dun&bradstreet

Country Insight Snapshot
India

May 2019

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 expansion in e-commerce, mobile internet use and financial technology.

+ The population of 15-25-year-olds will reach 300m and provide a powerful demographic dividend in the next decade, providing they can find sufficient employment.

- Investment mobilisation has disappointed after a surge in the first half of the 2014-19 government term, inhibited by implementation gaps, surplus capacity, earlier bad debts and barriers to land reform.

- 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 and absorb new workers quickly, and radical labour reforms remain a politically distant prospect.

KEY DEVELOPMENT

A wealth of data supports the picture of a slowdown in demand in Q1 prior to the elections in April-May, even as the central bank has pumped liquidity into the economy and banking system.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Improving

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.

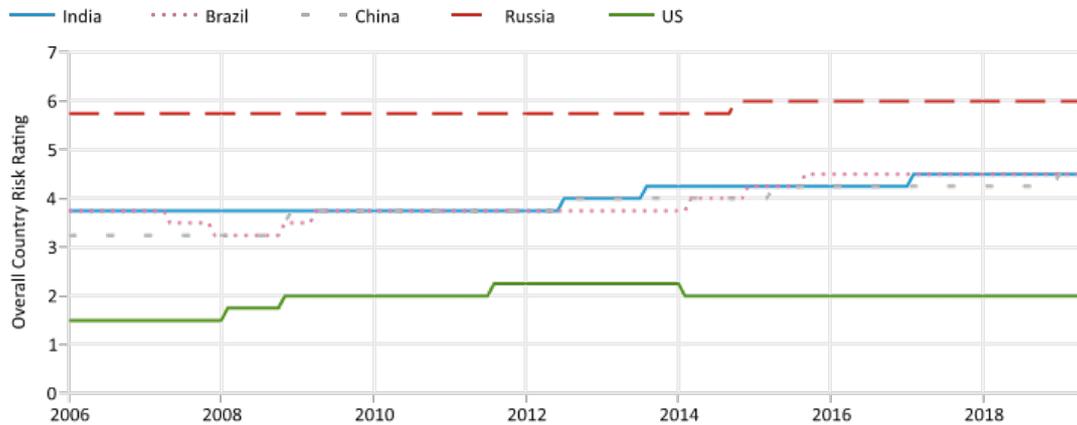## POLITICAL ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.
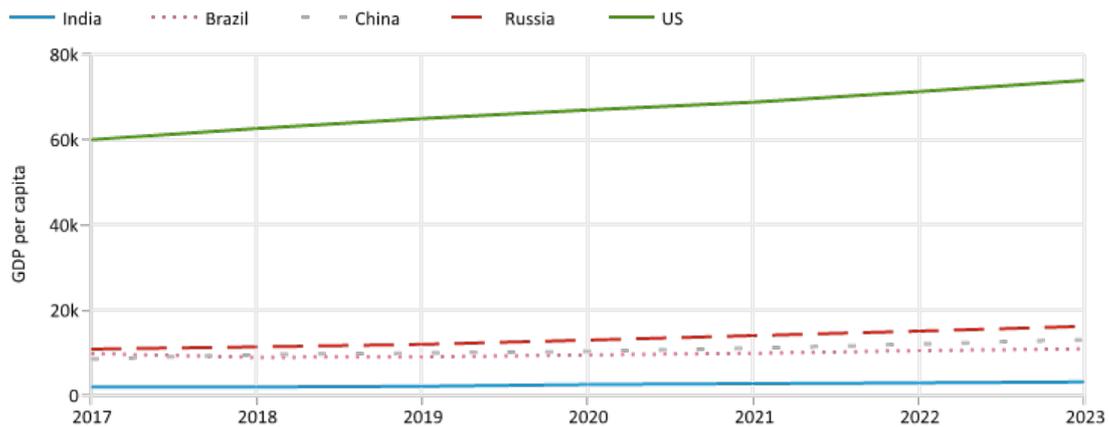
KEY INDICATORS

Rating History and Comparison

Sources: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons

Sources: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)

Sources: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-0.7	-1.8	-2.4	-1.6	-1.3	-1.1	-1.8	-1.6
Debt Service Ratio, %	8.3	7.5	9.0	9.3	9.9	9.5	9.5	9.0
Govt balance, % GDP	-3.7	-3.5	-3.5	-3.6	-3.3	-3.3	-4.0	-4.0
Inflation, annual avge %	4.5	3.6	3.4	3.8	4.5	5.0	4.5	4.5
Real GDP Growth, %	8.2	7.2	7.0	7.3	7.8	8.0	7.3	7.0

Sources: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In 2018, India threatened to impose duties on a range of US imports, mainly farm products, in retaliation for US unilateral tariffs on steel and aluminium earlier in the year. However, India has since repeatedly delayed doing so, in a pattern that has become even more likely since the US in March announced it would end India's designation as a beneficiary of the Generalized System of Preferences (GSP) programme of zero-tariff imports from developing countries within 60 days. Against the USD240m in imports from the US that would be affected by India's retaliatory tariffs, the US withdrawal of GSP privileges would affect USD5.6bn in imports from India, based on 2017 data. Since then, the EU has lodged a complaint against India with the WTO over its imposition of duties on IT goods shipped from the EU. However, little will be decided on the Indian side about how to respond to US pressure on opening up the Indian market to further US farm products and motorcycles, or to the EU's pressure, until after the new government is formed in May.

