



# Highlights of the 2013 India Article IV Consultation

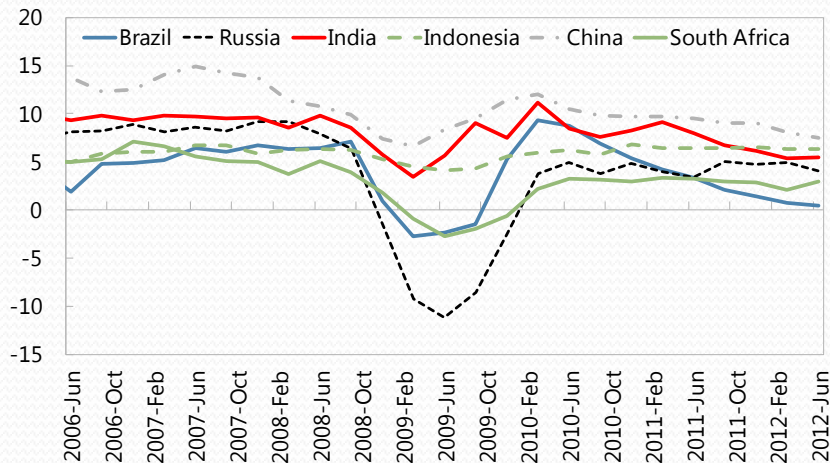
Brookings Institution, March 4, 2013

Laura Papi and IMF India Team

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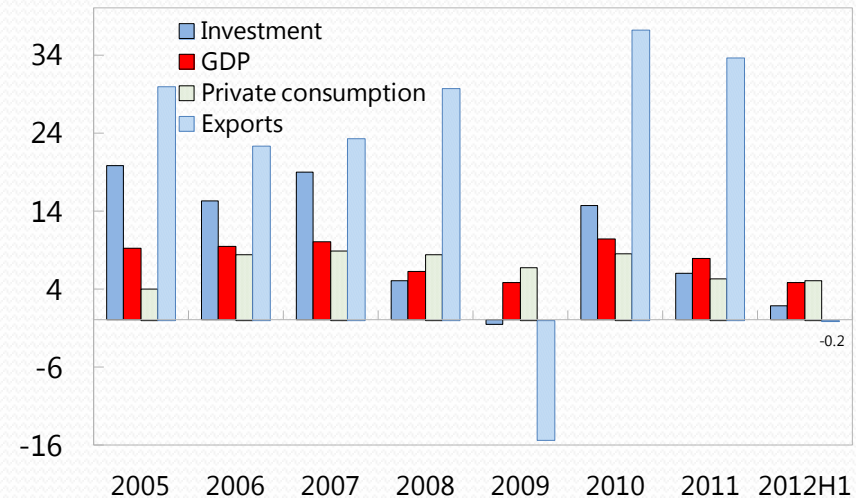
# An investment slowdown has now generalized

**GDP Growth**  
(In percent, yoy)



Sources: CEIC and IMF Staff calculations.

**GDP Growth**  
(In percent, yoy)



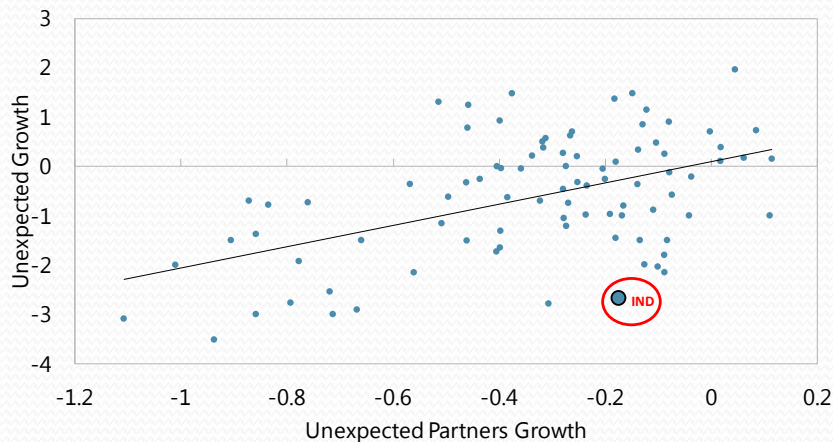
# The current slowdown has an important structural component

The economy has slowed by more than external factors can explain. . .

