March 2005
IMF Country Report No. 05/86

India: 2004 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2004 Article IV consultation with India, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 27, 2004, 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 December 22, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of January 24, 2005 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 24, 2005 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

INDIA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with India

Approved by Wanda Tseng and Matthew Fisher

December 22, 2004

- A staff team visited India from October 11–27 and met with RBI Governor Reddy, Deputy Governor Mohan, Finance Secretary Gupta and other senior officials, as well as representatives from the private sector. David Burton (APD Director) visited India during the mission and met with Finance Minister Chidambaram, Governor Reddy, Minister of Industry and Commerce Nath, and Planning Commission Deputy Chairman Ahluwalia.
- The staff team comprised Wanda Tseng (head), Jerald Schiff, Agnès Belaisch, Catriona Purfield, Hélène Poirson, Sonali Jain-Chandra—EP (all APD), and Amadou Sy (MFD). Michael Wattleworth (Senior Resident Representative) assisted the mission. Mr. Babani Misra, Executive Director, and Mr. Ananthakrishnan Prasad, Advisor, also participated.
- India subscribes to, and is currently in observance of, the SDDS and disseminates data on International Reserves and Foreign Currency Liquidity as prescribed under the SDDS. A Statistics ROSC mission visited India in May 2002 and the final report was issued in April 2004.
- India has undertaken a Financial Sector Assessment Program (FSAP), and the Financial Sector Stability Assessment (FSSA) was discussed by the Board in the context of the 2001 Article IV consultation. A fiscal ROSC was also undertaken at the time of the 2001 Article IV consultation. The authorities stated that it would be appropriate to undertake updates of the FSAP and fiscal ROSC after all G-20 countries have undergone the assessments.
- An IMF-World Bank team led by FAD visited India during December 6–20, 2004 to conduct a pilot project mission on public investment. The mission focused on assessing options for expanding public investment (particularly in infrastructure) consistent with the need for fiscal adjustment.
- India maintains restrictions on the making of payments and transfers for current account transactions which are subject to approval under Article VIII, Section 2, some of which are the result of long-term bilateral agreements.
- At the time of writing, the authorities have not indicated whether they would publish the staff report.

Contents Page

EXECUTIVE SUMMARY

- **The recent impressive performance of the Indian economy is testimony to the benefits of the reforms undertaken since the early 1990s**. Supported by a strong monsoon, growth rebounded to more than 8 percent in 2003/04. Staff projects that growth will remain robust, at 6.4 percent this year, in the face of uneven monsoons and high oil prices. However, to meet the new government's goal of accelerating growth to more than 8 percent on a sustainable basis, fiscal consolidation, enhanced infrastructure, and further structural reforms are required.

- **The new Fiscal Responsibility law (FRBMA) provides a solid framework for achieving fiscal sustainability, but steps will also be required at the state level**. Staff strongly supported the rapid implementation of the government's FRBMA Roadmap, emphasizing front-loaded tax reform and improvement in expenditure quality. However, state finances, not covered by FRBMA, need to be strengthened as well, as states account for half of the general government deficit. The center could make more effective use of a range of incentive mechanisms to push states to reform.

- **Reconciling the government's ambitious social agenda with the need for fiscal adjustment will be difficult**. The authorities are well aware of this challenge and emphasized that large increases in spending envisaged for infrastructure and social services would be fully implemented only over the long-term and subject to fiscal constraints. Staff supported efforts to increase private sector participation in infrastructure by improving the business climate, but cautioned against plans to utilize foreign exchange reserves to finance infrastructure spending.

- **The acceleration of structural reforms is key to raising growth and employment**. Staff supported the authorities' efforts to increase foreign direct investment and liberalize small-scale industry, but urged them to move more rapidly on removing other key constraints to growth, including by liberalizing trade and labor laws.

- **The financial sector has strengthened considerably, but challenges remain**. Further opening to private and foreign investors, along with continued strengthening of risk-based supervision, would allow the financial sector to further support growth.

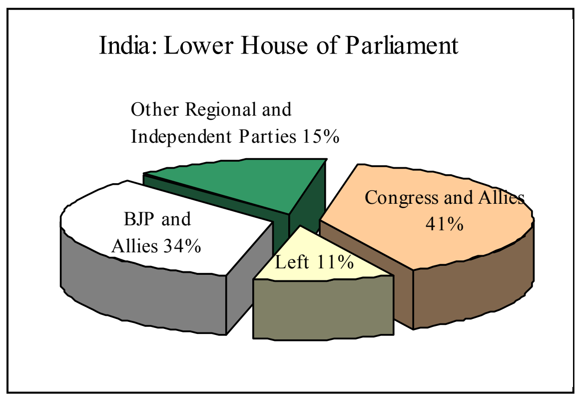
- **The recent tightening of monetary policy was appropriate**. While inflation mainly reflects supply-drive price rises, buoyant domestic demand points to the possibility of second round effects. In the face of large capital inflows, the RBI has allowed increased exchange rate flexibility. Should inflows remain strong, increasing exchange rate flexibility further would be helpful to help fight inflation and facilitate economic adjustment.

- **The authorities' burden-sharing approach to increased oil prices is understandable, but may not be sustainable**. With higher prices likely to remain for some time, additional pass through would be desirable.

I. Background

1. **Last May's election returned a Congress-led coalition to power**. Reflecting the mandate it received from the poor, the new government has announced an agenda of "reforms with a human face"—described in the Common Minimum Program (CMP)—aimed at accelerating economic growth, reducing poverty, and increasing infrastructure and social spending (Box 1). Infrastructure needs are large, and over a third of the population (more than 300 million persons) continues to live on less than US$1 a day (Table 1). However, the need for fiscal adjustment continues to constrain the fiscal space to address these issues. The challenge is thus to garner political support to advance fiscal consolidation and deepen structural reforms needed to realize the government's agenda.

2. **To advance the reform agenda, the government needs to balance the interests of several coalition partners and supporting parties**. The Congress-led government is a coalition of 12 parties, several of which represent regional interests, that account for 40 percent of the Lower House. It depends on support of the communist Left Front and two other small parties to form a majority in Parliament. Efforts to build consensus and promote common interests across party lines will be key to advancing major structural reforms, in particular in the areas of privatization, labor market liberalization, and subsidy reform. Political analysts observe that state elections in the next few years may be a source of frictions as Congress and its allies will come to face each other. For the moment, recent victory in a major state election has strengthened the Congress's hand at the national level.



3. **Since the last Article IV consultation in July 2003, progress has been made in several policy areas**. Executive Directors encouraged the authorities to take advantage of the favorable external environment to tackle structural reforms—including in agriculture, labor markets, and industry—to remove impediments to growth and reduce poverty. They also noted the opportunity provided by the new fiscal responsibility framework, then under consideration in Parliament, to restore fiscal sustainability. Since then, the Fiscal Responsibility and Budget Management Act (FRBMA) has been adopted. The central government has embarked on defined-contribution pension reform. Trade tariffs were lowered and the capital account liberalized further. More recently, the foreign direct investment (FDI) cap on aviation was raised. Privatization advanced with the sale of minority stakes in six state-owned companies, and industrial activity has been liberalized with the list of small industries subject to protection and size restrictions continuing to be narrowed. In

the financial sector, the authorities took initiatives to improve corporate governance and migrate gradually to regulatory best practices.

Box 1. The Common Minimum Program (CMP): The Alliance's Social Pact

The CMP affirms the coalition's commitment to "economic reforms with a human face to stimulate growth, investment, and employment." A few days after taking office, the new government delineated in the CMP its priorities for policies and reforms. The CMP reiterates the government's determination to implement fiscal consolidation and its focus on improving the well-being of farmers and low-income citizens. The government puts the promotion of investment at the center of a strategy to achieve sustained growth of 7–8 percent per year over the next decade.

The CMP underscores a number of measures to be taken over the medium term to reach these objectives. Larger spending on infrastructure and social programs, incentives for FDI, protection of agriculture from imports, increased credit to agriculture and small industry are on the agenda. Also, the government promises:

- A major increase in infrastructure, in particular, for rural areas. Meeting infrastructure needs are estimated to cost an additional 3-4 percent of GDP per year.
- Universal access to basic education and health, through a gradual doubling of expenditure to 6 percent of GDP and 2–3 percent of GDP, respectively.
- A guarantee of 100 days of minimum wage employment for one person in each poor household, at an estimated net cost of 1 percent of GDP (two-thirds of which borne by the central government).

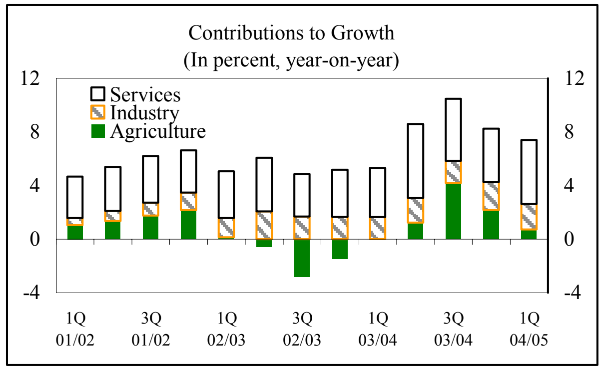
The government expects to fund this higher spending (around 10 percent of GDP) by better targeting of subsidies to the poor and broadening the tax base. Other revenue measures would include increased tax compliance, improved efficiency of tax administration, and an earmarked surcharge on taxes for education. The government also committed to introducing a state-level VAT.

A number of CMP measures are already implemented or under way. On the revenue side, the budget introduced a 2 percent education surcharge, as well as a tax on securities transactions, and broadened the base of the service tax. FDI caps on civil aviation were increased. The states are expected to introduce the VAT by April 2005.

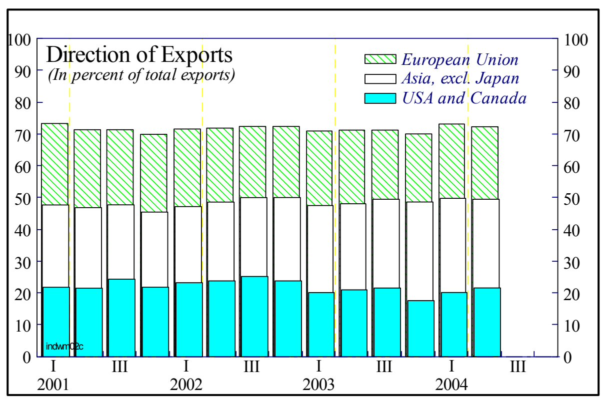
II. Recent Developments and Outlook

4. **Economic performance in 2003/04 was impressive**. Supported by favorable monsoons, growth rebounded to more than 8 percent, the highest in a decade and among the highest in the world (Table 2). The recovery was broad-based, stemming from a vigorous recovery in agriculture from the previous year's drought, and spillover effects on industry and services.[1]

5. **Despite a below-normal monsoon, economic activity remains buoyant this year**.[2] GDP grew 7½ percent in the first quarter, driven by services and industry.[3] Manufacturers appear to be embarking on a new investment cycle as capacity constraints begin to bite (Figure 1). Rapid credit growth underpins the revival of investment as well as consumer spending, particularly in housing. However, below-average rainfall has depressed agricultural activity. Staff expects growth of 6.4 percent in 2004/05, within the range of the Reserve Bank of India (RBI)'s 6–6½ percent forecast, thanks to continued dynamism in services and industry.



6. **India's trade deficit is widening, but the current account is expected to end 2004/05 in surplus**. Rising imports, reflecting higher oil prices and strong investment demand, have more than offset strong growth in goods and services exports (Figure 2, Table 3). As India's oil bill has ballooned, the trade deficit has widened to 2.6 percent of GDP in the fiscal year to September. However, services income, tourism receipts, and remittances remain strong and the current account is projected to end 2004/05 in a small surplus. Gains in export market shares and the apparent lack of wage pressures indicate adequate competitiveness. Moreover, the fact that gains in trade shares in the last several



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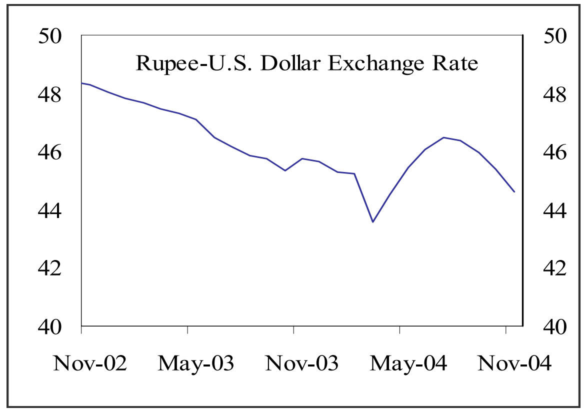
[1] See *Selected Issues* Chapter I on India's long-term growth experience.

[2] India's fiscal year starts in April.

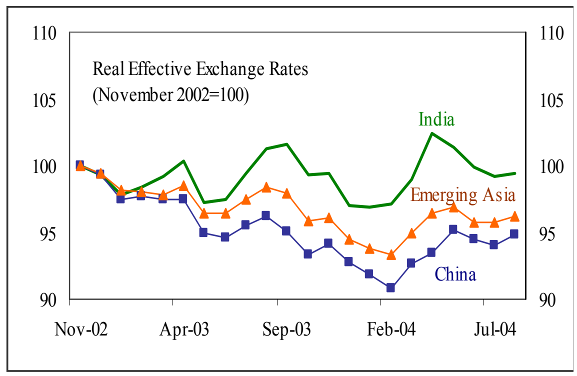
[3] *Selected Issues* Chapter II examines factors underlying the performance of services in India.

years have come partly in Asia suggest that that they are not primarily exchange rate driven.

7. **Financial market confidence in India remains strong**. During 2003/04, large portfolio inflows and remittances helped push reserves to US$113 billion. Election-related uncertainty and interest rate tightening in the United States triggered a pause in capital inflows in May. Since then, capital flows have returned vigorously: the Bombay stock exchange index soared 25 percent in June-November, reaching an all-time high, and FDI is responding to the gradual opening of the economy.[4] External bond issuances by Indian corporates and banks have gained momentum and loans raised abroad in April-June were double their level in the same period last year.



8. **Faced with a resurgence of capital inflows, the RBI has allowed increased two-way flexibility in the exchange rate**. The rupee has recovered the ground lost since the elections, appreciating about 3 percent since May. However, reflecting the overall weakness of the U.S. dollar, the rupee has depreciated slightly in real effective terms, in line with other regional currencies. International reserves increased further during 2004/05, reaching US$131 billion at the start of December, partly a reflection of the weaker dollar.



9. **Inflation has picked up, driven by rising international commodities prices and supported by buoyant demand and comfortable liquidity**. With high international oil and steel prices, and rising food prices on account of a weak monsoon, WPI inflation accelerated to close to 9 percent in August year-on-year, before declining to around 7½ percent more recently on lower food prices (Figure 3, Table 4). Data limitations, in particular the absence of indices for consumer and nontradables prices, make it difficult to ascertain the extent of pass-through to domestic retail prices to date.[5] CPI inflation for industrial workers and staff's

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[4] *Selected Issues*, Chapter III analyzes factors underpinning the performance of FDI in India.

[5] In the absence of a single national-level measure of consumer inflation, three broad indices are available for rural, industrial, and urban workers. The weights of goods in these baskets are over 20 years old. Data on subcomponents of these baskets are limited and published every six months.

estimate of core inflation have, however, accelerated. This, together with the recent surge in credit, may point to the emergence of demand pressures. Also, the partial sterilization of large capital inflows in the past year has increased banking system liquidity. The RBI took several measures in response to emerging inflationary pressures (See Section E). Inflation is expected to remain around 7 percent at end-2004/05 as domestic demand remains strong and a larger share of the rise in international oil prices passes through.

10. **For the first time since the mid-1990s, the central government deficit came in below target in 2003/04**. The overall deficit fell to 5.1 percent of GDP, almost 1 percent of GDP lower than the previous year, owing to strong economic growth (Figure 4, Table 5). The current deficit declined to 3.5 percent of GDP from 4.4 percent of GDP. Tax revenues exceeded expectations, as buoyant corporate tax revenues more than offset a shortfall in excise and customs duties, and spending fell short of budget.

11. **States continued to face financial difficulties**. In 2003/04, states' overall deficit deteriorated to an estimated 5.1 percent of GDP, nearly 1 percent of GDP worse than the previous year (Table 6). Part of this deterioration reflects the recognition of past arrears.[6] However, states face continued pressure from interest and pension payments, which absorb about 70 percent of states' tax revenue, and subsidies, in particular to the power sector, have increased. States' debt has risen to 30 percent of GDP. The deterioration at the state level offset the improvement in central government accounts, and staff estimates that the general government deficit remained broadly stable at 9.7 percent last year.

III. Six Questions for This Consultation

12. **Against the backdrop of a new political leadership in India, this consultation focused on discussing the objectives and policies at the center of the government's agenda**. India has experienced an extended period of solid growth, and positive demographics and strong institutions provide the opportunity to improve on this performance in coming years. The new government has placed emphasis on accelerating annual growth to 8 percent to create jobs and improve the livelihood of the poor, especially in rural India. Staff and the authorities agreed on the broad policy agenda to achieve these objectives—fiscal consolidation, focus on infrastructure and priority social spending, and structural reforms. A key issue for this consultation was to understand how the authorities planned to implement the needed fiscal adjustment, in particular given the anticipated outlays set forward in the CMP. The related key issue is how to push India to a higher growth path—a question that also dominated previous consultations. The mission discussed the government's reform

[6] During 2002/03–2003/04, states cleared state electricity distributors' arrears to power generating public sector companies, of about 1½ percent of GDP, and issued debt for financing. Six states classified this debt issuance as current spending, thus overstating the rise in the deficit.

agenda and considered whether it goes far enough to foster faster growth. Given the important role played by the financial system in facilitating economic growth and poverty reduction, the discussions also covered the government's plans to build on progress achieved in strengthening the sector. The other major topic was the more immediate challenge of tackling rising inflation pressures and oil costs.

13. **The medium-term outlook hinges crucially on the ability of the government to implement the agenda of macroeconomic policy and reforms**. In the staff's baseline scenario, growth of 6–6½ percent would be achieved—somewhat above last decade's average—as economic reforms continue and the nascent recovery in investment takes hold (Table 7). With declining world oil prices, as projected in the WEO, inflation would gradually fall to around 4 percent and the current account continue in surplus. Faster implementation of reforms by the government, for example through a broader than currently planned tax reform and faster adjustment by state governments, could accelerate growth significantly (see Section A). On the contrary, domestic policy slippages—notably failure to bring the deficit under control—could push up interest rates and hold back investment. Higher-than-expected world interest rates could slow or reverse inflows to India and necessitate domestic rate rises. Higher oil prices would slow economic growth and increase inflationary pressures (see Section F).

India: Comparative Forecasts for 2005/06
(In percent, unless otherwise indicated)

	Staff	Market Consensus
Growth	6.6	6.6
WPI inflation (12-month)	5.5	5.6
Current account/GDP	0.3	0.3
Reserves (US$ billion)	152	...

A. How Can the Necessary Fiscal Adjustment be Achieved?

14. **Addressing the large fiscal deficit is a key element of the authorities' agenda**. Soon after coming in office, the new government endorsed the FRBMA approved in Parliament last year. The FRBMA commits the central government to current balance by 2008/09.[7] In addition, implementing rules mandate minimum annual reductions of 0.5 percentage points of GDP in the current deficit and 0.3 percentage points of GDP in the overall deficit. These minimum adjustments would not deliver current balance by the end of

India: FRBMA and Budget Targets 1/
(In percent of GDP)

	Base Year 2003/04	2004/05	2005/06	2006/07	2007/08	FRBMA 2008/09
Current deficit						
3-year deficit targets	3.6	2.5	1.8	1.1	...	0.0
Overall deficit						
3-year deficit targets	4.8	4.4	4.0	3.6	...	3.0

1/ Authorities' definition, which includes privatization receipts as revenue.

[7] This is one year later than originally envisaged. The FRBMA is summarized in the 2003 India staff report.

the period, and the government's Medium-Term Fiscal Policy Statement sets more ambitious three-year deficit targets with the view of achieving balance by the targeted date.

15. **Staff strongly supported the FRBMA but argued that additional steps were needed at the state level**. Achieving the medium-term fiscal targets under the FRBMA would, in the absence of adjustment by states, stabilize the debt ratio at about 82 percent of GDP by 2009/10 and the general government deficit would remain high, at 7 percent of GDP (Box 2, Table 8). The profile of public debt—largely domestic, rupee-denominated, and long-term—and comfortable reserves limit external vulnerability (Tables 9–10). However, the debt path under this scenario would be vulnerable to an adverse shock to growth, which could derail debt sustainability. It is critical that states be brought into the adjustment effort—in an alternative scenario where states consolidate, public debt would decline to 75 percent of GDP—and additional space be freed up for high priority spending.

