INDIA

Table 1	2020
Population, million	1380.0
GDP, current US$ billion	2590.6
GDP per capita, current US$	1877.2
International poverty rate ($1.9)[a]	22.5
Lower middle-income poverty rate ($3.2)[a]	61.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	69.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011/2), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

India's economy is estimated to have contracted by over 8 percent in FY21, on account of a steep fall in output over the first half of the fiscal year, as the onset of the COVID-19 pandemic and lockdowns brought activity to a halt. To support vulnerable firms and households during the crisis, and underpin an economic recovery, both monetary and fiscal policy levers were triggered. Going forward, growth is expected to rebound to 10.1 percent in FY22, thanks to base effects, but to taper-off thereafter.

Key conditions and challenges

The economy was already slowing when the COVID-19 pandemic unfolded. After reaching 8.3 percent in FY17, growth decelerated to 4.0 percent in FY20. The slowdown was caused by a decline in private consumption growth and shocks to the financial sector (the collapse of a large non-bank finance institution), which compounded pre-existing weaknesses in investment.

In response to the COVID-19 outbreak, the authorities implemented a nation-wide lockdown, which brought economic activity to a near standstill between April and June 2020 (Q1FY21). The most impacted sub-sectors included aviation and tourism, hospitality, trade, and construction, but industrial activity was also deeply disrupted by mobility restrictions. Agriculture, however, was mostly unaffected.

To mitigate the social and economic impacts of the COVID-19 induced crisis, the Reserve Bank of India (RBI) provided liquidity and other regulatory support (including forbearance measures), and the government increased spending on health and social protection through expenditure re-prioritizing and fiscal expansion. Still, the sharp contraction in output between April and September 2020, is expected to have inflicted significant economic and social impacts.

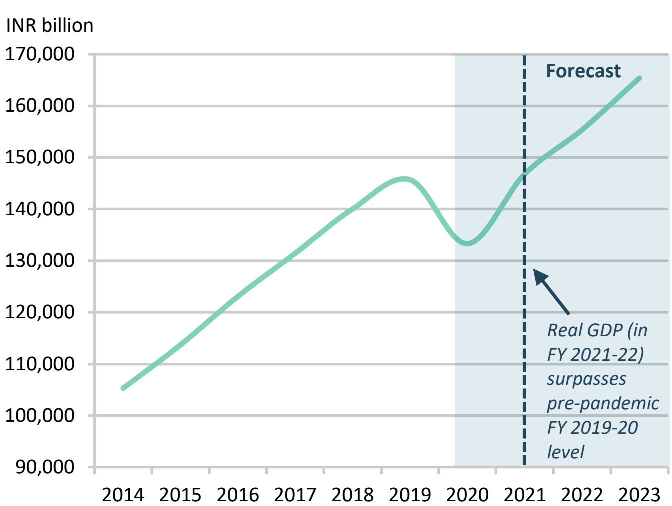
Going forward, the main risks to the outlook include the materialization of financial sector risks, that could compromise a recovery in private investment, and new waves of COVID-19 infections.

Recent developments

Output is estimated to have contracted by 8.5 percent in FY21 (April 2020 to March 2021), with all components of demand – except government consumption- significantly affected. Private consumption, the backbone of India's growth, is estimated to have fallen by 10 percent and investment by about 13 percent. Government consumption provided partial relief (expanding y-o-y by 4.1 percent), as did net exports (due to a steep fall in imports). On the supply side, agriculture was mostly unaffected, but industrial activity was impacted by supply chain disruptions and construction and services by mobility restrictions.

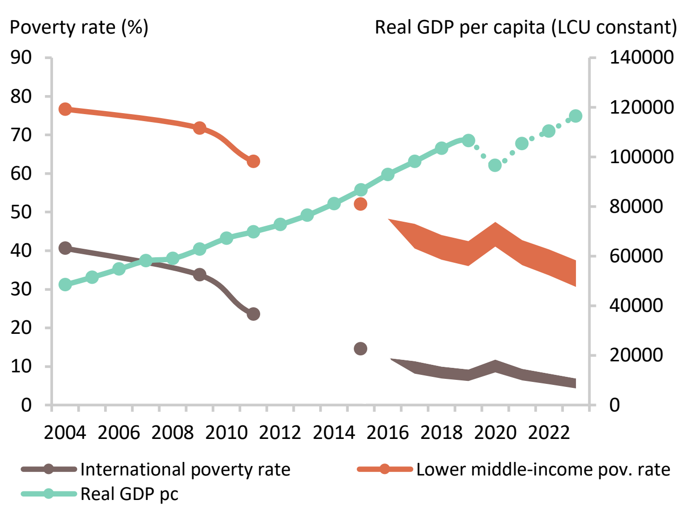
Despite the contraction in output and low oil prices, headline inflation remained elevated throughout the first three quarters of the year, due to supply chain constraints and rising food prices. Inflation averaged 6.6 percent between April and December, only declining in January, to 4.1 percent back within the RBI's target range. Still, the Reserve Bank of India cut the repo rate in May 2020 to 4 percent - leaving it unchanged since then- and maintained significant excess liquidity in the market. It also intervened to mitigate an appreciation of the rupee, which still gained 3.5 percent relative to the dollar between April and December.

