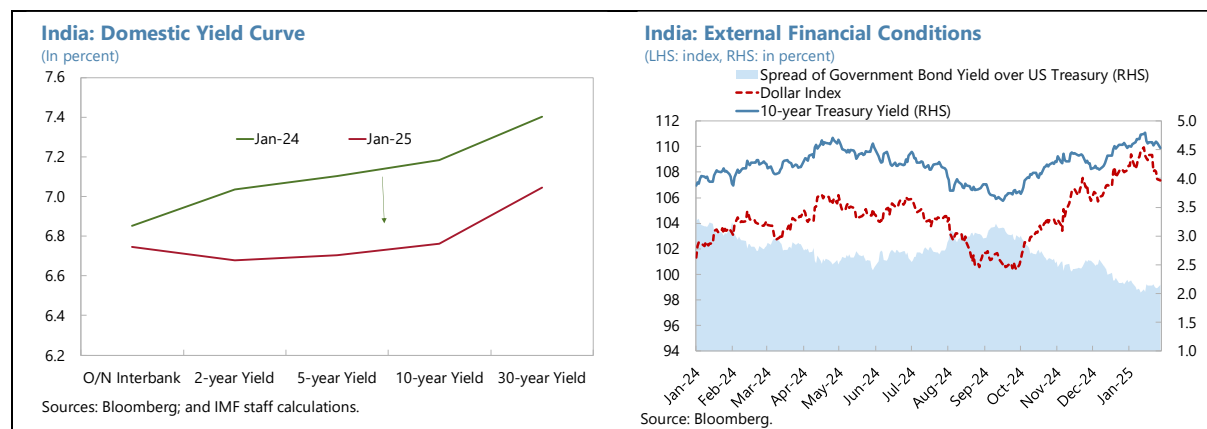


**7. Financial conditions have recently tightened somewhat.** Bank and nonbank credit growth have decelerated from previous highs but remain relatively firm at 10.6 percent (November 2024) and 16 percent (September 2024), respectively, with the credit gap broadly closed. Equity markets

<sup>2</sup> Reflecting the tapering of grants recommended by the 15<sup>th</sup> Finance Commission.

<sup>3</sup> Labor market data is based on Current Weekly Status, with the year running from July to June.

reached record highs in September 2024, supported by a growing domestic investor base (Annex II), before experiencing a correction amid sizeable foreign outflows (\$21 billion from end-September through January). The rupee has depreciated by about 4 percent since end-September 2024 amid broad dollar strength and large net RBI FXI estimated at about US\$76.5 billion in October-November 2024 across all FX market segments.<sup>4</sup> Nevertheless, government bond yields have declined by 30-40 bps on net since January 2024. Housing activity and prices have been growing rapidly in some cities, albeit with considerable heterogeneity. Corporates have been broadly resilient despite higher lending rates, with aggregate interest coverage ratios increasing.



**8. India has embarked on relaxing its trade regime, though some important restrictions have been retained.** Export restrictions on rice, sugar, onions, and wheat introduced mostly in 2022-2023 in response to the global food price shocks and domestic food security concerns have been relaxed, with non-basmati white rice and onion export restrictions lifted in September 2024. At the same time, the import management system for IT hardware introduced in late 2023 has been extended until end-2025, along with import tariffs of 12 to 30 percent on certain steel products from China and Vietnam that were set to expire. Customs duties on soybean oil, palm oil, and sunflower oil were raised from 0 to 20 percent in September 2024. The 2025/26 Union Budget unveiled in early February announced a substantial simplification and reduction of import tariffs on a wide range of products, from electronics and life-saving medicines to textiles, cars, and motorcycles. The rationalization of the tariff structure reduces the number of rate thresholds and eliminates peak rates that had been applied to a few items.

## OUTLOOK AND RISKS

**9. Growth is expected to recover from its recent moderation, with inflation declining.** Growth is expected to accelerate in the second half of the fiscal year, supported by a catch-up in government capital spending and continued strengthening of rural demand. Overall, growth for

<sup>4</sup> The estimate is based on spot intervention and the change in the net forward and futures positions published by the RBI.

2024/25 is projected at 6.5 percent, with the output gap estimated to be broadly closed.<sup>5</sup> In 2025/26, robust domestic demand is expected to sustain growth at 6.5 percent. Over the medium term, growth is projected to continue aligning with its potential, at 6.5 percent. Inflation is projected to decline to 4.8 percent and 4.3 percent in 2024/25 and 2025/26, respectively, broadly converging to the target.

**10. On a preliminary basis, India's external position in 2024/25 is assessed to be moderately stronger than that implied by medium-term fundamentals and desirable policies** (Annex III). The current account deficit is projected to widen to 0.9 percent of GDP in 2024/25, from 0.7 percent of GDP in 2023/24, and gradually converge to its norm of 2.2 percent of GDP in the medium term. Subdued demand in trading partners will contain export growth, with services exports outpacing merchandise trade. The pick-up in domestic consumption and investment will support imports. Net FDI has declined to almost zero, with repatriation and outward investments offsetting steady gross inflows. Notwithstanding significant equity outflows since October 2024, India's inclusion into global bond indices, relaxation of capital flow management measures (CFMs)—such as recent opening of foreign investors' access to government green bonds and raising the interest rate ceiling on foreign currency non-resident deposits—and a favorable growth outlook have encouraged portfolio debt inflows. After peaking at end-September at about \$705 billion, official international reserves dropped to US\$640 billion by end-December, though remaining above end-2023 levels. Reserves cover is adequate at about 8 months of prospective imports and about 105 percent of the ARA metric, providing a comfortable cushion against adverse external shocks.

**11. Risks to the economic outlook are tilted to the downside** (Annex IV).

- **External risks:** Deepening geoeconomic fragmentation—including broader conflicts, inward-oriented policies, and weakened international cooperation—could affect external demand, supply of critical imports, external trade costs, and FDI (see Annex V). Tighter-for-longer financial conditions in the US and a stronger U.S. dollar could affect capital flows. Oil price volatility—for example, as result of intensification of regional conflicts—can impact the external balance and fiscal position, though effects on activity are likely to be muted given the oil marketing companies' decision to keep retail fuel prices unchanged (see Annex VI). Cyberattacks continue to pose a potential threat.
- **Domestic risks:** The recovery in private consumption and investment may be weaker than expected if real incomes do not recover sufficiently and execution of public capital expenditure falls significantly below budget targets. While the monsoon has been favorable compared to 2023/24, other weather shocks could adversely impact agriculture output, lifting food prices, and halting the recovery in rural consumption (see Annex VII). Further weakening credit growth could weigh on aggregate demand. Sudden volatility in the financial market amid rising

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<sup>5</sup> The RBI projected real GDP growth for 2024/25 at 6.6 percent (as of December 2024). The First Advance Estimate released by the Ministry of Statistics and Programme Implementation in January 2025 estimated a growth rate of 6.4 percent for 2024/25. The Ministry of Finance's 2024/25 Economic Survey projects real GDP growth of 6.3-6.8 percent for 2025/26.

households' stock market participation could impact household wealth and consumer sentiment. On the upside, a faster implementation of structural reform could boost employment and private investment, raising potential growth.

### **Authorities' Views**

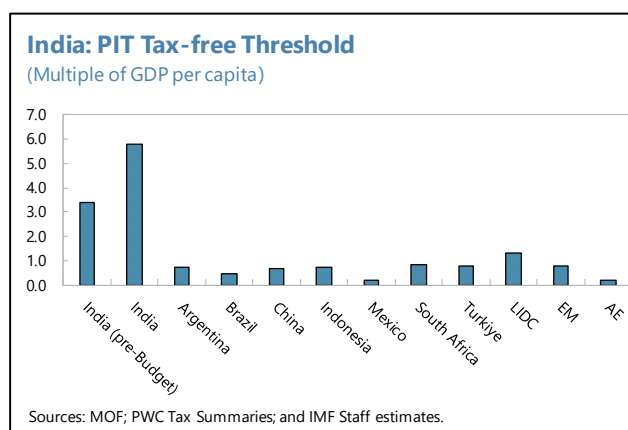
**12. The authorities' views on the economic outlook and risks were broadly aligned with staff's assessment.** The authorities expected economic activity to pick up pace in the second half of the fiscal year, partly from a catch-up in public capital expenditure. They also expected inflation to continue to converge to target. They considered the risks to the growth outlook broadly balanced. They viewed staff's potential growth estimate of 6.5 percent being at the lower end of their assessment. The authorities broadly agreed with staff's balance of payments projections, which envisage growing FDI and portfolio investments to India more than offsetting the current account deficit and enabling continued accumulation of FX reserves over the medium term. They considered that the real exchange rate has been near the equilibrium level. The authorities highlighted India's strong potential for further expanding services exports, particularly for IT and business services. The authorities perceived rising geoeconomic fragmentation and weather shocks as main sources of risks.

## **POLICY DISCUSSIONS**

*Amid a favorable macroeconomic outlook, fiscal buffers should continue to be rebuilt, while monetary policy can ease as inflation moderates. Financial sector reforms to further strengthen financial resilience should continue. Comprehensive horizontal reforms are needed to support private investment, increase good-quality jobs, and raise potential growth. A balanced climate policy framework, alongside greater access to concessional financing and technology, is needed to achieve net zero emissions by 2070. Strengthening the quality of macroeconomic and financial statistics will help enhance the effectiveness of economic monitoring and policy design.*

### **A. Fiscal Policy**

**13. Continued fiscal normalization is appropriate given a broadly closed output gap and elevated debt.** The moderately contractionary fiscal deficit for 2024/25 is fitting. The acceleration in the execution of capital expenditure in the second half of the year is welcome. However, the use of windfall gains such as high RBI dividends to finance permanently higher recurrent expenditure should be avoided. States should refrain from expanding recurrent expenditure at the expense of capital expenditure. The 2025/26 budget substantially raised the personal income tax-



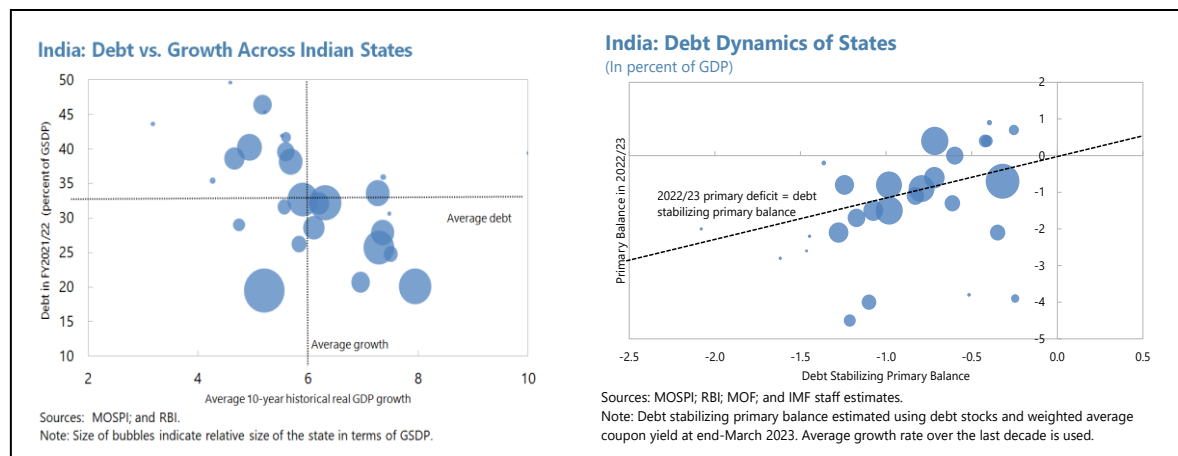
free threshold, bringing it well above peers and leading to 0.3 percent of GDP in foregone revenue. Nonetheless, continued improvements in tax administration and an ambitious narrowing in recurrent expenditure is budgeted to more than offset the personal income tax cut, allowing for further consolidation by about 0.4 percent of GDP.

India: Summary Central Government Fiscal Developments (In percent of GDP)				
	FY 2023/24	FY2024/25		FY2025/26
	Actual	Budget	RE	Budget
<b>Total Revenues</b>	<b>9.5</b>	<b>9.8</b>	<b>9.7</b>	<b>9.7</b>
Net tax revenues	7.9	8.0	7.9	7.9
Non-tax revenues	1.6	1.8	1.8	1.8
<b>Total Expenditure</b>	<b>15.1</b>	<b>14.9</b>	<b>14.6</b>	<b>14.1</b>
Revenue expenditure	11.9	11.5	11.4	11.0
Food Subsidy	0.7	0.6	0.6	0.6
Fertilizer Subsidy	0.6	0.5	0.5	0.5
Capital expenditure	3.2	3.4	3.1	3.1
Central Government (CG) Fiscal Deficit	5.6	5.1	4.8	4.4
CG Fiscal Deficit (authorities' definition) 1/	5.6	5.0	4.8	4.4

1/ Authorities' definition includes asset sales in receipts, and excludes certain non-tax revenue items, hence the difference with staff's definition.

**14. Fiscal risks include unanticipated roadblocks in moderating recurrent spending, higher commodity prices, and the realization of contingent liabilities.** Challenges in meeting the budgeted recurrent expenditure reduction may weigh on budget execution in 2025/26. Contingent liabilities arise from government guarantees, loss-making SOEs, particularly in the power sector, and unfunded civil service pensions liabilities (Annex VIII). Rising commodity prices would lead to higher subsidies (Annex VI). Better targeting of subsidies would reduce the exposure from commodity prices while still supporting the vulnerable. Regular revision of power tariffs, pricing all services provided by utilities, and continuing incentives to improve efficiency would improve the power distribution companies' (DISCOM's) financial health. Public support should be limited to vulnerable households and be transparently provided on budget instead of weighing on DISCOM balance sheets. Actuarial assessments should ensure that the contribution to the new civil service pension schemes (UPS) is sufficient to cover additional benefits. Given the need for consolidation, any additional government contribution should be funded by additional sources of revenue or through reductions in other expenditure.

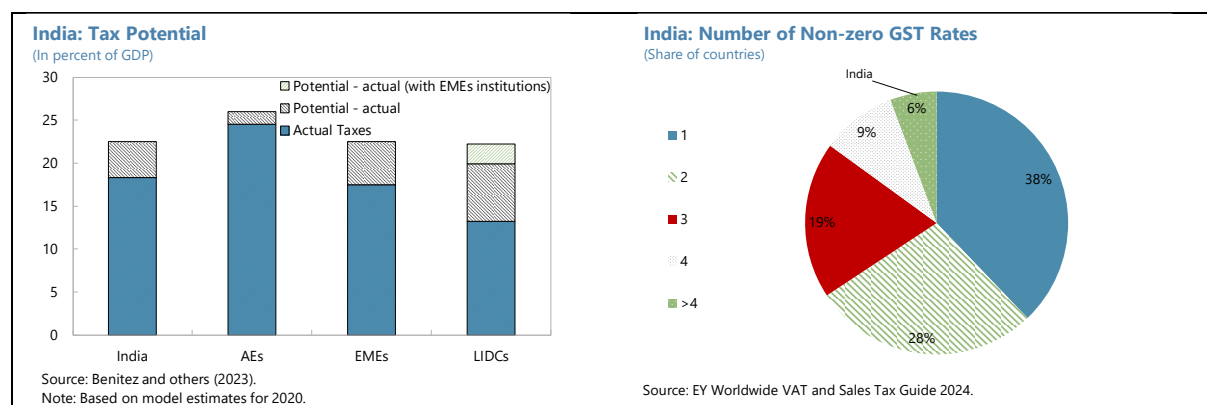
**15. Risks of sovereign stress are assessed to be moderate.** Under current policies, the deficit is expected to narrow further, supporting a gradual reduction in debt to 77 percent of GDP in 2030/31. Under shock scenarios, debt paths are skewed towards higher debt levels, highlighting the importance of swiftly rebuilding buffers (Annex VIII). That said, India has some fiscal space which can be used to support domestic demand and shelter vulnerable households in case of shocks. Funding climate-change-related investment entirely through the government budget could lead to high long-term risk of sovereign stress, pointing to the need for additional concessional financing and greater private sector participation. Banks hold a relatively high share of government securities (though it has declined since 2019), which could amplify macro-financial shocks under severe adverse scenarios. Risks from elevated debt are mitigated as debt is largely domestic with a long duration, and the interest-growth differential is expected to remain favorable. Demand from financial institutions (FIs) for government securities remains robust. More than half of states, comprising over 60 percent of the combined gross state domestic product, have primary deficits wider than their respective debt stabilizing primary balance. This, coupled with high debt and low growth, points to vulnerabilities at the sub-national level. Given their heterogeneity, states require differentiated deficit paths that support fiscal sustainability and economic development, guided by state-level debt sustainability assessments.



**16. Continued fiscal consolidation is needed over the medium term to rebuild buffers and reduce the debt servicing burden.** Beyond 2025/26, the authorities are targeting a continued decline in the central government debt ratio to reach  $50 \pm 1$  percent of GDP by 2030/31. Staff projects that a decline to 50 percent of GDP can be achieved under current policies given a favorable interest-growth differential. The authorities' 2025/26 budget also presented a scenario under a 'high degree of consolidation' where central government debt reaches approximately 48½ percent of GDP. This faster pace of adjustment is warranted over the medium term to rebuild fiscal buffers and reduce the debt servicing burden; interest payments absorb around 30 percent of general government tax revenue, limiting the government's ability to direct revenues towards priority spending.

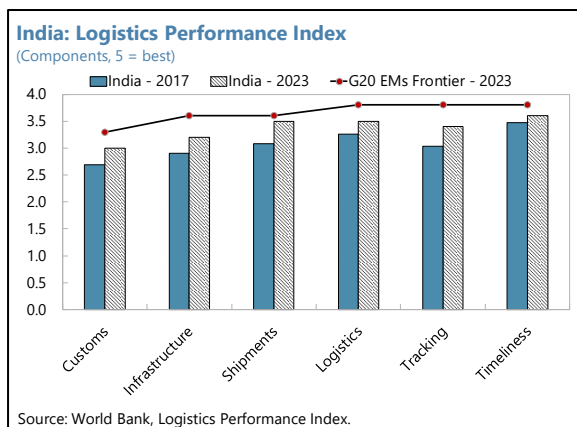
**17. A revenue-based consolidation strategy focused on growth-enhancing expenditure is appropriate, given India's development needs and revenue potential.<sup>6</sup>**

- **Enhancing revenues:** Additional revenue can be raised through GST simplification, partially undoing the past decline in the effective GST rate, reversing fuel excise cuts, broadening the income tax base, and allowing domestic energy prices to move in line with global energy prices.



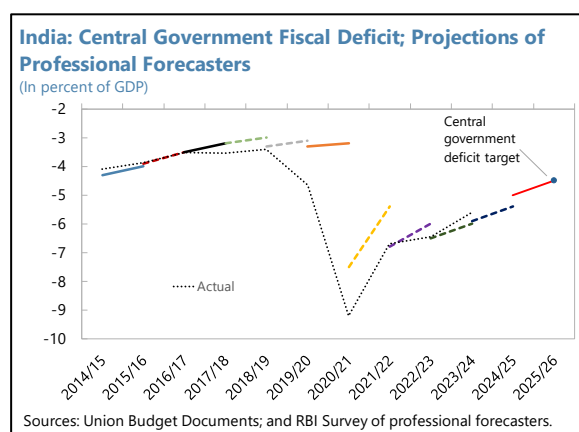
<sup>6</sup> India's tax potential is estimated at 4 percent of GDP above current levels. See IMF Staff Discussion Note (2023), Building Tax Capacity in Developing Countries. See left figure above on tax potential.

- **Rationalizing current expenditure:** Better targeting of subsidies and replacing them with cash transfers, where possible, would create fiscal savings while still supporting the vulnerable. Similarly, rationalizing the volume of expenditure schemes introduced in past budgets would generate cost savings.
- **Raising growth-friendly spending:** Efforts to raise revenue and contain current expenditure would not only allow for faster debt reduction but would also create room to further boost (i) infrastructure investment and R&D spending to raise private investment and productivity and (ii) investment in human capital through additional health expenditure. Returns from infrastructure investment, in terms of quality and access, can be enhanced by refining public investment management (Annex IX).



**18. A reform scenario based on the above strategy leads to faster deficit and debt reductions with a mild impact on growth.** With these reforms, the deficit declines by an additional 0.9 percent of GDP below baseline, and interest payments decline by 0.2-0.3 as share of GDP over the medium term relative to the baseline. Central government debt is reduced to approximately 48½ percent of GDP and general government debt is also reduced by an additional 3½ percentage points by 2030/31. There is a limited drag on growth in the short term, while over the medium to long term growth picks up above baseline, driven by lower borrowing costs which spur private investment, and greater productive capacity from additional investment (Annex X).<sup>7</sup> Alternative consolidation scenarios could involve greater domestic revenue mobilization and expenditure prioritization.

**19. Placing debt on a firmly downward trajectory is a suitable medium-term anchor, but the medium-term adjustment path should be defined more clearly.** The authorities' intention to target central government debt-to-GDP ratios beyond 2025/26 is welcome and can be improved by specific refinements, such as: (i) expanding the perimeter to include state government debt; and (ii) complementing the debt anchor with a fiscal deficit path for the Union



<sup>7</sup> The adjustment path under this scenario is based on a stochastic model (Fournier, 2019) optimizing the tradeoffs between macroeconomic stabilization and debt sustainability, which estimates the optimal cyclically adjusted primary deficit to be 0.6 percent of GDP by 2030/31.



and the states to provide operational guidance for their respective annual budgets. Staff's reform scenario, under which debt falls to below 74 percent of GDP and the general government deficit gradually narrows to below 6 percent of GDP by 2030/31, could provide some guidance in this respect. The central government has successfully met or exceeded its deficit target for the last three years, building credibility. Including medium-term projections of key macroeconomic variables, the fiscal deficit, and its composition in the Budget would allow the authorities to further develop their track record and enhance transparency. This could be achieved under a revamped Fiscal Responsibility and Budget Management Act. Flexibility can be maintained through escape clauses, which allow fiscal policy to respond to large shocks (see Annex V in the 2023 Article IV Staff Report).

India: Fiscal Consolidation and Growth										
	2026/27		2027/28		2028/29		2029/30		2030/31	
Baseline Scenario (based on announced policies)										
Fiscal Accounts (percent of GDP)										
General Government Overall Balance	-7.3		-7.2		-7.0		-6.8		-6.6	
Union government	-4.6		-4.4		-4.2		-4.0		-3.8	
Reform Scenario										
General Government Fiscal Accounts (percent of GDP, difference from baseline)										
Revenue										
GST	0.3		0.5		0.8		0.9		1.0	
Income taxes	0.1		0.1		0.1		0.1		0.1	
Excise	0.1		0.1		0.2		0.2		0.2	
Expenditure										
Subsidies	-0.1		-0.1		-0.2		-0.3		-0.3	
Rationalisation of schemes	-0.1		-0.1		-0.1		-0.1		-0.1	
Health and targeted social support	0.1		0.2		0.3		0.5		0.6	
Capital expenditure	0.1		0.1		0.2		0.3		0.3	
Overall Balance	0.4		0.7		0.9		0.9		0.9	
Central	0.2		0.4		0.5		0.5		0.5	
States	0.2		0.4		0.5		0.5		0.4	
Macroeconomic Impact (percent of GDP, difference from baseline)										
Estimated risk premium reduction (basis points) 1/	5		7		9		11		13	
	Risk Premium Reduction									
	With	Without	With	Without	With	Without	With	Without	With	Without
Real GDP	0.0	-0.1	0.0	-0.1	-0.1	-0.2	0.0	-0.1	0.1	-0.1
Debt	-0.4	-0.4	-1.2	-1.1	-2.0	-1.8	-2.9	-2.6	-3.7	-3.4

Source: IMF staff estimates.

1/ The relationship between government bond yields and debt is taken from Padhi and others (2023), see Annex X.

Source: IMF staff estimates.

1/ The relationship between government bond yields and debt is taken from Padhi and others (2023), see Annex X.

## Authorities' Views

**20. Like staff, the authorities saw a need for medium-term fiscal consolidation but considered targeting a more gradual pace of adjustment to be appropriate, given global uncertainties.** They indicated that their aim will be to ensure that, going forward, central government debt will be on a declining path to reach  $50 \pm 1$  percent of GDP by 2030/31, while maintaining flexibility to respond to cyclical conditions. They noted that, in any case, risks from public debt are mitigated as it is largely long-dated, contracted at fixed rates, denominated in domestic currency, and held by residents. They emphasized that the benefits of the favorable growth-interest rate differential are projected to continue in the foreseeable future. The authorities also underscored that fiscal challenges faced by states vary, as some have fiscal space for



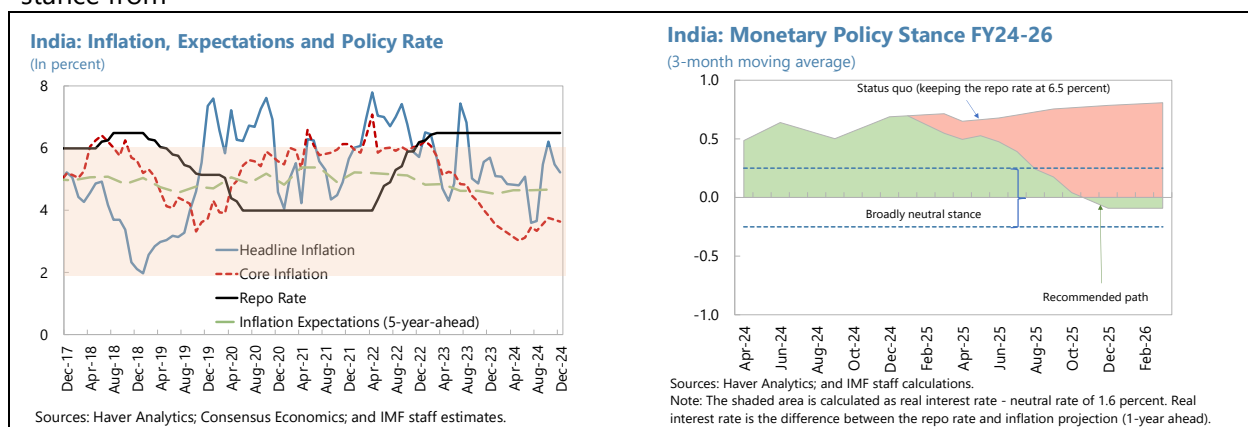
development spending but are not able to utilize it due to capacity constraints, while others need to focus on fiscal consolidation and prioritize development over recurrent expenditure.

**21. The authorities stressed that removing annual fiscal targets in the post-pandemic period has provided room for fiscal policy to nimbly respond to successive global shocks and high levels of uncertainty.** They noted that, nonetheless, the gross fiscal deficit of the central government has successively declined in recent years, and that the quality of fiscal adjustment has improved with the focus on capital expenditure vis-à-vis revenue expenditure. A combined fiscal deficit of less than 6 percent of GDP as advocated by staff for the medium term – coupled with the need to increase infrastructure spending by the Union and the states – would imply eliminating the revenue deficit, which the authorities felt was not feasible in the near term and could compromise growth.<sup>8</sup> Since a significant amount of capital expenditure previously undertaken by SOEs was brought onto the central government budget, the authorities noted that reducing the central government deficit to around 3 percent of GDP would be difficult. The authorities agreed on the need for greater revenue mobilization, noting that their focus will remain on supporting voluntary compliance for taxpayers through simplification of the tax law (for example, review of the Income Tax Act) and continued efforts to improve the tax administration through digitalization.

## B. Monetary Policy

**22. India's flexible inflation targeting (FIT) framework has proven effective in managing inflation and anchoring expectations.** Headline inflation remains an appropriate target due to the high weight of food in the CPI basket, potential spillovers from above-target headline inflation to household inflation expectations, and the ease of communication.

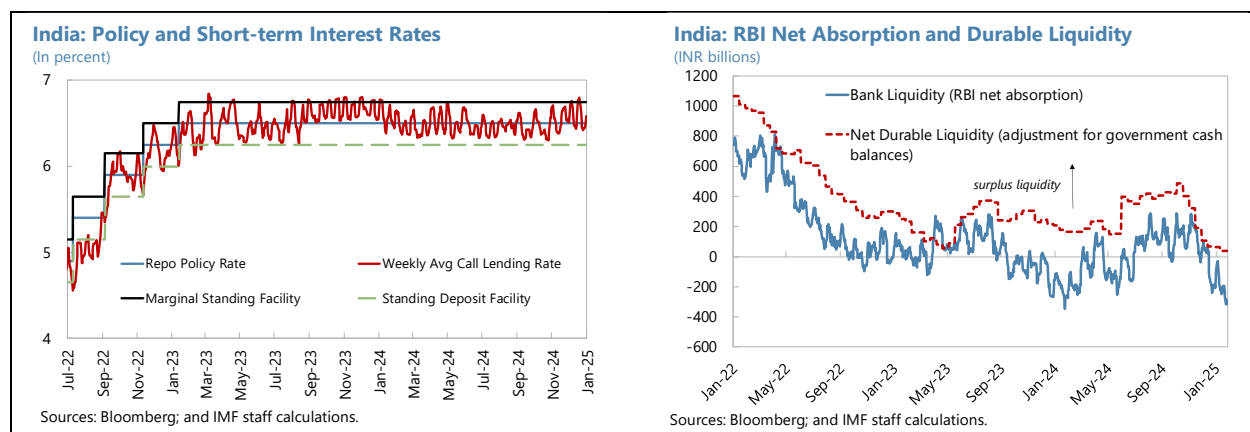
**23. With a broadly closed output gap and inflation expected to move towards target, there will likely be room for policy rate cuts towards a broadly neutral stance.** Given upside risks from food price inflation, monetary policy has been prudent, with the real interest rate remaining above the estimated neutral rate. In October 2024, the RBI changed the monetary policy stance from



<sup>8</sup> The revenue deficit is defined as the difference between revenue and recurrent expenditure.

“withdrawal of accommodation” to “neutral” as it provides flexibility to monitor the progress and outlook on disinflation and growth and to act appropriately. As inflation is expected to increasingly converge to the 4-percent target and the output gap is estimated to be broadly closed, a well-communicated, gradual normalization of the policy rate towards a broadly neutral stance appears appropriate, with data-dependent timing and pace.<sup>9</sup> If inflation declines faster than anticipated, coupled with weaker-than-expected growth outcomes, faster monetary easing would be warranted.

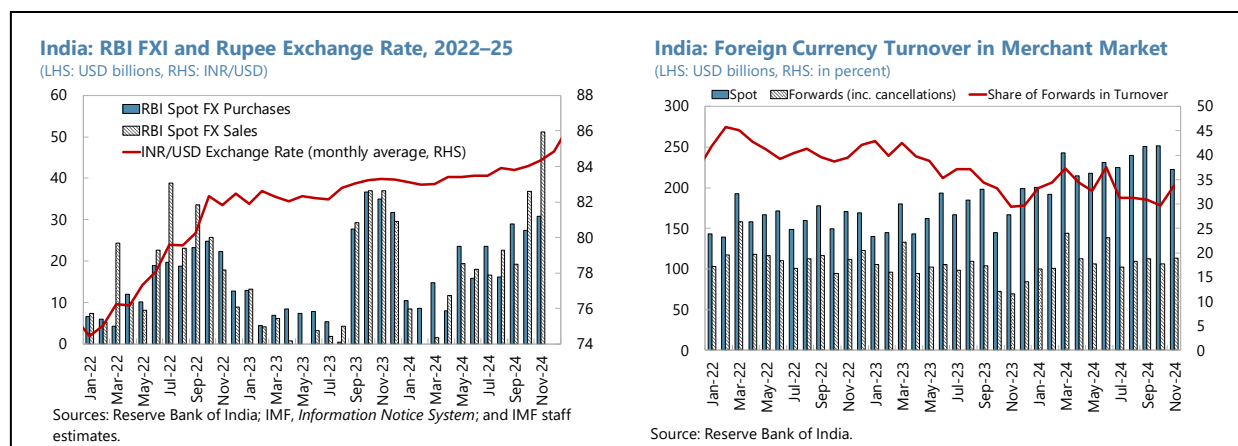
**24. Liquidity management should remain nimble to evolving conditions and continue to prioritize market-based tools.** Banking system liquidity<sup>10</sup> declined to a deficit in late 2024, with effective overnight interest rates rising towards the upper bound of the interest rate corridor after they had generally hovered at or below the repo rate for most of 2024/25. In December 2024, the RBI reduced the cash reserve rate (CRR) by 50 bps to address tightening of liquidity conditions—driven by substantial foreign exchange intervention (FXI) and year-end fiscal payments—and return the CRR to pre-COVID levels in line with the RBI’s neutral monetary policy stance. In January 2025, the RBI increased the frequency of variable rate repo auctions, announced several outright government bond purchases through open market operations, and conducted a \$5 billion FX swap.



**25. Greater exchange rate flexibility is warranted to help absorb external shocks, with intervention limited to addressing disorderly market conditions.** Given India’s relatively low foreign exchange (FX) mismatch, well-anchored inflation expectations, and a generally deep FX market, the FIT framework should be supported by greater exchange rate flexibility, allowing the currency to adjust in response to external shocks while maintaining domestic price stability. However, during periods of global financial stress leading to destabilizing premia, FXI can play a supporting role to improve market functioning and mitigate adverse impacts on output and inflation (Guidance Note on FXI under the IPF, 2023 Article IV Consultation, and [IMF WP](#)). Greater exchange rate flexibility would reduce the need for holding costly precautionary FX reserves, promote FX market development, prevent moral hazard by encouraging firms to actively manage their currency risk through hedging, and reduce fluctuations in domestic financial system liquidity.

<sup>9</sup> Staff assumes a real neutral rate of 1.6 percent.

<sup>10</sup> Defined and reported as net liquidity injected or absorbed by the RBI beyond the reserve requirement.



**26. India continues to progress with its central bank digital currency (CBDC) pilots.** As of late 2024, five million users, 0.5 million merchants, and 16 banks are participating in the retail pilot, with approximately 0.2 million transactions per day. The authorities continue to develop programmability and offline usage, with several test cases in progress. Cross-border payment applications are being explored through both bilateral and multilateral channels, but broadly remain in the nascent stage. The wholesale CBDC has had limited usage, though some applications in financial markets are being considered.

### **Authorities' Views**

**27. The authorities reaffirmed their commitment to focusing monetary policy on achieving a sustained alignment of inflation with the target, while maintaining a data-driven approach.** They noted that volatile inflation prompted a cautious approach, emphasizing prudence and data dependence in monetary policy decision-making. The authorities reiterated that the exchange rate of the Indian Rupee continues to be market-determined, and that FXI, if and when undertaken, aims to contain excessive volatility and maintain orderly market conditions without targeting any specific value of the exchange rate. The authorities highlighted the availability of various liquidity management tools and emphasized that normalizing the CRR to pre-COVID levels was the most suitable measure at the time to address potential structural liquidity shortages.

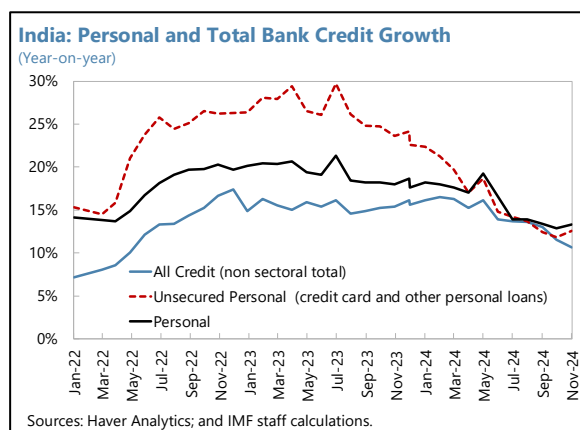
## **C. Financial Sector Policy**

**28. Systemic financial sector risks are broadly contained.** Broad financial stability metrics appear healthy, and banks' gross nonperforming loan ratio fell to a multiyear low of 2.6 percent in September 2024 (Table 7). Capital buffers have remained adequate overall, with capital adequacy ratios in privately owned banks generally stronger than in public sector banks (PSBs). Liquidity coverage ratios remain comfortably above regulatory minimums. Stress tests of the Financial System Stability Assessment (FSSA), conducted in parallel to the Article IV Consultation, for banks and NBFCs broadly demonstrate the financial sector's resilience to macroeconomic stress. However, some banks, especially PSBs, may need to build more capital to continue providing moderate credit

in adverse scenarios. Some weak tails remain among select NBFCs and urban cooperative banks, but these account for only a small share of the financial system. However, concentrated exposures of NBFCs, especially to the power sector with its history of operational challenges that could be exacerbated by climate-related transition risks, remain a potentially systemic vulnerability.

**29. Overall, unsecured personal credit growth has slowed, though signs of higher credit risks and still elevated lending growth by some nonbank institutions warrant continued monitoring.**

Unsecured personal lending by banks slowed to 12.6 percent growth in November 2024, down from 24.5 percent in 2022-2023, though NBFCs' unsecured lending has remained robust at over 30 percent as of September 2024. While household debt remains manageable at 43 percent of GDP, delinquencies have risen somewhat, particularly among small loans. Ensuring that financial institutions maintain strong lending standards and risk management is essential for sustainable credit growth. Broadening the use of targeted macroprudential measures, such as applying debt-service-to-income limits, to all household loans would enhance policy effectiveness.<sup>11</sup>



**30. The 2024 FSSA recommendations highlight the need to continue financial sector reforms, as the financial system becomes more diverse, complex, and interconnected** (Annex XI). Non-bank financial institutions (NBFIs) and market financing have expanded their footprint in the financial system, with NBFIs now accounting for 43 percent of total assets, up from 34 percent in 2017.<sup>12</sup> The growing interconnectedness across financial institutions makes systemwide risk monitoring essential, as bank funding accounted for over 40 percent of NBFC borrowing in 2023/24, with additional financing through mutual funds. Improving data collection and sharing, alongside risk assessment toolkits would help promptly identify any emerging vulnerabilities among a diverse set of institutions.

**31. Financial sector oversight has been considerably improved, and efforts to strengthen it should continue.** Key areas include enforcing Pillar 2 capital add-ons and finalizing IFRS9 adoption—including the expected credit loss framework—which would enhance loan classification and loss provisioning. Given favorable macro-financial conditions, starting to build releasable countercyclical capital buffers (CCyBs) before the next credit cycle would further strengthen the financial system's resilience. While the new scale-based regulation for NBFCs is welcome, exemptions for state-owned NBFCs, especially regarding concentration risks, should be eliminated

<sup>11</sup> The RBI has historically used sectoral risk weights, such as in November 2023, when it increased risk weights on unsecured bank lending and loans to NBFCs. Currently, microfinance loans are subject to a DSTI limit of 50 percent.

<sup>12</sup> NBFIs include NBFCs, mutual funds, and insurance companies.

to level the playing field.<sup>13</sup> Ensuring full compliance among selected NBFCs with existing liquidity coverage ratio (LCR) requirements and establishing more tailored guidance on liquidity requirement indicators to suit the diverse range of NBFCs would also strengthen resilience.

**32. The authorities should continue to address long-standing challenges related to the role of government in the financial system.** While it is reasonable for regulators to pursue multiple policy objectives, financial stability should be clearly prioritized in relevant legislation. The Statutory Liquidity Ratio (SLR) should be further reduced given the introduction of the Liquidity Coverage Ratio (LCR). The authorities should continue making the priority sector lending (PSL) program more flexible, including through expanded co-lending arrangements. Concurrently, a comprehensive cost-benefit analysis should be conducted. In addition, the authorities should continue building infrastructure to ease access to private sector credit with state-of-the-art credit enhancement tools, digital lending built on a comprehensive credit registry, and securitization, including safe covered bonds. Finally, regulators' independence and power should be safeguarded in line with international standards, especially regarding the corporate governance of state-owned financial institutions. Legislation should transfer appellate authority for the RBI from the Ministry of Finance to an independent agency to avoid conflicts of interest.

**33. The crisis management framework should be strengthened and adapted.** Legislation is needed to establish a modern resolution regime with comprehensive tools and legal powers in line with international standards. The systemic and emergency liquidity assistance framework should adapt to the growth of NBFIs and market finance. While the establishment of the Corporate Market Development Fund is welcome, the authorities could further broaden policy options to provide systemic liquidity support and emergency liquidity assistance, including being ready to expand eligible collateral beyond government bonds, with appropriate haircuts.

**34. The Financial Action Task Force (FATF) assessed India's anti-money laundering and combatting the financing of terrorism (AML/CFT) regime in 2024 and found strengths as well as some shortcomings.** Identified strengths include money laundering and terrorism financing risk understanding and mitigation, and beneficial ownership transparency. At the same time, AML/CFT supervision and the application of AML/CFT preventive measures by obliged entities was assessed as only moderately effective. The authorities should address key shortcomings, including by establishing clear obligations for reporting entities for domestic politically exposed persons, improving targeted financial sanctions for terrorism financing, and enhancing AML/CFT supervision of high-risk non-bank and non-financial businesses and professions. Due to the strength of its AML/CFT regime, India will report progress to the FATF on a regular (rather than enhanced) basis.

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<sup>13</sup> The RBI has issued a draft [circular](#), proposing to withdraw exemptions granted to state-owned NBFCs on a case-by-case basis for concentration limits. Nevertheless, state-owned NBFCs are exempt from the upper layer of the scale-based regulatory framework, which includes stricter limits on such exposures by default.

## Authorities' Views

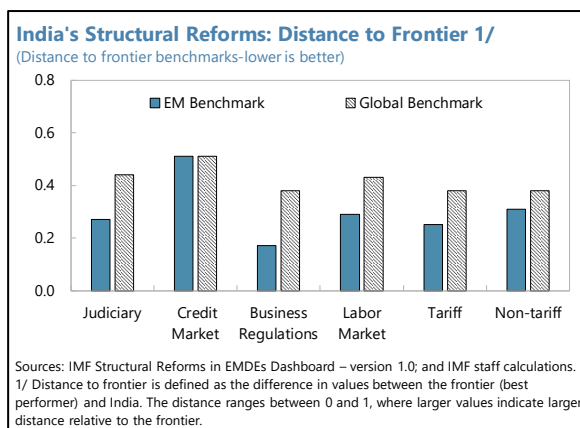
**35. The authorities highlighted their view that the financial sector remains strong.** They felt that macroprudential measures have been effective at slowing unsecured lending growth, and that delinquencies remain contained to a small part of the financial system. They stressed that broader measures of asset quality and capital remain healthy. The authorities acknowledged the need to put in place an enabling framework for implementing debt-service-to-income limits on household loans, notwithstanding the challenges in calibration. The authorities asserted that regulators remain operationally independent. They also felt that given India's position in the current credit cycle, it was not the appropriate time to build additional capital buffers or implement a (positive) CCyB. The authorities saw current priority sector lending provisions as important for facilitating inclusive growth, financial inclusion, economic development, and risk diversification. The authorities highlighted that India is among the five G20 countries that share the FATF's "regular follow-up" category, marking a significant achievement in India's battle against financial crimes.

## D. Structural Reforms

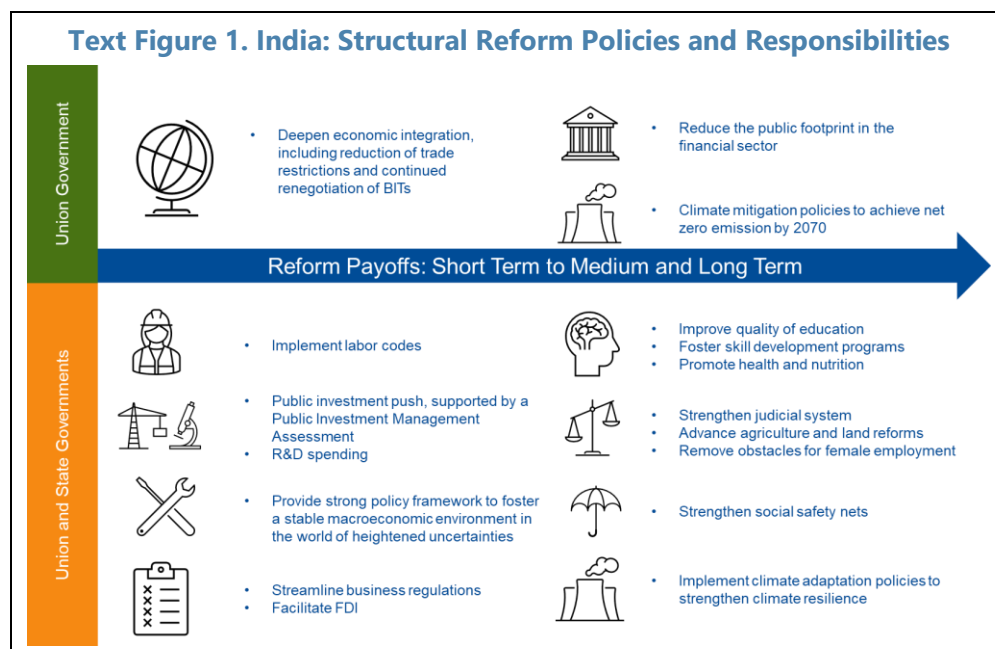
**36. Holistic horizontal reforms are needed to stimulate private investment, raise potential growth, and create quality jobs.** India's ambition

of becoming an advanced economy by 2047 requires a significant and sustained rise in potential growth. Building on India's existing reform progress, Text Figure 1 provides an overview of reform priorities, differentiating by the time horizon of the anticipated reform payoff (horizontal axis) and responsibility by layer of government (Union Government as main reforming agent or in joint responsibility with state governments).

Near-term priorities should include implementation of the labor codes; deepening economic integration, including reduction of trade restrictions and reforms to attract FDI; a continued public investment push and higher R&D spending; streamlining of business regulations; and providing strong policy frameworks to foster a stable environment for firms and households, in a world of heightened uncertainties. Other priorities include pursuing agricultural, land, governance, and judicial reforms; strengthening education, skilling, public health, and social safety nets; reducing the public sector footprint in credit markets; and implementing climate policies. Staff's reform gap analysis indicates that the gains from implementing these structural reforms, with attention to enhancing their social acceptability, could be significant.<sup>14</sup> For instance, implementing reforms that would narrow India's distance to the EM frontier in the judiciary and credit markets by 25 percent could raise private investment by 5 percent (Annex XII).



<sup>14</sup> WEO October 2024



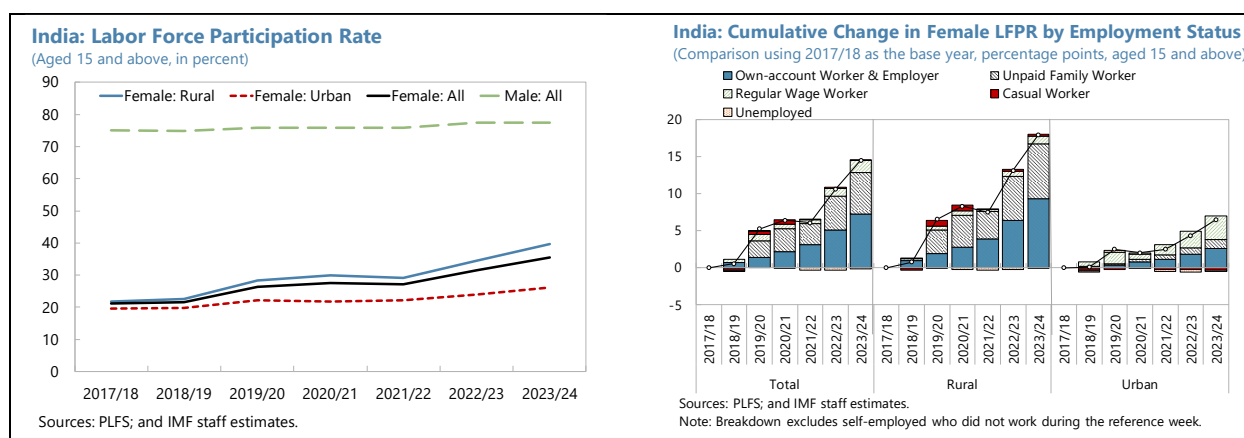
**37. India's progress in job creation should be further supported through labor market reforms, effective social safety nets, and measures that promote female employment.**

Steadfast implementation of the new labor codes, which require cooperation between center and states, is needed to enhance labor market flexibility and ease constraints keeping firms inefficiently small, while providing adequate social protection for workers. Staff analysis shows that advancing labor market reforms, including relaxing hiring and firing regulations, could generate an additional 44 million jobs by 2029/30 (Annex XIII). More flexible and targeted social safety nets facilitated by the use of technology can help support structural transformation and facilitate migration of workers from rural to urban areas, for example, through greater inter-state portability of benefits such as the "One Nation, One Ration Card". Recent policy initiatives to enhance female labor force participation are welcome (Annex XIII). Building on existing reforms to improve workplace safety, support female entrepreneurship, and improve access to childcare, priorities should include removing obstacles to female employment, ensuring that women can participate safely in the labor force, and further expanding support for childcare facilities. These reforms would help reduce inequality by creating more and better jobs.

