Source: Britannica.com

# India: Economic Outlook and Reform Priorities

**14 NOVEMBER 2024**

Ranil Salgado
Senior Resident Representative – India & Bhutan
IMF

# Main Messages

- India today is an important engine of global growth underpinned by prudent macroeconomic polices
- Significant potential and opportunities: demographics, digitalization, capital spending push, and managing the green transition.
- Critical requirements: Comprehensive structural reforms and continued macroeconomic and financial stability

**Policies:**

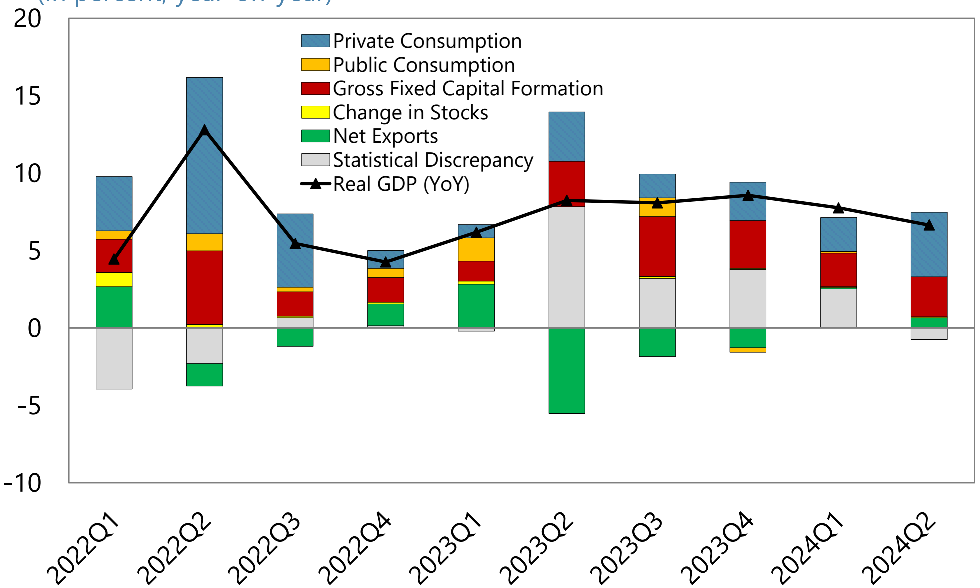
- **Fiscal policy:** rebuild buffers and sustainably reduce debt while boosting inclusive growth
- **Monetary policy:** data dependent, opportunity to lower the rate if inflation continues to sustainably converge to the midpoint target
- **Financial sector policies:** continue to promote resilience
- **Broad-ranging structural reforms:** harness demographic dividend and invigorate inclusive and green growth.

# DEVELOPMENTS & OUTLOOK

# Recent developments

**Contribution to Real GDP Growth**

(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

- Growth in FY24/25 – in line with expectation
- **Consumption** recovers especially rural
- **Inflation** rising again after earlier moderation
- Low **current account** deficit
- Rising **employment**, especially informal workers

# Robust Economic Outlook (October WEO)

| | FY2024/25 | FY2025/26 |
|---|---|---|
| Strong growth | 7.0 | 6.5 |
| Declining inflation | 4.4 | 4.1 |
| Sustainable current account deficit | -1.1 | -1.3 |

# Balanced Risks to the Outlook

## Downside External

- Global economic slowdown
- Supply disruptions
- Broader and deeper conflict(s) and weakened international cooperation

## Downside Domestic

- Weather shocks
- Persistently high and concentrated credit growth could lead to deterioration in underwriting standards.

