

INDIA

Population : 1 370 048 541 (2019)
GDP per capita : US\$2,972 billion (2019)
Country risk assessment : B (2019)
Business Climate : B

STRENGTHS

- Diversified growth drivers
- High levels of savings and investment
- Efficient private sector in services
- Moderate level of external debt and comfortable foreign exchange reserves

WEAKNESSES

- Lack of infrastructure and shortcomings in the education system
- Bureaucratic red tape and persistent political tensions
- Net importer of energy resources
- Rising level of private firm indebtedness
- Weak public finances
- Persistent uncertainties over the Kashmir issue

COUNTRY RISK: ECONOMY

The Indian economy has held up better than other emerging countries to the global economic slowdown and has benefited from low oil prices in recent years. According to the IMF, the Indian economy grew by 7.3% in 2018, which is the highest growth in two years and strongest since the first quarter of 2016, driven by a rebound in industrial activity, especially manufacturing and construction, and an expansion in agriculture. Sectors which registered growth of over 7% include manufacturing; electricity, gas and water supply; construction, and public administration and defence. India also registered the third highest growth in the world in 2018. Growth is expected to remain strong in the next couple of years, reaching 7.4% in 2019 and 7.7% in 2020.

India's fiscal deficit stood at USD 101.93 billion by the end of November 2018. That amounted to 114.8% of the budgeted target for that year, mainly due to lower revenue realization and rise in expenditure, with the debt to GDP ratio remaining high (67%). That was a slight increase from the previous year's 112% of the budgeted target. The inflation rate increased from 3.6% in 2017, to 4.7% in 2018. However, the economy is aiming to

move towards a more stable price regime. Also, in 2018 the government deficit stood at -6.6% of the GDP and is expected to remain at the similar level in coming years. In 2018, Prime Minister Narendra Modi continued his programme of reforms aimed at consolidating public accounts, promoting investment and industrial development and improving the business climate. The government has passed a key goods and services tax bill (which aims at turning the 29 states into a common market) and raised foreign direct investment caps in some sectors, with various economic reforms focusing on administrative and governance changes. In case Prime Minister Narendra Modi continues in power after the 2019 elections, the foundations upon which new policies would be built should remain largely unchanged. Modi's biggest reform push, with the greatest impact to public finances, and the strongest tool against tax evasion was the introduction of the goods and services tax (GST). Another major decision taken by the government was to suddenly declare that India's highest-denomination banknotes – accounting for 86% of cash – would no longer be legal tender and so they had to be deposited in banks. This policy aimed at tackling the black economy and, after a first period of uncertainty, it is expected to have positive effects on the country's economy (as an example, since April 2017 over twice as many Indians have filed tax returns than in the same period of the previous year). However, long-term challenges remain significant, including: India's discrimination against women and girls, an inefficient power generation and distribution system, ineffective enforcement of intellectual property rights, inadequate transport and agricultural infrastructure, limited non-agricultural employment opportunities, high spending and poorly targeted subsidies, insufficient availability of quality basic and higher education, constant rural-to-urban migration.

India is expected to overtake China as the world's most populous country by 2024. It has the world's largest youth population, nevertheless according to the OECD over 30% of India's youth are NEETs (not in employment, education or training). India continues to suffer from a low GDP per capita, almost 25% of the population still lives below the poverty line (about one-third of the world's population living on under USD 1.90/day lives in India) and the country's inequalities are very strong: the richest 1% of the population own 53% of the country's wealth. According to ILO reports, the unemployment rate stood at 3.5% 2018 and should remain unchanged in 2019.

COUNTRY RISK OF INDIA : INTERNATIONAL TRADE

India was a protectionist state for a long time, but the country has become progressively more open to international trade. Currently, trade represents 40.6% of the country's GDP. The country mainly exports petroleum oils (11.8%), diamonds (8.4%), articles of jewellery (4.3%), medicaments (3.9%), and rice (2.4%), while it imports petroleum oils (18.5%), gold (8.1%), diamonds (6.1%), coal and similar solid fuels (4.5%), petroleum gas and other gaseous hydrocarbons (2.9%).

India's main partners are United States, the United Arab Emirates, Hong Kong, China, Singapore, Saudi Arabia, and Switzerland. The country has recently signed free trade agreements with South Korea and ASEAN, and has entered into negotiations with several partners (EU, MERCOSUR, Australia, New Zealand and South Africa). India is the world's eighth largest exporter and tenth largest importer of commercial services.

However, India's trade regime and regulatory environment still remains relatively restrictive.

Its trade balance is structurally negative, given that the country imports nearly 80% of its energy needs. India benefited from the decline in world hydrocarbon prices for its imports, which led to a slight reduction in the trade deficit. In 2017, India exported USD 298 billion worth of goods, while imports accounted for USD 447 billion, resulting in a negative trade balance of USD 149 billion.

Main International Economic Cooperation

India is a member of the South Asian Association for Regional Cooperation (SAARC) and has multilateral and bilateral trade agreements with many countries. The country signed a trade agreement with 21 other countries in the São Paulo Round of the Global System of Trade Preferences among Developing Countries (GSTP). India also signed in March 2011 a Tariff-Cutting Trade Treaty with Japan that will eliminate or reduce about 94% of tariffs on the countries' bilateral trade over a ten-year period.

COUNTRY RISK OF INDIA : INVESTMENT

India ranks among the top 10 host economies for FDI, according to the United Nations Conference on Trade and Development (UNCTAD) 2019 World Investment Report. Foreign direct investment inflows hit an all-time high of USD 44.5 billion in 2016; however, following the global downward trend, flows to India declined in 2017 to USD 39.9 billion. In 2018, that number increased to \$42.3 billion. The country historically accounts for 70 to 80% of inflows in the region. FDI were strong in manufacturing, communication and financial services. During the year, India knew transaction in retail trade (\$16 bn). One of the biggest deal was the acquisition of Flipkart by Walmart. The overall growth of FDI in India is thanks to its many assets, especially its high degree of specialisation in services, with a skilled, English-speaking and inexpensive labour force and a potential market of one billion inhabitants. FDI stock reached \$ 386 billion in 2018, a 2.4% increase, or 14.2% of the GDP. In 2018, Singapore, Mauritius, the Netherlands, the U.S., Japan, the U.K., Germany, France, the U.A.E., and Cyprus were the main investing countries in India. Investments were mainly oriented towards chemicals, services, computer software and hardware, trade, telecommunications, the automobile industry, construction, power, and pharmaceuticals.

In 2019, India ranked 77th out of 190 countries in the Doing Business report published by the World Bank, a significant improvement from the previous year's spot, when it ranked 100th. Despite short-term uncertainty over the political climate, like state or federal election, global investors typically focus on India mainly because of its demographics, but also for its stable barometers, whether it be inflation, fiscal deficit or growth. Given India's growing demographics, and huge ecommerce and technological markets, activity in both areas are expected to grow in the following years. In 2018, American giant, Walmart, purchased Flipkart for USD 16 billion, in the country's biggest M&A deal that year. Walmart took over 77% of the company, buying out a number of prior investors in the process and expanding its rivalry with Amazon.

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