INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Fifty-Second Meeting
October 16–17, 2025

Statement No. 52-10

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India

On behalf of
Bangladesh, Bhutan, India, and Sri Lanka

Statement by Ms. Nirmala Sitharaman, Minister of Finance and Corporate Affairs, India, and Member, International Monetary and Financial Committee (IMFC), representing the Constituency consisting of Bangladesh, Bhutan, India and Sri Lanka, to the 52nd Meeting of the IMFC at the Annual Meetings 2025

October, 2025

Global Economy

1. The global economy is navigating through elevated uncertainty. Major policy shifts and trade tensions are adding to the downside risks. Global economic resilience is being tested as temporary growth drivers fade, revealing underlying strains. Projections foretell a slowdown in global growth as both advanced economies (AEs) and emerging market and developing economies (EMDEs) face risks from adverse trade policy shifts. Today's top priority should be global cooperation to maintain the stability and smooth operation of the international economic system.

2. Global inflation patterns this year continue to show distinct differences between advanced economies and emerging markets and developing economies. In recent months major central banks have lowered benchmark interest rates to buttress domestic growth. As global economic conditions evolve, central banks will need to expertly balance support for growth with inflation management.

3. Global trade has been facing extraordinary challenges in 2025, with trade policy uncertainty reaching unprecedented levels. Strengthening rule-based trading systems and promoting clarity and predictability in trade policymaking can help reduce uncertainty and foster a more stable global environment for investment. Reinvigorating multilateralism is crucial to safeguard global growth prospects.

4. In today's volatile global economy, marked by growing fractures in global cooperation, uncertainty, and turbulence, the IMF's role as a guardian of global economic stability is more vital than ever. To effectively navigate these challenges, the IMF should provide nuanced analysis on the risks of fragmentation, protectionism, and economic nationalism. Moreover, the IMF should strongly advocate and strive for enhanced multilateral cooperation, fostering dialogue and collaboration to address shared economic challenges and promote a more stable and inclusive global economy.

5. The IMF's roles as a macroeconomic policy expert, a provider of the global financial safety net, and a multilateral cooperation platform should inform its surveillance, capacity development, and lending efforts, which should remain aligned with its core mandate. Furthermore, the Fund should adopt responsible lending practices and prioritize lending to countries that demonstrate a commitment to economic reforms and sound policy frameworks, while ensuring that its support is conditional on meaningful policy actions to prevent recurrent reliance on Fund resources.

India

6. Despite a global environment marked by increasing uncertainty, the Indian economy has demonstrated remarkable robustness. In Q1 FY26, India's growth trajectory continued with momentum, with quarterly national income estimates revealing a 7.8 percent year-on-year increase in real GDP - a five-quarter peak. As the fastest-growing major economy, India's performance remains impressive. High-frequency data for July and August suggest sustained economic momentum, driven primarily by domestic factors. Key growth drivers, including consumption expenditure and fixed investment, continued to exhibit strength. Robust aggregate demand, fueled by resilient rural demand in a stable inflation environment, has further bolstered economic growth.

7. Looking ahead, the Q1 FY26 economic performance is likely to be sustained in the coming months, driven among other factors, by the GST structure rationalization coupled with further transmission of RBI's interest rate cuts, income tax relief announced in February 2025, and a broader environment of deregulation and easing inflation. This is expected to create a conducive environment for economic growth. As a result, the growth forecast for FY26 is now placed at 6.8 percent by the RBI. Some analysts are projecting even higher growth rates for FY26. Headwinds to growth include risks from adverse weather events, uncertain trade policies and volatile financial markets. Nonetheless, India's growth resilience can be attributed to a strong foundation of macroeconomic fundamentals, ongoing structural reforms, and agile policymaking.

8. CPI headline inflation has remained benign, declining to 99-month low at 1.5 percent in September from 2.1 percent in August, driven primarily by food inflation. Core inflation has also remained largely contained although it increased to 4.6 percent in September, driven by a steep increase in prices of precious metals, including gold. Barring gold and silver, core inflation remains benign. Overall, inflation is likely to remain under control in the near term in view of a good monsoon season and the GST rate reductions.

9. India is continuing on a steady path of fiscal consolidation. The fiscal deficit for FY25 is estimated at 4.8 percent of GDP in the Revised Estimates, with a further reduction projected to 4.4 percent of GDP for FY26. A detailed fiscal roadmap for the next six years, as outlined in the Union Budget 2025, aims to keep the Central Government debt on a declining path as a percentage of GDP. Focus on capital expenditure is continuing. During the April-August 2025 period, Union public finances were characterized by an accelerated pace of capital expenditure and steady net revenue receipts, bolstered by robust non-tax revenues.