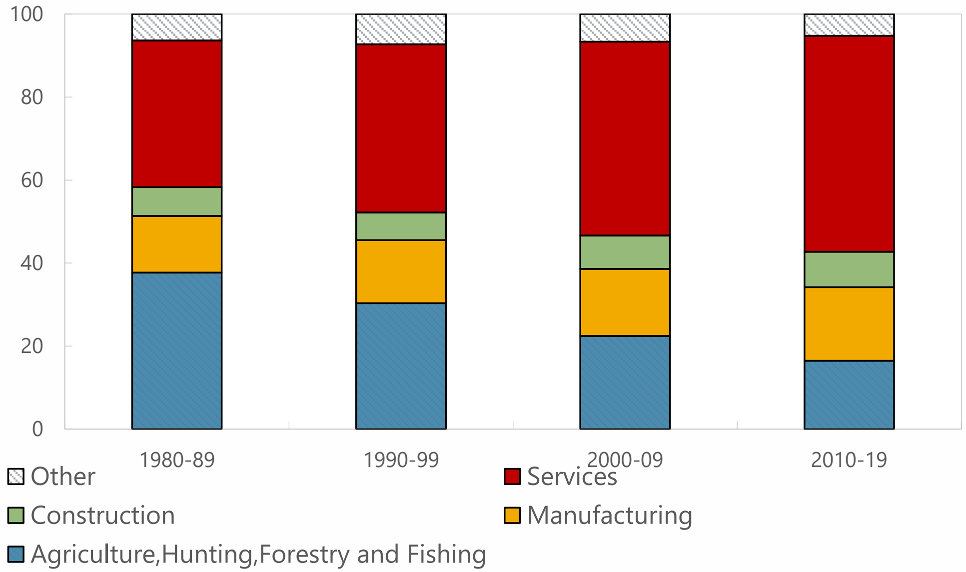
## Upside

- Stronger-than-expected consumer demand and more robust growth in private investment
- A successful implementation of wide-ranging structural reforms

