dun & bradstreet

Country Insight Snapshot

India

February 2018

Written 09 February 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.

KEY DEVELOPMENT

A populist budget aimed at rural voters and the political cycle has little potential to boost growth, and could pose upside risks for inflation.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative 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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

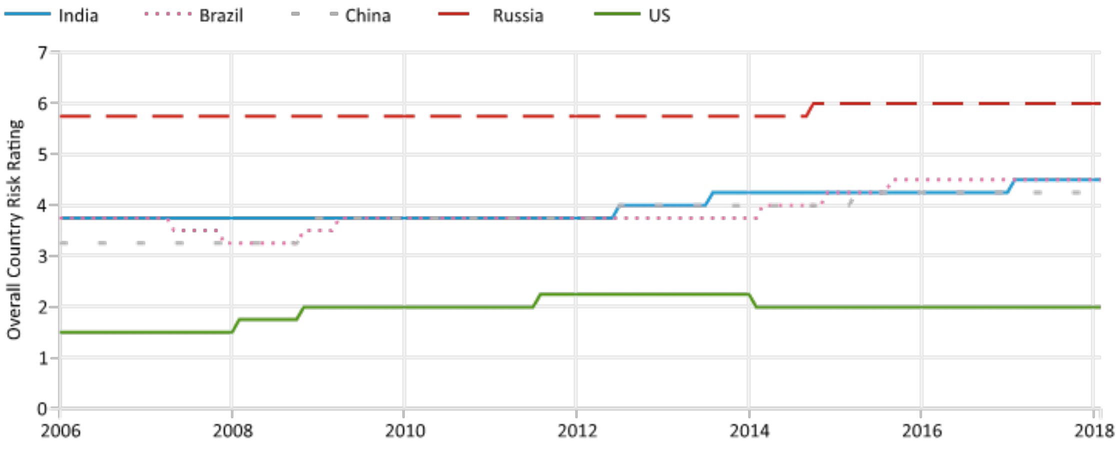
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

