INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/314

INDIA

November 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; 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 2025 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 November 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 November 21, 2025, following discussions that ended on September 18, 2025, 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 November 6, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for India.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 25/292

IMF Executive Board Concludes 2025 Article IV Consultation with India

FOR IMMEDIATE RELEASE

Washington, DC – **November 26, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for India.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

India's economy has continued to perform well. Following economic growth of 6.5 percent in FY2024/25, real GDP expanded by 7.8 percent in the first quarter of FY2025/26. Headline inflation has declined markedly, driven by subdued food prices. The financial and corporate sectors have remained resilient, supported by adequate capital buffers and multi-year low non-performing assets. Fiscal consolidation has advanced, and the current account deficit has been contained, supported by resilient service exports.

Despite external headwinds, growth is expected to remain robust, supported by favorable domestic conditions. Under the baseline assumption of prolonged 50 percent U.S. tariffs, real GDP is projected to grow at 6.6 percent in FY2025/26 before moderating to 6.2 percent in FY2026/27. The reform of the goods and services tax (GST) and the resulting reduction in the effective rate are expected to help cushion the adverse impact of tariffs. Headline inflation is projected to remain well contained, reflecting the one-off effect of the GST reform and continued benign food prices. Looking ahead, India's ambition to become an advanced economy can be supported by advancing comprehensive structural reforms that enable higher potential growth.

There are significant near-term risks to the economic outlook. On the upside, the conclusion of new trade agreements and faster implementation of structural reform domestically could boost exports, private investment, and employment. On the downside, further deepening of geoeconomic fragmentation could lead to tighter financial conditions, higher input costs, and lower trade, FDI, and economic growth. Unpredictable weather shocks could affect crop yields, adversely impact rural consumption and reignite inflationary pressures.

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[1] 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.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the http://www.imf.org/India page.

Executive Board Assessment[3]

Executive Directors commended India's very strong economic performance and resilience which has benefited from sound macroeconomic policies and reforms. Amid high uncertainty, Directors called for continued sound policies and noted that accelerated implementation of structural reforms will be critical to maintain stability and support India's ambition of becoming an advanced economy.

Directors concurred with the authorities' plans for continued fiscal consolidation this year, while noting that achievement of the fiscal deficit target will require strong spending discipline. While welcoming the recent simplification of the goods and service tax (GST), they called for careful monitoring of the fiscal impact of the reduction in GST and personal income tax rates. Directors also recommended that tariff relief measures should be targeted, transparent, and timebound, and that the pace of fiscal consolidation in FY2026/27 should be conditional on the impact of tariffs on the output gap. For the medium term, Directors stressed that fiscal buffers should be replenished by focusing on domestic revenue mobilization, while also raising efficiency of expenditure including through a more targeted social safety net. Directors generally encouraged the authorities to review their medium term debt target in light of the GDP rebasing next year, with a view to making it more ambitious. Enhancing fiscal sustainability at the state level as well as carefully monitoring contingent liabilities would also be important.

Directors supported the RBI's data dependent approach to monetary policy. They generally felt that, if tariffs persist at current levels, there would likely be scope for further monetary easing amid benign inflation dynamics. Directors broadly recommended continued efforts to enhance monetary transmission, as well as greater exchange rate flexibility to help the Indian economy absorb external shocks, with interventions aimed at addressing disorderly market conditions consistent with the Integrated Policy Framework.

Directors highlighted that India's financial system has been sound, supported by strong capital and liquidity positions. They encouraged the authorities to mitigate vulnerabilities among nonbank financial institutions and cautiously monitor risks from concentration and rising financial sector interconnectedness. Directors also encouraged the authorities to make further progress on financial structural reforms, in line with the 2024 FSAP and FATF recommendations.

Directors underscored that comprehensive structural reforms are critical to support India's economic development. They welcomed the recent labor market reforms and encouraged the authorities to enhance human capital and female labor force participation, continue with the public investment push, and strengthen the business environment. Directors stressed that deepening of trade integration can bolster India's competitiveness and attract FDI. Investment in R&D and fostering innovation will also help support productivity driven development. Advancing the green transition supported by greater access to concessional financing will also be important for promoting sustainable and resilient growth. Noting important progress underway, Directors indicated the value of further enhancements in data quality.

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[3] 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.

Table 1. India: Selected Social and Economic Indicators, 2021/22-2026/27 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Est.	Projections	
Growth (in percent)						
Real GDP (at market prices)	9.7	7.6	9.2	6.5	6.6	6.2
Prices (percent change, period average)						
Consumer prices - Combined	5.5	6.7	5.4	4.6	2.8	4.0
Saving and investment (percent of GDP)						
Gross saving 2/	30.9	31.6	32.6	32.3	31.5	30.9
Gross investment 2/	32.1	33.6	33.4	32.9	32.5	32.4
Fiscal position (percent of GDP) 3/						
Central government overall balance	-6.7	-6.6	-5.5	-4.9	-4.5	-4.5
General government overall balance	-9.4	-9.0	-8.1	-7.9	-7.1	-7.2
General government debt 4/	83.5	82.2	80.7	81.6	81.1	80.7
Cyclically adjusted balance (% of potential GDP)	-7.7	-8.2	-8.1	-7.9	-7.2	-7.1
Cyclically adjusted primary balance (% of potential GDP)	-2.6	-3.1	-2.9	-3.0	-1.7	-1.7
Money and credit (y/y percent change, end-period)						
Broad money	8.8	9.0	11.6	9.4	9.3	9.6
Domestic Credit	8.4	13.1	14.9	11.9	10.8	10.0
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	3.8	6.7	7.0	6.5	…	…
10-year government bond yield (end-period)	6.9	7.3	7.1	6.6	…	…
Stock market (y/y percent change, end-period)	18.3	0.7	24.9	5.1	…	…
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	429.2	456.1	441.4	441.8	416.3	409.5
(Annual percent change)	44.8	6.3	-3.2	0.1	-5.8	-1.6
Merchandise imports (in billions of U.S. dollars)	618.6	721.4	686.4	729.0	746.6	782.6
(Annual percent change)	55.3	16.6	-4.9	6.2	2.4	4.8
Terms of trade (G&S, annual percent change)	-8.7	-2.7	3.2	-1.3	-0.5	0.0
Balance of payments (in billions of U.S. dollars)						
Current account balance	-38.7	-67.0	-26.0	-23.3	-41.4	-63.5
(In percent of GDP)	-1.2	-2.0	-0.7	-0.6	-1.0	-1.4
Foreign direct investment, net ("-" signifies inflow)	-38.6	-28.0	-10.2	-1.0	-10.1	-15.5
Portfolio investment, net (equity and debt, "-" = inflow)	16.8	5.2	-44.1	-3.6	-14.9	-21.6
Overall balance ("+" signifies balance of payments surplus)	47.5	-9.1	63.7	-5.0	16.0	23.8
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	607.3	578.4	646.4	668.3	709.6	733.4
(In months of next year's imports (goods and services))	8.1	8.0	8.4	8.4	8.4	8.2
External debt (in billions of U.S. dollars, end-period)	619.1	623.9	668.8	736.3	791.0	856.3
External debt (percent of GDP, end-period)	19.5	18.6	18.4	18.8	19.2	19.0
Of which: Short-term debt	4.6	4.4	4.5	4.3	4.4	4.4
Ratio of gross reserves to short-term debt (end-period)	4.2	4.0	4.0	3.9	3.9	3.7
Real effective exchange rate (annual avg. percent change)	0.4	-0.2	0.2	1.2	…	…
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-6.7	-6.5	-5.5	-4.9	-4.4	-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.

INTERNATIONAL MONETARY FUND

INDIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

November 6, 2025

KEY ISSUES

Context. India's strong economic performance has benefitted from sound macroeconomic policies and earlier structural reforms. Despite external headwinds, growth is expected to remain resilient, with inflation remaining subdued. Amid high uncertainty, potential upside risks stem from swift conclusions of trade agreements and accelerated implementation of domestic structural reforms, while possible downside risks from deepening geoeconomic fragmentation persist.

Policy Recommendations. Reinforcing macroeconomic and financial stability will help support conditions conducive for sustained growth. Steadfast implementation of structural reforms is essential to raise potential growth.

- **Fiscal Policy**. The planned moderate pace of fiscal consolidation this year is appropriate, and fiscal support to mitigate the adverse impacts of tariffs should be targeted, transparent and timebound. Decisive fiscal consolidation is warranted over the medium term to rebuild buffers, with focus on domestic revenue mobilization to provide space for a continued public investment push and other priority spending.
- **Monetary and Exchange Rate Policy**. In the current uncertain environment, monetary policy should remain nimble, with an easing bias. Greater exchange rate flexibility would be helpful for absorbing external shocks, with foreign exchange intervention limited to addressing destabilizing risk premia.
- **Financial Sector Policy**. Systemic financial risks are broadly contained. Pockets of vulnerability resulting from concentration risks and rising interconnectedness should be mitigated. Strengthening borrower-based macroprudential norms and the loss absorption capacity of selected entities, together with enhancements in the crisis and credit risk management frameworks, can further strengthen financial stability.
- **Structural Policies**. Sustaining high potential growth and sufficient job creation requires strong structural reforms. Priorities include high and efficient public investment, labor market flexibility, streamlined regulations, and trade and investment liberalization to boost competitiveness and attract FDI. Strengthening the insolvency framework and judicial capacity would support firm dynamism and productivity.

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

Discussions took place in Bangalore, Chennai, Mumbai, and New Delhi during September 4–18, 2025. The team comprised H. Finger (Mission Chief), C. Alonso, R. Green, N. Suphaphiphat, N. Wang (all APD), M. Martins (STA), J. Yoo (MCM), R. Salgado (Senior Resident Representative), S. Mohapatra, G. Dang, and M. Yadav (all Resident Representative office). U. Patel (incoming Executive Director), A. Singh, and P. Kumar (both OED) attended selected mission meetings. The mission met with Economic Affairs Secretary A. Thakur, Chief Economic Advisor A. Nageswaran, Reserve Bank of India (RBI) Governor S. Malhotra, RBI Deputy Governor P. Gupta, 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.

CONTENTS

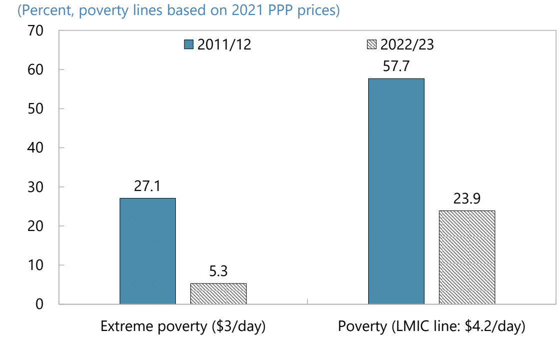
TABLES

ANNEXES

CONTEXT

1. **India's strong economic performance has been supported by sound macroeconomic policies and a legacy of structural reforms** (Annex I). Real GDP growth has remained robust following a strong post-pandemic recovery. Generally prudent fiscal, monetary, and financial sector policies, coupled with instrumental structural reforms—such as the goods and services tax (GST), a flexible inflation targeting framework, and the rapid expansion of digital public infrastructure—have laid a strong foundation for sustained growth. These achievements have contributed to rising living standards and a significant reduction in poverty, with the share of the population in extreme poverty having fallen markedly to 5.3 percent (FY2022/23). That said, significant challenges remain: India's income per capita remains relatively low, the handover from public to private investment as a growth engine remains to be achieved, public debt is still elevated, and high-quality employment benefits only a small group of India's growing labor force.

India: Monetary Poverty Headcount
(Percent, poverty lines based on 2021 PPP prices)



Source: World Bank.
Note: LMIC = Lower-Middle Income Countries.

2. **While India's export sector is affected by the rise in U.S. tariffs, the overall macroeconomic impact is expected to be manageable.** Since August 27, 2025, India has been subject to 50 percent tariffs on merchandise exports to the U.S., raising the effective tariff rate to 37.8 percent.[1] If maintained for a prolonged period, the tariffs would markedly reduce India's exports to the U.S. for the affected sectors, especially textiles, jewelry, and shrimp. Heightened uncertainty over bilateral trade policy with the U.S. will likely also dampen domestic investment and FDI into India. That said, India is less exposed to global trade than many other Asian Emerging Markets, and its large and growing domestic market holds potential for economic resilience against external shocks.

3. **India's goal of becoming an advanced economy will require sustained high rates of economic growth over coming decades**. To lay the foundations, India needs to continue with prudent macroeconomic policies to safeguard economic stability and activate all engines of growth—labor, capital, and productivity—through accelerated structural reforms, while ensuring

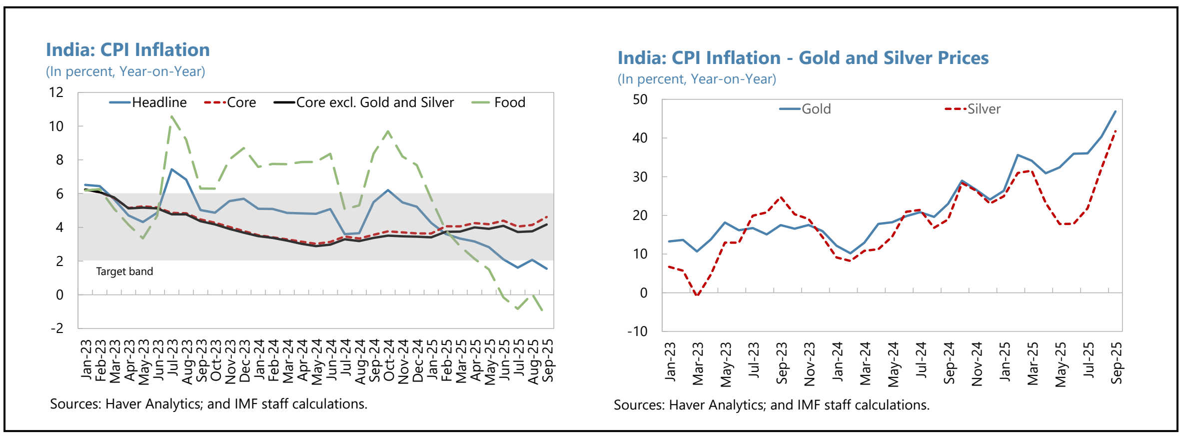
[1] The U.S. imposed on India a 25 percent tariff, layered with another 25 percent tariff as penalty for importing Russian oil, along with the Section 232 tariffs on steel, aluminum, automobiles and parts, copper, selected furniture, and medium/heavy-duty vehicles and parts (ranging from 10 to 100 percent). Around 30 percent of U.S. merchandise imports from India are currently exempted, based on pre-tariff trade flows. Merchandise exports to the U.S. accounted for 2.2 percent of GDP in FY2024/25.

that growth is inclusive. The success of these reforms requires active participation across both public and private sectors, and strong coordination among Centre, states, and local governments.

RECENT DEVELOPMENTS

4. Growth has been robust (Figure 2). India's real GDP grew by 6.5 percent in FY2024/25. Private consumption growth was buoyant at 7.2 percent on increasing rural demand and stable urban demand. Investment growth moderated to 7.1 percent, supported by public investment, whereas private investment appeared to be less dynamic. Strong private consumption has continued this fiscal year, underpinning real GDP growth of 7.8 percent in 2025Q2. Nominal GDP growth moderated to 8.8 percent in 2025Q2, down from 9.8 percent in FY2024/25, reflecting a low deflator mainly driven by declining food prices. The output gap was broadly closed as of FY2024/25.

5. Inflation dynamics are benign. Headline inflation has declined to 1.5 percent in September 2025, down from 4.6 percent (FY2024/25 average), reflecting lower domestic food prices from good harvests. Core inflation increased to 4.6 percent (from 3.5 percent FY2024/25 average), in part due to rising gold and silver prices.



6. Labor market indicators remained broadly stable in 2024, with a mild improvement in job quality, though challenges remain. Amid an unchanged labor force participation rate of 56.2 percent, regular and formal employment expanded. The employment rate of regular wage earners grew from 12.3 percent in 2023 to 12.7 percent in 2024, while formal employment (defined by social security coverage) increased from 11 percent to 11.2 percent. Real hourly wages have grown by 16 and 26 percent since 2018 in rural and urban areas, respectively, in part reflecting fewer hours worked. Unemployment has remained low at 5.2 percent in September. Despite recent improvements, challenges persist, with high informality and underemployment, and declining but still high youth unemployment for the most educated (Figure 3).

7. The fiscal policy stance was broadly neutral in FY2024/25, as state-level expansion partly offset central government consolidation. The general government deficit is estimated to have fallen to 7.9 percent of GDP, from 8.1 percent in FY2023/24.

- Building on the central government's recent track record in meeting fiscal targets, its deficit declined further to 4.9 percent of GDP (4.8 percent of GDP per the authorities' definition).

Consolidation was driven by steady post-pandemic restraint in recurrent spending, including lower fertilizer and fuel subsidies enabled by declining commodity prices. Capital expenditure registered at 3.2 percent of GDP again in FY2024/25. Revenue as a share of GDP declined slightly, with a larger dividend payment by the RBI and gains in personal income tax (PIT) helping to offset small declines in GST, excise and customs revenue.

- The combined state government deficit is estimated to have risen to 3.3 percent of GDP, from 2.9 percent of GDP in FY2023/24. Pressure on the deficit was primarily due to revenue constraints and higher social cash transfers amid sustained capital expenditure.

8. The authorities have implemented a welcome reform of the Goods and Service Tax (GST). Effective September 22, 2025, a significantly simplified rate structure applies, with two main slabs (5 and 18 percent) in addition to a new 40 percent slab for selected luxury and sin goods. The reform also includes administrative measures that will reduce the compliance burden and should help broaden the tax net. While lowering the effective GST rate is expected to support consumption, higher buoyancy should result in only a minor drag on tax revenue.

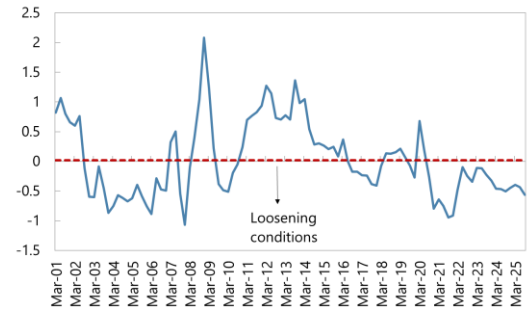
India: Number of Items in Each GST Rate Slab

Rate (percent)	Pre-reform	Post-reform	Types of Goods Post-reform
0.25	4	3	Rough precious and semi-precious stones
1.5	0	2	Diamonds and related items
3	14	15	Largely precious metals
5	216	516	Essential food products, healthcare items, renewable energy devices, fertilizers and eco-friendly products
12	274	0	***Eliminated***
18	650	640	The broad standard rate, applicable to processed goods, lifestyle items, industrial inputs, and household products
28	47	0	***Eliminated***
40	0	13	Tobacco, sweetened caffeinated or carbonated drinks, hybrid cars and large motorcycles

Source: Ministry of Finance and staff calculations.

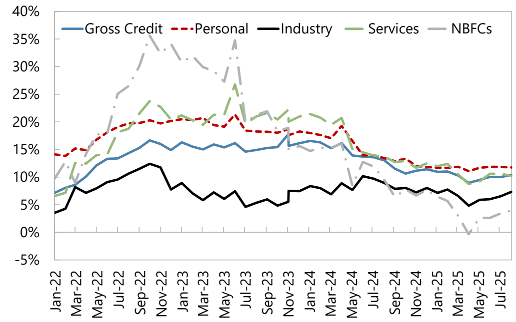
9. Financial conditions have eased, helped by supportive Reserve Bank of India (RBI) policies. Despite high global uncertainty, equity prices have recovered. Government bond yields, particularly at the front end, have eased as the RBI has lowered its policy rate since February 2025. S&P has upgraded India's credit rating to BBB. Credit spreads have recently declined, though their levels remain elevated. Interbank liquidity conditions have improved following injection of durable liquidity by the RBI. In late February, the RBI reversed the higher risk weights on microfinance loans for consumption purposes and bank credit to non-bank financial corporations (NBFCs) back to November 2023 norms, expecting to improve credit conditions. Still, bank credit growth moderated to 10.4 percent y/y in September, from 13 percent in September 2024, likely reflecting the lagged effect of earlier macroprudential tightening amid high global uncertainty. However, NBFC credit growth increased from 16 percent y/y in September 2024 to 20.7 percent in March 2025, partly due to the reclassification of a housing finance company to an NBFC. Overall, credit growth has been in line with nominal GDP growth, and the credit gap is estimated to be broadly closed or slightly negative. Housing prices continued to grow modestly in 2025H1. The trading volume of equity derivatives, which had grown exponentially in recent years, has declined significantly amid tighter regulatory measures in the derivatives market.

India: Financial Conditions Index



Sources: Bloomberg; and IMF staff estimates.
Note: The dotted line is the average of FCI since 2001.

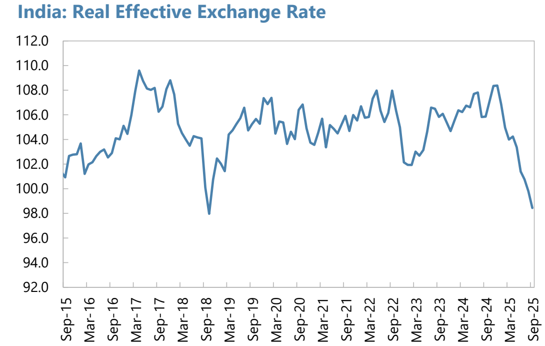
India: Bank Credit Growth



Sources: Haver Analytics; and IMF staff calculations.

10. The external position in FY2024/25 was moderately stronger than that implied by medium-term fundamentals and desirable policies (Annex II). The current account deficit (CAD) declined to 0.6 percent of GDP, from 0.7 percent of GDP in FY2023/24, as robust import demand was offset by strong service exports amid an overall broadly stable real effective exchange rate. Although gross inward FDI rose, net FDI dropped to about zero in FY2024/25 amid elevated disinvestment and repatriation, partly due to high equity valuations, and growing outward FDI. Despite India's inclusion into major global bond indices, net foreign portfolio investment (FPI) inflows decreased to 0.1 percent of GDP in FY2024/25 from 1.2 percent of GDP in FY2023/24, driven by reassessment of the U.S. monetary policy outlook and heightened global trade policy uncertainty. In 2024Q4 and 2025Q1, the Indian rupee experienced depreciation pressure, and foreign exchange (FX) reserves declined to $668 billion in March 2025, from $706 billion in September 2024 on significant currency intervention. In 2025Q2, robust services exports and remittances contained the CAD at 0.2 percent of GDP. Since July, the rupee has depreciated on U.S. tariff hikes and equity outflows. Buoyed by valuation gains, FX reserves stood at $695 billion as of October, covering over eight months of prospective imports and 109 percent of the IMF reserve adequacy metric.

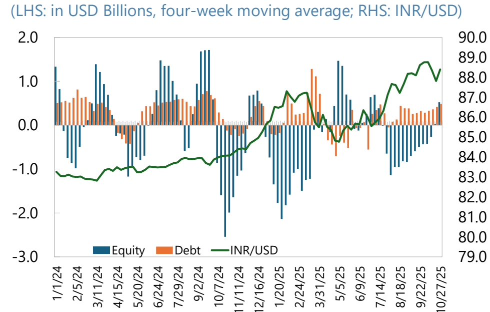
India: Real Effective Exchange Rate



Source: IMF, *Information Notice System*.

India: Net Foreign Portfolio Flows and Exchange Rate 1/

(LHS: in USD Billions, four-week moving average; RHS: INR/USD)



Sources: Haver Analytics; and IMF staff calculations.
1/ Includes registered foreign portfolio investors and foreign institutional investors.

11. India has relaxed some trade restrictions and advanced its bilateral trade negotiations, while some trade measures have been introduced or extended.

- India further relaxed or removed export restrictions on agricultural products, including onions, broken rice, and sugar, as domestic prices moderated. In addition, India has streamlined its tariff structure and reduced the tariffs on a range of products, reducing the simple average industrial tariff to 10.7 percent, from 13.5 percent in 2023. The import duty on cotton has been suspended until end-2025 to support the textile industry faced with high U.S. tariffs. The Equalization Levy on online advertisement services supplied by nonresidents has been repealed. In July, India and the UK signed a free trade agreement, which will eliminate most bilateral tariff lines over ten years and promote cross-border mobility of professionals. India is also actively engaged in trade negotiations with several other partners, including Australia, the EU, New Zealand, and the U.S. Some tax measures classified as exchange restrictions have also been relaxed and eliminated.[2]

- Concurrently, India has also extended and introduced some trade measures. The import management system for IT hardware has been extended to end-2025. An import ban and port restrictions on selected neighboring countries have been implemented. India has introduced or extended a safeguard duty on steel and around 30 anti-dumping duties and countervailing duties in 2025, following investigations.

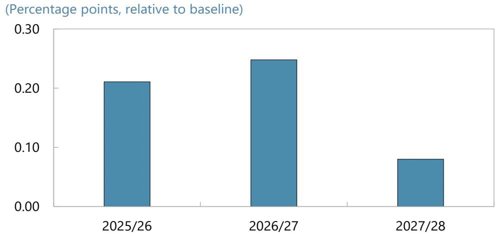
OUTLOOK AND RISKS

12. Growth is expected to remain robust, accompanied by benign inflation dynamics. Under staff's baseline scenario, real GDP growth is projected at 6.6 percent in FY2025/26, helped by the strong 2025Q2 growth outturn, the GST reform, and a 2025Q3 nowcast pointing to continued momentum (Annex III), offsetting the adverse impact of U.S. tariffs (text table). Growth is expected to decline to 6.2 percent in FY2026/27, as high U.S. tariffs (assumed to persist under the baseline) dent external demand and investment. Growth below potential would open a small output gap next year, before returning to its potential rate of 6.5 percent over the medium term. Growth outcomes could be more favorable if tariffs are resolved in the near term, with growth broadly in line with its potential from FY2026/27 onward (text chart). Headline inflation is expected to remain benign and average 2.8 percent in FY2025/26, below the 4-percent target but within the RBI's tolerance band, reflecting subdued food price dynamics and the GST reform. Core inflation is projected to average 3.5 percent this FY. In FY2026/27, headline inflation is expected to converge to 4 percent, mainly driven by a projected rebound in domestic food prices.

India: Real GDP Growth Revision (from July WEO)

	2025/26	2026/27
July WEO	**6.4**	**6.4**
Q1 Growth Surprise (incl. carryover)	0.5	0.0
Tariffs	-0.4	-0.3
GST Reform	0.1	0.1
Current	**6.6**	**6.2**
Revision	*0.2*	*-0.2*

India: Impact of Lower US Tariffs on Real GDP Growth
(Percentage points, relative to baseline)



Sources: IMF staff calculations.
Note: This scenario assumes that US tariffs on India are reduced from 50 percent for non-exempted goods to 19 percent after December 2025, in line with the tariff rates negotiated by other countries in the region. The Section 232 tariffs are assumed to be unchanged.

[2] The threshold for applicability of Tax Collected at Source (TCS) on remittances under the Liberalised Remittance Scheme (LRS) of the RBI has been raised from INR 0.7 million to INR 1 million, and the TCS under the LRS on loan-financed remittances for educational purposes has been removed.

13. The CAD is expected to widen and converge close to its norm of 2 percent of GDP over the medium term. In FY2025/26, the CAD is projected at 1.0 percent of GDP, as merchandise exports weaken and REER declines on elevated U.S. tariffs. FDI and FPI balances are expected to remain muted due to trade tensions. Over the medium term, sustained growth in private demand driven by India's development needs, growth prospects, and growing young population can support demand for imports and the rebalancing of the external position. The recent removal of key regulatory caps on foreign portfolio investment in corporate debt and the relaxation of FDI limits for additional sectors[3]—together with increasing international investor participation and favorable growth prospects—are expected to attract growing foreign investment to finance the CAD.

14. There are significant near-term risks to the economic outlook (Annex IV). On the upside, the conclusion of new trade agreements and faster implementation of structural reform domestically could boost exports, private investment, and employment. On the downside, further escalation of trade tensions and deepening of geoeconomic fragmentation could lead to tighter financial conditions, higher input costs, and lower trade, FDI, and economic growth. A sharp decline in household confidence, potentially induced by heightened uncertainty, weakening stock market performance, or tightening of bank lending standards, could weigh on private consumption. Unpredictable weather patterns could bring risks on both sides, affecting crops, rural consumption, and food prices.

Authorities' Views

15. The authorities generally concurred with staff's assessment of the outlook and risks, though they did not agree with staff's tariff assumption. They highlighted robust domestic demand as a main driver of growth and expected meaningful positive effects of the GST reform on private consumption and the ease of doing business. They agreed that the overall economic impact of the tariff shock should be manageable in the near term, although a few industries would be heavily affected. That said, the authorities disagreed with staff's baseline assumption that the 50-percent U.S. tariffs would remain in place indefinitely and considered staff's estimated growth impact to be on the high side given frontloading and the potential for developing other export markets. Like staff, the authorities expected benign inflation dynamics to persist. While recognizing elevated global uncertainty and potential further external shocks, they emphasized upside potential from newly concluded and forthcoming FTAs. The authorities also felt that staff's potential growth estimate was on the conservative side.

POLICY DISCUSSIONS

Maintaining prudent macroeconomic policies is critical to create enabling conditions for sustained growth. That said, high uncertainty regarding the external environment, including the evolution of

[3] In May 2025, the RBI removed the short-term investment cap and the issuer concentration limits on foreign portfolio investors in the corporate bond market. In addition, the FDI limits under the Automatic Route have been raised for defense (up to 74 percent), telecom, and insurance (both up to 100 percent). These measures constitute loosening of capital flow management measures.

tariffs, warrants nimble policy responses. Fiscal support to mitigate the adverse impact of tariffs should be targeted, transparent, and time-bound, while the pace of fiscal consolidation should depend on the impact of the tariffs on the output gap. Medium-term fiscal consolidation is needed to rebuild buffers, with rising domestic revenue mobilization providing space for a continued public investment push and other priority spending. Following significant easing earlier in the year, monetary policy should be data-driven, with room for further easing especially if current tariffs remain in place for a prolonged period. The exchange rate should be allowed to act as a shock absorber. Financial policy should aim at addressing pockets of vulnerability and continuing to safeguard financial stability. Deep and comprehensive structural reforms will be key to buttress the economy's growth potential.

A. Fiscal Policy

16. Despite some pressures, this year's planned moderate fiscal consolidation remains achievable with strong spending discipline.

- Downwardly revised nominal GDP (reflecting a low deflator) together with the PIT and GST reductions, may test this year's tax revenue intake, but the central government's deficit target of 4.4 percent of GDP (4.5 percent of GDP, IMF definition) remains within reach. While the PIT reduction could help support private consumption, it will further narrow the already-limited tax base, particularly given the high effective tax-free threshold relative to peer countries. The GST reform is welcome, as it constitutes a major step in reducing the complexity of the tax structure, simplifying its administration and likely reducing disputes and encouraging compliance. That said, the resulting reduction in the effective rate adds to near-term fiscal pressures and may complicate any future efforts to raise the effective GST rate.[4] By contrast, public enterprises will likely yield further divestment proceeds, which count towards the authorities' definition of the fiscal balance.

- On the spending side, consolidation should be driven by recurrent expenditure rationalization, with capital spending expected to be maintained, though declining slightly as a share of GDP. Limited support to tariff-affected industries and workers—targeted, transparent and time-bound—will be appropriate while tariffs remain high. Support should focus on affected workers and households and preventing widespread bankruptcies.

- State-level fiscal deficits are expected to return to about 3 percent of GDP on aggregate in FY2025/26. The GST rate cut, which also applies to the state GST, will add to state-level fiscal pressures. A focus on capital expenditure execution—while keeping recurrent expenditure in line with revenues—would help improve the composition of expenditure.

[4] The 2025/26 budget substantially raised the personal income tax-free threshold, leading to 0.3 percent of GDP in foregone revenue. The GST rate cut, netting revenue and expenditure impacts, is expected to reduce Centre and state FY2025/26 revenue each by less than 0.1 percent of GDP.

India: Summary Central Government Fiscal Developments
(In percent of GDP)

	FY 2023/24	FY2024/25			FY2025/26	
	Actual	Budget	RE	Est.	Budget	Proj.
Total Revenues	**9.3**	**9.6**	**9.6**	**9.2**	**9.7**	**9.0**
Net tax revenues	7.8	7.9	7.8	7.4	7.9	7.2
PIT	3.5	3.6	3.8	3.6	4.0	3.4
GST	3.2	3.2	3.2	3.1	3.3	2.9
Non-tax revenues	1.5	1.8	1.8	1.8	1.8	1.8
Total Expenditure	**14.8**	**14.6**	**14.3**	**14.1**	**14.1**	**13.4**
Recurrent expenditure	11.6	11.2	11.2	10.9	11.0	10.4
Food Subsidy	0.7	0.6	0.6	0.6	0.6	0.6
Fertilizer Subsidy	0.6	0.5	0.5	0.5	0.5	0.5
Capital expenditure	3.2	3.4	3.1	3.2	3.1	3.0
Central Government (CG) Fiscal Deficit	**5.5**	**5.0**	**4.7**	**4.9**	**4.4**	**4.5**
Memo Items						
CG Fiscal Deficit (authorities' definition) 1/	5.5	4.9	4.7	4.9	4.4	4.4
CG Primary Deficit	2.0	1.4	1.3	1.5	0.9	0.9
State Government Fiscal Deficit 2/	2.9	2.5	3.0	3.3	3.1	3.1
Nominal GDP (Rs billions) 3/	301,230	330,682			358,841	

1/ Authorities' definition includes asset sales in receipts, and excludes certain non-tax revenue items, hence the difference with staff's definition.
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/ Nominal GDP reflects the outturn or the most recent staff projection.

17. **Fiscal plans for FY2026/27 should adapt to emerging challenges.** With an output gap expected to open next FY under the baseline (assuming that the 50 percent tariffs remain in place) and high external uncertainty, a neutral fiscal stance rather than consolidation would be warranted. That said, if a tariff reduction avoids an output gap, fiscal consolidation should continue next year.

18. **Tax administration measures underway are expected to reduce the tax compliance burden and aid buoyancy.** The recent notification of the Income Tax Act, 2025, the GST reform, rationalization of the customs tariff structure (¶11), and capital gains tax reform aim *inter alia* at simplifying the tax system and its administration. Data analytics have allowed new PIT interventions and nudges aimed at improving compliance and broadening the tax net. The GST reform included simplified registration and audit processes, while customs processing will be expedited by digitalization and new time-bound rules. Together, these measures should contribute to tax buoyancy and ease of doing business.

19. **Heightened global uncertainty and contingent liabilities add to fiscal risks**. Commodity price risks and the need to support the vulnerable in the face of growth shocks could require higher subsidy spending. Better-targeted subsidies and replacing them with cash transfers, where possible, could mitigate both risks. Contingent liabilities arise from government guarantees (5.6 percent of GDP for the general government), loans to loss-making state-owned enterprises (SOEs)—particularly in the power sector (2.3 percent of GDP, see ¶34) (Annex V)—and unfunded civil service pensions liabilities. Central government incentives to reduce states' contingent liabilities in the power sector have shown progress.

20. Over the medium term, the fiscal deficit and the public debt ratio are projected to gradually decline, with risks of sovereign stress remaining moderate (Annex V). The general government deficit is expected to narrow further under current policies, supporting a gradual reduction in debt to 77 percent of GDP in FY2030/31. Under shock scenarios, reflecting conditions such as lower growth or slower fiscal adjustment, debt paths are skewed towards elevated debt levels, highlighting the importance of swiftly rebuilding buffers. That said, India has some fiscal space to support domestic demand and shelter vulnerable households in case of adverse 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. Demand from financial institutions for government securities remains robust. Banks hold a relatively high—though declining—share of government securities and are sufficiently healthy and liquid to act as a residual financier for the government. Nonetheless, such concentration could amplify macro-financial shocks under severe adverse scenarios, placing a premium on continued diversification of domestic financing sources. 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.

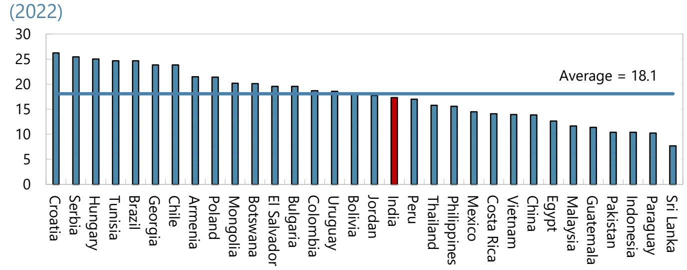
India: Fiscal Consolidation by Level of Government

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Overall Balance, Baseline (percent of GDP)							
Centre	-4.5	-4.5	-4.4	-4.2	-4.0	-3.8	-3.8
State	-3.1	-3.0	-3.0	-3.0	-3.0	-3.0	-2.9
General	-7.1	-7.2	-7.1	-6.9	-6.8	-6.6	-6.5
Overall Balance, Reform Scenario (percent of GDP)							
Centre	-4.5	-4.5	-4.2	-3.8	-3.5	-3.3	-3.3
State	-3.1	-3.0	-2.8	-2.7	-2.6	-2.6	-2.5
General	-7.1	-7.2	-6.7	-6.2	-5.8	-5.7	-5.6
Debt, Baseline (percent of GDP)							
Centre	56.2	55.4	54.3	53.0	51.7	50.3	48.8
State	28.3	28.3	28.3	28.3	28.4	28.4	28.4
General	81.1	80.7	79.9	79.0	78.0	76.9	76.0
Debt, Reform Scenario (percent of GDP)							
Centre	56.2	55.4	54.0	52.4	50.7	48.9	47.0
State	28.3	28.3	28.1	27.8	27.4	27.1	26.8
General	81.1	80.7	79.5	77.9	76.0	74.2	72.6

Source: IMF staff calculations based on the reform scenario with a 13-basis point risk premium decline in India: 2024 Article IV Consultation, Annex X.

