INDIA

Table 1	2021
Population, million	1393.4
GDP, current US$ billion	3085.4
GDP per capita, current US$	2214.3
School enrollment, primary (% gross)[a]	99.9
Life expectancy at birth, years[a]	69.7
Total GHG Emissions (mtCO2e)	3254.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The rebound in FY22 was strong despite the two 'waves' of COVID-19, supported by increased vaccination coverage. The recovery, however, is not broad based with private consumption growth constrained by subdued income and employment. Investment strengthened due to the government's capex push and accommodative financing conditions. However, growth is expected to moderate in FY23 due to rising inflation, supply disruptions stemming from intensifying geo-political tensions, and moderating global growth outlook.

Key conditions and challenges

The growth recovery in FY22 was driven by a strong growth in investment and a rebound in private consumption. The economic impact of the surging COVID-19 infections in January-February 2022 (the 'third wave') was much less pronounced, in contrast to the deep contraction in FY21 due to the national lockdown. The recovery has been strong but not broad-based. Restrictions on activity and sectoral nature of the crisis have hampered the income prospects of low-income households, unskilled labor, and the informal sector. Growth was driven mainly by investment, underpinned by a targeted fiscal stimulus, as well as the exports of services. Latest data shows that the economy expanded by 5.4 percent in the third quarter (October-December) of FY22.

The focus of fiscal policy shifted from mitigating the socio-economic impact of COVID-19, towards increasing capital spending to facilitate the recovery by crowding-in private investment and bolstering revenue to facilitate gradual fiscal consolidation. Despite rising inflationary pressures, the RBI has indicated continuation of the accommodative monetary policy stance.

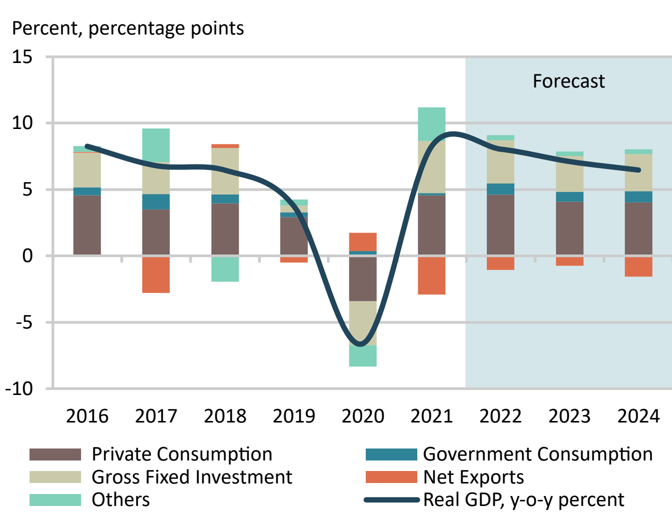
Major headwinds to growth in FY23 include persistently elevated inflation— exacerbated by rising oil and commodity prices and supply disruptions following the conflict in Eastern Europe— denting consumer spending further, localized stress in the financial sector following the withdrawal of regulatory forbearance, moderating global growth and the emergence of new 'variants' of COVID-19 necessitating stringent restrictions on activity vis-a-vis those witnessed in recent months.

Recent developments

The economy expanded by 8.3 percent in FY22 following a contraction of 6.6 percent in FY21. On the demand side, private consumption was supported by the release of pent-up demand post the 'second wave' and investment was spurred by increased government capital spending. Imports increased more than exports, leading to a negative contribution from trade in FY22. On the supply side, mining and manufacturing sectors benefited from the global rally in commodity prices and robust external demand. The services sector expanded but remained below the pre-pandemic level due to slower recovery in contact-intensive segments.

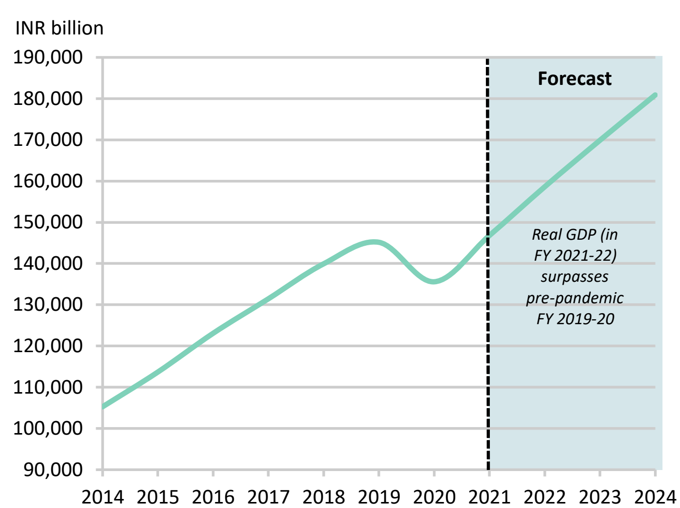
Headline inflation averaged above the midpoint of the tolerance range (2-6 percent) at 5.5 percent in FY22 due to cost-push pressures from higher commodity prices and supply disruptions. Although the RBI maintained an accommodative stance, it has undertaken steps towards gradual policy normalization by pausing the government securities acquisition program and rebalancing liquidity from the overnight to term money market. The financial sector remained resilient with