**38. Improving the quality of education, fostering skill development, and ensuring adequate health and nutrition are critical for building a dynamic labor force in the future.**

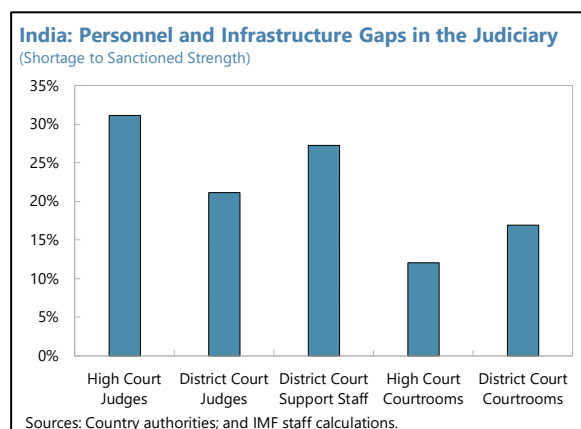
Raising human capital accumulation is essential for unlocking potential growth and fully harnessing India's demographic dividend. At the same time, rapid advancements in AI are likely to transform the labor market, underscoring the need to continue improving the quality of education, health and nutrition, and skill development (Annex XIV). While India's education spending as a share of GDP is on par with peers, spending quality needs to improve through enhanced teacher training, further leveraging of technology to monitor teacher and student attendance and performance, continued promotion of early childhood development, and regular classroom observations to provide feedback and support to teachers. Skill development programs, such as industry-linked skilling





programs accompanied by facilitation of graduates' placement can help reduce skill mismatches, while formal training and on-the-job learning are shown to raise earnings and the probability of employment. To this end, the revamp of industrial training institutes and the newly announced internship program under the authorities' employment-linked incentives are welcome. Finally, promoting health and nutrition through interventions to reduce stunting and wasting, enhancing service delivery under the Integrated Child Development Services, and leveraging data on children's nutritional status are also crucial (Annex XIII).

**39. Efforts to improve the ease of doing business, including policies to foster a stable environment and reduce corruption risks, should be enhanced to boost private investment and increase efficiency.** While private investment in India is relatively high compared to peers, it has not taken off as expected, and net FDI has remained subdued (see Annex XII). To promote investment, the authorities should focus on (i) providing strong policy frameworks to foster a stable environment for



firms and households, including in the areas of taxes, regulation and international trade; (ii) improving judicial capacity, and continuing and enhancing reforms to the insolvency and bankruptcy code; (iii) strengthening credit markets by reducing the public sector footprint and allowing credit to flow freely across sectors to induce more efficient allocation of capital; (iv) streamlining business regulations by cutting bureaucratic procedures and administrative requirements, and (v) continuing with anti-corruption efforts. Furthermore, advancing agriculture and land reforms remains essential to increase efficiency and productivity and to address market distortions.

**40. Reducing external trade restrictions and fostering bilateral, regional, and multilateral trade can strengthen India's integration into GVCs, attract FDI, promote technological transfer, and boost productivity.** The tariff simplifications and reductions announced in the draft 2025/26 Union Budget will reduce India's average tariff rate. Reducing trade restrictions and



accelerating expansion into new export markets through FTAs will help promote external trade and facilitate integration in GVCs. Negotiations on new FTAs with the UK and EU are ongoing, in part reflecting India's intention to prioritize high-quality and deep trade agreements covering both goods and services trade. Building on India's participation in the South Asian Free Trade Area (SAFTA), Indo-Pacific Economic Framework, and India-ASEAN FTA, India should also consider participating in other large trade blocs such as the Regional Comprehensive Economic Partnership (RCEP). Addressing remaining restrictions in SAFTA, including by working towards curtailing lists of sensitive products exempt from tariff reductions, would further enhance regional trade. The revamping of the underlying model of the bilateral investment protection treaties (BITs) envisaged in the draft 2025/26 budget should accelerate renegotiation of the BITs with economic partners. This could help attract FDI, particularly if coupled with reinforcing the network of double taxation avoidance agreements and simplification of approval procedures for investments from land-bordering countries. Relaxing inflow CFMs, such as the recent lifting of FDI limits for the space industry and their elimination for the insurance sector proposed in the draft budget can help promote FDI as well. Going forward, India can play a greater role in strengthening the WTO-based multilateral trading system and promoting trade openness, including in e-commerce, services, and dispute settlement.

**41. Industrial policies cannot substitute for horizontal reforms.** Production Linked Incentives (PLIs)—which reward incremental production in 14 selected industries (with a total fiscal outlay of 0.1 percent of GDP between 2022/23 and 2024/25)—have successfully attracted investments and boosted production in a few industries such as electronics manufacturing. However, given the sheer number of new entrants into the labor market each year, the PLIs will not be sufficient to create the jobs needed to absorb the growing labor force. In addition, the fiscal costs per job created are substantial.<sup>15</sup> PSL could promote access to credit and financial inclusion but also have opportunity costs with less than fully efficient allocation of capital (¶32). Moreover, increasing import tariffs is unlikely to deliver competitive producers that can efficiently add value and create jobs. While some targeted, time-bound, cost-effective, and transparent industrial policy measures may address market failures, they are no substitute for horizontal reforms discussed above.

**42. India has made significant progress in emission intensity reduction and renewable energy deployment, and policy efforts should continue to enhance climate action.** India is among the largest emitters of greenhouse gases globally, though per capita emissions are well below the G20 EM average (Figure 8). India is on track to meet its targets for the 2030 NDC with currently announced policies.<sup>16</sup> The expected rollout of the Carbon Credit Trading Scheme (CCTS) in

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<sup>15</sup> Calculating the estimated cost based on the committed amount of subsidies (over 4-5 years) for PLIs and the authorities' projections for direct and indirect jobs to be created would result in a cost per created job above India's annual per capita GDP.

<sup>16</sup> India's targets for 2030 NDCs, updated in 2022, include reducing emissions intensity by 45 percent by 2030 compared with 2005 and increasing the share of installed electricity capacity from non-fossil-fuel sources to 50 percent by 2030.

2025/26 is a welcome and important step towards net zero emissions.<sup>17</sup> For the CCTS to be effective, the emission intensity targets should be appropriately tight to raise the effective carbon price. Emission monitoring and auditing should ensure transparency and efficiency, complemented with capacity building for the obligated entities. The sectoral coverage should be broadened over time. Regarding renewable energy, on the back of various programs promoting power generation, storage, and integration into the grid, India surpassed the milestone of 200 GW in installed renewable energy capacity in 2024, with ambitions to reach 500 GW by 2030. Continuing the expansion of renewable energy will depend on addressing potential challenges related to grid capacity, land acquisition, and supply chain vulnerability, requiring continued targeted public support.

**43. Additional policies are needed to achieve India's target of net zero emissions by 2070 while safeguarding economic development.** Over the longer run, measures to raise the effective carbon price on a broad scale would facilitate the deep abatement required to reach net zero emissions. Policy choices can alleviate the economic costs incurred by mitigation measures with a mix of policies including subsidies for renewables, a higher coal tax, and a carbon tax, which in combination is less distortionary than tax-financed renewable subsidies alone.<sup>18</sup> Such a policy scenario would also imply a substantial reduction in pollution-related deaths and coal imports.

**44. Together with a balanced climate policy framework, greater access to concessional financing and technology are critical for India to address climate adaptation needs and accelerate the energy transition.** India is highly exposed to climate-change-related hazards, due to its dense population, large agricultural sector, and geography. In addition to mitigation policies, a carefully designed climate strategy should include continued adaptation policies focusing on extreme weather events and resilience-building in agriculture and water resource management. Enhanced financial sector supervision of transition risks stemming from the coal-dependent power sector is also needed to guide a just and orderly transition.<sup>19</sup> To minimize potential displacement of workers in conventional energy sectors over the longer term, social safety nets can be strengthened, with targeted reskilling schemes to support labor market flexibility. Finally, external concessional financing and technological transfer remain critical for India to meet the substantial investment needs of energy transition and climate adaptation.<sup>20</sup>

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<sup>17</sup> The CCTS includes a compliance mechanism, with unit-level emissions intensity targets and carbon credit trading, and a voluntary mechanism for carbon offset. The compliance mechanism will subsume the existing performance standard scheme on energy consumption (Perform, Achieve, and Trade; PAT) for obligated entities in sectors including aluminum, cement, chlor-alkali, fertilizer, iron and steel, pulp and paper, textile, petrol-chemical, and petrol-refinery (see [Detailed Procedure for Compliance Procedure under CCTS](#)). Buildings, DISCOMs, railways, sugar, and thermal power plants will remain under PAT.

<sup>18</sup> See Box 4 of [India: 2022 Article IV Consultation-Staff Report](#).

<sup>19</sup> See the 2024 FSAP.

<sup>20</sup> [India's Initial Adaptation Communication to UNFCCC](#) (2023) estimates the cumulative adaptation cost in a business-as-usual scenario at 56.7 trillion rupees (19 percent of 2023/24 GDP) through 2030, and [India's Long-Term Low-Carbon Development Strategy | UNFCCC](#) (2022) cites a cumulative cost of 85.6 trillion rupees in 2011-12 prices (49 percent of 2023/24 GDP) through 2030.

**45. Improving the quality, availability, and timeliness of macroeconomic and financial statistics would support policy formulation** (see Annex XV). Overall, India's official statistics, while having some shortcomings, are broadly adequate for surveillance. Areas for improvement include:

- Methodological upgrades in the GDP compilation are in progress as part of the national accounts benchmark revision. These include the update of the base year, improvement of volume estimates by minimizing the use of single deflation, expanding the use of volume extrapolation, relying on producer price indices to the extent possible, and incorporating regularly key data sources such as the annual survey of the unincorporated sector. These forthcoming methodological improvements are expected to contribute to increasing the accuracy of the measurement of GDP by mitigating over- or underestimating economic activity due to, for example, the use of an outdated structure of relative prices. The CPI weights and items basket will also be updated to better reflect current consumption patterns, based on the 2022-23 household consumption expenditure survey. Going forward, regular benchmark revisions of national accounts, prices, and other key statistics should be conducted according to international best practices (see Annex XVI).
- The provision of quarterly data on rural employment and monthly data on urban employment, beginning in early 2025, will provide timely information on labor market dynamics. Priority should be given to conducting the population census, last completed in 2011/12, given its importance in ensuring that surveys remain representative.
- Other areas for improvement include the timely provision of consolidated general government fiscal accounts and expanding the available data on NBFCs.

### ***Authorities' Views***

**46. The authorities stressed the key role of structural reforms in fostering inclusive growth and noted ongoing efforts.** They highlighted ongoing work with states to notify the new labor codes in the period ahead and noted ongoing initiatives to raise female labor force participation. They emphasized the importance of enhancing education quality while highlighting the potential of employment-linked incentives to facilitate matching between workers and firms. While reaffirming India's strong appeal to FDI and portfolio investment and underscoring steady gross FDI inflows, they attributed reduced net FDI flows to geoeconomic fragmentation, friendshoring, and profit taking on existing investments given favorable asset valuations. Drawing on experiences of several other countries, they did not see India's currently measured expansion of bilateral investment treaties as a material constraint on FDI. Highlighting progress in FTA discussions and food export liberalization, they noted that India's trade policy has relied largely on tariff measures, which are more objective and transparent than non-tariff restrictions. The authorities stressed that participation in additional regional trade agreements would depend on their potential to cater to India's growth and development needs while securing the welfare of its citizens.

**47. The authorities emphasized that India has made significant progress in emission intensity reduction and renewable energy adoption.** They reiterated that climate mitigation

responsibilities should be in accordance with the UNFCCC and its Paris Agreement, and assigned equitably based on the principle of equity and common but differentiated responsibilities and respective capabilities (CBDR-RC) in light of different national circumstances, considering factors such as per-capita emissions, income level, and historical emissions. On the CCTS, the authorities emphasized that the coverage should be in sync with the nationally determined transition pathway and take into account proportionality if small and medium enterprises are brought under coverage. More broadly, the authorities noted the considerable challenges faced by India in its efforts to develop the economy while enhancing its contributions to global emission reduction. They stressed that international support in terms of concessional finance and technology transfer is critical for India to advance mitigation policies and address developmental priorities. The authorities also expressed concern that climate finance commitments and contributions to global emissions reduction by advanced economies fall short of the needs of a just transition for developing countries.

**48. The authorities highlighted ongoing efforts to improve macroeconomic statistics.** They stressed their efforts under way to update the national accounts and CPI methodologies, with new series expected to be launched in early 2026. Given these developments, they felt that staff's Data Adequacy Assessment for Surveillance would warrant more favorable ratings, especially for the national accounts and CPI coverage. Further engagement with IMF capacity development is being planned in the context of the national accounts and CPI update projects (Annex XVII).

## STAFF APPRAISAL

**49. India's economy remains resilient with inflation moving closer to the target, supported by prudent macroeconomic policies.** While growth softened in the second quarter of the fiscal year, it is expected to rebound in the second half, contingent on a continued recovery in private consumption and catch-up in public capital expenditure. Following monetary policy tightening during May 2022–February 2023, headline inflation has declined on average though remains volatile due to food price fluctuations. India's external position is moderately stronger than that implied by medium-term fundamentals and desirable policies. Post-COVID fiscal consolidation, coupled with an increase in capital expenditure, has been welcome. The central government has adhered to its fiscal deficit targets, enhancing credibility. Looking ahead, there is a need to continue rebuilding fiscal buffers, create more and better jobs, and invigorate private investment.

**50. An ambitious and well-designed medium-term fiscal consolidation path is needed to rebuild buffers and support growth-enhancing expenditure.** Given development needs and tax potential, a revenue-based medium-term consolidation strategy comprising GST reform, reversal of earlier excise tax cuts, and further broadening of the income tax base is recommended. Together with expenditure prioritization, such as better targeting of subsidies, this can create space for growth-enhancing expenditure on infrastructure and health.

**51. The adoption of debt as a medium-term fiscal anchor is welcome and can be supported by further guidance regarding the adjustment path.** In laying out India's medium-

term fiscal objectives, the debt anchor should include state government debt, and a fiscal deficit path for the Union and states can be used as an operational guide for their respective annual budget processes. A revamped Fiscal Responsibility and Budget Management Act should include medium-term projections of key macroeconomic variables, the fiscal deficit, and its composition in the budget to provide guidance and enhance transparency, while escape clauses can provide flexibility for fiscal policy to respond to large shocks.

**52. With inflation likely to converge to target and a broadly closed output gap, there should be opportunities for gradual monetary policy rate cuts, with timing and pace remaining data dependent.** Uncertainties with respect to the evolving inflation-growth dynamic underscore the need for monetary policy to remain nimble, reacting to incoming data and evolving projections. That said, in absence of further food price shocks, a well-communicated, gradual reduction of the policy rate to broadly neutral levels would be appropriate.

**53. In line with the Integrated Policy Framework, exchange rate flexibility can act as an important shock absorber.** Given India's relatively low foreign exchange (FX) mismatch, well-anchored inflation expectations, and a generally deep FX market, the flexible inflation targeting framework should be supported by greater exchange rate flexibility. This would reduce the need for costly precautionary FX reserves, promote FX market development, prevent moral hazard by encouraging firms to hedge, and increase market liquidity. Foreign exchange intervention can be used as a complementary tool during periods of global financial stress leading to destabilizing premia in the context of shallow FX markets.

**54. The current environment of manageable systemic financial sector risks provides a favorable setting for further strengthening of financial resilience, as noted in the 2024 FSSA.** Concentrated lending exposures among some large NBFCs could constitute a pocket of vulnerability. Unsecured personal credit growth has slowed, though some risks from the previous surge in borrowing, alongside persistently high lending growth by some institutions, warrant close monitoring. Expanding borrower-based macroprudential measures, such as debt-service-to-income limits, to all household loans would complement existing measures to facilitate a sustainable credit expansion. Long-term financial sector resilience would benefit from efforts to improve the oversight framework, strengthen the autonomy of key financial regulators, reduce the regulatory gap between state-owned and private sector financial institutions, and improve the crisis response toolkit.

**55. India's strong economic performance provides an opportunity to advance challenging and critical structural reforms.** Achieving India's ambition of becoming an advanced economy by 2047 requires implementing wide-ranging structural reforms to improve India's competitiveness, reinvigorate private investment, and support job creation.

**56. Labor market reforms and measures to enhance human capital are critical for job-rich growth.** Steadfast implementation of the new labor codes, requiring cooperation between center and states, is needed to enhance labor market flexibility and ease constraints keeping firms inefficiently small, while providing adequate social protection for workers. Building on recent policy initiatives to support female labor force participation, legal obstacles to female employment should

be removed, and policies should ensure that women can participate safely in the labor force, while support for childcare facilities should be further expanded. Improving the quality of education and skilling, reinforcing health and nutrition, and providing effective social safety nets can enable India to fully leverage its demographic dividend.

**57. Deeper trade integration and easing of business conditions would spur private investment and attract FDI.** Piecemeal incentives and trade restrictions are no substitute for horizontal reforms, such as factor and product market reforms. Building on the announced tariff reductions in the 2025/26 Union Budget, reducing trade restrictions and accelerating the opening of export markets through FTAs would help promote external trade and facilitate integration in GVCs. Improving the ease of doing business and providing strong policy frameworks to foster a stable environment for firms and households would support investment. Measures include improving the judicial capacity and efficiency of the insolvency and bankruptcy framework, strengthening credit markets by reducing the public sector footprint and allowing credit to flow freely across sectors, streamlining business regulations by cutting bureaucratic procedures and administrative requirements, improving governance, and continuing with anti-corruption efforts.

**58. A balanced climate policy framework alongside greater access to concessional financing and technology, is needed to achieve net zero emissions by 2070.** Significant progress has been made in climate mitigation through policies promoting renewable energy and energy efficiency, and the expected rollout of the Carbon Credit Trading Scheme (CCTS) in 2025/26 is welcome. Over the longer run, measures to raise the effective carbon price on a broad scale can facilitate the deep abatement required to reach net zero emissions, while policy choices can alleviate the economic costs incurred by mitigation measures. Carefully designed mitigation and adaptation policies, alongside greater access to external concessional financing and technological transfer, remain critical for India to address climate vulnerabilities and support its energy transition.

**59. Improving the quality, availability, and timeliness of macroeconomic and financial statistics would support policy formulation.** While data are broadly adequate for surveillance, there are opportunities for improvement. Continued efforts to improve data quality, particularly in the national accounts, are welcome, with a view to enhancing data transparency and supporting policy making.

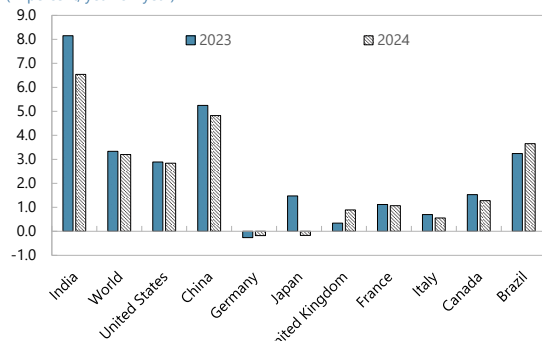
**60. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

**Figure 1. India: Recent Macroeconomic Developments**

*India remains the fastest-growing major economy.*

### Real GDP Growth

(In percent, year-on-year)

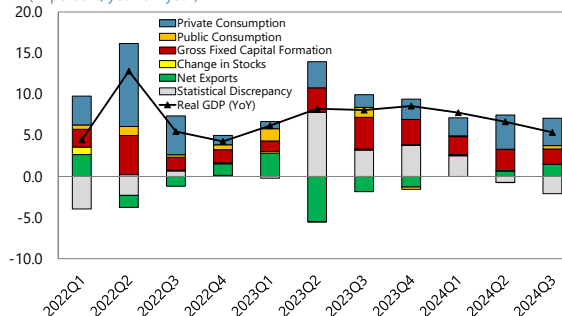


Sources: IMF, *World Economic Outlook*, January 2025; and IMF staff calculations.

*Private consumption has started to pick up.*

### Contribution to Real GDP Growth

(In percent, year-on-year)



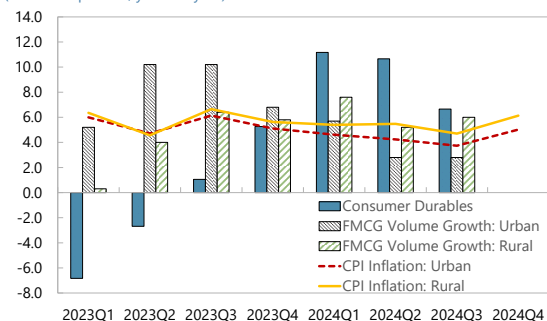
Sources: Haver Analytics; and IMF staff estimates.

Note: Data is presented in calendar year format (e.g. 2024Q3 = Q2 of FY2024/25).

*Consumer durables and rural demand are recovering,...*

### Consumption and Inflation

(Growth in percent, year-on-year)



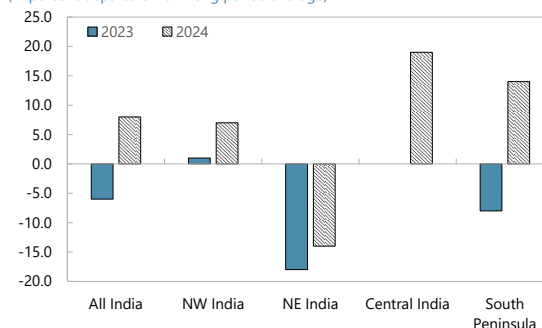
Sources: Haver Analytics; Nielson IQ; and IMF staff calculations.

Note: FMCG = Fast Moving Consumer Goods.

*...with the latter likely supported by the favorable monsoon this year.*

### Monsoon Rainfall

(In percent departure from long period average)

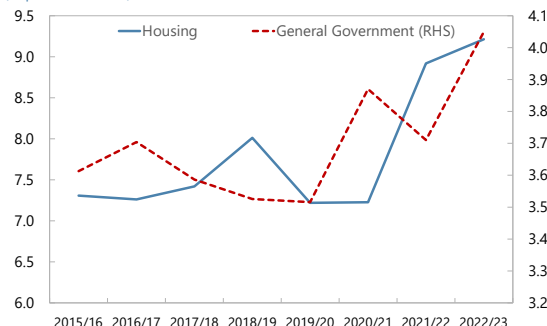


Source: India Meteorological Department.

*Investment growth has been led by general government capital expenditure and housing...*

### Gross Fixed Capital Formation

(In percent of GDP)

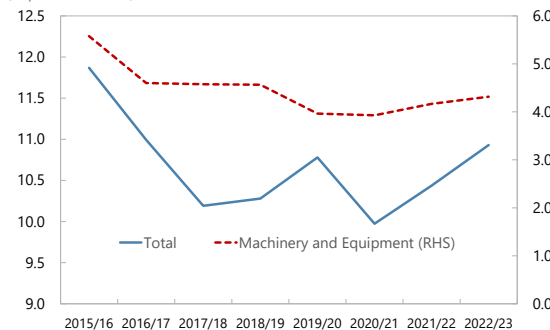


Source: MoSPI.

*... whereas private corporate investment has been less dynamic, especially in machinery and equipment.*

### Private Corporate Gross Fixed Capital Formation

(In percent of GDP)



Source: MoSPI.

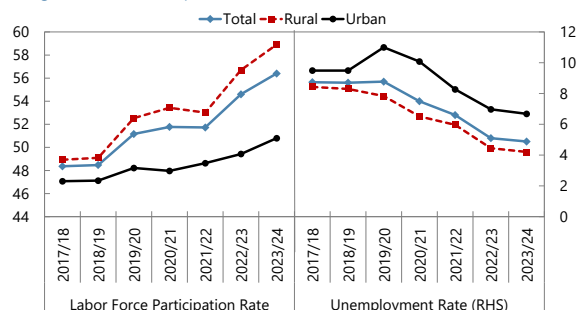


**Figure 2. India: Labor Market Developments**

Headline labor market indicators continue to improve, ...

### Headline Labor Market Indicators in India

(Aged 15 and above, in percent)

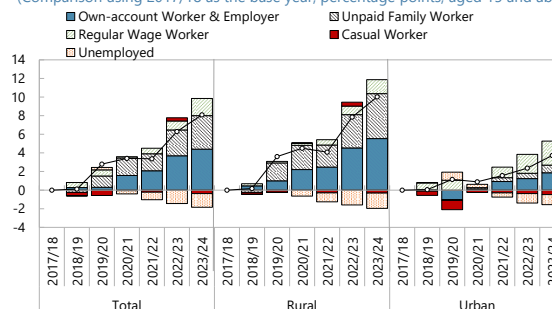


Sources: PLFS; and IMF staff estimates.  
Note: Based on current weekly status.

... mostly driven by self-employment (own-account and unpaid family workers).

### Cumulative Change in LFPR by Employment Status

(Comparison using 2017/18 as the base year, percentage points, aged 15 and above)

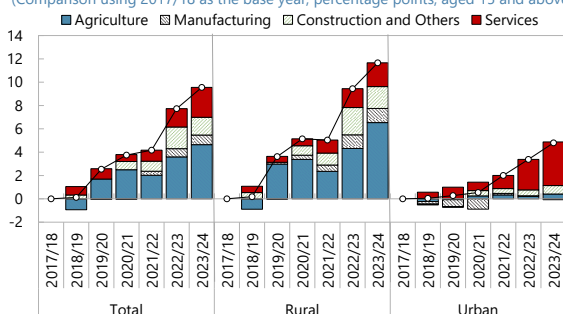


Sources: PLFS; and IMF staff estimates.  
Note: Based on current weekly status. Breakdown excludes self-employed who did not work during the reference week.

Employment has risen the most in agriculture.

### Cumulative Change in Employment Rate by Sector

(Comparison using 2017/18 as the base year, percentage points, aged 15 and above)

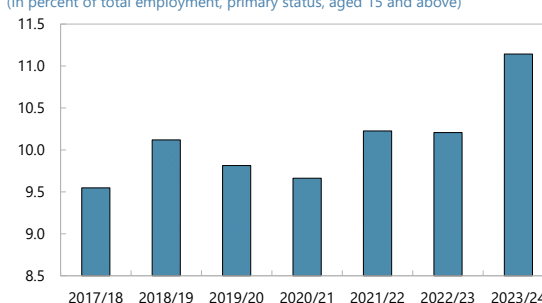


Sources: PLFS; and IMF staff estimates.  
Note: Based on current weekly status.

Formal employment is expanding from a low base...

### Formal Employment

(In percent of total employment, primary status, aged 15 and above)

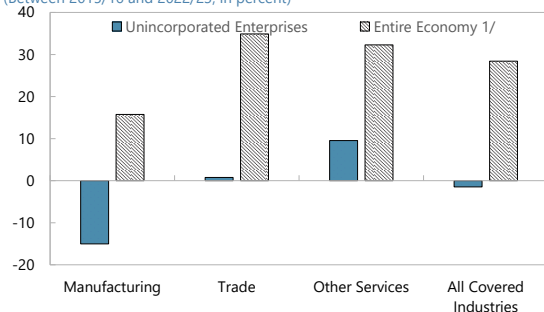


Sources: PLFS; and IMF staff estimates.  
Note: Based on current weekly status. Formal employment defined based on eligibility for social security benefits.

... as informal sector employment is slowly shrinking, even in absolute terms.

### Employment Growth

(Between 2015/16 and 2022/23, in percent)

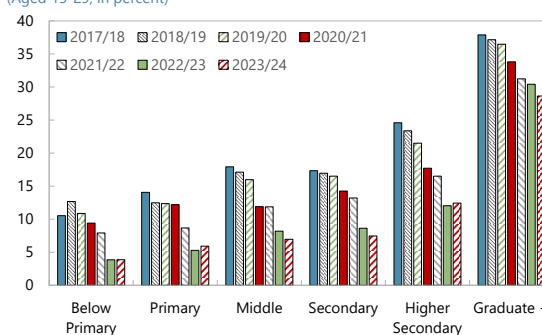


Sources: ASUSE 2022/23 and 2015/16; and RBI's KLEMS database.  
1/ including employment by all productive units in the economy as captured by the RBI's KLEMS dataset

Youth unemployment remains high for the most educated but has declined significantly.

### Youth Unemployment

(Aged 15-29, in percent)



Sources: PLFS; and IMF staff estimates.  
Note: Based on current weekly status.

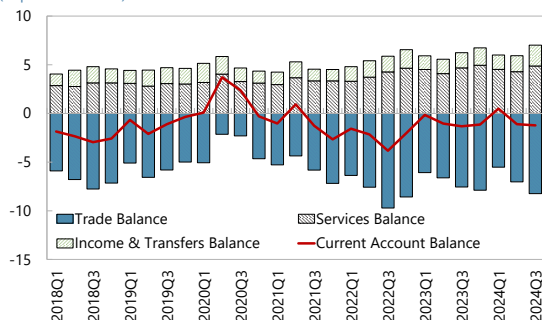


### Figure 3. India: External Sector Developments

The current account balance has been contained in recent quarters...

#### Current Account Balance 1/

(In percent of GDP)



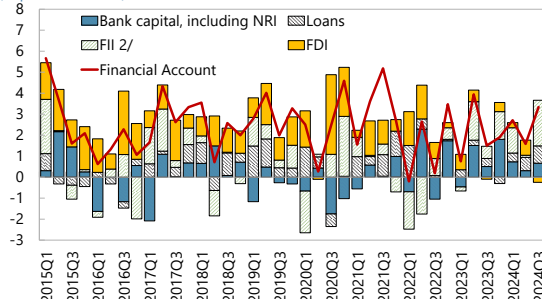
Sources: Haver Analytics; and IMF staff calculations.

1/ Data is presented in calendar year format, where 2020Q4 = Dec-20.

The financial account remained in surplus despite subdued net FDI flows, ...

#### Financial Account (BPM5 Presentation) 1/

(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

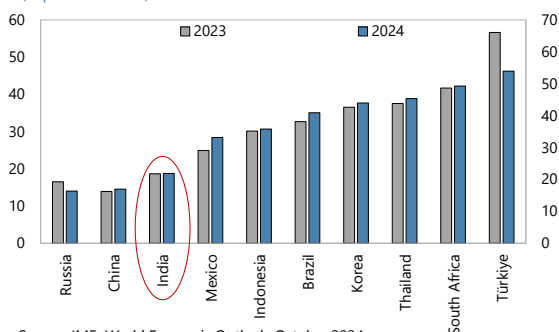
1/ Data is presented in calendar year format, where 2020Q4 = Dec-20.

2/ FII = Foreign Institutional Investor.

India's external debt is relatively low compared to peers

#### Total External Debt

(In percent of GDP)

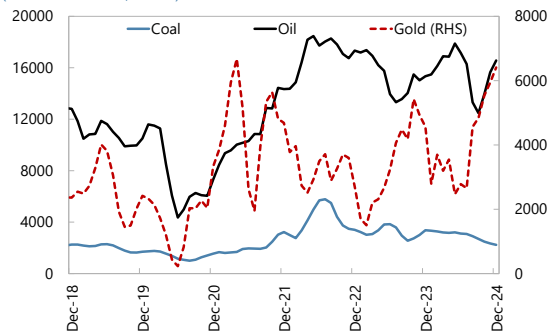


Source: IMF, World Economic Outlook, October 2024.

... as oil and coal import costs remained stable or declined, but gold imports increased.

#### Imports: Main Commodities

(In millions of USD, 3mma)

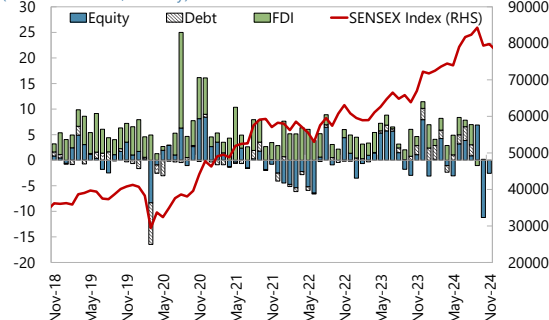


Sources: Haver Analytics; and IMF staff calculations.

... in part supported by portfolio investment inflows into debt instruments in the context of bond index inclusion.

#### FII Flows (Equity and Debt) and FDI

(In billions of USD, monthly)



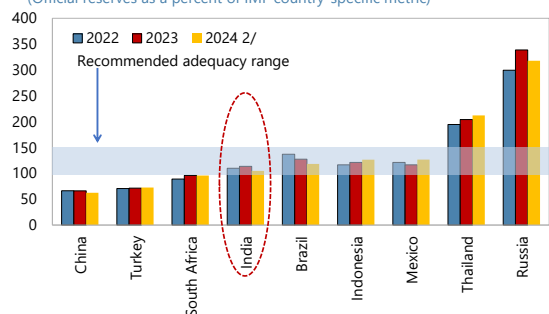
Sources: CEIC; and Haver Analytics.

Note: FII = Foreign Institutional Investor.

Adequate FX reserves mitigate external vulnerabilities.

#### Estimated Reserve Adequacy 1/

(Official reserves as a percent of IMF country-specific metric)



Sources: IMF, International Financial Statistics; and IMF staff calculations.

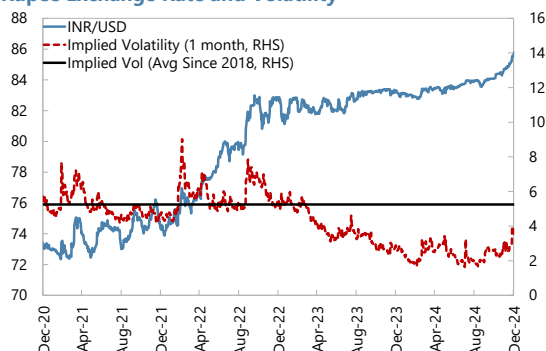
1/ Data is presented in calendar year format.

2/ Estimates for 2024.

**Figure 4. India: Financial Market Developments**

*The rupee has traded within a narrow range against USD, though volatility has increased recently.*

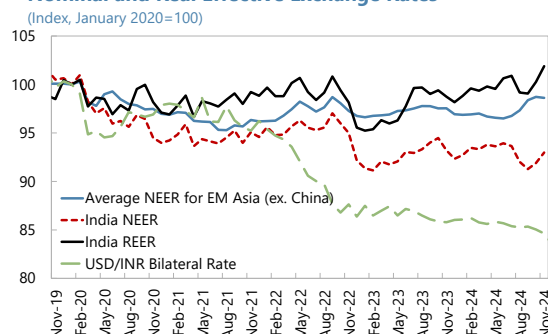
#### Rupee Exchange Rate and Volatility



Sources: Bloomberg; and IMF staff calculations.

*The rupee's real effective exchange rate has remained broadly stable.*

#### Nominal and Real Effective Exchange Rates

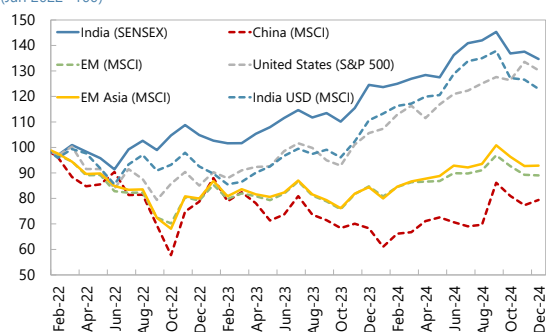


Sources: IMF, Information Notice System; Haver Analytics; and IMF staff calculations.

*India has been one of the best performing major equity markets in the world, ...*

#### Stock Market Indices

(Jan 2022=100)

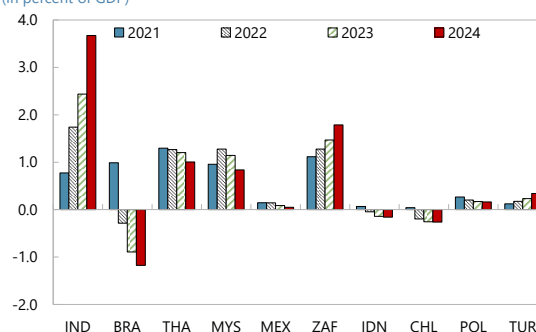


Sources: Thomson Reuters EIKON; and IMF staff calculations.

*... supported by large domestic fund inflows.*

#### Cumulative Equity Fund Inflows

(In percent of GDP)

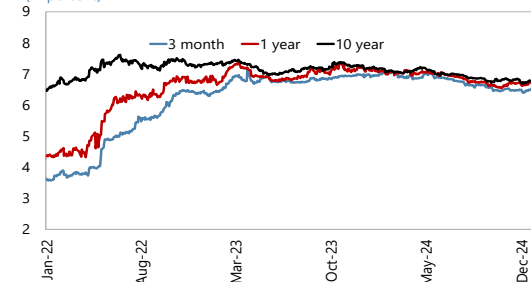


Sources: LSEG Lipper; and IMF staff calculations.

*Government bond yields have trended lower amid expectations of policy easing ...*

#### Government Bond Yields

(In percent)

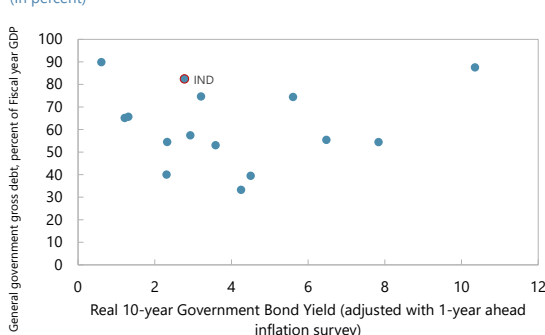


Sources: Thomson Reuters EIKON; and IMF staff calculations.

*... and compare favorably to peer emerging markets considering the stock of government debt.*

#### 10-year Government Bond Yields, December 2024

(In percent)



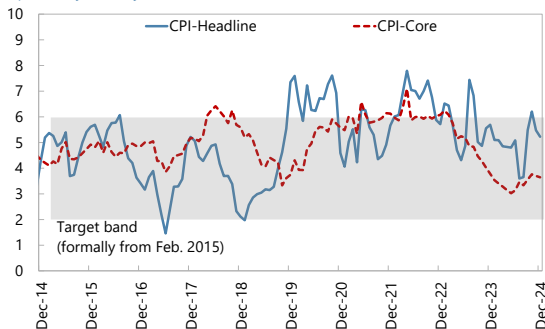
Sources: Bloomberg; IMF, World Economic Outlook, October 2024; and IMF staff calculations.

**Figure 5. India: Inflation and Monetary Developments**

*Inflation has returned to the target range ...*

#### Inflation

(In percent, year-on-year)

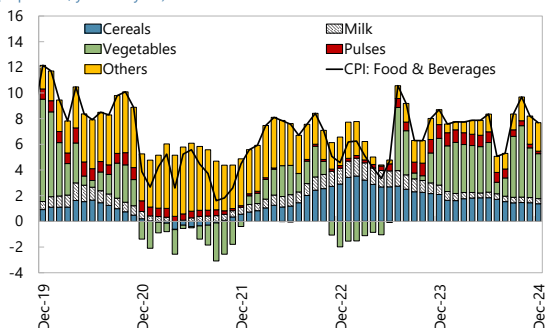


Sources: Haver Analytics; and IMF staff calculations.

*Food prices remain volatile, largely reflecting strong fluctuations in vegetable prices.*

#### CPI Food Inflation Contributions

(In percent, year-on-year)

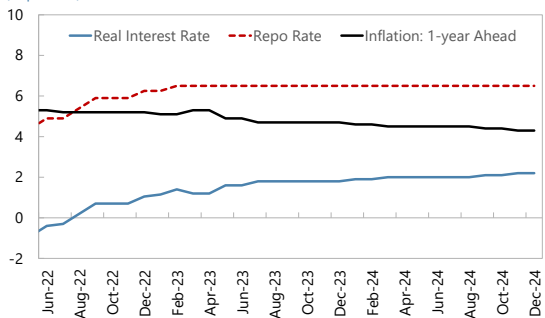


Sources: Haver Analytics; and IMF staff calculations.

*With declining inflation, the real policy interest rate has been rising.*

#### Interest Rates and Inflation

(In percent)

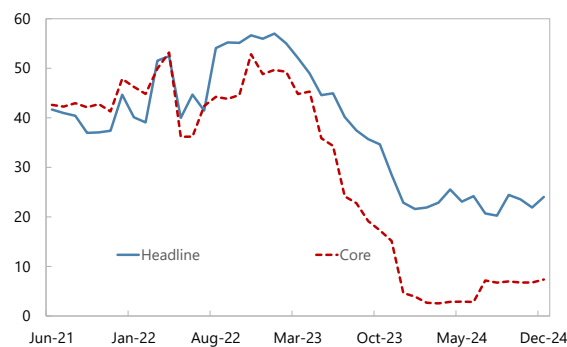


Sources: Haver analytics; and IMF staff calculations.

Note: Real Interest Rate = Repo Rate - 1-year Ahead Inflation.

*...with the shares of CPI basket items above the tolerance band having declined significantly.*

#### Percentage of CPI with Increases Greater than 6 Percent

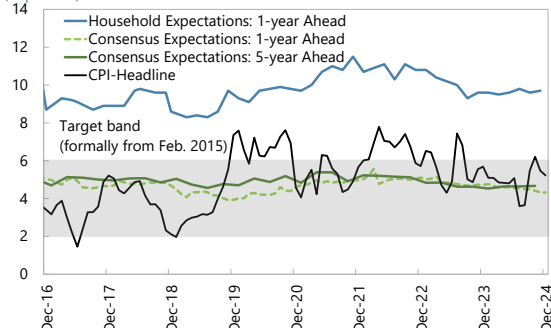


Sources: Haver Analytics; and IMF staff calculations.

*Inflation expectations remain well anchored.*

#### Inflation Expectations

(In percent)

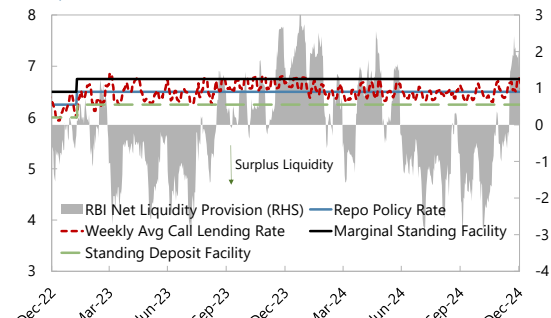


Sources: Haver Analytics; and Consensus Economics.

*Liquidity tightened in late 2024, with effective overnight rates moving higher.*

#### RBI Interest Rates and Net Liquidity Provision

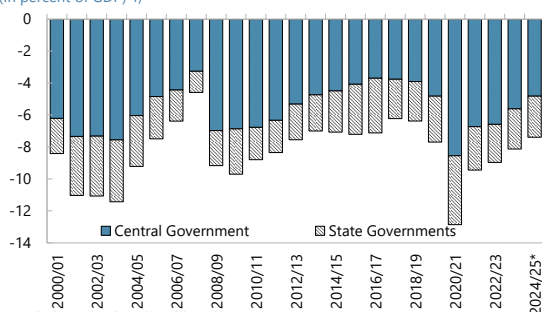
(LHS: in percent, RHS: INR trillions)



Sources: Bloomberg; and IMF staff calculations.

**Figure 6. India: Fiscal Sector Developments***Fiscal consolidation continues...***Government Balance**

(In percent of GDP) 1/



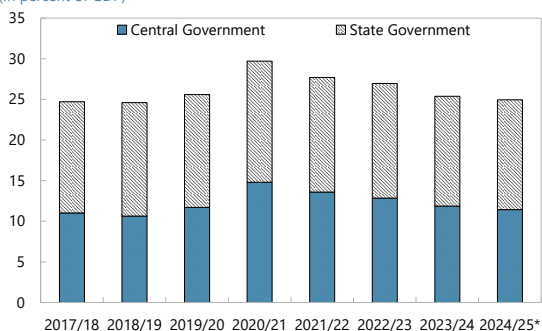
1/ Includes subsidy-related bond issuance.

Sources: Haver Analytics; and IMF staff data.

\*IMF staff estimates.

*... and restraint in central government recurrent expenditure.***Government Recurrent Expenditure**

(In percent of GDP)



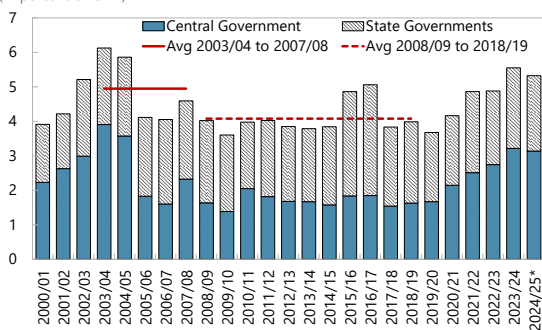
2017/18 2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25\*

Sources: Ministry of Finance; and IMF staff calculations.

\*IMF staff estimates.

*General government capex has increased in recent years, partly offset by a reduction in SOE capex.***Capital Spending**

(In percent of GDP)

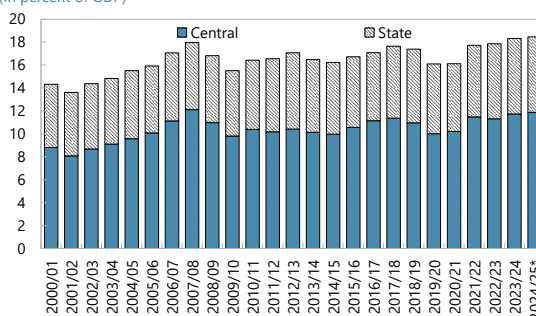


Sources: Haver Analytics; and IMF staff data.

\*IMF staff estimates.

*...supported by buoyant revenues...***Government Tax Revenue**

(In percent of GDP)

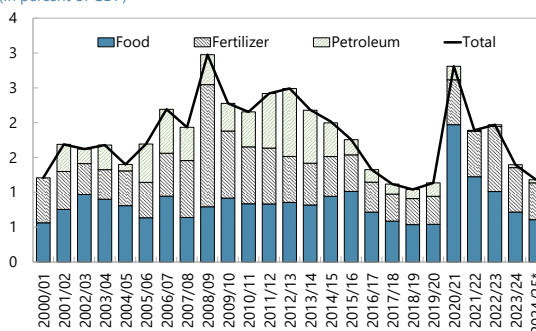


Source: IMF staff data.

\*IMF staff estimates.

*Moderating of some commodity prices have also driven a narrowing of the subsidy bill.***Central Government Subsidies**

(In percent of GDP)

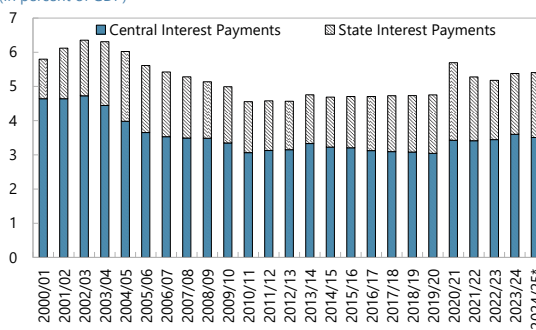


Source: IMF staff data.

\*IMF staff estimates.

*Interest payments remain elevated at around 30 percent of tax revenue.***Interest Payments**

(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

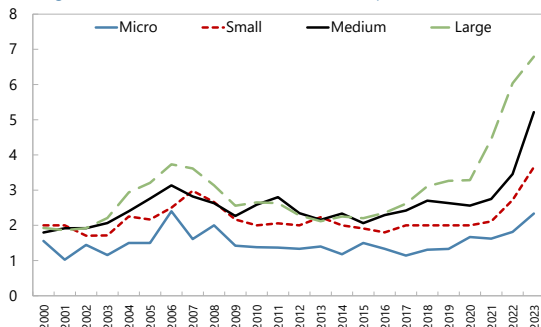
\*IMF staff estimates.