21. The authorities' medium-term debt target is achievable and could be more ambitious. Under staff's baseline assumptions, the central government's targeted debt ratio of 50±1 percent of GDP by FY2030/31 is achievable without further fiscal measures. Faster consolidation would ease the high debt service burden sooner and help to rebuild fiscal buffers for future shocks. India's revenue as a share of GDP is not high compared to other non-fuel-exporting emerging markets. A proposed consolidation plan centered on revenue-based measures could achieve the warranted consolidation while creating additional space for high-quality investments and other priority spending.[5] Measures could include further GST reform, reversal of earlier excise tax reductions, and expansion of the income tax base. Together with better targeting of subsidies and rationalizing legacy expenditure schemes, this can create space for growth-enhancing expenditure on infrastructure and health. Under the baseline assuming prolonged 50 percent U.S.

India: Tax Revenue as a Share of GDP
(2022)



Source: IMF World Revenue Longitudinal Database (WoRLD).
Note: General government tax revenue of selected non-fuel exporting emerging markets.

[5] For details, see India: 2024 Article IV Consultation, Annex X.

tariffs, the consolidation plan would start in FY2027/28 to allow for a neutral fiscal stance next year. If the tariff shock is resolved this fiscal year, the reform measures would start in FY2026/27. At the Centre, the reform path achieves a debt-to-GDP ratio close to the 'high degree of consolidation' scenario presented in the budget, which reaches 48.5 percent of GDP in FY2030/31. The consolidation scenario also targets declining state-level deficits. Greater state-level fiscal discipline and stronger public financial management would be required to sustain fiscal deficits below the limit of 3 percent of gross state domestic product (GSDP).

22. The medium-term fiscal target should be reviewed and broadened. Following the rebasing of GDP in February 2026 (Annex VI), it would be appropriate to revisit the debt target, with a view to making it more ambitious. In addition, expanding the scope, transparency and accountability of the target would further support credibility and improve multiyear planning. First, the debt anchor should be broadened to include state government debt. State fiscal sustainability is a critical component of macroeconomic stability, but compliance with fiscal frameworks is weak. Tailored fiscal adjustment paths for states could be considered, depending on their current fiscal positions and debt vulnerabilities (see ¶23). Second, operationalizing the medium-term target with well-defined annual fiscal adjustment paths would clarify the government's intentions and guide financial markets. Third, strengthening the institutional architecture of public finances with an independent fiscal body providing advice and oversight should be considered. This body could improve transparency and accountability mechanisms by publishing independent assessments of fiscal plans and performance, regular debt sustainability analyses, and contingent liability disclosures, as well as by conducting stress tests and scenario analysis, both at the Center and state levels. Fourth, fiscal statistics at the state level should improve, including more timely data reporting, comprehensive disclosures such as contingent liabilities and plans to transition to accrual accounting (Annex VII). Progress is visible in states' reporting of off-budget borrowing.

23. States require further fiscal reforms to bring debt to sustainable levels while maintaining critical spending on infrastructure and social spending. Debt owed by some states has increased substantially over the past ten years, including due to assumption of state-owned power distribution company debt, pandemic-related spending, farm loan waivers and, more recently, cash transfer schemes. Consolidated debt stood at 28.2 percent of GSDP in FY2022/23 (up from 22.2 percent in FY2012/13). The growing interest payment burden adds to the already-high share of non-discretionary expenditure, including salaries and pensions, together explaining high-debt states' difficulties in consolidating their deficits. Nonetheless, spending efficiency is low, and social support can be better targeted, leaving room for recurrent expenditure consolidation. With state borrowing limited to 3 percent of GSDP, greater revenue mobilization would help avoid squeezing out growth-enhancing spending on items like infrastructure, education and health.[6] However, with a heavy emphasis on equity, the current devolution formula provides little incentive for states with high deficits to consolidate or increase own-revenue. The 16th Finance Commission should create a devolution formula that balances equity with performance-based incentives. With

[6] The 3-percent of GSDP borrowing limit can be exceeded, for example, in exchange for carrying out power sector reforms (0.5 percent of GSDP), or for states to take up zero-interest infrastructure loans from the Centre, budgeted at 0.4 percent of GDP in FY2025/26.

the RBI as debt manager and an implicit central government guarantee, bond spreads across states are minimal and do not necessarily reflect differences in debt levels and the quality of fiscal management. Promoting greater market differentiation would support fiscal discipline. Finally, with an average overestimation of both revenue and expenditures of 10-11 percent between FY2015/16 and FY2022/23, states should work to bring more realism into their budgets.

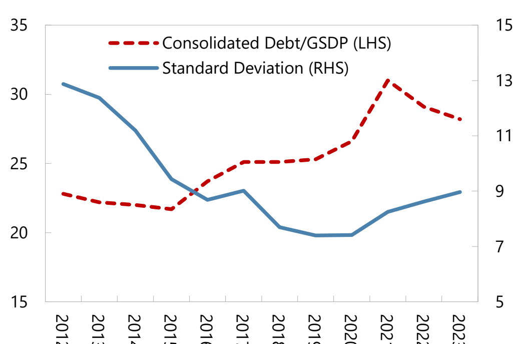
Authorities' Views

24. The authorities expressed a strong commitment to this year's fiscal deficit target of 4.4 percent of GDP and the medium-term fiscal anchor. To meet this year's target, they pointed to upside potential from non-tax revenue and ongoing tax administration measures, and expressed their commitment to spending discipline. They also highlighted the dynamic nature of India's personal income tax base. The authorities felt that it would be premature to consider a pause in fiscal consolidation in FY2026/27, especially so in the context of the credible and transparent fiscal guidance path that the Government of India has been following. They expressed confidence in the adequacy of the debt target of 50±1 percent of GDP by FY2030/31 as a medium-term fiscal anchor. The medium-term anchor has gained in credibility due to the fiscal performance since the post-pandemic era. In view of the nature of the fiscal target (declining debt-to-GDP ratio), they felt that specifying a fiscal deficit path may not be an optimal policy tool. Regarding state deficits, they pointed out that the Government of India, based on the accepted recommendations of successive Finance Commissions, has been placing caps on state governments' fiscal deficit targets. These have been used to determine the borrowing ceilings of the state governments. Additional steps taken by the Government of India to improve fiscal transparency of state governments have included to factor in the off-budget borrowings of state governments at the time of fixing the annual borrowing ceilings.

Figure 1. India: State-level Fiscal Dynamics

States have only partially rebuilt fiscal buffers after the pandemic, with divergence increasing again in recent years...

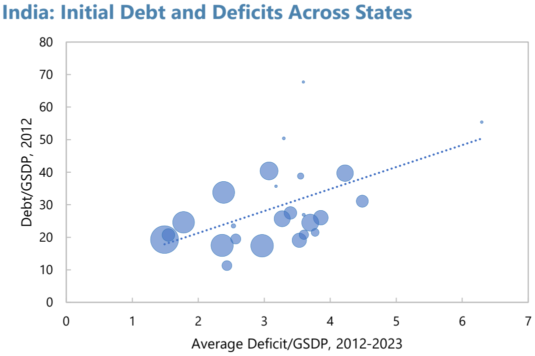
India: Debt/GSDP Across States



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

... as high-debt states have not reigned in their fiscal deficits.

India: Initial Debt and Deficits Across States

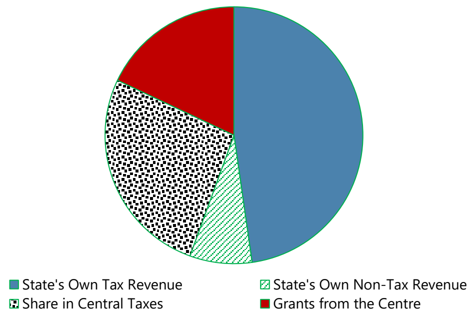


Sources: Reserve Bank of India; and IMF staff calculations.
Note: Circle size represents GSDP in 2023. State revenue from the center includes revenue sharing and grants.

Figure 1. India: State-level Fiscal Dynamics (concluded)

Through FY2022/23, own-revenue sources have comprised about 55 percent of consolidated state revenue.

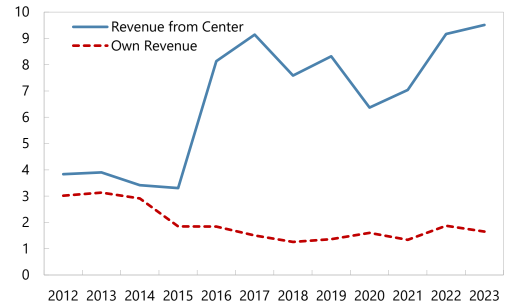
India: Components of States Revenue



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

The 14th and 15th Finance Commissions' equity-oriented devolution formulas gave a much larger variation of shared central taxes than of own revenue across states.

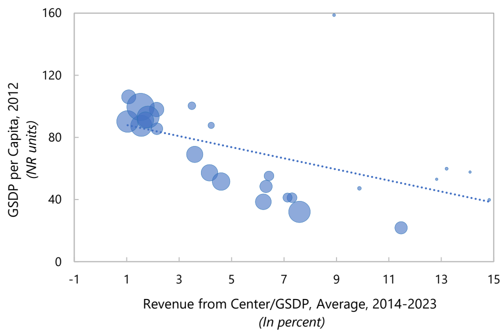
India: Standard Deviation of Revenue/GSDP Across States



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

Revenue passed from the Center to states shows a high degree of progressivity…

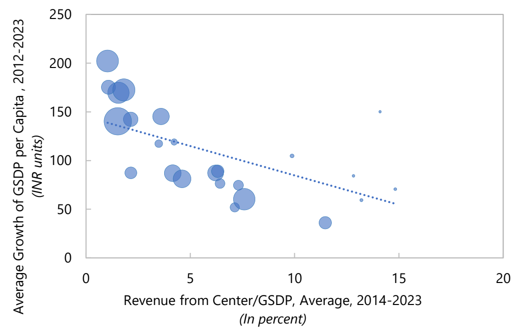
India: State GSDP and Revenue from the Center



Sources: Reserve Bank of India; and IMF staff calculations.
Note: State revenue from the center includes revenue sharing and grants.

… but has not been associated with higher growth.

India: State Growth and Revenue from the Center



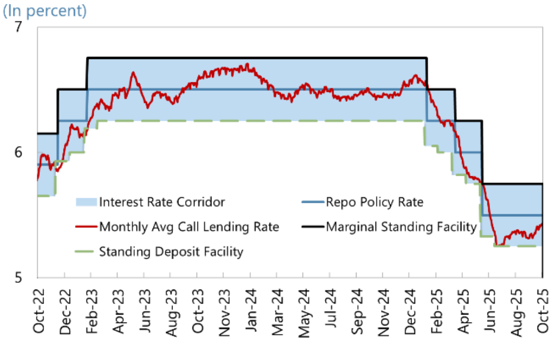
Sources: Reserve Bank of India; and IMF staff calculations.
Note: State revenue from the center includes revenue sharing and grants.

B. Monetary and Exchange Rate Policy

25. The currently neutral monetary policy stance has been broadly adequate. The RBI has lowered the policy rate cumulatively by 100 basis points since February 2025 to 5.5 percent as of June 2025, as inflation has declined sustainably to below the target. The real policy rate has declined to around the neutral rate of 1.6 percent, indicating a broadly neutral stance.[7] To support the transmission of the monetary policy easing cycle, the RBI has undertaken various liquidity measures since January 2025, including open market operations (OMO) purchases, main and fine-tuning variable rate repo auctions, foreign exchange swaps, and a 100-bp cut in cash reserve requirement (CRR) ratio to 3 percent. As a result, the system liquidity turned into surplus since end-March 2025 and remains adequate.

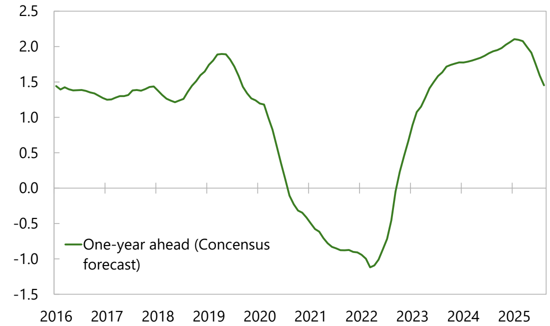
[7] The estimation of the neutral rate of interest is based on a macroeconomic model by Platzer and Peruffo, 2022.

India: Policy and Short-term Interest Rates
(In percent)



Sources: Bloomberg; and IMF staff calculations.

India: Real Policy Rate
(In percent, 6-month moving average, adjusted for CPI inflation)



Sources: Haver Analytics; Consensus Economics; and IMF staff projections.

26. In the currently highly uncertain environment, monetary policy needs to remain nimble, with an easing bias. Under the baseline assumption of prolonged 50 percent U.S. tariffs, there is room for lowering the policy rate modestly, given the expected emergence of a negative output gap amid benign inflation dynamics. That said, a swift reversal of the tariffs would limit the need for further monetary easing. The RBI should look through the one-off direct impact on inflation from the GST reform.

27. The flexible inflation targeting framework, anchored on headline CPI inflation, has served India well. The framework has supported macroeconomic stability, helped anchor inflation expectations amid volatile food prices, and enhanced policy credibility. Its flexibility (the band of 2–6 percent) allows the RBI to look through short-term supply shocks and focus on underlying inflation trends, avoiding monetary policy overreactions. Headline CPI inflation is an appropriate target as (i) core inflation components account for less than half of the CPI basket, (ii) non-core price increases, such as food or fuels, can spill over into higher core inflation, and (iii) it is easier to communicate headline inflation to the public. In this context, the updated CPI basket, expected in February 2026, should help improve the effectiveness of the framework as the weight of non-food components will increase.

28. There is scope to boost the effectiveness of monetary policy by enhancing the policy passthrough to NBFCs via market-based mechanisms and improving liquidity management.

- **Passthrough to NBFCs**: Monetary transmission to NBFC lending rates has remained lower compared to banks, reflecting differences between banks and NBFC's customer bases, business models, and funding structures. Any policy efforts to enhance transmission should prioritize preserving sound internal risk management. Emphasis should be placed on fostering market-based pricing of credit risks and encouraging a transparent pricing framework and lending practices.

  Liquidity management: The revised liquidity management framework, including shortening the maturity of the operations, primarily to 7 days, and advance notice of liquidity operations, is welcome.[8] Given volatility and unpredictability of government-related revenue and expenditure

[8] Issued September 30, 2025.

flows, the move to 24/7 settlement, the daily RBI reserve requirement limit, and foreign exchange interventions, the RBI's liquidity management should remain nimble and rely primarily on market-based tools, with the use of CRR as an exceptional measure. FX intervention should promptly be sterilized to avoid unintended liquidity fluctuations and preserve monetary policy transmission. Continuing to strengthen coordination with the Treasury to enhance liquidity forecasting capabilities would help improve the forecast of government balances. Furthermore, the RBI could also strengthen communication related to these unexpected liquidity shocks, including by publishing autonomous factors' forecasts and explanations of liquidity-affecting factors.

29. India is well positioned to allow greater exchange rate flexibility. India has limited FX mismatches, well-anchored inflation expectations, and a generally deep FX market. As guided by the Integrated Policy Framework (IPF) (see 2023 Article IV Consultation, Annex VII, and IMF WP), FX intervention should be used only when large shocks cause disruptions in liquidity conditions and malfunctioning of the FX market. While interventions have generally declined in recent months and the rupee/USD exchange rate has exhibited increased two-way movements, the RBI has continued to use FX intervention regularly. Allowing greater exchange rate flexibility would help absorb external shocks, reduce the need for costly reserve accumulation, encourage FX market development, strengthen incentives for firms to hedge currency risk, and help moderate liquidity fluctuations in the domestic financial system. The regular publication of FX interventions has greatly fostered transparency, and it could be further supported by enhancing communications around the objectives and triggers of FX interventions.

Authorities' Views

30. The authorities reaffirmed their commitment to a data-driven approach to monetary policy, highlighting the currently unusually high uncertainty. The authorities noted that full transmission of previous policy easing would take time, while any further monetary policy action would need to consider developments in domestic conditions and the impact of tariffs on the economy. They noted the adoption of the revised liquidity framework and ongoing progress on the review of the monetary policy framework. The authorities maintained that the INR/USD exchange rate has been market determined without the targeting of any particular level. They felt that exchange rate movements largely reflected India's favorable fundamentals, with interventions, if and when undertaken, aimed at containing excessive volatility.

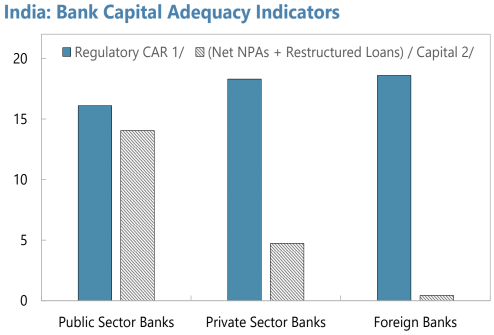
C. Financial Sector Policy

31. Systemic financial risks are broadly contained. The overall banking system's capital remains well above required levels. Gross and net non-performing asset ratios among banks have continued to decline, though an increase in new accumulation of gross non-performing assets (GNPA) in unsecured personal loans, particularly among private sector banks (PVBs), warrants continued monitoring (Figure 9).[9] Aggregated firm-level risk metrics, such as interest coverage ratios and corporate leverage, indicate that the non-financial corporate sector has remained financially healthy (Figure 8). Bank credit growth, after moderating, is expected to recover gradually as monetary and macroprudential policy easing takes effect. While measures to lower risk weights on microfinance consumer loans and bank credit to NBFCs may enhance credit conditions, it is crucial that these risk weights accurately reflect the risk profiles of asset classes to ensure banks maintain adequate capital buffers and price risk appropriately.

32. The credit risk management framework should be upgraded to further strengthen financial stability. In line with the 2024 FSAP recommendations (Annex VIII), the RBI should implement IFRS-9 with prudential backstops and enforce bank-specific Pillar-2 capital add-on charges, which are currently set at zero for all banks.[10] In this regard, the RBI's recent proposals to adopt an Expected Credit Loss framework for provisioning and a Basel III standardized approach for credit risk are welcome. Additionally, expanding the Debt-Service-to-Income (DSTI) limit to all household loans, while ensuring that informal economy workers are not inadvertently excluded, would mitigate vulnerabilities. Looking further ahead, once cyclical conditions improve, the RBI could consider activating the countercyclical capital buffer (CCyB), currently set at zero.

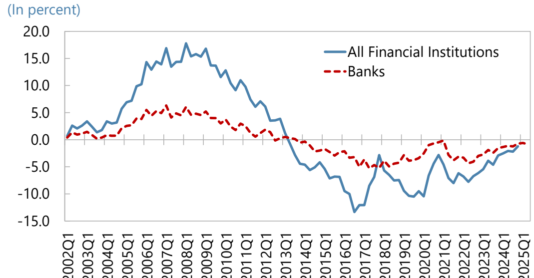
33. Public sector banks (PSBs) should continue to strengthen their capital base to ensure they can support economic recovery in a potential future downturn. PSBs' regulatory capital adequacy ratio (CAR), despite improving, has been consistently lower than that of private banks and foreign banks. Lower asset quality and accumulated provisions further weigh on the quality of PSBs' capital base. The 2024 FSAP solvency stress test shows that while the overall banking sector appears resilient, PSBs are relatively more vulnerable, and their capital may be insufficient to sustain lending in severe adverse scenarios. Therefore, PSBs should strengthen their capital base, including by retaining a larger share of their earnings.

India: Bank Capital Adequacy Indicators



Sources: Reserve Bank of India; and IMF staff calculation.
1/ As of 2025Q1
2/ As of 2024Q2

India: Credit to GDP Gap
(In percent)



Sources: BIS; Haver Analytics; Reserve Bank of India; and IMF staff calculations.
Note: The chart calculates the credit dap for credit to the private sector (nonfinancial corporates and households) by averaging three methodologies, including: Hodrick-Prescott, Christiano-Fitzgerald and five-year moving average.

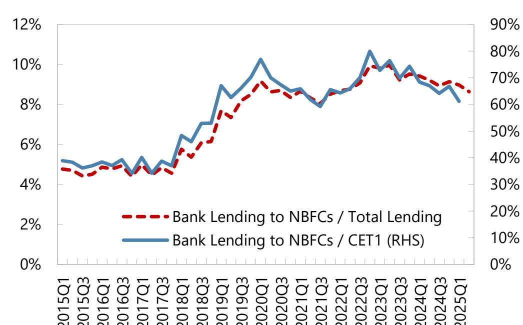
[9] Delinquencies in microfinance have also surged. Microfinance accounts for about 1 percent of total credit to the non-financial sector.

[10] The RBI could impose Pillar-2 capital add-on charges on PVBs that have a high proportion of new NPAs from unsecured personal loans.

34. The authorities should remain vigilant against vulnerabilities in the NBFC sector, which is playing an increasing role in India's financial sector. Concentration risks are particularly high for state-owned infrastructure financing companies (NBFC-IFCs), which are heavily exposed to the potentially vulnerable power sector, including electricity distribution companies that have contributed to past financial distress (Figure 9). While a proportionate approach is appropriate for different layers of NBFCs, the RBI should align regulations for state-owned and private-sector-owned NBFCs. In this regard, the plan to eliminate exemptions on a case-by-case basis for state-owned NBFCs from prudential standards, including large exposure limits, is welcome. For state-owned NBFCs that are exempt from large exposure rules, the RBI could consider implementing stricter exposure limits on bank lending to these entities to mitigate potential adverse spillovers to the banking sector (for example, imposing higher risk weights). Given the liquidity risk faced by NBFCs due to their reliance on wholesale funding and low liquidity buffers, the RBI should enhance liquidity regulations and supervision for NBFCs while collecting liquidity coverage ratio (LCR) returns and considering other measures to better reflect the risk profiles of NBFCs.

35. Greater emphasis should be placed on monitoring and conducting in-depth analyses of systemic risks, particularly those arising from financial interconnectedness. The significance of NBFCs and market financing has increased, making the financial system more diverse and interconnected. Prudential policies focused on individual entities or sectors may not be sufficient to address spillover effects across the system. The FSAP analysis suggests that structural vulnerabilities in the power sector, along with concentrated exposures, could spill over to banks, NBFCs, and market financing. As state-owned IFCs increasingly depend on bank borrowing, banks' indirect exposure to the power sector has increased, offsetting some of the reductions in direct exposure. To tackle these issues, it is crucial to close data gaps by collecting more granular data on sectoral financial accounts and to ease data sharing by creating a central data depository (Annex VII). The authorities should further enhance systemwide risk analysis, including systemwide stress tests, and periodically discuss assessment of systemwide risks via the Financial Stability and Development Council. As the nature of systemic liquidity risks evolves, the RBI should broaden policy options for providing systemic liquidity support and emergency liquidity assistance in a crisis, including expanding eligible collaterals beyond government securities with adequate risk controls.

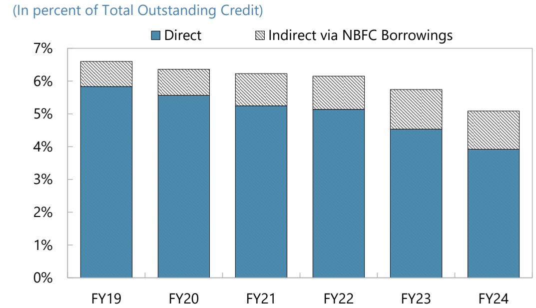
India: SCBs' Credit to NBFCs



Sources: Haver Analytics; and IMF staff calculations.

India: SCB Exposure to the Power Sector

(In percent of Total Outstanding Credit)



Sources: Haver Analytics; annual reports of Power Financial Corporation, Rural Electrification Corporation Limted (REC), Indian Renewable Energy Development Agency (IREDA), Assem Infrasture Finance, NIIF Infrastructure Finance, and Inida Infrastructure Finance Company; and IMF staff calculations.

36. The authorities should promote financial innovation, while addressing longstanding issues concerning state influence and the public sector footprint in the financial system. Corporate bond issuances remain concentrated in higher-rated bonds, indicative of domestic institutional investors' excessive risk aversion and stringent investment regulations. Developing infrastructure for issuing covered bonds and securitization, along with developing credit enhancement mechanisms, holds significant potential to bridge the financing gap for smaller and lower-rated companies and high-return high-risk projects. Regarding state influence, we welcome the authorities' efforts to reduce government ownership in public sector banks and encourage them to expedite this reduction to below 75 percent to facilitate more efficient resources allocation.[11] Regulators' powers over state-owned banks and insurance companies should be strengthened, and their corporate governance should align with that of private financial institutions. The authorities should also continue to reduce the statutory liquidity ratio, enhance flexibility in priority sector lending, and adopt resolution legislation for banks and key NBFIs, in accordance with the Key Attributes.

37. India continues to progress with its central bank digital currency (CBDC) pilots. The authorities continue to expand the scope and coverage of CBDC pilots by testing use cases of programmability, offline functionalities, and distribution of CBDC wallets; adding standalone primary dealers to CBDC-wholesale ecosystem; and upgrading the technical architecture. As of March 2025, the value of retail CBDC in circulation was INR10.2 billion, up from INR2.3 billion in 2024. Cross-border payment applications are being explored but broadly remain at a nascent stage.

38. 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 were assessed as only moderately effective. The authorities should address key shortcomings, including by establishing clear obligations for reporting entities for domestic politically exposed persons, strengthening 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.

Authorities' Views

39. Like staff, the authorities felt that systemic financial sector risks were largely contained. They assessed that banks maintained sufficient capital amid very low NPL ratios. They explained that work on examining FSAP recommendations for implementation has already commenced. The authorities pointed to ongoing efforts in calibrating credit risk models for potential application to Pillar-2 capital charges and plans to issue guidelines on expected credit losses, although the timing for IFRS-9 implementation remained undecided. The authorities also

[11] All listed companies are required to have at least 25 percent of shares publicly traded by August 2026.

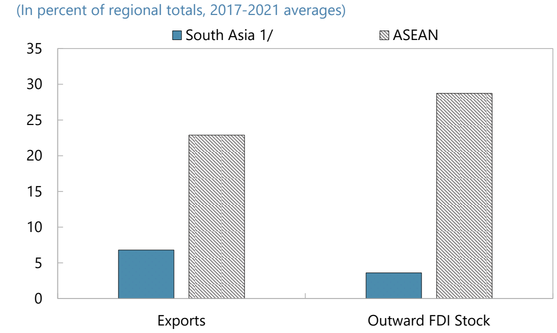
pointed to ongoing work in upgrading liquidity stress testing tools for NBFCs. That said, they considered risks arising from NBFCs to be contained and noted that most state-owned NBFCs were subject to the same prudential standards as privately owned ones, with a few exceptions to be addressed on a case-by-case basis. The authorities stated that the recently introduced LCR framework for NBFCs is comprehensive and effectively tailored to reflect the business profile/funding sources of these institutions. In view of this and the extant liquidity stock ratios, they felt that there is currently no need to consider additional liquidity indicators or regulations for NBFCs. The authorities emphasized that priority sector lending remained an important policy tool, and that public sector banks, at their current scale, can play a significant role in credit intermediation by leveraging digitalization.

D. Structural Reforms: Activating All Growth Engines

40. A vigorous structural reform agenda can boost productivity, reinvigorate private investment, create high-quality jobs, and raise the economy's growth potential sustainably. India's vision to become an advanced economy requires a significant and sustained rise in potential growth. To achieve that, India needs to activate all growth engines to become a more open, dynamic, and innovative economy with more productive factor allocation across sectors and firms (Annex IX). Reforms that can be implemented in the short term include reducing trade restrictions, implementing the new labor codes, continuing the public investment push guided by a sound public investment management framework, removing red tape, and providing strong policy frameworks to foster a stable macroeconomic environment for firms and households, in a world of heightened uncertainties. Over the medium term, deeper reforms will be needed in agriculture, land, and the judicial system, along with efforts to strengthen education, skills development, health, access to credit, and social safety nets. Advancing climate policies is critical to supporting sustainable and resilient growth. The successful implementation of many of these reforms necessitates cooperative efforts between the Union and state governments.

41. Lifting trade restrictions and deepening trade integration can bolster competitiveness and attract FDI. Tariffs and non-tariff barriers, such as burdensome regulatory requirements, still pose significant impediments to trade. Reducing such barriers will expand domestic producers' access to imported inputs and promote healthy competition with imported final products, boosting domestic productivity. New bilateral and regional trade agreements can strengthen resilience against global trade policy uncertainty, open market opportunities, and facilitate the flow of goods, services, and technology. As India pursues trade integration with key bilateral partners, India should also consider joining trade blocs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. India should continue to play an active role in strengthening the WTO rules and

India: Intra-Regional Trade and FDI
(In percent of regional totals, 2017-2021 averages)



Sources: CDIS; DoT; and IMF staff calculations.
1/ Includes Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka.

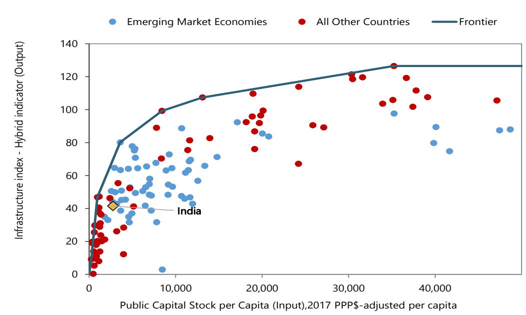
the multilateral trading system. Together with the gradual relaxation of capital inflow management, India should also continue to provide stable and predictable policy frameworks to attract FDI, which brings technology diffusion and improve factor allocation. The revamp of the model bilateral investment treaty announced in the FY2025/26 Union Budget offers an opportunity to rebalance investor protection and regulation and accelerate the renegotiations with partners.

42. India can strengthen regional economic resilience through further economic integration between the countries in South Asia. South Asia is much less integrated in terms of trade flows and FDI than other regions, such as ASEAN, reflecting high trade barriers and geopolitical tensions. India can take the lead on lowering trade barriers and strengthening regional partnerships. On the energy front, India should continue to promote investment in regional energy hubs, facilitate third-country power transmission, and advance cross-border grid connection.

43. Continuing the public investment push with emphasis on quality projects remains critical to meeting India's development needs. Enhancing physical public infrastructure, in conjunction with India's world-class digital public infrastructure, could boost the productivity of the private sector, facilitating greater job creation. An ambitious investment plan should be accompanied by strengthened public investment management to ensure quality and efficiency of investment. Staff analysis suggests India could narrow half of its infrastructure efficiency gap from improved public investment management.[12]

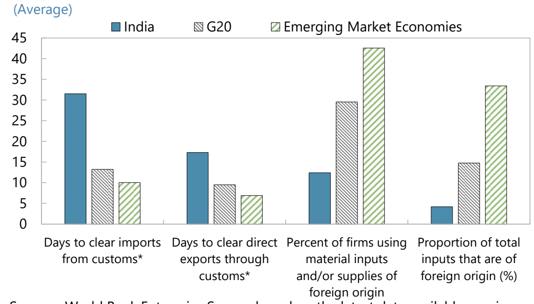
44. Removing red tape and fostering stability for firms and households can accelerate India's economic transformation and reduce factor misallocation. Firms report longer customs delays in India compared to peers and their senior management spending more time on regulatory compliance). Efforts to reduce bureaucratic inefficiencies, create a stable policy framework, and enhance the business environment will be important to encourage investment, productivity, and job creation, also facilitating external rebalancing.

India: Efficiency Frontier



Source: IMF Tool for Investment and Efficiency (2021).

India: Customs Efficiency and Input Sourcing
(Average)



Sources: World Bank Enterprise Survey, based on the latest data available ranging from 2019 to 2024; and IMF staff calculations.
* Computed using data from manufacturing firms only.

45. More flexibility in labor markets would help Indian firms grow and become more productive. Indian firms are relatively small, partly due to rigid labor regulations and safety-related compliance thresholds that discourage formalization and expansion. The labor codes passed in 2019

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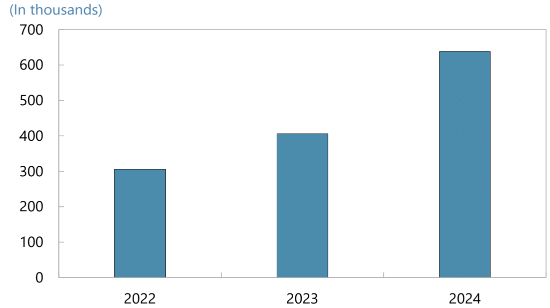
[12] IMF. 2024. India Staff Report: Annex IX.

and 2020, aiming to increase labor market flexibility and simplify regulations while maintaining adequate workers' protection are awaiting notification by state and Union governments. Multiple states have already enacted some important provisions of the codes, including raising the thresholds for retrenchment without government approval, applicability of the Factories Act, and applicability of the Contract Labour Act, as well as allowing women to work night shifts. Nevertheless, it remains important for the codes to be fully enacted to streamline the legal framework and standardize working conditions. In addition, removing obstacles to female labor force participation is essential (Annex XI, 2023 Article IV Consultation).

46. A more targeted and resilient safety net can better support social mobility and labor reallocation in India. India's current safety net provides modest benefits to a broad population. More substantial benefits aimed at a smaller, targeted group could deliver more significant assistance to those most vulnerable. India's digital public infrastructure can support targeting, although any changes should be accompanied by adequate redressing mechanisms. The increasing use of the "One Nation, One Ration Card" program highlights the need for a flexible safety net that includes inter-state portability to support migrant workers.

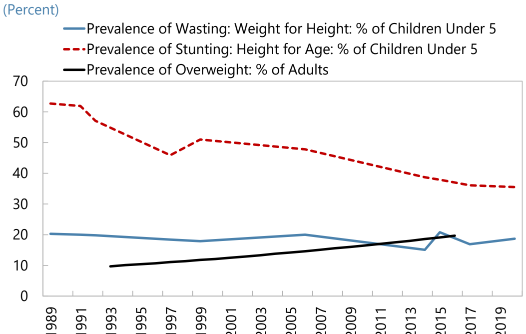
India: Average Monthly Use of "One Nation, One Ration Card" Program
(In thousands)



Sources: Country authorities; and IMF staff calculations.

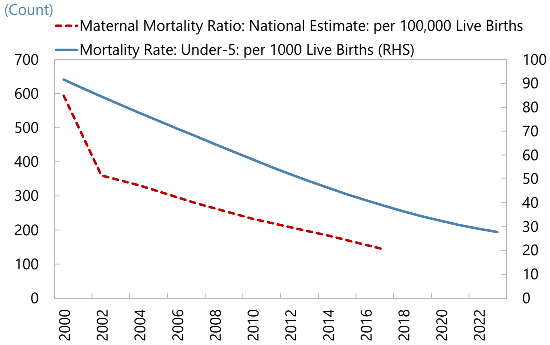
47. Building human capital is crucial for India to harness its demographic dividend. Enhancing education and skills development is essential for equipping individuals with the competencies required for productive employment. Health outcomes have generally improved over recent decades, but the incidence of wasting and stunting remains elevated. Targeted interventions can help further improve nutritional outcomes for children and mitigate maternal and child mortality.

India: Prevalence of Nutritional Disorders
(Percent)



Source: World Bank.

India: Child and Maternal Mortality Rates
(Count)



Source: World Bank.

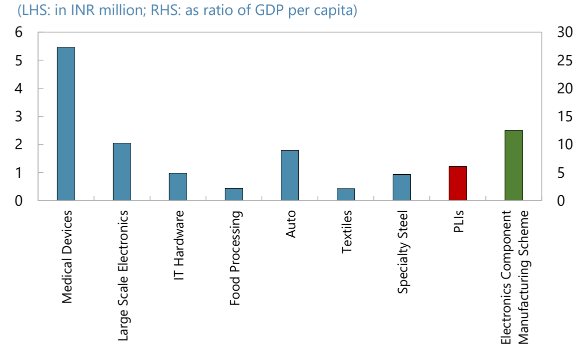
48. Easing bottlenecks to accessing land for economic activity would improve the use of this scarce resource (Annex X). Widespread fragmentation of agricultural land leads to farms that are too small to operate efficiently, restricting farmers' ability to expand or to deploy their resources to other businesses, explaining in part the divergence between marginal product of labor in agriculture and the rest of the economy (Annex IX). Complex regulations at the Union and state levels and outdated land registries prevent market mechanisms from optimally allocating scarce land to its most productive uses. While significant progress has been made in digitizing land records in recent years, the lack of conclusive titling constrains their effectiveness. Reforms are needed to better allocate land for productive uses in manufacturing, supporting the economic transformation and creation of quality jobs. Reforms could include updating outdated laws, implementing conclusive titling, and expanding land banks with market-based allocation mechanisms.

49. Improving the efficiency of the insolvency resolution process is critical to create a more dynamic business environment. Staff analysis suggests that India's firm entry and exit rates are relatively low, with a large share of nonproductive firms (Annex IX). A well-functioning insolvency framework facilitates the timely exit of unviable firms, freeing up resources for more productive uses and allowing new and more efficient firms to enter and expand. In India, the recovery process remains lengthy and inefficient, with only 33 percent of the original loan amount recovered on average (Annex XI). In this regard, we welcome the recently proposed amendments to the Insolvency and Bankruptcy Code (IBC), which include provisions for enterprise group insolvency, cross-border insolvency, and an out-of-court, creditor-initiated insolvency mechanism, among other technical changes. These legislative reforms should be complemented by efforts to strengthen judicial capacity through dedicated tribunal benches and adequate funding, along with operationalizing the personal insolvency regime.

50. India's R&D spending should be accelerated to spur innovation and productivity (Annex IX). India spends significantly less on R&D as a share of its GDP than the G20 EM average, particularly by universities and private companies. More R&D spending and focus on university-industry linkages are needed to support innovation and productivity. Fiscal incentives for private R&D, such as grants and tax incentives, should be carefully designed and coordinated.