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.
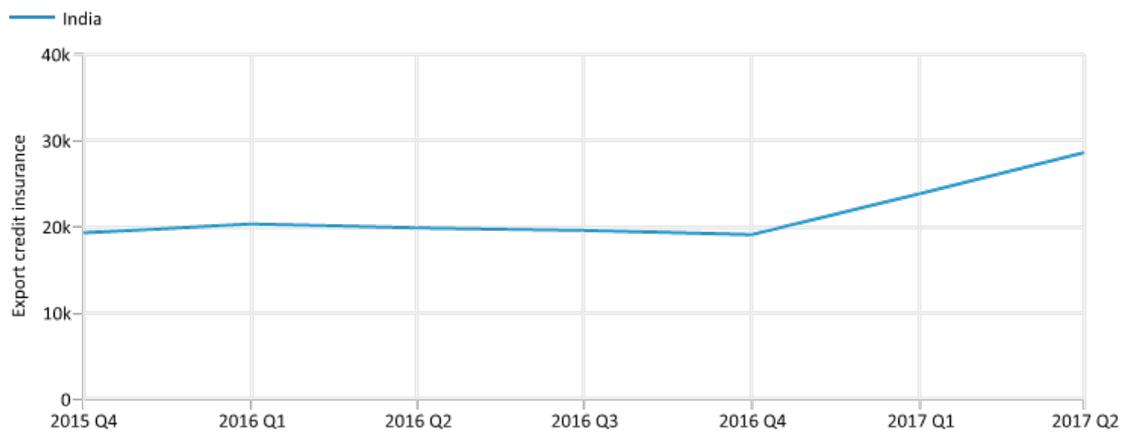
Exchange Rate
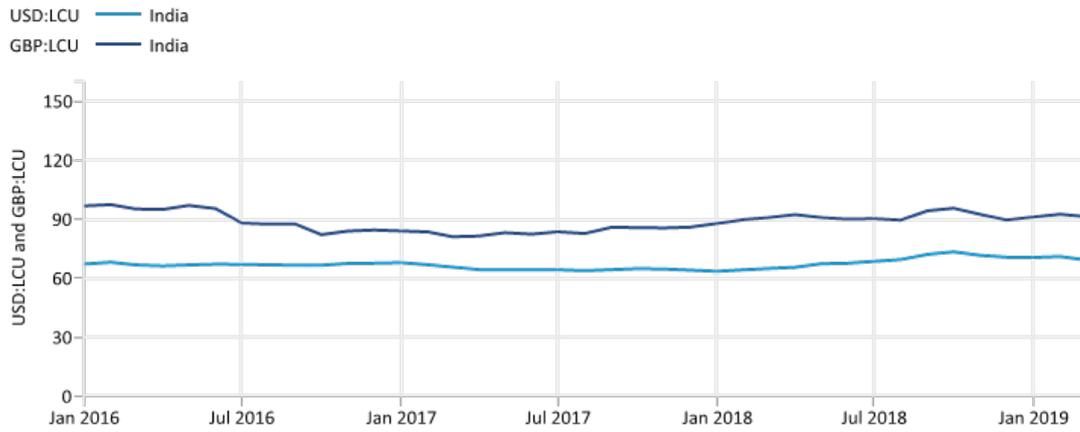
Sources: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions

Sources: 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

Short-Term Economic Outlook

Demand proxies indicate pre-election economic slowdown

The Q1 2019 GDP data, for the last quarter of the 2018/19 financial year, are unlikely to emerge before the seventh phase of the general election completes in late May. However, other partial and anecdotal gauges of demand such as industrial output, investment, inflation, and sales of leading consumer goods vendors give a relatively clear picture of a slowdown, even if the GDP data suggest India has been among the fastest-growing economies in the past few quarters. Analysis by Dun & Bradstreet India shows that industrial output, business profits and sentiment tend to fall the quarter before elections. However, beyond the election, the vagaries of the monsoon and of global crude oil prices will be key external variables to determining whether the economy accelerates past its anticipated real growth of 7.0% in April-March 2018/19.