**Figure 7. India: Corporate and Banking Sectors Developments**

Interest coverage ratios for nonfinancial corporates have continued to trend higher.

#### Interest Coverage Ratio

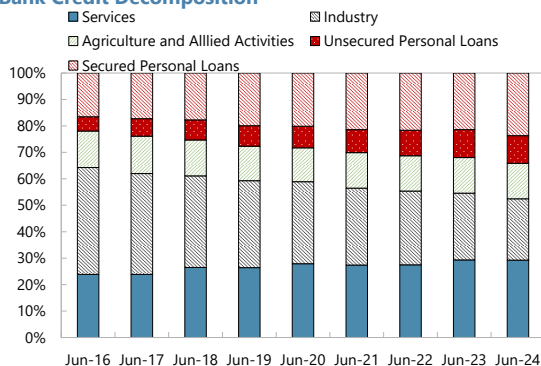
(Earnings before Interest and Taxes (EBIT) to Interest Expenses, median)



Sources: CMIE Prowess; and IMF staff calculations.

Shares of services and personal loans have grown, while those for loans to industry has declined.

#### Bank Credit Decomposition

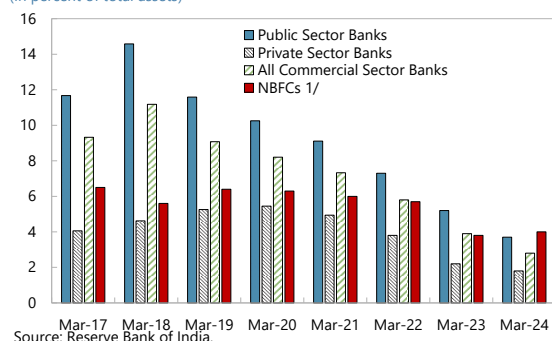


Sources: CEIC; and IMF staff calculations.

Nonperforming asset ratios have declined across most financial institutions...

#### Non-Performing Assets of Financial Institutions

(In percent of total assets)



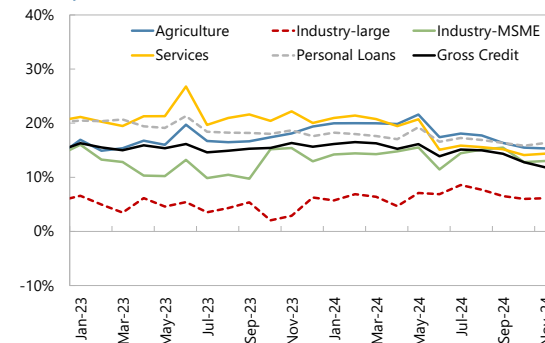
Source: Reserve Bank of India.

1/ excluding core investment companies

Bank credit growth has decelerated but averaged 14.8 percent from January to November 2024.

#### Credit Growth by Sector

(Year-on-year)

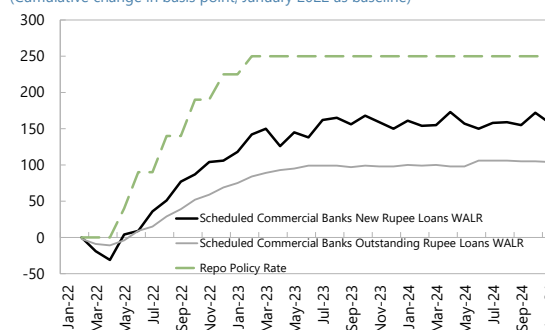


Sources: Reserve Bank of India; and IMF staff calculations.

Bank lending rates have remained steady over the past few months.

#### Bank Lending Rates

(Cumulative change in basis point, January 2022 as baseline)

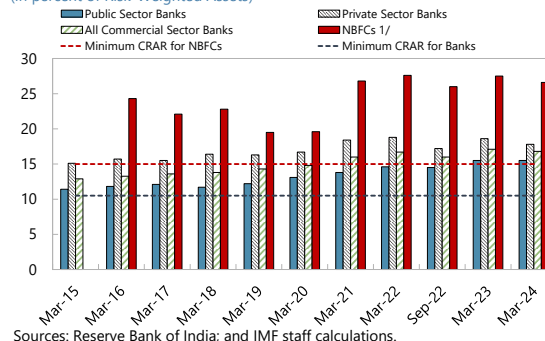


Sources: Haver Analytics; Bloomberg; and IMF staff calculations.

...while capital buffers were broadly steady and well above regulatory minimums.

#### Capital Adequacy Ratio of Financial Institutions

(In percent of Risk-Weighted Assets)



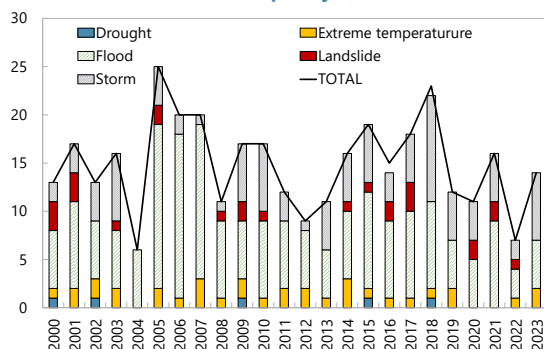
Sources: Reserve Bank of India; and IMF staff calculations.

1/ excluding core investment companies

**Figure 8. India: Climate Developments**

India is highly vulnerable to climate-related natural hazards.

#### Climate-related Disaster Frequency

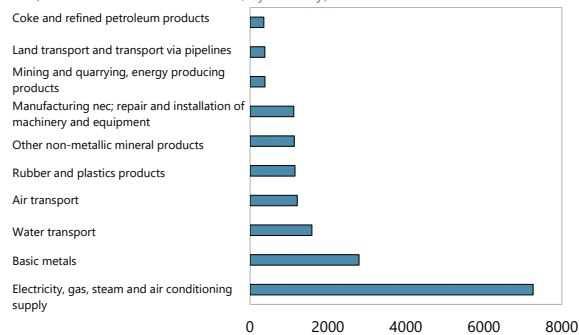


Sources: IMF, *Climate Change Indicators Dashboard*; CRED / UCLouvain, *EM-DAT*.

India's energy sector, largely coal-powered, has high emissions intensity.

#### CO2 Emissions Intensity in 2018

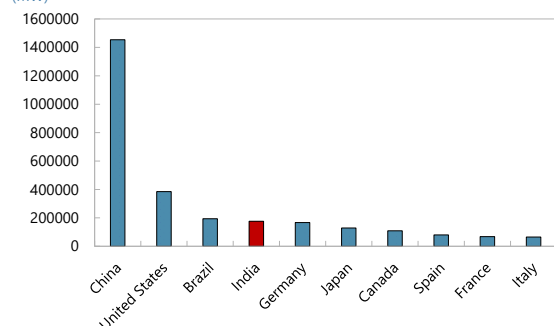
(Millions of Metric tons of CO<sub>2</sub>, by industry)



Sources: IMF, *Climate Change Indicators Dashboard*; OECD.

...and it ranks fourth in renewable energy power capacity around the world as of 2023.

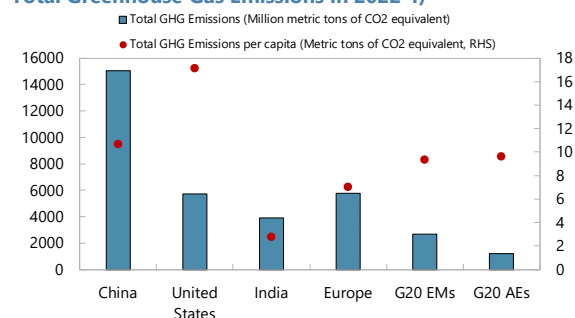
#### Installed Renewable Energy Electricity Capacity by Country



Source: International Renewable Energy Agency (IRENA).

While India is one of the largest GHG emitters in the world, its per capita emissions are low.

#### Total Greenhouse Gas Emissions in 2022 1/

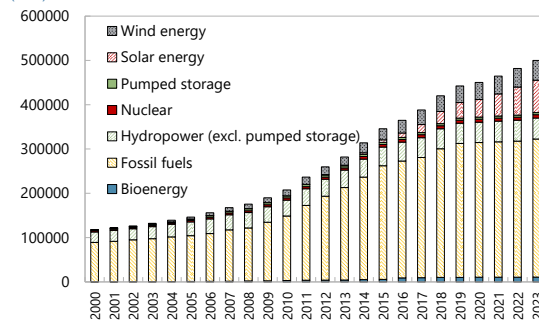


Sources: IMF, *Climate Change Indicators Dashboard*; UNFCCC; EDGARv7.0; EU; FAO; IMF, *World Economic Outlook*, July 2024; and IMF staff calculations.  
1/ GHG Emissions include land-use, land-use change and forestry.  
G20 EM and G20 AE are simple averages, excluding EU and including Spain.

While fossil fuels remain the dominant energy source, India has made significant progress in renewable energy...

#### Electricity Installed Capacity by Technology

(MW)

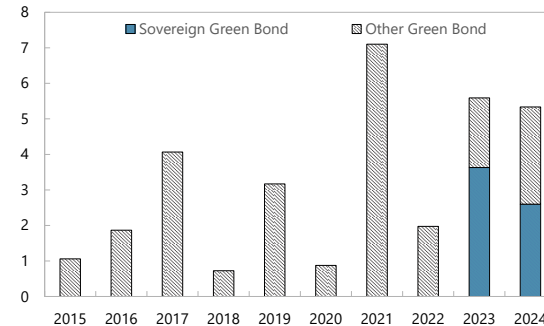


Sources: IMF, *Climate Change Indicators Dashboard*; Country authorities; International Renewable Energy Agency (IRENA), *Renewable Energy Statistics* 2024.

With most of its climate finance from domestic sources, India started issuing sovereign green bonds in 2023.

#### Green Bond Issuances

(In USD billions)



Sources: Bloomberg; and IMF staff calculations.

**Table 1. India: Selected Social and Economic Indicators, 2020/21–2025/26 1/**

I. Social Indicators						
<b>GDP (2022/23)</b>						
Nominal GDP (in billions of U.S. dollars):	3,353					
GDP per capita (U.S. dollars) (IMF staff est.):	2,348					
<b>Population characteristics (2022/23)</b>						
Total (in billions):	1.42					
Urban population (percent of total):	35.9					
Life expectancy at birth (years):	67.7					
<b>Poverty (percent of population)</b>						
Poverty rate \$2.15 a day (2021):					12.9	
Undernourished (2021)					16.6	
<b>Income distribution (2021, WDI)</b>						
Richest 10 percent of households:					25.5	
Poorest 20 percent of households:					8.0	
Gini index:					32.8	
II. Economic Indicators						
	2020/21	2021/22	2022/23	2023/24 Est.	2024/25 Projections	2025/26 Projections
Growth (in percent)						
Real GDP (at market prices)	-5.8	9.7	7.0	8.2	6.5	6.5
Prices (percent change, period average)						
Consumer prices - Combined	6.2	5.5	6.7	5.4	4.8	4.3
Saving and investment (percent of GDP)						
Gross saving 2/	29.8	30.9	31.0	32.6	32.7	32.2
Gross investment 2/	28.9	32.1	33.0	33.3	33.6	33.5
Fiscal position (percent of GDP) 3/						
Central government overall balance	-8.5	-6.7	-6.6	-5.6	-4.8	-4.5
General government overall balance	-12.9	-9.4	-9.0	-8.1	-7.4	-7.0
General government debt 4/	88.4	83.5	82.0	82.7	82.7	81.4
Cyclically adjusted balance (% of potential GDP)	-7.6	-7.7	-8.4	-8.2	-7.4	-7.1
Cyclically adjusted primary balance (% of potential GDP)	-2.5	-2.6	-3.3	-2.8	-2.0	-1.6
Money and credit (y/y percent change, end-period)						
Broad money	12.2	8.8	9.0	11.1	10.0	10.9
Domestic Credit	9.5	9.0	13.1	12.0	11.2	11.9
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	3.3	3.8	6.7	7.0	...	...
10-year government bond yield (end-period)	6.3	6.9	7.3	7.1	...	...
Stock market (y/y percent change, end-period)	68.0	18.3	0.7	24.9	...	...
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	296.3	429.2	456.1	441.4	443.3	458.7
(Annual percent change)	-7.5	44.8	6.3	-3.2	0.4	3.5
Merchandise imports (in billions of U.S. dollars)	398.5	618.6	721.4	686.3	728.8	768.6
(Annual percent change)	-16.6	55.3	16.6	-4.9	6.2	5.5
Terms of trade (G&S, annual percent change)	2.0	-8.7	-2.7	3.2	-1.3	0.2
Balance of payments (in billions of U.S. dollars)						
Current account balance	24.0	-38.7	-67.0	-26.0	-34.7	-53.8
(In percent of GDP)	0.9	-1.2	-2.0	-0.7	-0.9	-1.3
Foreign direct investment, net ("-" signifies inflow)	-44.0	-38.6	-28.0	-10.1	1.9	-6.4
Portfolio investment, net (equity and debt, "-" = inflow)	-36.1	16.8	5.2	-44.1	-4.6	-20.4
Overall balance ("+" signifies balance of payments surplus)	87.3	47.5	-9.1	63.7	2.8	25.0
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	577.0	607.3	578.4	646.4	649.2	674.2
(In months of next year's imports (goods and services))	9.0	8.1	8.0	8.3	7.9	7.8
External debt (in billions of U.S. dollars, end-period)	573.7	619.1	624.1	668.9	726.5	787.3
External debt (percent of GDP, end-period)	21.4	19.5	18.6	18.7	18.9	18.6
Of which: Short-term debt	9.5	8.5	8.2	8.1	8.3	8.1
Ratio of gross reserves to short-term debt (end-period)	2.3	2.3	2.1	2.2	2.0	1.9
Real effective exchange rate (annual avg. percent change)	-0.8	0.3	-0.3	0.3	...	...
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-9.2	-6.7	-6.5	-5.6	-4.8	-4.4

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Data are for April–March fiscal years.

2/ Differs from official data, calculated with gross investment and current account. Gross investment includes errors and omissions.

3/ Divestment and license auction proceeds treated as below-the-line financing.

4/ Includes combined domestic liabilities of the center and the states, and external debt at year-end exchange rates.

**Table 2. India: Balance of Payments, 2020/21–2025/26 1/**  
(In billions of U.S. dollars)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
					Projections	
	(In billions of U.S. dollars)					
Current account balance	24.0	-38.7	-67.0	-26.0	-34.7	-53.8
Merchandise trade balance	-102.2	-189.5	-265.3	-244.9	-285.5	-309.9
Merchandise exports	296.3	429.2	456.1	441.4	443.3	458.7
Merchandise imports	398.5	618.6	721.4	686.3	728.8	768.6
Oil	82.7	161.8	209.4	178.7	181.3	178.8
Non-oil	315.8	456.8	511.9	507.6	547.5	589.9
Services balance	88.6	107.5	143.3	162.8	179.7	193.6
Credit	206.1	254.5	325.3	341.1	380.3	407.3
<i>Of which</i> : Software Services	100.0	122.1	146.8	160.3	...	...
Debit	117.5	147.0	182.0	178.3	200.7	213.7
Primary income balance, net	-36.0	-37.3	-45.9	-49.8	-44.2	-63.3
Secondary income balance, net	73.6	80.5	100.9	105.9	115.4	125.8
Capital and Financial account balance	23.7	-38.2	-68.0	-25.7	-34.7	-53.8
Direct investment, net	-44.0	-38.6	-28.0	-10.1	1.9	-6.4
<i>Of which</i> : Net incurrence of liabilities	54.9	56.2	42.0	26.8	21.1	27.6
Portfolio investment, net	-36.1	16.8	5.2	-44.1	-4.6	-20.4
Financial derivatives, net	4.8	6.4	5.4	7.9	16.7	17.5
Other Investment, net	11.7	-70.3	-41.4	-43.1	-51.5	-69.6
Reserve Assets, net	87.3	47.5	-9.1	63.7	2.8	25.0
Errors and omissions	-0.3	0.5	-1.0	0.3	0.0	0.0
Overall balance 2/	-87.3	-47.5	9.1	-63.7	-2.8	-25.0
Valuation changes 3/	11.9	-17.2	-19.7	4.3	0.0	0.0
Increase in gross reserve stock (including valuation changes)	99.2	30.3	-28.9	68.0	2.8	25.0
Memorandum items:						
Foreign exchange reserves	577.0	607.3	578.4	646.4	649.2	674.2
In months of next year's imports (goods and services)	9.0	8.1	8.0	8.3	7.9	7.8
Current account balance (percent of GDP)	0.9	-1.2	-2.0	-0.7	-0.9	-1.3
Merchandise trade balance (percent of GDP)	-3.8	-6.0	-7.9	-6.9	-7.4	-7.3
Direct investment in India (percent of GDP)	2.1	1.8	1.3	0.8	0.6	0.6
Overall balance (percent of GDP)	-3.3	-1.5	0.3	-1.8	-0.1	-0.6
Gold imports (billions of U.S. dollars)	34.6	46.2	35.0	45.5	...	...
Gross domestic product (billions of U.S. dollars)	2,675	3,167	3,353	3,568	3,843	4,243

Sources: CEIC Data Company Ltd; Haver Analytics; and IMF staff estimates and projections.  
1/ Data are for April-March fiscal years, based on BPM6, including sign conventions.  
2/ Negative sign "-" signifies balance of payments surplus.  
3/ Calculated as difference between the change in the stock of reserves and the overall balance of BOP.



**Table 3. India: Reserve Money and Monetary Survey, 2020/21–October 2024/25 1/**

	2020/21	2021/22	2022/23	2023/24	2024/25 October
<b>Reserve money</b> (In billions of rupees, end-period)					
Reserve money	34,902	39,203	43,135	46,823	47,388
Net domestic assets of RBI	-7,092	-5,222	-2,738	-5,585	-8,914
Claims on government (net)	9,821	11,772	12,017	11,346	10,601
Center	10,963	14,490	14,504	11,867	11,091
States	-1,143	-2,718	-2,487	-521	-489
Claims on commercial sector	85	101	204	145	108
Claims on banks	-3,768	-4,995	672	499	-576
Other items (net)	-13,230	-12,099	-15,630	-17,574	-19,047
Net foreign assets of RBI	41,994	44,425	45,874	52,408	56,302
Reserve money	14.2	12.3	10.0	8.5	9.0
Net domestic assets of RBI	-5.8	5.4	6.3	-6.6	-12.7
Claims on government (net)	-3.7	5.6	0.6	-1.6	2.2
Net foreign assets of RBI	19.9	7.0	3.7	15.1	21.7
<b>Monetary survey</b> (In billions of rupees, end-period)					
Broad money (M3)	188,446	204,937	223,438	248,316	262,167
Currency with public	27,518	30,357	32,764	34,103	34,152
Deposits	160,454	173,996	189,896	213,268	227,032
Non-bank deposits at RBI	474	584	778	945	983
Net domestic assets	142,657	156,397	174,320	192,644	202,198
Domestic credit	175,188	190,941	215,952	241,842	254,019
Net credit to government	58,504	64,776	71,655	75,120	78,623
Of which: RBI	10,997	14,506	14,511	11,932	11,324
Credit to commercial sector	116,685	126,165	144,296	166,721	175,396
Of which: Bank credit (excluding RBI)	116,598	126,000	144,031	166,577	175,304
Other items (net)	-32,531	-34,545	-41,632	-49,198	-51,821
Net foreign assets	45,788	48,541	49,118	55,672	59,969
(Twelve-month percent change)					
Broad money (M3)	12.2	8.8	9.0	11.1	11.1
Net domestic assets	9.7	9.6	11.5	10.5	8.9
Domestic credit	9.5	9.0	13.1	12.0	11.1
Net credit to government	17.9	10.7	10.6	4.8	8.2
of which: RBI	10.8	-6.6	0.0	-17.8	11.2
Credit to commercial sector	5.7	8.1	14.4	15.5	12.4
Of which: Bank credit (excluding RBI)	5.8	8.1	14.3	15.7	12.4
Net foreign assets	20.5	6.0	1.2	13.3	18.8

Sources: CEIC Data Company Ltd.; Reserve Bank of India WSS; IMF, *International Financial Statistics*; and IMF staff calculations.

1/ Data are for April–March fiscal years, unless indicated otherwise.

**Table 4. India: Central Government Operations, 2020/21–2025/26 1/**

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Projections					
	(In percent of GDP)					
<b>Revenue</b>	<b>8.4</b>	<b>9.4</b>	<b>9.0</b>	<b>9.5</b>	<b>9.7</b>	<b>9.7</b>
Taxes 2/	7.2	7.7	7.8	7.9	7.9	7.9
Income tax	4.8	6.0	6.2	6.6	6.9	6.8
GST	2.8	3.0	3.2	3.2	3.3	3.3
Excise tax	2.0	1.7	1.2	1.0	0.9	0.9
Customs duties	0.7	0.8	0.8	0.8	0.7	0.7
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Less: States' share	3.0	3.8	3.5	3.8	3.9	3.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue 3/	1.2	1.7	1.2	1.5	1.8	1.8
Property income	0.6	0.8	0.5	0.7	1.0	1.0
Sale of goods and services	0.2	0.2	0.2	0.2	0.2	0.2
Miscellaneous and unidentified revenue	0.5	0.8	0.6	0.6	0.6	0.6
<b>Expenditure</b>	<b>17.0</b>	<b>16.1</b>	<b>15.6</b>	<b>15.1</b>	<b>14.6</b>	<b>14.2</b>
<b>Expense 4/</b>	<b>14.8</b>	<b>13.6</b>	<b>12.8</b>	<b>11.9</b>	<b>11.4</b>	<b>11.1</b>
Compensation of employees 5/	1.1	1.1	1.0	1.0	1.0	1.0
Interest	3.4	3.4	3.4	3.6	3.5	3.5
Subsidies 6/	2.8	1.9	2.0	1.4	1.2	1.1
Food 7/	2.0	1.2	1.0	0.7	0.6	0.6
Fertilizer	0.6	0.7	0.9	0.6	0.5	0.5
Petroleum	0.2	0.0	0.0	0.0	0.0	0.0
Grants and other expense	7.4	7.2	6.4	5.9	5.7	5.5
Grants	2.9	3.3	3.0	2.5	2.4	2.4
Other expense 8/	4.5	4.0	3.4	3.4	3.3	3.1
<b>Net acquisition of nonfinancial assets 9/</b>	<b>2.1</b>	<b>2.5</b>	<b>2.7</b>	<b>3.2</b>	<b>3.1</b>	<b>3.1</b>
Net acquisition of nonfinancial assets	2.1	2.5	2.7	3.2	3.1	3.1
Gross Operating Balance	-6.4	-4.2	-3.8	-2.4	-1.7	-1.4
<b>Net lending / borrowing (overall balance)</b>	<b>-8.5</b>	<b>-6.7</b>	<b>-6.6</b>	<b>-5.6</b>	<b>-4.8</b>	<b>-4.5</b>
<b>Memorandum items:</b>						
Balance under authorities' definition 10/	-9.2	-6.7	-6.5	-5.6	-4.8	-4.4
Central government debt 11/	62.1	59.2	58.1	58.9	57.3	56.0

Sources: Data provided by the Indian authorities; and IMF staff estimates and projections.

1/ Data for April - March fiscal years.

2/ Net tax revenue, defined as gross tax revenue collected by the central government minus state governments' share.

3/ Auctions for wireless spectrum are classified as non-tax revenues.

4/ Includes the surcharge on Union duties transferred to the National Calamity Contingency Fund.

5/ Pensions are included under expense not otherwise classified.

6/ Includes subsidy-related bond issuance.

7/ Starting in FY2020/21, includes food subsidies covered by the Food Corporation of India. For FY2020/21, excludes retroactive payment to Food Corporation of India for previous years' food subsidy bill.

8/ Other expense includes purchases of goods and services.

9/ Includes loans to states for capital expenditure

10/ Includes asset sales in receipts, and excludes certain non-tax revenue items. Includes the retroactive payment to Food corporation of India for previous years' food subsidy bill.

11/ Central government debt includes SDR, and for FY2021/22 reflects the additional SDR allocation of about 0.6 percent of GDP.

Table 5. India: General Government Operations, 2020/21–2025/26 1/

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
				Est.	Projections	
	(In percent of GDP)					
Revenue	18.2	20.4	20.1	20.9	21.3	21.2
Taxes	16.1	17.7	17.9	18.3	18.5	18.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.7	2.2	2.6	2.8	2.9
Expenditure	31.0	29.9	29.0	29.0	28.7	28.2
Expense	26.9	25.0	24.2	23.5	23.4	22.8
of which: interest	5.7	5.3	5.2	5.4	5.4	5.5
Net acquisition of nonfinancial assets	4.2	4.9	4.9	5.6	5.3	5.4
Gross Operating Balance	-8.7	-4.6	-4.1	-2.6	-2.1	-1.6
Net lending (+)/borrowing (-) (fiscal balance)	-12.9	-9.4	-9.0	-8.1	-7.4	-7.0
Net financial worth, transactions	-12.9	-9.4	-9.0	-8.1	-7.4	-7.0
Net acquisition of financial assets	-1.8	-2.4	-1.1	-0.7	-0.4	-0.5
Domestic	-1.8	-2.4	-1.1	-0.7	-0.4	-0.5
Currency and deposits	-2.7	-2.5	-1.5	-1.5	-1.3	-1.2
Loans	1.0	0.2	0.6	0.9	0.9	0.8
Equity and investment fund shares	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Net incurrence of liabilities	11.0	7.1	7.9	7.4	6.9	6.6
Domestic	10.7	6.9	7.8	7.2	6.8	6.5
Debt securities	9.5	6.3	5.5	5.4	4.6	4.4
Other accounts payable	1.1	0.6	2.3	1.8	2.2	2.1
Foreign	0.4	0.2	0.1	0.2	0.1	0.1
Loans	0.4	0.2	0.1	0.2	0.1	0.1
Memorandum items:						
Primary balance	-7.2	-4.2	-3.8	-2.7	-2.0	-1.6
Nondefence capital expenditure	3.5	4.2	4.3	5.0	4.8	4.9
State and union territory governments' balance 2/	-4.2	-2.8	-2.7	-2.9	-2.9	-2.9
General government debt 3/	88.4	83.5	82.0	82.7	82.7	81.4
Nominal GDP in billions of Rupees	198,541	235,974	269,497	295,357	324,528	360,183

Sources: Data provided by the Indian authorities; state level data from the RBI Study on State Finances; and IMF staff estimates and projections.

1/ The consolidated general government comprises the central government (CG) and state governments. It does not include lower tiers of government (districts, municipalities), contrary to GFSM 2014 standards. Data for April-March fiscal years.

2/ The authorities treat states' divestment proceeds, including land sales, above-the-line as miscellaneous capital receipts. IMF staff definition treats divestment receipts as a below-the-line financing item.

3/ Includes combined domestic liabilities of CG and states governments, inclusive of MSS bonds, and sovereign external debt at year-end exchange rates. For FY2021/22 reflects the additional SDR allocation of about 0.6 percent of GDP.

**Table 6. India: Macroeconomic Framework, 2020/21–2029/30 1/**

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				Est.	Projections					
Growth (percent change)										
Real GDP (at market prices)	-5.8	9.7	7.0	8.2	6.5	6.5	6.5	6.5	6.5	6.5
Potential GDP	2.3	3.0	4.5	6.3	6.5	6.5	6.5	6.5	6.5	6.5
Output gap (in percent of potential GDP)	-9.8	-3.9	-1.6	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Prices (percent change, period average)										
Consumer prices	6.2	5.5	6.7	5.4	4.8	4.3	4.1	4.0	4.0	4.0
Saving and investment (percent of GDP)										
Gross saving 2/	29.8	30.9	31.0	32.6	32.7	32.2	31.8	31.4	30.9	30.5
Gross investment 3/	28.9	32.1	33.0	33.3	33.6	33.5	33.3	33.0	32.8	32.6
Money and credit (y/y percent change, end-period)										
Broad money	12.2	8.8	9.0	11.1	10.0	10.9	10.7	10.7	10.7	10.8
Bank credit to the private sector	5.7	8.1	14.4	15.5	13.0	13.5	11.7	11.6	12.0	12.2
Fiscal position (percent of GDP)										
Central government balance 4/	-8.5	-6.7	-6.6	-5.6	-4.8	-4.5	-4.6	-4.4	-4.2	-4.0
General government balance 4/	-12.9	-9.4	-9.0	-8.1	-7.4	-7.0	-7.3	-7.2	-7.0	-6.8
General government debt 5/	88.4	83.5	82.0	82.7	82.7	81.4	80.6	79.8	79.0	78.0
External trade (percent change, balance of payments basis)										
Merchandise exports (in U.S. dollars terms)	-7.5	44.8	6.3	-3.2	0.4	3.5	3.5	3.7	4.4	4.0
Merchandise imports (in U.S. dollars terms)	-16.6	55.3	16.6	-4.9	6.2	5.5	6.2	6.6	7.4	7.2
Balance of payments (in billions of U.S. dollars, BMP6 (including sign conventions))										
Current account balance	24.0	-38.7	-67.0	-26.0	-34.7	-53.8	-68.2	-84.2	-104.8	-127.1
(in percent of GDP)	0.9	-1.2	-2.0	-0.7	-0.9	-1.3	-1.5	-1.6	-1.8	-2.0
Foreign direct investment, net ("-" sign is net FDI inflow)	-44.0	-38.6	-28.0	-10.1	1.9	-6.4	-16.4	-28.3	-42.5	-59.3
Portfolio investment, net ("-" sign denotes capital inflow)	-36.1	16.8	5.2	-44.1	-4.6	-20.4	-33.7	-37.1	-40.8	-45.0
Overall balance ("+" sign denotes surplus)	87.3	47.5	-9.1	63.7	2.8	25.0	46.9	53.7	59.3	67.1
External indicators										
Gross reserves (in billions of U.S. dollars, end-period)	577.0	607.3	578.4	646.4	649.2	674.2	721.1	774.9	834.2	901.2
(in months of imports) 6/	9.0	8.1	8.0	8.3	7.9	7.8	7.8	7.8	7.8	7.9
External debt (in billions of U.S. dollars, end-period)	573.7	619.1	624.1	668.9	726.5	787.3	856.1	934.0	1,021.9	1,120.9
External debt (percent of GDP, end-period)	21.4	19.5	18.6	18.7	18.9	18.6	18.3	18.1	18.0	18.0
Of which: short-term debt 7/	9.5	8.5	8.2	8.1	8.3	8.1	8.1	8.0	7.9	7.9
Ratio of gross reserves to short-term debt (end-period) 7/	2.3	2.3	2.1	2.2	2.0	1.9	1.9	1.9	1.9	1.8
GDP in billions of U.S. dollars	2,675	3,167	3,353	3,568	3,843	4,243	4,674	5,149	5,670	6,243

Sources: Data provided by the Indian authorities; CEIC Data Company Ltd; and IMF staff estimates and projections.

1/ Data are for April–March fiscal years unless otherwise mentioned.

2/ Differs from official data, calculated with gross investment and current account.

3/ Statistical discrepancy adjusted.

4/ Divestment and license auction proceeds are treated as financing; includes subsidy related bond issuance.

5/ Includes combined domestic liabilities of the center and the states, inclusive of MSS bonds, and sovereign external debt at year-end exchange rates.

6/ Imports of goods and services projected over the following twelve months.

7/ Short-term debt on residual maturity basis.

Table 7. India: Financial Soundness Indicators, 2019/20–2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
(In percent, unless indicated otherwise)					
<b>I. Scheduled commercial banks</b>					
<b>Risk-weighted capital adequacy ratio (CAR)</b>	<b>14.8</b>	<b>16.3</b>	<b>16.8</b>	<b>17.2</b>	<b>16.8</b>
Public sector banks	12.9	14.0	14.6	15.5	15.5
Private sector banks	16.5	18.4	18.8	18.6	17.8
Foreign banks	17.7	19.5	19.8	19.8	18.5
<b>Number of institutions not meeting 9 percent CAR</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Public sector banks	1	0	0	0	0
Private sector banks	1	1	0	0	0
Foreign banks	0	0	0	0	0
<b>Net nonperforming assets (percent of outstanding net advances) 1/</b>	<b>2.8</b>	<b>2.4</b>	<b>1.7</b>	<b>1.0</b>	<b>0.6</b>
Public sector banks	3.8	3.1	2.2	1.2	0.8
Private sector banks	1.5	1.4	1.0	0.6	0.5
Foreign banks	0.5	0.6	0.7	0.3	0.2
<b>Gross nonperforming assets (percent of outstanding advances)</b>	<b>8.2</b>	<b>7.3</b>	<b>5.8</b>	<b>3.9</b>	<b>2.8</b>
Public sector banks	10.3	9.1	7.3	5.0	3.7
Private sector banks	5.5	4.9	3.8	2.3	1.8
Foreign banks	2.3	2.4	2.9	1.9	1.2
<b>Return on assets 2/</b>	<b>0.1</b>	<b>0.7</b>	<b>0.9</b>	<b>1.2</b>	<b>1.3</b>
Public sector banks	-0.3	0.3	0.5	0.8	0.9
Private sector banks	0.4	1.1	1.4	1.6	1.8
Foreign banks	1.5	1.6	1.4	2.0	1.6
<b>Balance sheet structure of all scheduled commercial banks</b>					
Total assets (in percent of GDP)	88.6	98.6	91.9	90.2	95.1
Credit-to-deposit ratio	78.1	73.1	74.3	77.4	80.3
Government securities/total assets	20.1	22.6	22.5	22.6	22.4
Liquid assets/total assets 3/	22.1	27.1	23.7	24.2	22.7
Liquid assets/short-term liabilities 4/	76.5	81.1	68.6	72.5	69.4
<b>II. Non-Banking Financial Companies 5/</b>					
Total assets (in percent of GDP)	16.6	17.7	15.8	16.2	17.2
Risk-weighted capital adequacy ratio (CAR)	23.7	25.0	26.8	27.5	26.6
Gross nonperforming assets (percent of outstanding advances)	6.8	6.4	6.3	4.3	4.0
Net nonperforming assets (percent of outstanding net advances) 1/	3.4	2.7	2.3	1.3	1.1
Return on assets 2/	1.3	1.2	1.6	2.4	3.3

Sources: RBI; Bankscope; IMF, *Financial Soundness Indicators*; and IMF staff estimates.

1/ Gross nonperforming assets less provisions.

2/ Net profit (+)/loss (-) in percent of total assets.

3/ Reflect calendar year.

4/ Data for 2023/24 is as of 2023Q4.

5/ As of July 31, 2022, there were 9640 NBFCs, where 49 were deposit taking (NBFCs-D), and 415 systemically non-deposit taking NBFCs (NBFCs-ND-SI).

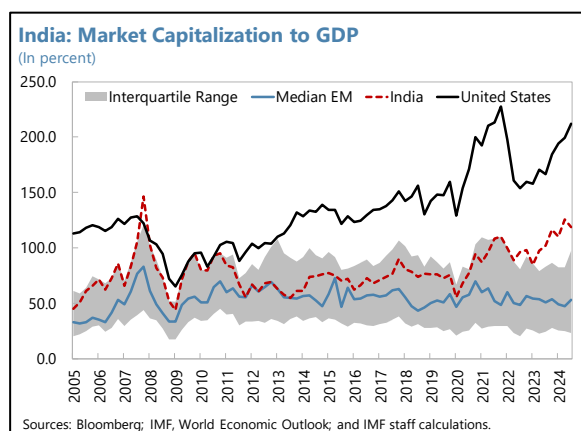
## Annex I. Uptake of Previous IMF Advice

1. **Policies have largely been aligned with staff recommendations, though challenges remain.** Fiscal and monetary policy stances, along with macroprudential policies, have been broadly consistent with staff advice. That said, some external sector policies have deviated from staff's advice, and challenges remain in some structural reform areas.
2. **The RBI's monetary policy stance has been appropriate.** The RBI has maintained its strong commitment to align inflation with the target. The RBI's transparent communications regarding the monetary policy stance have continued to guide market expectations.
3. **The consolidation in the 2024/25 and 2025/26 budgets is broadly in line with staff advice.** The focus on infrastructure, employment, factor market reforms and streamlining regulations is welcome. The authorities' aim of continuing to reduce central government debt as a percent of GDP is a step in the right direction. However, more is needed for a complete medium-term fiscal framework in line with staff's advice. Fiscal transparency has improved through the release of data on the liabilities of two large state-owned enterprises, the National Highways Authority of India and the Indian Railway Finance Corporation. The bulk of the funds that were previously mobilized by these enterprises have been brought on-budget, further improving transparency.
4. **Financial sector policies have been responsive to emerging vulnerabilities.** Rapid growth in unsecured personal lending prompted the RBI to increase risk weights for this segment, in line with staff advice. Similarly, risk weights were also increased for bank lending to NBFCs, as borrowing from banks increased to historic highs. There has been some progress on improving governance of PSBs and committing additional resources to speed up the insolvency resolution process. Other priorities, including passing a bank resolution law and fully implementing supervisory standards in line with IFRS9 have lagged.
5. **India has increasingly aligned its external trade and FX policies with staff's advice.** Food export restrictions introduced in 2022–23 have been removed or relaxed. In early February 2025, the authorities simplified and lowered import tariffs for various industrial goods and medicines. The rupee's exchange rate flexibility has increased in recent months. However, significant FXI has continued in periods outside of disorderly market conditions, potentially impeding the exchange rate's role as an absorber of external shocks.
6. **Despite some progress in structural reform implementation, important reform initiatives continue to face challenges.** Recent initiatives to address skill mismatches through upgrading training institutes and other skilling programs are aligned with staff advice. Sub-national governments have been provided with financial incentives to update and digitize land registers, which can support well-functioning land markets, despite limited progress in broader land reforms. Consistent with staff advice, the authorities have committed to set up creches and women-specific skilling programs to help narrow gender gaps in the labor market. The planned rollout of the CCTS with emission intensity targets for obligated entities is welcome. However, there has been limited progress on agricultural and labor market reforms, and privatization efforts, including of PSBs, have stalled.

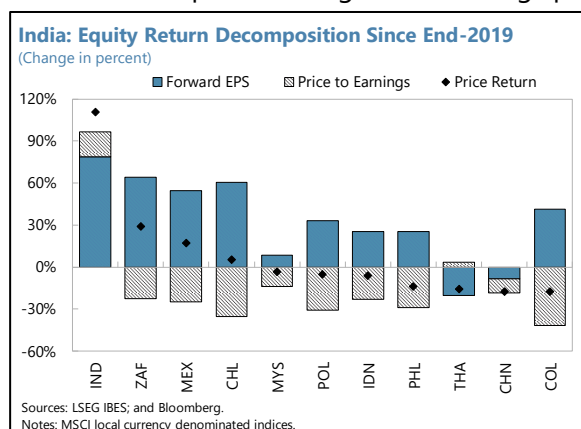
## Annex II. Indian Stock Market, Household Assets, and the Economy<sup>1</sup>

India's domestic market capitalization has grown rapidly in recent years, bolstered by strong economic growth, corporate earnings, and an expanding domestic investor base. Retail investors have increasingly entered into options markets, with total turnover increasing rapidly. This warrants ongoing monitoring for any potentially emerging stability risks and continued focus on consumer protection.

**1. India has the 4<sup>th</sup> largest stock market in the world with a market capitalization of over \$4 trillion.** It is one of the few countries where the market capitalization is above 100 percent of GDP. India became the second largest member of the MSCI Emerging Markets Index in August 2024, nearly doubling its weight since 2021. Indian equities now provide close to 4 percent of global market capitalization. India's equity market accounted for nearly 40 percent of EM equity offerings in 2024 (in U.S. dollar terms), up from 6 percent during 2010–2020.<sup>2</sup> From 2021 through 2024, the MSCI India Index returned 78 percent (52 percent in dollar terms), compared to -17 percent for the EM MSCI Index, and 57 percent for the S&P500.



**2. Earnings growth, corporate recovery, and declining equity risk premia have boosted returns.** Indian nominal GDP has outpaced most global economies in recent years, and while historical cross-country market returns have only a loose relationship with GDP growth, earnings per share in India have grown considerably faster than most peer EMs since 2019.<sup>3</sup> In contrast to the last decade, when corporate earnings failed to keep pace with economic growth amid twin balance sheet problems, trailing and 12-month forward EPS expanded faster than nominal GDP in 2021–23. Corporate profits as a share of GDP increased from an average of 2.1 percent of GDP in 2015–2019 to 4.1 percent in 2023, supported by corporate tax cuts in 2019. Valuations—measured

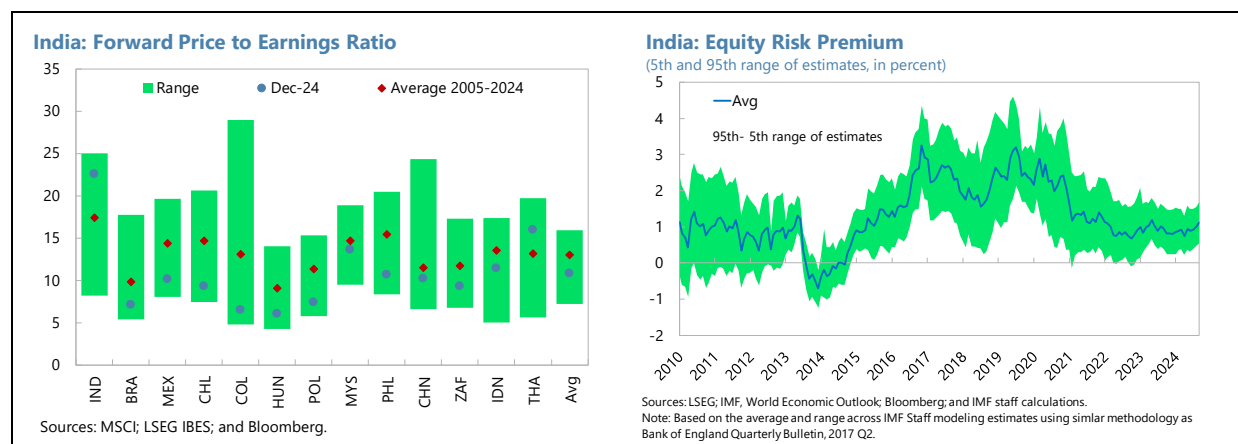


<sup>1</sup> Prepared by Patrick Schneider (MCM), with assistance from Harrison Kraus (MCM).

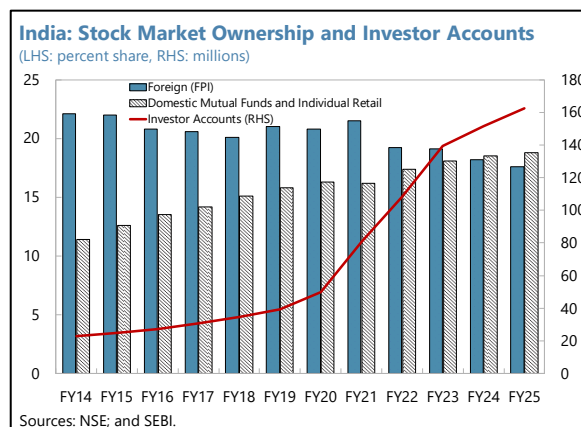
<sup>2</sup> Dealogic data based on IPOs and FPOs, including a sample of 15 major emerging markets.

<sup>3</sup> This remains broadly true even when accounting for varied rates of inflation.

by price-to-forward earnings—have risen materially since 2019, in contrast to most other EMs. While market valuations have tended to be higher in India, they have also been in the upper quartile by Indian historical standards for most of 2024 before moderating somewhat. Buoyant risk appetite is also reflected in estimates of equity risk premia—the extra compensation investors demand for holding equities—which have declined substantially.



**3. Domestic mutual funds and retail investors have taken on a larger role in the stock market.** Given their sustained growth over the last decade, domestic mutual fund and direct retail equity holdings now account for a larger share of the market than the stock of foreign portfolio investment. Indian domestic equity funds have received cumulative inflows worth nearly 3.5 percent of GDP since 2021 (nearly \$125 bn), much higher than peer countries (0.6 percent of GDP average)<sup>4</sup>. During periods of large foreign outflows, such as late 2021 to mid-2022, or the second half of 2024, domestic investors have been an effective counterweight to foreign investor sentiment.



**4. Indian household financial assets as a share of GDP are broadly comparable or even higher than other emerging markets, though they lag when measured per capita.**<sup>5</sup> Gross financial assets account for nearly 60 percent of total household savings in India. While comprehensive and comparable data is a challenge, the RBI's estimates of household financial assets (excluding unlisted equity)<sup>6</sup> at 135 percent of GDP in March 2023 would place it above other emerging markets such as

<sup>4</sup> LSEG Lipper. Peer countries comprise 12 emerging markets, along with Korea; data through Q3 2024.

<sup>5</sup> With a lack of Indian data on unlisted and other equity, such holdings are subtracted from other countries' to improve comparability. Data for other countries is sourced from OECD or national sources.

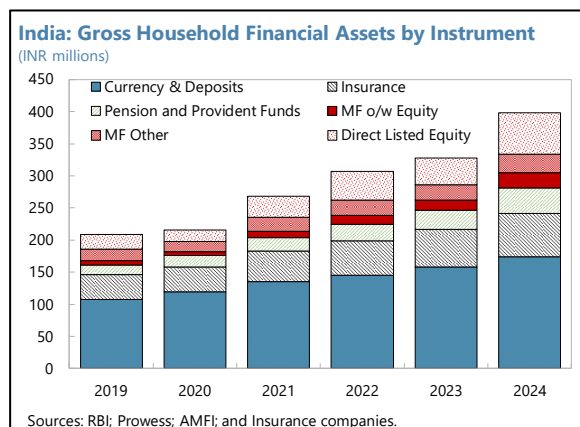
<sup>6</sup> RBI Bulletin: Estimating the Financial Wealth of Indian Households. This represents a more comprehensive figure than the quarterly released RBI data on household financial assets and liabilities that provides a lower estimate.



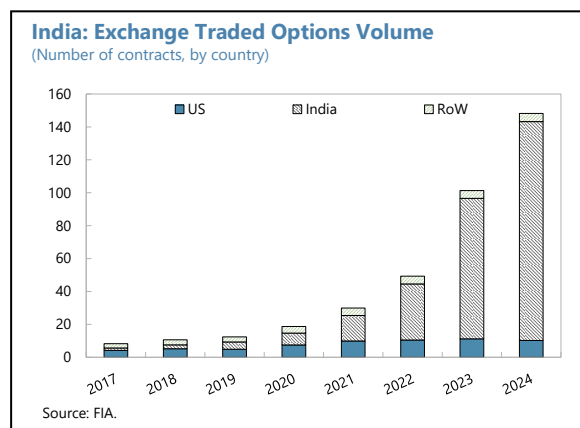
Mexico, Colombia, Poland, Romania, and Hungary. However, at just under USD3,000 per capita, Indian household financial assets are well below the average of USD17,000 across those peer countries.<sup>7</sup>

**5. Household financial assets have been concentrated in deposits, but there has been a significant shift towards capital markets.** Currency and deposits accounted for 51.6 percent of

financial assets in March 2023, down from 61.1 percent around a decade earlier, but still relatively high compared to some other countries. By contrast, listed equity and mutual fund assets have been growing quickly in recent years, partially driven by strong valuation gains, now accounting for about 17 percent of financial assets. Estimates of the share of Indian households with direct equity exposure vary, though the number of investor accounts has increased rapidly to 162 million in June 2024, from 40 million in 2019.<sup>8</sup> Pension and insurance assets also have been growing steadily. The National Pension Scheme and Employee Provident Fund Organizations have over \$400 billion in assets but a very conservative equity allocation by international standards, at around 20 percent for the NPS and 10 percent for the EPFO.



**6. Trading of equity derivatives has grown exponentially in recent years.** The volume of options traded has increased more than five-fold since 2021, and India now accounts for over 80 percent of options contracts traded globally. Although Indian markets lack zero-day (ODTE) options as seen in the United States, various weekly index options expiring multiple days of the week can provide similar dynamics, whereby investors buy and sell equity derivatives often shortly before expiry. In a sample of trading days in August–September 2024, about 70 percent (30 percent) of all options contracts (premium turnover) expired the same day, and close to 90 percent (70 percent) expired in less than a week. Moreover, a case study by the Securities and Exchange Board of India (SEBI) found that between 26–40 percent of the notional turnover in weekly options occurred within the last hour before expiry.



