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Statement by Mr. Das
India

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

Statement by Mr. Shaktikanta Das, Governor, Reserve Bank of India (on behalf of Ms. Nirmala Sitharaman, Member, IMFC representing the Constituency consisting of Bangladesh, Bhutan, India, and Sri Lanka), Leader of the Indian Delegation to the 49th Meeting of the IMFC at the Spring Meetings 2024

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Global Economy

1. Since the 2023 Annual Meetings at Marrakech, the global economy has faced multiple and overlapping challenges. Against this backdrop, the medium-term outlook remains subdued, with global growth lower than its historical average. After the surprising resilience observed in 2023, the global economy appears to be losing momentum and vulnerabilities continue to pose downside risks. Emerging Market and Developing Economies (EMDEs) are supporting global growth, benefiting from improved macroeconomic policy frameworks, strong investment in infrastructure in many countries, including India, and steady employment gains. However, growth paths are likely to diverge across economies, as headwinds from geopolitical conflicts and further trade fragmentation may pose near-term risks to activity in several major economies. The outlook for several low-income and middle-income countries remains overcast by elevated debt and financing costs.

2. Inflation declined faster than anticipated in major economies, but the last mile of aligning inflation to targets is proving to be challenging. The guidance on the policy stance of the US Fed indicates that while reducing policy restraint too soon or too much could result in a reversal of the progress made on inflation so far, reducing policy restraint too late or too little could unduly weaken economic activity and employment. The ECB is apparently less certain on the timing and scale of its future policy easing. Some Emerging Market Economies (EMEs) are already in the phase of monetary policy easing cycles depending on their domestic macroeconomic conditions. Against this backdrop, the near-term global financial stability risks have also receded. Nevertheless, central banks must remain alert about the challenges in the final phase of disinflation. Therefore, we emphasise that central banks should exercise prudence in their monetary policy actions to ensure that underlying inflationary pressures are durably contained.

3. The overall optimism on the global economy is also manifested in global financial markets. In the past few months, global stock indices have posted substantial gains, and credit spreads have narrowed amid easing global financial conditions. In anticipation of higher yield differentials and better equity valuations, global portfolio investors have continued to show interest in EMEs. Equity markets in most EMEs rose but have broadly underperformed vis-à-vis those in AEs. The timing and pace of monetary policy actions in AEs will remain critical as changes in policy rate differentials may cause bouts of volatility in portfolio flows to EMEs.

4. After four years of the pandemic's outbreak, fiscal deficits and debt are higher than pre-pandemic projections. The exceptional policy response to successive shocks have depleted buffers across various EMDEs, leaving them with elevated debt levels. These buffers need to be rebuilt by focusing on fiscal consolidation, growth enhancing structural reforms, managing the risk from transformational challenges and global coordination to facilitate timely, orderly, and durable debt treatment for countries in distress. Global public debt is projected to increase above 100 per cent of GDP by 2029. The continued fiscal spending to address structural challenges, coupled with slowing growth and still high interest rates is likely to constrict the fiscal space further. Entitlement reforms in AEs and improving the targeting and efficiency of the social safety net for the most vulnerable could ease fiscal spending pressures.

5. Fiscal support for innovations in sectors with the largest positive spillovers and public funding for fundamental research could support long-term growth in economies near the technology frontier. The advances in digital technologies and Artificial Intelligence should be channelled to increase productivity growth. Improving tax revenue by upgrading the tax system, expanding the tax base, and improving institutional capacity would help pay for strategic public investment needed in social sectors like education alongside facilitating diffusion in green and digital technologies. The increasing cross-border trade of digital services, which is growing faster than goods trade and is now a quarter of global trade, has created opportunities for Base Erosion and Profit Shifting (BEPS) by multinational enterprises. It calls for continuing efforts to complete the remaining work on the two-pillar solution to reform the international taxation rules and ensure that multinational enterprises pay a fair share of tax, wherever they operate and generate profits in today's digitalised and globalised world economy.