51. Industrial policies are no substitute for horizontal structural reforms. The March 2025 Electronics Component Manufacturing Scheme (229 bn rupees or 0.1 percent of GDP over 6 years) provides subsidies if participating firms meet quantitative targets on turnover and investment. The new scheme has a cost per direct worker that is broadly similar to that of the large-scale electronics PLI, but almost twice as high as the average PLI. Overall, PLI execution across schemes has been limited, with an aggregate execution rate of 18 percent, including the

India: Planned Cost per Direct Worker
(LHS: in INR million; RHS: as ratio of GDP per capita)



Sources: Country authorities; and IMF staff estimates.

budget estimate for FY2025/26.[13] The PLIs for large-scale electronics, pharmaceuticals, and drones have experienced above-average execution. 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. Industrial policy should remain confined to correcting market failures, while minimizing potential costs to public finance and resource allocation.[14]

52. India is highly vulnerable to climate change and frequently experiences extreme heat and precipitation-related natural disasters (Figure 10). Its agricultural sector employs 42.4 percent of workers,[15] and half of the cultivated areas are rain-fed. Adaptation policies should continue to focus on measures to strengthen macroeconomic resilience, such as disaster preparedness, infrastructure resilience, effective water resource management, and support for climate-resilient agricultural practices. Addressing these challenges involves substantial costs—according to the authorities' estimate in 2023, cumulative adaptation costs through 2030 amount to 18 percent of 2024/25 GDP.[16] External financial support, technological transfer, and capacity development remain important for India to meet the investment needs of climate adaptation.

53. To strengthen energy security and achieve the net-zero 2070 target, India needs to continue scaling up its renewable energy capacity. While 74 percent of electricity generation is from coal as of 2023,[17] government programs promoting adoption, transmission, and storage of renewable energy—along with a steep drop in costs for solar energy globally—have encouraged a fast increase in renewable capacity. Still, given the bottlenecks related to grid-scale integration and storage, public support is needed to accelerate the energy transition. Policy instruments such as revenue-generating emission trading schemes can mobilize resources to alleviate the fiscal burden while inducing emission abatement. Carefully designed derisking mechanisms such as public-private risk-sharing could encourage private investment in green energy while containing fiscal risks.

54. India is expected to meet its 2030 NDC goals under current policies, while additional policies are needed to achieve net zero emissions by 2070.[18] India is the third largest GHG emitter globally, while its per capita emissions remain low compared with the world average. Policies promoting energy efficiency and renewable energy have made meaningful impacts on the reduction of emission intensity, while total emissions will continue to rise due to strong economic growth as India meets its development needs. The release of emission intensity target rules for the Carbon

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[13] As of March 2025, the authorities report that 215 billion rupees (0.07 percent of GDP) have been disbursed as incentives, and 1.2 million direct and indirect jobs have been created.

[14] See Chapter 3 of IMF World Economic Outlook (October 2025).

[15] Based on 2024 Current Weekly Status data from the Periodic Labour Force Survey.

[16] India's Initial Adaptation Communication to UNFCCC.

[17] IEA country profile.

[18] India's targets for 2030 NDCs, updated in 2022, include reducing emissions intensity by 45 percent by 2030 compared with 2005, increasing the share of installed electricity capacity from non-fossil-fuel sources to 50 percent by 2030, and creating additional carbon sink of 2.5-3 billion tCO_2e. In July 2025, India reached the NDC target for installed non-fossil-fuel capacity.

Credit Trading Scheme, a non-revenue-generating rate-based scheme, for obligated entities in eight sectors are welcome. Over time, the targets should be tightened and the sectors expanded to provide incentives for sufficient abatement to steer towards the net-zero target. Achieving the long-term decline of emissions would require measures to induce broad-based emission abatement and a strong price signal to direct private investment to renewables. Policy choices can alleviate the economic costs incurred,[19] together with targeted social safety nets to support vulnerable households (¶46).

55. Enhanced quality, availability, and timeliness of macroeconomic and financial statistics would support policy formulation. Official statistics in India are broadly adequate for surveillance, though presenting some shortcomings (Annex VII). Significant efforts are in progress for the update of GDP and CPI series (Annex VI). The ongoing work for the national accounts benchmark revision has the objective of implementing methodological upgrades in the GDP compilation, including the update of the base year, improvement of volume estimates, incorporation of key additional data sources, and improving the statistical techniques used in the quarterly GDP compilation. These 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 use of double deflation techniques relying on producer price indices would contribute to further improving the available volume estimates. Work to update the CPI weights and items basket is also ongoing, to better reflect current consumption patterns. Going forward, regular benchmark revisions of national accounts, prices, and other key statistics should be conducted according to international best practices. Priority should be given to conducting the population census, last completed in 2011/12, given its importance in ensuring that surveys remain representative. Other opportunities for improvement of the statistical base include the timely provision of consolidated general government fiscal accounts, expanding the available data on NBFCs, and increasing timeliness and granularity of data on systemic linkages across financial institutions.

Authorities' Views

56. The authorities emphasized ongoing structural reforms to foster inclusive growth. They noted the implementation of the employment-linked incentive scheme – Pradhan Mantri Viksit Bharat Rozgar Yojana – that facilitates matching between workers and firms, from August 2025. They emphasized the importance of deregulation to improve the business climate and pointed to digitalization and Union-level incentives for states to advance structural reforms, including in land access. They considered the Production Linked Incentive Schemes as a key driver of India's industrial growth that have also been supportive of balanced regional development. The authorities highlighted India's ongoing efforts toward regional economic integration and building economic resilience, as evidenced by India's existing trade agreements and progress in multiple ongoing FTA

[19] See Box 4 of India: 2022 Article IV Consultation-Staff Report. A combination of policy instruments—including subsidies for renewables, a higher coal tax, and a carbon tax—is less distortionary than tax-financed renewable subsidies alone.

negotiations. The authorities pointed to India's large climate finance needs and felt that multilateral funding would fall short of the needs for climate adaptation and energy transition, as some global institutions retreat from climate finance. The authorities also expressed concern over the commitment of advanced economies to fulfilling the climate finance pledge of COP29 and called for reforms to the global financial architecture to mobilize climate finance for developing economies. Finally, they anticipated that the recent IBC amendments bill would significantly expedite the bankruptcy resolution process.

57. The authorities stressed the ongoing improvements in real sector statistics along with issues in the data adequacy assessment of current series. They highlighted that the coverage in the current series is updated on the basis of actual data through private corporate and government accounts data in the compilation of National Accounts Statistics. They also informed about significant progress on the work to update the national accounts and CPI methodologies, with rebased series expected to be launched in February 2026. Given these developments, the authorities considered that more favorable ratings would be warranted in the staff's Data Adequacy Assessment for Surveillance, especially for the national accounts, including coverage and granularity. Further engagement with IMF capacity development is planned in the context of the national accounts and production indices projects (Annexes VI and VII).

STAFF APPRAISAL

58. Despite external headwinds and elevated uncertainty, India's economy remains resilient, supported by favorable domestic conditions. Building on strong momentum in the June quarter, growth is expected to remain firm this year, supported in part by the GST reduction. The imposition of the 50 percent U.S. tariffs in August will weigh on the outlook, but the magnitude is expected to remain manageable as India has relatively limited exposure to merchandise exports. Headline inflation has significantly declined, primarily on lower food prices, and is expected to remain subdued in the period ahead. India's external position is moderately stronger than that implied by medium-term fundamentals and desirable policies. The economic outlook is subject to high uncertainty, with upside risks stemming from a potential reversal of the 50-percent tariffs.

59. The envisaged near-term fiscal consolidation remains appropriate, though a prolonged tariff shock would justify a pause next year. The simplification of the GST is welcome, as it constitutes a major step in reducing the complexity of the tax structure, though the rate reduction may make it harder to raise rates again in the future if needed for revenue-based fiscal consolidation over the medium term. The fiscal consolidation and sustained level of capital expenditure planned in the FY2025/26 Budget remain appropriate but may require strong recurrent spending discipline given the effective PIT and GST rate cuts. Targeted, transparent, and time-bound support to industries heavily affected by tariffs is warranted to mitigate the distributional impact of the tariffs. Pausing fiscal consolidation in FY2026/27—implying a neutral fiscal stance—would be appropriate if the tariffs persist.

60. A more ambitious medium-term fiscal consolidation, at both the Union and state levels, is warranted to rebuild buffers and create additional space for growth-enhancing expenditure. Given India's developmental needs, further revenue-enhancing measures and streamlining of current spending are appropriate. Following the GDP rebasing in early 2026, the medium-term debt-to-GDP target should be reviewed with a view to making it broader and more ambitious. Including state government debt in the target would bring important borrowing entities into the adjustment framework, while specifying a medium-term fiscal deficit path would help clarify the government's debt reduction intentions over time. Building on India's significantly strengthened fiscal credibility in recent years, the fiscal framework can be further improved by establishing an independent fiscal body and strengthening fiscal statistics, particularly at the state level. Fiscal sustainability at the state level can be enhanced by strengthening incentives through a performance-based devolution formula, enhancing state-level revenue mobilization and spending discipline, and promoting greater differentiation in state development loan spreads.

61. Exceptionally high uncertainty calls for agile monetary policy with an easing bias, while exchange rate flexibility can help absorb shocks. A negative output gap in FY2026/27, potentially emerging from the impact of prolonged tariffs, would provide room for further monetary policy easing amid a benign inflation outlook. That said, the need for policy easing would be considerably reduced if the tariffs were to be resolved swiftly. The current flexible inflation targeting framework, including the 4-percent target with ±2 percent band on headline inflation (rather than core inflation) has served India well. While the exchange rate has exhibited increasing two-way movement this year, there remains room for additional exchange rate flexibility, with interventions limited to periods of destabilizing risk premia, considering India's relatively low FX mismatch, well-anchored inflation expectations, and generally deep FX market.

62. Financial sector stability risks appear to remain well contained, providing a favorable backdrop for financial sector reforms to address remaining vulnerabilities. Rising financial interconnectedness warrants enhancing the toolkit for analyzing systemic risks. Efforts to address potential vulnerabilities in NBFCs arising from concentration risks are welcome. In line with the 2024 FSAP recommendations, financial stability can be strengthened further by expanding borrower-based macroprudential norms, improving the loss absorption capacity of selected entities, and enhancing the crisis and credit risk management frameworks.

63. India's ambition of becoming an advanced economy requires holistic structural reforms. India needs to boost all growth engines to become a more open, dynamic, and innovative economy with better factor allocation across sectors and firms. Wide-ranging structural reforms have the potential to raise India's productivity, reinvigorate private investment, and help create sufficient high-quality jobs for the growing population. Deepening trade integration can bolster competitiveness, attract FDI, and boost productivity. Sustaining public investment efforts and strengthening the business environment are essential to improving resource allocation. Stepping up investment in R&D and fostering innovation will be important to support productivity-driven development.

64. Advancing climate policies is critical to supporting sustainable and resilient growth. Well-designed adaptation and mitigation policies, combined with greater access to external concessional financing and technological transfer, are vital for India to address climate vulnerabilities and achieve the net zero emissions target by 2070. Adaptation policies should continue to focus on measures to strengthen macroeconomic resilience, such as disaster preparedness, infrastructure resilience, effective water resource management, and support for climate-resilient agricultural practices. The release of emission intensity target rules of the Carbon Credit Trading Scheme is welcome, and the targets should be tightened over time to provide sufficient incentives for abatement.

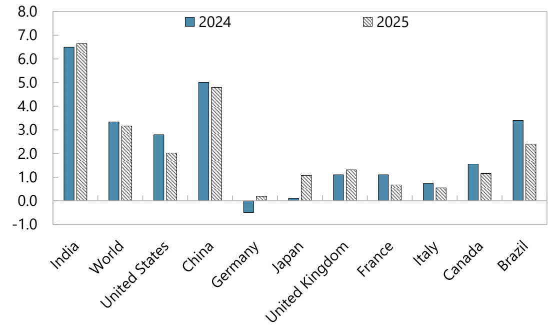
65. Enhancing the quality, availability, and timeliness of macroeconomic and financial statistics would support policy formulation. India's data are broadly adequate for surveillance, with room for improvement in some areas. Significant efforts underway to improve data quality, particularly in the national accounts, are welcome, as they will enhance data transparency and support policy making.

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

Figure 2. India: Recent Macroeconomic Developments

India remains the fastest-growing major economy.

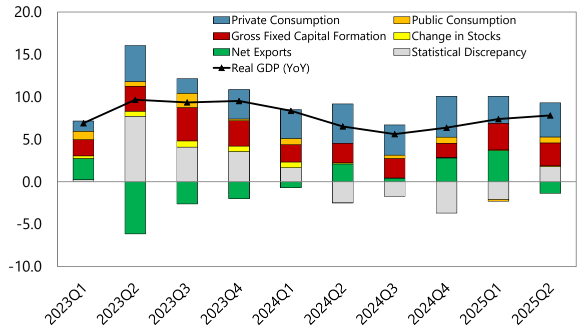
Real GDP Growth
(In percent, year-on-year)



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

Domestic demand and, recently, net exports have been growth contributors.

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).

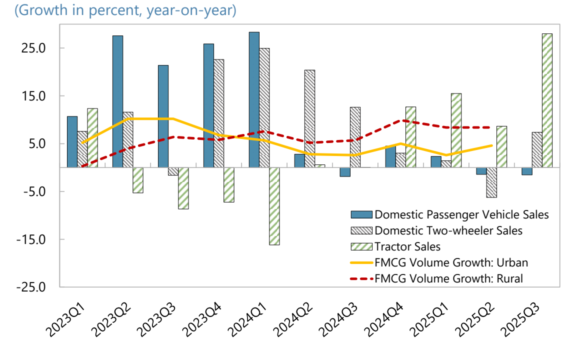
There has been some mixed performance across different high-frequency indicators.

GST and Industrial Production
(Growth in percent, year-on-year)

Source: Haver Analytics.

Rural demand growth continues, whereas urban demand has stabilized, except for passenger vehicles.

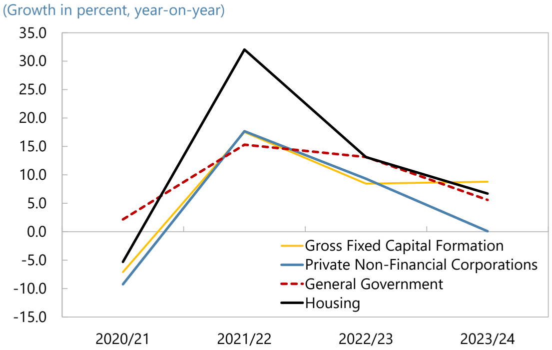
Consumption
(Growth in percent, year-on-year)



Sources: CEIC; Nielsen IQ; and IMF staff calculations.
Note: FMCG = Fast Moving Consumer Goods.

Investment growth has been led by general government capital expenditure and housing, whereas private corporate investment has been less dynamic…

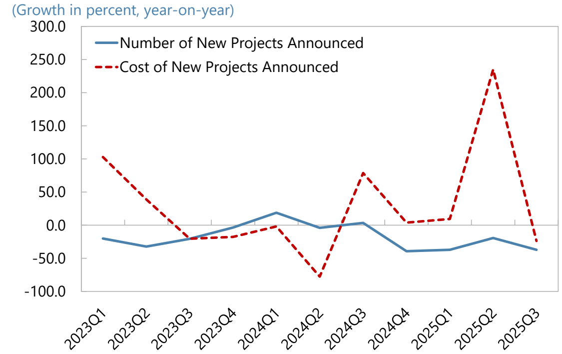
Gross Fixed Capital Formation
(Growth in percent, year-on-year)



Sources: Haver Analytics; and IMF staff calculations.

… including through limited announcements of new private investment projects.

New Private Sector Projects Announced
(Growth in percent, year-on-year)



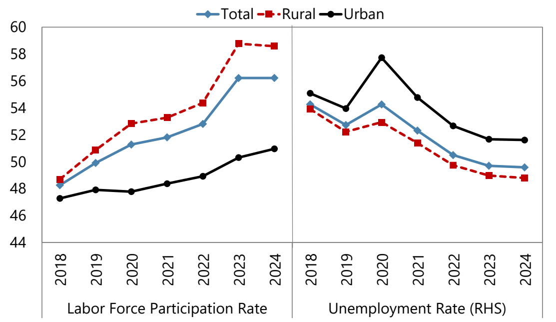
Sources: CMIE Economics Outlook; and IMF staff calculations.

Figure 3. India: Labor Market Developments

Headline labor market indicators remained broadly stable in 2024…

Headline Labor Market Indicators in India

(Aged 15 and above, in percent)

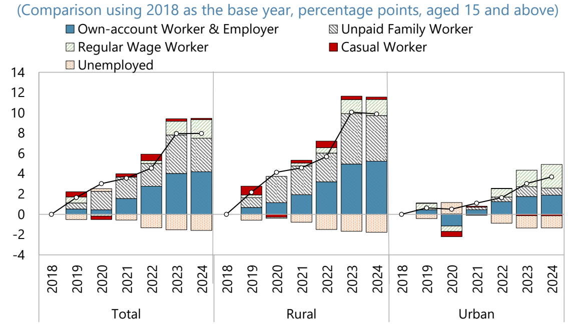


Sources: PLFS; and IMF staff estimates.

… with some improvements in quality.

Cumulative Change in LFPR by Employment Status

(Comparison using 2018 as the base year, percentage points, aged 15 and above)

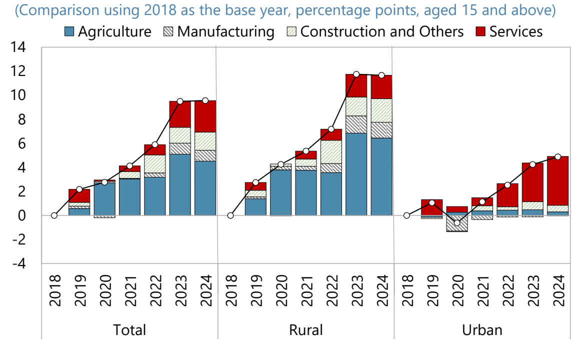


Sources: PLFS; and IMF staff estimates.
Note: Breakdown excludes self-employed who did not work during the reference week.

Employment in agriculture declined in 2024.

Cumulative Change in Employment Rate by Sector

(Comparison using 2018 as the base year, percentage points, aged 15 and above)

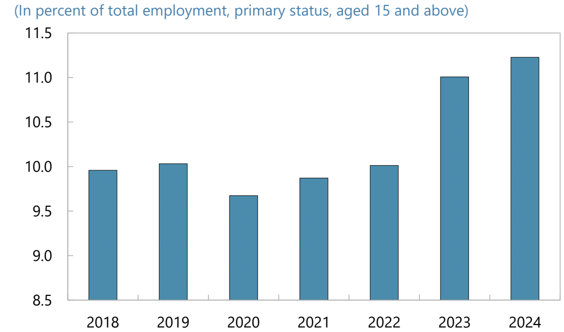


Sources: PLFS; and IMF staff estimates.

Formal employment continues to expand from a low base.

Formal Employment

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

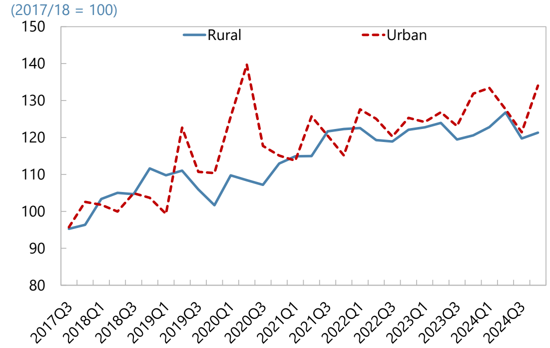


Sources: PLFS; and IMF staff estimates.
Note: Formal employment defined based on eligibility for social security benefits.

Real hourly wages in rural and urban areas are increasing, although that partly reflects declining hours worked.

Real Hourly Wages

(2017/18 = 100)

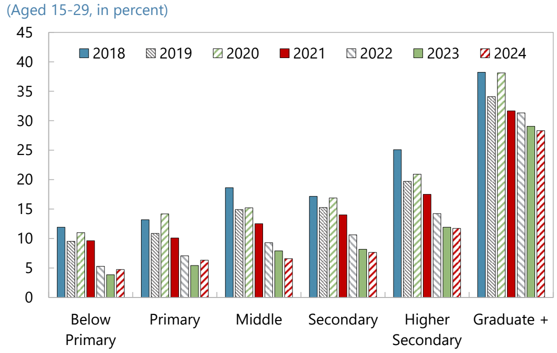


Sources: PLFS; and IMF staff estimates.

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

Youth Unemployment

(Aged 15-29, in percent)



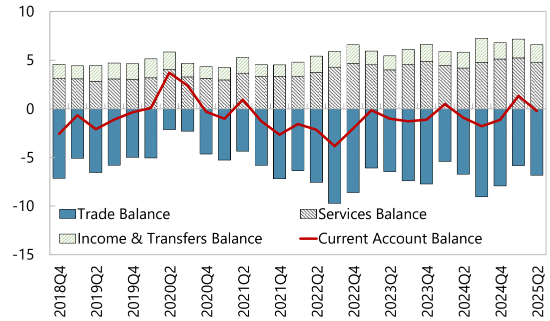
Sources: PLFS; and IMF staff estimates.

Figure 4. India: External Sector Developments

The current account balance has been contained in recent quarters…

… as services exports remained strong and merchandise exports picked up.

Current Account Balance 1/
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.
1/ Data is presented in calendar year format, where 2020Q3 = Sep-20.

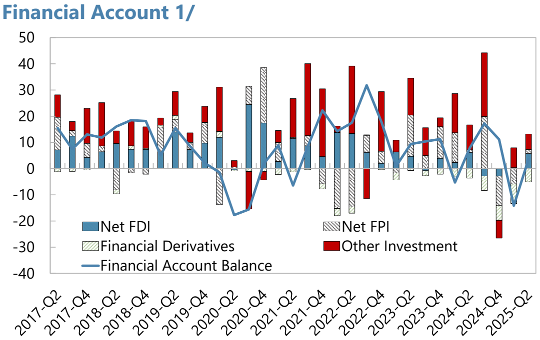
Merchandise and Services Exports 1/
(In USD billion)

Sources: Haver Analytics; and IMF staff calculations.
1/ Data is presented in calendar year format.

The financial account has been muted in recent quarters due to FPI outflows and subdued net FDI, …

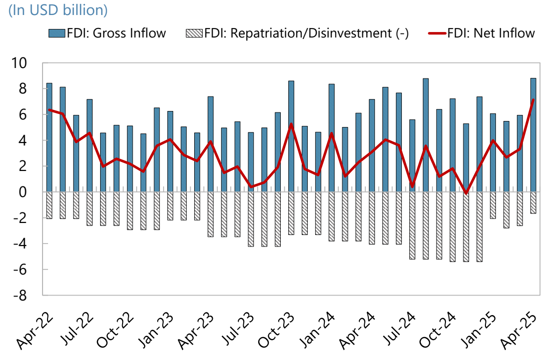
… while net inward FDI has shown signs of recovery as gross inflows picked up and repatriation/disinvestment edged down.

Financial Account 1/



Sources: Haver Analytics; and IMF staff calculations.
1/ Analytical Presentation. Data is presented in calendar year format.

Inward FDI
(In USD billion)

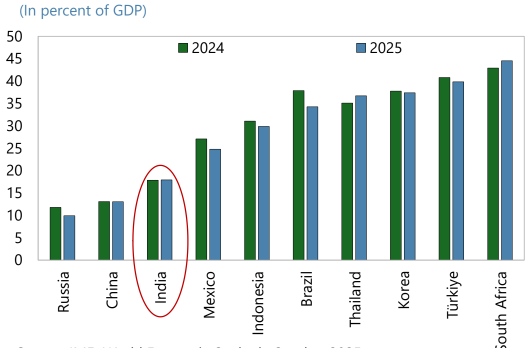


Sources: Haver Analytics; and IMF staff calculations.

India's external debt is relatively low compared to peers.

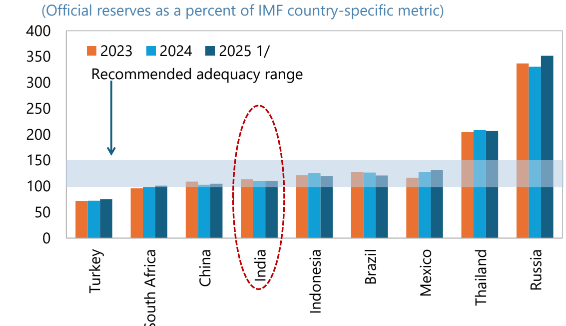
FX reserves are deemed adequate to mitigate external vulnerabilities.

Total External Debt
(In percent of GDP)



Source: IMF, *World Economic Outlook, October 2025.*

Estimated Reserve Adequacy 1/
(Official reserves as a percent of IMF country-specific metric)

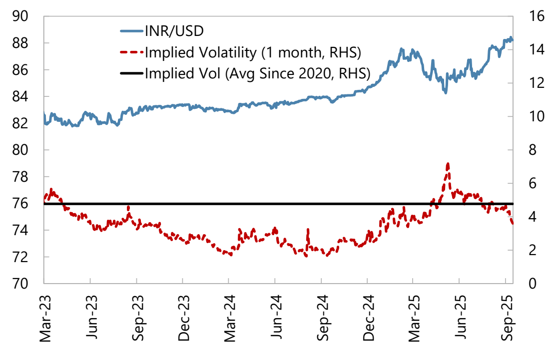


Sources: IMF, *International Financial Statistics*; World Economic Outlook; and IMF staff calculations.
1/ Estimates for 2025.

Figure 5. India: Financial Market Developments

The rupee has experienced more variation in 2025.

Rupee Exchange Rate and Volatility

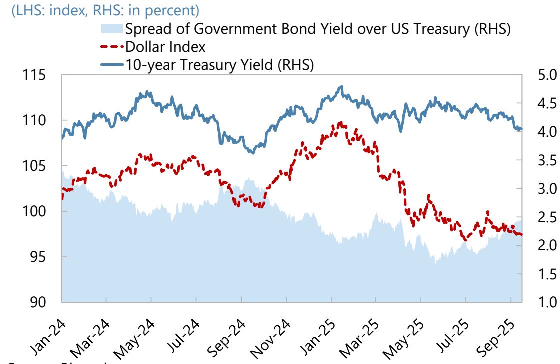


Sources: Bloomberg; and IMF staff calculations.

The sovereign spread over U.S. Treasuries has fluctuated at a low level amid the broad depreciation of the U.S. dollar.

External Financial Conditions

(LHS: index, RHS: in percent)

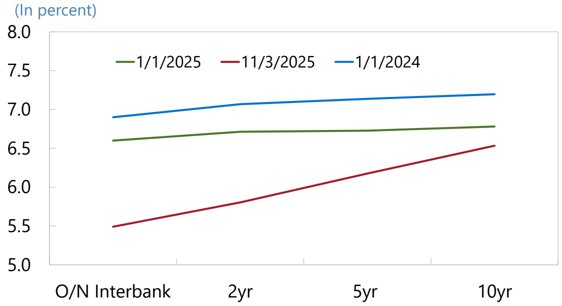


Source: Bloomberg.

Government bond yields moved lower, particularly in the front end, following monetary policy easing.

Domestic Yield Curve

(In percent)

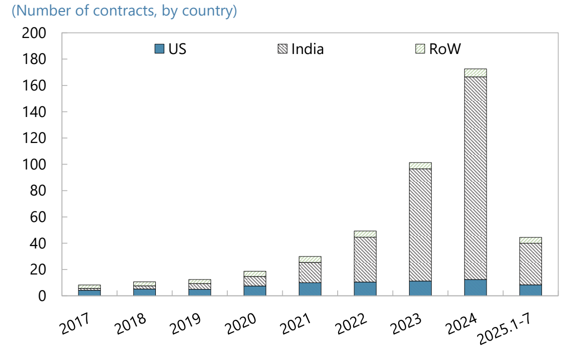


Source: Bloomberg.

Equity derivatives trading volume, after years of exponential growth, has declined sharply amid SEBI's tighter regulations.

Exchange Traded Options Volume

(Number of contracts, by country)

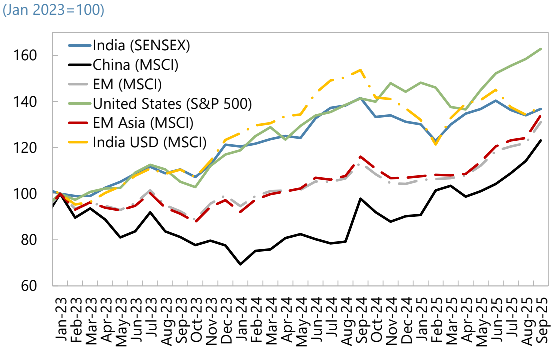


Source: FIA.

The Indian stock market experienced a significant correction during 2024Q4-2025Q1 before recovering ...

Stock Market Indices

(Jan 2023=100)

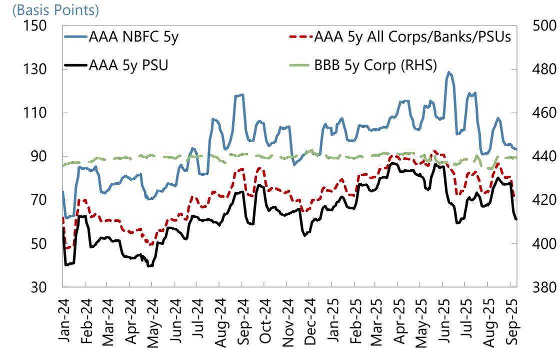


Sources: LSEG Workspace; and IMF staff calculations.

... and credit spreads have recently declined, though the levels remain elevated.

Domestic Credit Spreads

(Basis Points)

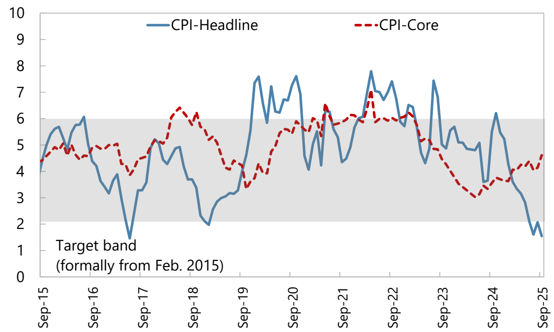


Sources: Bloomberg; and IMF staff calculations.

Figure 6. India: Inflation and Monetary Developments

Inflation has been generally within the target range ...

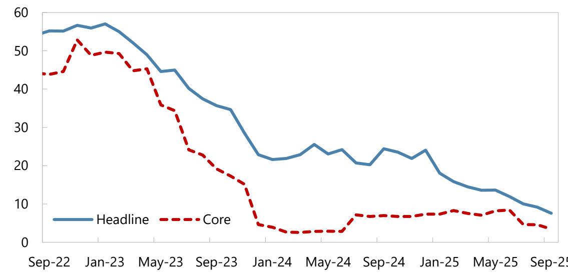
Inflation
(In percent, year-on-year)



Sources: Haver Analytics; and IMF staff calculations.

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

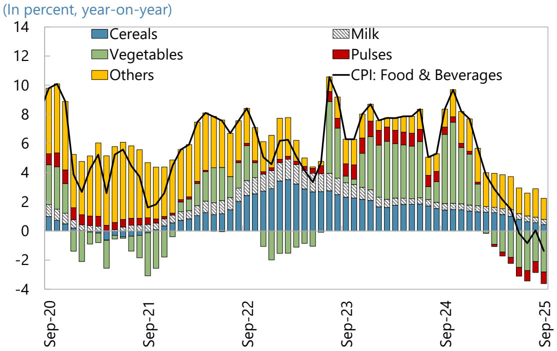
Percent of CPI with Increases Greater than 6 Percent



Sources: Haver Analytics; and IMF staff calculations.

Food prices have eased significantly, largely reflecting deflation in vegetable prices.

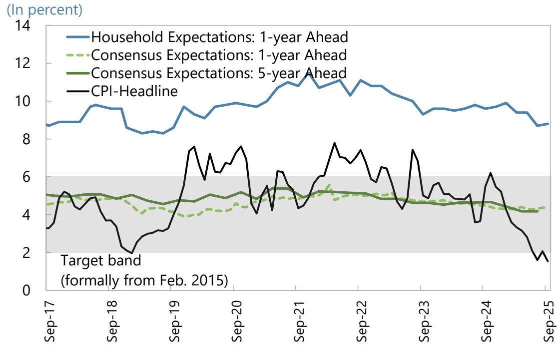
CPI Food Inflation Contributions
(In percent, year-on-year)



Sources: Haver Analytics; and IMF staff calculations.

Inflation expectations remain well anchored.

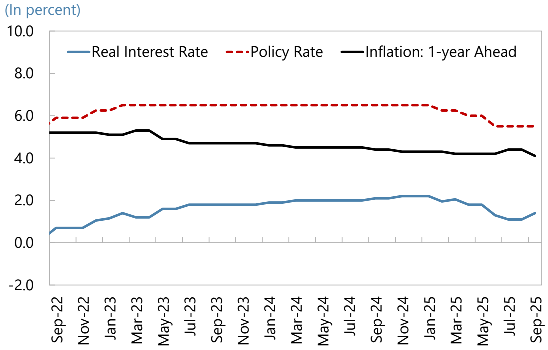
Inflation Expectations
(In percent)



Sources: Haver Analytics; and Consensus Economics.

With monetary policy easing, the real policy interest rate has been declining, notwithstanding declining inflation.

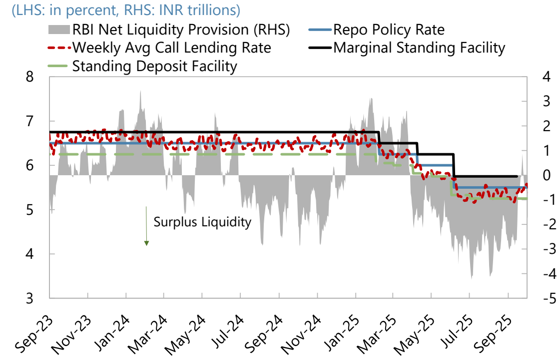
Interest Rates and Inflation
(In percent)



Sources: Haver Analytics; and IMF staff calculations.

Liquidity has been in surplus since late March 2025.

RBI Interest Rates and Net Liquidity Provision
(LHS: in percent, RHS: INR trillions)

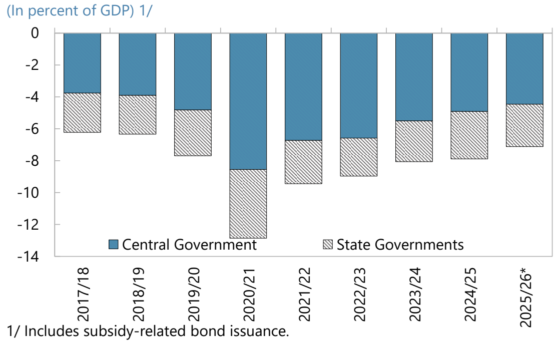


Sources: Bloomberg; and IMF staff calculations.

Figure 7. India: Fiscal Sector Developments

Fiscal consolidation continues…

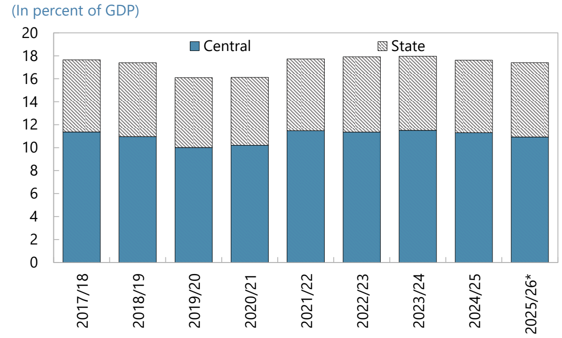
Government Balance
(In percent of GDP) 1/



1/ Includes subsidy-related bond issuance.
Sources: Haver Analytics; and IMF staff data.
*IMF staff estimates.

…supported by a broadly stable revenue ratio…

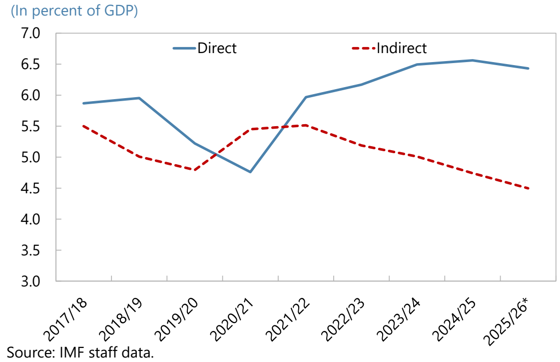
Government Tax Revenue
(In percent of GDP)



Source: IMF staff data.
*IMF staff estimates.

…including a rising reliance on direct taxes…

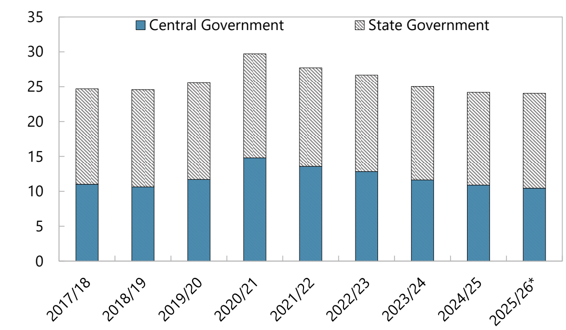
Central Government Tax Revenue
(In percent of GDP)



Source: IMF staff data.
*IMF staff estimates.

… and restraint in central government recurrent expenditure.

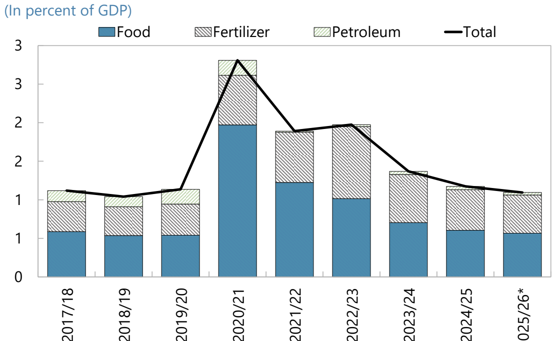
Government Recurrent Expenditure
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.
*IMF staff estimates.

Moderation of some commodity prices has supported a narrowing of the subsidy bill.