<sup>7</sup> For comparison, among a sample of five advanced economies, household financial assets per capita averaged 194 thousand in 2023.

<sup>8</sup> This may overstate the number of active and/or unique investors. NSE reported close to 100 million unique investors in June 2024. In September 2023, NSE Chairman stated that 50 million households (or 17 percent of total) had direct equity exposure.

The rapid growth and sheer scale of the market warrants careful monitoring and raises concerns whether these instruments could amplify market volatility. For example, to minimize their directional risk, dealers may choose to dynamically hedge as prices change approaching maturity, particularly for out-of-the money options, which could feed on abrupt changes in investor sentiment and contribute to intraday volatility (Global Financial Stability Report, April 2023). In October 2024, SEBI announced several reforms to limit speculative trading, including increasing minimum contract size, limiting weekly index options, and intraday monitoring of position limits.

**7. Retail investors are a growing and active participant in derivatives markets.** Retail participants now account for about 35 percent of equity option turnover on the NSE.<sup>9</sup> The number of investors participating in equity futures and options has risen by close to 75 percent since January 2023, with rapid growth in the share of turnover conducted through mobile platforms. Alongside a proliferation of independent financial marketers on social media, the average age of such investors skews younger. A study by SEBI highlighted that close to 90 percent of retail participants lost money trading options in FY2022. Other academic studies outside of India have found similar results, with retail investors incurring losses of 5-9 percent on average, and even larger losses around high volatility events, as they pay high transactions costs and are slower to respond to earnings or news announcements.<sup>10</sup> Continued efforts towards expanding consumer education and adequate risk disclosures would help ensure capital markets help efficiently channel financing to productive enterprises and facilitate the growth of household savings.

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<sup>9</sup> Estimates differ, but by comparison, Bloomberg and the [Wall Street Journal](#) estimated the retail share of options in the US at approximately 29 percent.

<sup>10</sup> de Silva, Tim, Kevin Smith, and Eric C. So. 2022. "Losing Is Optional: Retail Option Trading and Earnings Announcement Volatility."

## Annex III. External Sector Assessment

<p><b>Overall Assessment:</b> <i>On a preliminary basis, the external position in FY2024/25 (ending in March 2025) is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies, suggesting that the CA deficit will be somewhat smaller than implied by India’s level of per capita income, favorable growth prospects, demographic trends, and development needs. External vulnerabilities stem from weakening demand in some partner countries, geoeconomic fragmentation, and potentially volatile global financial conditions and commodity prices. In part reflecting buoyant services exports and steady oil prices, the CA deficit is projected to remain smaller than its estimated norm in FY2024/25 but converge to it over the medium term. The authorities have made some progress in external trade promotion and the liberalization of FDI and portfolio flows, which enabled India’s inclusion in global bond indices, but India’s trade and capital account regimes remain relatively restricted, weighing on both exports and imports. A final assessment will be provided in the 2025 External Sector Report.</i></p> <p><b>Potential Policy Responses:</b> In the near term, the government’s continued focus on infrastructure spending, along with the expected strengthening of private consumption, will contribute to raising the CA deficit, thereby reducing the positive CA gap. To facilitate external rebalancing over the medium term, development of export infrastructure and negotiation of free trade agreements with main trading partners to provide a sustainable boost to exports should be accompanied by further investment regime liberalization and a reduction in import tariffs, especially on intermediate goods. Structural reforms should aim at improving the business environment, inducing private investment, deepening integration into GVCs, and attracting FDI, hence mitigating external vulnerabilities. Industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions.</p>					
<b>Foreign Asset and Liability Position and Trajectory</b>	<p><b>Background.</b> By the end of 2024, India’s NIIP is estimated to have improved to –9.4 percent of GDP, from –10.7 percent of GDP at the end of 2023, as fast nominal GDP growth more than offset the impact of the CA deficit. Gross foreign assets increased to about 30.3 percent of GDP (from 28.6 percent of GDP at the end of 2023), while gross foreign liabilities rose to about 39.7 percent of GDP, from 39.2 percent of GDP at the end of 2023. The bulk of assets were in the form of official reserves and FDI, whereas liabilities included mostly debt and FDI.</p> <p><b>Assessment.</b> With the CA deficit projected to remain below its medium-term norm in FY2024/25 and converge to it by FY2030/31, the NIIP-to-GDP ratio is expected to increase modestly over the medium term, as robust nominal GDP expansion will offset the nominal NIIP decline resulting from the projected CA deficits. India’s external debt liabilities are relatively low compared with those of its peers, and short-term rollover risks are limited. The moderate level of foreign liabilities reflects India’s incremental approach to capital account liberalization, including focus on attracting FDI.</p>				
2024 (percent GDP)	NIIP: –9.4	Gross Assets: 30.3	Debt Assets: 3.9	Gross Liab.: 39.7	Debt Liab.: 19.9
<b>Current Account</b>	<p><b>Background.</b> The CA deficit is projected to widen to about 0.9 percent of GDP in FY2024/25, from 0.7 percent of GDP in the previous year, driven by rising domestic demand for imports. From the domestic perspective, it corresponds to gross savings inching up from 32.6 to 32.7 percent of GDP, while gross domestic investment increases modestly from 33.3 to 33.6 percent of GDP. Amid steady oil prices (in part reflecting India’s proactive diversification of oil import sources), buoyant services exports increasingly offset the contained merchandise trade deficit. While declining, trade restrictions are still weighing on both exports and imports. The CA deficit is projected to increase further to about 1.3 percent of GDP in FY2025/26, largely reflecting rebounding domestic demand. Over the medium term, the CA deficit is projected to converge to its norm of about 2.2 percent of GDP.</p> <p><b>Assessment.</b> The EBA cyclically adjusted CA balance is projected at –0.7 percent of GDP in FY2024/25. The EBA CA regression estimates a norm of –2.2 percent of GDP, with a standard error of 0.7 percent, implying a CA gap of 1.5 percent of GDP. IMF staff thus assesses the CA gap to be 1.5 percent of GDP.</p>				

	within a range of 0.8 to 2.2 percent of GDP. Positive policy contributions to the CA gap stem mostly from the fiscal balance and changes in FX reserves amid elevated capital controls, while negative contributions come mostly from the domestic credit gap. In IMF staff’s judgment, a CA deficit of up to around 2½ percent of GDP is financeable in the medium term by a combination of steady FDI inflows, public and private external borrowing, and portfolio flows, though the latter may remain susceptible to changes in global risk appetite.					
2024/25 (percent GDP)	CA: –0.9	Cycl. Adj. CA: –0.7	EBA Norm: –2.2	EBA Gap: 1.5	Other Adj.: 0.0	Staff Gap: 1.5
<b>Real Exchange Rate</b>	<p><b>Background.</b> In the first half of 2024, the contained CA deficit and portfolio investment inflows in part driven by India’s inclusion in the global bond indices resulted in appreciation pressures on the rupee. However, these pressures reversed when the CA deficit widened on seasonal factors and shifts in global investor sentiments triggered portfolio investment outflows in the second half of 2024. As of December 2024, the REER was about 5 percent above its 2023 average.</p> <p><b>Assessment.</b> The IMF staff CA gap implies a REER gap of –8.3 percent (with an estimated elasticity of 0.18). EBA REER index and level models suggest an overvaluation of 4.9 percent and 3.6 percent, respectively. Consistent with the staff CA gap, however, the IMF staff projects the REER gap to be in the range of –12.2 to –4.4 percent, with a midpoint of –8.3 percent, for FY2024/25.</p>					
<b>Capital and Financial Accounts: Flows and Policy Measures</b>	<p><b>Background.</b> In FY2024/25, net FDI inflows are projected to decrease to an almost zero balance as steady gross inflows are offset by rising disinvestment and outward FDI. Net portfolio investment inflows and outflows are also expected to be almost evenly balanced, reflecting large equity outflows in late 2024 amid India’s weakening economic outlook, despite India’s inclusion in global bond indices. Other investments, reflecting mostly debt-creating inflows, are projected to remain steady at about 1.3 percent of GDP. So far during the year, the Indian authorities made further steps toward capital account liberalization by widening the scope of government bonds available for foreign investors and relaxing FDI restrictions, which should help moderate the interest costs associated with financing the CA deficit.</p> <p><b>Assessment.</b> While the expected rebound in net FDI inflows is projected to cover more than half of the CA deficit over the medium term, the compression of net FDI inflows in 2024/25 warrants further structural reforms and improvement of the investment regime to promote FDI. Volatile portfolio flows are sensitive to changes in global financial conditions and country risk premia. The inclusion of India in international bond indices has significantly increased foreign participation in India’s bond market (though from a low base) and supported net portfolio inflows that financed the CA deficit.</p>					
<b>FX Intervention and Reserves Level</b>	<p><b>Background.</b> Official FX reserves increased overall in 2024, reflecting a contained CA deficit, FDI and portfolio investment inflows, and valuation changes. During this time, the Reserve Bank of India’s FX interventions aimed to smooth market volatility that the authorities considered to be excessive and contributed to the rupee’s exchange rate stability. Reserves increased from \$622.5 billion at the end of 2023 to \$640.3 billion at end-December 2024, reflecting increases through September followed by a decline in the following months on equity outflows.</p> <p><b>Assessment.</b> Various criteria confirm that official FX reserves are adequate for precautionary purposes. As of the end-December 2024, they represented about 210 percent of short-term debt (on residual maturity), about 105 percent of the IMF’s composite metric (for a de facto stabilized exchange rate arrangement),<sup>1</sup> and about eight months of import coverage. In view of India’s moderately strong external position, generally deep and liquid FX markets, limited FX mismatches, well-anchored inflation expectations, and adequate reserves level, Integrated Policy Framework analysis indicates that FX interventions should be limited to addressing disorderly market conditions.</p>					
<sup>1</sup> The observed stability of the exchange rate since December 2022 prompted reclassification of India’s de facto exchange rate regime by the IMF from “floating” to “stabilized arrangement” as of the Article IV consultation in December 2023, while the de jure classification remained “floating.”						

## Annex IV. Risk Assessment Matrix<sup>1</sup>

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
<b>External Risks</b>			
<b>Intensification of Regional Conflicts.</b>	<b>High</b>	Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	Risk mitigation strategies include: diversifying critical import sources; securing export market access through multilateral and bilateral trade agreements; and accelerating the transition towards renewable energy. Should conflicts intensify with significant repercussions on the Indian economy, use available fiscal/monetary policy space to support economic activity and the vulnerable.
<b>Commodity Price Volatility.</b>	<b>High</b>	Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	Accelerating the shift to renewable sources of energy and better targeting subsidies would help mitigate these risks. Allowing greater exchange rate flexibility would also help absorb such shocks. In an upside scenario, relax price controls and increase excise taxes. In a downside scenario, provide transfers to protect the most vulnerable.
<b>Monetary Policy Calibration.</b>	<b>Medium</b>	Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Adjust the policy rate in line with economic developments, with clear communication to the public on policy changes, while allowing the exchange rate to adjust to changing interest rate differentials. If the FX market becomes shallow, leading to destabilizing premia, FX interventions can be used as a complementary tool.
<b>Global Growth Slowdown.</b>	<b>Medium</b>	Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	Rebuild fiscal buffers and maintain strong external position to be ready to withstand such shocks. Maintain exchange rate flexibility to absorb external shocks. If shocks materialize, use fiscal/monetary policy space to support economic activity and the most vulnerable.
<b>Deepening Geoeconomic Fragmentation.</b>	<b>High</b>	Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	Accelerate structural reforms; diversify and secure supply of critical commodities; play a stabilizing role in the region by promoting mutually beneficial cooperation; avoid introducing further trade restrictions.
<b>Cyberthreats.</b>	<b>High</b>	Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	In preparation, further improve protection of India's digital assets against hacking attempts and maintain back-up copies of critical databases.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
<b>Domestic Risks</b>			
<b>Weaker Investment.</b>	<b>Medium</b>	Weaker than expected public investment, due to significant delays in the execution of public capital spending and subdued private investment could weigh on growth.	Sound public investment management can improve planning and execution of public investment. For private investment, productivity-enhancing reforms, along with nimble and vigilant supervision of lending, would encourage higher private investment. Should weaker growth materialize, consider a slower pace of fiscal consolidation by letting automatic stabilizers operate, and easing monetary policy if headline inflation continues to align closer to target.
<b>Weaker Private Consumption.</b>	<b>Medium</b>	Weaker than expected private consumption as real incomes do not recover strongly due to persistently high food inflation can adversely impact growth.	To encourage stronger private consumption, advance structural reforms to ensure sustainable and job-rich growth. Should weaker growth materialize, consider a slower pace of fiscal consolidation by letting automatic stabilizers operate, and easing monetary policy if headline inflation continues to align closer to target.
<b>Social Discontent.</b>	<b>Medium</b>	Difficulties in securing good quality jobs, increases in food and fuel prices, or the pursuit of difficult structural reforms could create social discontent. This could lead to capital outflows, slowing economic growth and the drive for reform.	To mitigate this risk: advance labor market reforms and strengthen education quality; work with industry to reduce skill mismatches; increase spending on social protection to the poorest segments; communicate clearly to explain the benefits from structural reforms and protect the most vulnerable from possible adverse impacts. In the event economic growth slows, use available monetary and fiscal space to support activity.
<b>Weaker Credit Growth</b>	<b>Medium</b>	Weaker-than-expected credit growth from subdued demand and rising credit costs could hamper economic growth.	Ensure macroeconomic stability while remaining vigilant on financial stability risks. Provide strong policy frameworks to foster a stable environment for firms and households, in a world of heightened uncertainties, and continue improving ease of doing business to support investment and credit demand in productive sectors.
<b>Materialization of Fiscal Risks.</b>	<b>Medium</b>	Sharp increase in commodity prices and/or the realization of contingent liabilities weakens the fiscal position and could lead to a sharp increase in financing costs, with broader implications for financial conditions and the financial system.	In preparation, enhance fiscal policy space through a credible medium-term fiscal consolidation strategy anchored on stronger revenue mobilization and increased expenditure efficiency. Reduce the interconnectedness between the sovereign and banks' balance sheets. Strengthen the financial health of state-owned enterprises. Should contingent liabilities materialize, absorb these onto the government budget using long-dated securities to smooth the impact on debt repayments.
<b>Climate Change and Extreme Weather Events.</b>	<b>Medium</b>	Rising temperature, increased rainfall variability, and intensified extreme weather events damage infrastructure, increase inflationary pressures, cause water and food shortages, detriment health outcomes, and reduce economic growth.	Invest in infrastructure that is resilient to and mitigates the impact of climate events; prepare disaster management plans; accelerate the green energy transition; strengthen social safety net and public health; and promote climate resilient agriculture.
<b>Stronger-than-expected Acceleration of Domestic Demand.</b>	<b>Medium</b>	As structural reforms gather pace, stronger private consumption and investment and increasing consumer confidence contributes to higher potential growth.	Fiscal policy should continue to focus on rebuilding buffers and reducing public debt. A faster consolidation and a tighter monetary policy could be warranted if the output gap is significantly positive with rising inflation. Macroprudential policies should be tightened if credit growth accelerates.



## Annex V. India in an Increasingly Fragmented World<sup>1</sup>

- 1. Deepening geoeconomic fragmentation is affecting the global economy through several interrelated channels.** These include reducing trade links, restrictions on migration, capital flows, technology transfers, and disruptions to payments systems. Declining international cooperation weakens the global financial safety net and hinders provision of global public goods in various areas such as climate action, pandemic preparedness, debt resolution, food security, and AI regulation.
- 2. Fragmentation has affected international trade between politically distant countries.** Countries imposed around 3,000 trade restrictive measures in 2023, up from around 1,000 in 2019. Trade distorting industrial policy measures affecting imports covered more than 20 percent of global trade in 2023. Since the start of the war in Ukraine, trade growth between politically distant countries slowed by about 2½ percentage points more than that between politically aligned countries. Trade re-routing through non-aligned ‘connector’ countries can lengthen supply chains, with likely loss in efficiency.
- 3. IMF analysis does not support hopes that India, or most other countries, could benefit from further fragmentation.** While some countries could see higher near-term FDI and exports to selected partner countries, these are more than offset by a reduction in export opportunities to all countries resulting from slower global growth. India is also likely to experience a net loss in a scenario of deepening fragmentation, although it would be smaller than for many other EMDCs. Even as bilateral tariff increases between major economies create opportunities for India and other Asian countries to fill export market niches created by sanctions, the resulting gains would be modest compared with losses from a smaller global economy.<sup>2</sup>

**Table 1. India: Estimated Cumulative GDP Loss for Country Groups Including India**

Fragmentation scenario	GDP loss, percent
World divides into two blocs, with no trade in high-tech and energy sectors between them	1.5
In addition to the elimination of trade in the energy and high-tech sectors, nontariff restrictions in other sectors are also increased between blocs	3.3
FDI between country blocs drop by 50 percent, and substantial policy uncertainty for economies that try to remain open to both blocs	.7
Source: <a href="#">Regional Economic Outlook for Asia and Pacific, October 2022</a> ; <a href="#">World Economic Outlook, April 2023</a>	

- 4. Scenario analysis shows that if fragmentation were to deepen further, the costs for countries like India could be significant.** The main impact channels include shocks to trade, investment flows, and payments systems. For countries like India, the cumulative long-term cost of a further increase in geoeconomic fragmentation could range from 1.5 to 3.3 percent of GDP

<sup>1</sup> Prepared by Michael Gorbanyov (SPR).

<sup>2</sup> Regional Economic Outlook for Asia and Pacific, October 2024.



depending on the degree of disruption to trade and FDI flows and related policy uncertainty (Table 1).

**5. India is less vulnerable to fragmentation risks than some other countries due to the country's relatively lower exports as a share of GDP and less integration in global value chains.** India's direct exposure has been relatively low in the short run, in part because India has a comparative advantage in services, which are less likely to be affected by tariffs. That said, the long-term impact on India will depend on future developments in geoeconomic fragmentation and can potentially include India missing on transfer of know-how through trade and integration in the global value chains. The US and China are India's top trade partners, together accounting for more than 20 percent of India's merchandise trade (Table 2).

<b>Table 2. India: Main Trade Partners, FY 2023/24</b>					
<b>Rank</b>	<b>Country</b>	<b>Export of goods, US\$ billion</b>	<b>Import of goods, US\$ billion</b>	<b>Merchandise trade turnover, US\$ billion</b>	<b>Percent of India's total</b>
1	United States	77.5	42.2	119.7	10.7
2	China	16.7	101.7	118.4	10.6
3	United Arab Emirates	35.6	48.0	83.7	7.5
4	Russia	4.3	61.2	65.4	5.9
5	Saudi Arabia	11.6	31.4	43.0	3.9
	<b>India's total</b>	<b>437.1</b>	<b>678.2</b>	<b>1,115.2</b>	
Source: <a href="#">Ministry of Commerce and Industry</a> , Government of India.					

**6. Overcoming the challenges of the fragmenting world, India can gain from embracing trade integration with its partner countries.** There is plenty of untapped potential both in sectors where India's presence is already significant and in those where it is not yet a key player. Pharmaceuticals, automotive, electronics, and textiles are some examples where India could potentially play a larger role in global trade. To harness this potential, India can further widen its network of bilateral free trade agreements. Moreover, building on its existing participation in regional trade agreements (e.g., South Asian Free Trade Area (SAFTA), Indo-Pacific Economic Framework), India can consider joining additional trade blocs such as the Regional Comprehensive Economic Partnership (RCEP). India can also enhance its trade integration policies and reduce trade restrictions, which would help its integration into global value chains.

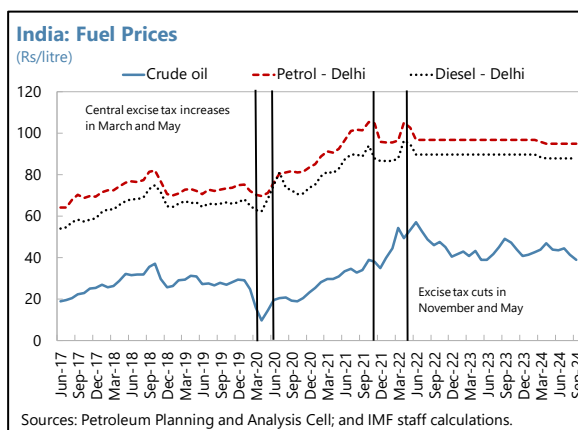
## Annex VI. The Impact of Oil Prices on India's Economy and External Position<sup>1</sup>

As India imports almost 90 percent of the oil it consumes, international oil price fluctuations impact its economy and its fiscal and external position. Proactive diversification of supply sources helped India ensure availability of critical oil imports and reduce their cost. Discounted oil imports from Russia cover up to 40 percent of Indian demand and deliver savings estimated at 0.2 percent of GDP per year.

**1. India's fuel-intensive economy is highly dependent on crude oil imports.** India covers almost 90 percent of its oil consumption through imports. In FY2023/24, India imported about 230 million tons of crude oil, making it the third-largest oil importer in the world. That fiscal year, India's oil import bill (crude oil and oil products) amounted to about US\$178.7 billion (5.1 percent of GDP, 26.4 percent of goods imports). This was partially offset by revenues from exports of refined oil products of US\$84 billion (2.4 percent of GDP).

**2. High reliance on oil imports makes India's external position very sensitive to oil price movements.** According to RBI staff estimates and elasticities used by market analysts, an increase in oil prices by about US\$10/bbl, sustained for a year, adds about 0.4 percent of GDP to the current account deficit (CAD).<sup>2</sup> With a relatively low CAD (0.9 percent of GDP projected for FY2024/25) and ample FX reserves (well above US\$600 billion), India is well-positioned to withstand transitive fluctuations in international oil prices. However, a sustained, sharp increase in oil prices, for instance in the context of geoeconomic shocks, can significantly affect India's external position. For example, when oil prices surged above \$100/bbl following Russia's invasion of Ukraine, India's oil import bill rose to US\$209 billion in FY2022/23 (about 6.2 percent of GDP). Combined with other factors, it pushed India's CAD to 2.0 percent of GDP that fiscal year.

**3. Global oil dynamics have an impact on the real economy in India.** As a net oil importer, higher oil prices represent a negative supply shock to India leading to lower economic activity and higher inflation. Historically, a 10 percent higher oil price reduced real GDP growth by 20 basis points and increased CPI inflation by 30-40 basis points. However, the pass-through of global oil prices to economic activity and inflation in India has been mitigated recently because state-owned oil marketing companies (OMCs) have kept retail prices for gasoline and diesel broadly unchanged since July 2022.<sup>3</sup> Over the long run, acceleration of



<sup>1</sup> Prepared by Michael Gorbanyov (SPR), with contributions from Cristian Alonso and Dinar Prihardini (both APD).

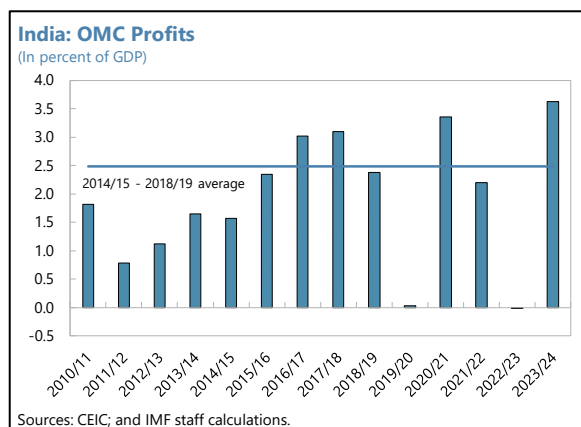
<sup>2</sup> Saurabh Ghosh and Shekhar Tomar, "The Impact of Crude Price Shock on India's Current Account Deficit, Inflation and Fiscal Deficit" (2019).

<sup>3</sup> Petrol and diesel retail prices have been deregulated since 2010 and 2014, respectively. Pricing decisions are made by state-owned OMCs. Gasoline and diesel prices were reduced by around 2 percent in March 2024.

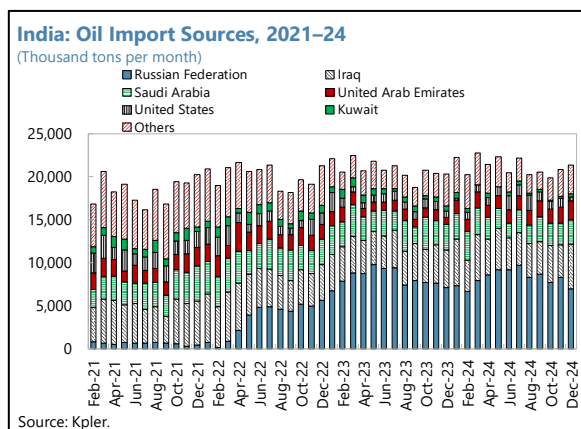
the energy transition can strengthen energy security and reduce the economy's exposure to global oil price dynamics.

#### 4. The fiscal balance is sensitive to oil price fluctuations.

Subsidies are provided for fertilizer and LPG, prices of which are impacted by oil price movements.<sup>4</sup> Fertilizer subsidies increased to 0.9 percent of GDP in FY2022/23 from 0.7 percent of GDP in the prior year. In FY2022/23, a 0.1 percent of GDP transfer was made to state-owned OMCs for under-recoveries of domestic LPG sales between 2020 and 2022. On the revenue side, excise taxes on road fuels are revised depending on international oil prices; they were increased early in 2020 as the pandemic caused oil prices to fall sharply and were subsequently reversed beginning in late 2021, causing a 0.4 percent of GDP loss in revenue. Between July 2022 and December 2024, India levied a windfall tax on domestically produced crude oil and exports of petrol, diesel and jet fuel. During this time, the tax rate was reviewed every two weeks and revised, as needed, based on movements in international oil prices and refining margins.<sup>5</sup> Thus far, state-owned OMCs have not received additional distributions to compensate them for keeping retail fuel prices fixed, in part because declining world oil prices reduced their input costs.



**5. In recent years, India sharply increased oil imports from Russia.** According to data from Kpler, the share of Russian oil and oil products in Indian imports increased from about 3 percent in FY 2021/22 to 41 percent in January-December 2024/25.<sup>6</sup> Alongside, the shares of India's traditional OPEC oil suppliers have decreased substantially.



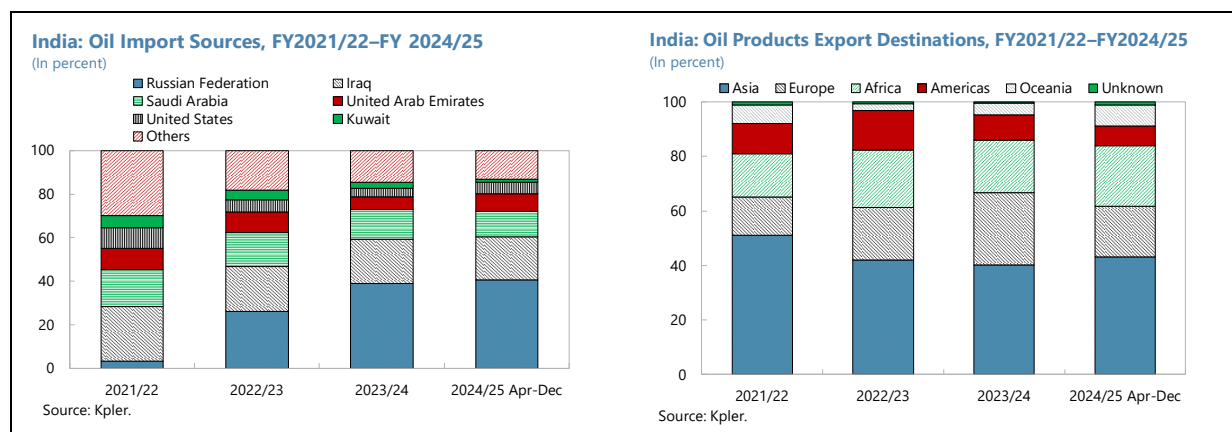
**6. While the total amount of India's exports of oil products remained broadly stable in recent years, its composition has evolved in favor of Europe.** Share of exports of oil products to Europe

in total exports increased from about 14 percent in FY2021/22 to almost 27 percent in FY2023/24. Alongside, the share of exports to Asian countries decreased from about 51 percent in FY2021/22 to about 40 percent in FY2023/24.

<sup>4</sup> The LPG subsidy is comprised of targeted support to vulnerable households for LPG connections and LPG cylinders, as well as some support to remote households to offset higher transportation costs.

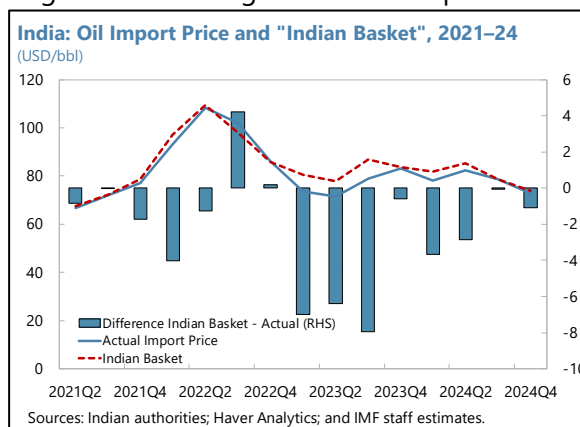
<sup>5</sup> The revenue from these taxes was relatively small at 0.1 percent of GDP in 2022/23 and falling to 0.04 percent of GDP in 2023/24.

<sup>6</sup> Official Indian statistics broadly confirms high reliance on oil imports from Russia but indicates somewhat lower volumes. For example, for October 2024 Indian government's Directorate General of Commercial Intelligence and Statistics (DGCIS) data indicated that about 30 percent of India's oil imports originated from Russia compared with 39 percent according to Kpler.



**7. Importing oil at discounted prices from Russia has likely reduced the overall oil import bill.** Russian oil has been offered at a substantial discount to price benchmarks in international markets—reportedly reaching at times up to [\\$40/bbl](#), though significantly lower over the past year—due to international sanctions regimes against Russia. Higher costs of shipment and insurance have likely rendered the resulting CIF price discounts much less pronounced.

Conservatively estimating the CIF price savings at about \$10/bbl in FY 2023/24 yields savings estimates of around US\$7 billion per year (about 0.2 percent of GDP).<sup>7</sup> Comparing the actual oil import price derived from Indian statistics with the Ministry of Petroleum and Natural Gas's reference oil price of the "Indian basket" (weighted average of sour grade and sweet grade crude oil) yields similar results.



**8. Increased reliance on oil imports from Russia has exposed India to risks related to changes in the international sanctions regimes against Russia.** For example, in mid-January 2025 oil deliveries from Russia have been temporarily disrupted by the announcement of new international sanctions, which targeted the Russian oil producers as well as vessels and insurance companies involved in transporting Russian oil. The sanctions have prompted Indian refineries to reassess their oil import strategies, explore alternative supply sources, and take proactive measures to mitigate potential disruptions.

**9. Available data do not confirm substantial gains from exports of oil products produced from discounted crude oil imports.** Total amounts of Indian exports of oil products have remained broadly stable, as higher exports to Europe were offset by lower exports to other regions.<sup>8</sup>

<sup>7</sup> This is broadly consistent with estimates from market analysts. For example, a study on [India's oil imports](#) by ICRA estimates that India saved around \$5.1 billion on oil imports in 2022/23 and \$7.9 billion in the first eleven months of 2023/24.

<sup>8</sup> Based on data from Kpler. Note also that there is insufficient information on profitability of India's oil exports by region.

## Annex VII. A Recalibrated Quarterly Projection Model for India<sup>1</sup>

To enrich staff's projection toolbox and assess the impacts of shocks on the Indian economy, we recalibrate a Quarterly Projection Model (QPM) for India. This open-economy New Keynesian gap model provides the flexibility of a rich set of dynamics and a framework to analyze the interlinkages among key macroeconomic variables. We use the model to generate forecasts and investigate the impacts of various risks surrounding the baseline projection.

**1. The QPM for India captures the dynamic interlinkages between inflation, output, monetary policy, and exchange rate.** There are separate dynamics for food, energy, and core inflation, which are subject to passthrough from world oil prices, the exchange rate, and the output gap. The non-agriculture output gap is affected by the real interest rate and real exchange rate. The monetary policy rate reacts to headline inflation, core inflation, and the non-agriculture output gap. Exchange rate dynamics deviate from the uncovered interest parity by a lag component. The calibration builds upon Benes et al. (2017) and staff's estimates of the steady state and the historical output gap.

**2. Using the calibrated model, we decompose historical dynamics and estimate trends.** Kalman smoothing is applied to historical data based on the semi-structural model to uncover trends and gaps, and the observations are decomposed into structural components and shocks. The model identifies large negative shocks to non-agriculture output during the pandemic. The policy rate is found to be mostly explained by its own lag and the neutral rate. For recent quarters, the model finds a weaker-than-trend real exchange rate that benefited output.

**Table 1. India: QPM Forecast**

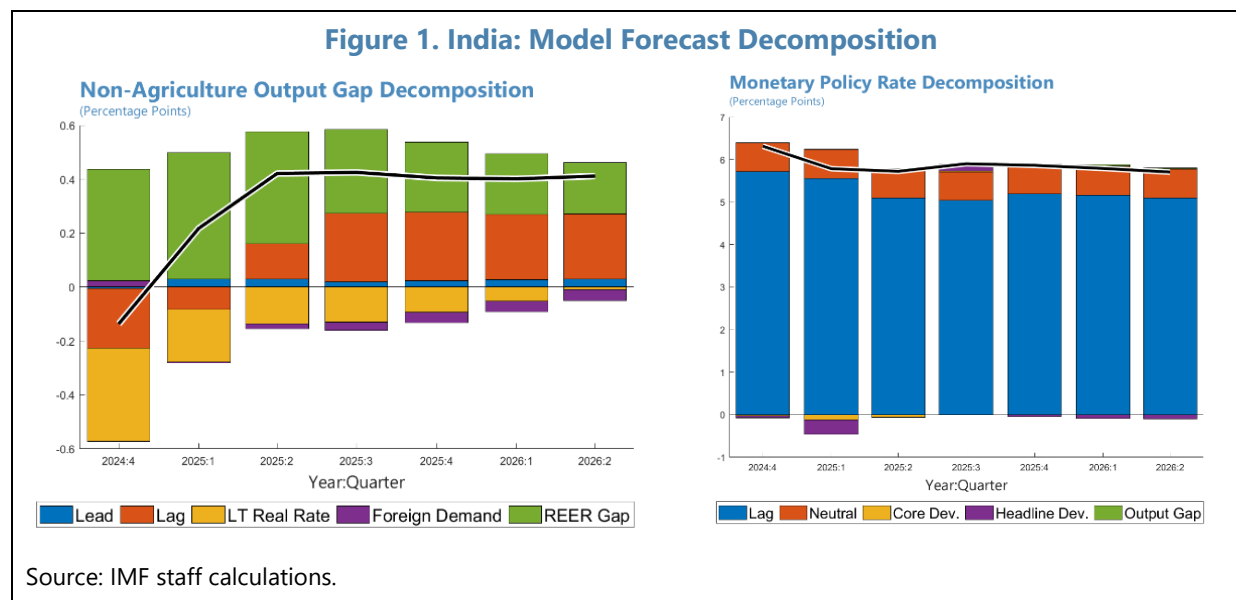
(Calendar Year Quarter, %)		2024Q2	2024Q3	2024Q4	2025Q1	FY 2024/25 Average
GVA Growth, YoY	Staff Baseline	6.7	5.6	6.6	6.6	6.4
	QPM	6.7	5.6	6.3	6.6	6.3
Headline Inflation, YoY	Staff Baseline	4.9	4.2	5.6	4.5	4.8
	QPM	4.9	4.2	5.3	4.2	4.7
Core Inflation, YoY	Staff Baseline	3.1	3.4	3.7	3.8	3.5
	QPM	3.1	3.4	3.6	4.1	3.6
Food Inflation, YoY	Staff Baseline	8.0	6.2	8.5	5.5	7.1
	QPM	8.0	6.2	7.9	5.1	6.8
Energy Inflation, YoY	Staff Baseline	-3.8	-4.1	-1.6	2.4	-1.8
	QPM	-3.8	-4.1	-1.1	-0.8	-2.4
Output Gap, Non-Agriculture	QPM	0.2	-0.4	-0.2	0.2	0.0
Policy Rate, Nom.	QPM	6.5	6.5	6.5	5.9	6.4
Policy Rate, Real	QPM	2.5	3.2	3.0	2.3	2.7

Source: IMF staff calculations.

<sup>1</sup> Prepared by Ni Wang (APD), Alexander Borodin, and Gyorgy Molnar (both ICD).

### 3. The QPM forecast is similar to staff's baseline scenario except for energy inflation.

Compared to the baseline scenario, the model predicts slightly softer average growth for FY 2024/25. Core inflation according to the QPM will be slightly above the staff baseline, but headline inflation will be very close to the staff baseline (Table 1). The model finds a moderately negative output gap for 2024Q3 and sees the output gap rebound to 0.2 percent at the end of the fiscal year. We break down the forecast into model-based structural components (Figure 1). The model sees non-agriculture output benefit from a weaker-than-trend real exchange rate, i.e., higher trade competitiveness, and a decrease in the long-term real rate.

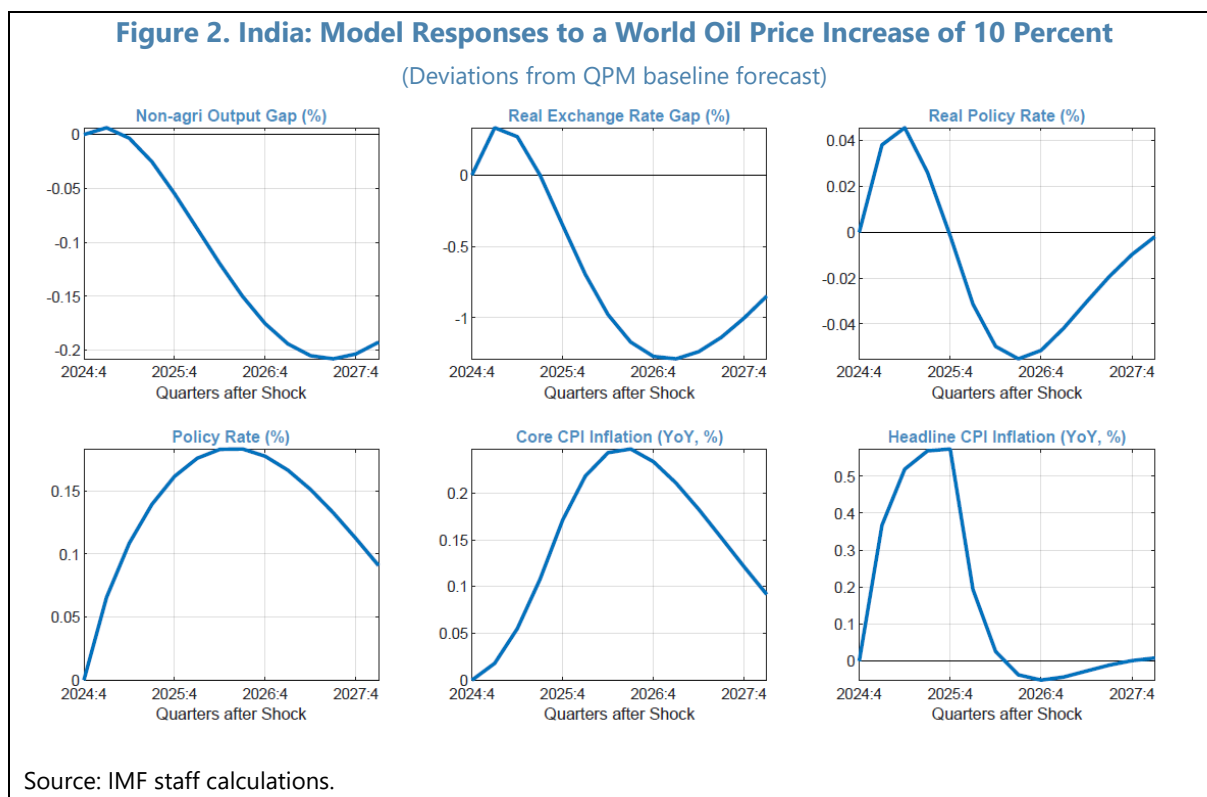


### 4. The model can be used to explore the impacts of shocks, shedding light on the economy's sensitivity to oil prices, the US policy rate, domestic food prices, and shocks to external demand.

- World oil price shock (Figure 2). An unexpected transitory increase in the world oil price leads to currency depreciation and higher energy inflation, which subsequently spills over to core inflation.<sup>2</sup> Monetary policy tightens in response, and the rupee eventually appreciates in real terms. A negative deviation in output emerges due to tighter monetary policy and is propagated by diminished trade competitiveness because of real appreciation.
- US policy rate shock (Figure 3). An unexpected, transitory increase in the US policy rate leads to rupee depreciation, boosting exports and generating a positive output deviation. However, the depreciation and stronger demand lead to higher inflation, prompting monetary policy to tighten. As the real exchange rate moves back towards the long-run equilibrium, the output deviation turns negative due to tight monetary policy and diminishing trade competitiveness.

<sup>2</sup> Core inflation shown in the impulse responses excludes transport fuels.

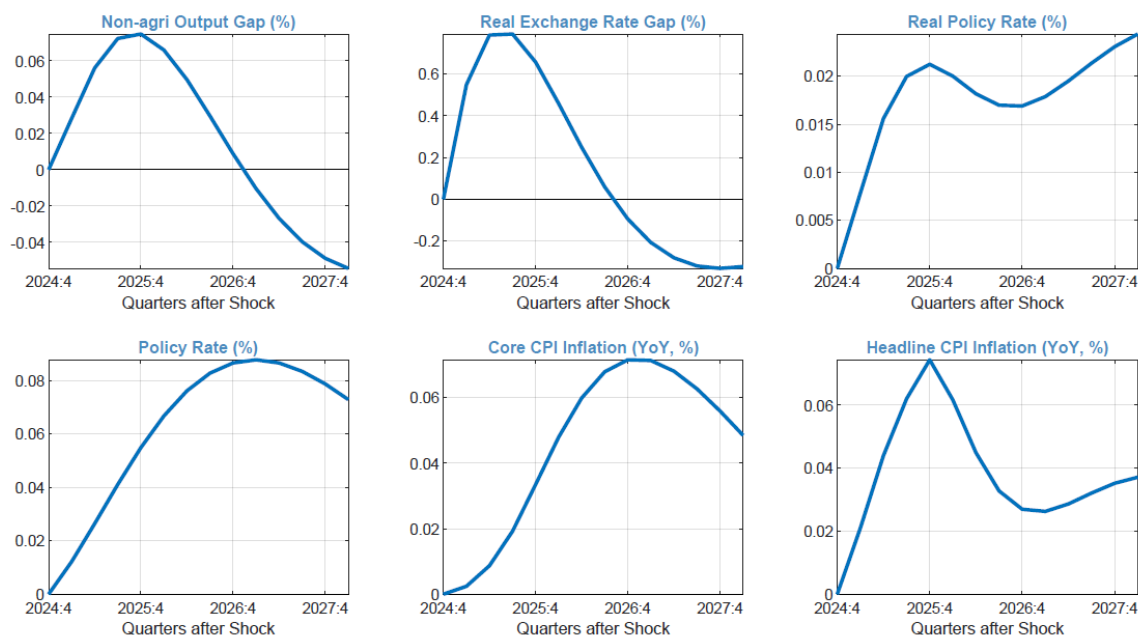
- Domestic food price shock (Figure 4). An unexpected transitory rise in domestic food CPI immediately results in higher inflation and tightened monetary policy. The rupee appreciates as the interest rate rises. A negative output deviation arises from the higher policy rate and weaker foreign demand, as trade competitiveness diminishes.
- Foreign output shock (Figure 5). In the event of a negative transitory shock to foreign output, domestic output decreases due to lower foreign demand. Inflation drops, monetary policy loosens, and the rupee depreciates as the interest rate differential widens. The depreciation boosts exports and eventually reverses the output impact as the economy converges to its steady state.





**Figure 3. India: Model Responses to a US Policy Rate Increase of 100 Basis Points**

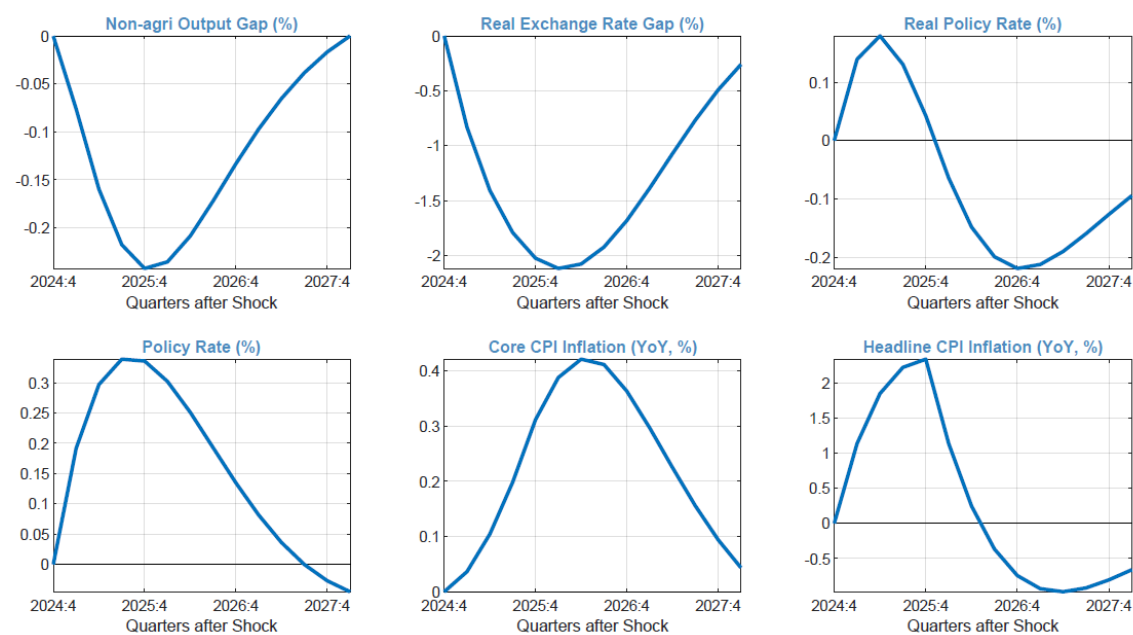
(Deviations from QPM baseline forecast)



Source: IMF staff calculations.

**Figure 4. India: Model Responses to a Food Price Increase of 10 Percent**

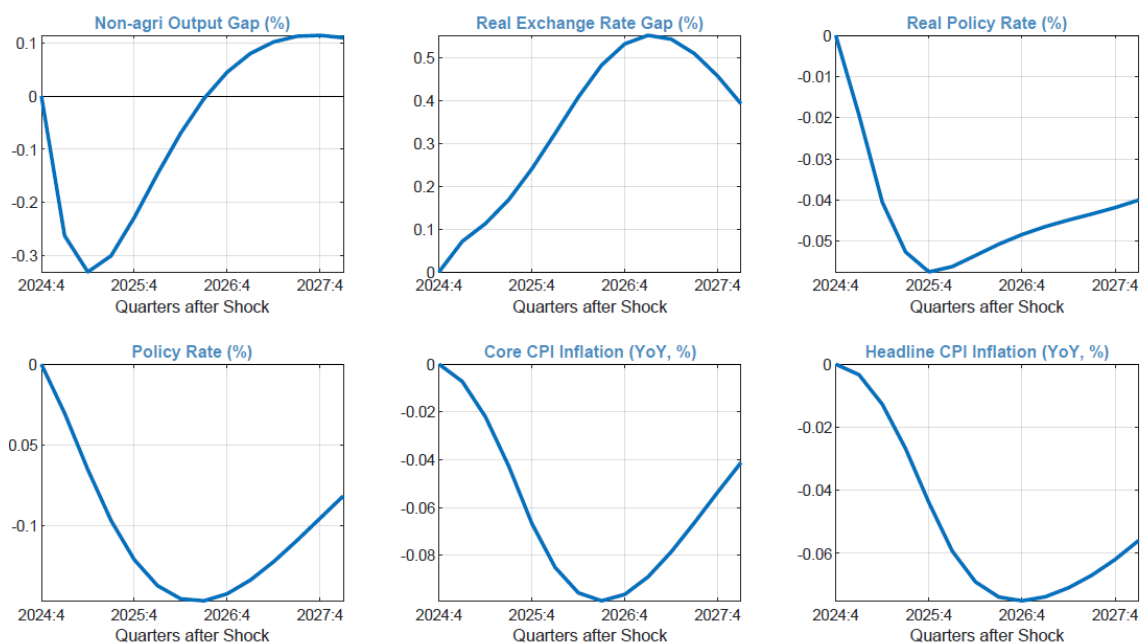
(Deviations from QPM baseline forecast)



Source: IMF staff calculations.