6. With the shift in the post-pandemic global outlook, the issue of dealing with countries in debt distress has risen in importance. Debt restructurings must be expedited through shorter timelines and smoother processes. The Fund's Debt Sustainability Analysis can play an important role in the restructuring process when seen as an objective and unbiased tool for assessing sustainability. The creditor processes in the new landscape have slowed, with disagreements about processes, parameters, and comparability of treatment holding up progress. Improving the G20 common framework with continuing engagement to resolve technical issues through the Global Sovereign Round Table would facilitate debt restructuring.

India

7. In this unsettled global environment, the Indian economy has performed remarkably well. Growth is accelerating and outpacing most forecasts, while inflation is on a downward trajectory. Our multi-pronged, proactive, and calibrated monetary, fiscal, and regulatory policies have worked well to maintain and strengthen macroeconomic and financial stability.

8. The end-February 2024 data release of India's National Statistical Office (NSO) reiterated India's strong growth momentum. GDP expanded at a six-quarter high of 8.4 per cent in October-December 2023, powered by broad-based growth. Given the growth of 8.2 per cent and 8.1 per cent in the first two quarters, NSO's estimate for the full year 2023-24 at 7.6 per cent is likely to be exceeded at a rate closer to 8 per cent on top of the high growth of 7 per cent in 2022-23, notwithstanding the monetary/liquidity normalisation, the ongoing fiscal consolidation, and drag in external demand.

9. For the calendar year 2023, the labour force participation rate (LFPR) increased to 59.8 per cent from 56.1 per cent in 2022, the highest since 2017-18. Female LFPR also increased to 41.3 per cent from 33.9 per cent during the same period. The unemployment rate fell to its lowest of 3.1 per cent in the series.

10. The Union Government placed the GFD-GDP ratio at 5.8 per cent (RE) for 2023-24, marginally below the budget estimate of 5.9 per cent. For 2024-25, the GFD-GDP target is pegged at 5.1 per cent, which is in line with the medium-term target of below 4.5 per cent by 2025-26. Fiscal consolidation in the post-pandemic period is being achieved through augmentation of

revenue and rationalization of revenue expenditure, with continuing focus on higher capital expenditure.

11. While private consumption growth has moderated during April-December 2023, the new household consumption expenditure survey (2022-23) shows that per capita spending on durables and discretionary products has been rising in both rural and urban areas, with real per capita income up 1.5 times since 2011-12. According to the World Poverty Clock 2024, India has reduced extreme poverty to below 3 per cent of its population.

12. Gross fixed capital formation has posted double-digit growth of 10.6 per cent during April-December 2023, drawing strength from the government's thrust on infrastructure. There are indications of a revival in the private capex cycle. Capacity utilisation in several sectors has reached a point where new investment must occur. The high visibility of structural demand and healthier corporate and bank balance sheets will likely be galvanising forces. On the supply side, manufacturing and construction registered strong growth during April-December 2023.

13. Headline inflation, which moderated to 5.4 per cent in 2023-24 from 6.7 per cent a year before, remains within the upper tolerance band of 6 per cent consistently since September 2023. Alongside, core inflation has ebbed to 3.3 per cent in March 2024, marked by a broad-based decline. The policy repo rate remains unchanged at 6.5 per cent since February 2023 and the focus on the withdrawal of accommodation continues to align inflation to the medium-term target of 4 per cent, while supporting growth. Thus, the real policy rate reflects monetary restraint.

14. India's current account deficit (CAD) moderated to 1.2 per cent of GDP during April-December 2023 from 2.6 per cent during April-December 2022 on the back of lower merchandise trade deficit. With the surge in services exports and remittances, the CAD remains eminently manageable. On the financing side, India received the highest equity inflows among emerging market peers during 2023-24. The inclusion of India's sovereign bonds in global bond indices will likely spur demand for further exposure to India.