16. **The 2004/05 budget can be viewed as an interim budget as the government took office part-way into the fiscal year, and few reforms were introduced**. The tax base was broadened, with inclusion of 13 new taxable services, but some new tax exemptions were introduced as well. Mechanisms to improve compliance were also introduced, notably a centralized taxpayers' information network to enhance cross-checking. The budget did not envisage significant spending increases for key social or infrastructure needs. Given overperformance last year relative to budget estimates, the adjustment required to meet this year's target is of 0.1 percent of GDP.

17. **The authorities are confident about meeting their fiscal targets this year**. Thus far, budget implementation is broadly in line with plans, as revenue shortfalls have been offset by slower spending and high loan repayments under the debt-swap arrangement with states.[8] Staff projects a 0.2 percent of GDP revenue shortfall for the year, the result of cuts in oil excises and steel taxes to dampen the impact of higher world prices on domestic inflation. The accumulated current deficit exceeded 45 percent of the full-year budget estimate,

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[8] Under the debt-swap scheme, states can prepay their high-cost debt to the center, by borrowing at lower rates from the market as well as the national small savings fund (NSSF). Such loan recoveries reduce net lending in central government accounts, hence the center's overall deficit.

Box 2. Implications of the FRBMA Targets for Debt Sustainability

To illustrate the implications of the FRBMA targets for debt sustainability, the staff prepared two scenarios. The baseline "some reform" scenario assumes that the central government meets the FRBMA deficit targets, but the states do not adjust. Tax reforms are implemented at a more gradual pace than projected under the FRBMA Roadmap, resulting in lower revenue projections. To offset this, additional measures are taken to reduce subsidies, wages, and other non-interest current expenditures, and to reorient spending toward public investment. States' primary deficit remains unchanged (2¾ percent of GDP). Thus, with the center adjusting, the general government deficit declines to 6¾ percent of GDP in 2009/10, while states' deficit remains at 4¾ percent of GDP on average.

Medium-Term Reform Scenarios, 2004/05–2009/10 1/
(percent of GDP)

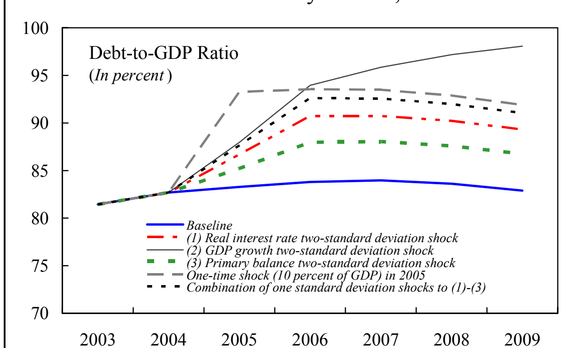
	Staff projection "Some reform"		Alternative scenario "High reform"	
	2004/05	2009/10	2004/05	2009/10
Total revenue and grants	19.1	20.8	19.1	23.8
Total expenditure and net lending	28.4	27.6	28.4	29.1
Overall balance	-9.3	-6.8	-9.3	-5.3
Memorandum item :				
Growth-interest differential (percent)	3.1	3.0	3.1	6.3

Source: Data provided by the Indian authorities and staff estimates and projections.

1/ General government.

Under this scenario, debt stabilizes at around 82¾ percent of GDP, with growth averaging around 6¼ percent annually, a rate most observers agree is reachable with a modest reform effort. A positive growth-interest differential of about 3 percentage points on average (similar to the average of the last 10 years), together with the decrease in the general government's primary deficit, helps stabilize the debt-to-GDP ratio.

Debt Sustainability Shocks, 2004–09



Source: IMF staff calculations.

Under an alternative "high reform" scenario, where states adjust, debt would decline to 75 percent of GDP. Faster implementation of all revenue reforms in the FRBMA roadmap would help the central government meet its targets, with somewhat less need for adjusting spending. The states' primary deficit would improve by 1 percent of GDP, as states implement key tax reforms, including introduction of the VAT by April 2005, and expenditure reforms, including power sector, wage and pension, and subsidy reforms. States' adjustment effort would also be helped by higher grants and shared revenues. The general government deficit falls to 5¼ percent of GDP by 2009/10. Growth rises to 8 percent over the projection period as public spending is re-oriented toward more productive uses and the interest rate falls, reflecting reduced public borrowing needs. The more positive growth-interest differential helps reduce faster the debt ratio.

The baseline scenario is most vulnerable to a growth shock. A two-standard-deviation, two-year shock to GDP growth increases debt by 14½ percentage points by 2009/10, which does not stabilize even after the shock subsides (see also Table 8). Other shocks, including a one-time shock of 10 percent of GDP—the size of government guarantees—would increase the debt-to-GDP ratio substantially, but the ratio would decline once the shock subsides.

its mid-year target under the FRBMA, and staff urged the authorities to identify contingency measures in their mid-term review of compliance with the FRBMA in December. The authorities argued, however, that late budget approval had delayed the implementation of revenue-raising measures. Such measures would come in effect in the second half of the year and offset earlier shortfalls. In addition, the authorities indicated that there would be scope for remedial measures later in the year if need be, in particular through savings onexpenditure given limited absorption capacity. Thus, they did not take corrective action in their review of compliance with the FRBMA in December.

18. **Looking beyond 2004/05, there was agreement that the bulk of the fiscal adjustment should be achieved through a front-loaded tax reform**. The Kelkar report, which provides a roadmap to implement the FRBMA, outlines the desired features of a comprehensive tax reform: replacing the current state-level cascading sales tax and the central value-added tax (VAT) on manufacturing with a national value-added tax on goods and services (GST); removing most exemptions; and improving tax administration.[9] Staff strongly supported the thrust of these proposals and encouraged the authorities to implement the tax reform quickly to help generate an expansionary fiscal adjustment. The tax reform will allow lower rates with broader base, which would enhance India's low tax productivity compared with that in other countries.[10]

Selected Countries: Revenue Productivity of the Corporate Income Tax (CIT), 2001

	Statutory CIT rate	Effective CIT rate	Revenue productivity 2/
India	**35.9**	**3.5**	**9.7**
Korea	29.7	9.6	32.4
United States 1/	45.8	5.3	11.6
Japan	40.9	8.7	21.2
OECD average	32.3	9.6	29.7

Sources: S&P; staff estimates for India and Korea.
1/ Data for 2000.
2/ Ratio of effective CIT rate to statutory CIT rate.

19. **The authorities were confident that states could introduce VAT as planned in April 2005, but implementing other tax measures might prove more challenging**. Most states have passed the necessary legislation to introduce a VAT on goods. To encourage implementation, the central government has committed to compensate states fully for revenue loss in the first year, and partially in the next two years. However, the Kelkar report proposal to integrate central- and state-level VAT-type taxes into a unique GST was seen as a long-term project. Instead, the authorities were focused (i) at the state level, on launching the VAT on goods which has been in the works for several years; and (ii) at the central government level, on extending the existing VAT to more services. Staff supported this pragmatic, more gradual approach, but highlighted the importance of continuing to prepare for the national GST. The authorities acknowledged that a GST would be broader-based and

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[9] Financial services are taxable but many others, including information technology and construction, are not.

[10] See *Selected Issues,* Chapter IV.

more efficient, helping to achieve FRBMA revenue targets with relatively low VAT rates. They highlighted, however, that similar revenue gains could be achieved with their approach. The authorities acknowledged that other tax base-broadening measures, in particular the lifting of most exemptions to the personal and income taxes, would be difficult but could be achieved with grandfathering.

20. **Staff welcomed the authorities' intentions to improve the quality of spending**. The Roadmap includes recommendations to improve the efficiency of social spending and subsidy programs, and restrain the government wage bill. The Planning Commission is examining how to restructure public spending and should present its recommendations soon. Staff views improvements in spending quality as critical since, without such gains, FRBMA targets could only be met by tightly constraining public investment and social spending. Rationalization of subsidies—including for food, fertilizers, and power—would reduce government outlays while improving targeting to the truly needy. Staff looks forward to the recommendations of the ongoing review of subsidies in this regard.

21. **The authorities agreed that more needs to be done to entrench fiscal discipline at the state level**. They pointed to the steps that have already been taken to bail states into fiscal reform in recent years: the RBI has been developing model states fiscal responsibility laws; five states have passed their own responsibility legislation; and the center has signed memoranda of understanding on medium-term reforms with 20 states, with a small portion of grants being performance-based.[11] Nevertheless, these steps have so far not made a decisive turnaround in overall state finances, and more needs to be done. The staff encouraged the authorities to push for further state-level reforms, and in particular to:

- Ensure that state VAT on goods is introduced by the 2005 deadline;
- Enhance the sustainability of states' pension systems, through implementation of defined-contribution schemes and parametric changes to existing pension plans;[12]
- Make progress on power sector reforms to restore the financial sustainability of state electricity companies—and thereby reduce subsidies as well as contingent liabilities.

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[11] Some states have succeeded in fiscal adjustment. Karnakata, for example, has passed a fiscal responsibility legislation, reformed its tax system, and improved the quality of spending. This has helped the state to balance its current budget and reduce its overall deficit by more than 2 percentage points of GDP in the last two years. See World Bank Report No. 28849-IN, 2004.

[12] See the recommendations of the RBI's Working Group on Pension Liabilities of States (www.rbi.org.in).

In this context, a move by several states to provide free power to farmers seems to be a setback to reforms in this sector.

22. **On center-state relations, the Twelfth Finance Commission is expected to make recommendations shortly**. Staff suggested that consideration be given to the following:

- The center could use leverage provided by its approval of all states' borrowing to harden budget constraints. Currently, the center is not enforcing strictly these borrowing limits and states can also borrow from the NSSF for deficit financing. The center should define and enforce all-inclusive borrowing limits for states.

- Debt write-offs or swaps with the center, tied to policy performance, would reduce states' debt burden.

- Constructing a state finance database would strengthen the center's monitoring capacity of states, an area in which the Fund is providing assistance.

B. How Will the CMP be Reconciled with the Need for Fiscal Adjustment?

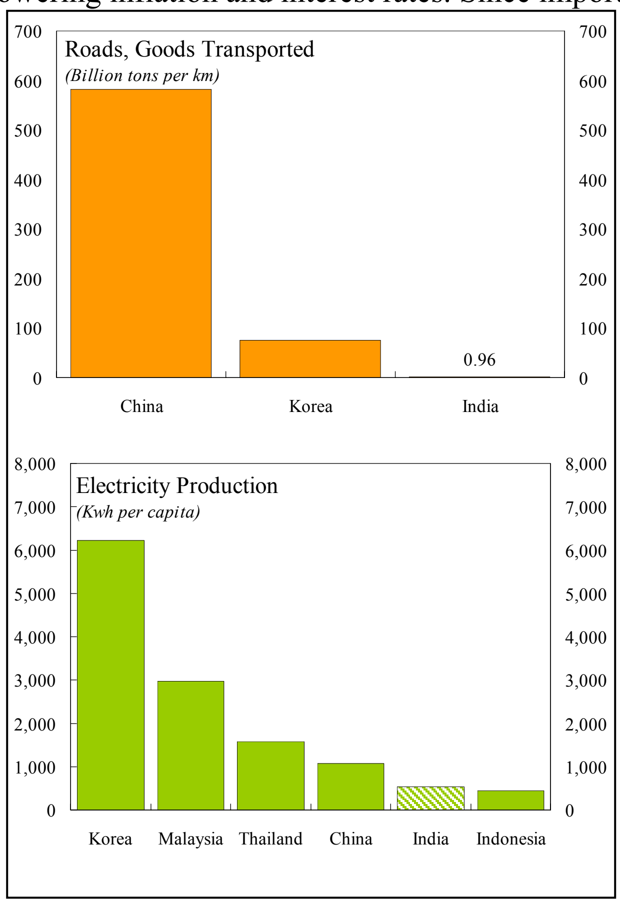
23. **The CMP's ambitious social agenda may be difficult to reconcile with fiscal adjustment efforts**. The anticipated increased outlays for infrastructure and social programs are estimated to cost up to 10 percent of GDP over the medium term. The authorities expect to fund this higher spending in particular by better targeting subsidies, broadening the tax base, and maintaining their surcharge on taxes earmarked for education. However, the CMP does not specify a full envelope of compensating revenue measures.

24. **The authorities emphasized that, while visible action on the CMP goals is necessary now, fully achieving them can only be accomplished over the longer term**. They noted that the CMP goals remained subject to fiscal constraints. For example, the guaranteed employment program was being introduced initially on an experimental basis in the poorest regions. In the meantime, prioritization was seen as key. For example, health and education spending would rise, but such spending also needed to be made much more effective before the full increase contemplated could be justified. Moreover, as the bulk of envisaged new spending, such as for schooling, healthcare, and rural infrastructure are under the purview of the states, they also have to intensify reform efforts.

25. **The authorities are also counting on private sector participation to help remedy India's large infrastructure gap**. They attach priority to responding to infrastructure needs now, while building the necessary consensus to implement the reforms needed to create fiscal space. A key focus of the authorities' efforts is the setting up of a new regulatory framework for infrastructure, encompassing a transparent policy regime, independent regulators, and simple rules to enhance the prospects for successful public-private partnerships (PPPs) and reduce demands for large guarantees by private investors.

26. **With reserves at a comfortable level, a debate is ongoing on whether to use a portion of these reserves to finance infrastructure**. A proposal is to use US$15 billion of reserves over 3 years (0.6 percent of GDP per year) for infrastructure spending through the budget. The funds would finance infrastructure projects, including some in rural areas that may not be commercially-viable. The FRBMA deficit targets would be adjusted upward for that period of time.

27. **While recognizing the importance of addressing the large infrastructure gaps, staff underlined a number of concerns with the proposal**. First, it would damage the credibility of the just-introduced FRBMA. Second, the transfer of RBI reserves may compromise perceived central bank independence. Third, a return to monetizing the deficit would reverse progress in recent years in lowering inflation and interest rates. Since imports represent a small part of infrastructure spending, the use of reserves will either inject additional liquidity into an economy already facing a challenge on the inflation front, or require additional spending to finance the domestic portion. A final question is whether lack of financing is the main impediment to infrastructure investment. Private sector representatives expressed the view that they would be interested in financing infrastructure if the main constraint—an inhospitable business climate—was eased. The staff shared this argument with the authorities and suggested that priority be placed on addressing business climate and regulatory issues. Staff also encouraged the RBI to manage a portion of its reserves more actively while keeping risks within acceptable parameters and levels, which could improve returns and increase government revenue.



C. How Far Do Planned Structural Reforms Go?

28. **Progress in addressing a wide range of structural rigidities is key to raising growth, and the agenda of reforms is well known to the authorities**. Building on political consensus, the authorities are emphasizing advancing agriculture development, further trade and capital liberalization, and improving the investment climate. Other important reforms, such as labor market liberalization and privatization, lack consensus for implementation now.

29. **Agriculture reform is critical to growth and poverty reduction**. Almost two thirds of the population depends on agriculture for income, and the majority of the poor live in rural areas. The authorities are focusing on rural infrastructure and increased priority credit to agriculture to remedy a long-term fall in productivity. Staff welcomed the priority given to agriculture reform, but underlined that rural infrastructure requires significant resources, especially from states, and that efforts to induce banks to lend more to agriculture could exacerbate risks—especially as NPAs appear to be higher in priority lending. Staff encouraged the authorities to undertake more fundamental reforms to unleash the potential in agriculture. This involves changes in the system of crop procurements and price supports to improve incentives to diversify and export; reducing the fiscal burden of inefficient fertilizer, water, and power subsidies to free resources for needed infrastructure; and eliminate the remaining interstate barriers to agricultural trade to expand market opportunities.[13]

30. **The authorities aim at doubling India's share in world trade and are committed to reducing tariffs to ASEAN levels by 2009**. India's trade regime remains restrictive, although some progress was achieved this year with the reduction in the peak custom rate from 30 percent to 20 percent. The average tariff has also declined, although it still reaches 22 percent in 2004.[14] Considerable scope for trade liberalization remains, and staff encouraged the authorities to take advantage of the favorable external position to reduce both tariff and nontariff barriers.[15] Staff noted that with tax reform in the works, the pace of tariff reduction could be increased without undermining efforts at fiscal consolidation. Benefits from liberalization would be magnified by improvements in infrastructure, especially ports, and cuts in red tape. In this regard, the authorities were working on simplifying customs clearance. India has reached a Free Trade Agreement with other South Asia countries (SAFTA) and is negotiating FTAs with Thailand, ASEAN, and Singapore. It has also signed a preferential trade agreement with Mercosur. The authorities view these agreements as fully consistent with multilateral liberalization, since they build on increased regional trade ties and lay the groundwork for wider economic cooperation (Box 3). Staff encouraged the authorities to focus on multilateral liberalization to mitigate potential adverse effects of regional integration, such as trade diversion. In this context, the authorities viewed the completion of the Doha round of trade negotiations as having potentially important benefits

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[13] See "The Approach to the Mid-Term Appraisal of the Tenth Five-Year Plan" put forward by the Planning Commission in September 2004.

[14] India rated an 8 in the Fund's trade restrictiveness index in 2003 (10 is most restrictive).

[15] While tariffs have been reduced and quantitative restrictions were largely eliminated in 2001, India has increasingly relied on nontariff barriers, including technical standards and regulations, sanitary rules, local content schemes and quotas. Also, India has initiated 15 percent of all anti-dumping cases during 1995–2004.

for India, but argued that rolling back agricultural supports in industrial countries would be key. The authorities also indicates that they expect to benefit from the elimination of textile quotas as they have been quota-constrained, but agreed with staff that the extent of the gain would depend on progress in structural reform.

31. **Staff supported the authorities' cautious approach to liberalizing the capital account**. The authorities thought that fiscal consolidation and further strengthening of the financial sector were preconditions for fully opening the economy to capital flows. Important measures were, however, implemented this year. In particular, corporates' access to international capital markets was eased, with RBI approval required only for external loans above US$500 million (from US$50 million) as long as minimum maturity requirements are met. The ceiling on foreign investors' holdings of government bonds was raised. Limits on capital outflows for residents were also relaxed. Staff encouraged the authorities to address fiscal and financial sector vulnerabilities limiting further opening.

32. **While strongly welcoming the attention given to improving India's business climate, staff noted that labor market rigidities remain one of the greatest challenges of doing business in India** (Box 4). These rigidities also deter job creation in the formal sector—an important priority given India's rising labor force.[16] The authorities acknowledged that labor rigidities were a problem, but stated that it was necessary to advance carefully—in particular given the absence of an adequate social safety net—and to coordinate closely with states. The government has reduced the list of activities subject to Contract Labor Law, and is proposing to use Special Economic Zones to introduce more flexible labor markets on a "pilot" basis.

D. How Can the Financial Sector Reach its Full Potential?

33. **The authorities have made commendable progress in strengthening banking system soundness and supervision**. Gross nonperforming assets (NPAs) declined to 7.2 percent in 2003/04 from 8.8 percent in 2002/03, despite a tightening of loan classification norms, and capital adequacy ratios are now well above the 9 percent minimum (Table 11). Among the specific steps taken are:

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[16] With India's youthful demographics, it is estimated that 110 million new jobs need to be created over the next decade just to keep the unemployment rate from rising.

Box 3. India's Increasing Regional Integration

India's increasing integration into regional trade and production chains has often been overlooked in the context of its emergence as a global leader in service exports. Trade between India and Asia has surged on the back of strong nonagricultural growth in India and the pickup in growth in Asia. In the first half of 2004, India's goods imports from Asia grew by 45 percent, more than double the rate recorded the previous year, buoyed by strong demand for capital goods, electronics, and chemicals. Meanwhile, the annual value of goods exports to Asia has surged about 20 percent during the past four years, led by engineering like auto parts, and pharmaceuticals.

Asia has been the major beneficiary of rising Indian imports and is becoming an important destination for Indian exports.

- By end-2003, Asia's share in Indian imports had risen to 29 percent, up 5½ percentage points since 2000 with growth averaging almost 20 percent per year (see Table). At the same time, market shares in the United States and European Union have fallen to 5½ percent and 20¼ percent respectively.

- Almost a third of Indian exports are destined to Asia, up from just over a quarter in 2000, with exports to China and Sri Lanka growing above 40 percent per year.

India still represents a small market for Asian exports. Even after a decade of trade liberalization, imports represent below 13 percent of GDP, and India accounts for less than 4 percent of Asian exports. As a result, the acceleration in Indian import growth in 2003 is estimated to have had a limited impact on growth in Asia, contributing a total 0.1–0.2 percentage points to growth in Australia, Indonesia, Malaysia, Singapore, Sri Lanka, and Thailand.