**Figure 5. India: Model Responses to a Foreign Output Reduction of 1 Percent**

(Deviations from QPM baseline forecast)



Source: IMF staff calculations.

## References

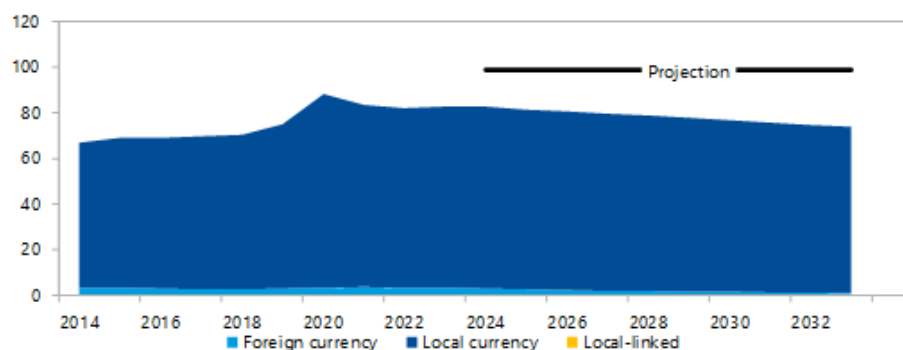
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## Annex VIII. Debt Sustainability Assessment

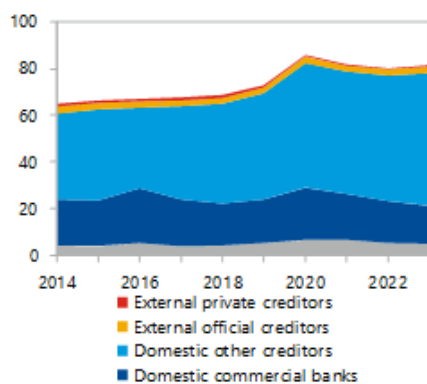
Figure 1. India: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	---	<b>Moderate</b>	The overall risk of sovereign stress is moderate. The favorable interest-growth differential and ongoing fiscal consolidation support a gradual reduction in debt. However debt remains elevated at the end of the projection period and risks surrounding the debt path are tilted to the downside (i.e. higher levels of debt). Funding the entire climate change investment needs through existing financing sources could lead to a high risk of sovereign stress in the long term, pointing to a need for additional sources of concessional financing and greater private sector involvement.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>Moderate</b>	<b>Moderate</b>	Medium-term risks are assessed to be moderate, in line with the mechanical signals. Debt is likely to stabilize over the medium term but remain at an elevated level. While debt is expected to decline under the baseline scenario, under shock scenarios potential debt paths are skewed towards higher levels of debt. Liquidity risks are moderate; while existing bank claims are substantial, the low level of financing by non-residents partly mitigates risks.
Fanchart	Moderate	---	
GFN	Moderate	---	
Stress test	Cont. Liabty.	---	
<b>Long term</b>	---	<b>High</b>	Sizeable investment is needed to meet India's climate change mitigation targets and improve resilience to climate change. Funding these investments through the government budget using existing sources of financing could lead to a high risk of sovereign stress in the long term. This signals the need for additional concessional financing, greater private sector investment and carbon pricing or equivalent mechanism.
<b>Sustainability assessment 2/</b>	Not required for surveillance countries		
<b>Debt stabilization in the baseline</b>			Yes
<b>DSA Summary Assessment</b>			
<p>Commentary: India is assessed to have a moderate risk of sovereign stress. Debt gradually declines over the medium term, supported by a favorable interest-growth differential and fiscal consolidation. However debt remains elevated over the medium term and the debt servicing burden is high, with interest payments absorbing more than a quarter of revenue. Risks are moderated by India's debt composition, comprising of long dated, fixed rate, local currency denominated debt held by residents. Banks, insurance companies and pension funds continue to have robust demand for government securities. The reliance on financing from domestic banks can crowd out private investment. While risks of sovereign stress at the general government level are moderate, some states have high debt levels and require a credible medium-term consolidation plans.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

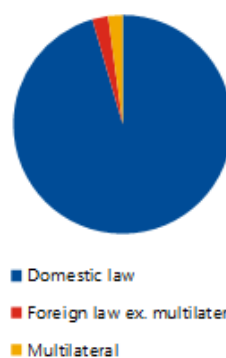


**Figure 3. India: Public Debt Structure Indicators****Debt by Currency (Percent of GDP)**

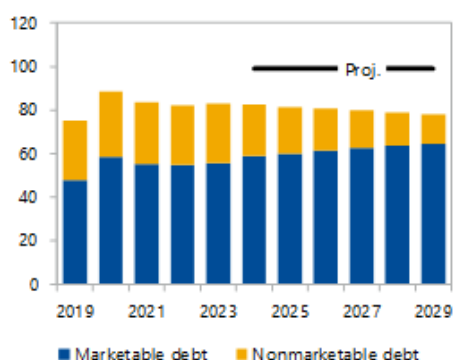
Note: The perimeter shown is general government.

**Public Debt by Holder (Percent of GDP)**

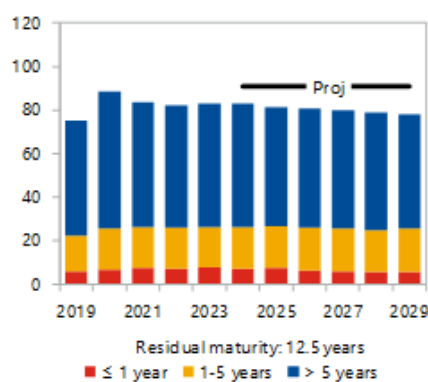
Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2023 (percent)**

Note: The perimeter shown is general government.

**Debt by Instruments (Percent of GDP)**

Note: The perimeter shown is general government.

**Public Debt by Maturity (Percent of GDP)**

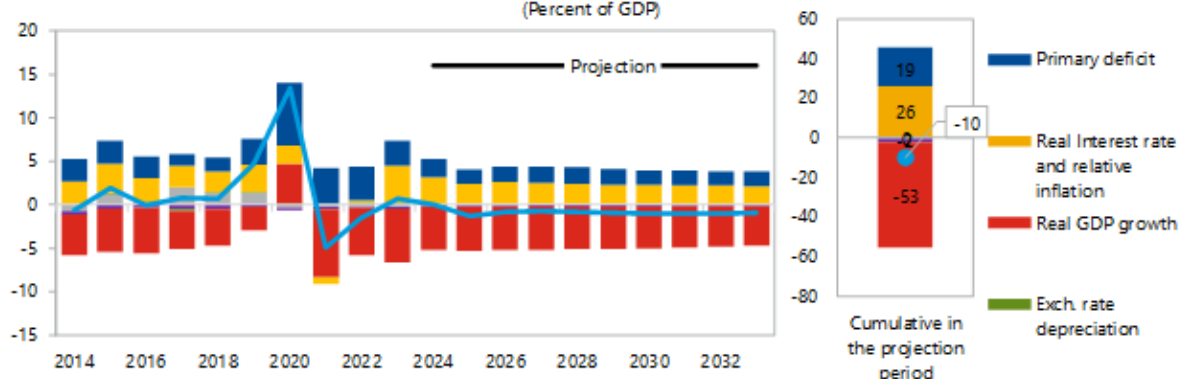
Note: The perimeter shown is general government.

Commentary: The bulk of debt is marketable and held in local currency, by domestic creditors. Foreign currency denominated debt are mainly on concessional terms. The inclusion of India in global bond indices has increased non-resident holdings of government securities, but the share remains relatively low. The maturity of outstanding debt has increased over time and this trend is expected to continue with new issuances skewed towards longer dated securities.

**Figure 4. India: Baseline Scenario**  
(Fiscal Year, percent of GDP unless indicated otherwise)

	Actual	Medium-term projection							Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Public debt	82.7	82.7	81.4	80.6	79.8	79.0	78.0	76.9	75.9	74.9	73.9	
Change in public debt	0.7	0.0	-1.3	-0.8	-0.8	-0.8	-1.0	-1.1	-1.0	-1.0	-1.0	
Contribution of identified flows	1.0	-0.1	-1.2	-0.8	-0.8	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	
Primary deficit	2.8	2.1	1.6	1.9	1.9	1.9	1.8	1.7	1.7	1.7	1.7	
Noninterest revenues	20.8	21.2	21.2	21.1	21.2	21.3	21.4	21.5	21.5	21.5	21.5	
Noninterest expenditures	23.7	23.3	22.8	22.9	23.0	23.1	23.1	23.1	23.1	23.1	23.1	
Automatic debt dynamics	-1.7	-1.9	-2.7	-2.4	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	
Real interest rate and relative inflation	4.3	3.1	2.4	2.5	2.5	2.4	2.3	2.3	2.2	2.2	2.1	
Real interest rate	4.4	3.1	2.3	2.5	2.5	2.4	2.3	2.3	2.2	2.1	2.1	
Relative inflation	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Real growth rate	-6.2	-5.1	-5.1	-4.9	-4.9	-4.9	-4.8	-4.8	-4.7	-4.6	-4.6	
Real exchange rate	0.2	...	...	...	...	...	...	...	...	...	...	
Other identified flows	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Other transactions	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	
Contribution of residual	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross financing needs	14.5	13.8	13.5	14.2	13.2	12.9	12.6	12.6	12.4	11.9	11.8	
of which: debt service	11.8	11.8	12.0	12.4	11.4	11.2	11.0	11.0	10.8	10.3	10.2	
Local currency	11.5	11.5	11.6	12.0	11.1	10.9	10.7	10.8	10.7	10.1	10.1	
Foreign currency	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	
Memoranda												
Real GDP growth (percent)	8.2	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	
Inflation (GDP deflator; percent)	1.3	3.1	4.2	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
Nominal GDP growth (percent)	9.6	9.9	11.0	10.8	10.7	10.7	10.8	10.8	10.8	10.8	10.8	
Effective interest rate (percent)	7.2	7.3	7.3	7.5	7.4	7.3	7.2	7.2	7.2	7.1	7.1	

**Contribution to Change in Public Debt**  
(Percent of GDP)



Commentary: While remaining elevated, public debt will gradually decline over the medium term. The decline reflects continued fiscal consolidation and a favorable interest-growth differential. Debt projections are higher compared to the 2023 Article IV Consultation reflecting a lower than expected outcome for nominal GDP in 2022/23. Indeed in rupee terms, the outcome for debt that year was below what had been projected in 2023. While gross financing needs are also expected to decline, they remain high averaging at 13 percent of GDP. Notably, estimates of gross financing needs have been revised down compared to the 2023 Article IV consultation, reflecting the faster-than-anticipated narrowing of the deficit and an increase in the maturity of issuances. Other transactions capture proceeds from asset sales.



Figure 5. India: Medium-Term Risk Assessment

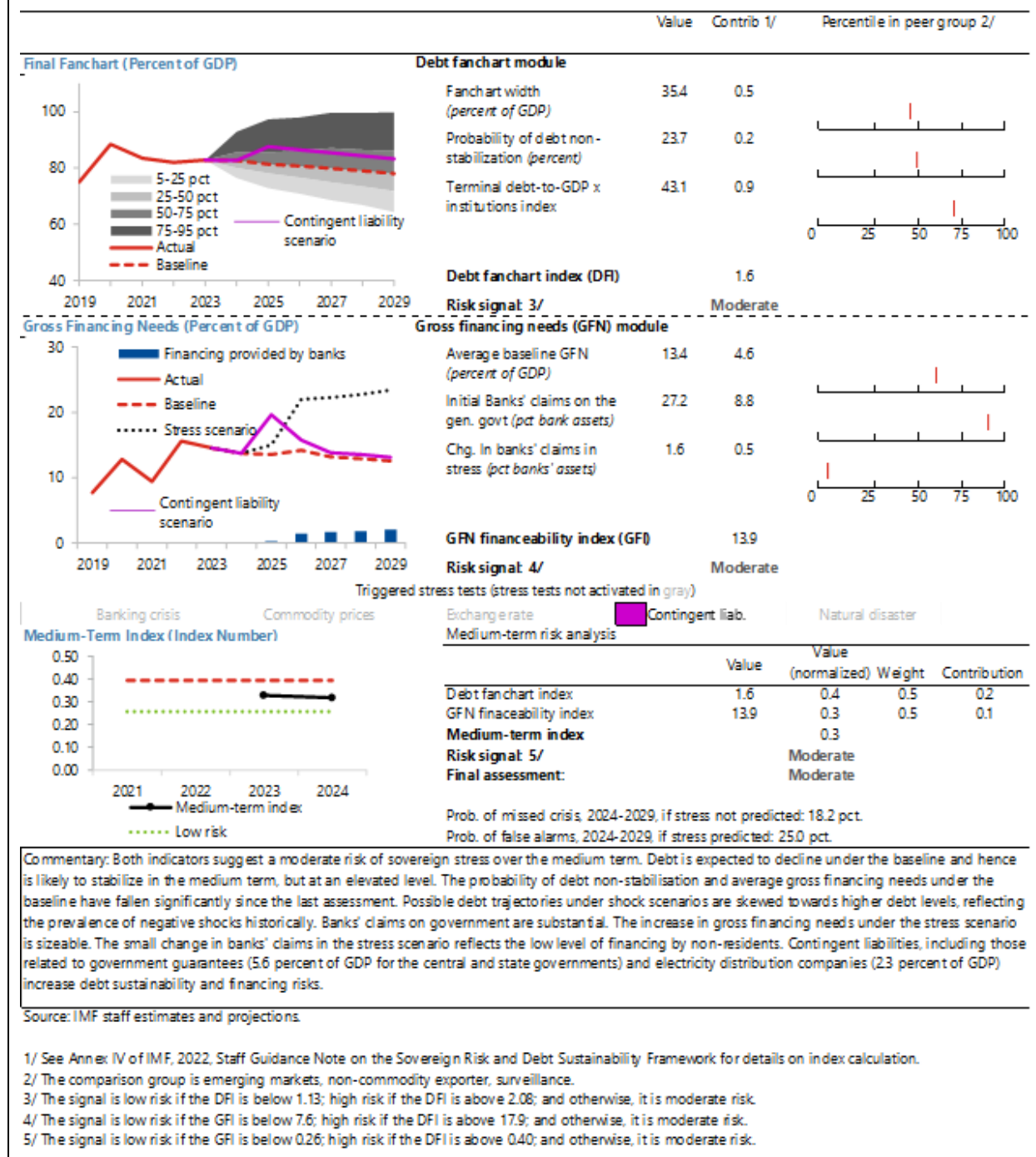
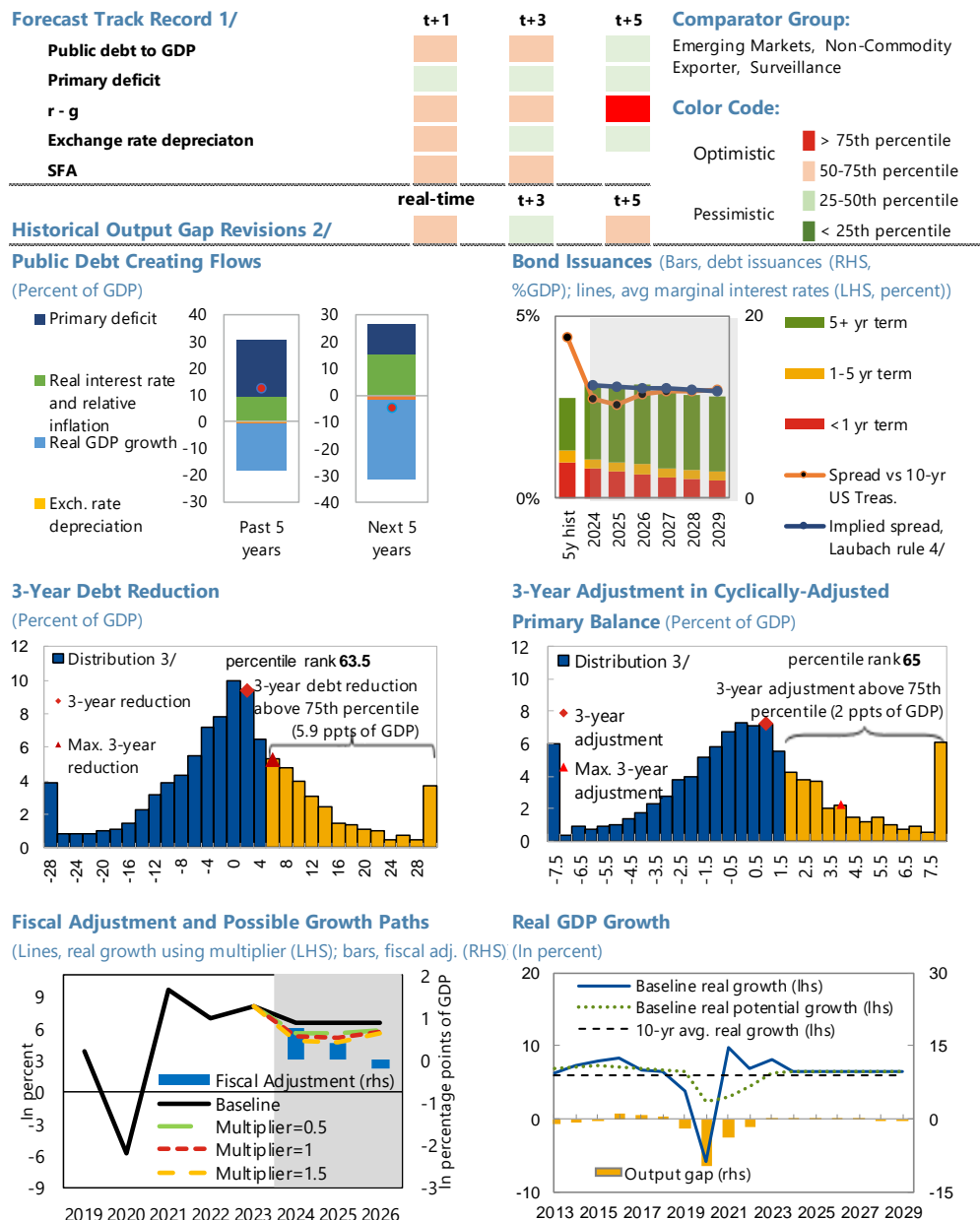


Figure 6. India: Realism of Baseline Assumptions



Commentary: The forecast track record does not flag any realism issues, showing a mix of optimism and pessimism that are within accepted bounds. Debt creating flows over the medium term reflect fiscal consolidation and robust economic growth, while historically they reflect the effect of the pandemic on growth and the deficit. The three year debt and CAPB adjustment are in line with the median of comparator countries and feasible when compared to India's historical experience. The effects of fiscal consolidation on GDP growth are mitigated by rising public investment, which has higher multipliers.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical :

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.











Figure 7. India: Triggered Modules

Large amortizations

Pensions  
HealthClimate change: Adaptation  
Climate change: Mitigation

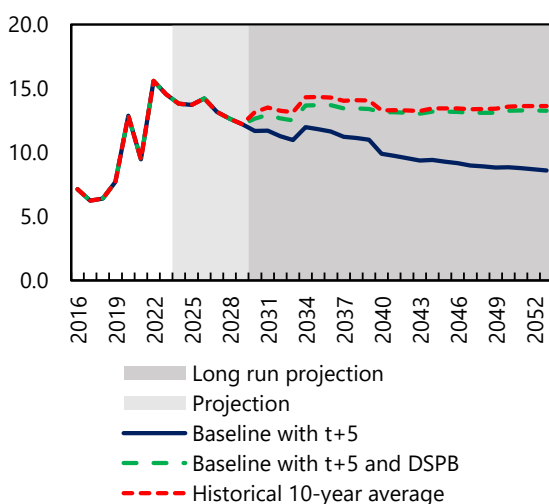
Natural Resources

## Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

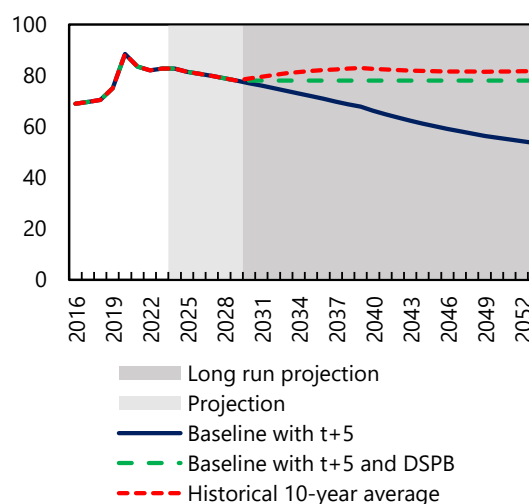
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	6.5%	6.5%	6.5%
Primary Balance-to-GDP ratio	-1.8%	-1.7%	-1.7%
Real depreciation	-3.3%	-2.4%	-2.1%
Inflation (GDP deflator)	4.0%	4.0%	4.0%

## GFN-to-GDP Ratio



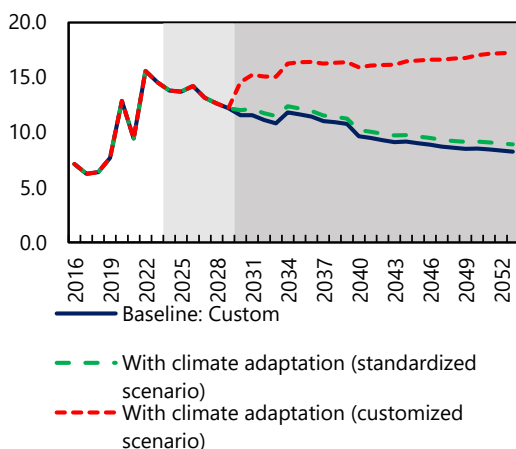
## Total Public Debt-to-GDP Ratio



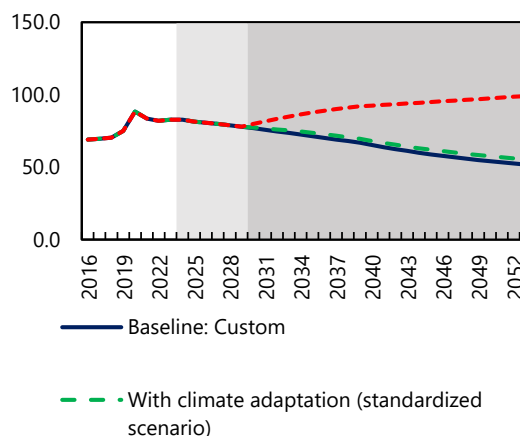
**Commentary:** Gross financing needs have fallen from their pandemic-related peak. This trend is expected to continue over the medium and long term as the deficit narrows. Similarly, fiscal consolidation and a favorable-interest growth differential will gradually reduce debt. Notably, the deficit is expected to fall below the debt stabilising level by 2025.

Figure 8. India: Climate Change: Adaptation

## GFN-to-GDP Ratio



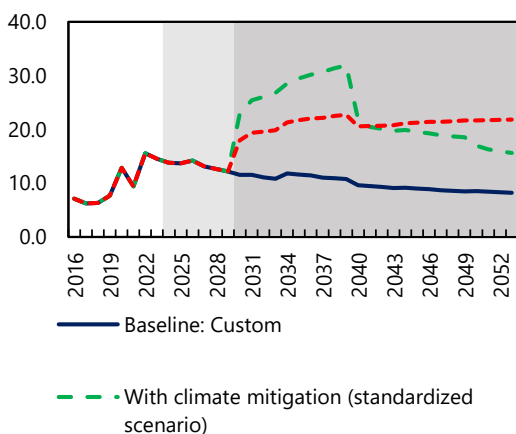
## Total Public Debt-to-GDP Ratio



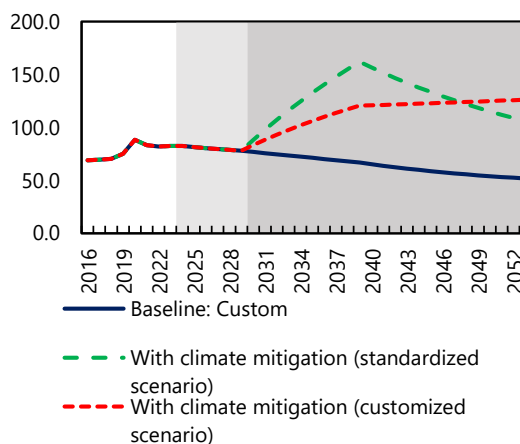
**Commentary:** Adaptation needs go beyond strengthening physical assets and coastal protection (standardized scenario) to include measures to adapt cities to extreme heat events and investments in climate smart agriculture (customised scenario). The required investments for India have been estimated based on regional adaptation needs (i.e. World Bank CCDRs for countries in South Asia). Financing these initiatives through the government budget using existing instruments would lead to a significant increase in debt, indicating that concessional sources of financing and greater private sector involvement are needed.

Figure 9. India: Climate Change: Mitigation

## GFN-to-GDP Ratio



## Total Public Debt-to-GDP Ratio



**Commentary:** India's investment needs to meet its climate change mitigation targets are estimated at between 4-8 percent of GDP per year (Ghosh and others, 2023). Financing these through the government budget, using the same instruments that are used to finance the budget deficit would substantially increase India's debt burden. Additional sources of concessional financing, greater private sector involvement, and carbon pricing or equivalent mechanisms are needed to reduce this burden.

## Annex IX. Public Investment Efficiency in India<sup>1</sup>

*Closing India's infrastructure gaps has been the focus of central and state governments in recent years. Since resources are scarce, there is a premium on spending them as efficiently as possible, maximizing returns from the government's capital expenditure. Illustrative frontier analysis shows scope for improvement in India's public investment management, which would enable greater access to infrastructure and enhancements of its quality.*

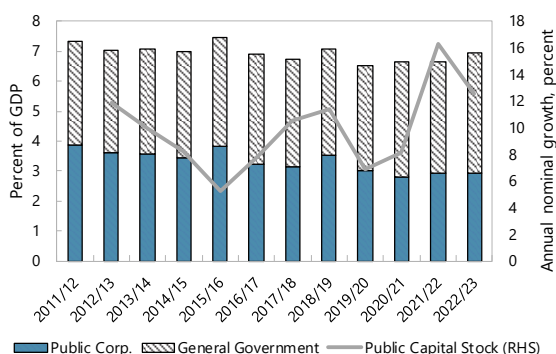
**1. India's infrastructure requirements are sizeable.** The National Infrastructure Pipeline (NIP) Taskforce estimates that India needs to spend over 10 percent of GDP each year between 2020 and 2030 in infrastructure investment to reach its economic goals (GOI, 2020). As such, capital expenditure has been the focus of central and state governments. Public investment averaged 6.7 percent of GDP between 2018/19 and 2022/23. Its pace of growth is in line with other emerging market economies (EMs) and above that of large EMs. Since 2021/22, the central government's investment has been concentrated in roads and rail, whereas the state governments' focus has been on roads, agriculture, water supply, and sanitation. Among state-owned enterprises (SOEs) controlled by the central government, investment has been highest in crude oil, petroleum, and power generation. Public-private partnerships have been active mostly in the roads and power sectors. Post-pandemic, infrastructure investment with private participation in India averaged 0.25 percent of GDP, in line with other large emerging markets. Private participation had peaked between 2008 and 2012, averaging over 2 percent of GDP, well above the level in peer countries.

**2. India lags behind peers on some indicators of infrastructure access, but perceptions of infrastructure quality are high.** Despite India's recent increase in public investment, the public capital stock per capita is still lowest in India among large EMs, and this also reflected in still low access to select services such as rail transportation, public education, electricity, and public health, compared to peers.<sup>2</sup> There have been steady improvements in access to drinking water, reflecting progress under the Jal Jeevan mission which aims to provide safe drinking water to rural households. In 2022, 93 percent of the population used at least basic drinking water services, above the share in emerging and developing Asia, but below large EMs. Similarly, access to roads has also increased following a large investment push and is close to peers. Perceptions of infrastructure quality have improved in recent years and are well above those of peer countries. The increase is driven by improvements in the perceived quality of roads and electricity supply, which has been the focus of public investment.

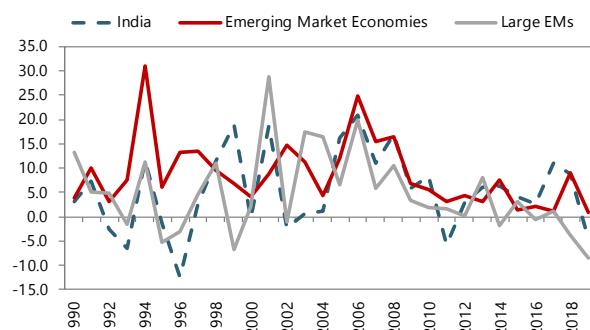
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<sup>1</sup> Prepared by Dinar Prihardini (APD).

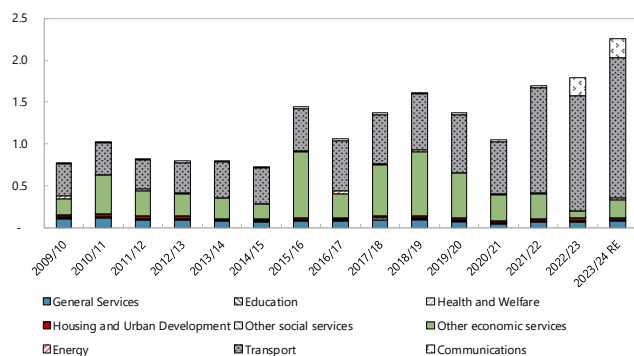
<sup>2</sup> For rail transportation, access is measured using kilometers of railway per 1000 population. This measure does not consider the density and geographic distribution of the population. E.g. Russia's high ratio partly reflects the need for more railway kilometers to service a dispersed population.

**Figure 1. India: Composition of Public Investment****Investment and Capital Stock****Public Investment**

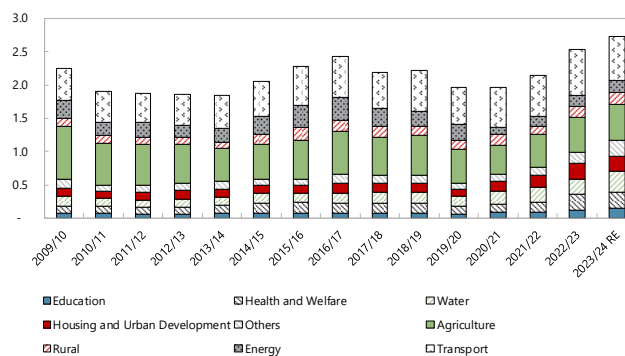
(Real, growth in percent)

**Central Capital Expenditure**

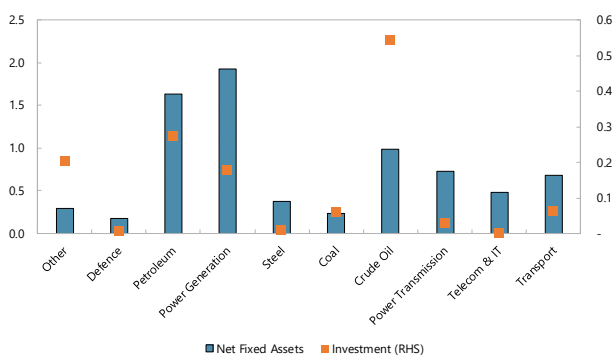
(In percent of GDP)

**States Capital Expenditure**

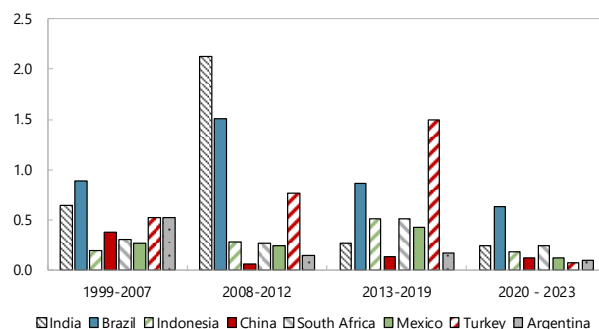
(In percent of GDP)

**Fixed Assets and Investments of Central SOEs 2022/23**

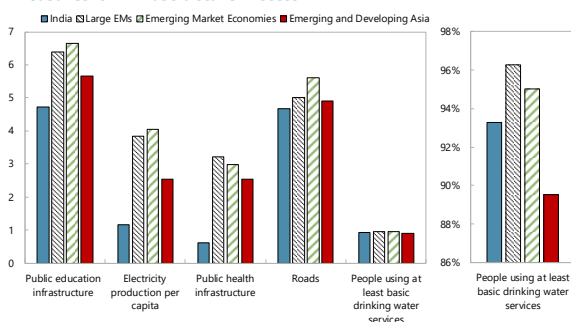
(In percent of GDP)

**Infrastructure Investments with Private Participation**

(In percent of GDP)



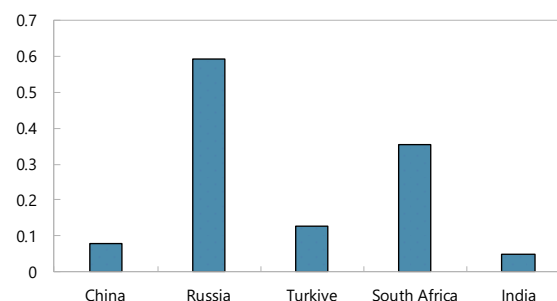
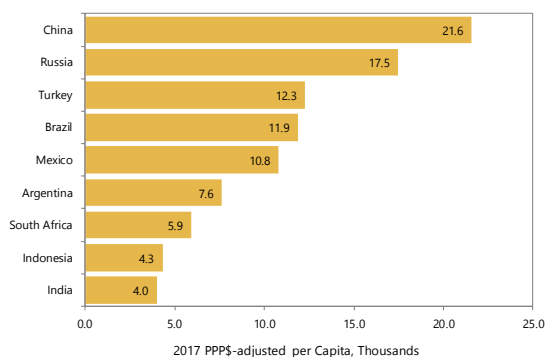
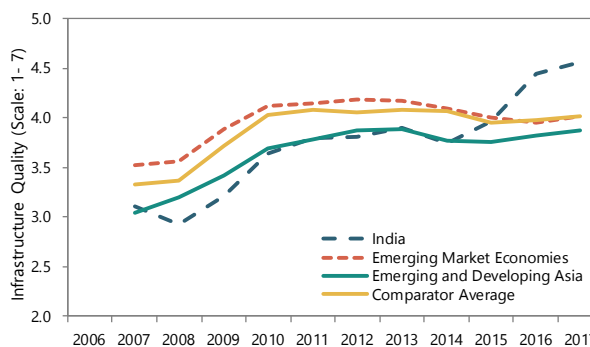
Sources: MOSPI; IMF Tool for Investment and Efficiency (2021); CEIC; MOF Public Enterprises Survey 2022–2023; World Bank Private Participation in Infrastructure Database.

**Figure 2. India: Infrastructure Access and Quality****Measures of Infrastructure Access**

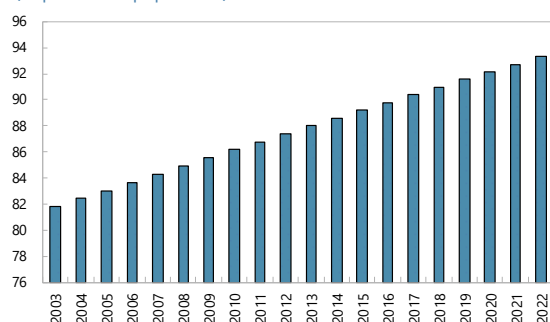
Note: Data for India is as of 2022, and data for other regions is as of 2019.

**Railways**

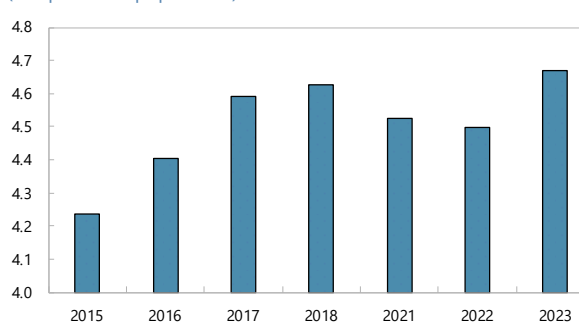
(2021, kms per 1000 population)

**Public Capital Stock Per Capita, 2019****Perceptions of Infrastructure****Access to Basic Drinking Water Services**

(In percent of population)

**Access to Roads**

(Km per 1000 population)

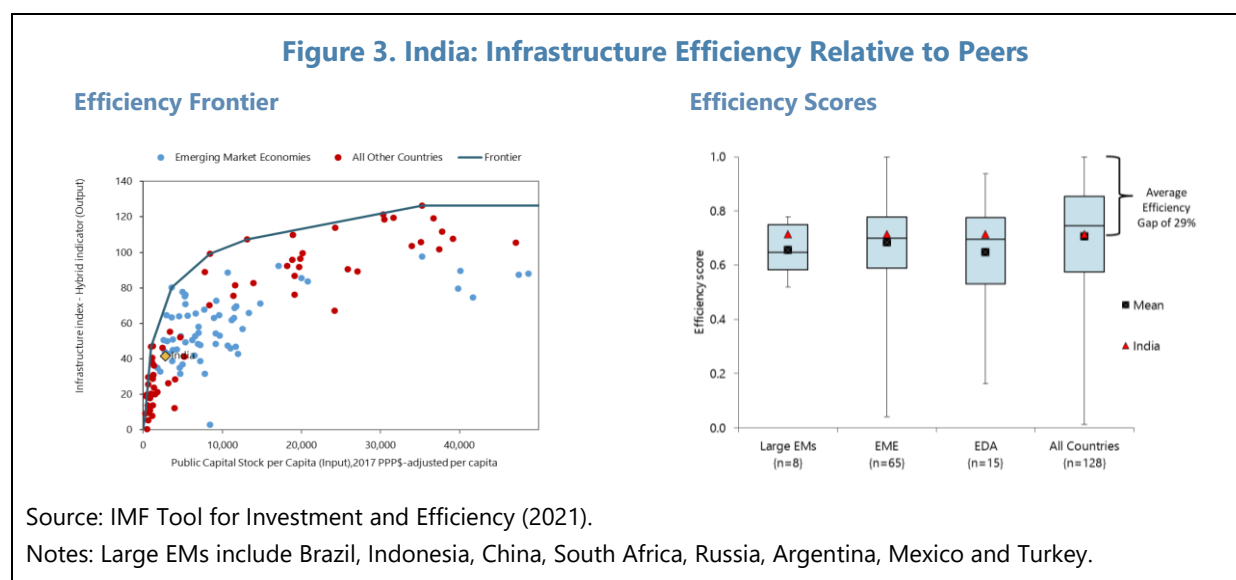


Sources: IMF Tool for Investment and Efficiency (2021); World Development Indicators; Ministry of Road Transport and Highways; National Health Profile (2022).

Note: Public education infrastructure is measured as secondary teachers per 1,000 persons; electricity production per capita as thousands of kWh per person; roads and rail per capita as km per 1,000 persons; and public health infrastructure as hospital beds per 1,000 persons. Right-hand axis: percentage of people using at least basic water services. Large EMs are Brazil, Indonesia, China, South Africa, Russia, Argentina, Mexico and Turkey.



**3. There is room to improve the efficiency of public investment in India.** Using data up to 2019, the estimated gap between India and the efficiency frontier is 29 percent.<sup>3</sup> The gap between India and the best performing large EM is much narrower at 8 percent. The efficiency frontier captures the relationship between the coverage and quality of infrastructure assets against the level of public capital stock and income per capita. The measures of physical infrastructure combine data on length of road network, electricity production, access to water, number of secondary teachers and quantity of hospital beds, while the quality is based on the World Economic Forum’s survey of business leaders’ perceptions of the quality of infrastructure services. While India’s efficiency score is below the median of all countries in the sample, it is in line with the median of EMs and emerging and developing Asia, and above the median of large EMs.



**4. With improved public investment management, India could narrow half of the efficiency gap from the frontier and see greater access and quality improvements from its public investment** (Baum et al 2020). Reviewing the procedures, tools, and decision-making and monitoring processes used by governments to provide infrastructure assets and services to the public (for example, the IMF’s Public Investment Management Assessment (PIMA) framework) can help identify the required reforms. At the national level, reforms to improve project preparation processes, such as planning and design, were identified by the NIP Taskforce as critical to achieve the required scale in infrastructure investments (GOI, 2020). This is in line with the global experience; PIMAs completed between 2015–2019 indicate that countries tend to have room for improvement in project selection, maintenance funding and project appraisal.

<sup>3</sup> The methodology is covered in “[Making Public Investment More Efficient \(2015\).](#)”

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[https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i\\_1.pdf](https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i_1.pdf)

## Annex X. Effects of Fiscal Consolidation on Growth<sup>1</sup>

**1. Reducing debt to rebuild fiscal buffers is an important priority.** Debt is at an elevated level and servicing costs are high, although the risk of sovereign stress is assessed to be moderate, with risks mitigated by the composition of debt (largely domestic, with a long duration) and India's favorable interest-growth differential. General government debt peaked at nearly 90 percent of GDP during the pandemic. Since then, the economic recovery, withdrawal of pandemic-era measures, lower commodity prices and restraint in recurrent expenditure has narrowed the fiscal deficit and reduced debt to around 83 percent of GDP in 2023/24 (authorities' definition: 82 percent).<sup>2</sup> To cement this trend, the authorities announced their aim to reduce central government debt to 50±1 percent of GDP by 2030/31.

**Table 1. India: Fiscal Consolidation and Growth**

Table 1. India: Fiscal Consolidation and Growth										
	2026/27		2027/28		2028/29		2029/30		2030/31	
Baseline Scenario (based on announced policies)										
Fiscal Accounts (percent of GDP)										
General Government Overall Balance	-7.3		-7.2		-7.0		-6.8		-6.6	
Union government	-4.6		-4.4		-4.2		-4.0		-3.8	
Reform Scenario										
General Government Fiscal Accounts (percent of GDP, difference from baseline)										
Revenue										
GST	0.3		0.5		0.8		0.9		1.0	
Income taxes	0.1		0.1		0.1		0.1		0.1	
Excise	0.1		0.1		0.2		0.2		0.2	
Expenditure										
Subsidies	-0.1		-0.1		-0.2		-0.3		-0.3	
Rationalisation of schemes	-0.1		-0.1		-0.1		-0.1		-0.1	
Health and targeted social support	0.1		0.2		0.3		0.5		0.6	
Capital expenditure	0.1		0.1		0.2		0.3		0.3	
Overall Balance	0.4		0.7		0.9		0.9		0.9	
Central	0.2		0.4		0.5		0.5		0.5	
States	0.2		0.4		0.5		0.5		0.4	
Macroeconomic Impact (percent of GDP, difference from baseline)										
Estimated risk premium reduction (basis points) 1/	5		7		9		11		13	
	Risk Premium Reduction									
	With	Without	With	Without	With	Without	With	Without	With	Without
Real GDP	0.0	-0.1	0.0	-0.1	-0.1	-0.2	0.0	-0.1	0.1	-0.1
Debt	-0.4	-0.4	-1.2	-1.1	-2.0	-1.8	-2.9	-2.6	-3.7	-3.4

Source: IMF staff estimates.

Source: IMF staff estimates.

**2. Staff's proposed reform scenario delivers on debt reduction, while also supporting growth-enhancing expenditures.** Given India's development needs and tax revenue potential, a revenue-based consolidation is appropriate. For example, to meet the sustainable development goals in health, education, water, sanitation, electricity, and roads requires 6.2 percent of GDP per year in public and private expenditure. Investment needs to meet India's net zero target and adapt to climate change are also sizeable. At the same time, the difference between India's tax potential and actual tax revenue is estimated at around 4 percent of GDP (Benitez and others, 2023). Tax potential in this context is estimated as the frontier of tax revenue after controlling for country

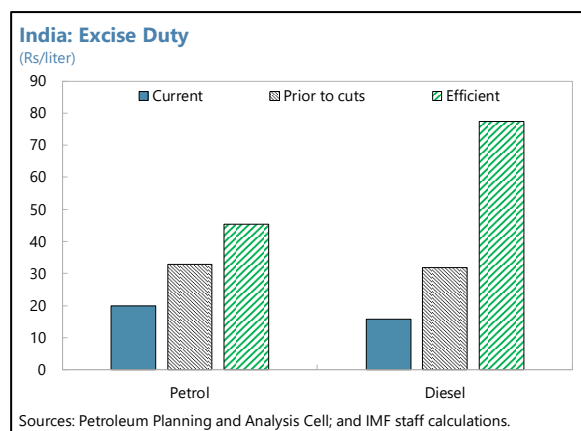
<sup>1</sup> Prepared by Dinar Prihardini (APD) and Pedro Cesar Rodriguez (RES).

<sup>2</sup> The IMF definition includes India's SDRs as part of external debt.

characteristics including GDP per capita, the relative size of the agriculture sector, openness to trade, and the perception of corruption in the public sector. India can reach its tax potential by reforming its tax policy design and continuing to improve tax administration efficiency.

**3. One possible reform scenario includes measures which lead to an additional 0.9 percentage point of GDP narrowing of the deficit over the next five years, relative to the baseline.** It comprises of the following:

- Simplify the GST.* Currently India has four main non-zero rates, an outlier amongst countries with a GST.<sup>3</sup> Simplification can be achieved by moving towards a single rate and rationalizing the items that are exempt or zero-rated. The Group of Ministers is working on developing measures for rate rationalization, with the objective to simplify the rate structure. The final report on their recommendations is forthcoming and will be presented to the GST Council for deliberation. In parallel, the GST Network is working to estimate the revenue implications of rate changes, with the support of IMF capacity development. Since its introduction, changes to the rate structure have eroded the effective GST rate (Agarwal and others, 2024); this erosion should be reversed. A single GST rate applied on a broad base can improve compliance, facilitate enforcement, and reduce the risk of evasion (for example, from misclassifying the good or service to take advantage of a lower GST rate). Exemptions also break the value-added chain and reduce the incentive for voluntary compliance. The gain in revenue from reforming the GST by removing all exemptions except for food and having a uniform rate of 14 percent is estimated to be 1 percent of GDP (de Mooij and others, 2019). Distributional concerns can be addressed through other instruments such as increased transfers through the existing Direct Benefit Transfer mechanism, with the amount of compensation estimated using the updated household expenditure survey. Higher rates for demerit and luxury products can be maintained, ideally through an excise tax (for example, luxury motor vehicles could have a GST rate of 14 percent, complemented by an excise tax rate of 14 percent).
- Reverse excise tax cuts on petroleum products and reinstate adjustment of fuel prices in line with international oil prices.* During the pandemic, excise taxes on petrol and diesel were increased in March and May 2020, then reversed in November 2021 and May 2022. This reversal led to 0.3 percent of GDP in foregone revenue annually.<sup>4</sup> In addition, since June 2022, fluctuations in international fuel prices were no longer reflected in domestic prices. Given that inflation is returning to

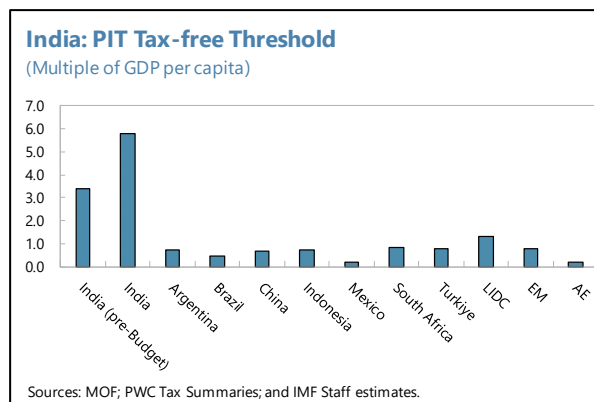


<sup>3</sup> There are additional rate slabs for items such as semi-precious stones and construction services of residential apartments. In addition, some rates under the GST compensation cess are specific, rather than ad valorem.