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.

improvement in the performance and asset quality of banks, especially the public sector banks.

The current account balance was in modest deficit of 0.2 percent in Q1-Q2 FY22 as import growth outpaced export growth, despite the buoyant exports of computer and professional services. Further, robust foreign investment inflows and RBI intervention in the foreign exchange market, resulted in a record high accumulation of foreign exchange reserves of USD 622 billion by mid-March 2022 (15 months of FY21 imports).

The general government fiscal deficit, after peaking at 13.3 percent in FY21, declined to 10.9 percent in FY22 driven by stronger growth in revenue vis-à-vis expenditure. The capital expenditure of the union government grew by 27 percent y-o-y over Q1-Q3 FY22, while current spending increased at a relatively modest pace (8 percent). Consequently, public debt declined to 86.9 percent of GDP in FY22 from 88.6 percent in FY21.

After the 'second wave', India's labor market experienced a partial recovery starting July 2021. Unemployment rates declined to 7.4 percent (monthly average) over July 2021-Feb 2022, from 12 percent in May 2021, but it has been accompanied by workers transitioning into lower-paying and less-secure jobs. Labor force participation has declined from an average of 42.8 percent in 2019, to 40 percent through 2021.[1]

1/ Data from Consumer Pyramids Household Survey (2019-2022).

Outlook

Real GDP is expected to grow at 8.0 percent in FY23, facing headwinds from geopolitical tensions in Eastern Europe. The recovery in private consumption will be constrained by the incomplete recovery in the labor market, and inflationary pressures weighing on households' purchasing power. Increased government capital spending (especially in infrastructure and logistics), reduced vulnerabilities in the financial sector, government initiatives including the production linked incentive scheme and improvement of the investment climate will support investment. Despite this, surging commodity prices, renewed supply disruptions and heightened business uncertainty can delay a sustainable pickup in private investment.

Inflation is expected to rise on the back of elevated crude oil and commodity prices and extended global supply disruptions, with upside risks stemming from faster passthrough of elevated input costs to consumer prices. Intensifying inflationary pressures may lead to sooner-than-expected tightening of monetary policy in FY23.

The current account deficit will widen substantially as merchandise trade deficit increases on the back of rising commodity prices and a resumption of, albeit slow, domestic recovery and will be only partially offset by resilient services exports. Capital flows, especially foreign direct investment inflows, are expected to remain steady—given the reforms implemented to improve the business environment.

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	8.3	8.0	7.1	6.5
Private Consumption	5.2	-6.0	7.9	8.1	7.1	7.1
Government Consumption	3.4	3.6	1.5	8.1	7.0	7.9
Gross Fixed Capital Investment	1.6	-10.4	12.9	10.2	8.3	8.5
Exports, Goods and Services	-3.4	-9.2	21.7	6.2	10.8	8.2
Imports, Goods and Services	-0.8	-13.8	33.2	9.2	11.4	12.3
Real GDP growth, at constant factor prices	3.8	-4.8	7.6	8.0	6.8	6.5
Agriculture	5.5	3.3	3.1	4.0	3.8	3.6
Industry	-1.4	-3.3	9.8	6.7	6.8	6.7
Services	6.3	-7.8	7.7	9.9	7.7	7.1
Inflation (Consumer Price Index)	4.8	6.2	5.5	5.5	4.9	4.2
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-2.5	-2.0	-1.7
Net Foreign Direct Investment (% of GDP)	1.5	1.6	1.6	1.5	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.9	-9.6	-8.5	-8.0
Debt (% of GDP)	73.7	88.6	86.9	86.5	85.8	85.0
Primary Balance (% of GDP)	-2.5	-7.8	-5.4	-3.8	-2.7	-2.1
GHG emissions growth (mtCO2e)	1.8	-10.5	6.7	5.2	4.0	3.3
Energy related GHG emissions (% of total)	70.9	67.8	69.0	70.2	71.1	71.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.