. . .and structural factors are behind weak investment.

**The 2012 Slowdown: More than External Spillover**

(In percent)

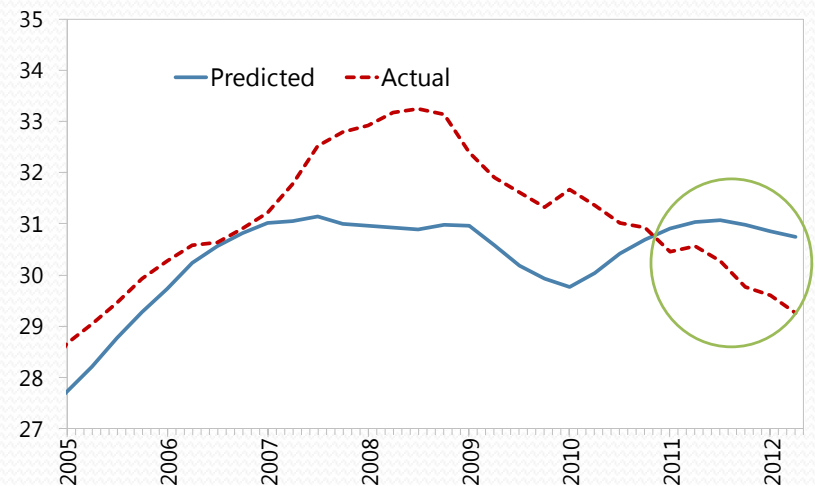


Sources: IMF, World Economic Outlook; and IMF staff calculations.

Note: Unexpected growth denotes real GDP growth in 2012 (Sept 2012 WEO) minus the forecast (Sept 2011 WEO). Partners growth is export weighted average.

**India: Actual and Predicted Investment**

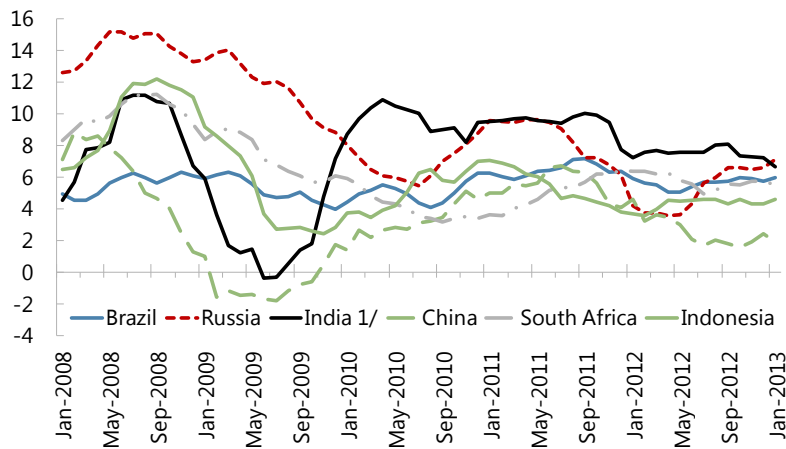
(In percent of GDP, 4 mma)



# Inflation remains high, especially compared to other EMs

## Inflation

(In percent, year-on-year)