<sup>4</sup> <https://energy.economictimes.indiatimes.com/news/oil-and-gas/rs-2-2-lakh-crore-revenue-foregone-due-to-excise-duty-cuts-on-petrol-diesel-hardeep-puri/108379111>

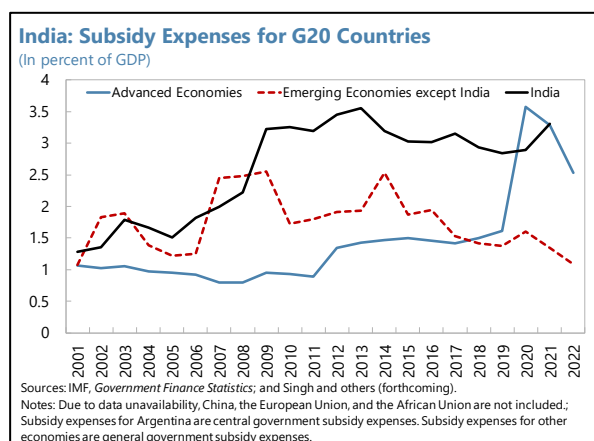
target and oil prices have moderated, it is an opportune time to reverse the excise tax cuts and allow oil prices to move in line with global supply costs.

- *Continue to broaden the corporate and personal income tax base.* Efforts to move taxpayers towards the newer tax schedule with lower rates and broader bases should continue. For personal income tax, rates and thresholds can be reviewed, particularly at the lower end where India's tax-free threshold is high compared to peers. At a minimum, the nominal PIT threshold should remain unchanged over the medium term.



Taxing agriculture income (above a reasonable threshold, to protect small farmers) would further broaden the tax base, improve horizontal equity, and remove a potential channel of tax avoidance. This would require close cooperation between the central and state governments because agriculture is the purview of the states, while income tax is collected by the central government. Such close cooperation in tax matters has been successful in the past, as demonstrated by the GST. The revenue gains from these reforms are targeted to be 0.1 percent of GDP.

- *Reform subsidies.* Subsidies at the center and state level, averaging 3 percent of GDP (18 percent of tax revenue), are high compared to other large emerging market economies. The bulk of this expenditure is spent on subsidizing food, fertilizers, and electricity. Ideally, support for the vulnerable would be in the form of targeted cash transfers, which India's Direct Benefit Transfer architecture is well placed to facilitate. Cash transfers substitute for in-kind food subsidies in several union territories, providing insights



on how this delivery mechanism can be implemented and improved (Rautela and Tibrewala, 2021). In Punjab, farmers are provided a cash incentive to save electricity consumption, though awareness of the program and take-up are low. Similarly, PM Kisan is an existing cash transfer program for farmers which can be expanded. Regardless of the delivery mode, better targeting of subsidies would contain fiscal costs while still supporting the vulnerable. Greater data exchange between various schemes, leveraging the existing digital infrastructure, can support this process. The Agri Stack, a digital foundation which brings together data and services, is a promising step in this direction; it would help ensure that only farmers or their authorized representative can access subsidized fertilizers and the quantity available would be determined by land size and crop pattern. The possibility of expanding this technology to also cover electricity subsidies to agriculture should be investigated. Further targeting can be done through

proxies for income, for example by phasing out subsidies above a certain land size. The fiscal savings from reforming subsidies are targeted to be 0.3 percent of GDP, a saving of around 10 percent of current subsidy expenditure. As a guide, reforming LPG subsidies (PAHAL) by using the DBT to provide cash transfers is estimated to have reduced LPG sales by between 11-24 percent by removing fraudulent accounts, encouraging high-income households to relinquish their subsidy and moving away from a dual pricing system that is prone to leakages (World Bank, 2018).

- *Rationalize schemes.* The results of NITI Aayog's ongoing assessment of central sponsored schemes can be used to guide the continued rationalization and restructuring of schemes. Previous recommendations were to rationalize schemes with overlaps, those which are no longer relevant, or had minimal impact (DMEQ, 2019). Other schemes which had similar objectives or implementation capacities were recommended to be merged. The fiscal savings from rationalizing schemes is targeted to be 0.1 percent of GDP; the extent of potential savings will become clearer once the assessments are finalized.
- *Enhance the social safety net and continue to invest in infrastructure.* The measures discussed above provide room to increase expenditure on health and expand infrastructure investment, helping to close existing gaps. Additional cash transfers can help compensate the vulnerable who are affected by the fiscal consolidation efforts.

**4. The overall effect of this fiscal consolidation on the economy is modelled using the G20MOD, part of the IMF's Flexible System of Global Models** (Andrle and others, 2015). It is an annual, multi-region general equilibrium model of the global economy, with a block specifically calibrated to match India's macroeconomic and fiscal characteristics. The model captures the decisions made by households, firms, the government, and the central bank. In particular, it has a rich fiscal sector with eight tax (for example, taxes on consumption, personal income, and company income) and spending instruments (for example, government consumption, infrastructure spending, lumpsum transfers, and targeted transfers). With overlapping generations households, the path of government debt has economic implications. In addition, there are liquidity-constrained households that consume out of current income, which amplifies the effects of temporary fiscal shocks.

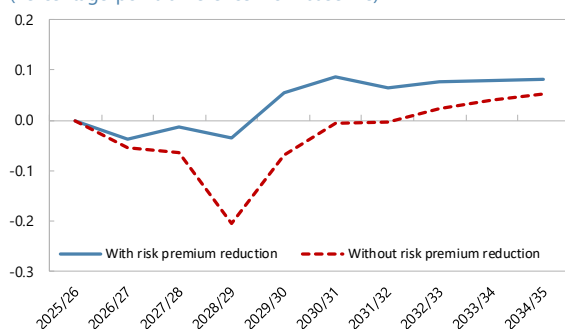
**5. While fiscal consolidation places a small drag on growth in the short to medium term, it has a positive effect on growth in the long term.** Real GDP (in level terms) is approximately 0.1 percent beneath baseline, but then recovers to be above baseline from 2029/30 onwards. Similarly, GDP growth is lower in the first three years of the consolidation scenario, but then recovers. GDP is lower because the higher tax revenue collection, particularly the GST, does cause consumption to drop below baseline. However, the consolidation is assumed to reduce government borrowing costs by an estimated 13 basis points, which flows through to lower financing costs for the private sector, boosting private investment (Padhi and others, 2023). By the end of the consolidation period, private investment is 0.7 percent above baseline, which adds to the capital stock, boosting long-term growth. Likewise, the additional government investment supports GDP growth directly and indirectly by expanding the economy's productive capacity. Overall government recurrent expenditure remains broadly unchanged as reduction in some areas (e.g. subsidies) are offset by increases in health expenditure. In addition to the reduction in borrowing costs, economic activity is

supported by exchange rate depreciation, which leads to higher exports and lower imports. Notably, by 2030/31, debt is 3.7 percentage points below the baseline. Without the reduction in financing costs, the peak GDP loss is greater at 0.2 percent of GDP, and it takes longer for real GDP to rise above baseline levels as private investment remains lower until the longer term.

**Figure 1. India: Macroeconomic Effects of Fiscal Consolidation**

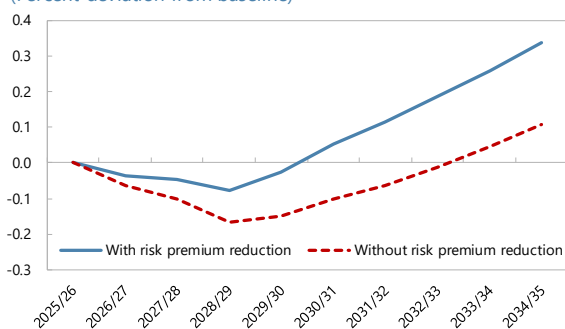
#### Real GDP Growth

(Percentage point difference from baseline)



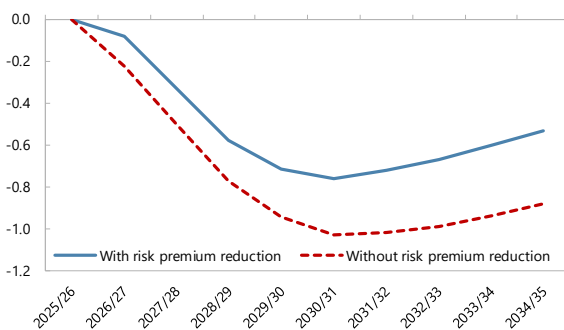
#### Real GDP

(Percent deviation from baseline)



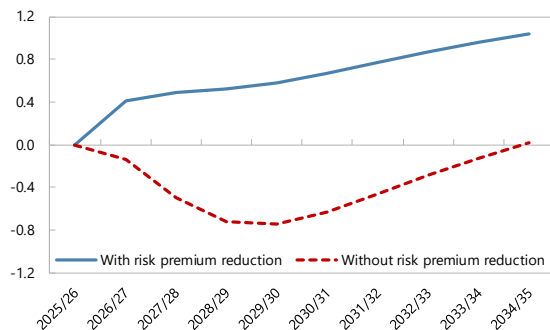
#### Private Consumption

(Percent deviation from baseline)



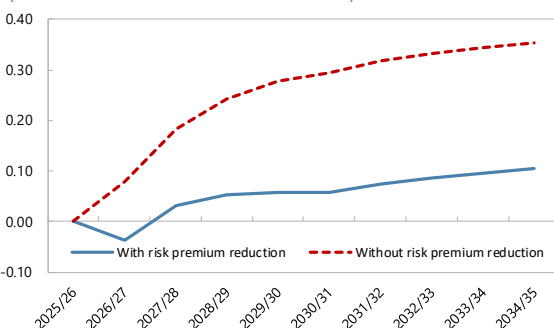
#### Private Investment

(Percent deviation from baseline)



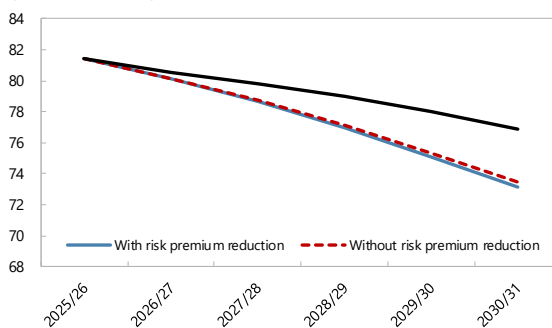
#### Current Account

(Percent of GDP difference from baseline)



#### General Government Debt

(Percent of GDP)



Source: IMF staff estimates.



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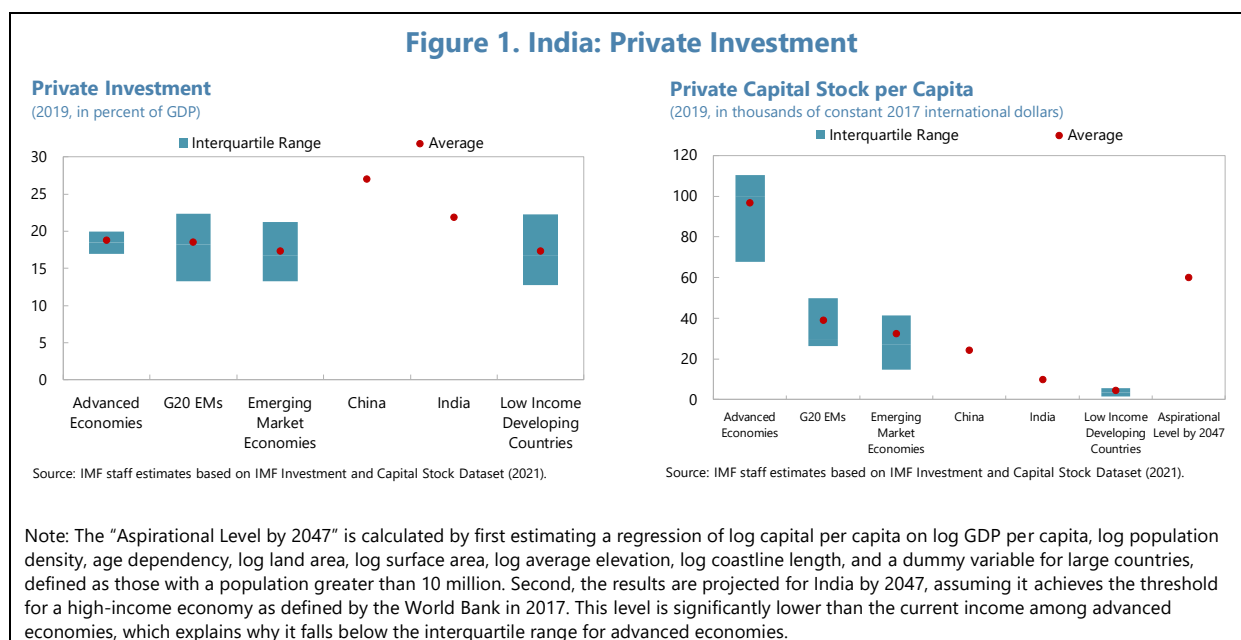
## Annex XI. 2024 FSAP Key Recommendations

Recommendations	Agency	Timing*
<b>Systemic Risk Monitoring, Analysis, and Coordination, including Climate</b>		
- Ease data sharing and collect more granular data of households, sectoral financial accounts, liquidity indicators of NBFC, and exposures to climate change risks.	RBI, SEBI, MoF	MT
- Improve/establish stress test tools for banks and NBFCs and sectoral and systemwide liquidity stress tests for banks, NBFCs, and mutual funds.	RBI, SEBI	ST
<b>Financial Sector Oversight</b>		
<b>System-wide oversight and macroprudential policy</b>	FSDC	
- Designate financial stability as the primary mandate of the FSDC and/or the FSDC-Subcommittee.	RBI, SEBI, MoF, IRDAI	ST
- Develop a centralized risk dashboard and assess systemwide risks periodically to manage inter-sectoral contagion and the uneven impact of climate change through FSDC.		MT
- Expand the use of borrower-based measures to all lenders and all household loans. Expand the existing DSTI limit for microfinance loans to all loans and refine the calibration in the future.	RBI	ST
- Start building the (positive neutral) CCyBs.	RBI	ST
<b>Common themes for regulation and supervision</b>		
- Amend legislation to clearly prioritize financial stability and investor protection objectives over developmental objectives of the key regulators.	RBI, IRDAI, SEBI, MoF	MT
- Strengthen powers and programs for supervising financial conglomerates and insurance groups.		
- Amend legislation to limit/redesignate the MoF’s power to intervene in regulatory and supervisory decisions of the RBI and IRDAI and to align corporate governance requirements of state-owned banks and insurers with those for private ones.		
<b>Cybersecurity:</b> Further enhance cyber mapping of the cyber and financial systems and undertake cross-sectoral and market-wide crisis simulation exercises and stress tests.	MoF, RBI, SEBI	ST
<b>Banks</b>		
- Enforce bank-specific Pillar-2 capital add-ons, which are currently set at zero for all banks.	RBI	ST
- Enhance the credit risk management framework by adopting IFRS 9 with prudential backstops.		
<b>Insurers:</b> Complete the transition to a risk-based solvency regime and supervisory approach.	IRDAI	ST
<b>Non-bank Financial Companies</b>		
- Align the regulations for state-owned and private-sector-owned NBFCs.	RBI	ST
- Enhance liquidity regulations and oversight of liquidity regulations for NBFCs.		
<b>Securities:</b> Incorporate risks-based analysis of emerging risk and develop an integrated approach to monitoring conduct risks and internal capacity to undertake systemic mutual fund stress tests.	SEBI	ST
<b>Crisis Management and Resolution</b>		
- Finalize the FSDR (resolution) bill in line with the Key Attributes and implement it.	MoF, regulators, IRDAI	MT
- Reform the resolution framework for insurers to include requirements for (orderly) voluntary exit.		ST
<b>Systemic Liquidity and Emergency and Systemic Liquidity Assistance/Support</b>		
- Continue reducing statutory liquidity ratio (SLR).	RBI	MT
- Set ex-ante guidance to broaden policy options to provide systemic liquidity support and ELA in a crisis, including being operationally ready to expand eligible collaterals with adequate risk controls.		
<b>Financial System Development</b>		
- Continue enhancing the flexibility of priority sector lending (PSL).	RBI	MT
- Improve the distressed credit restructuring framework by enhancing the out-of-court enforcement process and the Insolvency and Bankruptcy Code.	RBI, MoF	ST
- Introduce covered bond law and create securitization platforms with standardized features.	MoF, RBI	MT
* I-Immediate” is within one year; “ST-short-term” is 1–3 years; “MT-medium-term” is 3–5 years.		

## Annex XII. Reigniting Private Investment in India<sup>1</sup>

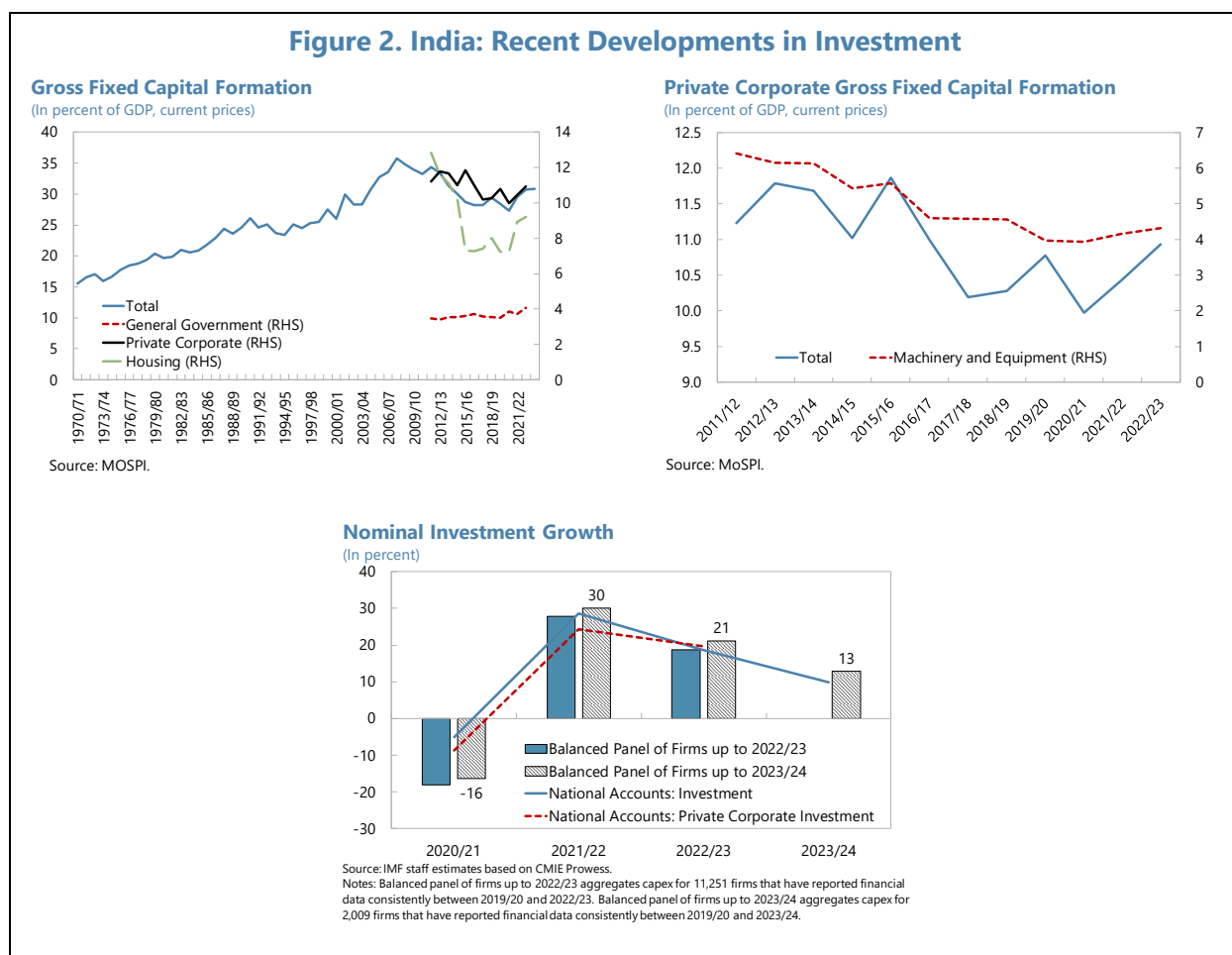
While private investment is relatively high compared to peers, the need to build the necessary capital stock for India's ambitious path to become an advanced economy suggests a need for further increases. The overall improvement in corporate balance sheets presents a favorable backdrop for an increase in private investment, although there is not yet broad-based evidence of capacity constraints. Economic policy uncertainty can be a drag on investment through fewer new project announcements and more abandoned projects. At the state level, business climate reforms lead to higher manufacturing investment, while higher labor force participation, more trade openness, and better education attainment also predict investment growth in this sector. Cross-country analysis suggests that structural improvements—such as judicial, business regulation, and credit market reforms—can play an important role in boosting private investment. Additionally, reducing trade restrictions is important in particular to incentivize FDI. Reforms in these areas can yield sizable gains for India.

**1. Private investment in India is relatively strong compared to peers, but there is considerable room for catch-up in capital stock per capita (Figure 1).** At above 20 percent of GDP, private investment in India is above the median across Emerging Market Economies (16.7 percent) and G20 EMs (18.2 percent), aligning with the 75<sup>th</sup> percentile in these groups. However, India's private capital stock per capita is low compared to peers, around a third of the median among EMs and G20 EMs. This highlights the need for the private sector to accumulate capital as India grows and develops. A simple regression correlating the per-capita capital stock of advanced economies with income and geographical and demographical features marks the scope of the challenge to meet the authorities' target of becoming an advanced economy by 2047 as shown by the value of "Aspirational Level by 2047" in the right-hand side chart of Figure 1.



<sup>1</sup> Prepared by Cristian Alonso, Fang Li, Nujin Suphaphiphat, and Ni Wang (all APD).

**2. Private investment has recovered after the pandemic, but growth has not taken off (Figure 2).** Investment more than doubled from 15.5 percent of GDP in 1970/71 to a peak of 35.8 percent of GDP in 2007/08. Since then, it declined and reached a low of 27.3 percent of GDP during the pandemic in 2020/21 before recovering to 30.8 percent of GDP in 2023/24. The post-pandemic recovery in investment has been driven by dwellings and public sectors, while private corporate investment has been sluggish especially compared with historical averages. More importantly, private corporate investment in machinery and equipment, which is especially important to expand the production capabilities of the economy, has been weak, reaching 4.3 percent of GDP in 2022/23 compared to an average of 5.9 percent of GDP between 2011/12 and 2015/16 and 3.9 percent in 2020/21. More recently, nominal investment growth by private corporates appears to have decelerated further from 21 percent in 2022/23 to 13 percent in 2023/24.<sup>2</sup> RBI (2024) documents a more favorable dynamic based on investment projects sanctioned by banks and financial institutions, but excludes self-financed investments.

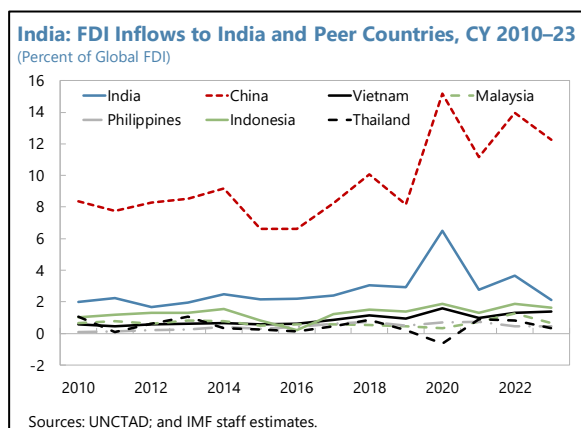


<sup>2</sup> Based on a balanced panel of 2,009 firms reporting investment data between 2019/20 and 2023/24.

**3. A simple accelerator model suggests a negative investment gap in recent years, especially in FDI (Figure 3).** We estimate a simple accelerator model to identify whether recent investment dynamics have been consistent with demand visibility and global factors following Barkbu and others (2015), IMF (2015), and IMF (2020):

$$\frac{I_t}{K_{t-1}} = \gamma + \frac{\alpha}{K_{t-1}} + \frac{\sum_{i=1}^n \beta_i \Delta Y_{t-i}}{K_{t-1}} + \Pi M_t + \varepsilon_t$$

where  $I_t$  is real investment in year  $t$ ,  $K_{t-1}$  is real capital stock in year  $t - 1$ ,  $\Delta Y_{t-i}$  is the change in real GDP in year  $t - i$ , and  $M_t$  includes other controls such as global variables and domestic interest rates.<sup>3</sup> We find that investment was below what a model accounting only for demand dynamics would have predicted in 2023/24.<sup>4</sup> Part of the gap appears to be explained by global factors and domestic interest rates. The gap is especially evident in net FDI, even when accounting for global factors, which have limited explanatory power, as Indian FDI has historically shown less sensitivity to global dynamics. The gap may then be explained by increased sensitivity compared to historical experience to global dynamics such as higher geopolitical uncertainty, friendshoring, and other factors affecting global FDI flows, or domestic policies beyond what is captured by traditional indexes, ongoing renegotiation of Bilateral Investment Treaties, or other factors. While FDI flows have declined broadly around the world in recent years, the decline has been more pronounced for India, whose share in global FDI has decreased (falling to about 2 percent in 2023 from about 6½ percent in 2020). Still, India has achieved a remarkable milestone in its economic journey, with gross cumulative FDI inflows reaching \$1 trillion over 2000–24, and gross FDI inflows rose by nearly 30 percent y/y during April–September 2024. However, net FDI diminished considerably over recent years (and turned negative in 2024Q3), in part reflecting repatriation and profit-taking by firms taking advantage of favorable valuations, as well as increasing outward FDI by Indian entities.



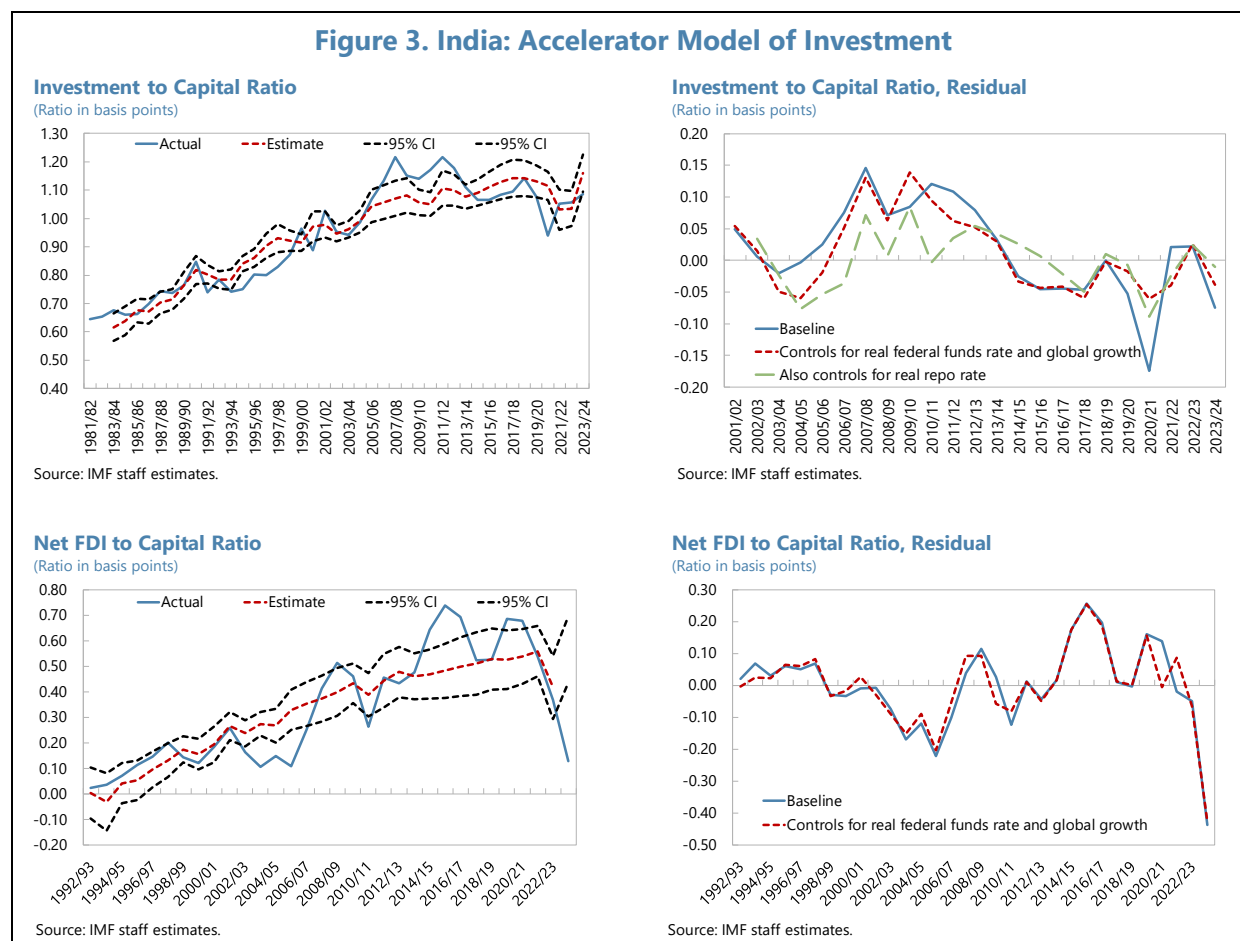
#### 4. India's approach to Bilateral Investment Treaties (BITs) changed in recent years.

Between 2013 and 2023, India issued termination notices to 68 countries for BITs (Economic Times, 2023) and began negotiations of new treaties under the framework of a new model agreement adopted in 2015 (Model BIT 2015). Since the adoption of the Model BIT 2015, India has signed BITs

<sup>3</sup> We include lagged GDP changes to alleviate reverse-causality concerns and normalize investment by lagged capital stock to address concerns of nonstationarity. Standard errors using the Newey-West procedure are computed with a lag of 3.

<sup>4</sup> This is shown by the blue line (actual investment to capital ratio) being below the dashed red line (estimated investment to capital ratio) in the left-hand side charts of Figure 3, including occasionally laying outside the confidence interval. The difference between actual and estimated investment to capital ratio is shown in the right-hand side charts. There, in addition to the baseline, results from two other models are included.

with Belarus, Kyrgyzstan, Brazil, UAE, and Uzbekistan, the Bilateral Investment Agreement between India Taipei Association in Taipei and Taipei Economic and Cultural Center, and the Investment Incentive Agreement with the USA. Negotiations are ongoing with other countries on the basis of the Model BIT 2015. The 2025/26 Budget Speech also announced a revamp of the Model BIT. Currently, the share of global GDP amounted by India's counterparties in BITs in force is small.



**5. While evidence is mixed, BITs may be a positive factor for FDI.** BITs aim to promote FDI by offering protections to foreign investors. Estimating the impact of BITs on FDI is challenging because of data limitations and endogeneity concerns. The literature has found both positive (Egger and Pfaffermayr, 2004; Neumayer and Spess, 2005; Egger and Merlo, 2007; Busse, Königer and Nunnenkamp, 2010) and negative or insignificant effects (UNCTAD, 2014; Hallward-Driemeyer, 2003; Tobin and Rose-Ackerman, 2005; Tobin and Rose-Ackerman, 2011). Poulsen (2010) argues that multinationals rarely take BITs into account when deciding the destination and magnitude of foreign investments, yet the author also reports survey results where 19 and 49 percent of corporate executives indicate that BITs matter to a very great extent and to a limited extent, respectively. Yackee (2010) indicates that out of 14 political risk insurers who responded to a survey (from an initial sample of 56), “eight said that it was not standard practice to determine whether an investment would be covered by a BIT prior to issuing a policy.” Using detailed firm-level data, Sztajerowska (2021) finds that investment agreements, in particular those with investor-state dispute

settlement, increase the probability of multinational enterprise's first foreign entry when they are accompanied by a double-taxation treaty. Egger and Merlo (2012) also use firm-level data and find that German multinational enterprises increase their presence in foreign countries after investment agreements are signed. Hartmann and Spruk (2022) estimate a reduction of more than 30 percent in FDI inflows to India in response to BIT terminations compared to countries without termination. In sum, while BITs may not be the main driver of FDI, it is likely that they positively contribute.

## Financial Health and Outlook of Indian Corporates

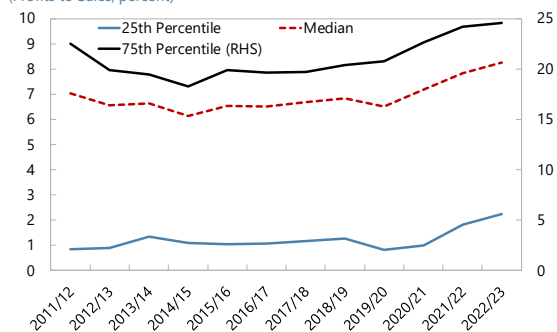
**6. Corporate financial health has improved significantly on aggregate over the last five years, despite considerable heterogeneity (Figure 4).** Median corporate profit and median cash flow generation increased to 8.3 percent of sales in 2022/23 (from 6.8 percent in 2018/19) and 3.3 percent of assets in 2022/23 (from 2.1 percent in 2018/19), respectively. Corporate balance sheets appeared healthier, with median leverage declining from 0.60 in 2018/19 to 0.51 in 2022/23 and liquidity rising from 2.6 percent in 2018/19 to 3.2 percent in 2022/23. Preliminary evidence for 2023/24 suggest that these trends persisted. The share of distressed firms, defined as those with an interest bill greater than their profits before interest and taxes, halved from 21 to 11 percent, even as policy interest rates rose to contain inflation in the post-pandemic recovery. Interest coverage varies significantly across sectors and tends to be high in information and communication and professional services. Nonetheless, the dynamics have been heterogeneous across firms since the pandemic. In 2022/23, only 52 percent of the firms reported higher profitability compared to 2018/19, 57 percent had lower leverage, and 59 percent showed higher interest coverage, indicating that a substantial portion of firms have not experienced stronger financial health over this period.

**7. However, there is no broad-based evidence of widespread capacity constraints (Figure 5).** Capacity utilization in manufacturing reached 75.8 percent in 2024Q2, in line with levels achieved in 2019. Following a recent moderation of production expectations in manufacturing, 85.7 percent of firms expected production capacity to be adequate to meet demand within the next six months. More broadly across the economy, only 49 percent of firms had a higher sales-to-assets ratio in 2023/24 compared to 2018/19. However, there appears to be some investment appetite in the services and infrastructure sectors with 57 percent of firms in services and 75 percent in infrastructure expecting physical investments to increase.



**Figure 4. India: Financial Health of Indian Corporates****Profitability of Indian Corporates**

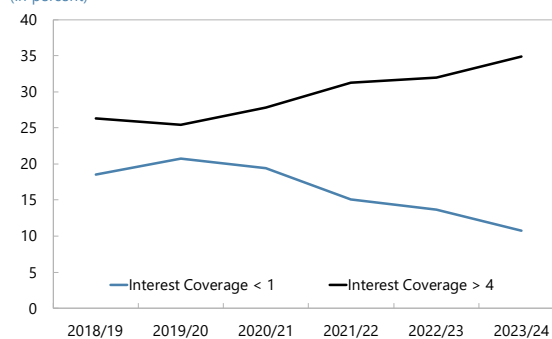
(Profits to Sales, percent)



Source: IMF staff estimates based on CMIE Prowess.

**Share of Firms by Interest Coverage**

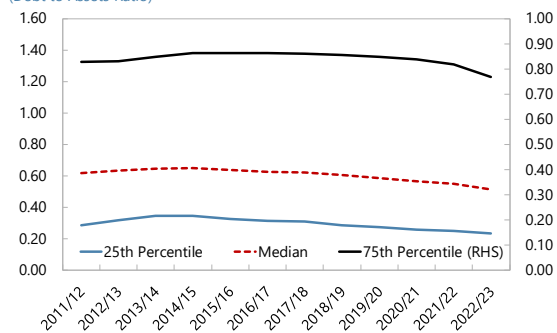
(In percent)



Source: IMF staff estimates based on CMIE Prowess.

**Leverage of Indian Corporates**

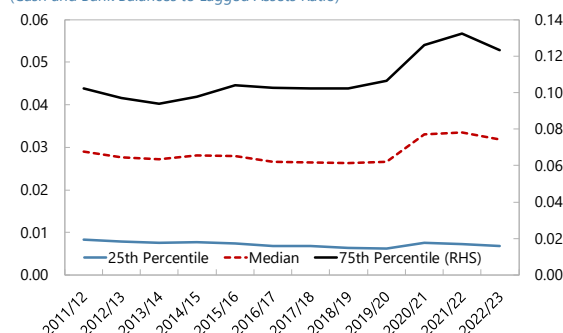
(Debt to Assets Ratio)



Source: IMF staff estimates based on CMIE Prowess.

**Liquidity of Indian Corporates**

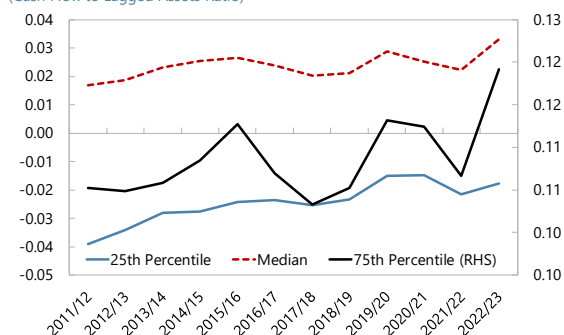
(Cash and Bank Balances to Lagged Assets Ratio)



Source: IMF staff estimates based on CMIE Prowess.

**Cash Flow Generation by Indian Corporates**

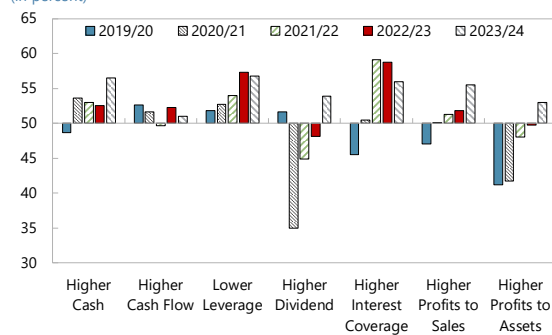
(Cash Flow to Lagged Assets Ratio)



Source: IMF staff estimates based on CMIE Prowess.

**Share of Firms with Better Financial Health than in 2018/19**

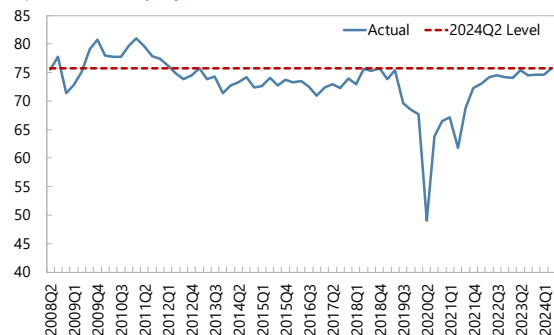
(In percent)



Source: IMF staff estimates based on CMIE Prowess.

**Figure 5. India: Capacity Utilization and Outlook for Indian Corporates****Manufacturing Capacity Utilization**

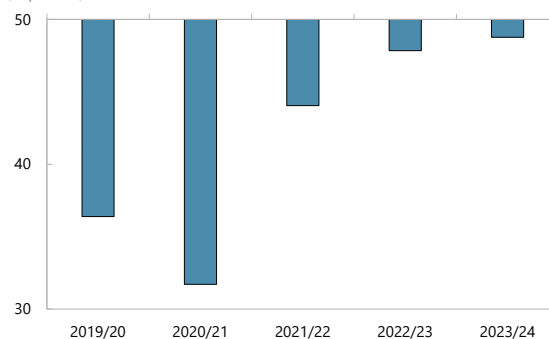
(In percent, seasonally-adjusted)



Source: RBI.

**Share of Firms with Higher Sales to Assets than in 2018/19**

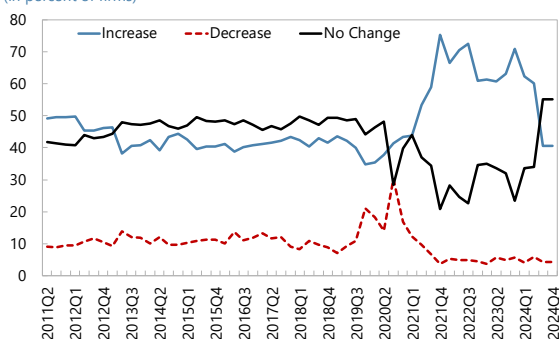
(In percent)



Source: IMF staff estimates based on CMIE Prowess.

**Manufacturing: Production Expectations**

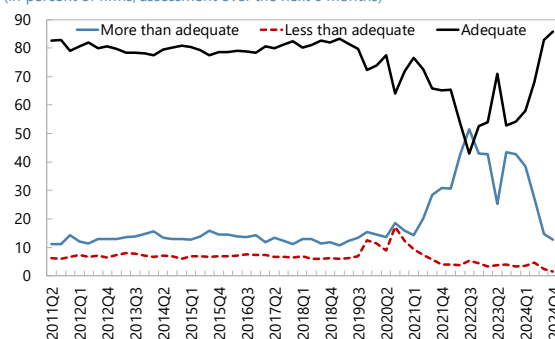
(In percent of firms)



Source: RBI.

**Manufacturing: Capacity with Regard to Expected Demand**

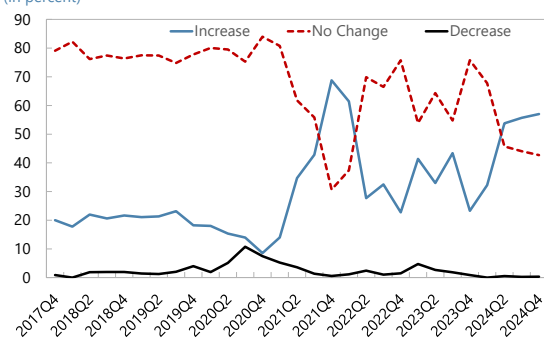
(In percent of firms, assessment over the next 6 months)



Source: RBI.

**Services: Physical Investment Expectations**

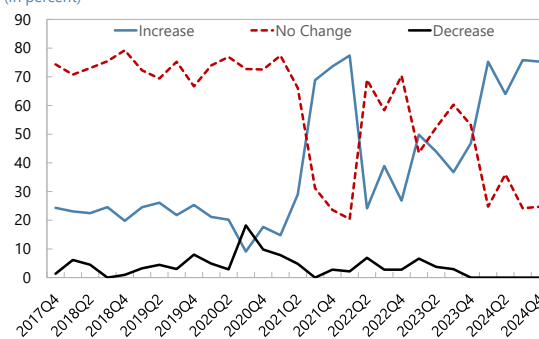
(In percent)



Source: RBI.

**Infrastructure: Physical Investment Expectations**

(In percent)



Source: RBI.

**The Impact of Uncertainty on Investment**

**8. The economic policy uncertainty index has been somewhat elevated recently, partly reflecting global trends.** We use the Economic Policy Uncertainty Index for India produced by



where **Project Count<sub>t</sub>** is the count of projects as tracked by CMIE (depending on the regression specification, we consider projects that are announced, abandoned, announced and stalled, with stalled implementation, or shelved) in quarter **t**; **Y<sub>t</sub>** is real GDP in quarter **t**, so that **log Y<sub>t</sub> – log Y<sub>t-4</sub>** is the y-o-y growth rate; **M<sub>t</sub>** includes other controls such as domestic credit and policy rate, and quarter-of-the-year fixed effects.<sup>6</sup> We compute standard errors using the Newey-West procedure with a lag of 3.

**11. Economic policy uncertainty is associated with lower investment and delayed projects (Table 1).** A one-standard deviation increase in uncertainty (that is, 40 points) is associated with a decline in the number of new projects announced by 11 percent, which is around 66 fewer projects per quarter. A one-standard deviation increase in uncertainty is also associated with 8 more projects abandoned even after implementation had begun, 5 projects temporarily stalled and 8 projects permanently shelved before implementation began, and 4 projects whose implementation stalls.

**Table 1. India: Regression Analysis of Project Counts**

	New Announcements		Abandoned		Announced & Stalled		Stalled Implement		Shelved	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Economic Policy Uncertainty	-0.003** (0.001)	-0.004*** (0.001)	0.011*** (0.002)	0.009*** (0.002)	0.012*** (0.003)	0.009*** (0.002)	0.015*** (0.003)	0.014*** (0.002)	0.009*** (0.002)	0.009*** (0.002)
Real Repo Rate (India)	-0.064*** (0.017)	-0.050*** (0.018)	-0.019 (0.061)	0.019 (0.050)	-0.069 (0.068)	-0.019 (0.051)	-0.067 (0.069)	-0.037 (0.066)	0.013 (0.051)	0.026 (0.056)
Lagged Credit to GDP		0.006*** (0.002)		0.018*** (0.004)		0.024*** (0.003)		0.014*** (0.004)		0.006 (0.004)
Observations	92	92	92	92	92	92	92	92	92	92
R-squared	0.28	0.48	0.25	0.53	0.26	0.63	0.34	0.46	0.23	0.27
Average Quarterly Count	600	600	15	15	8	8	5	5	17	17

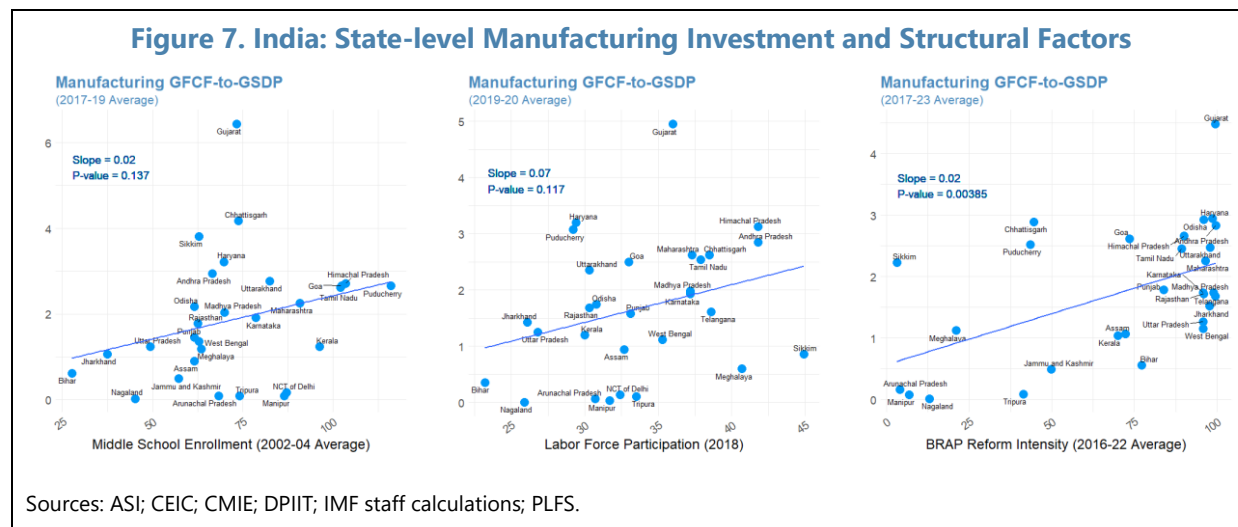
Note: Real interest rates are computed by subtracting GDP deflator growth from nominal rates. Real GDP growth rates with 6 lags and quarter-of-the-year fixed effects are included in all regressions. Dependent variable is the log of project count for each category: new project announcements, abandoned projects, announced and stalled projects, projects with stalled implementation, and projects shelved.  
\*p < 0.10, \*\*p < 0.05, \*\*\*p < 0.01; Newey-West estimator.