15. While the exchange rate of the Indian rupee remains market-determined, it has compared favourably with its emerging market peers, exhibiting lowest volatility in 2023-24 compared with the previous three years. Despite a stronger US dollar and elevated US treasury yields, the movement of the rupee reflects the sound macroeconomic fundamentals of the Indian economy, and its improving external position.

16. Foreign exchange reserves have increased from US$ 578.4 billion on March 31, 2023 to US$ 643.2 billion on April 12, 2024 covering 11 months imports for 2023-24 and close to 100 per cent of total external debt. India's external debt-GDP ratio, which is low by international standards, fell from 19.9 per cent at end-March 2022 to 18.7 per cent at end-December 2023.

17. Looking ahead, GDP growth for 2024-25 is expected at 7 per cent while inflation is projected at 4.5 per cent. Over 2021-24, growth has averaged above 8 per cent. It is propelled by domestic structural drivers like improving physical infrastructure, development of world-class Digital Public Infrastructure (DPI) and payments technology, ease of doing business, enhanced labour force participation, and improved quality of fiscal spending. Given their invigorating impact on the potential growth, the structural upshift in growth is likely to be sustained over the medium-term.

Sri Lanka

18. The Sri Lankan economy advanced towards restoring macroeconomic stability in 2023, following an unprecedented socio-economic and political crisis in 2022. Consumer Price Inflation (CPI) decelerated from the historically high level of 70 percent in September 2022 to single-digit levels by end-2023. Economic activity began to show an expansion since Q3:2023, ending the spell of persisted contraction for six consecutive quarters. Balance of payments pressures have eased with the moderation of trade deficit, revival of the tourism sector, normalizing workers' remittances, and the successful continuation of the Extended Fund Facility (EFF) supported programme of the IMF. The exchange rate remained stable, albeit with an appreciation bias, and the gross official reserves improved. The implementation of corrective macroeconomic policies by the authorities and the steadfast commitment to carrying out long overdue structural reforms were instrumental in achieving macroeconomic stability. Lingering effects of adverse macrofinancial developments posed challenges to financial stability during 2023, yet Sri Lanka's financial system remained resilient during 2023. Authorities continued the revenue-based fiscal consolidation measures, while placing a special emphasis on the most vulnerable with targeted financial support. Public finances have strengthened following the substantial fiscal reforms, as reflected in government revenue mobilization and non-interest expenditure containment. Performance of the EFF-supported programme remained strong, and all quantitative performance

criteria for end-December 2023 were met. Authorities have taken some decisive steps in addressing corruption vulnerabilities and published the Action Plan to implement key recommendations of the Governance Diagnostic Report published in September 2023. Further, a lot of progress has been made in completing the structural benchmarks due before end-February 2024 under the EFF-supported programme. This led to the Staff Level Agreement (SLA) of the Second Review under the EFF-supported programme in March 2024. Efforts towards completion of the debt restructuring process advanced during 2023. The envisioned completion of the debt restructuring process in the period ahead would help consolidate public debt sustainability over the medium term, thereby reinforcing the economic and financial system stability on a sustained basis.

19. The contractionary phase of real activity bottomed out in Q3:2023. The real GDP growth recorded an expansion in Q3:2023 (y-o-y), ending the protracted contraction for six consecutive quarters. This positive and broad-based growth momentum continued through Q4:2023, thereby limiting the contraction in annual GDP growth for 2023 compared to the previous year. Accordingly, real GDP growth recorded a lower contraction in 2023 at 2.3 percent, compared to 7.3 percent recorded in 2022. Activities in all economic sectors (agriculture, services, and industry) showed an expansion in the second half of 2023 over the same period in the previous year. Looking ahead, the key leading economic indicators signal a continued recovery in economic activity. The Purchasing Managers' Index for Manufacturing recorded an index value of 56.0 in February 2024, indicating a continued expansion. The construction sector, which was one of the worst affected sectors during the economic crisis, showed some improvements, with the Purchasing Managers' Index for Construction indicating an expansion in January 2024, for the first time since January 2022. Further, the Purchasing Managers' Index for Services also indicated an expansion in services activities in February 2024 with an index value of 53.0. The faster rebound of the tourism sector activity is expected to help the recovery of the services sector to a large extent. The unemployment rate was on a declining trend since Q2:2023, recording at 4.3 percent in Q4:2023.