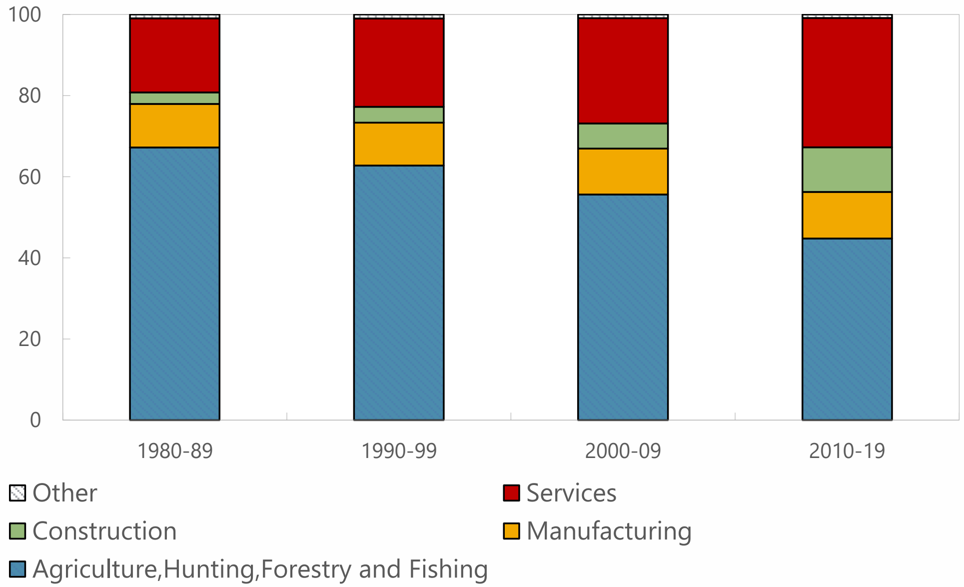
# ADVANCING INDIA'S LABOR MARKET TRANSFORMATION

# Activity has shifted over time

**Contribution to real value added**
(percent)




**Distribution of employment**
(percent)

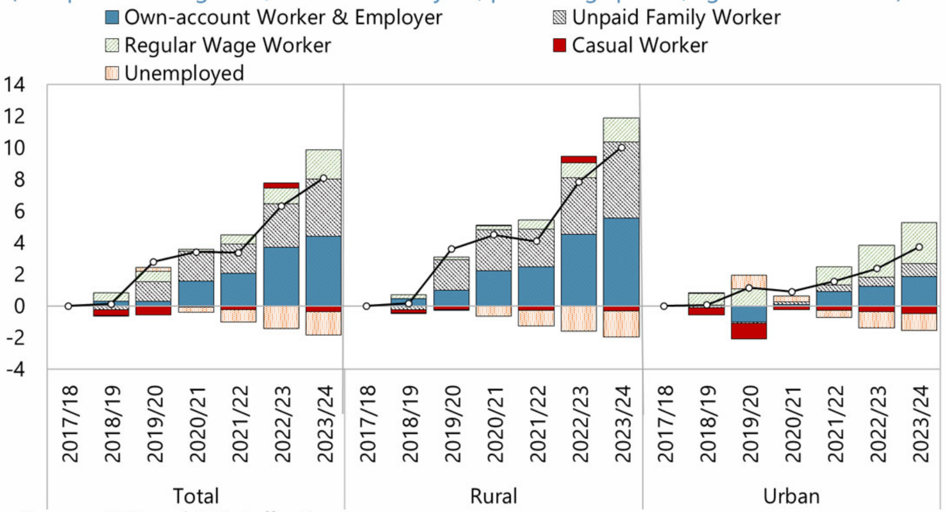



Source: India KLEMS: and IMF staff estimates.
Note: Figures show average values over ten-year period indicated. "Other" sector includes electricity, gas, and water and mining and quarrying.

# Labor force participation rate is rising, but driven by lower-productivity jobs

### Cumulative Change in LFPR by Employment Status

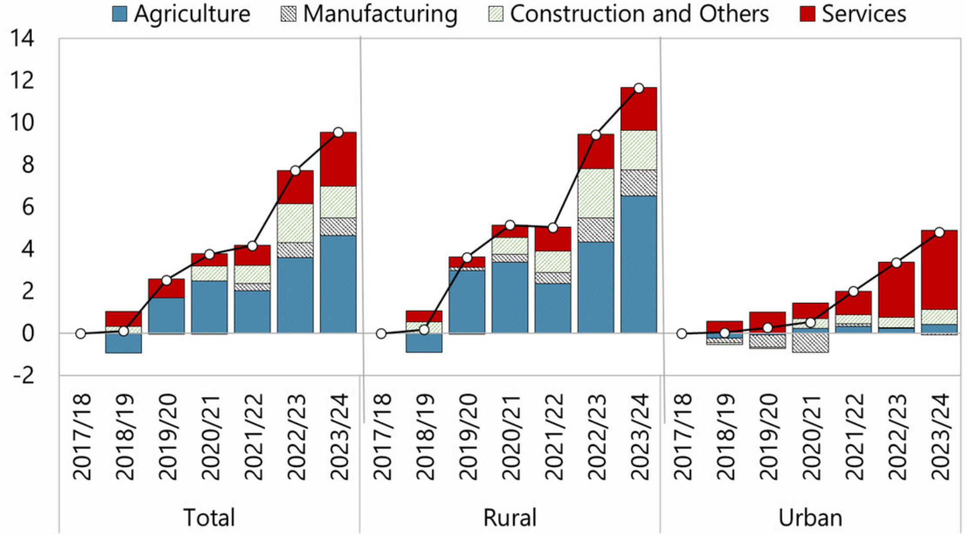
(Comparison using 2017/18 as the base year, percentage points, aged 15 and above)




