

Country Insight Snapshot

India

July 2018





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Stable

CORE OUTLOOK

- + India will ultimately benefit from a multi-year period of digitisation of transactions, more formal banking, and financial deepening.
- + India's 264m-strong population of 15-25-year-olds will provide a powerful demographic dividend in the next decade, providing they can find sufficient employment.
- High business costs reflect chronic supply-side problems and can outweigh the advantages of an early-stage market, while infrastructure plans still lag requirements.
- Two-thirds of Indians depend on farm income, making India vulnerable to monsoonal disruption from climate change and El Nino episodes.
- Labour-intensive industries are failing to grow.

KEY DEVELOPMENT

The rupee's deterioration to a record low against the dollar in June reflected general emerging market trends, but a stressed domestic banking system limits policy options.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

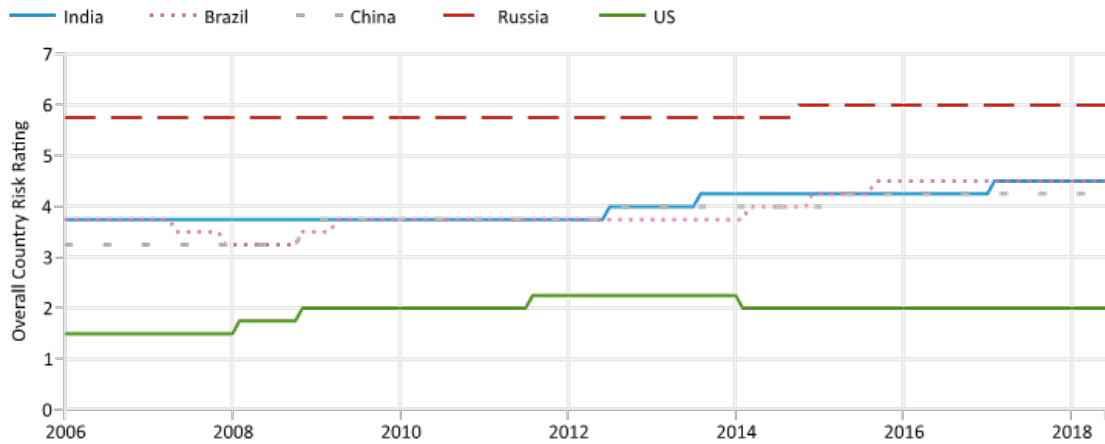
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

