

Country Insight Snapshot

India

January 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: February 2022 (DB4d → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

The corporate sector faces additional challenges as domestic festival-driven demand wanes, combined with weak export growth amid rising borrowing costs.

Recent Changes

- A Dun & Bradstreet survey highlights that business optimism for both net sales and selling prices in Q1 2023 are the lowest since Q3 2021, indicating businesses are apprehensive about slowing domestic demand and that passing on the increase in input prices to customers will be difficult.
- The government aims to make India a global hub for the production of green hydrogen.
- We have upgraded the FX rating outlook from 'deteriorating' to 'stable' due to the reduced volatility of the rupee and its likely appreciation in the near term.
- Following the US Fed rate hike of 425bps point the Reserve Bank of India hiked the policy repo rate cumulatively by 225bps in 2022. The policy gap with the US has narrowed to its lowest level since 2006, supporting FII inflows into the equity market.

Events to Watch

- Consumers and corporates have turned cautious as global economic prospects continue to worsen, financial tightening raises the debt burdens of households and corporates, and profitability deteriorates.
- Dun & Bradstreet expects industrial production to have declined in December 2022 as domestic festival-driven demand waned and exports continued to weaken amid slowing global trade.
- With global monetary tightening likely to continue in most economies given that inflation-reduction globally is still quite weak, spillover effects would continue to pose headwinds to businesses in the near future.

Call to Action

- Perform credit **checks and due diligence** on businesses in the textile and garment sector that are exposed to markets in the US, UK and EU.
- Note that businesses with exposure to European markets need to adjust their **credit exposure** given the political, regulatory and financial turmoil in those markets.
- Monitor the credit profile of small businesses, as their credit remains stressed.
- Watch out for hikes in tariff and non-tariff barriers as the government promotes and facilitates domestic market share.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: October 2022 (DB3d → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Broadly stable oil prices, falling US Treasury yields, slowdown in US inflation rate and easing of overall inflationary pressures (barring core inflation) have raised hopes that the central bank is coming close to pausing its tightening cycle.
- Corporate credit performance (and in turn banks' asset quality) improves as the gross non-performing asset (GNPA) ratio of scheduled commercial banks (SCBs) fell to a seven-year low of 5.0% and net non-performing assets to a 10-year low of 1.3% in September 2022.
- Following the US Fed rate hike of 425bps, the Reserve bank of India hiked the policy repo rate cumulatively by 225bps in 2022. The policy gap with the US has narrowed to its lowest level since 2006, supporting FII inflows into the equity market.
- This is positive for the bond as the yield curve appears to have flattened by December 2022.
- Nonetheless, uncertainty among foreign investors in the debt market will continue to exert upward pressure on yields.
- As liquidity progressively tightens, the short end of the curve will remain high. On the other end, the borrowing to be announced in the budget will impact the 10-year yield.
- The combined total liabilities of centre and states as a % of GDP, which was slightly more than 89% in the last two years, is expected to increase in the coming fiscal year.
- We expect the government to meet its fiscal deficit target of 6.4%, the current account to widen above 3.0% of GDP and inflation to average above the central bank's target of 6% in FY23.

Trade Terms

Description	Terms
Minimum Terms	LC
Recommended Terms	LC
Usual Terms	30-90 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Full cover available, conditions apply
Euler Hermes AG	Full cover available, conditions apply

Source: Export Credit Agencies

Call to Action

- Expect short-term and long-term interest rates and lending rates to increase.
- Perform credit checks and due diligence before engaging with new and existing small businesses, as the probability of loan default remains high.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: September 2022 (DB4b → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- The Index of Supply Chain Pressures for India (ISPI) released by the central bank indicates supply responses are improving, with the index declining to below historical average levels since August; decline indicates easing supply chain pressures.
- The improving outlook for agriculture and services boosts prospects for aggregate supply domestically...
- ...but the risk of external supply shocks from heightened geopolitical tension, volatile financial markets and global spillovers remains high.
- Analysis by the central bank indicates that a global inflation shock of 1pp may increase inflation in India by around 163bps, comprising a direct impact of 100bps and second-round effects of around 63bps (from domestic indirect effects and global spillovers).
- Global spillovers are driven by imported price pressures in energy, mining, chemicals, trade, basic metals and machinery; in terms of countries, the key contributors to inflation are oil-exporting countries, China and the US.
- Loans from the World Bank (USD245m) will be used to modernise rail freight and logistics infrastructure; in addition, more than 450 railway projects worth over INR7trn are in various stages of planning/sanction/execution.
- India has partnered with 17 countries to alleviate near-term transportation, logistics and supply chain disruption and bottlenecks, as well as long-term resilience challenges.
- India and the US have established a new working group to build sustainable supply chains and boost bilateral trade.
- Initiatives taken by several state governments to improve their supply chain bode well for the economy; Odisha is to introduce a scheme to reduce post-harvest management losses, Tamil Nadu will set up of a green fund with a corpus amount of INR10bn and West Bengal will invest INR12.06bn on infrastructure projects relating to surface roads, metro rails and railways, and national highway projects.
- With the conclusion of the spectrum auctions for 5G in early August 2022, there will likely be further internet penetration and many opportunities for social and business activities.