## Drivers of State-level Manufacturing Investment

**12. Manufacturing investment has been heterogenous across states and is positively correlated with education attainment, labor force participation, and ease-of-doing-business reforms (Figure 7).** We use state-level gross fixed capital formation data from the Annual Survey of Industries as the measure of investment and investigate its correlation with various structural indicators. Education attainment is measured by middle school enrollment 15 years prior to the reference period for investment, so that the then-middle-schoolers would be in their late 20s during the reference period. Labor force participation rate (LFPR) is the worker-to-population ratio by current weekly status from the Periodic Labour Force Survey. Intensity of ease-of-doing-business reforms is measured by the percentage of reforms implemented under the Business Reform Action

<sup>6</sup> CMIE's CapEx database tracks the lifecycle of investment projects that entail a capital expenditure of Rs. 10 million or more. The database is created and updated from publicly available information and by contacting the promoter or implementing companies.

Plan (BRAP),<sup>7</sup> an official reform exercise for Indian states/UTs aiming at improving their business climate. Beyond manufacturing investment, IMF (2023) has documented the positive correlation between state-level FDI inflows on one hand and the business climate and export preparedness on the other.



**13. Empirical analysis confirms that business reform implementation, openness to trade, LFPR, and education can boost manufacturing investment at the state level.** We estimate drivers of manufacturing investment using the following specification:

$$y_{it} = \lambda_t + \alpha \cdot \text{ReformIntensity}_{it} + \sum_k \beta_k \cdot x_{k,it} + \beta_0 + \epsilon_{it},$$

where  $y_{it}$  is the manufacturing investment in percent of gross state domestic product (GSDP) in state  $i$  and year  $t$ ,  $\lambda_t$  is a year fixed effect, reform intensity is the percentage of BRAP reforms implemented, and  $x_{k,it}$  include various controls including (i) measures of initial conditions such as manufacturing investment and per capita income during the pre-reform period, and (ii) current macroeconomic and structural conditions such as output growth and labor force participation. The data used for estimation covers the years where BRAP reform outcomes are available. Columns 1, 3, and 5 in Table 2 report the estimates for three variants of the specification, where Column 3 uses lagged reform intensity as the regressor of interest and Column 5 includes the fixed effects for states with over 10 million population and union territories (UTs). All three variants find significant

<sup>7</sup> Starting in 2015, the Department for Promotion of Industry and Internal Trade (DPIIT) in the Ministry of Commerce and Industry of the Indian government has released plans annually that cover reform measures in areas such as single window systems, land administration, and labor regulation. States/UTs later submit evidence for DPIIT to evaluate implementation of the covered reforms. We use the percentage of reforms implemented as the measure of business reform intensity, which may differ from the official scores for BRAP reforms that also weigh each reform by the Action Points assigned to it. Our measure has a longer horizon that includes 2016, 2018-2020, and 2022 and hence result in a larger sample size, than the official BRAP reform scores, which are available for 2015-2017. The correlation between our measure of reform intensity and the official scores is close to 1 with low standard error.

positive association between reform intensity and manufacturing investment, and the magnitudes are similar. A 10-percentage point increase in reform intensity under BRAP, is associated with higher manufacturing investment by around 0.1 percent of GSDP. In addition, trade openness, labor force participation, and education attainment of the population predict stronger manufacturing investment.

**14. We establish the causality of the effect of business reforms on manufacturing investment with an instrumental variable approach.** To draw causal conclusions, we need to address the potential endogeneity issues such as reverse causality, where the expectation of more investment could incentivize business reforms. We employ the neighboring states/UTs<sup>8</sup> average reform intensity as the instrumental variable (IV) for each state/UT's own reform intensity, as neighbors' reform intensity can encourage own reforms through learning from and competition with peers, following Acemoglu et al. (2019) and Pienknagura (2024).<sup>9</sup> The estimates are shown in Columns 2, 4, and 6 of Table 2, and the magnitudes are similar to the ordinary-least-square estimates.

### Gains from Structural Reforms

**15. Cross-country empirical evidence suggests that governance, business regulation, and credit market reforms can boost private investment, while external sector reforms can foster FDI (Figure 8).** We use a local projection model to estimate dynamic effects of reforms on private investment and FDI for 160 countries during 2000–2019:

$$inv_{i,t+k} - inv_{i,t-1} = \alpha_i + \gamma_t + \beta_k SR_{i,t} + \theta X_{i,t} + \varepsilon_{i,t}$$

Where  $inv_{i,t}$  is the log of real investment of country  $i$  in year  $t$ ;  $\alpha_i$  and  $\gamma_t$  denote country and year fixed effects;  $\beta_k$  is a coefficient that captures the (cumulative) impact on  $inv_{i,t}$  following the introduction of a given structural reform;  $SR_{i,t}$  denotes the structural reform of interest: judiciary, business regulations, and credit markets;  $X_{i,t}$  is a vector of control variables, including lags of investment growth, past economic growth, and past reforms. The same analysis is performed for FDI, with judiciary, business regulation, and external sector as structural reforms of interest. Results suggest that judiciary, business regulation, and credit market reforms have sizable positive effects on private investment. For example, a major judicial reform is estimated to boost private investment, on average, by up to 3 percent in two years. Major business regulation reforms, on average, increase investment by about 2 percent, while major credit market reforms raise investment by up to 6

<sup>8</sup> Neighbors are defined as states/UTs that share the border with the state/UT in question.

<sup>9</sup> Our first-stage regression confirms a significant conditional correlation of 0.7 between the IV and own reform intensity. We show that the IV approach is robust against potential endogeneity issues due to regional common trends and spillovers in two exercises. First, we add neighbors' manufacturing investment growth or GSDP growth as a control variable for regional trends or spillovers, which yields similar estimates for the coefficient of reform intensity. Second, we include own reform intensity and neighbors' reform intensity at the same time. Neighbors' reform intensity has no significant effect when own reforms are controlled for, suggesting that neighbors' reforms do not influence own manufacturing investment through channels other than own reforms.

percent.<sup>10</sup> Although external sector reform does not appear to have a significant impact on aggregate private investment, the analysis finds that external sector reforms, particularly lowering non-tariff restrictions, can boost inward FDI by almost 10 percent in the medium term.

**Table 2. India: Structural Factors Affecting State Manufacturing Investment**

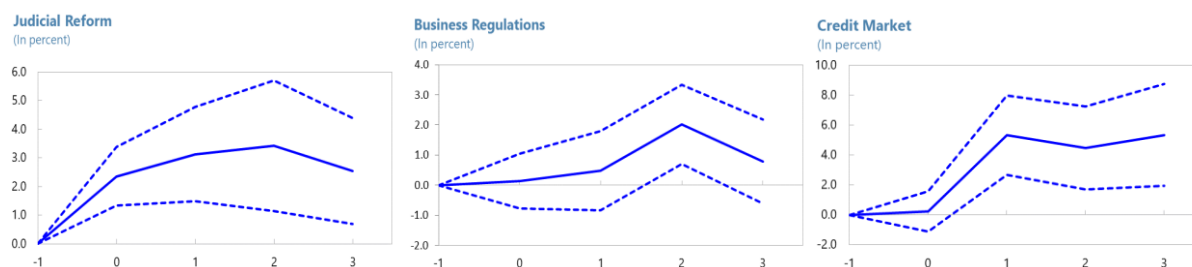
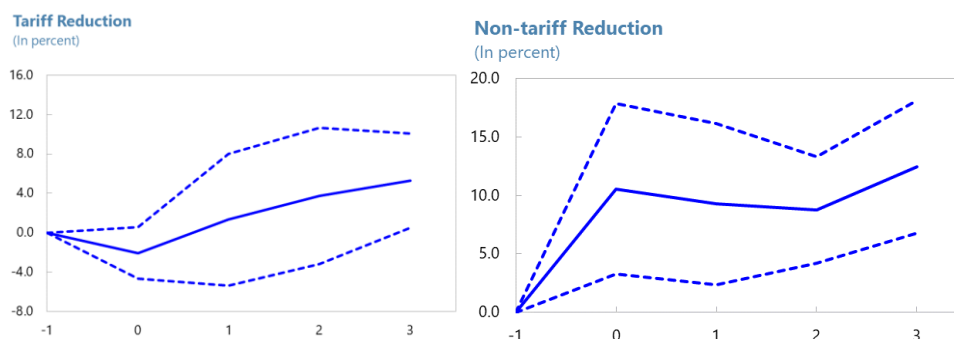
	<i>Manufacturing Investment (Percent of GSDP)</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
		IV		IV		IV
BRAP Reform Intensity	0.011*** (0.003)	0.013** (0.006)			0.011** (0.005)	0.015 (0.011)
BRAP Reform Intensity, Lag			0.010*** (0.002)	0.012* (0.007)		
Pre-Reform Manufacturing Investment	0.079*** (0.024)	0.070** (0.032)	0.073*** (0.020)	0.068** (0.030)	0.080*** (0.023)	0.074** (0.032)
Pre-Reform GSDP per Capita	0.003 (0.002)	0.004+ (0.002)	0.004+ (0.002)	0.004+ (0.003)	0.003 (0.002)	0.002 (0.003)
Output Growth, Lag	0.054*** (0.019)	0.052** (0.020)	0.038** (0.014)	0.037*** (0.012)	0.036* (0.018)	0.037+ (0.023)
Population Growth	0.077 (0.056)	0.087+ (0.055)	0.348** (0.165)	0.388* (0.231)	0.033 (0.050)	0.026 (0.050)
Inflation	-0.072 (0.083)	-0.098 (0.077)	-0.045 (0.067)	-0.046 (0.067)	-0.064 (0.089)	-0.066 (0.089)
Exports (Percent of GSDP), Lag	0.044*** (0.011)	0.040*** (0.014)	0.060*** (0.010)	0.056*** (0.016)	0.044*** (0.011)	0.042*** (0.013)
LFPR, Lag	0.005 (0.018)	0.010 (0.018)	0.024+ (0.017)	0.027+ (0.018)	0.019 (0.017)	0.022 (0.017)
Education Attainment	0.011** (0.005)	0.012** (0.005)	0.008 (0.006)	0.007 (0.005)	0.006 (0.005)	0.005 (0.005)
Neighbors' Manu. Investment Growth		0.0003 (0.0004)				
FE for Large/Mid-Size States					0.064 (0.413)	-0.083 (0.655)
FE for UTs					1.005*** (0.305)	1.001*** (0.319)
BIC	237.7	241.1	201.6	201.9	243.6	244
Adj. R Sq.	0.47	0.47	0.64	0.63	0.47	0.47
Num. Obs.	75	75	75	75	75	75

*Note:* +p<0.15; \*p<0.1; \*\*p<0.05; \*\*\*p<0.01. SEs are clustered by state.

Source: IMF staff estimates.

<sup>10</sup> Based on historical reforms that raise the respective reform indicator by two standard deviations.

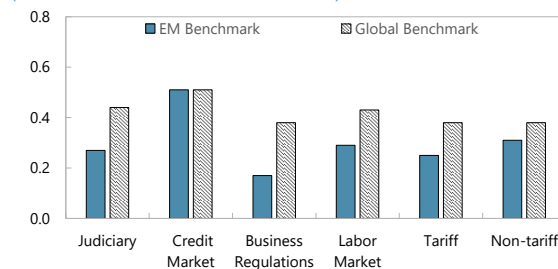


**Figure 8A. India: Dynamic Effects of Structural Reforms on Private Investment****Figure 8B. India: Dynamic Effects of Structural Reforms on Inward FDI**

Sources: IMF staff's calculations.

## 16. India can expect significant potential investment gains from structural reforms.

While India has made steady progress in structural reforms over the years, significant potential for further reforms remains. According to the Fraser Institute's Economic Freedom Indicators (EFIs), India shows moderate structural gaps in judiciary and business regulations, considerable gaps in trade restrictions, and significant gaps in credit market reform, compared to the EM benchmark.<sup>11</sup> When measured against a global benchmark that also includes the advanced economies, India's structural reform gaps are significantly larger.

**India's Structural Reforms: Distance to Frontier 1/**  
(Distance to frontier benchmarks-lower is better)

Sources: IMF Structural Reforms in EMEs Dashboard – version 1.0; and IMF staff calculations.

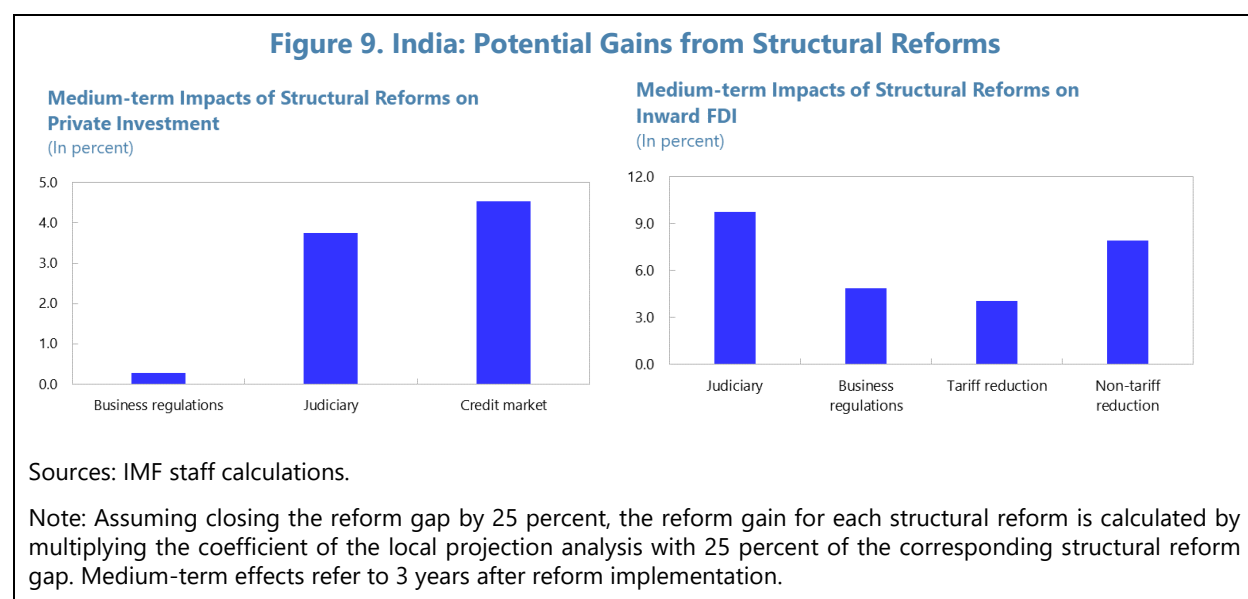
1/ Distance to frontier is defined as the difference in values between the frontier (best performer) and India. The distance ranges between 0 and 1, where larger values indicate larger distance relative to the frontier.

## 17. Judicial and credit market reforms in particular could have sizable impacts on private investment in India (Figure 8). Assuming closing structural reform gaps by 25 percent relative to

<sup>11</sup> Like other cross-country indicators of structural reform, this indicator only provides a rough cross-country view and is unlikely to fully capture country-specific granularity.

the EM frontier and applying these gains to the above local projections estimates suggests that judicial and credit market reforms could raise private investment by up to 5 percent each over the medium term. As India's structural reform gap on business regulation is somewhat closer to the EM frontier, the potential benefits from related reforms would be smaller. However, the gain will be quite significant if instead narrowing the gap to the global benchmark by 25 percent.

**18. In addition to judicial and business regulation reforms, trade restrictions can boost inward FDI (Figure 9).** Applying the same method to assess potential gains on FDI, the analysis shows that lowering tariff and non-tariff restrictions can boost inward FDI by about 5-6 percent each over the medium term. Furthermore, better governance and improving business regulation could foster FDI by almost 10 and 8 percent, respectively.<sup>12</sup>



## Policy Implications

**19. In line with the findings of our analysis, policy can play an important role in providing suitable conditions for the higher rates of private investment India needs for its development.**

While private investment in India is relatively high compared to peers, it has not taken off as expected, while FDI has remained subdued. Improved corporate balance sheets should in principle be a boost for private investment, although many firms do yet experience binding capacity constraints. Building on India's existing reform progress, the policy focus to support private investment and FDI should include the following priority areas:

- As uncertainty can be a disincentive for investment, providing strong policy frameworks to foster a stable environment for firms and households is important. While many factors are

<sup>12</sup> To simplify tax compliance for startups and foreign investors, the Income Tax Act, 1961 has been amended in 2024 to abolish the angel tax and to reduce income tax rate chargeable on income of foreign companies, narrowing the tax rate differential between them and domestic companies.

beyond policymakers' control, others, such as tax and regulatory certainty, can be influenced by policymakers directly.

- Improving the judicial system can also make a significant difference, as the analysis based on cross-country experience has shown. Priorities should include enhancing the judicial capacity, where large case backlogs and insufficient resources present notable bottlenecks, and further improving the functioning of the Insolvency and Bankruptcy Code.
- Strengthening credit markets should be a key reform priority, not least given the significant potential gains for private investment. This should include increasing the private sector's footprint in the financial system and promoting the efficient allocation of financial resources across sectors.
- Our quantitative analysis points to relatively smaller but still significant potential gains from improving business regulation. By further streamlining bureaucratic procedures and reducing administrative requirements, there is significant potential to unlock efficiencies and support a dynamic, business-friendly environment.
- As our results from state-level analysis have shown, enhancing human capital, including by strengthening the education system, would also lay the foundation for higher private investment over the medium to long term. The focus should be on raising the quality of education and improving the governance of public school systems.
- Finally, reducing trade restrictions can deliver large gains for FDI. In addition to raising aggregate investment, this is also important to allow India to benefit more from foreign technology diffusion and increasingly integrate into global supply chains.
- Many of these policy priorities involve reforms at the state level, including in areas such as education, business regulation, and the judicial system. Close cooperation among center and states is therefore needed to enact quality reforms and learn from the reform experience across states.

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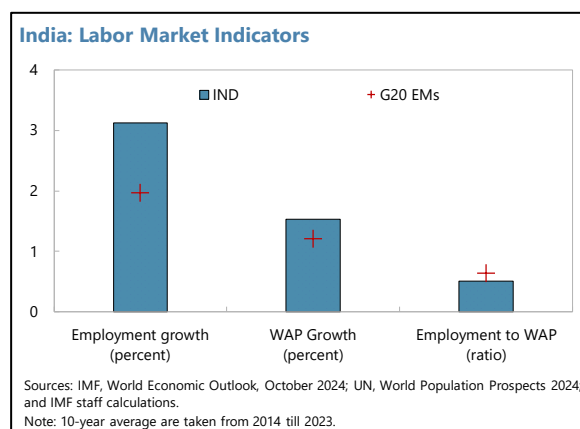
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## Annex XIII. Enhancing the Contribution of Labor to the Economy<sup>1</sup>

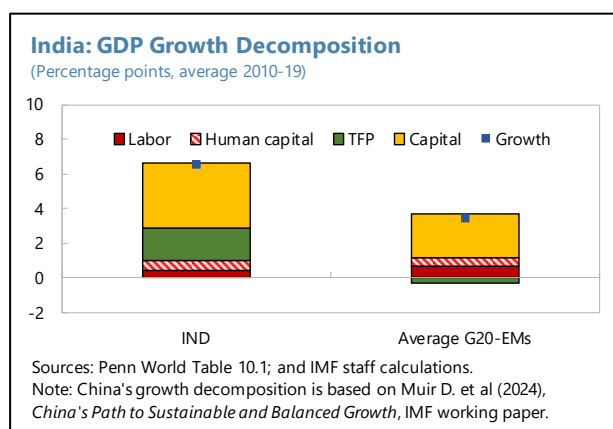
As one of the fastest-growing workforces globally, India faces the challenge of ensuring adequate job creation to absorb its expanding labor force. While labor income shares for manufacturing and services in India have increased in recent years, their contribution to growth was relatively low compared to peers. We estimate significant returns to education and some types of training. Together with labor market reforms, human capital policies that strengthen the quality of education, foster early childhood care and education, improve skilling and matching, and boost health and nutrition can raise the contribution of labor to the Indian economy.

### 1. With relatively high working-age population and employment growth, India has potential to grow faster from higher employment.

Compared to the median of G20 Emerging Markets (EMs), India has experienced relatively higher growth in both its working-age population and employment over the past decade, indicating a robust expansion of its labor market and a growing potential labor force. In contrast, India's employment-to-WAP ratio is lower than that of the median G20 EMs, suggesting that the proportion of the working-age population engaged in employment remains relatively modest. This highlights the significant potential within India's labor market to further increase employment participation.



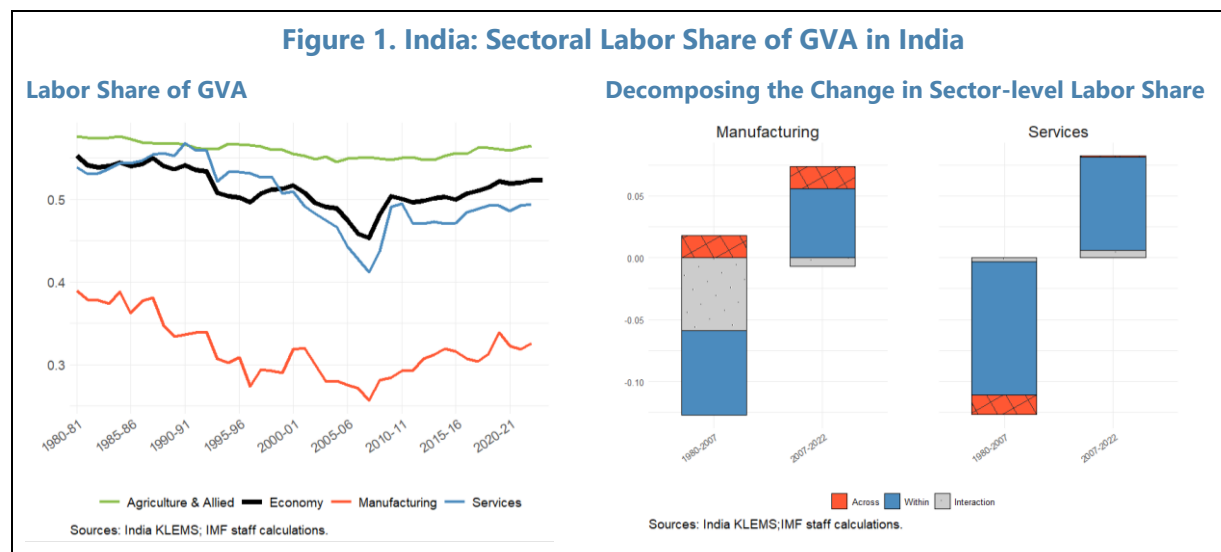
**2. Labor's contribution to growth in India, while increasing, remains small relative to peers.** Although the importance of labor inputs has diminished in both advanced and emerging markets in recent decades, partly due to demographic shifts, labor has tended to contribute more to growth in other emerging market economies than in India. In particular, a growth decomposition analysis of G20-EMs indicates that India's labor input has played a relatively modest role in driving its economic expansion. This highlights an opportunity for India to leverage its workforce more effectively, which could unlock more inclusive and sustainable growth. Using the RBI's KLEMS database, which estimates labor quality leveraging earnings and education microdata, Sengupta and Srivastava



<sup>1</sup> Prepared by Cristian Alonso, Nujin Suphaphiphat, Ni Wang (all APD), and Geetika Dang (Delhi Resident Representative Office).

(2024) also document a modest contribution of labor to output growth between 1980/81 to 2021/22, whereby employment contributed 25 percent and labor quality contributed another 5 percent.

**3. While the labor share declined in manufacturing and services until the late-2000s, it has been increasing since.**<sup>2</sup> Among the largest industries by GVA in each sector, textiles, business services, and other services saw substantial increases in the labor share over the past decade, while others, such as trade services and chemicals, saw a continued decline.<sup>3</sup>



**4. Within-industry changes in labor shares have been the main driver of sectoral labor share dynamics since 1980, while manufacturing production has seen reallocation towards higher-labor-share industries.**<sup>4</sup> The labor share in manufacturing has been rising gradually since 2007, reversing some of its losses from earlier decades. This has been driven mainly by rising labor shares within individual industries, while support has also come from a shift of production into industries with higher labor shares, such as textiles and electrical and optical equipment. The labor share in services has also recovered gradually since about 2007, though with gains almost exclusively driven by increasing labor shares within individual services industries.

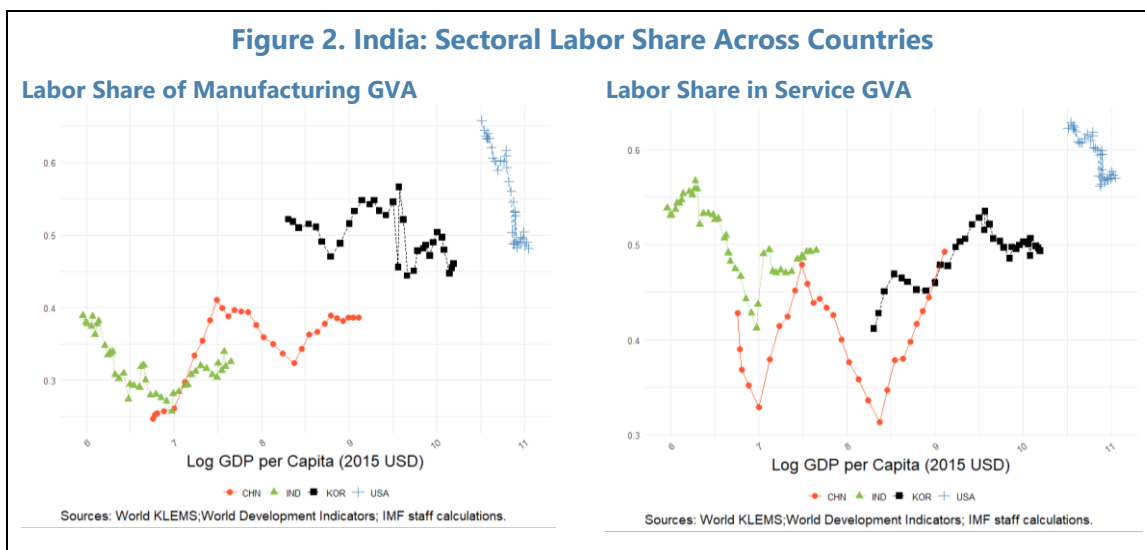
<sup>2</sup> In this section, we document the evolution of labor share of gross value added (GVA) for manufacturing and services industries using the RBI's industry-level KLEMS data. We exclude public administration, defense, and compulsory social services.

<sup>3</sup> Textiles industry refers to textiles, textile products, leather, and footwear. Other services include real estate activities; other community, social, and personal services; and private household with employed persons.

<sup>4</sup> The labor share of GVA at the sector level is the average of industry-level labor shares weighted by industry-level GVA shares. The change in sectoral labor shares can be broken down into (i) a "within" component, which measures the contribution of the changes in industry labor share while holding constant the GVA shares; (ii) an "across" component, which measures the contribution of the changes in industry GVA shares while holding constant the labor shares; and (iii) an "interaction" component, which captures the industry-level covariance between the changes in labor shares and GVA shares.



**5. India's labor share in manufacturing is relatively low compared to other countries, but the share in services is relatively high.** Using the sectoral labor shares from the KLEMS datasets for China, Korea, and the US, we find that sectoral labor shares vary at different stages of economic development. India's service labor share is relatively high given its income level, while its manufacturing labor share is relatively low. Although the literature has documented a secular decline in labor shares across the world, the labor share could rise if it becomes harder or costlier to substitute labor with capital, or if product and labor markets become less concentrated (Karabarbounis, 2024).



## Returns from Education and Training

**6. Estimating the returns to education and training can highlight the importance of human capital formation in raising the contribution of labor to the economy.** We use individual-level microdata from the PLFS (Periodic Labour Force Survey) between July 2017 and June 2024 to estimate Mincer equations of the form:<sup>5</sup>

$$\log w_{i,t} = \alpha + \beta s_{i,t} + \gamma_0 x_{i,t} + \gamma_1 (x_{i,t})^2 + \tau_t + \Delta y_{i,t} + \varepsilon_{i,t}$$

where  $w_{i,t}$  is the hourly earnings of individual  $i$  in quarter  $t$ ,  $s_{i,t}$  is the number of years of formal education,  $x_{i,t}$  is the number of theoretical experience (calculated as  $age_{i,t} - s_{i,t} - 6$ ),  $\tau_t$  is a common time trend at a quarterly frequency, and  $y_{i,t}$  includes other controls such as gender and urban/rural location. We also consider training and technical education as explanatory variables.

<sup>5</sup> Mincer equations (Mincer, 1958; Mincer, 1974) have been used extensively in the literature to estimate the monetary returns to education in a population and within subgroups. The specification is intentionally kept simple to prevent overcontrolling for factors that might be influenced by education itself. Identification in the Mincer equation could be compromised if a student's unobservable ability influences both schooling and earnings, or if schools can select the most capable students. Previous research has examined these issues using instrumental variables or natural experiment settings, typically finding that returns to education remain broadly unchanged (Patrinos, 2016). Unfortunately, the PLFS lacks any suitable instruments for implementing an instrumental-variables approach.

## 7. An additional year of formal schooling in India increases earnings by 6–7 percent

(Table 1). This is within the usual range estimated across countries, although somewhat lower than the global average of 9.7 percent (Montenegro and Patrinos, 2014). We also find a gender gap in earnings of 37 percent. That is, on average, women earn 37 percent less than men in India highlighting the need for policies that narrow gender gaps in India for instance by removing discriminatory employment and compensation practices, enhancing access to enabling services and time-saving infrastructure, addressing safety concerns, enhancing public transportation, and advancing skilling and active labor market policies (IMF, 2023). The returns to education are 1.4 percentage points higher for women than for men, broadly in line with international experience (Patrinos, 2016), although the selection bias could have been more significant for women in the past. Earnings in urban areas are 26 percent higher than in rural areas, on average. And the returns to education in urban areas are 3.9 percentage points higher than in rural areas. Technical education has a positive and significant impact on earnings.

**Table 1. India: Returns to Education in India**

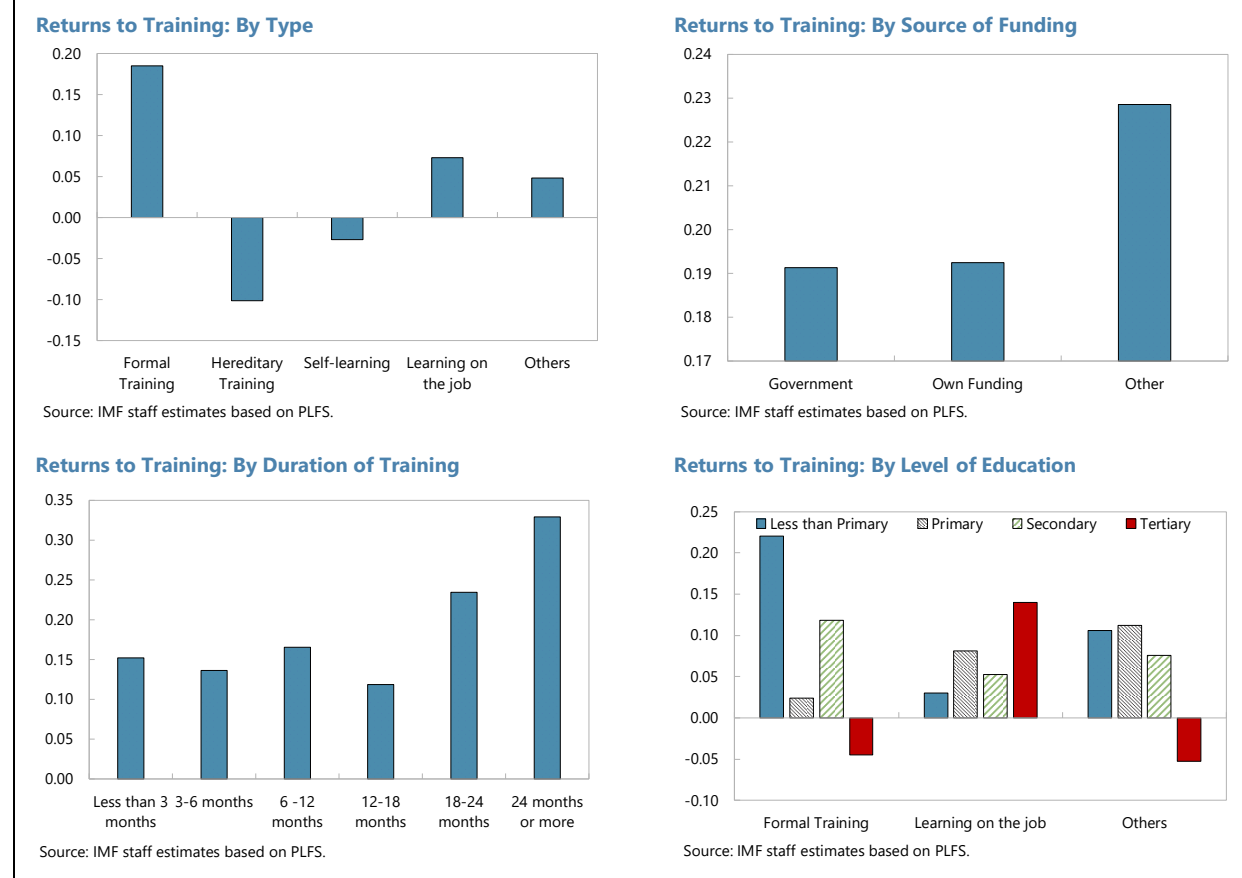
	(1)	(2)	(3)	(4)
Years of Formal Education	0.072*** (0.001)	0.071*** (0.001)	0.066*** (0.001)	0.059*** (0.001)
Experience	0.024*** (0.001)	0.023*** (0.000)	0.023*** (0.000)	0.022*** (0.000)
Experience squared	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Female			-0.369*** (0.006)	-0.380*** (0.006)
Urban				0.262*** (0.003)
Time Fixed Effects	No	Yes	Yes	Yes
R-squared	0.190	0.240	0.282	0.307
Observations	908,693	908,693	908,693	908,693

Notes: Robust standard errors shown in parenthesis. \* p<0.05, \*\* p<0.01, and \*\*\* p<0.001.

**8. Not all training adds value** (Figure 1). Formal training boosts earnings by 18.5 percent, while on-the-job learning increases earnings by 7.3 percent. Instead, hereditary training and self-learning are associated with lower earnings of 10.1 and 2.7 percent, respectively, albeit this may reflect a more severe selection bias. The returns to training are broadly similar if funded by the government or by the student (19 percent), and moderately higher than that if funded by other sources, which include the employer. Longer training programs offer higher returns, but even a short training of 3 months or less provides a return of 15.2 percent. Formal training is especially useful for workers with less than primary education completed (22 percent) and with secondary education (12 percent). Workers with tertiary education only benefit significantly from on-the-job training, which yields a return of 14 percent. Learning on the job also has a significant and positive, albeit lower, payoff for all other workers, except those with secondary education for whom the result is not statistically significant.

**9. Some types of training also increase the probability of employment.** Formal training raises the probability of being employed by 16 percentage points and the probability of having a regular-wage job by 18 percentage points. Hereditary training and self-learning increase the probability of employment, but not the probability of having a regular-wage job. On-the-job learning is associated with higher employment and regular employment. The probability of getting a job and a regular-wage job increases after a year of training, which suggests that matching of workers and firms takes time after completing training.

**Figure 1. India: Returns to Training in India**



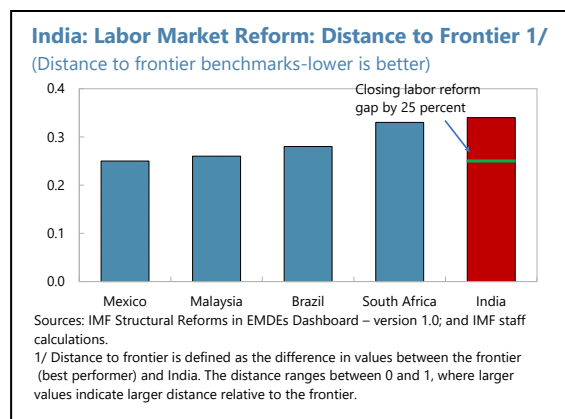
## Labor Market Reforms Can Raise Employment

**10. Potential payoffs from implementation of labor market reforms can be significant.** IMF analysis (Budina and others, 2023) using a panel local projection model of 74 emerging markets (EMs) from 2001 to 2021 shows that implementing labor market reforms can lead to significant employment growth in both the short and medium term. Importantly, the extent of these benefits depends on how much the reforms advance relative to the emerging markets frontier.<sup>6</sup> For India, while labor market reforms have advanced over time, there is still significant room to move closer to

<sup>6</sup> Based on IMF Structural Reforms in EMDEs Dashboard.

the EM frontier. The analysis suggests that by reducing the labor market reform gap by 25 percent relative to frontier EMs (i.e., by reducing the labor reform gap to the levels similar to Brazil, Chile, Mexico, and Malaysia), India could potentially create an additional 44 million jobs by FY2029/30, compared to the baseline scenario.

## Human Capital Policies to Raise the Contribution of Labor to the Economy



**11. While India has made important progress on universalization of access to education, going forward the focus should be on enhancing the quality of education to improve learning outcomes.** Multiple government efforts have expanded access to education. After fifteen years of implementing the Right to Education, making education free and compulsory for all children between the age of 6–14 years, 100 percent enrollment has been achieved in elementary grades (Ministry of Finance, 2023).<sup>7</sup> To enhance enrollment, retention, and attendance, the PM-Poshan Scheme (formerly known as the Mid-Day Meal Program), was introduced to improve the nutritional status of school-age children and provide an additional incentive for attendance by offering free lunches. The Samagra Shiksha Abhiyan (SSA) focuses on achieving universal elementary education and bridging gender and social gaps. Under the SSA, 650,000 new classrooms, 160,000 new schools, 500,000 new teachers were added. The National Education Policy (NEP) 2020 seeks to overhaul the education system by universalizing education from preschool to secondary level, emphasizing vocational education, and introducing multidisciplinary and flexible course choices. In addition, expenditure on education in India has increased at a compounded annual growth rate (CAGR) of 9.4 percent from FY2018 to FY2024. However, despite these efforts, student performance has not kept pace, showing significant declines in performance for students above third grade (Economic Survey 2023–24).

**12. Special focus is needed on Early Childhood Care and Education (ECCE).** To enable quality human capital development, ECCE has been a key focus of education policy given the importance of cognitive development in early childhood.<sup>8</sup> ECCE relies heavily on well-trained teachers and the use

<sup>7</sup> The scheme mandates all government and government aided schools reserve 25 percent seats for economically weaker sections (EWS) to ensure universal coverage. In 2019, the program was further amended to include children with special needs who may be enrolled in special schools/home schools. The Child Labour (Prohibition and Regulation) Amendment Act, 2016, aligns the age of prohibition of employment with the age for free and compulsory education under the RTE Act. This ensures that children below 14 years are not employed and are instead in school.

<sup>8</sup> Global medical consensus indicates that 85 percent of cognitive development is complete by the age of six. The ECCE program in the 2020 NEP includes the strengthening of foundational literacy and numeracy, the promotion of experiential learning, and the encouragement of multilingual education.

of appropriate pedagogical methods.<sup>9</sup> To ensure gains across diverse states, the authorities should continue to invest in teacher training, innovations in pedagogy, performance-based incentives, and school infrastructure. With strong foundational education, learning outcomes in senior grades are predicted to improve.

**13. Tailored policies can help move from universal access to higher quality education.** The quality of education could be strengthened by improving teacher training, raising teacher and student attendance through enhanced oversight, and conducting regular classroom observations to provide feedback and support to teachers. Digital interventions can yield sizable gains to improve education outcomes, as evidenced by the Command-and-Control Center in Gujarat (Box 1).

**Box 1. India: Gains from Tech-based, Data-enabled Programs: The Education Command and Control Center in Gujarat**

The Vidya Samiksha Kendra (VSK) in Gujarat, also known as the Education Command and Control Center, a World Bank funded initiative, is aimed at enhancing the quality of education through real-time monitoring and data-driven decision-making based on a fully digitized education platform covering students, teachers, schools, and supervisors. With a wide coverage, it benefits 11.5 million students across the state.

One of the primary objectives of the VSK is to improve educational outcomes by making informed decisions based on data insights. The center analyzes data on attendance and performance of students and teachers, and school infrastructure to identify areas needing improvement and offer tailored interventions and solutions.

**Key achievements:**

- The implementation of VSK has led to a notable increase in student attendance. Within the first year of its implementation, there was a 26 percent rise in students' attendance rates ((NCERT), 2023).
- 392,000 teachers register daily attendance, which is monitored digitally (UNDP, 2023).
- Parents receive their children's weekly digital report cards on their smartphones, enabling them to monitor academic progress.
- VSK helped 20,000 head teachers reduce clerical work and contribute more than 10 million man-hours to academic work every year.
- Based on the success of VSK Gujarat, all states and union territories have been offered central government fiscal support to set up VSKs with the aim to use real time data to transform education quality and learning outcomes (PIB, 2022).
- The World Bank has recognized VSK as a global best practice and has invited other countries to learn from its model (The Indian Express, 2023; The Indian Express, 2024).

**14. Strengthening skill development can make workers employable.** The National Skill Mission (NSM) was launched in 2015. Key schemes under NSM include the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), which provides short-term training programs for school/college dropouts

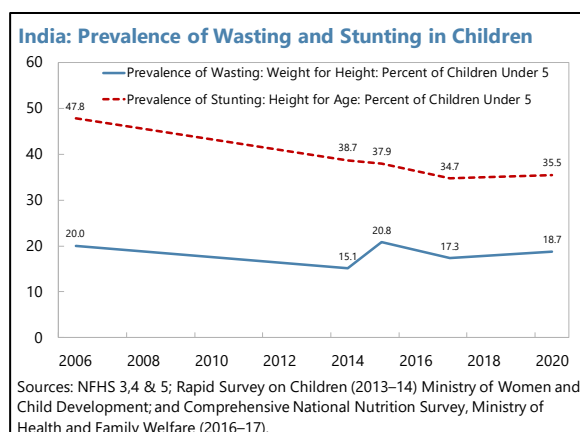
<sup>9</sup> Teacher training programs are essential to equip educators with the skills and knowledge necessary to foster young children's cognitive, emotional, and social development. These programs emphasize developmentally appropriate practices, which are grounded in understanding the unique needs and learning styles of young children.

and recognizes prior learning through informal work/training; and the National Apprenticeship Promotion Scheme (NAPS), which encourages establishments to engage more apprentices by providing financial incentives and support. To accelerate the work of the NSM, the Union Budget 2024 introduced a new initiative to skill an additional 2 million youths over the next five years and announced the upgrading of 1,000 industrial training institutes. Employment-linked incentives (ELIs) will target on-the-job training for first-time employees across India's top 500 companies, enhancing the pool of trained youth. Going forward, skill development could be improved by better linking of skill development with education, engaging the industry ecosystem to develop market-relevant courses, enhancing the training of trainers, and ensuring availability across India. Active labor market policies can help improve matching of students and firms.

**15. The authorities are implementing interventions to foster matching between workers and firms, entrepreneurship, and formalization.** The Aatmanirbhar Bharat Rojgar Yojana (ABRY) and the Pradhan Mantri Rojgar Protsahan Yojana (PMRPY), focusing on employment generation and workforce formalization, have aided over 6 million and 12 million beneficiaries, respectively. The ELIs are designed to aid on-the-job skilling and active formalization of the economy, and are expected to support 41 million young people over the next five years, enhancing employment, skilling, and education opportunities. An enabling policy environment for entrepreneurship through various programs such as the Pradhan Mantri Mudra Yojana (PMMY), Stand-up India, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Deen Dayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM), and Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) is contributing to increased self-employment and formalization through credit. Active monitoring of these programs to track tangible gains in entrepreneurship and firm-level graduation, as a consequence of policy support, will aid effective policy adjustments.

**16. Implementing the labor codes can remove disincentives against hiring more regular workers and improve incentives to invest in human capital.** The benefits of on-the-job training can only be realized if companies are willing to invest in their employees, anticipating that they will remain with the organization for a while. Companies are unlikely to invest significantly in training for contractual or informal staff, who are less likely to stay long-term. Therefore, there is a premium on implementing the new labor codes that facilitate formal employment arrangements.

**17. While India's health initiatives aim to provide accessible and affordable healthcare, stunting and wasting remain significant public health challenges with profound implications for human capital development.** As indicators of malnutrition, stunting, characterized by low height for age, and wasting, characterized by low weight for height, hinder physical and cognitive development, leading to diminished learning capacities and reduced economic productivity in adulthood (Rao, 2023). Despite significant



progress over the past two decades, the rate of decline in stunting has slowed in recent years, and disparities persist across socio-economic groups (Varghese, 2022).<sup>10</sup> Targeted programs can ensure better health outcomes. This includes programs like Janani Shishu Suraksha Karyakram (JSSK) that focus on reducing maternal and neonatal mortality by offering free and cashless services to pregnant women and sick newborns, and the Rashtriya Bal Swasthya Karyakram (RBSK), which provides health screening and early intervention services to detect and support children with birth defects, diseases, deficiencies, and developmental delays. Additionally, programs like the Ayushman Bharat, which includes schemes like the Pradhan Mantri Jan Arogya Yojana (PM-JAY) for health insurance to economically vulnerable families, can potentially have a wide impact on public health. Continued policy focus on reducing the incidence of stunting and wasting is needed to support better public health outcomes and India's human capital. In addition, going forward, a policy focus on mental health and its impact on productivity will contribute to a more comprehensive understanding of enhancing the multifaceted quality of human capital and, consequently, public health.

**18. The authorities continue to pursue policies to foster female labor force participation.**

The government increased paid maternity leave from 12 weeks to 26 weeks for all women working in establishments employing 10 or more workers in 2017. The new Occupational Safety and Health Code, 2020 provides that women shall be entitled to be employed in all establishments for all types of work with their consent before 6 a.m. and beyond 7 p.m. subject to such conditions relating to safety, holidays and working hours, removing long-standing restrictions on female employment in night shifts. The authorities' scheme of Working Women Hostels aims to provide safe accommodation to working women. The Code on Social Security, 2020 has provisions for mandatory crèche facilities in establishments having 50 or more employees, and the government has extended the services of care support through Anganwadi cum Crèche. Finally, the government notified a reservation of one-third of seats for women in the House of People (Lok Sabha) and in the State Legislative Assemblies in 2023.

## Conclusion

**19. Human capital policies are essential to raise the contribution of labor to the economy.**

While the contribution of labor to economic growth in the decade before the pandemic was relatively limited, there has been a gradual upward trend in the labor share as major industries have gradually become more labor intensive. Given its level of development, manufacturing in India is less labor intensive than expected, but services are more so. There are substantial returns to education and some types of training. These results highlight the importance of continuing to advance human capital policies to raise the productivity of labor and reap India's demographic dividend.

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<sup>10</sup> Children from marginalized communities and those with lower household wealth and maternal education are particularly vulnerable.



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## Annex XIV. The Impacts of AI on India's Economy<sup>1</sup>

**1. AI presents both opportunities and challenges for India's labor market.** Unlike previous waves of automation, the recent breakthrough in generative AI has the potential to displace high-skilled and non-routine jobs. With around 43 percent of its labor force in agriculture, India may be less exposed to AI disruptions than countries further advanced in the transition from agriculture to manufacturing and services. Nonetheless, an IMF study<sup>2</sup> shows that about 26 percent of Indian workers are in occupations with high AI exposure, with 14 percent in jobs where AI may turn out largely complementary, raising labor productivity and earnings, whereas 12 percent are in occupations that are at a higher risk of being displaced. If the workforce is not adequately prepared for the expected shift in the labor market, this could exacerbate the challenge of creating sufficient jobs for India's growing young population. That said, India's youthful demography presents a unique opportunity for upskilling and reskilling, as young Indians, being more adaptable, can be trained in high-skill, AI-related fields where demand is expected to rise.

**2. India's service sector, a robust source of growth and exports, is particularly exposed to AI.** AI and automation in IT services are increasingly reducing demand for routine labor handling tasks like customer service, transaction processing, and technical support. A recent study shows that AI adoption in the service sector leads to slower growth in vacancies and wages, especially in higher wage brackets, indicating a substitution of AI for human labor.<sup>3</sup> Furthermore, India's main export markets for IT and IT-enabled services such as the US, the UK, and Singapore, are more prepared for AI,<sup>4</sup> raising the risk of reshoring AI-automated services. Nonetheless, Gen-AI can also hold the potential to boost productivity and spur innovation, allowing Indian companies to focus on more complex, creative, and value-added activities, increasing overall efficiency.