India has the potential to become an important export destination for Asia. Import demand is likely to remain high as investment picks up. India is committed to reducing tariffs to ASEAN levels and is working to build regional trade relations. It recently set up the South Asian Free Trade Area (SAFTA) and reached a bilateral trade agreement with Thailand. Similar agreements are under negotiation with Singapore, Japan, and ASEAN countries.

India's Trade with Asia

	Indian Imports from:		Indian Exports to:		Exports to India from:	
	2000	2003	2000	2003	2000	2003
	(In percent of total)					
All Asia 1/	23.5	29.1	26.2	31.3	2.8	4.1
Industrial Asia	6.3	6.8	5.2	3.9	0.7	0.8
Japan	4.0	3.4	4.1	2.9	0.5	0.5
Australia	2.1	3.3	1.0	0.9	1.7	3.1
New Zealand	0.2	0.1	0.1	0.1	0.6	0.6
Emerging Market Asia	15.8	20.7	15.7	19.9	1.0	1.2
China	5.5	8.4	8.8	10.4	0.6	0.7
Indonesia	1.8	2.7	0.9	1.7	1.9	2.9
Korea	2.0	3.2	1.1	1.2	0.8	1.5
Malaysia	2.8	2.7	1.3	1.4	2.0	2.4
Philippines	0.1	0.2	0.4	0.6	0.2	0.3
Singapore	2.9	2.7	1.9	3.2	2.1	2.1
Thailand	0.7	0.8	1.2	1.3	0.8	0.8
South East Asia	0.9	0.8	4.2	5.9	1.9	2.7

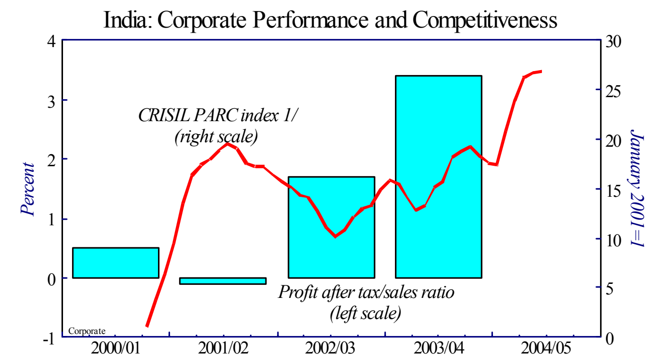
Source: IMF, *Direction of Trade Statistics*.

1/ Asia as reported in DOTS plus Japan, Australia and New Zealand.

Box 4. What Would Make India a Better Place to Do Business?

Corporate India has registered important gains in recent years, reflecting improved competitiveness (See Figure). Growth, initially led by the IT-related sectors, has broadened to manufacturing.

The potential to be tapped remains enormous. Industrial growth and investment in India has lagged that of other emerging markets, resulting in a still small share of world trade (See Table). While recent World Bank Business Climate Surveys show India making important gains in reducing regulatory costs since 2000, realizing India's growth potential requires progress in addressing a number of bottlenecks:



Sources: CMIE; and CRISIL Centre for Economic Research.

1/ The CRISIL PARC (Parameter of Competitiveness) index measures India's competitiveness against ten Asian and Latin American countries using trade-weighted exchange rates and the average inflation differential. An increase in the index indicates increased competitiveness.

- **Lack of Infrastructure**: According to competitiveness surveys, addressing this main constraint to business mainly requires making the enabling legal environment work, establishing regulators (as in telecoms), and improving the regulatory burden (see next). The 2003 Electricity Act and the new investment code will help.
- **Regulatory burden**: Streamlining entry and operation regulations at all levels of government is key to reducing delays, corruption, and business costs. While improvements in administration have helped reduce customs clearance times in India to an average of 7 days relative to China's 10 days, according to the World Bank, it still takes 84 days to start a business in India compared to 46 days in China.
- **Labor market flexibility**: Removing legal restrictions on layoffs and contract work would help. The experiences of Andhra Pradesh and Karnataka states show that progress can be made within the existing legal framework by dispensing with state controls on shift and contract work, and simplifying labor-reporting requirements.
- **Credit**: Improving bankruptcy and loan recovery frameworks would help ease credit constraints, especially on small enterprises.
- **Tax reform**: A uniform state-level VAT and lower trade tariffs would promote export competitiveness.
- **Industrial policy**: Eliminating protections and investment ceilings on small industry would encourage labor-intensive manufacturing and raise scale economies. Privatization and liberalization of FDI could improve efficiency and attract investment.

Export and Industrial Growth: Regional Comparison

	India	China	Korea	Malaysia	Thailand
Industrial growth (1990-2003)	5.8	12.2	6.2	7.5	7.0
Export growth (1990-2003)	9.9	18.4	9.2	11.4	10.8
Share of world exports (2003)	0.8	6.0	2.7	1.4	1.1
Total investment/GDP (2003)	23.5	44.4	29.6	22.1	24.0
Stock of FDI/GDP (2003)	5.5	35.1	6.8	13.7	31.1
Bank credit/GDP (2003)	32	136	75	120	80

Sources: CEIC; UNCTAD; and WEO.

These reforms are particularly relevant for the textile sector where liberalization of labor laws and lifting of remaining small firm protections are needed if the sector is to maximize the potential from the phase-out of Multi Fiber Agreement quotas in 2005.

- The RBI tightened loans classification norms in line with international best practice. In this regard, staff suggested that accelerating the implementation of provisioning norms was desirable since, currently, banks have up to 2009 to meet provisioningstandards on NPAs.[17]

- To strengthen governance in UCBs, the government extended RBI oversight to the boards of those that operate across state borders. It also gave the RBI power to grant licenses to such UCBs that want to undertake banking activities. Staff encouraged the authorities to broaden the range of these reforms to all UCBs, particularly given recent cases in which state governments had to take over the administration of single-state UCBs with bad management practices.

- A prompt corrective action (PCA) framework was introduced in 2003 that guides the intervention of banking supervisors once early signs of distress at banks are identified.

- While taking advantage of business synergies, the RBI is also addressing NPAs in remaining Development Finance Institutions (DFIs) by merging them with public sector banks. Staff stressed the need to ensure that the new entities—which have benefited from government rescue packages—are guided by commercial principles in lending to avoid the reemergence of high NPAs.

34. **The staff welcomed the RBI's decision in October to raise the risk-weight on consumer and housing loans**. Consumer credit is low by international standards, and net NPAs on retail credit remain small, at about 1½ percent of loans portfolio. However, the rapid expansion of these loans recently may challenge risk assessment and management at some banks.

Consumer credit/GDP
(In percent)

India	7.2
Thailand	10.2
Malaysia	49.3
Korea	68.4

Sources: RBI; Asian Banker (2004); and Staff estimates.

35. **In a rising inflation environment, the RBI is encouraging banks to protect against interest rate risk**. Banks are required to hold 25 percent of deposits in government securities as reserves but, with interest rates until recently declining, banks found it profitable to hold these relatively risk-free, fixed-interest securities well in excess of these requirements, to above 40 percent of

[17] Starting in March 2004, banks and urban cooperative banks (UCBs) have to classify a loan as substandard when it is more than 90 days overdue (instead of 180 days previously) and, starting in March 2005, as doubtful if it is overdue for more than a year (18 months previously). Banks have been allowed to phase in the additional provisioning to meet the latter change in loan classification until March 2008.

assets. To cover for the resulting large interest risk, the RBI has encouraged all banks to build investment fluctuation reserves (IFR).[18]

36. **Staff urged the authorities to continue to monitor closely the risk management practices of individual banks, and provide the incentives and tools for appropriate market risk management**. Staff observed that significant interest rate risk remained for banks in a rising interest rate environment, and public sector banks were most exposed.[19] Asset-liability management techniques, use of interest rate derivatives, and provisioning should all be encouraged to manage interest risks. Staff encouraged the authorities to push banks to accelerate the setting aside of capital to cover market risks, now due to be completed only by 2006, noting that a uniform IFR penalizes sound banks unnecessarily and may be insufficient for weaker banks.

37. **Building on the important progress achieved, staff suggested further reform to build a strong, well regulated, and globally competitive financial system**. Several factors inhibit the deepening of bank credit which, at 35 percent of GDP, remains low by regional standards. The new loan recovery framework (SARFAESI) and the introduction of a centralized credit reporting system will help, but staff advised that further action was needed, including:

- Speeding loan recovery procedures—the authorities are planning to amend the SARFAESI to eliminate frivolous appeals by debtors;
- Reviewing the burden on banks of priority lending schemes, in particular to agriculture;
- Enhancing competition by further opening to private and foreign investors, including by raising the FDI cap in private banks and eliminating the 10 percent limit on voting rights in a bank.

E. How Does the RBI Plan to Respond to the Rising Inflation?

38. **The RBI faces the challenge of balancing the risk of slowing the nascent investment recovery and preventing supply-side inflation from generating second-round effects**. Staff and the authorities agreed that inflation has thus far been mainly

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[18] Banks have up to March 2006 to build investment fluctuation reserves (IFR) of 5 percent of portfolios that are marked-to-market. To reduce exposure to interest risk, the RBI, as a one-time measure, allowed banks to shift securities to the held-to-maturity category, which does not require marking to market, after immediately providing for possible losses.

[19] See *Selected Issues,* Chapter V.

a supply-side phenomenon. However, several factors point to the clear potential for second-round effects, including buoyant demand, rapid credit expansion, a still comfortable liquidity, and the fact that the full impact of oil prices has yet to be absorbed in domestic prices. Staff also suggested that economic activity would likely not be unduly compressed by a modest hike in interest rates and that timely action would avoid the potential need for more aggressive action later. Following an increase in reserve requirements (by 50 basis points to 5 percent) in early October, the RBI raised the reverse repo rate by 25 basis points to 4.75 percent at its mid-year policy meeting on October 26.

39. **The RBI took steps to enhance the effectiveness of monetary policy**. Staff and the central bank discussed the need to review the policy operating framework to ensure consistency among the instruments—policy interest rates, primary and secondary market sales of government securities, and reserve requirements—to provide a clear signal of its policy stance and strengthen the monetary transmission mechanism. The RBI explained that a trade-off existed between the flexibility provided by the current use of multiple tools and the clarity of the policy signal afforded by a single instrument. To increase the efficiency of policy, the RBI announced at its mid-year policy review it would conduct monetary policy mainly through secondary market operations with government securities. Staff suggested that additional measures be considered in the future. Linking administered savings interest rates more closely to market-determined government bond rates would limit the dampening impact on policy transmission to aggregate demand. Also, developing more meaningful and timely measures of consumer inflation and inflation expectations would improve policy analysis.

40. **The RBI intends to maintain exchange rate flexibility**. The RBI has allowed increasing flexibility in the exchange rate, in line with the view that the exchange rate should be primarily determined by market forces, with intervention limited to smoothing volatility. Staff agreed with this approach and noted that, while the major structural shifts ongoing in the Indian economy make it difficult to estimate the equilibrium exchange rate, continued capital inflows point to the desirability of more exchange rate flexibility. This would enhance the role of the exchange rate as a shock absorber, help in the current environment of higher inflation, and ease the burden of sterilization in the conduct of monetary policy. Finally, it would encourage market players to hedge their exchange rate risk.

F. How Resilient is India to Much Higher Oil Prices?

41. **India's rapidly growing oil consumption is dependent on imports**. India's demand for oil has more than tripled during the past 20 years, the result of a large elasticity of oil demand to growth, of around 0.8–1, and a growing population. Oil represents the second largest element in consumers' basket after food. About 75 percent of oil needs are imported, and oil imports represent about 20 percent of total goods and services imports. The average import price for India is up US$10

India: Oil Imports

Imports 1/	
US$ billions	22
Percent of GDP	4
Annual growth, 1993-2003	
Value (in percent)	17
Volume (in percent)	8

1/ Twelve months to June 2004.

per barrel (about 35 percent) in the last year to an average US$38 in 2004.

42. **The authorities have adopted a burden-sharing approach to bearing the costs of sharp increases in international oil prices**. About 60 percent of the rise in import prices has been passed through to domestic retail prices so far this year. The price band mechanism for retail petroleum products, which allows oil firms to adjust prices automatically every two weeks when import prices vary within a +/-10 percent range relative their historical rolling average, was allowed to work only 3 times since it was introduced last July. Besides limiting the ability of state-owned oil companies to pass through oil price rises, the government has lowered selected ad valorem excises and import duties on several occasions to help contain inflationary pressures. The fiscal cost of these measures is so far limited to about 0.1 percent of GDP, since the tax rate reduction is partially offset by a higher base value of imports. Oil companies have borne an estimated loss of 0.6 percent of GDP in profits in the first half of the year due to the lack of pass-through.

43. **The authorities acknowledged that scope for limiting pass-through was decreasing**. In the short run, high refining margins provided some relief to state oil companies which are large exporters of refined oil. If oil prices increased again, staff and the authorities agreed that the reduction in budget revenues from further lowering petroleum taxes would be difficult to sustain given India's fiscal position. Further, quasi-fiscal costs on state enterprises would become increasingly problematic. In this light, the authorities increased in November domestic retail prices by 5–10 percent for select petroleum products.

44. **Staff highlighted that passing on the price increase to consumers would, in the longer run, minimize the potential costs to the economy of permanent price changes**. Assuming a full pass-through to domestic oil prices, staff estimates that an additional, US$10 per barrel increase in oil prices could, in the long term, add 2.6 percentage points to the WPI. It would lower growth by 1 percentage point, and reduce the current account surplus by 0.6 percentage points.[20] Passing price rises to final users would, however, provide incentives for increased efficiency in energy use. India has reduced the oil intensity of GDP by one-fifth since the start of the 1990s, thanks to diversification toward coal and gas, and this progress should continue. The poor could be at least partially protected by

India: Long-Term Impact of an Additional US$10 per Barrel Rise in World Oil Prices
(In percentage points)

Growth	- 1.0
WPI	+ 2.6
Current account surplus	- 0.6

[20] These estimates assume no policy responses and reflect the net effect of a reduction in incomes and oil demand in India as a result of the price increase, and of lower exports from a slowdown in global growth. The Fund's MULTIMOD simulations predict a 0.25 percentage point fall in world demand in this context.

targeted subsidies.

45. **Staff also recommended that the authorities move to taxing petroleum products on a specific basis**. Ad valorem excises amplify the cost of oil price shocks for consumers, and complicate fiscal planning. This is also a recommendation of the FRBMA Roadmap. A ministerial committee was reviewing excise taxes and its conclusions were expected soon.

IV. Staff Appraisal

46. **The resilience of the Indian economy in the face of high world oil prices and a weak monsoon is testimony to the benefits of the reforms undertaken since the early 1990s**. India recorded growth above 8 percent growth last year, one of the fastest in the world, and growth remains robust this year. Shortly after the elections, the new government announced an ambitious reform agenda and affirmed its commitment to addressing India's large fiscal imbalances.

47. **The generally favorable economic environment provides a great opportunity for India to make a bold push toward achieving its own ambitious goals**. The new government has rightly placed emphasis on accelerating annual growth to 8 percent to create jobs and improve living standards of the poor, especially in rural India. Such goals are well within India's grasp, given India's positive demographics and strong institutions, provided the reform momentum is reinvigorated. The policy agenda is well known to the authorities, and what is needed now is action on as many fronts as possible.

48. **The FRBMA provides a good framework for restoring fiscal sustainability and implementation is key**. The staff supports the thrust of the FRBMA Roadmap, featuring front-loaded and revenue-led adjustment and improved quality of spending. This approach has the potential of freeing significant resources for much-needed infrastructure and priority social spending. Rapid implementation of the tax reform, especially introducing the state VAT, removing most exemptions, broadening the service tax base, and improving tax administration, is thus critical.

49. **Revenue reforms need to be complemented by steps to increase the efficiency of spending**. Even with the full implementation of the revenue recommendations of the Roadmap, achieving the planned increases in public investment and social spending within the FRBMA targets requires strong efforts to reduce low priority spending.

50. **It is key for the center to meet its fiscal targets and establish credibility in the first year of implementation of the FRBMA**. While efforts to improve tax compliance are welcome, the 2004/05 budget does not make much headway in advancing tax reform and rationalizing spending priorities. With the current deficit exceeding the mid-year target, it would be prudent to prepare contingency measures to ensure that budget targets are met. Avoiding fiscal slippage is particularly relevant at the current juncture, as private credit grows strongly and the long-awaited recovery in private investment seems to be taking off.

Looking forward, the 2004/05 budget—the first full-year budget for this government—provides the opportunity for medium-term fiscal reforms to be implemented in earnest.

51. **Notwithstanding reform efforts to date, much more is needed to strengthen state finances**. State deficits represented half of the general government deficit last year, and states are responsible for much of the social and capital spending. It is encouraging that some states have introduced their own fiscal responsibility legislation. The center could also make more effective use of the range of incentive mechanisms and enforcement devices, such as borrowing limits, debt swaps and debt forgiveness, to push states to reform. Enhanced information on state finances would strengthen the effectiveness of this approach.

52. **The staff strongly supports the government's emphasis on closing India's infrastructure gap, but has concerns about using RBI reserves for financing**. Clearing fiscal space for public investment is critical in order for the increased outlays not to compromise fiscal targets and undermine credibility. The use of reserves would not resolve these issues, and also has the potential to compromise RBI independence and add to inflation pressures. Given the large infrastructure needs and tight budget constraints, it is also sensible to look for ways to bring in the private sector. Improvements to the investment climate, including by enhancing the regulatory framework for infrastructure, will greatly enhance the prospects for successful PPPs while limiting fiscal risks.

53. **Sustained progress is needed with other reforms that are critical to generating growth**. The continuing liberalization of small industries is a positive step. Progress is needed on liberalizing restrictive labor laws. Without the freedom to restructure their workforce in light of market conditions, firms will have little incentive to create new jobs. These reforms would be more feasible if efforts are also made to build an adequate social safety net.

54. **Agriculture reform is critical to growth and poverty reduction**. Agricultural productivity is declining and the government's focus on rural infrastructure and increased credit to agriculture should help reverse this trend. However, implementing these measures faces challenges. Increased investment in rural infrastructure requires creating fiscal space, especially at the state level, and efforts to induce banks to lend more to agriculture could impose a burden on the financial system. Accordingly, more fundamental reform and liberalization is needed to unleash the potential of the key sector. This involves changes in the system of minimum price supports and procurements; a rationalization of fertilizer, water, and power subsidies; and lifting the remaining barriers to interstate goods movements.

55. **The continued strength in the balance of payments presents a good opportunity to liberalize further external transactions**. The recent rise in FDI caps in civil aviation (private airlines only) was an important step, and following through on raising other sector limits, including for telecom and insurance, would send a clear signal that India is open for business. In this context, enhancing the business climate, including by easing the burden of regulations, would help. Trade liberalization should also be accelerated by lowering tariffs,

introducing a more uniform duty structure, and eliminating administrative barriers. This would also unleash a potentially powerful engine of growth for India.

56. **Commendable progress has been made in strengthening financial sector performance, but challenges remain**. In particular, banks' interest risk from large holdings of government securities is significant in the rising interest rate environment. The RBI should strengthen risk-based supervision, to ensure that the most vulnerable banks are adequately provisioned. The recent decision by the RBI to increase the risk-weight on personal and housing loans is welcome given the strong credit growth in these sectors. However, while increased lending to agriculture is an important objective of the government's economic policy, care should be taken that such lending be undertaken on commercial basis to protect banks' profitability and soundness. With the move to international best practices in loan classification, the timetable for tightening of provisioning standards should also be accelerated.

57. **More remains to be done to build a strong, well-supervised, and globally competitive financial system in India**. Cooperative banks have come under increased pressure, raising concerns about their governance and oversight. Also, the authorities' strategy for the future of DFIs needs to be clarified. To avoid the buildup of contingent claims on government resources, the new institutions should be allowed to base their investment decisions on commercial principles. More generally, further liberalization and opening up to private and foreign investors would be desirable, together with commensurate strengthening of risk-based supervision.

58. **It is understandable that the authorities have adopted a burden-sharing approach to bearing the costs of sharp increases in international oil prices, but this may not be sustainable**. With WEO projections pointing to high oil prices for some time, the authorities should allow their automatic price band mechanism to operate fully. Passing through oil price fluctuations to consumers provides incentives for increasing consumption efficiency and shifting to energy alternatives. Shifting petroleum taxation to a specific basis would avoid amplifying oil shocks through the tax system.

59. **The recent tightening of monetary policy was appropriate**. Inflation still largely reflects supply-driven price rises but capacity utilization is high and the investment cycle is picking up. In this context, the RBI's 25 basis point increase in the repo rate signaled its commitment to price stability, stabilized inflation expectations, and likely avoided the need for a more aggressive move later. Credit is expanding rapidly and the RBI needs to continue monitoring inflation closely and take prompt action as needed. Staff endorses the RBI's two-way flexibility in exchange rate management. Should capital inflows remain strong and upward pressure on the rupee continue, increasing exchange rate flexibility would help fight inflation, facilitate economic adjustment, and encourage hedging of foreign exchange risk.