20. The surge in inflation witnessed in 2022 showed a remarkable turnaround in 2023. Headline CPI, which peaked at 69.8 percent in September 2022, decelerated to 1.3 percent in September 2023 and recorded at 0.9 percent in March 2024. Proactive monetary policy and macroeconomic policies, and the implementation of required structural reforms helped achieve domestic price stability and anchor inflation expectations. Central bank independence was

reinforced by the enactment of the Central Bank of Sri Lanka Act (CBA), No. 16 of 2023 September 2023, thereby preventing monetization of fiscal deficit. The CBA promulgated a flexible exchange rate regime in line with the flexible inflation targeting (FIT) framework in order to achieve and maintain domestic price stability. Further, as required under the CBA, the Minister of Finance and the Central Bank entered into a Monetary Policy Framework Agreement stipulating the inflation target (determined at 5 percent based on the headline consumer price inflation). Following the rapid disinflation and subdued demand pressures, the Central Bank began relaxation of monetary policy during the second half of 2023 and continued thus far in 2024. The accommodative monetary policy stance bodes well with the subdued level of activity, low inflation, well-anchored inflation expectations, and subsided external sector pressures, among others. Core inflation also moderated significantly during 2023 reflecting subdued underlying demand pressures.

21. Sri Lanka's external sector showed improved resilience in 2023, following the devastating impact of the worst balance of payments crisis in 2022. The successful continuation of the EFF-supported programme helped improve liquidity conditions in the domestic foreign exchange market that facilitated the buildup of gross official reserves and stabilization of the exchange rate. The external current account balance for 2023 is estimated to have recorded a surplus of US dollars 1.6 billion (about 1.8 percent of GDP), compared to a deficit of US dollars 1.4 billion recorded in 2022 (about 2.0 percent of GDP). This surplus in the current account reflects the impact of the modest trade deficit due to the compression of import expenditure, the growth of trade in services, primarily the improvement in earnings from tourism, and significant inflows on account of workers' remittances that recorded at US dollars 6 billion, compared to US dollars 3.8 billion in 2022. However, the performance in the financial account remained modest in 2023, as foreign direct investment remained significantly low during the year and portfolio investment in government securities observed outflows in most part of the second half of 2023. The Sri Lanka rupee, which depreciated against the US dollar by 44.8 percent in 2022, recorded an appreciation of 12.1 percent in 2023. The Sri Lanka rupee further appreciated by about 7.6 percent against the US dollar as of end March 2024. Gross Official Reserves (GOR) increased to US dollars 4.4 billion at end-2023, from US dollars 1.9 billion at end-2022, mainly reflecting the net forex purchases by the Central Bank, proceeds received from the IMF-EFF and receipts from Multilateral Development Banks. GOR further improved to US dollars 4.5 billion by end-February 2024. The

Central Bank has purchased over US dollars 1,100 million on a net basis from the domestic foreign exchange market so far during 2024.