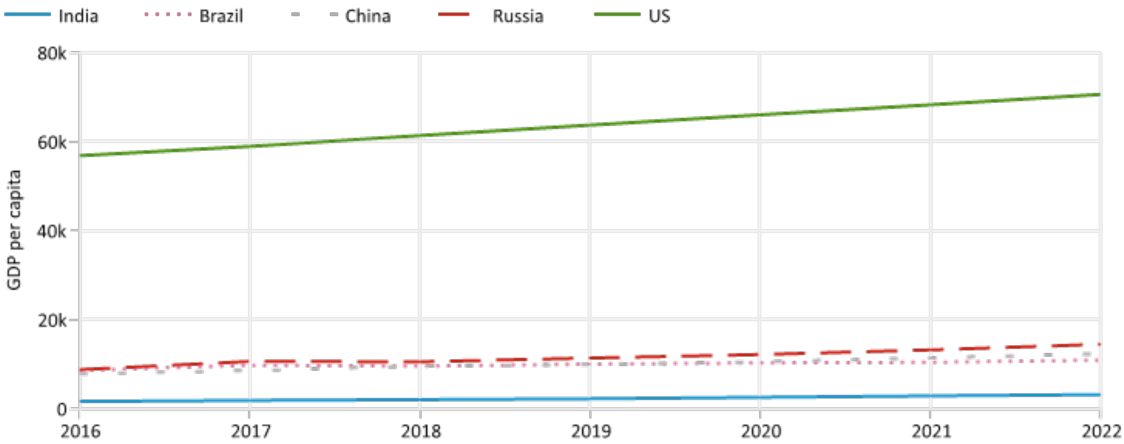
Rating History and Comparison



Source : Dun & Bradstreet

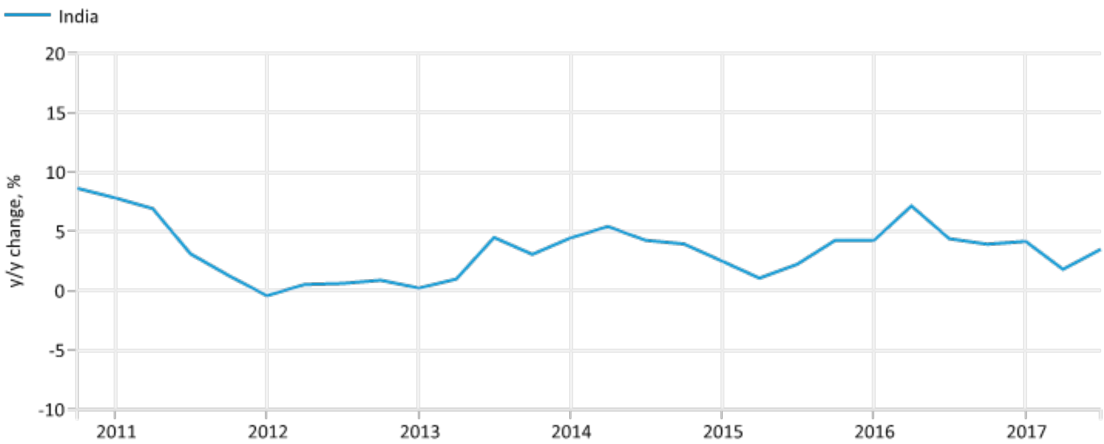
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2015	2016	2017e	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-1.1	-0.7	-1.5	-1.7	-1.0	-1.0	-1.1	-1.2
Debt Service Ratio, %	8.8	8.3	8.9	8.3	8.0	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	3.2	4.5	5.2	5.5	5.5	4.5
Real GDP Growth, %	8.2	7.1	6.6	7.5	7.8	8.0	8.1	7.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Stocks and bonds, boosted by optimism about reform dividends and foreign inflows, have already seen a correction due to higher inflation and interest rates expectations since the start of 2018. The fiscal (April-March) 2018/19 Budget also potentially unsettled investors by restoring a 10% capital gains tax on securities sold after a year, in addition to the transaction tax that had previously replaced it. The result could be an increase in corporate financing costs. The corporate earnings season for Q4 2017 was mixed. Bellwether engineering giant Larsen & Toubro reported a 38% y/y jump in order flows, but mainly in infrastructure, with demand from other sectors subdued. The first loss by the State Bank of India (SBI) for 19 years was reported in Q4, due to bad loans and bond market losses, and was a reminder of the scale of the bad loan resolution problem, for which the legal mechanisms are only beginning. The SBI is India's largest bank and has had to absorb weaker banks.

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.

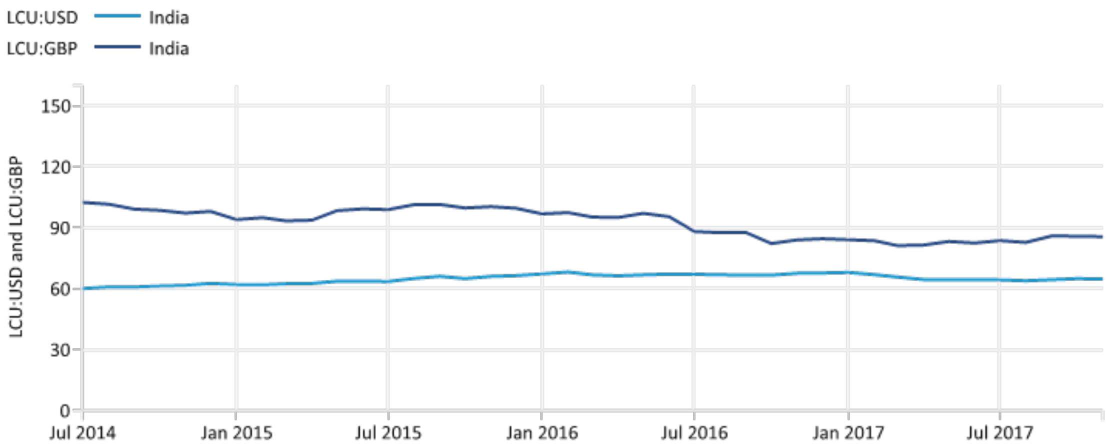
Local Delays: 0-2 months

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.

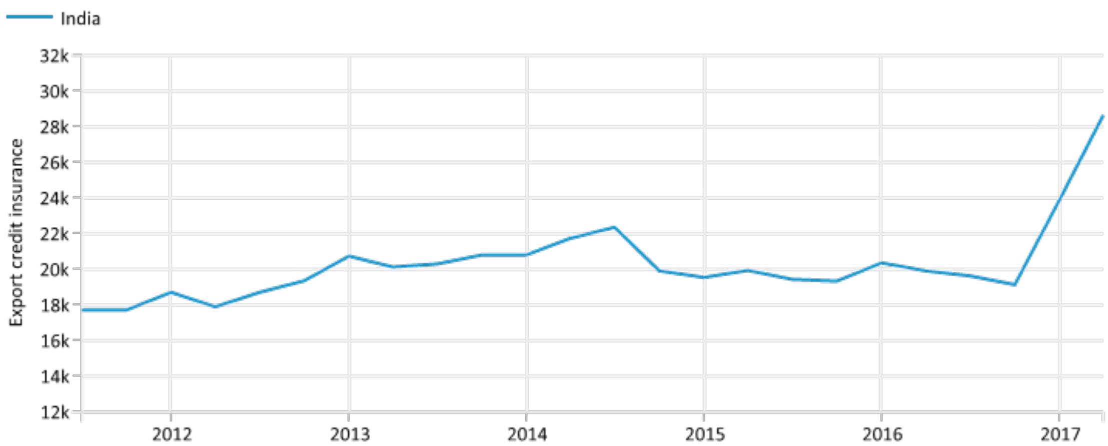
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