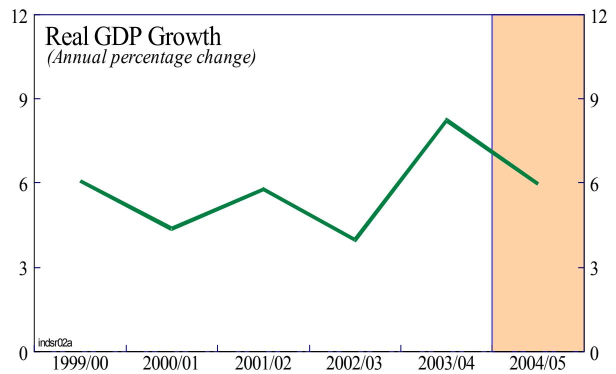
60. **There have been improvements in the quality of statistics in several macroeconomic areas**. With assistance from the Fund in some areas, the authorities are now

working to develop more timely and comprehensive indicators of inflation; annual and quarterly real GDP on an expenditure basis; and more timely and high frequency data on state finances. The authorities are encouraged to undertake updates of the FSAP and fiscal ROSC. The previously identified restrictions subject to approval under Article VIII should be removed as soon as possible.

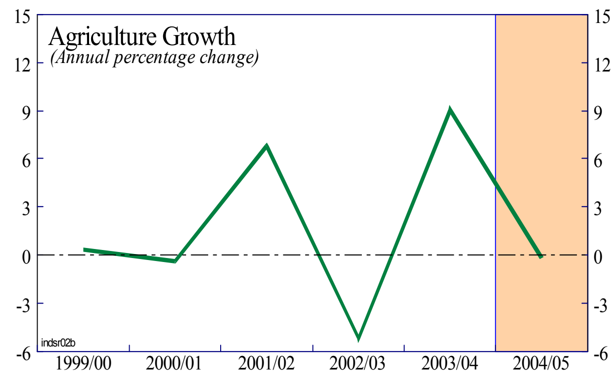
61. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. India: Growth

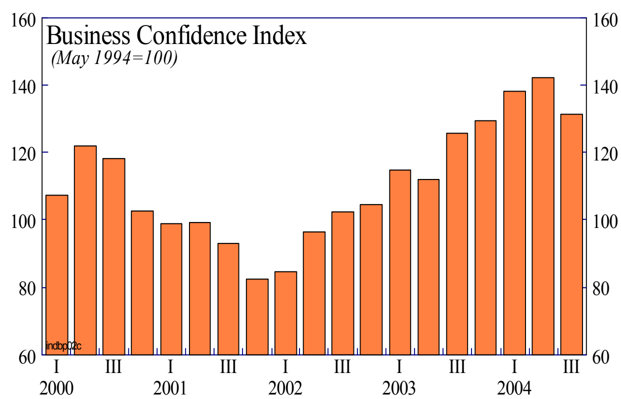
Growth remains robust.



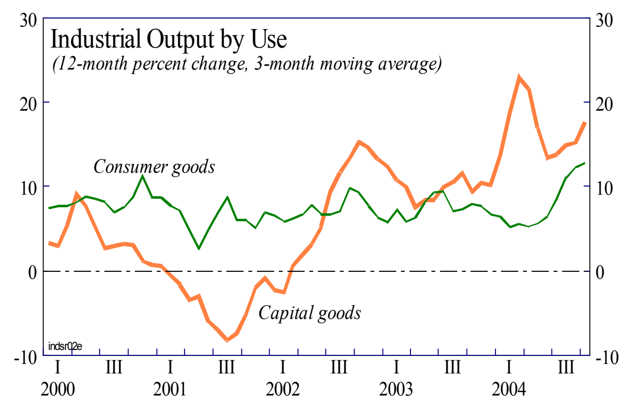
Despite below-average rainfall this year and a likely slowdown in agriculture growth...



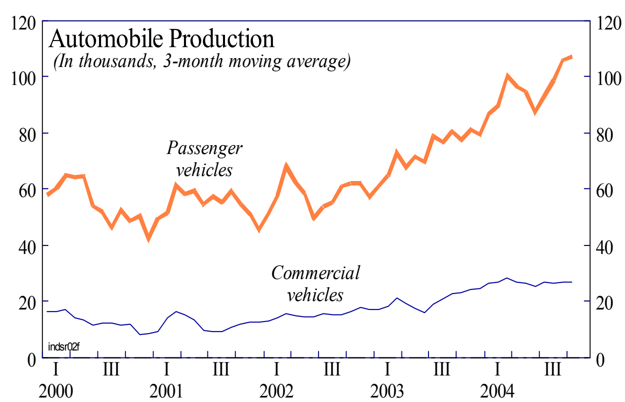
...business confidence is high...



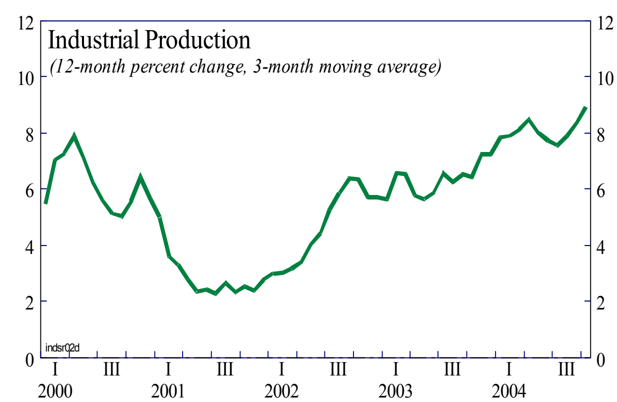
...investment appears to be picking up...



...and consumption is rising...



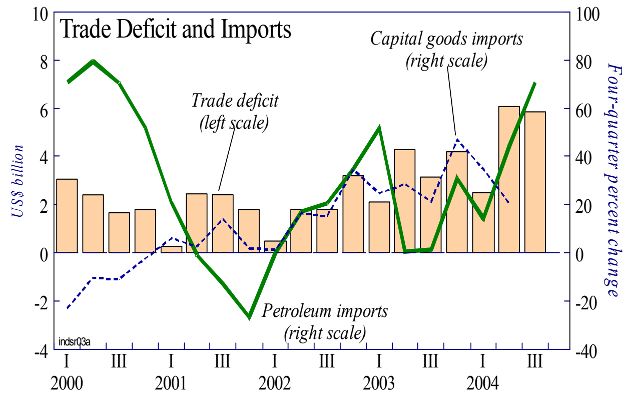
...supporting a steady recovery in industrial production.



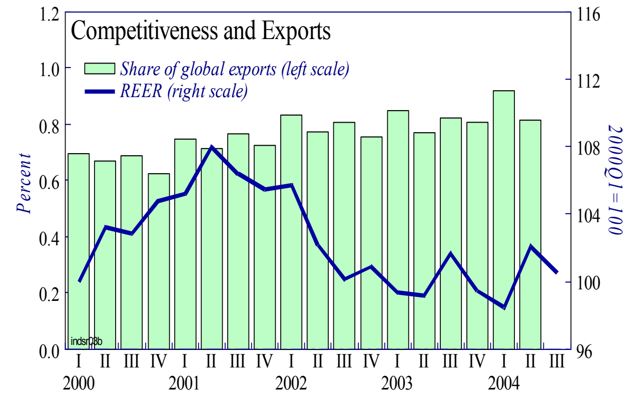
Sources: Data provided by the Indian authorities; CEIC Data Company Ltd; NCAER; and IMF staff projections.

Figure 2. India: External Sector

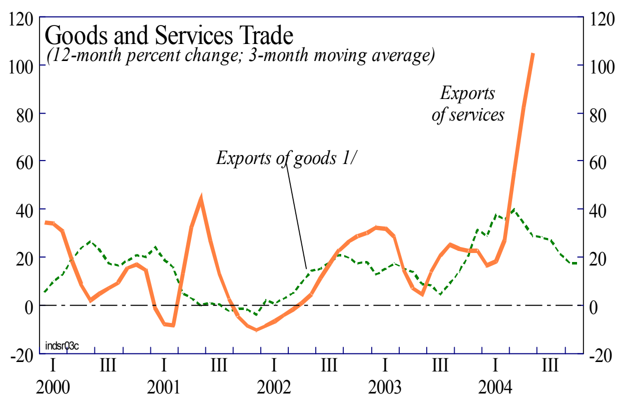
The trade deficit is widening on high oil prices and strong capital goods imports.



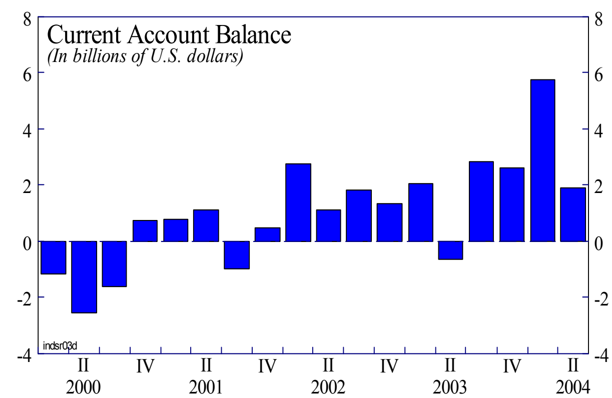
Steady competitiveness and gains in market share...



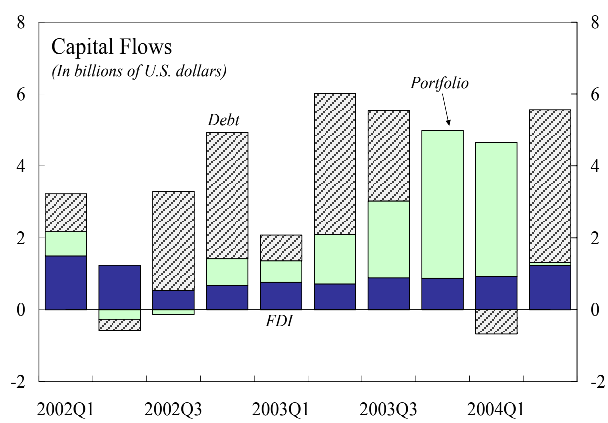
...are supporting strong exports growth in goods and services...



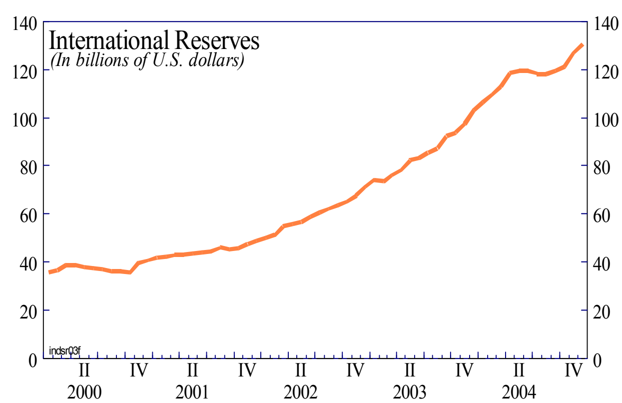
...and the current account is projected to remain in surplus this year.



Capital flows have recovered...



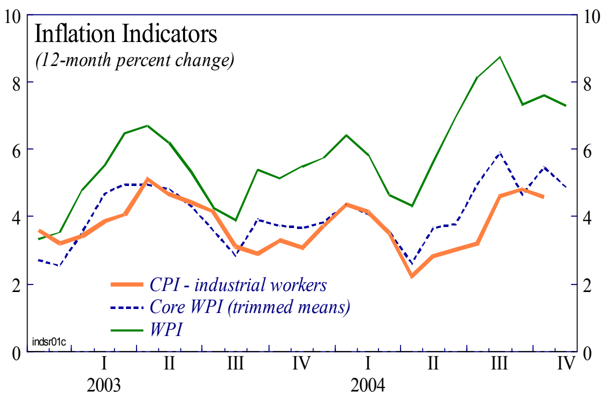
...and reserves remain comfortable.



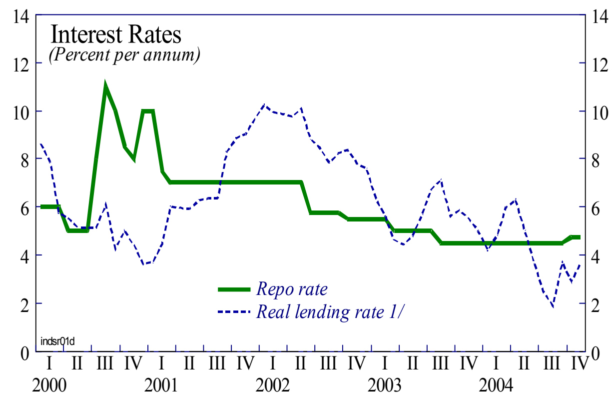
Sources: Data provided by the Indian authorities; and CEIC Data Company Ltd.
1/ Customs data; based on U.S. dollar values.

Figure 3. India: Money and Inflation

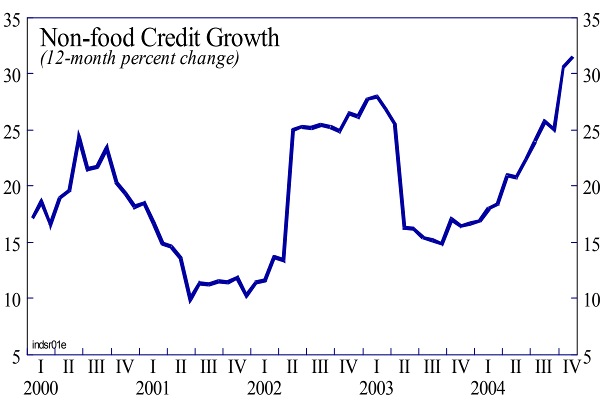
High commodity prices have triggered a run-up in inflation.



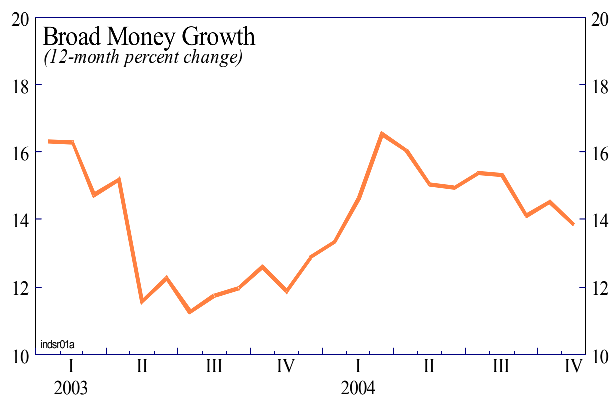
To avoid second-round effects, the central bank has raised its repo policy rate.



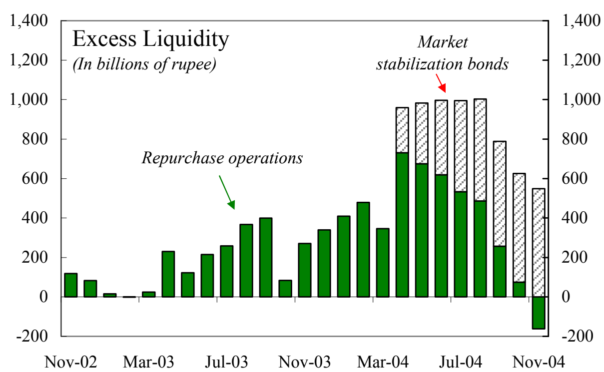
Credit has been growing rapidly...



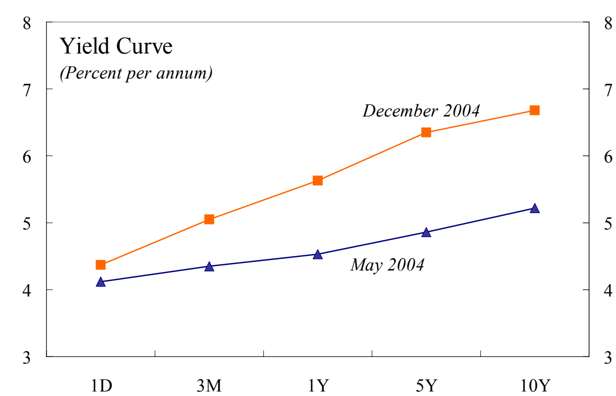
...the expansion in money has decelerated...



...and liquidity is tightening...



...reflected in a steepening of the yield curve.

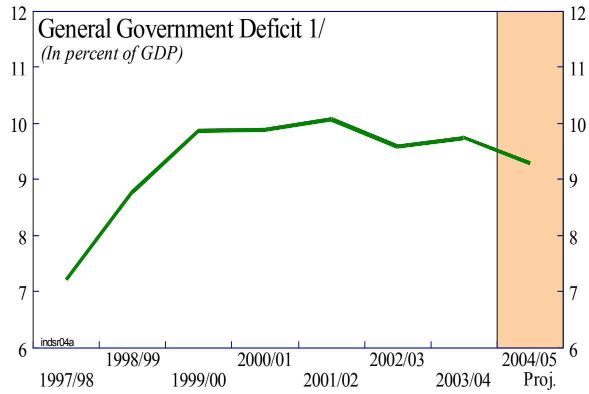


Sources: Data provided by the Indian authorities; CEIC Data Company Ltd; and IMF staff projections.

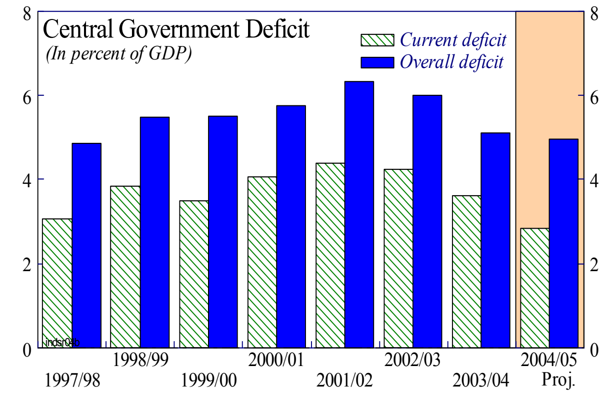
1/ Prime lending rate deflated by the WPI.

Figure 4. India: Fiscal Trends

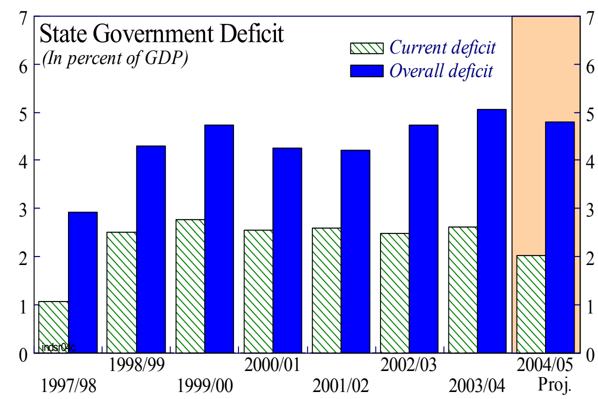
The public sector has run sizable deficits.



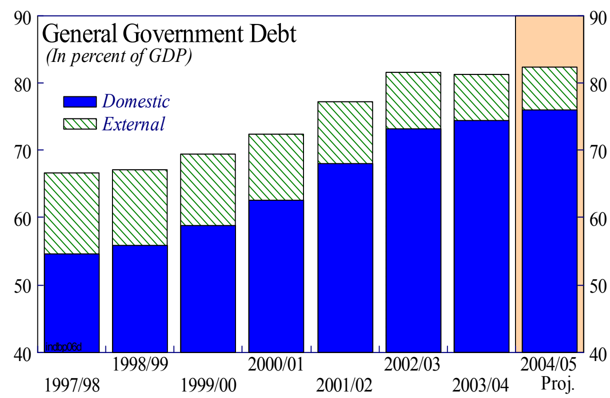
The central government is making efforts to adjust...



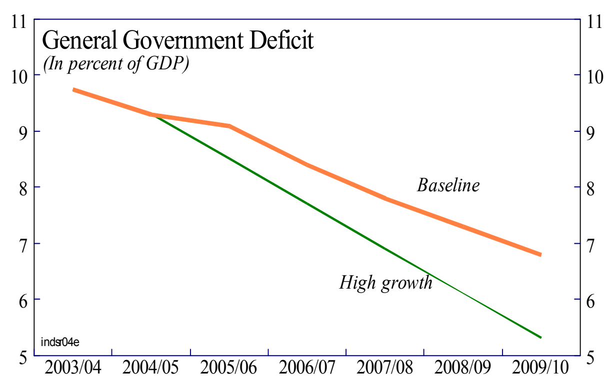
...but states' fiscal situation is worsening...



