

Country Insight Snapshot

India

June 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2023 (DB4c → DB4b)
- 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

RBI's permission to lenders to settle loans of willful defaulters under compromise settlements raises concerns as the decision will undermine the efforts to effectively combat willful defaulters.

Recent Changes

- Net FDI to India declined to US\$28.0 bn in 2022/23 as compared with US\$ 38.6 bn a year ago; manufacturing, computer services and communication services recorded the highest decline in FDI inflows.
- The recovery in cement, steel and two-wheelers markets indicates pick up in construction and rural demand.
- Renewed risk appetite among foreign investors led to strong FII inflows in May, with net investments in equities the highest in the last nine months.

Events to Watch

- Given the easing of inflation and the surprise upside in GDP in Q4 FY23, the Reserve Bank of India is expected to keep the policy rate unchanged for the remaining months of FY24, after it halted the rate hike during the last two policy meetings.
- According to the India Meteorological Department (IMD), there is a high probability (~70%) of EL Nino during the current monsoon season, raising concerns about its potential impact on agriculture, rural demand and, in turn, growth momentum.
- The RBI allowed the issuance of RuPay debit, credit and prepaid cards in foreign jurisdictions and their use internationally, including in India; this is expected to open up new avenues for seamless and flexible cross-border transactions.

Call to Action

- Note that lending rates are expected to remain high as the RBI is unlikely to cut policy interest rate soon.
- Note that exporters can expect quicker processing times and immediate approval of applications (advance authorisation issuance, EPCG issuance, revalidation of authorisations and extension of export obligation period) through the automatic route (reduced from 3-7 days earlier to 1 day now).
- Note that the government is planning to fix the rate of royalty that mining companies must pay for extracting lithium.
- Note that the Bharat Bill Payment System (BBPS) has been expanded to include all categories of payments and collections, both recurring and non-recurring, as well as facilitating in-bound cross-border bill payments.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: March 2023 (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

- Strong GDP growth of 7.2% in 2022/23, over 9.1% in 2021/22, shows the resilience of the Indian economy, even amid this global economic slowdown.
- The drop in retail inflation (two-year low) and wholesale inflation (recorded two consecutive months of negative growth) would support consumer demand and boost corporates profitability.
- Given the easing of inflation and the surprise upside growth in GDP in Q4 FY23, the Central Bank is expected to keep the policy rate unchanged for the remaining months of FY24, after it halted the rate hike during the last two policy meetings.
- In response to the repo rate hike of 250 bps since May 2022, the weighted average lending rate (WALR) on fresh rupee loans and outstanding loans rose 181 bps and 100 bps, respectively, during May 2022-March 2023.
- Nonetheless, despite the increase in lending rates, bank credit to the commercial sector is strengthening, which underlines the resilience of the growth momentum.
- Bank credit growth remained robust at 15.5% as of May 2023, although falling from a peak of 17.8% in October 2022 due to an unfavourable base effect and a slowdown in lending growth to the industrial sector.
- According to the IMD, there is a high probability (~70%) of EL Nino during the current monsoon season, raising concerns about its potential impact on agriculture, rural demand and, in turn, growth momentum.
- Net FDI to India declined to USS28.0bn in 2022/23 compared with USD38.6bn a year ago, owing to moderation in gross FDI inflows and an increase in repatriation; manufacturing, computer services and communication services recorded the highest decline in FDI inflows.

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

- Note that lending rates are expected to remain high as the RBI is unlikely to cut the policy rate soon.
- Perform credit checks and due diligence before engaging with new and existing small businesses, as the probability of loan default remains high.
- Keep track of the monsoon in India as it could lead to a rise in prices of agricultural commodities and impact the profitability of sectors catering to the rural segment.

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

- India now ranks 38th out of 139 nations in the World Bank's 2023 *Logistics Performance Index*, up six places as a result of significant investments in technology and both soft and hard infrastructure.
- In order to lower transportation costs and strengthen the economy by 2024/25, the government unveiled the PM Gati Shakti programme, a National Master Plan for multimodal connectivity, in October 2021.
- In 2022, the prime minister launched the National Logistics Policy to ensure quick last-mile delivery, end transport-related challenges, save time and money for the manufacturing sector and ensure desired speeds in the logistics sector.
- The government intends to invest in projects for last-mile connectivity and coastal shipping this year, to reduce costs and boost supply chain infrastructure for homegrown manufacturers. To this end, the government has allocated INR750bn for 100 critical transport infrastructure projects for last- and first-mile connectivity for the ports, coal, steel, fertiliser and food grains sectors.
- The Ministry of Power has instructed generating companies to import coal for blending up to 6% of their demand until September 2023 in order to make up for probable limitations in local supply.
- Initiatives taken by several state governments to improve their supply chains bode well for the economy.
- Karnataka amended its state labour regulations to permit businesses to increase working hours to enhance agricultural sustainability. Tamil Nadu announced its Organic Farming Policy 2023, while Odisha introduced a scheme to reduce post-harvest management losses and West Bengal is investing INR12.06bn on road and rail infrastructure projects.