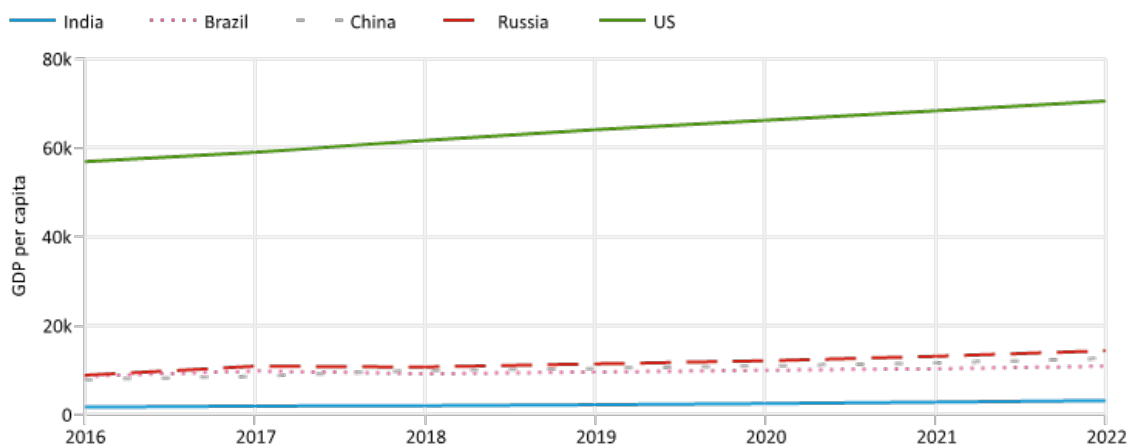
Rating History and Comparison



Source : Dun & Bradstreet

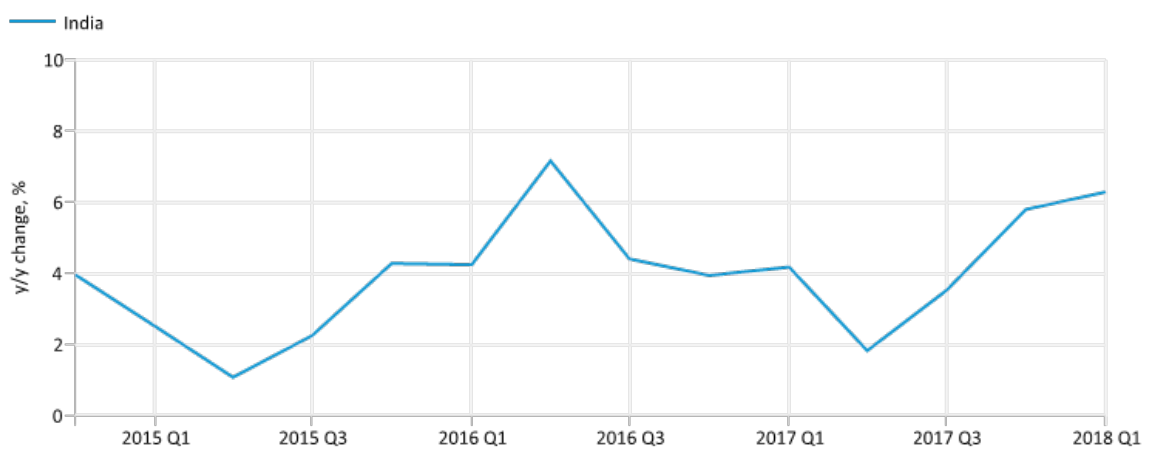
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-1.1	-0.7	-1.9	-2.7	-2.1	-1.7	-1.1	-1.7
Debt Service Ratio, %	8.8	8.3	8.9	7.5	9.0	8.3	8.5	8.5
Govt balance, % GDP	-3.9	-3.7	-3.5	-3.4	-3.6	-3.3	-3.3	-3.1
Inflation, annual avge %	4.9	4.5	3.6	4.8	5.2	5.5	5.5	4.5
Real GDP Growth, %	8.2	7.1	6.7	7.4	7.7	8.0	8.1	7.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The economy faces several simultaneous turning points. The election due in 2019 could temper investment, which has been rebounding rapidly (albeit heavily driven by public investment). The rupee began to weaken faster in Q2 amid higher US interest rates and capital outflows. The domestic bad loan problem remains, and state-owned banks will still probably require further fiscal support to shore up their capital bases. Yet venture capital is highly active, fiscal revenues are up and industrial output has broadly recovered from the demonetisation and GST shocks of 2016-17. This said, output in some labour-intensive sectors in Q2 was still down y/y, including apparel and leather goods. It is also uncertain whether India will be able to source Iranian oil (10% of imported crude oil requirements in 2017) from November given renewed US sanctions, while US goods exports to India worth USD240m in 2017 could face higher tariffs from August as the US-India trade tensions continue unresolved.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

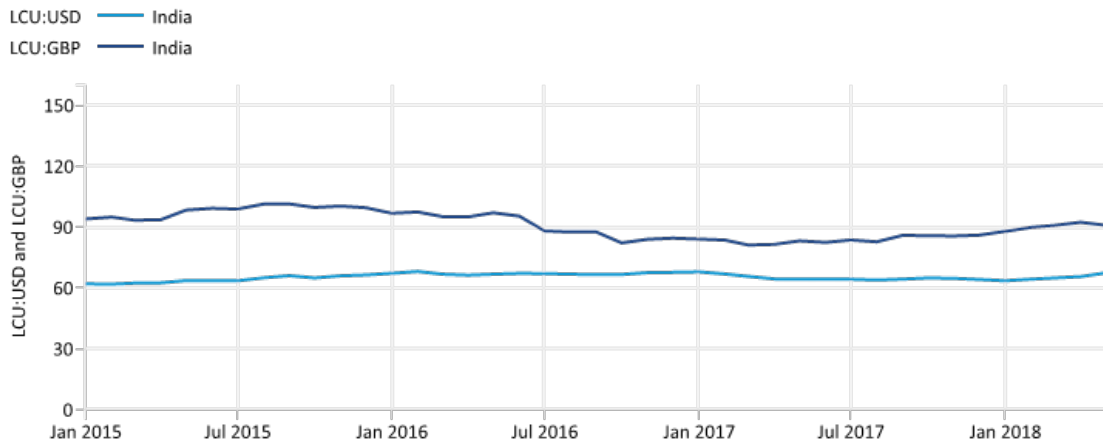
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