22. The fiscal sector recorded a notable improvement during 2023, reflecting the robust revenue-based fiscal consolidation measures implemented by the Government, in line with the targets envisaged under the IMF-EFF supported programme. Government revenue recorded a growth of 54.0 per cent in 2023, in nominal terms, contributed mainly by the growth of income taxes, Value Added Tax (VAT) and the newly introduced Social Security Contribution Levy (SSCL), among others. Government revenue is estimated to have risen to 11 percent of GDP in 2023, from 8.2 percent of GDP in 2022. Benefitting from the fiscal consolidation measures, the Primary Balance recorded a surplus in 2023, surpassing the expectations under the EFF-supported programme. The continuation of revenue enhancing measures is expected to improve the Primary Balance in the period ahead, thereby reinforcing the efforts towards ensuring public debt sustainability. The declining risk premia attached to government securities is expected to ease the burden of heavy outlay on interest payments in the period ahead. Sri Lanka has achieved important milestones on the debt restructuring front by reaching Agreements in Principle with the Official Creditor Committee and Export-Import Bank of China on debt treatments consistent with program parameters. Authorities look forward to finalizing the agreements with the official creditors and reaching Agreements in Principle with the main external private creditors in line with program parameters. Sri Lanka has been able to transform some major loss-making state-owned-enterprises into profit making entities. The efforts to divest the identified state-owned-enterprises advanced in 2023. These efforts are expected to help restore Sri Lanka's public debt sustainability over the medium term.

23. Sri Lanka remained committed to ensuring financial system stability despite headwinds amidst the economic crisis. The financial markets, which witnessed unprecedented stresses in 2022, demonstrated signs of stabilization in 2023. The Financial Stress Index remained broadly at low levels in 2023, as overall market conditions significantly eased compared to 2022. The capital buffers (namely the Capital Conservation Buffer and the Domestic Systemically Important Banks (D-SIBs) Buffer) that were introduced in 2016 with the implementation of Basel III capital requirements are expected to cushion against any unexpected losses. The establishment of the Emergency Loans and Advances facility for licensed banks and a robust institutional framework for crisis management, along with the policy measures initiated under the EFF-supported

programme, including Asset Quality Reviews (AQRs), helped strengthen resilience in the financial system. Authorities developed a roadmap for restructuring and capital enhancement for selected banks. The newly enacted Banking (Special Provisions) Act, No. 17 of 2023 defined the resolution authority of the Central Bank and strengthened the key elements of crisis management powers. Further, the Central Bank was designated as the Macroprudential Authority under the Central Bank of Sri Lanka Act, No. 16 of 2023. Authorities remain committed to implementing macroprudential tools as market conditions warrant in order to address any systemic imbalances. The establishment of the stress testing framework, which includes dynamic solvency stress testing, liquidity stress testing, and interconnectedness and contagion analysis, would enable the Central Bank to identify any build-up of systemic vulnerabilities in the banking sector, thereby facilitating corrective measures proactively.

Bangladesh

24. Economic activities in Bangladesh demonstrated resilience in FY23, with notable growth of 5.78 percent amid continued geopolitical tensions and trade uncertainties. The momentum continued in the first quarter of FY24, with 6.07 percent growth bolstered by robust performances of industry and service sectors, notwithstanding slower growth in the agriculture sector. Despite continued policy tightening and ongoing geopolitical instability, global economic growth was surprisingly robust, reaching 3.1 percent for 2023 and 2024. The aggressive policy rate hikes by the major central banks resulted in a somewhat decline in inflation, with a smaller-than-expected toll on employment and economic activity. Given the favourable global conditions, expectations for Bangladesh's real GDP growth, targeted at 6.5 percent for FY24, seem achievable.

25. The headline CPI inflation (12-month average) followed an upward trend in FY23, echoing trends in many other parts of the world. Despite continued policy rate hikes, inflation stayed significantly higher for most of the period in 2023. In February 2024, the headline point-to-point CPI inflation slightly decreased to 9.67 percent from 9.86 percent in January 2024. Fuel, food, and energy price inflation over the past year have primarily shaped the trajectory of headline inflation, with food and fuel costs mostly tracking global commodity prices. The growth in the overall core measure was softened, as evidenced by the decline in prices of underlying components.