Call to Action

- Take cybersecurity precautions - the number of cyberattacks remains high.
- Businesses should ensure they have **procurement and supplier management** in place, given that there can be delays to trade because of supply chain disruption.
- Increase the close monitoring of strategic accounts; shortages of raw materials and high logistics costs may affect production activity and the profit margins of suppliers.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: December 2022 (DB4b → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Consumers and corporates have turned cautious as global economic prospects continue to deteriorate, financial tightening raises the debt burdens of households and corporates, and profitability deteriorates.
- India aims to become a global manufacturing hub as well as an IT and digital services hub by 2030.
- India wants to capture a 5% share of the world's goods and services imports by 2030 (from 2.3% in FY21).
- Over the past two years India has been actively engaging with several partners, both bilateral and regional, to enter into free-trade agreements (FTAs).
- While FTAs with the UAE and Australia have been concluded, trade negotiations are being held with the EU, Canada, the UK and the Gulf Cooperation Council (GCC); India and Canada are likely to sign an FTA in 2023 that will benefit small and medium enterprises (SMEs).
- The India-Australia trade agreement, in effect from 29 December 2022, will save India around USD500m in tariffs on imports of finished goods and inputs for the manufacturing sector.
- India has agreed to three out of four pillars of the Indo-Pacific Economic Framework (IPEF) related to supply chains, tax and anti-corruption, and infrastructure and green energy.
- India is yet to commit on the fourth pillar of trade for the IPEF, particularly on commitments required on the environment, labour, digital trade and public procurement, as it is still firming up its own digital framework and laws, especially those relating to privacy and data.
- The decision to extend the deadline on capping the share of digital payment transactions by two years will provide respite to third-party app providers; the risk of a monopoly remains.
- The government will provide financial incentives worth USD26bn to promote domestic production and attract foreign investment in 14 sectors under the Production Linked Incentives (PLI).
- USD10bn will be spent by the government to develop semiconductors and the display-manufacturing ecosystem in India.

Call to Action

- Understand the needs of customers; explore opportunities in sectors where the Production Linked Incentive (PLI) scheme has been introduced.
- Be aware that the localisation clause for the IT sector under the PLI scheme mandates foreign companies to produce certain components locally in order to benefit from the scheme's incentives.
- Watch out for increases in tariff and non-tariff barriers as the government continues to promote and facilitate domestic market share.
- Look for opportunities in countries with which India has signed trade agreements.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: August 2022 (DB4a → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- Upcoming elections in nine states in 2023 will be crucial for the ruling party ahead of the general election in 2024.
- India's focus on the defence sector has increased with the introduction of an open general export licence policy, the launch of seven defence public sector units, and the establishment of two defence industrial corridors.
- The importance of the Quad (the alliance with the US, Japan and Australia) is growing rapidly in India's geopolitical calculus as unresolved territorial problems with Beijing continue.
- Military tension on India's disputed border with China, with a recent attempt by China's People's Liberation Army (PLA) to 'unilaterally change the status quo' along the Line of Control (LoC), is unfavourable for both countries.
- Reportedly, China has been undertaking significant infrastructure construction activity to enhance its deployment capabilities near the LoC.
- India is a member of the World Bank Multilateral Investment Guarantee Agency (MIGA); the new model, bilateral investment treaty (BIT), allows for India to accede to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention).
- The government has made progress in recent years in strengthening regulations related to expropriation and compensation.

Call to Action

- Note that operations in India will carry a baseline security risk for most firms; take out adequate cover against cyberattacks, unrest and terrorist attacks.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022e	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	6.5	3.7	-6.6	8.7	7	6.2	6.4	6.7	6.4	6.3
Nominal GDP in USDbn	2,703	2,832	2,668	3,176	3,372	3,703	4,037	4,422	4,813	5,216
Nominal GDP in local currency	189.0tn	200.7tn	198.0tn	236.6tn	270.1tn	302.6tn	336.4tn	375.8tn	417.3tn	461.3tn
GDP per Capita in USD	2,037	2,112	1,969	2,319	2,449	2,663	2,889	3,145	3,389	3,637
Population (year-end, m)	1,327	1,341	1,355	1,370	1,376.8	1,390.6	1,397.6	1,406	1,420	1,434.2
Exchange rate (yr ave, USD-LCU)	69.9	70.9	74.2	74.5	80.1	81.7	83.3	85	86.7	88.4
Current Account in USDbn	-57.2	-24.6	24	-38.7	-111.2	-107	-74.9	-59.2	-65.1	-71.6
Current Account (% of GDP)	-2.1	-0.9	0.9	-1.2	-3.3	-2.9	-1.9	-1.3	-1.4	-1.4
FX reserves (year-end, USDbn)	389.8	447.2	543.1	564.8	502.1	527.2	558.9	592.4	633.9	684.6
Import Cover (months)	7.3	8.9	12.6	8.9	7.7	7.9	7.6	7.3	7.1	7
Inflation (annual ave, %)	3.4	4.8	6.2	5.5	6.7	5.5	4.5	4.7	4.3	4
Govt Balance (% GDP)	-3.4	-4.7	-9.2	-6.9	-6.4	-5	-4.8	-5.2	-5	-5

Note: Data and forecast for all variables refer to fiscal year ending March, except for population **Source:** Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	Mainland China	Russia	US
Income per Capita (USD)	2,663	9,161	13,512	16,247	79,018
Country Population (m)	1,390.6	216.4	1,425.7	144.4	340
Internet users (% of population)	43	81.3	70.1	85	90.9

Note: Data and forecast for all variables refer to fiscal year ending March, except for population **Source:** Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	0-1 month
Local Delays	0-2 months

Note: Length of delay for completion of local and foreign transfers **Source:** Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	India	Asia Pacific	OECD Average
Restrictions on non-Residents' Accounts	0	0.18	0.06
Restrictions on Payments for Imports	2	1.18	0.06
Restrictions on Payments for Invisible and other Current Transfers	1	1.55	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) **Source:** International Monetary Fund



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