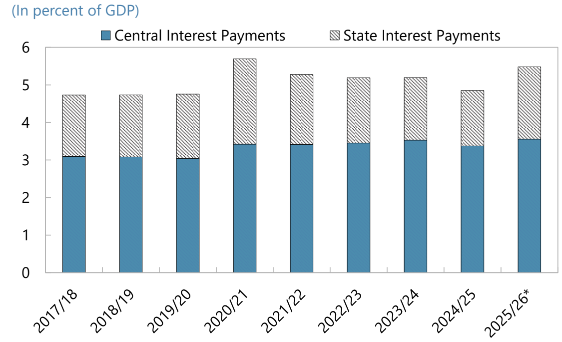
Central Government Subsidies
(In percent of GDP)



Source: IMF staff data.
*IMF staff estimates.

Interest payments remain elevated at over 5 percent of GDP.

Interest Payments
(In percent of GDP)

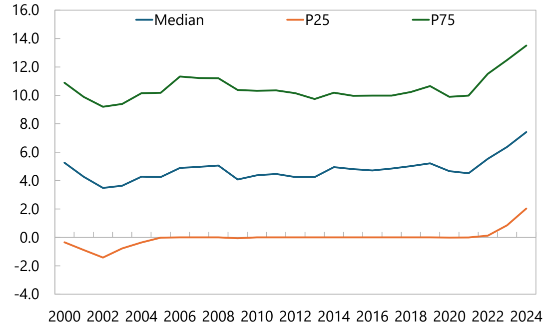


Sources: Ministry of Finance; and IMF staff calculations.
*IMF staff estimates.

Figure 8. India: Nonfinancial Corporate Sector Developments

Corporate profitability has improved…

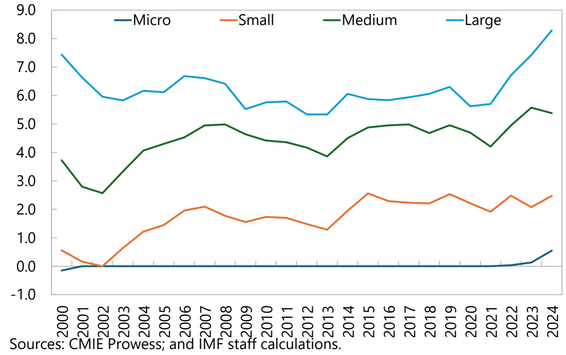
Profit Before Interest and Taxes (PBIT) to Asset
(In percent, median, p25, p75)



Sources: CMIE Prowess; and IMF staff calculations.

… particularly for large and medium-sized enterprises.

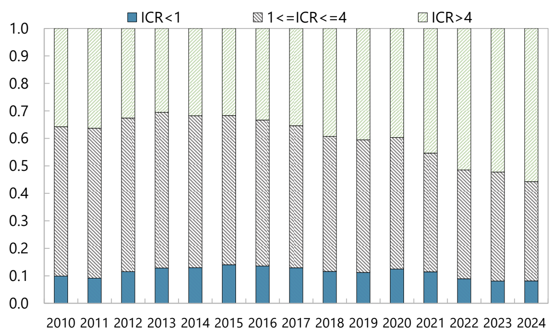
Profit Before Interest and Taxes (PBIT) to Asset
(In percent, median, by firm size)



Sources: CMIE Prowess; and IMF staff calculations.

The share of nonfinancial corporates at risk—those with an ICR (PBITs to interest payments) of less than one—has remained stable at 8 percent…

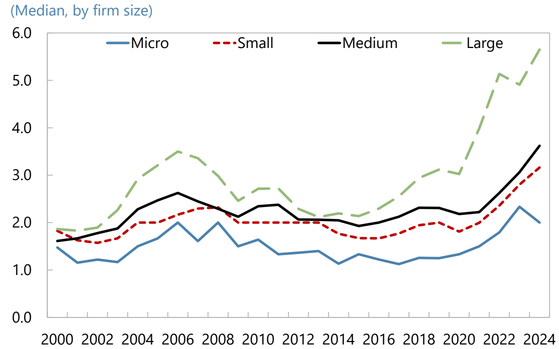
Interest Coverage Ratio
(Firm distribution)



Sources: CMIE Prowess; and IMF staff calculations.

…. and nonfinancial corporates' ICRs, except micro enterprises, have continued to trend higher.

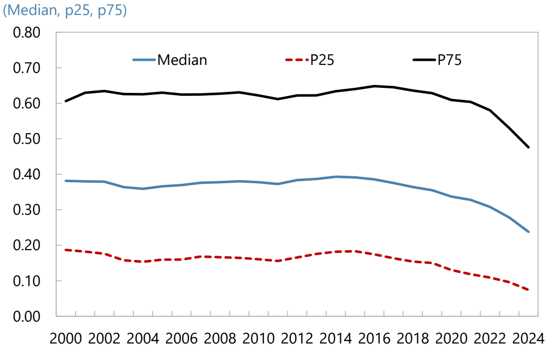
Interest Coverage Ratio
(Median, by firm size)



Sources: CMIE Prowess; and IMF staff calculations.

Corporate leverage has declined, with the debt-to-asset ratios of three quarters of firms below 0.5,…

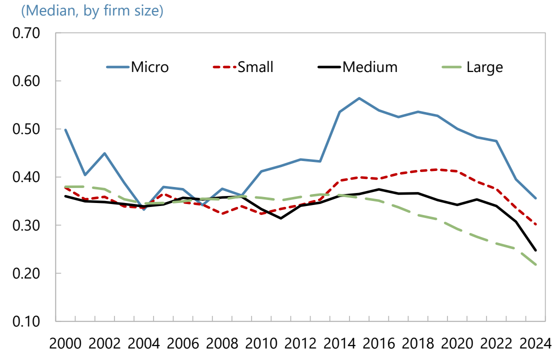
Debt to Asset
(Median, p25, p75)



Sources: CMIE Prowess; and IMF staff calculations.

… and this downward trend applies to firms across the size spectrum, particularly for micro firms.

Debt to Asset
(Median, by firm size)

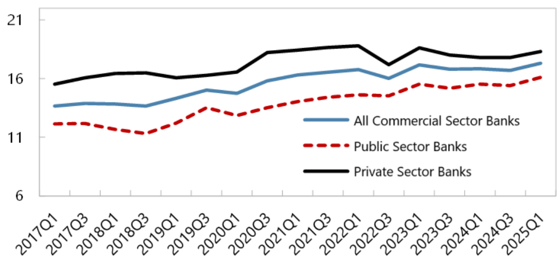


Sources: CMIE Prowess; and IMF staff calculations.

Figure 9. India: Banking and NBFC Sector Developments

The CAR for the banking system has improved, while PSB's CARs have been consistently lower than those of other banks ...

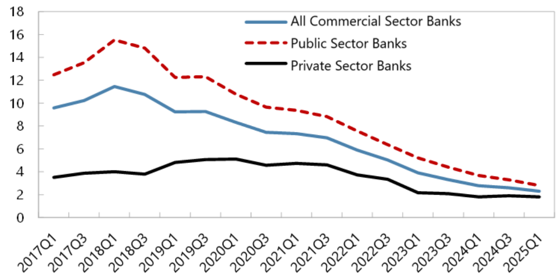
Regulatory Capital Adequacy Ratio of Banks
(In percent of risk-weighted assets)



Sources: Haver Analytics; and IMF staff calculations.

... and the gross non-performing loans ratio has continued to decline.

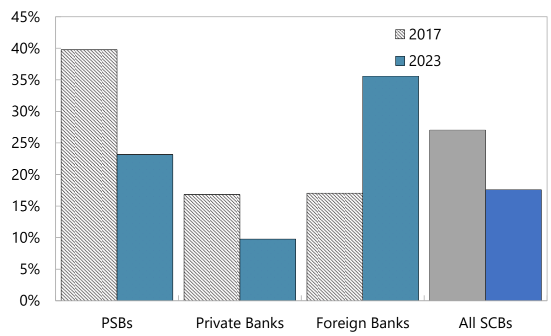
Non-performing Loans Ratio of Banks
(In percent of gross loans)



Sources: Haver Analytics; and IMF staff calculations.

Concentration risks moderated for PSBs to within Basel III large exposure limit (25 percent of CET1) but rose for foreign banks.

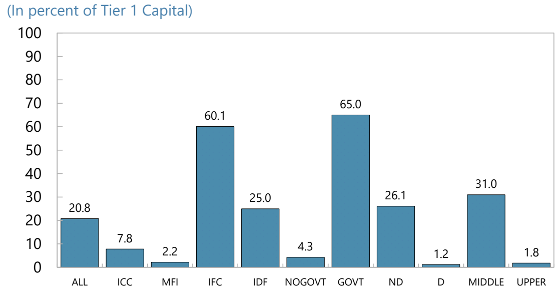
Top 1: Large Credit Exposure by Type of Banks
(In percent of Common Equity Tier1)



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

Concentration risks are particularly high for state-owned IFCs, with state-owned NBFCs being exempted from large exposure limits on a case-by-case basis.

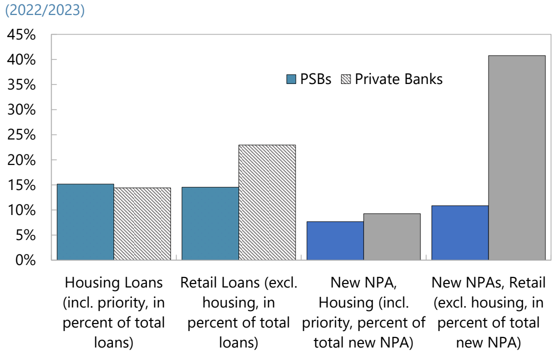
Top 1: Large Credit Exposure as of June 2024
(In percent of Tier 1 Capital)



Sources: RBI returns; and IMF staff calculations.
Notes: ICC = investment and credit companies; MFI =microfinance institutions; IFC = infrastructure financing companies; IDF = infrastructure debt fund; NOGOVT = private sector owned; GOVT = government owned; ND = non deposit taking; D = deposit taking; MIDDLE = middle layer (of the tiered supervisory framework); and UPPER = upper layer.

PVBs are the most active in unsecured retails loans and have incurred the highest credit risks from the segment recently.

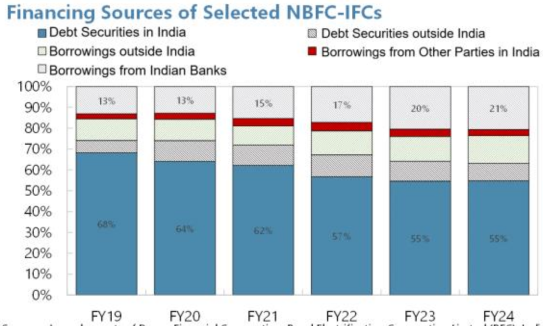
Sectoral Credit Risks: Housing Loans and other Retail Loans
(2022/2023)



Source: IMF staff estimates.

NBFC-IFCs increasingly rely on bank borrowings, both domestically and internationally.

Financing Sources of Selected NBFC-IFCs

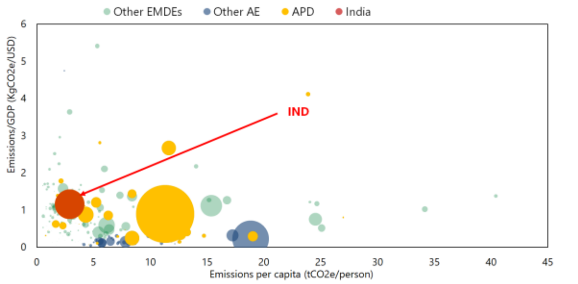


Sources: Annual reports of Power Financial Corporation; Rural Electrification Corporation Limted (REC); Indian Renewable Energy Development Agency (IREDA); Assem Infrasture Finance; NIIF Infrastructure Finance; India Infrastructure Finance Company; and IMF staff calculations.
Note: The chart is computed based on six infrastructure-focused NBFCs that account for about one-fourth of the total NBFC assets.

Figure 10. India: Climate Developments

India is the third largest emitter globally, while its per capital emissions are low.

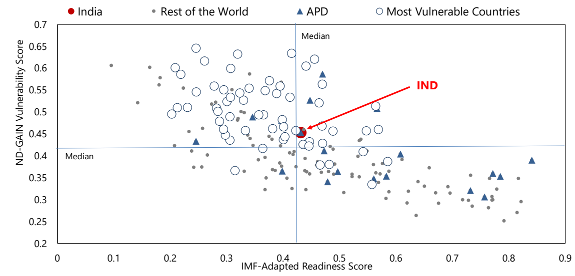
GHG Emissions Intensity vs. Total Emissions, 2023



Sources: IMF Climate Change Indicators Dashboard (2023); and IMF World Economic Outlook (2023).
Note: Bubble size indicates total GHG emissions excluding land-use and land-use change and forestry. Outlier Palau is excluded

India faces relatively high vulnerability and average readiness to adapt to climate change risks.

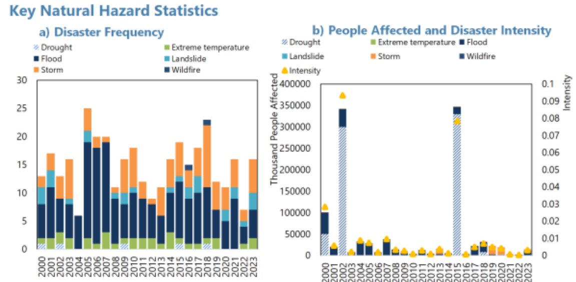
Climate Risks and Readiness, ND-GAIN, 2022



Source: IMF Climate Change Indicators Dashboard (2022).
Note: The Vulnerability Score assesses a country's current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptative actions.

India is particularly vulnerable to floods, storms, and extreme temperatures. Droughts and floods in 2002 and 2015 affected more than 350 million inhabitants.

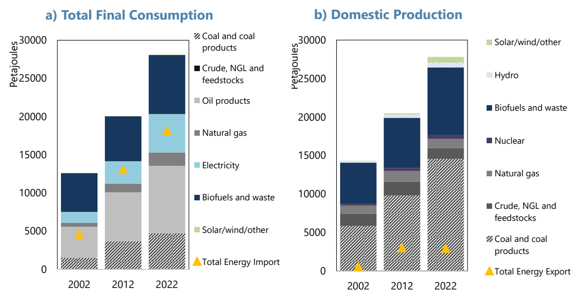
Key Natural Hazard Statistics



Sources: EMDAT; and IMF staff calculations using Pondi and others (2023).
Note: Intensity is defined as (Total death+30% Total Affected)/Total population.

India is a net exporter of petroleum products and net importer of coal, natural gas, and crude oil. Wind and solar make up for a small yet growing share in the energy mix.

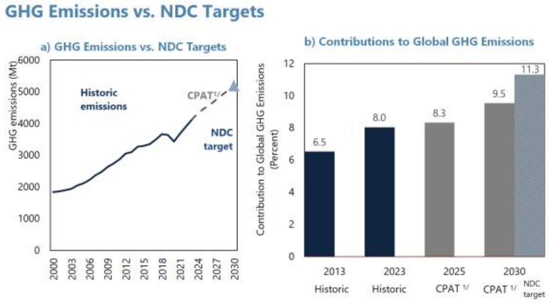
Energy Mix



Source: IEA World Energy Balances.

India contributes around 8 percent of global GHG emissions. Emissions projected by the Climate Policy Assessment Tool (CPAT) align with the NDC target…

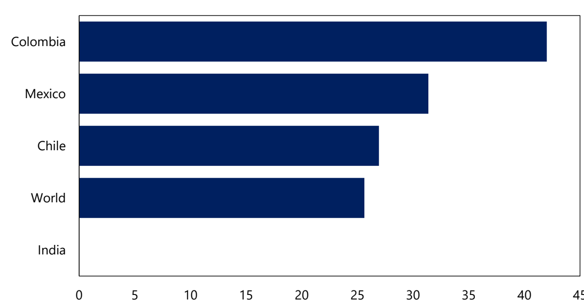
GHG Emissions vs. NDC Targets



Sources: IMF Climate Change Dashboard with data from the UNFCCC, EDGAR, FAO; and IMF staff calculations.
Note: GHG emissions exclude Land Use, Land-Use Change and Forestry.
1/ CPAT estimations are indicative as they are based on uniform assumptions across all countries across the globe (i.e., no new mitigation policies, 50% reduction in explicit subsidies if applicable, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO).

…and hence India can achieve its NDC targets without additional mitigation efforts, in contrast to key peer countries.

GHG Emissions Cuts in 2030 vs Baseline



Sources: IMF Climate Change Dashboard with data from the UNFCCC, EDGAR, FAO; and IMF staff calculations.

Table 1. India: Selected Social and Economic Indicators, 2021/22–2026/27 1/

I. Social Indicators

GDP (2023/24)		**Poverty (2022, percent of population)**	
Nominal GDP (in billions of U.S. dollars):	3,638	Poverty rate $3 a day (2021 PPP):	5.3
GDP per capita (U.S. dollars) (IMF staff est.):	2,530	Undernourished	13.7
Population characteristics (2023/24)		**Income distribution (2022)**	
Total (in billions):	1.44	Richest 10 percent of households:	22.1
Urban population (percent of total):	36.4	Poorest 20 percent of households:	10.4
Life expectancy at birth (years):	72.0	Gini index:	25.5

II. Economic Indicators

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Est.	Projections	
Growth (in percent)						
Real GDP (at market prices)	9.7	7.6	9.2	6.5	6.6	6.2
Prices (percent change, period average)						
Consumer prices - Combined	5.5	6.7	5.4	4.6	2.8	4.0
Saving and investment (percent of GDP)						
Gross saving 2/	30.9	31.6	32.6	32.3	31.5	30.9
Gross investment 2/	32.1	33.6	33.4	32.9	32.5	32.4
Fiscal position (percent of GDP) 3/						
Central government overall balance	-6.7	-6.6	-5.5	-4.9	-4.5	-4.5
General government overall balance	-9.4	-9.0	-8.1	-7.9	-7.1	-7.2
General government debt 4/	83.5	82.2	80.7	81.6	81.1	80.7
Cyclically adjusted balance (% of potential GDP)	-7.7	-8.2	-8.1	-7.9	-7.2	-7.1
Cyclically adjusted primary balance (% of potential GDP)	-2.6	-3.1	-2.9	-3.0	-1.7	-1.7
Money and credit (y/y percent change, end-period)						
Broad money	8.8	9.0	11.6	9.4	9.3	9.6
Domestic Credit	8.4	13.1	14.9	11.9	10.8	10.0
Financial indicators (percent, end-period)						
91-day treasury bill yield (end-period)	3.8	6.7	7.0	6.5	...	...
10-year government bond yield (end-period)	6.9	7.3	7.1	6.6	...	...
Stock market (y/y percent change, end-period)	18.3	0.7	24.9	5.1	...	...
External trade (on balance of payments basis)						
Merchandise exports (in billions of U.S. dollars)	429.2	456.1	441.4	441.8	416.3	409.5
(Annual percent change)	44.8	6.3	-3.2	0.1	-5.8	-1.6
Merchandise imports (in billions of U.S. dollars)	618.6	721.4	686.4	729.0	746.6	782.6
(Annual percent change)	55.3	16.6	-4.9	6.2	2.4	4.8
Terms of trade (G&S, annual percent change)	-8.7	-2.7	3.2	-1.3	-0.5	0.0
Balance of payments (in billions of U.S. dollars)						
Current account balance	-38.7	-67.0	-26.0	-23.3	-41.4	-63.5
(In percent of GDP)	-1.2	-2.0	-0.7	-0.6	-1.0	-1.4
Foreign direct investment, net ("-" signifies inflow)	-38.6	-28.0	-10.2	-1.0	-10.1	-15.5
Portfolio investment, net (equity and debt, "-" = inflow)	16.8	5.2	-44.1	-3.6	-14.9	-21.6
Overall balance ("+" signifies balance of payments surplus)	47.5	-9.1	63.7	-5.0	16.0	23.8
External indicators						
Gross reserves (in billions of U.S. dollars, end-period)	607.3	578.4	646.4	668.3	709.6	733.4
(In months of next year's imports (goods and services))	8.1	8.0	8.4	8.4	8.4	8.2
External debt (in billions of U.S. dollars, end-period)	619.1	623.9	668.8	736.3	791.0	856.3
External debt (percent of GDP, end-period)	19.5	18.6	18.4	18.8	19.2	19.0
Of which: Short-term debt	4.6	4.4	4.5	4.3	4.4	4.4
Ratio of gross reserves to short-term debt (end-period)	4.2	4.0	4.0	3.9	3.9	3.7
Real effective exchange rate (annual avg. percent change)	0.4	-0.2	0.2	1.2	...	...
Memorandum item (in percent of GDP)						
Fiscal balance under authorities' definition	-6.7	-6.5	-5.5	-4.9	-4.4	-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, 2021/22–2026/27 1/

(In billions of U.S. dollars)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
					Projections	
	(In billions of U.S. dollars)					
Current account balance	-38.7	-67.0	-26.0	-23.3	-41.4	-63.5
Merchandise trade balance	-189.5	-265.3	-244.9	-287.2	-330.3	-373.1
Merchandise exports	429.2	456.1	441.4	441.8	416.3	409.5
Merchandise imports	618.6	721.4	686.4	729.0	746.6	782.6
Oil	161.8	209.4	178.7	185.8	166.4	170.2
Non-oil	456.8	511.9	507.6	543.2	580.2	612.3
Services balance	107.5	143.3	162.8	188.8	206.8	225.6
Credit	254.5	325.3	341.1	387.5	419.3	451.4
Of which : Software Services	122.1	146.8	160.3	180.6	...	...
Debit	147.0	182.0	178.3	198.7	212.6	225.8
Primary income balance, net	-37.3	-45.9	-49.7	-48.4	-54.6	-70.9
Secondary income balance, net	80.5	100.9	105.9	123.5	136.7	154.8
Capital and Financial account balance	-38.2	-68.0	-25.6	-21.8	-41.6	-63.7
Direct investment, net	-38.6	-28.0	-10.2	-1.0	-10.1	-15.5
Of which : Net incurrence of liabilities	56.2	42.0	26.8	29.1	39.0	47.1
Portfolio investment, net	16.8	5.2	-44.1	-3.6	-14.9	-21.6
Financial derivatives, net	6.4	5.4	7.9	22.1	12.4	12.7
Other Investment, net	-70.5	-41.5	-43.1	-34.6	-45.0	-63.0
Reserve Assets, net	47.5	-9.1	63.7	-5.0	16.0	23.8
Errors and omissions	0.5	-1.0	0.4	1.4	0.0	0.0
Overall balance 2/	-47.5	9.1	-63.7	5.0	-16.0	-23.8
Valuation changes 3/	-17.2	-19.7	4.3	26.9	25.3	0.0
Increase in gross reserve stock						
(including valuation changes)	30.3	-28.9	68.0	21.9	41.3	23.8
Memorandum items:						
Foreign exchange reserves	607.3	578.4	646.4	668.3	709.6	733.4
In months of next year's imports (goods and services)	8.1	8.0	8.4	8.4	8.4	8.2
Current account balance (percent of GDP)	-1.2	-2.0	-0.7	-0.6	-1.0	-1.4
Merchandise trade balance (percent of GDP)	-6.0	-7.9	-6.7	-7.3	-8.0	-8.3
Direct investment in India (percent of GDP)	1.8	1.3	0.7	0.7	0.9	1.0
Overall balance (percent of GDP)	-1.5	0.3	-1.8	0.1	-0.4	-0.5
Gold imports (billions of U.S. dollars)	46.2	35.0	45.5	58.0	...	...
Gross domestic product (billions of U.S. dollars)	3,167	3,346	3,638	3,910	4,125	4,506

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, 2021/22–2024/25 1/

	2021/22	2022/23	2023/24	2024/25
Reserve money	(In billions of rupees, end-period)			
Reserve money	40,689	43,868	46,314	48,292
Net domestic assets of RBI	-3,738	-2,008	-6,097	-7,217
Claims on government (net)	14,506	14,511	11,932	15,081
Center	14,490	14,504	11,867	14,755
States	16	8	66	326
Claims on commercial sector	166	265	145	382
Claims on banks	-5,603	-1,210	-606	-1,573
Other items (net)	-12,807	-15,575	-17,568	-21,108
Net foreign assets of RBI	44,427	45,876	52,411	55,509
	(Contribution to twelve-month reserve money growth)			
Reserve money	13.0	7.8	5.6	4.3
Net domestic assets of RBI	6.3	4.3	-9.3	-2.4
Claims on government (net)	13.0	0.0	-5.9	6.8
Net foreign assets of RBI	6.8	3.6	14.9	6.7
Monetary survey	(In billions of rupees, end-period)			
Broad money (M3)	204,937	223,438	249,398	272,866
Currency with public	30,357	32,764	34,103	36,308
Deposits	173,996	189,896	214,350	235,425
Non-bank deposits at RBI	584	778	945	1,133
Net domestic assets	156,394	174,317	193,723	211,381
Domestic credit	190,941	215,952	248,064	275,790
Net credit to government	64,776	71,655	76,036	85,108
Of which: RBI	14,506	14,511	11,932	15,081
Credit to commercial sector	126,165	144,296	172,028	190,681
Of which: Bank credit (excluding RBI) 2/	126,000	144,031	171,884	190,299
Other items (net)	-34,547	-41,634	-54,341	-64,409
Net foreign assets	48,543	49,120	55,675	61,485
	(Twelve-month percent change)			
Broad money (M3)	8.8	9.0	11.6	9.4
Net domestic assets	9.6	11.5	11.1	9.1
Domestic credit	9.0	13.1	14.9	11.2
Net credit to government	10.7	10.6	6.1	11.9
of which: RBI	31.9	0.0	-17.8	26.4
Credit to commercial sector	9.1	14.4	19.2	10.8
Of which: Bank credit (excluding RBI) 2/	9.2	14.3	19.3	10.7
Net foreign assets	6.0	1.2	13.3	10.4

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.

2/ Data include the impact of merger of a non-bank with a bank w.e.f. July 14, 2023.

Table 4. India: Central Government Operations, 2021/22–2026/27 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Est.	Projections	
			(In percent of GDP)			
Revenue	**9.4**	**9.0**	**9.3**	**9.2**	**9.0**	**8.9**
Taxes 2/	7.7	7.8	7.8	7.4	7.2	7.2
Income tax	6.0	6.2	6.5	6.6	6.4	6.5
GST	3.0	3.2	3.2	3.1	2.9	2.8
Excise tax	1.7	1.2	1.0	0.9	0.9	0.9
Customs duties	0.8	0.8	0.8	0.7	0.7	0.7
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Less: States' share	3.8	3.5	3.7	3.9	3.8	3.8
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue 3/	1.7	1.2	1.5	1.8	1.8	1.7
Property income	0.8	0.5	0.7	1.1	1.0	1.0
Sale of goods and services	0.2	0.2	0.2	0.1	0.1	0.1
Miscellaneous and unidentified revenue	0.8	0.6	0.6	0.6	0.6	0.6
Expenditure	**16.1**	**15.6**	**14.8**	**14.1**	**13.4**	**13.4**
Expense 4/	**13.6**	**12.9**	**11.6**	**10.9**	**10.4**	**10.4**
Compensation of employees 5/	1.1	1.0	1.0	1.0	1.0	1.0
Interest	3.4	3.5	3.5	3.4	3.6	3.6
Subsidies 6/	1.9	2.0	1.4	1.2	1.1	1.1
Food 7/	1.2	1.0	0.7	0.6	0.6	0.6
Fertilizer	0.7	0.9	0.6	0.5	0.5	0.5
Petroleum	0.0	0.0	0.0	0.0	0.0	0.0
Grants and other expense	7.2	6.4	5.8	5.3	4.8	4.7
Grants	3.3	3.0	2.6	2.5	2.5	2.5
Other expense 8/	4.0	3.4	3.1	2.8	2.3	2.2
Net acquisition of nonfinancial assets 9/	**2.5**	**2.8**	**3.2**	**3.2**	**3.0**	**3.0**
Net acquisition of nonfinancial assets	2.5	2.8	3.2	3.2	3.0	3.0
Gross Operating Balance	-4.2	-3.8	-2.4	-1.7	-1.5	-1.5
Net lending / borrowing (overall balance)	**-6.7**	**-6.6**	**-5.5**	**-4.9**	**-4.5**	**-4.5**
Memorandum items:						
Balance under authorities' definition 10/	-6.7	-6.5	-5.5	-4.9	-4.4	-4.4
Balance excl. recap bonds (IMF definition)	-6.7	-6.6	-5.5	-4.9	-4.5	-4.5
Primary balance	-3.3	-3.1	-2.0	-1.5	-0.9	-0.9
Central government debt 11/	59.2	58.3	57.8	56.3	56.2	55.4

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' foof 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, 2021/22–2026/27 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Est.	Projections	
			(In percent of GDP)			
Revenue	**20.4**	**20.1**	**20.5**	**20.4**	**20.2**	**20.2**
Taxes	17.7	17.9	18.0	17.6	17.4	17.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.7	2.2	2.5	2.8	2.8	2.7
Expenditure	**29.9**	**29.1**	**28.6**	**28.3**	**27.3**	**27.4**
Expense	25.0	24.2	23.2	22.7	22.2	22.1
of which: interest	5.3	5.2	5.2	4.8	5.5	5.5
Net acquisition of nonfinancial assets	4.9	4.9	5.4	5.6	5.1	5.2
Gross Operating Balance	-4.6	-4.1	-2.7	-2.3	-2.0	-1.9
Net lending (+)/borrowing (–) (fiscal balance)	**-9.4**	**-9.0**	**-8.1**	**-7.9**	**-7.1**	**-7.2**
Net financial worth, transactions	-9.4	-9.0	-8.1	-7.9	-7.1	-7.2
Net acquisition of financial assets	-2.2	-0.9	-0.7	-0.4	-0.8	-0.7
Domestic	-2.2	-0.9	-0.7	-0.4	-0.8	-0.7
Currency and deposits	-2.4	-1.3	-1.5	-0.2	-1.2	-1.1
Loans	0.2	0.6	0.9	-0.2	0.6	0.5
Equity and investment fund shares	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2
Net incurrence of liabilities	7.2	8.1	7.4	7.5	6.3	6.4
Domestic	7.1	8.0	7.2	7.4	6.2	6.3
Debt securities	6.3	6.6	6.2	6.0	4.9	5.1
Other accounts payable	0.7	1.4	1.0	1.4	1.3	1.2
Foreign	0.2	0.1	0.2	0.1	0.1	0.1
Loans	0.2	0.1	0.2	0.1	0.1	0.1
Memorandum items:						
Primary balance	-4.2	-3.8	-2.9	-3.0	-1.6	-1.7
Nondefence capital expenditure	4.2	4.3	4.8	5.1	4.6	4.7
State and union territory governments' balance 2/	-2.8	-2.7	-2.9	-3.3	-3.1	-3.0
General government debt 3/	83.5	82.2	80.7	81.6	81.1	80.7
Nominal GDP in billions of Rupees	235,974	268,905	301,230	330,682	358,841	395,165

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 center and state balances are both published including the zero-interest 50-year loans as capital expenditure. To avoid double-counting, this is excluded from the general government balance here.

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, 2021/22–2030/31 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
				Est.			Projections			
Growth (percent change)										
Real GDP (at market prices)	9.7	7.6	9.2	6.5	6.6	6.2	6.4	6.5	6.5	6.5
Potential GDP	3.0	5.9	6.5	6.5	6.5	6.5	6.4	6.4	6.5	6.5
Output gap (in percent of potential GDP)	-3.9	-2.4	0.1	0.0	0.1	-0.2	-0.2	0.0	0.0	0.0
Prices (percent change, period average)										
Consumer prices	5.5	6.7	5.4	4.6	2.8	4.0	4.0	4.0	4.0	4.0
Saving and investment (percent of GDP)										
Gross saving 2/	30.9	31.6	32.6	32.3	31.5	30.9	30.8	30.7	30.6	30.5
Gross investment 3/	32.1	33.6	33.4	32.9	32.5	32.4	32.4	32.4	32.4	32.4
Money and credit (y/y percent change, end-period)										
Broad money	8.8	9.0	11.6	9.4	9.3	9.6	10.0	10.3	10.3	10.2
Bank credit to the private sector	8.1	14.4	15.5	11.8	11.8	10.7	10.4	11.0	11.2	11.8
Fiscal position (percent of GDP)										
Central government balance 4/	-6.7	-6.6	-5.5	-4.9	-4.5	-4.5	-4.4	-4.2	-4.0	-3.8
General government balance 4/	-9.4	-9.0	-8.1	-7.9	-7.1	-7.2	-7.1	-6.9	-6.8	-6.6
Central government debt	59.2	58.3	57.8	56.3	56.2	55.4	54.3	53.0	51.7	50.3
General government debt 5/	83.5	82.2	80.7	81.6	81.1	80.7	79.9	79.0	78.0	76.9
External trade (percent change, balance of payments basis)										
Merchandise exports (in U.S. dollars terms)	44.8	6.3	-3.2	0.1	-5.8	-1.6	2.3	4.8	4.4	4.4
Merchandise imports (in U.S. dollars terms)	55.3	16.6	-4.9	6.2	2.4	4.8	6.1	7.4	7.3	7.4
Balance of payments (in billions of U.S. dollars, BMP6 (including sign conventions))										
Current account balance	-38.7	-67.0	-26.0	-23.3	-41.4	-63.5	-77.8	-93.6	-110.1	-123.0
(in percent of GDP)	-1.2	-2.0	-0.7	-0.6	-1.0	-1.4	-1.6	-1.7	-1.8	-1.9
Foreign direct investment, net ("-" sign is net FDI inflow)	-38.6	-28.0	-10.2	-1.0	-10.1	-15.5	-24.5	-40.7	-59.9	-75.9
Portfolio investment, net ("-" sign denotes capital inflow)	16.8	5.2	-44.1	-3.6	-14.9	-21.6	-29.8	-39.3	-50.5	-63.6
Overall balance ("+" sign denotes surplus)	47.5	-9.1	63.7	-5.0	16.0	23.8	51.4	69.9	73.6	63.0
External indicators										
Gross reserves (in billions of U.S. dollars, end-period)	607.3	578.4	646.4	668.3	709.6	733.4	784.8	854.7	928.3	991.4
(in months of imports) 6/	8.1	8.0	8.4	8.4	8.4	8.2	8.2	8.4	8.5	8.4
External debt (in billions of U.S. dollars, end-period)	619.1	623.9	668.8	736.3	791.0	856.3	930.1	1,013.6	1,107.8	1,213.9
External debt (percent of GDP, end-period)	19.5	18.6	18.4	18.8	19.2	19.0	18.8	18.6	18.4	18.3
Of which : short-term debt 7/	4.6	4.4	4.5	4.3	4.4	4.4	4.4	4.3	4.3	4.3
Ratio of gross reserves to short-term debt (end-period) 7/	4.2	4.0	4.0	3.9	3.9	3.7	3.6	3.6	3.6	3.5
GDP in billions of U.S. dollars	3,167	3,346	3,638	3,910	4,125	4,506	4,959	5,462	6,016	6,628

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, 2020/21–2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
	(In percent, unless indicated otherwise)				
I. Scheduled commercial banks					
Risk-weighted capital adequacy ratio (CAR)	**16.3**	**16.8**	**17.2**	**16.8**	**17.4**
Public sector banks	14.0	14.6	15.5	15.5	16.1
Private sector banks	18.4	18.8	18.6	17.8	18.3
Foreign banks	19.5	19.8	18.9	18.9	19.2
Number of institutions not meeting 9 percent CAR	**0**	**0**	**0**	**0**	**0**
Public sector banks	0	0	0	0	0
Private sector banks	0	0	0	0	0
Foreign banks	0	0	0	0	0
Net nonperforming assets (percent of outstanding net advances) 1/	**2.4**	**1.7**	**0.9**	**0.6**	**0.5**
Public sector banks	3.1	2.2	1.2	0.8	0.5
Private sector banks	1.4	1.0	0.5	0.5	0.5
Foreign banks	0.6	0.6	0.3	0.1	0.1
Gross nonperforming assets (percent of outstanding advances)	**7.3**	**5.8**	**3.9**	**2.7**	**2.2**
Public sector banks	9.1	7.3	5.0	3.5	2.6
Private sector banks	4.9	3.8	2.3	1.9	1.8
Foreign banks	2.4	2.9	1.9	1.2	0.9
Return on assets 2/	**0.6**	**0.9**	**1.2**	**1.3**	**1.4**
Public sector banks	0.3	0.5	0.8	1.0	1.1
Private sector banks	1.1	1.4	1.6	1.9	1.7
Foreign banks	1.6	1.4	2.0	1.7	1.6
Balance sheet structure of all scheduled commercial banks					
Total assets (in percent of GDP)	99.1	93.1	91.4	93.9	95.0
Credit-to-deposit ratio	72.5	72.2	75.8	80.3	80.8
Government securities/total assets	22.7	21.5	22.0	21.6	20.4
Liquid assets/total assets 3/	27.1	23.7	23.7	22.7	22.0
Liquid assets/short-term liabilities 3/	81.1	68.6	67.1	69.4	65.7
II. Non-Banking Financial Companies 4/					
Total assets (in percent of GDP)	17.7	15.8	16.2	16.8	20.7
Risk-weighted capital adequacy ratio (CAR)	25.0	26.8	27.5	26.6	25.8
Gross nonperforming assets (percent of outstanding advances)	6.4	6.3	4.3	4.0	3.0
Net nonperforming assets (percent of outstanding net advances) 1/	2.7	2.3	1.3	1.1	1.0
Return on assets 2/	1.2	1.6	2.4	3.3	2.4

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/ 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

Policies have largely been aligned with staff recommendations, though challenges remain. Fiscal and monetary policies have been broadly consistent with staff advice. Trade and exchange rate policies have been more aligned with Fund advice than in previous years. Challenges remain in some structural reforms.

1. Monetary and financial sector policies have been broadly appropriate. The RBI has maintained its strong commitment to align inflation with the target and effectively manage price stability. The communications regarding the monetary policy stance have continued to guide market expectations. There has been some progress on levelling the regulatory playing field between state-owned and privately-owned NBFCs. The recent proposals to adopt an Expected Credit Loss framework for provisioning and a Basel III standardized approach for credit risk are welcome. Other priorities, including passing a bank resolution law, have lagged. There also remains scope to further reduce the public sector footprint in the financial sector.