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

### Cumulative Change in Employment Rate by Sector

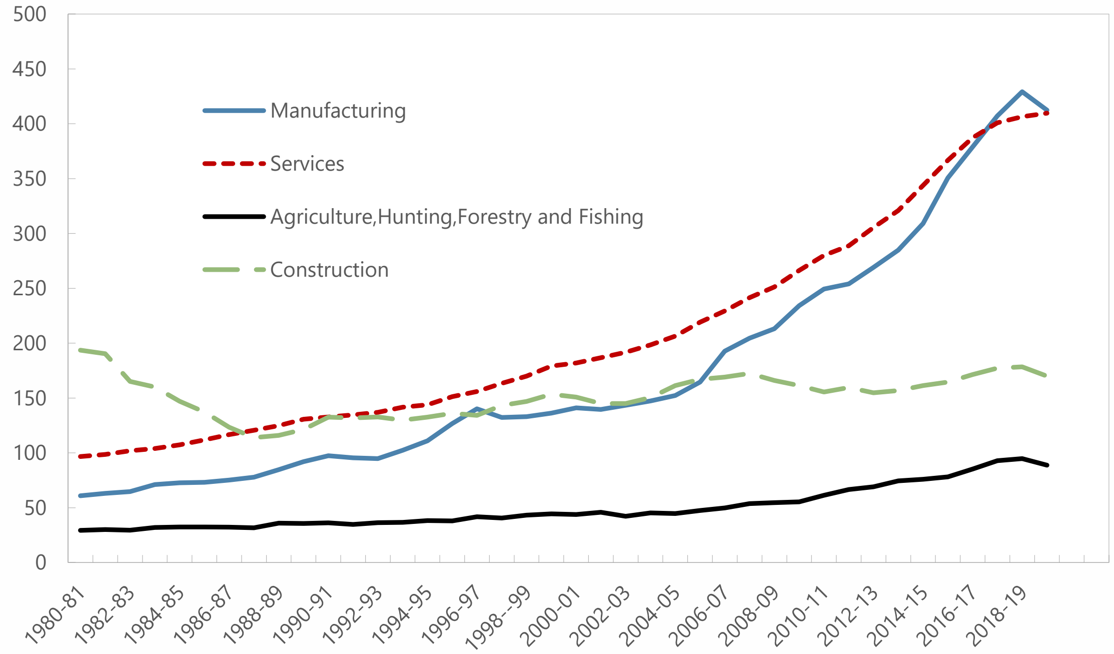
(Comparison using 2017/18 as the base year, percentage points, aged 15 and above)




Sources: PLFS and IMF staff estimates.

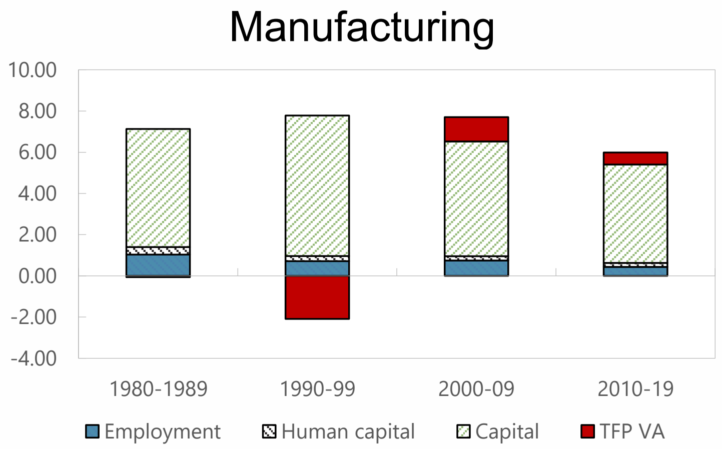
# Labor productivity remains low in agriculture and construction

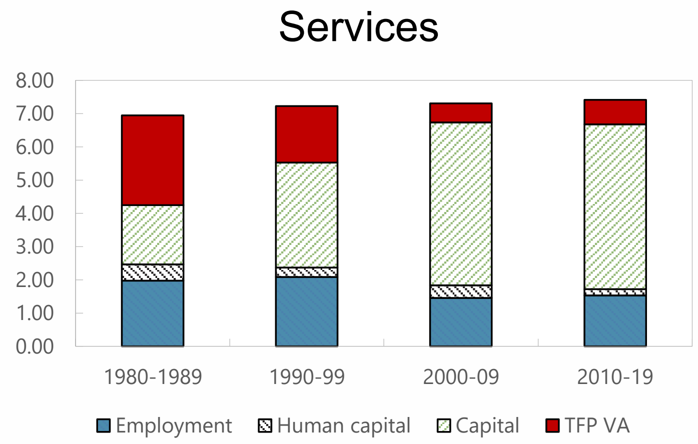
**Labor productivity**
(000's Rs. Constant 2011-12 prices)