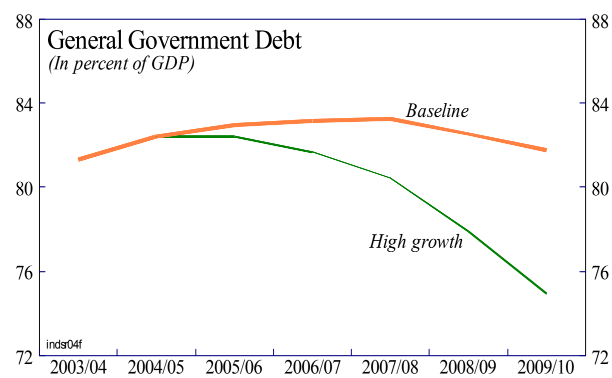
...and the debt ratio is increasing.



The Fiscal Responsibility Act should engineer a consolidation of public finances...



...but the large public debt will remain a burden.



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

1/ Excluding privatization receipts.

Table 1. India: Millennium Development Goals 1/

	1990	1995	2001	2002
Eradicate extreme poverty and hunger 2/	(2015 target = halve 1990 $1 a day poverty and malnutrition rates)			
Population below $1 per day (in percent)	...	...	34.7	...
Poverty gap at $1 per day (in percent)	...	...	8.2	...
Percentage share of income or consumption held by poorest 20 percent	...	...	8.9	...
Prevalence of child malnutrition (in percent of children under 5)	63.9	53.2	46.7	...
Population below minimum level of dietary energy consumption (in percent)	25.0	21.0	21.0	...
Achieve universal primary education 3/	(2015 target = net enrollment to 100)			
Net primary enrollment ratio (in percent of relevant age group)	...	...	83.3	...
Percentage of cohort reaching grade 5 (in percent)	...	58.6	59.0	...
Youth literacy rate (in percent of ages 15-24)	64.3	68.5	72.6	...
Promote gender equality 4/	(2005 target = education rate to 100)			
Ratio of girls to boys in primary and secondary education (in percent)	70.0	75.0	78.6	...
Ratio of young literate females to males (in percent of ages 15-24)	73.9	77.7	81.3	...
Share of women employed in the nonagricultural sector (in percent)	12.7	14.4	17.1	...
Proportion of seats held by women in national parliament (in percent)	...	8.0	...	...
Reduce child mortality 5/	(2015 target = reduce 1990 under 5 motality by two thirds)			
Under 5 mortality rate (per 1,000)	123.0	104.0	94.0	90.0
Infant mortality rate (per 1,000 live births)	84.0	74.0	68.0	65.0
Immunization, measles (in percent of children under 12 months)	56.0	72.0	56.0	67.0
Improved maternal health 6/	(2015 target = reduce 1990 maternal mortality by three fourths)			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	540.0	...
Births attended by skilled health staff (in percent of total)	...	34.2	42.5	...
Combat HIV/AIDS, malaria, and other diseases 7/	(2015 target = halt, and begin to reverse, AIDS, etc.)			
Prevalence of HIV, female (in percent of ages 15-24)	...	...	0.7	...
Contraceptive prevalence rate (in percent of women ages 15-49)	44.9	40.7	51.8	...
Number of children orphaned by HIV/AIDS	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	...	...	178.0	167.8
Tuberculosis cases detected under DOTS (in percent)	...	1.0	23.0	31.1
Ensure environmental sustainability 8/	(2015 target = various /1)			
Forest area (in percent of total land area)	21.4	...	21.6	...
Nationally protected areas (in percent of total land area)	...	4.8	4.8	5.2
GDP per unit of energy use (PPP$ per kg. oil equivalent)	3.2	3.9	5.0	...
CO2 emissions (metric tons per capita)	0.8	1.0	1.1	...
Access to an improved water source (in percent of population)	68.0	...	84.0	...
Access to improved sanitation (in percent of population)	16.0	...	28.0	...
Access to secure tenure (in percent of population)	...	...	...	...
Develop a global partnership for development 9/	(2015 target = various /2)			
Youth unemployment rate (in percent of total labor force ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	6.0	13.0	43.8	51.9
Personal computers (per 1,000 people)	0.3	1.3	5.8	7.2
General indicators				
Population (in billions)	0.85	0.93	1.04	1.06
Gross national income (in billions of U.S. dollars)	330.6	349.6	477.9	494.8
GNI per capita (in U.S. dollars)	390.0	380.0	460.0	470.0
Adult literacy rate (in percent of people ages 15 and over)	49.3	53.3	61.3	...
Total fertility rate (births per woman)	3.8	3.4	3.1	2.9
Life expectancy at birth (in years)	59.1	61.4	62.9	63.4
Aid (in percent of GNI)	0.4	0.5	0.4	0.3
External debt (in percent of GNI)	26.7	26.9	20.5	20.6
Investment (in percent of GDP)	24.1	26.5	22.3	22.8
Trade (in percent of GDP) 10/	14.6	21.5	21.1	23.2

Source: *World Development Indicators* database, April 2004.

1/ In some cases the data are for earlier or later years than those stated.
2/ Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
3/ Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
4/ Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
5/ Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
6/ Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
7/ Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
8/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
9/ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.
10/ Based on financial year data.

Table 2. India: Summary Indicators 1/

Nominal GDP (2003/04): US$604 billion
Population (2003/04): 1.07 billion
GDP per capita (2003/04): US$565
Quota: SDR 4,158.2 million

	2000/01	2001/02	2002/03	2003/04	2004/05 2/					
				Prov.	Proj.	Aug	Sep	Oct	Nov	Dec 3/
Growth (y/y percent change)										
Real GDP (at factor cost)	4.4	5.8	4.0	8.2	6.4	...	...	...	...	...
Real GDP (at factor cost, calendar year basis)	5.4	4.5	4.7	7.0	6.8	...	...	...	...	...
Industrial production	5.0	2.7	5.8	7.0	…	8.0	8.8	10.1	...	...
Prices (y/y percent change, period average for annual data)										
Wholesale prices (1993/94 weights)	7.2	3.6	3.4	5.4	6.9	8.7	7.3	7.5	7.3	7.0
Consumer prices - industrial workers	3.8	4.3	4.0	3.9	4.7	4.6	4.8	4.6	...	...
Saving and investment (percent of GDP)										
Gross saving 4/	23.7	23.5	24.2	26.3	25.7	...	...	...	...	...
Gross investment	24.4	23.1	23.3	24.6	25.3	...	...	...	...	...
Fiscal position (percent of GDP) 5/										
Central government deficit	5.7	6.3	6.0	5.1	5.0	...	...	...	...	...
General government deficit	10.0	10.1	9.6	9.7	9.3	...	...	...	...	...
General government debt	72.9	77.3	81.6	81.3	82.4	...	...	...	...	...
Money and credit (y/y percent change, end-period)										
Broad money	16.8	14.1	14.7	16.6	...	15.7	14.4	14.2	13.7	...
Credit to commercial sector	15.8	11.8	18.4	13.2	...	20.5	20.9	25.1	26.7	...
Financial indicators (percent, end-period)										
91-day treasury bill yield	8.7	6.1	5.9	4.2	...	4.6	4.9	5.3	5.2	5.1
10-year government bond yield	10.4	7.4	6.1	5.1	...	6.2	6.2	6.9	7.2	6.7
Stock market (y/y percent change, end-period)	-27.9	-3.7	-12.1	83.4	...	22.3	25.4	15.6	23.6	8.7
External trade 6/										
Exports (US$ billions)	45.5	44.7	53.8	64.7	81.4	5.6	6.2	5.9	6.1	...
y/y percent change	21.1	-1.6	20.3	20.4	25.8	28.2	17.4	9.5	25.9	...
Imports (US$ billions)	57.9	56.3	64.5	80.2	105.0	7.7	8.6	8.3	9.0	...
y/y percent change	4.6	-2.8	14.5	24.4	30.9	25.6	41.2	19.7	43.1	...
Net oil imports (US$ billions)	13.8	11.8	15.6	16.7	...	...	...	...	...	...
Balance of payments (US$ billions)										
Current account balance 4/	-2.7	3.4	6.3	10.6	2.5	...	...	...	...	...
(in percent of GDP)	-0.6	0.7	1.2	1.7	0.4	...	...	...	...	...
(in percent of GDP, calendar year basis)	-1.0	0.3	1.4	1.2	0.7	...	...	...	...	...
Foreign direct investment, net	3.3	4.7	3.2	3.4	5.3	...	...	...	...	...
Portfolio investment, net (equity and debt)	2.6	2.0	0.9	11.4	9.9	0.5	0.6	0.4	1.8	1.8
Overall balance	5.9	11.8	17.0	31.4	22.9	...	...	...	...	...
External indicators										
Gross reserves (US$ bn. end-period)	42.9	54.7	76.1	113.0	136.8	118.2	119.6	121.3	128.2	130.7
(In months of imports) 7/	7.3	8.0	9.3	10.5	10.9	12.2	12.3	12.5	13.1	13.4
Net of forward liabilities (US$ bn. end-period)	41.6	54.3	78.5	114.4	...	118.3	119.6	...	...	...
External debt (percent of GDP, end-period)	22.6	21.1	20.2	17.6	16.0	...	...	...	...	...
Of which : short-term debt 8/	2.3	3.0	3.8	2.1	3.1	...	...	...	...	...
Ratio of gross reserves to short-term debt (end-period)	4.1	3.9	3.9	8.8	6.3	5.4	5.5	5.6	5.8	...
Gross reserves to broad money (percent; end-period)	15.0	17.6	21.0	24.5	...	26.0	26.2	25.8	26.5	...
Debt service ratio 9/	16.2	13.4	15.8	18.3	7.3	...	...	...	...	...
Real effective exchange rate										
(y/y percent change, period average for annual data)	6.4	2.3	-5.4	-0.9	...	-1.8	-1.4	0.3	-0.8	...
Exchange rate (rupee/US$, end-period)	46.6	48.8	47.5	43.6	...	46.4	46.0	45.4	44.6	44.0

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

1/ Data are for April-March fiscal years.
2/ Current staff projections.
3/ Incomplete month, latest available figures for the month reported.
4/ In official data, national accounts are not reconciled with balance of payments data.
5/ Privatization investment proceeds treated as below-the-line financing.
6/ Monthly data are on a customs basis; annual data are on a BOP basis.
7/ Imports of goods and services projected over the following twelve months.
8/ Residual maturity basis, except contracted maturity basis for medium and long-term non-resident Indian accounts.
9/ In percent of current account receipts excluding grants.

Table 3. India: Balance of Payments 1/

(In billions of U.S. dollars)

	2001/02	2002/03	2003/04 Prov.	2004/05 Proj.	2003/04 Q1	2003/04 Q2	2003/04 Q3	2003/04 Q4	2004/05 Q1
Current account balance	3.4	6.3	10.6	2.5	-0.6	2.8	2.6	5.8	1.9
Merchandise trade balance	-11.6	-10.7	-15.5	-23.6	-5.6	-3.8	-4.6	-1.5	-6.3
Merchandise exports	44.7	53.8	64.7	81.4	13.2	14.8	16.4	20.3	16.8
Merchandise imports	56.3	64.5	80.2	105.0	18.7	18.6	21.1	21.8	23.1
Oil	14.0	18.1	20.2	29.1	4.6	4.6	5.4	5.6	6.6
Non-oil	42.3	46.3	60.0	75.9	14.1	14.0	15.7	16.2	16.5
Non-factor services balance	3.3	3.6	6.6	9.5	1.0	0.7	3.4	1.5	3.2
Receipts	17.1	20.8	24.9	33.5	5.1	5.9	6.6	7.3	10.6
Of which : Software services	7.6	9.6	12.2	…	2.7	2.8	3.1	3.5	3.5
Payments	13.8	17.1	18.4	24.0	4.1	5.2	3.2	5.8	7.4
Of which : Software services	0.7	0.7	0.5	…	0.2	0.1	0.0	0.2	0.1
Income, net	-4.2	-3.4	-4.0	-4.6	-0.9	-0.7	-2.2	-0.2	-0.4
Transfers, net	15.9	16.8	23.4	21.2	4.9	6.6	6.1	5.9	5.3
Capital account balance	8.6	10.8	20.5	20.4	6.0	5.5	5.0	4.0	5.6
Direct investment, net 2/	4.7	3.2	3.4	5.3	0.7	0.9	0.9	0.9	1.2
Portfolio investment, net	2.0	0.9	11.4	9.9	1.4	2.1	4.1	3.7	0.1
External assistance, net	1.1	-3.1	-2.7	2.1	-0.3	0.1	-1.6	-0.9	0.1
Commercial borrowing, net	-1.6	-1.7	-1.5	0.5	0.4	-0.2	-3.6	1.9	1.2
Short-term credit, net	-0.8	1.0	1.4	1.1	0.9	1.1	0.3	-0.9	1.6
NRI deposits, net	2.8	3.0	3.6	-1.2	1.8	0.4	1.5	-0.1	-0.8
Rupee debt	-0.5	-0.5	-0.4	-0.3	-0.3	0.0	0.0	-0.1	-0.3
Other capital, net 3/	0.9	8.0	5.3	3.0	1.5	1.1	3.3	-0.5	2.5
Errors and omissions	-0.2	-0.2	0.3	0.0	0.1	0.2	-0.3	0.3	0.1
Overall balance	11.8	17.0	31.4	22.9	5.5	8.6	7.3	10.1	7.5
Valuation change	0.1	4.4	5.4	1.0	1.7	0.5	3.5	-0.3	-1.0
Increase in gross reserves (-)	-11.8	-21.4	-36.9	-23.8	-7.1	-9.1	-10.8	-9.8	-6.5
Memorandum items :									
Change in forex reserves (includes valuation)	11.8	21.4	36.9	23.8	7.1	9.1	10.8	9.8	6.5
Foreign exchange reserves	54.7	76.1	113.0	136.8	83.2	92.3	103.2	113.0	119.5
In months of next year's imports (goods & services)	8.0	9.3	10.5	10.9	9.4	9.7	10.9	11.9	12.6

Sources: Data provided by CEIC; and staff estimates and projections.

1/ Fiscal year runs from April 1-March 31. Indian authorities' presentation, including new methodology to estimate direct investment.
2/ Net foreign direct investment in India less net foreign investment abroad.
3/ Net other capital is sum of net banking capital (RBI format) and net other capital (RBI format) less net NRI deposits.

Table 4. India: Reserve Money and Monetary Survey 1/

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Aug	Sep	Oct	Nov	Dec
Reserve money	(In billions of rupees; end-period)									
Reserve money	2,806	3,033	3,380	3,691	4,365	4,299	4,234	4,424	4,556	4,549
Net domestic assets of RBI	1,147	1,061	740	108	-479	-1,152	-1,133	-1,026	-1099	-1,133
Claims on government (net)	1,483	1,539	1,522	1,207	449	106	46	226	183	48
Center	1,398	1,465	1,414	1,206	369	74	24	181	141	26
States	84	73	108	1	80	32	22	44	42	22
Claims on commercial sector	153	73	25	-149	21	19	19	19	19	19
Claims on banks	168	130	107	71	54	21	19	23	54	56
Other items (net)	-656	-680	-915	-1,020	-1,003	-1,298	-1,216	-1,294	-1,355	-1,256
Net foreign assets of RBI	1,659	1,972	2,640	3,582	4,844	5,450	5,367	5,450	5656	5681
	(Contribution to reserve money growth)									
Reserve money	8.2	8.1	11.4	9.2	18.3	14.8	15.3	14.4	16.5	16.3
Net domestic assets of RBI	-2.6	-3.0	-10.6	-18.7	-15.9	-26.1	-20.3	-18.2	-15.3	-11.7
Claims on government (net)	-1.6	2.0	-0.6	-9.3	-20.5	-17.1	-15.9	-12.6	-11.6	-11.7
Net foreign assets of RBI	10.8	11.2	22.0	27.9	34.2	40.7	35.3	32.3	31.8	28.0
Monetary survey	(In billions of rupees; end-period)									
Broad money (M3)	11,242	13,132	14,984	17,180	20,031	21,059	20,968	21,367	21402	21515
Currency with public	1,891	2,096	2,408	2,716	3,155	3,254	3,262	3,309	3,432	3,418
Deposits	9,321	11,000	12,547	14,431	16,825	17,760	17,662	17,994	17,926	18,051
Non-bank deposits at RBI	31	36	29	33	51	45	44	64	44	46
Net domestic assets	9,186	10,634	11,874	13,243	14,765	15,270	15,223	15,540	15,369	15,456
Domestic credit	10,279	11,912	13,492	15,755	17,634	18,447	18,445	19,294	19,402	19,451
Net credit to government	4,414	5,120	5,896	6,765	7,455	7,598	7,428	7,563	7,464	7,337
Of which: RBI	1,483	1,539	1,522	1,207	449	106	46	226	182	48
Credit to commercial sector 2/	5,866	6,792	7,596	8,990	10,179	10,849	11,017	11,731	11,938	12,114
Of which: Commercial bank lending	4,360	5,114	5,897	7,292	8,408	9,036	9,205	9,883.0	10,063	10,270
Nonfood	4,103	4,714	5,357	6,797	8,048	8,637	8,823	9,486.0	9635	9832
Other items (net)	-1,094	-1,278	-1,618	-2,512	-2,869	-3,177	-3,222	-3,754	-4,033	-3,995
Net foreign assets	2,056	2,498	3,110	3,937	5,266	5,789	5,745	5,827	6,033	6,059
	(Twelve-month percent change)									
Broad money (M3)	14.6	16.8	14.1	14.7	16.6	15.7	14.4	14.2	13.7	13.1
Net domestic assets	14.4	15.8	11.7	11.5	11.5	9.8	9.2	9.5	9.2	9.4
Domestic credit	16.5	15.9	13.3	16.8	11.9	14.6	13.7	16.3	16.2	15.8
Net credit to government	14.1	16.0	15.2	14.7	10.2	7.1	4.5	4.9	2.6	2.3
Credit to commercial sector 2/	18.3	15.8	11.8	18.4	13.2	20.5	20.9	25.1	26.7	25.9
Of which: Commercial bank lending	18.2	17.3	15.3	23.7	15.3	24.4	25.2	29.6	30.8	31.1
Nonfood	16.5	14.9	13.6	26.9	18.4	26.0	26.4	30.6	31.5	32.0
Net foreign assets	15.6	21.5	24.5	26.6	33.7	34.9	30.7	28.8	27.3	23.8
	(Contribution to broad money growth)									
Net domestic assets	11.8	12.9	9.4	9.1	8.9	7.5	7.0	7.2	6.9	7.0
Net credit to government	5.6	6.3	5.9	5.8	4.0	2.8	1.7	1.9	1.0	0.9
Of which: RBI	-0.4	0.5	-0.1	-2.1	-4.4	-3.5	-3.2	-2.6	-2.4	-2.4
Credit to commercial sector 2/	9.2	8.2	6.1	9.3	6.9	10.1	10.4	12.6	13.4	13.1
Net foreign assets	2.8	3.9	4.7	5.5	7.7	8.2	7.4	7.0	6.9	6.1

Sources: Reserve Bank of India; and staff estimates.

1/ Annual data on fiscal year basis ending March 31.
2/ Starting in May 2002, figures include ICICI, formerly a large development finance institution, which merged with ICICI Bank Ltd. to form a new commercial bank.

