INDIA

Table 1	2023
Population, million	1428.6
GDP, current US$ billion	3567.1
GDP per capita, current US$	2496.9
School enrollment, primary (% gross)[a]	112.0
Life expectancy at birth, years[a]	67.7
Total GHG emissions (mtCO2e)	3672.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2023); Life expectancy (2022).

Despite a subdued global backdrop, the Indian economy expanded by 8.2 percent in FY23/24, reflecting strong growth in manufacturing and construction. This strong momentum is projected to continue over the medium term as a nascent private investment cycle is expected to firm up. Employment and worker participation rates increased in 2022-23, but high rates of tertiary youth unemployment, low rates of paid employment for women, and poor job quality remain a concern.

Key conditions and challenges

Between 2000 and 2019, economic growth averaged 6.6 percent annually, per capita GDP grew more than two-fold, and extreme poverty was reduced by two-thirds. The strong performance coincided with deeper global integration and improvements in the business environment. The COVID shock caused a deep contraction (by 5.8 percent in FY20/21) but the economy rebounded swiftly, averaging 8 percent growth over the following three fiscal years. However, by the end of FY23/24, the economy was still 7 percent smaller than it would have been under its pre-pandemic growth trajectory.

Despite significant welfare gains, 44 percent of the population still lived below the lower middle-income poverty line and 12.9 percent below the extreme poverty line in FY21/22 (see footnote a/). Consumption-based inequality has remained steady but high (Gini index of 33). Access to services varies widely across states, with multidimensional poverty ranging from less than 1 percent in Kerala to 35 percent in Bihar. New data shows that the compound annual growth in real per capita consumption averaged 3 percent between 2011-12 and 2022-23 (Inflation-adjusted; Household Consumption and Expenditure Surveys), with wide variation within and across states (8.5 percent in Sikkim versus only 0.9 percent in rural Nagaland and 0.6 percent in urban West Bengal).

Risks to the medium-term outlook are manageable. Unexpected climatic shocks could delay agricultural recovery and heightened geopolitical tensions could affect commodity prices. However, India's large domestic market, diversified economy, and adequate foreign exchange reserves provide significant resilience against these shocks.

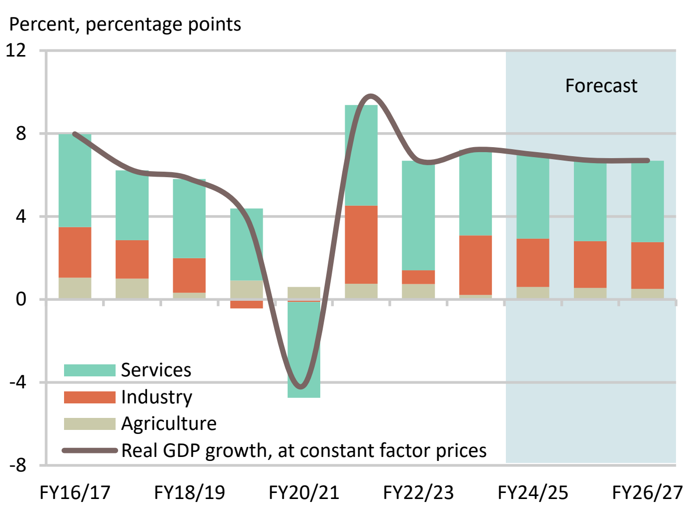
To sustain its robust growth trajectory, India should deepen factor market reforms and improve the business environment to stimulate private investment; focus on skill development and improving educational outcomes to maximize its demographic dividend; and leverage global markets by reducing trade barriers and costs.

Recent developments

India grew 8.2 percent in FY23/24, remaining the fastest-growing major economy. After contracting in FY22/23, manufacturing output expanded by 9.9 percent in FY23/24, reflecting increased demand from the construction sector. Service sector growth, while robust, moderated to 7.6 percent as the post-pandemic recovery slowed and unfavorable monsoons muted agricultural growth. On the demand side, increased investment, especially in public infrastructure and private real estate, offset a slowdown in private consumption as rural income growth moderated.

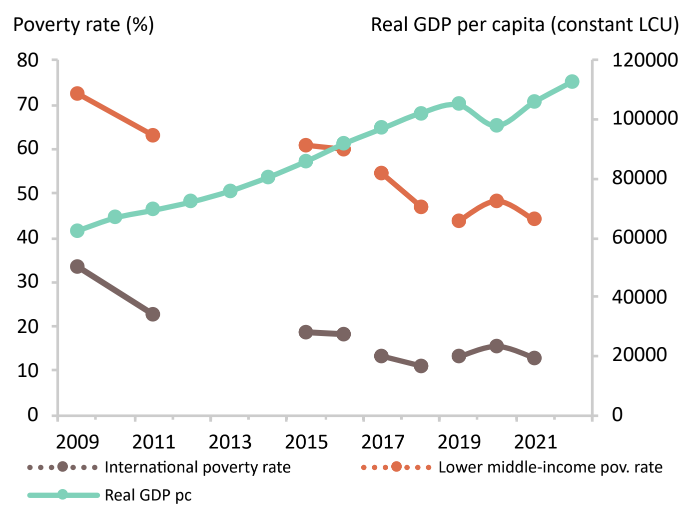
Headline inflation slowed to 5.4 percent in FY23/24, primarily thanks to lower fuel prices. However, food price inflation continued to be high and volatile, posing risks

FIGURE 1 India / Real GDP growth and contributions to real GDP growth at factor cost



Sources: National Statistics Office (NSO) and World Bank.
Note: FY16/17 refers to the fiscal year 2016-17 (April 2016-March 2017) and so on.