2018 Budget is last before election

Our country risk indicator remains 'stable' for India, rather than 'improving', despite potential for the economy to recover from the policy-induced shocks of 2016-17. The budget (for the fiscal year April-March), unveiled at the start of February, is aimed at bolstering the ruling Bharatiya Janatha Party-led coalition's prospects in state elections due through 2018 and the general election due by May 2019. Centrally, the budget aims to repair and prop-up rural demand and ease distress in India's farm-based constituencies, heavily affected by the demonetisation policy of late-2016 and a few years of bad weather. Despite a normal monsoon, in volume if not in spatial terms, in 2017 real agricultural sector growth slowed to 1.7% y/y in Q3, compared to its average of 3.0% since 2008. Accordingly, the budget with its grand plan for health insurance for 100m families, and higher support prices for more crops had a populist tone, while giving away few details on how the commitments would be funded. The general election, for its part, could be brought forward by constitutional amendment to coincide with state elections at the turn of 2019.

Short-Term Economic Outlook

Fiscal policy could spur inflation

The budget looks well-calibrated politically but difficult both to fund and to implement, and potentially inflationary. The initial allocation of INR20bn (less than USD500m) for the public health scheme seems inadequate for such a large project. The focus on rural incomes and development (for example via irrigation and supply chains), is fairly comprehensive and welcome, indeed overdue, but the implementation record so far suggests little concrete impact in 2018, and the recent decline in private investment in agriculture could continue. Meanwhile, Dun & Bradstreet doubts that the decision to maintain minimum support prices (MSPs) for both rabi and kharif season crops of 1.5 times production cost will help farmers generate higher incomes. First, there is a tendency for farmers to produce crops with higher MSPs. When the price of such crops rises in the domestic market, imports rise and farmers endure losses. Second, MSPs tend to create inflationary pressures, even if below market prices.

Despite concerns of fiscal slippage, the 2018/19 Budget will in fact be slightly less expansionary than the 2016/17 Budget, if targets are adhered to; but this is hardly guaranteed given the uncertain prospects from privatisation, the stock market and crude oil prices, all of which could pose a difficulty in meeting the 3.3% of GDP fiscal deficit target for 2018/19. Our central scenario remains for growth of 7.5%, but we note that the budget target for the coming fiscal year is only 7.2%. CPI inflation in January eased from a 17-month high of over 5% in December, but the Reserve Bank of India has put its forecast for CPI inflation for the first half of the fiscal year to 5.1-5.6%, and highlighted the upside inflation risks from fiscal policy in February.

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 by, on average, over 7% a year. However, a second generation of reform is due, and realising India's potential in the next ten years will require addressing 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 moves towards bringing more transactions into the formal economy and digitisation of business will be key but are only 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)	1,309.4
GDP (USD billions)	2,603.2
GDP per capita (USD)	1,988
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	2017e
Real GDP growth (%)	6.4	7.4	8.2	7.1	6.6
Nominal GDP in USDbn	1,857	2,039	2,102	2,274	2,603
Nominal GDP in local currency (bn)	112,335	124,680	137,640	152,537	167,173
GDP per Capita in USD	1,484	1,609	1,639	1,751	1,988
Population (year-end, m)	1,251.0	1,267.0	1,283.0	1,299.0	1,309.4
Exchange rate (yr avge, USD-LCU)	60.5	61.1	65.5	67.1	64.2
Current Account in USDbn	-32.4	-26.7	-22.1	-15.2	-40.0
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.7	-1.5
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	5.9	4.9	4.5	3.2
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 (%)	7.5	7.8	8.0	8.1	7.0
Nominal GDP in USDbn	2,863	3,151	3,626	4,095	4,532
Nominal GDP in local currency (bn)	188,069	212,706	241,103	273,531	303,619
GDP per Capita in USD	2,164	2,359	2,687	3,005	3,293
Population (year-end, m)	1,322.5	1,335.8	1,349.1	1,362.6	1,376.2
Exchange rate (yr avge, USD-LCU)	65.7	67.5	66.5	66.8	67.0
Current Account in USDbn	-50.0	-30.9	-37.2	-44.3	-52.4
Current Account (% of GDP)	-1.7	-1.0	-1.0	-1.1	-1.2
FX reserves (year-end, USDbn)	415.6	410.6	400.0	475.0	494.7
Import Cover (months)	8.5	8.9	8.7	8.6	8.5
Inflation (annual avge, %)	4.5	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)	2,164	9,694	9,733	10,662	61,495
Country Population (m)	1,322.5	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

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Please click here to visit our online user guide.

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