Table 5. India: Central Government Operations

	1999/00	2000/01	2001/02	2002/03	2003/04		2004/05	
				Actual 1/	Govt. revised budget est. 1/	Prov. est. 2/	Budget 3/	Staff proj.
				(In billions of rupees)				
Total revenue and grants	1,905	2,041	2,143	2,449	2,763	2,764	3,230	3,110
Net tax revenue 4/	1,283	1,369	1,342	1,601	1,891	1,887	2,355	2,240
Gross tax revenue	1,718	1,886	1,871	2,163	2,549	2,544	3,177	3,021
Of which: Corporate tax	307	357	366	462	630	636	884	868
Income tax	257	318	320	369	403	414	509	503
Excise taxes	619	685	726	823	924	907	1,092	966
Customs duties	484	475	403	449	494	486	543	535
Less: States' share	435	517	528	561	658	658	822	781
Nontax revenue 5/	611	664	783	832	866	878	863	834
Of which : Grants	11	8	18	19	29	22	36	36
Total expenditure and net lending	2,969	3,250	3,587	3,931	4,229	4,184	4,644	4,644
Current expenditure 4/	2,581	2,893	3,144	3,528	3,762	3,747	3,992	3,992
Of which: Interest payments	902	993	1,075	1,178	1,246	1,243	1,295	1,295
Wages and salaries	315	276	299	314	331	330	349	349
Major subsidies	232	259	301	404	447	447	435	435
Capital expenditure and net lending 6/ 7/	388	357	444	403	467	437	652	652
Overall balance 7/ 8/	-1,064	-1,209	-1,445	-1,482	-1,466	-1,420	-1,414	-1,534
Overall balance (authorities' definition) 7/ 9/	-1,047	-1,188	-1,408	-1,451	-1,321	-1,260	-1,374	-1,494
Financing	1,064	1,209	1,445	1,482	1,466	1,420	1,414	1,534
External (net)	12	75	56	-119	-117	-122	81	81
Domestic (net)	1,053	1,134	1,389	1,602	1,583	1,542	1,333	1,453
Of which : Market borrowing	703	729	910	1,105	830	852	904	904
Small savings and other funds	221	217	210	161	649	655	56	56
Disinvestment receipts	17	21	36	32	145	160	40	40
				(In percent of GDP)				
Total revenue and grants	9.8	9.7	9.4	9.9	10.0	10.0	10.3	10.1
Net tax revenue	6.6	6.5	5.9	6.5	6.8	6.8	7.5	7.2
Gross tax revenue	8.9	9.0	8.2	8.8	9.2	9.2	10.2	9.8
Corporate tax	1.6	1.7	1.6	1.9	2.3	2.3	2.8	2.8
Income tax	1.3	1.5	1.4	1.5	1.5	1.5	1.6	1.6
Excise taxes	3.2	3.3	3.2	3.3	3.3	3.3	3.5	3.1
Customs duties	2.5	2.3	1.8	1.8	1.8	1.8	1.7	1.7
Less: States' share	2.2	2.5	2.3	2.3	2.4	2.4	2.6	2.5
Nontax revenue	3.2	3.2	3.4	3.4	3.0	3.1	2.7	2.7
Grants	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure and net lending	15.3	15.4	15.7	15.9	15.3	15.1	14.9	15.0
Current expenditure	13.3	13.8	13.8	14.3	13.6	13.5	12.8	12.9
Of which: Interest payments	4.7	4.7	4.7	4.8	4.5	4.5	4.1	4.2
Wages and salaries	1.6	1.3	1.3	1.3	1.2	1.2	1.1	1.1
Major subsidies	1.2	1.2	1.3	1.6	1.6	1.6	1.4	1.4
Capital expenditure and net lending 6/ 7/	2.0	1.7	1.9	1.6	1.7	1.6	2.1	2.1
Overall balance 7/ 8/	-5.5	-5.7	-6.3	-6.0	-5.3	-5.1	-4.5	-5.0
Overall balance (authorities' definition) 7/ 9/	-5.4	-5.6	-6.2	-5.9	-4.8	-4.5	-4.4	-4.8
Financing	4.1	4.2	6.3	6.0	5.3	5.1	4.5	5.0
External (net)	0.1	0.4	0.2	-0.5	-0.4	-0.4	0.3	0.3
Domestic (net)	4.0	3.8	6.1	6.5	5.7	5.6	4.3	4.7
Of which : Market borrowing	3.6	3.5	4.0	4.5	3.0	3.1	4.8	4.9
Small savings and other funds	0.5	0.4	0.4	0.0	2.2	2.2	0.0	0.0
Divestment receipts	0.1	0.1	0.2	0.1	0.5	0.6	0.1	0.1
Memorandum items:								
Military expenditure	2.4	2.4	2.4	2.3	2.2	2.1	2.5	2.5
Primary balance	-0.8	-1.0	-1.6	-1.2	-0.8	-0.6	-0.4	-0.8
Revenue balance 10/	-3.5	-4.1	-4.4	-4.4	-3.6	-3.5	-2.4	-2.8
Central government debt 11/	52.7	55.9	59.9	63.1	62.2	62.2	63.6	64.2
Loan recoveries from the debt swap scheme 12/	...	...	...	... ..	1.7	1.7	0.4	1.7
Nominal GDP (in Rs. billion)	19,368	20,895	22,821	24,696	27,722	27,747	31,229	30,939

Sources: Union Budget documents and *Economic Survey* , Government of India; and staff estimates and projections.

1/ Ratios utilize the CSO's latest estimates of nominal GDP.
2/ For 2003/04, unaudited provisional outturn. Ratios utilize the staff's estimate of nominal GDP.
3/ Ratios utilize the authorities' projections of nominal GDP.
4/ Includes surcharge on Union duties transferred to the National Calamity Contingency Fund (NCCF).
5/ Includes the receipts from commercial departments.
5/ Excludes onlending to the states from small savings collections in all years.
6/ Shows prepayment by states of on-lent funds to the center as net lending; the center's prepayment of its debt to the National Small Savings Fund (NSSF) is treated as a capital outlay in 2002/03 and 2003/04. The budgeted loan recoveries under the debt swap scheme (DSS) in 2004/05 are used to pay for military capital spending. Staff projections for 2004/05 include an additional Rs. 430 billion projected loan recoveries under the DSS, used to prepay NSSF debt (under capital outlay).
7/ Includes divestment receipts as financing.
8/ Authorities' definition includes divestment in revenue and excludes small savings from on-lending.
9/ Total receipts (excluding divestment proceeds) less non-capital expenditure.
10/ External debt measured at historical exchange rates. For 2003/04, pertains to revised estimates.
11/ Prepayment by states of central loans under the DSS.

Table 6. India: General Government Operations 1/

	1999/00	2000/01	2001/02 2/		2002/03 3/		2003/04	2004/05
			Budget	Outturn	Budget	Prov. 3/	Staff est. 3/	Staff proj. 3/
	(In percent of GDP)							
Total revenue and grants	17.5	17.7	18.3	17.5	19.0	18.2	18.6	19.1
Of which : Tax revenue 4/	14.2	14.6	15.0	13.8	15.2	14.5	15.0	15.7
Nontax revenue 5/	3.2	3.1	3.3	3.6	3.8	3.6	3.5	3.3
Total expenditure and net lending 6/	27.3	27.8	26.9	27.6	28.3	27.8	28.4	28.4
General government balance	-9.9	-10.0	-8.7	-10.1	-9.3	-9.6	-9.7	-9.3
(including disinvestment receipts)	-9.8	-9.8	-8.2	-9.9	-8.9	-9.5	-9.2	-9.2
Domestic financing (net)	9.8	9.6	8.6	9.8	9.3	10.1	10.2	9.0
Memorandum items:								
Consolidated general government								
Revenue balance 7/	-6.3	-6.6	-5.1	-7.0	…	-6.6	…	…
Primary balance	-4.2	-4.0	-2.8	-3.9	-3.0	-3.2	-3.3	-3.3
Non-defense capital expenditure and net lending	3.2	2.8	3.1	2.9	3.3	2.8	3.4	3.2
Net interest payments	5.7	5.9	5.8	6.2	6.3	6.4	6.5	6.0
General government balance	-9.9	-10.0	-8.7	-10.1	-9.3	-9.6	-9.7	-9.3
Central government	-4.1	-4.2	-5.2	-6.3	-5.8	-6.0	-5.1	-5.0
OCC	-0.1	-0.3	...	...	...	...	...	...
State and Union Territory governments	-4.7	-4.3	-3.8	-4.2	-4.0	-4.1	-5.1	-4.8
Consolidation items 8/	0.5	0.4	0.4	0.5	0.5	0.5	0.4	0.5
General government debt	69.4	72.9	…	77.3	...	81.6	81.3	82.4

Sources: Data provided by the Indian authorities; state level data from the *RBI State Finance Bulletin* and *RBI Handbook of Statistics on the Indian Economy* . Staff amalagmate and prepare projections.

1/ The consolidated general government comprises the central government (including Oil Coordination Committee (OCC) up to 2000/01) and state governments.
2/ The ratios in the budget column employ the authorities' budget projection for nominal GDP, while the ratios in the staff estimate and projection columns use the staff's projection of nominal GDP.
3/ For 2002/03, based on actual central government outturn and provisional outturn for the states; for 2003/04, based on provisional unaudited central government outturn and staff's' projection of state finances. For 2004/05, based on staff's projections.
4/ Tax revenue = Tax revenue of central government (CG), including NCCF and states' share, plus state tax revenue.
5/ Nontax revenue = Nontax revenue of CG (including OCC), less interest payments by states on CG loans, plus nontax revenue of states.
6/ Expenditure and net lending = Total expenditure and net lending of CG, less net loans and grants to states and union territories, plus total expenditure of states (excluding interest payments on CG loans).
7/ From the *RBI Handbook of Statistics* , 2003-04; the authorities treat disinvestment proceeds above-the-line as capital receipts.
8/ Above-the-line items in the CGA, which cancel out in the consolidation (e.g., loans to states).

Table 7. India: Forecast Summary 1/

	2000/01	2001/02	2002/03	2003/04	Projections 2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Growth (percent change)										
Real GDP (at factor cost)	4.4	5.8	4.0	8.2	6.4	6.6	6.3	6.2	6.2	6.2
Real GDP (at factor cost, on calendar year basis)	5.4	4.5	4.7	7.0	6.8	6.7	6.3	6.3	6.3	6.3
Prices (percent change, period average)										
Wholesale prices (1993/94 weights)	7.2	3.6	3.4	5.4	6.9	5.5	4.7	4.0	4.0	4.0
Consumer prices	3.8	4.3	4.0	3.9	4.7	5.3	4.5	4.1	4.0	4.0
GDP deflator	4.5	3.1	3.5	3.8	4.8	5.0	4.2	4.0	4.0	4.0
Interest rate on general government domestic debt (percent)	10.1	10.1	9.6	9.6	8.4	9.0	8.2	7.8	7.6	7.4
Saving and investment (percent of GDP)										
Gross saving 2/	23.7	23.5	24.2	26.3	25.7	25.9	26.6	26.9	27.2	27.5
Gross investment 3/	24.4	23.1	23.3	24.6	25.3	25.6	26.0	26.3	26.6	26.9
Fiscal position (percent of GDP) 4/										
Central government deficit	5.7	6.3	6.0	5.1	5.0	4.5	4.0	3.5	3.0	2.5
General government deficit	10.0	10.1	9.6	9.7	9.3	9.1	8.4	7.8	7.3	6.8
General government debt	72.9	77.3	81.6	81.3	82.4	83.0	83.1	83.3	82.5	81.8
External trade (percent change, BOP basis)										
Exports (in U.S. dollar terms)	21.1	-1.6	20.3	20.4	25.8	16.6	17.8	18.5	19.1	19.6
Imports (in U.S. dollar terms)	4.6	-2.8	14.5	24.4	30.9	16.4	15.7	15.9	16.4	16.5
Balance of payments (US$ bn.)										
Current account balance	-2.7	3.4	6.3	10.6	2.5	2.2	4.3	5.6	6.0	6.5
(in percent of GDP)	-0.6	0.7	1.2	1.7	0.4	0.3	0.5	0.6	0.6	0.6
(in percent of GDP, calendar year basis)	-1.0	0.3	1.4	1.2	0.7	0.3	0.5	0.6	0.6	0.6
Foreign direct investment, net	3.3	4.7	3.2	3.4	5.3	6.2	6.7	7.2	7.9	8.5
Portfolio investment, net (equity and debt)	2.6	2.0	0.9	11.4	9.9	7.9	8.0	8.7	9.4	10.2
Overall balance	5.9	11.8	17.0	31.4	22.9	14.7	20.6	22.0	25.5	28.7
External indicators										
Gross reserves (US$ bn. end-period)	42.9	54.7	76.1	113.0	136.8	151.5	172.2	194.2	219.7	248.4
(in months of imports) 5/	7.3	8.0	9.3	10.5	10.9	10.2	9.9	9.6	9.3	9.7
External debt (percent of GDP, end-period)	22.6	21.1	20.2	17.6	16.0	14.5	13.6	12.6	11.8	11.2
Of which : short-term debt 6/	2.3	3.0	3.8	2.1	3.1	2.2	2.2	2.2	2.3	2.3
Ratio of gross reserves to short-term debt (end-period)	4.1	3.9	3.9	8.8	6.3	8.9	9.3	9.6	9.9	10.1
Debt service (percent of current acct. receipts)	16.2	13.4	15.8	18.3	7.3	11.7	7.1	6.7	5.3	4.1

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

1/ Data are for April-March fiscal years.
2/ Differs from official data due to revisions in the current account.
3/ Statistical discrepancy adjusted.
4/ Onlending of small savings collections to state governments excluded from central government expenditures and net lending; divestment proceeds treated as below-line financing.
5/ Imports of goods and services projected over the following twelve months.
6/ Residual maturity basis, except contracted maturity basis for medium and long-term non-resident Indian accounts.

Table 8. India: Public Sector Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						Debt-stabilizing primary balance 11/
1 Public sector debt 1/	69.1	71.4	76.2	80.3	81.4			82.4	83.0	83.3	83.4	82.9	82.1	-2.3
Of which: Foreign-currency denominated	10.7	9.9	9.4	8.5	7.2			6.6	6.4	6.1	6.0	5.7	5.7	
2 Change in public sector debt	2.2	2.2	4.8	4.1	1.1			1.0	0.6	0.3	0.1	-0.5	-0.8	
3 Identified debt-creating flows (4+7+12)	3.0	4.2	5.0	3.9	1.2			1.2	0.3	0.2	-0.1	-0.6	-1.0	
4 Primary deficit	4.0	4.0	3.9	2.8	3.4			3.3	2.8	2.5	2.2	1.8	1.4	
5 Revenue and grants	17.5	17.7	17.5	18.2	18.6			19.1	19.3	19.5	19.8	20.1	20.7	
6 Primary (noninterest) expenditure	21.5	21.7	21.4	21.0	22.0			22.4	22.1	22.0	22.0	22.0	22.1	
7 Automatic debt dynamics 2/	-0.9	0.3	1.2	0.7	-2.4			-2.4	-2.5	-2.1	-2.2	-2.3	-2.3	
8 Contribution from interest rate/growth differential 3/	-1.2	-0.5	0.9	0.7	-1.8			-2.4	-2.5	-2.1	-2.2	-2.3	-2.3	
9 *Of which:* Contribution from real interest rate	2.9	2.9	3.5	4.2	3.4			2.6	2.5	2.6	2.5	2.4	2.4	
10 *Of which*: Contribution from real GDP growth	-4.1	-3.4	-2.6	-3.5	-5.2			-4.9	-5.0	-4.7	-4.7	-4.7	-4.7	
11 Contribution from exchange rate depreciation 4/	0.3	0.8	0.3	0.0	-0.6			...	...	...	...	...	...	
12 Other identified debt-creating flows	-0.1	-0.1	-0.1	-0.1	0.4			0.2	-0.1	-0.1	-0.1	-0.1	-0.1	
13 Privatization receipts (negative)	-0.1	-0.1	-0.1	-0.1	-0.5			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.8			0.5	0.1	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2–3) 5/	-0.7	-2.0	-0.1	0.2	-0.1			-0.2	0.3	0.1	0.2	0.0	0.2	
Public sector debt-to-revenue ratio 1/	395.9	406.5	434.1	445.6	439.2			432.3	430.3	426.6	421.4	411.6	397.4	
Gross financing need 6/	9.7	9.8	10.0	9.7	9.7			9.4	9.2	8.6	8.0	7.4	6.9	
In billions of U.S. dollars	42.2	45.3	47.6	48.4	56.3			64.0	69.2	70.2	70.4	71.4	72.2	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected average
Real GDP growth (in percent)	6.7	5.4	3.9	5.0	7.2	6.6	2.3	6.8	6.7	6.3	6.2	6.2	6.2	6.4
Average nominal interest rate on public debt (in percent) 7/	9.3	9.3	9.3	9.0	9.0	8.9	0.4	8.4	8.6	8.2	7.7	7.4	7.4	7.9
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.0	4.8	5.4	6.2	5.0	2.9	2.7	3.8	3.7	3.7	3.6	3.5	3.4	3.6
Nominal appreciation (increase in US dollar value of local currency, in percent)	-2.3	-7.0	-3.0	0.3	7.8	-5.0	6.7	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.3	4.5	3.9	2.9	4.0	6.0	2.5	4.6	4.9	4.4	4.0	4.0	4.0	4.3
Growth of real primary spending (deflated by GDP deflator, in percent)	12.0	5.7	3.4	4.7	9.3	7.7	4.7	9.6	5.3	5.9	6.1	6.2	6.7	6.6
Primary deficit	4.0	4.0	3.9	2.8	3.4	3.0	0.9	3.3	2.8	2.5	2.2	1.8	1.4	2.3
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing primary balance 11/
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 8/								82.4	82.7	82.6	82.8	82.7	82.8	-3.0
A2. No policy change (constant primary balance) in 2005-09								82.4	83.5	84.7	85.9	86.8	87.9	-2.4
A3. Country-specific reform scenario, with higher GDP growth (relative to baseline) 9/								83.0	82.8	82.3	80.4	78.1	75.2	-3.4
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								82.4	86.4	90.2	90.2	89.4	88.5	-2.4
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								82.4	87.7	93.4	95.3	96.4	97.3	-2.7
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								82.4	85.0	87.5	87.5	86.9	86.0	-2.4
B4. Combination of B1-B3 using one standard deviation shocks								82.4	87.3	92.0	92.0	91.2	90.2	-2.5
B5. One time 30 percent real depreciation in 2005 10/								82.4	86.4	86.6	86.6	86.0	85.2	-2.3
B6. 10 percent of GDP increase in other debt-creating flows in 2005								82.4	93.0	93.1	93.0	92.2	91.2	-2.5

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ The implied change in other key variables under this scenario is discussed in the text.
10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
11/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 9. India: Indicators of External Vulnerability, 1991/92–2004/05 1/

	1991/92 - 1995/96 Avg.	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2/
Financial indicators											
General govenment debt (percent of GDP)	74.2	65.2	66.7	67.1	69.4	72.9	77.3	81.6	81.3	82.4	(Estimate)
Broad money (percent change, 12-month basis)	13.6	16.2	18.0	19.4	14.6	16.8	14.1	14.7	16.6	13.7	(Nov 26, 2004)
Private sector credit (percent change, 12-month basis)	16.3	9.7	15.1	14.5	18.3	15.8	11.8	18.4	13.2	26.7	(Nov 26, 2004)
91 day T-bill yield (percent; end period)	10.5	8.0	7.3	8.7	9.2	8.7	6.1	5.9	4.2	5.2	(Nov-04)
91 day T-bill yield (real, percent; end period) 3/	--	3.1	2.9	2.6	5.6	1.5	2.6	2.3	-1.1	-2.0	(Nov-04)
External indicators											
Exports (percent change, 12-month basis in US$) 4/ 5/	12.2	5.6	4.5	-3.9	9.5	21.1	-1.6	20.3	20.4	25.9	(Nov-04)
Export volume (percent change, 12-month basis) 5/	9.2	8.9	12.2	4.8	12.1	22.5	1.2	16.1	10.0	16.9	(Estimate)
Imports (percent change, 12-month basis in US$) 4/ 5/	11.4	12.1	4.6	-7.1	16.5	4.6	-2.8	14.5	24.4	43.1	(Nov-04)
Import volume (percent change, 12-month basis) 5/	9.4	13.5	14.3	1.3	11.0	-0.3	0.6	9.0	10.8	18.9	(Estimate)
Terms of trade (percent change, 12 month basis) 5/	1.3	-1.8	1.8	-0.0	-7.0	-5.7	0.6	-1.5	-2.6	-2.3	(Estimate)
Current account balance (percent of GDP)	-1.0	-1.2	-1.3	-1.0	-1.1	-0.6	0.7	1.2	1.7	0.4	(Estimate)
Capital and financial account balance (percent of GDP)	2.0	3.1	2.4	2.0	2.3	1.9	1.8	2.1	3.4	2.9	(Estimate)
Of which : Net portfolio investment (debt and equity)	0.7	0.9	0.4	-0.0	0.7	0.6	0.4	0.2	1.9	1.4	(Estimate)
Other investment (loans, trade credits, etc.)	0.7	1.7	1.1	1.0	0.5	1.5	0.2	-0.3	0.1	0.3	(Estimate)
Net foreign direct investment	0.3	0.7	0.9	0.6	0.5	0.7	1.0	0.6	0.6	0.8	(Estimate)
Foreign currency reserves (billions of US$)	17.1	26.7	29.7	33.2	38.7	42.9	54.7	76.1	113.0	130.7	(Dec. 3, 2004)
RBI forward liabilities (billions of US$)	--	-0.3	-1.8	-0.8	-0.7	-1.3	-0.4	2.4	1.4	0.0	(Sept-04)
Official reserves in months of imports (of goods and services)	4.8	5.4	6.1	5.9	6.4	7.3	8.0	9.3	10.5	10.9	(Estimate)
Ratio of foreign currency reserves to broad money (percent)	11.8	13.6	14.1	14.1	14.8	14.8	15.0	17.6	21.0	24.5	(Nov-04)
Total short-term external debt to reserves (percent)	86.4	51.0	39.7	34.2	31.8	24.2	26.0	25.3	11.4	15.9	(Estimate)
Total external debt (percent of GDP)	30.9	24.3	22.8	23.4	22.0	22.6	21.1	20.2	17.6	16.0	(Estimate)
Of which : Public sector debt	21.4	15.5	14.3	14.6	13.6	13.0	12.4	11.5	9.3	8.2	(Estimate)
Total external debt to exports of goods and services (percent)	323.2	224.6	207.3	204.0	184.5	164.2	159.8	141.3	124.7	98.8	(Estimate)
External interest payments to exports of goods and services (percent)	14.1	9.7	9.8	9.9	9.3	7.2	6.6	4.8	3.0	3.0	(Estimate)
External amortization payments to exports of goods and services (percent)	19.4	19.8	15.3	14.2	13.3	13.5	11.0	15.5	17.3	6.0	(Estimate)
Exchange rate (per US$, period average)	29.4	35.5	37.2	42.1	43.3	45.7	47.7	48.4	45.9	45.5	(to Nov-04)
REER (change in percent; end period)	0.3	...	-1.7	-3.4	4.7	3.2	-1.1	-4.9	1.1	-0.8	(Nov-04)
Financial market indicators											
Stock market index (end period)	--	3,361	3,893	3,740	5,001	3,604	3,469	3,049	5,591	6,346	(Dec. 17, 2004)
Foreign currency debt rating											
Moody's Investor Services	--	Baa3	Baa3	Ba2	Ba2	Ba2	Ba2	Ba1	Baa3	Baa3	
Standard and Poor's	--	BB+	BB+	BB+	BB	BB	BB	BB	BB	BB	

Sources: Data provided by the Indian authorities; IMF *Information Notice System;* and staff estimates and projections.

