INDIA

Table 1	2022
Population, million	1417.2
GDP, current US$ billion	3407.4
GDP per capita, current US$	2404.3
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	70.2
Total GHG emissions (mtCO2e)	3699.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2021); Life expectancy (2020).

India has been one of the fastest-growing major economies in the world, but growth in FY23/24 will moderate on the back of global spillovers and slower consumption growth. Lower demand-pull pressures and monetary policy tightening will bring down inflation. Fiscal consolidation will stabilize public debt around 83 percent. Although extreme and moderate poverty remain above pre-pandemic levels, they are expected to decline in FY22/23. Over 40 percent of the population still lives in moderate poverty (3.65 US$ per person per day).

Key conditions and challenges

Real GDP growth in Q1-Q3 FY22/23 was strong at 7.7 percent, making India one of the fastest-growing major economies in the world. However, growth slowed in Q3, was not broad-based, and was bolstered by a favorable base effect. Strong domestic demand was underpinned by robust consumer spending by higher-income groups and a surge in public investment. Although growth has been strong, the labor market recovery has been incomplete as vulnerable employment has increased.

In FY23/24, real growth is expected to remain resilient but moderate to 6.3 percent due to slower consumption growth and global growth. Inflation is likely to ease within the RBI's tolerance range. The FY23/24 Union Budget reflects plans for fiscal consolidation through lower current spending. The current account deficit will decline to 2.1 percent of GDP due to strong growth in service exports and narrowed merchandise trade deficit.

Extreme poverty ($2.15 per capita per day, 2017 PPP) declined in FY21/22 to 13.8 percent but remains above pre-pandemic levels. More than 40 percent of India's population still lives below the $3.65 in 2017 PPP (poverty line usually used by middle-income countries), 16.4 percent of the population is multidimensionally poor (deprived in health, education, and standard of living), and another 18.7 percent is classified as vulnerable to multidimensional poverty.

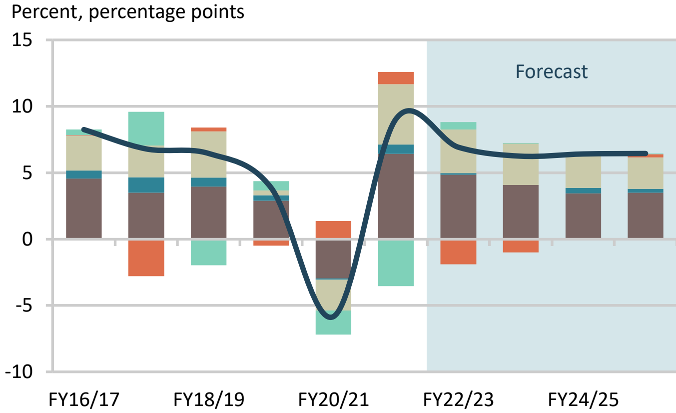
A withdrawal of pandemic relief programs can pose risks to low-income households. The FY23/24 Budget reduced allocation for Mahatma Gandhi Rural Employment Guarantee scheme by 33 percent compared to FY22/23, and a 30 percent reduction in food subsidy due to rollback of the free foodgrain scheme announced in 2020. However, the allocation for Jal Jeevan Mission (safe drinking water in rural areas), Swachh Bharat Mission (waste management), and PM Awas Yojna (housing for urban poor) increased significantly compared to budget allocation in FY22/23.

Recent developments

Real GDP growth was bolstered by solid domestic demand in Q1-Q3 FY22/23, but growth momentum has gradually weakened. Robust discretionary spending of households more than offset the contraction in government consumption. Investment expanded because of solid profits in the corporate sector and the government's capex push. Net exports were a drag on growth due to weak merchandise exports and strong imports of capital goods. On the supply side, the trade, transport, hospitality, and communication services recovered to 1.5 percent above the Q1-Q3 FY19/20 level.

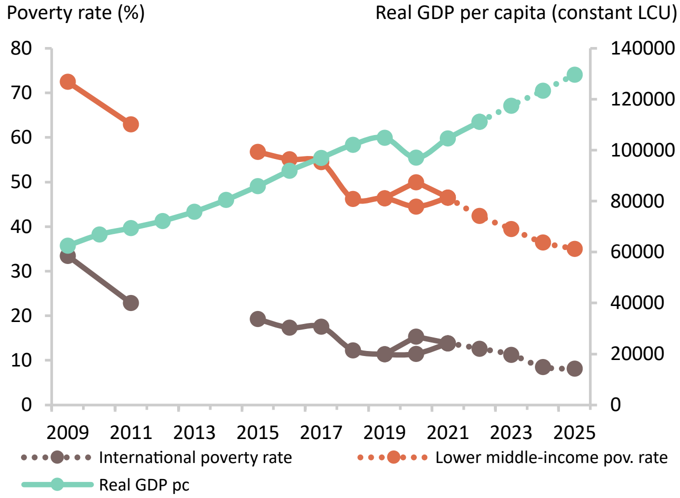
The labor market continued to recover in 2022, particularly in urban areas. The average unemployment rate dropped to 7.6 percent in 2022 from 10 percent in 2021,

FIGURE 1 India / Real GDP growth and contributions to real GDP growth



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

FIGURE 2 India / Actual and projected poverty rates and real GDP per capita



Source: World Bank.
Notes: see Table 2. FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

largely driven by increased self-employed workers, even as the proportion of regular salaried workers declined, raising concerns about job quality. While extreme and moderate poverty are expected to decline in FY22/23, the realized gains to welfare will depend on the prices of necessities and the real value of labor earnings.