Industrial output growth fell to a 20-month low (of just 0.1% y/y) in February, and we anticipate it will have grown under 2.0% y/y in Q1, after the weakest y/y expansion for January-February in 2014-19. The pattern was seen across manufacturing, capital, intermediate and construction goods. Data from CMIE indicated that the total value of investment proposals fell for another year in 2018/19, driven mostly by falls in public sector investment, given the relatively low proportion of private sector investment in the past five years. Our reading of this drop is that, given the need for fiscal restraint in a context of tighter credit caused by recognition of bad loans and non-bank financial troubles, the government has prioritised spending with more immediate electoral benefits. CPI inflation, for its part, was just 2.8% y/y in March, below the Reserve Bank of India's 4% central target, in a likely reflection of weak rural demand. The rural economy has been shocked by both crop gluts and localised droughts, and dislocation of the informal economy by currency and tax reforms. The result in Q1 was a noticeable deceleration for two of India's leading consumer goods firms. Hindustan Unilever's sales growth decelerated to 7% y/y in Q1, from 10%-plus in much of 2018: Godrej Consumer Products' sales barely grew.

The Reserve Bank of India has cut its benchmark rate by a quarter-point twice in 2019 to support the fragile economy, but this has not yet translated into easier credit, while the non-bank financial sector, responsible for much of the growth in credit in recent years, has a large wave of debt maturing in Q2. Consequently India's central bank has had to inject liquidity into the system by buying USD10bn US dollars and over USD3bn in government bonds in April-May to stabilise domestic liquidity. Without this emergency monetary injection, the pre-election economy is likely to have been more problematic.

Political/Insecurity Risk

Narrative returns to a reduced majority for the BJP

As India's five-week general election closes in May, the electoral mathematics are expected to keep the Bharatiya Janatha Party (BJP) and its ruling coalition in power. As voting opened in April, opinion polls suggested that the Congress Party, the only rival national force in India's political universe, would gain only as many seats as regional parties. However, the BJP's landslide performance of 2014 is not set to be repeated, the NDTV poll of polls in April projected, and the BJP is likely to be dependent on its National Democratic Alliance allies for a working majority in the 543-seat lower house. The BJP's prospects were thought to have been boosted quite decisively by the military exchanges with Pakistan in February-March, cementing a national security narrative which the ruling party has exploited. However, its nationalist and communalist messages have not carried so well in the higher-income south, while rural voters facing difficulties with their livelihoods in the past few years have been tempted by the campaign pledges of the Congress Party, including the latter's far more fiscally ambitious promise of minimum income guarantees for the poorest fifth of the population. We expect the ruling coalition to scrape home with a win in May but for the passage of legislation in the 2019-24 period to be slower and more subject to bargaining stances inside and outside the coalition.

COUNTRY PROFILE AND STATISTICS

Overview

With over 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)	1,333.0
GDP (USD billions)	2,710.1
GDP per capita (USD)	2,033
Life expectancy (years)	68.4
Literacy (% of adult pop.)	72.2
Surface area (sq km)	3,287,260

Sources: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	7.4	8.0	8.2	7.2	7.0
Nominal GDP in USDbn	2,039	2,104	2,290	2,652	2,710
Nominal GDP in local currency (bn)	124,680	137,719	153,624	170,950	189,500
GDP per Capita in USD	1,609	1,640	1,763	2,015	2,033
Population (year-end, m)	1,267.0	1,283.0	1,299.0	1,316.0	1,333.0
Exchange rate (yr avge, USD-LCU)	61.1	65.5	67.1	64.5	69.9
Current Account in USDbn	-26.7	-22.1	-15.2	-48.7	-65.0
Current Account (% of GDP)	-1.3	-1.1	-0.7	-1.8	-2.4
FX reserves (year-end, USDbn)	301.3	333.1	340.3	388.7	373.9
Import Cover (months)	6.7	8.3	8.4	8.0	6.8
Inflation (annual avge, %)	5.8	4.9	4.5	3.6	3.4
Govt Balance (% GDP)	-4.0	-3.9	-3.7	-3.5	-3.5

Sources: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	7.3	7.8	8.0	7.3	7.0
Nominal GDP in USDbn	2,993	3,600	3,929	4,240	4,623
Nominal GDP in local currency (bn)	214,000	243,000	275,000	305,250	337,500
GDP per Capita in USD	2,217	2,632	2,836	3,022	3,253
Population (year-end, m)	1,350.2	1,367.6	1,385.2	1,403.1	1,421.2
Exchange rate (yr avge, USD-LCU)	71.5	67.5	70.0	72.0	73.0
Current Account in USDbn	-48.0	-45.0	-44.3	-75.0	-75.0
Current Account (% of GDP)	-1.6	-1.3	-1.1	-1.8	-1.6
FX reserves (year-end, USDbn)	360.0	380.0	400.0	415.0	398.0
Import Cover (months)	7.1	7.1	7.0	6.6	6.5
Inflation (annual avge, %)	3.8	4.5	5.0	4.5	4.5
Govt Balance (% GDP)	-3.6	-3.3	-3.3	-4.0	-4.0

Sources: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,217	9,116	9,986	12,055	65,052
Country Population (m)	1,350.2	210.7	1,420.1	143.9	329.1
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2019 - 2028)	6.0 - 8.0	1.0 - 2.0	4.5 - 6.5	1.5 - 3.0	1.8 - 2.5

Sources: Various sources/Dun & Bradstreet

LINKS

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