1/ April-March fiscal year.
2/ Latest date available or staff estimate, if noted.
3/ Nominal yield less actual WPI inflation.
4/ Data for 2003/04 are on a customs basis, whereas data for previous years are on a BOP basis.
5/ Merchandise trade only; volumes are derived from partner country trade price deflators from the WEO database.

Table 10. India: External Debt Sustainability Framework, 1999–2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009		
								I. Baseline Projections							Debt-stabilizing non-interest current account 6/
1 External debt	22.4	21.8	21.0	20.8	18.8			16.6	14.9	13.8	12.9	12.0	11.4		-2.3
2 Change in external debt	-1.0	-0.6	-0.8	-0.2	-2.0			-2.3	-1.7	-1.0	-1.0	-0.8	-0.6	0.0	
3 Identified external debt-creating flows (4+8+9)	-1.8	-1.5	-2.7	-3.7	-6.3			-5.8	-4.0	-3.5	-3.5	-3.5	-3.4	0.0	
4 Current account deficit, excluding interest payments	-0.4	0.0	-1.2	-2.2	-1.7			-1.1	-0.9	-1.0	-1.1	-1.1	-1.1	2.3	
5 Deficit in balance of goods and services	2.6	2.9	1.9	1.0	1.9			1.9	2.0	1.8	1.6	1.6	1.6		
6 Exports	11.8	13.0	13.1	14.2	14.3			16.0	17.2	18.7	20.5	22.2	24.1		
7 Imports	14.4	15.9	15.1	15.2	16.3			17.9	19.2	20.5	22.1	23.8	25.7		
8 Net nondebt creating capital inflows (negative)	-1.0	-1.3	-1.8	-1.3	-2.2			-2.3	-2.0	-1.9	-1.9	-1.9	-1.9	-1.9	
9 Automatic debt dynamics 1/	-0.4	-0.2	0.3	-0.2	-2.4			-2.3	-1.1	-0.6	-0.5	-0.5	-0.4	-0.4	
10 Contribution from nominal interest rate	1.1	1.0	0.9	0.7	0.5			0.5	0.6	0.6	0.5	0.5	0.5	0.5	
11 Contribution from real GDP growth	-1.5	-1.1	-0.8	-1.0	-1.3			-1.1	-1.0	-0.9	-0.8	-0.7	-0.7	-0.7	
12 Contribution from price and exchange rate changes 2/	0.0	0.0	0.2	0.0	-1.6			-1.7	-0.7	-0.3	-0.3	-0.3	-0.2	-0.2	
13 Residual, incl. change in gross foreign assets (2-3)	0.7	0.8	1.8	3.6	4.4			3.6	2.3	2.5	2.6	2.7	2.8	0.0	
External debt-to-exports ratio (in percent)	190.6	167.5	159.9	146.3	131.6			103.7	86.7	73.9	62.7	54.1	47.2		
Gross external financing need (in billions of U.S. dollars) 3/	14.7	16.6	9.5	6.2	11.8			10.1	17.2	14.4	13.0	12.2	10.8		
In percent of GDP	3.4	3.6	2.0	1.3	2.0			1.5	2.3	1.8	1.5	1.3	1.0		
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Nominal GDP (US dollars)	436.8	460.8	473.8	496.8	577.8			679.1	755.2	818.3	885.5	961.7	1042.2	1129.3	
Real GDP growth (in percent)	6.7	5.4	3.9	5.0	7.2	6.1	1.2	6.8	6.7	6.3	6.2	6.2	6.2	6.2	6.4
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-4.2	-4.2	-4.8	-2.9	4.4	-4.1	4.2	5.3	-0.7	-2.4	-2.1	-1.7	-1.9	-1.9	-0.6
GDP deflator in U.S. dollars (change in percent)	-0.1	0.1	-1.1	-0.2	8.5	1.7	4.2	10.1	4.2	1.9	1.8	2.2	2.0	2.0	3.7
Nominal external interest rate (in percent)	5.1	4.7	4.2	3.7	2.8	4.3	0.7	3.0	3.7	4.0	4.3	4.5	4.7	4.7	4.0
Growth of exports (U.S. dollar terms, in percent)	12.3	16.6	3.7	13.7	17.1	12.2	6.3	31.2	19.3	18.2	18.5	17.7	17.5		20.4
Growth of imports (U.S. dollar terms, in percent)	5.9	16.3	-2.4	6.2	24.0	12.5	10.8	29.2	19.3	15.8	16.7	17.2	17.0		19.2
Current account balance, excluding interest payments	0.4	0.0	1.2	2.2	1.7	0.5	1.0	1.1	0.9	1.0	1.1	1.1	1.1		1.1
Net nondebt creating capital inflows	1.0	1.3	1.8	1.3	2.2	1.5	0.5	2.3	2.0	1.9	1.9	1.9	1.9		2.0
								II. Stress Tests for External Debt Ratio							Debt-stabilizing non-interest current account 6/
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2005-09 4/								16.6	16.4	16.5	16.7	17.0	17.4		-2.0
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 5/								16.6	14.9	13.8	12.9	12.0	11.4		-2.3
B. Bound Tests															
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								16.6	15.1	14.3	13.3	12.5	11.8		-2.3
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								16.6	15.3	14.7	13.7	12.9	12.3		-2.4
B3. Change in U.S. dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								16.6	16.7	17.2	16.3	15.5	14.9		-2.8
B4. non-interest current account is at historical average minus two standard deviations in 2005 and 2006								16.6	17.1	18.4	17.3	16.3	15.5		-2.4
B5. Combination of B1-B4 using one standard deviation shocks								16.6	17.8	19.4	18.1	17.0	16.2		-2.7
B6. One time 30 percent nominal depreciation in 2005								16.6	21.4	20.4	19.5	18.7	18.2		-3.3

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and nondebt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 11. India: Indicators of Financial System Soundness

	1999/00	2000/01	2001/02	2002/03	2003/04 Est.	Q1 2004/05 Est.	Q2 2004/05 Est.
Measures of financial strength and performance 1/							
Risk-weighted capital adequacy ratio (CRAR)	11.1	11.4	12.0	12.7	12.9	13.7	13.4
Public sector banks	10.7	11.2	11.8	12.6	13.2	13.5	13.2
Domestic private banks	12.9	11.8	12.5	12.1	12.2	14.0	
Foreign banks	11.9	12.6	12.9	15.2	15.0	14.7	14.0
Number of institutions not meeting 9 percent CRAR	4	5	3	2	2	...	
Public sector banks	1	2	2	1	0	...	
Domestic private banks	3	3	1	2	2	...	
Foreign banks	0	0	0	0	0	...	
Net nonperforming loans (percent of outstanding net loans) 2/ 3/	6.8	6.2	5.5	4.4	2.9	2.8	2.5
Public sector banks	7.4	6.7	5.8	4.5	3.0	3.0	2.7
Domestic private banks	5.4	5.4	5.7	5.0	2.8	2.8	
Foreign banks	2.4	1.8	1.9	1.8	1.5	1.4	1.0
Gross nonperforming loans (percent of outstanding loans) 3/	12.7	11.4	10.4	8.8	7.2	7.4	6.6
Public sector banks	14.0	12.4	11.1	9.4	7.8	8.1	7.3
Domestic private banks	8.2	8.4	9.6	8.1	5.8	5.9	
Foreign banks	7.0	6.8	5.4	5.3	4.6	4.7	4.3
Number of institutions with net NPLs above 10 percent of advances	22	23	22	13	...	0	--
Public sector banks	5	5	3	2	...	3	--
Domestic private banks	6	7	5	3	...	6	--
Foreign banks	11	11	14	8	...	...	--
Net profit (+)/loss (-) of commercial banks 4/	0.7	0.5	0.8	1.0	1.0	1.2	1.1
Public sector banks	0.6	0.4	0.7	0.9	1.1	1.1	
Domestic private banks	0.9	0.7	0.7	1.0	1.0	1.1	
Foreign banks	1.2	0.9	1.3	1.6	1.7	1.2	
Balance sheet structure of commercial banks							
Loan/deposit ratio	53.6	53.1	53.4	56.9	55.9	56.7	
Investment in government securities/deposit ratio	38.0	38.5	39.5	42.7	45.0	46.6	
Lending to sensitive sectors (in percent of private credit)							
Real estate	1.6	1.6	1.4	1.7	1.6	...	--
Capital market	1.1	0.9	0.5	0.3	0.4	...	--
Commodities	1.7	1.8	1.4	1.2	1.2	...	--

Sources: Indian authorities; and staff estimates.

1/ Loan classification and provisioning standards do not meet international standards. Banks will be required to classify loans that have been in the substandard category for 12 months (compared with the present 18 months) as doubtful, effective March 2005.

2/ Gross nonperforming loans less provisions.

3/ Starting in 2001/02, figure includes ICICI, formerly a large development finance institution, which merged with ICICI Bank Ltd. in 2002.

4/ In percent of total assets.

India—Fund Relations

(As of October 31, 2004)

I. **Membership Status**: Joined 12/27/45; Article VIII.

II. **General Resources Account**:

	SDR Million	% Quota
Quota	4,158.20	100.00
Fund holdings of currency	3,271.12	78.67
Reserve position in Fund	887.09	21.33

III. **SDR Department**:

	SDR Million	% Allocation
Net cumulative allocation	681.17	100.00
Holdings	3.56	0.52

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	10/31/1991	06/30/1993	1,656.00	1,656.00
Stand-By	01/18/1991	04/17/1991	551.92	551.92

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	1/31/03	2004	2005	2006	2007	2008
Charges/Interest	--	3.38	14.01	14.01	14.01	14.05
Total	--	3.38	14.01	14.01	14.01	14.05

VII. **Exchange Rate Arrangement**:

Since March 1, 1993, the Indian rupee has floated against other currencies, although the Reserve Bank of India intervenes in the market periodically. As per the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), the exchange rate in India is classified as managed floating with no pre-announced path for the exchange rate. On August 20, 1994, India accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement. Currently, India maintains some restrictions on the making of payments and transfers for current account transactions which are subject to approval under Article VIII, Section 2: (i) restrictions related to nontransferability of balances under the Indo-Russia debt agreement mutually agreed in 1993; (ii) restrictions arising from unsettled inoperative bilateral payments agreements with three Eastern European countries; (iii) a restriction on remittances for overseas TV advertising by nonexporters and exporters without an adequate track record which is being reviewed by the government; and (iv) the restriction on transfer of amortization payments on loans by nonresident relatives. The Executive Board did not grant approval of these measures at the time of last Article IV consultation.

VIII. **Article IV Consultation**:

The previous Article IV consultation discussions were held in March 2003. The staff report was discussed by the Executive Board on July 18, 2003.

IX. **FSAP Participation and ROSCs**:

The data model of the ROSC (IMF Country Report 04/96) was issued in April 2004; FSSA/FSAP report was issued in January 2001; a fiscal transparency ROSC (www.imf.org) was issued in February 2001.

X. **Technical Assistance**:

Department	Purpose	Date of Delivery
MAE	Government securities market	2/94
MAE	Foreign exchange market	2/95
FAD	Expenditure control	5/95
FAD	Public expenditure management	8/95
FAD	Public expenditure management (follow-up)	5/96
MAE	Government securities market (follow-up)	7/96
STA	SDDS and statistics	12/96
STA	Balance of payments statistics	12/97
STA	SDDS and statistics	2/98
FAD	State level fiscal database and debt register	11/04
FAD	Pilot Study on Public Private Partnerships	12/04

XI. **Outreach and Other Activities**:

Department	Purpose	Date of Delivery
OAP/APD/NCAER	Conference: A Tale of Two Giants: India's and China's Experience with Reform and Growth	11/03
FAD	Conference: International Experiences with Fiscal Reform	1/04
APD/FAD	Seminar: Decentralization: International Experiences with Subnational Debt Controls	1/04
APD	Training: Applying Debt Sustainability Templates to Indian States	3/04

XI. **Resident Representative**:

A resident representative's office was opened in November 1991. Mr. Michael Wattleworth is the current Senior Resident Representative.

India—Relations with the World Bank Group

India is one of the largest borrowers from the World Bank Group. The Bank Group's program of support combines policy dialogue with diversified lending, IFC investments and analytical and advisory activities in the sectors that are important to reducing poverty and sustaining growth.

The Bank Group's Board of Directors discussed a new Country Strategy (CAS) for India on August 26, 2004. The CAS jointly covers the programs of IBRD/IDA and IFC for the period of FY05-08. With over one-quarter of the world's poor in India, the overarching challenge is how to scale up the impact of Bank Group assistance in order to help India move closer to achieving its development goals—including the goal of halving poverty by 2015.

Scaling up assistance will entail a strengthened Bank Group program at the Center, as well as more lending to the states compared to recent years. For state level lending, the strategy is to retain an essentially reform and performance-based approach to the states, and to also seek new opportunities for engagement with the largest and poorest states in India in order to help strengthen the environment for reform. The expansion in lending will primarily be for investment in infrastructure development, human development and rural livelihoods. Through adjustment lending, continued emphasis is also being placed on support to fiscal and governance reforms at the state level.

Adjustment lending to finance state level reforms will be limited to 15 percent of total IBRD/IDA lending for the CAS period. Overall lending levels will fall within an upper bound of US$2.15 billion per year for IBRD, on average for the four years of the CAS, and the IDA limits for India established by the IDA Deputies. Financial operations since 1998/99 are summarized below.

India: World Bank Group Financial Operations

(In millions of U.S. dollars) 1/

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/2004
Commitments 2/	1,588	699	2,450	2,830	2,092	1,328
IBRD	591	190	1,495	1,904	951	698
IDA	996	509	955	926	1,141	630
Disbursements	1,443	1,468	1,761	1,997	1,533	1,816
IBRD	576	644	706	803	647	892
IDA	866	824	1,054	1,195	886	924
Repayments	1,130	1,228	1,361	1,147	3,491	2,403
IBRD	842	899	994	724	3,031	1,871
IDA	288	330	367	424	460	532
Debt outstanding and disbursed	26,575	26,746	25,968	26,466	26,243	27,019
IBRD	8,013	7,816	7,080	7,010	5,082	4,238
IDA	18,562	18,930	18,888	19,456	21,161	22,781

Source: World Bank.

1/ On a fiscal year basis beginning April 1.
2/ Based on loan approval date.

India—Relations with the Asian Development Bank

The Asian Development Bank (AsDB) operations in India began in 1986. Cumulative public sector loan commitments totaled $12.9 billion as of December 31, 2003 for 72 loans. With an additional 13 private sector loans (the latter without government guarantee), total loan commitments amounted to $13.2 billion. These funds have been provided from the Bank's ordinary capital resources (OCR). Also, AsDB has approved 19 equity investments. The AsDB's lending and equity activities are summarized below.

India: Asian Development Bank Financial Operations

(In millions of U.S. dollars, as of December 31, 2003)

Calendar Year	OCR Loan Commitments	Private Equity	Disbursements
1986–90	2,318	11	339
1991–95	3,312	60	2,131
1996	600	...	592
1997	563	16	645
1998	250	--	620
1999	625	--	605
2000	1,150	--	487
2001	1,500	--	270
2002	1,163	25	577
2003	1,430	--	658
Total	12,911	112	6,924

Source: Asian Development Bank.

The AsDB's Country Strategy and Program for 2003–2006 was approved on April 30, 2003. The theme of the new strategy—the first operational strategy for India since adoption of the AsDB's Poverty Reduction Strategy in 1999—is mainstreaming poverty reduction. Poverty will be addressed primarily through high but also equitable, pro-poor growth. Growth interventions will also be complemented by social development interventions that deal with poverty reduction. The AsDB's Country Strategy and Program Update for 2005–07, currently being reviewed by the AsDB's Board, proposes to shift state level operations to the poorer states and the northeastern region, and significantly increase assistance for agriculture, water resource management and rural development.

India—Statistical Issues

1. India has an elaborate system for compiling economic and financial statistics and produces a vast quantity of data covering virtually all sectors of the economy. India subscribed to the SDDS on December 27, 1996 and started posting its metadata on the Dissemination Standards Bulletin Board on October 30, 1997. It is currently in observance of the SDDS, but avails of the flexibility options for timeliness of data on general government operations and on the periodicity and timeliness of labor market data. The authorities are planning further improvements in the timeliness, periodicity, and coverage of data in a number of statistical areas as detailed below.

2. Many key financial variables are available on a weekly or monthly basis, most of which are published in official documents or disseminated through press releases. The authorities are presently addressing a number of data compilation issues which were identified in the August 2001 *Report of the National Statistical Commission*. These issues include:

- **The revision of statistical and data reporting methods in order to keep** pace with the shift to a more market-oriented economy following the elimination of industrial licensing.

- **The need for the** Central Statistical Organization (CSO) to initiate procedures through which its interaction with other agencies in the decentralized statistical system is made more proactive as well as effective. The CSO has started this initiative with the proposed establishment of the National Statistical Commission as a first step.

3. The data module of the Report on Observance of Standards and Codes (ROSC, IMF Country Report 04/96) was issued in 2004. It consists of three elements. The first element assesses India's data dissemination practices against the SDDS requirements. The second element assesses the quality of six datasets based on the Data Quality Assessment Framework (DQAF) developed by STA. The third element lists prioritized recommendations to improve national accounts, price, fiscal, monetary, and balance of payments statistics. Following are some issues related to the periodicity, coverage, and quality of statistical series identified by the data ROSC mission.

- **National accounts**: The CSO rebased the annual national accounts statistics and began publishing quarterly data in 1999. However, quarterly data are only available from 1996Q2 and relate only to production-based data. Information on major expenditure categories is only available with considerable delay (at least ten months after the end of the fiscal year), providing limited guidance for short-term policies. The CSO is planning to disseminate quarterly expenditure-based aggregates starting in 2007 and is aiming to reduce the lag in the currentness of the annual expenditure-based estimates to three months. Another issue in national accounts is that estimates of value added in constant prices for public administration and defense may be biased upwards in recent years, as they are based on the government's wage bill (with arrears counted in the year that they are paid) deflated by the Wholesale Price Index (WPI).

- **Industrial production index (IPI)**: In May 2000, the CSO took a welcome step of releasing a completely revised time series for IPI, using the new WPI (base year 1993/94) series as a deflator. The government has also contracted a private company, CMIE, to increase the number of respondents and products in the sample, as recommended by the data ROSC.

- **Price statistics**: The Consumer Price Indices (CPIs) are based on weights that are at least fifteen years old and do not fully capture price developments in the economy. However, the CSO has recently initiated steps to revise the base year of the CPI. Presently, there are four CPIs, each based on the consumption basket of a narrow category of consumers (namely industrial workers, urban and nonmanual employees, agricultural laborers, and rural laborers). The CPIs are published with a lag of about one month. The WPI is published weekly with a lag of two weeks and are subject to large revisions, especially in periods of rising inflation. A new WPI series was published in 2000 with updated weights, new categories, and a revised base year (1993/94). However, the representativeness of the index may be undermined by the collection of prices from a relatively small sample of products and the infrequent updating of weights. The government is seeking technical assistance from the World Bank to construct a producer price index based only on output prices, excluding intermediate costs.