Call to Action

- Take cybersecurity precautions since cases of cyberattacks remain high.
- We urge businesses to ensure that they have **procurement and supplier management** in place, given that there can be delays to trading because of supply chain disruptions.
- Note that the cyclone in the state of Gujarat has disrupted power supply and impacted infrastructure in nine districts, i.e., Kutch, Devbhumi Dwarka, Jamnagar, Morbi, Junagadh, Gir, Somnath, Rajkot and Porbandar.
- Be aware that the political uncertainty remains high in the strife-torn state of Manipur; take necessary precaution and monitor the situation before entering into any business transactions in the state.

MARKET ENVIRONMENT

Current Risk Indicator:



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Risks and Opportunities

- The easing of retail inflation is likely to support household demand and the significant moderation of wholesale inflation will ease input price pressures for corporates.
- India became the most populous country in the world in April 2023 according to United Nations estimates heralding 1.4 billion opportunities.
- Net FDI to India declined to US\$28.0 bn in 2022/23 compared with USD 38.6 bn a year ago due to moderation in gross FDI inflows and an increase in repatriation.
- India has inked 13 free-trade agreements and 6 limited-coverage preferential trade agreements, and is negotiating new trade agreements with the EU, the UK, Canada and Russia on a fast-track basis.
- India's new Foreign Trade Policy (FTP) 2023, in effect from 1 April, targets USD2trn in exports (goods and services) by 2030, with a focus on incentives to remission, export promotion through collaboration, ease of doing business and emerging areas.
- Under the FTP, new export hubs have been announced and measures are being taken to focus on the e-commerce, dairy, and apparel and clothing sectors.
- The FTP also seeks the internationalisation of domestic currency and will facilitate global trade payments in rupees.
- By encouraging cooperation between exporters, states, districts and Indian Missions, the FTP will improve export promotion. The policy prioritises making doing business easier.
- The FTP also envisages to boost e-commerce exports to USD200bn-300bn by 2030.
- India aims to become a global manufacturing, IT and digital services hub by 2030.
- The National Quantum Mission, with a corpus of INR60.03bn to scale-up scientific and industrial R&D for quantum technologies, will spur research and innovation in the areas of quantum technology and quantum computing, benefiting sectors such as health, space applications, finance and energy.

Call to Action

- Note that the government is planning to fix the rate of royalty that mining companies must pay for extracting lithium.
- Understand the needs of customers and explore opportunities in sectors where the 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

- Military tension on India's disputed border with China is unfavourable for both countries, amid attempts by China's People's Liberation Army to 'unilaterally change the status quo' along the LAC.
- Tensions between India and China continue after India rejected Chinese efforts to rename parts of the disputed border region.
- In response to Chinese efforts to develop villages along the Line of Actual Control (LAC), the Home Minister announced the launch of a USD585m development scheme in Arunachal Pradesh aimed at strengthening the security of the disputed border.
- China has reportedly been undertaking infrastructure construction activity to enhance its deployment capabilities near the LAC.
- India and Australia are deepening their security ties as India vies with tensions with its neighbouring countries.
- 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.
- India is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA); the new-model bilateral investment treaty means that India can accede to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention).

Call to Action

- Note that operations in India 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	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	6.5	3.9	-5.8	9.1	7.2	6.2	6.4	6.7	6.4	6.3
Nominal GDP in USDbn	2,703	2,836	2,672	3,150	3,390	3,679	4,032	4,398	4,777	5,194
Nominal GDP in local currency	189.0tn	201.0tn	198.3tn	234.7tn	272.4tn	300.6tn	336.0tn	373.8tn	414.2tn	459.3tn
GDP per Capita in USD	2,037	2,115	1,972	2,300	2,462	2,645	2,885	3,128	3,364	3,621
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	80.4	81.7	83.3	85	86.7	88.4
Current Account in USDbn	-57.2	-24.6	24	-38.7	-88.5	-93	-83.7	-96.3	-110.7	-121.8
Current Account (% of GDP)	-2.1	-0.9	0.9	-1.2	-2.6	-2.5	-2.1	-2.2	-2.3	-2.3
FX reserves (year-end, USDbn)	389.8	447.2	543.1	564.8	533.2	559.9	593.5	629.1	673.2	727
Import Cover (months)	7.3	8.9	12.6	8.9	7.1	8.4	8.1	7.8	7.6	7.4
Inflation (annual ave, %)	3.4	4.8	6.2	5.5	6.7	5.1	4.5	4.7	4.3	4
Govt Balance (% GDP)	-3.4	-4.6	-9.2	-6.7	-6.4	-5.9	-5.2	-4.5	-4.5	-4.8

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)	2,645	9,494	13,775	13,027	78,674
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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