10. Building on the significant income tax relief provided in the February 2025 Budget, a major overhaul of the GST framework has been implemented, featuring reduced rates and streamlined processes. This revamped structure aims to strike a balance between taxpayer needs and administrative efficiency. These reforms are poised to foster compliance and promote both ease of living and business operations.

11. The financial health of India's banking sector remains robust, with strong capital adequacy, liquidity, asset quality, and profitability. Bank credit growth, while marginally lower than the previous year, continues to underpin real economic activity, with other financial resource channels offsetting the slowdown and sustaining support for the commercial sector. Non-banking financial companies also report healthy financials characterized by adequate capital and stable asset quality. To ensure the sustainable development of financial systems, regulatory frameworks are made adaptable, consultative, evidence-based, principle-based and proportional. To further bolster the financial sector, measures are being implemented to enhance banking resilience and competitiveness, improve credit flow, promote ease of doing business, and strengthen consumer satisfaction.

12. Over the past decade, India has prioritized infrastructure development through a holistic and inclusive approach. Infrastructure development is at the center stage of fiscal and public policy agenda. Capital expenditure by the union government on major infrastructure sectors has been increasing. Further, ongoing and new policy reforms are the driving force behind the country's economic growth and progress. In India's Union Budget 2025-26, "Reforms as the fuel" was a central theme that characterized the government's approach to achieving the vision of a "Viksit Bharat" or Developed India. It was framed as the fuel for four powerful engines of development: Agriculture, MSMEs, Investment, and Exports.

13. With a focus on reform-driven growth, the economy is well positioned to withstand global shocks, including ongoing tariff and trade policy uncertainties. Key growth drivers, including

structural reforms, domestic consumption and investment, and infrastructure development, will support the continuation of the growth trajectory. Looking ahead, India's economic outlook appears stable, underpinned by sound macroeconomic policies.

Bangladesh

14. The economy of Bangladesh is currently undergoing a transitional phase, facing challenges in key indicators. Despite these difficulties, signs of recovery are emerging, as evidenced by a rebound in economic and financial activities, easing inflationary pressures, stable exchange rates, and comfortable foreign exchange reserves, reflecting resilience in the external sector. However, the banking sector's performance remains lackluster, characterized by a high ratio of non-performing loans (NPLs), lower capital adequacy, and reduced profitability.

15. In the fourth quarter of FY25, the pace of economic activity cooled slightly, as indicated by several high-frequency indicators, including the Index of Industrial Production (IIP) and bank advances to the private sector. IIP growth slowed to 4.21 percent in Q4FY25, down from 7.69 percent in Q3FY25. Similarly, bank advances to the private sector for economic purposes decreased to 8.82 percent in Q4 FY25 from 9.95 percent in Q3 FY25. This deceleration is consistent with the estimated annual GDP growth rate of 3.97 percent for FY25, a decline from 4.22 percent in FY24. The slowdown is mainly attributed to weaker agricultural performance and moderate growth in the services sector. Additionally, a significant decrease in the growth of both private and government consumption, as well as investment, contributed to the subdued economic performance in FY25.

16. Thanks to prudent and sustained monetary tightening measures, inflationary pressures continued to ease in the second half of FY25, with the point-to-point headline Consumer Price Index (CPI) inflation reaching a three-year low of 8.48 percent in June 2025. By August 2025, inflation further decreased to 8.29 percent. Point-to-point food inflation also saw a notable decline, dropping to 7.39 percent in June 2025 from 8.93 percent in March 2025, although it slightly increased to 7.60 percent in August 2025. The overall inflation outlook remains positive, as easing global commodity prices, exchange rate stability, and rising foreign exchange reserves are likely to continue to alleviate inflationary pressures.

17. The Bangladesh Bank (BB) maintained a higher policy rate and kept the interest rate corridor unchanged, despite a steady improvement in price levels in the fourth quarter of FY25. The symmetric yet elevated interest rate corridor generally guided retail lending and deposit rates

upward, with slightly narrowing interest rate spreads, reflecting BB's policy objectives. To increase dynamism in inter-bank call money market activities and improve liquidity management, BB lowered the standing deposit facility (SDF) rate—the lower bound of the corridor—by 50 basis points on July 16, 2025. This adjustment made the corridor asymmetric, widening the band from 3 percent to 3.5 percent (+1.5, -2.0). In the backdrop of improved liquidity conditions, the yield curve of government securities experienced a gradual downward shift in recent months.