- **Balance of payments**: A significant improvement has been made in the timeliness of the quarterly balance of payments data, which are now released with a lag of three months. However, trade data have quality, valuation, timing, and coverage problems. Further, data on trade prices, volumes, and composition are not regularly available on a timely basis. Starting January 2001, external debt statistics are available on a quarterly basis with a one quarter lag. Estimates of short-term external debt are presented in the debt statistics on an original maturity basis. The short-term maturity attribution on a residual maturity basis is only available annually (and excludes residual maturity of medium- and long-term nonresident Indian accounts). The international investment position (IIP) statistics cover the sectors prescribed in the Balance of Payments Manual Fifth Edition and these data are disseminated within six months of the reference period in respect of annual data.

- **Monetary and Financial Statistics**: The RBI website and the *RBI Bulletin* publish a wide array of monetary and financial statistics, including interest rates, exchange rates, foreign reserves, the monetary survey, and results of government securities auctions. The frequency and quality of data dissemination have improved substantially in recent years. However, some crucial data (e.g., RBI's forward liabilities and intervention data) are still published with lags of two to three months. India began disseminating the Data Template on International Reserves and Foreign Currency Liquidity as prescribed under the SDDS in December 2001. The more up-to-date information on certain variables, such as total foreign reserves, foreign currency assets, gold, and SDRs, are available on a weekly basis and are disseminated as part of a weekly statistical supplement on the RBI website.

- The ROSC data module mission of May 2002 identified that the concepts and definitions used by the RBI to compile monetary statistics were in broad conformity with the guidelines provided in the *Monetary and Financial Statistics Manual (MFSM)*. Nevertheless, the following concepts and principles deviate from the *MFSM*: (1) the resident sector data do not provide sufficient information on the sectoral distribution of domestic credit. Specifically, under their present sectorization scheme, the authorities subdivide the resident nonbank sector data by (i) central government, (ii) state government, and (iii) the commercial sector (including other financial corporations, public and other nonfinancial corporations, and other resident sectors); and commercial banks add accrued interest to credit and deposit positions on a quarterly basis only. The mission has recommended that the authorities adopt the full range of sectors prescribed in the *MFSM* and include accrued interest on a monthly basis instead of reflecting it only on a quarterly basis.

- **Fiscal operations**: The Ministry of Finance posts selected monthly fiscal data and quarterly debt data of the central government on its website. However, no monthly data on fiscal performance at the state level are available, and annual data are available only with an eight to ten month lag. Consolidated information is unavailable on local government operations. In addition, although data on the functional and economic classification of expenditures are available with considerable lag, the typical presentation of fiscal accounts does not provide a particularly useful classification for macroeconomic analysis. For example, classification of government expenditure between developmental/nondevelopmental and plan/nonplan obscures the economic nature and impact of fiscal actions. Reporting for the Government Finance Statistics Yearbook has been current (latest year published is 2003), but the coverage of the data is limited to the central government.

India—Core Statistical Indicators

(As of November 22, 2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	91-day T-bill Interest Rates	Wholesale Price Index	Exports/ Imports	Current Account Balance	Central Government Balance	GDP	External Debt
Date of latest observation	11/22/04	11/12/04	11/12/04	11/12/04	10/29/04	11/22/04	11/19/04	Oct 2004	2004 Q2	Sept 2004	2004 Q2	Dec 2003
Date received	11/22/04	11/22/04	11/22/04	11/22/04	11/12/04	11/22/04	11/06/04	11/18/04	Sept 2004	Oct 2004	Sept 2004	Jun 2004
Frequency of data 1/	D	W	W	W	Fort-nightly	W	W	M	Q	M	Q	Q
Frequency of reporting 1/	D	W	W	W	Fort-nightly	W	W	M	Q	M	Q	Q
Source of data 1/	C	N	N	N	N	C	N	N	N	N	N	N
Mode of reporting 1/	O	W	W	W	W	O (Reuters)	W + O	F + O	W + O	W	W + O	W + O
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Frequency of publication 1/	D	W	W	W	Fort-nightly	W	W	M	Q	M	Q	Q

1/ Frequency: D-daily, W-weekly, M-monthly; Source of data: C-commercial data, N-official publication; Mode of reporting: F-facsimile, W-website, O-other.

Statement by the IMF Staff Representative
January 24, 2005

1. This statement contains information that has become available since the staff report was circulated to the Executive Board on December 23, 2004. This information does not alter the thrust of the staff appraisal.

The Impact of the Tsunami

2. **Some of India's poorest regions have been affected by the massive earthquake and tsunamis of December 26**. India has suffered a large number of deaths and many poor living in the region have been displaced. Many fisheries and local businesses have been destroyed in this tragic event. The macroeconomic impact itself is not projected to be very large; the most affected regions are not heavily industrialized. Some effect is possible on tourism, although there has been no indication of large-scale cancellations by tourists. There is some concern that the inundation of some crop lands may reduce agricultural output but damage is yet to be ascertained.

3. **While it is still too early to know the precise economic cost of the disaster for India, reconstruction and disaster relief appear manageable**. The potential public costs have been estimated by the government, on a preliminary basis, at about ½ percent of GDP. The government has announced a first package of measures totaling Rs. 23 billion (about US$500 million, less than 0.1 percent of GDP) to rebuild fisheries and houses in the affected region. The authorities have indicated that fiscal targets for this year will not be affected. The 2005/06 budget, due in March, will present the government's plans to deal with reconstruction efforts in the next fiscal year.

Other Recent Developments

4. **Recent economic developments are broadly consistent with staff's growth forecast for 2004/05**. Second quarter growth reached 6.6 percent, slowing from 7.1 percent the previous quarter, but slightly above staff's projection. Industrial output rose by 7.9 percent year-on-year in November, slowing from 10.1 percent the previous month.

5. **Inflation has moderated**. WPI inflation has declined for five consecutive weeks, reflecting mainly lower prices of primary products and manufactured goods, and now stands at 5.8 percent, below staff's projection for end-2004/05 of 6.4 percent. CPI inflation also declined in November, to 4.2 percent.

6. **The trade deficit widened in the second quarter of the fiscal year, but the external position remains sound**. The trade deficit rose to US$12.3 billion (1.9 percent of annual GDP) from US$3.8 billion in the same period last year. Merchandise exports increased by 10 percent in the second quarter, but merchandise imports rose sharply, by 54 percent, led by oil imports. The rising trade deficit was partially offset by strong growth in services receipts, in particular software services, but the current account registered a deficit

of US$6.4 billion. A pickup in capital inflows helped maintain reserves approximately unchanged at about US$120 billion. Preliminary data indicate that the trade deficit stood at US$20 billion for April-December, compared with US$12 billion over the same period last year. However, reserves have increased sharply, reaching US$129 billion in the first week of January, reflecting strong capital inflows.

7. **Budgetary developments are in line with those described in the staff report**. In the fiscal year to November, the overall central government deficit was contained to 2.4 percent of GDP (about half the annual target), as tight expenditure control continued to offset revenue shortfalls. The current deficit however reached 2.4 percent of GDP (97 percent of the annual target).

8. **Several policy measures have been taken to advance the reform process**:

- The government lifted, for new joint ventures, the requirement that foreign firms seek approval of their partners before setting up enterprises in related fields.

- The lower house of parliament passed the planned amendments to the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act to enable banks and financial institutions to more easily recover bad loans.

- The government issued an ordinance to set up the new pension regulator.

9. **The Indian authorities informed the staff that all but one of the restrictions subject to the Fund's jurisdiction under Article VIII, Section 2 have been removed**. The staff is seeking to obtain the necessary underlying documentation to finalize its assessment.

INTERNATIONAL MONETARY FUND
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February 3, 2005

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2004 Article IV Consultation with India

On January 24, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with India.[1]

Background

India is on track for another year of robust growth in 2004/05. Supported by a strong monsoon, growth rebounded to 8½ percent in 2003/04, the highest level in over a decade. This year, firms appear to have embarked on a new investment cycle, underpinned by strong credit growth. In spite of high world oil prices and a disappointing monsoon, staff projects growth of 6½ percent this year, buoyed by the dynamism of industry and services. In 2005/06, a recovery in agriculture on normal monsoons should support growth in the range of 6½ percent.

Inflation has been running higher, driven largely by supply-side factors. With rising international oil and steel prices, and the weak monsoon temporarily affecting food prices, Wholesale Price Index (WPI) inflation accelerated to 8.7 percent in August (year-on-year), before decelerating to 5½–6 percent more recently. With demand pressures remaining strong, capacity utilization high and liquidity ample, WPI Inflation is projected to end 2004/05 around 6½ percent, before declining to an average of 5½ percent in 2005/06.

The balance of payments position remains comfortable notwithstanding the higher oil prices. In 2003/04, strong growth in remittances and services contributed to a current account surplus

[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. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

of 1.7 percent of GDP. While export growth continues to be strong, high oil prices and strong investment demand have led to a widening the trade deficit (2.6 percent of GDP in the fiscal year to end-December). However, continued gains in services and strong remittances are expected to help sustain the current account in broad balance in 2004/05. Capital account developments appear to be driven by renewed optimism about the Indian economy following a post-election lull. Rising portfolio inflows are accompanying a pickup in FDI. Reserves remain comfortable, having reached US$129 billion by mid-January.

Financial market confidence in India remains strong. After posting one of the highest returns among emerging markets in 2003/04 (83 percent), the stock market experienced a short period of turbulence at the start of the fiscal year, reflecting election-related uncertainty and expectations of interest rate tightening in the United States. However, buoyed by renewed foreign investor inflows, the stock market more than regained the ground lost, rising by close to 30 percent between June and mid-January.

Monetary policy was aimed at curbing inflation pressures while ensuring sufficient liquidity to support growth. Starting last April, the Reserve Bank of India (RBI) has issued Market Stabilization Bonds to sterilize capital inflows. In October 2004, the RBI also raised banks' reserve requirements by 50 basis points and increased the reverse repo rate by 25 basis points. These steps, combined with the increase in credit, have reduced excess liquidity. At the same time, the RBI has encouraged banks to protect against interest rate risk on their large holdings of government securities including by building investment fluctuation reserves.

Exchange rate policy has become increasingly flexible, with the RBI intervening to smooth volatility. In the post-election period, the slowdown in capital inflows and downward pressure on the rupee led the RBI to sell dollars to limit the depreciation. In recent months, however, the rupee-dollar exchange rate has recovered the lost ground.

The deterioration in central government finances appears to have been reversed. For the first time since the mid-1990s, the central government deficit (IMF definition)[2] came in below target in 2003/04 at 5.1 percent of GDP reflecting strong revenues and economic growth. However, this improvement appears to have been offset by overruns on subnational budgets, causing the general government deficit to rise to an estimated 9.7 percent of GDP in 2003/04.

Further improvement in general government finances is budgeted for 2004/05. The central government budget for 2004/05 envisages an overall deficit (IMF definition) of 4.5 percent of GDP. The budget, which was delayed until after the elections, introduced some tax base broadening measures, but major tax reform initiatives and significant spending increases for key social or infrastructure needs were postponed to next year. The fiscal deficit for the first half of the year was in line with budget plans although achieving the ambitious revenue targets will require strong efforts. With an improvement expected in state finances as a result of ongoing reform efforts, the general government deficit for 2004/05 is projected at 9.3 percent of GDP.

[2] The IMF definition includes receipts from divestment as financing rather than revenue.

The authorities have agreed to publish the Article IV consultation report.

Executive Board Assessment

Executive Directors expressed their sympathies to the Indian people for the tragic loss of life resulting from the recent tsunami. Directors viewed the resilience of the Indian economy in recent years as testimony to the benefits of more than a decade of reforms. They noted that, in spite of high world oil prices and a weak monsoon, India is on track for another year of robust growth in 2004/05, following the strong performance of 2003/04, when growth exceeded 8 percent. Directors welcomed the new government's ambitious reform agenda—especially the renewed emphasis on creating jobs and reducing rural poverty—and its commitment to addressing India's fiscal imbalances. They emphasized that rapid progress on a broad range of reforms will be required to build on recent successes and for India to achieve its full potential. Directors considered that the present favorable economic environment provides a good opportunity for India to make a bold push towards achieving its reform agenda, and encouraged the authorities to garner the necessary political consensus for it.

Directors emphasized that India's large fiscal deficits and public debt remain a key constraint on sustained rapid growth. Directors noted that, with credit to the private sector on the rise, the government's large financing needs can increasingly crowd out private investment. Moreover, they underlined that, without enhancing tax revenues and reducing lower-priority spending, it will be very difficult to adequately address India's large infrastructure needs. Directors also pointed out that fiscal consolidation is a prerequisite for more complete financial sector development and further opening up of the external sector.

Directors viewed the new Fiscal Responsibility and Budget Management Act (FRBMA) as a good framework for restoring fiscal sustainability. They also viewed as broadly appropriate the government's roadmap for achieving the targets of the FRBMA—notably, the elimination of the current deficit by 2008/09—citing, in particular, the emphasis on frontloaded tax reform and improvements in the quality of spending. In this context, Directors underlined the importance of introducing the state value-added tax (VAT) as planned on April 1, broadening the personal and corporate income tax bases and strengthening tax administration, and appropriate targeting of subsidies. Directors supported the authorities' intention to move toward a national goods and services tax over time. They emphasized the importance of the government meeting its fiscal targets in this, the first year of the FRBMA, in order to firmly establish its credibility. Directors also advised vigilance regarding central- and state-government contingent liabilities.

Directors recognized that reforms have been undertaken to strengthen state finances, noting that these steps have so far not led to a decisive turnaround. They emphasized that more needs to be done. Directors were encouraged that a number of states have enacted their own fiscal responsibility legislation. In this regard, they emphasized that states still account for about half of the general government deficit. Directors pointed to the importance of states introducing the VAT, strengthening their pension systems, and accelerating progress on power sector reforms.

They also urged the central government to make more effective use of its leverage over the states—including via its approval of all state borrowings—to encourage needed reforms.

Directors supported the government's emphasis on closing India's infrastructure gap, but expressed serious concerns with the proposal to use foreign exchange reserves to finance infrastructure spending. Directors emphasized the importance of undertaking any increases in infrastructure spending within the limits of the FRBMA. They noted as well that significant private sector participation in infrastructure will likely be forthcoming if India will step up its efforts to improve the investment climate and enhance the regulatory framework for public-private partnerships. Directors also noted that using reserves in this manner has the potential to compromise perceptions of central bank independence and increase inflation.

Directors viewed continued progress on structural reforms as critical to sustaining rapid growth in India. They noted that the recent reduction in small-scale reservation and the relaxation of some sectoral caps on foreign direct investment are important advances. Directors emphasized, however, that to generate the large number of new jobs needed to meet the rising working age population, the authorities should enhance the business climate, including by easing the burden of regulation, and liberalize restrictive labor laws. Directors noted that agricultural reform is critical to growth and poverty reduction. In this context, they emphasized that the government's commitment to improving rural infrastructure is appropriate, but that eliminating structural impediments to growth—including by reforming the current system of price supports, guaranteed procurement, and large subsidies for fertilizer and power—is equally important.

Directors saw the continued strength in India's balance of payments as an excellent opportunity to accelerate trade liberalization. Directors welcomed India's progress in bringing down tariff rates last year and their commitment to further reductions to ASEAN levels over the medium term. However, they underlined that more rapid progress on reducing tariffs, together with a lowering of administrative barriers to trade, will help unleash a potentially powerful engine of growth.

Directors commended the continued progress made in strengthening the financial sector, but observed that risks remain. They noted that nonperforming loans of banks have declined, despite a tightening of loan classification norms, and that capital adequacy ratios are well above the 9 percent minimum. Directors noted, however, that the recent rise in private sector lending—while generally welcome—requires close scrutiny by the RBI. In this context, Directors welcomed the recent RBI decision to increase the risk weight on consumer and housing loans, and encouraged supervisors to strengthen risk-based prudential requirements. Directors also pointed to the large bank holdings of government securities as a significant potential risk in a rising interest rate environment, and emphasized the need to monitor more closely risk management practices of banks. Directors viewed recent steps to merge Development Finance Institutions with large nonperforming loans and a high cost of funds with public commercial banks as potentially helpful. However, they underlined the importance of ensuring that lending decisions by the new institutions be made on purely commercial principles. Directors commended the authorities for addressing problems of governance in urban cooperative banks.

Directors emphasized that more remains to be done, over the medium term, to build a strong and globally competitive financial sector and improve resource allocation. In this context, Directors encouraged the authorities to open further the banking system to private and foreign investors, including by raising the FDI cap for private banks and eliminating the 10 percent limit on voting rights for foreign investors.

Directors viewed the authorities' burden-sharing approach to bearing the costs of sharp increases in international oil prices as understandable, but cautioned that it may not be sustainable. They emphasized that, with oil prices potentially remaining high and volatile for some time, it is important for the authorities to allow their automatic pricing mechanism to work. This would protect government revenues, limit losses to state-owned petroleum companies, and provide incentives for more efficient energy use.

Directors viewed monetary policy as generally appropriate. They noted that the RBI's timely increase in the reverse repo rate in October signals its commitment to price stability, stabilizes inflation expectations, and avoids the need for a more aggressive move later. Directors emphasized that, while inflation has recently trended downward, strong domestic demand, comfortable liquidity, and the potential for further commodity price increases will require the RBI to continue to monitor inflation developments carefully.

Directors welcomed the efforts by the RBI to increase exchange rate flexibility, and encouraged the RBI to continue to support this policy going forward. They noted that, should capital inflows remain strong, increased flexibility will reduce inflationary pressures, facilitate economic adjustment, and encourage hedging of foreign exchange risk.

Directors supported the Indian authorities' gradual approach to capital account liberalization. They commended steps taken during the past year to relax restrictions on capital outflows for individuals, ease corporate access to international capital markets, and raise the cap on foreign investor holdings of government securities. Directors encouraged the authorities to continue to eliminate restrictions on foreign direct investment, which tend to be longer-term in nature.

Directors urged the authorities to continue to improve the quality of their statistics. They urged that priority be given to developing more timely and comprehensive indicators of inflation; and more timely data on state finances. In this light, they welcomed recent Fund technical assistance to develop an integrated state fiscal data base and debt register.

India: Selected Economic Indicators 1/

	2001/02	2002/03	2003/04	2004/05	
	(In percent)				
Domestic economy					
Change in real GDP at factor cost	5.8	4.0	8.5	6.6	2/
Change in industrial production	2.7	5.8	7.0	…	
Change in wholesale prices (period average)	3.4	3.6	5.4	6.7	2/
Change in consumer prices (period average)	4.3	4.0	3.9	4.1	2/
	(In billions of U.S. dollars)				
External economy					
Merchandise exports 3/	44.7	53.8	64.7	78.2	2/
Merchandise imports 3/	56.3	64.5	80.2	107.8	2/
Current account balance	3.4	6.3	10.6	-1.2	2/
(In percent of GDP)	0.7	1.2	1.7	-0.2	2/
Direct investment, net 4/	4.7	3.2	3.4	5.3	2/
Portfolio investment, net	2.0	0.9	11.4	9.9	2/
Capital account balance	8.6	10.8	20.5	20.4	2/
Gross official reserves 5/	54.7	76.1	113.0	129.4	10/
(In months of imports) 6/	8.0	9.3	10.1	13.0	10/
External debt (in percent of GDP) 5/	20.6	20.6	18.5	16.5	2/
Short-term debt (in percent of GDP) 5/ 7/	3.0	3.8	2.1	3.2	2/
Debt service ratio (in percent of current receipts)	13.5	16.0	15.6	7.3	2/
Change in real effective exchange rate (in percent) 5/	2.3	-5.4	-0.9	2.6	10/
Financial variables					
Central government balance (in percent of GDP) 8/	-6.3	-6.0	-5.1	-5.0	2/
General government balance (in percent of GDP) 8/	-10.1	-9.6	-9.7	-9.3	2/
Consolidated public sector balance (in percent of GDP) 8/	-10.1	-9.6	-9.7	-9.3	2/
Change in broad money (in percent) 5/	14.1	14.7	16.5	13.4	10/
Interest rate 5/ 9/	6.1	5.9	4.2	5.2	10/

Sources: International Financial Statistics; Reserve Bank of India; Ministry of Finance; CEIC; and IMF Staff estimates.

1/ Data are for April-March fiscal years, and are those that were available at the time of the Board meeting.
2/ Staff estimates for 2004/05.
3/ Balance-of-payments basis.
4/ Net foreign direct investment in India less net foreign investment abroad.
5/ End of period.
6/ Imports of goods and services projected over the following twelve months nonresident Indian accounts.
7/ Residual maturity basis, except contracted maturity basis for medium- and long-term nonresident Indian accounts.
8/ Excluding divestment receipts from revenues and onlending of small saving collections from expenditures and net lending.
9/ 91-day Treasury Bill rate.
10/ As of January 31, 2005.