Country Insight Snapshot

India

October 2023

Written 13 October 2023

OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Intdicator:

High Risk (DB7)	DB4b SLIGHT RISK	Low Risk (DB1)

- 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

India's dedicated freight corridors set to expedite establishment of new industrial hubs, and reduce transit time and logistics costs.

Recent Changes

- We have upgraded the short-term economic outlook rating to DB4c as India's economy continues to gain momentum amidst a difficult external environment.
- The government is rolling back its plan, announced only months ago, to impose restrictions on laptop imports from 1 November 2023.
- Royalty rates have been set for the mining of three critical minerals essential to India's clean energy ambitions: lithium, niobium and rare earth elements.
- India has revised its insolvency law, excluding leased aircraft from assets that can be frozen.

Events to Watch

- Inflation is set to remain elevated due to volatile global energy and food prices; expect bond yields to remain elevated as well, as the Reserve Bank of India (RBI, the central bank) will sell bonds to maintain tight liquidity.
- The government has removed the restricted cabotage rule, meaning that foreign-registered/flagged ships can now transport containers between domestic ports without a licence.
- The reform will greatly increase the attractiveness of Indian ports for ocean carriers, bring greater competition to the feeder market and reduce rates, and boost the use of Indian ports and terminals for aggregation and transshipment.

Call to Action

- Note that the government is offering eight blocks for the production of hydrocarbons under the Open Acreage Licensing Policy (OALP); these blocks will be floated shortly for international competitive bidding.
- Be aware that the state government of Uttarakhand is offering a 25% capital subsidy to investments in select service sectors.
- Note that the central government has exempted units of investment trusts and exchange traded funds (ETFs) issued by entities based in GIFT City of Gujarat (or traded in exchanges there) from capital gains tax.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:

High Risk (DB7)	DB3d SLIGHT RISK	Low Risk (DB1)

- Last change: March 2023 (DB4a ➔ DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
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SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- At its October meeting, the central bank kept monetary policy rates on hold for the fourth consecutive time. This cautious 'wait and watch' strategy primarily stems from the uncertainty surrounding price fluctuations given volatile global energy and food prices.
- Considering the depreciation of the Indian rupee, unpredictable capital movements and the improvement in domestic demand, it is likely that any rate cuts will be delayed until early 2024.
- Volatility in global energy and food prices mean inflation is set to remain high; as a result, bond yields will also remain elevated, as the central bank will sell bonds to maintain tight liquidity.
- Weakness in the rupee coupled with high US bond yields have triggered the reallocation of foreign investments to US debt markets. In September, foreign portfolio investments (FPIs) saw a decline after six consecutive months of inflows; however, India’s addition to JP Morgan's Government Bond Index-Emerging Markets is set to boost FPIs.
- Despite the FPI outflow in September, the Nifty 50 index rose 2% that month, reaching new record highs supported by consistent purchases from domestic investors.

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 the increase in US Treasury yields and the surge in domestic retail inflation – which could prompt the RBI to adopt a more hawkish stance in the upcoming months – will keep the 10-year yield elevated.
- 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 defaults remains elevated.

SUPPLY ENVIRONMENT

Current Risk Indicator:

High Risk (DB7)	DB4a SLIGHT RISK	Low Risk (DB1)

- 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 Dedicated Freight Corridors (DFCs), comprising eastern and western arms and spanning nine states, are nearing completion, with the Eastern DFC finished and operational and the Western DFC at 70% completion.
- It is anticipated that the DFCs will bring about significant reductions in transit time and freight transport costs, leading to a shift from road to rail transportation; currently, logistics costs in India stand at 16%, compared with 10% in Mainland China.
- The DFCs are expected to expedite the establishment of new industrial hubs. In addition, feeder routes connecting the corridors with vital ports, multi-modal logistics parks and private freight terminals are also under construction, further enhancing the freight transportation network.
- In order to curb rising domestic prices, the government has placed restrictions on exports of some foods, such as non-basmati white rice, wheat and onions.
- The government intends to invest in projects for last-mile connectivity and coastal shipping in 2023, which will reduce costs and boost supply chain infrastructure for homegrown manufacturers.