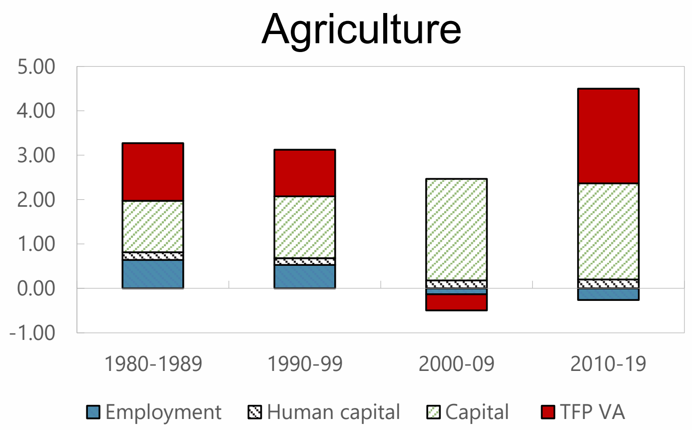


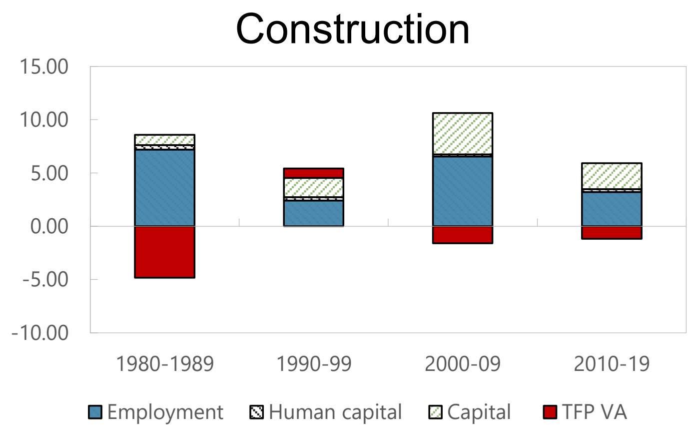

Source: India KLEMS; and IMF Staff estimates

# Labor is not a main driver of growth



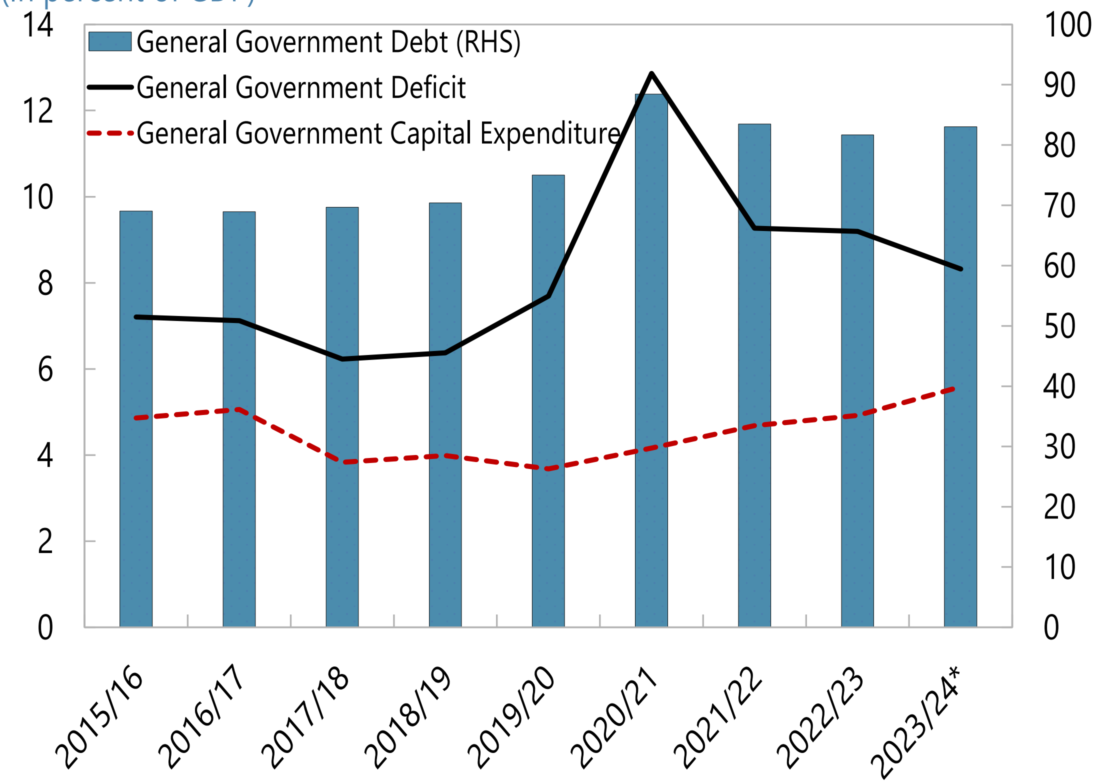



# POLICY ADVICE

# Fiscal Policy

**General Government Debt, Deficit, and Capital Expenditure**

(In percent of GDP)




