INDIA

Table 1	2021
Population, million	1393.4
GDP, current US$ billion	3175.9
GDP per capita, current US$	2279.3
International poverty rate ($2.15)[a]	10.0
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	83.8
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	99.9
Life expectancy at birth, years[b]	69.9
Total GHG emissions (mtCO2e)	3100.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ (2019) 2017 PPP. pip.worldbank.org.
b/ Most recent WDI value (2020).

The Indian economy will slow down in FY23, coming off a strong but incomplete recovery in FY22 (April 2021-March 2022). The spillovers from the Russia-Ukraine war and the global monetary policy tightening cycle weigh on India's economic outlook: elevated inflation on the back of higher prices of key commodities, heightened global uncertainty, and rising borrowing costs will affect domestic demand while slowing global growth inhibits India's export growth.

Key conditions and challenges

India's growth rebounded after the pandemic. The recovery in FY22 was strong but incomplete. Real output reached the pre-pandemic level, due to robust investment activity and moderate recovery in private consumption reflecting the weakness in the labor market. On the supply side, the recovery in contact-intensive services lagged overall growth. Monetary and fiscal policy response supported the recovery through the provision of liquidity in the financial market and the public capital expenditure program. However, India's recovery is now faced with spillovers from the Russia-Ukraine war and global monetary policy tightening. The surge in global oil prices pushed headline inflation to about 7 percent and the trade deficit to 5.4 percent of GDP in Q1 FY23. To mitigate inflationary pressures, the government implemented supply-side measures, while the RBI hiked policy rate multiple times along with repeated interventions in the foreign exchange market.

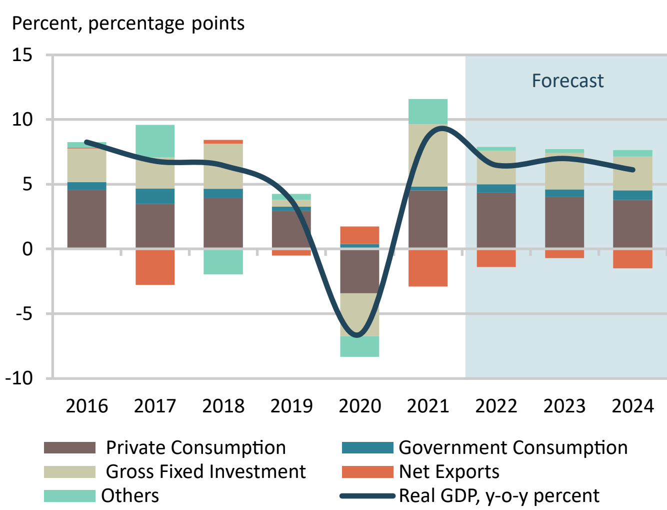
There are major headwinds to growth in FY23. Private consumption will be constrained by elevated inflation and labor market weakness, while private investment growth is likely to be dampened by heightened uncertainty and higher financing costs. Export growth will moderate amid the slowing global growth. To mitigate the inflationary impact, the government will likely spend more on food and fertilizer subsidies and, reduce taxes on fuel. The government will continue to support investment through its infrastructure program and the production-linked incentives scheme, logistics development, and simplifying business regulations.

Recent developments

The real GDP expanded by 13.5 percent y-o-y in Q1 FY23, from a low base in Q1 FY22 when the second COVID-19 wave hit India. Private consumption growth was robust but investment growth moderated. Net exports constituted a large drag on growth, with imports boosted by increased demand for petroleum, capital goods, and consumer durables. On the supply side, agriculture sector expanded, benefiting from a bumper winter crop, while the moderate growth in manufacturing and construction sectors reflected slowing global growth and muted investment activity, respectively. Within the services sector, robust growth in business and IT services was offset by soft growth in contact-intensive services.

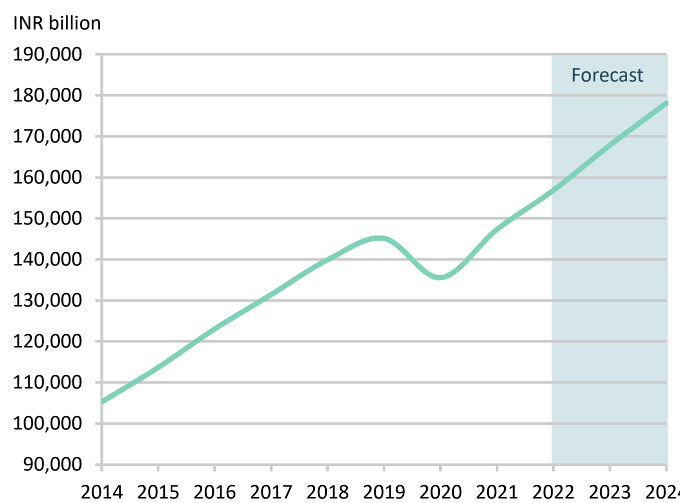
Headline inflation eased to 6.7 percent y-o-y in July 2022, after peaking at 7.8 percent in April 2022, but remains significantly above the RBI's tolerance range (2-6 percent). Low base and, rising prices of fuel and food - due to domestic and global supply constraints - pushed headline inflation beyond 7 percent during March-April. Since then, inflation has eased partly due to moderating fuel and food inflation, higher base and, the policy response of the