26. Bangladesh's economy has experienced considerable volatile episodes of the external sector in recent years. At the beginning of FY22, the crisis started to emerge with depreciating pressure on the exchange rate, resulting from the expanding current account deficits of the balance of payments (BoP). Bangladesh Bank (BB) responded by introducing various policy measures, such as discouraging unnecessary and luxury imports, selling foreign currencies, and allowing considerable depreciation. In FY23, there was a significant improvement in current account deficits. However, the financial account unusually turned into a deficit of USD 2.08 billion in FY23 from a notable surplus of USD 16.7 billion in FY22.

27. Consequently, the overall balance of payments widened to USD 8.22 billion in FY23 from USD 6.66 billion in FY22. BB sold a net of USD 7.41 and 13.39 billion in FY22 and FY23, respectively, reducing the gross official foreign exchange reserve (as per BPM6) from USD 26.02 billion in December 2022 to USD 24.75 billion in June 2023. The exchange rate depreciated by 9.25 and 13.76 percent in FY22 and FY23, respectively. In July-January of FY24, the current account balance witnessed a surplus of USD 3.15 billion owing to a narrowing trade deficit, while the financial account deficit expanded further to USD 7.35 billion. BB sold a net of USD 7.58 billion during July-February of FY24; accordingly, the gross official foreign exchange reserve (as per BPM6) decreased further to around USD 20.00 billion in March 2024. Over the same period, the exchange rate experienced some sort of stability with a marginal depreciation of 1.49 percent, reflecting an easing of depreciating pressure in the foreign exchange market.

28. BB made a remarkable transition in its monetary policy approach from a monetary aggregate targeting framework to an interest rate corridor (IRC) system that commenced on 1 July 2023. In efforts to mitigate inflationary pressure and restore the stability of the exchange rate, BB adopted a hawkish approach to its monetary policy stance throughout 2023. Though monetary and credit aggregates remained on the program path during the period, the inflation rate remained above the targets. On the other hand, the substantial deficit in the overall balance of payments (BoP) contributed to the solid negative growth of NFA in 2023. BB continued the contractionary stance for the second half of FY24 as the inflationary and exchange rate risks persist.

29. The new monetary policy framework anticipates the interbank call money rate to closely align with the policy (repo) rate, forming a symmetric corridor with an upper bound known as the Standing Lending Facility (SLF) and a lower bound known as the Standing Deposit Facility (SDF).

The Monetary Policy Statement (MPS) for the first half of FY24 announced the repo rate to be 6.50 percent, 50 basis points higher than the previous repo rate, indicating a tight monetary policy stance to contain inflationary pressure. The corridor width was set at a range of ±200 basis points from the policy rate. Later, BB increased the policy rate twice, on 5 October 2023 and 27 November 2023, by 75 and 50 basis points, respectively, to curb the escalating inflationary pressure. Lastly, BB raised the policy rate to 8.00 percent effective from 21 January 2024 and narrowed the corridor at ±150 basis points from the policy rate. BB removed the cap on lending interest rates and introduced a more market-oriented reference lending rate for commercial banks. The reference lending rate was also increased and fixed at SMART plus a margin of up to 3.75 percent for banks. During July-December 2023, the interbank call money rate followed an upward trend, moving closely with the policy (repo) rate, but remaining within the corridor set by BB without any significant fluctuation.

30. In the money market, average yields of government securities for all short, medium, and long-term maturities increased in December 2023, reflecting the effects of monetary tightening. The broad money (M2) growth decelerated to 8.60 percent in December 2023, compared to 10.48 percent growth in June 2023, and it remained below the projection of 9.5 percent for December 2023. Similarly, Reserve Money (RM) growth declined sharply to -2.0 percent in December 2023 compared to the growth of 10.48 percent in June 2023. It remained below the projected level for December 2023, reflecting a restrictive monetary environment in the money market.

