



# INDIA

## 2014 ARTICLE IV CONSULTATION

February 2014

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 2014 Article IV consultation with India, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 27, 2014, following discussions that ended on November 26, 2013, 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 January 9, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of January 27, 2014 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 27, 2014 consideration of the staff report that concluded the Article IV consultation with India.
- A **Statement by the Executive Director** for India.

The following documents have been or will be separately released.

Selected Issues Paper

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

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## STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

January 9, 2014

### KEY ISSUES

**Context:** The tightening of global liquidity has increased external pressures and heightened the focus on India's macroeconomic imbalances (high inflation, large current account and fiscal deficits) and structural weaknesses (particularly supply bottlenecks in infrastructure, power and mining).

**Outlook and risks:** Growth is expected to slow to 4.6 percent this fiscal year, the lowest level in a decade, reflecting global developments and domestic supply constraints. Headline CPI inflation is expected to remain near double digits for the remainder of the fiscal year. The current account deficit is narrowing, driven by a significant improvement in exports, robust remittances flows, and a rapid diminution of gold imports. Nonetheless, India has very little room to adopt countercyclical policies, constrained by persistently-high inflation, and sizeable fiscal and external imbalances. Spillovers from renewed external pressures interacting with domestic vulnerabilities are the principal risks.

#### Key policy recommendations:

- High and persistent inflation is a key macroeconomic challenge facing India. Further increases in the policy rate will be necessary to tackle high inflation and inflation expectations.
- If external pressures from global financial market volatility resume, rupee flexibility should be the first line of defense, complimented by use of reserves, increases in short-term interest rates, actions on the fiscal front, and further easing of constraints on capital inflows.
- Further fiscal consolidation is needed. Tax and subsidy reforms will be required to durably lower fiscal imbalances.
- Enhanced financial sector supervision, better monitoring of banks' credit quality, and improved information on corporate vulnerabilities will be needed as a basis for tackling rising corporate and financial sector strains.
- Addressing supply bottlenecks and structural challenges—particularly in the agriculture and power sectors, and in the pricing and allocation of natural resources (including coal, natural gas, and fertilizers)—will be essential to achieve faster growth, job creation and poverty reduction.

Approved By  
**Nigel Chalk and**  
**Seán Nolan**

Discussions took place in Mumbai and Delhi during November 14–26, 2013. The staff comprised Paul Cashin (head), Rahul Anand, Volodymyr Tulin, Mehdi Raissi, (all APD), Peter Lindner (MCM), Ran Bi (SPR), and Tom Richardson (Senior Resident Representative). Nigel Chalk (APD) and Rakesh Mohan, Janak Raj and Muneesh Kapoor (all OED) also joined the discussions. The mission met with Reserve Bank of India Governor Raghuram Rajan, Economic Affairs Secretary Arvind Mayaram, Planning Commission Deputy Chairman Montek Singh Ahluwalia, other senior officials and representatives of the business community. May Inoue, Michael Dalesio, and Qianqian Zhang (all APD) assisted in the preparation of this report.

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