Source: IMF staff calculations.

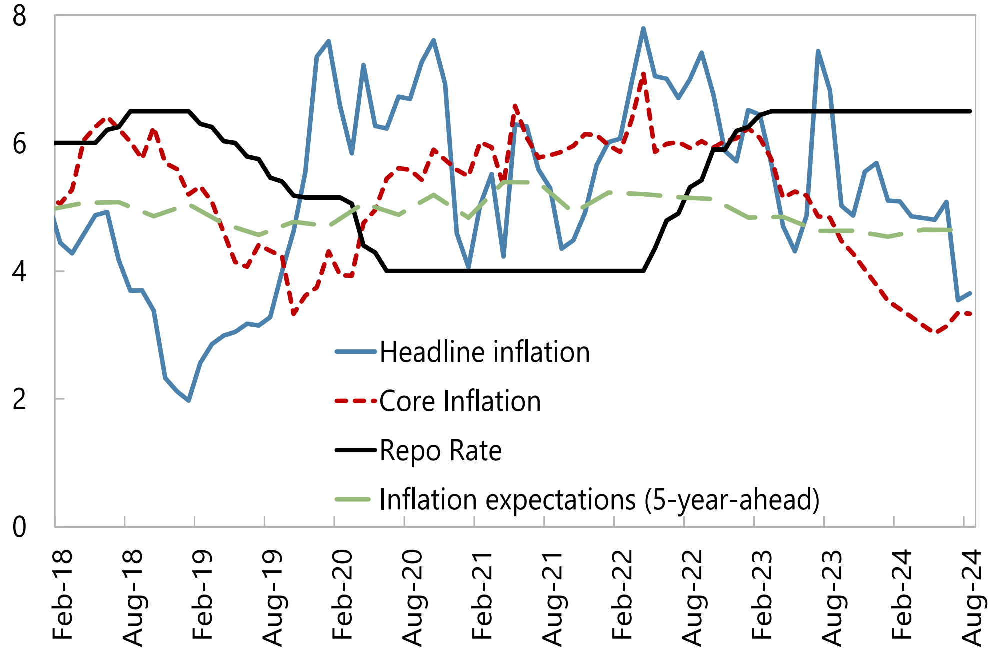
*IMF staff estimates

- Fiscal consolidation continues.
- Improving composition of expenditure (increased capex).
- But public debt remains elevated → need to consolidate further.
- Measures to support consolidation include: revenue-based measures with a focus on GST.

