INDIA

Table 1	2019
Population, million	1371.3
GDP, current US$ billion	2862.3
GDP per capita, current US$	2087.3
International poverty rate ($1.9)[a]	22.8
Lower middle-income poverty rate ($3.2)[a]	62.4
Gini index[a]	35.4
School enrollment, primary (% gross)[b]	113.0
Life expectancy at birth, years[b]	69.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018).

India's economy had been slowing prior to the COVID-19 pandemic. The spread of the virus and containment measures have severely disrupted supply and demand conditions. Monetary policy has been deployed aggressively and fiscal resources have been channeled to public health and social protection, but additional counter-cyclical measures will be needed, within a revised medium-term fiscal framework. Despite measures to shield vulnerable households and firms, the trajectory of poverty reduction has slowed, if not reversed.

Key conditions and challenges

India emerged from the Global Financial Crisis (GFC) with stressed balance sheets of banks and corporates, depressed private investment, and weaker exports growth. Efforts to deal decisively with nonperforming assets in the banking sector, strengthen the insolvency framework, and improve the governance of public sector banks were only partially successful. Thus, in the period following the GFC, growth was driven mainly by private consumption. From FY09 to FY18 annual GDP growth averaged 6.7 percent (or 5.2 percent per capita).

After FY17, during which the economy grew at 8.3 percent, growth decelerated in each subsequent year to 7.0, 6.1 and 4.2 percent. This was on account of two mutually reinforcing dynamics: emerging weaknesses in non-bank financial companies (a major source of credit growth, making up for risk aversion from banks) and slowing private consumption growth.

Thus, the impact of COVID-19 materialized against a backdrop of (i) enduring fragility in the financial sector, (ii) slowing overall growth, and (iii) limited fiscal buffers. The response of the government of India to the COVID-19 outbreak was swift and comprehensive. A strict lockdown was implemented to contain the health emergency. To mitigate its impact on the poorest, it was complemented by social protection measures; to ensure that businesses could maintain their operations, the Reserve Bank of India (RBI) and the government also provided liquidity and other regulatory support. Nonetheless, there was a massive contraction in output and poor and vulnerable households experienced significant social hardship – specifically urban migrants and workers in the informal economy.

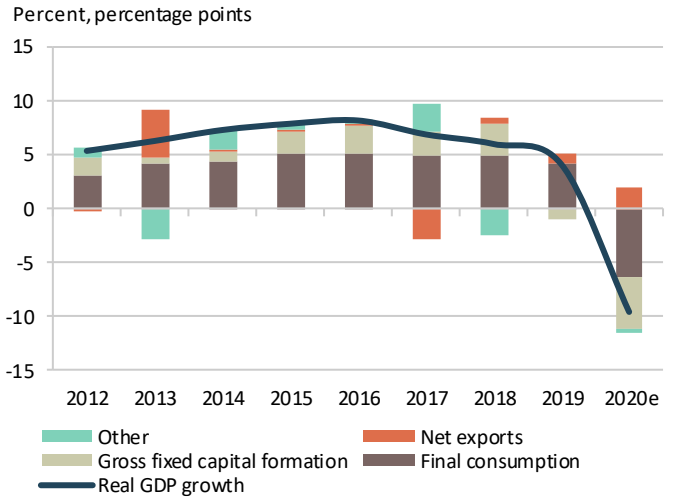
Recent developments

In the first quarter of FY21 (India's fiscal year is from April 1 to March 31) economic growth contracted by an unprecedented 23.9 percent (year-on-year). On the demand side, private consumption and investment contracted sharply. On the supply side, industrial and services output fell by 38 and 21 percent, respectively.

After reaching 4.8 percent in FY20, headline inflation averaged 6.6 percent, during April-July 2020, given supply-chain disruptions. The RBI cut the repo rate by a cumulative 115 bps between March and May, while maintaining significant excess liquidity in the market, and then paused further easing in August.

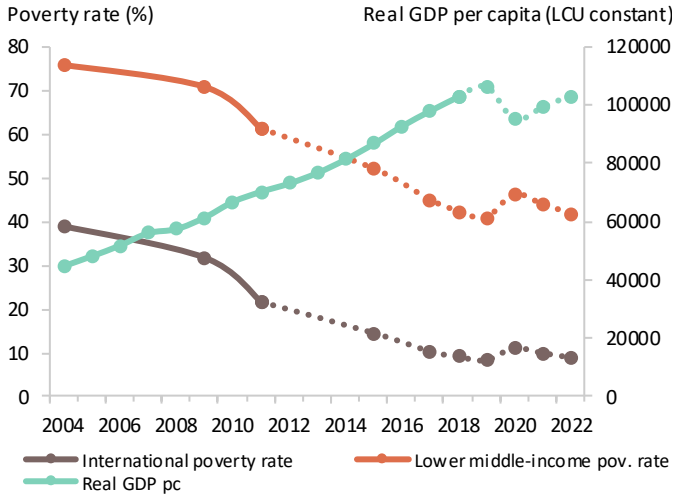
During the first quarter of FY21, the current account turned to a surplus, as a large decline in imports more than offset a drop in exports. With significant net foreign investment inflows, foreign reserves reached USD 534.5 billion at end-July, equivalent to more than 13 months of FY20 imports. Following a sharp depreciation in March, the rupee has gradually

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



Sources: National Statistical Office, World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

regained its value against major currencies but remains slightly weaker than at the start of the year.