**3. AI is also poised to reshape capital markets, bringing both opportunities and risks.**<sup>5</sup> Greater AI adoption could drive more algorithmic trading in certain asset classes, increase market turnover, and accelerate the speed at which news is reflected in asset prices. However, this rapid adoption could also increase market volatility under stress, present monitoring challenges, elevate operational risks due to dependency on a few key AI service providers, and exacerbate cyber and market manipulation risks.

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<sup>1</sup> Prepared by Nujin Suphaphiphat and Ni Wang (both APD).

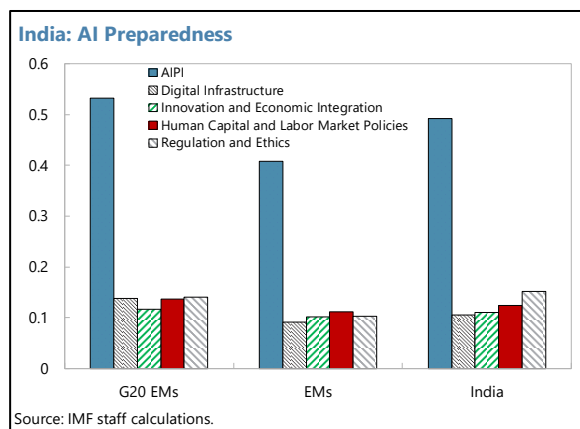
<sup>2</sup> Cazzaniga et al. (2024).

<sup>3</sup> Copestake et al. (2024). The study focuses on the service sector at the establishment level, and yet does not find a significant impact from AI adoption when aggregating to the district level. The aggregate impact of AI on services sector might be different from the establishment-level evidence, especially if AI leads to productivity gains that expand aggregate production to offset the displacement within existing establishments.

<sup>4</sup> [AI Preparedness Index, AIPI \(imf.org\)](#).

<sup>5</sup> Chapter 3, Global Financial Stability Report (2024).

**4. The IMF's AI Preparedness Index (AIPI) shows that overall, India scores slightly higher than the average of emerging markets.<sup>6</sup>** The AIPI assesses the level of AI preparedness across 174 countries, based on a set of macro-structural indicators that cover the countries' digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics. While India scores higher than peers particularly on regulatory areas, there remains room to improve preparedness in the areas of human capital and labor market policies, including the diffusion of digital skills in the broader population.



## Policy Recommendations

**5. To capitalize on the opportunities afforded by AI, India should implement policies to harness human capital and foster favorable economic conditions.** These include developing human capital through enhanced STEM education and digital literacy programs and improving social safety nets with retraining programs for vulnerable workers, including skilling and reskilling programs to help these workers transition to new employment opportunities and adapt to the changing job market. It is also crucial to accelerate economic integration, further enhance the digital infrastructure to ensure affordable high-quality internet access, and strengthen the regulatory framework to prevent abuse and foster trust in AI technologies. Building on India's advanced Digital Public Infrastructure will be essential for AI to thrive among wider segments of the population. If AI leads to surging income and wealth inequalities, targeted fiscal measures could be deployed to incentivize innovation and steer its direction towards complementing human labor. Finally, it is crucial to strengthen regulation and supervision in AI-related areas to address potential financial stability risks for both the banking and the NBFIs sectors, while ensuring government effectiveness and adapting legal systems to address technological advances. With its national AI mission (IndiaAI), India is on the right track to implement these policies, including improving access to AI education and enhancing public AI infrastructure, while also exploring AI deployment in the public sector and facilitating AI startup financing.

<sup>6</sup> Separately, the 2023 [Global AI Vibrancy Tool – Artificial Intelligence Index](#) ranks India the fourth leading country in AI, highlighting India's strength in AI-related research outcomes.

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## Annex XV. Data Issues

**Figure 1. India: Data Adequacy Assessment for Surveillance**

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	C	C	A	C		
Granularity 3/	B		B	B	B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	C	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.  
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.  
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).  
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

**Rationale for staff assessment.** National accounts data are available at adequate frequency and timeliness and provide broadly adequate granularity. However, some methodological weaknesses somewhat hamper surveillance, and warrant an overall sectoral rating for the national accounts of "C". The main methodological issues concern the national accounts coverage, including (i) an outdated base year (2011/12), (ii) use of wholesale price indices as data sources for deflators due to the lack of producer prices indices, and excessive use of single deflation, which may introduce cyclical biases, (iii) at times sizable discrepancies between production and expenditure approaches, that may indicate the need to enhance the coverage of the expenditure approach data and informal sector, and (iv) lack of seasonally adjusted data and room for improvement of other statistical techniques used in the quarterly national accounts compilation. On national accounts granularity, further breakdown of Gross Fixed Capital Formation by institutional sector (published with a significant lag) and further disaggregation of the quarterly estimates of the expenditure components and activities would allow for a more detailed analysis of economic trends. CPI is available at adequate frequency and timeliness, but regarding coverage, its outdated base year, items basket, and weights (2011/12) imply that the CPI basket likely fails to accurately represent current spending habits. The granularity of fiscal data is broadly adequate, however coverage and timeliness can be improved. Consolidated central and state government fiscal accounts have not been published since mid-2019 (covering outturns for FY2015-16). Consolidated general government data, which would include local government and extrabudgetary funds, are not compiled. Monthly data on fiscal operations for the central government and individual states are published on a timely basis, however consolidated fiscal accounts across all states are available with a long lag. Monetary and financial sector statistics are broadly adequate for surveillance, with scope for improvement in coverage and timeliness. In particular, there are limited data provided on NBFCs, household, and systemwide financial interconnectedness. Data reported to the IMF International Financial Statistics (IFS) database lack some granularity in terms of financial instruments and counterparts, and there are some discrepancies between assets and liabilities. Reported Financial Soundness Indicators (FSI) data also use dated reporting forms that lack granularity and could be upgraded to FSI 2019 Guidelines. Banking sector data are available with a lag of about three quarters, which is behind some other emerging and advanced economies. On the external sector statistics, the information on international reserves does not include pledged or encumbered assets and foreign exchange swaps, and additional granularity of the exports and imports of services data would be useful for more detailed analysis.

**Changes since the last Article IV consultation.** Data weaknesses have remained broadly unchanged since the last Article IV consultation. All microdata for the Periodic Labour Force Survey have been published biannually, allowing computation of employment and labor income indicators at such frequency.

**Corrective actions and capacity development priorities.** The authorities have started work to improve the national accounts series, including the collection of key data sources for the benchmark revision and update of the base year. Methodological improvements are also being considered as part of this process, including the increase in the number of activities using double deflation or volume extrapolation to compile volume measures, aiming to minimize the use of single deflation; the strengthening of deflation practices by relying on producer price indices rather than wholesale price indices to the extent possible; the regular use of unincorporated businesses data to better capture dynamics in the informal sector; and the assessment of data sources and use of the supply and use tables framework to reduce discrepancies. The update of the CPI base year, weights, and item basket is in progress, based on the results of the 2022-23 Household Consumption and Expenditure Survey. On the monetary and financial sector statistics, efforts are being made to enhance data on NBFCs, but the market structure represents a challenge for data collection. Priorities for capacity development include support in the compilation of the updated national accounts, CPI, and industrial production index series, and for peer-learning in the producer price index compilation.

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

**Other data gaps.** There is scope for improving employment data: (i) the Periodic Labour Force Survey questionnaire can be strengthened to reduce the role of self-classification in capturing employment, and (ii) employment indicators for rural areas are published on annual basis, albeit the microdata is published biannually.

**Figure 2. India: Data Standards Initiatives**

India subscribes to the Special Data Dissemination Standard (SDDS) since December 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

**Table 1. India: Table of Common Indicators Required for Surveillance**  
(As of February 1, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>5</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	India <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	India <sup>8</sup>
Exchange Rates	2/1/2025	2/1/2025	D	D	D	D	...	2W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	1/24/2025	1/31/2025	W	W	M	M	1W	1M
Reserve/Base Money	1/24/2025	1/31/2025	W	W	M	W	2W	1W
Broad Money	1/10/2025	1/31/2025	F	F	M	F	1M	2W
Central Bank Balance Sheet	1/24/2025	1/31/2025	W	W	M	W	2W	1W
Consolidated Balance Sheet of the Banking System	1/10/2025	1/31/2025	F	F	M	F	1M	2W
Interest Rates <sup>2</sup>	2/1/2025	2/1/2025	D	D	D	D	...	D
Consumer Price Index	Dec-24	1/13/2025	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	FY2022/23	12/19/2024	A	A	A	A	2Q	21M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	Dec-24	1/31/2025	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Jul - Sep 2024	1/7/2025	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Jul - Sep 2024	12/27/2024	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-24	1/15/2025	M	M	M	M	8W	NLT 45D
GDP/GNP	Jul - Sep 2024	11/29/2024	Q	Q	Q	Q	1Q	NLT 2M
Gross External Debt	Jul - Sep 2024	12/30/2024	Q	Q	Q	Q	1Q	Q
International Investment Position	Jul - Sep 2024	12/30/2024	Q	Q	Q	Q	1Q	Q

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("F") fortnightly; ("M") monthly or with a lag of no more than one month after the reference date; ("Q") quarterly or with a lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

## Annex XVI. Strengthening Real Sector Statistics in India<sup>1</sup>

*India is undertaking a comprehensive overhaul of its real sector statistics to address existing methodological shortcomings and improve the accuracy of economic data for monitoring and policy design. The main issues in the compilation of national accounts are related to an outdated base year (this applies also to the CPI), methods used for the compilation of volume estimates, and discrepancies between production- and expenditure-side GDP. These issues are slated to be addressed through various workstreams by early 2026.*

### Current Situation of Real Sector Statistics

#### 1. The main methodological issues in the national accounts data are related to (i) the outdated base year, (ii) the compilation of volume estimates, and (iii) the discrepancies between the production and expenditure approaches.

- The current base year of the national accounts is 2011/12, while international best practices point to a recommended update every five years, or not more than ten, to ensure that the current structure of the economy is appropriately represented. As an economy changes and more recent data become available, revisions are made to realign the national accounts with the current structure of the economy. The pattern of relative prices of the base year becomes less representative of economic conditions for periods further away from that year. Regular updates of the base year ensure that the weights used to measure volume GDP better reflect current conditions (for example, production technology and user preferences) and contribute to a more accurate measurement of GDP by avoiding over- or underestimating economic activity due to the use of an outdated structure of relative prices.
- The compilation of volume estimates does not fully reflect international best practices. The best approach to calculate GDP in volume is the double deflation method. In this method, value added in volume is derived as the difference between gross output and intermediate consumption in volume, that are obtained by deflating both components separately using respective price indices. When double deflation is not possible due to lack of data, the volume extrapolation method can be used as an alternative, in which a volume estimate of output is used to extrapolate value added, based on the assumption of a constant relationship in the short run between output, intermediate consumption, and value added in volume terms. In the case of India, the estimates rely on single deflation for a significant share of the economy (around 70 percent of gross value added over 2011–12 to 2022–23), meaning that value added in volume is derived through single deflation of value added, assuming that input and output prices for an activity are identical.
- In addition, the wholesale price index (WPI) is used to calculate volume estimates for a wide range of activities. The WPI is not a recommended type of price index to derive volume

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<sup>1</sup> Prepared by Cristian Alonso (APD) and Margarida Martins (STA).

estimates in the national accounts, as it includes some taxes (while output should be derived at basic prices) and is intended to measure prices of goods for domestic consumption (thereby including imports, which should not be included to deflate domestic value added, and excluding exports, which should be included). A producer price index (PPI) would reflect more accurately the relevant price changes in the economy, with domestically produced exports being included and imports excluded. Use of single deflation based on WPI could lead to over- or underestimation of real GDP whenever WPI inflation deviates from price increases related to domestic value added.

- The discrepancies between the production and expenditure approaches may indicate the need to further assess the data sources available for GDP compilation, especially for the expenditure side estimates. This assessment should ensure, for example, an adequate coverage of the informal sector, related to household final consumption expenditure, as well as an accurate coverage of the government final consumption expenditure data, mainly at the state level. In addition, the implementation of the supply and use table framework to estimate annual GDP would contribute to enhance the compilation system and better validate source data, leading to a reduction of the discrepancies between the two compilation approaches.
- The methods for calculating taxes and subsidies on products (net taxes on products) have room for improvement. On the one hand, international best practices recommend the use of accrual data as much as possible, that is, the transactions should be allocated to the periods in which they accrued, contrary to the direct use of government expenditure data, that are recorded on a cash basis (for example, when subsidies are paid). On the other hand, the change rate in volume terms for net taxes on products should be similar to the volume change rate of the good or service that the tax or subsidy is related to. The use of single deflation to estimate constant price series for net taxes on products should therefore be avoided. In the Indian national accounts, the constant price estimate for subsidies on products is obtained by deflating current price estimates using the gross value added deflator, which may impact the volatility of quarterly GDP estimates.

**2. The current CPI weights and base year are outdated.** The current CPI weights and item basket are derived from the 2011/12 Household Consumption and Expenditure Survey (HCES), while international best practices suggest the update of the CPI weights and base year every five years, based on some form of the household expenditure survey. In India, the results from the 2022/23 HCES suggest that consumption patterns have changed quite significantly since 2011/12, including a substantial reduction of the share of expenditure on vegetables (that generally contribute significantly to the volatility of the all-items CPI) and cereals, and an increase in food products with higher value added, as beverages and processed food, and non-food products, including durable goods.

## Recent Progress in the Compilation of Real Sector Statistics

**3. MoSPI has started a project to improve the quality of the national accounts series.** It aims to use the update of the base year for the national accounts series (to 2022/23) as an



opportunity to incorporate improved compilation methods, including on the calculation of volume estimates, and the use of updated data sources.

**4. Several steps have been taken to start the update of the base year for the national accounts.**

- The collection of key data sources to be used in the updated national accounts series has started, including, among others, the Annual Survey of Unincorporated Sector Enterprises (to better capture the dynamics of the informal sector), the 2022-23 HCES, the Periodic Labor Force Survey, the Annual Survey of Industries, and additional studies that will be used in the update of input-output ratios and the structure of the economy. The enhanced use of available administrative data is also planned for the updated national accounts series.
- The compilation of volume estimates is planned to be improved, through the use of double deflation or single extrapolation depending on the available data sources, while the use of the single deflation method for the compilation is planned to be minimized.
- Extensive IMF technical assistance was provided to the Office of the Economic Adviser for the development of PPIs for agriculture and manufacturing, with results pending publication. An update of the available PPI series is planned to align with the base year of the national accounts, while efforts are underway to extend coverage to selected services and start collecting data on input PPIs. The update of the national accounts series will rely, to the extent possible, on the PPI series to replace the use of WPI data.
- To enhance the household final consumption expenditure estimates, MoSPI plans to implement the use of the commodity-flow approach, contributing to the improvement of the expenditure approach estimates. In addition, the possibility of implementing the supply and use table framework to estimate annual GDP is being assessed, which would contribute to the reduction of the discrepancy between the production and expenditure approach estimates.
- Efforts are being considered to improve the statistical techniques used in the compilation of quarterly national accounts estimates, including the dissemination of seasonally adjusted series as part of the first publication of the updated national accounts series. Additional efforts to improve quarterly GDP estimates include the compilation of an updated industrial production index, with updated weights and base year aligned with the national accounts.

**5. Progress has also been made in the compilation of consumer price indices.** Work has started to update the base year of the CPI from 2012 to 2024. The new CPI weights are based on the 2022-23 HCES, already published, and the price collection for the base year 2024 has already started based on the updated items basket. Several improvements are expected in the compilation of the updated CPI series, such as enhanced market coverage including e-commerce transactions, improvement in the technology used for data collection, and implementation of the latest international classification (COICOP 2018) to the extent possible.

**6. Going forward, regular benchmark revisions of national account, price, and other key statistics should be conducted according to international best practices.** The publication of the results of the updated national accounts series is tentatively planned for February 2026, including estimates for the new base and current years, as well as quarterly national accounts estimates consistent with the new annual estimates. The revised CPI series are expected to become available in January 2026. MoSPI is starting to develop a strategy to communicate the changes to users.

Surveillance/Program Priorities	Recent CD Activities	Planned CD Activities
<ul style="list-style-type: none"> <li>Strengthen compilation of macroeconomic statistics, including national accounts, according to internationally accepted statistical standards.</li> <li>Develop a well-articulated medium-term fiscal consolidation path which rebuilds buffers at an appropriate pace.</li> <li>Upgrade the financial sector regulatory framework and supervisory processes.</li> <li>Implementation of structural reforms to support private investment, productivity, and job creation.</li> </ul>	<ul style="list-style-type: none"> <li>Real sector statistics: compiling producer price indices; updating CPI weights; developing double deflation procedures to derive volume estimates of GDP; use of GST data in national accounts; building national accounts statistics capacity at the sub-national level.</li> <li>Support the GST Network in developing a model to estimate the revenue impacts of GST rate changes.</li> <li>Various fiscal issues at the state level including: public investment management (PIMA/C-PIMA); strategic budgeting; fiscal risk management; medium-term fiscal framework; green PFM reform; commitment control; cash management; performance measurement and budget documentation.</li> <li>Technical dialogue with MOF's Budget Division on: gender budgeting; cash and debt management; and fiscal risks.</li> <li>Continued technical cooperation with the RBI's Financial Stability Department on the stress testing model framework.</li> <li>AML/CFT workshop, in the context of India's upcoming FATF (fifth round) assessment.</li> <li>Training for RBI officers; officers in the Indian Economic Service, Indian Statistical Service and the Indian Administrative Service as well as for the Central Board of Direct Taxes and the Central Board of Indirect Taxes and Customs</li> <li>Debt sustainability analysis workshop for EXIM Bank of India</li> </ul>	<ul style="list-style-type: none"> <li>Real sector statistics: compilation of the financial accounts and balance sheets; continue supporting the producer price index development; improve compilation techniques of high-frequency indicators; rebasing of national accounts and CPI.</li> <li>Continued engagement with states on fiscal issues covering: budget preparation; improving medium-term fiscal frameworks; strengthening management of fiscal risks. PFM support for newly engaged states is under discussion.</li> <li>Sub-national PFM workshops showcasing reform topics under implementation by the host state.</li> <li>Workshop on digitalization for MOF.</li> <li>SARTTAC dedicated seminar series for the officials of the MOF and other government agencies on key economic issues.</li> <li>SARTTAC dedicated seminar series for the officials of the Ministry of Statistics and Program Implementation.</li> <li>Workshop on the Sovereign Risk and Debt sustainability analysis framework for Indian government officials</li> </ul>



# INDIA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 6, 2025

Prepared By

Asia and Pacific Department

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## FUND RELATIONS

(As of December 31, 2024)

### Membership Status:

Joined December 27, 1945; Article VIII.

### General Resources Account

	SDR Million	% Quota
Quota	13,114.40	100.00
Fund Holdings of Currency (Holdings Rate)	9,888.15	75.40
Reserve Tranche Position	3,233.87	24.66
Lending to the Fund		

### SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	16,547.82	100.00
Holdings	13,704.73	82.82

**Outstanding Purchases and Loans:** None

### Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	10/31/91	06/30/93	1,656.00	1,656.00
Stand-By	01/18/91	04/17/91	551.93	551.93
EFF	11/09/81	05/01/84	5,000.00	3,900.00

### Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	90.74	89.94	89.94	89.98	89.90
<b>Total</b>	90.74	89.94	89.94	89.98	89.90

### **Exchange Rate Arrangement:**

The currency of India is the Indian rupee. The exchange rate of the rupee is determined in the interbank market, where the Reserve Bank of India (RBI) intervenes frequently. The RBI's stated intervention objective is to curb excessive volatility. India's de jure exchange rate arrangement is floating, and its de facto exchange rate arrangement is classified as stabilized for the period from December 2022 to November 2024. While the exchange rate has depreciated moderately from November 2024, more observations are necessary to determine its new trend. Until then, the de facto exchange rate arrangement remains classified as a stabilized arrangement. The classification of the de facto exchange rate arrangement is based on a statistical methodology that is implemented by staff evenhandedly across member countries. The methodology follows a backward-looking statistical approach that relies on past exchange rate movement and historical data. Therefore, this classification does not imply statements or views on future or intended policies, nor does it imply a policy commitment on the part of the country authorities. The period considered for a potential reclassification of the de facto arrangement is any six-month span beginning from the onset of a new trend, as observed since the arrangement was last classified in the most recent AREAER or Article IV staff report.

On August 20, 1994, India accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement. India maintains the following exchange restrictions on the making of payments and transfers for current international transactions, which are subject to Fund approval under Article VIII, Section 2(a): 1) restrictions related to the non-transferability of balances under the India-Russia debt agreement; 2) restrictions arising from unsettled balances under inoperative bilateral payments arrangements with two Eastern European countries; 3) a restriction on the transfer of amortization payments on loans by nonresident relatives; and 4) four exchange restrictions arising from the transfer taxes for personal remittances and payments for educational, medical and travel services under the Liberalized Remittance Scheme: (i) 20 percent tax on personal remittances above the annual Rs 700,000 threshold; (ii) 0.5 percent tax on remittances above the annual Rs 700,000 threshold for education payments where financed by loan; (iii) 5 percent tax on payments above the annual Rs 700,000 threshold for education and medical services, and (iv) 5 percent tax on payments for travel services (overseas packages) below the annual threshold of Rs 700,000 and 20 percent tax thereafter, to the extent that it applies to cross-border payments (that is, to a non-resident seller). The Executive Board has not approved these restrictions.

### **Article IV Consultation:**

The previous Article IV consultation discussions were held in September 2023. The Staff Report (IMF Country Report No. 23/426) was discussed by the Executive Board on November 20, 2023.

### **FSAP Participation:**

The work of the 2024 FSAP was conducted in Delhi and Mumbai from March 2024, with a virtual concluding meeting in October 2024. The findings are presented to the Executive Board, alongside

the Article IV consultation, on February 21, 2025. The previous FSAP Update was published in December 2017 (Country Report No. 17/390).

**Capacity Development (Technical Assistance and Training):**

Recent and planned IMF capacity development and training activities with India are discussed in Appendix XVII of the staff report.

**Resident Representative:**

A resident representative's office was opened in November 1991. Mr. Ranil Manohara Salgado has been the Senior Resident Representative since March 2024.

## INFORMATION ON THE ACTIVITIES OF OTHER IFIS

Information on the activities of other IFIs in India can be found at:

- World Bank: <http://www.worldbank.org/en/country/india/overview>
- Asian Development Bank: [Asian Development Bank and India: Fact Sheet \(adb.org\)](http://www.adb.org/publications/india)



**Statement by Krishnamurthy Venkata Subramanian, Executive Director for India,  
Sanjay Hansda, Senior Advisor to the Executive Director, and  
Anand Singh, Senior Advisor to the Executive Director  
February 21, 2025**

1. India's Authorities thank the mission chief Mr. Harald Finger and his team for candid, constructive and responsive discussions, and convey their deep appreciation to the management and staff for enhancing the continued and consistent cooperation and engagement. We welcome the staff report and have the following observations.
2. The Indian economy continues to be the fastest-growing major economy, displaying steady economic growth. Post-pandemic, the economy grew briskly enough to avert any permanent loss of output. The GVA surpassed its pre-pandemic trend in Q1: 2024/25. While agriculture operated well above the trend all through, the industrial sector also found its footing above the pre-pandemic trajectory. The services sector remained closer to its trend with the growing catch-up in contact-intensive services. The post-pandemic GDP growth has averaged 7.8% during 2021-22 to 2024-25, supported by prudent macroeconomic policies, pursued even in midst of the pandemic, and sustained thereafter.
3. With the ongoing rate of decline in India's multidimensional poverty, the headcount poverty ratio is down to below 1% in 2023/24 from 12.2% in 2011-12. Inequality has declined as well. The Gini coefficient of consumption expenditure, being a more relevant indicator of inequality than an income-based measure, declined to 23.7% in 2023/24 in rural areas from 26.6% a year before, and to 28.4% in 2023/24 in urban areas from 31.4% in the previous year.
4. On the employment front, it is heartening to note that employment picked up by 27 million in 2023/24 when the working age population (WAP) increased by 14 million as per staff report. The labor force participation rate (LFPR) continued its uptrend from year to year. According to usual status, it stood at 60.1% in 2023/24, up from 57.9% in 2022/23 and 49.8% in 2017/18. In the urban areas, the largest contribution has been by the addition to regular wage workers while self-employment has made the largest contribution in the rural areas. When seen with the fact that rural consumption has been quite robust in recent years, this suggests that the improvement in employment has been not only in quantity terms but quality as well. Female LFPR has been the primary driver of the overall improvement in LFPR. It has been rising for seven years, i.e., from 23.3% in 2017-18 to 41.7% in 2023-24, mainly driven by the rising participation of rural women. The largest contributor among urban women has been the increase in regular wage workers, which demonstrates that the rise in woman LFPR has been on both the quantity and quality dimensions. Overall, formal employment is expanding: net additions to the employees' provident fund subscriptions have more than doubled from 6.1 million in 2018/19 to 13.1 million in 2023/24, followed by net additions of 9.6 million in April-November, 2024. Nearly 61 per cent of net payroll addition came from less than 29 years of age indicating that new jobs in the organised sector are going to the youth. Further, employability is being enhanced by prioritizing reskilling, upskilling, and new-skilling in tune with domestic and global demands.
5. As per the first advance estimates of national accounts, the GDP is estimated to grow by 6.4% in 2024/25 as against the staff's estimate of 6.5%. The first half of the financial year

was supported by agriculture and services, as reflected in the upsurge in rural demand. However, the weakening global demand coupled with domestic seasonal conditions like elections and extended rain dragged down the industrial growth, in general, and manufacturing growth, in particular. Notwithstanding the challenges, India continued to register the fastest growth in manufacturing PMI. Current account deficit also remained benign at 1.2% of GDP in Q2: 2024/25, bolstered by services trade surplus and remittances from abroad.

6. While staff have projected the GDP growth a shade higher than the authorities' current estimate for 2024-25, staff have retained the forecast of 6.5% for 2025-26 as well. This is, however, lower than the Reserve Bank of India's projection of 6.7%, which is also the World Bank's forecast for India for 2025-26. While staff felt risks to the economic outlook tilted to the downside, the central bank viewed them to be evenly balanced. The latter credits the momentum to improving employment conditions, tax relief in the Union Budget, and moderating inflation, apart from healthy agricultural activity, boosting private consumption. Higher capacity utilization levels, robust business expectations, healthy balance sheets of financial institutions and corporates, and government's continued emphasis on capital expenditure augur well for fixed investment. From modernizing infrastructure to simplifying taxes, the transformative government initiatives are fuelling domestic growth and positioning India as a cornerstone of global economic stability.

7. Headline inflation returned to the tolerance band of 4 (+/-) 2% in November 2024 after a short-lived breach in October. It stood at 4.3% in January 2025 with the core inflation at a low of 3.7%. Going ahead, food inflation pressures, absent any supply side shock, should see a significant softening due to good *kharif* production, winter-easing in vegetable prices and favourable *rabi* crop prospects. Accordingly, the central bank has projected the headline inflation, closer to the target, for 2025-26 at 4.2%, which is a shade lower than the staff projection of 4.3%.

### ***Fiscal Issues***

8. The gross fiscal deficit (GFD) of central government is estimated at 4.8% of GDP in 2024-25, which stands lower than the budgeted 4.9%. As announced in 2021, GFD has been set at 4.4% for 2025-26 in keeping with the last mile target of below 4.5%. The central government has also announced a new glide path with debt-GDP ratio as the fiscal anchor. The government would endeavour to keep GFD each year during 2026-27 to 2030-31 such that the central government debt is on a declining path to attain a debt-GDP ratio of about 50 (+/-) 1% by March 31, 2031. The glide path marks a move away from a regime characterized by rigid fiscal rules towards more transparent and operationally flexible fiscal standards in tune with the time of intensified uncertainty in the global economy. The choice of fiscal anchor aligns well with the government's sustained efforts to promote fiscal transparency through disclosure of off-budget borrowings. It is expected that the debt-GDP based fiscal consolidation strategy would help rebuild buffers and provide requisite space for growth-enhancing expenditures.

9. In this backdrop, we looked at the staff suggestion for a reform scenario leading to faster deficit and debt reductions with a limited drag on growth in the short term. However, there is scant evidence to hold that financial crowding out is in operation in India, particularly

in the context of growing global integration of financial markets and correspondingly, increasing access to global capital flows. Also, the suggestion of ‘better targeting of subsidies...leading to fiscal savings while still supporting the vulnerable’ has already been acted upon by the government and is also carried forward in the Union Budget 2025-26, leading to reduction in budget size and subsidies with capex retained at similar level.

10. Staff have flagged the fiscal risks arising, among others, from government guarantees; loss-making SOEs, particularly in the power sector; and unfunded civil service pension liabilities. In this context, it may be noted that the FRBM Act, 2003 has capped incremental guarantee in a financial year at 0.5% of GDP. Nevertheless, the outstanding guarantees given by central government stood at a low of 1.1% of GDP at end-March 2024, down from 3.3% at end-March 2005. Data from 20 states and union territories indicate that the growth in outstanding guarantees declined to 10.6% by end-March 2024 as against 20.5% by end-March 2023. As regards the power sector, the Union Budget 2025-26 has announced to incentivize electricity distribution reforms and augmentation of intra-state transmission capacity by states. Additional borrowing of 0.5% of GSDP is proposed for states, contingent on these reforms. Lastly, the Unified Pension Scheme, which is set to be effective for central government employees from April 1, 2025 is a fund-based pension system with contributions from both the employee and the employer.

11. Staff assess that higher primary deficit in more than half of states, coupled with high debt and low growth, points to vulnerabilities at the sub-national level. In this regard, RBI's “State Finances: A Study of Budgets of 2024-25” has observed that state governments have made commendable progress towards fiscal consolidation by containing their aggregate gross fiscal deficit within 3% of GDP for three consecutive years (2021-22 to 2023-24), while restricting revenue deficit at 0.2% in 2022-23 and 2023-24. This has allowed states to scale up their capital spending and improve the quality of expenditure. Further, States' total outstanding liabilities declined from 31% of GDP at end-March 2021 to 28.5% at end-March 2024, approaching the pre-pandemic level of 25.3% at end-March 2019.

### ***Monetary Policy***

12. Headline inflation reverted to the tolerance band in November 2024 and has moved closer to the target in January 2025. Annual inflation is expected to moderate further in 2025/26, supported by a favourable outlook on food and continuing transmission of past monetary policy actions. While growth is expected to recover from the low of Q2 of 2024-25, it remains much below that of the previous year. Given these growth-inflation dynamics, monetary policy committee (MPC) felt that a less restrictive monetary policy would be more appropriate at the current juncture and decided to cut the policy repo rate by 25 bps to 6.25% on February 07, 2025.

13. As regards the staff observation in favour of greater exchange rate flexibility, it may be noted that the Reserve Bank of India's exchange rate policy has remained consistent over the years, and is focused on maintaining orderliness and stability, without compromising market efficiency. Accordingly, FX interventions, if and when undertaken, aim at smoothening excessive volatility rather than targeting any specific exchange rate level or band. The exchange rate of the Indian Rupee (INR) is determined by market forces. As a

matter of fact, the INR/USD exchange rate has moved in a narrow band in the recent past, reflecting low overall macroeconomic volatility then as captured in the VIX index for India. From July 2024 onwards, we have witnessed larger exchange rate movements. INR has depreciated by 4.0% during November 6, 2024 to February 6, 2025, largely mirroring the 4.1% appreciation in the USD index during the same period. As in the past, exchange rate flexibility continues to be the first line of defence in absorbing external shocks.

14. While staff have observed that greater exchange rate flexibility would, among others, reduce the need for holding costly precautionary FX reserves, they confirm that India's official FX reserves being at about 105% of the IMF's composite metric as at end-December 2024 are adequate for precautionary purposes. In this context, *staff may let us know their assessment on official FX reserves* if the exchange rate regime is treated as *de facto* floating.

15. Staff have also advocated greater exchange rate flexibility to prevent moral hazard by encouraging firms to actively manage their currency risk through hedging. As hedging costs over longer horizons are significant, 100% hedging robs the borrowing cost advantage that motivates firms to borrow in foreign currency in the first place. Therefore, 100% hedging may be sub-optimal. RBI's Financial Stability Report (December 2024) observes that around two-thirds of external commercial borrowings remain hedged as on September 2024. *Staff comments are welcome.*

### ***Financial Sector Policy***

16. India's financial system is underpinned by strong macroeconomic fundamentals, and healthy balance sheets of banks and non-banks. The soundness of scheduled commercial banks (SCBs) has been bolstered by strong profitability, declining non-performing assets (NPA) and adequate capital and liquidity buffers. Return on assets and return on equity are at decadal highs while the gross NPA ratio has fallen to a multi-year low of 2.6% at end-September 2024. Macro stress tests demonstrate that most SCBs have adequate capital buffers relative to the regulatory minimum even under adverse stress scenarios. Stress tests also validate the resilience of mutual funds and clearing corporations. Non-banking financial companies (NBFCs) remain healthy with sizable capital buffers, robust interest margins and earnings, and improving asset quality with gross NPA placed at 3.4%. The consolidated solvency ratio of the insurance sector also remains above the minimum threshold limit.

17. Staff have observed that the credit-to-GDP gap has broadly closed. In this context, it may be noted that RBI's FSR has placed it at (-) 0.7% in Q4: 2023-24, down from (-) 10.3% in Q1:2022-23. Towards further and faster credit penetration, initiatives leveraging technologies such as the Unified Lending Interface (ULI) and Open Credit Enablement Network (OCEN) are expected to redefine credit access, particularly for small businesses and individuals. The ULI is a digital public infrastructure for frictionless credit, which has onboarded 36 lenders so far, including banks and NBFCs. These lenders are using more than 50 data services, including authentication and verification services, land records data from six states, satellite service, transliteration, property search services, and dairy insights. OCEN aims to enable cash-flow based unsecured financing for MSMEs as against balance sheet and collateral based financing. The Mutual Credit Guarantee Scheme launched in January 2025, fulfilling the 2024-25 budget announcement of July 2024, is an important policy intervention

to boost credit growth to MSME manufacturing.

18. Staff have reiterated that as banks hold a relatively high share of government securities, it could amplify macro-financial shocks under severe adverse scenarios. Staff have also advised to reduce Statutory Liquidity Ratio (SLR) given the introduction of Liquidity Coverage Ratio (LCR). In this regard, it may be noted that the banks' share in government securities has been declining. It stood at 37.5% of central government dated securities as at end-June 2024 and even lower at 34.4% of state government securities. From April 2024, in alignment with the global financial reporting standards, symmetric treatment is imparted to fair value gains and losses while ceiling on Held to Maturity (HTM) portfolio is removed, providing operational flexibility to banks to decide their investment portfolio. Stress test results on banks' investment portfolio indicate that the system level CRAR would continue above the regulatory minimum even if yield goes up by 250 basis points. As regards SLR, it is a time-tested tool and helped maintain bank liquidity prior to the system of LCR. SLR currently being at 18% is aligned with LCR and does not pose a binding constraint to banks.

19. Under the risk assessment matrix, the risk likelihood with respect to social discontent is judged to be medium by the staff. Here, we would like to indicate that there is no such evidence of increases in food and fuel prices causing social discontent in India, especially as India has not experienced hyperinflation. Even during the pandemic, inflation has not increased abruptly, reflecting coordinated monetary-fiscal measures. The government's free food program remains in force until 2029. Further, with the Indian economy remaining strong and resilient and the social fabric being strong, shocks have created headwinds but not instability. Furthermore, staff advice on the policy response to deepening geoeconomic fragmentation including protectionism, i.e., 'Avoid introducing further trade restrictions' goes against the sovereign's right to respond, if faced with higher tariff and/or non-tariff barrier.

20. As per staff, while priority sector lending (PSL) could promote access to credit and financial inclusion, it also has opportunity costs with less than fully efficient allocation of capital. In this context, staff have suggested that the authorities should continue making the PSL program more flexible, including through expanded co-lending arrangements. Concurrently, a comprehensive cost-benefit analysis should be conducted. In this context, it may be noted that the prevalence of high transaction costs and information asymmetries often lead to market failures, restricting credit flows to economically productive activities/borrowers like agriculture, MSME or weaker sections, covered under PSL. Everywhere in the world, governments attempt to contain the impact of market failures by 'directed lending' route. Even the US does so through Fannie Mae and Freddie Mac. Home Affordable Modification Program (HAMP) is an example of directed lending in the US, similar to PSL in India. Likewise, the Article IV report (2024) on France states, "To mitigate the impact of deposit repricing on NIMs, the authorities have frozen the rates for the most popular regulated savings account, Livret A, until the end of 2024." IMF staff do not, however, raise any concerns on such state interventions. In the Indian context, the sectors considered for PSL are reviewed from time to time to include the dynamic, sun rise sectors like renewables. Banks falling short on PSL can purchase participation certificates from other banks. Co-financing PSL with NBFCs is also allowed. As ensuring financial inclusion on the lending side, PSL helps in empowering and realizing dynamic efficiency. As per RBI Bulletin

study (September 2024), high growth in PSL is not associated with a deterioration in banks' asset quality.

21. India being one of the few countries with market capitalization exceeding 100% of GDP, staff expressed concern that sudden volatility in the financial market amid rising households' stock market participation could impact household wealth and consumer sentiment (Annex II, p.43 of staff report). In this context, it may be noted that there has been a surge in retail participation over the last five years, both in terms of investor numbers and trading activity. The number of client codes at the National Stock Exchange (NSE) has risen from a little under 60 million at the end of 2019 to nearly 210 million as of December 2024. In this context, in October 2024, the Securities and Exchange Board of India announced several measures to limit speculative trading, including increasing minimum contract size, limiting weekly index options, and intraday monitoring of position limits. In recent months, the stock market has been experiencing corrections amid sizeable foreign outflows since end-September 2024. However, the majority of households invests for long-term gains and is largely unaffected by short term volatility. As per data from the Association of Mutual Funds in India (AMFI), retail investors continue to hold 60.8% of equity assets in mutual funds for more than 24 months. Further, the majority of households still relies on traditional savings instruments. Notwithstanding the foreign outflows amid broad dollar strength, term spread has declined during 2022 to 2024, suggesting lower risk premia on government securities.

### ***Structural Reforms***

22. India's approach to structural reforms has been one of a steady and irreversible process, which is rooted in broad consensus in a democratic polity, while unleashing animal spirits and improving governance. As a matter of fact, the reform zeal continued even in midst of the pandemic. Reform efforts are directed not only for big ticket headline reforms but also pursued for granular, step by step, process reforms, leading to a sea-change over a period of time. For example, the formal sector has of late seen significant growth, with net Employees' Provident Fund Organisation (EPFO) subscriptions more than doubling. During April-November 2024, net additions reached 9.6 million, driven largely by youth. This indicates a growing trend towards formal employment, which enhances workers' access to social security and stability. Women's LFPR has also shot up. Government initiatives are playing a key role in enhancing the formalisation of the job market and women's participation therein, particularly through the skilling initiatives like Antyodaya Yojana National Rural Livelihood Mission (DAY-NRLM).

23. The Union Budget 2024-25 introduced a package of five key schemes aimed at benefiting 41 million youth over five years with a central outlay of ₹2 lakh crore (approx. USD 27 billion) to promote employment and skilling. These schemes are a stepping stone towards creating long-term quality jobs for Viksit (i.e. developed) Bharat. Out of the five schemes, Prime Minister's Internship Scheme envisages internship in 500 top companies for 10 million youth in five years. This scheme aims to bridge the gap between academic knowledge and industry requirements and aligns with broader goals of improving employability and stimulating economic growth.

24. As regards education, health and social safety nets, it may be noted that the

government is focused on empowering citizens through education, healthcare, skill development, and social infrastructure development. During the five years from 2020/21 to 2024/25 (BE), the social sector expenditure grew at a CAGR of 15%. During the same period, expenditure on education has grown at 12%. Towards enhancing the capabilities of educators and preparing them for the demands of the 21st century, the government has launched TeacherApp, a cutting-edge digital platform: CASEL (Collaborative for Academic, Social, and Emotional Learning). The application offers over 260 hours of resources, including courses, videos, podcasts, and live expert sessions. It also features Teaching Kits with 900 hours of content, providing teachers with essential tools such as lesson plans, worksheets, and project-based learning activities. As per the Annual Status of Education Report (Rural) 2024, there have been substantial gains in enrollment among three-year/four-year/five-year olds in pre-primary institutions in rural India between 2018 and 2022. Reading levels have improved for children in government schools in all elementary grades (Std I- VIII) since 2022. Children's basic arithmetic levels also show substantial improvement in both government and private schools, reaching the highest level in over a decade. Student and teacher attendance in government primary schools show small but consistent improvements since 2018. Nearly all Indian children between the ages of 14 and 16 have access to cell phones. About 82% said they knew how to use one. The resultant recovery in learning outcomes as tracked by ASER can be attributed to students going back to schools regularly post pandemic as also to the focus of the New Education Policy (2020) on improving foundational skills including digital literacy.

25. Alongside, expenditure on health grew at a CAGR of 18% during the five-year period. The share of out-of-pocket expenditure has declined dramatically from 62.6% to 39.4%, supported, among others, by Government-supported voluntary insurance schemes like Ayushman Bharat Pradhan Mantri Jan Arogya Yojana, Rashtriya Swasthya Bima Yojana, and state-specific government health insurance schemes.

26. As regards efforts to improve the ease of doing business, Economic Survey, 2024-25, Government of India has given a clarion call to all layers of governments around the world for “getting out of the way” and allowing businesses to focus on their core mission to foster innovation and enhance competitiveness. That means rolling back regulation significantly. That means vowing and acting to stop micromanaging economic activity and embracing risk-based regulations. Accordingly, the Union Budget 2025-26 has announced four specific measures to develop a modern, flexible, people-friendly, and trust-based regulatory framework for the 21<sup>st</sup> century as under: (i) High Level Committee for Regulatory Reforms to review all non-financial sector regulations, certifications, licenses, and permissions including inspections and compliances; (ii) Investment Friendliness Index of States to further the spirit of competitive and cooperative federalism, (iii) Mechanism under the Financial Stability and Development Council (FSDC) to evaluate current financial regulations and formulate a framework to enhance their responsiveness and development of the financial sector; and (iv) Jan Vishwas Bill 2.0 to decriminalise more than 100 provisions in various laws.

27. The Union Budget 2025/26 has announced to (i) remove seven tariffs, (ii) apply appropriate cess to maintain effective duty incidence, and (iii) levy not more than one cess or surcharge. As a result, India's average tariff rate has declined substantially. Staff have,

however, reiterated their advice for reduction in trade restrictions. In this regard, we draw the staff attention to our buff statement of the previous year, wherein it has been shown that India's non-tariff measures (NTM) are significantly lower than leading economies. This is also buttressed by the latest UNCTAD's TRAINS database besides the World Bank's World Integrated Trade Solution (WITS) database. The significantly higher NTMs in leading economies particularly impact India's service sector, limiting the utilisation of India's comparative advantage to benefit the global economy. Second, in erecting trade barriers, countries face the trade-off between tariffs, which are transparent and objective, and NTMs, which are, by definition, non-transparent and subjective in interpretation. Thus, while most economies – including the leading ones have chosen to resolve this trade-off through intensive use of the opaque and subjective NTMs, India uses the only lever, which is transparent and objective. Finally, India's tariff structure needs to be seen in the context of trade barriers to global services *vis-à-vis* goods, the removal of which could help realise India's demographic dividend.

28. Another form of NTM in operation has been the instrument of sovereign credit rating. It is often felt that the credit rating agencies need to provide more responsible assessments. Their primary role is to evaluate a borrower's likelihood of default and ability to meet obligations as a credit rating is conceptually a one-to-one mapping onto the probability of default. However, as confirmed by the Fund's World Economic Outlook (April 2024), sovereign credit rating agencies place a high premium on institutional quality. Their current models also prioritize GDP-per-capita over overall GDP, which doesn't accurately reflect a sovereign's repayment capacity. Overemphasis on debt-to-GDP ratio, which is a simplistic indicator not accounting for capacity and willingness of repayment, misses the real picture. As the Government of India's Economic Survey of 2020-21 highlighted, never in the history of sovereign credit ratings has the fifth largest economy in the world been rated at the lowest rung of the investment grade. Moreover, India has a zero sovereign default history, which is critical because prior sovereign default is a strong leading indicator of potential for future default. Further, India's foreign exchange reserves can pay for almost the entire stock of India's external debt. As low sovereign rating raises the cost of capital, it affects the ability of EMDEs like India to mobilize private investment. This is particularly problematic when it comes to addressing climate change, as EMDEs require significant long-term funding to transition to green growth. Global coordination is necessary to ensure that rating agencies adopt more comprehensive models. Institutions like the IMF should engage with credit rating agencies to rectify these issues as corrected methodologies will facilitate optimal financing for development and climate change initiatives in EMDEs.

29. As per staff, AI may turn out largely complementary for 14% of Indian workers, raising labor productivity, whereas 12% are at a higher risk of being displaced, particularly in service sector. In terms of the IMF's AI Preparedness Index, India scores slightly higher than the average of emerging markets. To capitalize on the opportunities afforded by AI, staff advise that India should implement policies to harness human capital and foster favorable economic conditions. In this backdrop, particularly for a labour-rich country like India, policymakers need to weigh on its costs and benefits with necessary follow-up action. Even in countries where AI may fill the shrinking labour force, AI's enormous demand for water and electricity is slowly coming into view, much to the bewilderment of policymakers. Nonetheless, India's national AI mission has envisaged to augment the



number of graduates, post-graduates and PhDs in AI domain including setting up of Data and AI Labs in tier 2 and tier 3 cities across India.

30. Staff have observed that India is among the largest emitters of greenhouse gases globally, though per capita emissions are well below the G20 EM average. They have further observed that India is on track to meet its targets for the 2030 NDC with currently announced policies. In this context, it may be noted that per capita emissions is a better metric for comparison than absolute volume of emissions. Further, India is among the top four countries in setting up 100 GW of solar power generation in record time. India has to focus more on adaptation than mitigation. India is the seventh most vulnerable country to climate change. It suffers from weather extremes and hazards, slow onset events such as sea-level rise, biodiversity loss, and water insecurity. Accordingly, adaptation expenditure has increased from 3.7% to 5.6% of GDP between 2015/16 and 2021/22. However, the international flow of funds for climate actions is highly inadequate and has a mitigation bias. Establishing a small mobilisation target of USD 300 billion annually for developing countries by 2035 is a fraction of the estimated requirement of USD 6.8 trillion by 2030. The energy transitions witnessed till the last century were driven by commercial interests rather than the will to limit the emissions from advanced economies. The European Union further amended its sustainable taxonomy to include generating power and heat from fossil gaseous fuels as a transitional activity. Recently, the US has also withdrawn from the Paris agreement for a second time. Actions speak louder than words, with the biggest beneficiaries of carbon- intensive growth over several centuries holding on to fossil fuels even as they would want the developing countries to take up the less efficient, costlier and riskier options. Be that as it may, India's climate efforts continue to be anchored in its ambitious commitment to achieve net zero emissions by 2070.

31. Staff have observed that India's official statistics while having some shortcomings are broadly adequate for surveillance. Our authorities disagree with the overall rating of national accounts based on higher weightage assigned to coverage. The skewedly weighted approach to rating, to say the least, is misleading and goes against the spirit of transparency, objectivity, and even-handedness. A cross-country survey of official statistics rating – overall as well as sectoral – also contradicts the claim of 'greater objectivity and granularity in the assessment' of the new Data Adequacy Assessment for Surveillance, 2023. The cross- country survey highlights the lack of even-handedness in staff assessment despite the Executive Board's repeated emphasis that staff judgement must not become a tool for the practice of lack of even-handedness.

32. In sum, the Indian economy is on a steady growth path with robust macroeconomic fundamentals. Inflation is in the tolerance band and closer to the target. The external sector is strong with steady fiscal consolidation and eminently manageable current account balance, facilitated by the continuing tailwinds from remittances and services exports. The economy has also assiduously built the twin advantage of strong balance sheets in the domestic corporate and financial sectors. However, globalization is on the retreat. Hence, private consumption is back to the center stage with steady public investment in a move to lift off with private investment. Alongside, on the anvil is a deregulation drive to invite and unleash the animal spirits further in transition to India@100 as a developed nation.