Call to Action

- Take cybersecurity precautions – the number of cyberattacks remains 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.
- Be aware that political uncertainty remains high in strife-torn Manipur; take necessary precautions and monitor the situation before entering into any business transactions in the state.

MARKET ENVIRONMENT

Current Risk Indicator:

DB3d
SLIGHT RISK

High Risk (DB7) Low Risk (DB1)

- Last change: October 2023 (DB4a ➔ DB3d)
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- 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

- The 1 October 2023 deadline for implementation (2023 for reporting and 2026 for taxes) of the transition phase of the EU's carbon border adjustment mechanism (CBAM) will impact sectors such as iron and steel, aluminium, cement and fertilisers. Steel exports could take the biggest hit due to more carbon-intensive nature of production processes vis-à-vis rivals like Mainland China and South Korea.
- The transcontinental India-Middle East-Europe Economic Corridor (IMEEC), backed by the US, is expected to provide more reliable and cheaper cross-border ship-to-rail transit. It will open up opportunities for India to leverage the project for greater integration with South Asia.
- India and Saudi Arabia signed eight agreements during the G20 meeting, on energy, interconnectivity, digitalisation, electronic manufacturing, finance and security. The comprehensive energy partnership for renewables, petroleum and strategic reserves will support the country's efforts towards energy transition and boost its renewables sector.

Call to Action

- Note that the government is offering eight blocks for production of hydrocarbons under the OALP bid; the blocks will be floated shortly for international competitive bidding.
- Understand the needs of customers and explore opportunities in sectors where the production-linked incentive (PLI) scheme has been introduced.
- Please note that from 1 November the Goods and Services Tax Authority may impose a time limit of 30 days from the date of invoice for reporting of invoices on e-invoice portals, for businesses with aggregate annual turnover of over INR10m.
- 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:

High Risk (DB7)	DB3d SLIGHT RISK	Low Risk (DB1)

- 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

- Five Indian states – Rajasthan, Madhya Pradesh, Chhattisgarh, Telangana and Mizoram – will vote in local elections in November; these elections are crucial, as they are being held months before the general election in April-May 2024.
- Madhya Pradesh is expected to see several development projects, such Bina Refinery and ten new industrial projects; Chhattisgarh is likely to benefit from railway and healthcare projects.
- The G20 summit is considered to have boosted the National Democratic Alliance (NDA) government's standing ahead of national elections in 2024; the strategic partnerships that are likely to follow from the launch of the IMEEC will help India realise its ambitious export target by 2030.
- In August 2023, in their 19th round of military talks, India and Mainland China pledged to maintain 'peace and tranquility' along the border and agreed to resolve the remaining issues in an expeditious manner.

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	6.8	6.6	6.5
Nominal GDP in USDbn	2,703	2,836	2,672	3,150	3,390	3,667	4,019	4,383	4,762	5,177
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	2,637	2,876	3,118	3,353	3,628
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	1,427.1
Exchange rate (yr avge, USD-LCU)	69.9	70.9	74.2	74.5	80.4	82	83.6	85.3	87	88.7
Current Account in USDbn	-57.2	-24.6	24	-38.7	-67	68	62.6	71.9	82.7	90.2
Current Account (% of GDP)	-2.1	-0.9	0.9	-1.2	-2	1.9	1.6	1.6	1.7	1.7
FX reserves (year-end, USDbn)	389.8	447.2	543.1	564.8	533.2	559.9	593.5	629.1	673.2	720.3
Import Cover (months)	7.3	8.9	12.6	8.9	7	8.4	8.1	7.8	7.6	7.4
Inflation (annual avge, %)	3.4	4.8	6.2	5.5	6.7	5.6	5	4.5	4.2	4.4
Govt Balance (% GDP)	-3.4	-4.6	-9.2	-6.7	-6.4	-5.9	-5.2	-4.5	-4.5	-4.4

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)	2,637	9,637	12,661	11,551	80,235
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
Potential FX/Bank Delays	0-1 week
Potential Local Delays	0-1 week

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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