# Monetary Policy

Inflation, Expectations and Policy Rate

(In percent)

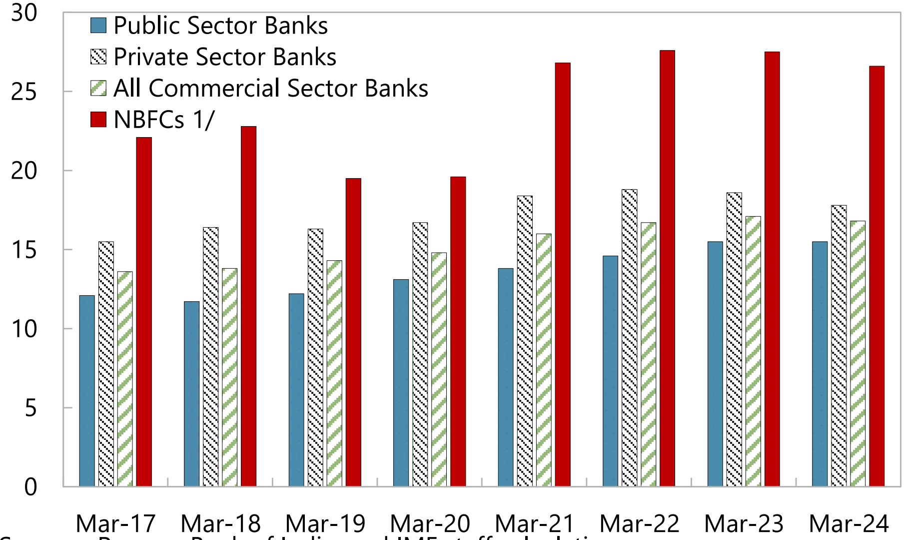



Sources: Haver Analytics; Consensus Economics; and IMF staff estimates.

- **Data-dependent** given volatile food prices
  - ▶ Carefully calibrated and clearly communicated.
- **Recommendation**: opportunity to lower the policy rate if inflation sustainably converges to the midpoint target.
- **Greater ER flexibility** should help absorb external shocks.

# Financial Sector

Capital Adequacy Ratio of Financial Institutions
(Percent of Risk-Weighted Assets)




Sources: Reserve Bank of India; and IMF staff calculations.
1/ excluding core investment companies

**Ongoing FSAP**

**Systemic risks have declined**

- Stronger asset quality, capital adequacy, provisioning, profitability
- Continued efforts on MSMEs and capital markets should pay dividends

**Address emerging issues and advance structural reforms**

- Close supervision of unsecured lending
- Further progress on PSB governance and privatization, build strong capital buffers.
- Address data gaps, NBFC liquidity risks, and interconnectedness
- Bolster supervisory and regulatory framework

# Structural Policies

## Fostering human capital

- Strengthening education and skilling
- Advancing labor market reforms
- Boosting female LFPR

## Promoting sound business environment

- Removing red tape and other obstacles to private sector growth
- Continuing public investment push
- Facilitating access to credit
- Lifting trade restrictions expeditiously and fostering trade integration

## Other critical reforms

- Strengthening the social safety net
- Climate policies.
- Agriculture and land reforms
- Improving data for macroeconomic monitoring

# Main Messages

- India today is an important engine of global growth underpinned by prudent macroeconomic polices
- Significant potential and opportunities: demographics, digitalization, capital spending push, and managing the green transition.
- Critical requirements: Comprehensive structural reforms and continued macroeconomic and financial stability

**Policies:**

- **Fiscal policy:** rebuild buffers and sustainably reduce debt while boosting inclusive growth
- **Monetary policy:** data dependent, opportunity to lower the rate if inflation continues to sustainably converge to the midpoint target
- **Financial sector policies:** continue to promote resilience
- **Broad-ranging structural reforms:** harness demographic dividend and invigorate inclusive and green growth.

**THANK YOU!**
**QUESTIONS?**