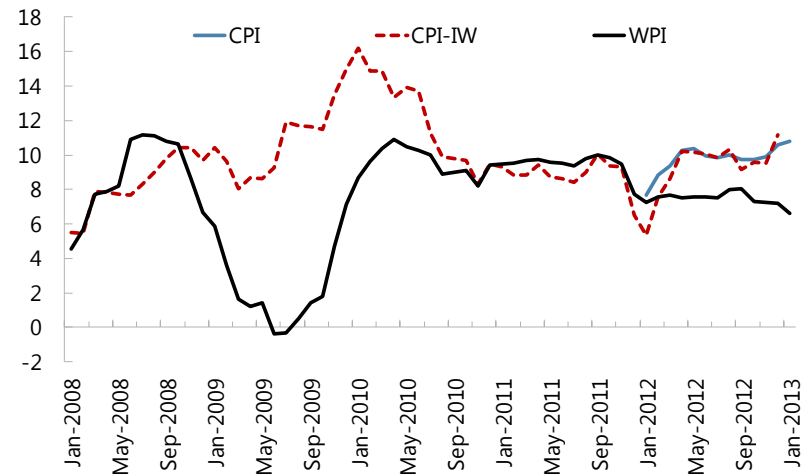


Source: Haver Analytics.

1/ Wholesale price inflation.

## Inflation

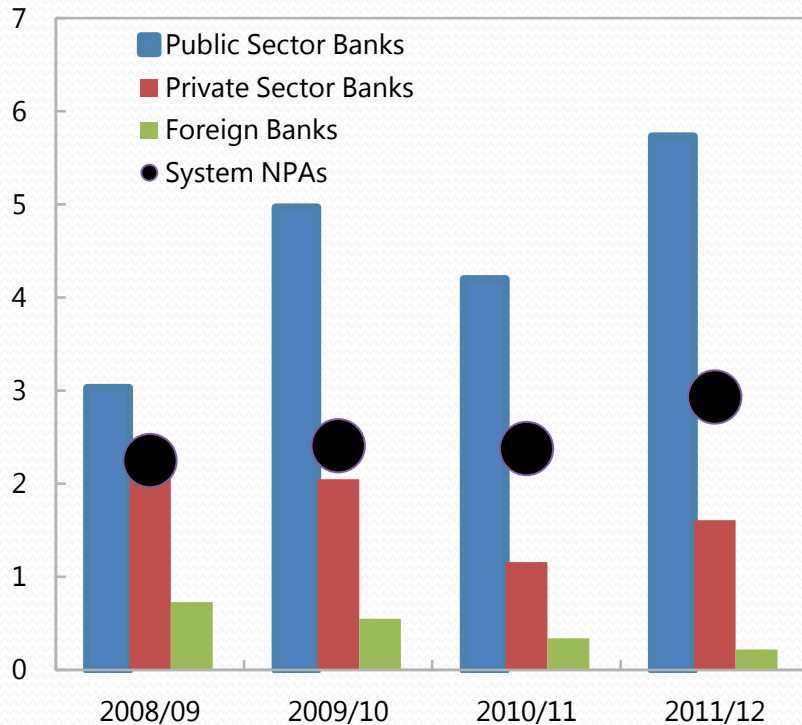
(In percent, year-on-year)