Headline inflation eased to 6.4 percent y-o-y in February from an average of 6.8 percent over Q1-Q3 FY22/23, driven by lower food prices, and moderating fuel inflation. Core inflation averaged 6.1 percent over April-February FY22/23 due to recovering demand for services and elevated input prices. Since May 2022, the RBI has hiked the policy rate cumulatively by 250 basis points to contain inflation, which has also helped reduce pressures on the currency.

The current account deficit to GDP ratio (3.3 percent: H1 FY22/23) likely narrowed in Q3 FY22/23 as the trade deficit declined. The financing of the current account remained adequate and FX reserves stayed high. Net portfolio capital outflows and large trade deficits in H1 FY22/23 weighed on the Indian rupee which depreciated by 7.9 percent against the USD. Since October though, the rupee has stayed close to its long-term trend.

The general government fiscal deficit likely fell by 1.1ppts since FY21/22 to 9.4 percent of GDP in FY22/23. The consolidation has been led by strong revenue growth, the withdrawal of most pandemic-related stimulus measures, and reduced current spending. Declining fiscal deficit and a large nominal growth-interest rate differential translated into lower public debt of 83 percent of GDP in FY22/23 from 85.4 percent in FY21/22.

Outlook

Despite global growth headwinds, real GDP growth is likely to moderate to 6.3 percent in FY23/24 from the estimated 6.9 percent in FY22/23. Consumption is expected to be constrained by rising borrowing costs, slower income growth, and continued fiscal consolidation. The government's sustained capex-push, healthy corporate profits, and reduction in NPLs will buoy investment despite reduced risk appetite and elevated input costs. The negative contribution of net exports will be smaller due to stellar performance of service exports and a gradual decline in import bills. On the supply-side, contact-intensive services and construction are expected to grow at a robust pace compared to the manufacturing sector.

Moderating consumption and easing global commodity prices are likely to push down headline inflation to 5.2 percent in FY23/24, within the RBI's tolerance range. While core inflation will be elevated, it is projected to decline as monetary policy tightening takes effect by mid-FY23/24 and demand-pull price pressures ease.

The government will continue with carefully designed fiscal consolidation. The general government deficit will decline by 0.7ppts in FY23/24, due to modest revenue growth and lower current spending, reflecting the withdrawal of pandemic-related support programs. The current level of the fiscal deficit stabilizes the debt-to-GDP ratio at around 83 percent. Poverty is expected to decline, but the withdrawal of expansions in food and workfare entitlements could increase the vulnerability of the economically weaker sections, particularly if inflationary pressures persist.

TABLE 2 **India** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	-5.8	9.1	6.9	6.3	6.4	6.5
Private Consumption	-5.2	11.2	8.3	6.9	5.8	5.9
Government Consumption	-0.9	6.6	1.2	-1.1	4.4	3.3
Gross Fixed Capital Investment	-7.3	14.6	10.1	9.3	7.1	6.8
Exports, Goods and Services	-9.1	29.3	11.5	9.2	7.6	6.0
Imports, Goods and Services	-13.7	21.8	19.0	11.6	6.4	4.5
Real GDP growth, at constant factor prices	-4.2	8.8	6.6	6.3	6.4	6.5
Agriculture	4.1	3.5	3.2	3.4	3.2	3.5
Industry	-0.9	11.6	3.6	6.8	5.7	6.6
Services	-8.2	8.8	9.5	6.7	7.7	7.1
Inflation (Consumer Price Index)	6.2	5.5	6.6	5.2	4.7	4.1
Current Account Balance (% of GDP)	0.9	-1.2	-3.0	-2.1	-1.1	-0.8
Net Foreign Direct Investment Inflow (% of GDP)	1.6	1.2	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-13.3	-10.5	-9.4	-8.7	-8.5	-8.2
Revenues (% of GDP)	19.6	20.6	20.2	20.1	20.1	20.3
Debt (% of GDP)	87.5	85.4	83.0	83.4	83.7	84.2
Primary Balance (% of GDP)	-7.8	-5.2	-4.2	-3.3	-3.0	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.5-15.3	13.8	12.6	11.3	8.5	8.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.5-50.0	46.6	42.4	39.5	36.4	35.0
GHG emissions growth (mtCO2e)	-4.9	8.1	6.9	4.4	3.9	3.6
Energy related GHG emissions (% of total)	69.3	71.1	72.6	73.3	73.9	74.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on CPHS data and a methodology for consumption imputation based on Sinha Roy & Roy (2022). Actual data: 2021-2022. Nowcast: 2022-2023. Forecasts are from 2023 to 2025.
b/ Projection using CPHS data and annual growth rates for five sectors of employment with pass-through = 0.65, based on GDP per capita at constant factor prices.