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



Source: World Bank. Notes: see Table 2.

to welfare as about one-third of the population is undernourished. Persistent food inflation can further worsen malnutrition and stunting among vulnerable groups. As of August 2024, the Reserve Bank of India has kept the policy rate unchanged at 6.5 percent since February 2023.

In 2022-23, net employment growth exceeded the increase in the working-age population. The worker-population ratio increased across all groups, with women experiencing a five percentage point rise to 30.8 percent. However, despite the improvement, youth unemployment rates remained elevated and paid employment for women is still low. Job quality also remained a concern; 74 percent of the added jobs were in self-employment, of which 43 percent were unpaid. Over one-fifth of workers are in low-skill, elementary occupations, and informality prevails in agriculture (where nearly all jobs are informal) and paid non-farm employment (of which only 22 percent are formal). Two in five employed individuals earned incomes insufficient to keep an average family above the lower middle-income poverty line, and a quarter of workers did not earn enough to lift a family out of extreme poverty.

The general government fiscal deficit narrowed to 8.5 percent of GDP in FY23/24, from 9.6 percent in FY22/23, thanks to consolidation at the central level. Strong tax revenue growth and stable current spending more than offset a 28 percent increase in capital spending. However, public debt-to-GDP rose to 83.9 percent in FY23/24 due to slowed nominal GDP growth.

The current account deficit narrowed to 0.7 percent of GDP in FY23/24 from 2.0 percent in FY22/23. The merchandise balance improved, aided by declining global commodity prices, while services trade maintained a surplus. Net foreign direct investment dropped sharply due to increased repatriation, but foreign portfolio investment inflows increased ahead of India's inclusion in global bond indices. India's foreign exchange reserves rose to US$670 billion, providing an ample buffer.

Outlook

Growth is projected to remain strong at around 7 percent over the medium term. Agricultural growth is expected to recover to 4.1 percent in FY24/25, thanks to improved monsoon, and services and manufacturing sectors are projected to grow above 7 percent. On the demand side, government consumption will likely remain subdued due to continued fiscal consolidation, but private consumption is expected to rise with improved rural incomes. Although public investment growth may moderate, private corporate investment growth is set to increase, driven by growing consumer demand. Exports are projected to grow faster amid recovering global trade conditions and expected rate cuts by major central banks. Robust growth, particularly in rural incomes, should sustain poverty reduction, but more labor-intensive growth is needed to accelerate this trend.

Headline inflation continued to fall in Q1 FY24/25 and is projected to reach RBI's 4 percent target over the medium term, barring major climate shocks. Food price inflation remains volatile but is expected to ease with favorable monsoon conditions.

The overall fiscal deficit is projected to narrow thanks to continued strong revenue growth (from improved compliance and a broader tax base) and modest spending growth. Thus debt-to-GDP is projected to decline to around 82 percent by FY26/27.

The current account deficit is projected to widen to around 1.5 percent of GDP over the medium term due to increased domestic demand and is expected to be adequately financed by gradually improved foreign (direct and portfolio) investment flows. India's ample foreign exchange reserves are expected to remain sufficient, covering about eight months of imports.

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

	2021/22	2022/23	2023/24	2024/25e	2025/26f	2026/27f
Real GDP growth, at constant market prices	9.7	7.0	8.2	7.0	6.7	6.7
Private consumption	11.7	6.8	4.0	5.7	6.0	6.1
Government consumption	0.0	9.0	2.5	4.3	5.0	5.0
Gross fixed capital investment	17.5	6.6	9.0	7.8	7.7	7.7
Exports, goods and services	29.6	13.4	2.6	7.2	7.2	7.9
Imports, goods and services	22.1	10.6	10.9	4.1	6.3	7.3
Real GDP growth, at constant factor prices	9.4	6.7	7.2	7.0	6.7	6.7
Agriculture	4.6	4.7	1.4	4.1	3.9	3.7
Industry	12.2	2.1	9.5	7.6	7.3	7.2
Services	9.2	10.0	7.6	7.4	7.1	7.1
Inflation (consumer price index)	5.5	6.7	5.4	4.5	4.1	4.0
Current account balance (% of GDP)	-1.2	-2.0	-0.7	-1.1	-1.2	-1.6
Net foreign direct investment inflow (% of GDP)	1.2	0.8	0.3	1.0	1.2	1.5
Fiscal balance (% of GDP)	-9.5	-9.6	-8.5	-7.8	-7.5	-7.3
Revenues (% of GDP)	20.6	21.5	21.9	21.9	21.9	21.7
Debt (% of GDP)	84.8	82.5	83.9	83.7	83.0	82.0
Primary balance (% of GDP)	-4.3	-4.4	-3.1	-2.5	-2.2	-2.1
International poverty rate ($2.15 in 2017 PPP)[a]	12.9	..	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a]	44.1	..	..	..	..	..
GHG emissions growth (mtCO2e)	7.7	4.4	2.8	2.8	2.8	3.2
Energy related GHG emissions (% of total)	68.5	69.5	70.3	70.9	71.2	71.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Estimates are based on the Uniform Recall Period using survey-to-survey imputation (Roy and van der Weide (2022)). These estimates will be revised based on the 2022-23 Household Consumption Expenditure Survey when finalized. Extreme poverty line is defined at $2.15 per capita per day, and lower middle-income poverty line at $3.65 per capita per day (2017 PPP).