31. During the first half of FY24 (H1:FY24), the overall fiscal performance exhibited a faster pace than H1:FY23, reflected in higher revenue mobilization and government expenditure. Overall revenue collection increased by 24.5 percent in H1:FY24 compared to the same period of the previous year, mainly due to an increase in tax revenue collection by the National Board of Revenue (NBR). Government expenditure increased by 23.7 percent during the same period. The budget deficit narrowed down in this period compared to the same period of the previous year mainly because of the government's austerity measures.

32. Growth prospects in the remaining quarters of FY24 remain strong, portraying a picture of resilience, adaptability, and sustained expansion. Early indicators from H1FY24 also suggest that the momentum is continuing, supported by anticipated good harvests in agriculture, impressive manufacturing activities, and moderate growth in the service sector. However, this growth prospect

will be contingent upon enhancing the country's external sector resilience. Moreover, the ongoing high inflation may require the continuation of monetary tightening for an extended period, which could adversely affect economic activities.

Bhutan

33. Bhutan's real GDP growth recorded at 5.2 percent in 2022, largely contributed by recovery in better performance in the service and industry sectors. The service sector, which includes hotel and restaurant, experienced a growth of 31.6 percent indicating steep recovery from the contraction during the COVID-19. The electricity sector which constitutes around 15 percent of GDP, and is also one of the main drivers of the economic growth, experienced a negative growth of -1.14 percent in 2022. With easing of complete restriction and normalization of economic activities, private consumption picked to 5.5 percent in 2022, as compared to negative 2.4 percent. With the ongoing geopolitical tensions, spillover effect of tightening of monetary policy in advance economies and adverse impact of global climate change, the economic growth is estimated to grow slower at 3.2 percent in 2023. With gradual pick-up in economic activities, the overall unemployment rate decreased to 3.5 percent in 2023 from 5.9 per cent in 2022.

34. Headline inflation recorded average of 4.9 percent in December 2023. The food index increased by 6.21 percent and the non-food index increased by 3.96 percent. Supply chain disruptions in the food sector are expected to continue, pushing up food prices over the medium-term. Nevertheless, a sizeable drop in aggregate demand will offset potential cost-push inflation; thereby, overall inflation is expected to remain at around 5.00 per cent in the medium-term.

35. Fiscal deficit was recorded at 4.6 percent of GDP in 2022-23, as compared to 7.9 per cent in 2021-22. The lower deficit was attributed to a substantial increase in resources by 10.18 per cent, on account of a significant increase of domestic revenue in the form of business taxes in 2022-23. With the rising demand for resources to boost the economic activities and also increased proposals for the capital budget to accelerate the Plan activities, the fiscal deficit is expected to remain elevated at 9.90 per cent of GDP in the medium-term.

36. Current account deficit widened to 34.5 percent of GDP in FY 2022/23 from 33.2 percent in FY 2021/22. The higher current account deficit was attributed to deterioration of trade balance

due to increase in imports of non-essential items, followed by growth in secondary income receipts. However, the positive flows in financial and capital accounts turned the overall balance of payment positive and sufficient to finance more than 12 months of merchandise and service payments. While external position remained vulnerable due to the pandemic, the overall balance of payment was expected to improve further with a decrease in the import of non-essential goods and services and continued undisrupted export of electricity.

37. While the external debt position at 108.5 percent of GDP in 2022-23 was a major concern and a challenge, however, more than 60 per cent of the external debt constitute hydro-power project debt, which is on a contractual basis and is self-liquidating. With the increasing need to fill up the government resources gap, public debt was expected to increase by 136.1 per cent of GDP in 2022-23 from Nu. 256.87 billion in 2021-22, both contributed by domestic and external borrowing. The domestic borrowing is largely influenced by the government borrowing through issuance of long-term bonds to finance the containment measures for the COVID-19 pandemic.

38. In the absence of a vibrant capital market, the financial institutions remain the main source of investment and lending avenue for private credit. The total domestic credit outstanding was recorded at 10.2 percent in FY 2022-23.

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