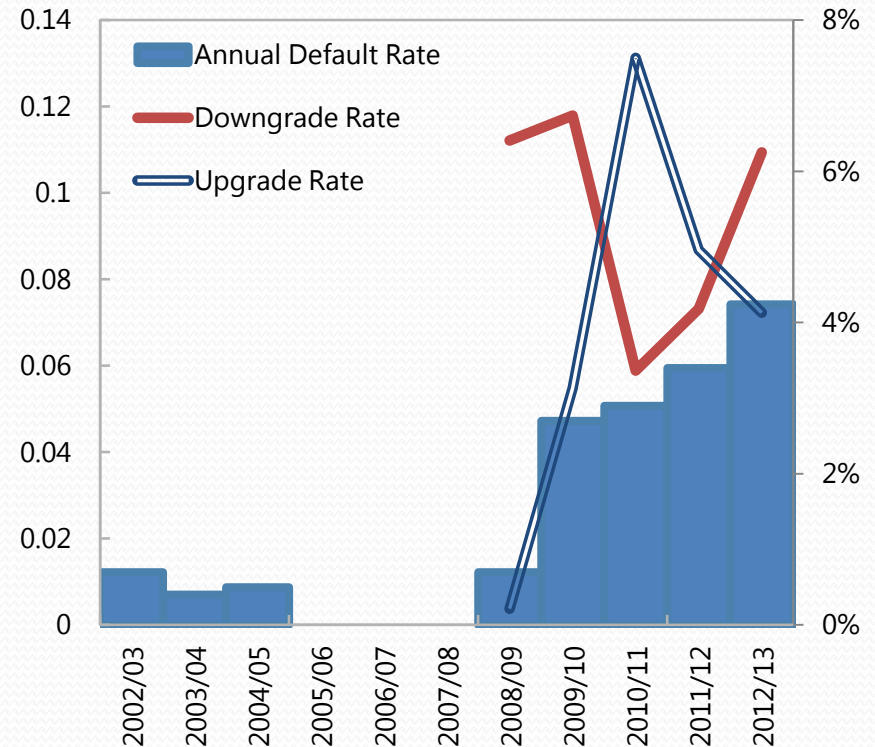
Source: CEIC

# Corporates' and banks' balance sheets have weakened

**Outstanding Restructured Advances**  
(In percent of gross advances)



**Corporate Risks**  
(in percent)

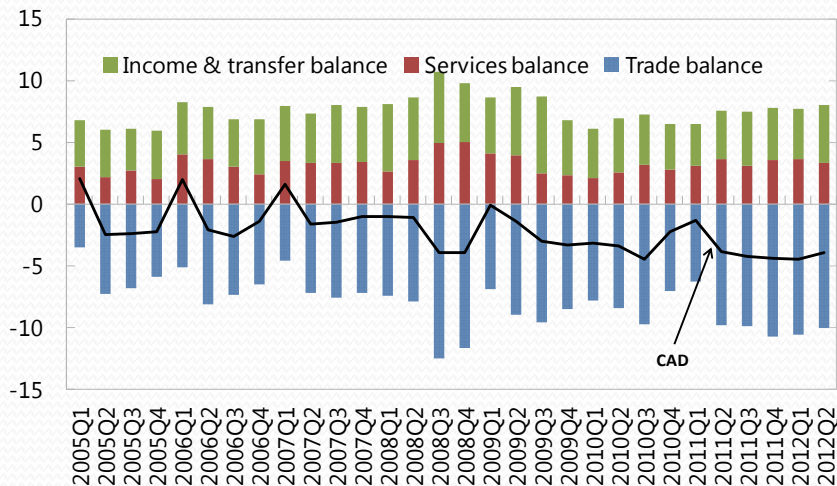


Source: RBI, CRISIL

# And external pressures have become more of a concern

## Current Account Balance

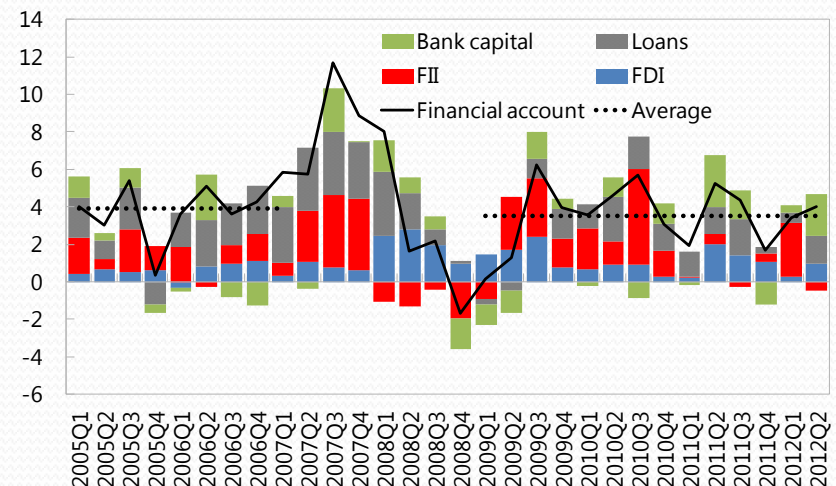
(In percent of GDP)



Sources: CEIC and IMF Staff calculations.

