MACRO-FISCAL PROFILE

INDIA

May 2016

Key Indicators	
Population (2015)	1.25 billion
Per capita GDP (USD, 2014, Atlas method)	$1,570
Average population growth rate (2010–2014)	1.3%
Government revenues as a % of GDP (2015)	10.8%
Country income classification	Lower-middle

Source: World Bank, 2015.

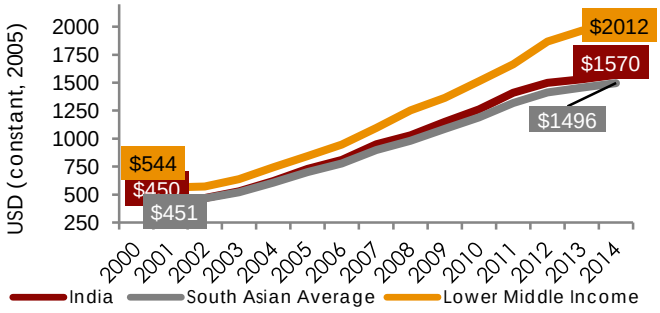
Country Policy and Institutional Assessment Ratings (1 = low, 6 = high), 2014	National	Mean South Asia
Efficiency of revenue mobilization	4.0	3.5
Equity of public resource use	4.0	3.7
Fiscal policy	3.5	2.9
Macroeconomic management	4.5	3.5
Quality of budgetary and financial management	3.5	3.4

Source: World Bank, 2015.

Macroeconomic Forecasts				
Indicator	2013	2014 (est.)	2015 (proj.)	2016 (proj.)
Real GDP growth	6.9	7.2	7.5	7.3
Real GDP per capita growth	5.5	5.9	6.29	6.79
CPI inflation % rise	10.9	6.4	5.4	5.5
Budget deficit % GDP[a]	N/A	7	4.1	4.1
Current account % GDP	-2.6%	-1.5%	-1.5%	-1.6%

Source: IMF, 2015.

Figure 1: GDP Per Capita Growth



Source: IMF, 2015.

Overview

India has emerged as a lower middle-income country (LMIC) within the last 10 years. Gross domestic product (GDP) growth was 7.3% in fiscal year (FY) 2014/15. Buoyed by falling oil prices, the country has lowered its budget and current account deficits. The FY 2015/16 budget includes increased public investment in infrastructure and targets a fiscal deficit of 3.9% of GDP. Within the next 15 years, India will have the largest and one of the youngest workforces in the world. India will have to invest more in infrastructure, improve education to meet the rising shortage of skilled labor, and boost employment for the growing skill level of the female labor force. Educational and health outcomes need considerable improvement, underscored by the fact that India's manufacturing industry has experienced slower growth than those in Southeast Asian countries where the average worker is better educated and healthier, and so is better able to work in the manufacturing sector. India experienced significant inflation in 2013, especially in the agriculture sector; inflation was exacerbated further by oil prices and a drop in the exchange value of the Indian rupee. Current account imbalances were affected further by capital flight, despite restrictions. Since the 2014 drop in the value of oil, the external account balance and inflation have been more manageable.

Political Economy

The Bharatiya Janata Party-led government has gradually introduced economic reforms, such as relaxing foreign domestic investment limits in key sectors, since the 2014 election. The government redirected funding for social programs to infrastructure in the FYs 2014/15 and 2015/16 budgets, but increased budget allocations for women and child welfare, drinking water and sanitation, and other social services following opposition to these cuts.

Although India has performed better than regional and overall developing country averages, both fiscal policy and budgetary management need improvement. Several indicators suggest that fiscal policy has been unable to tackle macroeconomic imbalances consistently. Public expenditure needs to improve sufficiently to meet wage demands and investment needs to support the country's current medium-term growth rates. Revenue generation is lower than for most LMICs, although the source of revenue does not depend on distorting trade policy, instead relying on a value-added tax (VAT) and taxes on personal income and corporate earnings (Figure 4). More efficient taxation, including the introduction of the proposed goods and services tax , and further rationalization of food and fertilizer subsidies are needed.