2. Fiscal consolidation planned for FY2025/26 is broadly in line with staff advice. The general government fiscal deficit declined slightly in FY2024/25, and the pace of fiscal consolidation planned for FY2025/26 is well aligned with last year's recommendations. The continued focus on infrastructure is welcome, but the PIT reduction will erode the already-low income-tax base in India. The simplification of the GST reform is aligned with our recommendations, but the resulting decline in the effective rate can add mild fiscal pressure. The authorities' aim of reducing central government debt as a percentage of GDP is helpful. However, more ambitious medium-term consolidation and additional reforms are needed for a complete medium-term fiscal framework in line with staff's advice.

3. India's external trade and FX policies have been more aligned with staff's advice than in the recent past. The authorities have lowered and simplified a wide range of tariffs and relaxed food-related export restrictions. That said, some measures have been extended or introduced. Active negotiations of bilateral trade agreements are welcome. The rupee's exchange rate has exhibited increasing two-way movements in recent months. However, significant (though generally declining) FXI has continued in periods not marked by destabilizing risk premia, potentially impeding the exchange rate's role as an absorber of external shocks.

4. Despite some progress in structural reform implementation, important reform initiatives continue to face challenges. Recent initiatives to enhance skills and use technology to strengthen learning 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. The rollout of the CCTS with emission intensity targets for obligated entities is welcome. However, there has been limited progress on agricultural, product, and labor market reforms.

Annex II. External Sector Assessment

Overall Assessment: 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. External vulnerabilities stem from weakening external demand, geoeconomic fragmentation, and potentially volatile global financial conditions and commodity prices. Reflecting buoyant services exports and declining oil prices, the CA deficit is projected to remain smaller than its estimated norm in FY2025/26 but converge close to it over the medium term given India's development needs. Although recent steps toward opening reflect the authorities' approach to gradual and calibrated liberalization, India's trade and capital account regimes remain relatively restricted, weighing on both exports and imports.

Potential Policy Responses: In the near term, continued strength in private consumption will contribute to decreasing the CA balance. To facilitate external rebalancing, priority should be given to further reducing import restrictions, especially on intermediate goods, while continuing to improve the business environment to boost private investment and liberalize the FDI regime. These efforts should be complemented by the development of trade infrastructure and expansion of trade networks. 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 periods marked by destabilizing risk premia.

<table>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. India's NIIP improved to −9.6 percent of GDP in 2024, from −10.5 percent of GDP in 2023, reflecting valuation changes and nominal GDP growth offsetting the impact of the CA deficit. Gross foreign assets declined to about 27.9 percent of GDP (from 28.1 percent of GDP in 2023), while gross foreign liabilities declined to about 37.5 percent of GDP (from 38.6 percent of GDP in 2023). The bulk of assets were in the form of official reserves and FDI, whereas liabilities included mostly debt and FDI.

Assessment. With the CA deficit below its norm in FY2024/25 and projected to gradually widen towards it, the NIIP-to-GDP ratio is expected to decline modestly over the medium term, as robust nominal GDP expansion will mitigate 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.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: -9.6</td><td>Gross Assets: 27.9</td><td>Debt Assets: 4.4</td><td>Gross Liab.: 37.5</td><td colspan="2">Debt Liab.: 19.2</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit declined to 0.6 percent of GDP in FY2024/25, from 0.7 percent of GDP in the previous year, driven by buoyant services exports and inward remittances. Gross domestic investment and savings remained broadly stable at 33.4 and 32.6 percent of GDP, respectively. While declining, trade restrictions are still weighing on both exports and imports. The CA deficit is projected to increase to about 1.0 percent of GDP in FY2025/26, largely reflecting resilient domestic demand and a slowdown in external demand. Over the medium term, the CA deficit is projected to widen to around its norm of -2 percent of GDP.

Assessment. The EBA cyclically adjusted CA balance is projected at −0.4 percent of GDP in FY2024/25. The EBA CA model estimates a norm of −2.0 percent of GDP, with a standard error of 0.7 percent. IMF staff thus assesses the CA gap to be 1.6 percent of GDP, within a range of 0.9 to 2.3 percent of GDP. Positive policy contributions to the CA gap stem mostly from the fiscal balance, while negative contributions come mostly from domestic private credit.</td></tr>
<tr><td>2024/25 (% GDP)</td><td>CA: -0.6</td><td>Cycl. Adj. CA: -0.4</td><td>EBA Norm: -2.0</td><td>EBA Gap: 1.6</td><td>Staff Adj.: 0.0</td><td>Staff Gap: 1.6</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. 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 a strategic shift by international equity investors, reassessment of the U.S. monetary policy outlook, and elevated global uncertainty triggered portfolio investment outflows in the second half of 2024. As of March 2025, the REER was about 2.6 percent below its 2024 average.

Assessment. The IMF staff CA gap implies a REER gap of −9 percent (with an estimated semi-elasticity of 0.18). EBA REER index and level models suggest an overvaluation of 5.4 percent and 4.1 percent, respectively. Consistent with the staff CA gap, however, the IMF staff projects the REER gap to be in the range of −12.8 to −5 percent, with a midpoint of −9 percent, for FY2024/25.</td></tr>
</table>

Capital and Financial Accounts: Flows and Policy Measures	**Background**. In FY2024/25, net FDI inflows have decreased to an almost zero balance, as steady gross inflows were offset by rising disinvestment and outward FDI. Net portfolio investment inflows and outflows were also almost evenly balanced at 0.1 percent of GDP, reflecting large equity outflows in late 2024, despite significant bond inflows in the wake of India's inclusion in global bond indices. During the year, the Indian authorities widened the scope of government bonds available for foreign investors and relaxed FDI restrictions. **Assessment**. The expected rebound in net FDI inflows is projected to cover more than half of the CA deficit over the medium term. Still, the compression of net FDI inflows in FY2024/25 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.
FX Intervention and Reserves Level	**Background**. Official FX reserves increased overall in FY2024/25. 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 $646.4 billion at end-FY2023/24 to $668.3 billion at end-FY2024/25, reflecting increases through September followed by a decline in the following months on equity outflows. **Assessment**. Official FX reserves are adequate for precautionary purposes. At end-FY2024/25, they represented about 209 percent of short-term debt (on residual maturity), about 107 percent of the IMF's composite metric, and over eight months of import coverage. In view of India's generally deep and liquid FX markets, limited FX mismatches, and well-anchored inflation expectations, FX interventions should be limited to periods marked by destabilizing risk premia.

Annex III. Nowcasting with a Machine Learning Approach[1]

1. A nowcasting tool based on machine learning can make use of the wealth of available high-frequency indicators. There is a large number of monthly-frequency indicators that gauge various aspects of India's diverse economy. These high-frequency indicators can be useful for assessing the economy in real time and ahead of official statistics releases. We develop a nowcasting procedure for quarterly GDP growth based on machine learning models trained on selected high-frequency indicators (Table 1). Compared with traditional time-series models, the machine learning approach allows us to synthesize a large number of variables that are conceptually very different, from exports orders to consumer sentiments. Machine learning models also offer the flexibility to capture complex, non-linear relationships and to natively identify relevant variables from a large number of candidates, without requiring a pre-specified functional form or manual variable selection. Our goal is to use these models to provide a monthly forecast of current-quarter GDP growth, as the official statistics are published 60 days after the end of the quarter.

Table 1. India: Monthly-frequency Economic Indicators

Category	Selected Variables
Prices	Consumer Price Index (CPI), CPI Food & Beverages, CPI Core, Wholesale Price Index (WPI)
Production	Industrial Production Indexes (IP), Cement Output, Steel Output, Electricity Generation, Manufacturing PMI, Services PMI
External	US Economic Policy Uncertainty, Merchandise Exports, Merchandise Imports, Service Exports, Service Imports, Foreign Exchange Reserves, REER, Petroleum Imports, Crude Oil Price
Finance	Consumer Credit, Corporate Credit, Bank Deposits, SENSEX Index
Surveys	Consumer Confidence Index, Manufacturing New Orders (PMI), Services New Business (PMI), Economic Policy Uncertainty Index
Employment	Urban Unemployment Rate, Rural Unemployment Rate, MGNREGA Work Demand
Fiscal	Goods and Services Tax (GST), Gross Tax Receipts, Government Expenditure
Transportation	Passenger Traffic, Cargo Traffic, Railway Traffic
Agriculture	Stock of Foodgrains, Rice Stock, Wheat Stock

2. We employ a suite of different machine-learning models to optimize model performance. The models include Elastic Net (ENet), Kernel Ridge Regression (KRR), Support Vector Machine (SVM) Regression, and Random Forest (RF). ENet is a linear model that combines the L1 (penalty based on the absolute values of the coefficients) and L2 (penalty based on the squared levels of the coefficients) regularizations, which enables both variable selection and shrinkage. KRR applies the L2 regularization that penalizes large coefficients on kernel-based nonlinearly-transformed variable space. SVM Regression fits a linear function to a kernel transformed variable space in a tradeoff that balances model sophistication and prediction error. RF aggregates forecast from decision trees fitted on random samples of the data and random subsets of the dependent variables.

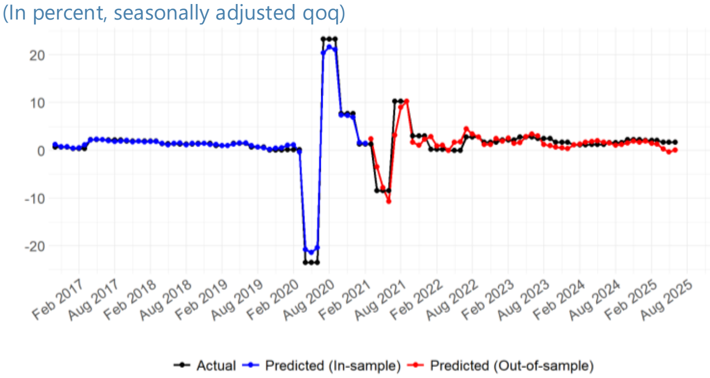
[1] Prepared by Ni Wang (APD), with contributions from Fang Li (APD) and Margarida Martins (STA).

3. The models are tuned using expanding-window cross-validation, and an ensemble forecast is constructed by aggregating individual models' forecasts. In the expanding-window cross-validation, we fit the models using an initial window of observations as the training set and calculate the one-month-ahead prediction error. Then, we expand the window with the next two months' data and again calculate the prediction error, repeating until the sample is exhausted. The hyperparameters are optimized by minimizing the residual mean squared error (RMSE) across these trainings. Expanding-window cross-validation preserves the temporal order of the data and prevents leakages of "future" data into the training sets. The final models are fitted using the optimal hyperparameters on the full sample. Finally, we create an ensemble forecast by averaging the individual models' forecast weighed by the inverse of their average RMSEs from the cross-validation.[2]

4. Before obtaining our final forecast, we compare the performance of the machine learning procedure with the commonly used ARIMA model using honest[3] out-of-sample predictions and show that the machine learning procedure performs better. We train the machine learning models using data until end-2020 and aggregate the model predictions for the subsequent months (test set) into ensemble predictions. Figure 1 shows the in-sample fit and the out-of-sample predictions of seasonally adjusted q-o-q GDP growth using the ensemble model, and compares it with the actual outturns up to 2025Q2. The machine learning procedure is able to predict the large movements of q-o-q GDP growth in 2021 without a lag, and it has a much smaller RMSE over the test set than an optimally fitted ARIMA model.

Figure 1. India: Honest Out-of-Sample Prediction Performance

Real GDP Growth: Ensemble Predictions and Actuals
(In percent, seasonally adjusted qoq)



Out-of-sample Prediction RMSE	
Ensemble	1.6
ARMA(5,1)	2.8

Note: ARMA(5,1) is the optimal model selected by the corrected Akaike Information Criterion.

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

[2] See Stock and Watson (2006) for a discussion of forecast averaging.

[3] Honest out-of-sample predictions are predictions on data not used in any part of the training.

5. The final models trained on all available data until June 2025 predict robust growth for 2025Q3 (FY26Q2). Figure 2 shows the RMSEs from cross-validation for the four individual models. For all models, the average RMSEs are lower than 0.7 percentage points, and Random Forest stands out with the lowest average RMSE.[4] The forecasts for 2025Q3, based on data in July, August, and September, respectively, are presented in the text table and Figure 2. The ensemble model predicts continued growth momentum, with the y-o-y growth projection at well over 7 percent in FY26Q2.

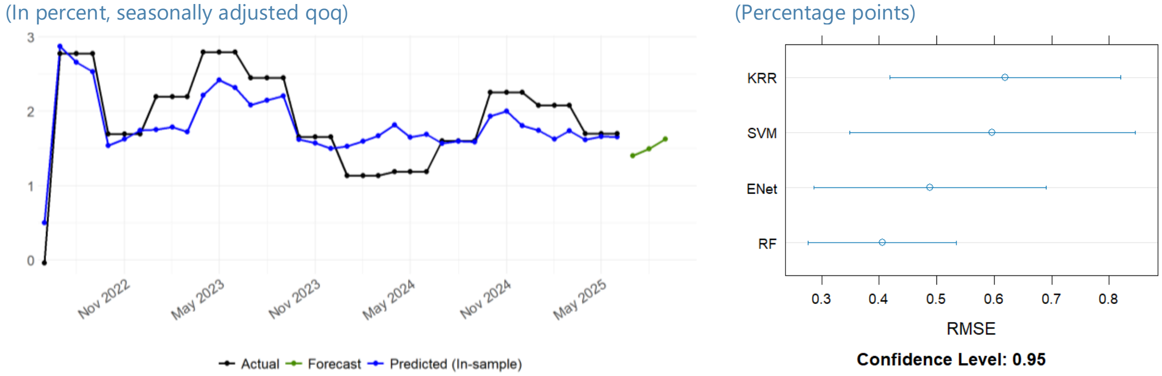
India: Growth Forecast
(In percent)

2025Q3 (FY26Q2)	July	August	September
SA Q-o-Q	1.4	1.5	1.6
SA Y-o-Y	7.6	7.7	7.9
NSA Q-o-Q	1.1	1.1	1.3
NSA Y-o-Y	7.7	7.8	7.9

Figure 2. India: Fit of the Final Models

Real GDP Growth: Ensemble Predictions and Actuals
(In percent, seasonally adjusted qoq)

RMSE from Cross-Validation
(Percentage points)



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

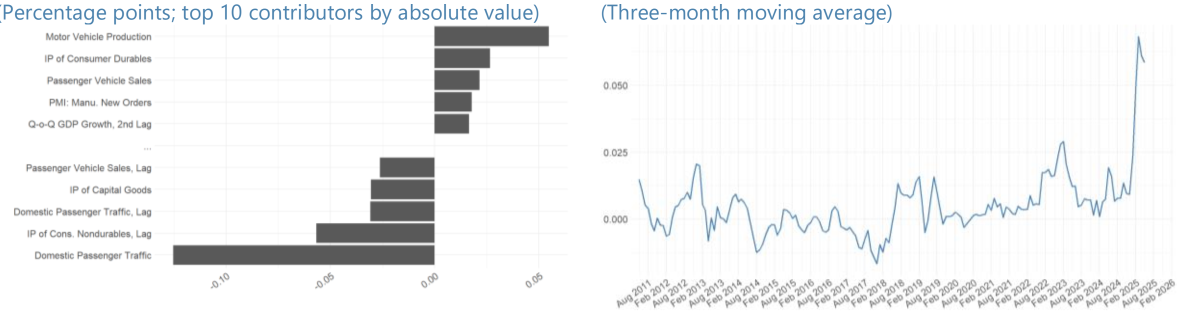
6. The predictions can be interpreted by variable contribution and by historical proximity. The left panel of Figure 3 presents the 10 independent variables with the highest absolute values of Shapley values—a measure of a given variable's contribution to the forecast—for the September forecast. Apart from the autoregressive terms, production of motor vehicles and consumer durables, sales of passenger vehicles, and manufacturing new orders push up the forecast, while domestic passenger traffic, production of consumer nondurables and capital goods, and August's passenger vehicle sales are linked with downward pressure on growth. The right panel of Figure 3 shows the proximity of the forecast to all historical periods (Goulet Coulombe et al. 2024). The ensemble model suggests that the September forecast is highly similar to the previous quarter.

[4] We use the ensemble forecast instead of the forecast of the lowest-RMSE model (in this case, RF), because ensemble can be more robust to model uncertainty and reduce overfitting. In the honest out-of-sample prediction exercise (¶14), the ensemble performs better than any individual model.

Figure 3. India: Interpretations of the Forecast

Shapley Values for Top Contributors
(Percentage points; top 10 contributors by absolute value)

Proximity of Forecast to History
(Three-month moving average)



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

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Annex IV. Risk Assessment Matrix[1]

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
Domestic Risks			
Faster Conclusion of Trade Negotiations.	Medium	Faster conclusion of trade agreements with key partners to lower bilateral trade barriers and deepen economic integration will attenuate trade policy uncertainty, boost business and employment opportunities, facilitate efficient factor allocation, and strengthen technology diffusion.	Complement the trade agreements with horizontal reforms to remove red tape, liberalize factor markets, and improve business climate. Continue to enhance physical and digital infrastructure to facilitate trade and foreign investment.
Stronger Progress on Structural Reforms.	Medium	Faster implementation of structural reform domestically could boost employment and private investment, raising 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. Advance social safety net and human capital reforms to ensure inclusive growth.
Adverse Shock to Household Confidence or Wealth	Medium	A sharp decline in household confidence or net wealth, potentially induced by heightened uncertainty, weakening stock market performance, or tightening of credit standards, could slow down private consumption and economic activity.	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 with the target.
Materialization of Fiscal Risks.	Medium	Sharp increase in commodity prices and/or the realization of contingent liabilities weakens the fiscal position and could lead to higher 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.
Climate Change and Extreme Weather Events.	Medium	Rising temperatures, increased rainfall variability, and intensified extreme weather events damage infrastructure, increase inflationary pressures, cause water and food shortages, worsen 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 and market-based agriculture. Ensure adequate protection of the vulnerable.

[1] 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
External Risks			
Escalating Trade Measures and Prolonged Uncertainty.	High	Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth.	Expand trade networks and deepen trade integration through trade agreements with bilateral and regional partners. Reduce trade restrictions to facilitate GVC integration. Provide stable and predictable policy frameworks to attract FDI, including through new bilateral investment treaties. Allow exchange rate flexibility to absorb the shocks. Adjust monetary policy in line with economic developments.
Commodity Price Volatility.	High	Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures.	Diversifying supply chains, 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.
Financial Market Volatility and Correction.	High	Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	Enhance the credit risk management framework for banks and liquidity regulations and oversight for NBFCs; broaden policy options for providing systemic liquidity support and ELA in a crisis; and maintain exchange rate flexibility to absorb external shocks. In case of a significant impact on India's economy, use available fiscal/monetary policy space to support economic activity and the vulnerable. If the FX market becomes shallow, leading to destabilizing premia, FX interventions can be used as a complementary tool.
Geopolitical Tensions.	High	Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	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. In case of a significant impact on India's economy, use available fiscal/monetary policy space to support economic activity and the vulnerable.
Cyberthreats.	High	Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	In preparation, further improve the cybersecurity infrastructure and ensure adequate funding in critical sectors like banking, energy, telecom, and transportation. Conduct regular cyber resilience stress tests.

Annex V. Debt Sustainability Assessment

Figure 1. India: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	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. This DSA is only a moderate update on the DSA in the 2024 Article IV report published in February 2025, as much of the underlying data is released annually.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed to be moderate, in line with the mechanical signals. Debt is likely to stabillize 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.	...	
Long term	...	High	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.
Sustainability assessment 2/	Not required for surveillance countries		
Debt stabilization in the baseline			Yes

DSA Summary Assessment

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. 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.

Source: Fund staff.

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.

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.

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.

Figure 2. India: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	No	
	3	Social security funds (SSFs)	No	
	4	State governments	Yes	
	5	Local governments	No	See commentary below
	6	Public nonfinancial corporations	No	
	7	Central bank	No	
	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

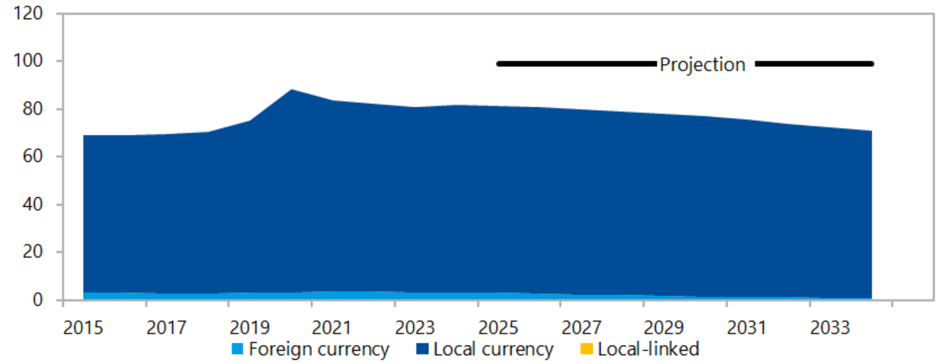
Issuer \ Holder			Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt				3181					3181
	2	Extra-budget. funds									0
	3	Social security funds									0
	4	State govt.	5816								5816
	5	Local govt.									0
	6	Nonfin pub. corp.									0
	7	Central bank									0
	8	Oth. pub. fin. corp									0
		Total	5816	0	0	3181	0	0	0	0	8996

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: This SRDSA covers the central and state government. Authorities are working to expand the perimeter of public debt statistics to include local government. The debt of these municipal corporations is small, estimated at 0.05 percent of GDP in 2021/22. While this SRDSA perimeter does not aim to cover the NFPS, budgeted CG debt includes debt issued by SOEs that is fully serviced by the Government of India.

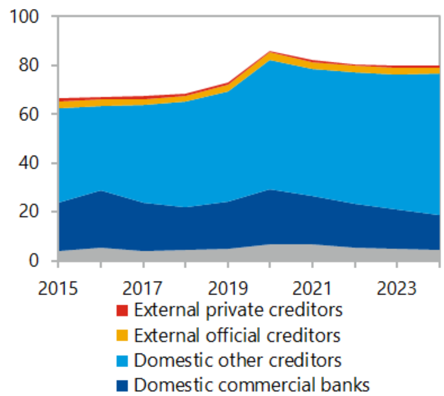
Figure 3. India: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



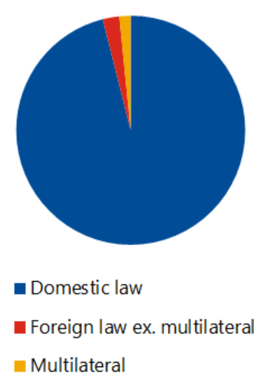
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



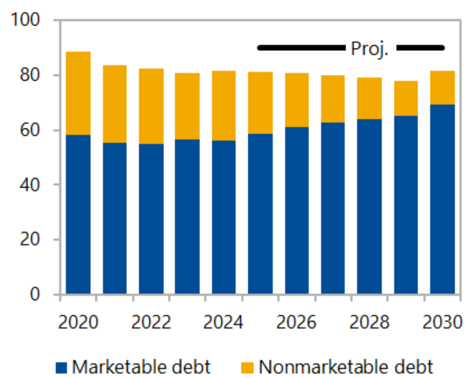
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



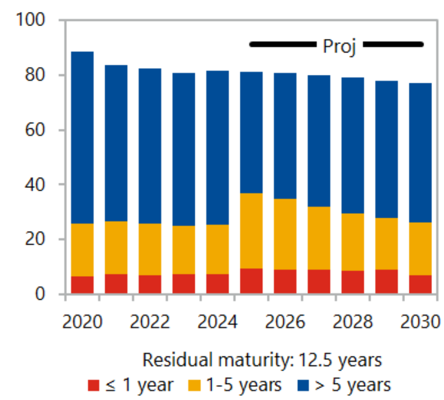
Note: The perimeter shown is general government.

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 is mainly on concessional terms. The inclusion of India in global bond indices in June 2024 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.

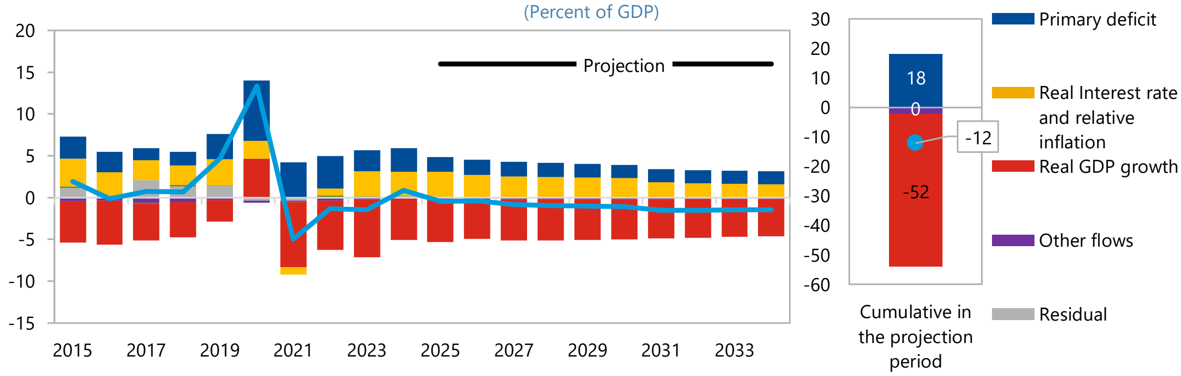
Figure 4. India: Baseline Scenario

(Fiscal Year, percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	81.6	81.1	80.7	79.9	79.0	78.0	76.9	75.4	73.9	72.4	71.0
Change in public debt	0.9	-0.5	-0.4	-0.8	-0.9	-1.0	-1.1	-1.5	-1.5	-1.5	-1.5
Contribution of identified flows	0.7	-0.5	-0.4	-0.8	-0.9	-1.0	-1.0	-1.5	-1.5	-1.5	-1.5
Primary deficit	2.9	1.7	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Noninterest revenues	20.4	20.1	20.1	20.2	20.3	20.4	20.5	20.5	20.5	20.5	20.5
Noninterest expenditures	23.3	21.9	21.9	22.0	22.0	22.1	22.1	22.1	22.1	22.1	22.1
Automatic debt dynamics	-2.0	-2.0	-2.0	-2.3	-2.4	-2.4	-2.4	-2.9	-2.9	-2.9	-2.9
Real interest rate and relative inflation	2.9	3.1	2.7	2.6	2.5	2.4	2.4	1.8	1.7	1.6	1.6
Real interest rate	2.8	3.1	2.7	2.5	2.4	2.4	2.3	1.8	1.7	1.6	1.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-4.9	-5.1	-4.7	-4.9	-4.9	-4.8	-4.8	-4.7	-4.6	-4.5	-4.4
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.1	-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	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contribution of residual	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	14.1	11.9	15.5	15.4	15.2	14.8	15.5	13.1	12.1	11.6	11.4
of which: debt service	11.3	10.3	13.8	13.7	13.6	13.2	14.0	11.6	10.6	10.1	9.9
Local currency	11.0	10.0	13.5	13.5	13.3	13.0	13.8	11.4	10.5	10.0	9.8
Foreign currency	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	6.5	6.6	6.2	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Inflation (GDP deflator; percent)	3.1	1.8	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal GDP growth (percent)	9.8	8.5	10.1	10.7	10.7	10.8	10.8	10.8	10.8	10.8	10.8
Effective interest rate (percent)	7.0	5.9	7.4	7.4	7.4	7.3	7.3	6.6	6.5	6.4	6.4

Contribution to Change in Public Debt

(Percent of GDP)

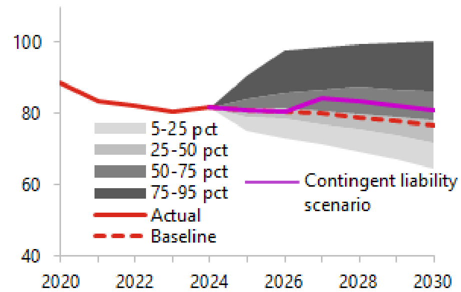


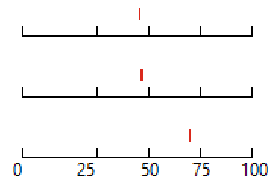
Commentary: While remaining elevated, public debt will gradually decline over the medium term. The decline reflects continued fiscal consolidation and a favorable interest-growth differential. Debt projections are broadly the same as the 2024 Article IV Consultation. Gross financing needs are expected to decline but remain high, averaging 13.5 percent of GDP. Notably, estimates of gross financing needs have been revised up compared to the 2024 Article IV consultation, reflecting higher local-currency debt service. Other transactions capture proceeds from asset sales.

Figure 5. India: Medium-Term Risk Assessment

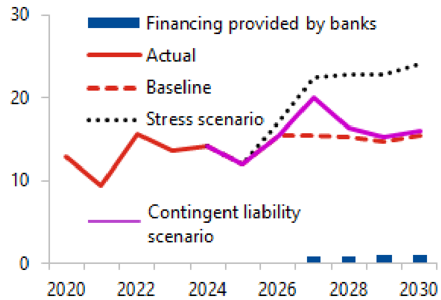
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	35.6	0.5	
Probability of debt non-stabilization *(percent)*	22.2	0.2	
Terminal debt-to-GDP x institutions index	43.0	0.9	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		Moderate	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	14.7	5.0	
Initial Banks' claims on the gen. govt *(pct bank assets)*	26.7	8.7	
Chg. In banks' claims in stress *(pct banks' assets)*	0.7	0.2	
GFN financeability index (GFI)		13.9	
Risk signal: 4/		Moderate	

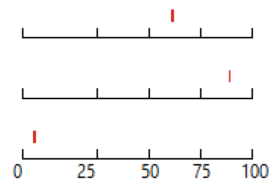
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

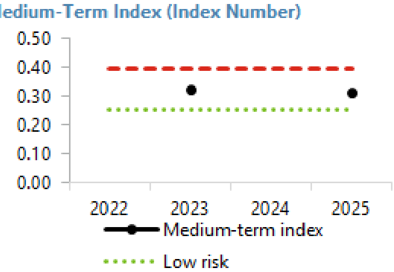




Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

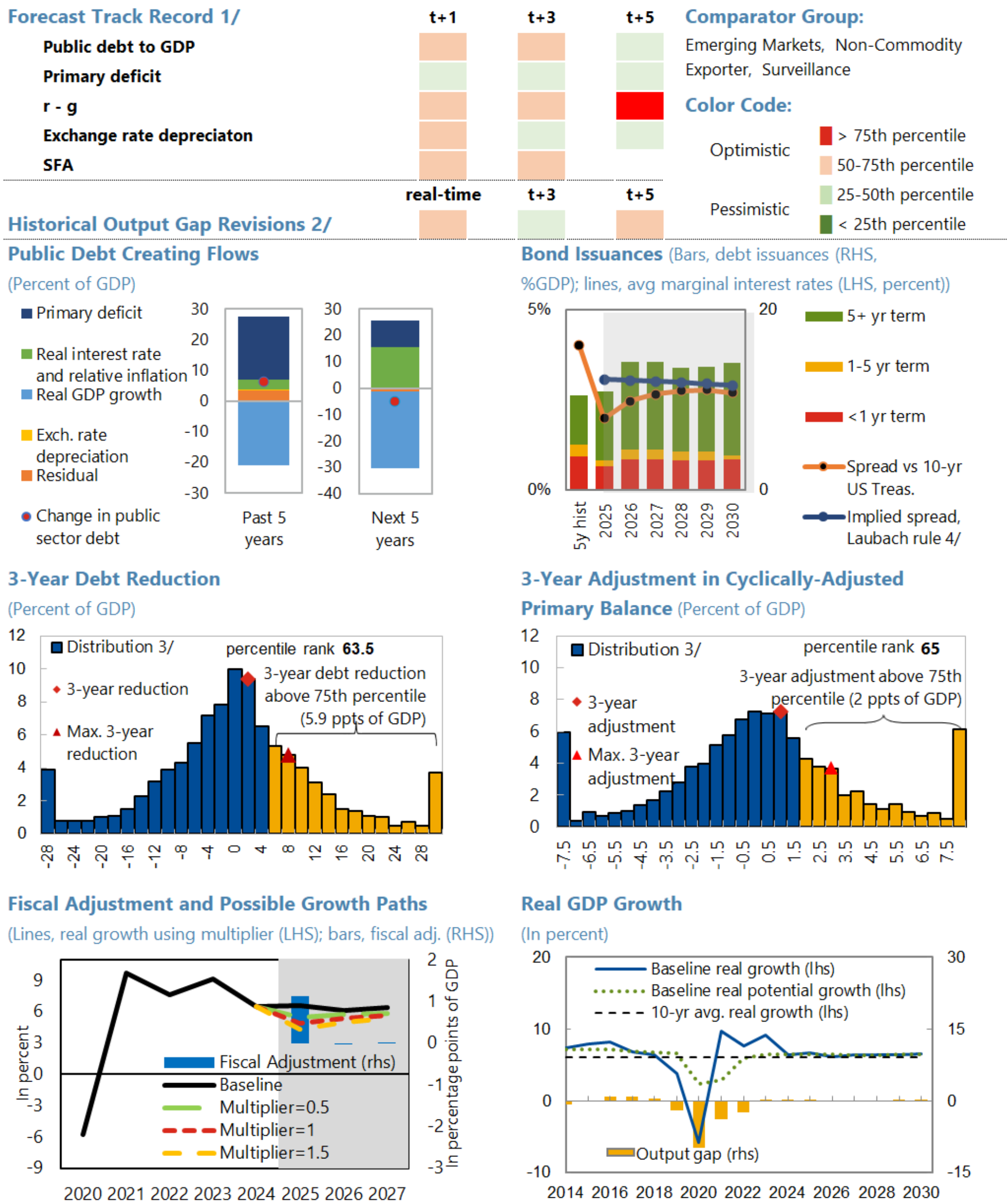
	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	13.9	0.3	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 25.0 pct.

Commentary: Both indicators suggest a moderate risk of sovereign stress over the medium term. Debt is expected to decline under the baseline and hence is likely to stabilize in the medium term, but at an elevated level. The probability of debt non-stabilisation and average gross financing needs under the baseline are broadly the same as the last assessment. Possible debt trajectories under shock scenarios are skewed towards higher debt levels, reflecting the prevalence of negative shocks historically. Banks' claims on government are substantial, but banks are sufficiently healthy, liquid, and willing to act as a residual financier for the government. The increase in gross financing needs under the stress scenario is sizeable, encompassing a range of downside scenarios including escalation of trade tensions. The small change in banks' claims in the stress scenario reflects the low level of financing by non-residents. Contingent liabilities, including those related to government guarantees (4.9 percent of GDP for the central and state governments) and electricity distribution companies (2.3 percent of GDP) increase debt sustainability and financing risks.

Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

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.