## Financial Account

(In percent of GDP)

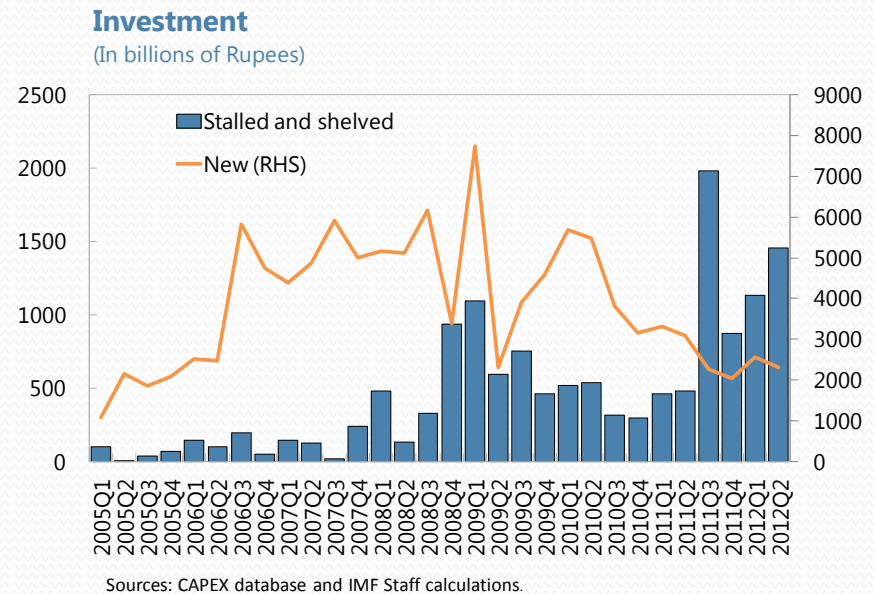
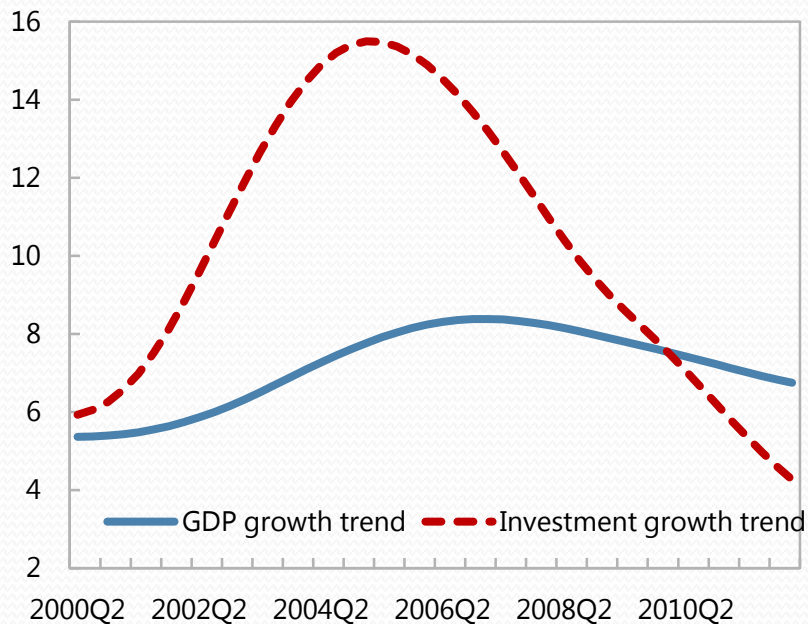


# The recovery is likely to be slow

Investment has slowed dramatically...