The growth slowdown in FY20 and the contraction in early FY21 have impaired revenue collection. Thus, after increasing to 7.6 percent in FY20 (from 5.4 percent in FY19), the general government deficit is believed to have increased further during the first half of FY21.

Available household survey consumption data indicate that the poverty rate declined from 22.5 percent to values ranging from 8.1 to 11.3 percent, between 2012 and 2017[1]. More recent household survey data[2] indicate significant disruptions to jobs due to COVID-19 that likely boosted the poverty rate, with 2020 rates back to levels overserved in 2016. These surveys suggest the labor force participation rate was 3.2 percentage points lower in the last week of August than in the months leading up to the lockdown. They also point to increased vulnerability: 11 and 7 percent of urban and rural individuals, respectively, who recently identified themselves as "employed" performed zero hours of work in the week prior to the survey. Data on the government's rural workfare program show that demand for casual work increased 66 percent y-o-y in August 2020. Between the last four months of 2019 and May-August 2020, the proportion of people working in urban and rural areas fell by 4.2 and 3.8 percentage points, respectively. Overall, the pandemic has likely raised urban poverty, creating a set of "new poor" characterized by non-farm employment and secondary or tertiary education.

Outlook

Growth is expected to contract sharply in FY21 (by 9.6 percent in a baseline scenario), reflecting the impact of the national lockdown and the income shock experienced by households and firms. However, there is substantial uncertainty related to (i) the course and duration of the pandemic, (ii) the speed at which households and firm behavior will adjust to the lifting of lockdowns, and (iii) a possible new round of countercyclical fiscal policy. Thus, there is a wide confidence interval around the baseline projections. Growth is expected to rebound to 5.4 percent in FY22, but mostly reflecting base effects, while potential output is expected to remain depressed in the medium-term. Inflation is expected remain around the RBI's target range mid-point (4 percent) in the near-term.

Weak activity, domestically and abroad, will depress both imports and exports. Thus, the current account is expected to reach a surplus of 0.7 percent of GDP in FY21 and is projected to gradually return to a deficit in later years.

The COVID-19 shock will lead to a long-lasting inflexion in India's fiscal trajectory. Assuming that the combined deficit of the states is contained within 4.5-5 percent of GDP, the general government fiscal deficit is projected to rise to above 12 percent in FY21 before improving gradually. Public debt is expected to remain elevated, around 94 percent, due to the gradual pace of recovery.

Policy interventions have preserved the normal functioning of financial markets thus far. However, the demand slowdown could lead to rising loan delinquencies and risk aversion. Recent RBI analysis indicates the gross nonperforming loans to asset ratio of scheduled commercial banks may increase to 12.5 percent by March 2021 (from 8.5 percent in March 2020).

1/ The point estimate for 2017 is 10.4. The confidence interval reflects the degree of uncertainty associated with different statistical methods used to estimate poverty in the absence of recent household survey data. As documented in Box 1.3 of the Poverty and Shared Prosperity report (2020), there are other additional sources of uncertainty that are not reflected in this range of estimates.

2/ From the Centre for Monitoring Indian Economy (CMIE).

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

	2017/18	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.0	6.1	4.2	-9.6	5.4	5.2
Private Consumption	7.0	7.2	5.3	-13.2	6.1	5.5
Government Consumption	11.8	10.1	11.8	10.5	5.5	5.9
Gross Fixed Capital Investment	7.2	9.8	-2.8	-16.2	7.8	6.7
Exports, Goods and Services	4.6	12.3	-3.6	-12.0	7.3	8.5
Imports, Goods and Services	17.4	8.6	-6.8	-20.0	12.3	12.0
Real GDP growth, at constant factor prices	6.6	6.0	3.9	-9.6	5.4	5.1
Agriculture	5.9	2.4	4.0	4.0	3.5	3.5
Industry	6.3	4.9	0.9	-20.0	5.5	5.0
Services	6.9	7.7	5.5	-7.4	6.0	5.7
Inflation (Consumer Price Index)	3.6	3.4	4.8	3.8	4.0	4.0
Current Account Balance (% of GDP)	-1.8	-2.1	-0.8	0.7	0.0	-0.5
Net Foreign Direct Investment (% of GDP)	1.1	1.1	1.5	1.1	1.3	1.5
Fiscal Balance (% of GDP)	-5.8	-5.4	-7.6	-12.4	-10.9	-8.9
Debt (% of GDP)	69.8	67.5	72.2	90.4	93.5	94.1
Primary Balance (% of GDP)	-1.1	-0.9	-2.8	-7.0	-4.4	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.4	9.2	8.3	11.1	10.0	9.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	44.9	42.4	40.9	46.2	43.9	41.9

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

(a) Calculations based on SAR-POV harmonization, using 2011-NSS-SCH1and fiscal year growth rates.Actual data: 2011. Nowcast: 2012-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2011) base on HFCE with pass-through .733 (rural) and .559 (urban) up to 2015, and .67 for 2016-17. GDP pc in constant LCU with pass-through = .67 for 2018-23.