18. The external sector also demonstrated notable resilience in Q4 FY25, bolstered by strong remittance inflows, a stable market-determined exchange rate, higher inflows of medium- and long-term loans - including assistance from development partners—and robust export growth. Exports grew by 7.72 percent to USD 43.96 billion, while imports increased moderately by 1.75 percent to USD 64.35 billion. Remittance inflows surged by 26.83 percent to USD 30.33 billion, contributing to a current account surplus of USD 0.15 billion in FY25. In addition, inflows of USD 4.0 billion in the financial account, including a modest rise in foreign direct investment (FDI), further supported an overall balance of payments surplus of USD 3.39 billion in FY25, compared to a deficit of USD 4.3 billion in FY24. Consequently, gross foreign exchange reserves strengthened, increasing to USD 31.77 billion in FY25 from USD 26.71 billion in FY24.

19. On the fiscal front, during the first eleven months (July 2024 to May 2025) of FY25, government revenue collection grew by 9.6 percent, reaching 74.7 percent of the revised budget for FY25. Meanwhile, public expenditure increased by 14.0 percent, amounting to 66.2 percent of the revised budget for FY25. During this period, the total budget deficit (including grants) stood at BDT 1,020.19 billion, equivalent to 1.84 percent of the GDP. The deficit was financed through both foreign and domestic sources, with net foreign borrowing totaling BDT 145.71 billion and net domestic borrowing amounting to BDT 916.76 billion. Within the domestic borrowing, net borrowing from the banking system amounted to BDT 1,077.93 billion, while there was a net repayment of BDT 161.16 billion to non-bank sources.

20. The banking sector continued to face high levels of non-performing loans (NPLs), both in terms of volume and as a percentage of total loans. In the most recent quarter, the NPL-to-total loan ratio increased to 24.13 percent, up from 20.20 percent previously.

21. In summary, Bangladesh's economy is displaying promising signs of recovery, characterized by easing inflation and a resilient external sector. While challenges remain, particularly in the banking sector, effective policies and growth in key areas suggest a positive outlook for the medium term, fostering confidence in economic stability and growth.

Bhutan

22. Bhutan continues to demonstrate resilience and ambition in its development journey, underpinned by strong macroeconomic management and a forward-looking reform agenda. The economy is projected to grow by 8.93 percent in 2025, nearly doubling from 4.97 percent in 2024, driven by the commissioning of the Punatsangchu-II Hydropower Project, increased tourist arrivals, and the construction of the Khorlochuu and Dorjilung Hydropower Projects

23. The launch of the 13th Five-Year Plan (FYP) marks a pivotal moment in Bhutan's development trajectory, aiming to stimulate inclusive growth while maintaining fiscal prudence. The government targets a fiscal deficit of about 3 percent of GDP, reflecting its commitment to macroeconomic stability.

24. Bhutan has managed to maintain its fiscal deficit at a prudent 2.37 percent in FY2024-25 and improved its Tax-to-GDP ratio to 14.1 percent, up from 13.5 percent in FY2023-24. Bhutan also significantly reduced its total Debt-to-GDP ratio by 12.8 percentage points from 111.9 percent in FY23-24 to 99.1 percent.

25. Despite these achievements, Bhutan faces structural challenges that constrain economic diversification. The economy remains heavily dependent on hydropower and tourism, while the private sector and the manufacturing base remains weak. These vulnerabilities underscore the need for broader reforms to diversify the economy, enhance resilience and unlock new sources of growth.

26. To address these challenges, Bhutan is implementing transformative initiatives such as the Gelephu Mindfulness City, designed to foster innovation and attract investment. The Economic Stimulus Program (ESP) is also being rolled out to support agriculture, cottage industries, and manufacturing.

27. Additionally, Bhutan's balance of payments is projected to improve by 32.5 percent in FY2025, driven by capital inflows, hydropower exports, and rising non-hydro merchandise exports.

28. Bhutan's commitment to environmental sustainability remains steadfast. With over 70 percent forest cover and a constitutional mandate to maintain at least 60 percent, Bhutan continues to uphold its carbon-negative status, positioning itself as a global leader in climate resilience.

29. Bhutan’s efforts to align its development priorities with inclusive growth, fiscal discipline, and environmental stewardship is commendable. Continued support from development partners will be essential to sustain momentum and ensure that Bhutan’s transformation benefits all segments of society.