.....and the pipeline remains thin

## India GDP and Investment Growth Trends



# Risks

- External risks: protracted slow growth in Europe, EM capital flow reversal, oil prices
- Domestic risks:
  - Insufficient follow-through on reforms
  - Failure to ease supply constraints (esp. energy)
  - Fiscal expansion
- Upside: acceleration of reform momentum



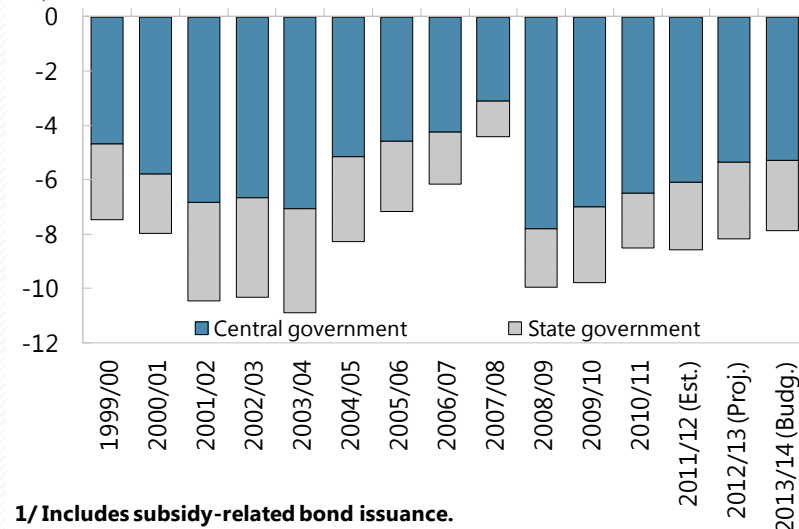
# Policy Recommendations

- **Structural Reform:** especially in energy, but also infrastructure more broadly, land acquisition, and labor laws.
- **Sustainable Fiscal Consolidation:** subsidy reform and expenditure reorientation are key, but also taxation
- **Stay the Course on Monetary Policy:** inflation is still a risk. Flexible exchange rate is important buffer
- **Address Financial Risks:** Stricter classification and higher provisions for NPAs, address concentration risk.

# Bringing down the budget deficit sustainably will be challenging

## Government Balance

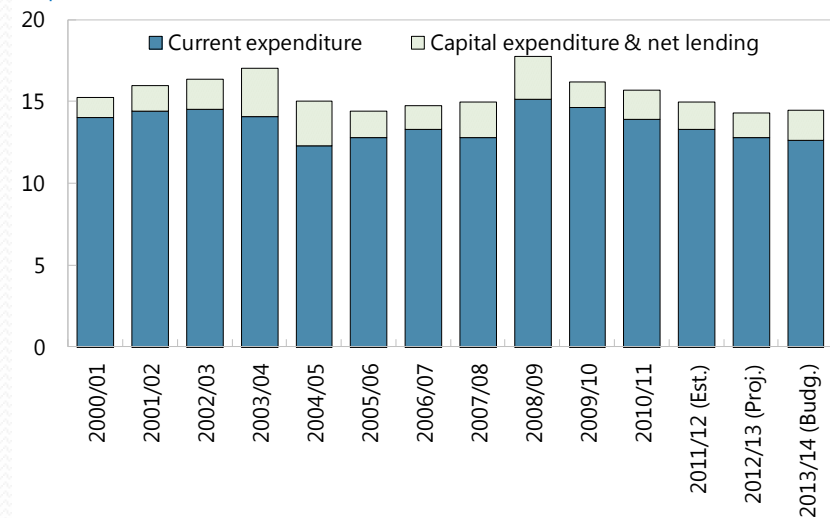
(In percent of GDP) 1/



1/ Includes subsidy-related bond issuance.