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

FIGURE 2 India / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

government through reduction in import duties on edible oils and lower taxes on fuel prices. The RBI has hiked the policy rate by a cumulative 140 basis points since May 2022. The general government fiscal deficit declined to 10.3 percent in FY22; a largely revenue-based consolidation. Public debt is estimated to have declined to 86 percent of GDP in FY22. Based on the budget for FY23, the central government is committed to reducing current spending and boosting capital expenditure. Helped by strong revenue performance, the government remains on track to meet its target.

Labor markets continued to recover with unemployment reaching pre-pandemic average of 7.5 percent (Jan- Aug 2022). Urban employment has consistently increased by 4 and 1.7 percentage points for men and women, respectively. While labor force participation for rural women have increased by around 8 percentage points to reach a third of working-age women in 2020-21 relative to 2017-18, the corresponding rates for urban women have increased by only 2 percentage points. The overall increase in employment is accompanied by a higher share of the self-employed and casual-wage workers, while the share of regular salaried workers declined in April-June 2022, relative to the same quarter in 2021.

Outlook

Real GDP is projected to expand by 6.5 percent in FY23- slower than expected a few months ago- due to the deteriorating external environment. Amid slowing global growth, export growth will moderate while import growth will be driven by recovering domestic demand. Despite improved balance sheets of banks and corporate sector, increased capacity utilization in manufacturing, and Production Linked Incentive scheme, private investment will be dampened by heightened global uncertainty, elevated input prices and rising borrowing costs. Private consumption growth will be constrained by high inflation and persisting weakness in some sections of the labor market.

Headline inflation will gradually ease, averaging 7.1 percent in FY23 and likely to revert to the RBI's tolerance range by end-FY23. Favorable base effect and gradual moderation in input costs are likely to reign-in food inflation while easing global oil prices will bring down the domestic fuel inflation. Gradual monetary policy normalization will continue.

Rising merchandise trade deficit will push the current account deficit to 3.2 percent of GDP in FY23. Nonetheless, stable portfolio capital inflows, given the relatively strong macroeconomic fundamentals, buoyant FDI and high reserves provide buffers against the external financing risks. Gradual fiscal consolidation will be led by strong revenue growth and continued decline in current spending as a share of GDP. Despite the declining fiscal deficit, slower growth will keep the public debt over 83 percent of GDP in FY23 and FY24.

The expected headwinds brought by lower growth and higher inflation are likely to lead to slow income growth. Hence, poverty and vulnerability are unlikely to recede to pre-pandemic levels and preserving some of the social protection measures adopted during the pandemic may be warranted.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.7	-6.6	8.7	6.5	7.0	6.1
Private Consumption	5.2	-6.0	7.9	7.7	7.0	6.6
Government Consumption	3.4	3.6	2.6	6.1	5.4	7.1
Gross Fixed Capital Investment	1.6	-10.4	15.8	7.9	8.6	7.8
Exports, Goods and Services	-3.4	-9.2	24.3	8.0	9.9	8.8
Imports, Goods and Services	-0.8	-13.8	35.5	11.9	10.4	12.2
Real GDP growth, at constant factor prices	3.8	-4.8	8.1	6.3	6.9	6.2
Agriculture	5.5	3.3	3.0	3.2	3.8	3.6
Industry	-1.4	-3.3	10.3	4.9	6.0	6.5
Services	6.3	-7.8	8.4	8.0	8.2	6.8
Inflation (Consumer Price Index)	4.8	6.2	5.5	7.1	5.2	4.5
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-3.2	-2.5	-1.8
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.6	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.2	-9.6	-8.4	-7.9
Debt (% of GDP)	73.7	87.6	86.0	84.6	83.9	83.7
Primary Balance (% of GDP)	-2.5	-7.8	-5.0	-4.2	-3.0	-2.5
GHG emissions growth (mtCO2e)	0.1	-11.3	3.9	5.5	4.6	2.6
Energy related GHG emissions (% of total)	70.5	67.1	67.6	68.9	69.9	70.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.