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 obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

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

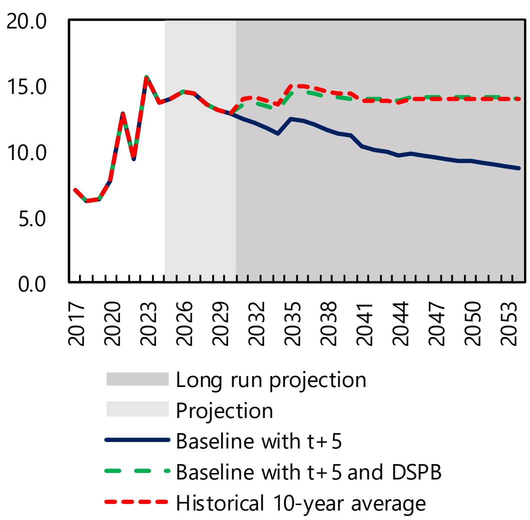
Large amortizations	Pensions	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

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

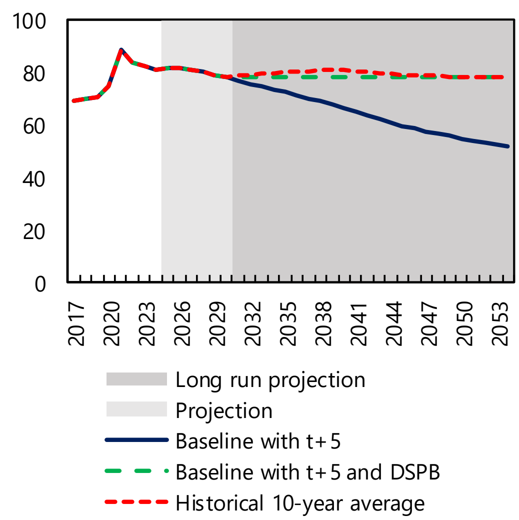
Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio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

Variable	**2030**	**2034 to 2038 average**	**Custom Scenario**
Real GDP growth	6.5%	6.5%	6.5%
Primary Balance-to-GDP ratio	-1.6%	-1.6%	-1.6%
Real depreciation	-3.3%	-1.9%	-1.9%
Inflation (GDP deflator)	4.0%	4.0%	4.0%

GFN-to-GDP Ratio

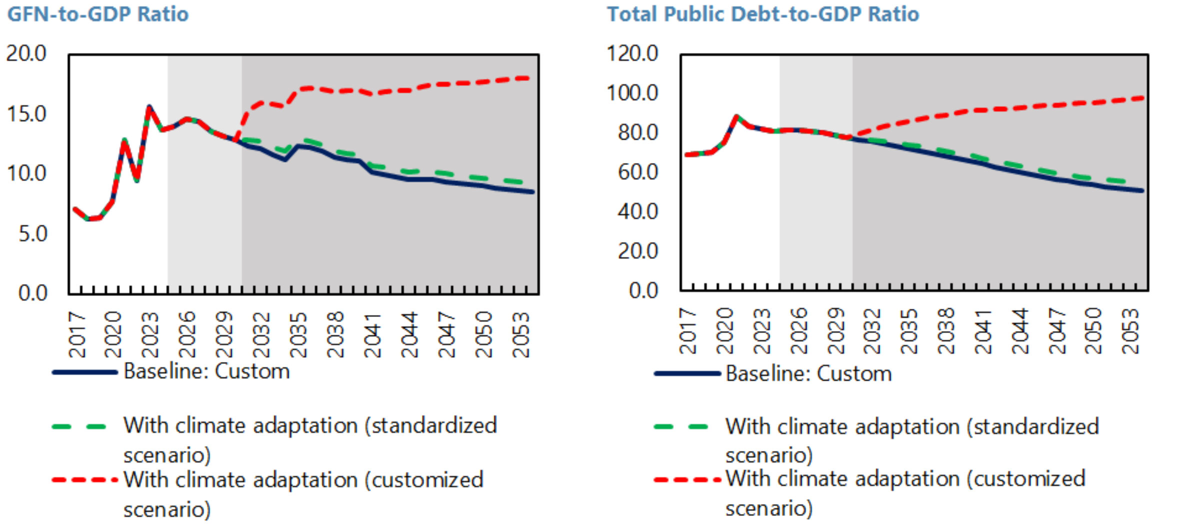


Total Public Debt-to-GDP Ratio



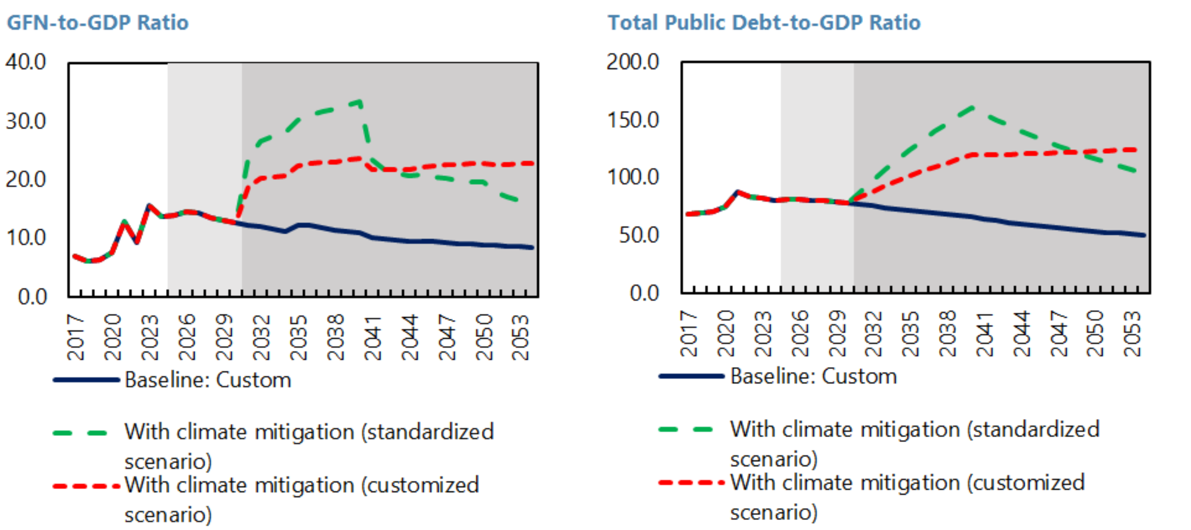
Commentary: Gross financing needs have fallen from their pandemic-related peak. This trend is expected to continue over the medium and long term as the deficit narrows. Similarly, fiscal consolidation and a favorable-interest growth differential will gradually reduce debt. Notably, the deficit is expected to fall below the debt stabilising level in this fiscal year, FY2025/26.

Figure 8. India: Climate Change: Adaptation



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



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 VI. Ongoing Work to Improve Real Sector Statistics[1]

India is updating its national accounts and CPI compilation. This work is expected to address existing methodological shortcomings and improve the accuracy of economic data for monitoring and policy design. The planned publication date for the updated series is February 2026.

1. Several methodological improvements are expected to be implemented in the context of updated national accounts series. These are expected to address key current shortcomings (Annex VII). Planned improvements include:

- Update of the base year from 2011/12 to 2022/23.

- Use of updated data sources to better capture the structural changes in the economy, including the updated household consumption and expenditure survey (HCES), annual survey of unincorporated sector enterprises (ASUSE), periodic labor force survey, annual survey of industries, all-India debt and investment survey, and updated rates and ratios from other studies, while the use of additional administrative data sources is being explored (goods and services tax data, public finance management system data, e-Vahan portal data, and petroleum sector data).

- Improve the volume estimates, through compilation at a more detailed level and expansion of the use of volume extrapolation or, where feasible, double deflation techniques, to minimize the use of single deflation. In addition, data for the planned producer price index should be considered for use in national accounts where suitable.

- Assessment of the use of the supply and use tables as compilation framework at the annual frequency, as well as further alignment of the compilation techniques used in the quarterly national accounts compilation with international recommendations, including the development of seasonally adjusted estimates and analysis of benchmarking techniques. Additional efforts to improve quarterly GDP estimates include the industrial production index (IPI) update, with updated weights and base year aligned with the national accounts, and consideration of an update of the services production index.

- Updating the base year and implementing the outlined methodological improvements aims to ensure that methods and 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, for example, the use of an outdated structure of relative prices.

2. Progress is also underway in the update of the CPI series. The CPI base year is being updated to 2024, with weights based on the 2023-24 HCES. Methodological improvements

[1] Prepared by Margarida Martins (STA).

expected to be implemented include enhanced sample size (market and outlets coverage), data collection using computer assisted personal interviews and cloud-based compilation software, index compilation using better technology platforms, further improvement in compilation methodology (imputed housing rents, quality adjustment, and free food items), exploring the use of additional data sources (data from e-commerce platforms, airfare online platforms, and administrative sources), and implementation of the latest international classification (COICOP 2018). Updating the current, outdated base year, items basket, and weights (2011/12) aims to improve the accuracy of the CPI basket in representing current spending habits.

3. **IMF capacity development activities are ongoing to assist in the national accounts and CPI updates**. Targeted activities conducted so far assisted MOSPI in training on the use of the supply and use table framework for the compilation of the base year estimates for national accounts, development of seasonal adjustment estimates, and dissemination practices, as well as in support for the IPI update. A series of other training activities is ongoing, with further assistance planned in the national accounts and CPI areas. Going forward, regular benchmark revisions of national account, price, and other key statistics should be conducted according to international best practices.

Annex VII. Data Issues

Figure 1. India: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

B

Questionnaire Results 2/

Assessment	National Accounts 4/	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		
			A		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.
4/ Given the issues related to coverage, a higher weight is applied to coverage relative to granularity and frequency, thus resulting in an overall "C" rating for national accounts.

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. Main methodological issues are related to 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 the 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 granularity, further breakdown of Gross Fixed Capital Formation by institutional sector (published with a significant lag) and further disaggregation of the quarterly production and expenditure approach estimates would allow for a more detailed analysis of economic trends. On **price statistics**, CPI is available at adequate frequency and timeliness. The rating granted to coverage reflects the outdated CPI base year, items basket, and weights (2011/12), implying that the CPI basket likely fails to accurately represent current spending habits.

On **government finance statistics**, the granularity of available data is broadly adequate, while coverage and timeliness can be improved. Consolidated central and state government fiscal data have not been published since mid-2019 (covering outturns for FY2015-16), and consolidated general government data, which would include local government and extrabudgetary funds, are not compiled. However, the RBI publishes a limited set of consolidated fiscal aggregates with a lag of more than one year. Monthly data on fiscal operations for the central government and individual states are published on a timely basis, but consolidated fiscal accounts across all states are available with a long lag.

On the **external sector statistics**, coverage, frequency and timeliness are adequate, while granularity and consistency present room for improvement. The information on international reserves does not include pledged or encumbered assets and foreign exchange swaps, and additional granularity of data on exports and imports of services would be useful for more detailed analysis.

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, households, and systemwide financial interconnectedness. Data reported to the IMF International Financial Statistics (IFS) database lack some granularity in terms of financial instruments and counterparts. Reported Financial Soundness Indicators (FSI) data use outdated reporting forms that lack granularity and could be upgraded based on FSI 2019 Guidelines. Banking sector data are available with a lag of about three quarters, which is behind some other emerging and advanced economies.

Figure 1. India: Data Adequacy Assessment for Surveillance (concluded)

Changes since the last Article IV consultation. Data weaknesses have remained broadly unchanged since the last Article IV consultation, though plans toward upgrading real sector statistics are advancing (see below and Annex VI). The sample design of the Periodic Labour Force Survey was revamped from January 2025, increasing the frequency of key labor market indicators at the country level to monthly estimates and extending quarterly estimates to rural areas. With the release of the March 2025 data (in April 2025), the timeliness of the quick estimate of the industrial production index improved from six weeks to 28 days after the reference month. The timeliness of the Balance of Payments data improved from around 90 to 60 days after the reference quarter with the release of the April-June 2025/26 data (in September 2025). The Reserve Bank of India has taken incremental steps towards fiscal data transparency of the local governments in India through publications of biennial reports, with consolidated fiscal data of the Municipal Corporations (large urban local bodies) and Panchayati Raj Institutions (rural local bodies) in India.

Corrective actions and capacity development priorities. Work to update the national accounts and CPI series is ongoing, with a planned publication date in early 2026. On the national accounts, the rebasing project includes collection of key data sources for the benchmark revision and update of the base year, methodological improvements in the volume estimates (increasing the compilation detail, minimizing the use of single deflation, increasing the number of activities using volume extrapolation or, where possible, double deflation), regular use of unincorporated businesses data to better capture dynamics in the informal sector, and the assessment additional data sources and use of the supply and use framework to reduce discrepancies. The update of the CPI base year, weights, and item basket is in progress, based on the results of the 2023-24 Household Consumption and Expenditure Survey. Priorities for capacity development include support in the compilation of the updated national accounts, CPI, and industrial and services production indices 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. Priority should be considered for the Population Census, last conducted in 2011.

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 September 30, 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[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	India[8]	Expected Timeliness[6,7]	India[8]
Exchange Rates	09/30/25	09/30/25	D	D	D	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/19/25	09/26/25	W	W	M	M	1W	1M
Reserve/Base Money	09/26/25	09/30/25	W	W	M	W	2W	1W
Broad Money	09/05/25	09/17/25	F	F	M	F	1M	2W
Central Bank Balance Sheet	09/19/25	09/26/25	W	W	M	W	2W	1W
Consolidated Balance Sheet of the Banking System	09/05/25	09/18/25	F	F	M	F	1M	2W
Interest Rates[2]	09/30/25	09/30/25	D	D	D	D	D	D
Consumer Price Index	August 2025	09/12/25	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2022/23	12/19/24	A	A	A	A	2Q	9M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	August 2025	09/30/25	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jan-Mar 2025	07/17/25	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Apr-Jun 2025	09/01/25	Q	Q	Q	Q	1Q	2M
Exports and Imports of Goods and Services	August 2025	09/15/25	M	M	M	M	8W	NLT 45D
GDP/GNP	Apr-Jun 2025	08/29/25	Q	Q	Q	Q	1Q	NLT 2M
Gross External Debt	Apr-Jun 2025	09/30/25	Q	Q	Q	Q	1Q	3M
International Investment Position	Apr-Jun 2025	09/30/25	Q	Q	Q	Q	1Q	Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] For India, the general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with 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.

[7] 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.

[8] 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 VIII. 2024 FSAP Key Recommendations

Recommendations	Agency	Timing*
Systemic Risk Monitoring, Analysis, and Coordination, including Climate		
- Ease data sharing and collect more granular data of households, sectoral financial accounts, liquidity indicators of NBFC, and exposures to climate change risks. - Improve/establish stress test tools for banks and NBFCs and sectoral and systemwide liquidity stress tests for banks, NBFCs, and mutual funds.	RBI, SEBI, MoF RBI, SEBI	MT ST
Financial Sector Oversight		
System-wide oversight and macroprudential policy - Designate financial stability as the primary mandate of the FSDC and/or the FSDC-Subcommittee. - Develop a centralized risk dashboard and assess systemwide risks periodically to manage inter-sectoral contagion and the uneven impact of climate change through FSDC. - 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. - Start building the (positive neutral) CCyBs.	FSDC RBI, SEBI, MoF, IRDAI RBI RBI	ST MT ST ST
Common themes for regulation and supervision - Amend legislation to clearly prioritize financial stability and investor protection objectives over developmental objectives of the key regulators. - 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.	RBI, IRDAI, SEBI, MoF	MT
Cybersecurity: 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
Banks - Enforce bank-specific Pillar-2 capital add-ons, which are currently set at zero for all banks. - Enhance the credit risk management framework by adopting IFRS 9 with prudential backstops.	RBI	ST
Insurers: Complete the transition to a risk-based solvency regime and supervisory approach.	IRDAI	ST
Non-bank Financial Companies - Align the regulations for state-owned and private-sector-owned NBFCs. - Enhance liquidity regulations and oversight of liquidity regulations for NBFCs.	RBI	ST MT
Securities: 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
Crisis Management and Resolution		
- Finalize the FSDR (resolution) bill in line with the Key Attributes and implement it. - Reform the resolution framework for insurers to include requirements for (orderly) voluntary exit.	MoF, regulators IRDAI	MT ST
Systemic Liquidity and Emergency and Systemic Liquidity Assistance/Support		
- Continue reducing statutory liquidity ratio (SLR). - 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.	RBI	MT
Financial System Development		
- Continue enhancing the flexibility of priority sector lending (PSL). - Improve the distressed credit restructuring framework by enhancing the out-of-court enforcement process and the Insolvency and Bankruptcy Code. - Introduce covered bond law and create securitization platforms with standardized features.	RBI RBI, MoF MoF, RBI	MT ST MT
* I-Immediate" is within one year; "ST-short-term" is 1–3 years; "MT-medium-term" is 3–5 years.		

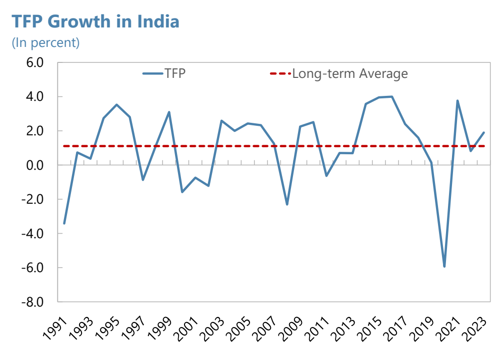
Annex IX. Boosting Productivity and Innovation in India[1]

India's productivity growth has been sizable in recent decades. That said, further increasing productivity growth will be essential to buttress potential economic growth as India strives to become an advanced economy. While productivity in services has grown significantly, productivity in manufacturing has stalled, and there remains great scope to reallocate workers away from low-productivity agriculture. In manufacturing, there are too many small and low-productivity firms, pointing to a need to remove obstacles to firm growth. Subdued business dynamism is also reflected in barriers to entry and exit of firms. More R&D activity, especially among firms, and narrowing the digital divide could boost productivity and innovation. The financial sector could also play a more active role in fostering innovation. Policies should focus on land and agricultural reforms to facilitate the transition from agriculture to manufacturing and services; facilitating the growth of firms, including through less burdensome labor regulation and simplification of product market regulation; increased integration into the global economy through removal of trade barriers and facilitation of FDI; strengthening India's innovative capacity through more and better R&D spending; and further strengthening access to finance for companies eager to innovate.

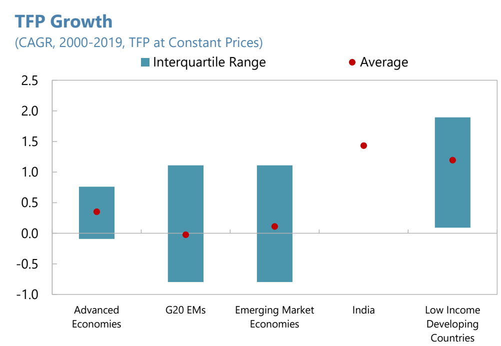
Birds-Eye View: The Case for Higher Productivity Through Sector Reallocation

1. India's productivity growth has been considerable in recent years, but it can increase further. Between 2000 and 2019, India's total factor productivity (TFP) growth averaged 1.4 percent (Figure 1). This growth rate is high compared to emerging markets and advanced economies, partly reflecting India's lower per capita income.[2] Still, India needs to accelerate TFP growth further to achieve its goal of becoming an advanced economy.

Figure 1. India: Total Factor Productivity Growth in India and Peers



Source: IMF staff estimates based on PWT.



Source: IMF staff estimates based on PWT 10.01 (version using China's national accounts).

[1] Prepared by Cristian Alonso, Fang Li, Nujin Suphaphiphat, Ni Wang (all APD) and Jinhyuk Yoo (MCM).

[2] Typically, TFP growth decreases as a country develops, with its firms approaching the technological frontier and resource misallocation declining.

2. TFP growth has been robust in services but flat in manufacturing. A decomposition of sectoral TFP change into within-industry, reallocation across industries, and a residual interaction component shows distinct dynamics for services and manufacturing (Figure 2). Specifically, we define the TFP of sector s as the average of the TFP in log level of each industry i, weighted by each industry's share in sectoral value added. The change in sectoral TFP over time is the sum of the within component, measuring the contribution from changes in industry TFP alone; the across component, measuring the contribution of production reallocation and changes in value added shares of industries; and a residual interaction term of the changes in both the industry TFP levels and the value-added weights.

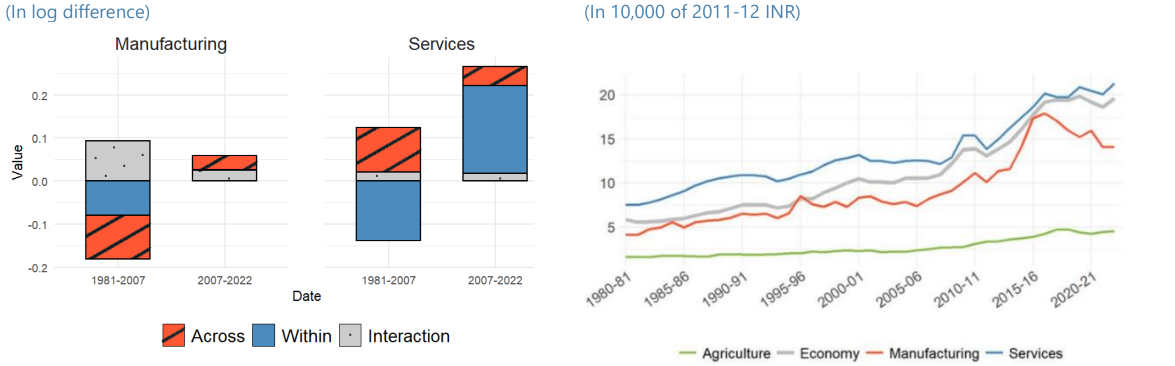
$$\Delta\widetilde{TFP}_s = \sum_i \frac{ValueAdded_i}{ValueAdded_s}\Delta log(TFP_i) + \sum_i \Delta\frac{ValueAdded_i}{ValueAdded_s}\log(TFP_i) + \sum_i \Delta\frac{ValueAdded_i}{ValueAdded_s}\Delta log(TFP_i)$$

During 2007-2022, services industries generally experienced strong TFP growth, with moderate production reallocation towards high-TFP industries. By contrast, manufacturing industries experienced minimal TFP growth and modest reallocation towards more productive industries.

3. There is potential for large productivity gains from reallocating labor from agriculture to manufacturing and services. The marginal product of labor shows a large and widening gap between agriculture and the rest of the economy.[3] As of FY2022/23, the output of an additional worker in services was more than four times that of a worker in agriculture, conditional on comparable education levels. With over 40 percent of workers employed in agriculture, output gains can be substantial if allocation of labor is improved through transitioning agricultural jobs towards manufacturing and services. The slow reallocation of labor away from agriculture reflects structural constraints such as weak property rights on agricultural land (Annex X), fragmented and limited

Figure 2. India: TFP and Marginal Product of Labor by Sector

Decomposing the Change in Sector-level TFP (In log difference) | **Marginal Product of Labor** (In 10,000 of 2011-12 INR)



Sources: India KLEMS; and IMF staff calculations.
Notes: Taking advantage of the underlying constant-return-to-scale Cobb Douglas gross output production function, the marginal product of labor is measured by $MPL_i = \alpha_i \frac{Output_i}{Labor_i}$, where α_i is the labor share in output, output is in real terms, and labor input is the number of employees adjusted by the labor quality index.

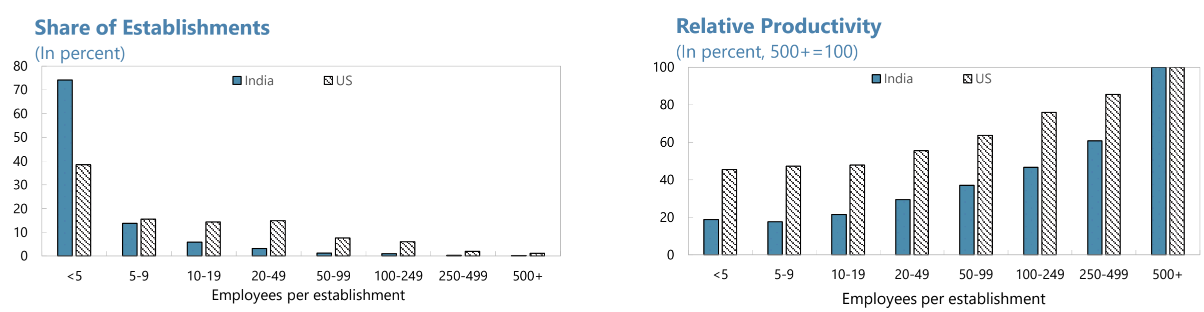
[3] Labor input is adjusted by education, consistent with the India KLEMS methodology.

social protection for migrant workers, lack of transport infrastructure, and limited job creation in manufacturing and services as discussed in more detail below.

Firm Size Distribution: Raising Productivity by Reducing Factor Misallocation Across Firms in Manufacturing

4. India has numerous small establishments with substantial paid employment but relatively low productivity (Figure 3).[4] Nearly three quarters of manufacturing establishments in India employ fewer than five paid workers, compared to 38 percent of manufacturing establishments in the United States. By contrast, less than 2 percent of India's establishments have more than 100 paid workers, whereas 9 percent of American establishments do. Mirroring differences in the size of establishments, India also has a much larger share of employment in small companies than the U.S. Small companies tend to be less productive than large ones, and the relative difference in productivity between large and small firms is much larger in India than in the U.S.: the smallest firms in India are less than 20 percent as productive as large companies, while in the U.S., this ratio is about 45 percent. This puts India at a compounded disadvantage by not only having more small firms employing a larger share of workers, but also by having a much larger productivity drag in these small firms. Small establishments in India do not seem to have a disproportionately young age distribution. This suggests that their size is not due to many new establishments, but rather to challenges in growing and increasing productivity.

Figure 3. India: Manufacturing Establishments in India and the U.S.



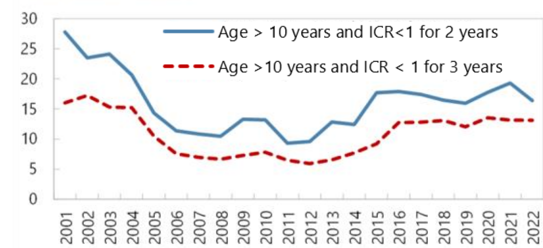
Sources: IMF staff estimates based on ASI 2022/23, ASUSE 2022/23, and U.S. Economic Census 2022.

[4] We examine the size distribution of manufacturing establishments in India by integrating two nationally representative surveys (Annual Survey of Industries, ASI, and Annual Survey of Unincorporated Sector Enterprises, ASUSE). ASI includes establishments registered under the Factories Act, 1948 (generally firms with 10 or more workers), while ASUSE focuses on the unincorporated non-agricultural sector. The combined dataset results in comprehensive coverage of manufacturing establishments in India, regardless of whether they are registered or not, formal or informal, and is similar to the approach in Hasan and Jandoc (2012). We only consider establishments with paid workers and define workers as paid workers, aligning with the US Economic Census definitions for comparability. This excludes a significant number of establishments in India operated by the owner or their family members as unpaid workers. We address the existence of multi-plant establishments in the ASI documented by Anand, Subramanian, and Thomas (2024) by splitting each establishment with n plants into n establishments with average employment and financial variables.

Business Dynamism: Raising Productivity by Facilitating Entry and Exit of Firms

5. Firm dynamism, a key potential engine for productivity, remains subdued in India. In line with other studies (Chatterjee et al, 2025; Sengupta, 2019), staff analysis suggests that firm dynamism in India is relatively low. This is shown by low rates of entry and exit, and a high share of inactive or inefficient firms. Entry and exit rates are estimated at less than 1 percent, far below the 8–13 percent annual rates typically observed in economies like the U.S., European countries, Republic of Korea and Chile.[5,6] Among continuously operating firms, a significant share (15 percent) qualifies as zombie firms,[7] which do not generate enough earnings to cover their interest expenses but continue to operate, mostly with very low levels of productivity. Such persistence of inefficient firms likely reflects structural rigidities in India's business environment, including weak insolvency resolution and limited access to exit mechanisms.[8] Conversely, low entry rates may reflect the high regulatory compliance burdens that discourage entry into the formal sector.

India: Zombie Firms
(In percent of total)



Sources: Orbis; and IMF staff calculations.

6. A decomposition of TFP growth shows limited productivity gains within firms, while inactive firms act as a drag on productivity. The decomposition of TFP growth is based on Melitz and Polanec,

$$\underbrace{\Delta P_t}_{\text{Change in Aggregate productivity}} = \underbrace{\Delta \overline{P_{Ct}}}_{\text{Within-firm productivity}} + \underbrace{\Delta cov_{Ct}(\theta_{it}, p_{it})}_{\text{Inter-firm resource reallocation}} + \underbrace{\theta_{Et}\,(P_{Et} - P_{Ct})}_{\text{Contribution from Entry firms}} + \underbrace{\theta_{Xt}\,(P_{C(t-\tau)} - P_{X(t-\tau)})}_{\text{Contribution from Exit firms}},$$

[5] Based on a dataset of 2,281 Indian firms (Orbis database), excluding finance, insurance, public sector, and micro firms with fewer than nine employees. The exit and entry rates refer to the share of firms exiting and entering during 2018-22 to total numbers of firms. Adilbish et al, 2025 and Asturais et al, 2021 documented entry and exit rates for firms in other countries.

[6] These findings are based on a sample of registered, medium and large formal firms and may not fully reflect the dynamics of India's vast informal or micro-enterprise sector. Data limitations—such as underreporting of firm closures, survivor bias, and inconsistent panel coverage—mean actual entry and exit rates may be higher than recorded.

[7] Defined as companies older than 10 years that have an interest coverage ratio (ICR) of less than 1 for at least two consecutive years. Compared to non-zombie firms, zombie firms in India tended to have fewer employees, higher debt-to-asset ratios, and lower cash and equity.

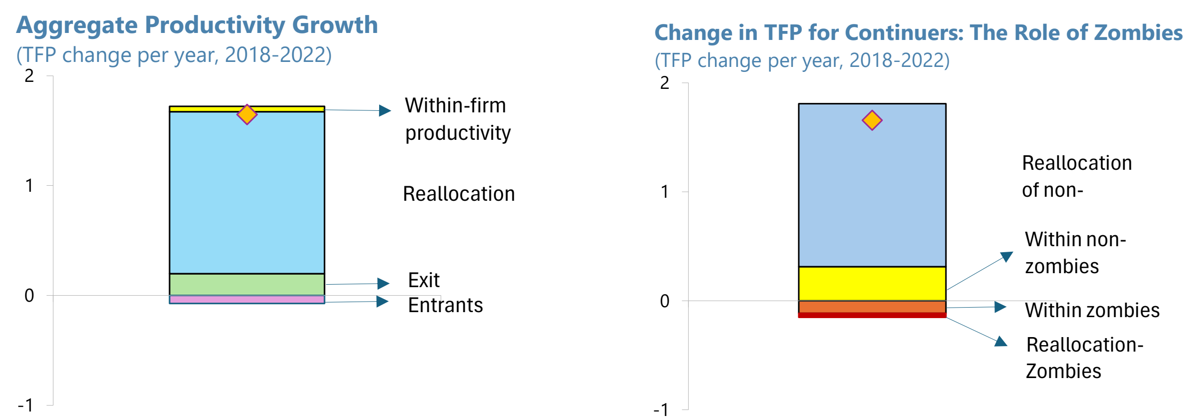
[8] The corporate resolution process remains very slow, with resolution times exceeding double the statutory limit of 330 days (see Box 2). Additionally, a personal insolvency regime has not been made operational, despite the fact that many MSMEs, classified as sole proprietors or sole traders, are subject to personal bankruptcy systems.

where θ_{it} is value-added market share and p_{it} denotes firm-level productivity. Analysis of firm-level TFP during 2018-22 shows that aggregate productivity growth was driven primarily by resource reallocation from less productive firms to more productive ones, while the contribution from productivity improvements within firms was small (Figure 4). Importantly, inactive firms showed declining productivity, thus subtracting from aggregate TFP growth. Meanwhile, the impact of firm entry and exit on productivity was small, reflecting the low rate of business dynamism and underscore the need for reforms that promote easier entry, faster exit, and strengthen insolvency and bankruptcy procedures to accelerate the reallocation process.[9] Overall, these findings point to the critical importance of fostering a more dynamic business environment—where unproductive firms are allowed to exit, and new and innovative firms can grow and thrive.

Figure 4. India: Firm Dynamism and TFP Growth

During 2018-2022, TPF growth has been driven largely by a shift of resources to more productive firms...

...while zombie firms reduced aggregate productivity growth.



Sources: Orbis; and IMF staff calculations.

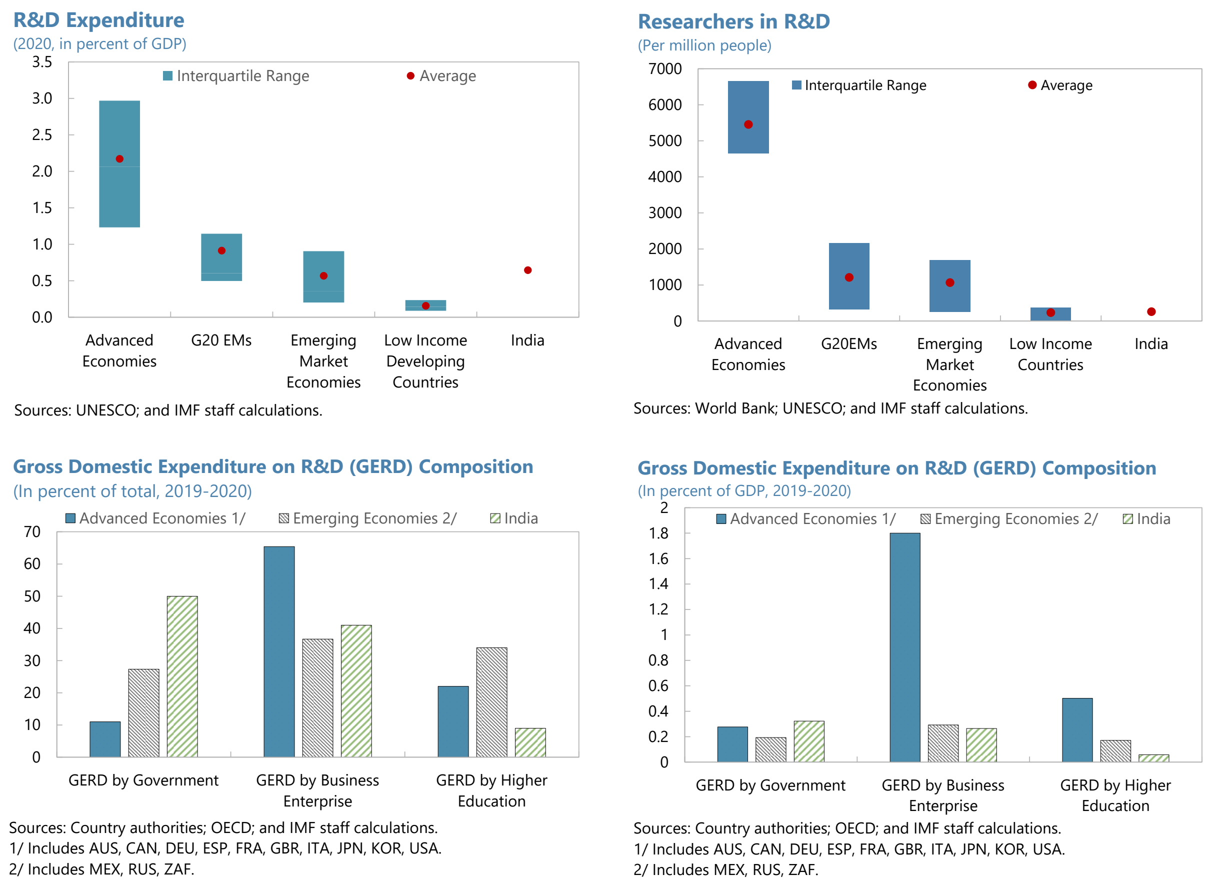
Research and Development: Fostering Innovation

7. India deploys limited resources into research and development (Figure 5). India's R&D expenditure represented only 0.6 percent of GDP in 2020, on par with the EM average, but below the G20 emerging market average of 0.9 percent of GDP and the advanced economies average of 2.2 percent of GDP. As R&D expenditure is generally positively correlated with TFP growth (RBI, 2025; IMF, 2021), a greater focus on R&D spending is needed to underpin future productivity growth. Furthermore, India lags in researchers per capita: there are fewer than 300 researchers per million inhabitants in India, compared to over 1,800 in China, around 1,000 in emerging markets and over 5,000 in advanced economies on average. R&D spending in India is generally needed to adapt and adopt existing technologies, whereas expanding the technological frontier is relevant for selected industries.

[9] The fact that entrants tended to have lower-than-average productivity may reflect start-up periods with limited sales.

8. **Most R&D expenditure is executed by the government, with limited participation from higher education.** About 50 percent of research and development spending is executed by the government in India, (compared to about 10 percent on average in AEs). Higher education institutions in India account for only 10 percent of total R&D spending, which is low compared to peers (Department of Science & Technology, 2023). In the Global Innovation Index, university-industry collaboration in India received a survey score of 3.54—its lowest since 2013 and below the global median.[10] Universities drive innovation by training professionals, conducting research, and enabling real-world applications. Worldwide, many high-tech clusters are found near top universities (European Commission, 2023). Fostering more R&D activities by universities could thus have positive spillovers, whereas more collaboration between universities and industry could support innovation and productivity (Forbes, 2022).

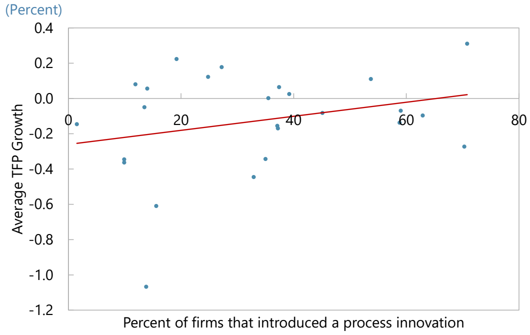
Figure 5. India: R&D and Researchers in India and in the World



[10] Source: World Intellectual Property Organization; scale from 1="not at all" to 7="to a great extent"; data for 2023.

9. Indian firms conduct limited R&D. Only 4.3 percent of Indian firms report having spent resources on R&D, significantly below the 17 percent average across EMs and 13 percent average across LICs (World Bank Enterprise Survey, 2022).[11] Low private sector R&D spending in India results in limited product and process innovation, which tend to be positively correlated with TFP growth across countries. Just 5.3 percent of Indian firms launched a new product and 3.3 percent introduced a new process in the preceding three years, compared to EM averages of 27 percent and 16.8 percent. Indian firms also stand out for their relatively low adoption of foreign technology: merely 5.4 percent of firms utilize technology licensed from overseas companies, which is approximately one-third the average rate observed across EMs. This may be reflective of India's limited FDI: India's stock of inward FDI amounts to 15 percent of GDP, compared to an average of 24.6 percent of GDP across middle income developing economies. Importantly, R&D activity rises significantly with firm size and exporting behavior (Figure 6), indicating the importance of reducing barriers to growth and promoting integration into the global economy.

India: TFP Growth and Firms' Process Innovation
(Percent)



Sources: IMF staff estimates based on PWT and Enterprise Surveys.

10. Larger and more established firms tend to spend more on R&D than other firms. Panel data on Indian corporates confirms that firm size, based on assets or revenues, strongly correlates with R&D spending (Table 1). A concave relationship between age and R&D suggests that older firms are more likely to spend on R&D, but only up to a point. Higher liquidity and interest coverage ratios are also significant, but only in selected specifications, while, perhaps to some extent counterintuitively, higher profitability has a significant negative correlation with R&D spending in two of the specifications.

11. Patenting has accelerated in India, and administrative reforms are making it easier. India ranks sixth globally in annual patent applications, and the per capita rate has grown, but remains low compared to advanced economies (Figure 7). Therefore, there remains potential for continued progress toward achieving aspirational targets. The higher share of residents in patent applications is an encouraging trend. Increased staffing at India's patent office has boosted processing capacity, clearing application backlogs. Between 2013/14 and 2023/24, patent applications doubled, while patents granted rose from about 4,000 to over 100,000 (Sanyal and Arora, 2025).

12. Several government initiatives aim to boost R&D in India. India has gradually reduced its income tax weighted deduction on R&D expenditure from 200 percent in FY2010/11 to 100 percent in FY2021/22, to rationalize the fiscal cost and mitigate concerns over abuse and misreporting

[11] Similarly, only 3 percent of manufacturing establishments spent any resources on R&D according to the ASI 2022/23.