## Composition of Expenditure

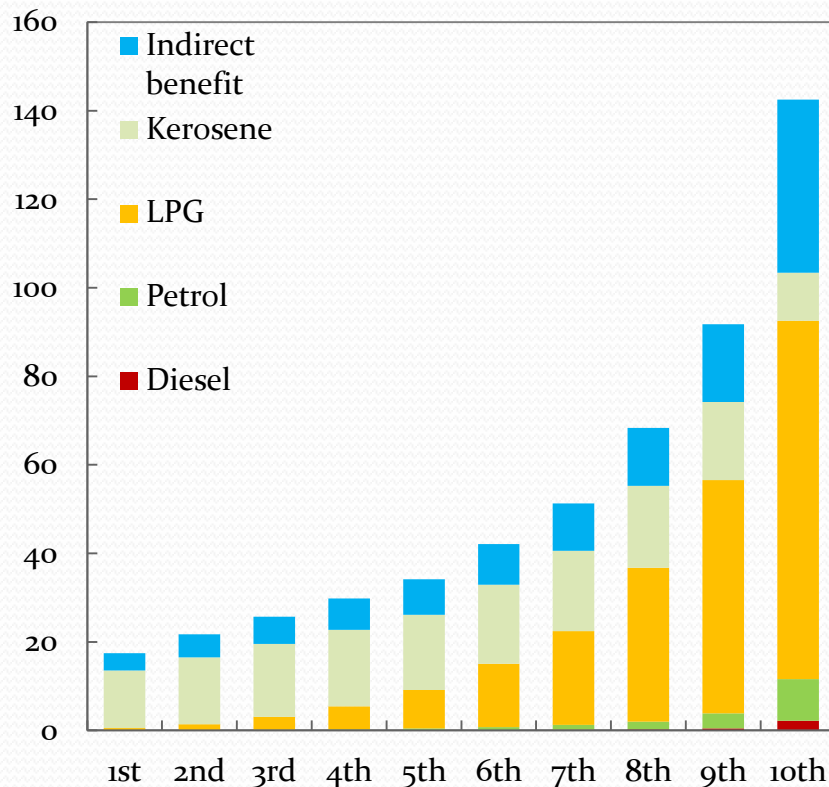
(In percent of GDP)



# Policies for Fiscal Consolidation

## Benefits from Fuel Subsidies

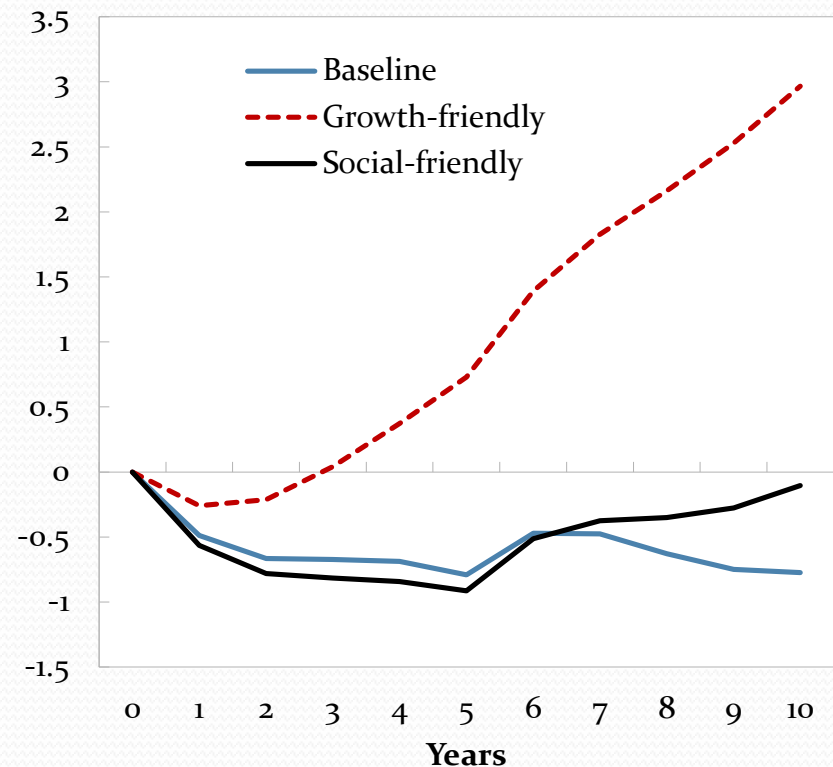
(By income decile, in rupees per capita per month)