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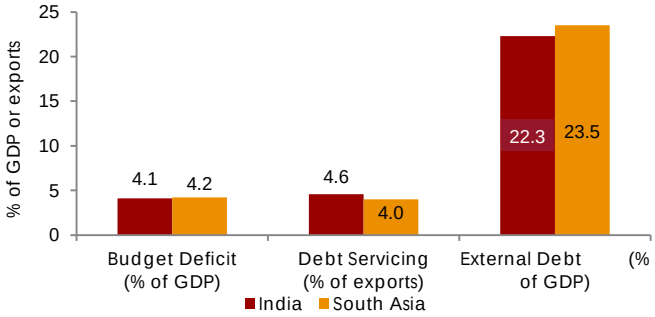
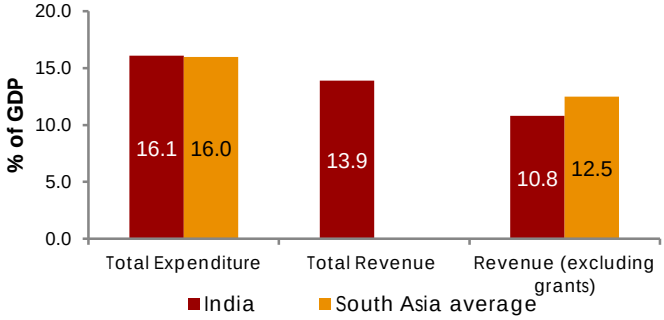
Figure 2: Government Borrowing (2014)



Source: IMF, 2015.

Figure 3: Government Revenue and Expenditure (2014)



Source: IMF, 2015.

Budget monitoring and control systems are inadequate; the frequency of account auditing needs improvement, as indicated by the Country Policy and Institutional Assessment values.

GDP and Economic Growth

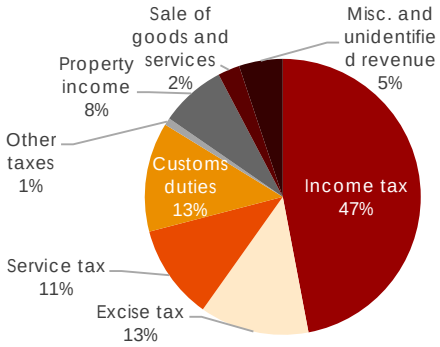
Real GDP per capita has grown considerably in the period 2000–2015 (Figure 1), from US$450 to US$1,570. Still, its GDP per capita is below the average for LMICs. Until recently, budget and current deficits have limited government activities; high levels of subsidies and inflation induce large budget deficits. Real annual GDP growth is projected to steadily increase from 7.2% in FY 2014/15 to 7.7% in FY 2020/21. This growth is largely driven by private consumption, which has benefited from lower energy prices and increases in real wages.

Revenue and Expenditure

India needs to collect a greater amount of revenue and undertake more infrastructure, health, and educational investments. Revenue generation has been a difficult task (Figures 2 and 3). Organizations such as the IMF have recommended a higher VAT and reducing local levies on goods and services. Revenue is projected to increase slightly in FY 2015/16, mostly due to robust indirect tax receipts. Currently, income tax accounts for the biggest proportion of revenue (Figure 4).

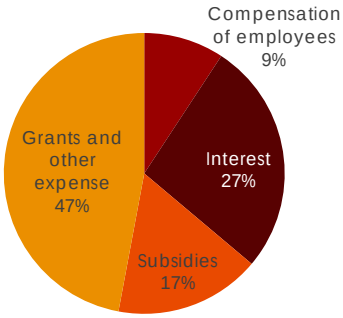
The banking sector lags behind in facilitating loans to small businesses, which make up by far the largest portion of the economy. Debt servicing comprises a large part of government expenditure and gross national income (Figure 5). Since the 2014 election, the government has cut social spending allocations to the states, particularly for the agricultural sector. For instance, the government placed a cap on how much the central government provides to states for programs such as the Mahatma Gandhi National Rural Employment Guarantee Act, a rural livelihood security program.

Figure 4: Revenue (FY 2014/15)



Source: IMF, 2016.

Figure 5: Expenditure (FY 2014/15)



Source: IMF, 2016.

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The Health Policy Project is a five-year cooperative agreement funded by the U.S. Agency for International Development under Agreement No. AID-OAA-A-10-00067, beginning September 30, 2010. The project's HIV activities are supported by the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). HPP is implemented by Futures Group, in collaboration with Plan International USA, Avenir Health (formerly Futures Institute), Partners in Population and Development, Africa Regional Office (PPD ARO), Population Reference Bureau (PRB), RTI International, and the White Ribbon Alliance for Safe Motherhood (WRA).