(Kaushik, 2022), shifting instead to more targeted policies.[12] A Patent Box Regime, whereby a concessional 10 percent tax rate is charged on income earned from patents developed and registered in India, offers incentives for patenting, but may also incentivize profit shifting. Customs duties on the import of capital equipment for R&D were reduced in the Union Budget FY2022/23. The government of India has launched the Research, Development and Innovation (RDI) Scheme with an allocation worth 0.3 percent of GDP over 6 years, aiming to spur private-sector investment in strategic and high-growth sectors through long-term, low-cost funding. The Prime Minister's Research Fellowship Scheme, originally launched in 2018, has so far supported 3,688 scholars (PIB, 2025). The aim is to reach 10,000 scholarships over the next 5 years. The authorities have also launched the VAIshwik BHArtiya Vaigyanik (VAIBHAV) Fellowship to foster collaboration between scientists of the Indian diaspora and Indian higher educational institutions. Startup India was launched in 2016 and offers tax exemptions, seed funding, incubation and industry-academia opportunities, and technical assistance. The Atal Innovation Mission aims to provide a culture of innovation and entrepreneurship through Atal Tinkering Labs in schools, Atal Incubation Centres for startups, and various innovation challenges. States are also providing support to innovation, for instance, Kerala Startup Mission, Telangana's T-Hub, Startup Karnataka, and Tamil Nadu's Startup and Innovation Mission. Targeted fiscal incentives can help boost innovation at the technological frontier. R&D tax incentives tend to work better for mature firms, whereas grants are generally more suitable for younger firms and for targeting sectors with high social returns (IMF, 2024). In addition, it is important to complement those efforts with reforms fostering technology adoption and diffusion.

Table 1. India: Firm-level Drivers of R&D Spending

	(1)	(2)	(3)	(4)
	Does R&D		Log Amount of R&D	
Age	0.005***	0.005***	0.005*	0.032***
	(0.000)	(0.001)	(0.003)	(0.007)
Age^2	-0.000***	-0.000***	-0.000	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)
Log Revenues (-1)	0.012***	0.010***	0.245***	0.389***
	(0.001)	(0.001)	(0.034)	(0.031)
Log Assets (-1)	0.020***	0.018***	0.612***	0.401***
	(0.001)	(0.001)	(0.036)	(0.037)
Interest Coverage Ratio (-1)	-0.000	-0.000	0.000***	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Liquidity Ratio (-1)	0.000***	0.000**	-0.000	-0.003
	(0.000)	(0.000)	(0.003)	(0.002)
Profitability (-1)	-0.000***	0.000	-0.000**	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)
R-squared	0.204	0.107	0.560	0.397
Firm Fixed Effects	No	Yes	No	Yes
Industry Fixed Effects	Yes	No	Yes	No
Time Fixed Effects	Yes	Yes	Yes	Yes
Observations	335,660	335,660	36,127	36,127
Firms	39,417	39,417	4,863	4,863

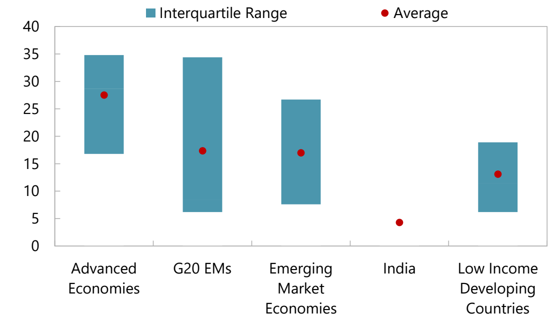
Standard errors (clustered by firm) in parentheses
="* p<0.10 ** p<0.05 *** p<0.01"

Source: IMF staff calculations based on Prowess.

[12] The scheme is estimated to cost 0.01 percent of GDP per year (MoF, 2025).

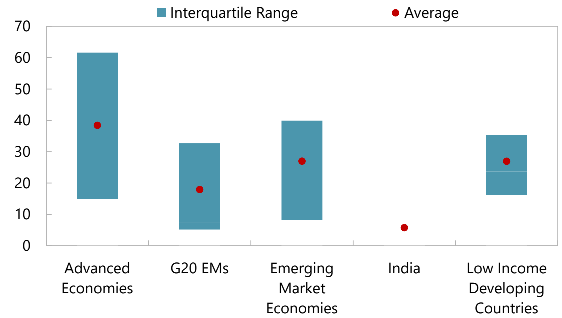
Figure 6. India: Firm-level Innovation

Firms that Spend on R&D
(Percent, 2015-2025)



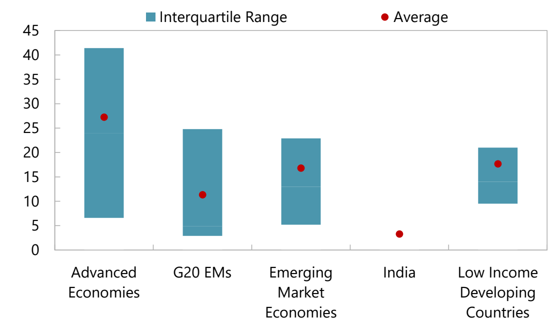
Source: IMF staff estimates based Enterprise Surveys.

Firms that Introduced a New Product or Service
(Percent, 2015-2025)



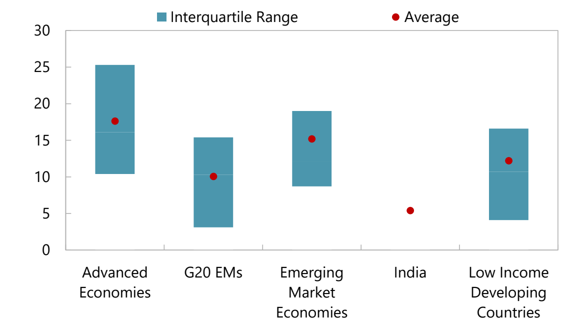
Source: IMF staff estimates based Enterprise Surveys.

Firms that Introduced a Process Innovation
(Percent, 2015-2025)



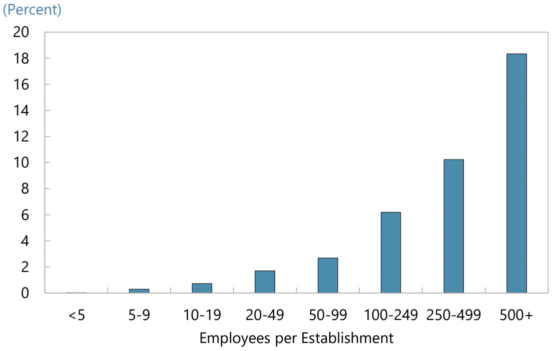
Source: IMF staff estimates based Enterprise Surveys.

Firms Using Technology Licensed from Foreign Companies
(Percent, 2015-2025)



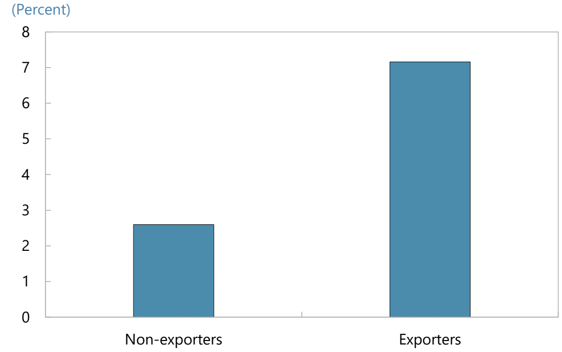
Source: IMF staff estimates based Enterprise Surveys.

Manufacturing Establishments Conducting R&D
(Percent)



Sources: IMF staff estimates based on ASI 2022/23.

Manufacturing Establishments Conducting R&D
(Percent)

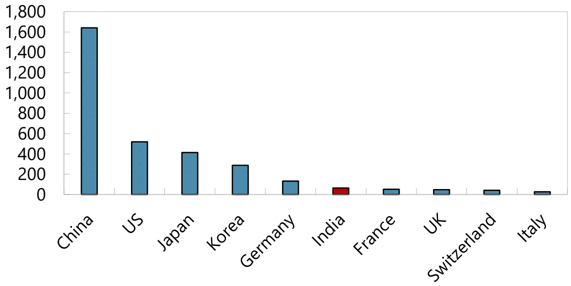


Sources: IMF staff estimates based on ASI 2022/23.

Figure 7. India: Patenting

India: Patent Applications for the Top 10 Origins

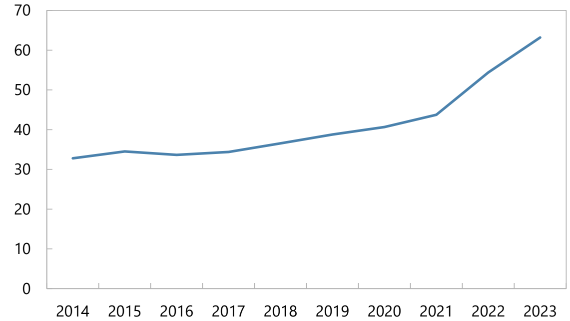
(In thousands, 2023)



Source: WIPO.

India: Total Patent Applications 1/

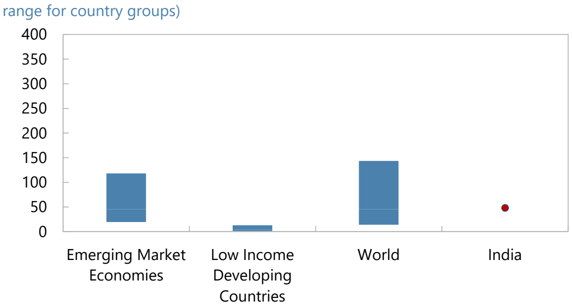
(Per million population)



Sources: WIPO Statistics database, May 2025; and IMF staff calculations.
1/ Includes patent applications by office.

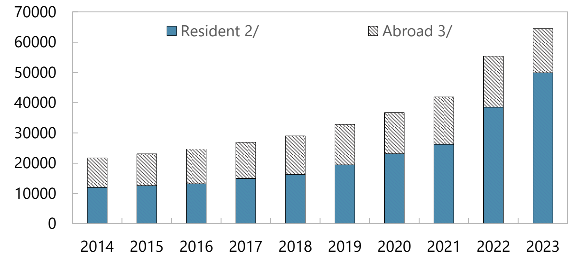
Number of Patents Granted 1/

(Annual patents granted per million population, 2019-23 average, interquartile range for country groups)



Sources: WIPO Statistics database, May 2025; IMF, *World Economic Outlook*; and IMF staff calculations.
1/ Includes patent applications by office.

India: Patent Composition 1/

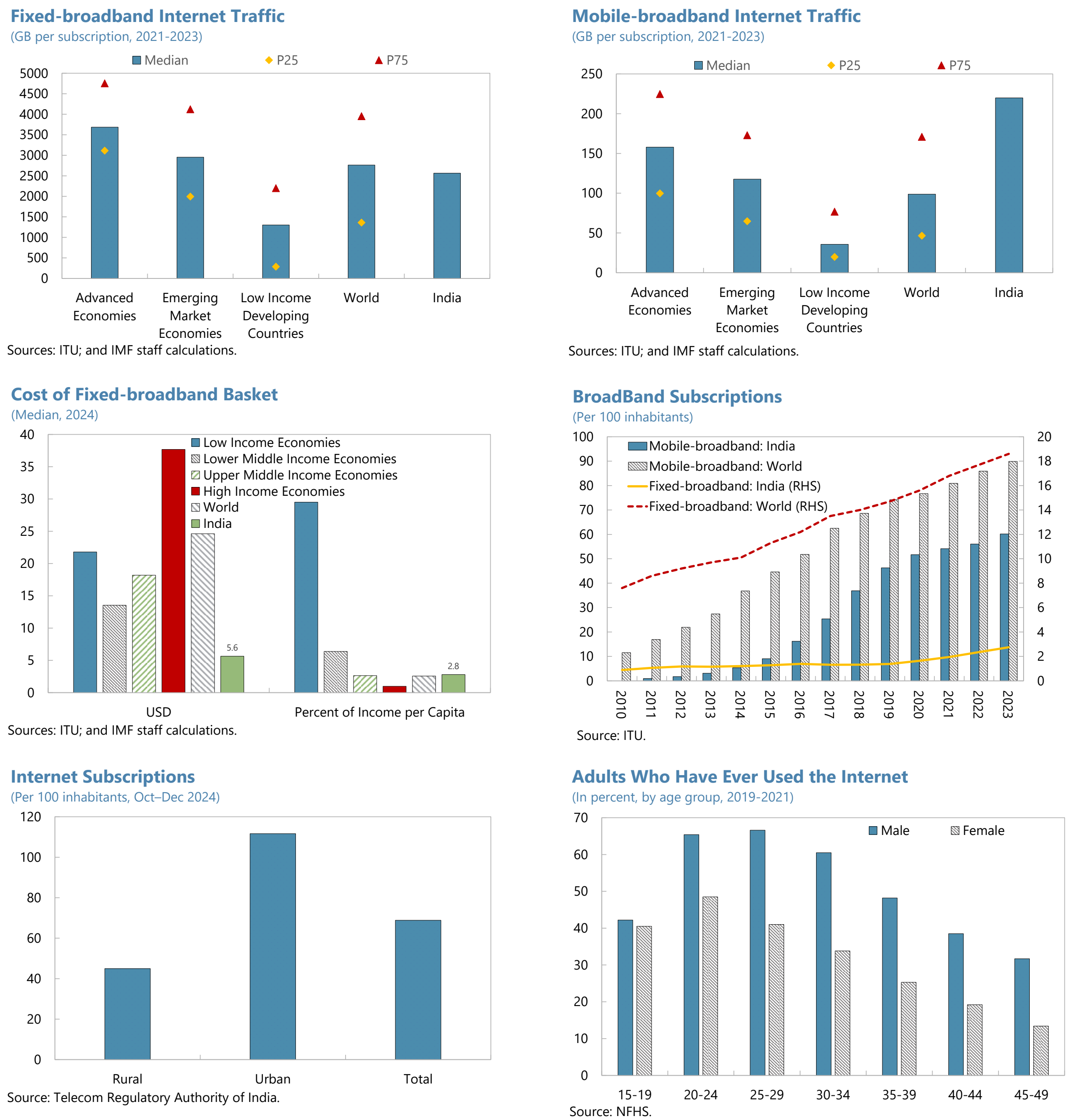


Sources: WIPO Statistics database, May 2025; and IMF staff calculations.
1/ Includes patent applications by origin.
2/ An application filed with an IP office by an applicant residing in India in which that office has jurisdiction.
3/An application filed with a patent office of India by an applicant residing in another country/jurisdiction.

Expanding Digital Access to Promote Innovation

13. Digital access in India has increased significantly over the past decade, but there is scope to do more (Figure 8). Fixed-line broadband internet development has remained relatively limited, as indicated by a small number of subscriptions in relation to the population and low usage per subscription. In contrast, mobile-broadband internet traffic per subscription in India is relatively high compared with other economies and makes up in part for lower fixed-line use, though mobile subscriptions have remained below the EM average. These trends mask locational, gender, and age disparities: rural internet subscriptions are markedly below urban ones, while women and older generations use the internet disproportionately less. The cost of a fixed-broadband basket in USD is lower in India compared with all income groups; however, in terms of income per capita, it is similar to the levels of upper middle-income group. Regarding top-level domains as a percentage of the population, India shows relative underperformance in the Global Innovation Index. These data indicate that while digital access in India has grown rapidly, there is potential for further development. In addition, narrowing the digital divide could help raise average productivity and foster innovation.

Figure 8. India: Digital Access



Harnessing Productivity Gains from Artificial Intelligence Responsibly

14. AI adoption and start-up activity in India are expanding rapidly but remain uneven across sectors and firm types (Figure 9). Nearly 60 percent of companies report that they have actively deployed AI, well above the global average and EM peers.[13] AI adoption in India is largely concentrated in the services sector, including financial services, healthcare, telecom, retail, and

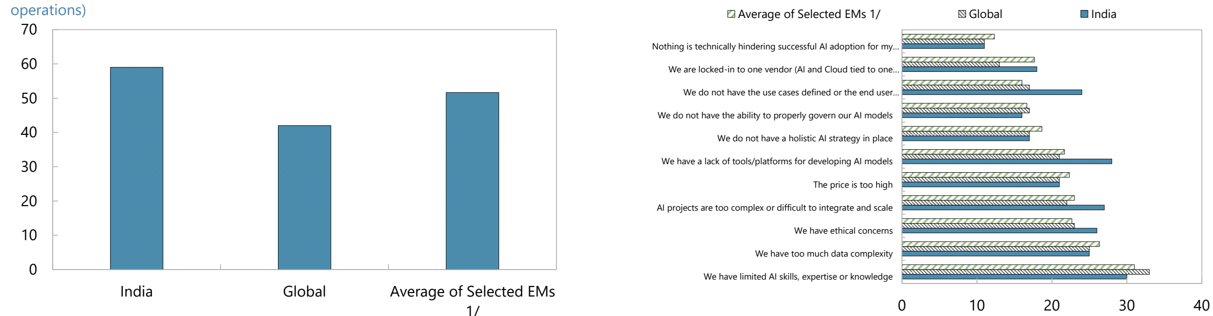
[13] IBM Global AI Adoption Index (2023).

transport and logistics.[14] At the same time, the Stanford AI Index (2024) ranks India among the top ten countries globally in the number of newly funded AI companies, with start-up activity similarly concentrated in a few digitally mature sectors. That said, the adoption of AI has been uneven, with firms reporting as the top three barriers: their limited AI skills, expertise, or knowledge; lack of tools and platforms; and integration complexity.

Figure 9. India: AI Adoption

AI Adoption
(The percentage of companies that have actively deployed AI as part of its business operations)

Barriers of AI Adoption
(In percent)

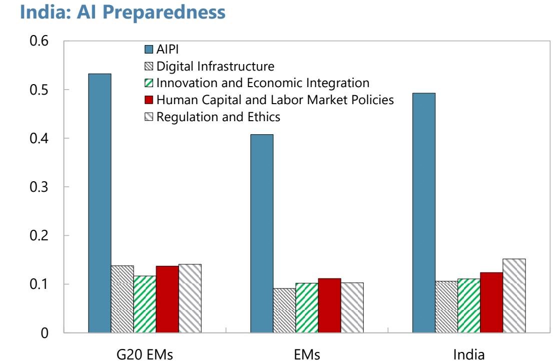


Sources: IBM Global AI Adoption Index, 2023; and IMF staff calculations.
1/ Includes China, United Arab Emirates, and Latin America.

Sources: IBM Global AI Adoption Index, 2023; and IMF staff calculations.
1/ Includes China, United Arab Emirates, and Latin America.

15. While still nascent, AI adoption could enhance productivity growth in India over the medium term. Beyond its implications for labor markets, AI holds the potential to enhance firm-level efficiency, accelerate R&D diffusion, and improve resource allocation across sectors. IMF staff estimates suggest that based on AI preparedness and exposure, AI adoption could raise total factor productivity in emerging markets Asia (including India) by 0.3 to 3 percentage points—depending on sectors and scenarios over a decade.[15] Therefore, it is critical to ensure that AI diffusion is supported by complementary reforms, including investment in digital and physical infrastructure as well as improvements in human capital and innovation.

India: AI Preparedness



Source: IMF staff calculations.

16. Labor market exposure to AI underscores the need to invest in skills upgrading while protecting vulnerable households caught in the transition. In India, AI exposure is concentrated in services and manufacturing, while agriculture—which remains a major source of employment—has low exposure. Within the workforce, AI exposure with high complementarity increases sharply with education level, suggesting that individuals with tertiary education are more likely to benefit from AI-enabled productivity gains.[16] The IMF's AI

[14] Economic Survey (2024/25).

[15] Cerutti et al, 2025.

[16] Pizzinelli et al, 2023.

Preparedness Index (2025) highlights that there is scope for improvement in human capital and labor market policies, including the diffusion of digital skills across the broader population and job transition programs. These patterns underscore the importance of investing in skills development and workforce adaptability to ensure that the benefits of AI adoption are broad-based. At the same time, since AI may soon have the potential to disrupt labor markets at a fast pace, emphasis should be placed on adequate social protection for those at risk of displacement.

The Role of the Financial Sector in Raising Productivity and Fostering Innovation

17. Despite India's sizable financial sector, large equity market, and significant venture capital/private equity activity, access to finance remains constrained, especially for MSMEs. Bank and non-bank credit remain the primary funding sources for non-financial corporations (NFCs), with their share relative to GDP stabilizing at around 50 percent after a decline over the past decade. While the Indian stock market—now the fourth largest globally—has supported equity issuance, the corporate bond market remains underdeveloped. Private equity/venture capital (PE/VC) investments have surged to $43 billion in 2024 (the second largest in the Asia-Pacific region), equivalent to 1.1 percent of GDP, with well-diversified investments across sectors and an average deal size of around $30 million, indicating a prevalence of smaller VC deals. Still, despite growth in MSME bank lending and an active PE/VC ecosystem, access to credit is cited as one of the top challenges for MSMEs (Figure 10).[17] Only 11 percent of Indian firms reported having bank loans, with over-collateralization averaging 185 percent of loan amounts, even though most firms maintain bank accounts.[18]

18. The large public footprint in the financial sector, along with excessively risk-averse behavior of domestic institutional investors and stringent investment regulations, presents obstacles to channeling credit to more productive yet riskier firms. George et al. (2022) find that low-productivity firms with high dependence on PSBs receive disproportionate credit, especially in years when PSBs represent a large share of overall new credit (Figure 11). This implies that credit allocation could substantially improve by increasing credit supply to more productive firms. Continuing to reduce the public sector footprint in the financial system could thus lead to more efficient resource allocation. In addition, corporate bonds are heavily concentrated in high rating categories in India: AAA (86 percent), AA (10 percent), A1-BBB (3 percent), and non-investment grade (0.4 percent), with this concentration increasing over time. This pattern is more pronounced in India than in other Asian countries but China (Figure 11). Moreover, insurers and pension funds have invested in the "alternative investments" category, which typically involves high returns and high risks (e.g., PE/VC), well below the regulatory limits.[19] These reflects the reluctance of institutional investors to invest in riskier yet potentially more productive assets. Therefore, providing proper incentives for portfolio managers to seek the best risk-adjusted returns and promoting the market development of robust risk-sharing and credit enhancement products, such as covered bonds, could enable lower-rated companies to access the capital market.

[17] Small Industries and Development Bank of India Survey, 2025.

[18] World Bank Enterprise Survey, 2022.

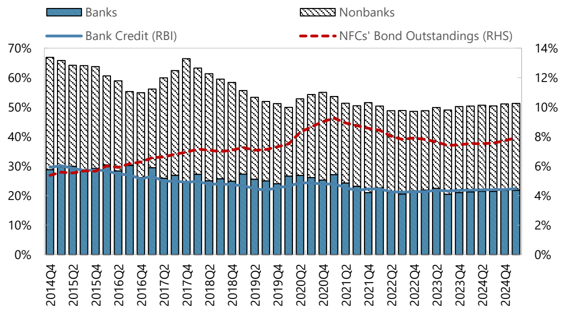
[19] Life insurers are allowed to invest up to 15% of their portfolios in other investments, and pension funds up to 5% in alternative assets.

Figure 10. India: Financing to the Nonfinancial Sector

Bank and non-bank credit to the NFCs to GDP has declined over the past decade…

Credit to the Nonfinancial Corporations

(In percent of GDP)

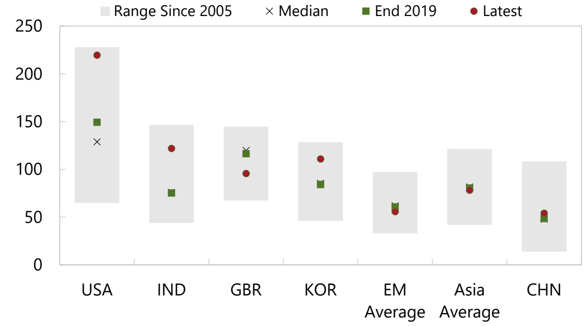


Sources: BIS; RBI; SEBI; Haver Analytics; and IMF staff calculations.
Note: Credit is defined as the sum of loans and debt securities. Credit to the NFCs is calculated by substracting credit to households from credit to the private nonfinancial sector. Overal household credit from BIS is divided into bank credit and nonbank credit based on the RBI's statistics, "Stocks of Financial Assets and Liabilities of Households".

The Indian stock market capitalization is currently exceeding 120 percent of GDP.

Market Capitalization to GDP

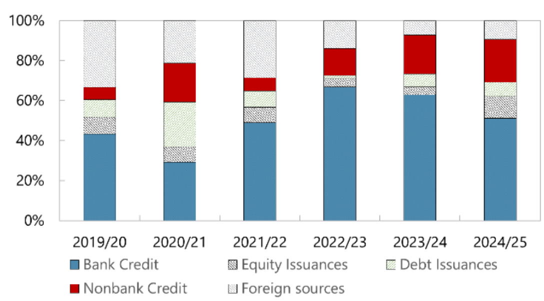
(In percent)



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

Bank and nonbank credit have been the main source of corporate financing, amidst a decline in overseas funding.

Financing to the Nonfinancial Sector by Instruments

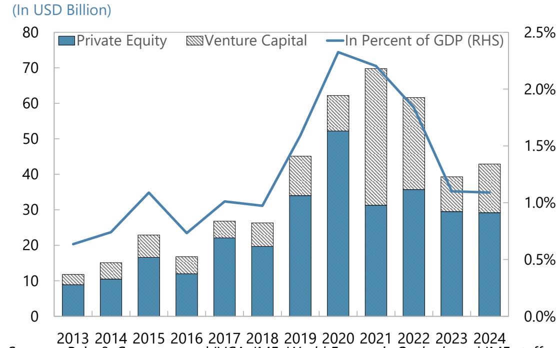


Sources: RBI; and IMF staff calculations.
Note: Debt issuances include corporate bonds, hybrid instruments, and commercial paper; nonbank credit comprises lending by NBFC, housing finance companies, and all India financial institutions, net of bank borrowings.

India's PE and VC market has recently begun to recover and remains the second largest in Asia-Pacific.

PE-VC Investments

(In USD Billion)

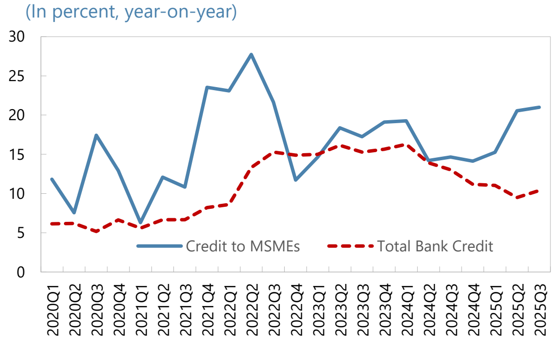


Sources: Bain & Company and IVCA; IMF, *World Economic Outlook*; and IMF staff calculations

Bank credit to the MSME sector has grown faster than total bank credit …

Bank Credit to MSMEs

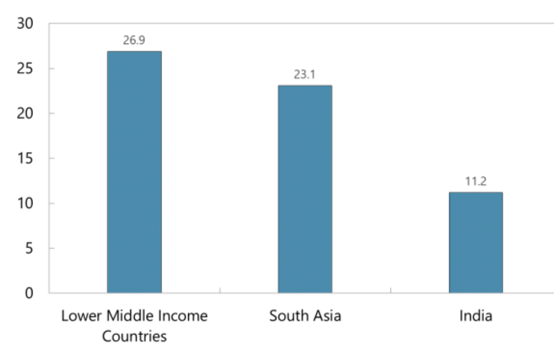
(In percent, year-on-year)



Sources: RBI; and IMF staff calculations.

…. but only 11 percent of firms have bank loans.

Share of Firms Having Bank Loans / Line of Credit

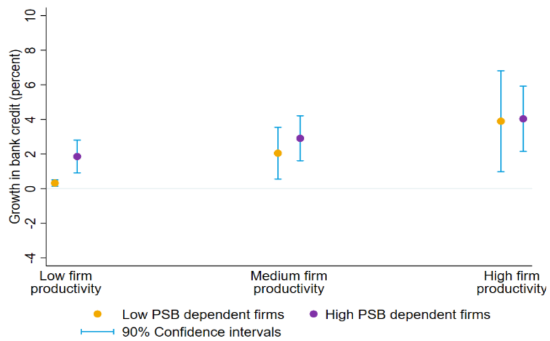


Source: World Bank Enterprise Survey (2022).

Figure 11. India: Missed Opportunities for More Efficient Resource Allocations

Low productivity firms with high PSB dependence obtain credit growth similar to that of medium productivity firms with low PSB dependence.

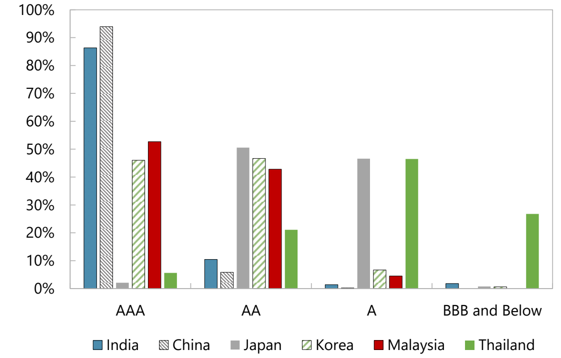
Sensitivity of Growth in Bank Credit to Firm-level Productivity



Note: Estimation results are calculated for all firm sizes when PSBs represent a large share of new credit. Reproduced with permission from George et al. (2022).

Corporate bond issuances in India are largely concentrated in higher rating categories compared to most Asian countries except China.

Corporate Bond Ratings Distribution in Selective Asian Countries



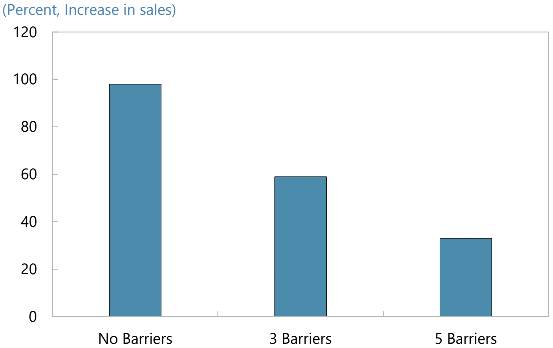
Sources: SEBI; and Credit Guarantee & Investment Facility (CGIF).
Note: The credit ratings are sources from local rating agencies of each country. India (FY2023-24) and other counties (2023).

Reform Payoffs

19. Firms grow and innovate more with increased access to credit, especially if they are not overly constrained by other factors (Figure 12). George et al. (forthcoming) study the firm-level response in terms of size (measured in sales) and innovation to higher access to credit thanks to the 2006 exogenous expansion in eligibility of MSMEs for PSL lending. They find that Indian firms with improved access to credit experienced greater growth, particularly when other constraints were less binding. These constraints include high market concentration and small market size in the firm's output market, inefficient land markets, rigid labor market regulations, high frequency of electricity shortages, availability of good roads, courts congestion in the firm's state, poor literacy and numeracy in the firm's district, limited access to imported inputs, and firm's location in a rural area.

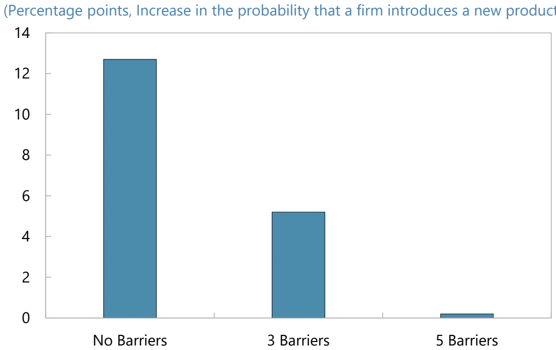
Figure 12. India: Impact of Expanded Access to Credit on Firm Size and Innovation

Increase in Firm Size
(Percent, Increase in sales)



Sources: IMF staff estimates based on George et al. (forthcoming)

Increase in Firm Innovation
(Percentage points, Increase in the probability that a firm introduces a new product)



Sources: IMF staff estimates based on George et al. (forthcoming)

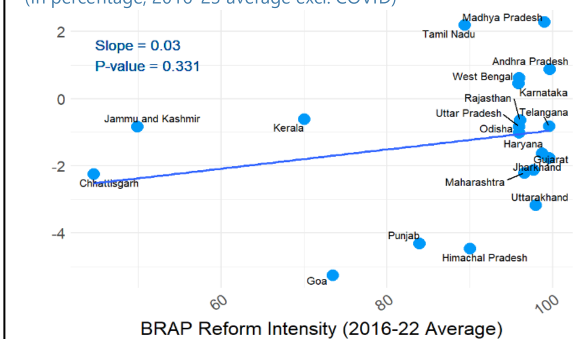
Note: Bars show the estimated increase in firm-level sales (LHS) and innovation (RHS) from gaining eligibility to PSL in 2006, depending on the number of structural barriers faced by the firm.

While a firm without constraints increased its sales by 100 percent, a firm constrained by 5 barriers experienced only a third as much growth in sales. Similarly, the less constrained a firm was, the more it innovated following the enhanced access to credit. This points to the need to tackle obstacles to firm growth and innovation holistically, as improving access to credit alone may not have the best possible effects in the presence of a multitude of other factors holding back firm-level expansion and innovation.

20. State-level reforms to streamline business regulation and reduce compliance costs can raise manufacturing productivity. We find that ease-of-doing business reforms at the state level, measured by the implementation of the annual Business Reform Action Plan (BRAP),[20] lead to higher state-average manufacturing TFP.[21] We use neighboring states' average reform intensity as the instrumental variable to identify the causal effect of BRAP reforms on TFP.[22] Our preferred specification (Column 2 in Table 2) estimates that an additional 1 percent of BRAP reforms implemented results in a 0.4 percent increase in TFP. In addition, trade openness, measured by lagged exports, and education attainment, measured by middle school enrollment (with a long lag), are positively associated with TFP, albeit not statistically significant.

India: Average TFP Growth

(In percentage; 2016-23 average excl. COVID)



Sources: ASI, DPIIT, Orbis; and IMF staff calculations.

[20] 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.

[21] We obtain state-specific average TFP using the establishment-level TFP from manufacturing firms surveyed in the ASI. We apply the production functions estimated at 2-digit industry level using firm financial data from Orbis following Diez et al. (2021) to observations in the ASI and derive the TFP at establishment level. We remove observations with non-producing status or unreasonable values for cost shares following Bau and Matray (2023). Average log TFP by state is the average across establishments weighed by sales and sampling weights. We restrict the final sample to state-year pairs with more than 50 establishments reported, after accounting for joint returns.

[22] While the IV validity is untestable, we find no evidence supporting the hypothesis that a group of neighboring states experience productivity boom simultaneously and act to reform business regulations. When neighbor's TFP growth was included as a control, it did not have a significant coefficient and did not change the coefficient for reform intensity meaningfully.

Table 2. India: Impact of State-Level Business Reform Intensity on TFP

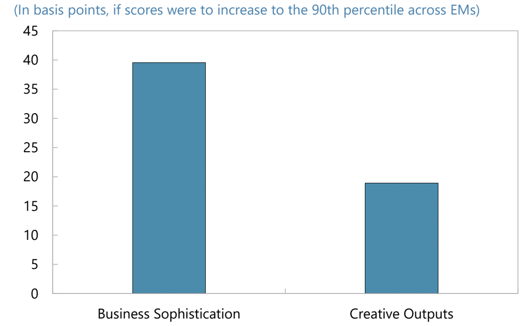
	Average Log TFP by State			
	(1)	(2)	(3)	(4)
	OLS	2SLS	OLS	2SLS
Reform Intensity, Lag	0.002***	0.004*		
	(0.0005)	(0.002)		
Reform Intensity, Concurrent			0.001**	0.006*
			(0.0005)	(0.004)
Average Log TFP, Lag	0.812***	0.776***	0.806***	0.744***
	(0.046)	(0.065)	(0.041)	(0.113)
Manufacturing Investment to GSDP, Lag	−0.007	−0.017	−0.013+	−0.028**
	(0.012)	(0.014)	(0.008)	(0.013)
GSDP per Capita, Lag	−0.0001	0.0001	−0.0004**	−0.0002
	(0.0001)	(0.0002)	(0.0001)	(0.0002)
Exports, Lag	0.0001	0.0002	0.002	0.003
	(0.002)	(0.002)	(0.002)	(0.003)
Education Attainment	0.0002	0.001	0.001	0.002
	(0.001)	(0.001)	(0.001)	(0.001)
BIC	-103	-91.2	-132.3	-84
Adj. R Sq.	0.78	0.73	0.75	0.57
Num. Obs.	51	51	68	68
Year FE	Yes	Yes	Yes	Yes

Note: +p<0.15; *p<0.1; **p<0.05; ***p<0.01

Source: IMF staff calculations based on ASI and Orbis.

21. Innovation can have significant payoffs for TFP growth. We consider the Global Innovation Index (GII) as a cross-country measure of countries' ability and success in innovation and explore its relationship to TFP growth using the Penn World Tables. We find that a 1-point increase in GII overall score correlates with a 7.8 basis-point rise in TFP growth (Table 3). A one point increase in GII business sophistication, knowledge and technology output, and creative output scores are linked to increases in TFP growth by 4.6, 3.3, and 4.4 basis points, respectively. India already ranks at or above the 90th percentile across emerging markets for the overall index and the sub-indices of knowledge and technology and market sophistication sub-index. Raising India's business sophistication to the 90th percentile would be associated with higher TFP growth by 39.6 basis points, while improving creative outputs to this level would add 18.9 basis points.

India: Impact of Higher Innovation Scores on TFP Growth
(In basis points, if scores were to increase to the 90th percentile across EMs)



Sources: WIPO Global Innovation Index; and IMF staff calculations.

Table 3. India: Global Innovation Index and TFP Growth

	(1)	(2)	(3)	(4)
	TFP average growth from 2009 to 2019			
GII Overall Score	0.078***			
	(0.024)			
GII Business Sophistication Score		0.046***		
		(0.017)		
GII Knowledge and Technology Outputs Score			0.033**	
			(0.015)	
GII Creative Outputs Score				0.044***
				(0.017)
N	106	106	106	106
R-sq	0.201	0.166	0.114	0.154
adj. R-sq	0.170	0.133	0.079	0.120

Standard errors in parentheses
Notes: * p<0.10 ** p<0.05 *** p<0.01"; controls for log GDP per capita, log GDP in USD, and share of agriculture in GDP.

Source: IMF staff calculations based on WIPO's GII and Penn World Tables.