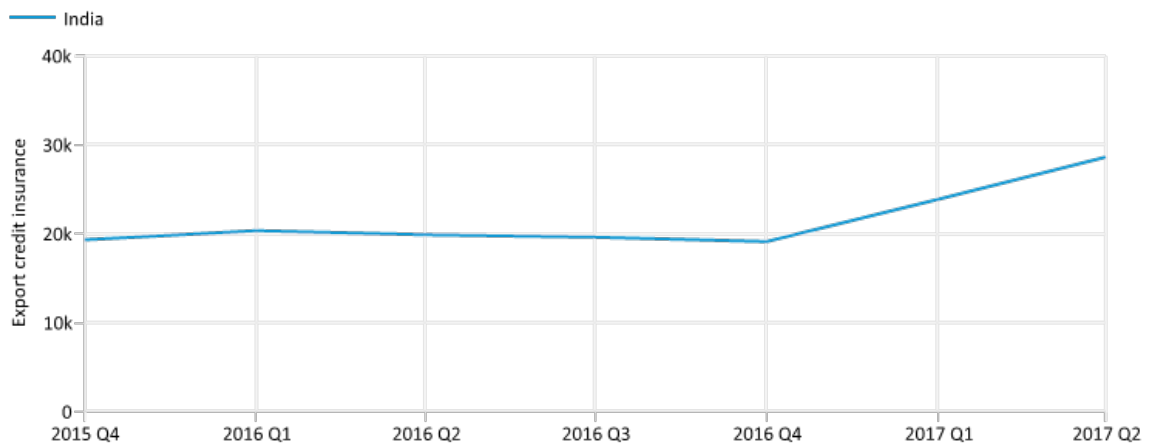
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions



Source : Export Credit Agencies

Short-term insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.



RISKS AND OPPORTUNITIES

FX Risk

Rupee touches record low

India's rupee touched a record low beyond INR69:USD in late June before recovering. The weakness of the currency took it beyond the INR68-69:USD range marked at the height of the 2013 'taper tantrum' when emerging market currencies last entered a bout of volatility. The INR:USD deterioration of 7% year-to-date, however, was close to that of the Indonesian currency and remains well short of the trajectory of Argentinian peso and Turkish lira in 2018 or the rupee's losses in 2013. Provided it does not weaken much further, there is no sharp immediate impact for country risk or the economic outlook, with the net impact on exporters likely to be neutral to benign depending on their import intensity, and the external debt servicing schedule to Q2 2019 still looking manageable. Indeed, the limited depreciation will restore a degree of competitiveness after the rupee's appreciation in real (inflation-adjusted) terms since 2015.

Interim finance minister Piyush Goyal denied the need for any immediate policy response as trading closed in the last week of June, citing the improved fiscal deficit, current account and FX reserves position relative to 2013. The uncertain element is the extent of capital outflows into 2019, estimated at USD6.7bn year-to-date. In the past two (April-March) fiscal years, portfolio inflows grew FX reserves by USD30bn, meaning outflows could have further to run. Domestic investors' demand for stocks remained strong in Q2, cushioning the impact. However, further Reserve Bank of India intervention in the FX market, unless managed carefully, will curb domestic liquidity and add to the serious pressures in the banking system, which would also struggle with a rapid sequence of rate rises. Intervention so far could already have depleted FX reserves by USD10bn. Any substantial depreciation in the Chinese yuan or new leaps in the oil price into Q4 2018 would also ignite further rupee weakness.

Short-Term Economic Outlook

25% of industrial loans distressed

The Reserve Bank of India raised its policy rate 25 basis points in May, for the first time since 2014, as external liquidity conditions tightened and the outlook for inflation firmed. However, in June, and after a second quarter of losses reported by State Bank of India, the Reserve Bank again moved to allow banks to spread mark-to-market losses from bondholdings over up to four quarters, mindful of the stresses on banks from bad loans. The biannual Financial Stability Report, released in June, revealed that as of end-Q1 banks' non-performing loan ratio reached 11.6%, 15.3% for state-owned banks (holding 70% of assets) and 21.0% for 11 of those under a 'prompt corrective action framework' and facing a risk of regulatory capital shortfalls. For industrial loans, the non-performing and restructured ratio reached 24.8%. Even as the economy is rebounding from the shocks of 2016-17, bad loans have not yet peaked and amount to a heavy financial burden on banks and on credit availability to business.