Sri Lanka

30. Sri Lanka has made notable progress in recovering from the 2022 economic and debt crisis under the IMF’s Extended Fund Facility (EFF). Real GDP rebounded by 5.0 percent in 2024 after two years of contraction and grew by 4.8 percent in the first half of 2025, with Q2 growth at 4.9 percent year-on-year. The recovery has been broad-based, driven by strong performance in agriculture and services, a rebound in construction, and sustained momentum in exports, tourism, and remittances, while manufacturing moderated after earlier gains. Inflation, which turned negative in late 2024 due to falling energy and food prices, returned to positive territory in August 2025 and is expected to normalize around 5 percent by mid-2026. The Central Bank’s accommodative stance has supported private credit growth, and the external sector remains resilient with robust inflows from tourism and remittances.

31. Sri Lanka remains fully committed to the economic reform program under the IMF’s Extended Fund Facility (EFF). Following the IMF Executive Board’s approval of the fourth review on July 1, 2025, discussions for the fifth review are underway, with completion targeted before year-end. The government is determined to achieve the program’s core objectives: advancing revenue-based fiscal consolidation and structural reforms, including cost-reflective energy pricing supported by strengthened social safety nets; implementing the debt restructuring strategy to ensure public debt sustainability; safeguarding price stability and rebuilding international reserves under a flexible exchange rate regime; preserving financial system stability; sustaining governance and anti-corruption reforms; and accelerating broader structural reforms to unlock Sri Lanka’s growth potential.

32. Looking ahead, Sri Lanka’s growth-enhancing structural reform agenda is focused on unlocking export potential, boosting private sector development, and modernizing the labor market. Trade reforms will rationalize para-tariffs, streamline customs procedures, and advance free trade agreements to improve competitiveness and integrate into global value chains. Private sector development will be supported through regulatory modernization, improved energy efficiency, reduced state involvement in the economy, and enhanced land access via digital titling. These reforms aim to foster investment, competition, and productivity across key sectors such as

industry, IT/BPO, and tourism. Labor market reforms will enhance flexibility and participation through unified labor legislation, improved education outcomes, and targeted support for women entrepreneurs. Expanding affordable childcare and eldercare facilities will further enable workforce engagement.

33. Recognizing the growing threat of climate-related disruptions, the government is prioritizing renewable energy investments and partnering with multilateral institutions to accelerate climate mitigation and adaptation. Efforts are underway to expand electricity generation from solar and wind, supported by private and multilateral financing. These structural reforms are designed to lay the foundation for resilient, inclusive, and sustainable long-term growth, while ensuring that Sri Lanka remains on a steady path of recovery and transformation.

34. Sri Lanka is making strong progress on its revenue-based fiscal consolidation agenda, with tax performance in 2025 exceeding expectations and a projected primary surplus surpassing IMF-EFF program targets. In the first seven months of the year, revenue and grants rose by 26.5 percent year-on-year, delivering a notable primary surplus and a significantly reduced budget deficit. The 2026 budget will maintain this trajectory, anchored in fiscal discipline and supported by key reforms such as VAT modernization, enhanced compliance measures, and institutional upgrades to the Inland Revenue Department. Public financial management is being strengthened through the full rollout of the Integrated Treasury Information Management System (ITMIS), improved arrears clearance, and tighter oversight of capital spending. Structural reforms to state-owned enterprises are advancing, including debt repayment plans for major SOEs and the development of a governance framework aligned with international best practices. Social spending is expanding through better targeting under the *Aswesuma* program, guided by the forthcoming National Social Protection Strategy to ensure inclusive and efficient support for vulnerable groups.

35. Sri Lanka also remains firmly committed to restoring public debt sustainability under the IMF-EFF program. The debt restructuring strategy aims to reduce public debt, lower gross financing needs and foreign currency debt service, and close the balance of payments gap. Following agreements with China Exim Bank, the Official Creditor Committee, and the successful Eurobond exchange, negotiations with remaining creditors are nearing completion. To institutionalize sound debt management, the government will fully operationalize the Public Debt Management Office (PDMO) by early 2026. The PDMO will oversee domestic bond auctions, implement a modern debt information system, and coordinate closely with stakeholders. Supported

by IMF technical assistance, these reforms will enhance transparency, strengthen fiscal governance, and secure long-term macroeconomic stability.