Conclusion and Policy Recommendations

22. **India has made significant strides in laying the groundwork for productivity-enhancing reforms, setting the stage for deeper structural transformation.** To fully capitalize on India's reform momentum, a more integrated and targeted policy approach can help unlock the country's full productivity potential in support of India's aspiration of becoming an advanced economy.

- ***Let Firms Grow.*** India's manufacturing sector is dominated by small firms with low productivity. While initiatives such as the Startup India program and state-level innovation missions aim to support entrepreneurship, more is needed to help firms scale up. Easing labor regulations, simplifying product market rules, providing stable policy frameworks, and reducing compliance burdens would enable firms to grow and innovate.

- ***Encourage Entry and Exit.*** Business dynamism remains low, with entry and exit rates far below peers. The persistence of zombie firms may reflect issues with forbearance lending, inefficient insolvency resolution, and exit mechanisms. While the Insolvency and Bankruptcy Code (IBC) has been a significant step forward, significantly strengthening its implementation, including operationalization of the personal insolvency regime and reducing delays in resolution processes, is essential. Complementary reforms to improve credit allocation in the financial sector would help reallocate resources to more productive firms.

- ***Facilitate Allocation of Labor and Land to the Most Productive Uses.*** With over 40 percent of the workforce still in agriculture, agricultural reforms are critical to facilitate labor mobility. In addition, reforms are needed to support the availability of land for industrial purposes (Annex X).

- ***Incentivize Through Greater Exposure to International Trade and Foreign Investment.*** Integration into the global economy is essential. Removing trade barriers and opening up new markets through trade agreements provides incentives for firms to remain competitive, innovate, and leverage cheaper foreign inputs and technologies. FDI can bring knowledge, technology, and access to export markets.

- ***Improve Access to Capital.*** Despite a large financial sector and a vibrant equity market, access to finance—especially for MSMEs—remains constrained. The government's decision to abolish the angel tax and equalize capital gains treatment for unlisted securities is a welcome move. Looking ahead, further reducing the public sector's footprint in the financial system could help improve the allocation of capital. The authorities should also promote blended finance structures (e.g., waterfall funds) for PE/VC investments, expand the digital lending infrastructure, and support innovative financing tools such as minibonds and MSME securitization and factoring. These measures could help channel capital to high-potential firms.

- ***Boost R&D and Technology Adoption.*** India's R&D intensity remains low, and private sector participation is limited. Government initiatives such as the recently launched RDI Scheme, the Prime Minister's Research Fellowship, and the Atal Innovation Mission, are important steps toward building an innovation ecosystem. These efforts should be complemented by stronger university-industry linkages and reforms to encourage technology adoption among smaller firms. Policies should primarily be targeted at adoption of existing technologies. Progress in digital and physical infrastructure, education, and training are essential to accelerate diffusion of existing technologies, including among lagging firms. Any fiscal incentives for private R&D, such as grants and tax incentives, should be carefully designed and coordinated (IMF, 2024).

- ***Bridge the Digital Divide.*** India has made impressive gains in digital access, with mobile broadband subscriptions rising sharply. However, disparities persist across rural-urban, gender, and age lines. Building on government programs such as Digital India, further investments in broadband infrastructure, digital literacy, and affordable access are needed to ensure that the benefits of digitalization are widely shared. This would also enhance the effectiveness of other productivity-enhancing reforms.

- ***Harness AI Technology Responsibly.*** AI offers transformative potential for productivity through automation, optimization, and innovation. However, its deployment must be guided by a robust policy framework that addresses important risks such as labor displacement in order to ensure that AI-driven growth is inclusive and equitable.

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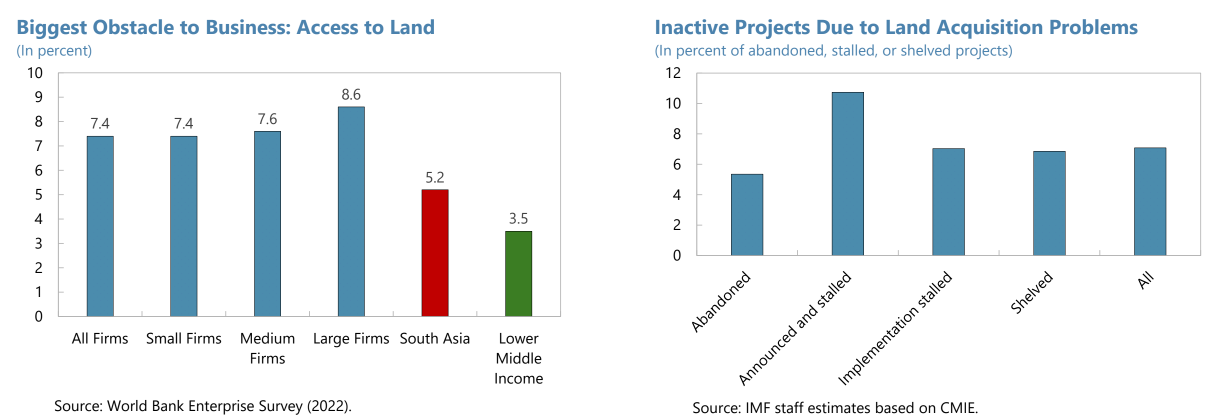
Annex X. Supporting Growth Through Easier Access to Land for Manufacturing[1]

Land issues are prominent constraints to productivity in India (Annex IX). Efficient, equitable, and transparent allocation is hindered by complex regulations and asymmetric information. Despite progress in digitalizing land records and piloting innovative acquisition models, challenges persist. In the case of agriculture, fragmented ownership has resulted in excessively small farms of low productivity, with limited options for farmers to scale up or to deploy their resources to other businesses, delaying India's structural transformation and reallocation of labor away from agriculture. In manufacturing, in addition to fragmented land ownership, presumptive titling, and procedural delays also continue to hinder investment and project execution. While some states have pioneered reforms and cooperative mechanisms, broader systemic changes—including conclusive titling, rationalized land use norms, strengthened judicial capacity, and expanded land banks—are essential to unlock land markets and support India's ambitions for growth and job creation.

1. **Accessing land for infrastructure and industrial use in India is challenging, holding back productive investment needed for India's development** (Figure 1). According to the World Bank (2022), 7.4 percent of firms in India identify access to land as the primary obstacle for doing business. This figure is notably higher than the South Asian average of 5.2 percent and more than double the average for lower middle-income countries (3.5 percent). The problem is especially severe among large firms. Land acquisition issues account for 7.1 percent of investment projects that become inactive, either temporarily suspended or permanently canceled. The intricate legal framework governing land combined with outdated registries leads to extensive and often protracted litigation (Robinson, 2012; DAKSH, 2017; Wahi and coauthors, 2017; Damle and Gulati, 2021; Dawer, 2022).

Figure 1. India: Access to Land is an Obstacle to Business and Investment in India



[1] Prepared by Cristian Alonso (APD), Geetika Dang, and Sudip Mohapatra (both Delhi Resident Representative Office).

2. Complex regulations and outdated registries prevent market mechanisms from optimally allocating scarce land to its most productive uses. Competitive markets for land have not developed in India due to extensive regulations and incomplete information. First, there is limited availability of reliable land records across the country due to inaccuracies and outdated entries in the original Record of Rights (RoR) because not all transactions get registered to avoid paying the transaction cost. Second, land ownership is presumptive rather than conclusive in India, as it is based on a record of possession rather than a state-guaranteed title. This puts buyers at high risk since they may not know if the sellers are the rightful owners. Third, restrictive land use classification between residential, commercial, industrial, and agricultural limits rapid repurposing of land, stalling planned urbanization and industrial expansion. This includes restrictions on the purchase of agricultural land, such as who can buy it and the maximum amount they can acquire. Fourth, restrictive building regulations strictly limit the proportion of the land that can be used for factory buildings, for instance by mandating ground coverage, setbacks, parking, and floor area ratios (Anand, 2023). Finally, continuous fragmentation of agricultural land also increases the burden of procuring significant amounts of land by increasing the number of negotiating stakeholders.

3. Land acquisition has been used as an alternative for land procurement for infrastructure projects, but the legal process is complex and varies across states. Land acquisition is a legal process by which the government acquires land for public purposes, with payment of compensation to the landowners and rehabilitation of other stakeholders whose livelihood is affected. It is governed by the Land Acquisition, Rehabilitation and Resettlement Act (LARR Act), 2013, which mandates social impact assessments (SIAs), prior consent of majority landowners, and provision for fair compensation and rehabilitation. As compliance with mandated procedures has been perceived as cumbersome, most states have relaxed these provisions over time to different extents (Economic Times, 2018).

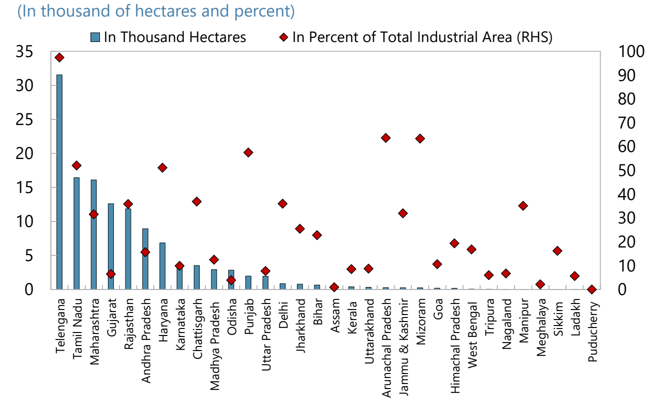
4. Governments continue to face challenges, with uneven success in acquiring land. Industrially-advanced states like Gujarat, Karnataka, Tamil Nadu, Maharashtra, and Telangana have been successful in acquiring land for industrial projects, SEZs, and industrial parks using project-specific state laws. However, acquiring a much larger pool of land for bigger industrial complexes, road and railway projects has proven to be challenging. In several cases, the acquisition has been delayed pending approvals under other legal provisions like environmental regulation, forest law, and laws for scheduled areas inhabited by tribal population, among others. Recent reports indicate that delays in land acquisition have hindered timely completion of important infrastructure projects such as the Mumbai–Ahmedabad High Speed Rail Corridor and the East-West Dedicated Freight Corridor.

5. Innovative models of land acquisition, focusing on co-operation, may offer viable solutions. New land acquisition models are being piloted to minimize disputes and ensure adequate compensation and rehabilitation for current landowners. Emerging models include Andhra Pradesh's voluntary land acquisition model—also referred to as a "profit-sharing" or negotiated agreement approach—that allows transfer of ownership of small land parcels by willing sellers on a premium-paid basis (5–25 percent above market value), overseen by negotiation committees, to sidestep slow compulsion-based methods (NITI Aayog, 2025), though challenges remain (Darla, 2021).

6. A digitalization push of land records has progressed but needs to be complemented by other reforms in land governance. Significant progress has been made under the Digital India Land Records Modernization Program. On the rural front, 95 percent of land records across 626 thousand villages have been computerized, with 68 percent digitization of cadastral maps. The National Geospatial Mission aims to further support digitization-based reforms in urban areas. However, India's presumptive land titling system—characterized by incomplete registration of both historical and current transactions—limits the ability of digital land records to serve as definitive proof of ownership, undermining the legal certainty required for effective market development. The absence of a title insurance ecosystem, which could serve to limit financial risks emanating from this legal uncertainty, compounds risks for companies seeking to purchase land.[2]

7. Given the challenges in private land acquisition, public land pools become critical to executing industrial projects. The India Industrial Land Bank portal offers a comprehensive platform detailing industrial parks and clusters across India. Users can navigate from national to district-level, filter by sector, land area, proximity to inputs, and connectivity. The platform also integrates an Industrial Park Rating System, which evaluates parks and SEZs on 45 performance metrics. Telangana is at the forefront, accounting for approximately 25 percent of the industrial land available in the country, and the top 6 states, also including Maharashtra, Tamil Nadu, Gujarat, Rajasthan, and Andhra Pradesh, account for 77 percent of reported industrial land available for allocation.

India: Land Availability in Existing Industrial Parks for Industry
(In thousand of hectares and percent)



Source: IMF staff calculations based on indiaindustriallandbank.gov.in.

8. The Union government plays an important role in catalyzing the reform momentum across states. The Union government is providing financial incentives for state-level reforms through a 50-year interest-free capex loan scheme to states: Rs. 50 billion were allocated in FY2024/25 to states that advanced urban and rural land governance reforms. Complementing this, NITI Aayog circulated a Model Bill on Conclusive Land Titling in 2020. The draft law envisions state-level land authorities to certify ownership titles as conclusive after a challenge period, addressing disputes through dedicated tribunals and strengthening the legal basis of land records. Despite the

[2] A few cities are experimenting with the use of blockchain technology to create definitive titles, addressing issues related to the digitization of potentially disputed titles, but this would take a long time to implement comprehensively and would only address one part of the problem.

potential to limit land-related disputes and ease the case load of the Indian judiciary, there has been limited uptake of the model act.

9. Policy recommendations. Reforms will be essential to facilitate access to land for productive purposes, supporting India's growth ambitions and the creation of quality jobs for the growing working-age population. Reform priorities include (i) implementing the Land Title Act in order to advance towards conclusive land titles and state-guaranteed land ownership, (ii) continuing to leverage special economic zones and industrial parks to expedite access to land for productive uses, and (iii) making further progress in digitalization and quality of land records (World Bank, 2025). Burdensome land regulations should be reconsidered and rationalized to reflect current economic and social realities, as emphasized in the Economic Survey (MoF, 2025). States can evaluate and learn from each other's reforms, including ongoing experimentation with novel cooperative mechanisms for land acquisition and pooling, while ensuring appropriate safeguards.

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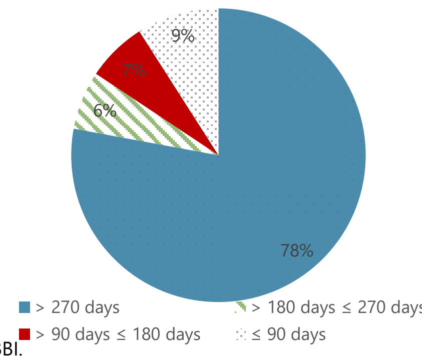
Annex XI. India's Insolvency Framework – Performance Challenges and Need for Reform[1]

1. The enactment of the Insolvency and Bankruptcy Code (IBC) in 2016 was a turning point in India's insolvency regime because it replaced an antiquated patchwork of laws and procedures with a comprehensive and modern insolvency framework. The Code has been a major achievement but is facing deteriorating performance metrics that threaten its effectiveness.

2. Resolution times and recovery rates have worsened significantly. Average time taken for closure of the Corporate Insolvency Resolution Process (CIRP) have doubled from 324 days in early implementation to 724 days as of June 2025, substantially exceeding the statutory 330-day limit. For successful corporate resolutions, financial creditors' recovery rates declined from 43 percent in March 2019 to 33 percent in June 2025. Pre-admission delays (the time between filing of the insolvency application and the opening of the case) have worsened dramatically, with operational creditors facing average waits of 650 days in 2022 compared to 450 days in 2019.

India: Status of Ongoing CIRPs
(As of end-June 2025)



Source: IBBI.

3. The declining performance reflects capacity constraints and persistent issues in the law. The National Company Law Tribunals (NCLTs) specialize in insolvency. NCLT capacity is severely constrained with only 30 courts and 16 additional benches, and a persistent shortage in qualified judges to handle corporate insolvency cases. Over 55 percent of cases remain pending after two years, creating structural bottlenecks that erode asset values. Critical legislative deficiencies include inadequate treatment of operational creditors, absence of group insolvency and cross-border insolvency provisions, insufficient regulation of executory contracts and post-petition finance, lack of connection between informal restructuring and formal insolvency proceedings, and a personal insolvency regime that has not been made operational. The highly litigious process design creates systematic delays and uncertainty.

4. Regulatory measures cannot compensate for gaps in legislative frameworks. The Insolvency and Bankruptcy Board of India (IBBI) has adopted more than 90 amendments to the various Insolvency Regulations since 2016, with the latest amendments introduced in May-July 2025. While beneficial, these regulatory fixes cannot address statutory defects. Essential reforms require legislative intervention: substantial NCLT capacity expansion, a comprehensive revision of the treatment of operational creditors, provisions for enterprise group insolvency and cross-insolvency, operationalization of the personal insolvency regime, and technical amendments to facilitate enterprise rescue and liquidation. Digital technologies in courts and greater use of Information

[1] Prepared by Alissa Ardito Ashcroft and Jose Garrido (both LEG).

Utilities (entities maintaining financial information databases) could help address procedural bottlenecks. The authorities are considering a comprehensive legislative reform that could address many of the deficiencies.

5. **The IBC Amendment Bill addresses some but not all of the identified deficiencies.** The bill makes four major changes to the IBC in addition to a number of technical amendments.

- First, it establishes a new creditor-initiated out-of-court insolvency mechanism for certain types of corporate debtors. Only certain financial creditors may initiate the process, which must be completed within 150 days, with a possible 45-day extension. This new process could relieve the court system of some burdens and allow large companies to take advantage of a faster and less costly process for corporate resolution.

- Second, the Bill provides a new chapter on "Group Insolvency," following common principles including typical coordination measures. However, the Bill does not prescribe substantial consolidation of the companies belonging to a corporate group (though courts have decided on substantial consolidation based on equitable grounds).

- Third, cross-border insolvency comprised another missing piece in the IBC. The Bill authorizes the Government to prescribe the rules for the conduct of such proceedings under the code, and it is expected that the rules will conform to the provisions of the UNCITRAL Model Law on cross-border insolvency which is increasingly important as the global economy becomes more intertwined.

- Fourth, the Bill addresses issues with NCLT delays and renders admission to insolvency processes mandatory should default be proven. Among other provisions, it requires NLCTs to admit or reject applications within 14 days. These and other provisions are expected to mitigate the delays in processing corporate insolvencies and the associated declining recovery rates.

6. **The Bill makes other salutary changes.** Amendments empower the committee of creditors (CoC) to supervise the conduct of the liquidation process by the liquidator, choose or replace the liquidator by a resolution, and to resolve the corporate debtor directly as an alternative to liquidation. Importantly, the Bill mandates that approved resolution plans are binding and final, and the clean-slate principle is acknowledged explicitly, confirming that once a resolution plan is approved, claims are settled and then extinguished.

7. **The Bill mandates that the liquidation process be completed within 180 days from the date liquidation commences, with a possible extension of 90 days.** This provision seeks to remedy the unlimited duration of liquidations under the current regime. In an important provision, the Bill authorizes the Government to provide an electronic portal for insolvency processes. In addition, the Bill addresses situations arising when a creditor demands the status of a secured creditor by providing that a creditor will be a secured creditor to the extent of the value of its security. Further amendments clarify that avoidance actions can continue after corporate resolution and do not interfere with the adoption of the plan. Finally, dissenting financial creditors in corporate

resolution plans receive liquidation value or what they would have received under the plan according to the creditors' ranking.

8. The Bill does not provide for the participation of operational creditors or rules for executory contracts. Operational creditors still lack the right to vote on a resolution plan or other governance rights. No rules are provided for executory contracts; such rules would make it more likely that business operations could be restructured rather than sold. It should also be noted that the personal insolvency regime remains in abeyance.

INTERNATIONAL MONETARY FUND

INDIA

November 6, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of September 30, 2025)

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)	9,716.46	74.09
Reserve Tranche Position	3,405.15	25.96
Lending to the Fund		

SDR Department

	SDR Million	% Allocation
Net cumulative allocation	16,547.82	100.00
Holdings	13,709.02	82.84

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	20.44	80.10	80.10	80.14	80.07
Total	20.44	80.10	80.10	80.14	80.07

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 a crawl-like 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) three exchange restrictions arising from Tax Collected at Source (TCS) 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 1,000,000 threshold; (ii) 5 percent tax on payments above the annual Rs 1,000,000 threshold for medical services and education (excluding education payments financed by loan), and (iii) 5 percent tax on payments for travel services (overseas packages) below the annual threshold of Rs 1,000,000 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 December 2024. The Staff Report (IMF Country Report No. 25/54) was discussed by the Executive Board on February 21, 2025.

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 Financial System Stability Assessment (Country Report No. 25/55) was presented to the Executive Board, alongside the Article IV consultation, on February 21, 2025.

Capacity Development (Technical Assistance and Training)

Recent and planned IMF capacity development and training activities with India are conducted by CD-delivering departments and the South Asia Regional Training and Technical Assistance Center (SARTTAC). On fiscal issues, key areas of focus are public financial management, and domestic revenue mobilization, including compliance risk management, revenue administration gap analysis, and fiscal risk management. ICD and SARTTAC have been providing tailored training courses on macroeconomics, such as macroeconomic diagnostics and financial programming and policies, revenue administration, and financial supervision and regulation, for Indian Civil Servants as well as RBI staff. Finally, TA has been conducted on national accounts, including supply use table and seasonal adjustment of quarterly GDP, notably to support the GDP rebasing exercise, and on prices (CPI update and PPI). Furthermore, a monthly seminar series on national statistics for the Ministry of Statistics & Programme Implementation has been ongoing.

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)

Statement by the Staff Representative on India
November 21, 2025

This staff statement provides updates on developments since the staff report was issued to the Board on November 6, 2025. This information does not change the thrust of the staff appraisal.

Recent Developments

1. **Headline inflation reached a record low of ¼ percent (y/y) in October, below market consensus.** This lower-than-expected reading was mainly driven by accelerated food disinflation, along with favorable base effects and the GST reform impact, despite a price surge in gold and silver. Core CPI, excluding gold and silver, moderated to 3.7 percent. The Wholesale Price Index dropped significantly to -1.2 percent (y/y), reflecting price declines in food, fuel, and power. These developments point to downside risks to staff's near-term inflation projection, but staff's policy advice remains valid.

2. **On November 12, the cabinet approved tariff-relief measures for exporters, with limited fiscal impact.** First, the Credit Guarantee Scheme for Exporters aims to provide credit guarantees to lenders up to INR200 billion (0.06 percent of GDP) for loans to eligible exporters, including MSMEs, with little expected fiscal impact. Second, the Export Promotion Mission (EPM) focuses on improving access to affordable trade finance for MSMEs and enhancing export readiness, including through compliance and certification support. The overall allocation of INR250 billion (0.07 percent of GDP) spans over six years.

3. On November 14, the RBI announced measures to mitigate the impact of trade disruptions on exports. Specifically, the RBI has extended the period for repatriation of export proceeds from 9 months to 15 months and the period for goods shipment after advance payment to from one year to three years. In addition, among other measures, eligible exporters in selected tariff-affected sectors are provided a moratorium on term loans and interest on working capital through end-2025, and conditions for repayment of export credit are being relaxed.[1]

4. In addition to financial support, the government undertook regulatory adjustments in the textile sector, which has been significantly affected by the U.S. tariffs. The government has revoked 14 mandatory quality control orders on intermediate goods and chemical inputs used by the textile sector in response to supply chain and export-competitiveness pressures. The removal is expected to ease compliance burdens and lower input costs.

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[1] Twenty sectors, including fisheries, leather, and textile, are eligible for the trade-relief measures as identified in the RBI's Trade Relief Measures Directions.

Statement by Urjit Patel, Executive Director for India, Pankaj Kumar, Senior Advisor to the Executive Director, Anand Singh, Senior Advisor to the Executive Director, Parveen Kumar, Advisor to the Executive Director, and Dirghau Raut, Advisor to the Executive Director
November 21, 2025

1. On behalf of the Indian authorities, we would like to thank the mission team for the useful discussions, as well as for the carefully written report.

Economic Outlook

2. **Despite a challenging global economic backdrop, the Indian economy has demonstrated remarkable resilience.** Belying most forecasts, real GDP grew at a five-quarter high of 7.8 percent in Q1:2025-26. Considering higher-than-anticipated growth in Q1 and continued momentum visible in high-frequency indicators in the following months, India's growth forecast for 2025-26 has been upgraded by several agencies. The IMF now projects GDP growth for 2025-26 at 6.6 percent, an upward revision of 20 basis points (bps) from its July projection. The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) expects even higher real GDP growth of 6.8 percent for 2025-26. Going forward, staff projects growth to moderate to 6.2 percent in 2026-27 due to the ongoing impact of US tariffs. The cumulative 70 bps negative impact on growth under the assumption of sustained high tariff appears misplaced at this stage. In fact, the PMI's New Export Orders Index rose in September 2025, suggesting that demand outside the US may be offsetting decline in US- bound exports. In addition, going forward, progress on trade negotiations will further improve growth prospects. Overall, the growth outlook remains robust, driven by strong domestic demand, ongoing reforms, benign inflation, easy monetary and financial conditions, direct and indirect tax relief, a deregulation-friendly environment, and strong macroeconomic fundamentals. In harness, these factors have created conducive conditions for a step up in India's potential growth.

3. **India's recent growth performance reflects sustained, dynamic and inclusive economic expansion.** Growth has been broad-based amidst sustained rural demand and gradually reviving urban demand. While consumption has been the mainstay of India's GDP growth, there are signs of investment activity gathering pace. Investment growth has been impressive in recent quarters – 9.4 percent in Q4:2024-25 and 7.8 percent in Q1:2025-26, registering a break from its recent trend. While public investment has played a crucial role, increasing private sector participation in several sectors is adding strength to a broad-based investment revival. Strong growth has been accompanied by job creation, with new employment increasing by 21 million during the year ending September 2025, and labor force participation rates have continued to climb.

4. **Inflation has remained benign with a series of below-target readings in the current year.** CPI headline inflation declined to 0.3 percent in October, the lowest recorded in the current series, from 1.4 percent in September, driven primarily by

deflation in food prices. Core inflation also moderated from 4.4 per cent in September to 4.3 per cent in October. Excluding gold and silver, core inflation continued to remain below 4 per cent. Overall, inflation is likely to remain under control in the near term, supported by a good monsoon season and indirect tax relief. As noted by staff, the landmark institutional reform of flexible inflation targeting has yielded rich dividends in managing the growth-inflation trade-off in India.

Fiscal Situation

5. **India is continuing on a steady path of fiscal consolidation with a focus on capital expenditure.** A detailed fiscal roadmap for the next six years aims to calibrate fiscal deficits from 2026-27 onwards, consistent with a steadily declining trajectory of central government debt towards the target of around 50±1 percent of GDP by March 2031. We have focused on supporting growth with a four-pronged strategy: i) counter-cyclical fiscal policy; ii) improving quality of expenditure by maintaining capital expenditure; iii) transparency and pro-active disclosure; iv) setting realistic fiscal targets and attaining them. The credibility of the authorities' fiscal framework has been acknowledged and appreciated by various agencies including the IMF in its latest staff report.

6. **Efforts are underway to invigorate fiscal consolidation at the state level.** State governments have enacted their respective fiscal responsibility legislations. Further, the Government of India, based on recommendations of successive Finance Commissions, has been placing caps on state governments' fiscal deficit targets. These have been used to determine the borrowing ceilings of the state governments. Additional steps to improve fiscal transparency at the state level include factoring in of the off-budget borrowings of state governments at the time of fixing their annual borrowing ceilings.

7. **The government is continuing to implement wide-ranging tax reforms by simplifying compliance, reducing tax rates, and leveraging technology with an aim to create a more business-friendly environment, stimulate economic growth, and increase tax revenues**. The recent GST reform, capital gains tax reform, reduction in the number of customs duty slabs, and notification of the Income Tax Act, passed in August 2025 aim, *inter alia*, at simplifying the tax system and its administration. Recent overhaul of the GST framework encompasses three pillars – structural reforms, rate rationalization and ease of living. The positive effects of these reforms are becoming evident in several indicators. In September 2025, e-way bill generation, a key indicator of domestic economic activity, reached a new record level as businesses stepped up production and inventory ahead of the festive season demand; retail sales of passenger vehicles expanded by 23.0 percent and of two and three-wheelers by 12.1 percent year-on-year during the 42-day festive period. The authorities believe that the staff assessment of a cumulative 0.2 percent boost to growth due to GST reforms is on the lower side considering its huge demand boosting effect alongside its impact on ease of doing business. On the direct taxes front, the Personal Income Tax (PIT) cuts will support consumption.

Monetary Policy

8. **India has made significant strides towards achieving price stability.** The RBI's MPC has successively revised downwards its projection of average headline inflation for 2025-26, from 3.7 percent in June to 3.1 percent in August, and further to 2.6 percent in October. The forecasts of headline inflation for Q4:2025-26 and Q1:2026-27 too have been revised downwards and are broadly aligned with the target, despite unfavorable base effects. Core inflation for this year and Q1:2026-27 is also expected to remain contained. The MPC has utilised the policy space available to support growth by cutting the policy rate by a cumulative 100 bps since February 2025. Additionally, the RBI has injected large amounts of durable liquidity and reduced risk weights on bank loans to NBFCs and MFIs to enhance monetary policy transmission. The MPC, in its October meeting, acknowledged that current macroeconomic conditions and the outlook have further opened up policy space for supporting growth. However, the committee considered it prudent to keep the policy repo rate at 5.5 percent, and the neutral stance, considering that the impact of front-loaded monetary policy actions and recent fiscal measures is still playing out while trade related uncertainties are also unfolding.

External Sector

9. **The external sector continues to display resilience amidst global headwinds of economic and trade policy uncertainties.** India's exports have registered a growth of 5.9 per cent YoY in H1: 2025-26, reaching US$ 419.2 billion. CAD in Q1:2025-26 at 0.2 percent of GDP compared to 0.9 percent of GDP last year was underpinned by robust services exports and strong inflow of remittances which significantly offset the high merchandise trade deficit. Foreign exchange reserves stood at US$ 689.7 billion as of October 31, 2025, covering over 8 months of goods and services imports and approximately 92.3 per cent of India's total external debt as at end-June 2025. During April-August 2025, gross FDI inflows remained strong at US$ 43.8 billion (US$ 37.0 billion last year), underscoring India's continued appeal as a preferred investment destination. Net FDI inflows at US$ 10.1 billion during this period were also higher as compared to US$ 4.6 billion a year ago, primarily on account of a rise in gross inflows and a moderation in FDI repatriation.

10. **Notwithstanding robust domestic macroeconomic fundamentals, the INR has witnessed some depreciation accompanied by phases of volatility.** After trading with an appreciating bias during April and early-May 2025, the INR depreciated in June-September owing to factors like an increase in US tariffs, a widening trade deficit and FPI outflows. 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 is largely determined by market forces. As in the past, exchange rate flexibility continues to be the first line of defense in absorbing external shocks.

Financial Sector

11. **The system-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of Scheduled Commercial Banks (SCBs) continue to remain healthy.** Similarly, the system-level parameters of NBFCs too are sound, with adequate capital and improved GNPA ratios.

12. **India's financial system is undergoing rapid shifts with growing influence of technology, alternative business models and market-based intermediation.** Bank account ownership has risen significantly in India to 89 percent in 2024-25, from 53 percent a decade earlier, according to the World Bank, driven in part by transferring cash to the poor directly into their accounts. The digital public infrastructure (DPI) which is a set of digital tools enables citizens to prove their identity, access benefits and make payments. India is today home to over 10,000 FinTech companies, with cumulative investments exceeding US$ 40 billion over the past decade. Unified Payment Interface (UPI), which facilitates instant money transfers between bank accounts in India, has exploded in popularity since its launch in 2016 and now rivals Visa in terms of number of transactions, processing more than 650 million transactions a day in September 2025. The Unified Lending Interface (ULI) is another landmark step in data aggregation. It seeks to bridge the gap by catalysing efficient, data-driven, and inclusive credit delivery. ULI is also enabling use of data by lenders to build alternative credit models, thereby helping expand credit to new-to credit segments lacking credit history.

13. **Bank credit growth, despite being lower than last year, continues to be healthy and supportive of real economic activity.** As non-bank sources of funding are gaining in importance, it is the overall flow of financial resources to the economy that is more pertinent for assessing flow of funds to the productive sectors. During the current year, the total flow of resources to the commercial sector from non-bank sources more than offset the decline in non-food bank credit.

Structural Reforms

14. **The ongoing and new generation structural reforms are the driving force behind the country's economic growth and progress.** In India's Union Budget 2025-26, "Reforms as the fuel" was a central theme that characterized the government's approach to achieving the vision of a "Viksit Bharat". During the next five years, transformative reforms across six domains – taxation, power sector, urban development, mining, financial sector and regulatory reforms – have been identified to augment the growth potential and global competitiveness. Critical labor reforms are progressing well across states. Most of the states/union territories have pre-published their draft rules under the new labor codes which aim to modernize and consolidate existing labor laws to simplify compliance for businesses, improve worker welfare, and boost economic growth.

15. **The Production Linked Incentive (PLI) schemes have emerged as an important driver of India's industrial growth by mobilizing investments, raising**

foreign direct investment (FDI) in the manufacturing sector and generating employment opportunities. Out of the 14 pilot sectors, the scheme has been particularly successful in pharmaceuticals and mobile-phone manufacturing – sectors that have experienced high growth.

16. **To make India's export framework more inclusive, technology-enabled and globally competitive, the Government and the Reserve Bank have recently taken important measures.** These include: (i) launch of an Export Promotion Mission with a total outlay of US$ 2.8 billion for the period 2025-26 to 2030-31 to extend support especially to MSMEs, first-time exporters, and labour-intensive sectors impacted by recent global tariff escalations, (ii) introduction of a Credit Guarantee Scheme for Exporters for extending additional credit facilities upto US$ 2.3 billion to eligible exporters, including MSMEs, and

(iii) relaxation of the FEMA regulation on realization and repatriation of export proceeds and easing of the burden of debt repayments and export credit to mitigate the impact of trade disruptions on exports arising on account of global headwinds.

17. **The government has signed several regional and international free trade agreements with strategic partners for economic integration.** Some of the recently concluded agreements include India-UK CEPA 2025, India-EFTA TEPA 2024, India-Australia ECTA 2022, India-UAE CEPA 2022, and the India-Mauritius CEPA 2021. Other negotiations with key partners like the EU, Australia, and New Zealand are underway. Furthermore, India already has trade agreements with some CPTPP countries, *viz.*, Australia, Japan, Malaysia, and Singapore. The India-ASEAN FTA is also a good example of India's continuous efforts towards regional economic integration and building economic resilience through agreements with certain strategically aligned trade blocs.

18. **India's research and development ecosystem is witnessing a rapid transformation, fueled by a strong national focus on innovation-led growth.** Investments in science and technology have increased steadily, supported by a clear policy direction, strategic funding, and institutional reforms. Recognizing the critical role of the private sector in driving innovation and commercializing research, the government has launched the Research, Development and Innovation (RDI) Scheme with a corpus of US$ 12 billion over the next 5 years. This scheme provides long-term financing or refinancing support with extended tenors at low or nil interest rates. The initiative aims to encourage greater private investment in RDI, particularly in sunrise and strategic sectors. The government has also launched the India Semiconductor Mission (ISM) to strengthen India's electronics manufacturing ecosystem.

19. **India is making significant strides in health and education through ambitious structural reforms.** In education, universal access and quality have improved markedly: youth literacy is near 97 percent, gender gaps have narrowed, and enrolment rates have surged, supported by targeted initiatives and infrastructure upgrades. The National Education Policy 2020 aims to further expand access to quality

education. In healthcare, programmes like Ayushman Bharat and eSanjeevani have expanded affordable quality care for hitherto underserved. Investments in infrastructure, digital health, and medical education have strengthened the system, leading to lower dropout and maternal mortality rates, and greater public confidence.

20. **India has demonstrated a strong commitment to climate action through ambitious targets and progressive policy measures.** By 2020, India has reduced emissions intensity by 36 percent from 2005 levels, with non-fossil sources accounting for over 50 percent of installed power generation capacity by mid-2025. With this progress, India has already achieved one of its major COP26 Panchamrit goals, *i.e.*, to have 50 percent of installed electric power capacity from non-fossil fuel sources by 2030, five years early. On July 29, 2025, India achieved another milestone, with renewables meeting the highest-ever share of 51.5 per cent of the country's total electricity demand of 203 GW.

21. **Finance will be key to climate change mitigation and adaptation efforts.** To mobilize finance, India is creating a robust climate-finance ecosystem. The draft climate finance taxonomy will guide investments towards mitigation and adaptation activities across power, mobility, buildings, and hard-to-abate sectors. A reformed international financial system that reduces the cost of capital and enhances risk-sharing is essential to complement domestic efforts and ensure that climate commitments are met without compromising growth and development.

Data Adequacy

22. **Staff have observed that India's official statistics while having some shortcomings are broadly adequate for surveillance.** We appreciate the listing of changes since the last Article IV Consultations of the Assessment of Data Adequacy for Surveillance, and the assurance that the DAA ratings will be reassessed once the updated national accounts series are published in February 2026. It is noteworthy that double deflation is being expanded in coverage, exploring its use in manufacturing and mining. Further, as the WPI is used as deflator, which is already ex-factory prices excluding excise and taxes, a Producer Price Index (PPI) may not result in much difference in some sectors. However, an expert group has been constituted to work on the development of a PPI. The data on key fiscal indicators of states are published regularly in various RBI publications. In addition to annual data, the State of the Economy article published in the monthly RBI Bulletin regularly presents monthly fiscal trends of states based on the CAG's monthly database. It may be noted that India's balance of payments statistics beginning Q1:2025-26 is being released with a lag of two months instead of the earlier one-quarter lag. Overall, several efforts are underway to improve official statistics, including the expected release of rebased and updated national accounts and CPI data by early next year.

Conclusion

23. India's economic performance is backed by sound policy frameworks and ongoing structural reforms. Despite global challenges, GDP has been growing at a fast

pace, underpinned by domestic drivers. Inflation has stayed lower than target, providing room for monetary easing. The government has steadfastly maintained the fiscal consolidation path, even while pursuing significant tax reforms. After delivering a frontloaded policy rate cut and liquidity easing measures, the RBI has adopted a neutral stance in support of growth while ensuring that inflation remains aligned to the target. Easing financial and credit conditions is supportive of economic activity. External sector presents a picture of strength amidst a low current account deficit underpinned by robust services exports and remittances receipts. Sustained price and financial stability, strong balance sheets of banks and corporates and prudent and credible policies have bolstered India's macroeconomic fundamentals and buffers. Overall, India is firmly placed on the path towards becoming *"Viksit Bharat"*, i.e. "Developed India", by 2047.