Source: Coady et al., 2013.

## Effects of Fiscal Consolidation on Growth

(GDP growth rates, deviation from steady state)

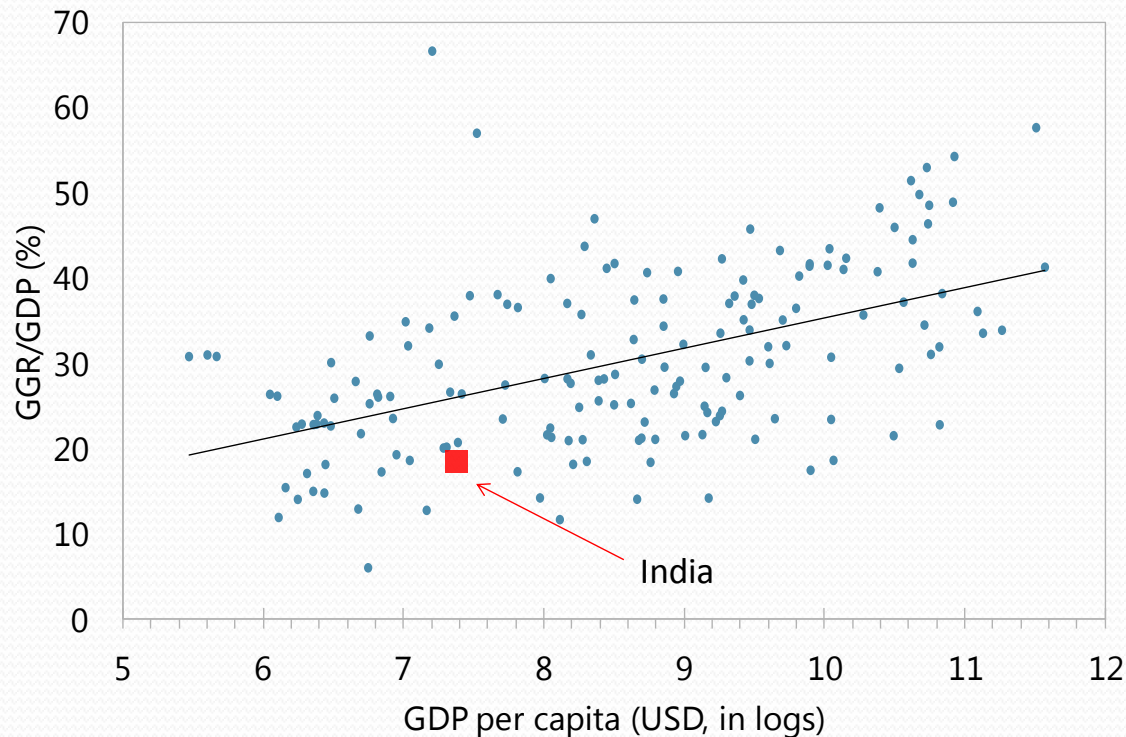


Source: Tapsoba, 2013.

# Taxation reform also needed

## General Government Revenue and GDP per capita, 2012

(excluding oil exporters and microstates)



Source: IMF, World Economic Outlook.

**Thank you**