36. Sri Lanka's inflation dynamics shifted in August 2025, with headline Colombo Consumer Price Index (CCPI) inflation returning to positive territory at 1.2 percent, following nearly a year of deflation. Headline inflation continued its upward trend in September 2025, rising to 1.5 percent from 1.2 percent in August, in line with Central Bank projections. Food inflation accelerated to 2.9 percent, while non-food inflation eased slightly to 0.7 percent. Core inflation remained stable at 2.0 percent, indicating moderate underlying price pressures. On a monthly basis, CCPI increased by 0.17 percent, driven mainly by food and non-food contributions. Quarterly average inflation aligned with projections, and inflation is expected to gradually accelerate toward the 5 percent target in the coming months under supportive policies. The National Consumer Price Index (NCPI) also showed a modest uptick, though food inflation decelerated. Wage growth in the informal private sector remained steady, with nominal wages rising 5.7 percent year-on-year, though real wage growth slightly moderated. Inflation expectations among corporates and households showed a gradual upward trend, driven by anticipated increases in global commodity prices, government spending, and rupee depreciation.

37. Sri Lanka's external sector in 2025 has shown resilience amid global headwinds, supported by reform momentum and sustained inflows. Tourism and remittances remained key drivers of the current account, with tourist arrivals rising by 15 percent and remittance inflows increasing by over 19 percent year-on-year, providing essential support to the balance of payments. The merchandise trade deficit narrowed slightly in July, but cumulative figures widened due to strong import growth - particularly in vehicles and investment goods—despite record export earnings led by industrial, agricultural, and mineral products. The financial account recorded increased activity, with higher foreign direct investment and net acquisition of financial assets, although portfolio flows were mixed. Gross official reserves rose to USD 6.2 billion by end-August, and the overall balance posted a surplus, reflecting net foreign exchange purchases by the Central Bank and disbursements under the IMF-EFF program. The Sri Lanka rupee depreciated moderately against major currencies, while real effective exchange rate indices declined, indicating improved external competitiveness. The current account is expected to register a marginal surplus in 2025, extending the strengthened position from 2024, though risks from global trade tensions and currency volatility remain.

38. Sri Lanka's financial sector demonstrated strong resilience and steady recovery during the first half of 2025, supported by robust capital and liquidity buffers, improved asset quality, and solid profitability. The banking sector recorded a 7.1 percent increase in capital funds and a 7.5 percent rise in total assets, driven by credit growth in both rupee and foreign currency lending, while deposits remained the primary funding source. Asset quality improved gradually as Non Performing (Stage 3) loans ratios declined over the period and provision coverage improved slightly. Capital adequacy ratios eased due to faster growth in risk-weighted assets, however remained above the minimum statutory requirements. Profitability surged compared to the corresponding period last year, underpinned by higher net interest income, improved trading gains, and reduced provisions following the restructuring of International Sovereign Bonds (ISBs). Liquidity indicators remained above regulatory thresholds despite some mid-year softening, while financial intermediation shifted toward private sector lending, supported by fiscal consolidation, accommodative monetary policy and economic stability. The finance companies sector also remained stable, with strong asset growth from loans and advances, improved credit quality, and higher earnings, despite a slight dip in provision coverage. Equity markets rallied strongly, driven by robust domestic investor confidence and strong performance in banking, diversified financials, manufacturing, and energy sectors, supported by favorable macroeconomic conditions. Liquidity conditions in the domestic money market stayed in surplus overall but were volatile, reflecting foreign debt repayments, central bank interventions, and uneven distribution across participants. Government securities yields declined by about 100 basis points early in the year, supported by low inflation and accommodative policy, and have remained broadly unchanged since mid-June despite some upward pressure. Broader financial markets benefited from improved liquidity, stable yields, improved macroeconomic conditions and accelerated adoption of digital payments. Meanwhile, the Central Bank advanced key reforms to enhance financial inclusion and literacy, strengthen consumer protection, improve AML/CFT compliance, and reinforce deposit insurance and resolution frameworks, further bolstering financial stability.

39. Sri Lanka is advancing governance and anti-corruption reforms as a core priority, with progress on the 2025 Government Action Plan (GAP) regularly published and monitored quarterly. Key initiatives include strengthening the legal and institutional framework for anti-corruption, ensuring the independence of the Commission to Investigate Allegations of Bribery or Corruption (CIABOC), and enhancing the asset declaration regime through public access, beneficial ownership disclosure, and strict compliance enforcement for senior officials. Tax exemption

frameworks are being tightened with transparent, rules-based criteria and the publication of tax expenditure statements. Customs reforms aim to curb revenue leakages through risk-based clearance, automation, and expanded oversight of Special Economic Zones, while procurement reforms focus on operationalizing the National Procurement Commission, enacting a Public Procurement Law, and accelerating e-procurement rollout. Public asset management will be strengthened through new allocation criteria, a Public Asset Management Bill, and enhanced audit powers. Additionally, the AML/CFT framework is being reinforced with beneficial ownership requirements, updated risk assessments, legislative amendments, improved investigations and asset recovery, and stronger risk-based supervision of financial institutions.