COUNTRY PROFILE AND STATISTICS

Overview

With close to 1.3bn citizens, India is the world's most populous democracy and second-largest country. It became a sovereign republic in 1947 and joined the Commonwealth of former British colonies in 1950. India borders Pakistan to the northwest; China, Bhutan and Nepal to the northeast; and Bangladesh and Myanmar to the east. India's diverse economy encompasses village farming, modern agriculture, handicrafts, modern industries, and services (the most dynamic sector and worth 60% of GDP).

Until the 1990s, the economy was held back by stringent state controls, but these were liberalised considerably in a first generation of reforms, and in the 2000s the economy grew, on average, by over 7% a year. However, a second generation of reform is under way. Realising India's potential in the next ten years will require the addressing of major challenges, including chronic infrastructure constraints, restrictions on changes in land use, endemic poverty, an inefficient bureaucracy, and corruption. Other factors to overcome include chronic tax evasion, the legacy of inefficient national tax structures, insurgencies in the northeast, the ever-fragile *detente* with Pakistan, dependence on the erratic monsoon, and the dynamics of communal and sectarian tensions. The key moves towards bringing more transactions into the formal economy and the digitisation of business are advancing from their early stages.

Key Facts

Key Fact	Detail
Head of state	President Ram Nath KOVIND
Capital	New Delhi
Timezone	GMT +05-30
Official languages	Hindi, English
Population (millions)	1,316.0
GDP (USD billions)	2,602.3
GDP per capita (USD)	1,977
Life expectancy (years)	68.1
Literacy (% of adult pop.)	72.2
Surface area (sq km)	3,287,260

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	6.4	7.4	8.2	7.1	6.7
Nominal GDP in USDbn	1,857	2,039	2,102	2,274	2,602
Nominal GDP in local currency (bn)	112,335	124,680	137,640	152,537	167,732
GDP per Capita in USD	1,484	1,609	1,639	1,751	1,977
Population (year-end, m)	1,251.0	1,267.0	1,283.0	1,299.0	1,316.0
Exchange rate (yr avge, USD-LCU)	60.5	61.1	65.5	67.1	64.5
Current Account in USDbn	-32.4	-26.7	-22.1	-15.2	-48.7
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.7	-1.9
FX reserves (year-end, USDbn)	274.2	301.3	333.1	340.3	388.7
Import Cover (months)	6.0	6.7	8.3	8.4	8.5
Inflation (annual avge, %)	9.4	5.8	4.9	4.5	3.6
Govt Balance (% GDP)	-4.5	-4.0	-3.9	-3.7	-3.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	7.4	7.7	8.0	8.1	7.0
Nominal GDP in USDbn	2,770	3,087	3,482	3,976	4,532
Nominal GDP in local currency (bn)	188,069	212,706	241,103	273,531	303,619
GDP per Capita in USD	2,078	2,287	2,546	2,870	3,230
Population (year-end, m)	1,333.0	1,350.2	1,367.6	1,385.2	1,403.1
Exchange rate (yr avge, USD-LCU)	67.9	68.9	69.3	68.8	67.0
Current Account in USDbn	-75.0	-64.0	-60.0	-44.3	-75.0
Current Account (% of GDP)	-2.7	-2.1	-1.7	-1.1	-1.7
FX reserves (year-end, USDbn)	357.5	360.0	380.0	400.0	435.0
Import Cover (months)	8.5	8.9	8.7	8.6	8.5
Inflation (annual avge, %)	4.8	5.2	5.5	5.5	4.5
Govt Balance (% GDP)	-3.4	-3.6	-3.3	-3.3	-3.1

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,078	9,257	10,073	10,765	61,735
Country Population (m)	1,333.0	209.2	1,415.0	144.0	326.8
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2018 - 2027)	6.0 - 8.0	1.0 - 2.0	4.5 - 6.5	1.5 - 3.0	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

User Guide

Please [click here](#) to visit our online user guide.

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