FIGURE 1 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.

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



Sources: World Bank. Notes: see Table 2.

A decline in the trade deficit combined with an increase in net services receipts and private transfers turned the current account balance into a surplus of 1.3 percent. Together with robust net foreign investment inflows, and unsterilized RBI intervention in forex markets, reserves reached a peak of USD 584.6 billion at end -February, equivalent to around 15 months of FY20 merchandise imports.

The COVID-19 pandemic, together with measures to contain its effects, had a significant impact on public finances in FY21. The fiscal deficit of the central government was revised to 9.5 percent of GDP (from 3.5 percent initially targeted in the budget), reflecting both lower than expected tax revenues, government measures to support the economy, as well as bringing past off-budget expenditures on the books. The fiscal deficit of States is estimated to have been between 4 and 5 percent of GDP against the planned 2.8 percent.

The lockdown, in the first quarter of FY21, appears to have had a major impact on household consumption. Mean per capita consumption is estimated to have dropped by 36 percent over April-July, 2020 y-o-y. Available household survey data indicate that relative to the "traditional poor" the most affected population were relatively younger, more urban and educated. With the end of the lockdown, however, household consumption seems to have recovered to almost pre-pandemic levels.

Outlook

Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21/22 can range from 7.5 to 12.5 percent, depending on how the ongoing vaccination campaign proceeds, whether new restrictions to mobility are required, and how quickly the world economy recovers.

As economic activity normalizes, domestically and in key export markets, the current account is expected to return to mild deficits (around 1 percent in FY22 and FY23) and capital inflows are projected by continued accommodative monetary policy and abundant international liquidity conditions.

The COVID-19 shock will lead to a long-lasting inflexion in India's fiscal trajectory. The general government deficit is expected to remain above 10 percent of GDP until FY22. As a result, public debt is projected to peak at almost 90 percent of GDP in FY21 before declining gradually thereafter.

As growth resumes and the labor market prospects improve, poverty reduction is expected to return to its pre-pandemic trajectory. The poverty rate (at the $1.90 line) is projected to return to pre-pandemic levels in FY22, falling within 6 and 9 percent, and fall further to between 4 and 7 percent by FY24.

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

	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	6.5	4.0	-8.5	10.1	5.8	6.5
Private Consumption	7.6	5.5	-10.0	11.0	7.7	8.1
Government Consumption	6.3	7.9	4.1	13.8	6.4	9.2
Gross Fixed Capital Investment	9.9	5.4	-12.9	15.2	7.9	8.9
Exports, Goods and Services	12.3	-3.3	-8.0	9.7	8.5	8.7
Imports, Goods and Services	8.6	-0.8	-18.1	14.0	12.0	12.9
Real GDP growth, at constant factor prices	5.9	4.1	-7.1	9.6	5.6	6.5
Agriculture	2.6	4.3	3.4	3.5	3.5	4.0
Industry	5.3	-1.2	-8.6	13.2	6.0	7.3
Services	7.2	7.2	-9.1	9.5	6.0	6.7
Inflation (Consumer Price Index)	3.4	4.8	6.0	4.5	4.0	4.0
Current Account Balance (% of GDP)	-2.1	-0.9	1.3	-1.1	-1.2	-1.4
Net Foreign Direct Investment (% of GDP)	1.1	1.5	2.0	1.5	1.4	1.4
Fiscal Balance (% of GDP)	-5.8	-8.0	-14.0	-10.4	-9.4	-8.5
Debt (% of GDP)	68.6	72.5	89.7	88.4	88.1	86.5
Primary Balance (% of GDP)	-1.1	-3.4	-8.5	-4.6	-3.2	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	6.9-10.0	6.2-9.2	8.5-11.8	6.4-9.3	5.4-8.2	4.4-6.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.7-44.0	36.0-42.5	41.0-47.4	36.3-42.8	33.6-40.3	30.6-37.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SARMD harmonization, using 2011NSS-SCH1.

(b) Projection using neutral distribution base on GDP pc in constant LCU with pass-through = .67 for 2018-23, and 2017 international poverty as a range of 8.1 to 11.3 percent (at 1.9 PPP$ a day) estimated for the 2020 PSPR. The latest official data for estimate poverty in India date to 2011/12. Nowcast: 2018-2020. Forecast are from 2021 to 2023.